

Factoring KB, a.s. provides a range of factoring services comprising purchase, administration, collection and financing of accounts receivable, including to assume risk related to the insolvency or recalcitrance of domestic or foreign debtors.

- Company turnover reached CZK 42,838 million in 2017, which represents a 13% gain year on year.
- Profit after tax was CZK 86.5 million in 2017.
- The company's market share expanded to 27.4% in 2017.

Contacts

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Komerční banka, a.s.

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Turnover of domestic factoring (CZK mil.)

2013	17,234
2014	22,563
2015	24,916
2016	25,796
2017	29,632

Turnover of international factoring (CZK mil.)

2013	9,306
2014	11,551
2015	10,565
2016	11,966
2017	13,206

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	Unit	2017	2016	2015	2014	2013
Total assets	CZK million	14,713.6	13,976.7	12,027.9	12,214.3	9,456.3
Registered capital	CZK million	1,184.0	1,184.0	1,184.0	1,184.0	1,184.0
Equity	CZK million	1,598.3	1,609.7	1,626.2	1,598.3	1,628.8
Profit/loss before taxes	CZK million	100.8	91.3	86.5	31.2	73.7
Profit after tax	CZK million	86.5	78.1	76.2	26.6	63.1
Market share	%	27.4	28.7	25.9	20.8	18.3
Total turnover*	CZK million	42,838.0	37,761.7	35,480.5	34,113.9	26,540.2
Turnover of domestic factoring	CZK million	29,632.0	25,795.7	24,915.7	22,562.6	17,234.1
Turnover of international factoring	CZK million	13,206.0	11,966.0	10,564.7	11,551.2	9,306.1
Level of provisions	CZK million	275.4	252.6	217.0	206.4	165.5
Total revenues*	CZK million	443.1	287.8	547.5	341.8	430.1
Total costs**	CZK million	342.3	196.5	461.0	310.6	356.4
Average number of employees	number	45	45	44	42	42

*The amount does not include revenues associated with the sale of re-assignment of account receivables.

**The amount does not include costs associated with the sale of re-assignment of account receivables and tax costs.

| Company Profile

Business name

Factoring KB, a.s.

Legal form

Joint-stock company

Business Registration No. (IČO)

25148290

Registered office

náměstí Junkových 2772/1, 155 00 Prague 5

Date of incorporation

4 August 1997

Registered capital

CZK 1,184,000,000

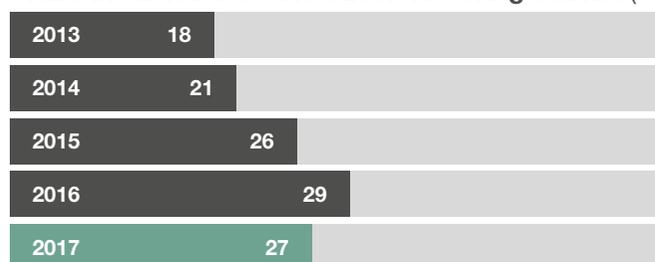
Membership of associations

- Factors Chain International (hereinafter “FCI”) since 30 June 2000
- Asociace faktoringových společností ČR (hereinafter “AFS”) since November 2000
- Česká leasingová a finanční asociace (hereinafter “ČLFA”) since June 2005

Factoring KB, a.s. was established with the aim to provide a range of factoring services comprising purchase, administration, collection and financing of accounts receivable, including to assume risk related to the insolvency or recalcitrance of domestic or foreign debtors. The Company offers its services predominantly to Czech businesses, and, through its membership in Factors Chain International (the largest network of factoring organisations in the world), it also provides selected services to other members of this international coalition.

Factoring KB, a.s., was founded as a fully owned subsidiary of Komerční banka, a.s. It has been a member of the Komerční banka Financial Group since its foundation and an active member of the Société Générale Banque financial group (hereinafter “Société Générale”) since 2002. Membership in both financial groups has significantly influenced the Company’s overall development and has brought new impetus for developing cooperation with other members of the group at home and abroad.

Share in turnover on the Czech factoring market (%)



Report of the Board of Directors

In 2017, the Czech economy achieved its second highest growth pace in the past ten years. As in 2016, household consumption was the main growth driver. In addition to household consumption, there occurred a recovery of investment spending, especially in the second quarter. Foreign trade also fared well, contributing to economic growth despite rising imports. Due to strong domestic demand, wage growth, and a new law requiring electronic recording of cash sales of goods and services, inflation jumped up towards 2%. It accelerated through the year, peaking in October at 2.9%, which was just beneath the upper limit of the CNB's tolerance band.

The year was a very good one, too, for the world economy, which also influenced the economic dynamics of the Czech Republic's main trading partners and helped to push up exports by an average 5.6%. Exporters were therefore successful despite the strengthening crown. The foreign trade balance as measured by the national methodology nevertheless recorded a worsening from CZK 163.7 billion in 2016 to CZK 152.6 billion in 2017. This was due to substantial increase in the import dynamics, which reached 6.5% in 2017. The Czech Republic confirmed its strong position on the European market. In total, 83.9% of exports were directed to the EU. The export dynamics were driven especially by automobile exports.

Average growth of consumer prices in 2017 reached 2.5%. This was largely due to rapidly climbing food prices, which reached 5.1% on average. Core prices also contributed substantially to total inflation, increasing by 2.3% on average. Their dynamics were driven by higher wages, which spurred domestic demand but also had their effect as a cost factor for domestic enterprises and retailers. Inflation's return to the central bank's target allowed the CNB to discontinue its use of non-standard monetary policy instruments. The exchange rate commitment was discontinued in April 2017, after more than three years. Already in August, the central bank raised its repo rate for the first time after ten years. That made it the first central bank in the EU to start normalising its monetary policy. The economy's very good development prompted the CNB to raise again in the last quarter, thereby bringing the key repo rate at the end of the year to 0.5%.

The Association of Factoring Companies of the Czech Republic reported total turnover in assigned accounts receivable of CZK 156.5 billion for 2017. The factoring market continued in its growth trend that had begun in the third quarter of 2016, and after two years of year-on-year decrease it grew by a respectable 19%. All companies on the market managed to grow, although the growth dynamics were much greater among smaller factoring companies. The regional distribution of the growth of purchased accounts receivable was very similar. The volume of domestic accounts receivable grew year on year by 20%, and the volume of foreign accounts receivable expanded by 19%. Particularly substantial was a 28% year-on-year increase in non-recourse factoring.

Meanwhile, recourse factoring grew by 14% year on year, and its share in the total volume of assigned accounts receivable decreased from 62% in 2016 to 60% in 2017.

Factoring KB, too, had success in its sales during 2017, and for the first time in history its turnover surpassed CZK 40 billion. The Company's turnover reached CZK 42.8 billion, and the 7-year period of uninterrupted growth that had begun in 2011 continued. With a 27.4% share in the total volume of assigned accounts receivable, Factoring KB once again maintained its leading position on the market during 2017. In addition to the extraordinary commitment of the Company's employees, our business success is based on the long-term intensive co-operation with Komerční banka's distribution network, which has added our factoring products to its offer of banking products.

In 2017, Factoring KB continued its co-operation with commercial insurance companies and partner factoring companies within the Factors Chain International (FCI) Network, of which the Company has been a member since 2000. This co-operation has made it possible to offer non-recourse products, in which Factoring KB takes over the customers' insolvency risk, and to provide further support for exporters and importers in co-operation with their foreign partners.

As in previous years, Komerční banka remains a key partner. In addition to distributing factoring products, it also provides Factoring KB with support and expertise in many other areas, such as credit and operational risk management, compliance, human resources, and IT.

Most Significant Events of 2017

Société Générale Group's international network of factoring companies, of which Factoring KB is an important part, became one of the pillars of Société Générale Group's expansion strategy in global transaction banking. That strategy is founded upon the strong position of Société Générale Group especially on the European market and support of its clients' international activities (for example in the form of supply chain finance).

On the Czech market, Factoring KB continued its intensive co-operation with its parent company Komerční banka, and it achieved substantial sales growth in all its target clients segments.

In the summer of 2017, Factoring KB celebrated its 20th anniversary on the market. It closed out the year by hosting a social event for more than 600 clients, partners, and employees.

Strategic Targets for 2018

Factoring KB's main objective for 2018 is to continue in supporting its business relationships with current and new clients from all business segments, and particularly in co-operation with Komerční banka. In the Top Corporations Segment, we will focus on individually structured solutions, whereas in the Medium Enterprises Segment we will continue to simplify our services. The Medium Enterprises Segment will remain the main part of our portfolio. Our products in this segment bring added value in the form of accounts receivable administration and customer risk management as compared to common operational credit financing. By maintaining the high quality of our services that is based upon a strong and experienced team of sales managers along with the active support of the Risk Management and Customer Service departments, we intend to maintain our leading position on the factoring market attained in 2016.

In addition to our traditional domestic activities, we also will cooperate with Société Générale Group on developing international solutions. At the same time, we will continuously be alert to and evaluate new business and technological opportunities, such as in the fintech area.

Developing internal processes and information systems while focusing on the speed and security of our services are natural components of our strategy. Last but not least, in the challenging labour market conditions, we will focus on stabilising our employees and their satisfaction.

Commentary on the Company's Financial Position and Performance

In 2017, the Company's profit before tax increased by 10%. Although we succeeded to grow revenues in an environment of continuing pressure on prices (net interest revenues rose by 1% and commission revenues by 2%), this gain unfortunately does not correspond to the Company's sales dynamics. Contributing substantially to the profit gain was a 36% year-on-year decrease in creation of allowances (i.e. by CZK 12.7 million). Despite a systematic effort to carefully manage operating expenses, these increased in 2017. This growth was especially in the area of personnel costs, which climbed by 4% year on year. This development reflects the situation on the labour market and the heightened pressure to increase wages, as well as the Company's effort to retain high-quality employees.

Corporate Governance

as at 31 December 2017

Board of Directors

Adam Fiedler

Chairman of the Board of Directors and CEO

Eva Březinová

Member of the Board of Directors

Věra Jahnová

Member of the Board of Directors

Supervisory Board

Jitka Haubová

Chairwoman of the Supervisory Board

Jiří Šperl

Member of the Supervisory Board

Milan Dobeš

Member of the Supervisory Board

Organizational Chart as at 31 December 2017



| Ownership Structure

The annual general meeting was held on 18 April 2017. The general meeting approved the Report of the Board of Directors on its Business Activities and the State of its Assets for 2016 as well as the financial statements for 2016. It also decided on distribution of the company's earnings from 2016, and the Report of the Supervisory Board and Report on Relations among Related Entities were taken into consideration. The company appointed Deloitte Audit s.r.o. as its external auditor for 2017.

Shareholder

Komerční banka, a.s.

100% ownership interest

| Sworn Declaration

Factoring KB, a.s. hereby confirms that all information and data included in this Annual Report is accurate and complete. The Company also confirms that the document comprises all events that might have a material impact on investors' decisions. Furthermore, Factoring KB, a.s. confirms that no subsequent events have occurred that might adversely affect the Company's financial position, or other changes that might influence a fair and accurate assessment of the financial position of Factoring KB, a.s.

Prague, 20 April 2018

Signed on behalf of the Board of Directors:



Adam Fiedler

Chairman of the Board of Directors and Chief Executive Officer



Eva Březinová

Member of the Board of Directors



Věra Jahnová

Member of the Board of Directors

| 2017 Supervisory Board's Report

The Supervisory Board of Factoring KB, a.s. carried out on ongoing basis tasks assigned to it by the Business Corporations Act and the Company's Article of Association. The Supervisory Board performed regular supervision of the Company's activities, approved strategic plans of the Company and presented its proposals and suggestions to the Board of Directors in order to improve the Company's operations.

Having examined the Company's annual financial statements for the period from 1 January to 31 December 2017, considering the preliminary external auditor's opinion on the annual financial statements, the Supervisory Board states that the accounting records and evidence were maintained in a conclusive manner and in accordance with the generally applicable rules regulating accounting of non-financial institutions. The accounting records express truly in all material respects the Company's financial situation as at 31 December 2017.

The Supervisory Board further reviewed the Report on Related Parties for the period from 1 January to 31 December 2017 prepared by the Company as the controlled entity under Section 83, Subsection 1 of the Business Corporations Act. The Supervisory Board states that on the basis of its review it has not found any materially incorrect information disclosed in that Report

and that the Board of Directors of the Company has not identified, based on its evaluation of the relationships, any damages caused to the Company in its relations with controlling entity.

Having reviewed the proposal of the Board of Directors for the profit appropriations, the Supervisory Board recommends to the sole shareholder approving of the BoD proposal for the profit appropriations as follows:

After tax profit	CZK 86,534,570.54
Dividend payout	CZK 86,534,570.54

The Supervisory Board recommends to the General Meeting to approve the Company's annual financial statements for 2017.

Prague, 11 April 2018



Jitka Haubová
Chairman of the Supervisory Board

Financial Section

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Report on Relations Among Related Entities for the Year Ended 31 December 2017

Report on Relations Among Related Entities for the Year Ended 31 December 2017	28
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Independent Auditor's Report to the Shareholders of Factoring KB, a.s.

Deloitte.

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Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT To the Shareholders of Factoring KB, a.s.

Having its registered office at: Junkových 2772/1, Stodůlky, 155 00 Praha 5

Opinion

We have audited the accompanying financial statements of Factoring KB, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as at 31 December 2017, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Factoring KB, a.s. as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors 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 law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these 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 the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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 of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors 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 Board of Directors 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 Board of Directors 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.

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 ISAs 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 law or regulation, 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 Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 the Board of Directors and the Supervisory Board 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.

In Prague on 19 April 2018

Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

David Batal
registration no. 2147



Balance Sheet as of 31 December 2017

(in CZK thousand)		31. 12. 2017			31. 12. 2016
		Gross	Adjustment	Net	Net
TOTAL ASSETS		15,078,290	364,663	14,713,627	13,976,690
B.	Fixed assets	1,104,250	89,251	1,014,999	1,329,139
B. I.	Intangible fixed assets	98,461	88,261	10,200	9,895
B. I. 2.	Valuable rights	98,461	88,261	10,200	9,895
B. I. 2.1.	Software	98,461	88,261	10,200	9,895
B. II.	Tangible fixed assets	3,019	990	2,029	1,356
B. II. 2.	Tangible movable assets and sets of tangible movable assets	2,307	990	1,317	644
B. II. 4.	Other tangible fixed assets	712	0	712	712
B. II. 4.3.	Other tangible fixed assets	712	0	712	712
B. III.	Non-current financial assets	1,002,770	0	1,002,770	1,317,889
B. III. 5.	Other non-current securities and investments	1,002,770	0	1,002,770	1,317,889
C.	Current assets	13,970,943	275,412	13,695,531	12,643,729
C. II.	Receivables	13,970,187	275,412	13,694,775	12,642,764
C. II. 1.	Long-term receivables	781,798	0	781,798	904,171
C. II. 1.1.	Trade receivables	754,255	0	754,255	878,518
C. II. 1.4.	Deferred tax asset	27,543	0	27,543	25,653
C. II. 2.	Short-term receivables	13,188,389	275,412	12,912,977	11,738,593
C. II. 2.1.	Trade receivables	8,301,880	179,241	8,122,639	7,516,692
C. II. 2.4.	Receivables – other	4,886,509	96,171	4,790,338	4,221,901
C. II. 2.4.3.	State – tax receivables	1,283	0	1,283	0
C. II. 2.4.4.	Short-term prepayments made	4,885,012	96,171	4,788,841	4,221,887
C. II. 2.4.6.	Sundry receivables	214	0	214	14
C. IV.	Cash	756	0	756	965
C. IV. 1.	Cash on hand	12	0	12	28
C. IV. 2.	Cash at bank	744	0	744	937
D.	Other assets	3,097	0	3,097	3,822
D. 1.	Deferred expenses	3,097	0	3,097	3,822

(in CZK thousand)			31. 12. 2017	31. 12. 2016
TOTAL LIABILITIES & EQUITY			14,713,627	13,976,690
A.	Equity		1,598,323	1,609,743
A.	I.	Share capital	1,184,000	1,184,000
A.	I.	1. Share capital	1,184,000	1,184,000
A.	II.	Share premium and capital funds	38,073	99,776
A.	II.	1. Share premium	6,000	6,000
A.	II.	2. Capital funds	32,073	93,776
A.	II.	2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	32,073	93,776
A.	III.	Funds from profit	16,362	16,362
A.	III.	1. Other reserve funds	15,791	15,791
A.	III.	2. Statutory and other funds	571	571
A.	IV.	Retained earnings (+/-)	273,353	231,468
A.	IV.	1. Accumulated profits brought forward	273,353	231,468
A.	V.	Profit or loss for the current period (+/-)	86,535	78,137
B.+C.	Liabilities		13,077,585	12,322,950
B.	Reserves		12,700	11,444
B.	IV.	Other reserves	12,700	11,444
C.	Payables		13,064,885	12,311,506
C.	I.	Long-term payables	496,614	519,251
C.	I.	2. Payables to credit institutions	476,361	490,276
C.	I.	4. Trade payables	20,253	28,975
C.	II.	Short-term payables	12,568,271	11,792,256
C.	II.	2. Payables to credit institutions	5,363,081	5,423,531
C.	II.	4. Trade payables	7,172,664	6,336,340
C.	II.	8. Other payables	32,526	32,384
C.	II.	8.3. Payables to employees	1,736	1,796
C.	II.	8.4. Social security and health insurance payables	871	857
C.	II.	8.5. State – tax payables and subsidies	3,570	3,882
C.	II.	8.6. Estimated payables	5,100	5,482
C.	II.	8.7. Sundry payables	21,249	20,366
D.	Other liabilities		37,719	43,997
D.	1.	Accrued expenses	2,740	1,632
D.	2.	Deferred income	34,979	42,365

Profit and Loss Account in full format as of 31 December 2017

(in CZK thousand)		31. 12. 2017	31. 12. 2016
I.	Sales of products and services	113,146	111,140
A.	Purchased consumables and services	34,848	33,744
A.	2. Consumed material and energy	1,727	2,342
A.	3. Services	33,121	31,402
D.	Staff costs	46,083	44,245
D.	1. Payroll costs	32,572	31,069
D.	2. Social security and health insurance costs and other charges	13,511	13,177
D.	2.1. Social security and health insurance costs	11,792	11,412
D.	2.2. Other charges	1,719	1,765
E.	Adjustments to values in operating activities	28,964	40,924
E.	1. Adjustments to values of intangible and tangible fixed assets	6,144	5,381
E.	1.1. Adjustments to values of intangible and tangible fixed assets – permanent	6,144	5,381
E.	3. Adjustments to values of receivables	22,820	35,543
III.	Other operating income	282,477	123,282
III.	3. Sundry operating income	282,477	123,282
F.	Other operating expenses	292,359	124,888
F.	3. Taxes and charges	238	56
F.	4. Reserves relating to operating activities and complex deferred expenses	1,256	164
F.	5. Sundry operating expenses	290,865	124,669
*	Operating profit or loss (+/-)	(6,631)	(9,379)
IV.	Income from non-current financial assets – equity investments	39,099	36,252
IV.	2. Other income from equity investments	39,099	36,252
VI.	Interest income and similar income	94,794	88,760
VI.	2. Other interest income and similar income	94,794	88,760
J.	Interest expenses and similar expenses	24,576	19,151
J.	1. Interest expenses and similar expenses – controlled or controlling entity	24,465	19,151
J.	2. Other interest expenses and similar expenses	111	0
VII.	Other financial income	186,097	34,541
K.	Other financial expenses	187,961	39,726
*	Financial profit or loss (+/-)	107,453	100,676
**	Profit or loss before tax (+/-)	100,822	91,297
L.	Income tax	14,287	13,160
L.	1. Due income tax	16,178	17,429
L.	2. Deferred income tax (+/-)	(1,891)	(4,268)
**	Profit or loss net of tax (+/-)	86,535	78,137
***	Profit or loss for the current period (+/-)	86,535	78,137
*	Net turnover for the current period	715,613	393,975

Cash Flow Statement as of 31 December 2017

(in CZK thousand)		31. 12. 2017	31. 12. 2016
P.	Opening balance of cash and cash equivalents	965	815
Cash flows from ordinary activities (operating activities)			
Z.	Profit or loss before tax	100,822	91,297
A.	1. Adjustments for non-cash transactions	(103,142)	(138,398)
A.	1.1. Depreciation of fixed assets	13,233	6,112
A.	1.2. Change in provisions and reserves	(21,564)	(35,379)
A.	1.4. Revenues from profit shares	(39,099)	(36,252)
A.	1.5. Interest expense and interest income	(70,218)	(69,609)
A.	1.6. Adjustments for other non-cash transactions	14,506	(3,270)
A. *	Net operating cash flow before changes in working capital	(2,320)	(47,101)
A.	2. Change in working capital	(224,163)	(835,844)
A.	2.1. Change in operating receivables and other assets	(1,044,558)	(1,998,855)
A.	2.2. Change in operating payables and other liabilities	820,395	1,163,011
A. **	Net cash flow from operations before tax	(226,483)	(882,945)
A.	3. Interest paid	(23,504)	(19,312)
A.	4. Interest received	92,997	89,984
A.	5. Income tax paid from ordinary operations	(17,993)	(21,782)
A. ***	Net operating cash flows	(174,983)	(834,055)
Cash flows from investing activities			
B.	1. Fixed assets expenditures	(7,123)	(5,905)
B.	2. Proceeds from fixed assets sold	253,416	0
B.	3. Loans and borrowings to related parties	39,099	36,252
B. ***	Net investment cash flows	285,392	30,347
Cash flow from financial activities			
C.	1. Change in payables from financing	(74,365)	806,556
C.	2. Impact of changes in equity	(36,252)	(2,698)
C.	2.1. Cash increase in share capital	0	73,517
C.	2.6. Profit shares paid	(36,252)	(76,215)
C. ***	Net financial cash flows	(110,617)	803,858
F.	Net increase or decrease in cash and cash equivalents	(208)	150
R.	Closing balance of cash and cash equivalents	756	965

Statement of Changes in Equity as of 31 December 2017

(in CZK thousand)	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Profit or loss for the current period	Total Equity
Balance at 31 December 2015	1,184,000	118,101	16,417	231,468	76,215	1,626,201
Distribution of profit or loss					(76,215)	(76,215)
Statutory and other funds			(54)			(54)
Gains or losses from the revaluation of assets and liabilities		(18,325)				(18,325)
Profit or loss for the current period					78,137	78,137
Balance at 31 December 2016	1,184,000	99,776	16,362	231,468	78,137	1,609,743
Distribution of profit or loss				41,885	(41,885)	
Profit shares paid					(36,252)	(36,252)
Gains or losses from the revaluation of assets and liabilities		(61,703)				(61,703)
Profit or loss for the current period					86,535	86,535
Balance at 31 December 2017	1,184,000	38,073	16,362	273,353	86,535	1,598,323

Financial Statements

for the Year Ended 31 December 2017

1. Corporate information

Factoring KB, a.s. (hereinafter the “Company”) is a joint stock company incorporated on 4 August 1997; its registered office is in Prague 5, náměstí Junkových 2772/1, Czech Republic, Business registration number (IČO) is 25148290. The Company’s core business comprises the provision of factoring and forfaiting services.

Entities holding share capital:
Komerční banka, a.s. 100%.

Factoring KB, a.s. is a member of the financial group of Komerční banka, a.s. and the international financial group of Société Générale. Société Générale S. A. is the ultimate parent company of the Company.

Members of statutory bodies as at 31 December 2017:

Board of Directors	
Chairman:	Adam Fiedler
Member:	Eva Březinová
Member:	Věra Jahnová

Supervisory Board	
Chairwoman:	Jitka Haubová
Member:	Jiří Šperl
Member:	Milan Dobeš

The Company has no organisational branch abroad.

2. Basis of preparation of the financial statements

The Company’s accounting books and records have been maintained and the attached financial statements have been prepared pursuant to Act No. 563/1991 Coll., on Accounting, as amended for 2017 and 2016; Decree No. 500/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, for reporting entities that are businesses maintaining double-entry accounting records, as amended for 2017 and 2016; and Czech Accounting Standards for Businesses, as amended for 2017 and 2016.

Explanation added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

3. Summary of significant accounting policies

The accounting books and records have been maintained in accordance with general accounting principles, in particular the historical cost valuation convention, the accruals principle, the prudence concept, and the going concern assumption.

In preparing the financial statements for 2017 and 2016, the Company used the following valuation methods:

(a) Intangible fixed assets

Intangible fixed assets are recorded at cost, comprising acquisition cost and acquisition-related costs.

Intangible fixed assets with an acquisition cost of more than CZK 60 thousand are amortised on a straight-line basis over their estimated useful life.

Amortisation

Amortisation is calculated on the basis of the acquisition cost and estimated useful life. The estimated useful life is determined as follows:

	Years
Software	3

(b) Tangible fixed assets

Tangible fixed assets are recorded at cost, comprising acquisition cost, transport, customs and other acquisition-related costs.

Tangible fixed assets with an acquisition cost of more than CZK 40 thousand are depreciated for the period of their useful lives.

The cost of technical improvements of tangible fixed assets increases the initial acquisition cost. Repairs and maintenance are expenses as incurred.

Depreciation

Depreciation of tangible fixed assets is calculated on the basis of the acquisition cost and estimated useful life. The estimated useful life is determined as follows:

	Years
Machinery and equipment	3–10
Fixtures and fittings	5

(c) Financial assets

Current financial assets comprise stamps and vouchers, cash on hand and cash in bank.

Non-current financial assets comprise available-for-sale securities and equity investments.

Upon acquisition, securities and equity investments are valued at acquisition cost. The acquisition cost of securities and equity investments comprises the purchase price and direct acquisition-related costs, such as fees and commissions paid to brokers, advisors and stock exchanges.

Available-for-sale securities and equity investments are carried at fair value at the balance sheet date. Any change in the fair value of available-for-sale securities and equity investments is recognised as gains or losses on revaluation of assets and liabilities within equity.

The Company applies the market value of the securities as at the balance sheet date as fair value.

(d) Receivables

Upon origination, receivables are carried at their nominal value. Receivables are reported at carrying amounts less respective allowances for doubtful and uncollectable amounts.

Factoring involves purchasing receivables at their nominal values before their due dates, arising from the supply of goods or services to several regular customers. The factor pays the supplier an advance – pre-financing, which represents a partial payment for the assignment of the receivable and may account for up to 100 percent of the nominal value of the receivable. Amounts due from the purchased receivables are recognised as trade receivables in the Company's balance sheet, and advances paid are recognised as short-term prepayments made. Amounts payable arising from the purchased receivables are recognised as trade payables in the balance sheet. Following payment by the customer, the remaining balance of the receivable is paid to the supplier.

The Company has offered a discounted purchase of short and long-term receivables since 2013, which is recognised in the balance sheet on a net basis – only a nominal amount of the unsettled receivable that was purchased is recognised in the balance sheet.

Reassignment of receivables is recognised in the profit and loss account.

(e) Method of determining allowances and provisions

Additions to allowances are charged based on inventory taking to the extent that the valuation of assets does not correspond with the actual balance. Allowances for receivables are created on the basis of an assessment of the risk level of the respective receivable.

(f) Equity

The Company's share capital is stated in the amount recorded in the Commercial Register maintained by the Municipal Court. Any increase or decrease in the share capital based on the decision of the General Meeting that has not been recorded as at the reporting date is recognised as changes in equity. Deposits exceeding share capital are recognised as share premium.

The Company can create financial funds. The Board of Directors decides on the establishment of these funds and also defines rules for their creation and drawing. If these funds are created or supplemented from profit, the allocation to these funds is approved by the General Meeting.

(g) Provisions and liabilities

The Company creates legal provisions pursuant to the Act on Provisions, and provisions for losses and risks if the related purpose, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term and current liabilities are recognised at nominal values.

Long-term and short-term loans are recognised at nominal values. Any portion of long-term loans due within one year from the balance sheet date is deemed a short-term loan.

(h) Foreign currency translation

Assets and liabilities denominated in foreign currencies are valued in the Czech crowns by the exchange rate valid at the date of their origination and at the balance sheet date, cash items were translated by the exchange rate published by ČNB as at 31 December.

Realised and unrealised foreign exchange gains and losses are accounted to financial revenues or financial expenses for the current year.

(i) Revenue and expense recognition

Revenues and expenses are recognised on an accrual basis, i.e. in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company realises its revenues primarily from remuneration (commissions) for each purchased receivable, and from interest on advances granted for payment of the purchase price. Other revenues comprise charges for changes in contractual terms and conditions, applications for factoring services, and other fees.

The Company reports factoring commissions in revenues from the sale of goods and services; interest received from provided financing is recognised in interest income. Price for the discounted purchase is recognised in revenues from the sale of goods and services and is accrued through deferred income.

(j) Income taxes

The corporate income tax expense is calculated based on the statutory tax rate from the book value of profit less or plus permanently or temporarily tax non-deductible expenses and non-taxable revenues (e.g. creation and recognition of other provisions and allowances, entertainment expenses, difference between write-offs for accounting and tax purposes, etc.). Furthermore, tax deductible items (gifts), deductions and income tax credits are taken into the account.

Deferred income tax reflects the tax impact of temporary differences between carrying amounts of assets and liabilities in the balance sheet and determining the income tax base with regard to the period of realisation.

(k) Use of estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates and assumptions employed will not differ significantly from the actual results achieved in future periods.

(l) Subsequent events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognised in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date occurred between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognised in the financial statements.

(m) Cash Flows Statement

Cash Flows Statement was prepared by indirect method. Cash equivalents represent short-term liquid assets, which can be easily and promptly convert to a known amount of cash.

Cash and cash equivalents can be analysed as follows:

(in CZK thousand)	As at 31 December 2017	As at 31 December 2016
Cash and cash in transit	12	28
Accounts in banks	744	937
Debit balance of current account included in short-term bank loans		
Cash and cash equivalents total	756	965

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

The item Proceeds from fixed assets sold amounting to CZK 253,416 thousand represents reduction of the reserve fund and the share premium of Protos, uzavřený investiční fond a.s.

(n) Changes in the classification and identification of balance sheet and profit and loss account and their content definition compared to the previous accounting period.

These financial statements were prepared in accordance with Czech Accounting Standard No. 024 – the comparable period for the financial period that began in the year 2016.

4. Fixed assets

(a) Intangible fixed assets (in CZK thousand)

Cost

	Opening balance	Additions	Disposals	Transfers	Closing balance
Software	92,370	0	0	6,091	98,461
Intangible fixed assets under construction	0	6,091	0	(6,091)	0
Total in 2017	92,370	6,091	0	0	98,461
Total in 2016	86,849	5,521	0	0	92,370

Accumulated amortisation

	Opening balance	Amortisation charge	Disposals	Closing balance	Net book value
Software	(82,475)	(5,786)	0	(88,261)	10,200
Intangible fixed assets under construction	0	0	0	0	0
Total in 2017	(82,475)	(5,786)	0	(88,261)	10,200
Total in 2016	(77,340)	(5,135)	0	(82,475)	9,895

Total low-value intangible assets not included in the balance sheet amounted to CZK 126 thousand as at 31 December 2017 and CZK 1 thousand as at 31 December 2016 at cost.

(b) Tangible fixed assets (in CZK thousand)

Cost

	Opening balance	Additions	Disposals	Transfers	Closing balance
Machinery and equipment	5,645	0	(4,416)	1,031	2,260
Fixtures and fittings	30	0	0	0	30
Low-value tangible assets	17	0	0	0	17
Works of art	712	0	0	0	712
Tangible fixed assets under construction	0	1,031	0	(1,031)	0
Total in 2017	6,404	1,031	(4,416)	0	3,019
Total in 2016	6,324	385	(305)	0	6,404

Accumulated depreciation

	Opening balance	Depreciation charge	Disposals	Closing balance	Net book value
Machinery and equipment	(5,001)	(358)	4,416	(943)	1,317
Fixtures and fittings	(30)	0	0	(30)	0
Low-value tangible assets	(17)	0	0	(17)	0
Works of art	0	0	0	0	712
Tangible fixed assets under construction	0	0	0	0	0
Total in 2017	(5,048)	(358)	4,416	(990)	2,029
Total in 2016	(5,108)	(245)	305	(5,048)	1,356

Total low-value tangible assets not included in the balance sheet amounted to CZK 470 thousand as at 31 December 2017 and CZK 485 thousand as at 31 December 2016 at cost.

(c) Financial investments (in CZK thousand)

On the basis of a Contract for the Transfer of Securities for Consideration concluded between Factoring KB, a.s. and Komerční banka, a.s., in 2007, Factoring KB, a.s. purchased non-current financial assets in the amount of CZK 1,298,106 thousand. The non-current financial asset in this case is a 10% share in a closed unit-linked fund, Protos, uzavřený investiční fond, a.s. (hereinafter "Protos"), with its registered office in Prague, Dlouhá 34. Protos is a subsidiary of Komerční banka, a.s. In 2015 the share of Factoring KB, a.s. in Protos increased to 16% to the extent that newly issued shares of Protos were subscribed by the Company and paid by the premium on Protos shares already owned by the Company before the shares issuance. The difference between the share premium paid and the cost of newly subscribed Protos shares issued amounted to CZK 421 thousand.

On the basis of the decision of the General Meeting of the shareholders of Protos, uzavřený investiční fond, a.s. held on 7 December 2017, a reduction in the reserve fund of the company in the amount of CZK 255,558 thousand was approved. The General Meeting also approved a proposal for a reduction in the share premium of CZK 1,294,442 thousand. The amounts were divided among the shareholders in proportion to their participation in the share capital of the company. As a result of the reduction of the reserve fund of Protos uzavřený investiční fond, a.s. and the reduction of the share premium Factoring KB, a.s. received the amount of CZK 253,416 thousand.

Movement of non-current financial assets:

	Balance as at 31 December 2015	Revaluation	Balance as at 31 December 2016	Revaluation	Balance as at 31 December 2017
Other non-current securities and investments	1,409,786	(91,897)	1,317,889	(315,119)	1,002,770
Total	1,409,786	(91,897)	1,317,889	(315,119)	1,002,770

5. Receivables

Long-term receivables

As at 31 December 2017, the Company had long-term receivables amounting to CZK 781,798 thousand (2016: CZK 904,171 thousand), comprising trade receivables in the amount of CZK 754,255 thousand (2016: CZK 878,518 thousand) and a deferred tax asset of CZK 27,543 thousand (2016: CZK 25,653 thousand). The Company had receivables with maturity longer than 5 years in the amount CZK 118,107 thousand (2016: CZK 338,818 thousand). Long-term trade receivables included receivables acquired through discounted purchase. No long-term receivables are overdue.

Short-term receivables (in CZK thousand)

	As at 31 December 2017	Out of which overdue ¹⁾	As at 31 December 2016	Out of which overdue ¹⁾
Trade receivables (gross)	8,301,880		7,664,749	
out of which:				
– purchased receivables	8,126,752	101,758	7,515,124	242,391
– commissions from purchased receivables	10,538	1,459	10,422	1,676
– interest on pre-financing	15,261	4,105	13,575	3,673
– reassignments	142,260	128,307	118,154	108,856
– receivables from accession to debts	6,138	6,138	6,146	6,146
– other receivables	931		1,328	
Allowances for trade receivables	(179,241)		(148,057)	
Trade receivables (net)	8,122,639		7,516,692	
Receivables from pre-financing	4,884,967		4,325,965	
Operating advances	45		456	
Allowances for advances granted	(96,171)		(104,534)	
Total advances granted net	4,788,841		4,221,887	
State – tax receivables	1,283		0	
Other short-term receivables	214		14	
Total short-term receivables	12,912,977		11,738,593	

¹⁾A purchased receivable is overdue if it is after its contractual maturity for at least 90 days

Amounts due arising from purchased receivables for which the Company also records a liability to the supplier represent nominal values of receivables purchased within the scope of factoring services provided.

Maturity of receivables from pre-financing is determined on the basis of specific factoring agreements with respective clients. The standard maturity period is 90 days.

The standard due date for commission invoices, interest invoices, and reassignments is 14 days.

The Company records no receivables from related parties.

Due to uncollectability, rejection of bankruptcy proceedings, and settlement or non-settlement of receivables in bankruptcy proceedings, etc., the Company charged to expenses CZK 7,351 thousand in 2017 (2016: CZK 2,079 thousand).

6. Allowances

Allowances reflect temporary impairment of assets (listed in Note 5).

Changes in allowances (in CZK thousand):

Allowances for:	Balance as at 31 December 2015	Creation of allowances	Recognition of allowances	Balance as at 31 December 2016	Creation of allowances	Recognition of allowances	Balance as at 31 December 2017
receivables – statutory	44,617	5,174	678	49,113	23,902	11,081	61,934
receivables – other	172,431	74,936	43,889	203,478	77,138	67,138	213,478

Statutory allowances are created pursuant to the Act on Reserves.

7. Other assets

Deferred expenses in the amount of CZK 3,097 thousand (2016: CZK 3,822 thousand) represent primarily items related to operational services. Accrued income was not accounted for in the 2017 and 2016 reporting periods.

8. Equity

The Company's share capital consists of 400 shares with a nominal value of CZK 100,000 per share, 4,400 ordinary shares with a nominal value of CZK 10,000, and 1,100 ordinary shares with a nominal value of CZK 1,000,000. There was no change in the amount of the Company's share capital in 2017.

The shares of Factoring KB, a.s. are not publicly tradeable; they are fully transferable bearer shares and carry voting rights.

The share premium in the amount of CZK 6,000 thousand represents the difference between the issue and nominal values of the shares.

Changes in equity in 2017 and 2016 (in CZK thousand):

	Balance as at 31 December 2015	Increase	Decrease	Balance as at 31 December 2016	Increase	Decrease	Balance as at 31 December 2017
Number of shares	5,900	0	0	5,900	0	0	5,900
Share capital	1,184,000	0	0	1,184,000	0	0	1,184,000
Share premium (agio)	6,000	0	0	6,000	0	0	6,000
Gains or losses from the revaluation of assets and liabilities	112,101	0	18,325	93,776	0	61,703	32,073
Reserve fund	15,791	0	0	15,791	0	0	15,791
Other funds	626	0	54	571	0	0	571
Retained earnings	231,468	0	0	231,468	41,885	0	273,353
Profit (loss) for the current period (+/-)	76,215	78,137	76,215	78,137	86,535	78,137	86,535

Based on the decisions of the General Meetings held on 18 April 2017 and 19 April 2016, the following distribution of profits for 2016 and 2015 was approved (in CZK thousand):

2015 profit	76,215	2016 profit	78,137
Allocation to –		Allocation to –	
reserve fund	0	reserve fund	0
other funds	0	other funds	0
Dividend payments and profit shares	76,215	Dividend payments and profit shares	36,252
Transfer of retained earnings	0	Transfer of retained earnings	41,885
Retained earnings as at 31 December 2016	231,468	Retained earnings as at 31 December 2017	273,353

No decision on the distribution of 2017 profit has been made yet.

9. Reserves

Movements in reserves (in CZK thousand):

Reserves	Balance as at 31 December 2015	Creation of reserves	Recognition of reserves	Balance as at 31 December 2016	Creation of reserves	Recognition of reserves	Balance as at 31 December 2017
Other	11,280	12,936	12,772	11,444	13,827	12,571	12,700

The Company creates reserves for unutilised vacation, reserve for bonuses and related social and health insurance and reserve to cover future losses related to the bank risks.

10. Payables

Long-term payables

As at 31 December 2017, the Company had long-term payables amounting to CZK 496,614 thousand (2016: CZK 519,251 thousand). This item comprises mainly trade payables related to purchased long-term receivables and payables to credit institutions. No long-term payables are overdue.

As at 31 December 2017 the Company had the following long-term payables (in CZK thousand):

	As at 31 December 2017	As at 31 December 2016
Payables to credit institutions	476,361	490,276
Trade payables	20,253	28,975
Total	496,614	519,251

The interest expenses related to long-term payables to credit institutions in 2017 amounted to CZK 8,030 thousand, in 2016 they amounted to CZK 4,305 thousand. Long-term payables to credit institutions were bore interest at a fixed rate.

Short-term payables

As at 31 December 2017, the Company had Short-term payables in the amount of CZK 12,568,271 thousand (2016: CZK 11,792,256 thousand). Short-term payables mostly arise from receivables purchased by the Company within the scope of factoring services provided, and payables to financial institutions. No short-term payables are overdue.

As at 31 December 2017 the Company had the following short-term payables (in CZK thousand):

	As at 31 Dec 2017	As at 31 Dec 2016
Payables to credit institutions	5,363,081	5,423,531
Trade payables		
– suppliers	373	1,442
– purchased receivables	7,172,291	6,334,898
Other payables		
– payables to employees	1,736	1,796
– social security and health insurance payables	871	857
– State – tax payables and subsidies	3,570	3,882
– estimated payables	5,100	5,482
– sundry payables	21,249	20,366
Total	12,568,271	11,792,254

As at 31 December 2017 the Company had the following short-term payables to credit institutions (in CZK thousand):

Bank	Interest rate	2017		2016	
		Amount in a foreign currency	Amount in CZK thousand	Amount in a foreign currency	Amount in CZK thousand
KB (CZK)	PRIBOR ON ACTUAL + f.v.	3,192,422	3,192,422	3,212,225	3,212,225
KB (USD)	ON LIBOR USD ACTUAL + f.v.	570	12,138	2,073	53,150
KB (EUR)	ON LIBOR EUR ACTUAL + f.v.	56,705	1,448,237	72,486	1,958,582
KB (GBP)	ON LIBOR GBP ACTUAL + f.v.	68	1,957	47	1,490
KB (PLN)	ON WIBOR PLN ACTUAL + f.v.	190	1,164	596	3,653
KB (CZK)	Fixed interest rate	247,443	247,443	194,431	194,431
UniCredit Bank	Fixed interest rate	18,000	459,720	0	0
Total			5,363,081		5,423,531

Note.: f. v. – fixed variance

Interest expenses related to payables to financial institutions amounted to CZK 16,546 thousand in 2017 (2016: CZK 14,846 thousand).

11. Other liabilities

Other liabilities comprise accrued expenses in the amount of CZK 2,740 thousand (2016: CZK 1,632 thousand) and deferred income in the amount of CZK 34,979 thousand (2016: CZK 42,365 thousand). Deferred income represents in particular the deferred price for the discount purchase of receivables.

12. Income taxes

	2017	2016
	in CZK thousand	in CZK thousand
Profit before taxes	100,822	91,297
Non-taxable revenue	(39,099)	(36,687)
Difference between accounting and tax depreciation	570	(386)
Non-deductible costs	22,860	37,771
– net creation of allowances	10,000	31,047
– reserves	1,256	598
– written off receivables	6,553	1,405
– other (e.g. entertainment expenses, deficits and damage)	5,051	4,721
Taxable income	85,153	91,995
Income tax rate	19%	19%
Tax	16,179	17,479
Adjustment in respect of income tax of previous years	(1)	(50)
Tax relief	0	0
Tax due	16,178	17,429

The Company has calculated deferred tax as follows (in CZK thousand):

Deferred tax items	2017		2016	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	0	657	0	1,159
Other temporary differences:	0	0	0	0
Allowances for receivables	25,787	0	24,638	0
Reserves	2,413	0	2,174	0
Total	28,200	657	26,812	1,159
Net	27,543	0	25,653	0

13. Leases

Assets in the form of operating leases as at 31 December 2017 and 31 December 2016 (in CZK thousand):

Description	Lease period in months	Lease amount in 2017	Lease amount in 2016	Owner's acquisition cost
12 passenger cars	48	1,420	1,600	6,490

14. Commitments and contingencies

The Company recorded commitments from import factoring in the amount of CZK 6,963 thousand (2016: CZK 6,011 thousand).

15. Fee of the statutory auditor

Fees paid to the Company's statutory auditor for the annual audit of financial statements and other assurance services amounted to CZK 928 thousand as at 31 December 2017 (2016: CZK 676 thousand).

16. Other operating expenses and income

Other operating expenses totalled CZK 290,865 thousand as at 31 December 2017 (2016: CZK 124,669 thousand). The most significant items of Other operating expenses consist insurance expenses in the total amount of CZK 9,627 thousand (2016: CZK 9,271 thousand), expenses from the sale of receivables in the total amount of CZK 827 thousand (2016: CZK 6,567 thousand), expenses related to receivable reassignments in the total amount of CZK 272,528 thousand (2016: CZK 106,199 thousand) and the receivable write-offs in total amount of CZK 7,351 thousand (2016: CZK 2,079 thousand).

Other operating income totalled CZK 282,477 thousand as at 31 December 2017 (2016: CZK 123,282 thousand). The most significant items of Other operating income consist of revenues from the sale of receivables in the total amount of CZK 823 thousand (2016: CZK 7,915 thousand), revenues related to receivable reassignments in the total amount of CZK 272,528 thousand (2016: CZK 106,199 thousand), income from contractual penalties in the total amount of CZK 363 thousand (2016: CZK 112 thousand), charges related to changes in contractual terms, applications for provision of factoring services, entry and monitoring fees and other income amounting to CZK 8,763 thousand (2016: CZK 9,056 thousand).

17. Financial expenses and income

Financial expenses primarily comprise the following items (in CZK thousand):

Financial expenses	As at 31 December 2017	As at 31 December 2016
Interest expense from loan facilities	24,576	19,151
– Other financial expenses	187,961	39,726
– Exchange rate losses	184,443	34,893
– Operating insurance	340	355
– Banking expenses	3,157	3,310
– Other charges	21	1,168
Total financial expenses	212,537	58,877

Financial income primarily comprises the following items (in CZK thousand):

Financial income	As at 31 December 2017	As at 31 December 2016
Interest on pre-financed purchased receivables	94,794	88,760
Exchange rate gains	186,097	34,541
Income from non-current financial assets (Protos – dividend)	39,099	36,252
Total financial income	319,990	159,553

18. Staff costs

The average headcount, management members and staff costs for 2017 and 2016 are as follows:

Overview of staff costs (in CZK thousand):

	2017		2016	
	Total headcount	Management	Total headcount	Management
Average headcount	45	3	45	3
Wages and salaries	32,572	6,262	31,069	6,542
Social security and health insurance	11,792	1,926	11,412	2,088
Other social costs	1,719	299	1,765	204
Total staff costs	46,083	8,487	44,245	8,834

The headcount is based on the average recalculated number of employees and includes members of the Board of Directors.

Based on an agreement with the Company, the Board of Directors members use company cars.

19. Transactions with related parties

The Company reported revenue in the form of dividends paid by Protos totalling CZK 39,099 thousand in 2017 (2016: CZK 36,252 thousand).

The services rendered by Komerční banka, a.s. to the Company in 2017 primarily comprised (in CZK thousand):

	As at 31 December 2017	As at 31 December 2016
Financial expenses	27,583	23,006
Fee for using KB's distribution network	7,266	6,824
Trademark use	1,500	1,500
Other services provided by Komerční banka, a.s.	7,222	8,055

Financial expenses comprise primarily the interest on payables to credit institutions in the amount of CZK 24,464 thousand (2016: CZK 19,151 thousand), banking fees in the amount of CZK 2,990 thousand (2016: CZK 3,310 thousand), cost of a bank guarantee in the amount of CZK 108 thousand (2016: CZK 0) and other services provided by Komerční banka in the amount of CZK 21 thousand (2016: CZK 545 thousand).

Other Komerční banka services comprise mainly expenses related to leases of premises for regional offices, such as energy, water supply, heating, telephone charges and lease payments, and expenses related to IT services, advisory and consulting services and training.

The Company realised no fixed asset purchase from or a sale to Komerční banka, a.s. in 2017 and 2016.

20. Subsequent events

No changes occurred subsequent to the balance sheet date.

21. Cash flow statement

The cash flow statement was prepared using the indirect method.

Prepared on:
19 March 2018

Signature of the reporting entity's statutory body:



Adam Fiedler



Eva Březinová

Person responsible for bookkeeping (name, signature):



Ivana Náprstková

Person responsible for preparation of the financial statements (name, signature):



Ivana Náprstková

Report on Relations Among Related Entities for the Year Ended 31 December 2017

(hereinafter the “**Report on Relations**”)

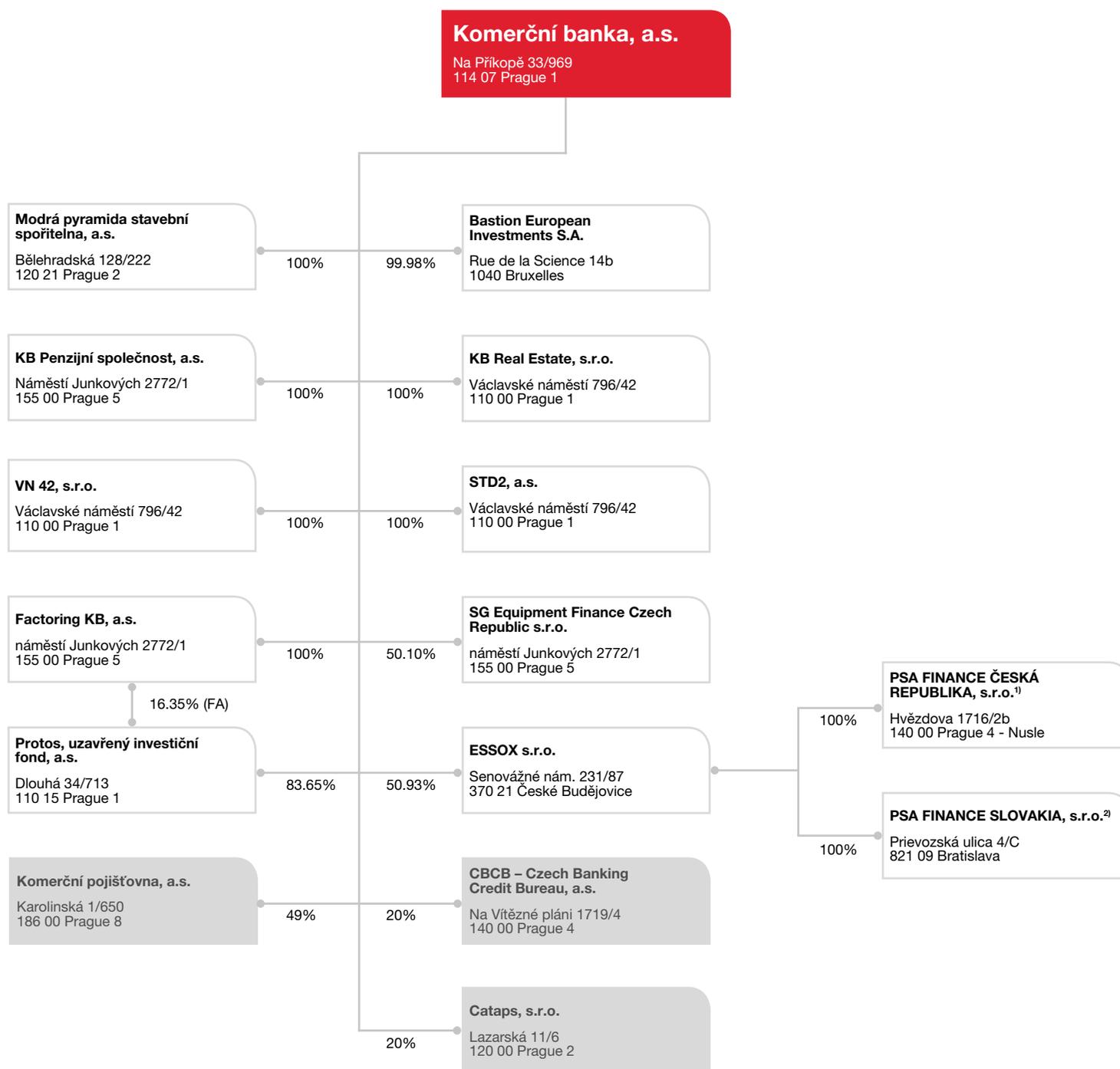
Factoring KB, a.s., with its registered office in Prague 5, náměstí Junkových 2772/1, 155 00, Corporate ID:25148290, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 4861, (hereinafter “the Company” or “FKB”), is part of a business group (holding company) in which the following relations between FKB and its controlling entity and further between FKB and other entities controlled by the same controlling entity (hereinafter “related entities”) exist.

This report on relations was prepared in accordance with the provision of Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Business Corporations Act) for the year ended 31 December 2017, that is, from 1 January 2017 to 31 December 2017 (hereinafter the “reporting period”).

I. Introduction

The structure of the relations between the entities of the business group

In the period from 1 January 2017 to 31 December 2017, the Company was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter “SG” or “SG Paris”). The structure of the relations between the members of the SG Group is shown in the annex.



¹⁾ As of 1 January 2018, the company merged with ESSOX, s.r.o.

²⁾ As of 1 January 2018, the company changed its trade name to ESSOX Finance, s.r.o. and its registered office moved to Karadžičova 16, 821 08 Bratislava, Slovakia.

Note: The above are mentioned % of the equity, which can differ from the % of voting rights.

During the course of the 2017 reporting period, FKB entered into arrangements with the following related entities:¹⁾

Company	Registered office	SG's share of voting power
Komerční banka, a.s.	Prague 1, Na Příkopě 33, 114 07, Czech Republic	60.735%
Modrá pyramida stavební spořitelna, a.s.	Prague 2, Bělehradská 128, No.p. 222, 120 21, Czech Republic	100%
ALD Automotive s.r.o.	Prague 10, U Stavoservisu 527/1, 100 40, Czech Republic	100%
Protos, uzavřený investiční fond, a.s.	Prague 1, Dlouhá 34, 110 15, Czech Republic	100%
Compagnie Générale d'Affacturage	Levallois-Perron Cedex, rue de Villiers 70, 92532, France	100%
SG FACTORING SPA	Milano, Via Trivulzio 7, 20146, Italy	100%
BRD – Groupe Société Générale	Bucuresti, Bd.Ion Michalache, nr 1-7, Turn BRD, 011171, Romania	60.17%

¹⁾These are companies controlled by SG Paris, both in direct and indirect line within the meaning of Section 74 (1) of the Business Corporations Act.

The role of the Company within the Group:

Factoring KB, a.s. (hereinafter “the Company” or “FKB”) is a fully owned subsidiary of Komerční banka, a.s. (hereinafter “KB”). KB is the parent company of the Komerční banka financial group (hereinafter also the “Group”) and an active member of the Société Générale Banque financial group (hereinafter the “SG Group”). Within the Group, FKB provides a range of factoring services comprising purchase, administration, collection and financing of account receivables, including the takeover of risks related to the insolvency or protracted default of domestic or foreign debtors. The Company offers its services predominantly to Czech businesses and, through its membership in Factors Chain International (the largest network of factoring organisations in the world), it also provides selected services to other members of this international association.

As part of the Group, KB provides FKB trade mark licences, which FKB uses for its business activities. KB also provides FKB with universal banking and financing services, IT services, data processing and consultancy in the area of human resources and risk management, including credit financial risks, rental and sub-rental of buildings and parking places. FKB products are sold using KB's sales network. As part of its management and control system applied by the Group, FKB provides KB with data, which are used for preparation of consolidated financial statements, consolidated reporting to regulators or for publication, budgets, business plans, business continuity plan, and anti-money laundering measures.

Within the framework of the international association Factors Chain International (hereinafter also the “FCI”), the Company provides services to other companies - members of the Société Générale Group including CGA – Compagnie Générale d'Affacturage based in France and BRD – Groupe Société Générale with the seat in Romania, with which the Company has signed a bilateral FCI Interfactor agreement. Under this agreement, the Company acts both in the role of the so-called Import factor, providing dunning and collection services and guarantees against insolvency or protracted default of domestic debtors (or debtors based in the Slovak Republic), and in the role of the so-called Export factor, when it uses the same services provided by Import factors in the countries of debtors that cooperate with the Company's clients using FCI Export factoring.

Method and Means of Control

Komerční banka, a.s., as the 100% shareholder, exerts its influence on the activity of FKB through the general meeting; KB had three representatives in the three-member Supervisory Board of FKB in 2017.

Within the meaning of Section 79 of the Business Corporations Act, KB is the controlling entity in respect of FKB. The control is formally exercised by the implementation of KB's methodologies, in particularly in the area of risk management and reporting. Controlling is also exercised on an informal level, in the form of consultancy on individual areas of the Company's activities.

II. Arrangements within the Group

A. Important Arrangements Made during the Reporting Period at the Initiative or in the Interest of the Controlling Entity or Entities Controlled by the Controlling Entity and Relating to Assets Exceeding 10% of Equity

On the basis of the decision of the General Meeting of shareholders of Protos, uzavřený investiční fond, a.s. held on 7 December 2017 a reduction of the reserve fund of the company in the amount of CZK 255,558 thousand was approved. The General Meeting also approved a proposal for reducing the share premium by CZK 1,294,442 thousand. The amounts was divided among the shareholders in proportion to their participation in the share capital of the company. As a result of the reduction of the reserve fund of Protos, uzavřený investiční fond, a.s. and the reduction of the share premium Factoring KB, a.s. received the amount of CZK 253,416 thousand.

B. An Overview of Mutual Contracts Between the Controlled Entity and the Controlling Entity or Between Controlled Entities

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Framework Contract on the Providing of Financial Services Reg. No. 9900021839000, incl. amendment (9)	Komerční banka, a.s.	31 March 2014
Change of interest rate on overdraft – Framework Contract on Rendering of Financial Services Reg. No. 9900021839000 (12)	Komerční banka, a.s.	27 January 2017, 23 February 2017, 24 March 2017, 28 April 2017, 26 May 2017, 23 June 2017, 24 July 2017, 25 August 2017, 29 September 2017, 31 October 2017, 24 November 2017, 28 December 2017
Contract on Opening and Maintaining of Current Accounts in CZK with Komerční banka, a.s., incl. amendments (6)	Komerční banka, a.s.	5 August 1997
Contract on Opening and Maintaining of Current Accounts in CZK with Komerční banka, a.s., incl. amendments (7)	Komerční banka, a.s.	28 August 1998
Contract on Opening and Maintaining of Current Accounts in USD with Komerční banka, a.s., incl. amendments (7)	Komerční banka, a.s.	24 September 1998
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s., incl. amendments (8)	Komerční banka, a.s.	25 February 1999
Contract on Opening and Maintaining of Current Accounts in GBP with Komerční banka, a.s., incl. amendments (6)	Komerční banka, a.s.	4 June 2002
Contract on Opening and Maintaining of Current Accounts in PLN with Komerční banka, a.s., incl. amendments (5)	Komerční banka, a.s.	24 August 2005
Contract on Opening and Maintaining of Current Accounts in CHF with Komerční banka, a.s., incl. amendment (1)	Komerční banka, a.s.	6 June 2013
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s., incl. amendment (1)	Komerční banka, a.s.	28 February 2012
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s., incl. amendments (3)	Komerční banka, a.s.	7 June 2012
Framework Contract for Dealing on the Financial Market	Komerční banka, a.s.	22 December 2011
Contract on using the direct banking services, incl. amendments (1) ²⁾	Komerční banka, a.s.	31 October 2002
Contracts on Individual Pricing (2), incl. amendments (2)	Komerční banka, a.s.	31 July 2012, 31 August 2017
Contract on Provision of Bank Guarantee	Komerční banka, a.s.	23 October 2017
Framework Agreement on the Rental of Employee-driven Motor Vehicles	Komerční banka, a.s.	22 September 2014
Contract on Providing of Postal Services and the Disposal of Duplicate Documentation, incl. amendments (1)	Komerční banka, a.s.	31 October 2013, 22 December 2017
Contract on Providing of Services – BI	Komerční banka, a.s.	27 December 2012
Agreement – services: data transfer – current accounts	Komerční banka, a.s.	1 August 2013
Framework Service Agreement – IT Infrastructure	Komerční banka, a.s.	8 September 2010
Licence Agreement on Usage of Database	Komerční banka, a.s.	1 April 2011
Partial Agreement No. 1, Connectivity Services (IT Process Procedure)	Komerční banka, a.s.	1 December 2012

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Partial Agreement No. 2, Physical Hosting of Equipment (IT Process Procedure), incl. amendments (1)	Komerční banka, a.s.	1 December 2012, 25 October 2017
Partial Agreement No. 3, IT Infrastructure Hosting (IT Process Procedure), incl. amendments (1)	Komerční banka, a.s.	1 December 2012, 23 May 2017
Partial Agreement No. 4, VoIP (IT Process Procedure)	Komerční banka, a.s.	31 December 2012
Partial Agreement No. 5, Email (IT Process Procedure)	Komerční banka, a.s.	25 May 2015
Partial Agreement No. 6, Fileshare (IT Process Procedure)	Komerční banka, a.s.	29 February 2016
Partial Agreement No. 7, End User Workplace (EUV) (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 8, Service Desk (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 9, Identity and Access (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 10, Platform hosting (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 11, Disaster Recovery (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 12, SOC Vulnerability Detection (VD) (IT Process Procedure)	Komerční banka, a.s.	28 August 2017
Contract on Provision of services – Information Security Services	Komerční banka, a.s.	27 October 2015
Cooperation Agreement No. 0000020447/0000, incl. amendment (1)	Komerční banka, a.s.	31 December 2012
Service Level Agreement – cooperation in the area of accounting and reporting	Komerční banka, a.s.	26 November 2014
Contract on Custody Services	Komerční banka, a.s.	29 August 2007
Contracts on Usage of KB Safe – deposit Box (3)	Komerční banka, a.s.	11 November 2003, 2 April 2008, 13 August 2009
Contracts on Issue and Usage of a Payment Cards (5), incl. amendments (4)	Komerční banka, a.s.	30 March 2011, 16 January 2012, 10 June 2013, 16 December 2014, 8 January 2016
Contract on Complementary Services – Profi Merlin (1)	Komerční banka, a.s.	8 January 2016
Contracts on Rental of Non-residential Premises, Movables and Payment of Relating Services (4), incl. amendment (1)	Komerční banka, a.s.	18 June 2008, 19 December 2011, 30 September 2015, 1 April 2017, 14 December 2017
Contract on Rental of Non-residential Premises, Movables and Payment of Relating Services, incl. amendment (4)	Komerční banka, a.s.	30 August 2012, 30 December 2014, 21 February 2017, 4 May 2017, 28 December 2017
Contract on Sublease of Parking Place (3), incl. amendment (4)	Komerční banka, a.s.	28 August 2012, 1 January 2013, 23 March 2015, 21 February 2017, 28 December 2017
Licence Agreement – Logo, incl. amendment (1)	Komerční banka, a.s.	20 December 2004, 29 January 2015
Contract for the payment of premiums and payment of compensation insurance broker	Komerční banka, a.s.	17 June 2016
Agreement on Cooperation in the Performance of Contract on Employees Group Risk Insurance No. 3280000000, in the wording of Amendment No. 1	Komerční banka, a.s.	24 August 2012
Agreement on Cooperation in the Implementation of Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/Société Générale No. 334000000	Komerční banka, a.s.	26 September 2016
Mutual Cooperation Agreement, incl. amendment (1) – providing banking services to employees	Komerční banka, a.s.	1 August 2007, 1 July 2010
Agreement – Outsourcing of HR Services (excluding Payroll) KB Agr. No. 20596/0000, incl. amendment (2)	Komerční banka, a.s.	1 January 2013, 1 October 2013, 31 March 2016
Service Contract – Outsourcing (HR services), incl. amendment (1)	Komerční banka, a.s.	4 January 2010, 1 April 2016
Cooperation Agreement – job vacancies (staffing)	Komerční banka, a.s.	28 April 2010
Distribution Agreement, incl. amendment (1)	Komerční banka, a.s.	1 December 2008, 10 January 2013
Framework Agreement on Personal Data Processing	Komerční banka, a.s.	1 December 2008
Confidentiality Agreement	Komerční banka, a.s.	9 August 2010
Rules for cooperation between KB and members of the group in the field of sourcing and purchasing	Komerční banka, a.s.	4 October 2010
Agreement on the Organisation of Periodic Control (internal audit services), incl. amendment (1)	Komerční banka, a.s.	5 May 2011
Contract on Providing of Services – Access to the C4M, incl. amendment (1)	Komerční banka, a.s.	24 May 2011, 29 May 2012

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Contract on Providing of Services in the Area of Work Safety, Environmental Protection and Fire Protection, incl. amendment (1)	Komerční banka, a.s.	30 January 2015, 22 December 2017
Framework Contract – Rental of Movables (full service leasing)	ALD Automotive s.r.o.	21 April 2008
Contracts on Rental of Movable Property – full service leasing (13), terminated (1)	ALD Automotive s.r.o.	18 July 2013, 8 January 2014, 10 April 2014, 14 May 2015, 10 December 2015, 18 December 2015, 20 April 2016, 1 September 2017, 13 September 2017
Framework Contract – Rental of cars	ALD Automotive s.r.o.	25 January 2016
Contract on Providing of Preferential Conditions for the Employees of Factoring KB, a.s. – Participants in the Housing Savings Scheme in MPSS	Modrá pyramida stavební spořitelna, a.s.	1 November 2013
FCI Interfactor Agreement	Compagnie Générale d'Affacturage	2 April 2003
FCI Interfactor Agreement	SG FACTORING SPA	22 May 2013
FCI Interfactor Agreement	BRD – Groupe Société Générale	21 April 2015

²⁾Not including technical amendments to increase the limit

C. An Assessment of the Advantages and Disadvantages Arising from the Relations within the Group and an Assessment of Harm

The advantages and disadvantages arising from the relations within the business group

The whole Group takes advantage of mutual synergistic effects including product pooling, a strong brand and know-how. In the business area FKB benefits from its participation in KB's network, which is one of the distributors of FKB's products. In the area of financial, credit and operational risks management, the processes and tools developed within the Group represent advanced solutions that enable an efficient response to market changes. The advantages of the Company's integration in the business group contribute to the Company's positive financial results.

Harm assessment

The Company's Board of Directors has reviewed all arrangements put in place between the Company and the companies that were part of the Group during the 2017 reporting period and states that the Company incurred no harm as a result of any contracts, agreements or any other legal acts made or implemented by the Company or as a result of any other influence otherwise exerted by KB in the reporting period.

In Prague on 19 March 2018

Factoring KB, a.s.



Adam Fiedler
Chairman of the Board



Věra Jahnová
Member of the Board

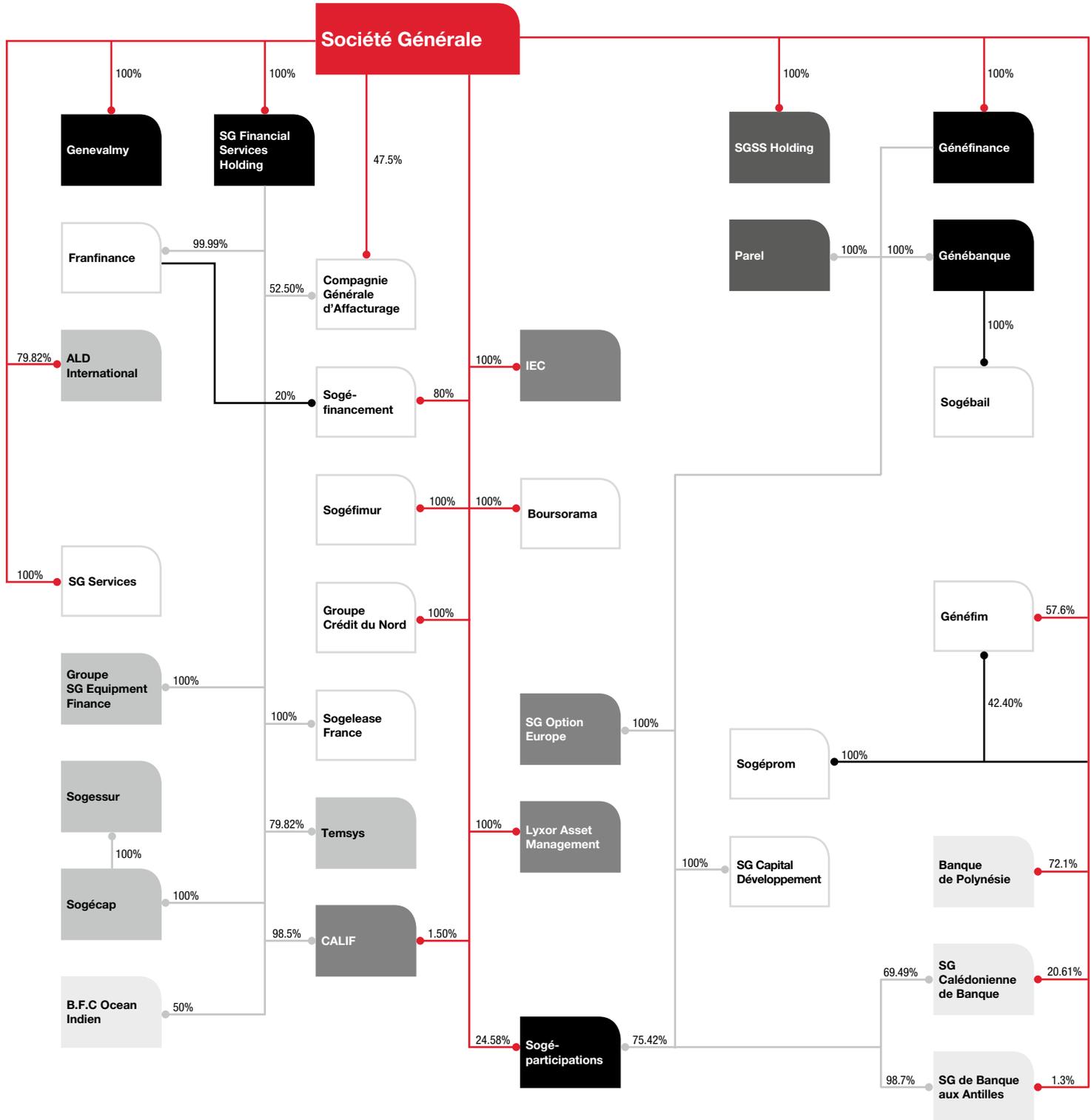


Eva Březinová
Member of the Board

The Structure on Relationships SG Group

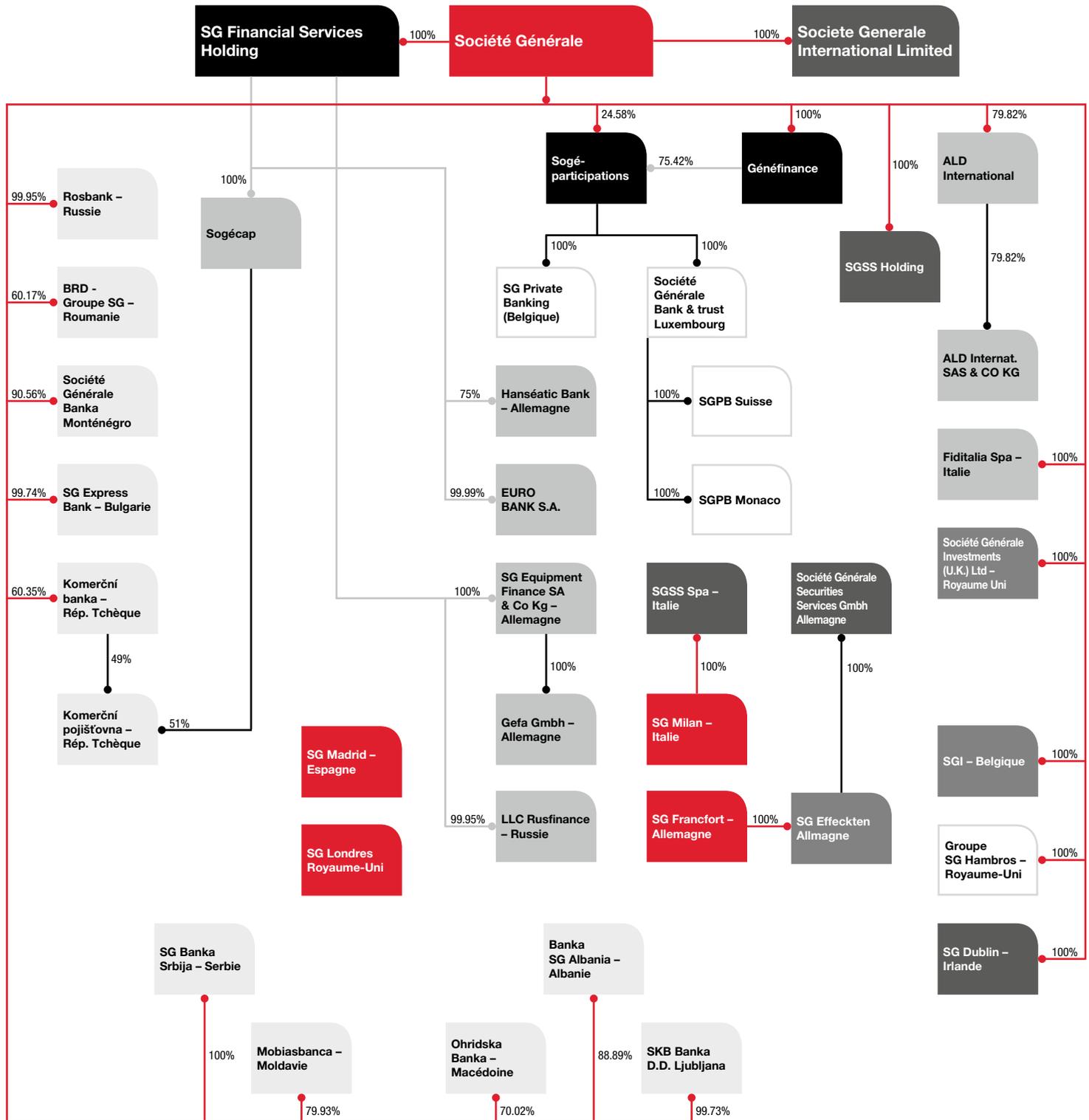
% of the share capital

FRANCE



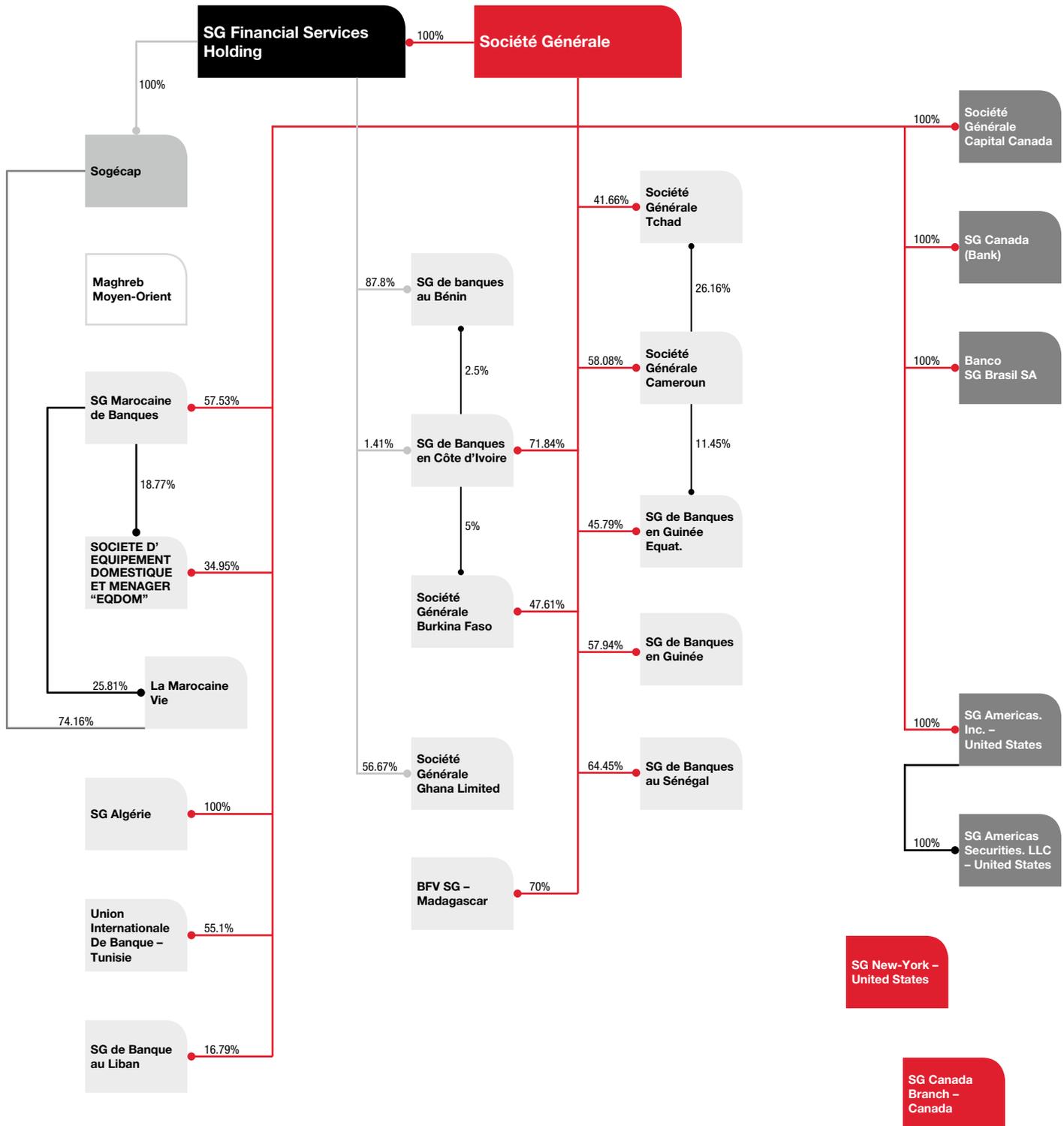
Note: Share capital and of the voting rights may vary

EUROPE



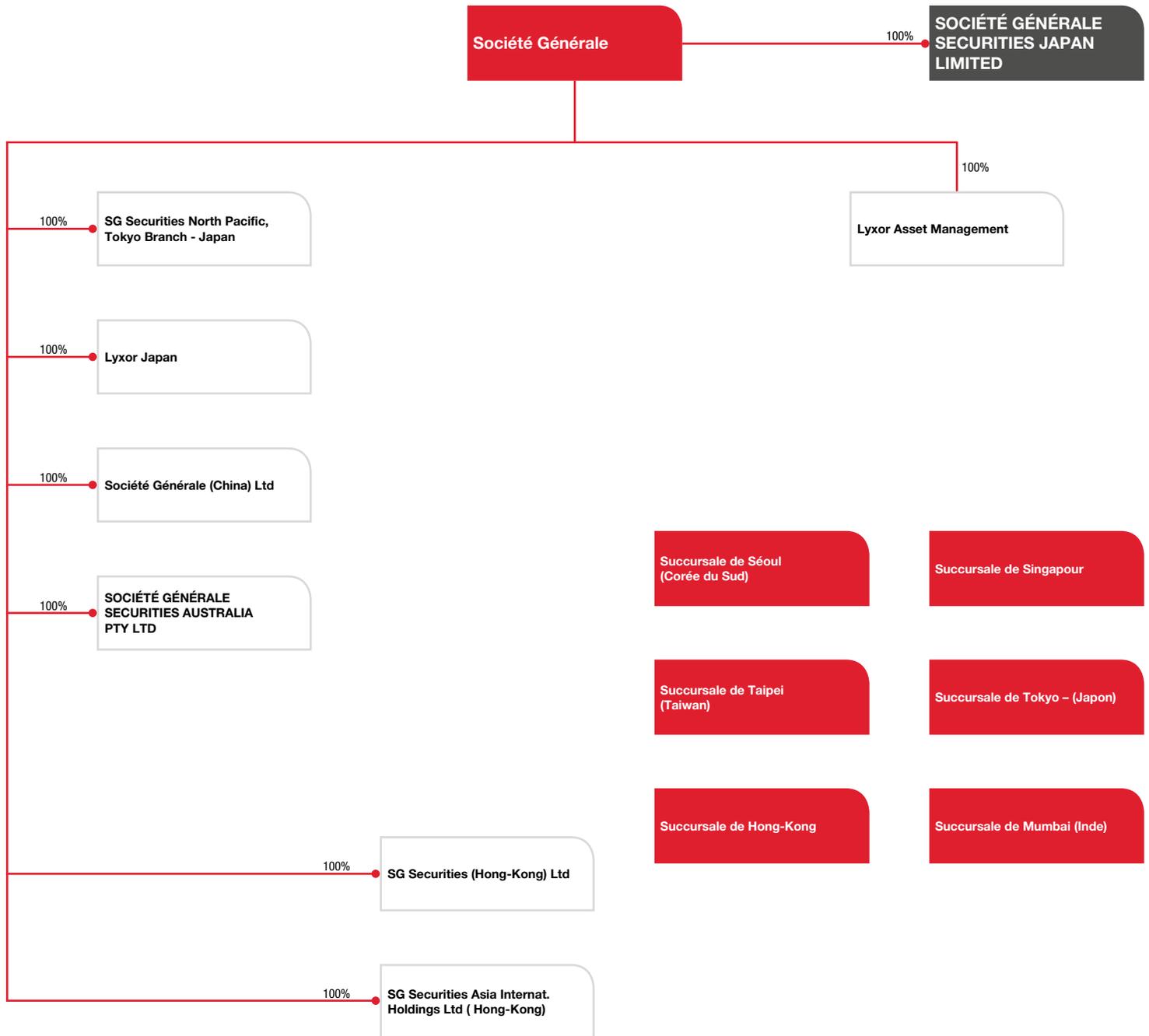
Note: Share capital and of the voting rights may vary

AFRICA AND AMERICA



Note: Share capital and of the voting rights may vary

ASIA AND AUSTRALIA



Note: Share capital and of the voting rights may vary

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