



TRINITY BANK

ANNUAL REPORT

1 Jan 2020 – 31 Dec 2020



TRINITY BANK

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Board report

Dear shareholders, clients, partners,

The past year, 2020, was a very special year and the global coronavirus pandemic influenced the lives of every one of us. Trinity Bank placed an emphasis throughout the year both on a high level of safety for clients and employees and on ensuring the best business results for the bank. Owing to our longtime conservative strategy, the faith of our shareholders and clients, and the proactivity and effort of our team, I can state that even such a special and extraordinary year as 2020, which certainly has its place in the history books, for Trinity Bank was the most successful year in its history. The previous growth was a year of growth for our bank, as reflected both in the substantial increase in loans and capital and the deposits and resulting balance sheet total and profit. The year 2020 was a profitable year that substantially exceeded projected profit. The high professionalism and expertise of team members enabled the profit plan to be exceeded by 50%.

Trinity Bank has been profitable for some time, and closed the books on 2020 with a profit before tax of CZK 75 million. Profit is not by far the only economic indicator that has substantially increased compared to previous years. The beginning of 2021 saw an increase in regulatory capital beyond the limit of CZK 2.2. billion and capital adequacy has hovered for some time around 20%, which makes Trinity Bank one of the most stable banks on the Czech market. The positive business results and capital stability are also supported by a high level of liquidity.

The growth in the loan portfolio is significant as well, having grown by more than 30% compared to the previous year. Trinity Bank is a specialist in financing real estate projects and the overwhelming majority are thus high-quality secured loans. The field of financing real estate and development projects will continue to grow as a top priority developed by an expert team in line with the longtime conservative strategy of the bank.

Client interest also grew in the deposit products of the bank, with greatest interest in savings accounts. The volume of deposits grew at the end of the year 2020 to approx. CZK 15 billion. Interest in Trinity Bank products and services is also corroborated by the growth in our client base by almost 30% compared to 2019. The bank succeeded in other important monitored parameters you can find on the other pages of this annual report.

The previous year was a turbulent one for the aforementioned deposit products, as the Czech National Bank reduced interest rates several times in connection with the coronavirus pandemic following a period of growth. This reduction was reflected across the entire banking market. As part of the savings and deposit accounts, Trinity Bank ensures above-standard appreciation of your funds. Capital products are also prepared for clients that fall under our conservative strategy and are based on a longer-term outlook for appreciation of funds with higher level yields.

Our priority is to protect your success. I can confirm with certainty on behalf of Trinity Bank leadership that we have done everything in our power over the past year, and I also confirm that we wish to continue in the conservative strategy and priorities we have set. The functioning of Trinity Bank is based on three important pillars. It consists of reconciling the interests and satisfaction of our shareholders, clients, and employees.

In conclusion, I would like to offer a word of sincere thanks. Our professional team is one that deserves some of the greatest thanks of all for their energy and the exceptional results they have achieved in such a special year. We also value the trust we see day in and day out from our shareholders and clients, and thanks to them we can work together to build a stable Czech bank based on trust and an individual approach to every client.

Our successful year in 2020 and our longtime stability validate the conservative banking strategy we have been building for more than a quarter of a century. At the same time, the success of the past year has become our commitment for 2021 as well.

In Zlín, 26 March 2020



Ing. Dušan Benda, FCCA
Chair of the Board

Basic economic indicators

Financial data	31 Dec 2020	31 Dec 2019
Balance sheet total (thousands of CZK)	17,503,043	16,182,717
Client deposits (thousands of CZK)	14,774,898	14,121,715
Loans to clients (thousands of CZK)	6,999,370	5,319,373
Equity (thousands of CZK)	1,833,372	1,737,193
Regulatory Capital (thousands of CZK)	2,014,367	1,599,750
Net interest income (thousands. CZK)	263,734	244,413
Profit before tax (thousands of CZK)	75,414	65,842

Other information		
Converted number of employees	107	112

Report on relationships

On the basis of information the bank had available as of the date of preparing the annual report, there did not exist any controlling person under § 74 through 77 of the Act on Commercial Corporations and the Bank was therefore not subject to an obligation to prepare a report on relationships.

Information about foreign entities

The bank has no foreign entities.

Activities in the field of research and development

The bank did not report any activities in the field of research and development in the accounting period.

Environmental effects of bank activity

Because the bank operates in the field of providing financial services, its activities do not directly influence the environment.

Activities in labor law relationships

The bank acts in its labor law relationships in accordance with all applicable laws and regulations. It enables its employees to continually increase their technical qualifications and language skills.

Information concerning acquisitions of own shares

As of 31 Dec 2020 the Bank held own shares in the amount of CZK 4,506 th.

Information about events after the balance sheet date

The leadership of the Bank are not aware of any other important subsequent events that would be relevant for serving the purpose of informing on trends of performance, activity, and the existing commercial position of the Bank apart from those stated in point 28 of the annex to the financial statements.

Board of Directors proposal for the appropriation of earnings from the previous accounting period

The business of the bank for the accounting period from 1 January 2020 to 31 December 2020 ended after taxation with profit in the amount of CZK 60,634,387. The distribution of profits is decided by the general meeting.

The board proposes distribution of profits for the year 2020 and part of the retained earnings from 2019 in the following manner:

The board proposes the distribution of profits to shareholders in the total amount of CZK 83,559,050 of profit for the accounting period of 1 Jan 2020 – 31 Dec 2020 in the amount of CZK 60,634,387 and retained earnings from previous years in the amount of CZK 22,924,663. This profit will be distributed if the recommendation of the Czech National Bank in which it restricted the disbursement of dividends (hereinafter “Measure”) applies and an amount for disbursement will be set for Trinity Bank by the Czech National Bank after review of the petition by Trinity Bank for disbursement of dividends (hereinafter “Exception”) or if the Measure no longer applies. The amount of the dividend for disbursement according to this ruling shall hereinafter be referred to as “Set Dividend”. The profit will be distributed solely in the amount of the Set Dividend. Disbursement will take place in two phases, where:

- i. The first part of the disbursement, up to the amount of CZK 27,756,609, which corresponds to 25% of the cumulative profit of the company for the accounting period from 1 Jan 2019 to 31 Dec 2019 and from 1 Jan 2020 to 31 Dec 2020, shall take place and the payment date of the dividend shall be no later than the last day of the third quarter of the 2021 calendar year, or immediately after the Exception is granted, or the Measure canceled;
- ii. The second part of the disbursement, up to the total cumulative amount of CZK 83,559,050 shall take place and the payment date of the dividend shall be no later than by 31 Dec 2021.

If the Set Dividend is lower than CZK 83,559,050, the profit for the accounting period 1 Jan 2020 – 31 Dec 2020 and the retained earnings from previous years will be distributed in the amount of the Set Dividend and in accordance with any other rules specified by the Czech National Bank. Unless it is in conflict with the Set Dividend and other rules specified by the Czech National Bank, the entire profit for the accounting period of 1 Jan 2020 – 31 Dec 2020 shall be distributed preferentially and only then will the retained earnings from previous years be distributed. If the Set Dividend is lower than CZK 60,634,387, the disbursement shall consist solely of profit for the accounting period from 1 Jan 2020 – 31 Dec 2020 in the amount of the Set Dividend, whereas the retained earnings for the period 1 Jan 2020 – 31 Dec 2020 shall be transferred to the account retained earnings from previous years. If the Measure will continue to apply and the Exception is not granted by 20 Dec 2021, the entire profit for the accounting period 1 Jan 2020 – 31 Dec 2020 shall be transferred to the account retained earnings from previous years.

From the moment of acceptance of this resolution until the disbursement of the dividend pursuant to this ruling, or the transfer of the profit to the retained earnings account pursuant to this ruling, the amount for distribution for the accounting period 1 Jan 2020 – 31 Dec 2020 in the amount of CZK 60,634,387 will be transferred to the “Fund for payment of dividends” and the dividend will be disbursed or transferred from this Fund for payment of dividends in accordance with this resolution and within the time limits specified herein.



Ing. Dušan Benda, FCCA

Chairman of the Board of Directors



Ing. Jaroslav Končický

Vice Chairman of the Board of Directors

Report of the Supervisory Committee

This report has been prepared for the accounting period from 01 Jan 2020 to 31 Dec 2020. In the period in question, the supervisory committee conducted the relevant oversight activities and hereby presents the report of the Supervisory Committee in accordance with the provisions of Act No. 90/2012 Coll. on Commercial Corporations and Associations.

The supervisory committee worked for the majority of the accounting period in the following composition:

- 1) Ing. Radomír Lapčík LL.M, as Chair of Supervisory Committee
- 2) Mgr. Kateřina Venclíčková, as Vice Chair of Supervisory Committee
- 3) Ing. Ivan Šramko, as member of the Supervisory Committee

The personnel of the supervisory board changed during the course of the year solely due to the temporary discontinuation in the function on the part of Ing. Ivan Šramko, who terminated his function at the end of April 2020 and became a member of the supervisory board once again on 23 Nov 2020. For the duration of Ing. Ivan Šramko's absence, the role of supervisory board member was performed on the basis of cooptation by Ing. Pavel Steinbach.

The Supervisory Committee in the accounting period performed its activity in accordance with the relevant legal regulations, bylaws, and code of conduct. As part of oversight of the performance of the activities of the board and the execution of business activities, the Supervisory Committee was regularly updated on the functioning and condition of Trinity Bank. The Supervisory Committee oversaw the activities of the board of Trinity Bank, was provided with regular records on the business of the bank, information on its expected financial growth, conducted itself in close cooperation with the Internal Audit Committee, and was presented with other materials under applicable legal and internal regulations. The participation of the appointed persons was also ensured at meetings of the Supervisory Committee, when needed the Supervisory Committee made use of direct communication with employees of Trinity Bank. The supervisory committee also performed the activity of compensation committee, risk committee, and naming committee. The supervisory board met a total of six times during the year in question in the form of taking decisions “per rollam”.

The supervisory committee states that as part of its oversight activities it did not find any discrepancies in the monitored areas and board activities.

The supervisory committee has reviewed the financial statements and annual report for the period from 1 Jan 2020 to 31 Dec 2020. The supervisory committee recommends that the general meeting approve these financial statements and annual report as proposed by the board.



Ing. Radomír Lapčík, LL.M.

Chair of Supervisory Committee

Information about capital and capital requirements

Capital ratios are from 1 Jan 2014 calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter "CRR").

(a) Information about capital

Capital (thousands CZK)	31 Dec 2020	31 Dec 2019
Capital	2,014,367	1,599,750
Tier 1 capital	1,699,878	1,599,750
Common equity tier 1	1,699,878	1,599,750
Paid-in CET1 instruments	1,671,180	1,668,271
Retained earnings brought forward (including the impact of the initial capturing of IFRS9)	19,848	-30,544
Other reserves	49,074	49,074
Profit/loss eligible	0	0
Cumulative other complete profit (loss)	36,642	0
Adjustments according to requests for prudent valuation	0	0
Other intangible assets	-72,361	-87,051
Tier 2 capital	314,489	0
Paid-in T2 instruments and subordinated debt	314,489	0

(b) Reconciliation of regulatory and accounting capital

As of 31 Dec 2020		
Capital (thousands CZK)	Regulatory capital	Equity
Paid-up capital	1,100,000	1,100,000
Unpaid capital	0	0
Own shares	-4,506	-4,506
Capital funds	571,180	571,180
Investment capital deposits	0	500
Retained earnings brought forward (including the impact of the initial capturing of IFRS9)	19,848	19,848
Profit from the current accounting period	0	60,634
Cumulative other profit (loss)	36,642	36,642
Other reserves	49,074	49,074
Intangible assets other than goodwill	-72,361	0
Tier 1 capital	1,699,877	
Total equity		1,833,372
Tier 2 capital	314,489	
Total regulatory capital	2,014,367	

As of 31 Dec 2019		
Capital (thousands CZK)	Regulatory capital	Equity
Paid-up capital	1,100,000	1,100,000
Own shares	-2,909	-2,909
Unpaid capital	0	0
Capital funds	571,180	571,180
Retained earnings brought forward	-30,544	-30,544
Profit from the current accounting period	0	50,392
Other reserves	49,074	49,074
Intangible assets other than goodwill	-87,051	0
Tier 1 capital	1,599,750	
Total equity		1,737,193
Tier 2 capital	0	
Total regulatory capital	1,599,750	

(c) Capital requirements

Capital requirements (thousands CZK)	31 Dec 2020	31 Dec 2019
Total capital requirements	843,419	620,053
Capital requirements for credit risk	800,352	570,963
Exposure to central governments and central banks	0	0
Exposure to institutions	7,485	9,804
Exposure to businesses	542,800	338,973
Exposures secured by real estate	6,629	3,402
Exposure at default	95,840	90,824
High-risk exposure	44,904	38,150
Shares	28,559	16,307
Collective investment instruments	4,000	0
Other exposure	70,135	73,503
Capital requirements for operating risk	42,794	49,000

Capital ratios

Capital ratios (in %)	31 Dec 2020	31 Dec 2019
Capital ratio for common equity tier 1	16.12	20.64
Capital ratio for tier 1 capital	16.12	20.64
Capital ratio for total capital	19.11	20.64

Ratio indicators

Ratio indicators	31 Dec 2020	31 Dec 2019
Return on average assets (ROAA) (in %)	0.36	0.40
Return on average Tier 1 capital (ROAE) (in %)	3.51	3.02
Assets per 1 employee (in th. CZK)	163,580	144,489
Administrative expenses per 1 employee (in th. CZK)	1,887	1,807
Profit or loss after tax per 1 employee (in th. CZK)	567	450

Required disclosures according to Part 8 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 are published by the Bank on its web pages in the section Povinně zveřejňované informace (Required Disclosures) at <https://www.trinitybank.cz/povinne-zverejovane-informace/>.



TRINITY BANK

**FINANCIAL
STATEMENTS**

Balance Sheet as of 31 Dec 2020

	ASSETS (thousands CZK)	Note:	31 Dec 2020	31 Dec 2019
1.	Cash in hand and balances with central banks	10	5,992,215	8,837,658
3.	Receivables from banks and credit unions	11	651,101	607,514
	of which: a) repayable on demand		425,647	526,274
	b) other receivables		225,454	81,240
4.	Receivables from clients	12	6,999,370	5,319,373
	of which: a) repayable on demand		488,791	527,434
	b) other receivables		6,510,579	4,791,939
5.	Debt securities	13	2,688,302	50,507
	of which: a) issued by government institutions		1,101,695	0
	b) issued by other entities		1,586,607	50,507
6.	Shares, units, and other investments	14	50,000	0
8.	Ownership interests with controlling influence	15	225,806	203,843
9.	Intangible fixed assets	16	72,361	87,051
10.	Tangible fixed assets	17	504,971	495,394
	of which: a) land and buildings for operating activities		480,110	480,395
	b) movable property and sets of movable property		24,861	14,996
11.	Other assets	18	308,576	575,337
13.	Prepaid expenses and accrued income		10,341	6,040
	Total Assets		17,503,043	16,182,717

	LIABILITIES (thousands CZK)	Note:	31 Dec 2020	31 Dec 2019
1.	Payables to banks and credit unions	19	338,938	123,828
	of which: a) repayable on demand		111,961	64,604
	b) other payables		226,977	59,224
2.	Payables to customers	20	14,774,898	14,121,715
	of which: a) repayable on demand		11,121,426	9,487,983
	b) other payables		3,653,472	4,633,732
4.	Other liabilities	21	239,019	198,186
5.	Deferred income and accrued expenses		927	195
6.	Provisions	22	1,400	1,600
	of which: c) other		1,400	1,600
7.	Subordinated Liabilities	23	314,489	0
8.	Registered capital	24	1,095,494	1,097,091
	of which: a) paid-up registered capital		1,100,000	1,100,000
	b) own shares		-4,506	-2,909
10.	Reserve funds and other funds from profit	24	49,074	49,074
	of which: a) statutory reserve funds and risk funds		49,074	49,074
12.	Capital funds	24	571,680	571,180
13.	Revaluation gains (losses)	24	36,642	0
	of which: on assets and liabilities		36,642	0
14.	Retained profits (or accumulated losses)	24	19,848	-30,544
15.	Profit (loss) for the accounting period		60,634	50,392
	Total liabilities and equity		17,503,043	16,182,717

The annex enclosed on pages 20 through 89 comprise part of these financial statements.

Off-Balance Sheet Items

	Off-balance sheet assets (thousands CZK)	Note:	31 Dec 2020	31 Dec 2019
1.	Commitments and guarantees provided	29	1,991,478	367,819
4.	Receivables from fixed term transactions	26	1,787,875	565,236
6.	Receivables written off		236,974	270,741

	Podrozvahová pasiva (tis. Kč)	Note:	31 Dec 2020	31 Dec 2019
10.	Collaterals and pledges received	29	12,435,880	13,165,309
12.	Liabilities from fixed term transactions	26	1,760,894	550,683

The annex enclosed on pages 20 through 89 comprise part of these financial statements.

Profit and loss statement for the period 1 Jan 2020 - 31 Dec 2020

	(thousands CZK)	Note:	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
1.	Interest income and similar income	3	416,917	377,543
	of which: interest on debt securities		29,344	734
2.	Interest expense and similar expense	3	-153,183	-133,130
4.	Fee and commission income	4	31,214	31,398
5.	Fee and commission expense	4	-6,975	-1,311
6.	Gain or loss from financial operations	5	112,091	6,926
7.	Other operating income	6	11,280	47,093
8.	Other operating expenses	6	-13,439	-35,291
9.	Administrative expenses	7	-201,926	-202,386
	of which: a) employee expenses		-130,753	-136,363
	of which: aa) wages and salaries		-96,627	-100,775
	ab) social and health insurance		-30,328	-32,453
	b) other administrative expenses		-71,173	-66,023
11.	Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets	16.17	-48,206	-40,951
12.	Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables	12	96,985	113,711
13.	Write-offs, additions and use of loss allowances and provisions for receivables and guarantees	12	-169,544	-97,760
17.	Additions and use of other provisions		200	0
19.	Current year profit (loss) from ordinary activities before tax		75,414	65,842
23.	Income tax	25	-14,780	-15,450
24.	Net profit (loss) for the period		60,634	50,392

The annex enclosed on pages 20 through 89 comprise part of these financial statements.

Statement of changes equity

(thousands CZK)	Registered capital	Reserve funds	Capital funds	Retained profits	Revaluation gains (losses)	Profit (loss)	Total
Balance as of 31 Dec 2019	1,725,533	49,074	0	-39,639	0	51,261	1,786,229
Change to legal form as of 1 Jan 2019	-625,289	0	625,289	0	0	0	0
Conversion to retained earnings	0	0	0	10,251	0	-10,251	0
Payment of dividends	0	0	0	0	0	-41,010	-41,010
Payment of severance balance	-244	0	-54,109	-1,156	0	0	-55,509
Acquisition of own shares	-2,909	0	0	0	0	0	-2,909
Net profit/loss during the accounting period	0	0	0	0	0	50,392	50,392
Balance as of 31 Dec 2019	1,097,091	49,074	571,180	-30,544	0	50,392	1,737,193
Balance as of 1 Jan 2020	1,097,091	49,074	571,180	-30,544	0	50,392	1,737,193
Conversion to retained earnings	0	0	0	50,392	0	-50,392	0
Revaluation gains (losses) not included in profit or loss	0	0	0	0	36,642	0	36,642
Payment of dividends	0	0	0	0	0	0	0
Acquisition of own shares	-1,597	0	0	0	0	0	-1,597
Other changes - investment capital deposits	0	0	500	0	0	0	500
Net profit/loss during the accounting period	0	0	0	0	0	60,634	60,634
Balance as of 31 Dec 2020	1,095,494	49,074	571,680	19,848	36,642	60,634	1,833,372

The annex enclosed on pages 20 through 89 comprise part of these financial statements.

Issued capital is further analyzed in point number 24 in the annex to the Financial Statements.

Cash flow statement for the year ended 31 December 2020

(thousands CZK)	1 Jan 2020 – 31 Dec 2020	1 Jan 2019 – 31 Dec 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss during the accounting period from ordinary and extraordinary activities after tax	60,634	50,392
Non-cash transactions:		
Depreciation and net change in adjustments for tangible and intangible assets	48,205	40,951
Net change in provisions	-200	0
Write-offs, additions and use of loss allowances and provisions for receivables and guarantees	45,796	-15,951
Income tax	-14,780	15,450
Net interest income	-263,734	-244,413
Net profit/loss from fair value of derivatives	-10,623	-8,902
Net profit/loss from exchange rate differences	2,120	794
Net gain/loss on sale of tangible and intangible fixed assets	34	11,491
Net profit/loss from changes to fair value of hedged instrument	-6,633	0
Changes to status of adjusting entries for debt securities	26,763	0
	-112,416	-150,188
Changes in:		
Receivables from banks and credit unions - other receivables	-144,614	-56,193
Receivables from clients	-1,718,462	671,487
Other assets, prepaid expenses and accrued income	299,449	448,220
Payables to banks and credit unions	201,124	123,828
Liabilities to clients	662,342	7,152,012
Other liabilities, deferred income and accrued expenses	26,068	-236,629
	-786,527	7,952,537
Interest received	401,817	377,368
Interest paid	-148,489	-126,391
Proceeds from sale of investment securities	3,438,985	0
Acquisition of investment securities	-4,213,183	0
Income tax paid	-3,474	-9,854
Net cash used in operating activities	-1 310 705	8,193,660

(thousands CZK)	1 Jan 2020 – 31 Dec 2020	1 Jan 2019 – 31 Dec 2019
INVESTMENT ACTIVITY		
Acquisition of investment securities	-1,902,514	-50,507
Acquisition of ownership interests	-15,330	-204,638
Acquisition of tangible and intangible fixed assets	-30,862	-51,354
Proceeds from the sale of tangible and intangible fixed assets	65	33,754
Net cash used in investing activities	-1,948,641	-272,745
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of subordinated liabilities	314,373	0
Acquisition of own shares	-1,597	-2,909
Profit shares paid	0	-41,010
Collection of member deposits and disbursement of severance balances	0	-55,509
Income from issue of capital investment balances	500	0
Net cash used in financing activities	313,276	-99,428
Net decrease in cash and cash equivalents	-2,946,070	7,821,487
Cash and cash equivalents at the start of the period	9,363,932	1,542,445
Cash and cash equivalents at the end of the period	6,417,862	9,363,932
Cash and cash equivalents include:		
Cash in hand and balances with central banks	5,992,215	8,837,658
Receivables from banks and credit unions - repayable on demand	425,647	526,274
Total cash and cash equivalents at the end of the period	6,417,862	9,363,932

The annex enclosed on pages 20 through 89 comprise part of these financial statements.



TRINITY BANK

ANNEX TO THE FINANCIAL STATEMENTS

Period from 1 January 2020
to 31 December 2020

1. GENERAL INFORMATION

(a) Company characteristics

TRINITY BANK a.s. (hereinafter “accounting entity” or “bank” or “Company”) performs its activities in its headquarters, call center, two branch offices, and one sales location in the Czech Republic.

Company name:	TRINITY BANK a.s.
Headquarters:	Senovážné náměstí 1375/19, Prague – Nové Město, Postal Code 110 00
Call center:	Kvítková 4352, Zlín, Postal Code 760 01
Branches:	Třída Tomáše Bati 2132, Zlín, Postal Code 760 01 Senovážné náměstí 1375/19, Praha 1, Postal Code 110 00
Sales location:	Jánská 449/12, Brno, Postal Code 602 00
Company ID No. [IČ]:	253 07 835
Legal form:	Joint-stock company
Date of record:	15 August 1996
Scope of business:	<p>The scope of business of the bank is based on the provisions of Act No. 21/1992 Coll. on banks, as amended, and on a license granted by the Czech National Bank. This scope of business is: The performance of activities stated in the provisions of § 1 para. 1 of the Act on banks under items:</p> <ul style="list-style-type: none">a) receiving deposits from the public,b) providing loans. <p>The performance of activities stated in the provisions of § 1 para. 3 of the Act on banks under items:</p> <ul style="list-style-type: none">a) investing in securities on its own account,b) finance lease,c) payment services and disbursement of electronic funds,d) issue and management of payment resources not consisting of provision of payment services or issue of electronic funds according to applicable legal regulations,e) provision of guarantees,f) establishment of accreditives,g) coordinating recovery,h) financial brokering; if the financial brokering consists of brokering consumer loans, the bank may perform this activity only if certain of the persons authorized to broker the consumer loan is authorized to do so by the law governing consumer loans,i) currency exchange activity,j) provision of banking information,k) trading on their own account or on the account of the client with foreign exchange values that are not investment instruments, and with gold,l) leasing of safety deposit boxes. <p>Performance of activities associated with the activities stated in the banking license.</p>

(b) Elected statutory bodies of the bank as of 31 Dec 2020

Board of Directors			
Title, first and last name	Function	Membership start date in body	Start date of functional period
Ing. Dušan Benda, FCCA	chairman	1 Jan 2020	3 Jan 2020
Ing. Jaroslav Končický	Vice Chairman	1 Jan 2019	16 Mar 2019
Mgr. Veronika Huml Válová	member	4 Mar 2019	
MVDr. Jan Černý	member	12 Sep 2019	12 Sep 2019
Mgr. Petr Okrajek	member	3 Dec 2020	3 Dec 2020

Supervisory Committee			
Title, first and last name	Function	Membership start date in body	Start date of functional period
Ing. Radomír Lapčík, LL.M.	chairman	4 Mar 2019	15 Mar 2019
Mgr. Kateřina Vendlíčková	Vice Chairman	19 Feb 2019	15 Mar 2019
Ing. Ivan Šramko	member	23 Nov 2020	23 Nov 2020

Audit Committee			
Title, first and last name	Function	Membership start date in body	Start date of functional period
Ing. Martin Farský, FCCA	chairman	19 Feb 2019	28 Mar 2019
Ing. Petr Čumba	member	27 Nov 2017	
prof. Dr. Ing. Drahomíra Pavelková	member	12 Sep 2019	

For all members of the board and supervisory committee the Czech National Bank has assessed their technical competency and trustworthiness and has approved their appointment to the function.

(c) Changes in statutory bodies from 1 Jan 2020 to 31 Dec 2020.

From 1 Jan 2020 the board consisted of Ing. Dušan Benda, FCCA, Ing. Jaroslav Končický, Mgr. Veronika Huml Válová, MVDr. Jan Černý and Ing. Tomáš Kořán.

At the meeting of the body on 3 Jan 2020, the position of chairman of the board was filled by the election of Ing. Dušan Benda, FCCA.

Membership in the board terminated for Ing. Tomáš Kořán effective 30 Apr 2020.

Effective 3 Dec 2020 the supervisory board of the Bank appointed to the function of board member Mgr. Petr Okrajek.

From 1 Jan 2020 the supervisory committee consisted of Ing. Radomír Lapčík, Mgr. Kateřina Venclíčková, and Ing. Ivan Šramko.

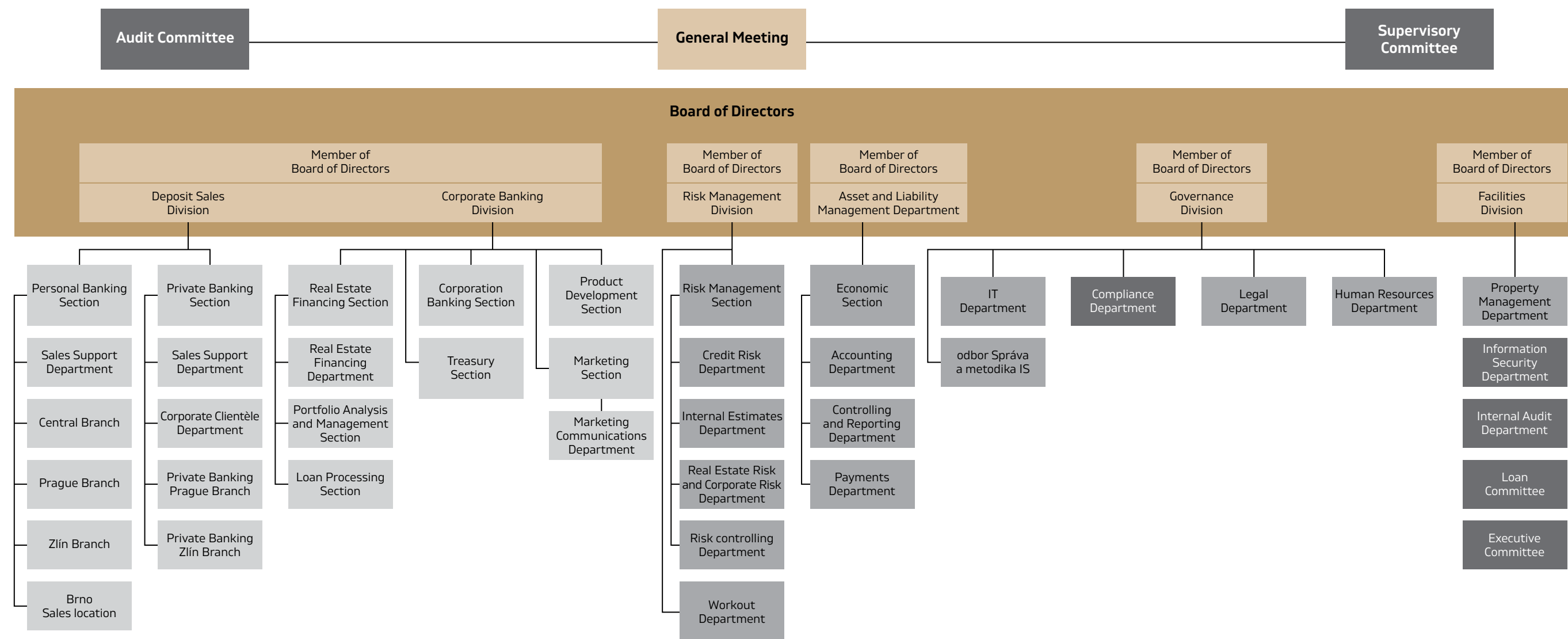
As of 25 Apr 2020, the function of supervisory committee member ended for Ing. Ivan Šramko.

The opened position was filled in accordance with Article 15 point 15 of the Trinity Bank a.s. Bylaws on 25 Jun 2020 by replacement supervisory board member Ing. Pavel Steinbach.

Effective 23 Nov 2020 the general meeting once again elected Ing. Ivan Šramko to the position of supervisory board member along with the end of the membership of Ing. Pavel Steinbach.

The audit committee operated in the year 2020 without change. From 1 Jan 2020 the Audit Committee consisted of the following: Ing. Martin Farský, FCCA, Ing Petr Čumba and Prof. Dr. Ing. Drahomíra Pavelková.

(d) Organizational structure as of 31 Dec 2020



(e) Bases for the preparation of the financial statements

The financial statements were prepared on the basis of accounts administered in accordance with Act No. 563/1991 Coll. on accounting (hereinafter “the Act”) and relevant regulations and decrees applicable in the Czech Republic.

These financial statements were also prepared on the basis of accounts administered in accordance with the Czech Accounting Standards for Financial Institutions issued by the Ministry of Finance as well as the decree of the Ministry of Finance of the Czech Republic No. 501 dated 6 November 2002, as amended (hereinafter “decree”), which specifies the organization and content definitions of financial statement line items and the scope of information to be made public for banks and certain financial institutions. According to requirement § 4, paragraph 15 of the Act, the bank used an accounting method in the accounting cycle as per the decree in the version applicable at the start of the accounting period. The accounting period began 1 January 2020.

The financial statement was prepared on the principles of accruals and deferrals of costs and yields and historical prices with the exception of selected financial instruments valued at fair value under the international financial reporting standards in the version accepted by the EU (IFRS).

These financial statements have been prepared for the accounting period of 12 months from 1 January 2020 to 31 December 2020. Balance sheet data for the previous accounting period is reported in the annex as of 31 December 2019. Profit and loss items for the previous accounting period are for the 12 months from 1 January 2019 to 31 December 2019.

The financial statements are based on the assumption that the accounting entity is a going concern and will not be in any way restricted in or prevented from continuing in those activities in the foreseeable future.

All data stated in thousands of CZK (th. CZK) unless indicated otherwise.

These financial statements are not consolidated.

2. IMPORTANT ACCOUNTING METHODS

The financial statements were prepared in accordance with the following important accounting methods:

(a) Transaction date

Depending on the type of transaction, the transaction date is the moment the transaction is carried out, in particular the date of disbursement or acceptance of money in circulation, the date of purchase or sale of currency, foreign exchange or securities, date of completing payment or encashment from a client account, date of receipt of instructions regarding an incoming payment to the account of a client, date of recognition of a payment order of the accounting entity with the CNB clearing center, date of settling payments to own account, date of settling trades with securities, derivatives, date of accepting valuables for safety deposit.

The accounting entity derecognizes a financial asset or part thereof from the balance sheet if it loses control over its contractual rights to that asset or part thereof. The accounting entity loses that control if it applies rights to benefits defined by a contract, if those rights are revoked or if it waives those rights.

In the event that a financial liability or any part thereof is extinguished (e.g. because the obligation defined by contract is discharged, canceled, or expired), the accounting entity shall no longer report the financial liability or any part thereof on the balance sheet. The difference between the value of a liability in the accounts, or any part thereof, that has been extinguished or was transferred to a different subject and the amount paid for this liability are charged to expenses or income.

(b) Financial instruments – assets

Valuation categories

On initial recognition a financial asset is measured under the following classification categories:

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

Classification and subsequent valuation of debt financial assets depends on: i) the business model of the bank for administration of a portfolio of associated assets and ii) the characteristics of the cash flows of the given asset.

Key valuation conditions

Fair Value (“FV”) is the price that would be accepted for sale of the asset or paid as payment of the liability in a proper transaction between participants on the market at the valuation date. The best proof of fair value is price on the active market. The active market is one in which transactions related to assets or liabilities are performed at sufficient frequency and volume to provide ongoing information about prices. The fair value of financial instruments traded on the active market is valued as a product of the quoted price for the individual asset or liability and the quantity the accounting entity is holding. This is the case when the regular daily trading on the market is not capable of absorbing the daily quantity and entering an order for a sell position in a single transaction could influence the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent market transactions or the assessment of the financial data of investments are used to determine the fair value of certain financial instruments for which there is no information about external market prices. The valuation of fair value is analyzed according to the level in the Fair Value Hierarchy as follows: (i) the first level is valuation based on the quoted prices (unmodified) of active markets for the same assets or liabilities, (ii) second level valuation consists of valuation techniques with all inputs of material observed for an asset or liability, either directly (i.e. such as price), or indirectly (i.e. derived from prices), and iii) third level valuation is valuation that is not based solely on observable market data (this means that valuation requires significantly unobservable inputs). Transfers between individual levels of the Fair Value Hierarchy are presumed to be transfers at the end of the reported period.

Transaction costs are incremental expenses that can be directly assigned to the acquisition, issue, or sale of a financial instrument. The incremental price is a price that would not have originated if the transaction were not carried out. Transaction costs include fees and commissions of sales representatives (including employees working as sales representatives), advisors, brokers and sellers, as well as deductions for regulatory bodies and exchanges and taxes and customs. On the other hand, transaction costs do not include premiums or discounts, costs for financing, internal administrative expenses, or holding costs.

Amortized cost („AC”) is an amount that was valued at initial recognition after deducting all payments of the principal, increased by the interest owed and and for financial assets reduced by any loss allowances for expected credit loss. Interest owed includes amortization of transaction costs deferred at initial recognition and any premium or discount until maturity using the effective interest method. Interest revenues and interest expense incurred, including accruals and deferrals of coupon and amortized discount rate or premium (including any fees deferred at origination) are not reported separately and are included in the accounting value of associated items in the financial statements.

The effective interest method is a method of allocating interest revenues or interest costs for a given period such as to achieve a constant periodic interest rate (effective interest rate) from fair value. Effective interest rate is a rate that precisely discounts the estimated future cash payments or yields for the entire period of the estimated lifetime of the financial instrument (or for a shorter period) to the net fair value of the financial asset or financial liability.

Effective interest rate discounts cash flows of instruments with variable interest rates to the next date of interest rate refixation with the exception of premiums or discounts that reflect the credit spread over a variable interest rate specified in an instrument or other variable that are not preset on market rates. Such premiums or discounts are amortized for the entire period of the expected lifetime of the instrument. The calculation of net present value includes all fees paid or retained between the contracting parties that are an integral part of the effective interest rate. For purchased or originated financial assets that are credit-impaired on initial recognition ("POCI"), the effective interest rate is modified for credit risk, i.e. it is calculated on the basis of expected cash flows at initial recognition instead of contractual payments.

Initial recognition

Financial instruments under FVTPL are first reported at fair value. All other financial instruments are first reported at fair value adjusted by transaction fees. Fair value under initial recognition is best demonstrated by the transaction price. Profit or loss from initial recognition is recorded solely in cases where there is a difference between fair value and transaction price which can be proven using other observable current market transactions in the same instrument or a valuation method whose inputs only include data from observable markets.

After initial recognition, the expected credit loss ("ECL") is recognized for financial assets valued at AC and investment in debt instruments valued with FVOCI, which has the effect of an immediate accounting loss.

All purchases and sales of financial assets that require delivery in a timeframe established by regulation or market convention (purchase or with typical term of delivery) are recorded on the date the transaction is executed, i.e. on the date the Bank undertakes to deliver the financial asset. All other purchases are recognized once the accounting entity becomes a party to contractual provisions related to the instrument.

Business model

The business model reflects the method in which the bank administers assets for the purpose of creating cash flows – whether with the goal of a bank: i) solely to collect contractual cash flows from the assets ("retaining for the purpose of collecting contractual cash flows") or ii) to collect both contractual cash flows and cash flows from sale of assets ("retaining for the purpose of collecting collective cash flows and sale"), or if neither points i) and ii) is usable, the financial assets are classified as part of a "different" business model as FVTPL.

The business model is intended for a group of assets, for cases of credit receivables or at the level of purchased tranches for bond securities on the basis of all relevant proofs of the activities that the bank undergoes in pursuit of the goal stipulated for the portfolio available on the date of valuation.

Characteristics of cash flows

In cases where the business model is retained for the purpose of gathering contracted cash flows or retained for the purpose of collecting contracted cash flows and sales, the bank assesses whether these cash flows represent solely payments of principal and interest („SPPI"). Financial assets with embedded derivatives are considered hybrid instruments if determining their cash flows is in accordance with the SPPI test. With this assessment the bank decides whether the contractual cash flows are in accordance with the basic credit arrangements, i.e. interest only includes coverage of credit risk, time value of money, other basic credit risks, and profit margins.

If the contractual conditions introduce exposure to risk or volatility in conflict with basic credit conditions, the financial asset is classified as valued as part of FVTPL. The SPPI test is performed at initial recognition of the asset and subsequently is not assessed again.

Reclassification

Financial instruments are reclassified only when the business model for administration of the entire portfolio changes. Reclassification has a prospective influence and is applied from the beginning of the first reported period following the change of business model.

Determining expected credit loss (ECL)

Based on expectations, the bank assesses ECL for debt instruments measured at AC or classified as FVOCI. The bank measures ECL and reports credit loss as of every balance sheet date. Measuring ECL reflects: i) the uncaptured and probability weighted amount that is determined by assessing the scope of possible results, ii) the time value of money, and iii) all reasonable and supportable information available without excessive costs and effort at the end of each reporting period on past events, current conditions, and probable future conditions.

Debt instruments valued at AC are reported in the financial position statement after being reduced by an allowance for ECL. For debt instruments in FVOCI changes in AC are reported after deducting the allowances for ECL reported in the profit or loss and other changes in the carrying amount are reported in OCI as profit after deducting losses from debt instruments in FVOCI.

The bank applies a three-level model for reducing value, based on changes of credit quality from initial recognition. A financial instrument that is not impaired by credit losses at initial recognition is classified in Level 1. For financial assets at Level 1, ECL is determined as the part of ECL for the term that is the result of bankruptcy events in the previous 12 months or until contractual maturity date, if shorter ("12 month ECL"). If after initial recognition the Bank identifies Significant Increase in Credit Risk ("SICR"), the asset is transferred to Level 2 and its ECL is measured on the basis of term of the contract, namely until contractual maturity, but taking into account expected prepayments. Information about the manner in which the bank determines that SICR has been incurred can be found in note 26. If the Bank determines that a financial asset is impaired by credit losses, the asset is transferred to Level 3 and its ECL is measured as the ECL for the full term. The banking definition of impairment of credit losses and the definition of bankruptcy is explained in note 26. For financial assets that are purchased or have increased credit risk at initial recognition ("POCI"), the ECL is always measured as ECL for the term. Note 26 contains information about inputs, assumptions, and estimation techniques used when measuring ECL, including explanations of how the bank includes information about future outlook in ECL models.

Write-off

Financial assets are entirely or partially written off in the event that the bank has exerted all practical effort to collect on receivables and has reached the conclusion that there is no reasonable expectation of collection. Write-off consists of a derecognition event. The bank may write off financial assets that are still subject to collection in the event that the bank is endeavoring for repayment of amounts that are contractually past due, however there is no reasonable expectation of repayment.

Derecognition

The bank derecognizes financial assets if (a) the assets are discharged or the rights to the cash flows from the assets have expired in some other manner, or (b) the bank has transferred the rights to the cash flows from the financial assets or has entered into a qualified transfer agreement while (i) also transferring in essence all risks and rewards arising from ownership of the asset, or (ii) not thiopurines or retaining in essence all risks and rewards arising from ownership but retaining control. Control is retained if the counterparty has no real capability to sell the asset in full to a non-related third party without sale limitations needing to be formulated.

Modification

The bank sometimes repeatedly negotiates or otherwise modifies the contractual terms of a financial asset. The bank assesses whether a change to contractual cash flows is substantial.

If the modified conditions are substantially different, the right to the cash flows from the original asset expire and the bank derecognizes the original financial asset and reports the new asset at fair value. The date of the renegotiation is defined as the initial recognition date for the following purposes of calculating the impairment, including determining whether SICR has been incurred. The bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the amortized cost of the original asset that was derecognized, and the fair value of the new substantially changed asset is reported in the profit and loss statement provided that the substance of this difference is not registered to a capital transaction with the owners.

In a situation where repeated negotiations were led by the financial difficulties of the counterparty and an inability to carry out the originally agreed payment, the bank compares the original and revised expected cash flows with the assets as to whether the risks and rewards from the asset are substantially different due to performing the contractual modifications. If the risks and rewards do not change, the modified asset does not differ substantially from the original asset and the change does not lead to derecognition. The bank converts the gross carrying amount by discounting the modified contractual cash flows with the original effective interest rate (or effective interest rate modified by the credit risk for a POCI financial asset) and reports the modification gain or loss.

Offset and recognition at net value

Financial assets and financial liabilities are offset and their net value reported on the balance sheet if and only if the accounting entity currently has the legally enforceable right to offset the given balances and the accounting entity plans either settlement at net value or realization of the asset and settlement of the liability concurrently.

Income and expenses are reported in net value only if permitted by the relevant IFRS standards or such profits and losses arising from the group of similar transactions such as the trading assets of the accounting entity.

Equity securities

Equity securities reported in the balance sheet item “Shares, units, and other investments” include asset securities irrevocably designated that their subsequent change in real value will be reported through other comprehensive income (FVOCI). This designation is on the basis of the individual instruments at initial recognition and the given equity securities must not be “intended for trading”.

Profits and losses from equity securities irrevocably carried in FVOCI are never revaluated from the line item Revaluation gains (losses) in equity to profit or loss (i.e. reported in the profit and loss statement) and impairment is not reported in profit or loss (i.e. reported on the profit and loss statement). Dividends received are reported in the profit and loss statement, if they unambiguously do not represent returns of part of the costs of investment (acquisition cost). If the dividends received unambiguously represent the return of a portion of investment costs (acquisition cost), they are reported in equity. The cumulative profit or loss reported in the item Revaluation gains (losses) are transferred to the item “Profit or loss brought forward” at the moment of sale of the given security.

Debt securities

On the basis of the business model and characteristics of cash flows, the bank classifies investments into debt securities administered at AC, FVOCI, or FVTPL. Debt securities are reported at AC if they are retained for recovery of contractual cash flows and if these cash flows represent SPPI, provided, however that they are not voluntarily reported at FVTPL due to significant reduction of discrepancies in the accounts.

Debt securities are reported at FVOCI if they are retained for recovery and sale of contractual cash flows, where these cash flows represent SPPI and are not designated as FVTPL. Interest income from these assets is calculated using the method of effective interest rate and reported into profit or loss. An allowance for reducing the value estimated using the model of expected credit loss is reported into profit and loss of the given year. All other changes in the carrying amount are reported in other comprehensive income. When a debt security is derecognized, the cumulative profit or loss of previously reported in other comprehensive income is reclassified as profit or loss.

Investments into debt securities are reported at FVTPL provided they do not meet the criteria for AC or FVOCI. The bank may also irrevocably designate investments in debt securities as FVTPL at initial recognition if this possibility significantly reduces the accounting incompatibility between the financial assets and liabilities that are reported or valued according to different accounting principles.

Fair value

Fair value assessed for valuating securities is specified as the market price declared as of the date of specifying the fair value, provided the accounting entity demonstrates that it is possible to sell the security at the market price.

In the event of publicly traded debt securities and equity securities, the fair values are equal to the prices achieved on the public market of OECD countries, provided that security liquidity requirements are also met.

If it is not possible to set the fair value as the market price (e.g. the accounting entity cannot prove that the security could be sold at the market price), the fair value is set as the modified value of the security.

The modified value of the security can be equal to:

- the level of participation in the equity of a joint stock company, provided that it is a stock,
- the level of participation in the equity of a mutual fund, provided that it is a share certificate,
- the net present value of future cash flows arising from the security provided that it is a debt security.

Interest revenue

Interest revenue is:

- defined for coupon debt securities as the accrued coupon rate set in the issue conditions and the accrued difference between the nominal value and the net purchase price, designated as a premium or discount. The net purchase price is defined as the purchase price of a coupon bond reduced by the accrued coupon at the moment of purchasing the security,
- defined for zero-coupon bonds and bills of exchange as the accrued difference between the nominal value and purchase price.

Interest income for debt securities are released to the profit and loss statement from the moment of acquisition using the effective interest method. In the case of debt securities with residual maturities shorter than 1 year of the date of settlement the premiums or discounts are released to the profit and loss statement equally from the moment of acquisition until the date of maturity.

Derecognition of securities

Upon selling the security the accounting entity uses the FIFO method for valuating the disposal of the securities.

(c) Financial instruments - liabilities

Valuation categories

Financial liabilities are classified as valued at AC with the exception of i) financial liabilities at FVTPL: this classification applies for derivatives, financial liabilities intended for trading (e.g. short positions in securities) and other financial liabilities that were classified as such at initial recognition, and (ii) agreements on financial guarantees and credit facilities.

Derecognition

Financial liabilities are derecognized at the moment they are extinguished (i.e. at the moment when the obligation stipulated in the contract is terminated, canceled, or expired).

Exchanges between the bank and original creditor of the debt instrument with significantly different conditions, as well as fundamental changes to the conditions of existing financial obligations, are accounted as the termination of the original financial liability and the accounting of a new financial liability. The conditions are significantly different when the discounted net present value of the cash flows under the new conditions, including all paid fees reduced using the original effective interest rate by all fees received, differs at minimum by 10% from the discounted net present value of the remaining cash flows from the original financial liability. If the execution of a new loan or a change of loan conditions is accounted as the extinguishing of a liability, all expenses or fees that the accounting entity incurs in association therewith are charged to profits and losses as of the date the liability is extinguished. If the execution of a new loan or a change of loan conditions is not accounted as the extinguishing of a liability, all expenses or fees that the company incurs will have an influence on the fair value of the liability and will be written off for the remaining term of the modified liability.

If the exchange of debt instruments or the change of conditions is recognized as an extinguishing of liabilities, all originating costs or fees are reported as part of the profit or loss from the extinguishing of the liabilities. If the exchange or change is not accounted for as an extinguishing of liabilities, the expenses or fees originated shall adjust the carrying amount of the liability and it is depreciated for the remaining period of the aforementioned liability.

Changes to the liabilities that do not lead to the extinguishing of the liabilities are accounted for as change to the estimate using the cumulative catch up method with any profit or loss reported in profit or loss if the economic substance of the difference in fair value is not credited to capital transactions with the owners.

(d) Ownership interests with decisive influence

A company with decisive influence (hereinafter “subsidiary”) is a company controlled by the Bank in which the Bank may determine financial and operating policy with the objective of obtaining benefits from the activities of the company.

A company with substantial influence (hereinafter “related company”) is a company in which the Bank exerts a substantial influence with its share in financial and operational decision making, but does not have the option to control this company.

Ownership interests in subsidiary and related companies are valued at the purchase price taking into account any reduction in value. Ownership interests and subsidiary and associated companies which are subject to hedging are valued at fair value as of the balance sheet date.

The establishment, release and utilization of related adjustments is recognized in the profit and loss statement under “Release of adjustments to ownership interests with controlling or significant influence” and “Losses on transfer of ownership interests with controlling or significant influence, establishment and utilization of adjustments to ownership interests with controlling or significant influence”.

(e) Repo operations and reverse repurchase loans

Repo operations

Operations in which securities are sold with an obligation for repurchase (repo operations) for a preset price are accounted for as loans received with security collateral that are the subject of sale and repurchase.

These received loans are reported on the balance sheet in the item “Payables to banks and credit unions” or “Liabilities to clients”.

Ownership of securities is transferred to the subject providing the loan (i.e. the creditor). Nonetheless, the securities transferred as part of repo operations are also recognized as follows:

- either in the balance sheet, if the subject of the repo operations are securities retained in reported on the balance sheet
- or in the off-balance sheet item “Pledges and collateral received”, if the subjects of the repo operation are securities obtained as part of a reverse repo operation as collateral received.

Costs incurred as part of a repo operation as the difference between the sales and purchase price are deferred for the period of the transaction and reported in the profit and loss statement.

For debt securities transferred as part of repo operations, the interest is deferred.

Reverse repo operations

Operations in which securities are sold with an obligation for resale (reverse repo operations) for a preset price are accounted for as loans provided with security collateral that are the subject of purchase and resale.

These loans provided are reported on the balance sheet in the field “Cash in hand and balances with central banks”, if they have been executed with the CNB.

Securities received as part of reverse repo operations are recorded solely in the off-balance sheet item “Pledges and collateral received”.

Revenues originated as part of a repo operation as the difference between the sales and purchase price are deferred for the period of the transaction and reported in the profit and loss statement in the field “Interest revenues and similar income”.

For debt securities that are the subject of collateral as part of reverse repo operations, the interest from these debt securities is not deferred.

Liabilities from short selling

A liability from short selling is a liability expressing a debt originated through the sale of a security that was accepted in a reverse repo operation which the accounting entity borrowed. This liability is measured at fair value. Liabilities from short selling of debt securities are reported in the item “Payables from debt securities”. Liabilities from short selling of equity securities are reported in the item “Other payables”.

Securities received as part of reverse repo operations that are subject to short sale are derecognized as off-balance sheet items.

The change in fair value is reported in the profit and loss statement in the item “Gain or loss from financial operations”.

(f) Income and expenses

Interest income and expense

Interest income and expense from all interest-bearing assets and liabilities (other than those stated in FVTPL) are reported on the accrual principle using the effective interest method. This method reflects as part of interest income or expense all fees paid or received between contracting parties that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

For financial assets created or purchased with reduced credit, the effective interest rate which reduces the expected cash flows (including initial expected credit loss) to fair value at initial recognition (typically represented by the purchase price). As a consequence of this, the effective interest rate is adjusted by the loans.

Interest revenue is calculated by using the effective interest rate for the gross fair value of the financial assets, with the exception of (i) financial assets that are in Level 3, for which interest revenue is calculated using effective interest rates for their AC, after deducting reserve ECL, and (ii) financial assets that have been purchased or originate from credit impairment for which interest revenue is calculated using the effective interest rates adjusted by the initial credit risk.

Interest expenses originating from a lease liability are reported in the profit and loss statement in the field “Interest expenses and similar costs” and differentiated using effective interest rate.

Fee and commission income

Fees and commissions for brokering transactions for third parties or from share in such negotiations are reported at the moment the transaction to which they pertain is completed.

(g) Creation of provisions

A provision represents a probable cash outflow of uncertain timing or amount. A provision is created in cases for which the following criteria apply:

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

(h) Non-current tangible and intangible assets

Tangible and intangible fixed assets are reported at purchase prices reduced by adjustments and written off using the straight line method for the estimated usable life. Depreciation periods (or estimated usable life) for the individual categories of tangible and intangible fixed assets are as follows:

Category	Number of years
Software	3
Buildings	60
Inventory, instruments and equipment	4 - 10
Small assets worth over 2 th. CZK	2 - 6
Other intangible fixed assets	5

Tangible fixed assets above CZK 40 th. and intangible fixed assets above CZK 60 th. are depreciated using the straight-line method monthly for the specified usable life.

Assets acquired from CZK 2 th. to CZK 40 th. are depreciated using the straight-line method according to a depreciation plan. Assets up to CZK 2 th. are written off into operating expenses at full value.

Costs for technical improvements of fixed assets increase their purchase price in the event that they exceed CZK 40 thousand. Costs not exceeding this amount are charged to other operating expenses. Technical improvements of leased assets are depreciated using the straight-line method for the duration of the lease or for the remainder of their usable life, depending on which time segment is shorter.

Land, unfinished fixed assets, coin collections and works of art are not depreciated.

Costs for repairs and maintenance of tangible assets are charged directly into costs.

(i) Leasing from the lessee perspective

From 1 Jan 2019 the Bank is applying the international accounting standard IFRS 16 Leasing. A contract is considered a lease if it transfers the right to control the use of the identified asset for a certain time period in exchange for consideration.

IFRS 16 brings in particular changes in accounting and reporting for lessees. The accounting entity in the role of lessor reports leased right-of-use assets and the associated lease liability on the balance sheet, with the exception where:

- the term of the lease is not greater than 12 months,
- or the underlying asset has a low purchase price.

Right-of-use assets

A right-of-use assets is initially measured at cost, which includes:

- initial measurement of lease liability,
- lease payments made from the beginning of or prior to this date after deducting all retained lease incentives,
- initial direct costs,
- estimated costs that the lessee expends for dismantling and removal of the leased asset.

The right-of-use asset is reported on the balance sheet in the item “Non-current tangible assets” and is depreciated using the straight-line method for the period until the end of the economic life of the underlying asset or until the end of the lease, depending on which period ends sooner. Relevant write-offs are reported in the profit and loss statement in the item “Depreciation, additions and utilisation of provisions and adjustments to tangible and intangible fixed assets”.

Lease liability

A lease liability is initially measured in the amount of the net present value of lease payments not paid as of the date of initial presentation. Lease payments are discounted by the interest rate that the lessee would have to pay if the funds for purchase of the underlying asset were borrowed, taking into account the conditions associated with lease (i.e. lease/loan term, amount of the loan, etc.).

The lease liability is then remeasured if there is a change to future lease payments (e.g. due to change in the evaluation of whether and when the extension or premature termination of the lease will occur, etc.). If the lease liability is remeasured in this manner, this results in the modification of the valuation of the right-of-use asset. If the right-of-use asset is null, the given remeasurement of the lease liability is recognized via the profit and loss statement.

The lease liability is reported on the balance sheet in the line item “Other liabilities”.

(j) Related parties

The related parties of the bank are in accordance with IAS 24 (Disclosure of related parties) defined as follows:

A person or family member of this person is related to the reporting accounting entity if this person:

- i. controls or co-controls the reporting accounting entity;
- ii. has a substantial influence on the reporting accounting entity; or
- iii. is a member of key management of the reporting accounting entity or its parent organization.

An accounting entity is related to the reporting accounting entity if any of the following conditions apply:

- iv. The accounting entity and the reporting accounting entity are members of the same group (which means that all parent, subsidiary, and sister companies are related to each other)
- v. One accounting entity is the related or common business of the second accounting entity (or related or common business of a member of the group to which the second accounting entity belongs).
- vi. Both accounting entities are joint ventures of the same third party.
- vii. One accounting entity is a joint venture of a third accounting entity and the second accounting entity is a related venture of a third accounting entity.
- viii. An accounting entity manages assets that serve to fulfill a post-retirement benefit plan for employees of the reporting accounting entity or an accounting entity who is related to the reporting accounting entity. If the reporting accounting entity administers the assets for such a plan themselves, the sponsoring employers are also related to the reporting accounting entity.
- ix. The accounting entity is controlled or co-controlled by a person listed in item (j) i.-iii.

Transactions between related parties are transfer of resources, services, or liabilities between related parties regardless of whether a price is charged.

(k) Conversion of foreign currency

Transactions in foreign currency are accounted for in the domestic currency converted at the rate declared by the Czech National Bank Deal applicable as of the transaction date.

Assets and liabilities in foreign currency are converted to the domestic currency at the exchange rate announced by the Czech National Bank applicable as of the balance sheet date. The resulting profit or loss from the conversion of assets and liabilities in foreign currency is reported in the profit and loss statement as “Gain or loss from financial operations”.

(l) Derivatives

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

- its fair value changes in dependence on a change to the interest rate, the price of a security, the price of a commodity, the exchange rate, price index, credit rating or index, or any other variable (i.e. underlying asset).
- compared to other types of contracts in which a similar response to changes of market conditions is based, it requires little to no initial investment,
- it will be settled in the future, whereas the term of negotiating the trade until its settlement is longer than for spot operations.

Derivatives are reported on the balance sheet at fair value. Positive fair values of derivatives are reported in assets in the field “Other assets”. Negative fair values of derivatives are reported in liabilities in the field “Other liabilities”.

The fair value of financial derivatives is determined as the net present value of expected cash flows arising from these transactions. Parameters determined on the active market are used to establish the net present value, such as forex rates, interest rates for the given maturities on the basis of yield curves, etc.

Derivatives are reported as off-balance sheet items at the undiscounted contractual value of the underlying instrument in the line items “Receivables from fixed term operations”, “Receivables from options”, “Liabilities from fixed term operations”, and “Liabilities from options”.

Financial derivatives and trading

The bank uses financial derivatives for securing its risks (currency and interest rate risks). In terms of accounting legislation, they are classified in the financial statements as held for the purpose of trading and are reported at fair value and profits (losses) from the change of fair value are captured in the profit and loss statement in the field “Gain or loss from financial operations”.

Derivatives held for the purposes of hedging

The Bank applies hedge accounting pursuant to IFRS 9. For each hedge the Bank creates at the outset formal documentation describing its key characteristics. The contents of this documentation is always the definition of the hedged risk, the goals and strategies for its management, the definition of the hedging instrument and the hedged item and the method of setting effectiveness of the hedging including a calculation of ineffectiveness. The effectiveness of hedging is assessed according to three criteria – the existence of an economic relationship between the hedging instrument and the hedged item, the effect of credit risk, and the hedge ratio. Effectiveness is evaluated at the beginning of the hedging relationship and continually on a periodic basis as of each financial statements date. The Bank calculates the ineffectiveness of hedges as of the date of each financial statements.

In the event that the collateral ceases to meet the criteria for hedge accounting, the maturity of the hedging instrument will expire the hedge instrument will be sold, canceled, or redeemed, the Bank will terminate the hedge.

The Bank applies collateral at real value pursuant to IFRS 9. Changes to fair value of derivatives classified as fair value hedges are reported on the profit and loss statement in the line “Gain or loss from financial operations”. The change in fair value of the hedged item in the case of a fair value hedge is reported as part of the carrying amount of the hedged item financial position statement and the profit and loss statement in the line “Gain or loss from financial operations”.

(m) Accounting for spot trades

For accounting transactions involving the purchase and sale of financial assets with the usual supply date (spot transactions), the trade day accounting method was used. The purchase or sale of a financial asset is reported in the balance sheet on the trade day, as is the liability or receivable associated with payment of a financial asset.

(n) Taxation

Tax payable

The income tax base is calculated from the profit or loss of the current period by adding non-deductible costs and deducting revenues that are not subject to income tax, as well as by adjusting for tax rebates and any credit.

Deferred tax

Deferred tax is based on all temporary differences between the book value and the tax value of assets and liabilities using the expected tax rates applicable for the following period. A deferred tax receivable is only accounted for if their is no doubt over its further application in subsequent accounting periods.

(o) Items from other financial periods and changes in accounting methods

Items from accounting periods other than where they belong in terms of taxation and accounting are charged as income or expenses in the profit and loss statement in the current accounting period with the exception of corrections to fundamental errors of accounting income and expenses from previous periods and changes to accounting methods, which are captured in the line item “Profit or loss brought forward” in the balance sheet of the accounting entity.

In the accounting period there were no corrections to fundamental errors of accounting for income and expenses from previous periods that would influence profit or loss and equity.

(p) Critical accounting estimates and assessments when applying accounting rules

The bank performs estimates and projections that influence the amounts reported in the financial statements and the carrying amounts of assets and liabilities in the accounting period. Estimates and judgments are regularly evaluated and are based on the experiences of the management and other factors including expectation of future events that are considered reasonable under the given circumstances. Management also carries out certain judgments apart from those that include estimations, in the process of applying accounting rules. The judgments that have the most substantial influence on the amounts reported in the financial statements and the estimates that could in the next accounting period cause significant modifications to the carrying amount of assets and liabilities include:

Measuring ECL. Measuring ECL is a significant estimate that includes the methodology for specifying, modeling, and inputing data. Detailed information on the methodology for measuring ECL is listed in note 28. The following components have a substantial influence on credit losses: the definition of default, SICR, probability of default („PD”), exposure at default („EAD”), and loss given default („LGD”), as well as models of macroeconomic scenarios. The bank regularly audits and verifies the models and inputs to those models in order to reduce any discrepancies between the expected estimated credit loss and actual credit loss.

To calculate estimates of expected future conditions (“FLI”) the bank uses certain variables of the value of macroeconomic data shared from the resources of the Czech Statistical Office and the Czech National Bank. The weighting of the selected variables for the given sector are set on the basis of regression analysis. Due to the high level of uncertainty regarding future development as a result of the impacts of the COVID-19 pandemic, as of 31 Dec 2020 the bank proceeded with a conservative review of the weighting of the individual scenarios for financial assets in stages 1 and 2 to weighting at a ratio of a 50% base scenario and a 50% pessimistic scenario. The weighting of the individual scenarios for stage 3 financial assets are set individually for each loan case. The projection of FLI values and their impact is based on current and predicted variable values whereas the Bank has operated from the following variables as of 31 December 2020 in order to specify FLI values:

	Scenario	Assigned weight	2020	2021	2022
GDP	Base	50%	-6.59%	1.79%	3.70%
	Optimistic	0%	-6.00%	5.04%	5.60%
	Pessimistic	50%	-8.89%	-0.89%	N/A *)
FX rate (EUR/CZK)	Base	50%	26.245	26.6489	25.7
	Optimistic	0%	26.245	27.2382	27.2
	Pessimistic	50%	26.245	31.6396	N/A *)
3M PRIBOR	Base	50%	0.36%	0.71%	1.09%
	Optimistic	0%	0.36%	0.35%	0.47%
	Pessimistic	50%	0.36%	-1.67%	N/A *)

*) For the negative scenario the negative scenario from the Czech National Bank for the second wave of the COVID-19 pandemic was used, which specified the trend of macroeconomic indicators only until the end of 2021. It was published in CNB’s New Forecast (Inflation Report II/2020).

Significant increase of credit risk (SICR). In order to determine whether a Significant Increase in Credit Risk has occurred, the bank compares the risk of bankruptcy that resulted after the term of the financial instrument as of the end of the balance sheet date with the risk of bankruptcy as of the date of initial recognition. The relative increase in credit risk is considered during assessment, rather than the achievement of a specific level of credit risk at the end of the reported period. The bank considers all available and observable future information at hand without excessive costs or effort, which includes a range of factors including behavioral aspects of the specific portfolios of the customers. The bank identifies indicators of behavior when increasing credit risk before criminality and incorporates suitable future information into the assessment of credit risk either related to the individual instrument or at the portfolio level. See note 28.

Default is defined by the bank as cases when (i) it is clear that the client will not be capable of performing their contractual credit obligations without execution of collateral or (ii) at the moment when any substantial amount of the client’s credit exposures is 90 days or more past due.

(q) Impact of change in accounting methods

The Bank applied a new fair value hedge of foreign currency ownership interests under currency risk. The hedging instrument is a spot element of the forward leg of currency swaps. More information and impacts are described in detail in point no. 26.

Apart from the above, the bank did not make any changes to its accounting methods in 2020.

(r) Impact of corrections to fundamental errors

In 2020 the bank did not identify any fundamental errors requiring correction.

(s) Changes in accounting methods in the subsequent accounting period

None.

3. NET INTEREST INCOME

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Interest on loans	294,101	282,442
Interest from deposits	93,472	94,367
Interest from debt securities	29,344	734
Total interest received	416,917	377,543
Interest from deposits	149,400	133,130
Interest from subordinated deposits	3,783	0
Total interest expense	153,183	133,130
Net interest income	263,734	244,413

All interest income and interest expense are calculated on the basis of the effective interest method and apply to financial assets and liabilities valued at amortized cost (AC) or at fair value through other comprehensive income (FVOCI).

4. FEE AND COMMISSION EXPENSE

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Fees from deposit products	969	1,620
Fees from loans	30,245	29,778
Fee and commission income	31,214	31,398
Fees to banks and credit unions	595	911
Commissions	5,591	400
Other	789	0
Fee and commission expense	6,975	1,311
Net fee and commission income	24,239	30,087

5. GAIN OR LOSS FROM FINANCIAL OPERATIONS

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Profit/loss from operations with derivatives and spot trades	3,343	14,911
Profit (loss) from operations with securities	106,128	0
Exchange rate differences	2,620	-7,985
Profit (loss) from hedge accounting	0	0
Total	112,091	6,926

Profit from operations with securities consists of gains achieved in the course of 2020 for the sale of debt securities from the portfolio valued at fair value through other comprehensive income (FVOCI), namely state bonds.

6. OTHER OPERATING INCOME AND EXPENSES

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Income from sale of assets	65	33,754
Income from rental	10,721	9,794
Other revenues	494	3,545
Operating revenues	11,280	47,093
Fair value of sold assets	31	25,588
Contribution to Deposit Insurance Fund and for crisis management	6,180	5,058
Other costs	7,228	4,645
Operating expenses	13,439	35,291

Income from sale of assets in 2019 consists of income from sale of immovable property in the ownership of the bank. In 2020 the Bank did not execute any sales of real estate.

Other costs represent costs in 2020 and in 2019 for insurance and costs for services received from the subsidiary company Recollect a.s.

The bank did not obtain any public support in 2019 or in 2020.

7. ADMINISTRATIVE EXPENSES

(a) Structure of administrative expenses

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Wages and compensation for employees	93,496	97,040
Social expenses and health insurance	30,328	32,453
Wages and compensation for members of statutory bodies	3,131	3,735
of which: - board of directors	2,050	2,567
- monitoring committee	721	856
- credit commission/credit committee	0	0
- audit committee	360	312
Other employee expenses	3,798	3,135
Other administrative expenses	71,173	66,023
of which: audit costs, legal and tax consulting	4,880	5,395
of which: Mandatory audit*	1,815	1,694
Other verification services*	157	0
Tax consultation*	248	419
Other non-auditing services*	900	333
Total	201,926	202,386

* Amounts for services provided to the Bank and the companies it controls by the companies KPMG Česká republika Audit, s.r.o. and KPMG Česká republika, s.r.o. include VAT.

Neither in 2020 nor in 2019 were members of managing and controlling bodies provided with any advances, bonuses, credit, or loans.

(b) Average number of employees and members of statutory bodies

	31 Dec 2020	31 Dec 2019
Average number of employees:	107	112
Number of members of bodies:	15	15
of which: - board of directors	5	5
- supervisory committee	3	3
- lending committee	7	7

The number of employees of the company converted to full-time equivalent employees as of 31 December 2020 amounted to: 107 employees (2019: 112 employees).

8. INCOME AND EXPENSES FROM OPERATIONS WITH RELATED PARTIES

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Interest income and similar income	9,236	8,394
Interest expense and similar expense	140	157
Fee and commission income	8,772	8,481
Income from leasing of commercial space and sale of fixed assets	4,621	3,351
Gain or loss from financial operations	-431	-102
Costs for outsourcing services	20,087	19,711

Interest income and similar income consist of interest income from issued credit. Fee and commission income represent primarily fees for administration of overdraft accounts. Costs for outsourcing services represent primarily costs for IT services and leasing of modes of transportation.

9. POHLEDÁVKY A ZÁVAZKY SE SPŘÍZNĚNÝMI OSOBAMI

(thousands CZK)	1 Jan 2020 - 31 Dec 2020	1 Jan 2019 - 31 Dec 2019
Receivables from clients	239,281	154,838
Other assets	217,589	185,299
Liabilities to clients	323,315	169,137
Other liabilities	116,037	136,353

Receivables from clients consist primarily of loans provided, liabilities to clients deposits received.

The Other assets and Other liabilities fields capture primarily spot operations not settled as of the end of the accounting period.

The Bank provides its subsidiary company Recollect a.s. with financing in the form of overdraft. The list of operations during 2020 is as follows:

(thousands CZK)	
Balance as of 1 Jan 2020	6,050
Withdrawal during the year	151,565
Repayments during the year	-118,899
Balance as of 31 Dec 2020	38,716

During the course of the year the Bank collected interest income from its subsidiary company Recollect a.s. in the amount of CZK 2,633 th.

All transactions of the Bank with related parties were carried out as part of ordinary activities and under similar conditions and in comparable transactions as those with third parties. These relationships, exposures, and operations do not represent higher than ordinary risk for the Bank, nor do they demonstrate any unfavorable trends.

10. CASH IN HAND AND BALANCES WITH CENTRAL BANKS

(thousands CZK)	31 Dec 2020	31 Dec 2019
Cash in hand	26,936	28,141
Deposits with central bank	5,965,279	8,809,517
of which: reverse repo operations with CNB	5,836,203	8,458,243
Total	5,992,215	8,837,658

As of 31 December 2020 the bank obtained state zero coupon bonds and other securities eligible as part of reverse repo transactions in the market value of CZK 5,836,000 th. (as of 31 December 2019: CZK 8,396,000 th.), which are recorded in the off-balance sheet item "Pledges and collateral received".

As part of deposits with the central bank, the bank also holds funds of required minimum reserves according to the rules established by CNB. As of 31 December 2020 the amount of required minimum reserves amounted to CZK 291,397 th. (as of 31 December 2019: CZK 245,000 th.).

As of 31 December 2020 deposits with central banks are not credit impaired nor have they been associated with any Significant Increase in Credit Risk. As of 31 December 2019 the Bank did not record any allowance on the basis of ECL due to non-significance.

11. RECEIVABLES FROM BANKS AND CREDIT UNIONS

(thousands CZK)	31 Dec 2020	31 Dec 2019
Current accounts with banks	425,725	526 439
Term deposits with banks	225,673	81,263
Total deposits with bank	651,398	607,702
Loss allowances - under IFRS9	-297	-188
Total	651,101	607,514

All receivables from banks as of 31 December 2020 and as of 31 December 2019 are valued at amortized cost pursuant to IFRS 9.

Receivables from banks consist exclusively receivables of stable financial institutions. In terms of credit risk, the bank considers all of its receivables from banks as of 31 December 2020 and 31 December 2019 to be of high quality. As part of calculating ECL, all receivables from banks were categorized as of 31 December 2020 and 31 December 2019 in Level 1. As of 31 December 2020 and 31 December 2019 allowances were calculated on the basis of 12 month expected credit loss.

12. RECEIVABLES FROM CLIENTS

All receivables from clients as of 31 Dec 2020 a 31 Dec 2019 are valued at amortized cost pursuant to IFRS 9.

(a) Receivables from clients at accrued value according to rating level of credit risk

Status as of 12/31/2020 (thousands CZK)	Level 1	Level 2	Level 3	Total
Receivables from clients measured at amortized cost	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Higher level of rating quality	3,542,078	848,563	0	4,390,641
Medium-sized level of rating quality	560,840	974,912	0	1,535,752
Lower level of rating quality	0	0	1,328,657	1,328,657
Receivables from clients Gross	4,102,918	1,823,475	1,328,657	7,255,050
Adjustments	-4,401	-26,140	-225,139	-255,680
Receivables from clients Net	4,098,517	1,797,335	1,103,518	6,999,370

Status as of 12/31/2019 (thousands CZK)	Level 1	Level 2	Level 3	Total
Receivables from clients measured at amortized cost	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Higher level of rating quality	2,432,361	532,943	0	2,965,304
Medium-sized level of rating quality	17,988	1,441,315	0	1,459,303
Lower level of rating quality	0	0	1,100,107	1,100,107
Receivables from clients Gross	2,450,349	1,974,258	1,100,107	5,524,714
Adjustments	-7,722	-15,050	-182,569	-205,341
Receivables from clients Net	2,442,627	1,959,208	917,538	5,319,373

(b) Analysis of receivables from clients by sector

(thousands CZK)	31 Dec 2020	31 Dec 2019
Non-financial organizations	6,748,337	5,041,733
Financial organizations	236,416	208,267
Households (occupations)	15,678	15,679
Population (residents)	219,493	241,539
Non-residents	35,126	17,496
Gross basis	7,255,050	5,524,714
Adjustments	-255,680	-205,341
Total	6,999,370	5,319,373

The grouping of receivables from clients by geographical region is provided in greater detail in point 28.A2.

(c) Analysis of pledges and collateral received for receivables from clients according to type of collateral

The value of pledges received for loans to client may be analyzed as follows:

(thousands CZK)	31 Dec 2020	31 Dec 2019
Cash	230,633	77,491
Real estate	6,289,834	4,408,725
Other security	186,413	283,093
Total	6,706,880	4,769,309

If the value of pledges received exceeds the amount of the corresponding receivable, the value of the pledges received is recorded in the amount of the corresponding receivable.

(d) Receivables from clients to related persons (members of statutory bodies)

Members of statutory bodies were not provided in the reported or previous accounting period with any loans.

(e) Allowances for receivables from clients

(thousands CZK)	
Balance as of 1 Jan 2019	291,286
Additions during the year	93,627
Utilization during the year	-63,532
Reaccounting in relation to other assets	-3,398
Release of unnecessary allowances	-112,642
Balance as of 31 Dec 2019	205,341
Balance as of 1 Jan 2020	205,341
Additions during the year	150,508
Utilization during the year	-3,748
Release of unnecessary allowances	-96,692
Balance as of 31 Dec 2020	255,680

13. DEBT SECURITIES

(a) Debt securities by type

(thousands CZK)	31 Dec 2020	31 Dec 2019
Bonds issued by financial institutions	401,812	0
Bonds issued by non-financial institutions	1,200,749	50,715
Bonds issued by the governmental sector	1,102,669	0
Adjustments*	-16,928	-208
Total	2,688,302	50,507

*Adjustments consist of adjustments solely for the portfolio of debt securities at amortised cost (AC).

(b) Debt securities by valuation category

(thousands CZK)	31 Dec 2020	31 Dec 2019
Debt securities at amortised cost (AC)	1,953,229	50,715
Debt securities valued at fair value though other comprehensive income (FVOCI)	752,001	0
Adjustments*	-16,928	-208
Total	2,688,302	50,507

*Adjustments consist of adjustments solely for the portfolio of debt securities at amortised cost (AC). Adjustments for the portfolio of debt securities valued at fair value though other comprehensive income (FVOCI) are reported under the item "Revaluation gains (losses)".

(C) debt securities at amortized cost

As of 31 Dec 2020 (thousands CZK)	Level 1	Level 2	Level 3	Total
Debt securities at amortized cost	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Gross basis	1,953,229	0	0	1,953,229
Adjustments	-16,928	0	0	-16,928
Total	1,936,301	0	0	1,936,301

As of 31 Dec 2019 (thousands CZK)	Level 1	Level 2	Level 3	Total
Debt securities at amortized cost	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Gross basis	50,715	0	0	50,715
Adjustments	-208	0	0	-208
Total	50,507	0	0	50,507

(d) debt securities at FVOCI

As of 31 Dec 2020 (thousands CZK)	Level 1	Level 2	Level 3	Total
Debt securities at FVOCI	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Gross basis	752,001	0	0	752,001
Total	752,001	0	0	752,001

Debt securities are reported on the balance sheet at FVOCI. Their carrying amount is reduced by a loss allowance in the amount of CZK 10,128 th. as of 31 Dec 2020, which the Bank reports in the line item Revaluation gains (losses) in equity.

(e) analysis of debt securities valued at amortised cost

(thousands CZK)	31 Dec 2020	31 Dec 2019
Bonds issued by financial institutions		
- Quoted on the stock exchange in the Czech Republic	179,433	0
- Quoted on other securities market	91,198	0
- Unquoted	0	0
Subtotal	270,631	0
Bonds issued by non-financial institutions		
- Quoted on the stock exchange in the Czech Republic	381,715	50,715
- Quoted on other securities market	198,214	0
- Unquoted	0	0
Subtotal	850,560	50,715
Bonds issued by the governmental sector		
- Quoted on the stock exchange in the Czech Republic	943,783	0
- Quoted on other securities market	158,886	0
- Unquoted	0	0
Subtotal	1,953,229	50,715
Adjustments	-16,928	-208
Total	1,936,301	50,507

(f) Analysis of debt securities valued at fair value of other comprehensive income (FVOCI)

(thousands CZK)	31 Dec 2020	31 Dec 2019
Bonds issued by financial institutions		
- Quoted on the stock exchange in the Czech Republic	82,169	0
- Quoted on other securities market	49,012	0
- Unquoted	0	0
Subtotal	131,181	0
Bonds issued by non-financial institutions		
- Quoted on the stock exchange in the Czech Republic	32,693	0
- Quoted on other securities market	588,127	0
- Unquoted	0	0
Subtotal	752,001	0
Total	752,001	0

14. SHARES, UNITS, AND OTHER INVESTMENTS

a) Shares, units, and other investments valued at fair value through other comprehensive income (FVOCI)

(thousands CZK)	31 Dec 2020	31 Dec 2019
Shares valued at fair value though other comprehensive income (FVOCI)	50,000	0
Total	50,000	0

As of 31 December 2020 the Bank carried capital securities in the amount of CZK 50,000 th. as valued at fair value through other comprehensive income (FVOCI), as it is expected that this investment will be held for a longer period of time for strategic reasons. The line item represents investments into collective investment instruments.

As of 31 December 2020 the fair value of capital securities in the portfolio FVOCI equaled the acquisition cost of these securities.

15. OWNERSHIP INTERESTS WITH CONTROLLING INFLUENCE

Subject (as of 31 December 2020)	Purchase price (th. CZK)	Share (%)
Recollect a.s.	2,000	100%
TB Centre Limited	223,806	100%
Total	225,806	

Subject (as of 31 December 2019)	Purchase price (th. CZK)	Share (%)
Recollect a.s.	2,000	100%
TB Centre Limited	201,843	100%
Total	203,843	

Recollect a.s.

In September 2019 the bank acquired a 100% share in Recollect a.s. Recollect a.s. (hereinafter also “Company”) serves as a servicing company for the Bank in the area of providing loans, where loans may be claimed and/or repaid via the Company provided by the Bank to its clients. The Company may also provide support services to the bank in association with the collection of receivables the Bank has from its clients (this activity was not performed in 2019 nor in 2020). The Company will also carry out other actions of an organizational commercial character in addition to the above in accordance with serving the aforementioned functions. The company performs its activities in the Czech Republic, it has no employees. In 2019, the company achieved turnover in the amount of CZK 1,359 th. and profit in the amount of CZK 159 th. The company paid income tax int he amount of CZK 37 th. and did not receive any public support.

TB Centre Limited

In December 2019 the bank acquired a 100% share in TB Centre Limited (original name Hili Properties (Swatar) Limited), registration number in the Register of Companies C 45465, registered office Nineteen Twenty Three, Valletta Road, Marsa Road, MRS 3000, Malta. The acquisition of the company represents an investment by the Bank. The company is a for-profit entity leasing the Tower Business Center building at Tower Street, Swatar, B’Kara, Malta. This investment objective is compliant with the overall strategy of the Bank and the legal conditions for acquiring this juridical person were observed. The company did not receive any public support in 2019. The company has no employees.

Overview of year-on-year changes in the value of the TB Centre investment:

(thousands CZK)	
Balance as of 1 Jan 2020	201,843
Change of fair value under hedge accounting	6,633
Expenses directly associated with the acquisition of investments (including tax from conversion paid abroad)	15,330
Balance as of 31 Dec 2020	223,806

The Bank is not preparing consolidated financial statements in accordance with § 22a of Act No. 563/1991 Coll. on accounting, given that the above accounting entities are not significant or are held for the purpose of their later sale..

16. INTANGIBLE FIXED ASSETS

(thousands CZK)	Software	Other intangible assets	Subtotal	Software acquisition	Acquisition of other intangible assets	Total
Acquisition cost						
As of 1 Jan 2019	68,620	18,805	87,425	21,898	-	109,323
Gains	32,365	28,739	61,104	39,229	-	100,333
Losses	-884	-	-884	-61,115	-	-61,999
As of 31 Dec 2019	100,101	47,544	147,645	12	-	147,657
As of 1 Jan 2020	100,101	47,544	147,645	12	-	147,657
Gains	9,872	566	10,438	-	-	10,438
Losses	-	-	-	-	-	-
As of 31 Dec 2020	109,973	48,109	158,082	12	-	158,095
Accumulated depreciation and adjustment entries						
As of 1 Jan 2019	43,965	72	44,037	-	-	44,037
Depreciation and accruals of discarded assets	13,660	3,793	17,453	-	-	17,453
Losses	-884	-	-884	-	-	-884
As of 31 Dec 2019	56,741	3,865	60,606	-	-	60,606
As of 1 Jan 2020	56,741	3,865	60,606	-	-	60,606
Depreciation and accruals of discarded assets	14,566	10,562	25,128	-	-	25,128
Losses	-	-	-	-	-	-
As of 31 Dec 2020	71,307	14,427	85,734	-	-	85,734
Net book value						
As of 31 Dec 2019	43,360	43,679	87,039	12	-	87,051
As of 31 Dec 2020	38,666	33,683	72,349	12	-	72,361

17. TANGIBLE FIXED ASSETS

(a) Non-current tangible assets

(thousands CZK)	Buildings*	Real estate*	Modes of transportation	Equipment and tools	Minor assets	Other tangible assets	Subtotal	Acquisition of assets	Advances provided	Total
Acquisition cost										
As of 1 Jan 2019	501,220	82,928	2,521	11,163	9,576	4,196	611,604	5	1	611,610
Gains	4,796	-	-	1,248	5,447	-	11,491	12,125	-	23,616
Losses	-52,400	-	-2,521	-755	-2,100	-	-57,776	-11,932	-1	-69,709
As of 31 Dec 2019	453,616	82,928	-	11,656	12,923	4,196	565,319	198	-	565,517
As of 1 Jan 2020	453,616	82,928	-	11,656	12,923	4,196	565,319	198	-	565,517
Gains	6,770	-	-	227	2,870	-	9,867	270	10,245	20,383
Losses	-	-	-	-126	-912	-	-1,038	-	-	-1,038
As of 31 Dec 2020	460,386	82,928	-	11,757	14,881	4,196	574,148	469	10,245	584,862
Accumulated depreciation and adjustment entries										
As of 1 Jan 2019	70,521	-	1,453	6,366	7,088	26	85,454	-	-	85,454
Depreciation and accruals of discarded assets	34,058	-	385	1,235	2,101	13	37,752	-	-	37,792
Losses	,-33,880	-	,-1,838	-755	-2,100	-	,-38,533	-	-	,-38,573
As of 31 Dec 2019	70,699	-	-	6,846	7,089	39	84,673	-	-	84,673
As of 1 Jan 2020	70,699	-	-	6,846	7,089	39	84,673	-	-	84,673
Depreciation and accruals of discarded assets	7,774	-	-	1,206	2,505	12	11,497	-	-	11,497
Losses	-	-	-	-126	-886	-	-1,012	-	-	-1,012
As of 31 Dec 2020	78,473	-	-	7,926	8,708	51	95,158	-	-	95,158
Net book value										
As of 31 Dec 2019	382,917	82,928	-	4,810	5,834	4,157	480,646	198	-	480,844
As of 31 Dec 2020	381,913	82,928	-	3,831	6,174	4,145	478,990	469	10,245	489,704

All buildings and real estate owned by the Bank served in 2020 and 2019 for the operating activities of the Bank.

(b) Non-current tangible assets acquired as part of leasing

(thousands CZK)	Buildings and real estate	Total
Acquisition cost		
As of 1 Jan 2019	25,844	25,844
Gains	0	0
Losses	0	0
As of 31 Dec 2019	25,844	25,844
As of 1 Jan 2020	25,844	25,844
Gains	12,330	12,330
Losses	0	0
As of 31 Dec 2020	38,174	38,174
Accumulated depreciation and adjustment entries		
As of 1 Jan 2019	0	0
Depreciation and accruals of discarded assets	11,294	11,294
Losses	0	0
As of 31 Dec 2019	11,294	11,294
As of 1 Jan 2020	11,294	11,294
Depreciation and accruals of discarded assets	11,613	11,613
Losses	0	0
As of 31 Dec 2020	22,907	22,907
Net book value		
As of 31 Dec 2019	14,550	14,550
As of 31 Dec 2020	15,267	15,267

The accounting entity leases real estate and buildings for the purposes of its headquarters and branch offices. These leases are typically executed for an indefinite term with a one-year notice period for cancellation.

Certain lease agreements containing supplemental payments of rent associated with the inflation rate trend in subsequent years.

Certain leases contain the option for the lessee to extend the lease agreement 12 months prior to the end of the lease. The Bank evaluates whether the extension of the lease is reasonably certain at the beginning of the lease agreement and subsequently whenever a significant event or significant change occurs in the given circumstances.

18. OTHER ASSETS

(a) Structure of other assets

(thousands CZK)	31 Dec 2020	31 Dec 2019
Receivables owed by various debtors	187,357	464,633
Advances provided	57,721	54,758
Tax receivables	60,398	71,748
Positive fair value of derivatives	22,391	8,902
Other assets	175	129
Gross basis - other assets	328,042	600,170
Allowances (other assets)	-19,466	-24,833
Total	308,576	575,337

Receivables past due as of 31 December 2020 amount to CZK 19,466 thousand (as of 31 December 2019: CZK 20,680 thousand). Allowances were created for these receivables in the amount of CZK 19,466 thousand (as of 31 December 2019: CZK 20,680 th.).

Receivables owed by various debtors in gross values of spot operations not settled as of the end of the accounting period represent a total of CZK 141,127 thousand (as of 31 December 2019: CZK 133,913 th.), receivables from retained proceeds from the sale of loan pledges in the amount of CZK 2,255 th. (as of 31 December 2019: CZK 252,759 th.) and other receivables in the amount of CZK 43,975 (as of 31 December 2019: CZK 77,961 thousand).

Advances provided consist in particular of deposits for leased vehicles in the amount of CZK 39,975 th. (as of 31 December 2019: CZK 39,898 th.) and operating advances provided consist in particular of advances for outsourcing IT and legal services in the amount of 17,233 th. (as of 31 December 2019: CZK 14,775 th.).

Tax receivable in the amount of CZK 60,398 th. (as of 31 December 2019 tax receivable totaling CZK 71,748 th.) containing a deferred tax receivable in the amount of CZK 25,944 th. (as of 31 December 2019: CZK 34,723 th.), and advances for income tax of CZK 40,252 th. (as of 31 December 2019: CZK 37,025 th.), which are reduced by an income tax provision of CZK 5,797 th. (as of 31 December 2019: CZK 0 th. CZK).

(b) Allowances for other assets

(thousands CZK)	
Balance as of 1 Jan 2019	18,599
Additions during the year	3,905
Reaccounting from receivables to clients	3,398
Utilization during the year- Other assets	-
Release of unnecessary allowances	-1,069
Balance as of 31 Dec 2019	24,833
Balance as of 1 Jan 2020	24,833
Additions during the year	979
Utilization during the year	-6,316
Balance as of 31 Dec 2020	19,466

19. LIABILITIES TO BANKS AND LIABILITIES TO CLIENTS

(a) Payables to banks and credit unions

(thousands CZK)	31 Dec 2020	31 Dec 2019
Liabilities to credit unions	99,242	64,604
Liabilities to banks	239,696	59,224
Total	338,938	123,828

20. LIABILITIES TO CLIENTS

Analysis of liabilities to clients by sector

Liabilities due on demand (thousands CZK)	31 Dec 2020	31 Dec 2019
Non-financial organizations (residents)	750,627	944,360
Financial organizations (residents)	79,598	101,338
Government sector	58,296	24,888
Non-profit organizations	27,158	15,368
Households (occupations residents)	430,613	489,049
Population (residents)	9,666,236	7,779,909
Non-residents	108,899	133,071
Total	11,121,426	9,487,983

Liabilities with notice period (thousands CZK)	31 Dec 2020	31 Dec 2019
Non-financial organizations (residents)	109,415	117,810
Financial organizations (residents)	2,523	190,348
Government sector	155,051	172,814
Non-profit organizations	13,882	13,673
Households (occupations residents)	88,760	192,476
Population (residents)	3,271,186	3,898,964
Non-residents	12,655	47,647
Total	3,653,472	4,633,732

Liabilities to clients total	14,774,898	14,121,715
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Deposit insurance is applied to deposits of natural and juridical persons at the Bank in accordance with the rules of the Act on Banking and associated legal regulations, and the Bank for this purpose duly deducts the specified contributions into the Guarantee System of the Financial Market.

The bank does not record any liabilities to persons with special relationship to the accounting entity as of 31 December 2020 nor as of 31 December 2019.

21. OTHER LIABILITIES

(thousands CZK)	31 Dec 2020	31 Dec 2019
Liabilities to different creditors	181,747	153,025
Tax liabilities	3,227	4,526
Other liabilities to clients	5,130	2,037
Liabilities to employees	6,890	5,542
Liabilities from social and health insurance	3,682	2,984
Negative fair value of derivatives	2,866	0
Estimated items payable	11,438	3,920
Lease liabilities	15,604	14,550
Other liabilities	8,435	11,602
Total	239,019	198,186

Trade payables past due as of 31 December 2020 amount to CZK 521 th. (as of 31 December 2019 this amounts to CZK 795 th.).

Liabilities to various debtors consist in particular of spot operations not settled as of the end of the accounting period in the amount of CZK 144,641 thousand (as of 31 December 2019: CZK 133,913 thousand).

The substantial portion of lease liabilities are due within one year.

In 2020 the Bank reassessed the expected term of lease in leased buildings. Under this heading, an increase in the amount of the liability occurred as of 31 December 2020.

22. PROVISIONS

a) Tax provisions

As of the date of the financial statements, the corporate tax return had not yet been filed, thus tax provisions as of 31 December 2020 in the amount of CZK 6,000 th. (as of 31 December 2019: CZK 0 th.) consist of a positive difference between the calculated payable tax obligations for the year 2020 and the advance payments and any overpayments. Any negative difference is reported as part of the Other assets category.

b) Other reserves

(thousands CZK)	Court disputes
Balance as of 1 Jan 2019	1,600
Additions during the year	-
Release of unnecessary provisions	-
Utilization during the year	-
Balance as of 31 Dec 2019	1,600
Balance as of 1 Jan 2020	1,600
Additions during the year	-
Release of unnecessary provisions	-200
Utilization during the year	-
Balance as of 31 Dec 2020	1,400

23. SUBORDINATED LIABILITIES

(thousands CZK)	31 Dec 2020	31 Dec 2019
Subordinated deposits	314,489	0
Total	314,489	0

Subordinated liabilities consist of subordinated deposits of the bank accepted in 2020 and carrying a fixed interest rate of 2.08%. Liabilities from subordinated deposits would be satisfied in the event of liquidation only after the satisfaction of all other liabilities of the bank with the exception of receivables that are bound by the same or similar condition of subordination as the liabilities from subordinated deposits. The payment term for subordinated deposits is set for 8 years, the subordinated deposits come due in the year 2028. A subordinated deposit cannot be prematurely terminated and repaid by the bank prior to the agreed maturity date.

24. EQUITY

(a) Structure of equity

(thousands CZK)	31 Dec 2020	31 Dec 2019
Issued capital	1,095,494	1,097,091
of which: Paid-up capital	1,100,000	1,100,000
of which: Own shares	-4,506	-2,909
Other reserves from profits	49,074	49,074
Capital funds	571,180	571,180
Investment capital deposits	500	0
Revaluation gains (losses)	36,642	0
Profit or loss brought forward	19,848	-30,544
Profit or loss during the accounting period	60,634	50,392
Total	1,833,372	1,737,193

All issued capital was fully paid. As of 31 December 2020 issued capital was represented by a total of CZK 1,671,181 pcs of registered shares. As of 31 December 2020 the bank held shares in the value of CZK 4,506 th.

(b) Composition of members with share exceeding 10% of issued capital

As of 31 December 2020, qualified participation (directly and indirectly held shares) was covered by a group of 26 shareholders acting on the basis of consensus, where these persons together held participation in the registered capital of the bank amounting to 11.38%.

As of 31 December 2019 the following parties exceeded qualified participation (directly and indirectly held shares):

- Trinity Investorská a.s. (formerly MPU Investorská, a.s.), Senovážné náměstí 1375/19, Prague 1, Postal Code 110 00 – share of voting rights 11.71 %.

(c) Appropriation of losses and distribution of profits

The business of the bank for the accounting period from 1 January 2020 to 31 December 2020 ended after taxation with profit in the amount of CZK 60,634,387. The distribution of profits is decided by the general meeting.

The board proposes distribution of profits for the year 2020 and part of the retained earnings from 2019 in the following manner:

The board proposes the distribution of profits to shareholders in the total amount of CZK 83,559,050 of profit for the accounting period of 1 Jan 2020 – 31 Dec 2020 in the amount of CZK 60,634,387 and retained earnings from previous years in the amount of CZK 22,924,663. This profit will be distributed if the recommendation of the Czech National Bank in which it restricted the disbursement of dividends (hereinafter “Measure”) applies and an amount for disbursement will be set for Trinity Bank by the Czech National Bank after review of the petition by Trinity Bank for disbursement of dividends (hereinafter “Exception”) or if the Measure no longer applies. The amount of the dividend for disbursement according to this ruling shall hereinafter was referred to as “Set Dividend”. The profit will be distributed solely in the amount of the Set Dividend. Disbursement will take place in two phases, where:

- i. The first part of the disbursement, up to the amount of CZK 27,756,609, which corresponds to 25% of the cumulative profit of the company for the accounting period from 1 Jan 2019 to 31 Dec 2019 and from 1 Jan 2020 to 31 Dec 2020, shall take place and the payment date of the dividend shall be no later than the last day of the third quarter of the 2021 calendar year, or immediately after the Exception is granted, or the Measure canceled;
- ii. The second part of the disbursement, up to the total cumulative amount of CZK 83,559,050 shall take place and the payment date of the dividend shall be no later than by 31 Dec 2021.

If the Set Dividend is lower than CZK 83,559,050, the profit for the accounting period 1 Jan 2020 – 31 Dec 2020 and the retained earnings from previous years will be distributed in the amount of the Set Dividend and in accordance with any other rules specified by the Czech National Bank. Unless it is in conflict with the Set Dividend and other rules specified by the Czech National Bank, the entire profit for the accounting period of 1 Jan 2020 – 31 Dec 2020 shall be distributed preferentially and only then will the retained earnings from previous years be distributed. If the Set Dividend is lower than CZK 60,634,387, the disbursement shall consist solely of profit for the accounting period from 1 Jan 2020 – 31 Dec 2020 in the amount of the Set Dividend, whereas the retained earnings for the period 1 Jan 2020 – 31 Dec 2020 shall be transferred to the account retained earnings from previous years. If the Measure will continue to apply and the Exception is not granted by 20 Dec 2021, the entire profit for the accounting period 1 Jan 2020 – 31 Dec 2020 shall be transferred to the account retained earnings from previous years.

From the moment of acceptance of this resolution until the disbursement of the dividend pursuant to this ruling, or the transfer of the profit to the retained earnings account pursuant to this ruling, the amount for distribution for the accounting period 1 Jan 2020 – 31 Dec 2020 in the amount of CZK 60,634,387 will be transferred to the “Fund for payment of dividends” and the dividend will be disbursed or transferred from this Fund for payment of dividends in accordance with this resolution and within the time limits specified herein.

(d) Revaluation gains (losses)

Revaluation gains (losses) as of 31 December 2020 were incurred through the creation of loss allowances and under revaluation of securities held in the portfolio valued at fair value through other comprehensive income (FVOCI):

(thousands CZK)	Securities at FVOCI	Total
Balance as of 1 January 2020	0	0
Decrease	0	0
Increase	26,807	26,807
Release of loss allowances	9,835	9,835
Balance as of 31 December 2020	36,642	36,642

25. INCOME TAX AND DEFERRED TAX PAYABLE/RECEIVABLE

(a) Income tax

(thousands CZK)	31 Dec 2020	31 Dec 2019
Tax payable for the current accounting period	0	0
Tax payable for the previous accounting period	6,000	1,103
Deferred tax	8,780	14,347
Total	14,780	15,450

(b) Deferred tax payable/receivable

Deferred income tax is calculated from all transitional differences using the expected tax rate for the subsequent period, i.e. 19% (for the previous period following after 31 December 2019: 19%).

(thousands CZK)	31 Dec 2020	31 Dec 2019	change
Allowances for loans	26,876	35,350	8,474
Tangible and intangible assets	-932	-627	305
Net deferred tax payable (-)/receivable (+)	25,944	34,723	8,779

As of 31 Dec 2020 the Bank recognized a deferred tax receivable in the amount of CZK 25,944 th. arising primarily from the accounting of allowances for loans which will become a reportable expense in subsequent accounting periods.

as of 31 Dec 2019 the Bank recognized a deferred tax receivable in the amount of CZK 34,723 th. arising primarily from the accounting of allowances for loans which will become a reportable expense in subsequent accounting periods under the title of obtaining the banking license.

26. RECEIVABLES AND LIABILITIES FROM FIXED TERM OPERATIONS

(a) Nominal and fair value of fixed term operations

31 Dec 2020 (thousands CZK)	Receivables (off balance sheet)	Liabilities (off balance sheet)	Fair value
<i>Instruments for trading</i>			
Term currency operations	1,787,875	-1,552,219	20,535

31 Dec 2019 (thousands CZK)	Receivables (off balance sheet)	Liabilities (off balance sheet)	Fair value
<i>Instruments for trading</i>			
Term currency operations	565,236	-550,683	8,902

(b) Residual maturity of fixed term operations

The table below contains the division of nominal values of the individual types of financial derivatives according to their residual maturities.

31 Dec 2020 (thousands CZK)	Within 3 months	From 3 months to 1 year	Total
Instruments for trading			
Foreign exchange derivative transactions (receivables)	83,459	1,704,416	1,787,875
Foreign exchange derivative transactions (liabilities)	-83,987	-1,468,232	-1,552,219

31 Dec 2019 (thousands CZK)	Within 3 months	From 3 months to 1 year	Total
Instruments for trading			
Foreign exchange derivative transactions (receivables)	358,786	206,450	565,236
Foreign exchange derivative transactions (liabilities)	-348,840	-201,843	-550,683

c) Hedge accounting

The Bank applied a new fair value hedge of foreign currency ownership interests under currency risk during 2020. The hedging instrument is a spot element of the forward leg of currency swaps.

The Bank considers the hedge effective, provided that:

- there is an economic relationship between the hedged item and hedge instrument;
- the impact of credit risk is not a decisive factor for the change of value arising from this economic relationship;
- the hedge ratio of the hedge is the same as the hedge ratio used for risk management.

On 31 Dec 2020 the bank reported the following hedging derivatives grouped by their residual contractual maturity. As of 31 Dec 2019 the bank did not use any hedging derivatives.

Hedging instrument as of 31 Dec 2020 (thousands CZK)	Less than 1 year	From 1 year to 5 years	More than 5 years	Total
currency risk				
Nominal value	208,675	0	0	208,675
Average exchange rate (EUR/CZK)	26.27	0	0	26.27

On 31 Dec 2020 the bank reports the following values for hedging derivatives:

Hedging instrument as of 31 Dec 2020	Nominal value (th. EUR)	Accounting value (th. CZK)	Item of the balance sheet where the hedging instrument is reported	Change to fair value used in calculation of ineffective portion of hedge (th. CZK)	Ineffectiveness is reported on the profit and loss statement (th. CZK)	Item of the profit and loss statement containing the ineffectiveness
		liabilities				
Currency risk						
Currency swap	7,943	-1,010	Other assets/liabilities	6,633	0	0

On 31 Dec 2020 the bank reports the following values for hedged items:

Hedged item as of 31 Dec 2020	Carrying amount (th. EUR)		Cumulative value of revaluation of hedged item (th. CZK)		Item of the balance sheet where the hedged item is reported	Change to fair value used in calculation of ineffective portion of hedge (th. CZK)	The cumulative value of revaluation of hedged items that have ceased to be modified by profit and loss from hedging (th. CZK)
	assets	liabilities	assets	liabilities			
Ownership interest	7,943	0	6,633	0	Ownership interests with controlling influence	6,633	0

27. OFF-BALANCE SHEET ITEMS

Assurances and guarantees provided

(thousands CZK)	31 Dec 2020	31 Dec 2019
Loan commitments and client lending - irrevocable	829,643*	0
Loan commitments and client lending - revocable	1,101,471	309,376
Guarantees provided - irrevocable	60,364	58,443
Total	1,991,478	367,819

*The provision from irrevocable commitments was not reported due to negligibility (exposures hedged against redemption).

Pledges and collateral received

(thousands CZK)	31 Dec 2020	31 Dec 2019
Cash	230,633	77,491
Real estate	6,289,834	4,408,725
Other security	186,413	283,093
Securities	5,729,000	8,396,000
Total	12,435,880	13,165,309

28. RISK MANAGEMENT: STRATEGIES, GOALS, FINANCIAL INSTRUMENTS

The system and strategies of risk management and the internally stipulated capital of the bank is based on the Strategy of the bank, as well as the size and method of its management. At the time it was created, it took into account the character and complexity of the activities the bank would be performing.

The basic goal of risk management is to maximize revenue in relation to risk undertaken, while taking into account the risk appetite of the bank.

The bank specifies goals that it wishes to achieve in the established timeframe for internal capital adequacy (i.e. at what ratio the risk should be covered by internal capital) and the limits below which internal capital adequacy should not fall.

As part of the risk management process, the bank identifies risks undertaken, analyzes, measures, monitors, and reports them (through the Risk Management division), and takes commensurate decisions and measures, including their prudential hedging using capital resources (primarily via the Board).

The Board of the bank regularly monitors the current level of risks undertaken and on the basis of an assessment of the situation takes measures in the bank’s activities that lead to fulfilling risk management goals, i.e. the optimization of the level of risk undertaken in relation to capital resources and the stated commercial goals of the bank. For the purpose of ensuring the fulfillment of this goal, the board may set further limitations on the amount of risk undertaken on the basis of its own rating, however always and only beyond the scope of regulatory requirements.

28. A - FINANCIAL INSTRUMENTS – CREDIT RISK

Credit risk is the risk of losses incurred by the bank arising from default by a contracting party who does not perform obligations stipulated by the conditions of the contract by which the bank became the creditor of the party.

The bank is exposed to credit risk in particular from the provision of loans and credit, investments in securities, and credit facilities. Based on the character of its activities, the Bank considers these to be the most significant. The goal of the process of managing credit risk is to ensure the identification of the credit risks undertaken by the bank as part of its activities in the most effective way possible, to determine the amounts of these risks, to analyze their status and trends, and to take measures for long-term optimization of financial risks and income from bank activities.

28. A1 - credit risk of the investment portfolio

The bank ensures through its organizational structure that the management of credit risk and the approval of credit transactions is performed independently in business divisions. The dominant elements are assessing creditworthiness and formulating a rating of the client and an assessment of the credit transaction.

The process of formulating a Rating of the client is part of the credit analysis process. The system of internally specified rating levels serves for a simple and easy-to-use representation of the creditworthiness of clients, both when reviewing and approving new credit cases and during regularly annual reviews of credit cases (counterpart risk). The Rating of the client represents a summary of their credit assessment, transaction history, and classification in the bank, the existence of credit assessments of external rating companies, as well as other risk-relevant information about the client from internal and external sources. The Rating of the client does not take into account collateral or other facilities and tools limiting credit risk.

When assessing the credit transaction, the bank assesses the credit transaction on an individual basis, taking into account its size and complexity. At the same time, the following are assessed as part of the system for performing transactions depending on product and client type, over a timeframe taking into account the maturity of the exposure:

- a) the financial and economic situation of the client,
- b) the purpose of performing the transaction,
- c) repayment resources including the ratio of the value of the exposure to the income/funds of the client and including an assessment of the term and obligatory force of these income/funds,
- d) the quality and adequacy of collateral,
- e) the situation in the economic industry of the client; if the exposure is secured with asset collateral, the bank also takes into account the ratio of the exposure to the value of the collateral (loan to value),
- f) macroeconomic conditions in the government of the client’s registered office including the phase of the economic cycle,
- g) the conditions under which the transaction is to be carried out,
- h) decisive law, including international law, if it will come into play, and
- i) in the event of financing a specific asset, the ratio of equity used by the client toward the value of this asset.

At the debt portfolio level the bank regularly analyzes trends and any mutual relationships. To assess the impacts of significantly unfavorable loan conditions, the bank conducts stress testing and reflects its results in capital coverage as part of Pillar 2.

Collateral

The accounting entity generally requires collateral for loans provided for certain debtors before providing them. The accounting entity considers the following types of collateral to be acceptable security reducing gross credit exposure for the purposes of calculating allowances:

- Real estate
- Movable property
- Cash
- Securities
- Credit claims
- Bank guarantees
- Guarantee of third party credit

The achievable amount of collateral is specified for the purposes of calculating the allowances of the accounting entity using expert appraisals or internal ratings prepared by a special division of the accounting entity. The Bank performs regular revaluation of the value of the hedge.

Conditions for consideration of collateral

The accounting entity takes into account collateral when specifying the amount of allowances and provisions, provided that

- a) the collateral and the principles applied and process used therewith lead to reduction of the credit risk substantiate claims which are legally applicable and enforceable in all legislation decisive for claims from the collateral,
- b) risks that are or could be incurred in connection with the collateral under consideration are managed in a commensurate manner; if the collateral is an immovable item, such an immovable item is sufficiently insured against damages,
- c) the full assessment of credit risk associated with the given exposure is performed regardless of whether collateral is recognized,
- d) the collateral is unredeemable at a reasonable time within a reasonable term at least at the value it was considered during a calculation of allowances and provisions,
- e) in the event of the default of the debtor or any person who has assumed safekeeping of the collateral for storage or management, particularly if a decision has been issued on the bankruptcy of any such persons, or if another cited credit event has occurred, it is entitled to satisfy its claim within a reasonable timeframe from the decisive event,
- f) the level of correlation between the value of collateral and the credit quality of the debtor is insignificant,
- g) the provider of personal collateral is sufficiently trustworthy as to provide adequate certainty that the level of reduction of credit risk achieved corresponds to the level to which this reduction is reflected in the amount of allowances and provisions,
- h) it has articulated and applied clear criteria for assessing the capability of providers of personal collateral, and
- i) the extent of the collateral is clear and undisputed, the security agreement does not contain any provisions outside the direct control of the liable party, and the security obligation has been properly documented.

(I) Kategorizace finančních aktiv a stanovení očekávaných úvěrových ztrát

Financial assets are classified into three stages in terms of their risk profile:

Level 1

Financial assets in Level 1 represent financial assets as of initial recognition (except for POCI), financial assets for which no significant increase in credit risk (SICR) or impairment of the financial assets has occurred when compared to the date of first reporting, and financial assets for which SICR factors have been absent for a minimum of 3 months. For financial assets classified in Level 1, the Bank reports a loss allowance in the amount of 12M ECL and interest revenue is calculated using EIR from the gross exposure of the financial asset.

Level 2

Financial assets in Level 2 represent financial assets for which SICR has been incurred compared to the date of first reporting, but which do not meet the conditions for Impaired Financial Assets as of the reporting date, as well as financial assets to which the factors of Impaired Financial Assets have not applied for a period of at least 3 months. For financial assets classified at Level 2, the Bank reports a loss allowance in the amount of LT ECL and interest revenue is calculated using EIR from the gross exposure of the financial asset.

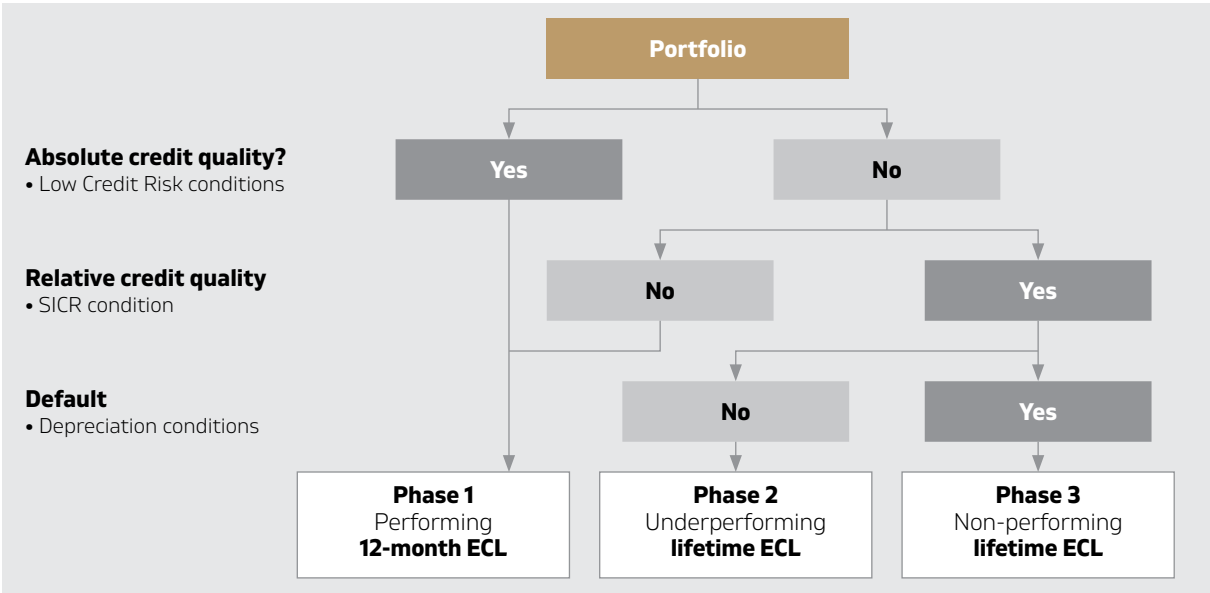
Level 3

Financial assets in Level 3 represent financial assets which as of the reporting date meet the conditions of Impaired Financial Assets. For financial assets classified in Level 3, the Bank reports a loss allowance in the amount of LT ECL and interest revenue is calculated using EIR from the net exposure of the financial asset (i.e. gross exposure minus the relevant LT ECL).

POCI

Financial assets that meet the conditions of POCI as of the date of initial recognition. For financial assets classified at the POCI level, the Bank reports a loss allowance in the amount of LT ECL and interest revenue is calculated using modified EIR from the gross exposure of the financial asset.

The Bank classifies the exposure of financial assets in the above defined levels of risk according to the following scheme:



Definitions

Low credit risk (absolute credit quality) - the credit risk of the financial instruments of the bank is considered low if the given financial instrument has a low risk of default. The debtor in this case has a strong capability to perform their obligations in the area of contractual cash flows in the near future and unfavorable changes of economic and commercial conditions over the long term may, but need not necessarily, reduce the capability of the debtor to fulfill obligations in the area of contractual cash flows. Financial instruments are not considered financial instruments with low credit risk if there is a low risk of loss under consideration solely as the result of collateral value and where the given financial instrument would not be considered a financial instrument with low credit risk without this collateral. Financial instruments are also not considered financial instruments with low credit risk solely for the reason that they have a lower risk of default than other financial instruments of the accounting entity, or in relation to credit risk of the jurisdiction in which this accounting entity operates. Financial assets meeting the definition of Low Credit Risk are classified as Level 1 as part of the ECL model.

Significant increase in credit risk (“SICR”) - a substantial increase in default risk for a financial instrument as of the date of reporting when compared with the risk as of the date of initial recognition.

Upon detecting SICR, the bank operates from the requirements of IFRS 9. These requirements are based on the assumption that the credit risk typically increases significantly before the financial asset becomes past due or other other delinquency indicators are observed (e.g. restructuring). The Risk Management division assesses at least by the end of the given calendar quarter whether or not the credit risk associated with a financial asset has substantially increased since initial recognition.

The Bank may conclude that credit risk associated with a financial instrument has not increased substantially since initial recognition if it reaches the conclusion that the credit risk is low for the given financial instrument as of the reporting data (according to the definition of low credit risk – see above).

When assessing SICR for a financial instrument from initial recognition, the Bank operates from all reasonable and verifiable information that it has available without expending unreasonable expenses or effort.

Financial assets for which a SICR has been incurred are classified as Level 2 or Level 3 in the ECL model, provided they also meet some of the criteria for Impaired Financial Assets (see below).

Impaired financial asset – A financial asset is credit impaired if one or more events have occurred that have an unfavorable impact on expected future cash flows, that are connected with the given financial asset, or that have an unfavorable impact on the current or anticipated ability of a debtor to perform their obligations. Financial assets that meet the definition of Impaired Financial Assets are classified as Level 3 in the ECL model, or in the POCI category (see below) if the factors in question have been fulfilled as of the date of reporting the financial asset.

Purchased or originated financial assets that are credit-impaired on initial recognition (“POCI”) – a financial asset that is credit-impaired already at initial recognition. This consist of the above cases of first reporting of financial assets for which the factors defined in the Impaired Financial Asset section have occurred, or financial assets undergoing a substantial modification that will not result in a significant reduction of the risk profile of the newly recognized financial asset.

Expected credit loss - the weighted ratio of credit losses, differentiating the following:

- 12 month expected credit loss (12M ECL) - the portion of expected credit loss for the term representing expected credit loss originating as a result of default of the financial instrument that could occur during the first 12 months from date of recognition.
- Lifetime expected credit loss (LT ECL) - expected credit loss that originates as a result of all possible failures to perform obligations during the expected term of the financial instrument.

The calculation of ECL for Level 3 is performed on the basis of expected future cash flows, taking into account the execution of collateral

Probability of default (“PD”) – an estimate of the probability that a debtor will not be capable of performing their obligations.

Exposure at default (“EAD”) – The term exposure at default (EAD) is defined as the overall borrowed amount at the moment the client defaults. EAD over time is specified by the formula:

$$EAD_t = On_balancet + CCF \times Off_balancet,$$

where **On_balancet** is the current amount claimed over time **t**, **Off_balancet** is the current unclaimed amount. **CCF** is a parameter known as Credit Conversion Factor expressing the expected amount of unclaimed amount up to the amount of the approved scope which the client claims prior to default. This parameter plays a role solely for products with non-zero off balance item.

Loss given default (“LGD”) – the term loss given default (LGD) refers to losses from exposure in the event of client default to the amount owed at the moment of default.

Forward-looking information (FLI) - the accounting entity incorporates forward-looking information while assessing whether or not the credit risk of a financial instrument has substantially increased since initial recognition, and when determining expected credit losses.

Based on the recommendation of the committee for managing market risk and economic experts and taking into account various external actual and estimated information, the accounting entity has specified a “basic scenario” projecting trends of relevant economic indicators and also other possible future scenarios. This process includes the creation of two additional scenarios and specifying the probability for each outcome.

External information includes economic data and predictions published by the Czech National Bank and Czech Statistics Office.

For more information about future outlook, see point 2(p).

Modified financial assets

The contractual conditions of the loan may be modified for various reasons, e.g. due to change of market conditions, retaining a customer/debtor, and other factors that do not relate to the current or potential credit worsening of the customer/debtor. An existing loan whose conditions have been modified may be derecognized and the negotiated loan reported as a new loan at fair value.

If the conditions of the financial asset are modified and this modification does not lead to derecognition, then the assessment of whether the credit risk has increased significantly is performed by comparing:

- probability of default (PD) for the remaining maturity specified as of the balance sheet date on the basis of modified conditions; with
- probability of default (PD) for the remaining maturity estimated on the basis of data as of initial recognition and original contractual conditions.

The accounting entity again discusses the loans with customers in financial difficulties (see relief to debtors) in order to maximize the possible return on investment of the loan and to minimize the risk of default. Relief is provided on an individual basis, provided that

- the debtor is currently in default or there is a high risk of default,
- it is clear that the debtor has exerted all commensurate effort to repay under the original contractual conditions
- and it is expected that the debtor will be capable of upholding the newly established (modified) contractual conditions.

Modified contractual conditions typically include:

- extending payment periods,
- reducing interest rates,
- change of timing of interest payments or
- modification of covenants.

(a) Reconciliation of initial and final balances of allowances

(thousands CZK)	Level 1	Level 2	Level 3	Total
Receivables from clients measured at amortized cost	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Balance as of 1 Jan 2019	11,549	23,251	256,473	291,273
Transfer to 12 month ECL (level 1)	0	0	0	0
Transfer to lifetime ECL (level 2)	-937	937	0	0
Transfer to lifetime ECL (level 3)	0	-1,842	1,842	-1,842
Newly provided or purchased	4,447	2,186	0	6,634
Derecognition of financial assets	-6,967	-1,133	-85,986	-94,086
Remeasurement and changes to models/risk parameters	-371	-8,349	10,240	1,520
Balance as of 31 Dec 2019	7,722	15,050	182,569	205,341
Transfer to 12 month ECL (level 1)	0	0	0	0
Transfer to lifetime ECL (level 2)	-104	104	0	0
Transfer to lifetime ECL (level 3)	0	-2,463	2,463	0
Newly provided or purchased	2,052	2,122	0	4,174
Derecognition of financial assets	-4,920	-2,079	-1,067	-8,066
Remeasurement and changes to models/risk parameters	-349	13,406	41,174	54,231
Balance as of 31 Dec 2020	4,401	26,140	225,139	255,680

(thousands CZK)	Level 1	Level 2	Level 3	Total
Debt securities	12 month ECL	ECL for the term for financial assets that are not credit impaired	ECL the term for financial assets that are credit-impaired	
Balance as of 1 Jan 2019	0	0	0	0
Newly provided or purchased	208	0	0	208
Balance as of 31 Dec 2019	208	0	0	208
Newly provided or purchased	16,720	0	0	16,720
Balance as of 31 Dec 2020	16,928	0	0	16,928

(b) Maximum exposure to credit risk

31 Dec 2020 (thousands CZK)	Balance sheet	Off balance sheet	Exposures to credit risk total	Collaterals received*	Main type of security
Loans and receivables from banks	651,101	0	651,101	0	n/a
Loans and receivables from clients	6,999,370	829,643	7,829,013	6,706,880	Real estate
Issued guarantees and credit limits for guarantees	0	60,364	60,364	0	n/a
Issued accreditives	0	0	0	0	n/a

31 Dec 2019 (thousands CZK)	Balance sheet	Off balance sheet	Exposures to credit risk total	Collaterals received*	Main type of security
Loans and receivables from banks	607,514	0	607,514	0	n/a
Loans and receivables from clients	5,319,373	0	5,319,373	4,769,309	Real estate
Issued guarantees and credit limits for guarantees	0	58,443	58,443	0	n/a
Issued accreditives	0	0	0	0	n/a

* Provision of security is defined as a realizable value of security applicable for each credit exposure. For the purposes of this overview, the realizable value of the security for receivables from clients is limited to the amount of the gross of the above receivables from clients of individual receivables to which the given security applies.

(c) Quantitative information on collateral for credit impaired financial assets (Level 3)

Division of collateral by loan receivables in level 3 under LTV:

(thousands CZK)	31 Dec 2020	31 Dec 2019
51% - 70%	85,045	10,220
Less than 50%	26,512	109,687
More than 70%	836,389	980,185
Total	947,946	1,100,091

(II) Rating collateral of loans

The bank generally requires collateral of loan receivables from debtors as a condition of providing a loan depending on the creditworthiness of the client. In so doing it applies the following methods for securing receivables:

- pledge over immovable property
- pledge over claim from deposit
- pledge over movable property (including supplies)
- pledge over receivables
- pledge over securities tradable on the public market
- pledge over securities (non-tradable)
- pledge over business share
- pledge over subjects of intellectual property
- pledge over sets of items (e.g. pledge over plant)
- third party guarantee
- bill of exchange
- aval
- bank guarantee
- recognition of debt
- assignment of debt to a third party (co-debtor obligation)
- hedging transfers of rights
- hedging assignment of receivables
- subordination of debt (subordination of other liabilities after liabilities to the bank) subordination agreement
- agreement to recognize the debt in the form of notarial protocol with consent to enforce

When specifying the realizable value of security (expected yield from realizing security), the bank operates from external valuation or from internal revisions to external valuation prepared by the Risk Management department. The value of the security is reduced by the coefficient(s) specified by the internal regulations of the bank. The full value of the security is recognized only for fully liquid security provided in monetary form.

(III) Collecting receivables from debtors

The bank has a Workout department that manages receivables whose return is in danger. This department takes legal action, non-judicial collections, restructuring of receivables, assignment of receivables, and realization of collateral for the purpose of achieving maximum yield.

(IV) Securitization and use of credit derivatives

The bank did not perform any securitization of receivables as of 31 December 2020 or 31 December 2019.

(V) Loan portfolio quality

The structure of the quality of the loan portfolio is stated in point 12 (a) of the annex.

28. A2 - concentration risk

Concentration risk is the risk of losses arising from substantial concentrations, particularly substantial concentration of exposures to a single person or group of economically affiliated persons, or a concentration of exposures to a group of persons where the probability of default is influenced by a common risk factor, for example the same type of economic activity, market, region, issuer of securities, etc. or a concentration arising as a result of the use of techniques for reducing credit risk, particularly in the case of substantial indirect involvement, for example to one issuer of securities received as collateral.

The bank regularly assesses, monitors, and mitigates concentration risk in relation to its relevant resources or covers it with capital as part of Pillar 2.

■ Analysis of receivables from clients according to geographical area

(thousands CZK)	31 Dec 2020	31 Dec 2019
Czech Republic	7,219,926	5,490,253
Slovak Republic	12,404	12,404
Other EU states	22,720	22,057
Total	7,255,050	5,524,714

No allowances are taken into account in the analysis.

The share of all income of the bank generated from assets in the Czech Republic exceeds 99% as of 31 Dec 2020 (99% as of 31 Dec 2019).

28. B - FINANCIAL INSTRUMENTS – MARKET RISK

Market risk is the risk of loss arising from a change in market prices, interest rates, and exchange rates. It is a summary term for general interest and stock risk, currency risk, commodity risk, and other risks associated with movement of market prices.

28. B1 - currency risk

The bank limits its positions in foreign currencies to the extent that the resulting currency risk is marginal. In the interests of maintaining maximum prudence, however, the bank covers even this extent with capital as part of Pillar 2.

Foreign exchange positions

As of 31 Dec 2020

Assets (thousands CZK)	CZK	EUR	USD	Other	Total
Cash in hand and balances with central banks	5,979,781	10,123	2,244	67	5,992,215
Receivables from banks and credit unions	384,295	217,865	42,876	6,065	651,101
Receivables from clients	6,353,441	637,363	8,567	0	6,999,370
Debt securities	1,607,266	1,081,036	0	0	2,688,302
Shares, units, and other investments	50,000	0	0	0	50,000
Other	828,468	246,536	47,051	0	1,122,055
Total balance sheet	15,203,250	2,192,923	100,738	6,132	17,503,043
Long positions of off-balance sheet instruments	1,704,416	83,459	0	0	1,787,875
Total	16,907,666	2,276,382	100,738	6,132	19,290,918

Liabilities (thousands CZK)	CZK	EUR	USD	Other	Total
Payables to banks and credit unions	118,648	220,290	0	0	338,938
Liabilities to clients	14,513,903	216,784	38,312	5,899	14,774,898
Subordinated liabilities	314,489	0	0	0	314,489
Other	1,854,579	158,192	61,943	3	2,074,718
Total balance sheet	16,801,619	595,267	100,256	5,902	17,503,043
Short positions of off-balance sheet instruments	83,987	1,676,907	0	0	1,760,894
Total	16,885,606	2,272,174	100,256	5,902	19,263,938

Net foreign exchange position*	22,060	4,208	483	230	26,980
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As of 31 Dec 2019

Assets (thousands CZK)	CZK	EUR	USD	Other	Total
Cash in hand and balances with central banks	8,826,088	6,518	4,988	64	8,837,658
Receivables from banks and credit unions	274,293	233,072	94,294	5,855	607,514
Receivables from clients	4,870,642	443,606	5,125	0	5,319,373
Debt securities	50,507	0	0	0	50,507
Other	1,095,648	201,892	70,125	0	1,367,665
Total balance sheet	15,117,178	885,088	174,532	5,919	16,182,717
Long positions of off-balance sheet instruments	565,236	0	0	0	565 236
Total	15,682,414	885,088	174,532	5,919	16,747,953

Liabilities (thousands CZK)	CZK	EUR	USD	Other	Total
Payables to banks and credit unions	64,604	59,224	0	0	123,828
Liabilities to clients	13,743,335	274,712	99,402	4,266	14,121,715
Other	1,861,561	317	75,296	0	1,937,174
Total balance sheet	15,669,500	334,253	174,698	4,266	16,182,717
Short positions of off-balance sheet instruments	0	550,683	0	0	550,683
Total	15,669,500	884,936	174,698	4,266	16,733,400

Net foreign exchange position*	12,914	152	-166	1,653	14,553
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28. B2 - investment portfolio interest rate risk

Interest rate risk is incurred during incompatible volume of interest-bearing assets and liabilities (including off-balance sheet items, i.e. particularly approved as yet unclaimed irrevocable credit facilities) in various effective repayments, i.e. in repayments with fixed interest or interest rate refixation terms with instruments carrying variable interest, after taking into account behavioral prerequisites (for accounts without specific fixation dates) and influence of automatic options (on the part of the bank and the clients).

For the needs of managing investment portfolio interest rate risk, the bank measures its exposures to interest rate risk on the basis of scenarios of potential changes in the amount and shape of the interest rate yield curve, as well as on the basis of a scenario of historic basis risk shock between to interest rates. It conducts this measurement both in terms of changes in net interest income and in terms of changes in the economic value of the capital.

The bank regularly analyzes the interest positions of its portfolio, quantifies the scope of the underlying risks, mitigates these risks with limits, evaluates the commensurate internally stipulated capital current and future requirement as part of Pillar 2, and covers them with capital and capital reserves.

Summary of assets and liabilities according to the date of interest rate change or maturity

As of 31 Dec 2020

Assets (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Cash in hand and balances with central banks	5,992,215	0	0	0	0	5,992,215
Receivables from banks and credit unions	425,647	225,454	0	0	0	651,101
Receivables from clients	989,188	815,848	4,235,126	959,208	0	6,999,370
Debt securities	0	0	606,574	2,081,728	0	2,688,302
Total	7,407,050	1,041,301	4,841,700	3,040,936	0	16,330,987
Liabilities (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Payables to banks and credit unions	111,961	0	226,977	0	0	338,938
Liabilities to clients	12,080,626	1,293,407	1,400,865	0	0	14,774,898
Subordinated liabilities	0	0	0	314,489	0	314,489
Total	12,192,587	1,293,407	1,627,842	314,489	0	15,428,325
Gap	-4,785,537	-252,106	3,213,858	2,726,447	0	902,662
Cumulative gap	-4,785,537	-5,037,643	-1,823,785	902,662	902,662	902,662

As of 31 Dec 2019

Assets (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Cash in hand and balances with central banks	8,837,658	0	0	0	0	8,837,658
Receivables from banks and credit unions	526,274	81,240	0	0	0	607,514
Receivables from clients	828,026	865,911	3,122,035	503,401	0	5,319,373
Debt securities	0	507	50,000	0	0	50,507
Total	10,191,958	947,658	3,172,035	503,401	0	14,815,052
Liabilities (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Payables to banks and credit unions Advances	64,604	0	59,224	0	0	123,828
Liabilities to clients	11,761,509	1,835,189	525,017	0	0	14,121,715
Total	11,826,113	1,835,189	584,241	0	0	14,245,543
Gap	-1,634,155	-887,531	2,587,794	503,401	0	569,509
Cumulative gap	-1,634,155	-2,521,686	66,108	569,509	569,509	569,509

The above summary includes only interest-sensitive assets and liabilities.

The following table lists the undiscounted cash flows from the financial liabilities of the Bank on the basis of their minimum possible contractual maturity date.

As of 31 Dec 2020 (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Payables to banks and credit unions	111,994	0	227,771	0	0	339,765
Liabilities to clients	12,086,465	1,297,158	1,413,053	0	0	14,796,675
Subordinated liabilities	0	0	0	363,549	0	363,549
Total	12,198,459	1,297,158	1,640,824	363,549	0	15,499,990

As of 31 Dec 2019 (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Payables to banks and credit unions	64,642	0	59,639	0	0	124,280
Liabilities to clients	11,774,251	1,847,118	535,255	0	0	14,156,623
Total	11,838,892	1,847,118	594,893	0	0	14,280,903

The following table is based on exposures to interest rates for derivatives and non-derivative instruments as of the balance sheet date. This model presumes a fixed structure of the balance sheet according to interest sensitivity. Specified changes that occurred at the beginning of the year are constant in the course of the reported period, i.e. the model is based on the assumption that resources released by repayment or sale of interest-bearing assets and liabilities will be reinvested into assets and liabilities with the same interest rate sensitivity and residual maturity. The table below depicts the impact on the profit and loss statement and equity of the accounting entity if the Czech crown and Euro yield curve at the beginning of a given year were to increase/decrease sharply by 100 basis points and on the assumption that other interest rates remain unchanged.

(thousands CZK)	2020 Interest rate growth by 100 basis points	2020 Interest rate drop by 100 basis points
Impact on profit and loss statement	+9,027	-9,027
Impact on equity	+9,027	-9,027

(thousands CZK)	2019 Interest rate growth by 100 basis points	2019 Interest rate drop by 100 basis points
Impact on profit and loss statement	+5,695	-5,695
Impact on equity	+5,695	-5,695

28. B3 - stock and commodity risk

Stock risk is risk of the fluctuation in the prices of stock instruments held in the portfolio of the Bank and financial derivatives derived from these instruments. The main source of this risk is trading with stock instruments, even when a certain part of stock risk is also created due to the non-commercial activities of the accounting entity. The Bank is not exposed to substantial stock risk, as it does not have any material stock positions open.

28. C - FINANCIAL INSTRUMENTS – LIQUIDITY RISK

Liquidity risk is a risk that the bank will lose the ability to meet its financial obligations at the time they come due, or that it will not be capable of financing its assets.

In order to mitigate liquidity risk, the bank optimizes its cash flows over the short-term, medium-term, and long-term, with the objective of being capable at every moment to cover needs arising from the payment orders of its clients and to settle commercial transactions on its own account.

When managing liquidity risk, the bank uses two types of scenarios, the basic scenario, based on the expected development of the bank, and an alternative scenario. Alternative scenarios include an established risk scenario, supplemented with a set of stress scenarios, taking into account the trend during potential extremely unfavorable conditions. In order to retain an optimal volume of liquid assets and sufficiently liquid reserves, the bank specifies a set of indicators and limits for ensuring a commensurate level of liquidity.

The bank has prepared an emergency plan for the event of a liquidity crisis, which specifies the method of managing liquidity risk under exceptional crisis conditions. It is approved by the board. It includes in particular conditions for the use, types, and volumes of assets prepared to support liquidity, as well as specified information flows, authority, and responsibility.

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As of 31 Dec 2020

Assets (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Cash in hand and balances with central banks	5,992,215	0	0	0	0	5,992,215
Receivables from banks and credit unions	425,647	225,454	0	0	0	651,101
Receivables from clients	989,188	815,848	4,235,126	959,208	0	6,999,371
Debt securities	0	0	606,574	2,081,728	0	2,688,302
Shares, units, and other investments	0	0	0	0	50,000	50,000
Other	258,519	60,869	0	0	802,667	1,122,055
Total	7,665,569	1,102,170	4,841,701	3,040,936	852,667	17,503,043

Liabilities (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Payables to banks and credit unions	111,961	0	226,977	0	0	338,938
Liabilities to clients	12,080,626	1,293,407	1,400,865	0	0	14,774,898
Other	228,240	9,236	0	314,489	1,837,242	2,389,207
Total	12,420,827	1,302,643	1,627,842	314,489	1,837,242	17,503,043

Gap	-4,755,258	-200,473	3,213,859	2,726,447	-984,575	0
Cumulative gap	-4,755,258	-4,955,731	-1,741,872	984,575	0	0

As of 31 Dec 2019

Assets (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Cash in hand and balances with central banks	8,837,658	0	0	0	0	8,837,658
Receivables from banks and credit unions	526,274	81,240	0	0	0	607,514
Receivables from clients	828,026	865,911	3,122,035	503,401	0	5,319,373
Debt securities	0	507	50,000	0	0	50,507
Other	454,742	126,636	0	0	786,287	1,367,665
Total	10,646,700	1,075,294	3,172,035	503,401	786,287	16,182,717

Liabilities (thousands CZK)	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Without specification	Total
Payables to banks and credit unions	123,828	0	0	0	0	123,828
Advances						
Liabilities to clients	11,761,509	1,835,189	525,017	0	0	14,121,715
Other	172,034	11,797	16,150	0	1,737,193	1,937,174
Total	12,057,371	1,846,986	541,167	0	1,737,193	16,182,717

Gap	-1,410,671	-772,199	2,630,868	503,401	-950,906	0
Cumulative gap	-1,410,671	-2,183,870	447,505	950,906	0	0

Receivables from clients categorized as “Without specification” represent receivables from clients that are past due.

The above table presents the residual maturity of carrying amounts of individual financial instruments, not all cash flows derived from these instruments.

The balances stated in the tables above are calculated and reported as follows:

Type of financial instrument	Methods, assumptions, and reasons for determining residual contractual maturity
Non-derivative financial instruments	Undiscounted cash flows that include estimated interest payments.
Issued financial guarantees and unrecognized credit facilities	The earliest moment/period for which a payment obligation could be incurred by the accounting entity. In the case of financial guarantees, the maximum amount of the financial guarantee is allocated to the earliest period (time bucket) in which the financial guarantee is applied.
Derivative financial instruments retained due to risk management	Contractual undiscounted cash flows The values stated represent gross nominal cash flows from derivatives not settled on a net basis (e.g. forwards, currency swaps, etc.) and net nominal cash flows settled on a net basis.
Derivatives that are part of the portfolio where the given derivative positions are presumed to be closed prior to their contracted maturity date	Fair value as of balance sheet date. The reason is the fact that contracted maturity does not reflect liquidity risk from these exposures because there is an assumption that these derivative will be executed prior to the date of their contractual maturity date. These fair values are reported in the time bucket “less than one month”.
Trading derivatives, which the accounting entity has entered into with its customers.	Contractual undiscounted cash flows The reason is the fact that these derivatives typically are not executed prior to their contractual maturity date, and therefore the accounting entity presumes that the contractual maturity date is key for grasping the timing of cash flows associated with these derivatives.

Expected cash flows from certain financial instruments may differ significantly from contractual cash flows. The main differences are as follows:

- deposits due on demand are expected to remain stable or increase;
- credit facilities are not expected that would be claimed in a single moment;

Liquid reserves

As part of managing liquidity risk arising from financial liabilities, the accounting entity holds part of the assets in highly liquid instruments such as:

- cash in hand
- deposits with the CNB
- treasury bills
- treasury bonds

Apart from the above, the accounting entity retains open loan commitments with the central bank and other banks.

The accounting entity includes in its liquid reserves only financial assets that are not provided as security at the given moment as part of e.g. reverse repo operations, etc.

The following table shows the individual components of liquid reserves:

(thousands CZK)	31 Dec 2020	31 Dec 2019
Cash in hand and balances with central banks	5,992,215	8,837,658
Treasury bonds	943,783	0
Total	6,935,998	8,837,658

Stress testing

The accounting entity performs regular stress testing of interest, currency, share, and liquidity risks by applying historical scenarios of substantial movements on the financial markets and internally defined unlikely scenarios, and models their impact against the profit or loss of the accounting entity. The accounting entity has set limits for these stress scenarios that are part of the risk management process. More information about the individual risks is described below.

28. D - FINANCIAL INSTRUMENTS – OPERATING RISK

Operating risk is the risk of incurring a loss due to inadequacy or failure of internal processes, the human factor or systems, or the risk of incurring a loss due to external factors, including legal risk.

The goal of managing operating risk at the bank is to minimize this risk when securing the required level of activities. This goal is ensured in particular by settings of monitoring systems that each managing employee applies as part of their managerial authority.

The main aggregating resources for managing the operating risk of the bank are a map of operating risks and a database of operating risk events of the bank. Initial data of the map of operating risk provides an integrated and multi-level aggregated overview of the scope of the operating risk undertaken by the bank, enabling the directions of the process of further mitigating this risk to be specified, on the basis of which commensurate measures are taken.

For the need for timely signaling of potential significance of operating risk, the bank uses key risk indicators (KRIs).

28. E– FINANCIAL INSTRUMENTS – OTHER RISKS

28. E1 - excessive leverage risk

The risk of excessive leverage is a risk that arises from vulnerability of the bank due to leverage or committed leverage that could require unintentional correction of its business plan, including sale of assets under duress which could lead to losses or adjustments to the valuation of its remaining assets.

In the event of leverage risk the bank defines the relative volume of its assets, off-balance sheet liabilities, and contingent liabilities to pay, add or provide collateral, including liabilities arising from accepted funds, commitments given, derivatives or repos, yet with the exception of liabilities that can be collected only in the event of liquidation of the bank in proportion to the capital of the bank

The bank regularly monitors the adequacy of the leverage ratio indicator.

The value of the leverage ratio as of 31 Dec:

	31 Dec 2020	31 Dec 2019
Leverage ratio	8,43%	9,62%

29. FAIR VALUE

The measurement of fair value is analyzed according to the level in the Fair Value Hierarchy as follows: (i) level one are measurements at quoted prices (unmodified) on active markets for the same assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs (i.e. such as prices) or indirectly (i.e. derived from prices), iii) the third level are measurements which are not based on comparable market data (i.e. unobservable input information). Company leadership uses a judgment in the categorization of financial instruments using the Fair Value Hierarchy.

If the measurement of fair value uses comparable inputs that require substantial adjustment, this measurement is considered Level 3. The importance of valuation is assessed in relation to the estimation of fair value in full.

(a) Financial instruments not reported at fair value on the balance sheet

The following table reports the carrying amounts and fair values of financial assets and financial liabilities not recognized at fair value on the balance sheet:

As of 31 Dec 2020 (thousands CZK)	Total fair value	Total carrying amount
Cash in hand and balances with central banks	5,992,215	5,992,215
Receivables from banks and credit unions	651,398	651,101
Receivables from clients	7,029,909	6,999,370
Debt securities	1,910,496	1,936,301
Other assets	308,576	308,576
Total financial assets	15,892,594	15,887,563

As of 31 Dec 2020 (thousands CZK)	Total fair value	Total carrying amount
Payables to banks and credit unions	338,938	338,938
Liabilities to clients	14,751,801	14,774,898
Subordinated liabilities	289,630	314,489
Other liabilities	239,019	239,019
Total financial liabilities	15,605,652	15,667,345

As of 31 Dec 2019 (thousands CZK)	Total fair value	Total carrying amount
Cash in hand and balances with central banks	8,837,658	8,837,658
Receivables from banks and credit unions	607,701	607,513
Receivables from clients	5,342,146	5,319,373
Debt securities	51,500	50,507
Other assets	566,435	566,435
Total financial assets	15,405,440	15,381,486

As of 31 Dec 2019 (thousands CZK)	Total fair value	Total carrying amount
Payables to banks and credit unions	123,828	123,828
Liabilities to clients	14,107,992	14,121,715
Other liabilities	198,186	198,186
Total financial liabilities	14,430,006	14,443,729

(b) Financial instruments reported at fair value on the balance sheet

As of 31 Dec 2020 (thousands CZK)	Level FV 1	Level FV 2	Level FV 3	Total fair value	Total carrying amount
Debt securities	752,001	0	0	752,001	752,001
Shares, units, and other investments	50,000	0	0	50,000	50,000
Other assets – positive value of derivatives	0	22,391	0	22,391	22,391
Other liabilities – negative value of derivatives	0	-2,867	0	-2,867	-2,867
Total financial assets	802,001	19,524	0	821,525	821,525

As of 31 Dec 2019 (thousands CZK)	Level FV 1	Level FV 2	Level FV 3	Total fair value	Total carrying amount
Other assets – positive value of derivatives	0	8,902	0	8,902	8,902
Total financial assets	0	8,902	0	8,902	8,902

There were no shifts between levels in 2020 or in 2019.

The bank did not have any financial liabilities in 2020 or 2019 that would be reported on the balance sheet at fair value.

The accounting entity uses the following inputs and techniques to estimate fair value:

Cash in hand and balances with central banks

Carrying amount equal to fair value. These financial assets are categorized at Level 2 in the Fair Value Hierarchy.

Receivables from banks and credit unions

Due to the short maturity of these receivables, the carrying amount approximates their fair value. These financial assets are categorized at Level 2 in the Fair Value Hierarchy.

Receivables from clients

The estimated fair value of credits is based on discounted expected cash flows, using an interest rate valid for credits connected with similar credit risk, interest rate risk, and similar maturity. For extinguished loans the net present value of future expected cash flows is used, including expected revenues from realization of any collateral.

When determining an estimate of cash flows used for discounting, assumptions are used taking into account the expected progress of repayment for a specific product or group of products. Discount rates used for discounting are based on rates of main competitors or other comparable rates for similar types of assets.

These financial assets are categorized at Level 3 in the Fair Value Hierarchy.

Other assets

The bank values financial derivatives at fair value. The fair value of financial derivatives is determined as the current value of expected cash flows arising from these transactions. Parameters determined on the active market are used to establish the net present value, such as forex rates, interest rates for the given maturities on the basis of yield curves, etc. These financial assets are categorized at Level 2 in the hierarchy of fair values.

Debt securities

These financial assets are categorized at Level 1 in the Fair Value Hierarchy because their fair value is based on quoted prices on the active market.

Payables to banks and credit unions

Due to the short maturity of these liabilities, the carrying amount approximates their fair value. These financial liabilities are categorized at Level 2 in the Fair Value Hierarchy.

Liabilities to clients

The fair value of deposits due on demand and term deposits with variable interest rates is equal to the accounting value of these deposits as of the balance sheet date.

The fair values of deposits with fixed interest rate are estimated on the basis of discounted cash flows using market interest rates. These financial liabilities are categorized at Level 3 in the Fair Value Hierarchy.

Other liabilities

The bank values financial derivatives at fair value. The fair value of financial derivatives is determined as the current value of expected cash flows arising from these transactions. Parameters determined on the active market are used to establish the net present value, such as forex rates, interest rates for the given maturities on the basis of yield curves, etc. These financial assets are categorized at Level 3 in the hierarchy of fair values.

30. IMPACTS OF THE COVID-19 PANDEMIC ON THE BANK

COVID-19 Pandemic

The coronavirus pandemic has a significant influence on all current events and is substantially changing the outlooks thus far for the global and Czech economies. Measures taken by individual governments of countries throughout the world to stop the coronavirus pandemic are negatively impacting global trade and production and consumption behavior of economic subjects. The dynamic development of the situation brings with it a high level of uncertainty when creating and updating outlooks.

Measures taken by the bank

In relation to the broad spread of infection, the bank has carried out preventive measures for the protection of its employees and clients consisting of a greater level of use of home office for employees, the implementation of regular employee testing, recommending preferentially electronic contact with clients, and increasing hygienic standards at branches and bank facilities. The functioning of the bank and the provision of services has not been significantly influenced by these measures.

Due to the high level of uncertainty regarding future development as a result of the impacts of the COVID-19 pandemic, as of 31 Dec 2020 the bank proceeded with a conservative review of the weighting of the individual scenarios for financial assets in stages 1 and 2 to weighting at a ratio of a 50% base scenario and a 50% pessimistic scenario which resulted in the net addition of loss allowances.

Expected impacts of the COVID-19 pandemic on the Bank

The bank has conducted and continues to update stress scenarios of possible impact of the pandemic on the functioning of the bank. None of the scenarios endanger the functioning of the bank in the subsequent period in terms of capital, liquidity, commerce, or other factors.

The bank is heavily equipped in terms of capital, capital adequacy has exceeded 19 % for some time, i.e. significantly higher than the regulatory level. The Bank is holding a substantial capital cushion that will be increased with the acquisition of AT1 capital in the form of investment contributions in the year 2021, by which the bank will reach a level of capital ratios exceeding 20%. Despite the potential negative impacts, the bank does not anticipate significant impacts to capital that could endanger its operation.

In terms of liquid positions, the bank maintains a high percentage of its activities in the form of highly liquid assets (as part of balances or repo operations with the Czech National Bank) and also has access to sources of financing that can be relatively flexibly adapted to its needs on the basis of current market developments. Liquid positions therefore are not at risk even by negative stress scenarios.

The bank does not anticipate an enormous impact on the creation of allowances due to high security of receivables and further implementation of the IFRS 9 standard, which with its concept of expected credit losses now partially takes into account credit losses when providing loans.





On the basis of all information available to the leadership of the Bank as of the date of issue of these financial statements, the above situation does not endanger the presumption of the Bank as an going concern, on the basis of which these financial statements and this annual report were prepared. What cannot be ruled out of the current situation, however, is repeated extension of the current restrictions or other tightening of current measures, nor the subsequent negative impact of such measures on the economic environment in which the Bank operates, as well as the negative impact of such a situation on the Bank, its financial condition and performance, both in the medium term and the long term. The leadership of the Bank is monitoring these developments and is prepared to take commensurate measures taking into account current trends.

31. SIGNIFICANT EVENTS OCCURRING AFTER THE DATE OF THE FINANCIAL STATEMENTS

Sale of immovable property owned by the bank


On 18 February 2021 the bank sold the immovable property at Senovážné náměstí 19 in Prague owned by the bank. The bank subsequently concluded a lease agreement for the given immovable property.

Apart from the above, there are know other significant subsequent events known to the bank at the time of preparing the financial statements that would influence the financial statements as of 31 December 2020.

Date:	Stamp and signature of statutory body:	Person responsible for accounting	Person responsible for financial statements
26 March 2021	<div> Ing. Dušan Benda, FCCA Chair of the Board</div> <div> Ing. Jaroslav Končický Vice Chairman of the Board of Directors</div>	<div>Name and signature</div> <div> Ing. Ondřej Korecký, ACCA Director of Economic Division</div>	<div>Name and signature</div> <div> Ing. Ondřej Korecký, ACCA Director of Economic Division</div>

DECLARATION OF HONOR

We declare that all information and data stated in this annual report match the facts and no important circumstances were omitted.


Ing. Dušan Benda, FCCA
Chairman of the Board of Directors


Ing. Jaroslav Končický
Vice Chairman of the Board of Directors



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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 Shareholders of
TRINITY BANK a.s.**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of TRINITY BANK a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2020, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, 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.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loss allowances for receivables from customers

As at 31 December 20120, gross receivables from customers: CZK 7 255 050 thousand; related loss allowances: CZK 255 680 thousand (31 December 2019: CZK 5 524 714 thousand and CZK 205 341 thousand, respectively).

Refer to Note 2b (Financial instruments - assets), Note 12 (Receivables from customers) and Note 28.A (Financial instruments – credit risk).

Key audit matter	How the audit matter was addressed
The Bank's management makes material and complex assumptions when estimating expected credit losses ("the Expected Credit Losses", "ECLs") in respect of its receivables from customers ("Credits"). In the wake of the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	Assisted, where applicable, by our own information technology and property valuation specialists, we performed, among others, the procedures outlined below: Applying our knowledge, experience and market standards, we critically assessed the Bank's credit and accounting policies, and the processes related to estimating ECLs. As part of the procedure, we assessed the process of identifying indicators of default and significantly increased credit risk and allocating the Credits to particular stage levels of IFRS 9. In addition, we evaluated whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic.
For the purposes of estimating Expected Credit Losses, the Credits portfolio is divided into three stages ("Stages"). Stage 1 and Stage 2 comprise Credits which are not in default with Stage 2 including those for which a significant increase in credit risk has been identified since their occurrence. Stage 3 comprises Credits in default (impaired Credits).	We tested the design, implementation and operating effectiveness of IT-based and manual controls over the identification and timely consideration of significant increase in credit risk and credit-impairment. In addition, we tested IT control environment for data security and access.
The Bank estimates the Expected Credit Losses for all Credits using statistical models by reference to probability-	By reference to the Bank's procedures, types of credits and credit portfolio development, and considering the results of the Bank's experience studies ('back-testing'), we critically assessed the



Key audit matter	How the audit matter was addressed
<p>weighted scenarios based on relevant data. Key assumptions and judgements in the calculation of the Expected Credit Losses include the following:</p> <ul style="list-style-type: none">— definition of default and of significant increase in credit risk (SICR);— the probability of default (PD), loss given default (LGD) and exposure at default (EAD);— an estimate of selected forward-looking information (FLI); and— the net realisable value of underlying collateral (for Stage 3 Credits). <p>In the wake of the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the financial statements.</p> <p>Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.</p>	<p>determination of PD and LGD parameters as at 31 December 2020, also taking into account forward-looking information derived from publicly available sources. In addition, we assessed whether the Bank has adequately considered increased level of uncertainty when assigning probability weights to its base, adverse and optimistic scenarios.</p> <p>For a sample of Credits:</p> <ul style="list-style-type: none">— We tested the number of overdue days assigned and compared the outcome to overdue days used by the Bank in the impairment model;— We assessed the financial standing of the borrower and the existence of indicators of default (impairment) or significant increase in credit risk;— Based on the above, we evaluated the appropriateness of the Credits' classification into the relevant Stages of IFRS 9;— We traced the PD and LGD allocated to individual Credits according to the Bank's credit rules and accounting policies. Based on these parameters, we re-calculated the amount of loss allowances for Credits as at 31 December 2020. <p>In addition, for a sample of Stage 3 Credits, we challenged the estimated cash flow scenarios and their probabilities by reference to the underlying documentation (loan files) and through inquiries of the Bank's loan officers and credit risk personnel. In performing the procedure, we focused on the key assumptions in relation to the amount and timing of estimated cash flows, which included primarily the value of the underlying collateral;</p> <p>We critically assessed the overall reasonableness of the estimated</p>

Key audit matter	How the audit matter was addressed
	<p>Expected Credit Losses by performing analytical procedures on selected indicators, including the ratio of the Expected Credit Losses to total Credits.</p> <p>We assessed the adequacy of the Bank's disclosures on the loss allowances and the related credit risk management in the notes to the financial statements.</p>

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, Supervisory Board and Audit Committee 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.

The Supervisory Board is responsible for overseeing the Company's financial reporting process. The Audit Committee is responsible for monitoring the Company's financial reporting process.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 23 November 2020 and our uninterrupted engagement has lasted for 12 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.



Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of TRINITY BANK a.s. as at 31 December 2020, based on which this independent auditor's report has been prepared.

Prague
26 March 2021

Signed by

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

Signed by

Jindřich Vašina
Partner
Registration number 2059



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