

**ANNUAL REPORT 2013**

## A Message from the Chairman of the Board of Directors



Ladies and Gentlemen,

This Annual Report showcases the results, current status and trends of TRANSFINANCE a.s. To start with, however, let's take a short look back at the year 2013 from a broader perspective, not just from the perspective of the company.

Events on the first day of 2013 hinted that this year would not be particularly calm. The president announced a blanket amnesty in his New Year's speech that halted a number of prosecutions. It was as if the president was sending a signal to other state authorities to obstruct law enforcement. We noticed an unsettling change in the attitudes of some politicians and courts towards an aversion to creditors. Creditors are permitted to enforce payment of debts and can even claim payment of reasonable costs they incur in doing so!

When initiating prosecution in the "everybody-can-be-prosecuted-no-matter-what" manner, fear sometimes comes from the interpretation of the words "corruption" and "proper care." We often hear: if you're innocent, you won't have any problem proving it in court. So now I think very hard about all our contracts with debtors who should pay the company less than the nominal value. Is this really a business deal or are there already elements here that someone could consider to be criminal in the future?

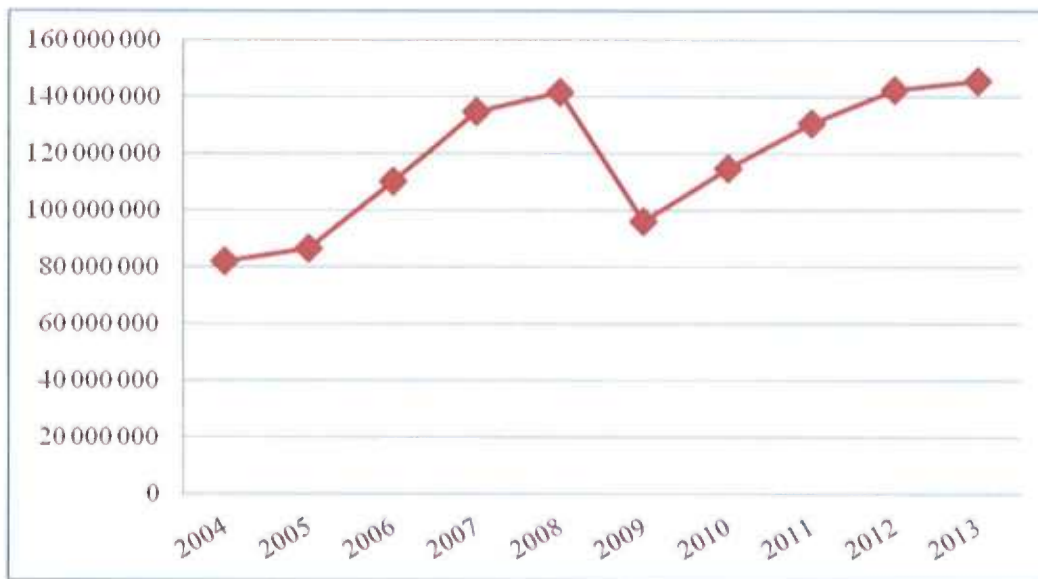
In the country's first direct presidential election, Miloš Zeman was the victor. This was followed by the resignation of Prime Minister Petr Nečas and the formation of a new "government of experts" under Prime Minister Jiří Rusnok, which led the country until the October early elections. At the beginning of 2014, we finally had a new government. Despite all these political changes, entrepreneurs have not been significantly affected. However, there was a period when it was unclear whether the adopted amendments and laws were actually applicable or not. Should we prepare for the new Civil Code, the new law on corporations, the liability for the payment of value added tax, or will those newly in power dismiss these changes? In addition, the Czech National Bank made the decision to weaken the exchange rate. It was not easy to keep track of these changes, let alone respond to them.

But back to factoring and its development both in the world and in the Czech Republic. Factors Chain International (FCI) statistics indicate a profit in an absolute amount of €2 230 billion, representing growth of 4.6% in 2013 compared to 2012. The largest portion - 82% - was the purchase of domestic receivables. However, the share of international factoring - both export and import - is increasing significantly: for the last 5 years, the CAGR for international factoring was almost 25%, compared to 13% for domestic factoring.

The share of European countries in the global volume of factoring transactions is more than 60%. The EU Federation report lists the total increase in turnover in Europe at 5.35% year on year, representing €1 259 billion. Countries where factoring experienced the greatest growth include Croatia, Poland and Austria, while the highest decreases were registered in Cyprus, Greece, Romania and Spain.

As far as the development of factoring in the Czech Republic is concerned, based on the results published by the Association of Factoring Companies, we can see gradual growth over the course of the year, both in the volume of purchased receivables and the amount of financial funds provided from factoring. In the first half of the year, an annual increase of 2% was noted; and by the end of 2013, an increase of more than 11% compared with 2012. The volume of financing provided by factoring companies amounted to almost CZK 17 billion.

In the first quarter of 2014, we have seen continued growth in the volume of purchased receivables - of more than 25%. We hope, therefore, that the annual figures for the Czech Republic exceed the amounts that were recorded before the financial crisis - see the graph "Czech market for the last 10 years (in thousands CZK)":



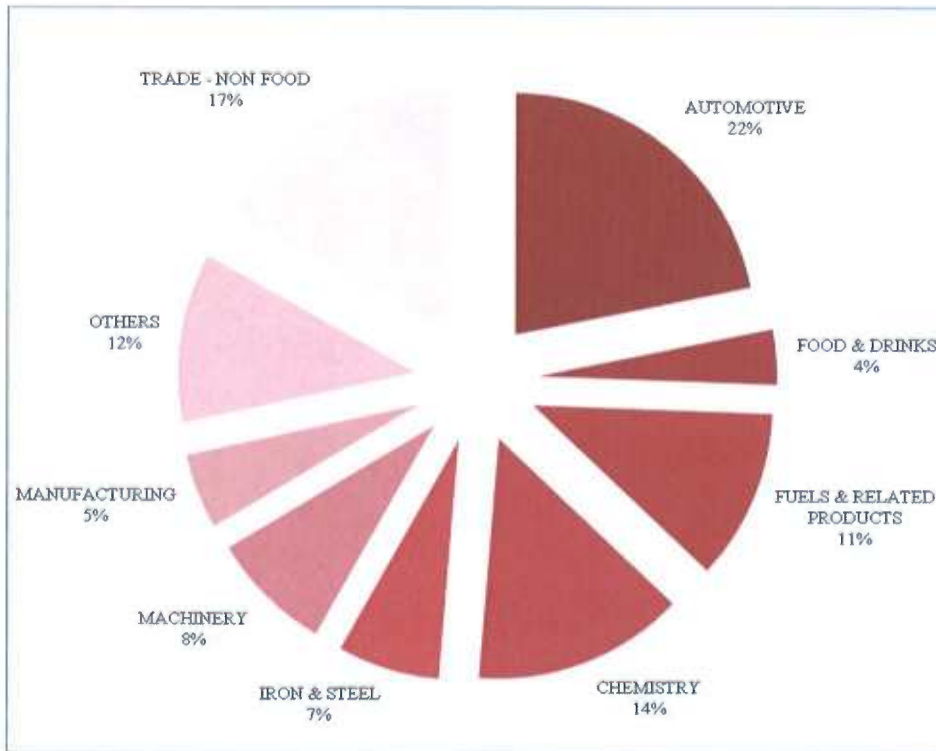
During the first half of the year, especially the beginning of the year, even our company had trouble getting off on the right foot. By the year's mid-point, however, we showed a slight increase of just over 8% compared to 2012. In the second half of the year, despite continuing negative reports that we heard for much of the entire past year, we saw clear growth. The second half was about 44% more successful than in 2012. For the full year, we ended up recording an overall growth of around 26%.

Development of turnover for each month of 2013 compared with 2012 (in thousands CZK):



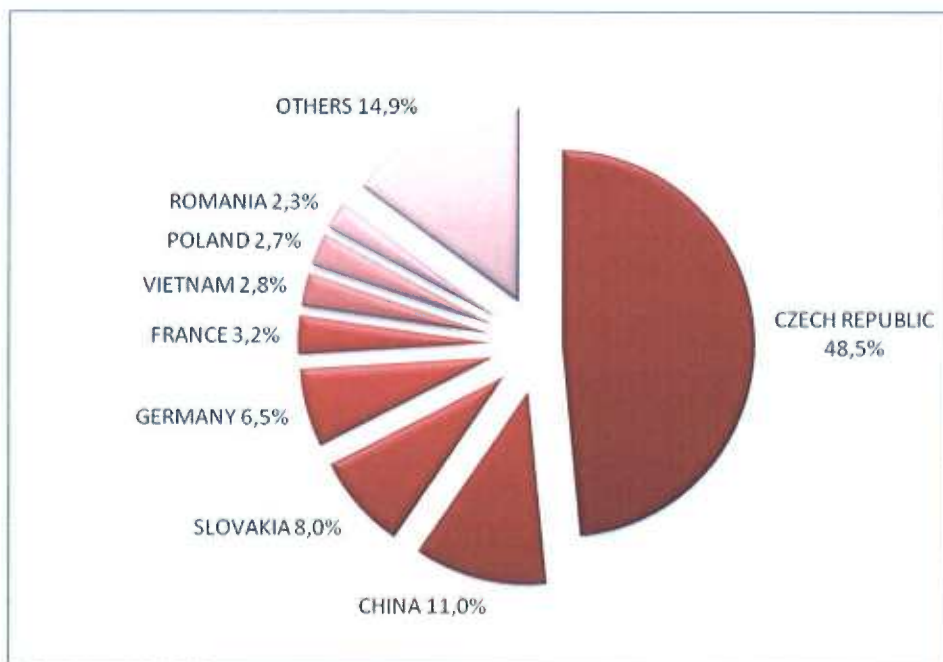
We funded primarily the automotive and chemical industries, trade, transport and engineering, which clearly shows that our clients were also experiencing growth.

Distribution by sector can be seen in the chart:



Even in 2013, Transfinance maintained its leading position in export and import factoring. Overall, the company achieved profits of almost EUR 25.3 billion, of which more than CZK 10 billion is in receivables from foreign countries and nearly CZK 3 billion in receivables from imports to the Czech Republic. A change which we noted during 2013 is the growth in export to Asian countries, primarily to China, Vietnam and South Korea. This was a new experience for us. Slovakia and Germany remain big export territories for our clients.

Open receivables as of 31.12.2013 from the perspective of the client's country:



The yield indicators, both in net interest and factoring commission, showed a clear increase in 2013. Conversely, expenses were more or less kept at the same level as in 2012 (a less 1% increased was recorded). Despite higher provisioning in 2013 and extraordinary income in 2012, Transfinance achieved higher profits, both before and after taxes (excluding deferred income taxes).

Primary economic indicators as of 31.12.2013: total assets of the company amounted to CZK 4.37 billion (2012: CZK 3.73 billion). Pre-tax profit amounted to CZK 20.06 million (2012: CZK 18.34 million) and after-tax profit totaled CZK 10.53 million (2012: CZK 10.72 million).

Overall, we can say that 2013 was a successful year. Therefore, on behalf of the Board of Directors, I would like to thank our shareholders, members of the Supervisory Board and last but not least our employees. With regard to the number of employees of Transfinance (30) and the results achieved, I believe that our people have done a good job. We must also highlight the support of members of the Supervisory Board. Their positive attitude and quick decisions contributed to the satisfaction of our clients. And to our clients we also give our thanks, largely because good results are achieved through our mutual stable, fair and friendly relationships.

In conclusion, I would like to wish everyone good health, strength, perseverance and success in their personal and professional lives.

Prague, 30 April 2014



JUDr. Ing. Jana Němečková  
Chairman of the Board of Directors



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of TRANSFINANCE a.s.:

- I. We have audited the financial statements of TRANSFINANCE a.s. ("the Company") as at 31 December 2013 presented in the annual report of the Company on pages 8 - 22 and our audit report dated 24 March 2014 stated the following:

"We have audited the accompanying financial statements of TRANSFINANCE a.s., which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of TRANSFINANCE a.s., see Note 1 to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of TRANSFINANCE a.s. as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

### *Other Matters*

The financial statements of TRANSFINANCE a.s., for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2013."



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- II. We have also audited the consistency of the annual report with the financial statements described above. The management of TRANSFINANCE a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1 - 4 is consistent with that contained in the audited financial statements as at 31 December 2013. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

- III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of TRANSFINANCE a.s. for the year ended 31 December 2013 presented in the annual report of the Company on pages 23 - 25. As described in report on related parties, the Company prepared this report in accordance with Commercial Code. The management of TRANSFINANCE a.s. is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of TRANSFINANCE a.s. for the year ended 31 December 2013 is materially misstated.

Ernst & Young Audit, s.r.o.  
License No. 401  
Represented by Partner

Michaela Kubýová  
Auditor, License No. 1810

30 April 2014  
Prague, Czech Republic

**TRANSFINANCE a.s.**

Registered office: Křižíkova 237/36a, Prague 8

Identification number: 15272028

Legal form: joint stock company

Scope of business: factoring

Date of financial statements: 31 December 2013

**Balance Sheet****as at 31 December 2013**

(TCZK)		Notes/ enclosures	Gross amount	Provision	2013 Net amount	2012 Net amount
<b>ASSETS</b>						
<b>B.</b>	<b>Fixed assets</b>		<b>53 132</b>	<b>- 29 482</b>	<b>23 650</b>	<b>27 679</b>
<b>B. I.</b>	<b>Intangible fixed assets</b>		<b>3</b>	<b>41 426</b>	<b>- 20 349</b>	<b>21 077</b>
B.I.	3.	Software		41 426	- 20 349	21 077
	7.	Intangible assets in progress		0	0	8 560
<b>B. II.</b>	<b>Tangible fixed assets</b>		<b>4</b>	<b>11 706</b>	<b>- 9 133</b>	<b>2 573</b>
B.II.	2.	Constructions		2 172	- 2 172	0
	3.	Separate movable items and groups of movable items		8 889	- 6 961	1 928
	6.	Other tangible assets		645	0	645
	7.	Tangible assets in progress		0	0	167
<b>C.</b>	<b>Current assets</b>		<b>4 670 244</b>	<b>- 328 830</b>	<b>4 341 414</b>	<b>3 700 036</b>
<b>C. II.</b>	<b>Long-term receivables</b>		<b>5</b>	<b>21 217</b>	<b>0</b>	<b>21 217</b>
C.II.	8.	Deferred tax asset		21 217	0	21 217
<b>C. III.</b>	<b>Short-term receivables</b>		<b>5</b>	<b>4 648 441</b>	<b>- 328 830</b>	<b>4 319 611</b>
C. III.	1.	Trade receivables		4 647 997	- 328 830	4 319 167
	6.	Due from government – tax receivables		6	0	0
	7.	Short-term advances granted		224	0	224
	9.	Other receivables		214	0	214
<b>C. IV.</b>	<b>Short-term financial assets</b>		<b>586</b>	<b>0</b>	<b>586</b>	<b>2 927</b>
C. IV.	1.	Cash		96	0	96
	2.	Bank accounts		490	0	490
<b>D.</b>	<b>Accrued assets and deferred liabilities</b>		<b>2 351</b>	<b>0</b>	<b>2 351</b>	<b>4 353</b>
D. I.	1.	Prepaid expenses		2 351	0	2 207
	3.	Unbilled revenue		0	0	2 146
<b>TOTAL ASSETS</b>			<b>4 725 727</b>	<b>- 358 312</b>	<b>4 367 415</b>	<b>3 732 068</b>

(TCZK)		Notes/ enclosures	2013 Net amount	2012 Net amount
<b>LIABILITIES &amp; EQUITY</b>				
<b>A.</b>	<b>Equity</b>		<b>6</b>	<b>293 730</b>
<b>A. I.</b>	1.	<b>Basic capital</b>		<b>112 000</b>
<b>A. III.</b>	1.	<b>Legal reserve fund</b>		<b>19 426</b>
<b>A. IV.</b>	1.	<b>Retained earnings for the previous years</b>		<b>151 777</b>
<b>A. V.</b>	<b>Profit for the current period</b>			<b>10 527</b>
<b>B.</b>	<b>Liabilities</b>			<b>4 073 685</b>
<b>B. III.</b>	<b>Current liabilities</b>		<b>7</b>	<b>2 037 699</b>
B.III.	1.	Trade payables		2 028 002
	5.	Liabilities to employees		709
	6.	Liabilities arising from social security and health insurance		597
	7.	Due to government – taxes		3 280
	10.	Unbilled deliveries		5 111
	11.	Other liabilities		0
<b>B. IV.</b>	2.	<b>Short-term bank loans</b>	<b>8</b>	<b>2 035 986</b>
<b>C.I.</b>	1.	<b>Accrued liabilities and deferred assets– accruals</b>		<b>0</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>			<b>4 367 415</b>	<b>3 732 068</b>



***Income statement***  
***for the year ended 31 December 2013***

(TCZK)		Notes/ enclosures	2013	2012	
II.	1.	Production - revenue from sale of finished products and services	11	86 445	81 173
B.		Production related consumption	12	22 608	22 257
B.	1.	Consumption of material and energy		1 166	1 347
	2.	Services		21 442	20 910
<b>+</b>		<b>Value added</b>		<b>63 837</b>	<b>58 916</b>
C.		Personnel expenses	14	20 855	19 396
C.	1.	Wages and salaries		12 589	12 120
	2.	Bonuses to members of company or cooperation bodies		2 568	2 223
	3.	Social security and health insurance		5 275	4 620
	4.	Other social costs		423	433
D.		Taxes and charges		883	3 344
E.		Amortization and depreciation of intangible and tangible fixed assets	3, 4	5 181	3 974
III.	1.	Revenue from sale of intangible and tangible fixed assets		270	0
F.	1.	Net book value of intangible and tangible fixed assets sold		0	0
G.		Change in provisions and allowances relating to operations		- 32 396	- 4 996
IV.		Other operating revenues	11	11	5 172
H.		Other operating expenses	13	94 368	63 194
<b>*</b>		<b>Profit or loss on operating activities</b>		<b>- 24 773</b>	<b>- 20 824</b>
IX.		Gain on revaluation of derivatives		0	347
L.		Loss on revaluation of derivatives		0	7
X.		Interest income		64 728	66 429
N.		Interest expense		21 080	23 621
XI.		Other finance income	15	385 903	109 348
O.		Other finance cost	16	384 723	113 335
<b>*</b>		<b>Profit or loss on financial activities</b>		<b>44 828</b>	<b>39 161</b>
Q.		Tax on profit or loss on ordinary activities	9	9 528	7 615
Q.	1.	- due		7 123	7 449
	2.	- deferred		2 405	166
<b>***</b>		<b>Profit or loss for the year (+/-)</b>		<b>10 527</b>	<b>10 722</b>
<b>****</b>		<b>Profit or loss before taxation</b>		<b>20 055</b>	<b>18 337</b>

***Statement of changes in equity***  
***for the year ended 31 December 2013***

(TCZK)	Notes/ enclosures	Basic capital	Legal reserve fund	Retained earnings	Total
<b>Balance as at 1 January 2012</b>		<b>112 000</b>	<b>18 060</b>	<b>142 420</b>	<b>272 480</b>
Transfer to the reserve fund	6	0	829	- 829	0
Profit or loss for the current period	6	0	0	10 722	10 722
<b>Balance as at 31 December 2012</b>		<b>112 000</b>	<b>18 889</b>	<b>152 313</b>	<b>283 202</b>
Transfer to the reserve fund	6	0	537	- 536	1
Profit or loss for the current period		0	0	10 527	10 527
<b>Balance as at 31 December 2013</b>		<b>112 000</b>	<b>19 426</b>	<b>162 304</b>	<b>293 730</b>

***Cash flow statement***  
***for the year ended 31 December 2013***

(TCZK)	Notes/ enclosures	2013	2012
<b>Cash flows from operating activities</b>			
		<b>20 055</b>	<b>18 337</b>
<b>A.1</b>		<b>19 208</b>	<b>11 429</b>
A.1.1	3, 4, 5	94 577	59 505
A.1.2	5	- 31 451	- 5 268
A.1.3		- 270	0
A.1.5	8, 11	- 43 648	- 42 808
<b>A*</b>		<b>39 263</b>	<b>29 766</b>
<b>A.2</b>		<b>- 447 490</b>	<b>- 99 694</b>
A.2.2	5	- 708 019	- 361 927
A.2.3		5 014	0
A.2.4	7	254 371	262 233
A.2.5		1 144	0
<b>A**</b>		<b>- 408 227</b>	<b>- 69 928</b>
A.3.1		- 21 333	- 23 684
A.4.1		- 7 527	- 6 821
<b>A***</b>		<b>- 437 087</b>	<b>- 100 433</b>
<b>Cash flows from investing activities</b>			
B.1.1	3, 4	- 1 152	- 672
B.2.1		270	0
B.4.1		64 728	66 429
<b>B***</b>		<b>63 846</b>	<b>65 757</b>
<b>Cash flows from financing activities</b>			
C.1		445 893	- 45 100
<b>C***</b>		<b>445 893</b>	<b>- 45 100</b>
<b>Net increase (decrease) in cash</b>			
		<b>72 652</b>	<b>- 79 776</b>
	20	- 177 599	- 97 823
	20	- 104 947	- 177 599

## **1. General information**

### **1.1. Basic information about the Company**

TRANSFINANCE a.s. (hereinafter the "Company") is a legal entity, a joint stock company, which was incorporated by way of a Founder's Deed dated 21 January 1991 and was entered into the Commercial Register on 5 April 1991 and its registered office is Křižíkova 237/36a, 186 00, Prague 8, Czech Republic. The principal business activity of the Company is factoring. The Company has an identification number of 152 72 028.

As of 31 December 2013, the Company is wholly owned by mBank S.A., Poland (originally BRE Bank S.A.). As at 25 November 2013 the name of BRE Bank S.A. changed to mBank S.A.

The final holding company is Commerzbank AG, Germany.

The members of the Board of Directors as of 31 December 2013 were as follows:

<b>Name</b>	<b>Position</b>	<b>Note</b>
JUDr. Ing. Jana Němečková	Chairman	Appointed on 1 September 2012
Ing. Tomáš Vogl	Member	Appointed on 1 September 2012
Róbert Molnár	Member	Appointed on 1 September 2012

The members of the Supervisory Board as at 31 December 2013 were as follows:

<b>Name</b>	<b>Position</b>	<b>Note</b>
Jörg Hessenmüller	Chairman	Appointed on 17 September 2013
Dariusz Adam Steć	Member	Appointed on 3 August 2011
Ryszard Rychter	Member	Appointed on 7 October 2008
Henryk Okrzeja	Member	Appointed on 3 August 2011

As of 17 September 2013 Jörg Hessenmüller was appointed the new member of the Supervisory Board in substitution of Maciej Janusz Bieńkowski. As of 18 December 2013 and after the resignation of Henryk Okrzeja, Jörg Hessenmüller was elected the new chairman of the Supervisory Board.

The company is divided into six departments, the heads of which report directly to the Company's Board of Directors. The individual departments are as follows:

- Client management department
- Finance and administration
- Debtor service
- Risk management department
- Sales department
- Data handling department.

## **2. Accounting procedures**

### **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.

### **2.1. Basic principles of preparing the financial statements**

The financial statements have been prepared in accordance with valid Czech accounting regulations and on the historic cost basis. Derivatives are stated at their fair values.

All data is presented in Czech crowns (CZK). The unit of measurement is thousands of CZK, except when indicated otherwise.

### **2.2. Intangible fixed assets**

Intangible assets having a useful life longer than one year and a purchase price in excess of CZK 60 000 per item are treated as intangible fixed assets.

Intangible fixed assets are valued at cost, which includes the purchase price and purchase-related costs.

Intangible fixed assets are amortized on a straight-line basis over the estimated useful life of the asset as follows:

<b>Intangible fixed assets</b>	<b>Estimated useful life</b>
Software	3 - 8 years

If the net book value of an asset exceeds its estimated recoverable value, its net book value shall be lowered to this value by way of an adjustment.

### **2.3. Tangible fixed assets**

Tangible assets having a useful life longer than one year and a purchase price in excess of CZK 40 000 per item are treated as tangible fixed assets.

Acquired tangible fixed assets are initially reported at their purchase prices, which include the price of their acquisition and acquisition-related costs.

Tangible fixed assets are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

<b>Tangible fixed assets</b>	<b>Estimated useful life</b>
Constructions – technical improvements	5 years
Machines, tools and equipment	3 – 10 years
Transport means	5 years
Inventory	1 year

If the net book value of an asset exceeds its estimated recoverable amount, its net book value is reduced to that amount through an adjustment. The recoverable amount is determined on the basis of expected future cash flows generated by the given asset.

The costs of repairs and maintenance of tangible fixed assets are charged to expenses as incurred. Technical improvements of tangible fixed assets are activated and subsequently depreciated together with originally capitalized assets.

### **2.4. Receivables**

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful receivables is created on the basis of the ageing structure of the receivables and an individual assessment of the creditworthiness of borrowers, including the estimated cash flows, and the riskiness of individual transactions. The company does not create provisions for receivables from related parties.

The purchase of a receivable is recorded simultaneously with the posting of the payable ensuing from the payment of the purchase price.

The pre-financing granted by the Company, which represents partial payment of the price of the acquired receivables, is reported as a reduction of the relevant payable ensuing from the purchase price. Recourse as well as non-recourse factoring is charged identically by the Company.

In order to refine the fair representation and improve the informative ability of the financial statements, the Company applies the balance sheet method to account for the assignment of receivables as it does not consider the purchase price of the assigned receivables to be Company's own revenue.

### ***2.5. Cash and cash equivalents***

Cash includes cash at hand, including valuables, and cash at bank, including overdrawing on the current or overdraft account.

Cash equivalents are understood to be short-term liquid financial assets that are easily and readily convertible to a cash amount known in advance, in that these assets are not expected to significantly change in value over time.

The Company has prepared a cash flow statement using the indirect method.

### ***2.6. Foreign currency translation***

Assets and liabilities acquired in foreign currencies are denominated in Czech crowns at the fixed rate set on 1 January. On the balance sheet date, the cash transactions were denominated at the rate set by the Czech National Bank on 31 December.

All exchange gains and losses are recorded in finance income or finance cost of the current year.

Since much of the receivables is in foreign currencies, exchange gains and losses also arise on adjustments to receivables.

### ***2.7. Financial derivatives***

Financial derivatives are initially recognised on the balance sheet at cost and subsequently re-valued at fair value. Fair values are derived from discounted cash flow models. All derivatives are recognised in other receivables or in other payables when their fair value is positive or negative for the Company, respectively.

The Company uses financial derivatives in line with its risk management strategy as an effective hedging tool, although according to Czech accounting regulations, hedge accounting cannot be used for such tools since they do not meet criteria for hedge accounting. Therefore, these derivatives are recorded as trading derivatives in the above chart.

Changes in the fair value of derivatives held for trading are recognised as income or expenses from the revaluation of derivatives.

### ***2.8. Provisions***

The Company creates provisions if it has a current payable, it is probable that it will need to incur its own funds to settle this payable and there is a reliable estimate of the amount of the payable.

### ***2.9. Equity***

The basic capital of the Company is reported in the amount recorded in the Commercial Register of the Municipal Court. Any possible increase or decrease in the basic capital according to a decision of the General Meeting that had not been recorded in the financial statements date is recorded as Changes in Basic Capital. Payments exceeding basic capital are recorded as Share Premium.

## **2.10. Liabilities**

The Company creates legal provisions according to the Act on Provisions and provisions for loss and risk in cases when the title, amount and settlement date can be determined with high probability while keeping subject and time continuity.

Both long-term and current liabilities are reported in nominal values. "Other liabilities" also show values identified as a consequence of denominating the financial derivatives in fair values.

Both long-term and short-term loans are reported in nominal values. In addition, the portion of long-term loans payable within one year from the balance sheet date is considered to be a short-term loan.

## **2.11. Estimates**

Preparation of the financial reports requires the Company's management to use estimates and assumptions that influence the reported assets and liabilities as of the financial statements date and the income and costs for the reported period. The Company's management has made such estimates and assumptions on the basis of all available and relevant information. Nevertheless, as the word "estimate" suggests, the actual values in the future can differ from those estimates.

## **2.12. Interest income and expenses**

Interest income and expenses in respect of all interest-bearing instruments are reported on an accrual principle. Interest expenses associated with loans are charged to expenses. The Company's interest income is mainly composed of interest on the pre-financing granted.

## **2.13. Income tax**

Income tax is calculated using the current tax rate from the book profit increased or decreased by permanently or temporarily unallowable costs and untaxable income (e.g. creation and charging other provisions and adjustments, entertainment expenses, difference between book and tax depreciation, etc.). Further, items decreasing the tax base (gifts), tax-deductible items (tax loss, research and development project costs) and income tax deductions are taken into account as well.

## **2.14. Deferred tax**

Deferred tax is recognised on all temporary differences between the net book value of an asset or liability as stated in the balance sheet and their tax value. A deferred tax asset is recognised if it is likely that it will be possible to utilize it tax-wise in the future.

## **2.15. Related parties**

The Company's related parties are considered to be the following:

- Shareholders who may, directly or indirectly, exercise significant or controlling influence over the Company, and companies in which these shareholders have a controlling influence;
- Members of the Company or parent company's statutory and supervisory bodies and management, and parties close to such members, including enterprises in which these members and persons have a significant or controlling influence.

Significant transactions and balances with related parties are disclosed in Notes 14 and 17.

### 2.16. Subsequent events

Impact of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

When significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

### 3. Intangible fixed assets

(TCZK)	1 January 2013	Additions	Write-offs / transfers	31 December 2013
<b>Purchase price</b>				
Software	47 930	8 710	- 15 214	41 426
Intangible fixed assets in progress	8 560	0	- 8 560	0
<b>Total</b>	<b>56 490</b>	<b>8 710</b>	<b>- 23 774</b>	<b>41 426</b>
<b>Accumulated depreciation</b>				
Software	30 975	4 588	- 15 214	20 349
<b>Total</b>	<b>30 975</b>	<b>4 588</b>	<b>-15 214</b>	<b>20 349</b>
<b>Net book value</b>	<b>25 515</b>			<b>21 077</b>

(TCZK)	1 January 2012	Additions	Write-offs / transfers	31 December 2012
<b>Purchase price</b>				
Software	47 798	132	0	47 930
Intangible fixed assets in progress	8 313	247	0	8 560
<b>Total</b>	<b>56 111</b>	<b>379</b>	<b>0</b>	<b>56 490</b>
<b>Accumulated depreciation</b>				
Software	27 490	3 485	0	30 975
<b>Total</b>	<b>27 490</b>	<b>3 485</b>	<b>0</b>	<b>30 975</b>
<b>Net book value</b>	<b>28 621</b>			<b>25 515</b>

In 2013 as well as in 2012, the Company wrote off into expenses no low value intangible fixed assets.

#### 4. Tangible fixed assets

(TCZK)	1 January 2013	Additions /		31 December 2013
		re-charging	Write-offs / transfers	
<b>Purchase price</b>				
Buildings and constructions	2 172	0	0	2 172
Machines, tools and equipment	1 705	0	0	1 705
Transport means	3 295	1 169	- 1 348	3 116
Inventory	3 228	0	0	3 228
Other tangible fixed assets	840	0	0	840
Works of art	645	0	0	645
Tangible fixed assets in progress	167	0	- 167	0
<b>Total</b>	<b>12 052</b>	<b>1 169</b>	<b>- 1 515</b>	<b>11 706</b>
<b>Accumulated depreciation</b>				
Buildings and constructions	2 172	0	0	2 172
Machines, tools and equipment	1 033	238	0	1 271
Transport means	2 615	355	- 1 348	1 622
Inventory	3 228	0	0	3 228
Other tangible fixed assets	840	0	0	840
<b>Total</b>	<b>9 888</b>	<b>593</b>	<b>- 1 348</b>	<b>9 133</b>
<b>Net book value</b>	<b>2 164</b>			<b>2 573</b>

(TCZK)	1 January 2012	Additions /		31 December 2012
		re-charging	Write-offs / transfers	
<b>Purchase price</b>				
Buildings and constructions	2 172	0	0	2 172
Machines, tools and equipment	1 189	1 023	- 507	1 705
Transport means	3 878	0	- 583	3 295
Inventory	3 297	0	- 69	3 228
Other tangible fixed assets	947	0	- 107	840
Works of art	645	0	0	645
Tangible fixed assets in progress	0	167	0	167
<b>Total</b>	<b>12 128</b>	<b>1 190</b>	<b>- 1 266</b>	<b>12 052</b>
<b>Accumulated depreciation</b>				
Buildings and constructions	2 138	34	0	2 172
Machines, tools and equipment	1 083	212	- 262	1 033
Transport means	2 372	243	0	2 615
Inventory	3 228	0	0	3 228
Other tangible fixed assets	947	0	-107	840
<b>Total</b>	<b>9 768</b>	<b>489</b>	<b>- 369</b>	<b>9 888</b>
<b>Net book value</b>	<b>2 360</b>			<b>2 164</b>

In 2013, the Company wrote off into expenses low value tangible fixed assets amounting to CZK 111 000 (2012: CZK 138 000).

As at 31 December 2013 and 2012, the Company did not report any assets acquired by way of financial leasing nor did it own any assets pledged as collateral.



## 5. Receivables

(TCZK)		31 December 2013	31 December 2012
Trade receivables	- current	4	32
Receivables from factoring activities and from the assignment of receivables	- current	3 169 302	2 986 678
	- overdue	1 478 691	1 042 664
<b>Total trade receivables</b>		<b>4 647 997</b>	<b>4 029 374</b>
Other receivables	- current	214	4 245
Short-term advances granted		224	149
Due from government - tax receivables		6	0
<b>Total other receivables</b>		<b>444</b>	<b>4 394</b>
Adjustment for doubtful receivables		- 328 830	- 360 281
<b>Net book value of short-term receivables</b>		<b>4 319 611</b>	<b>3 673 487</b>
Deferred tax receivable		21 217	23 622
<b>Net book value of long-term receivables</b>		<b>21 217</b>	<b>23 622</b>
<b>Total net book value of receivables</b>		<b>4 340 828</b>	<b>3 697 109</b>

Adjustments were created in 2013 and 2012 in respect of receivables that are considered doubtful based on an estimate of riskiness of the individual cases and expected cash flows.

As at 31 December 2013, outstanding trade receivables are secured by promissory notes totaling CZK 55 090 000 (2012: CZK 75 366 000), which are kept off the balance sheet.

As at 31 December 2013, the Company does not record any receivables with a maturity longer than 5 years.

Furthermore, the Company has, on account of irrecoverability, rejection of bankruptcy and settlement proceedings or the non-satisfaction of receivables in bankruptcy proceedings etc., written off into expenses receivables amounting to CZK 89 396 000 in 2013 (2012: CZK 55 531 000). This depreciation is reported in other operating expenses in the income statement (Note 13).

Receivables against related parties are disclosed in Note 17.

Change in an adjustment to doubtful receivables:

(TCZK)	Adjustments to receivables – Tax-deductible	Adjustments to receivables – other	Total
<b>Opening balance as at 1 January 2012</b>	<b>74 978</b>	<b>290 571</b>	<b>365 549</b>
Allowance for impairment	4 925	48 075	53 000
Release of allowance for impairment	- 7 547	- 50 448	- 57 995
Exchange rate difference	- 273	0	- 273
<b>Closing balance as at 31 December 2012</b>	<b>72 083</b>	<b>288 198</b>	<b>360 281</b>
Allowance for impairment	0	57 000	57 000
Release of allowance for impairment	- 28 633	- 60 763	- 89 396
Exchange rate difference	945	0	945
<b>Closing balance as at 31 December 2013</b>	<b>44 395</b>	<b>284 435</b>	<b>328 830</b>

## 6. Share capital

Approved and issued shares:

	31 December 2013		31 December 2012	
	Count (pcs)	Book value (TCZK)	Count (pcs)	Book value (TCZK)
Ordinary shares of a nominal value of CZK 56 000, fully paid up	2 000	112 000	2 000	112 000

No dividends or shares of profit to directors were paid in 2013 and 2012.

No decision on profit distribution for 2013 had been made as at the approval of the financial statements, and therefore it is not presented herein by the Company.

The Company is fully owned by mBank S.A., registered in Poland.

The legal reserve fund is created from the profit generated by the Company in accordance with the law and may not be distributed among shareholders, but may be used solely to offset losses.

On 24 June 2013, the General Meeting approved the financial statements of the Company for 2012 and decided on settling the profit incurred in 2012 in the amount of CZK 10 722 000 (2011: profit CZK 16 588 000). The distribution to the legal reserve fund amounted to CZK 536 000 and the remaining part of the profit from 2012 in the amount of CZK 10 186 000 was transferred into retained earnings.

## 7. Liabilities

(TCZK)	31 December 2013	31 December 2012
Trade payables from operating activities	675	792
Payables from factoring activities and from the assignment of receivables	2 027 327	1 772 839
Other payables	9 697	10 148
<b>Total current and long-term liabilities</b>	<b>2 037 699</b>	<b>1 783 779</b>

Current payables from factoring represent payables from the purchase price of acquired receivables.

The above payables were not secured by any of the Company's assets and do not have a maturity longer than 5 years.

Other current liabilities comprise mainly of estimated payables and a tax payable towards the state. As at 31 December 2013, the estimated payables amount to CZK 5 111 000 (as at 31 December 2012: CZK 6 413 000) and comprise mainly of unpaid bonuses and uninvoiced deliveries and services.

The Company has no overdue payables related to social or health insurance or any other overdue payables to tax authorities or other state institutions.

Payables towards related parties are disclosed in Note 17.

## 8. Bank loans

All bank loans are repayable within one year from the financial statements date. Loans are unsecured. Drawings occur mainly via tranches within one month. The company has the option of drawing funds for operations for up to the amount of the credit limit by means of an overdraft.

Interest expenses relating to bank loans amounted to CZK 21 080 000 for 2013 (2012: CZK 23 621 000).

Bank loans can be analysed as follows:

(TCZK)	Deadlines/ conditions	Loan limit	Amount of drawing on tranche	Amount of drawing on overdraft	31.12.2013	31.12.2012
					Amount of drawing incl. overdraft	Amount of drawing incl. overdraft
UniCredit Bank Czech Republic, a.s.	Loan contract for one year, payable on 31.12.2014	50 000	0	10 923	10 923	17 962
Česká exportní banka, a.s.	Loan contract for one year, payable on 31.09.2014	500 000	500 000	0	500 000	400 000
Komerční banka, a.s.	Loan contract for indefinite period	198 940	128 617	32 500	161 117	179 130
COMMERZBANK Aktiengesellschaft, pobočka Praha	Loan contract for indefinite period	80 000	0	52 828	52 828	880 833
LBBW Bank CZ a.s.	Loan contract for one year, payable on 31.01.2015	100 000	0	198	198	4 454
mBank S.A.	Loan contract 12.11.2014	1 151 850	1 151 850	0	1 151 850	0
ING Bank N.V.	Loan contract ended on 19.11.2013	0	0	0	0	75 200
Československá obchodní banka a.s.	Loan contract for one year, payable on 15.08.2014	210 000	149 365	9 705	159 070	107 508
<b>Total</b>		<b>2 290 790</b>	<b>1 929 832</b>	<b>106 154</b>	<b>2 035 986</b>	<b>1 665 087</b>

As at 31 December 2013, the Company reports in its off-balance sheet records a bank guarantee issued by COMMERZBANK AG in favour of Corso Karlín a.s. in the amount of EUR 32 000 (as at 31 December 2012: EUR 32 000). This guarantee secures the receivable ensuing from a rent contract.

## 9. Income tax

The tax expense can be analysed as follows:

(TCZK)	2013	2012
Current tax expense	6 647	6 986
Deferred tax expense	2 405	166
Adjustment of the tax expense of the prior year according to the tax return actually filled	476	463
<b>Total tax expense</b>	<b>9 528</b>	<b>7 615</b>

Current tax expense was calculated as follows:

(TCZK)	2013	2012
Profit before tax	20 055	18 337
Differences between accounting and tax depreciation	- 105	- 1 764
Tax-free income:		
Release of allowance for impairment	-3 763	- 2 374
Non-deductible expenses:		
Realisation of a receivable	18 594	18 518
Other (e.g. costs of representation, short-falls and damages)	204	4 051
Taxable income	34 985	36 768
Income tax rate	19%	19%
<b>Corporate income tax</b>	<b>6 647</b>	<b>6 986</b>

The deferred tax receivable (+) / payable (-) can be analysed as follows:

(TCZK)	31 December 2013	31 December 2012
<b>Deferred tax payable ensuing from:</b>		
Difference between the accounting and tax depreciated value of fixed assets	- 2 932	- 2 914
<b>Total deferred tax payable</b>	<b>- 2 932</b>	<b>- 2 914</b>
<b>Deferred tax receivable ensuing from:</b>		
Difference between the book and tax value of adjustments to receivables	24 149	26 536
<b>Total deferred tax receivable</b>	<b>24 149</b>	<b>26 536</b>
<b>Net deferred tax receivable</b>	<b>21 217</b>	<b>23 622</b>

## 10. Off-balance sheet assets

The Company also reports in its off-balance sheet records promissory notes, which serve as a form of security for unpaid receivables. More detailed information is disclosed in Note 5.

### 11. Breakdown of income by sector

Income from factoring activities was generated as follows:

(TCZK)	2013	2012
Foreign income		
- import factoring	6 659	6 069
Domestic income		
- export factoring	38 810	36 694
- domestic factoring	40 976	38 401
Other	0	9
<b>Total sales of own products and services</b>	<b>86 445</b>	<b>81 173</b>
Other income	11	5 172
<b>Total income from operating activities</b>	<b>86 456</b>	<b>86 345</b>
Interest income from factoring activities	64 728	66 419
Interest income from deposits	0	10
<b>Total income from operating activities and interest income</b>	<b>151 184</b>	<b>152 774</b>

### 12. Production related consumption

(TCZK)	2013	2012
Consumption of material and energy	1 166	1 347
Services	21 442	20 910
<b>Total production related consumption</b>	<b>22 608</b>	<b>22 257</b>

Services comprise mainly of the costs of renting commercial premises, consulting activities, legal, audit services and the costs of administering and maintaining Company's information technology.

### 13. Other operating costs

(TCZK)	2013	2012
Write-off of receivable	89 396	55 531
Other costs	4 972	7 663
<b>Total other operating costs</b>	<b>94 368</b>	<b>63 194</b>

Other costs comprise mainly of the costs of securing receivables, operating insurance and membership in professional associations. Operating costs for related parties are disclosed in Note 17.

### 14. Employees

	2013	2012
Number of members of statutory bodies	3	3
Number of Supervisory Board members	4	4
Average number of other employees	27	24
<b>Total</b>	<b>34</b>	<b>31</b>

(TCZK)	Members of statutory bodies	Members of management bodies	Other employees	Total
<b>2013</b>				
Wages, salaries and bonuses	2 568	2 773	9 816	15 157
Social security costs	852	942	3 481	5 275
Other social costs	0	126	297	423
<b>Total personnel costs</b>	<b>3 420</b>	<b>3 841</b>	<b>13 594</b>	<b>20 855</b>
<b>2012</b>				
Wages, salaries and bonuses	2 223	2 307	9 813	14 343
Social security costs	701	784	3 135	4 620
Other social costs	0	133	300	433
<b>Total personnel costs</b>	<b>2 924</b>	<b>3 224</b>	<b>13 248</b>	<b>19 396</b>

Neither members of the Board of Directors nor of the Supervisory Board are employees of the Company. Costs of and remuneration to the members of the Board of Directors are described in Note 17. Other members of the Company's management include managers who report directly to the Board of Directors of the Company. Members of the Supervisory Board were awarded a bonus of CZK 133 000 in 2013 (in 2012: CZK 0).

In 2013, employees were provided with automobiles for business purposes having a total purchase price of CZK 3 116 000 (2012: CZK 3 295 000).

Other transactions with the management of the Company are described in Note 17 Related party transactions.

### **15. Other financial income**

(TCZK)	2013	2012
Exchange gains	385 903	109 149
Other	0	199
<b>Total</b>	<b>385 903</b>	<b>109 348</b>

### **16. Other financial cost**

(TCZK)	2013	2012
Exchange losses	380 268	108 960
Bank fees	4 455	4 375
<b>Total</b>	<b>384 723</b>	<b>113 335</b>

### **17. Related party transactions**

Overview of related party transactions in 2013 and 2012:

(TCZK)	2013	2012
<b>Interest expenses</b>		
mBank S.A.	1 632	0
Commerzbank AG	9 726	10 915
<b>Operating revenues</b>		
mFactoring S.A. (formerly BRE Faktoring S.A.)	4	7
<b>Operating expenses</b>		
mFactoring S.A. (formerly BRE Faktoring S.A.)	0	0
Board members	3 840	3 710
<b>Receivables</b>		
mFactoring S.A. (formerly BRE Faktoring S.A.)	0	0
<b>Loans</b>		
mBank S.A.	1 151 850	0
Commerzbank AG	52 828	880 833

The Company has entered into a long-term co-operation agreement with mFactoring S.A. This is a standard agreement pursuant to the rules of the FCI (Factors Chain International), i.e. an international union associating factoring companies, which regulates the mutual relations resulting from the realisation of factoring operations among these companies.

In 2013 and 2012, members of statutory bodies did not receive any other loans, guarantees, advances, or other benefits and performance besides those mentioned above and in Note 14.

Loans granted and received are subject to market interest rates.

### **18. Fees paid to the auditor**

The total fee paid to the auditing company Ernst & Young Audit, s.r.o. is as follows:

(TCZK)	2013
The fee for the statutory audit of the financial statements and audit of the consolidation packages	1 380
<b>Total fee to the auditing company</b>	<b>1 380</b>

### **19. Contingent liabilities**

The management of the Company is not aware of any contingent liabilities of the Company as at 31 December 2013.

### **20. Cash flow statement**

The Company has overdraft accounts at domestic banks. The Company draws on loans for the purpose of financing the needs of its clients both via tranches and also operatively up to a total credit limit via these overdraft accounts, which are reported as a part of bank loans in the balance.

Cash and cash equivalents disclosed in the cash flow statement include:

(TCZK)	31 December 2013	31 December 2012
Cash at hand and in transit	41	2 088
Cash in bank	490	669
Valuables	55	170
Debit balance of the current account included in current bank loans (Note 8)	- 105 533	-180 526
<b>Total cash and cash equivalents</b>	<b>- 104 947</b>	<b>- 177 599</b>

### **21. Subsequent events**

No events that can have an impact on the financial statements as at 31 December 2013 have occurred after the balance sheet date.

24 March 2014

JUDr. Ing. Jana Němečková  
Chairman of the Board of Directors

  
Ing. Olga Pavlíčková  
Chief Finance Officer

  
Ing. Tomáš Vogl  
Member of the Board of Directors

## ***TRANSFINANCE a.s.***

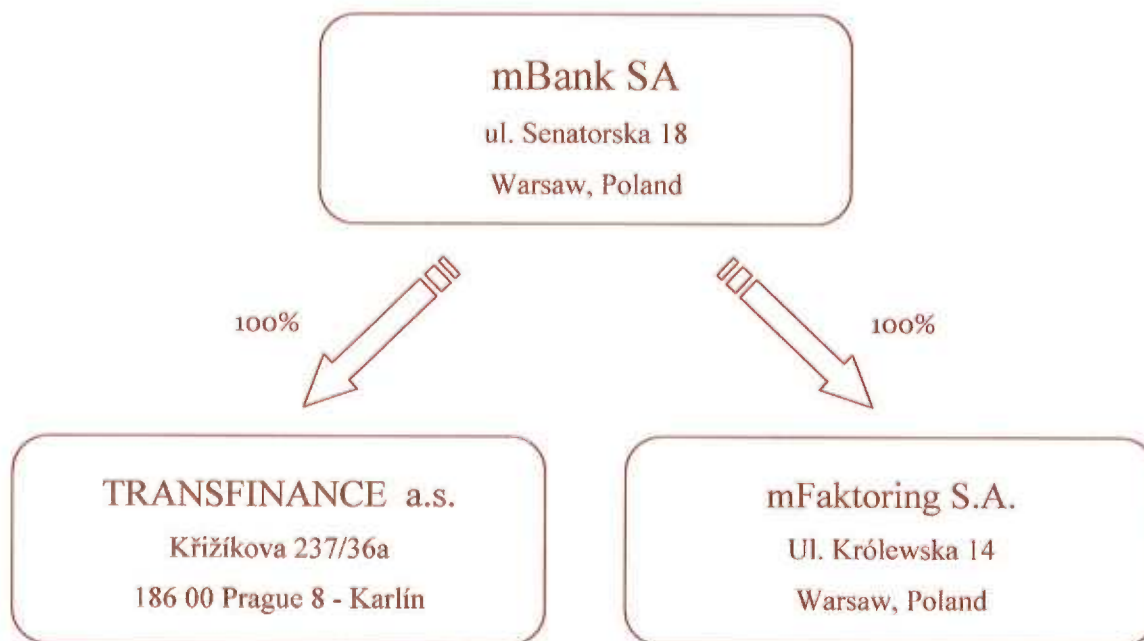
Report on relations between related parties  
for the year ended 31 December 2013 in accordance with  
Section 66 a) of the Commercial Code



## ORGANISATIONAL STRUCTURE OF THE CONCERN:

Controlled party: TRANSFINANCE a.s.  
186 00 Prague 8 - Karlín, Křižíkova 237/36a  
Identification no.: 15272028

Controlling party: mBank S.A.  
Poland, PL 00-950, Warsaw, ul. Senatorska 18



The parent company is mBank S.A., Warsaw, Poland. The Company is a part of its consolidated group. The parent company of mBank S.A. is Commerzbank AG, Germany, which is the ultimate controlling party of TRANSFINANCE a.s.

Other related parties are other companies from the mBank S.A. group. TRANSFINANCE a.s. did not realise any performance or counter-performance with these other related parties.

## LEGAL RELATIONS BETWEEN THE RELATED PARTIES

- The Company has concluded the following types of agreements with the related parties:

Related party	Type of agreement and general terms and conditions
mFaktoring S.A.	Interfactor Agreement 01.04.1997
Commerzbank AG	Loan agreement 14.03.2001
mBank S.A.	Loan agreement 12.11.2013

The Company has entered into a long-term cooperation agreement with the mFactoring S.A. This is a standard agreement pursuant to the rules of the FCI (Factors Chain International), i.e. an international union associating factoring companies, which regulates the mutual relations resulting from the realisation of factoring operations among these companies.

TRANSFINANCE a.s. has duly entered into loan agreements with banking entities within the group, under which funds are granted for financing the commercial and operational activities of the Company. The Company has also entered into similar agreements under comparable terms and conditions with other banking entities.

TRANSFINANCE a.s. has not suffered any loss under the above-mentioned agreements.

## TRANSACTIONS BETWEEN RELATED PARTIES

### PERFORMANCE AND COUNTER-PERFORMANCE - SALES

The Company did not render services to related parties in 2013.

### PERFORMANCE AND COUNTER-PERFORMANCE - PURCHASES

The Company takes advantage of the services rendered by related parties as part of its normal course of business. The following is an overview of the transactions entered into in 2013.

Related party	Description of commercial transactions	2013 TCZK
mFactoring S.A.	Interest income	4
Commerzbank AG	Interest expenses	9 726
mBank S.A.	Interest expenses	1 632


## LEGAL ACTS AND OTHER MEASURES

In 2013, no legal steps were taken that were in the interest of related parties, nor were any measures adopted or taken at the instigation or in the interest of related persons.

## CONCLUSION

Management believes that all transactions with related parties were realised under normal business terms.

Prague, 31 March 2014

  
JUDr. Ing. Jana Němečková  
Chairman of the Board of Directors

  
Ing. Tomáš Vogl  
Member of the Board of Directors