

Factoring České spořitelny, a.s.
Annual Report 2018

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Foreword by the Chairman of the Board of Directors



Karel Nováček

Chairman of the Board of Directors

Dear Ladies and Gentlemen,

I present to you the annual report of Factoring České spořitelny for 2018, in which we focused on the presentation and subsequent offer of significant product and technological innovations. The Company continued to be successful in the business and risk management area, which in turn had a positive effect on the Company's profitability.

Compared to the previous period, Factoring České spořitelny has further improved the year-on-year increase in the turnover of ceded and managed receivables by 6.6 % to CZK 35.9 billion. Significant influence on performance was mainly export factoring with the insurance of receivables. In addition, the number of new clients and their customers grew, which had a significant impact on the diversification of credit and operational risks. Thanks to above mentioned key attributes, Factoring České spořitelny remains one of the three largest factoring companies in the Czech Republic.

At the turn of 2017-18 Company added to its portfolio of classic factoring products new product in form of reverse factoring, which is a part of Supply Chain Financing. For clients using EDI (electronic documents exchange), we have launched, in cooperation with EDITEL,

a new *edi*Factoring service, which enables clients the paperless and automated financing through our innovative eFactoring internet platform. Throughout 2018 the Company supported by Česká spořitelna and in cooperation with the strategic partner EDITEL and various associations and clubs, focused on introducing new solutions primarily through specialized seminars, workshops and business breakfasts, in order to demonstrate to our clients the modern trends in financing receivables and liabilities. The culmination of communication activities was the presentation of the Supply Chain Financing solution for participants of the International Engineering Fair in Brno, which became one of the main topics of the Česká spořitelna Financial Group.

I have long appreciated cooperation with Česká spořitelna's parent bank in the area of business activities, support and joint access to existing and new clients using both classic and reverse factoring. Synergic effects with parent company also positively affected the risk management, where we were able to maintain the expenses arising from allowances for receivables significantly under the budgeted values due to our careful and coordinated approach.

I would like to thank to all our clients and other business partners for their trust and favour. I would also like to appreciate the fervour of our employees as well as our co-workers in the Česká spořitelna Financial Group and Erste Group, which was the base for our outstanding business results in 2018.

A handwritten signature in blue ink, appearing to be 'K. Nováček', written over a white background.

Karel Nováček

Chairman of the Board of Directors

Company's Profile

Company

Factoring České spořitelny, a.s.
Business Identification Number: 25629352
Incorporated in the Commercial Register,
Section B, File No. 5075, maintained by
the Municipal Court in Prague

Registered Office

Budějovická 1518/13B, 140 00 Prague 4
(since 8 March 2019: Budějovická 1912/64b,
Krč, 140 00 Prague 4)

Date of incorporation

4 December 1997

Shareholders

Česká spořitelna, a.s. (100%)

Members of the Board of Directors

Karel Nováček, chairman
Pavel Chlumský, member

Members of the Supervisory Board

Jan Seger, chairman
Jan Jašek, vice-chairman
Roman Pařil, member

Business activity / Products

Domestic factoring
Export factoring
Import factoring
Reverse factoring
ediFactoring
Administration, collection
and monitoring of receivables

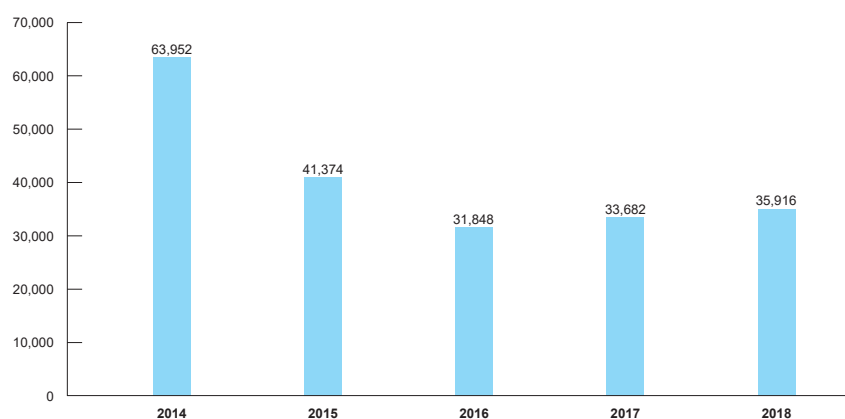
Membership in associations

Czech Leasing and Finance Association (ČLFA)
Association of Factoring Companies (AFC)
Factors Chain International (FCI)

Changes in key financial indicators

CZK ths.	2014	2015	2016	2017	2018
Assets from clients' accounts receivable financing (Total net Current assets)	9,342,576	7,436,287	7,484,683	7,575,543	8,039,813
Share capital	114,000	114,000	114,000	114,000	114,000
Share premium	80,000	80,000	80,000	80,000	80,000
Capital funds	818,400	818,400	818,400	818,400	818,400
Equity	1,142,047	1,120,206	1,145,547	1,201,330	1,198,788
Added value	159,044	99,733	75,608	81,856	85,924
Profit before taxation	81,226	25,522	33,524	75,266	66,612
Profit for the current period	65,446	8,767	25,968	56,406	53,679

Gross Turnover of Factoring České spořitelny (in CZK mil.)



Management Report

The Czech economy performed well in 2018, although it did not reach the rate of growth of gross domestic product of the previous year. A further slowdown in growth is generally expected in 2019, given the growing volatility in world financial markets, fears of international trade constraints and, last but not least, the expected exit of the UK from the European Union.

The development of the economy was reflected by the factoring market in the Czech Republic represented by the Association of Factoring Companies. Its pace declined year-on-year from 19 % in 2017 to just 12 % in 2018, which is still a very decent result, with all affiliated factoring companies growing.

Factoring České spořitelny achieved a year-on-year growth of total factoring turnover by 6.6 % to CZK 35.9 billion, continuing to grow significantly in export factoring, i.e. financing of domestic companies' receivables from their foreign customers. Positive news is also a further increase in value of funds placed at clients by 6 % to CZK 5.6 billion and an increase in the number of new factoring clients using both classic and reversed factoring.

Factoring České spořitelny has been a member of the Česká spořitelna Financial Group since 2001. Membership in a strong financial group guarantees the Company with the long-term financial stability for continuing financing of mutual and other clients and delivers significant synergic effects particularly in the field of business, risk management policies and monitoring of receivables.

The trend of decreasing number of newly emerging credit and operational risks and insolvencies continued in 2018. This caused low volume of additional allowances and thus influenced positively the financial results of the Company.

The Company's management continued to pay close attention to the **development of the business activities and communication support for new products**. Innovative internet platform eFactoring with electronic debt assignment and other features enables clients to manage their financial flows and is the basis for smooth and automated real-time factoring process. The new Supply Chain Financing proposal, in the form of reverse factoring, enables us to meet the requirements of large corporate clients to optimize the use of working capital and further strengthen supplier-customer relations with their domestic and foreign suppliers. Thanks to our partnership with EDITEL, we have developed a modern digital *edi*Factoring service that links factoring finance and electronic data exchange (EDI) between supplier, customer and us. In this way, we streamline and accelerate the financing of our clients using EDI solutions. The year 2018 characterized the communication campaign in which we introduced above-mentioned innovations throughout

the year and actively offered them to individual client segments. We emphasised the personal communication in the form of seminars, business breakfasts, discussion forums and workshops, where we demonstrated the benefits of innovations on real-life examples. As part of other supportive marketing activities, the Company upgraded its website containing a new video illustrating to the clients the benefits of new solutions, publishing expert articles and interviews, and developed promotional materials in new design for business needs.

The department of risk management continued to use the compact concept of risk management developed in past years, which was built with emphasis to eliminate as many newly emerging credit and operational risks as possible. This concept was expanded by further and deeper integration of clients data into the information systems in Česká spořitelna resulting in even closer cooperation with the parent bank. This cooperation was reflected by the acquisition of clients, overviews of mutual clients, client's total exposures and of course in the risk management and reporting. Furthermore, the necessity of communication and consultations of business strategy considering mutual clients with Česká spořitelna, rather the whole Erste Bank Group, rose significantly. Continuous cooperation with commercial insurance companies on the Czech market is an important aspect of the strategic management of the Company. The aim of these processes is elimination and diversification of the Company's own risks and the effort to help clients with continuous evaluation of the quality of their portfolio of customers, prevention of negative impacts of non-standard situations and minimisation of financial losses. In 2018 the risk management department carefully prepared the requirements of the new reverse factoring product, for which several initial business cases were processed, approved and implemented over the course of the year. Further know-how necessary for this product has passed through the team within the framework of the "Supply Chain Financing" project and short seminars were prepared as a support to the sales arguments in the field of financial analysis for the entire Sales team of the Company.

Within the recovery department, we successfully enforced problematic receivables during the year, which greatly contributed to the Company's overall results. The share of Non Performing Loans (NPL) fell from 6.7 % at the end of 2017 to 5.0 % at the end of 2018.

The operations department concentrated on the continuous flow of current deals and on providing professional client service linked with the individual factoring products. High quality of the department's work with the portfolio of ceded receivables significantly reduces the Company's own credit risk and simultaneously enhances the liquidity management and stability of financing of the clients' working capital. In the 2018 the Company focused on development and implementation of an EDI data exchange system for clients using

this system with their customers. Simultaneously the specialized interface for reverse factoring developed further for both customers and suppliers.

The financial department focused on rigorous compliance with the Company's cost policy in 2018. The department continued to further optimize the financial management of the Company, particularly decreasing the operating expenses, cash flow management, decreasing the impacts of the foreign currency markets volatility and securing the Company's stable level of liquidity. Majority of these processes were successful thanks to pristine cooperation with Česká spořitelna.

IT department ensured stable workflow in the Company from technical and technological perspective and thus contributed not only to the quality and security of all activities, but also to the innovation process in both products and technologies. Last year, a new technology to manage and secure network traffic was added to the system improving security between computer networks with "sandbox" function and enabling inbound communications to be tested for real-time malware of "ransomware" type. We have also continued to develop our factoring system to reduce manual operations and operational risks in processing our clients' transactions.

In 2018 Factoring České spořitelny changed its brand and logo from Erste Factoring to Factoring České spořitelny. In February 2019, the company moved and has its new seat at the address Budějovická 1912/64b, Krč, Prague 4.

In 2018, Factoring České spořitelny completed the implementation of The General Data Protection Regulation (GDPR) so that all processes in the Company comply with the requirements of EU Regulation No. 2016/679.

One of the key requirements for success in the future is a continuous close cooperation with the parent bank – Česká spořitelna, quality and professional risk management, flexible reaction to the market's needs and maintaining high standard of services provided to the clients of the Company.

The main aim for 2019 lies in fulfilling the strategy of creating a modern company utilising the whole portfolio of factoring products tailored to fit the client's needs with the help of automation and digital services in the factoring process and communication with clients.

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Independent auditor's report

to the shareholder of Factoring České spořitelny, a.s.

Opinion

We have audited the accompanying financial statements of Factoring České spořitelny, a.s., with its registered office at Budějovická 1518/13B, Praha 4 ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in shareholder's equity and cash flow statement for the year ended 31 December 2018 and notes to the financial statements, which include 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 the Company as at 31 December 2018, of its financial performance and its cash flows for the year ended 31 December 2018 in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards 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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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 about the Company 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 and regulation, in particular, whether the other information complies with law and 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 and 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.

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

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

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

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Independent auditor's report

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 of the Company is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements 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 stated requirements, we exercise professional judgment and maintain professional scepticism 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 controls.
- Obtain an understanding of internal controls 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 controls.
- 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 notes, 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 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.

26 March 2019

PricewaterhouseCoopers Audit, s.v.o.

represented by Director

Eva Loulová
Statutory Auditor, Licence No. 1981

This report is addressed to the shareholder of Factoring České spořitelny, a.s.

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Balance Sheet

at 31 December 2018

CZK ths.	Current year			Prior year 2017
	Gross	Allowances	Net	Net
Total assets	8,411,962	(363,706)	8,048,256	7,582,224
B. Fixed assets	28,925	(22,150)	6,775	5,191
B.I. Intangible fixed assets	13,659	(11,064)	2,595	1,495
B.I.2. Valuable rights	13,659	(11,064)	2,595	1,495
B.I.2.1. Software	12,883	(10,288)	2,595	1,495
B.I.2.2. Other valuable rights	776	(776)	0	0
B.II. Tangible fixed assets	15,266	(11,086)	4,180	3,696
B.II.2. Movable assets and sets of movable assets	15,266	(11,086)	4,180	3,696
C. Current assets	8,381,369	(341,556)	8,039,813	7,575,543
C.II. Receivables	8,176,432	(341,556)	7,834,876	7,509,101
C.II.1. Long-term receivables	44,286	0	44,286	42,699
C.II.1.4. Deferred tax asset	44,166	0	44,166	42,479
C.II.1.5. Other receivables	120	0	120	220
C.II.1.5.2. Long-term advances granted	120	0	120	220
C.II.2. Short-term receivables	8,132,146	(341,556)	7,790,590	7,466,402
C.II.2.1. Trade receivables	8,125,782	(341,556)	7,784,226	7,464,856
C.II.2.4. Other receivables	6,364	0	6,364	1,546
C.II.2.4.3. Due from government – tax receivables	5,299	0	5,299	497
C.II.2.4.4. Short-term advances granted	1,065	0	1,065	1,049
C.IV. Cash	204,937	0	204,937	66,442
C.IV.1. Cash in hand	73	0	73	101
C.IV.2. Cash at bank	204,864	0	204,864	66,341
D.I. Prepaid expenses and accrued income	1,668	0	1,668	1,490
D.I.1. Prepaid expenses	1,668	0	1,668	1,490

CZK ths.	31. 12. 2018	31. 12. 2017
Total equity & liabilities	8,048,256	7,582,224
A. Equity	1,198,788	1,201,330
A.I. Share capital	114,000	114,000
A.I.1. Registered capital	114,000	114,000
A.II. Share premium and revaluation reserve	898,400	898,400
A.II.1. Share premium	80,000	80,000
A.II.2. Capital funds	818,400	818,400
A.II.2.1. Other capital funds	818,400	818,400
A.III. Reserves from profit	9,037	8,870
A.III.1. Other reserves	7,744	7,744
A.III.2. Statutory and other reserves	1,293	1,126
A.IV. Profit (loss) brought forward (+/-)	123,672	123,654
A.IV.1. Retained earnings	123,672	123,654
A.V.1. Profit (loss) for the year (+/-)	53,679	56,406
B.+C. Provisions and liabilities	6,837,207	6,368,131
B.I.4 Other provisions	5,932	0
C. Liabilities	6,831,275	6,368,131
C.II. Current liabilities	6,831,275	6,368,131
C.II.2. Amounts owed to credit institutions	4,222,056	3,860,548
C.II.3. Short-term advances received	4,245	4,357
C.II.4. Trade payables	2,580,306	2,480,139
C.II.8. Other liabilities	24,668	23,087
C.II.8.3. Liabilities to employees	1,909	1,948
C.II.8.4. Liabilities arising from social security and health insurance	794	771
C.II.8.5. Due to government – taxes and subsidies	1,729	2,450
C.II.8.6. Unbilled deliveries	20,236	17,918
D.I. Accruals and deferred income	12,261	12,763
D.I.2. Deferred income	12,261	12,763

Prepared on: 19 March 2019

Signature of entity's statutory body:

Person responsible
for accounting:Person responsible
for financial statements:



Karel Nováček

Pavel Chlumský



Lada Jendrichovská



Lada Jendrichovská

Income Statement

for the year ended 31 December 2018

CZK ths.	Current year	Prior year 2017
I. Revenue from sale of finished products and services	107,656	102,940
A. Production-related consumption	21,732	21,084
A.2. Consumption of material and energy	1,091	710
A.3. Services	20,641	20,374
D. Personnel expenses	50,786	44,573
D.1. Wages and salaries	38,291	33,105
D.2. Social security and health insurance costs and other costs	12,495	11,468
D.2.1. Social security and health insurance costs	11,227	10,052
D.2.2. Other costs	1,268	1,416
E. Value adjustments in respect of operating activities	(42,035)	(57,331)
E.1. Value adjustments in respect of intangible and tangible fixed assets	1,682	1,718
E.1.1. Value adjustments in respect of intangible and tangible fixed assets – permanent	1,682	1,718
E.3. Value adjustments in respect of receivables	(43,717)	(59,049)
III. Other operating income	968	16,597
III.1. Income from sale of fixed assets	519	731
III.3. Miscellaneous operating income	449	15,866
F. Other operating expenses	80,902	94,371
F.1. Net book value of fixed assets sold	333	268
F.3. Taxes and charges relating to operations	73	(430)
F.4. Provisions relating to operations and prepaid expenses (specific-purpose expenses)	5,932	0
F.5. Miscellaneous operating expenses	74,564	94,533
* Profit or loss on operating activities (+/-)	(2,761)	16,840
VI. Interest income and similar income	104,189	74,290
VI.2. Other interest income and similar income	104,189	74,290
J. Interest expense and similar expenses	31,452	14,496
J.1. Interest expense and similar expenses – subsidiaries or parents	31,452	14,496
VII. Other financial income	787	411
K. Other financial expense	4,151	1,779
* Profit or loss on financial activities (+/-)	69,373	58,426
** Profit or loss before taxation (+/-)	66,612	75,266
L. Income tax	12,933	18,860
L.1. Income tax due	14,620	16,854
L.2. Income tax deferred (+/-)	(1,687)	2,006
** Profit or loss after taxation (+/-)	53,679	56,406
*** Profit or loss for the year (+/-)	53,679	56,406
* Net turnover	213,600	194,238

Prepared on: 19 March 2019

Signature of entity's statutory body:

Person responsible
for accounting:

Person responsible
for financial statements:



Karel Nováček



Pavel Chlumský



Lada Jendrichovská



Lada Jendrichovská

Cash Flow Statement

for the year ended 31 December 2018

CZK ths.	Current year	Prior year 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Z. Profit or loss on ordinary activities before taxation (+/-)	66,612	75,266
A.1. Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	(60,935)	(46,010)
A.1.1. Depreciation and amortization of fixed assets and write-off of receivables	47,487	73,295
A.1.2. Change in allowances	(41,431)	(59,048)
A.1.3. Change in provisions	5,932	0
A.1.5. (Gain)/Loss on disposal of fixed assets	(186)	(463)
A.1.6. Interest expense and interest income	(72,737)	(59,794)
A.* Net cash from operating activities before taxation, changes in working capital and extraordinary items	5,677	29,256
A.2. Change in non-cash components of working capital	(223,406)	(564,139)
A.2.2. Change in trade receivables	(323,744)	(47,475)
A.2.3. Change in other receivables and in prepaid expenses and unbilled revenue	(94)	(75)
A.2.4. Change in trade payables	100,167	(513,505)
A.2.5. Change in other payables, and in accruals and deferred income	265	(3,084)
A.** Net cash from operating activities before taxation, interest paid and extraordinary items	(217,729)	(534,883)
A.3.1. Interest paid	(31,452)	74,290
A.4.1. Interest received	104,189	(14,496)
A.5.1. Income tax paid	(18,720)	(12,730)
A.*** Net cash provided by (used in) operating activities	(163,712)	(487,819)
CASH FLOWS FROM INVESTING ACTIVITIES		
B.1.1. Purchase of fixed assets	(3,599)	(3,566)
B.2.1. Proceeds from sale of fixed assets	519	731
B.*** Net cash provided by (used in) investing activities	(3,080)	(2,835)
CASH FLOWS FROM FINANCING ACTIVITIES		
C.1. Change in long-term liabilities, and long-term and short-term loans	361,508	554,048
C.2.3. Effect of other changes in own capital on cash	(56,221)	(623)
C.*** Net cash provided by (used in) financing activities	305,287	553,425
F. Net increase (decrease) in cash	138,495	62,771
P. Cash and cash equivalents at beginning of year	66,442	3,671
R. Cash and cash equivalents at end of year	204,937	66,442

Prepared on: 19 March 2019

Signature of entity's statutory body:

Person responsible
for accounting:

Person responsible
for financial statements:



Karel Nováček



Pavel Chlumský



Lada Jendrichovská



Lada Jendrichovská

Statement of Changes in Equity

for the year ended 31 December 2018

CZK ths.	Share Capital	Share Premium	Other Capital Funds	Reserve fund, indivisible fund, other funds from profit	Retained Earnings	Profit for the Period	Total
As at 1 January 2017	114,000	80,000	818,400	8,602	98,577	25,968	1,175,985
Distribution of profit	0	0	0	891	25,077	(25,968)	0
Distribution of funds	0	0	0	(623)	0	0	(623)
Net profit for the period	0	0	0	0	0	56,406	56,406
As at 31 December 2017	114,000	80,000	818,400	8,870	123,654	56,406	1,201,330
As at 1 January 2018	114,000	80,000	818,400	8,870	123,654	56,406	1,201,330
Distribution of profit	0	0	0	828	55,578	(56,406)	0
Distribution of funds	0	0	0	(661)	0	0	(661)
Net profit for the period	0	0	0	0	0	53,679	53,679
Dividend paid	0	0	0	0	(55,560)	0	(55,560)
As at 31 December 2018	114,000	80,000	818,400	9,037	123,672	53,679	1,198,788

Prepared on: 19 March 2019

Signature of entity's statutory body:

Person responsible for accounting:

Person responsible for financial statements:




Karel Nováček

Pavel Chlumský



Lada Jendrichovská



Lada Jendrichovská

Notes to the Financial Statements

for the year ended 31 December 2018

1. General information

1.1 Incorporation and Description of the Business

Factoring České spořitelny, a.s. (hereinafter "the Company") was incorporated as a joint stock company by a Founder's Deed on 30 May 1997 and was recorded in the Register of Companies held at the Prague Municipal Court on 4 December 1997 in Volume B, File 5075. The Company's primary business activities are: factoring and for-faiting services which account for most of the Company's revenues.

The Company's registered office is located at Budějovická 1518/13B, 140 00 Prague 4.

The Company's subscribed and paid-up share capital amounts to CZK 114,000 ths.

The accompanying financial statements have been prepared for the year ended 31 December 2018.

The sole shareholder of the Company is Česká spořitelna, a.s., with its registered office in Prague 4, Olbrachtova 1929/62, postal code 140 00, Business registration No. 45244782. The ultimate parent company is Erste Group Bank AG. The Company is included in the consolidated group of the parent company.

Consolidated financial statements prepared in accordance with IFRS for the nearest consolidated group in Erste Bank group (Česká spořitelna Financial Group), of which Company is a member, are prepared by parent company Česká spořitelna, a.s. and published on its website. Consolidated financial statements for the whole and most extensive Erste Group Bank are prepared by and published on website of Erste Group Bank AG, which resides in Austria.

1.2 Organisational Structure

At the end of 2018, the Company had 38 employees and two Board of Directors members by virtue of performing their duties. The Company is organized into four units as follows: Management including Secretariat, Sales and Marketing department, Risk Management department, Operations and Business development department.

In 2018 there was the following change in the Board of Directors; as at 30 June 2018 Karel Machytka was withdrawn and effective from 1 July 2018 Pavel Chlumský was elected.

At 4 September 2018 vice-chairman of the Supervisory board was changed.

At 31 December 2018, members of the Company's statutory and supervisory bodies were as follows:

	Position	Name
Board of Directors	Chairman	Karel Nováček
	Member	Pavel Chlumský
Proxy holders		Michael Jehlička
		Alois Barthhuber
Supervisory board	Chairman	Jan Seger
	Vice Chairman	Jan Jašek
	Member	Roman Pařil

The Company has no foreign branch.

On 8 March 2019 a change of the Company's seat was registered in Commercial Register. Newly registered seat is Prague 4, Budějovická 1912/64b, Krč, postal code 140 00.

2. Basis of Presentation of the Financial Statement

The accompanying financial statements (standalone) were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2018.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost basis, the accrual principle, the prudence concept and the going concern assumption.

These financial statements are presented in thousands of Czech crowns ("CZK"), unless stated otherwise.

3. Summary of Significant Accounting Policies

3.1 Tangible and Intangible Fixed Assets

Valuation

Tangible fixed assets include assets with an estimated useful life greater than 1 year and an acquisition cost higher than CZK 40 thousand on an individual basis.

Intangible fixed assets include identifiable assets without physical substance with an estimated useful life greater than 1 year and a cost higher than CZK 60 thousand.

Purchased tangible and intangible fixed assets are valued at cost which comprises the purchase price and incidental acquisition costs (assembly, freight, etc.).

Tangible assets with a cost lower than CZK 40 thousand, technical improvements with a cost below CZK 40 thousand and intangible assets with a cost below CZK 60 thousand are charged to expenses in the period in which they are acquired.

The cost of technical improvements exceeding CZK 40 thousand in aggregate for tangible and CZK 60 thousand for intangible assets, for the period increases the acquisition cost of the related fixed asset, if completed. Technical improvements are put into operation once a year in December and depreciation starts in the month the technical improvement is recognised.

Depreciation and Amortization for Accounting Purposes

Depreciation and amortization of tangible and intangible fixed assets for accounting purposes commences in the month following the month when the assets were put into use. The assets are depreciated/amortized using the straight-line method over their estimated useful lives based on the depreciation/amortization plan.

The depreciation/amortization periods of the individual categories of assets are as follows:

Category of assets	Period in years
Software, licences a other intangible assets	4
Vehicles	4
Machinery and equipment	4–6
Other equipment	4–12
Technical improvements to leased building	8

Depreciation and amortization periods are set according to estimated useful life of the related asset.

3.2 Receivables

Upon origination, receivables are stated at their nominal value. Doubtful and bad debts are subsequently reduced by the relevant allowances.

The Company accounts for factoring receivables on a „gross“ and „net“ basis depending on the product and specific terms of contracts. Gross method is used in cases where the Company provides financing as short-term financial borrowings to the client. Net method is used in cases where provided financing represents total or partial payment for the cession of receivables.

Factoring receivables accounted on a „gross“ basis are recognized in nominal amount as short-term trade receivables. The related payables to suppliers, the clients of the Company, are recognized as short-term trade payables. Short-term receivables represent mostly the nominal value of the Company's receivables from customers.

Factoring receivables accounted on a „net“ basis are recognized in nominal value as short-term receivables and also as short-term trade payables. The amount of the trade payable is subsequently lowered by the partial payment of the cost of the receivable.

The prefinancing provided for the recourse factoring is recorded as „short-term trade receivables“ line in the balance sheet.

Allowances for impairment

The Company has created portfolio allowances for receivables on the expected loss basis, taking into account client and customer ratings to determine the probability of default used in the model.

Portfolio allowances are created on a monthly basis using the following formula:

$$\text{Expected Loss} = \text{Maximum exposure not covered by compensation} \times \text{probability of customer default} + (\text{Actual value of client liabilities} - \text{total value of collateral contractually agreed with the client}) \times \text{Probability of client default where the value (Maximum exposure not covered from compensation} \times \text{probability of customer default}) \text{ corresponds to maximum of this multiplication in the customer portfolio of the respective client.}$$

Specific allowances are created against workout receivables.

3.3 Equity

The share capital of the Company is stated at the amount recorded in the Commercial Register maintained by the Municipal Court. Any increase or decrease in the share capital made pursuant to the decision of the General Meeting which was not entered in the Commercial Register as at the balance sheet date is recorded through changes in share capital. Contributions in excess of share capital are recognized as share premium. Other capital funds consist of monetary and non-monetary contributions in excess of share capital and contributions from profit after tax.

3.4 Loans

Loans are reported at their nominal value. Interest expenses on these loans are accrued and included in the profit or loss for the year they relate to.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

3.5 Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reasonably reliable estimate can be made of the amount of the obligation. Provisions are used exclusively for the purposes they were

created for. Provisions balances are reviewed annually, and provisions are released or carried forward based on the review results.

3.6 Translation of Foreign Currencies

Foreign currencies transactions during the year are translated using a daily exchange rate announced by Czech National Bank („CNB“).

As at the balance sheet date, all foreign currency assets and liabilities are retranslated using the existing CNB foreign exchange rate as at that date and any resulting translation gains and losses are recorded through the current year's financial income or financial expense, as appropriate.

3.7 Taxation

3.7.1 Current Tax Payable

The current tax expense is based on taxable profit. Taxable profit differs from net profit reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The tax depreciation is calculated based on accelerated depreciation method. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

3.7.2 Deferred Tax

Deferred taxation is calculated from all temporary differences between the accounting and tax values using the income tax rate that is expected to apply in the tax period when the deferred tax liability is settled or the deferred tax asset is realized. The deferred tax asset is recognized only if it is likely to be offset against taxable income.

3.8 Cash

Cash is defined as cash in hand, cash in bank or deposits payable on demand within 3 months.

3.9 Revenues

Factoring fees are presented within 'Sales of products and services'. In addition, this caption includes income from know-how and other income relating to re-invoicing of services.

Interest from provided financing is recognised as 'Interest income'.

Revenues are recognised on an accruals basis, that is, they are recognized in the periods in which the actual flow of the related revenues occurs, regardless of when the related monetary flow arises.

3.10 Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and

the reported amounts of revenues and expenses during the reporting period. Management of the Company made these estimates and assumptions based on all available relevant data. However since they are still estimates and actual results and outcome in the following reporting periods may be different.

3.11 Risk Management

Risks associated with the funding of ceded receivables are mitigated by using the services of insurance companies and by cooperating with partners within the international association of factoring companies (FCI). The Company places specific emphasis on the significance of diversifying the receivables portfolio which allows for the amounts recovered to sufficiently cover the partial payments made to clients and allow the Company to exercise a lien.

The Company observes measures and work procedures designed to constantly improve operational risk management over time and to eliminate fraudulent activities by clients.

The Company performs a regular assessment of the impact of exchange rate risks and takes appropriate steps on an ongoing basis to balance assets and liabilities denominated in foreign currencies. The lending method partially in the form of overdraft on foreign exchange accounts enables the Company to manage the balancing of foreign exchange assets and liabilities and significantly mitigates foreign exchange risks.

With regard to interest rate risk, the Company uses monthly rates both for assets and liabilities.

3.12 Subsequent Events

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

If material events reflecting the facts occurring after the balance sheet date happened 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 recognized in the financial statements.

4. Additional Information on the Balance Sheet and the Income Statement

4.1 Intangible Fixed Assets

Cost

CZK ths.	Balance as at 1. 1. 2017	Additions	Disposals	Balance at 31. 12. 2017	Additions	Disposals	Balance as at 31. 12. 2018
Software	10,861	430	0	11,291	1,592	0	12,883
Licenses and other	776	0	0	776	0	0	776
Total	11,637	430	0	12,067	1,592	0	13,659

Accumulated Amortisation and Allowances

CZK ths.	Balance as at 1. 1. 2017	Additions	Disposals	Balance at 31. 12. 2017	Additions	Disposals	Balance as at 31. 12. 2018
Software	9,211	585	0	9,796	492	0	10,288
Licenses and other	776	0	0	776	0	0	776
Total	9,987	585	0	10,572	492	0	11,064

Net Book Value

CZK ths.	Balance at k 31. 12. 2017	Balance as at 31. 12. 2018
Software	1,495	2,595
Licenses and other	0	0
Total	1,495	2,595

In 2018 the Company charges fees from licenses directly to expenses (see note Expenses).

4.2 Tangible Fixed Assets

Cost

CZK ths.	Balance as at 1. 1. 2017	Additions	Disposals	Balance at 31. 12. 2017	Additions	Disposals	Balance as at 31. 12. 2018
Machinery and equipment	8,107	1,343	0	9,450	650	0	10,100
Vehicles	4,827	1,792	(1,305)	5,314	1,357	(1,505)	5,166
Total	12,934	3,135	(1,305)	14,764	2,007	(1,505)	15,266

Accumulated Depreciation

CZK ths.	Balance as at 1. 1. 2017	Additions	Disposals	Balance at 31. 12. 2017	Additions	Disposals	Balance as at 31. 12. 2018
Machinery and equipment	7,909	223	0	8,132	443	0	8,575
Vehicles	3,064	909	(1,037)	2,936	748	(1,173)	2,511
Total	10,973	1,132	(1,037)	11,068	1,191	(1,173)	11,086

Net Book Value

CZK ths.	Balance at k 31. 12. 2017	Balance as at 31. 12. 2018
Machinery and equipment	1,318	1,525
Vehicles	2,378	2,655
Total	3,696	4,180

In 2018 and 2017 investments in tangible assets related to cars and equipment. In 2018 the Company acquired and directly expensed tangible assets of CZK 464 thousand (2017: CZK 150 thousand). These assets are low value tangible assets.

4.3 Receivables

4.3.1 Long-Term Receivables - Deferred Tax Assets

For detailed information about deferred tax assets refer to Note 4.16.

4.3.2 Short-Term Receivables

CZK ths.	Balance at k 31. 12. 2017	Balance as at 31. 12. 2018
Trade receivables	7,464,856	7,784,226
– customers (factoring)	6,386,223	6,667,791
– advances paid	1,461,620	1,457,991
– allowances	(382,987)	(341,556)
Due from government – tax (+) receivables /(-) payables	497	5,299
Short-term advances paid	1,049	1,065
Total	7,466,402	7,790,590

The above receivables represent mainly factoring receivables, which are reported in the balance sheet as 'Trade receivables'.

The 'customers' caption includes nominal values of factoring receivables and the 'advances paid' caption includes prepayments made for receivables under recourse factoring.

The Company doesn't recognize any off balance sheet receivables nor contingent assets.

4.3.3 Aging of Trade Receivables

Year	Category	Not yet due	Overdue					Total
			1–30 days	31–60 days	61–90 days	91–365 days	over 1 year	
31. 12. 2018	Trade receivables	6,487,932	899,195	191,049	10,600	19,568	517,438	8,125,782
	Allowances – specific	0	(6,074)	0	0	(12,983)	(309,773)	(328,830)
	Allowances – portfolio	(12,727)	0	0	0	0	0	(12,727)
31. 12. 2017	Trade receivables	6,160,173	843,057	232,422	1,019	21,574	589,598	7,847,843
	Allowances – specific	0	(248)	(3,854)	0	(15,662)	(351,823)	(371,587)
	Allowances – portfolio	(11,400)	0	0	0	0	0	(11,400)

The average maturity of receivables from customers of the Company's factoring clients in 2018 was 72 days (2017: 70 days).

In accordance with the method of creating of allowances for accounting purposes on the basis of calculation of expected loss (EL) from the financing placed with the clients – see note 3.2 – the Company created portfolio allowances of CZK 12,727 thousand as at 31 December 2018 (2017: 11,400 thousand CZK).

Specific accounting allowances have been created for workout receivables.

Accounting allowances have been created during the period in amount of CZK 218,551 thousand (2017: CZK 215,472 thousand).

Tax allowances have been created in amount of CZK 123,006 thousand in 2018 (2017: CZK 167,515 thousand). Tax deductible allowances are created against receivables from customers of the company's clients which have been ceded to the company as well as the Company's own receivables, in case of insolvency proceedings of these entities.

Allowances are created mainly for receivables that are more than 90 days overdue.

In 2018 the Company wrote-off irrecoverable receivables in amount of CZK 46,517 thousand (2017: CZK 73,147 thousand).

Changes in allowance accounts (in CZK thousand):

CZK ths.	Balance as at 1. 1. 2017	Allowance creation	Allowance used	Release of allowance	Balance as at 31. 12. 2017	Allowance creation	Allowance used	Release of allowance	Balance as at 31. 12. 2018
Allowances against:									
Receivables – tax deductible	215,333	37,780	(37,231)	(48,367)	167,515	1,888	(45,535)	(862)	123,006
Receivables – other	226,702	108,515	(98,346)	(21,399)	215,472	16,769	(321)	(13,370)	218,550
Total	442,035	146,295	(135,577)	(69,766)	382,987	18,657	(45,856)	(14,232)	341,556

4.4 Cash

Cash at bank includes balances on current accounts payable on demand.

4.5 Accrued Income and Deferred Expense

Accrued assets primarily comprise of prepaid expenses mainly for charges for insurance and are recognised in the period to which they relate.

4.6 Equity

4.6.1 Share Capital

The subscribed, paid-up and registered share capital amounts to CZK 114,000 thousand and consists of 76 shares at a nominal value of CZK 1,500 thousand per share.

The shareholder provided the Company with a share premium of CZK 80,000 thousand and a contribution of CZK 818,400 thousand in excess of the share capital.

The shares are registered and carry voting rights, but are not publicly traded.

4.6.2 Distribution of Profit for 2017

On 24 May 2018, the Company's sole shareholder, exercising the powers of the General Meeting, approved the distribution of the 2017 profit totalling CZK 56,406 thousand and allocated CZK 828 thousand to the social fund and transferred CZK 18 thousand to retained earnings, that amounted to CZK 123,672 thousand as at 31 December 2018. The Company paid a profit share to the sole shareholder of CZK 55,560 thousand.

4.7 Provisions

Company recognizes only provision for legal disputes in amount of CZK 5,932 thousand (2017: no provision created).

4.8 Liabilities

4.8.1 Current Liabilities

CZK ths.	Balance at 31. 12. 2017	Balance at 31. 12. 2018
Liabilities due to credit institutions	3,860,548	4,222,056
Trade payables (factoring)	2,480,139	2,580,306
Short-term advances received	4,357	4,245
Liabilities – other:	23,087	24,668
– Liabilities to employees	1,948	1,909
– Liabilities for social security and health insurance	771	794
– Taxes and state subsidies payable	2,450	1,729
– Estimated payables	17,918	20,236
Total	6,368,131	6,831,275

Amounts due to credit institutions represent in particular bank loans and overdrafts. For more details see Note 4.8.2.

Trade payables represent expected payments in respect of ceded receivables from the Company's clients under non-recourse factoring and the aggregate amount of ceded receivables under recourse factoring.

Unbilled deliveries consists mainly of estimates for payroll costs, social security and health insurance and estimates for operating services which have not yet been invoiced.

Due to the nature of factoring services, payables are paid after the client becomes entitled to the payment. The Company records no overdue payables.

There are no liabilities with material guarantees and with maturity over 5 years.

The Management of the Company is not aware of any contingent liabilities of the Company as at 31 December 2018.

4.8.2 Bank Loans and Borrowings

2018

CZK ths. Bank	Purpose	Balance as at 31. 12. 2018	Interest rate	Maturity	Collateral form
Česká spořitelna	operating – overdraft GBP	59,134	1 M Libor + risk margin	31. 8. 2019	uncollateralised
Česká spořitelna	operating – overdraft JPY	1,660	1 M Libor + risk margin	31. 8. 2019	uncollateralised
Česká spořitelna	operating – overdraft PLN	181,209	1 M Wibor + risk margin	31. 8. 2019	uncollateralised
Česká spořitelna	operating – current account CZK	1,200,000	1 M Pribor + risk margin	31. 8. 2019	uncollateralised
Česká spořitelna	operating – overdraft USD	88,705	1 M Libor + risk margin	31. 8. 2019	uncollateralised
Česká spořitelna	operating – current account EUR	2,623,950	1 M Euribor + risk margin	31. 8. 2019	uncollateralised
Česká spořitelna	operating – current account USD	67,398	1 M Libor + risk margin	31. 8. 2019	uncollateralised
Total intercompany bank loans		4,222,056			
Total		4,222,056			

2017

CZK ths. Bank	Purpose	Zůstatek k 31. 12. 2017	Interest rate	Maturity	Collateral form
Česká spořitelna	operating – overdraft GBP	75,687	1 M Libor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – overdraft JPY	3,978	1 M Libor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – overdraft PLN	77,198	1 M Wibor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – overdraft CZK	354,915	1 M Pribor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – current account CZK	700,000	1 M Pribor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – overdraft USD	52,188	1 M Libor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – current account EUR	2,554,000	1 M Euribor + risk margin	31. 8. 2018	uncollateralised
Česká spořitelna	operating – current account USD	42,582	1 M Libor + risk margin	31. 8. 2018	uncollateralised
Total intercompany bank loans		3,860,548			
Total		3,860,548			

The Company paid interest from these loans in amount of CZK 31,452 thousand (2017: CZK 14,496 thousand).

4.9 Accrued Expenses and Deferred Income

Deferred income includes mainly accrued loan interest and operating liabilities.

4.10 Financial Assets and Liabilities Denominated in Foreign Currencies (Gross)

2018

CZK ths.	CZK	USD	EUR	PLN	GBP	Other	Total
Short term receivables	4,177,442	204,106	3,481,606	199,189	68,073	1,730	8,132,146
Short term investments	72,599	0	132,334	0	0	4	204,937
Accrued income and deferred expense	1,668	0	0	0	0	0	1,668
Total	4,251,709	204,106	3,613,940	199,189	68,073	1,734	8,338,751
Current liabilities	1,567,723	60,546	958,681	13,927	8,341	0	2,609,219
Bank loans and borrowings	1,200,000	156,103	2,623,950	181,209	59,135	1,660	4,222,056
Accrued expense and deferred income	12,261	0	0	0	0	0	12,261
Total	2,779,984	216,649	3,582,631	195,136	67,476	1,660	6,843,536

2017

CZK ths.	CZK	USD	EUR	PLN	GBP	Other	Total
Short term receivables	4,144,294	121,196	3,397,422	106,855	75,615	4,007	7,849,389
Short term investments	2,356	0	64,086	0	0	0	66,442
Accrued income and deferred expense	1,490	0	0	0	0	0	1,490
Total	4,148,140	121,196	3,461,508	106,855	75,615	4,007	7,917,321
Current liabilities	1,520,659	26,573	930,534	28,812	1,005	0	2,507,583
Bank loans and borrowings	1,054,915	94,770	2,554,000	77,198	75,687	3,978	3,860,548
Accrued expense and deferred income	12,763	0	0	0	0	0	12,763
Total	2,588,337	121,343	3,484,534	106,010	76,692	3,978	6,380,894

4.11 Revenue from Principal Activity

CZK ths.	2017			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Income from fees	98,596	2,320	100,916	103,746	2,046	105,792
Advisory services	0	1,894	1,894	0	1,846	1,846
Other income	130	0	130	18	0	18
Production	98,726	4,214	102,940	103,764	3,892	107,656

Fees represent factoring fee. Advisory services include income from the lease of the information system within the Group.

4.12 Services

CZK ths.	2017	2018
Consumption of material	271	635
Consumption of energy	439	456
Total consumption of material and energy	710	1,091
Legal and notarial services	1,774	1,426
Factoring fee	3,577	3,852
External audit	680	587
Rent	3,803	3,958
Outsourcing expenses	2,370	2,379
Marketing expenses	219	454
Repairs and maintenance	3,080	3,549
Travelling	299	249
Training	219	224
Other services	4,353	3,963
Total costs of services	20,374	20,641

4.13 Staff cost

4.13.1 Staff cost and Employee Count

The following tables summarize the average number of the Company's employees and managers and staff costs for the years 2018 and 2017:

2018

CZK ths.	Count	Wages	Social security and health insurance	Other expenses	Personnel and related expenses
Employees	36	24,360	8,178	428	32,966
Management	4	13,931	3,049	840	17,820
Total	40	38,291	11,227	1,268	50,786

2017

CZK ths.	Count	Wages	Social security and health insurance	Other expenses	Personnel and related expenses
Employees	36	24,072	8,071	1,264	33,407
Management	3	9,002	1,981	183	11,166
Total	39	33,074	10,052	1,447	44,573

The number of employees is based on the average re-calculated headcount. Wage costs include rewards for the members of statutory and supervisory bodies. Personnel expenses of management include expenses on members of the Board of Directors and executive directors of the Company, who are also Proxy holders. Wage costs of management for 2018 include also bonuses and severance payment to leaving Board of Directors' member.

4.13.2 Loans, Borrowings, and Other Benefits Provided

In 2018 and 2017, Company's management received the following benefits in addition to their basic salaries and other personal funding, which are not recognized in financial statement, but are included in personnel expenses:

Management, Members of BoD, Proxy holders	CZK ths.	2017	2018
Vehicles/other assets for both business and private purposes, Management life and pension insurance, cafeteria (amount increases the tax base of employees)		543	263

4.14 Other Operating Income and Expenses

CZK ths.	2017	2018
Other operating income	16,597	968
Income from sale of fixed assets	731	519
Other operating income	15,866	449
Other operating expenses	94,371	80,902
Net book value of fixed assets sold	268	333
Taxes and charges relating to operations	(430)	73
Other operating expenses	94,533	74,564
Operational provision	0	5,932
Total other operating result	77,774	79,934

Other operating expenses include, in particular, trade receivables written-off in amount of CZK 46,517 thousand (2017: CZK 73,146 thousand) and insurance premium paid in the amount of CZK 25,037 thousand (2017: CZK 19,524 thousand) for operating and commercial risk insurance.

4. 15 Interest and Other Financial Income and Expenses

CZK ths.	2017	2018
Interest income	74,290	104,189
Interest expense to related parties	(14,496)	(31,452)
Other financial income	412	787
Other financial expense	(1,155)	(1,757)
Net gain or loss from foreign exchange (+/-)	(625)	(2,394)
Total other financial result	(1,368)	(3,364)
Total result of financial activities	58,426	69,373

Interest income includes interest from prepayments made under factoring arrangements. Interest expense is only to related parties.

4. 16 Current and Deferred Income Tax

Current Tax

CZK ths.	Balance as at 31. 12. 2017	Balance as at 31. 12. 2018
Current Tax	16,877	14,645
Additional tax assessment	(23)	(25)
Total	16,854	14,620

The tax charge for 2018 and 2017 can be reconciled to the profit per the income statement as follows:

CZK ths.	2017	2018
Profit before tax	75,266	66,612
Tax at the local income tax rate of 19 % (2017: 19 %)	14,301	12,656
Tax effect of non-deductible expenses	4,255	3,852
Tax effect of non-taxable income	(1,679)	(1,863)
Additional payment of taxes for prior periods	(23)	(25)
Current tax payable	16,854	14,620
Changes in the deferred tax	2,006	(1,687)
Total tax	18,860	12,933

Deferred Taxation

The deferred tax asset (liability) can be analysed as follows:

CZK ths. Deferred tax arising from	Balance as at 31. 12. 2017	Balance as at 31. 12. 2018
Depreciation and amortization of fixed assets	(262)	(385)
Allowance for receivables	40,941	41,525
Accrued expenses for social security and health insurance	1,800	1,899
Provisions	0	1,127
Total deferred tax asset	42,479	44,166

CZK ths. Analysis of the change in the balance	Balance as at 31. 12. 2017	Balance as at 31. 12. 2018
Opening balance	44,485	42,479
Current changes charged against the income statement	(2,006)	1,687
Total charges against the income statement	(2,006)	1,687
Total charges against the equity	0	0
Total deferred tax asset	42,479	44,166

5. Related party information

As the Company is a member of the Česká spořitelna, a.s. Group, its cooperation with the parent company continued during 2018 and 2017, both with respect to acquisitions and to raising finance from entities outside the Group to provide funding for other transactions.

As at 31 December 2018, receivables from Česká spořitelna, a.s. amounted to CZK 206,162 thousand (2017: CZK 67,656 thousand). The above consists mostly of receivables arising from current account balances and advances granted.

As at 31 December 2018, payables to the parent company amounted to CZK 4,223,220 thousand (2017: CZK 3,861,638 thousand). These amounts mainly represent regular bank loans and balances on overdraft accounts and uninvoiced deliveries.

For the year ended 31 December 2018, the Company recorded expenses in relation to Česká spořitelna in the aggregate amount of CZK 39,580 thousand (2017: CZK 18,313 thousand). These consisted mostly of interest on received loans, outsourcing and rental expenses. Revenues of CZK 2,832 thousand (2017: CZK 2,832 thousand) relate to interest and fees received from Česká spořitelna.

Receivables from Slovenská sporiteľňa, a.s. amounted to CZK 135 thousand (2017: CZK 90 thousand) and from Erste Factoring, d.o.o. amounted to CZK 64 thousand (2017: CZK 64 thousand). Payables to První certifikační autorita, a.s. in the form of unbilled delivery amounted to CZK 79 thousand (2017: CZK 35 thousand).

In respect to Slovenská sporiteľňa, a.s., the Company recognised revenues of CZK 1,077 thousand (2017: CZK 1,105 thousand), revenues from Erste Factoring d.o.o. of CZK 769 thousands (2017: CZK 789 thousand).

For the year 2018 the Company recorded expenses in relation to related party sAutoleasing, a.s. of CZK 9 thousand (2017: CZK 21 thousand). In relation to related party První certifikační autorita, a.s. recorded expenses of CZK 243 thousand (2017: CZK 189 thousand). And in relation to related party Procurement Services CZ, s.r.o. (Group procurement services) recorded expenses of CZK 67 thousand (2017: CZK 79 thousand).

6. Contingent liabilities and off balance sheet commitments

The Company has no contingent liabilities nor off-balance sheet commitments.

The Company is involved in no legal disputes, the outcome of which would significantly impact the Company's financial statements.

7. Subsequent events

There were no significant subsequent events that would have an impact on the information contained in the accompanying financial statements.

Prepared on 19. 3. 2019

Signature of accounting entity's statutory body:


Karel Nováček


Pavel Chlumský

Report on Relations

between Related Parties prepared pursuant to § 82 of Act No. 90/2012 Coll., on Corporations For the accounting period from 1 January 2018 to 31 December 2018

Factoring České spořitelny, a.s., with its registered office at Budějovická 1518/13B, Prague 4, postal code 140 00, Business Registration Number (IČO) 25629352, incorporated in the Commercial Register, Section B, File No. 5075, maintained by the Municipal Court in Prague (hereinafter also the "**Submitter**") is a member of a group (concern) in which the following relations exist between the Submitter and the controlling persons and between the Submitter and other persons controlled by the same controlling persons (hereinafter the "**Related Parties**").

This Report on relations between the parties listed below has been prepared pursuant to the provisions of § 82 of Act No. 90/2012 Coll. on Corporations, as amended, for the accounting period from 1 January 2018 to 31 December 2018 (hereinafter the "**fiscal year**").

The Submitter and the persons listed below entered into the following contracts and undertook or adopted the following legal actions and other measures during the period:

A. Overview of the persons whose relations are described below

Erste Group Bank AG	
–	Procurement Services GmbH
–	Procurement Services CZ, s.r.o.
–	Česká spořitelna, a.s.
–	První certifikační autorita, a.s.
–	CNCB – Czech Non-Banking Credit Bureau, z.s.p.o.
–	Pojišťovna České spořitelny, a.s., Vienna Insurance Group
–	Erste & Steiermarkische Bank, d.d.
–	Erste Factoring d.o.o.
–	Slovenská sporiteľňa, a.s.

B. Controlling parties

- **Česká spořitelna, a.s.**, with its registered office at Olbrachtova 1929/62, postal code 140 00, Prague 4, Czech Republic, Business Registration Number (IČO) 45244782
Relation to the Company: directly controlling person
Description of relations – see **Annex 1**
- **Erste Group Bank AG**, with its registered office at Am Belvedere 1, Vienna, Austria, VAT U15361506
Relation to the Company: indirectly controlling person
Description of relations – see **Annex 1**

C. Other related parties

Companies controlled by other members of the ERSTE Group

- **Erste & Steiermarkische Bank, d.d.**, with its registered office at Jadranski trg 3a, Rijeka, postal code 51 000, Croatia, VAT 23057039320
Relation to the Company: related party directly controlled by Erste Group Bank
Description of relations – **none**
 - **Procurement Services GmbH**, with its registered office at Brehmstrasse 12, 1010 Vienna, Austria, VAT U38797307
Relation to the Company: related party directly controlled by Erste Group Bank
Description of relations – **none**
 - **Slovenská sporiteľňa, a.s.**, with its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic, Business Registration Number (IČO) 00151653
Relation to the Company: related party directly controlled by Erste Group Bank
Description of relations – see **Annex 1**
 - **Erste Factoring d.o.o.**, with its registered office at Ivana Lučičica 2, Zagreb, postal code 10 000, Croatia, VAT 10194059689
Relation to the Company: related party directly controlled by Erste & Steiermarkische Bank
Description of relations – see **Annex 1**
 - **Procurement Services CZ, s.r.o.**, with its registered office at Budějovická 1912/64b, postal code 140 00, Prague 4, Business Registration Number (IČO) 27631621 ("Procurement Services CZ")
Relation to the Company: related party directly controlled by Procurement Services GmbH
Description of relations – see **Annex 1**
- ### Companies controlled or otherwise related with Česká spořitelna, a.s.
- **První certifikační autorita, a.s.**, with its registered office at Podvinný mlýn 2178/6, postal code 190 00, Prague 9 - Libeň, Business Registration Number (IČO) 26439395 („1.CA“),
Relation to the Company: affiliated company Česká spořitelna
Description of relations – see **Annex 1**

- **CNCB – Czech Non-Banking Credit Bureau, z.s.p.o.**, with its registered office at Štětškova 1638/18, postal code 140 00 Prague 4 - Nusle, Business Registration Number (IČO) 71236384 („CNCB“)
 - Relation to the Company: affiliated company Česká spořitelna
 - Description of relations – see **Annex 1**

- **Pojišťovna České spořitelny, a.s., Vienna Insurance Group**, with its registered office at náměstí Republiky 115, Zelené Předměstí, postal code 530 02 Pardubice, Business Registration Number (IČO) 47452820
 - Relation to the Company: affiliated company Česká spořitelna
 - Description of relations – see **Annex 1**

Annex 1 Transactions with Related Parties

Factoring České spořitelny, a.s. identified the relations with the related parties listed in Sections B and C and summarized them in the following categories.

Related party transactions on the debit side of Factoring ČS's balance sheet

Receivables from banks

Factoring České spořitelny, a.s. deposited cash totalling CZK 204.8 million in current and deposit accounts maintained by Česká spořitelna under contracts on a current account and loan agreements. Factoring České spořitelny, a.s. suffered no detriment from these transactions in the fiscal year.

Other assets

Balance sheet caption Other assets includes other trade receivables and advance payments provided to related parties. In 2018, the Company recognizes receivables and advance payments in the total amount of CZK 1.34 million from Česká spořitelna (2017: CZK 1.33 million) and receivables of CZK 0.2 million from other related parties (2017: CZK 0.7 million).

Related party transactions on the credit side of Factoring ČS's balance sheet

Liabilities to banks

Factoring České spořitelny, a.s. received funds from Česká spořitelna a.s. in the total amount of CZK 4,222.1 million particularly under loan agreements and bank overdraft contracts. Unbilled deliveries

and payables from Česká spořitelna, a.s. amounted to CZK 1.2 million. Factoring České spořitelny, a.s. suffered no detriment from these transactions in the fiscal year.

Related party transactions with effect on Factoring ČS's income statement

Interest and similar income

Factoring České spořitelny, a.s. did not receive any interest income from abroad in the fiscal year from related parties.

Interest and similar expense

Factoring České spořitelny, a.s. incurred interest expense of CZK 31.5 million within the scope of related party transactions executed on an arm's-length basis in the fiscal year. Factoring České spořitelny, a.s. suffered no detriment from these transactions in the fiscal year.

Income from fees and commissions

Factoring České spořitelny, a.s. received income from fees and commissions within the scope of related party transactions executed on an arm's-length basis in the fiscal year, including particularly income from a cooperation agreement with Česká spořitelna, a.s., in the total amount of CZK 2.8 million. Factoring České spořitelny, a.s. suffered no detriment from these transactions in the fiscal year.

General administrative expenses

Factoring České spořitelny, a.s. spent CZK 8.1 million on general administrative expenses within the scope of related party transactions executed on an arm's-length basis in the fiscal year, particularly rent, advisory, professional consultancy and other services. Factoring České spořitelny, a.s. suffered no detriment from these transactions in the fiscal year.

Other operating revenues and costs

Factoring České spořitelny, a.s. had a positive balance of other operating income and expenses of CZK 1.5 million within the scope of other related party transactions executed on an arm's-length basis in the period. Factoring České spořitelny, a.s. suffered no detriment from these transactions in the fiscal year.

Contractual relations

In prior years, Factoring České spořitelny, a.s. entered into contracts with related parties listed in Sections B and C; the financial effects of the contracts are reflected in Annex 1. The list below includes major contracts with related parties that were in force during the period.

Description of relations with Česká spořitelna, a.s.

Contract	Counterparty	Description	Year of contract	Detriment, if any
Current account agreement	Česká spořitelna, a.s.	Contract for current accounts (CZK, EUR, USD, GBP, CHF, PLN, NOK, HUF, RON, JPY, SEK, DKK, HRK) with amendments	2001–2017	None
Service agreement	Česká spořitelna, a.s.	Direct electronic banking agreement with amendments	2002	None
License agreement	Česká spořitelna, a.s.	Usage of brand „Sparkassen“	2017	None
Lease agreement	Česká spořitelna, a.s.	Lease of a safe deposit box	2009	None
Debit cards contract	Česká spořitelna, a.s.	Debit cards contracts with amendments	2005–2018	None
Loan contract	Česká spořitelna, a.s.	Loan contract with amendments	2003–2018	None
Sub-participation agreement	Česká spořitelna, a.s.	Participation on risk of selected customers with amendments	2005–2018	None
Sub-participation agreement	Česká spořitelna, a.s.	Sub-participation framework agreement for reverse factoring	2018	None
Lease agreement	Česká spořitelna, a.s.	Lease of non-residential premises – Trianon with amendments	2014–2018	None
Lease agreement	Česká spořitelna, a.s.	Lease of non-residential premises – Antala Staška Street	2014	None
Service agreement	Česká spořitelna, a.s.	Agreement on authorization to exercise the right of use of company logo	2002–2006	None
Contract for contribution outside of the Share Capital	Česká spořitelna, a.s.	Contribution outside of the Share Capital	2014	None
Service agreement	Česká spořitelna, a.s.	Outsourcing service agreement	2018	None
Service agreement	Česká spořitelna, a.s.	Agreement for the use of the ISIR_CS application and its development, support and operation	2009	None
Service agreement	Česká spořitelna, a.s.	System environment for Linux server farm	2010	None
Service agreement	Česká spořitelna, a.s.	IT services (IP Telefonie) with amendments (TEL Internet access)	2014–2016	None
Cooperation agreement	Česká spořitelna, a.s.	Risky receivables management	2009	None
Cooperation agreement	Česká spořitelna, a.s.	Agreement on Restructuring of Factoring Cooperation	2009	None
Cooperation agreement	Česká spořitelna, a.s.	Exchange of information using the KLIENT application with amendments	2009–2018	None
Cooperation agreement	Česká spořitelna, a.s.	Monitoring of receivables	2013–2017	None
Cooperation agreement	Česká spořitelna, a.s.	Verification – verification of ceded invoices; Monitoring; of clients/pledges	2015	None
Cooperation agreement	Česká spořitelna, a.s.	Cooperation in approval of factoring deals	2017	None

Description of relations with other related parties

Contract	Counterparty	Description	Year of contract	Detriment, if any
Current account agreement	Slovenská sporitelna, a.s.	Current account agreement (EUR)	2016	None
Service agreement	Slovenská sporitelna, a.s.	Electronic banking including amendments	2016–2017	None
License agreement	Erste Factoring d.o.o.	Implementation of information system HoC	2010	None
License agreement	Slovenská sporitelna, a.s.	Agreement on transfer of rights and obligations of information system HoC	2011	None
License agreement	Slovenská sporitelna, a.s.	License agreement of implementation of information system Monitoring	2011	None
Cost Reimbursement Agreement	Erste Group Bank AG	Reimbursement contract	2018	None
Service agreement I.CA	První certifikační autorita, a.s.	Issuing of qualified certificates	2006	None
Service agreement I.CA	První certifikační autorita, a.s.	Issuing of qualified time stamps	2007	None
Service agreement	Procurement Services CZ, s.r.o.	Provision of services	2018	None
Participation on project NRKI	CNCB - Czech Non-Banking Credit Bureau, z.s.p.o.	Participation on project NRKI and its usage	2018	None
Cooperation agreement	Pojišťovna České spořitelny, a.s.	Private life insurance with employer's contribution	2005	None

D. Other legal actions

In the fiscal year, the Submitter received or undertook no additional legal or other actions for the benefit or at the request of the Related Parties that would exceed 10 % of the Submitter's equity based on the latest financial statements.

E. Other measures

Factoring České spořitelny, a.s. is a party to group projects of the Erste Group Bank. Factoring České spořitelny, a.s. suffered no detriment from collaboration in the group projects. The Submitter assessed the relations between the Related Parties and has determined that they are favourable for Factoring České spořitelny, a.s. and bear low risk.

F. Conclusion

With regard to the relations between the Submitter and the Related Parties reviewed by us, the Submitter appears to have suffered no detriment as a result of the foregoing contracts, other legal actions or other measures entered into, undertaken or adopted by the Submitter for the benefit or at the request of the Related Parties in the fiscal year 2018.

This Report was discussed and approved by the Company's Board of Directors on 19 March 2019.

Prague, 19 March, 2019

Factoring České spořitelny, a.s.



Karel Nováček
Chairman of the Board of Directors



Pavel Chlumský
Member of the Board of Directors

Factoring České spořitelny, a.s.

Budějovická 1518/13B, 140 00 Prague 4, Czech Republic
Business Registration Number (IČO): 25629352, VAT: CZ25629352

Phone: +420 956 770 711

E-mail: factoring@factoringcs.cz
Internet: www.factoringcs.cz

Member of Factors Chain International



Annual Report 2018

Production: Omega Design, s.r.o.

