

ANNUAL
REPORT

2018

Factoring KB, a.s.



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

Selected economic indicators

- Company turnover reached CZK 50,168 million in 2018, which represents a 17% gain year on year.
- Profit after tax was CZK 115.1 million in 2018.
- The Company's market share expanded to 28.7% in 2018.

Contacts

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Komerční banka, a.s.

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tel.: +420 955 559 550
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e-mail: mojebanka@kb.cz
internet: www.kb.cz

Turnover of domestic factoring (CZK mil.)

2014	22,563
2015	24,916
2016	25,796
2017	29,632
2018	35,296

Turnover of international factoring (CZK mil.)

2014	11,551
2015	10,565
2016	11,966
2017	13,206
2018	14,872

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	Unit	2018	2017	2016	2015	2014
Total assets	CZK million	16,315.3	14,713.6	13,976.7	12,027.9	12,214.3
Registered capital	CZK million	1,184.0	1,184.0	1,184.0	1,184.0	1,184.0
Equity	CZK million	1,620.6	1,598.3	1,609.7	1,626.2	1,598.3
Profit/loss before tax	CZK million	141.7	100.8	91.3	86.5	31.2
Profit after tax	CZK million	115.1	86.5	78.1	76.2	26.6
Market share	%	28.7	27.4	28.7	25.9	20.8
Total turnover*	CZK million	50,168.0	42,838.0	37,761.7	35,480.5	34,113.9
Turnover of domestic factoring	CZK million	35,295.8	29,632.0	25,795.7	24,915.7	22,562.6
Turnover of international factoring	CZK million	14,872.2	13,206.0	11,966.0	10,564.7	11,551.2
Level of provisions	CZK million	218.9	275.4	252.6	217.0	206.4
Total revenues*	CZK million	447.4	443.1	287.8	547.5	341.8
Total costs**	CZK million	305.7	342.3	196.5	461.0	310.6
Average number of employees	number	44	45	45	44	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.

| 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

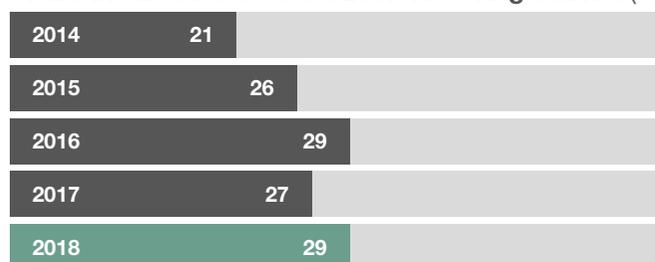
Membership in associations

- 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 assumption of 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 organizations 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 (%)



I Report of the Board of Directors

The above-average economic growth of the Czech economy in 2017 of 4.5% returned to a growth tempo at a level sustainable over the long-term in 2018, close to its potential. Domestic demand was primarily responsible for total growth of 3.0% last year. Its strength was able to more than compensate for the deteriorating external environment, particularly in the second half of the year.

Domestic demand was able to rely on both of its main component parts – household consumption and investment activity. Both were the result of significant limits that hit the national economy last year. A lack of labour and the historically high use of production capacities has stimulated investment activity in the private sector since the middle of 2017. Investment by the public sector lagged behind, but eventually roused towards the end of 2018. This was supported by the need to draw money from EU funds.

Whereas, with the exception of stocks, domestic demand contributed toward last year's economic growth in a way which was very positive, the contribution of foreign trade was by contrast negative. Strong domestic demand played a part on the side of stronger imports, stimulating higher levels of imports of consumer and in particular capital goods. By contrast, the situation for exporters was not exactly rosy last year. Weakening demand was mainly evident for Czech manufacturers in the key automotive industry.

The year 2018 was one in which the labour market was extremely tense. The level of unemployment reached 2.1% in the final quarter of last year, the lowest figure since 1993. Rising unit costs for work were the main pro-inflation factor last year. Total inflation in 2018 was 2.1%. After raising interest rates twice in 2017, the Czech National Bank increased the key exchange rate five times in 2018 and the two-week repo rate at the end of last year was 1.75%.

The Association of Factoring Companies of the Czech Republic reported total turnover of assigned accounts receivable of CZK 174.4 billion in 2018. The factoring market continued to grow, although the growth tempo slowed in comparison with the previous year from 19% in 2017 to less than 12% in 2018. Factoring KB was able to grow faster than the market as a whole and the 17% growth in purchased accounts receivable achieved consolidated the Company's first place on the Czech factoring market, with a market share of 28.7%. As far as the regional distribution of purchased accounts receivable is concerned, domestic accounts receivable rose faster than foreign ones, which is a change compared to 2017. In 2018, the volume of domestic accounts receivable rose year-on-year by 14% and the volume of foreign accounts receivable by only 7%. As was the case last year, there was clear reinforcement of non-recourse factoring, which rose year-on-year by 15%, whereas recourse factoring rose

year-on-year by 9% and its share in the total volume of assigned accounts receivable fell from 62% in 2017 to 58% in 2018.

Factoring KB has achieved growth in turnovers continually for an eighth year now, since 2011, and in this time we have been able to advance from the fourth position on the market, with a market share of 12.3%, to the first place, with a market share of almost 29%. In addition to the extraordinary effort of Company employees, our commercial success has long been based on intensive cooperation with the Komerční banka distribution network, which supplements its range of banking products with factoring products.

The Company worked with commercial insurance companies in 2018 and with partner factoring companies within the Factors Chain International (FCI) network, of which it has been a member since the year 2000. Such cooperation made it possible to offer non-recourse products, in which Factoring KB assumes the risk of insolvency of customers, and to support exporters and importers in commercial cooperation with their foreign partners.

As in previous years, Komerční banka also remains a key partner in areas other than the distribution of our products. Komerční banka provides Factoring KB with support and expertise in many other areas, such as the management of credit and operating risks, the area of compliance, human resources and IT.

Most Significant Events of 2018

The dynamic commercial growth of Factoring KB brought a number of records: monthly turnover of purchased accounts receivable was in excess of CZK 4 billion for the first time during the first quarter and factoring turnover of more than CZK 50 billion was achieved for the year as a whole. This growth was again achieved in cooperation with all corporate segments of the parent Komerční banka, and mainly thanks to reinforcement of the position of Factoring KB in the large and multinational enterprise segment.

Factoring KB was involved in the preparation of several international transactions in cooperation with the global team of Société Générale Factoring and developing synergy within the SG Group in serving global clients remains our priority.

Strategic Targets for 2019

The primary objective at Factoring KB is to maintain the high quality of the services we offer to clients and to make new acquisitions in cooperation with the commercial network at Komerční banka. In doing so we want to maintain the Company's leading position on the Czech factoring market.

We will continue to develop our information systems, so as to be able to respond to new technological trends, such as digitalisation, and to bring in simpler, faster and innovative solutions to the satisfaction of clients and employees. We are looking for ways of simplifying and automating our procedures as much as possible, particularly in the very-small enterprise and entrepreneur segment, and therefore of offering factoring products to an even greater number of clients.

Commentary on the Company's Financial Position and Performance

Pre-tax profit of the Company rose by 41% in 2018. The Company profited from excellent trade performance and was able to increase revenues on commission by 9% and net interest revenues by 8% year-on-year. These increases unfortunately lag behind the dynamic of trade increases (turnover rose by 17%), which was caused by continuing pressure on prices. The dissolving of allowances of CZK 56.5 million contributed significantly to the extraordinary profit (creation of CZK 22.8 million in 2018), compensating for the loss of revenue from reinvested capital in the Protos uzavřený investiční fond, a.s., fund (CZK 39 million in 2017). The Company mainly saw an increase in costs in relation to payroll (of 9%).

Corporate Governance

as at 31 December 2018

Board of Directors

Adam Fiedler

Chairman of the Board of Directors and CEO
until 31 January 2019

Jan Kotík

Chairman of the Board of Directors and CEO
since 1 February 2019

Eva Březinová

Member of the Board of Directors

Věra Jahnová

Member of the Board of Directors and CEO
until 31 March 2018

David Rožek

Member of the Board of Directors and CEO
since 1 April 2018

Supervisory Board

Jitka Haubová

Chairwoman of the Supervisory Board

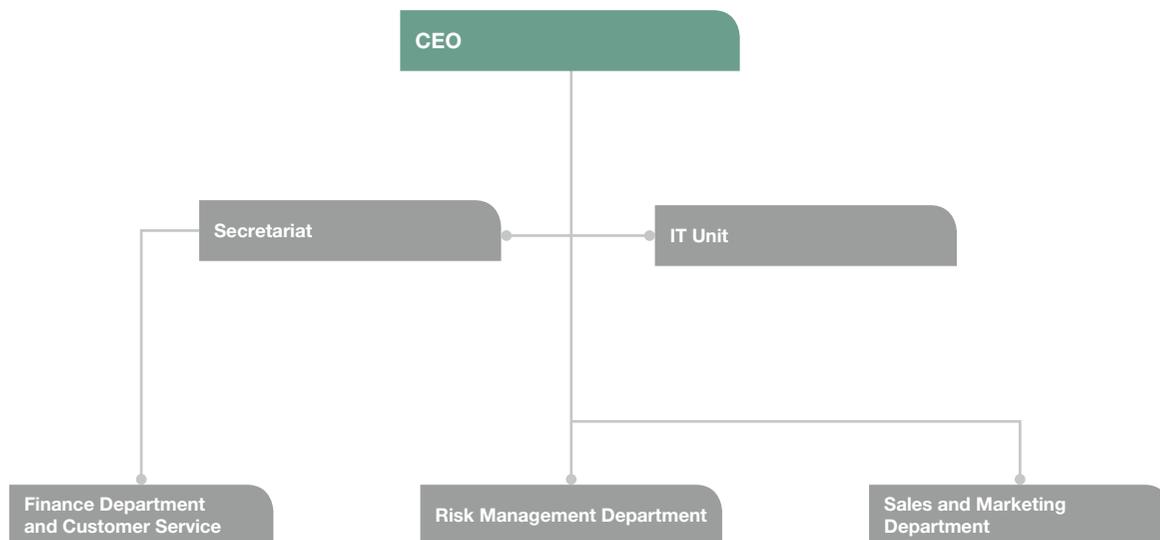
Jiří Šperl

Member of the Supervisory Board

Milan Dobeš

Member of the Supervisory Board

Organizational Chart as at 31 December 2018



| Ownership Structure

The annual general meeting was held on 24 April 2018. The general meeting approved the Report of the Board of Directors on its Business Activities and the State of its Assets for 2017 as well as the financial statements for 2017. It also decided on distribution of the Company's earnings from 2017, and the Report of the Supervisory Board and Report on Related Party Transactions were taken into consideration. The Company appointed Deloitte Audit s.r.o. as its external auditor for 2018.

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 2019

Signed on behalf of the Board of Directors:



Jan Kotík

Chairman of the Board of Directors and Chief Executive Officer



Eva Březinová

Member of the Board of Directors



David Rožek

Member of the Board of Directors

| 2018 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 2018, 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 2018.

The Supervisory Board further reviewed the Report on Related Parties for the period from 1 January to 31 December 2018 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 relationships, any damage caused to the Company in its relations with the Controlling Entity.

Having reviewed the proposal of the Board of Directors for the profit allocation, the Supervisory Board recommends the sole shareholder approve the BoD proposal for the profit allocation as follows:

After tax profit	CZK 115,094,228.70
Dividend payout	CZK 115,094,228.70

The Supervisory Board recommends the General Meeting to approve the Company's annual financial statements for 2018.

Prague, 10 April 2019



Jitka Haubová
Chairman of the Supervisory Board

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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: náměstí 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 2018, 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 2018, 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 10 April 2019

Audit firm:

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

Statutory auditor:

Daniela Hynštová
evidenční číslo 2235

Balance Sheet in full as of 31 December 2018

(in CZK thousand)		31. 12. 2018			31. 12. 2017
		Gross	Adjustment	Net	Net
TOTAL ASSETS		16,629,720	314,388	16,315,332	14,713,627
B.	Fixed assets	1,105,349	95,524	1,009,825	1,014,999
B. I.	Intangible fixed assets	105,438	94,075	11,363	10,200
B. I. 2.	Valuable rights	105,438	94,075	11,363	10,200
B. I. 2.1.	Software	105,438	94,075	11,363	10,200
B. II.	Tangible fixed assets	3,433	1,449	1,984	2,029
B. II. 2.	Tangible movable assets and sets of tangible movable assets	2,721	1,449	1,272	1,317
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	996,478	0	996,478	1,002,770
B. III. 5.	Other non-current securities and investments	996,478	0	996,478	1,002,770
C.	Current assets	15,522,666	218,864	15,303,802	13,695,531
C. II.	Receivables	15,492,053	218,864	15,273,189	13,694,775
C. II. 1.	Long-term receivables	954,855	2,661	952,194	781,798
C. II. 1.1.	Trade receivables	934,088	2,661	931,427	754,255
C. II. 1.4.	Deferred tax asset	20,767	0	20,767	27,543
C. II. 2.	Short-term receivables	14,537,198	216,203	14,320,995	12,912,977
C. II. 2.1.	Trade receivables	9,131,127	138,912	8,992,215	8,122,639
C. II. 2.4.	Receivables – other	5,406,071	77,291	5,328,780	4,790,338
C. II. 2.4.3.	State – tax receivables	0	0	0	1,283
C. II. 2.4.4.	Short-term prepayments made	5,405,588	77,291	5,328,297	4,788,841
C. II. 2.4.6.	Sundry receivables	483	0	483	214
C. IV.	Cash	30,613	0	30,613	756
C. IV. 1.	Cash on hand	2	0	2	12
C. IV. 2.	Cash at bank	30,611	0	30,611	744
D.	Other assets	1,705	0	1,705	3,097
D. 1.	Deferred expenses	1,705	0	1,705	3,097

(in CZK thousand)			31. 12. 2018	31. 12. 2017
TOTAL LIABILITIES & EQUITY			16,315,332	14,713,627
A.	Equity		1,620,585	1,598,323
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	31,781	38,073
A.	II.	1. Share premium	6,000	6,000
A.	II.	2. Capital funds	25,781	32,073
A.	II.	2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	25,781	32,073
A.	III.	Funds from profit	16,357	16,362
A.	III.	1. Other reserve funds	15,791	15,791
A.	III.	2. Statutory and other funds	566	571
A.	IV.	Retained earnings (+/-)	273,353	273,353
A.	IV.	1. Accumulated profits or losses brought forward (+/-)	273,353	273,353
A.	V.	Profit or loss for the current period (+/-)	115,094	86,535
B.+C.	Liabilities		14,651,311	13,077,585
B.	Reserves		12,458	12,700
B.	IV.	Other reserves	12,458	12,700
C.	Payables		14,638,853	13,064,885
C.	I.	Long-term payables	446,582	496,614
C.	I.	2. Payables to credit institutions	435,492	476,361
C.	I.	4. Trade payables	11,090	20,253
C.	II.	Short-term payables	14,192,271	12,568,271
C.	II.	2. Payables to credit institutions	6,857,561	5,363,081
C.	II.	4. Trade payables	7,284,026	7,172,664
C.	II.	8. Other payables	50,684	32,526
C.	II.	8.3. Payables to employees	1,926	1,736
C.	II.	8.4. Social security and health insurance payables	967	871
C.	II.	8.5. State – tax payables and subsidies	7,159	3,570
C.	II.	8.6. Estimated payables	4,210	5,100
C.	II.	8.7. Sundry payables	36,422	21,249
D.	Other liabilities		43,436	37,719
D.	1.	Accrued expenses	2,909	2,740
D.	2.	Deferred income	40,527	34,979

Profit and Loss Account in full format as of 31 December 2018

(in CZK thousand)		Year ended 31. 12. 2018	Year ended 31. 12. 2017
I.	Sales of products and services	123,616	113,146
A.	Purchased consumables and services	35,152	34,848
A.	2. Consumed material and energy	1,825	1,727
A.	3. Services	33,327	33,121
D.	Staff costs	50,189	46,083
D.	1. Payroll costs	35,173	32,572
D.	2. Social security and health insurance costs and other charges	15,016	13,511
D.	2.1. Social security and health insurance costs	12,870	11,792
D.	2.2. Other charges	2,146	1,719
E.	Adjustments to values in operating activities	(50,275)	28,964
E.	1. Adjustments to values of intangible and tangible fixed assets	6,272	6,144
E.	1.1. Adjustments to values of intangible and tangible fixed assets – permanent	6,272	6,144
E.	3. Adjustments to values of receivables	(56,547)	22,820
III.	Other operating income	256,486	282,477
III.	3. Sundry operating income	256,486	282,477
F.	Other operating expenses	276,043	292,359
F.	3. Taxes and charges	339	238
F.	4. Reserves relating to operating activities and complex deferred expenses	(242)	1,256
F.	5. Sundry operating expenses	275,946	290,865
*	Operating profit or loss (+/-)	68,993	(6,631)
IV.	Income from non-current financial assets – equity investments	0	39,099
IV.	2. Other income from equity investments	0	39,099
VI.	Interest income and similar income	125,863	94,794
VI.	2. Other interest income and similar income	125,863	94,794
J.	Interest expenses and similar expenses	49,871	24,576
J.	1. Interest expenses and similar expenses – controlled or controlling entity	48,921	24,465
J.	2. Other interest expenses and similar expenses	950	111
VII.	Other financial income	187,582	186,097
K.	Other financial expenses	190,833	187,961
*	Financial profit or loss (+/-)	72,741	107,453
**	Profit or loss before tax (+/-)	141,734	100,822
L.	Income tax	26,640	14,287
L.	1. Due income tax	19,864	16,178
L.	2. Deferred income tax (+/-)	6,776	(1,891)
**	Profit or loss net of tax (+/-)	115,094	86,535
***	Profit or loss for the current period (+/-)	115,094	86,535
*	Net turnover for the current period	693,547	715,613

Cash Flow Statement as of 31 December 2018

(in CZK thousand)		Year ended 31. 12. 2018	Year ended 31. 12. 2017
P.	Opening balance of cash and cash equivalents	756	965
Cash flows from ordinary activities (operating activities)			
Z.	Profit or loss before tax	141,734	100,822
A.	1. Adjustments for non-cash transactions	(110,780)	(103,142)
A.	1.1. Depreciation of fixed assets	24,786	13,233
A.	1.2. Change in provisions and reserves	(56,789)	(21,564)
A.	1.4. Revenues from profit shares	0	(39,099)
A.	1.5. Interest expense and interest income	(75,992)	(70,218)
A.	1.6. Adjustments for other non-cash transactions	(2,785)	14,506
A. *	Net operating cash flow before changes in working capital	30,954	(2,320)
A.	2. Change in working capital	(1,405,519)	(224,163)
A.	2.1. Change in operating receivables and other assets	(1,540,554)	(1,044,558)
A.	2.2. Change in operating payables and other liabilities	135,035	820,395
A. **	Net cash flow from operations before tax	(1,374,565)	(226,483)
A.	3. Interest paid	(49,669)	(23,504)
A.	4. Interest received	119,191	92,997
A.	5. Income tax paid from ordinary operations	(15,618)	(17,993)
A. ***	Net operating cash flows	(1,320,661)	(174,983)
Cash flows from investing activities			
B.	1. Fixed assets expenditures	(7,390)	(7,123)
B.	2. Proceeds from fixed assets sold	0	253,416
B.	3. Loans and borrowings to related parties	0	39,099
B. ***	Net investment cash flows	(7,390)	285,392
Cash flow from financial activities			
C.	1. Change in payables from financing	1,444,443	(74,365)
C.	2. Impact of changes in equity	(86,535)	(36,252)
C.	2.6. Profit shares paid	(86,535)	(36,252)
C. ***	Net financial cash flows	1,357,908	(110,617)
F.	Net increase or decrease in cash and cash equivalents	29,857	(208)
R.	Closing balance of cash and cash equivalents	30,613	756

Statement of Changes in Equity as of 31 December 2018

(in CZK thousand)	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits or losses brought forward	Profit or loss for the current period	TOTAL EQUITY
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
Profit shares paid					(86,535)	(86,535)
Payments from capital funds			(5)			(5)
Gains or losses from the revaluation of assets and liabilities		(6,292)				(6,292)
Profit or loss for the current period					115,094	115,094
Balance at 31 December 2018	1,184,000	31,781	16,357	273,353	115,094	1,620,585

Financial Statements for the Year Ended 31 December 2018

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 2018:

Board of Directors	
Chairman:	Adam Fiedler
Member:	Eva Březinová
Member:	David Rožek

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 2018 and 2017; 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 2018 and 2017; and Czech Accounting Standards for Businesses, as amended for 2018 and 2017.

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 2018 and 2017, 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	3–6

(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 expensed 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

For creation of provisions, the Company use one of the two methods. For receivables, which are not in the default, the Company creates portfolio provisions based on models using probability of default and loss given default. For receivables in default the Company creates individual provisions based on evaluation of a debtor's ability to repay, expected revenues from realized collateral, expected time of collection, etc.

The model for portfolio provisions calculation was calibrated in 2018, which resulted in release of provisions in the amount of CZK 17,812 thousand.

(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 2018	As at 31 December 2017
Cash and cash in transit	2	12
Accounts in banks	30,611	744
Debit balance of current account included in short-term bank loans	0	0
Cash and cash equivalents total	30,613	756

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

4. Fixed assets

(a) Intangible fixed assets (in CZK thousand)

Cost

	Opening balance	Additions	Disposals	Transfers	Closing balance
Software	98,461	0	0	6,977	105,438
Intangible fixed assets under construction	0	6,977	0	(6,977)	0
Total in 2018	98,461	6,977	0	0	105,438
Total in 2017	92,370	6,091	0	0	98,461

Accumulated amortisation

	Opening balance	Amortisation charge	Disposals	Closing balance	Net book value
Software	(88,261)	(5,814)	0	(94,075)	11,363
Intangible fixed assets under construction	0	0	0	0	0
Total in 2018	(88,261)	(5,814)	0	(94,075)	11,363
Total in 2017	(82,475)	(5,786)	0	(88,261)	10,200

Total low-value intangible assets not included in the balance sheet amounted to CZK 114 thousand as at 31 December 2018 and CZK 126 thousand as at 31 December 2017 at cost.

(b) Tangible fixed assets (in CZK thousand)

Cost

	Opening balance	Additions	Disposals	Transfers	Closing balance
Machinery and equipment	2,260	0	0	414	2,674
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	414	0	(414)	0
Total in 2018	3,019	414	0	0	3,433
Total in 2017	6,404	1,031	(4,416)	0	3,019

Accumulated depreciation

	Opening balance	Depreciation charge	Disposals	Closing balance	Net book value
Machinery and equipment	(943)	(459)	0	(1,042)	1,272
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 2018	(990)	(459)	0	(1,449)	1,984
Total in 2017	(5,048)	(358)	4,416	(990)	2,029

Total low-value tangible assets not included in the balance sheet amounted to CZK 443 thousand as at 31 December 2018 and CZK 470 thousand as at 31 December 2017 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.

Movement of non-current financial assets:

	Balance as at 31 December 2016	Revaluation	Balance as at 31 December 2017	Revaluation	Balance as at 31 December 2018
Other non-current securities and investments	1,317,889	(315,119)	1,002,770	(6,292)	996,478
Total	1,317,889	(315,119)	1,002,770	(6,292)	996,478

5. Receivables

Long-term receivables

As at 31 December 2018, the Company had long-term receivables amounting to CZK 952,194 thousand (2017: CZK 781,798 thousand), comprising trade receivables in the amount of CZK 931,427 thousand (2017: CZK 754,255 thousand) and a deferred tax asset of CZK 20,767 thousand (2017: CZK 27,543 thousand). The Company had receivables with maturity longer than 5 years in the amount of CZK 144,493 thousand (2017: CZK 118,107 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 2018	Out of which overdue ¹⁾	As at 31 December 2017	Out of which overdue ¹⁾
Trade receivables (gross)	9,131,127	0	8,301,880	0
out of which:				
– purchased receivables	8,953,134	129,590	8,126,752	101,758
– commissions from purchased receivables	11,420	1,897	10,538	1,459
– interest on pre-financing	21,969	4,934	15,261	4,105
– reassignments	139,077	116,846	142,260	128,307
– receivables from accession to debts	4,435	4,435	6,138	6,138
– other receivables	1,093	431	931	0
Allowances for trade receivables	(138,912)	0	(179,241)	0
Trade receivables (net)	8,992,215	0	8,122,639	0
Receivables from pre-financing	5,405,548	0	4,884,967	0
Operating advances	40	0	45	0
Allowances for advances granted	(77,291)	0	(96,171)	0
Total advances granted net	5,328,297	0	4,788,841	0
State – tax receivables	0	0	1,283	0
Other short-term receivables	483	0	214	0
Total short-term receivables	14,320,995	0	12,912,977	0

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 uncollectibility, rejection of bankruptcy proceedings, and settlement or non-settlement of receivables in bankruptcy proceedings, etc., the Company charged to expenses CZK 18,810 thousand in 2018 (2017: CZK 7,351 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 2016	Creation of allowances	Recognition of allowances	Balance as at 31 December 2017	Creation of allowances	Recognition of allowances	Balance as at 31 December 2018
receivables – statutory	49,113	23,902	11,081	61,934	16,010	20,248	57,696
receivables – other	203,478	77,138	67,138	213,478	31,957	84,267	161,168

Statutory allowances are created pursuant to the Act on Reserves.

7. Other assets

Deferred expenses in the amount of CZK 1,705 thousand (2017: CZK 3,097 thousand) represent primarily items related to operational services. Accrued income was not accounted for in the 2018 and 2017 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 2018.

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 2018 and 2017 (in CZK thousand):

	Balance as at 31 December 2016	Increase	Decrease	Balance as at 31 December 2017	Increase	Decrease	Balance as at 31 December 2018
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	93,776	0	61,703	32,073	0	6,292	25,781
Reserve fund	15,791	0	0	15,791	0	0	15,791
Other funds	571	0	0	571	0	5	566
Retained earnings	231,468	41,885	0	273,353	0	0	273,353
Profit (loss) for the current period (+/-)	78,137	86,535	78,137	86,535	115,094	86,535	115,094

Based on the decisions of the General Meetings held on 24 April 2018 and 18 April 2017, the following distribution of profits for 2017 and 2016 was approved (in CZK thousand):

2016 profit	78,137	2017 profit	86,535
Allocation to –		Allocation to –	
reserve fund	0	reserve fund	0
other funds	0	other funds	0
Dividend payments and profit shares	36,252	Dividend payments and profit shares	86,535
Transfer of retained earnings	41,885	Transfer of retained earnings	0
Retained earnings as at 31 December 2017	273,353	Retained earnings as at 31 December 2018	273,353

No decision on the distribution of 2018 profit has been made yet.

9. Reserves

Movements in reserves (in CZK thousand):

Reserves	Balance as at 31 December 2016	Creation of reserves	Recognition of reserves	Balance as at 31 December 2017	Creation of reserves	Recognition of reserves	Balance as at 31 December 2018
Other	11,444	13,827	12,571	12,700	12,475	12,717	12,458

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 2018, the Company had long-term payables amounting to CZK 446,582 thousand (2017: CZK 496,614 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 2018 the Company had the following long-term payables (in CZK thousand):

	As at 31 December 2018	As at 31 December 2017
Payables to credit institutions	435,492	476,361
Trade payables	11,090	20,253
Total	446,582	496,614

The interest expenses related to long-term payables to credit institutions in 2018 amounted to CZK 6,617 thousand (2017: CZK 8,030 thousand). Long-term payables to credit institutions bore interest at a fixed rate.

Short-term payables

As at 31 December 2018, the Company had short-term payables in the amount of CZK 14,192,271 thousand (2017: CZK 12,568,271 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 2018 the Company had the following short-term payables (in CZK thousand):

	As at 31 December 2018	As at 31 December 2017
Payables to credit institutions	6,857,561	5,363,081
Trade payables		
– suppliers	280	373
– purchased receivables	7,283,746	7,172,291
Other payables		
– payables to employees	1,926	1,736
– social security and health insurance payables	967	871
– State – tax payables and subsidies	7,159	3,570
– estimated payables	4,210	5,100
– sundry payables	36,422	21,249
Total	14,192,271	12,568,271

As at 31 December 2018 the Company had the following short-term payables to credit institutions (in CZK thousand):

Bank	Interest rate	2018		2017	
		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.	3,762,645	3,762,645	3,192,422	3,192,422
KB (USD)	ON LIBOR USD ACTUAL + f. v.	1,487	33,404	570	12,138
KB (EUR)	ON LIBOR EUR ACTUAL + f. v.	88,327	2,272,210	56,705	1,448,237
KB (GBP)	ON LIBOR GBP ACTUAL + f. v.	22	631	68	1,957
KB (PLN)	ON WIBOR PLN ACTUAL + f. v.	5,100	30,500	190	1,164
KB (CZK)	Fixed interest rate	272,704	272,704	247,443	247,443
KB (EUR)	Fixed interest rate	871	22,417	0	0
UniCredit Bank	Fixed interest rate	18,000	463,050	18,000	459,720
Total			6,857,561		5,363,081

Note.: f. v. – fixed variance

Interest expenses related to payables to financial institutions amounted to CZK 43,254 thousand in 2018 and CZK 16,546 thousand in 2017.

11. Other liabilities

Other liabilities comprise accrued expenses in the amount of CZK 2,909 thousand (2017: CZK 2,740 thousand) and deferred income in the amount of CZK 40,527 thousand (2017: CZK 34,979 thousand). Deferred income represents in particular the deferred price for the discount purchase of receivables.

12. Income taxes

	2018	2017
	in CZK thousand	in CZK thousand
Profit before taxes	141,734	100,822
Non-taxable revenue	0	(39,099)
Difference between accounting and tax depreciation	(1,080)	570
Non-deductible costs	(36,364)	22,860
– net creation of allowances	(52,309)	10,000
– reserves	(242)	1,256
– written off receivables	13,864	6,553
– other (e.g. entertainment expenses, deficits and damage)	2,323	5,051
Taxable income	104,291	85,153
Income tax rate	19%	19%
Tax	19,815	16,179
Adjustment in respect of income tax of previous years	0	(1)
Tax relief	0	0
Tax due	19,815	16,178

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

Deferred tax items	2018		2017	
	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	861	0	657
Other temporary differences:	0	0	0	0
Allowances for receivables	19,261	0	25,787	0
Reserves	2,367	0	2,413	0
Total	21,628	861	28,200	657
Net	20,767	0	27,543	0

13. Leases

Assets in the form of operating leases as at 31 December 2018 and 31 December 2017 (in CZK thousand):

Description	Lease period in months	Lease amount in 2018	Lease amount in 2017	Owner's acquisition cost
12 passenger cars	48	1,572	1,420	6,550

14. Commitments and contingencies

The Company recorded commitments from import factoring in the amount of CZK 8,229 thousand (2017: CZK 6,963 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 680 thousand as at 31 December 2018 (2017: CZK 928 thousand).

16. Other operating expenses and income

Other operating expenses totalled CZK 275,946 thousand as at 31 December 2018 (2017: CZK 290,865 thousand). The most significant items of Other operating expenses consist insurance expenses in the total amount of CZK 10,487 thousand (2017: CZK 9,627 thousand), expenses related to receivable reassignments in the total amount of CZK 246,160 thousand (2017: CZK 272,528 thousand) and the receivable write-offs in total amount of CZK 18,810 thousand (2017: CZK 7,351 thousand).

Other operating income totalled CZK 256,486 thousand as at 31 December 2018 (2017: CZK 282,477 thousand). The most significant items of Other operating income consist of revenues from the sale of receivables in the total amount of CZK 203 thousand (2017: CZK 823 thousand), revenues related to receivable reassignments in the total amount of CZK 246,160 thousand (2017: CZK 272,528 thousand), income from contractual penalties in the total amount of CZK 163 thousand (2017: CZK 363 thousand), charges related to changes in contractual terms, applications for provision of factoring services, entry and monitoring fees and other income amounting to CZK 9,960 thousand (2017: CZK 8,763 thousand).

17. Financial expenses and income

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

Financial expenses	As at 31 December 2018	As at 31 December 2017
Interest expense from loan facilities	49,871	24,576
Other financial expenses	190,833	187,961
– Exchange rate losses	187,930	184,443
– Operating insurance	266	340
– Banking expenses	2,628	3,157
– Other charges	9	21
Total financial expenses	240,704	212,537

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

Financial income	As at 31 December 2018	As at 31 December 2017
Interest on pre-financed purchased receivables	125,863	94,794
Exchange rate gains	187,582	186,097
Income from non-current financial assets (Protos – dividends)	0	39,099
Total financial income	313,445	319,990

18. Staff costs

The average headcount, management members and staff costs for 2018 and 2017 are as follows:

Overview of staff costs (in CZK thousand):

	2018		2017	
	Total headcount	Management	Total headcount	Management
Average headcount	44	3	45	3
Wages and salaries	35,173	6,652	32,572	6,262
Social security and health insurance	12,870	2,088	11,792	1,926
Other social costs	2,146	476	1,719	299
Total staff costs	50,189	9,216	46,083	8,487

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 did not report revenue in the form of dividends paid by Protos in 2018 (2017: CZK 39,099 thousand).

The services rendered by Komerční banka, a.s. to the Company in 2018 primarily comprised (in CZK thousand):

	As at 31 December 2018	As at 31 December 2017
Financial expenses	51,521	27,583
Fee for using KB's distribution network	8,234	7,266
Trademark use	1,500	1,500
Other services provided by Komerční banka, a.s.	7,609	7,222

Financial expenses comprise primarily the interest on payables to credit institutions in the amount of CZK 48,920 thousand (2017: CZK 24,464 thousand), banking fees in the amount of CZK 2,049 thousand (2017: CZK 2,990 thousand), cost of a bank guarantee in the amount of CZK 543 thousand (2017: CZK 108 thousand) and other services provided by Komerční banka in the amount of CZK 9 thousand (2017: CZK 21 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 2018 and 2017.

20. Subsequent events

There was a change regarding the position of the Chairman of the Board of Directors after the balance sheet date, Mr. Jan Kotík became a new member of the Board of Directors on 1 February 2019 and he was elected Chairman on 4 February 2019.

21. Cash flow statement

The cash flow statement was prepared using the indirect method.

Prepared on:
18 March 2019

Signature of the reporting entity's statutory body:



Jan Kotík



Eva Březinová

Person responsible for bookkeeping (name, signature):



Ivana Náprstková

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



Ivana Náprstková

Report on Related Party Transactions for the Year Ended 31 December 2018

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

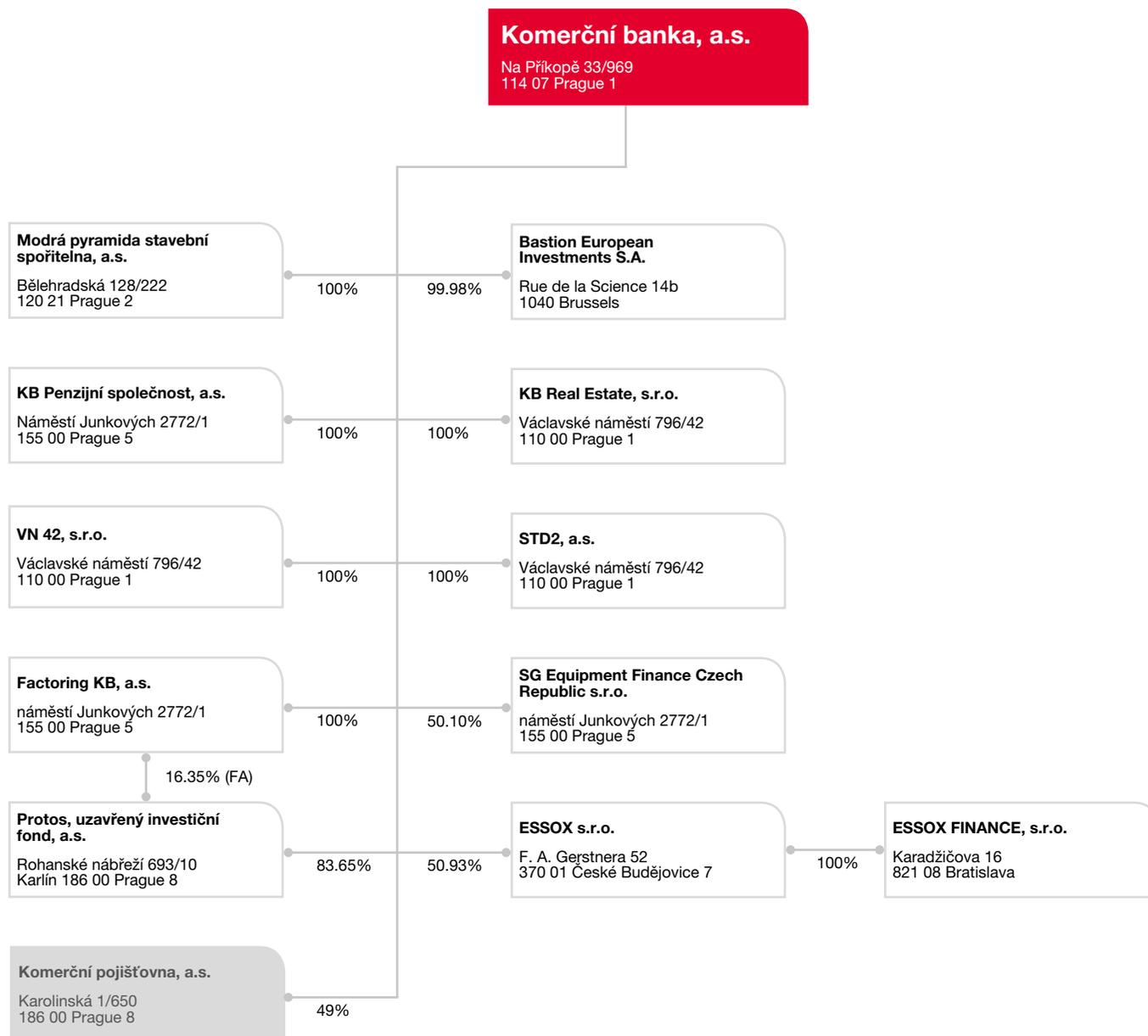
Factoring KB, a.s., with its registered office in Prague 5, náměstí Junkových 2772/1, Stodůlky 155 00, Corporate ID: 25148290, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 4861, (hereinafter “the Company” or “FKB”), is part of a business group (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 worked out 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 2018, that is, from 1 January 2018 to 31 December 2018 (hereinafter the “reporting period”).

I. Introduction

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

In the period from 1 January 2018 to 31 December 2018, 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.



Note: Above are mentioned percentages of equity, which can differ from the percentages of voting rights.

During the course of the 2018 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, 108 00, Czech Republic	100%
Protos, uzavřený investiční fond, a.s.	Prague 8, Rohanské nábřeží 693/10, 186 00, Czech Republic	100%
Société Générale Factoring	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%
Société Générale Factoring SLLC	Sofia, Al. Stambolyiski Blvd 73, 1303, Bulgaria	100%
Compagnie Générale D'Affacturage	Wuppertal, Robert-Daum Platz 5, 42117, Germany	100%
Société Générale Banka Srbija AD	Belgrade, Bulevar Zorana Dindića 50 a/b, 11070, Serbia	100%

¹⁾ These are companies controlled by SG Paris, both in direct and indirect line pursuant to 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 organizations in the world), it also provides selected services to other members of this international coalition.

As part of the Group, KB provides FKB trade mark licenses, 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 – Société Générale Factoring based in France, SG FACTORING SPA with the seat in Italy, BRD – Groupe Société Générale with the seat in Romania, Société Générale Factoring SLLC with the seat in Bulgaria, Compagnie Générale D'Affacturage with the seat in Germany and Société Générale Banka Srbija AD with the seat in Serbia, 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, who 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 2018.

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

The Company drew overdraft loans and term loans exceeding 10% of its equity (as at 31 December 2018) from Komerční banka in 2018. Term loans were drawn in the total amount of CZK 264 million and EUR 871 thousand. The balance of the overdraft facilities as at 31 December 2018 was CZK 3,763 million and EUR 88 million.

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. amendments (12)	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.	26 January 2018, 23 February 2018, 26 March 2018, 30 April 2018, 28 May 2018, 29 June 2018, 27 July 2018, 30 August 2018, 1 October 2018, 26 October 2018, 26 November 2018, 27 December 2018
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
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s.	Komerční banka, a.s.	26 January 2018
Contract on Opening and Maintaining of Current Accounts in CZK with Komerční banka, a.s.	Komerční banka, a.s.	26 January 2018
Framework Contract for Dealing on the Financial Market	Komerční banka, a.s.	22 December 2011
Contract on using the direct banking services, incl. amendment (1) ²⁾	Komerční banka, a.s.	31 October 2002
Contracts on Individual Pricing (2), incl. amendments (3)	Komerční banka, a.s.	31 July 2012, 31 August 2017, 9 March 2018
Contract on Provision of Bank Guarantee, incl. amendment (1)	Komerční banka, a.s.	23 October 2017, 20 September 2018
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. amendment (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

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
License 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
Partial Agreement No. 2, Physical Hosting of Equipment (IT Process Procedure), incl. amendment (1)	Komerční banka, a.s.	1 December 2012, 25 October 2017
Partial Agreement No. 3, IT Infrastructure Hosting (IT Process Procedure), incl. amendment (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 Support (EUS), (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. amendments (2) (Framework Agreement)	Komerční banka, a.s.	31 December 2012, 23 May 2018
Agreement on Services – eDoceo	Komerční banka, a.s.	1 April 2018
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 (6), incl. amendments (6), terminated (1)	Komerční banka, a.s.	30 March 2011, 16 January 2012, 10 June 2013, 16 December 2014, 8 January 2016, 1 January 2018, 29 March 2018, 1 April 2018
Contract on Complementary Services – Profi Merlin (1)	Komerční banka, a.s.	8 January 2016
Contract on Rental of ground	Komerční banka, a.s.	26 April 2018
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. amendments (5)	Komerční banka, a.s.	30 August 2012, 30 December 2014, 21 February 2017, 4 May 2017, 28 December 2017, 26 March 2018
Contract on Sublease of Parking Place (3), incl. amendments (4)	Komerční banka, a.s.	28 August 2012, 1 January 2013, 23 March 2015, 21 February 2017, 28 December 2017
License 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.	20 March 2018
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

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Agreement – Outsourcing of HR Services (excluding Payroll) KB Agr. No. 20596/0000, incl. amendments (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 Organization 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
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
Agreement – outsourcing of DPO services	Komerční banka, a.s.	26 April 2018
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 (12), terminated (3)	ALD Automotive s.r.o.	10 December 2015, 18 December 2015, 20 April 2016, 1 September 2017, 5 January 2018, 12 April 2018, 18 May 2018
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	Société Générale Factoring	2 April 2003
FCI Interfactor Agreement	Société Générale Factoring SLLC	9 December 2009
FCI Interfactor Agreement	SG FACTORING SPA	22 May 2013
FCI Interfactor Agreement	Société Générale Banka Srbija AD	1 July 2014
FCI Interfactor Agreement	BRD – Groupe Société Générale	21 April 2015
FCI Interfactor Agreement	Compagnie Générale D'Affacturage	17 December 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 2018 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 18 March 2019

Factoring KB, a.s.



Jan Kotík
Chairman of the Board



David Rožek
Member of the Board

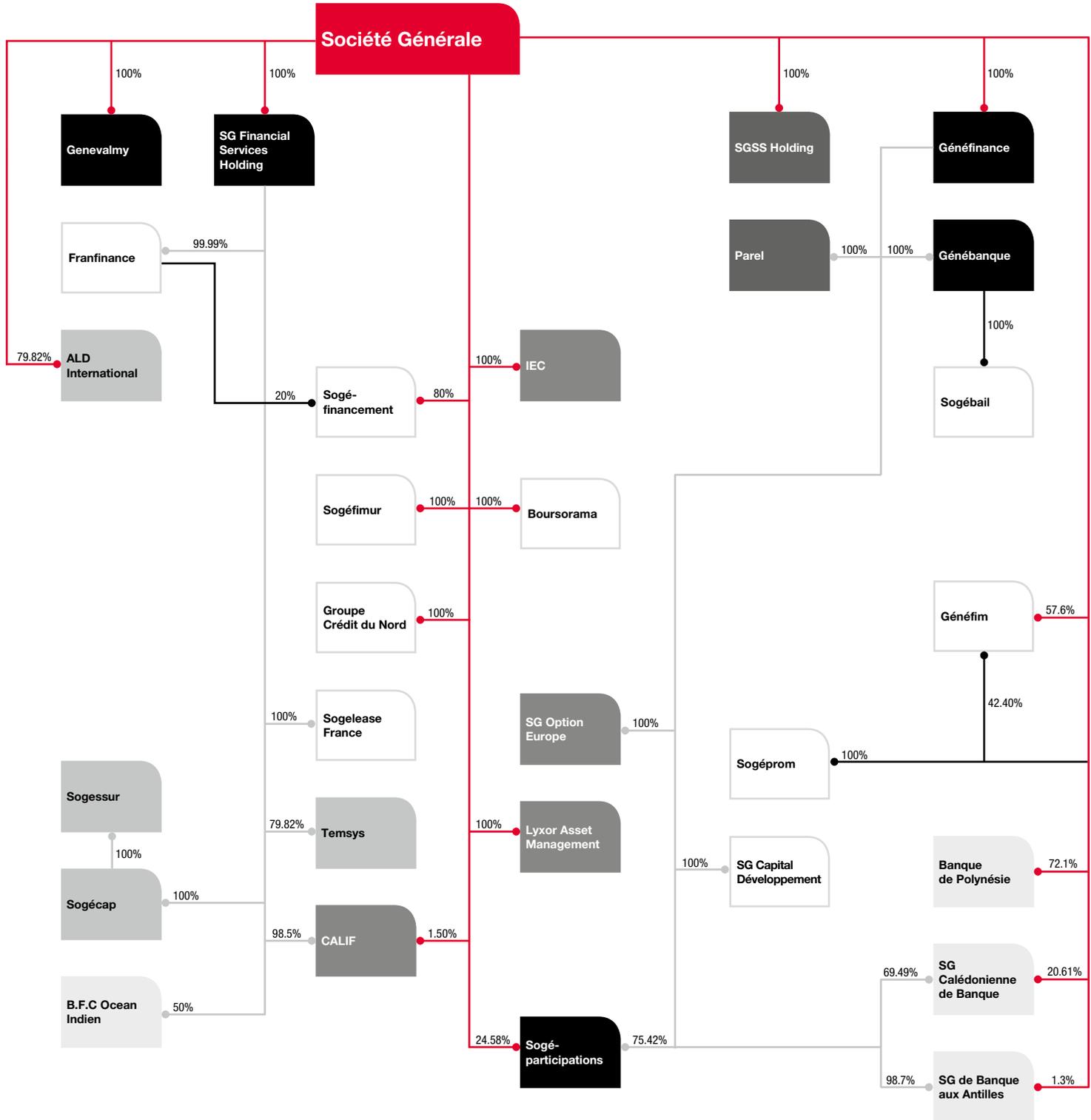


Eva Březinová
Member of the Board

Structure of SG Group Relations

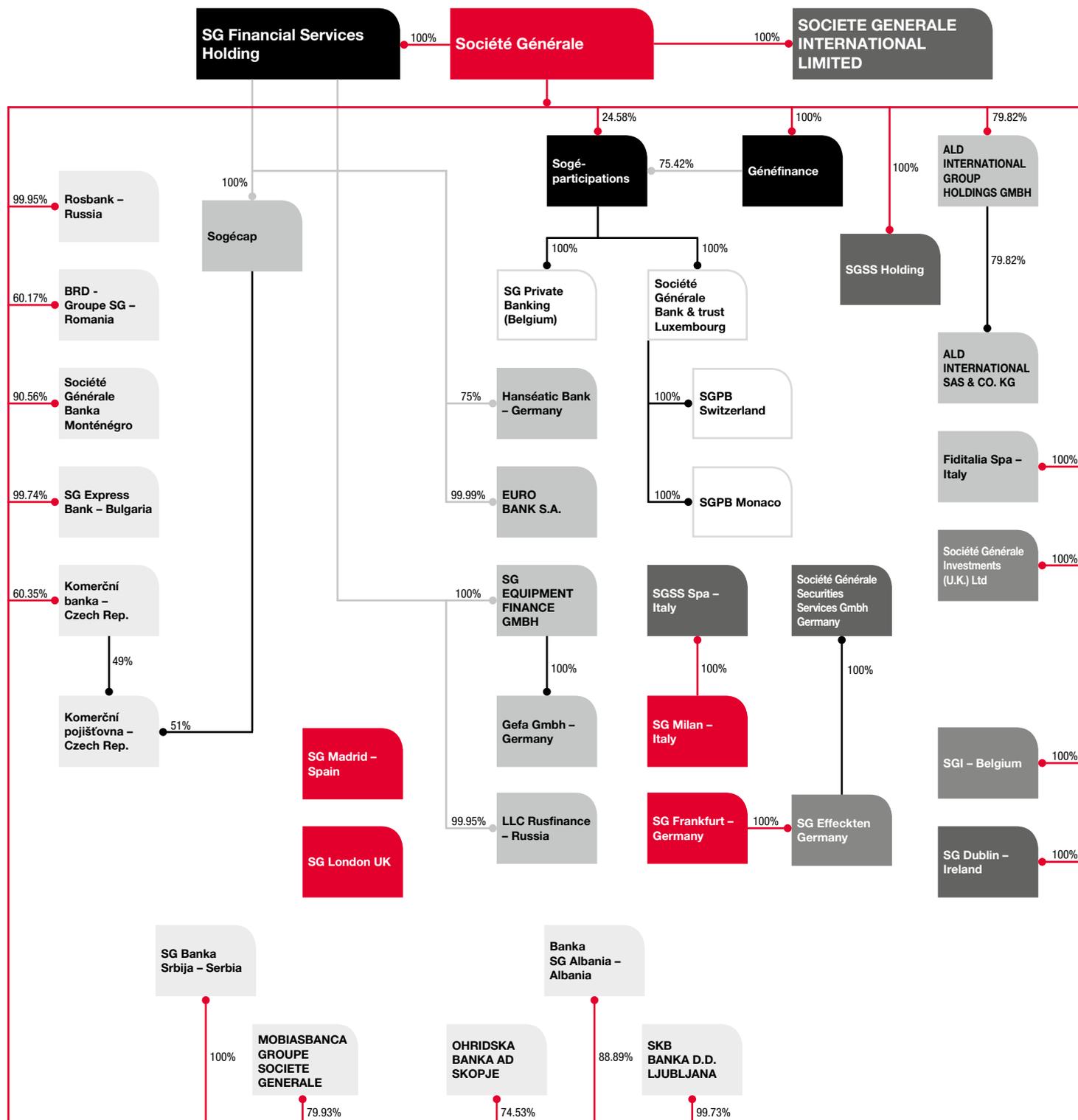
% of the share capital

FRANCE



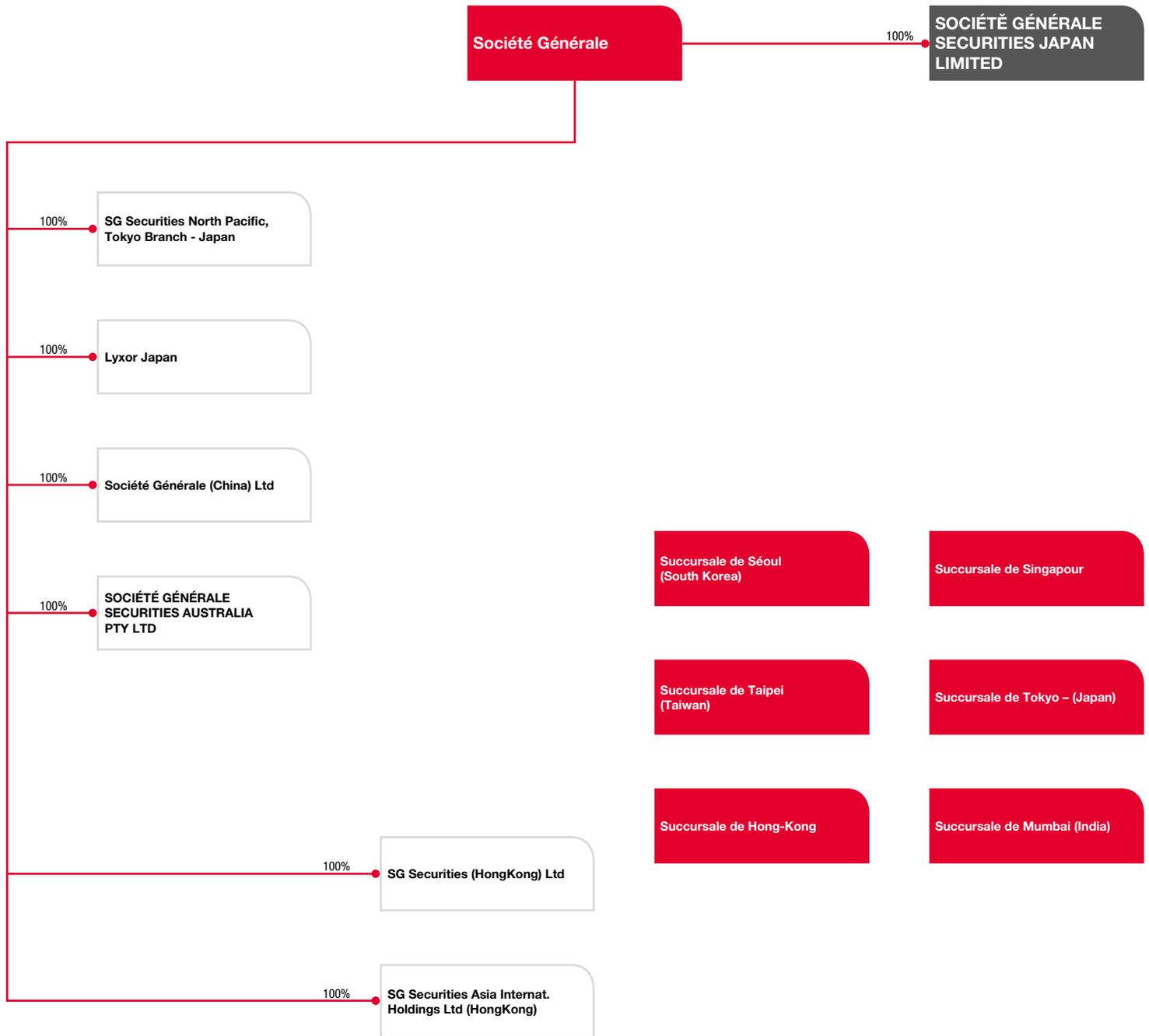
Note: Share capital and voting rights may differ.

EUROPE



Note: Share capital and voting rights may differ.

ASIA AND AUSTRALIA



Note: Share capital and voting rights may differ.

| Notes

| Notes

