



## **Management Report on the Bank's Business Results**

### **Annual Management Report ING Bank Czech Republic 2021**

These days, the developments in Ukraine are on top of our minds and our thoughts are with the Ukrainian people. Together with our staff we also decided to support Ukraine in several ways including that of financial contribution. Next to the human dimension of the war, we are also closely monitoring the situation and the developments and continuously evaluating the impact on our operations in the Czech Republic.

Looking back at the year 2021, it was a special year for ING in the Czech Republic. Next to the continuation of COVID-19 pandemic and all the effects it had on all stakeholders, we went through a large transformation of our bank following the announcement of Retail Banking closure in 2021. At the same time, it was a year during which we successfully executed upon our Wholesale Banking strategy by supporting our corporate and FI clients in several transformational transactions, including supporting and advising of our clients on their journey to become more sustainable. Finally, year 2021 was a record year in terms of our financial results as we were able to grow revenue and net income at double-digit rates.

As announced on February 18, 2021, after 20 years of Retail Banking operations in the Czech Republic, considering the economic headwinds along with the uncertainty about achieving the necessary business scale in the future, ING decided to end its retail activities in the Czech Republic during 2021. To ensure our retail customers are taken care of well, we had concluded an agreement with Raiffeisenbank whereby customers had the opportunity to become clients at Raiffeisenbank and move their savings and investments at preferential conditions. We are glad to announce that a large number of our retail clients decided to accept the offer of Raiffeisenbank. In addition, the process went smoothly and the clients appreciated the speed, simplicity and conditions of the transfer. The process of termination of our retail client business was successfully completed in September 2021.

In Wholesale Banking, ING is committed to continue providing the wholesale banking services to our clients in the Czech Republic. Our Wholesale Banking is client-centric business and we want to stay at the forefront of evolving trends that shape the banking industry. We provide a differentiating banking experience and we want to do this by delivering real value for money through our three distinctive value propositions which are our thought leadership on sustainability, our sector expertise and our international network of local experts.

In 2021, we were able to support our clients in a number of landmark transactions. For example, we have been assisting CGN in their transformation to become more sustainable and by helping them to issue their first ever green bond. ING has been involved in this journey since the very beginning, which is almost one year ago. At that time, we helped CGN to formulate a clear sustainability strategy, helped them to obtain a strong sustainability rating and assisted them to put in place a green finance framework. During 2021, we supported several clients in the Czech Republic with the issuance of 3 sustainable instruments and received 5 other green finance mandates. We are also very active in trade associations, conferences and round tables in raising awareness and sharing best practices on sustainability and actively contribute to shaping the energy transition strategy in the Czech Republic.

Traditionally, social contribution to the community in the Czech Republic is important to us. It is mainly driven by our ING Bank Fund of the Tereza Maxová Foundation. On top of our CZK 1.5 million annual contribution to development and education of unprivileged children in orphanages and foster care, we supported in 2021 also a new project Lighthouse driven by Tereza Maxová Foundation by an additional contribution of CZK 1.1 million covering financial literacy of mothers in shelters. We also provided additional CZK 0.9 million to Maturus which employ creative people with disabilities in the field of graphics and help handicapped people to find a real job. In addition, together with our employees, we also financially helped victims of the natural disaster in Moravia.


Our strategic approach to sustainability as well as all our activities were acknowledged by Business for Society, awarding ING again as one of 25 TOP Large Responsible Companies for 2021 in the Czech Republic.

In 2021 we continued to stay focused on the things that matter - being a bank that is safe, secure and compliant. We continued to improve our KYC processes and implemented several group structural solutions in the Czech Republic. We also introduced a risk culture programme to further understand, discuss and act on many existing and new non-financial risks that banks are confronted every day to be even better able to protect our customers and bank.

Throughout 2021, we have continued to service our clients be it from the ING Office or from homes of our employees. We have introduced and put into practice the Hybrid way of working, which will be the standard going forward, even in the post COVID-19 period, giving employees the flexibility to combine working from home and working from the office, manage their work-life balance as well as empowering them to most efficiently manage their work agendas.

I would like to take this opportunity to thank our employees for all their hard work, cooperation, flexibility and resilience they have demonstrated during a challenging and transformational year for ING in the Czech Republic. This is also true for all of our retail banking colleagues whom we had to say good-bye in 2021.

Finally, I would like to thank our clients for their trust and faith in ING. We will continue to focus also in 2022 on the areas where we can make a difference to the clients as well as to the whole society.



**Erik Fortgens**  
CEO

## **General information**

Annual report:

ING Bank N.V., branch

For the year ended 31 December 2021

The bank will continue in its activity. The bank has no branch and acquired no own shares in 2021.

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 2021.

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

**Company name: ING Bank N.V., organizační složka**

Registered office: Českomoravská 2420/15, Libeň, 190 00 Praha 9

Identification number: 492 79 866

Business activity: Bank

Bank code: 3500

Date of preparation of the financial statements: 16 May 2022

**BALANCE SHEET  
as at 31 December 2021**

(Translated from the Czech original)

in million of CZK		Note	31/12/2021	31/12/2020
<b>ASSETS</b>				
1	Cash in hand and balances with central banks		89	678
2	State zero coupon bonds and other securities eligible for refinancing with the central bank	12	-	17 377
	<i>of which: a) securities issued by government institutions</i>		-	17 377
3	Receivables from banks and credit unions	13	33 859	86 138
	<i>of which: a) repayable on demand</i>		337	1 278
	<i>b) other receivables</i>		33 522	84 860
4	Receivables from customers – credit union members	14	40 335	36 201
	<i>of which: a) repayable on demand</i>		3 440	4 292
	<i>b) other receivables</i>		36 895	31 909
5	Debt securities	15	-	-
	<i>b) issued by other entities</i>		-	-
9	Intangible fixed assets	17	20	265
10	Tangible fixed assets	18	74	102
11	Other assets	19	794	3 037
13	Prepaid expenses and accrued income		19	23
<b>Total assets</b>			<b>75 190</b>	<b>143 821</b>

in million of CZK		Note	31/12/2021	31/12/2020
<b>LIABILITIES &amp; EQUITY</b>				
1	Payables to banks and credit unions	20	57 898	41 944
	<i>of which: a) repayable on demand</i>		3 499	1 859
	<i>b) other payables</i>		54 399	40 085
2	Payables to customers – credit union members	21	11 610	96 813
	<i>of which: a) repayable on demand</i>		10 365	95 174
	<i>b) other payables</i>		1 245	1 639
4	Other liabilities	23	3 087	3 411
5	Deferred income and accrued expenses		94	56
6	Provisions	26	49	24
	<i>c) other</i>		49	24
	<b>Total liabilities</b>		<b>72 738</b>	<b>142 248</b>
12	Capital funds		2	1
13	Revaluation gains (losses)	28	-	30
	<i>of which: a) on assets and liabilities</i>		-	30
14	Retained profits (or accumulated losses)	27	1 542	1 475
15	Profit (loss) for the accounting period		908	67
	<b>Total equity</b>		<b>2 452</b>	<b>1 573</b>
<b>Total liabilities and equity</b>			<b>75 190</b>	<b>143 821</b>

in million of CZK		Note	31/12/2021	31/12/2020
<b>OFF-BALANCE SHEET ITEMS</b>				
<b>Off-balance sheet assets</b>				
1	Commitments and guarantees provided	30	13 953	12 968
3	Receivables from spot transactions	30	78	171
4	Receivables from fixed term transactions	30	43 107	187 763
<b>Off-balance sheet liabilities</b>				
9	Commitments and guarantees received	30	19 305	15 809
10	Collaterals and pledges received	30	49 944	65 498
11	Liabilities from spot transactions	30	78	172
12	Liabilities from fixed term transactions	30	44 111	188 508
14	Values taken into custody, administration and deposit	31	-	6 075

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**INCOME STATEMENT**  
**for the year ended 31 December 2021**  
 (Translated from the Czech original)

in million of CZK		Note	2021	2020
1	Interest income and similar income <i>of which: interest on debt securities</i>	4	2 517 86	3 351 206
2	Interest expense and similar expense	4	(679)	(966)
4	Fee and commission income	5	1 302	369
5	Fee and commission expense	5	(103)	(23)
6	Gain or loss from financial operations	6	91	(568)
7	Other operating income	7	2	-
8	Other operating expenses	7	(62)	(125)
9	Administrative expenses <i>of which: a) employee expenses</i> <i>              ab) social and health insurance</i> <i>              b) other administrative expenses</i>	8	(1 562) (588) (113) (974)	(1 735) (578) (118) (1 157)
11	Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets	17, 18	(323)	(156)
12	Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables	26	67	51
13	Write-offs, additions and use of loss allowances and provisions for receivables and guarantees	26	(32)	(87)
16	Release of other provisions	26	42	-
17	Additions and use of other provisions	26	(67)	(17)
<b>19</b>	<b>Current year profit (loss) from ordinary activities before tax</b>		<b>1 193</b>	<b>94</b>
23	Income tax	29	(285)	(27)
<b>24</b>	<b>Net profit (loss) for the period</b>		<b>908</b>	<b>67</b>



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**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2021**

(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
<b>Balance at 1/1/2020</b>	-	-	-	-	-	6	1 475	1 481
Net profit (loss) for the period	-	-	-	-	-	-	67	67
Other changes	-	-	-	-	1	24	-	25
<b>Balance at 31/12/2020</b>	-	-	-	-	1	30	1 542	1 573
<b>Balance at 1/1/2021</b>	-	-	-	-	1	30	1 542	1 573
Changes in accounting policies	-	-	-	-	-	-	-	-
Net profit (loss) for the period	-	-	-	-	-	-	908	908
Other changes	-	-	-	-	1	(30)	-	(29)
<b>Balance at 31/12/2021</b>	-	-	-	-	2	-	2 450	2 452

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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.

The Bank ended its retail banking services on 31 August 2021.

**Statutory body**

Statutory body of the Branch is the CEO of the Branch. The CEO is appointed based on the decision of the Board of Directors of ING Bank N.V. For the period 6 April 2021 – 31 December 21 the CEO of the Branch was Ronald Bart Huisman. Until 5 April 2021 the CEO of the Branch was Isold Dimitri Heemstra.

Effective since 1 January 2022 Erik Eduard Fortgens was appointed as the CEO of the Branch.

#### (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 2021. The current period is the period from 1 January 2021 to 31 December 2021. The prior period is the period from 1 January 2020 to 31 December 2020.

# **ING Bank N.V., organizační složka**

## **Notes to the Financial Statements**

**For the year ended 31 December 2021**

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

These financial statements are non-consolidated financial statements. The Bank is included in the consolidated group of its parent company (ING Bank N.V., 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 2021

## 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).

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

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

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

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

- contingent events that would change the amount and timing of cash flows
- leverage features
- prepayment and extension terms
- terms that limit the Entity's claim to cash flows from specified assets
- 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

### *Financial liabilities*

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

### Fair value hierarchy

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

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

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

- quoted market prices in active markets for similar instruments
- quoted prices for identical or similar instruments in markets that are considered less than active
- 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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

- 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.

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

- where a financial instrument includes both a drawn component (a financial asset) and an undrawn component (a loan commitment), and the Entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision
- debt instruments measured at FVOCI: no loss allowance is recognised in assets in the balance sheet because these instruments are presented at their fair value in assets. However, the loss allowance is disclosed in the notes to the 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

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

### (e) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Entity to make specified payments to reimburse the holder for a loss 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

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

### (i) Financial derivatives

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

- a) Its fair value changes in response to the change in a specified interest rate, price of a security, commodity price, foreign exchange rate, price index, credit rating or credit index, or other variable (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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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".

### *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".

As the Bank ended its Retail banking services during 2021 all hedging relationships were closed in 2021 as well.

### *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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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.

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".

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (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.

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

Debt securities issues are recognised in "Payables from debt securities".

Subordinated liabilities are recognised in "Subordinated liabilities".

### (m) Interest

#### *Effective interest rate*

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

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### *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”.

### **(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. 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.

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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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".

### 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

(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. EFFECT OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS of MATERIAL ERRORS

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

The Bank did not make any changes in accounting policies in 2021.

b) **Effect of corrections of material errors**

The Bank did not make any corrections of material errors in 2021.

### 4. NET INTEREST INCOME

CZK million	2021	2020
Interest income and similar income		
from deposits	1 220	1 429
from loans	758	735
from financial assets for trading	439	874
from securities	80	171
from available-for-sale financial assets/FVOCI	6	35
other	1	3
from hedging interest rate derivatives	13	104
Total	2 517	3 351
Interest expense and similar expense		
on deposits	182	564
on financial liabilities for trading	477	274
from hedging interest rate derivatives	20	128
other	-	-
Total	679	966
<b>Net interest income</b>	<b>1 838</b>	<b>2 835</b>

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 5. COMMISSION AND FEE INCOME AND EXPENSE

CZK million	2021	2020
Income from fees and commissions		
lending activities	147	82
payment processing	37	37
services for securities brokerage	15	53
guarantees issued	19	8
sale of financial instruments	204	174
fee from hedge accounting instruments	43	-
commission fee	830	-
other	7	15
<b>Total</b>	<b>1 302</b>	<b>396</b>
Commission and fee expense from		
securities transactions	1	3
management, administration, deposits and custody	6	11
payment processing	5	6
fee from hedge accounting instruments	89	-
other	2	3
<b>Total</b>	<b>103</b>	<b>23</b>

Commission fee for 2021 includes fee intermediary of clients transfer who, based on the agreement, ended the cooperation with the bank and utilized the possibility to transfer their investment and savings to Raiffeisenbank a.s. in relation to the ending of the retail banking services.

Due to the ending of the retail banking services the Bank has prematurely ended some interest rate and currency swaps (IRS and IRSC) which resulted in one-off fee income and expense.

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

CZK million	2021	2020
Gain/(loss) from securities transactions	-193	-
Gain/(loss) from derivative transactions	-880	2 609
of which gain/(loss) from interest tools (incl. interest rate derivatives)	507	171
of which gain/(loss) from currency tools (incl. currency derivatives)	-1 387	2 438
Gain/(loss) from hedge accounting	254	25
Gain/(loss) from foreign exchange transactions	103	103
Foreign exchange gain/ (loss)	807	-3 305
<b>Total</b>	<b>91</b>	<b>-568</b>

Due to the ending of the retail banking services the Bank sold its portfolio of securities held at amortised cost and FVOCI and made a loss of CZK 193 million.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 7. OTHER OPERATING INCOME AND EXPENSES

CZK million	2021	2020
Other operating income		
other	2	-
<b>Total</b>	<b>2</b>	<b>-</b>
CZK million	2021	2020
Other operating expenses		
deposit insurance fund ( DGS in the Netherlands)	56	108
losses from errors	3	1
net carrying amount of tangible fixed assets sold	2	1
other	1	15
<b>Total</b>	<b>62</b>	<b>125</b>

### 8. ADMINISTRATIVE EXPENSES

CZK million	2021	2020
Personnel and related expenses		
wages and salaries paid to employees	475	460
of which wages and salaries paid to management	31	38
social security and health insurance	113	118
	588	578
Intercompany services	515	582
Other administrative expenses	458	575
of which rent expense	3	5
of which expense for audit, legal and tax advisory	3	5
of which remuneration of the statutory auditor – statutory audit	3	2
	974	1 157
<b>Total</b>	<b>1 562</b>	<b>1 735</b>

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

	2021	2020
Employees	276	364
Management	5	9

#### Rent and other leases

In 2021 and 2020, the Bank reported no short-term leases or leases with low acquisition costs.

# **ING Bank N.V., organizační složka**

**Notes to the Financial Statements**

**For the year ended 31 December 2021**

## **9. EXTRAORDINARY INCOME AND EXPENSES**

In 2021 and 2020, the Bank had no extraordinary income or extraordinary costs.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 10. INCOME AND EXPENSE ACCORDING TO SEGMENTS

#### Geographical segments

CZK million	Czech Republic		European Union		Other		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Interest income and similar income	1 238	1 447	1 253	1 898	26	6	2 517	3 351
Interest expense and similar expense	-76	-370	-599	-596	-4	-	-679	-966
Income from fees and commissions	1 254	369	48	-	-	-	1 302	369
Commission and fee expense	-13	-21	-89	-2	-1	-	-103	-23
Gain/(loss) from financial operations	-332	-480	822	-119	-399	31	91	- 568
Other operational income	2	-	-	-	-	-	2	-
Other operational expense	-62	-125	-	-	-	-	-62	-125

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 11. TRANSACTIONS WITH RELATED PARTIES

CZK million	2021	2020
<b>Receivables – total</b>	<b>3 331</b>	<b>42 891</b>
Receivables from banks and credit unions	2 618	40 056
due on demand	315	1 253
other receivables	2 303	38 803
Other assets	713	2 835
<b>Payables – total</b>	<b>59 550</b>	<b>42 089</b>
Payables to banks and credit unions	57 481	39 552
due on demand	3 082	1 257
other liabilities	54 399	38 295
Payables to clients – members of credit unions	88	147
due on demand	88	147
Other liabilities	1 981	2 391
Net interest income	712	1 017
Net income from commissions and fees	-45	1
Gain/(loss) from financial operations	229	1 785
Administrative expenses and other operating expenses	-554	-624

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	2021	2020
State bonds	-	17 377
<b>Net book value</b>	<b>-</b>	<b>17 377</b>

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

CZK million	2021	2020
State zero coupon bonds and other securities at FVOCI/FVTPL	-	3 745
State zero coupon bonds and other securities held-to-maturity	-	13 632
of which Loss allowances for possible losses from state zero coupon bonds and other securities held-to-maturity	-	-8
<b>Net book value</b>	<b>-</b>	<b>17 377</b>

Due to the ending of the retail banking services the Bank sold its portfolio of securities held at amortised cost and FVOCI and made a loss of CZK 193 million. Fair value of the sold FVOCI portfolio at trade date amounted to CZK 3 618 million.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (c) Repo and reverse repo transactions

As at 31 December 2021, under reverse repo transactions, the Bank has acquired state zero coupon bonds and other securities with a market value of CZK 27 930 million (31 December 2020: CZK 45 134 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 2021, the Bank recognised a loss of CZK 82 million (31 December 2020: 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“.

As the Bank ended its Retail banking services during 2021 all hedging relationships were closed in 2021 as well. All remeasurements related to hedged items were derecognised in 2021.

## 13. RECEIVABLES FROM BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

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

CZK million	2021	2020
Current accounts (nostro accounts)	337	1 278
Term deposits	5 003	38 803
Reverse repos with CNB	28 519	46 057
Reverse repos with other banks	-	-
Total	33 859	86 138
Loss allowances for potential losses from receivables		
<b>Net receivables from banks</b>	<b>33 859</b>	<b>86 138</b>

In 2021 and 2020, the Bank did not restructure any receivables from banks.

All receivables from banks as at 31 December 2021 and 31 December 2020 are measured at amortised cost under IFRS 9. All receivables are classified into Stage 1.

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

CZK million	2021	2020
Securities	27 930	45 134
Bank guarantees	-	134
Unsecured	5 938	40 870
<b>Total</b>	<b>33 868</b>	<b>86 138</b>

### (c) Subordinated receivables from banks

In 2021 and 2020, the Bank did not provide subordinated loans to other banks.

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

In 2021 and 2020, the Bank did not write-off any receivables from banks.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 14. Receivables from customers – members of credit unions

#### (a) Receivables from customers by type

CZK million	2021	2020
Receivables from loans	40 356	36 247
Total	40 356	36 247
Loss allowances for potential losses from receivables	-21	-46
<b>Net receivables from customers</b>	<b>40 335</b>	<b>36 201</b>

In 2021, the Bank did not restructure any receivables from customers (as well as in 2020).

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

All receivables from customers as at 31 December 2021 (as well as in 2020) are measured at amortised cost under IFRS 9.

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

CZK million	2021			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-10	29 368	-	-	29 368
Grades 11-17	8 525	2 463	-	10 988
Grades 20-22	-	-	-	-
Total	37 893	2 463	-	40 356
Loss allowances for potential losses from receivables	-13	-8	-	-21
<b>Net receivables from customers</b>	<b>37 880</b>	<b>2 455</b>		<b>40 335</b>

CZK million	2020			
	Stage 1	Stage 2	Stage 3	Total
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
<b>Net receivables from customers</b>	<b>33 650</b>	<b>2 551</b>		<b>36 201</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

In millions of CZK	2021	2020
Residents, of which:		
financial institutions	4 377	2 504
non-financial institutions	27 577	23 852
Non-residents	8 402	9 891
<b>Total</b>	<b>40 355</b>	<b>36 247</b>

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 2021 and 2020, the Bank did not provide subordinated loans to other banks.

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

In 2021 and 2020, the Bank did not provide written-off receivables.

**(g) Syndicated loans**

As at 31 December 2021 and as at 31. December 2020, the Bank did not serve as the principal agent of any syndicated loan.

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

In 2021 and 2020, the Bank had no commitments to employees.

In 2021 and 2020, the Bank did not provide any loans to members of managerial bodies.

## 15. DEBT SECURITIES

As at 31 December 2021 and 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 2021 and 2020, 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 2021 and 2020.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 17. INTANGIBLE FIXED ASSETS

#### Movements in intangible fixed assets

CZK million	Software	Acquisition of software	Other	Total
<b>Cost</b>				
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
As at 1 January 2021	368	50	2	420
Additions	4	4	-	8
Disposals	-198	-41	-	-239
As at 31 December 2021	174	13	2	189
<b>Accumulated amortisation and allowances</b>				
As at 1 January 2020	135	-	5	140
Charge for the year	77	-	13	90
Disposals	-59	-	-16	-75
As at 31 December 2020	153	-	2	155
As at 1 January 2021	153	-	2	155
Charge for the year	53	-	-	53
Impairment	166	40	-	206
Disposal	-205	-40	-	-245
As at 31 December 2021	167	-	2	169
<b>Net book value</b>				
As at 31 December 2020	215	50	-	265
As at 31 December 2021	7	13	-	20

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 18. TANGIBLE FIXED ASSETS

#### Movements in tangible fixed assets

CZK million	Technical improvement of buildings	Fixtures and fittings	Equipment	Total
<b>Cost</b>				
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
As at 1 January 2021	4	39	126	169
Additions	-	-	-	-
Disposals	-	-8	-49	-57
As at 31 December 2021	4	31	77	112
<b>Accumulated depreciation and allowances</b>				
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
As at 1 January 2021	4	22	93	119
Charge for the year	-	6	17	23
Disposals	-	-6	-47	-53
As at 31 December 2021	4	22	63	89
<b>Net book value</b>				
As at 31 December 2020	-	17	33	50
As at 31 December 2021	-	9	14	23

#### 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### Tangible fixed assets acquired under lease

CZK million	Land and buildings	Vehicles	Total
<b>Cost</b>			
As at 1 January 2020	121	11	132
Additions	-	-	-
Other adjustments	-	-	-
Disposals	-16	-	-16
As at 31 December 2020	105	11	116
As at 1 January 2021	105	11	116
Additions	51	4	55
Other adjustments	-	-	-
Disposals	-100	-11	-111
As at 31 December 2021	56	4	60
<b>Accumulated depreciation and allowances</b>			
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
As at 1 January 2021	57	7	64
Charge for the year	26	4	30
Impairment	11	-	11
Disposals	-87	-9	-96
Allowances	-	-	-
As at 31 December 2021	7	2	9
<b>Net book value</b>			
As at 31 December 2020	48	4	52
As at 31 December 2021	49	2	51

### Land and buildings

The bank leases land and buildings for its headquarter and branches. These leases typically run for a period of 3-6 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 19. OTHER ASSETS

CZK million	2021	2020
Positive fair value of derivatives	692	2 912
Receivables from unsettled securities transactions	-	1
Receivables from unsettled payment transactions	1	1
Estimated receivables	34	37
Paid advances	1	2
Deferred tax asset (see Note 29)	35	12
Corporate income tax prepayments	-	141
Other debtors	31	3
<b>Total</b>	<b>794</b>	<b>3 109</b>

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 2021, the Bank created a provision for corporate income tax of CZK 272 million (31 December 2020: CZK 23 million) and paid CZK 68 million in prepayments (31 December 2020: CZK 164 million). The result was a liability for corporate income tax totalling CZK 204 million (31 December 2020: CZK 141 million).

In 2021 and 2020, the Bank did not write off any other assets.

In 2021 and 2020, 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	2021	2020
Repayable on demand	3 499	1 859
Up to 3 months	25 364	30 912
3 months to 1 year	7 490	-
1 year to 5 years	20 981	6 925
More than 5 years	564	2 248
<b>Total</b>	<b>57 898</b>	<b>41 944</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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
<b>As at 31 December 2021</b>				
Residents, of which				
financial institutions	833	-	-	833
non-financial institutions	8 208	544	-	8 752
insurance institutions	100	-	-	100
government sector	-	-	-	-
non-profit organisations	-	-	-	-
resident individuals	-	-	-	-
Non-residents	1 224	701	-	1 925
Changes of FV from hedge accounting	-	-	-	-
<b>Total</b>	<b>10 365</b>	<b>1 245</b>	<b>-</b>	<b>11 610</b>

CZK million	Repayable on demand	Term deposits with fixed maturity	Other	Total
<b>As at 31 December 2020</b>				
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
<b>Total</b>	<b>95 174</b>	<b>1 607</b>	<b>32</b>	<b>96 813</b>

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

In 2021, the Bank had no commitments to persons with a special relationship to it (as well as in 2020).

### 22. SUBORDINATED LIABILITIES

As at 31 December 2021 and as at 31 December 2020, the Bank did not report any subordinated liabilities.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 23. OTHER LIABILITIES

CZK million	2021	2020
Negative fair values of derivatives	1 494	2 705
Clearing accounts – settlement of transactions with securities	49	69
Clearing accounts – settlement of payment transactions	1 125	393
Other payables	239	53
Lease and Rent liabilities	59	54
Estimated payables	121	137
<b>Total</b>	<b>3 087</b>	<b>3 411</b>

In 2021, the Bank created a provision for corporate income tax of CZK 272 million (31 December 2020: CZK 23 million) and paid CZK 68 million in prepayments (31 December 2020: CZK 164 million). The result was a liability for corporate income tax totalling CZK 204 million (31 December 2020: CZK 141 million).

### 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.

### 26. PROVISIONS AND ALLOWANCES

#### (a) Allowances for credit losses

CZK million	
Balance as at 1 January 2020	20
Additions during the year	73
Release of allowances no longer considered necessary	-47
<b>Total allowances for credit losses as at 31 December 2020</b>	<b>46</b>
Balance as at 1 January 2021	46
Additions during the year	32
Release of allowances no longer considered necessary	-57
<b>Total allowances for credit losses as at 31 December 2021</b>	<b>21</b>

Due to the sale of portfolio of securities the Bank released allowances to securities in amount CZK 10 million in 2021.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (b) Provisions for possible guarantee losses

In 2021 and 2020, the Bank created provisions for the risks connected with provided guarantees in an insignificant amount.

### (c) Other provisions

CZK million	Restructuring	Litigations	Other	Total
Balance as at 1 January 2020	2	-	4	6
Additions during the year	11	-	10	21
Utilisation during the year	-	-	-	-
Release of excess provisions	-1	-	-2	-3
Foreign exchange gain/(loss)	-	-	-	-
<b>Balance of other provisions as at 31 December 2020</b>	<b>12</b>	<b>-</b>	<b>12</b>	<b>24</b>
Balance as at 1 January 2021	12	-	12	24
Additions during the year	218	3	-	221
Utilisation during the year	-39	-	-3	-42
Release of excess provisions	-154	-	-	-154
Foreign exchange gain/ (loss)	-	-	-	-
<b>Balance of other provisions as at 31 December 2021</b>	<b>37</b>	<b>3</b>	<b>9</b>	<b>49</b>

In 2021, the Bank made a provision for corporate income tax of CZK 272 million (31 December 2020: CZK 23 million) and paid CZK 68 million in prepayments (31 December 2020: CZK 164 million). The result was a liability for corporate income tax totalling CZK 204 million (31 December 2020: CZK 141 million) described in Note 23.

In 2021, the Bank made a provision for restructuring of CZK 218 million due to ending the retail banking services in the Czech Republic – announced on 18 February 2021. Ending the retail banking services affects 225 positions in the Czech Republic.

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

As at 16 May 2022, the Bank has not decided on the distribution of profit for 2021. In 2021, the Bank decided that the profit for 2020 of CZK 67 million will not be transferred to the parent company ING Bank N.V. and will be kept at the Bank.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 28. REVALUATION GAINS AND LOSSES

CZK million	FVOCI	Total
Balance as at 1 January 2020	6	6
Decrease	24	24
<b>Balance as at 31 December 2020</b>	<b>30</b>	<b>30</b>
of which Loss allowances for state zero coupon bonds and other securities at FVOCI	2	2
Balance as at 1 January 2021	30	30
Increase	-30	-30
<b>Balance as at 31 December 2021</b>	<b>-</b>	<b>-</b>
of which Loss allowances for state zero coupon bonds and other securities at FVOCI	-	-

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

#### (a) Income tax payable

CZK million	2021	2020
Current year profit before tax	1 193	94
Income not liable to tax	-173	-46
Tax non-deductible expenses	414	101
Sub-total	1 434	149
<b>Income tax calculated using a tax rate of 19%</b>	<b>272</b>	<b>28</b>
Adjustment of tax from previous years	14	-5
<b>Total income tax expense</b>	<b>286</b>	<b>23</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (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 2021 and 2020.

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

CZK million	2021		2020	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Allowances and provisions for loan losses	4	-	9	-
Other provisions	13	-	18	-
Estimates for bonuses and social security and health insurance from bonuses	13	-	14	-
Tangible and intangible fixed assets	9	-	-	6
Other items related to prior years	-	4	-	1
<b>Net deferred tax asset recorded in the Income statement</b>	<b>35</b>	<b>-</b>	<b>34</b>	<b>-</b>
Valuation of securities	-	-	-	22
<b>Net deferred tax liability recorded in Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22</b>
<b>Total deferred tax asset/liability (see Notes 25 and 19)</b>	<b>35</b>	<b>-</b>	<b>12</b>	<b>-</b>

In 2021, the Bank reported income as a result of deferred tax totalling CZK 1 million in the income statement. In 2020 the Bank reported expense of CZK 4 million as a result of deferred tax.

## 30. OFF-BALANCE SHEET ITEMS

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

CZK million	2021	2020
<b>Banks</b>		
Payables resulting from guarantees	1 235	678
<b>Total</b>	<b>1 235</b>	<b>678</b>

CZK million	2021	2020
<b>Customers</b>		
Payables resulting from guarantees	3 369	1 582
Letters of credit and financial guarantees	9	-
Promises provided	9 340	10 708
<b>Total</b>	<b>12 718</b>	<b>12 290</b>

Provisions for risks related to provided guarantees were created in an insignificant amount in 2021 and 2020.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (b) Collaterals and pledges received

CZK million	2021	2020
Collaterals received under resale commitments	27 930	45 124
Other securities received as pledges	655	904
Real estate received as collaterals	8 068	12 322
Received monetary collaterals	218	45
Other collaterals received	13 073	7 093
<b>Total</b>	<b>49 944</b>	<b>65 498</b>

Fair value of collateral and pledges received is not significantly different from the book value of collateral and pledges received.

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

CZK million	Contractual amounts		Fair value	
	2021	2020	2020	2019
<b>Hedging instruments</b>				
Interest rate swap contracts (IRS)		-	-	657
Interest rate swap contracts (purchase)	-	49 958	-	-
Interest rate swap contracts (sale)	-	-49 958	-	-
<b>Trading instruments</b>				
Spot currency transactions			-	-
Spot currency transactions (purchases)	78	171	-	-
Spot currency transactions (sales)	-78	-172	-	-
Forward foreign exchange contracts (FX)			-336	-512
Forward FX purchase contracts	12 247	23 380	-	-
Forward FX sale contracts	-12 607	-23 894	-	-
Interest rate cross currency swap contracts (IRCS)			-767	-211
IRCS purchase contracts	13 500	49 904	-	-
IRCS sale contracts	-13 500	-50 135	-	-
Interest rate swaps (IRS)			301	201
Interest rate swaps (purchases)	17 360	64 521		
Interest rate swaps (sales)	-18 005	-64 521		

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (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
<b>As at 31 December 2021</b>					
<b>Hedging instruments</b>					
Interest rate swap contracts (IRS)	-	-	-	-	-
<b>Trading instruments</b>					
Forward FX purchase contracts	12 247	-	-	-	12 247
Forward FX sale contracts	-12 607	-	-	-	-12 607
IRCS purchase contracts	1 740	-	14 499	1 121	17 360
IRCS sale contracts	-1 810	-	-15 007	-1 188	-18 005
Interest rate swaps (purchases)	50	3 065	9 710	675	13 500
Interest rate swaps (sales)	-50	-3 065	-9 710	-675	-13 500
<b>As at 31 December 2020</b>					
<b>Hedging instruments</b>					
Interest rate swap contracts (IRS)	-	-	18 744	31 214	49 958
<b>Trading instruments</b>					
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

### 31. ASSETS HELD IN CUSTODY

CZK million	2021	2020
Other assets	-	6 075
<b>Total</b>	<b>-</b>	<b>6 075</b>

In 2020, Other assets consist mainly of mutual funds of CZK 6 075 million.

In 2021 the Bank ended its retail banking services, all contracts related to custody were withdrawn by the client or by the bank. Due to the fact the Bank reported CZK 0 in other asset from assets held in custody in as at 31 December 2021.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 32. ASSETS PLACED INTO ADMINISTRATION AND MANAGEMENT

In 2021 and 2020, 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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
<b>As at 31 December 2021</b>						
Cash and balances with CB	89	-	-	-	-	89
State zero coupon bonds and other securities	-	-	-	-	-	-
Receivables from banks	32 298	1 274	287	-	-	33 859
Receivables from customers	18 542	1 649	18 716	1 428	-	40 335
Tangible and intangible fixed assets	-	-	-	-	94	94
Other assets	51	76	593	59	15	794
Prepaid expenses and accrued income	7	-	-	-	12	19
<b>Total</b>	<b>50 987</b>	<b>2 999</b>	<b>19 596</b>	<b>1 487</b>	<b>121</b>	<b>75 190</b>
Due to banks	28 863	7 490	20 981	564	-	57 898
Due to customers	11 610	-	-	-	-	11 610
Other liabilities	1 779	224	973	111	-	3 087
Deferred income and accrued expenses	52	-	42	-	-	94
Provisions	-	-	-	-	49	49
Equity	-	-	-	-	2 452	2 452
<b>Total</b>	<b>42 304</b>	<b>7 714</b>	<b>21 996</b>	<b>675</b>	<b>2 501</b>	<b>75 190</b>
<b>Gap</b>	<b>8 683</b>	<b>-4 715</b>	<b>-2 400</b>	<b>812</b>	<b>-2 380</b>	<b>-</b>
<b>Cumulative gap</b>	<b>8 683</b>	<b>3 968</b>	<b>1 568</b>	<b>2 380</b>	<b>-</b>	<b>-</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

CZK million	Up to 3 months.	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
<b>As at 31 December 2020</b>						
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
<b>Total</b>	<b>81 764</b>	<b>3 850</b>	<b>37 871</b>	<b>20 004</b>	<b>404</b>	<b>143 893</b>
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
Subordinated liabilities	-	-	-	-	-	-
Equity	-	-	-	-	1 573	1 573
<b>Total</b>	<b>73 110</b>	<b>15 932</b>	<b>27 067</b>	<b>26 110</b>	<b>1 674</b>	<b>143 893</b>
<b>Gap</b>	<b>8 654</b>	<b>-12 082</b>	<b>10 804</b>	<b>-6 106</b>	<b>-1 270</b>	<b>-</b>
<b>Cumulative gap</b>	<b>8 654</b>	<b>-3 428</b>	<b>7 376</b>	<b>1 270</b>	<b>-</b>	<b>-</b>

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.
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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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.

The following tables set out the remaining contractual maturities of the Entity's financial liabilities and financial assets:

CZK million	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 years	1 year to 5 years	Over 5 years
<b>As at 31 December 2021</b>						
Due to banks*	57 898	57 886	28 853	7 651	20 817	565
Due to customers	11 610	11 610	11 610	-	-	-
Other financial liabilities	2 727	2 731	1 591	4	1 015	121
Commitments and guarantees provided	13 953	13 953	13 953	-	-	-
<b>Total</b>	<b>86 189</b>	<b>86 180</b>	<b>56 007</b>	<b>7 655</b>	<b>21 832</b>	<b>686</b>

CZK million	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 years	1 year to 5 years	Over 5 years
<b>As at 31 December 2020</b>						
Due to banks*	41 944	41 932	32 785	162	6 932	2 053
Due to customers	96 813	96 254	96 254	-	-	-
Other financial liabilities	3 239	3 241	1 326	445	558	912
Commitments and guarantees provided	12 968	12 968	12 968	-	-	-
<b>Total</b>	<b>154 964</b>	<b>154 395</b>	<b>143 333</b>	<b>607</b>	<b>7 490</b>	<b>2 965</b>

\* In case of term deposits with a variable interest rate Due to banks includes contractual interest cash flows only for the period when the interest rate is already fixed according to the applicable referred interest rate.

Remaining contractual maturity of derivatives is in Note 30 (d).

The Bank manages the liquidity risk using indicator of Liquidity Coverage Ratio (LCR). LCR indicator measures the Bank's robustness against imminent liquidity stress situation, more precisely, if the Bank is able in case of liquidity crisis to survive at least for 30 days. Indicator is defined as ratio of highly liquid assets to total expected cash outflow during following 30 days under stress conditions. Minimum value of this indicator should be higher than 100%.

The table below sets the LCR values:

CZK million	As at 31 December 2021	As at 31 December 2020
LCR (%)	125	179

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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 2021

CZK million	Carrying amount	Fair value
Cash in hand and balances with CB	28 608	28 608
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	-	-
<b>Total liquidity provision</b>	<b>28 608</b>	<b>28 608</b>

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
<b>Total liquidity provision</b>	<b>64 112</b>	<b>64 484</b>

### Interest rate risk

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

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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### (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 BVP analysis is an approximation of the instrument's fair value when the relevant yield curve is shifted by one basis point and the sensitivity parameter of the shift is the duration.

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

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

The table below shows NII at risk:

	As at 31 December 2021	As at 31 December 2020
CZK million		
IR stress scenario +100bp (1 year)	-3.4	-12.1
IR stress scenario -100bp (1 year)	+3.4	+12.1

#### *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.

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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

CZK million	Up to 1 year	1 year to 5 years	Over 5 years	Total
<b>At 31 December 2021</b>				
Cash in hand and balances with central banks	31 308	-	-	<b>31 308</b>
State zero coupon bonds and other securities	-	-	-	-
Receivables from banks (without central banks)	2 352	288	-	<b>2 640</b>
Receivables from customers	38 314	2 021	-	<b>40 335</b>
<b>Total</b>	<b>71 974</b>	<b>2 309</b>	-	<b>74 283</b>
Payables to banks	57 241	657	-	<b>57 898</b>
Payables to customers	11 610	-	-	<b>11 610</b>
<b>Total</b>	<b>68 851</b>	<b>657</b>	-	<b>69 508</b>
Long positions of interest-rate derivatives	17 102	24 208	1 796	<b>43 107</b>
Short positions of interest-rate derivatives	17 532	24 717	1 863	<b>44 111</b>
<b>Gap</b>	<b>2 702</b>	<b>1 143</b>	<b>- 67</b>	<b>3 778</b>
<b>Cumulative gap</b>	<b>2 702</b>	<b>3 845</b>	<b>3 778</b>	

CZK million	Up to 1 year	1 year to 5 years	Over 5 years	Total
<b>At 31 December 2020</b>				
Cash in hand and balances with central banks	46 720	-	-	<b>46 720</b>
State zero coupon bonds and other securities	809	4 875	11 693	<b>17 377</b>
Receivables from banks (without central banks)	9 346	18 606	12 129	<b>40 081</b>
Receivables from customers	30 607	550	5 044	<b>36 201</b>
<b>Total</b>	<b>87 482</b>	<b>24 031</b>	<b>28 866</b>	<b>140 379</b>
Payables to banks	32 771	6 925	2 248	<b>41 944</b>
Payables to customers	96 779	-	-	<b>96 779</b>
<b>Total</b>	<b>129 550</b>	<b>6 925</b>	<b>2 248</b>	<b>138 723</b>
Long positions of interest-rate derivatives	49 741	68 101	69 922	<b>187 763</b>
Short positions of interest-rate derivatives	50 718	67 900	69 891	<b>188 508</b>
<b>Gap</b>	<b>-43 045</b>	<b>17 307</b>	<b>26 649</b>	<b>910</b>
<b>Cumulative gap</b>	<b>-43 045</b>	<b>-25 739</b>	<b>910</b>	

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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
<b>As at 31 December 2021</b>					
Cash in hand and balances with central banks	-	-	89	-	<b>89</b>
State zero coupon bonds	-	-	-	-	<b>-</b>
Receivables from banks	1 936	12	31 603	309	<b>33 859</b>
Receivables from customers	18 690	5 600	15 723	322	<b>40 335</b>
Tangible and intangible fixed assets	-	-	94	-	<b>94</b>
Other assets	731	1	62	-	<b>794</b>
Prepaid expenses and accrued income	7	4	8	-	<b>19</b>
<b>Total</b>	<b>21 364</b>	<b>5 617</b>	<b>47 579</b>	<b>631</b>	<b>75 190</b>
Payables to banks	43 975	9 474	4 053	396	<b>57 898</b>
Payables to customers	1 564	243	9 575	228	<b>11 610</b>
Other liabilities	1 453	12	1 614	8	<b>3 087</b>
Deferred income and accrued expenses	-	-	94	-	<b>94</b>
Provisions	-	-	49	-	<b>49</b>
Equity	-	-	2 452	-	<b>2 452</b>
<b>Total</b>	<b>46 992</b>	<b>9 729</b>	<b>17 837</b>	<b>632</b>	<b>75 190</b>
Long positions of off-balance sheet instruments	28 017	4 426	23 258	1 437	<b>57 138</b>
Short positions of off-balance sheet instruments	11 145	113	50 551	1 685	<b>63 494</b>
<b>Net foreign currency position</b>	<b>-8 756</b>	<b>201</b>	<b>2 448</b>	<b>-249</b>	<b>-6 356</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

CZK million	EUR	USD	CZK	Other	Total
<b>As at 31 December 2020</b>					
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
<b>Total</b>	<b>52 670</b>	<b>4 870</b>	<b>85 367</b>	<b>986</b>	<b>143 893</b>
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
<b>Total</b>	<b>30 045</b>	<b>8 147</b>	<b>104 737</b>	<b>964</b>	<b>143 893</b>
Long positions of off-balance sheet instruments	<b>32 785</b>	<b>3 639</b>	<b>164 334</b>	<b>144</b>	<b>200 902</b>
Short positions of off-balance sheet instruments	<b>62 133</b>	<b>363</b>	<b>141 966</b>	<b>27</b>	<b>204 489</b>
<b>Net foreign currency position</b>	<b>-6 723</b>	<b>-1</b>	<b>2 998</b>	<b>139</b>	<b>-3 587</b>

### Historical 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:

CZK million	As at 31 December 2021	As at 31 December 2020
HVaR of interest rate instruments – liquidity management book	21	131
HVaR of currency instruments – liquidity management book	8	8
CZK million	Average 2021	Average 2020
HVaR of interest rate and currency instruments – liquidity management book	56	136

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 34. FINANCIAL INSTRUMENTS – CREDIT RISK

The Bank is exposed to credit risk as a result of its trading activities, providing loans, hedging transactions, investment and intermediation activities.

Credit risks associated with trading and investment activities are managed using the methods and instruments used to manage the Bank's credit and market risks.

#### (i) Risk of settlement

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

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

#### (ii) Management of credit risk

A separate credit risk management department, reporting to the CRO (chief risk officer) of the Bank, is responsible for managing the credit risk, including the following:

- formulating credit policies and implementation of group credit principles in consultation with individual departments, covering collateral requirements, creditworthiness assessment, credit ratings and reporting and compliance with regulatory and statutory requirements;
- 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:

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

- 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.

### (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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### *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.

### *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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### *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.

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 2021 and 2020 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 2021 and 2020. During 2021 and 2020, 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.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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 2021 and 31 December 2020, 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.

### (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
<b>31 December 2021</b>					
Loans and receivables from banks	33 859	-	33 859	27 930	Securities
Loans and receivables from customers	40 335	-	40 335	40 335	Guarantee, real estate, other
<b>Total</b>	<b>74 194</b>	<b>-</b>	<b>74 194</b>	<b>68 990</b>	
Issued guarantees and credit limits for guarantees	-	13 741	13 741		Other
<b>Total</b>	<b>-</b>	<b>13 741</b>	<b>13 741</b>		

million CZK	Balance sheet	Off-balance sheet	Total exposure to credit risk	Collateral received *	Main type of collateral
<b>31 December 2020</b>					
Loans and receivables from banks	86 138		86 138	45 314	Securities
Loans and receivables from customers	36 201	10 708	46 909	36 137	Guarantee, real estate, other
<b>Total</b>	<b>122 339</b>	<b>10 708</b>	<b>133 047</b>	<b>81 271</b>	
Issued guarantees and credit limits for guarantees		2 260	2 260		Other
<b>Total</b>		<b>2 260</b>	<b>2 260</b>		

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

\* 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.

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

The following table shows reconciliation of allowances for loans provided.

CZK million	31/12/2021				
	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)		
<b>Balance at 1 January 2021</b>	<b>32</b>	<b>14</b>	-	-	<b>46</b>
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	3	-	-	-	3
Financial assets that have been derecognised	-1	-6	-	-	-7
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Revaluation and changes in models/risk parameters	-21	-	-	-	-21
Foreign exchange and other movements	-	-	-	-	-
<b>Balance at 31 December 2021</b>	<b>13</b>	<b>8</b>	-	-	<b>21</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

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

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	2021	2020
Czech Republic	31 946	26 310
Slovakia	243	395
Poland	232	228
Germany	3 567	4 086
Hungary	111	210
Netherlands	4 023	4 329
Luxembourg	23	505
Other	190	138
<b>Total</b>	<b>40 335</b>	<b>36 201</b>

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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 2021 Carrying amount	31 December 2021 Fair value
<b>FINANCIAL ASSETS</b>		
Cash in hand and balances with central banks	89	89
State zero coupon bonds and other securities held-to-maturity	-	-
Receivables from banks and credit unions	33 859	33 856
Receivables from customers	40 335	40 937
Other financial assets	33	33
<b>FINANCIAL LIABILITIES</b>		
Payables to banks and credit unions	57 898	57 911
Payables to customers	11 610	11 610
Other financial liabilities	1 233	1 233

In millions of CZK	31 December 2020 Carrying amount	31 December 2020 Fair value
<b>FINANCIAL ASSETS</b>		
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	86 869
Receivables from customers	36 201	36 622
Other financial assets	7	7
<b>FINANCIAL LIABILITIES</b>		
Payables to banks and credit unions	41 944	42 003
Payables to customers	96 813	96 813
Other financial liabilities	534	534

Inputs and techniques for fair value determination are mentioned in Note 2.

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

#### *Cash in hand and balances with central banks*

Due to short-term maturity (up to 3 months) the carrying amount equals the fair value. These financial assets have been categorised as Level 2 in the fair value hierarchy.

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### *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 receivables from banks and credit unions, the carrying amount approximates their fair value. These financial assets have been categorised as Level 2 in the fair value hierarchy.

Term deposits with maturity above 1 year usually bear variable interest rate which is related to the referred interest rate. Due to this fact the estimated fair value of term deposits at banks and credit unions does not differ significantly from the book 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.

### *Other assets*

The bank determines fair value of financial derivatives. Fair value of financial derivatives is determined as the estimated cash flows from derivative transactions. For fair value determination are used inputs from the active markets such as exchange rates, interest rates for particular maturities based on the yield curve etc. 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 Payables to banks and credit unions, the carrying amount approximates their fair value. These financial liabilities have been categorised as Level 2 in the fair value hierarchy.

Term deposits with maturity above 1 year usually bear variable interest rate which is related to the referred interest rate. Due to this fact the estimated fair value of term deposits received from banks and credit unions does not differ significantly from the book value. These financial assets 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.

### *Other liabilities*

The bank determines fair value of financial derivatives. Fair value of financial derivatives is determined as the estimated cash flows from derivative transactions. For fair value determination are used inputs from the active markets such as exchange rates, interest rates for particular maturities based on the yield curve etc. These financial assets have been categorised as Level 3 in the fair value hierarchy.

## **b) Financial instruments measured at fair value**

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

# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

In millions of CZK	31 December 2021		
	Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS</b>			
State zero coupon bonds and other securities	-	-	-
Other assets – positive fair value of derivatives	-	692	-
<b>FINANCIAL LIABILITIES</b>			
Other liabilities – negative fair value of derivatives	-	1 494	-

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

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

*No transfers were carried out between Level 1 and Level 2 in 2021 and 2020.*

### **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.



# ING Bank N.V., organizační složka

## Notes to the Financial Statements

For the year ended 31 December 2021

### 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.

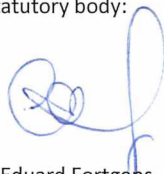
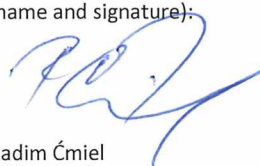

To safeguard uninterrupted operating activities and the Bank's liquidity position, the Bank mainly continued to apply the work from home programme for significant number of administrative, sales, and procurement department employees. Furthermore, the Bank has introduced regular testing for COVID-19 for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

### 38. MATERIAL SUBSEQUENT EVENTS

In February 2022, after recognition of Donetsk People's Republic and Luhansk People's Republic by Russian federation and subsequent Russian invasion in Ukraine, the war conflict escalated and spread into other regions of Ukraine. In reaction to hostile actions of Russian federation against Ukraine many countries, including the USA, United Kingdom and the European union, imposed or extended economic sanctions against many Russian persons and corporations. Management of the Bank analyzed the effects of the event and as at reporting date the management of the Bank concluded that the event has no material effect on going concern assumption and that the event has no material effect on the financial statements. The Bank does not have in its loan portfolio significant exposures with direct link to Russia, Belarus or Ukraine.

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 as at 31 December 2021.

Prepared on:	Signature of statutory body:	Person responsible for accounting (name and signature):	Person responsible for financial statements (name and signature):
16 May 2022	 Erik Eduard Fortgens	 Radim Čmíel	 Martin Kočí



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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 Founder 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 2021 and the income statement, the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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***

Lukáš Svoboda is the statutory auditor responsible for the audit of the financial statements of the branch of ING Bank N.V. as at 31 December 2021, based on which this independent auditor's report has been prepared.

Prague  
16 May 2022

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

Lukáš Svoboda  
Director  
Registration number 2516