

ING

Annual report
2020



Management Report on the Bank's Business Results

Annual Management Report ING Bank Czech Republic 2020

2020 was a year of challenges strongly influenced by COVID-19 pandemic. The spread of COVID-19, and the measures to contain it, affected ING in a number of ways, impacting our customers, our employees and our communities. The low interest rate environment has posed a significant challenge to ING CZ business model resulting in a sharp decrease of the retail interest income.

Considering the current economic headwinds along with the uncertainty about achieving the necessary scale in the coming years, on 18th February 2021, ING announced that it would end its retail activities in the Czech Republic by the end of 2021. ING will stay active as a provider of wholesale banking services in the Czech Republic

ING has been offering savings accounts and mutual funds for more than 20 years and currently services around 375,000 retail customers in the Czech Republic. To ensure that our retail customers are well taken care of, ING Czech Republic and Raiffeisenbank Czech Republic (RB) have reached an agreement whereby customers have the opportunity to become a client at RB and move their savings and investments to RB at preferential conditions starting in March 2021

225 job positions in the Czech Republic will be affected by this strategic change. The affected colleagues are provided with support while searching for new career opportunities. The remaining colleagues working in wholesale banking will keep on serving their Czech and global clients from our Prague office

In 2021, the number one priority for ING CZ remains to ensure that we are safe, secure and compliant bank. Secondly, to execute the closure of our retail business in CZ according to plan within the defined timelines, while taking good care of our clients and affected employees. In wholesale banking, we stay close to our clients while at the same time designing and delivering an efficient and effective standalone wholesale branch qualified for success now and in the future

Our social contribution to the community in the Czech Republic is mainly driven by our ING Bank Fund of the Tereza Maxová Foundation. On top of our traditional CZK 1.5 million annual contribution to development and education of underprivileged children in orphanages and foster care, in spring of 2020, we supported homeschooling in orphanages and foster families by an additional contribution of CZK 2.7 million covering notebooks and other equipment as well as tutors and protective equipment. That ensured concrete help for more than 2.5 thousand underprivileged children. At the end of 2020, we provided additional CZK 0.45 million to Women for Women providing internet connection for homeschooling for over 230 children from underprivileged families

Throughout 2020, we strongly appreciated how our employees coped with the challenges of working from home and we supported them as much as possible. Whether by equipment we have provided them home, or by online programs and initiatives supporting their wellbeing and work-life balance. Our strategic approach to corporate social responsibility as well as all our activities were acknowledged by Business for Society, awarding ING again as one of 25 BpS TOP Large Responsible Companies for 2020 in the Czech Republic. Our working environment ranked ING among top five Sodexo Employer of the Year in category up to 500 employees

I would like to express my appreciation to our customers for their loyalty and trust. I wish to sincerely thank our employees for all their hard work and commitment in the past year. As we look to the future, trust and commitment

will remain to be ING's greatest assets, and earning it every day is our most important measure of success. I believe, that will also help us in navigating our organization during the transformation into a wholesale banking branch.



Roel Huisman
CEO

General information

Annual report:
ING Bank N.V., branch
For the year ended 31 December 2020

The bank will continue in its activity. The bank has no branch and acquired no own shares in 2020.

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 2020.

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



KPMG Česká republika Audit, s.r.o.

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

**Independent Auditor's Report to the Trustor of the branch
of ING Bank N.V.**

Opinion

We have audited the accompanying financial statements of the branch of ING Bank N.V. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2020 and the income statement and 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 2020, 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), which may be supplemented and amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or



otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

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

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

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

Responsibilities of the Statutory Body for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal



control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of the branch of ING Bank N.V. as at 31 December 2020, based on which this independent auditor's report has been prepared.

Prague
7 May 2021

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

Jindřich Vašina
Partner
Registration number 2059

Company name: ING Bank N.V., organizační složka
Registered office: Českomoravská 2420/15, Libeň, 190 00 Praha 9
Identification number: 492 79 866
Business activity: Bank
Bank code: 3500
Date of preparation of the financial statements: 30 April 2021

BALANCE SHEET
as at 31 December 2020
 (Translated from the Czech original)

in million of CZK		Note	31/12/2020	31/12/2019
ASSETS				
1	Cash in hand and balances with central banks		678	339
2	State zero coupon bonds and other securities eligible for refinancing with the central bank	12	17,377	5,927
	<i>of which: a) securities issued by government institutions</i>		17,377	5,927
3	Receivables from banks and credit unions	13	86,138	111,501
	<i>of which: a) repayable on demand</i>		1,278	1,151
	<i>b) other receivables</i>		84,860	110,350
4	Receivables from customers – credit union members	14	36,201	37,411
	<i>of which: a) repayable on demand</i>		4,292	4,800
	<i>b) other receivables</i>		31,909	32,611
5	Debt securities	15	-	-
	<i>b) issued by other entities</i>		-	-
9	Intangible fixed assets	17	265	221
10	Tangible fixed assets	18	102	172
11	Other assets	19	3,109	2,913
13	Prepaid expenses and accrued income		23	41
Total assets			143,893	158,525

in million of CZK		Note	31/12/2020	31/12/2019
LIABILITIES & EQUITY				
1	Payables to banks and credit unions	20	41 944	51 535
	<i>of which a) repayable on demand</i>		1 859	1 843
	<i>b) other payables</i>		40 085	49 692
2	Payables to customers – credit union members	21	96 813	102 005
	<i>of which a) repayable on demand</i>		95 174	98 688
	<i>b) other payables</i>		1 639	3 317
4	Other liabilities	23	3 411	3 355
5	Deferred income and accrued expenses		56	40
6	Provisions	26	96	109
	<i>c) other</i>		96	109
	Total liabilities		142 320	157 044
12	Capital funds		1	-
13	Revaluation gains (losses)	28	30	6
	<i>of which a) on assets and liabilities</i>		30	6
14	Retained profits (or accumulated losses)	27	1 475	1 179
15	Profit (loss) for the accounting period		67	296
	Total equity		1 573	1 481
	Total liabilities and equity		143 893	158 525

in million of CZK		Note	31/12/2020	31/12/2019
OFF-BALANCE SHEET ITEMS				
Off-balance sheet assets				
1	Commitments and guarantees provided	30	12 968	10 219
3	Receivables from spot transactions	30	171	251
4	Receivables from fixed term transactions	30	187 763	189 351
Off-balance sheet liabilities				
9	Commitments and guarantees received	30	15 809	14 010
10	Collaterals and pledges received	30	65 498	84 032
11	Liabilities from spot transactions	30	172	252
12	Liabilities from fixed term transactions	30	188 508	188 429
14	Values taken into custody, administration and deposit	31	6 075	5 550

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 Date of preparation of the financial statements: 30 April 2021

INCOME STATEMENT
for the year ended 31 December 2020
 (Translated from the Czech original)

in million of CZK		Note	2020	2019
1	Interest income and similar income <i>of which interest on debt securities</i>	4	3,351 206	4,717 115
2	Interest expense and similar expense <i>of which interest on debt securities</i>	4	(966) -	(1,464) (115)
4	Fee and commission income	5	369	396
5	Fee and commission expense	5	(23)	(27)
6	Gain or loss from financial operations	6	(602)	(1,222)
7	Other operating income	7	-	4
8	Other operating expenses	7	(125)	(171)
9	Administrative expenses <i>of which a) employee expenses</i> <i>ab) social and health insurance</i> <i>b) other administrative expenses</i>	8	(1,735) (578) (118) (1,157)	(1,752) (587) (130) (1,165)
11	Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets	17, 18	(156)	(107)
12	Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables	26	51	16
13	Write-offs, additions and use of loss allowances and provisions for receivables and guarantees	26	(87)	(17)
16	Release of other provisions	26	34	64
17	Additions and use of other provisions	26	(17)	(61)
19	Current year profit (loss) from ordinary activities before tax		94	376
23	Income tax	29	(27)	(80)
24	Net profit (loss) for the period		67	296

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STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020
 (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 1/1/2019	-	-	-	-	1	(14)	1,886	1,873
Net profit (loss) for the period	-	-	-	-	-	-	296	296
Other changes	-	-	-	-	(1)	20	(707)	(688)
Balance at 31/12/2019	-	-	-	-	-	6	1,475	1,481
Balance at 1/1/2020	-	-	-	-	-	6	1,475	1,481
Changes in accounting policies	-	-	-	-	-	-	-	-
Net profit (loss) for the period	-	-	-	-	-	-	67	67
Other changes	-	-	-	-	1	24	-	25
Balance at 31/12/2020	-	-	-	-	1	30	1,542	1,573

ING Bank N.V., organizační složka

Notes to the Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

(a) Description of the Bank

ING Bank N.V., organizační složka (the "Bank", the "Entity", or the "Branch") was registered on 30 March 1993. The Bank is a branch of ING Bank N.V. with 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
 - credits 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.

Statutory body

The head of the Branch is the Bank's statutory body. As at 31 December 2020 the head of the Branch was Isold Heemstra, who was appointed to the office by the board of directors of ING Bank N.V. with effect from 1 September 2016. This fact was recorded in the Commercial Register on 1 September 2016. In 2020, no changes were 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 (the "Decree"). In Section 4a (1), the Decree stipulates that for purposes of recognition, measurement and disclosure of financial instruments 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 Standards" 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 2020. The current period is the period from 1 January 2020 to 31 December 2020. The prior period is the period from 1 January 2019 to 31 December 2019

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

ING Bank N.V., organizační složka

Notes to the Financial Statements

For the year ended 31 December 2020

These financial statements are non-consolidated financial statements. The Bank is included in the consolidated group of its parent company (ING Bank N.V., 1102CT Amsterdam, Bijlmerdreef 106, 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.

ING Bank N.V., organizační složka

Notes to the Financial Statements

For the year ended 31 December 2020

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's ("CNB") clearing centre, 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 derecognised 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 recognised 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

Upon 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

ING Bank N.V., organizační složka

Notes to the Financial Statements

For the year ended 31 December 2020

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

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

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

Upon the initial recognition of an equity investment that is not 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 recognised in profit or loss (FVTPL).

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

Business model assessment

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

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

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI test)

For the purposes of this assessment, principal is defined as the fair value of the financial asset upon 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

ING Bank N.V., organizační složka

Notes to the Financial Statements

For the year ended 31 December 2020

- leverage features
- prepayment and extension terms
- terms that limit the Entity's claim to cash flows from specified assets
- 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 either

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

(iii) Derecognition

Financial assets

The Entity derecognises a financial asset when either:

- the contractual rights to the cash flows from the financial asset expire
- 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 financial asset are transferred or in which the Entity neither transfers nor retains substantially all of the risks and rewards of ownership and 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)
 - 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.

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, cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

If the cash flows of the modified asset at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Entity recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see Note 2c (iii)),

ING Bank N.V., organizační složka

Notes to the Financial Statements

For the year ended 31 December 2020

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 financial 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 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

An assets fair value is the price that would be received to sell the 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, the 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 upon 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 upon 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 upon 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 Entity measures

- assets and long positions at a bid price
- 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.

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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
- 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 having 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 financial assets

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date are measured 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 are measured as the difference between the gross carrying amount of the financial asset and the present value of estimated future cash flows.
- Undrawn loan commitments are measured as the present value of the difference between the contractual cash flows that are due to the Entity if the commitment is drawn down and the cash flows that the Entity expects to receive.
- financial guarantee contracts are measured as the expected payments to reimburse the holder less any amounts that the Entity expects to recover.

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For the year ended 31 December 2020

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 the borrower's financial difficulties, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring does 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 results 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
- restructuring of a loan made by the borrower on terms that the borrower would not consider otherwise
- heightened probability that the borrower will enter bankruptcy or other financial reorganisation
- 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.

- financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets
- loan commitments and financial 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

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- 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 financial 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-offs

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 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 the 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".

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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 it incurs because a specified borrower failed to make payment when 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, upon initial recognition, they are 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
- 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 transactions 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 a controlling or significant influence.

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(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 (an underlying asset).
- b) Compared with other types of contracts based on a similar response to changes in market factors, it requires a small or no initial net investment.
- 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 the 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 recognised 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) Hedge accounting

Fair value hedges

a) Fair value hedges of the retail deposit portfolio

Fair value hedges are used to minimise 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.

As 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 recognised 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".

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b) Fair value hedges of state zero coupon bonds and other securities eligible for refinancing with the Czech National Bank

The Bank has been using the fair value hedges method to minimise the variability of the fair value of state zero coupon bonds and other securities eligible for refinancing with the Czech National Bank due to a change in interest rates (the hedged instrument) that influences the profit or loss. The interest rate swaps (IRS) have been opted for as the hedging instrument.

The individual state zero coupon bonds and other securities eligible for refinancing with the Czech National Bank are the hedged instruments.

In respect of state zero coupon bonds and other securities held-to-maturity, the gain or loss on changes in fair value of the hedged instrument, corresponding to the hedged risk, adjusts the carrying amount of the hedged instrument and is recognised 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 "State zero coupon bonds and other securities held-to-maturity".

In respect of state zero coupon bonds and other securities at FVOCI, the gain or loss on changes in fair value of the hedged instrument, corresponding to the hedged risk, adjusts the carrying amount of the hedged instrument and is recognised 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 equity in "Revaluation gains and losses".

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 on 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 unamortised fair value adjustment for the hedged instrument is amortised 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 derecognised, the unamortised fair value adjustment for the hedged instrument is recognised immediately in the income statement in "Gain or loss from financial operations".

Impact on hedge accounting following from the reform in reference interest rates (IBOR reform)

If a hedging relationship is directly influenced by the reform in reference interest rates (IBOR reform), then the entity applies certain exceptions from the application of the general requirements on hedge accounting. To apply these exceptions, the IBOR reform is further considered to be a reform of the reference interest rates including the replacement of the given reference interest rate by an alternative reference interest rate based on recommendations of the Financial Stability Board (FSB) in its *Reforming Major Interest Rate Benchmarks* report from July 2014, which comprises recommendations to strengthen current reference interest rates and to develop alternative reference interest rates which are almost risk-free.

On 26 September 2019, the International Accounting Standards Board (IASB) disclosed a document titled *Reform of Reference Interest Rates* (amendments to IFRS 9, IAS 39 and IFRS 7), which was subsequently adopted by the European Union, to deal with the effects of the reform of reference interest rates for financial reporting purposes in the period before existing reference interest rates are replaced by alternative reference interest rates.

These amendments stipulate temporary exceptions from the requirements of hedge accounting so that the entities can continue meeting the requirements, on the condition that the existing reference interest rates will not be changed due to the reform of the interbank offered rates.

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The existing hedging relationships were not directly influenced by the reform of the reference interest rates (IBOR reform) and for this reason, the entity did not apply the relevant exceptions

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

Repo transactions

Repo transactions are transactions where securities are sold under a repurchase agreement 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
- 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".

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(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 either

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

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Entity estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial 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 upon 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 financial 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 either

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

However, for financial 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-impaired upon 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, if appropriate, under "Interest expense and similar expense", include.

- interest on financial assets and financial 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"

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(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 reliably estimated.

Provisioning is recognised in the relevant income statement. The use of the provision is recognised 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 recognised 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/amortisation and are depreciated/amortised 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

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 recognises 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
- the underlying asset is of 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 recognised in the balance sheet in the line "Tangible fixed assets" and is depreciated on a straight-line basis for the shorter of the economic useful life of the underlying asset or the lease term. The related depreciation is recognised in the income statement in the line "Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets".

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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 they 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 payments (e.g. due to a change in an assessment of whether and when extension or termination options will be exercised). 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 recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is recognised in the balance sheet and presented in the line "Other liabilities".

Interest expense on lease liability are recognised in the income statement and presented in the line "Interest expense and similar expense" using the effective interest rate

(q) Recognition of revenues and expenses

The interest income and expense on interest bearing financial instruments are recognised in the income statement in "Interest income and similar income" or "Interest expense or similar expense" using the accrual principle.

Fees and commissions are recognised 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 realised.

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

(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

In 2020, the Bank began to use the fair value hedges method in respect of state zero coupon bonds and other securities eligible for refinancing with the Czech National Bank (see notes 2 (j) and 12 (d)).

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Notes to the Financial Statements

For the year ended 31 December 2020

4. NET INTEREST INCOME

CZK million	2020	2019
Interest income and similar income		
from deposits	1 429	2 414
from loans	735	1 028
from financial assets for trading	874	1 134
from securities	171	98
from available-for-sale financial assets/FVOCI	35	17
other	3	1
from hedging interest rate derivatives	104	25
Total	3 351	4 717
Interest expense and similar expense		
on deposits	564	718
on financial liabilities for trading	274	345
from hedging interest rate derivatives	128	286
other	-	115
Total	966	1 464
Net interest income	2 385	3 253

Other interest expense mainly includes interest expense on debt securities of CZK 0 million (2019 CZK 115 million). Debt securities represented issued subordinated bonds

Interest income and interest expense are calculated using the effective interest rate method.

5. COMMISSION AND FEE INCOME AND EXPENSE

CZK million	2020	2019
Income from fees and commissions		
lending activities	82	91
payment processing	37	61
services for securities brokerage	53	51
guarantees issued	8	7
sale of financial instruments	174	162
other	15	24
Total	369	396
Commission and fee expense from		
securities transactions	3	2
management, administration, deposits and custody	11	8
payment processing	6	12
other	3	5
Total	23	27

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For the year ended 31 December 2020

6. GAIN OR (LOSS) FROM FINANCIAL OPERATIONS

CZK million	2020	2019
Gain/(loss) from securities transactions	0	26
Gain/(loss) from derivative transactions	2 575	-1 756
of which gain/(loss) from interest tools (incl. interest rate derivatives)	136	47
of which gain/(loss) from currency tools (incl. currency derivatives)	2 438	-1 803
Gain/(loss) from hedge accounting	25	-63
Gain/(loss) from foreign exchange transactions	103	105
Foreign exchange gain/ (loss)	-3 305	466
Total	-602	-1 222

7. OTHER OPERATING INCOME AND EXPENSES

CZK million	2020	2019
Other operating income		
other	-	4
Total	-	4

CZK million	2020	2019
Other operating expenses		
deposit insurance fund (DGS in the Netherlands)	108	170
losses from errors	1	1
net carrying amount of tangible fixed assets sold	1	-
other	15	-
Total	125	171

8. ADMINISTRATIVE EXPENSES

CZK million	2020	2019
Personnel and related expenses		
wages and salaries paid to employees	460	457
of which wages and salaries paid to management	38	30
social security and health insurance	118	130
	578	587
Intercompany services	582	528
Other administrative expenses	575	637
of which rent expense	5	5
of which expense for audit, legal and tax advisory	5	87
of which remuneration of the statutory auditor – statutory audit	2	2
	1 157	1 165
Total	1 735	1 752

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

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For the year ended 31 December 2020

	2020	2019
Employees	364	340
Management	9	8

Rent and other leases

In 2020 and 2019, the Bank reported no short-term leases or leases with low acquisition costs.

9. EXTRAORDINARY INCOME AND EXPENSES

In 2020 and 2019, the Bank had no extraordinary income or extraordinary costs.

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10. INCOME AND EXPENSE ACCORDING TO SEGMENTS

Geographical segments

CZK million	Czech Republic		European Union		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Interest income and similar income	1 447	2 021	1 898	2 688	6	8	3 351	4 717
Interest expense and similar expense	-370	-404	-596	-1 060	-	-	-966	-1 464
Income from fees and commissions	369	395	-	1	-	-	369	396
Commission and fee expense from	-21	-26	-2	-1	-	-	-23	-27
Gain/(loss) from financial operations	-480	397	-153	-1 549	31	-70	-602	- 1 222
Other operational income	-	4	-	-	-	-	-	4
Other operational expense	-125	-171	-	-	-	-	-125	-171

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For the year ended 31 December 2020

11. TRANSACTIONS WITH RELATED PARTIES

CZK million	2020	2019
Receivables – total	42 891	45 540
Receivables from banks and credit unions	40 056	41 881
due on demand	1 253	1 066
other receivables	38 803	40 814
Receivables from clients – members of credit unions	-	1 019
other receivables	-	1 019
Other assets	2 835	2 641
Payables – total	42 089	53 036
Payables to banks and credit unions	39 552	50 572
due on demand	1 257	1 045
other liabilities	38 295	49 497
Payables to clients – members of credit unions	147	301
due on demand	147	148
other liabilities	-	153
Other liabilities	2 391	2 193
Net interest income	1 017	1 017
Net income from commissions and fees	1	1
Gain/(loss) from financial operations	1 785	-391
Administrative expenses and other operating expenses	-624	-536

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	2020	2019
State bonds	17 377	5 927
Net book value	17 377	5 927

(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 million	2020	2019
State zero coupon bonds and other securities at FVOCI/FVTPL	3 745	848
State zero coupon bonds and other securities held-to-maturity	13 632	5 079
of which Loss allowances for possible losses from state zero coupon bonds and other securities held-to-maturity	-8	-1
Net book value	17 377	5 927

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For the year ended 31 December 2020

(c) **Repo and reverse repo transactions**

As at 31 December 2020, under reverse repo transactions, the Bank has acquired state zero coupon bonds and other securities with a market value of CZK 45 134 million (31 December 2019: CZK 65 503 million), which are recorded off-balance sheet in "Collaterals and pledges received"

(d) **Change in fair value of hedged state zero coupon bonds and other securities eligible for refinancing with the Czech National Bank**

In 2020, the Bank recognised a loss of CZK 55 million relating to a change in the fair value of the hedged state zero coupon bonds and other securities eligible for refinancing with the CNB and creation of loss allowances to state zero coupon bonds and other securities at FVOCI in „Gain or loss from financial operations“.

13. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

(a) **Receivables from banks and credit unions by type**

CZK million	2020	2019
Current accounts (nostro accounts)	1 278	1 151
Term deposits	38 803	43 791
Reverse repos with CNB	46 057	64 382
Reverse repos with other banks	-	2 177
Total	86 138	111 501
Loss allowances for potential losses from receivables		-
Net receivables from banks	86 138	111 501

In 2020 and 2019, the Bank did not restructure any receivables from banks.

All receivables from banks as at 31 December 2020 and 31 December 2019 are measured at amortised cost under IFRS 9. All receivables are classified into Stage 1.

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For the year ended 31 December 2020

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

CZK million	2020	2019
Securities	45 134	65 503
Bank guarantees	134	240
Unsecured	40 870	45 758
Total	86 138	111 501

(c) Subordinated receivables from banks

In 2020 and 2019, the Bank did not provide subordinated loans to other banks.

(d) Receivables from banks written-off and recovered

In 2020, the Bank did not write-off any receivables from banks (as well as in 2019)

14. Receivables from customers – members of credit unions

(a) Receivables from customers by type

CZK million	2020	2019
Receivables from loans	36 247	37 431
Total	36 247	37 431
Loss allowances for potential losses from receivables	-46	-20
Net receivables from customers	36 201	37 411

In 2020, the Bank did not restructure any receivables from customers (as well as in 2019)

(b) Receivables from customers by measurement categories

All receivables from customers as at 31 December 2020 (as well as in 2019) are measured at amortised cost under IFRS 9.

(c) Receivables from customers by credit risk rating grades

CZK million	2020			
	Stage 1	Stage 2	Stage 3	Celkem
Grades 1-10	23 072	-	-	23 072
Grades 11-17	10 610	2 565	-	13 175
Grades 20-22				
Total				
Loss allowances for potential losses from receivables	-32	-14		-46
Net receivables from customers	33 650	2 551		36 201

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CZK million	2019			
	Stage 1	Stage 2	Stage 3	Celkem
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

(d) Receivables from customers by type

In millions of CZK	2020	2019
Residents, of which:		
financial institutions	2 504	4 675
non-financial institutions	23 852	23 951
Non-residents	9 891	8 805
Total	36 247	37 431

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 2020 and 2019, the Bank did not provide subordinated loans to other banks.

(f) Net receivables from customers written-off

In 2020 and 2019, the Bank did not provide written-off receivables

(g) Syndicated loans

As at 31 December 2020, the Bank did not serve as the principal agent of any syndicated loan

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, of which the Bank's share was CZK 454 million and other syndicate members' share was CZK 229 million.

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

In 2020 and 2019, the Bank had no commitments to employees.

In 2020 and 2019, the Bank did not provide any loans to members of managerial bodies.

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For the year ended 31 December 2020

15. DEBT SECURITIES

As at 31 December 2020, 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 2020 and 2019, 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 2020 and 2019

17. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets

CZK million	Software	Acquisition of software	Other	Total
Cost				
As at 1 January 2019	206	32	11	249
Additions	104	26	-	130
Disposals	-1	-17	-	-18
As at 31 December 2019	309	41	11	361
As at 1 January 2020	309	41	11	361
Additions	127	30	7	164
Disposals	-68	-21	-16	-105
As at 31 December 2020	368	50	2	420
Accumulated amortisation and allowances				
As at 1 January 2019	97	-	10	107
Charge for the year	38	-	1	39
Disposals	-	-	-6	-6
As at 31 December 2019	135	-	5	140
As at 1 January 2020	135	-	5	140
Charge for the year	77	-	13	90
Disposal	-59	-	16	-75
As at 31 December 2020	153	-	2	155
Net book value				
As at 31 December 2019	174	41	6	221
As at 31 December 2020	215	50	-	265

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18. TANGIBLE FIXED ASSETS

Movements in tangible fixed assets

CZK million	Technical improvement of buildings	Fixtures and fittings	Equipment	Total
Cost				
As at 1 January 2019	4	34	151	189
Additions	-	16	35	51
Disposals	-	-	-7	-7
As at 31 December 2019	4	50	179	233
As at 1 January 2020	4	50	179	233
Additions	-	1	3	4
Disposals	-	-12	-56	-68
As at 31 December 2020	4	39	126	169
Accumulated depreciation and allowances				
As at 1 January 2019	3	14	115	132
Charge for the year	1	9	20	30
Disposals	-	-	-7	-7
As at 31 December 2019	4	23	128	155
As at 1 January 2020	4	23	128	155
Charge for the year	-	11	22	33
Disposals	-	-12	-57	-69
As at 31 December 2020	4	22	93	119
Net book value				
As at 31 December 2019	-	27	51	78
As at 31 December 2020	-	17	33	50

Leases

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 *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 liabilities in the line "Other liabilities" in the balance sheet. See details in the following notes of the financial statements. Note 2(p) (Significant accounting policies), Note 3(a) (Changes in accounting policies) and Note 8 (Administrative expenses).

From 1 January 2019, the Bank as a lessee no longer distinguishes between finance leases and operating leases for purposes of booking and presentation

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Tangible fixed assets acquired under lease

CZK million	Land and buildings	Vehicles	Total
Cost			
As at 1 January 2019	119	11	130
Additions	2	-	2
Other adjustments	-	-	-
Disposals	-	-	-
As at 31 December 2019	121	11	132
As at 1 January 2020	121	11	132
Additions	-	-	-
Other adjustments	-	-	-
Disposals	-	-	-
As at 31 December 2020	-16	-	-16
	105	11	116
Accumulated depreciation and allowances			
As at 1 January 2019	-	-	-
Charge for the year	34	4	38
Disposals	-	-	-
Allowances	-	-	-
As at 31 December 2019	34	4	38
As at 1 January 2020	34	4	38
Charge for the year	31	3	34
Disposals	-8	-	-8
Allowances	-	-	-
As at 31 December 2020	57	7	64
Net book value			
As at 31 December 2019	87	7	94
As at 31 December 2020	48	4	52

Land and buildings

The bank leases land and buildings for 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 inflation rate developments in the following years.

Some leases contain extension options exercisable by the lessee within up to 12 months before the end of lease term. At lease commencement, the bank assesses whether it is reasonably certain to exercise such options and subsequently, if a significant event or significant changes in circumstances occur.

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19. OTHER ASSETS

CZK million	2020	2019
Positive fair value of derivatives	2 912	2 661
Receivables from unsettled securities transactions	1	-
Receivables from unsettled payment transactions	1	2
Estimated receivables	37	33
Paid advances	2	4
Deferred tax asset (see Note 29)	12	37
Corporate income tax prepayments	141	91
Other debtors	3	85
Total	3 109	2 913

Income and expenses from hedging interest rate derivatives are noted in Note 4, losses on hedge accounting are 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 2020, the Bank created a provision for corporate income tax of CZK 28 million (31 December 2019: CZK 84 million) and paid CZK 164 million in prepayments (31 December 2019: CZK 175 million). The result was a receivable for corporate income tax totalling CZK 141 million (31 December 2019: CZK 91 million).

In 2020 and 2019, the Bank did not write off any other assets

In 2020 and 2019, 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 credit unions by residual maturity

CZK million	2020	2019
Repayable on demand	1 859	1 843
Up to 3 months	30 912	41 657
3 months to 1 year	-	6 848
1 year to 5 years	6 925	272
More than 5 years	2 248	915
Total	41 944	51 535

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

(a) Analysis of due to customers and credit union members by sectors

CZK million	Repayable on demand	Term deposits with fixed maturity	Other	Total
As at 31 December 2020				
Residents, of which				
financial institutions	1 441	1 030	-	2 471
non-financial institutions	8 476	447	-	8 923
insurance institutions	86	130	-	216
government sector	-	-	-	-
non-profit organisations	-	-	-	-
resident individuals	83 231	-	32	83 263
Non-residents	1 365	-	-	1 365
Changes of FV from hedge accounting	575	-	-	575
Total	95 174	1 607	32	96 813

CZK million	Repayable on demand	Term deposits with fixed maturity	Other	Total
As 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 organisations	-	-	-	-
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

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

In 2020, the Bank had no commitments to persons with a special relationship to it (as well as in 2019).

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22. SUBORDINATED LIABILITIES

As at 31 December 2020 and as at 31 December 2019, the Bank did not report any subordinated liabilities.

23. OTHER LIABILITIES

CZK million	2020	2019
Negative fair values of derivatives	2 705	2 401
Clearing accounts – settlement of transactions with securities	8	168
Clearing accounts – settlement of payment transactions	338	355
Other payables	101	39
Lease and Rent liabilities	54	94
Estimated payables	205	298
Total	3 411	3 355

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 106, 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 does not have a bonus programme tied to equity

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26. PROVISIONS AND ALLOWANCES

(a) Allowances for credit losses

CZK million	
Balance as at 1 January 2019	20
Additions during the year	16
Release of allowances no longer considered necessary	-16
Total allowances for credit losses as at 31 December 2019	20
Balance as at 1 January 2020	20
Additions during the year	73
Release of allowances no longer considered necessary	-47
Total allowances for credit losses as at 31 December 2020	46

(b) Provisions for possible guarantee losses

In 2020 and 2019, the Bank created provisions for the risks connected with provided guarantees in an insignificant amount

(c) Other provisions

CZK million	Financial instruments	Restructuring	Other	Total
Balance as 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 as at 31 December 2019	103	2	4	109
Balance as at 1 January 2020	103	2	4	109
Additions during the year	-	11	10	21
Utilisation during the year	-34	-	-	-34
Release of excess provisions	-	-1	-2	-3
Foreign exchange gain/ (loss)	3	-	-	3
Balance of other provisions as at 31 December 2020	72	12	12	96

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 the procedures of the corporate market risk department in Amsterdam.

In 2020, the Bank created a provision for corporate income tax of CZK 23 million (31 December 2019: CZK 84 million) and paid CZK 164 million in prepayments (31 December 2019: CZK 175 million). The result was a receivable for corporate income tax totalling CZK 141 million (31 December 2019: CZK 91 million), described in Note 19.

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

As at 7 May 2021, the Bank has not decided on the distribution of profit for 2020. In 2020, the Bank decided that the profit for 2019 of CZK 296 million will not be transferred to the parent company ING Bank N.V. and will be kept at the Bank.

28. REVALUATION GAINS AND LOSSES

CZK million	FVOCI	Total
Balance as at 1 January 2019	-14	-14
Decrease	20	20
Balance as at 31 December 2019	6	6
of which Loss allowances for state zero coupon bonds and other securities at FVOCI	-	-
Balance as at 1 January 2020	6	6
Increase	24	24
Balance as at 31 December 2020	30	30
of which Loss allowances for state zero coupon bonds and other securities at FVOCI	2	2

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29. INCOME TAX AND DEFERRED TAX ASSET / LIABILITY

(a) Income tax payable

CZK million	2020	2019
Current year profit before tax	94	376
Income not liable to tax	-46	-19
Tax non-deductible expenses	101	87
Sub-total	149	444
Income tax calculated using a tax rate of 19%	28	84
Adjustment of tax from previous years	-5	5
Total income tax expense	23	89

(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 utilised, i.e. 19% for 2020 and 2019.

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

CZK million	2020		2019	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Allowances and provisions for loan losses	9	-	4	-
Other provisions	18	-	21	-
Estimates for bonuses and social security and health insurance from bonuses	14	-	13	-
Tangible and intangible fixed assets	-	6	2	-
Other items related to prior years	-	1	-	2
Net deferred tax asset recorded in the Income statement	34	-	38	-
Valuation of securities	-	22	-	1
Net deferred tax liability recorded in Equity	-	22	-	1
Total deferred tax asset/liability (see Notes 24 and 19)	12	-	37	-

In 2020, the Bank reported income as a result of deferred tax totalling CZK 4 million in the income statement. In 2019 the Bank reported expense of CZK 9 million as a result of deferred tax.

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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	2020	2019
Banks		
Payables resulting from guarantees	678	613
Total	678	613

CZK million	2020	2019
Customers		
Payables resulting from guarantees	1 582	1 435
Promises provided	10 708	8 171
Total	12 290	9 606

Provisions for risks related to provided guarantees were created in an insignificant amount in 2020 and 2019.

(b) Collaterals and pledges received

CZK million	2020	2019
Collaterals received under resale commitments	45 134	65 503
Other securities received as pledges	904	1 148
Real estate received as collaterals	12 322	10 764
Received monetary collaterals	45	24
Other collaterals received	7 093	6 593
Total	65 498	84 032

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(c) Off-balance sheet financial instruments

CZK million	Contractual amounts		Fair value	
	2020	2019	2020	2019
Hedging instruments				
Interest rate swap contracts (IRS)			657	188
Interest rate swap contracts (purchase)	49 958	37 700	-	-
Interest rate swap contracts (sale)	-49 958	-37 700	-	-
Trading instruments				
Spot currency transactions			-	-1
Spot currency transactions (purchases)	171	251	-	-
Spot currency transactions (sales)	172	-252	-	-
Forward foreign exchange contracts (FX)			-512	-223
Forward FX purchase contracts	23 380	35 528	-	-
Forward FX sale contracts	-23 894	-35 786	-	-
Interest rate cross currency swap contracts (IRCS)			-211	1 507
IRCS purchase contracts	49 904	58 680	-	-
IRCS sale contracts	-50 135	-57 500	-	-
Interest rate swaps (IRS)			273	-1 211
Interest rate swaps (purchases)	64 521	57 443		
Interest rate swaps (sales)	-64 521	-57 443		

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

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(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
As at 31 December 2020					
Hedging instruments					
Interest rate swap contracts (IRS)	-	-	18 744	31 214	49 958
Trading instruments					
Forward FX purchase contracts	23 380	-	-	-	23 380
Forward FX sale contracts	-23 894	-	-	-	-23 894
IRCS purchase contracts	3 300	7 885	25 528	13 191	49 904
IRCS sale contracts	-3 505	-8 143	-25 327	-13 160	-50 135
Interest rate swaps (purchases)	6 750	8 426	23 828	25 517	64 521
Interest rate swaps (sales)	-6 750	-8 426	-23 828	-25 517	-64 521
As 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

31. ASSETS HELD IN CUSTODY

CZK million	2020	2019
Other assets	6 075	5 550
Total	6 075	5 550

Other assets consist mainly of mutual funds of CZK 6 075 million (2019 CZK 5 550 millions).

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32. ASSETS PLACED INTO ADMINISTRATION AND MANAGEMENT

In 2020 and 2019, the Bank did not place any assets into custody

33. FINANCIAL INSTRUMENTS – MARKET RISK

The Bank is exposed to market risks arising from open transaction positions 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, and stop-loss 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, the 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.

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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
As at 31 December 2020						
Cash and balances with CB	678	-	-	-	-	678
State zero coupon bonds and other securities	17 377	-	-	-	-	17 377
Receivables from banks	52 506	2 897	18 606	12 129	-	86 138
Receivables from customers	10 743	635	18 340	6 483	-	36 201
Tangible and intangible fixed assets	-	-	-	-	367	367
Other assets	460	318	925	1 392	14	3 109
Prepaid expenses and accrued income	-	-	-	-	23	23
Total	81 764	3 850	37 871	20 004	404	143 893
Due to banks	32 771	-	6 925	2 248	-	41 944
Due to customers	38 797	15 507	19 577	22 932	-	96 813
Other liabilities	1 539	422	533	912	5	3 411
Deferred income and accrued expenses	3	3	32	18	-	56
Provisions	-	-	-	-	96	96
Equity	-	-	-	-	1 573	1 573
Total	73 110	15 932	27 067	26 110	1 674	143 893
Gap	8 654	-12 082	10 804	-6 106	-1 270	-
Cumulative gap	8 654	-3 428	7 376	1 270	-	-

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For the year ended 31 December 2020

CZK million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
As 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	296	3 335
Deferred income and accrued expenses	-	2	27	11	-	40
Provisions	-	-	-	-	109	109
Subordinated liabilities	-	-	-	-	1 481	1 481
Equity	85 217	17 044	26 977	27 401	1 886	158 525
Total	91 088	5 116	37 534	24 282	505	158 525
Gap	5 871	-11 928	10 557	-3 119	-1 381	-
Cumulative gap	5 871	-6 057	4 500	1 381	-	-

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, as there is the presumption that these derivatives will be closed out before contractual maturity. These fair values are disclosed in the 'Less than one month' column.

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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.
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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 to remain stable or increase based on the Bank's historical data.
- Based on historical experience of the Bank, loan commitments are not expected 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
- government bonds issued by the Ministry of Finance of the Czech Republic

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, e.g. in a reverse repo transaction, etc.

As at 31 December 2020

CZK million	Carrying amount	Fair value
Cash in hand and balances with CB	46 735	46 735
State zero coupon bonds and other securities eligible for refinancing with the central bank that are not provided as collateral as at the reporting date	17 377	17 749
Total liquidity provision	64 112	64 484

As at 31 December 2019

CZK million	Carrying amount	Fair value
Cash in hand and balances with CB	64 721	64 721
State zero coupon bonds and other securities eligible for refinancing with the central bank that are not provided as collateral as at the reporting date	5 927	6 048
Total liquidity provision	70 648	70 769

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 optimising net interest income in accordance with the Bank's strategy, approved by management.

On average, the Bank's interest rate sensitive assets have a longer duration or interest rate adjusting period than its liabilities, and 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.

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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 management.

Currency risk

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

Currency risk

Assets and liabilities denominated in foreign currency including off-balance sheet exposures represent the Bank's exposure to currency risks. Both realised and unrealised 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 a basic point value (BPV) analysis (based on the duration) to measure the interest rate sensitivity of assets and liabilities that are not traded on a public market. The duration represents the average period during which the Bank collects the present value of cash flows from individual instruments, this represents the instrument sensitivity to interest rate risk. The BPV analysis is an approximation of the instrument's fair value when the relevant yield curve is shifted by one basis point and the sensitivity parameter of the shift is the duration.

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

The limits comprise historical value at risk (HVaR) limits, BPV limits, and overall position limits in relation to traded securities, NII at Risk limits and NPV at risk limits

The table below shows NII at risk

CZK million	As at 31 December 2020	As at 31 December 2019
IR stress scenario +100bp (1 year)	-12.1	-0.4
IR stress scenario -100bp (1 year)	+12.1	+0.4

Interest rate risk sensitivity analysis

Part of the Entity's income is generated by the intentional mismatch between its interest-rate sensitive assets and liabilities, which is summarised in the table below. The carrying amounts of these assets and liabilities and the nominal (notional) values of interest rate derivatives are included in the earlier of the period in which they are due or the period in which the interest rate changes. Due to their expected premature repayment or non-defined maturity dates, certain assets or liabilities are allocated to individual periods on the basis of an expert estimate.

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Compared to the prior period, no changes were made to the methods and assumptions used in the preparation of sensitivity analysis.

The table below includes only interest-rate sensitive assets and liabilities and is therefore not identical to the balances presented in the Entity's balance sheet.

CZK million	Less than 3 months	3 months - 1 year	1-5 years	More than 5 years
At 31 December 2020				
Cash in hand and balances with central banks	46 720	-	-	46 720
State zero coupon bonds and other securities	809	4 875	11 693	17 377
Receivables from banks	9 345	18 606	12 129	40 081
Receivables from customers	30 607	550	5 044	36 201
Total	87 482	24 031	28 866	140 379
Payables to banks	32 771	6 925	2 248	41 944
Payables to customers	96 779	-	-	96 779
Total	129 550	6 925	2 248	41 944
Long positions of interest-rate derivatives	49 741	68 101	69 922	187 763
Short positions of interest-rate derivatives	50 718	67 900	69 891	188 508
Gap	-42 068	17 106	26 618	1 655
Cumulative gap	-42 068	-24 963	1 655	

CZK million	Less than 3 months	3 months - 1 year	1-5 years	More than 5 years
At 31 December 20219				
Cash in hand and balances with central banks	67 520	-	-	67 520
State zero coupon bonds and other securities	-	2 023	3 904	5 927
Receivables from banks	8 552	20 275	15 492	44 318
Receivables from customers	32 614	93	4 704	37 411
Total	108 686	22 391	24 100	155 177
Payables to banks	50 348	272	915	51 534
Payables to customers	101 970	-	-	101 970
Total	152 318	272	915	101 970
Long positions of interest-rate derivatives	81 914	62 239	45 197	189 350
Short positions of interest-rate derivatives	121 403	41 373	25 652	188 429
Gap	-43 631	22 119	23 185	1 673
Cumulative gap	-43 631	-21 513	1 673	

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Currency risk

The Bank set limits for 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

CZK million	EUR	USD	CZK	Other	Total
As at 31 December 2020					
Cash in hand and balances with central banks	-	-	678	-	678
State zero coupon bonds	-	-	17 377	-	17 377
Receivables from banks	36 549	2	49 024	563	86 138
Receivables from customers	15 869	4 862	15 047	423	36 201
Tangible and intangible fixed assets	-	-	367	-	367
Other assets	241	1	2 867	-	3 109
Prepaid expenses and accrued income	11	5	7	-	23
Total	52 670	4 870	85 367	986	143 893
Payables to banks	26 794	7 707	6 947	496	41 944
Payables to customers	2 411	411	93 544	447	96 813
Other liabilities	769	29	2 592	21	3 411
Deferred income and accrued expenses	-	-	56	-	56
Provisions	71	-	25	-	96
Equity	-	-	1 573	-	1 573
Total	30 045	8 147	104 737	964	143 893
Long positions of off-balance sheet instruments	32 785	3 639	164 334	144	200 902
Short positions of off-balance sheet instruments	62 133	363	141 966	27	204 489
Net foreign currency position	-6 723	-1	2 998	139	-3 587

CZK million	EUR	USD	CZK	Other	Total
As 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

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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

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 unfavourable 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 on the financial markets on a daily basis. The HVaR was as follows:

	As at 31 December 2020	As at 31 December 2019
CZK million		
HVaR of interest rate instruments – liquidity management book	131	93
HVaR of currency instruments – liquidity management book	8	1
	Average 2020	Average 2019
CZK million		
HVaR of interest rate and currency instruments – liquidity management book	136	87

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.

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(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,
- Approving 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 by evaluating 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.,
- approving 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 centralised 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 to and sharing specific skills with individual departments within the Entity.

The development and maintenance of ECL measuring processes and models are provided centrally at ING Bank N.V.

Stress test

Stress testing of loan portfolio is done centrally by ING Bank N.V. based on requirements from European Central Bank (ECB) and the central bank of the Netherlands (DNB) and also based on the request of management of ING Bank N.V. Stress testing of loan portfolio is not applied on the local level of the Branch. Information about the stress testing done by ING Bank N.V. can be found in consolidated annual report of 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 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 realisable value of the collateral is based mainly on an expert appraisal. The net realisable 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 realise the collateral if it becomes necessary. The Bank updates the value of the collateral and the correction coefficients in accordance with regulatory requirements

(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 should bankruptcy be imposed on a borrower.

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

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

- exposure with relief, forbearance status
- watch list status, monitored loans 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 assigned by ECAs 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.

The 22 individual degrees have been grouped into the following categories

- investment grade (internal rating 1-10)
- non-investment grade (internal rating 11-17)
- doubtful (internal rating 18-19)
- 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

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Credit impaired financial assets (Stage 3)

Financial assets are assessed for impairment at each balance sheet date or more often when required by circumstances. 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

Macroeconomic 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 considers three different macroeconomic scenarios 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 Oxford Economics' global economic model (OEGEM). 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), and with a sign of a significant increase in credit risk (Stage 2). By default, for Stage 3 assets, the Bank uses individual assessments and, in exceptional cases, collective assessments.

Collectively assessed assets (Stage 1 to 3)

A model-based approach calculates the ECL in a formula that is simply expressed as $PD \times EAD \times LGD$, 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

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Models compute 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 analysed 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 recognised 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, i.e. amortised 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 recognised 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 maximise 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 recognised 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.

As at 31 December 2020 and 31 December 2019, the Bank recognised no loans with a modification or with relief.

(vi) Monitoring of receivables from debtors

The Bank has a credit risk management department. Each receivable is subject to 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) Securitisation and use of credit derivatives

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

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(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	Balance sheet	Off-balance sheet	Total exposure to credit risk	Collateral received *	Main type of collateral
31 December 2020					
Loans and receivables from banks	86 138		86 138	45 314	Securities
Loans and receivables from customers	36 201	10 708	46 909	20 364	Guarantee
Total	122 339	10 708	133 047	65 498	
Issued guarantees and credit limits for guarantees		2 260	2 260		Other
Total		2 260	2 260		
31 December 2019					
Loans and receivables from banks	111 501		111 501	65 503	Securities
Loans and receivables from customers	37 411	8 171	45 582	18 529	Property
Total	148 912	8 171	148 912	84 032	
Issued guarantees and credit limits for guarantees		2 048	2 048	-	Other
Total		2 048	2 048	-	

* 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 and 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 to prevent significant concentrations of credit risk.

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(xi) Reconciliation of opening and closing balances for ECL allowances

The following table shows reconciliation of allowances for loans provided.

CZK million	31/12/2020				
	12-month ECL (stage 1)	Lifetime ECL not credit-impaired (stage 2)	Lifetime ECL credit-impaired (stage 3)	Purchased or originated credit-impaired (POCI)	Total
Balance at 1 January 2020	20	-	-	-	20
Transfer to 12-month ECL (Stage 1)	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired (Stage 2)	-2	6	-	-	4
Transfer to lifetime ECL credit-impaired (Stage 3)	-	-	-	-	-
New financial assets originated or purchased	5	-	-	-	5
Financial assets that have been derecognised	-2	-	-	-	-2
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Revaluation and changes in models/risk parameters	11	8	-	-	19
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2020	32	14	-	-	46

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CZK million	31/12/2020				
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Purchased or originated credit- impaired (POCI)	Total
	(stage 1)	(stage 2)	(stage 3)		
Balance at 1 January 2020	16	1	-	-	17
Transfer to 12-month ECL (Stage 1)	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired (Stage 2)	-	-	-	-	-
Transfer to lifetime ECL credit-impaired (Stage 3)	-	-	-	-	-
New financial assets originated or purchased	12	-	-	-	12
Financial assets that have been derecognised	-4	-	-	-	-4
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Revaluation and changes in models/risk parameters	-4	-1	-	-	-5
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December 2020	20	-	-	-	20

The Bank does not disclose reconciliation of opening and closing balances of allowances for other financial instruments due to their insignificance

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	2020	2019
Czech Republic	26 310	28 605
Slovakia	395	399
Poland	228	261
Germany	4 086	4 200
Hungary	210	205
Netherlands	4 329	2 828
Luxembourg	505	882
Other	138	31
Total	36 201	37 411

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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 Bank's balance sheet

In millions of CZK	31 December 2020 Carrying amount	31 December 2020 Fair value
FINANCIAL ASSETS		
Cash in hand and balances with central banks	678	678
State zero coupon bonds and other securities held-to-maturity	13 632	14 004
Receivables from banks and credit unions	86 138	86 138
Receivables from customers	36 201	36 622
Other financial assets	7	7
FINANCIAL LIABILITIES		
Payables to banks and credit unions	41 944	41 944
Payables to customers	96 813	96 813
Other financial liabilities	346	346

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 held-to-maturity	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

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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 held-to-maturity

The fair value is derived directly from the market data. These financial assets have been categorised as Level 1 in the fair value hierarchy.

Receivables from banks and credit unions

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

Receivables from customers – credit union members

The estimated fair value of credits is based on discounted expected future cash flows, using an interest rate valid for credits connected with similar credit risk, interest rate risk, and similar maturity. 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 Bank's balance sheet:

In millions of CZK	31 December 2020		
	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
State zero coupon bonds and other securities	3 745	-	-
Other assets – positive fair value of derivatives	-	2 912	-
FINANCIAL LIABILITIES			
Other liabilities – negative fair value of derivatives	-	2 705	-

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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	-

Transfers between Level 1 and Level 2

No transfers were carried out between Level 1 and Level 2 in 2020 and 2019.

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 mostly 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 the monitoring, management and quantification of operational risks. The Bank's legal department monitors and manages 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 counsels the Bank's employees regarding their (personal) compliance duties.

37. COVID-19

Over the period of the first months of 2021, the Bank generated relatively stable sales and its operations were not disturbed. In 2020, the Bank obtained no requests for postponement of repayments within the moratorium connected with the COVID-19 outbreak and after the end of the moratorium and in the first months of 2021 no relief due to a deteriorated financial condition of the debtors (Forbearance) was provided, either. Based on the information publicly available as at the date of preparation of these financial statements, the Bank's management has considered the potential development of the outbreak and its expected impact on the Bank and the 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.

To safeguard uninterrupted operating activities and the Bank's liquidity position, the Bank mainly continued to apply the work from home programme for significant number of administrative, sales, and procurement department employees. Furthermore, the Bank has introduced regular testing for COVID-19 for its employees working in the office.

Based on currently publicly available information, the Bank's current KPIs, and in view of the adopted measures, the Bank's management does not anticipate a direct immediate and significant adverse impact of the COVID-19 outbreak on the Bank, its operations, financial position, operating results, and on the going concern principle based on which these financial statements have been prepared.

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38. MATERIAL SUBSEQUENT EVENTS

Termination of retail banking operations on the Czech market

On 18 February 2021, the Bank announced that it will terminate its retail banking operations on the Czech market by the end of 2021. The termination of retail operations relates to the savings accounts led in CZK and investments in mutual funds. Corporate banking activities will not be affected by this decision. Corporate banking services will continue to be provided to the same extent as today.

In relation to the decision to terminate retail banking operations on the Czech market, existing retail clients were offered the transfer of their existing savings deposited on savings accounts and their investments in mutual funds to Raiffeisenbank a.s. under beneficial conditions. Cooperation with clients who will accept this offer will be terminated based on the client's notice. As for clients not taking advantage of this offer, cooperation will be terminated based on the Bank's notice of termination of the savings account or the mutual funds contract.

Relating to the termination of retail banking operations, 225 jobs will be terminated and a restructuring provision of CZK 181 million will be recorded in 2021. Furthermore, the Bank will record the one-off impairment of tangible and intangible fixed assets of CZK 201 million in 2021.

The decision to terminate retail banking operations on the Czech market will significantly decrease the asset and liability items in the Bank's balance sheet compared with the balance as at 31 December 2020.

Overview of expected decreases in the individual categories of assets and liabilities in the balance sheet as at 31 December 2021.

	Expected decrease as at 31 December 2021
CZK million	
Receivables from banks and credit unions – term deposits	42 000
Receivables from banks and credit unions – reverse repos with CNB	41 000
State zero coupon bonds and other securities eligible for refinancing with the central bank	8 000
Total assets	91 000
Payables to banks and credit unions	7 737
Payables to customers and credit union members – resident individuals	83 263
Total liabilities	91 000



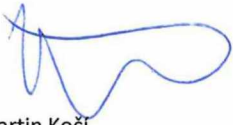
As for the off-balance sheet items, the value of assets placed into custody will decrease from CZK 6 075 million as at 31 December 2020 to CZK 0 at the end of 2021 and the value of collaterals and pledges received in connection with a decrease in collaterals received from reverse repo transactions will decrease.

The Bank's management is not aware of any other events that have occurred since the reporting date that would require adjustments to the Bank's financial statements.

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Prepared on:	Signature of statutory body:	Person responsible for accounting (name and signature):	Person responsible for financial statements (name and signature):
7 May 2021	 Ronald Bart Huisman	 Radim Čmíel	 Martin Kočí