

One Bank, One Team, One UniCredit.

Capital and balance
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Enhanced
service model

Ethics and Respect

Team 23

Compliance

Grow and strengthen
client franchise

Process
optimisation

**Sustainable
results**

Sustainability

Paperless
bank

2019

Annual Report

Growth
engines

**Customer
experience**

Disciplined risk
management

“Go-to” bank for SMEs

“Do the right thing!”

Solutions that matter.





Solutions that matter.



Table of contents

Introduction from the Board of Directors UniCredit Factoring Czech Republic and Slovakia, a.s.	4
Independent Auditor's Report	6
Financial statements for the Year Ended 31. 12. 2019	8
Balance sheet full version as of 31. 12. 2019	9
Profit and loss account structured by the nature of expense method year ended 31. 12. 2019	11
Statement of changes in equity year ended 31. 12. 2019	12
Cash flow statement year ended 31. 12. 2019	13
Notes to the Financial Statements for the year ended 31. 12. 2019	14
Report on Relations	27
Organisational chart of the UniCredit Group	30

Introduction by the Chairman of the Board of Directors

„Within individual factoring categories, we recorded an increase in both export and import factoring.“

Jiří Flégl

Chairman of the Board
of Directors UniCredit
Factoring Czech Republic
and Slovakia, a.s.



Dear Shareholders, Ladies and Gentlemen,

Our factoring Company completed another year under the UniCredit brand, so let me briefly assess the past year.

Compared to previous years, when the entire factoring market grew annually at a double-digit rate,

we experienced a slowdown to +5.5% year-on-year. However, the very strong and traditional dynamics of the turnover growth in the last quarter, when the market grew by 14.7% compared to the third quarter, is very gratifying, considering that our Company grew by 40% over the same period. In this regard,

I would particularly like to highlight the turnover for October, when our Company broke the CZK 3 billion record per month for the first time.

Within individual factoring categories, we recorded an increase in both export and import factoring. In the block factoring subcategory even by 48%. However, domestic factoring decreased by 13%. During the whole year, the market went through a period of stagnation in domestic and import factoring, while export factoring increased by 16%. The long-term trend of growth in non-recourse factoring in relation to recourse factoring has also been confirmed, which means that clients perceive the factoring product not only as a source of liquidity, but also as a tool for dealing with commercial or political risk.

Interestingly, the total exposure of the factoring market was basically the same at the end of 2018 and 2019. Our Company recorded an approximate growth of 4% in relation to this indicator. Our maximum in 2019 (and historically the highest exposure) amounted to CZK 3.49 billion of financed receivables in mid-December 2019 as a result of the very strong growth of our exposure in the last quarter in which the average monthly funding increased by 33%.

During the whole year, we had to deal with a smaller volume of orders from our clients, especially in the automotive industry, and the associated lower use of factoring frameworks. In addition, the client portfolio was optimised with an emphasis on increasing the Company's productivity. Together with the postponement of the execution of approved large transactions by the beginning of 2020, there are three fundamental factors that have influenced the Company's overall turnover and other monitored performance indicators.

Despite the loss of some clients, whether due to risk-related or competitive reasons, we managed to expand the client and especially the purchaser base, thanks to cooperation with a banking corporate network or our own acquisition activities.

We are glad that we have succeeded in extending the offer to our clients by a new variation of pro-

ducts, the so-called supply chain financing. This way, we respond flexibly to the client's requirements and from the first transactions we gain further experience, which, together with the modification of system, functionality and processes, will enable us to consolidate our position corresponding to the credo of our group - customer first.

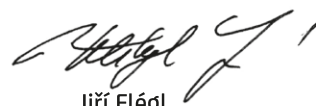
We managed to start working with a new insurance partner so we now have two insurers with a master portfolio contract, which means that we are more flexible in getting limits per customer. We started a cooperation with the Slovak state institution EXIMBANKA SR and we are ready to develop cooperation with other commercial insurers based on three-party contracts with clients.

The regulatory area certainly had a significant impact on our activities and capacities, primarily in the area of compliance. We paid great attention to this issue and, especially during the second half of the year, a number of measures were implemented to help us significantly address various types of risks and strengthen our internal processes and controls.

In order to become a factoring company of first choice, we must continually invest in human capital as well as in our systems to further automate our processes and make client communication more efficient. Among the challenges for 2020 regarding this area, we included the creation of a new demo version of our system and, in particular, the implementation of a new accounting system, which should significantly reduce the number of different applications and simplify procedures and processes and thereby reduce possible operational risk. The job positions saved can then be used in the business part of the Company.

In conclusion, let me thank our shareholders for their support, our clients for their cooperation and our employees for their year-round work.

In Prague
on 24 January 2020



Jiří Flégl
Chairman of the Board of Directors

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT To the Shareholder of UniCredit Factoring Czech Republic and Slovakia, a.s.

Having its registered office at: Želetavská 1525/1, Michle, 140 00 Praha 4

Opinion

We have audited the accompanying financial statements of UniCredit Factoring Czech Republic and Slovakia, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2019, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of UniCredit Factoring Czech Republic and Slovakia, a.s. as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

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

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 24 January 2020

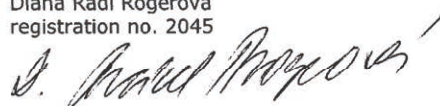
Audit firm:

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



Statutory auditor:

Diana Rádlová
registration no. 2045



Financial statements

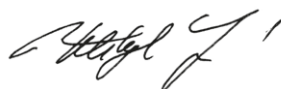
for the Year Ended 31. 12. 2019

Name of the Company: **UniCredit Factoring Czech Republic and Slovakia, a.s.**
Registered Office: **Želetavská 1525/1, 140 00 Prague 4 – Michle**
Legal Status: **Joint Stock Company**
Corporate ID: **152 72 028**

Components of the Financial Statements:

Balance Sheet
Profit and Loss Account
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

These financial statements were prepared on 24 January 2020.



Jiří Flégl
Chairman of the Board of Directors



Zdeněk Bílý
Member of the Board of Directors

Balance sheet full version as of 31. 12. 2019

(in CZK thousand)				31. 12. 2019	31. 12. 2018
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	4 863 365	103 493	4 759 872	4 130 845
B.	Fixed assets	42 301	37 372	4 929	6 275
B.I.	Intangible fixed assets	38 997	34 889	4 108	4 783
<i>B.I.2.</i>	<i>Valuable rights</i>	<i>38 997</i>	<i>34 889</i>	<i>4 108</i>	<i>4 783</i>
B.I.2.1.	Software	38 997	34 889	4 108	4 783
B.II.	Tangible fixed assets	3 304	2 483	821	1 492
<i>B.II.1.</i>	<i>Land and structures</i>	<i>642</i>	<i>497</i>	<i>145</i>	<i>148</i>
B.II.1.2.	Structures	642	497	145	148
B.II.2.	Tangible movable assets and sets of tangible movable assets	2 017	1 986	31	699
<i>B.II.4.</i>	<i>Other tangible fixed assets</i>	<i>645</i>		<i>645</i>	<i>645</i>
B.II.4.3.	Other tangible fixed assets	645		645	645
C.	Current assets	4 819 995	66 121	4 753 874	4 122 738
C.II.	Receivables	4 809 174	66 121	4 743 053	4 117 289
C.II.1.	Long-term receivables	13 204		13 204	
C.II.1.4.	Deferred tax asset	13 204		13 204	
C.II.2.	Short-term receivables	4 795 970	66 121	4 729 849	4 117 289
C.II.2.1.	Trade receivables	4 795 944	66 121	4 729 823	4 117 267
<i>C.II.2.4.</i>	<i>Receivables – other</i>	<i>26</i>		<i>26</i>	<i>22</i>
C.II.2.4.3.	State – tax receivables	3		3	3
C.II.2.4.4.	Short-term prepayments made	23		23	19
C.IV.	Cash	10 821		10 821	5 449
C.IV.1.	Cash on hand	131		131	97
C.IV.2.	Cash at bank	10 690		10 690	5 352
D.	Other assets	1 069		1 069	1 832
D.1.	Deferred expenses	1 069		1 069	1 832

Balance sheet full version as of 31. 12. 2019

(in CZK thousand)		31. 12. 2019	31. 12. 2018
	TOTAL LIABILITIES & EQUITY	4 759 872	4 130 845
A.	Equity	323 515	288 269
A.I.	Share capital	222 600	222 600
A.I.1.	Share capital	222 600	222 600
A.IV.	Retained earnings (+/-)	74 309	32 388
A.IV.1.	Accumulated profits brought forward	74 309	32 388
A.V.	Profit or loss for the current period (+/-)	26 606	33 281
B.+C.	Liabilities	4 436 357	3 842 576
B.	Reserves	9 905	5 718
B.II.	Income tax reserve	2 765	5 718
B.IV.	Other reserves	7 140	
C.	Payables	4 426 452	3 836 858
C.II.	Short-term payables	4 426 452	3 836 858
C.II.2.	Payables to credit institutions	2 433 241	2 343 348
C.II.4.	Trade payables	1 983 265	1 485 426
<i>C.II.8.</i>	<i>Other payables</i>	<i>9 946</i>	<i>8 084</i>
C.II.8.3.	Payables to employees	860	908
C.II.8.4.	Social security and health insurance payables	474	505
C.II.8.5.	State – tax payables and subsidies	1 526	1 601
C.II.8.6.	Estimated payables	7 086	5 070

Profit and loss account structured by the nature of expense method year ended 31. 12. 2019

(in CZK thousand)		Year ended 31. 12. 2019	Year ended 31. 12. 2018
I.	Sales of products and services	52 481	58 293
A.	Purchased consumables and services	18 158	16 783
A.2.	Consumed material and energy	638	769
A.3.	Services	17 520	16 014
D.	Staff costs	21 795	20 362
D.1.	Payroll costs	12 280	11 602
D.2.	Social security and health insurance costs and other charges	9 515	8 760
D.2.1.	Social security and health insurance costs	5 060	4 857
D.2.2.	Other charges	4 455	3 903
E.	Adjustments to values in operating activities	-25 456	3 111
E.1.	<i>Adjustments to values of intangible and tangible fixed assets</i>	1 339	1 549
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	1 339	1 549
E.3.	Adjustments to values of receivables	-26 795	1 562
III.	Other operating income	377	705
III.1.	Sales of fixed assets	363	595
III.3.	Sundry operating income	14	110
F.	Other operating expenses	56 644	16 106
F.1.	Net book value of sold fixed assets	7	
F.3.	Taxes and charges	317	150
F.5.	Sundry operating expenses	56 320	15 956
*	Operating profit or loss (+/-)	-18 283	2 635
VI.	Interest income and similar income	61 943	51 943
VI.2.	Other interest income and similar income	61 943	51 943
J.	Interest expenses and similar expenses	13 489	9 034
J.1.	Interest expenses and similar expenses – controlled or controlling entity	13 352	8 447
J.2.	Other interest expenses and similar expenses	137	587
VII.	Other financial income	60 836	47 313
K.	Other financial expenses	56 519	47 987
*	Financial profit or loss (+/-)	52 771	42 235
**	Profit or loss before tax (+/-)	34 488	44 870
L.	Income tax	7 882	11 588
L.1.	Due income tax	12 446	11 588
L.2.	Deferred income tax (+/-)	-4 564	
**	Profit or loss net of tax (+/-)	26 606	33 281
***	Profit or loss for the current period (+/-)	26 606	33 281
*	Net turnover for the current period	175 637	158 255

Statement of changes in equity year ended 31. 12. 2019

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits from previous years	Accumulated loss from previous years	Profit or loss for the current period	Total Equity
(in CZK thousand)							
Balance at 31 December 2017	222 600			11 988		20 400	254 988
Distribution of profit or loss				20 400		-20 400	
Profit or loss for the current period						33 281	33 281
Balance at 31 December 2018	222 600			32 388		33 281	288 269
Distribution of profit or loss				33 281		-33 281	
Creation of deferred tax				8 640			
Profit or loss for the current period						26 606	26 606
Balance at 31 December 2019	222 600			74 309		26 606	323 515

Cash flow statement year ended 31. 12. 2019

(in CZK thousand)		Year ended 31. 12. 2019	Year ended 31. 12. 2018
P.	Opening balance of cash and cash equivalents	-149 477	-160 799
Z.	Profit or loss before tax	34 488	44 870
A.1.	Adjustments for non-cash transactions	-26 977	-27 931
A.1.1.	Depreciation of fixed assets	51 776	11 407
A.1.2.	Change in provisions and reserves	-29 748	4 074
A.1.3.	Profit/(loss) on the sale of fixed assets	-356	-595
A.1.5.	Interest expense and interest income	-48 649	-42 817
A.*	Net operating cash flow before changes in working capital	7 511	16 939
A.2.	Change in working capital	-141 607	-502 597
A.2.1.	Change in operating receivables and other assets	-641 502	-811 029
A.2.2.	Change in operating payables and other liabilities	499 895	308 432
A.**	Net cash flow from operations before tax	-134 096	-485 658
A.3.	Interest paid	-13 294	-9 126
A.4.	Interest received	61 943	51 943
A.5.	Income tax paid from ordinary operations	-8 076	-9 077
A.***	Net operating cash flows	-93 523	-451 918
B.1.	Fixed assets expenditures		-72
B.2.	Proceeds from fixed assets sold	363	595
B.***	Net investment cash flows	363	523
C.1.	Change in payables from financing	92 545	462 718
C.***	Net financial cash flows	92 545	462 718
F.	Net increase or decrease in cash and cash equivalents	-615	11 322
R.	Closing balance of cash and cash equivalents	-150 091	-149 477

Notes to the Financial Statements

for the Year Ended 31. 12. 2019

Table of contents

1.	General Information	15
1.1.	Incorporation and Description of the Business	15
1.2.	Group Identification	15
1.3.	Board of Directors and Supervisory Board	15
1.4.	Organisational Structure as of 31 December 2019	15
2.	Basis of Accounting and General Accounting Principles	15
3.	Summary of Significant Accounting Policies	15
3.1.	Tangible Fixed Assets	16
3.2.	Intangible Fixed Assets	16
3.3.	Receivables	16
3.4.	Trade Payables	17
3.5.	Loans	17
3.6.	Reserves	17
3.7.	Foreign Currency Translation	17
3.8.	Taxation	17
3.8.1.	<i>Current Tax Payable</i>	17
3.8.2.	<i>Deferred Tax</i>	17
3.9.	Revenue Recognition	18
3.10.	Use of Estimates	18
3.11.	Cash Flow Statement	18
4.	Additional Information on the Balance Sheet and Profit and Loss Account	18
4.1.	Fixed Assets	18
4.1.1.	<i>Intangible Fixed Assets</i>	18
4.2.	Tangible Fixed Assets	19
4.3.	Receivables	20
4.3.1.	<i>Intercompany Receivables</i>	20
4.4.	Equity	20
4.5.	Reserves	21
4.6.	Payables	21
4.6.1.	<i>Payables to Related Parties</i>	21
4.7.	Bank Loans	21
4.7.1.	<i>Bank Loans</i>	21
4.8.	Income Taxation	22
4.8.1.	<i>Deferred Taxation</i>	22
4.8.2.	<i>Income Tax Charge (Credit)</i>	22
4.9.	Due Amounts arising from Social Security and Health Insurance Contributions and Tax Arrears	23
4.10.	Details of Income by Principal Activity	23
4.10.1.	<i>Related Party Transactions</i>	23
4.11.	Consumed Purchases	23
4.12.	Services	24
4.13.	Remuneration to the Statutory Audit Firm	24
4.14.	Depreciation of Intangible and Tangible Fixed Assets	24
4.15.	Other Operating Expenses	24
4.16.	Other Financial Income	25
4.17.	Other Financial Expenses	25
5.	Employees, Management and Statutory Bodies	25
5.1.	Staff Costs and Number of Employees	25
6.	Research and Development Activities	25
7.	Environmental Impacts of the Company's Activities	25
8.	Organisational Branches Abroad	26
9.	Post Balance Sheet Events	26

1. General Information

1.1. Incorporation and Description of the Business

UniCredit Factoring Czech Republic and Slovakia, a.s. (hereinafter the "Company") was formed by a Founder's Deed as a joint stock company on 21 January 1991 and was incorporated following its registration in the Register of Companies held by the Court in Prague on 5 April 1991. The principal activities of the Company include providing operating funds through the factoring of domestic and foreign receivables. The Company is primarily engaged in the financing, collecting and securing of short-term receivables held by clients from various industries.

The Company's issued share capital is CZK 222,600 thousand.

The following table shows individuals and legal entities with an equity interest greater than 20 percent and the amount of their equity interest:

Shareholder	Ownership percentage
UniCredit Bank Czech Republic and Slovakia, a.s., Corporate ID No.: 649 48 242 Želetavská 1525/1, 140 92 Prague 4 – Michle	100%

1.2. Group Identification

The Company is part of the prominent UniCredit financial group.

The Company's financial statements are included in the consolidation group of UniCredit Bank Czech Republic and Slovakia, a.s. (hereinafter "UCB"), having its registered office at Želetavská 1525/1, 140 92 Prague 4, and in the consolidation group of UniCredit S. p.A., having its registered office at Via Alessandro Specchi 16, 00186 Rome, Italy.

1.3. Board of Directors and Supervisory Board

	Position	Name
Board of Directors	Chairman	Jiří Flégl
	Member	Zdeněk Bílý
Supervisory Board	Chairman	Slavomír Beňa
	Vice Chairman	Aleš Barabas
	Member	Josef Vondrka
	Member	Roland Viskupič

1.4. Organisational Structure as of 31 December 2019

The Company is organised into five departments.



Starting 1 January 2020, the Company's new organisational structure will be in effect. In her newly established position, the Company's CIO/CPO will be in charge of the product development department and the accounts receivable and data administration department and she will be directly responsible to the Company's CEO.

2. Basis of Accounting and General Accounting Principles

The Company's accounting books and records are maintained and the financial statements were prepared on the historical cost valuation basis in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

These financial statements are presented in thousands of Czech crowns ('CZK').

3. Summary of Significant Accounting Policies

3.1. Tangible Fixed Assets

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

Purchased tangible fixed assets are initially recognised at cost which includes the cost of acquisition and the costs related to the acquisition.

The cost of fixed asset improvements exceeding CZK 40 thousand for the taxation period increases the acquisition cost of the related tangible fixed asset.

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

	Depreciation method	Number of years
Buildings	straight line	50
Machinery, devices and equipment	straight line	3–10
Vehicles	straight line	5

If the carrying amount of an asset is greater than the estimated recoverable amount, the carrying amount is written down to the recoverable amount through the recognition of a provision. The recoverable amount is determined on the basis of expected future cash flows generated from the relevant asset.

The Company uses five vehicles held under operating leases.

The Company does not hold any assets under finance leases.

Technical improvements on tangible fixed assets are depreciated on a straight line basis together with the original improved asset.

Technical improvements on tangible fixed assets held under a lease are depreciated on a straight line basis in accordance with the depreciation of the building performed by the owner.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognised through the profit and loss account.

The costs of repairs and maintenance of tangible fixed assets are expensed as incurred.

3.2. Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Purchased intangible fixed assets are stated at cost, which includes the cost of acquisition and the costs related to the acquisition. The cost of fixed asset improvements exceeding an aggregate amount of CZK 60 thousand for the taxation period increases the acquisition cost of the related intangible fixed asset and is depreciated together with the original improved asset.

Amortisation of intangible fixed assets is recorded on a straight line basis over their estimated useful lives as follows:

	Amortisation method	Number of years
Software	straight line	3–8

If the carrying amount of an asset is greater than the estimated recoverable amount, the carrying amount is written down to the recoverable amount through the recognition of a provision.

3.3. Receivables

Factoring represents the purchase of short-term receivables at nominal values that originated on the basis of supplies of goods or services made by a supplier to a customer and are not past their due dates. The factoring company pays the supplier a part of the purchase price ('pre-financing'). Receivables from purchased receivables are reported in the Company's balance sheet as 'Trade receivables'. Payables from purchased receivables are reported in the Company's balance sheet as 'Trade payables'. Once the customer makes the payment, the remaining part of the purchase price is paid to the supplier.

In return for its services, the factoring company collects a fee for the provided prefinancing and interest. See Note 3.9 Revenue Recognition for more details.

Provisioning

Tax deductible provisions against receivables are created in line with the current wording of the Provisioning Act.

In creating non-tax deductible provisions, the treatment applied by the Company involves quantifying the anticipated losses on the value of the funds provided to clients based on the testing of potential impairment while taking into account the ratings of the client and its customers, with the ratings assigned by UniCredit Bank Czech Republic and Slovakia, a.s.

The Company creates non-tax deductible provisions against:

- Performing exposures (without the debtor's default); and
- Non-performing exposures (with the debtor's default).

For the purposes of the calculation of provisions against receivables without the debtor's default, the term "expected loss (EL)" is defined. Pursuant to the methodology, the following applies:

$$OP = LT \cdot ECL = EL * LTMQ$$

EL is calculated based on the following relations:

$$EL = \sum(EaD - \text{net realisable value of collateral}) * PD * LGD$$

Additionally, the following applies:

$$EaD = (\text{Exposure} + LEQ * \text{Unused_line})$$

Using the following parameters:

- **EL** (Expected Loss);
- **LT ECL** (Lifetime Expected Credit Loss);
- **LTMQ** (Lifetime Maturity Factor) = lifetime credit factor that takes into consideration expected losses determined in relation to maturity;
- **EaD** (*Exposure at Default*) = expected exposure value at the time of the debtor's default;
- **PD** (Probability of Default)
- **LGD** (Loss Given Default) = proportion of the final loss on the relevant receivable; the parameter is calculated at the level of the client;
- **Exposure** = value of pre-financing provided;
- **LEQ** (limit equivalent factor) = probability with which the client's financing line will be drawn; and
- **Unused_line** = value of the undrawn portion of the client's approved financing line.

In terms of receivables with the debtor's default, the Company applies two different approaches to calculate provisions. The primary criterion for applying the given approach is the total exposure value:

- For exposures lower than EUR 0.5 million, provisions are made in full; and
- For exposures greater than EUR 0.5 million, provisions are made pursuant to an **individual** assessment of receivables.

The Company assesses whether the recognised provisions are sufficient and appropriate on a monthly basis and adjusts their level as and when needed.

Since 1 January 2019, the provisions related to undrawn financing lines have been recognised separately in the accounting records. Currently, these items are reported under reserves on the liabilities side of the balance sheet. For more details, refer to Note 3.6 – "Reserves".

3.4. Trade Payables

Trade payables are stated at their nominal value.

3.5. Loans

Loans are stated at their nominal value.

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

Interest on short-term loans is due retroactively as of the last date of each interest period. The interest period for short-term loans is the same period as that for which the loans were obtained. If months overlap within the period, interest is accrued and recognised in the profit or loss for the period.

3.6. Reserves

Reserves are intended to cover future risks and expenditure, the nature of which is clearly defined and which are likely to be incurred,

but which are uncertain as to the amount or the date on which they will arise.

The Company recognises a reserve when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Since 1 January 2019, there has been a change in the accounting policy, according to which reserves for expected losses related to undrawn portions of approved financing lines of individual clients (calculated solely for exposures without the debtor's default) have also been reported under reserves. For more details on the calculation, refer to Note 3.3 – "Receivables".

3.7. Foreign Currency Translation

Accounting operations denominated in foreign currencies performed during the year are translated using a fixed exchange rate set as of 1 January valid for the entire reporting period. At the balance sheet date, the relevant assets and liabilities are translated at the Czech National Bank's exchange rate prevailing as of that date.

Realised as well as unrealised foreign currency translation gains and losses are reported in financial income or financial expenses for the current period.

Since a substantial part of receivables is in foreign currencies, provisions against receivables may also generate foreign exchange translation gains and losses.

3.8. Taxation

3.8.1. Current Tax Payable

Management of the Company has recognised a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the financial statements date and believes that the amount of tax is correct in compliance with the effective Czech tax regulations. Since various interpretations of tax laws and regulations by third parties, including state administrative bodies, exist, the income tax payable reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

3.8.2 Deferred Tax

Deferred tax is accounted for using the balance sheet liability method.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

3.9. Revenue Recognition

Revenue is measured at the value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes.

The Company's principal sources of revenue are: fee for the assignment of receivables and factoring interest.

The fee comprises two basic components – the risk component and the cost component. The risk component represents the factoring company's remuneration for taking on credit risk and is principally affected by the customers' financial health and payment discipline. In determining the cost component, other factors are taken into account, such as the costs incurred in keeping the records of receivables, the cost of conducting the dunning process, information services, assistance in the complaints handling procedure, other costs involved in blocking the funds required to finance the receivables. The current cost is based on the specific amount of turnover, number and creditworthiness of customers etc.

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

(CZK '000)	31 Dec. 2019	31 Dec. 2018
Cash on hand	4	16
Stamps and vouchers	127	81
Cash at bank and cash in transit	10 690	5 352
Overdraft balances of current accounts included in current bank loans	-188 151	-294 774
Total cash and cash equivalents	-177 330	-289 325

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

The Company maintains overdraft facilities with domestic bank institutions. The Company utilises loans to fund the requirements made its clients by means of tranches as well as operatively up to the total amount of the loan facility using the overdraft facilities which are reported in the balance sheet as part of bank loans.

4. Additional Information on the Balance Sheet and Profit and Loss Account

4.1. Fixed Assets

4.1.1. Intangible Fixed Assets

Cost

(CZK '000)	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Software	38 925	72	0	38 997	0	0	38 997
Total	38 925	72	0	38 997	0	0	38 997

It is recognised in revenue as of the last day of the calendar month. It is reported as '*Sales of own products and services*'.

The factoring interest, the absolute amount of which depends on the amount of pre-financing made and the length of the time period between the provision of part of the purchase price and collection of the payment from the customer, is recognised in revenue as of the last day of the calendar month. It is reported as '*Sales of own products and services*'.

3.10. Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.11. Cash Flow Statement

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Accumulated Amortisation

(CZK '000)	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Software	33 539	675	0	34 214	675	0	34 889
Total	33 539	675	0	34 214	675	0	34 889

Net Book Value

(CZK '000)	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Software	4 783	4 108
Total	4 783	4 108

The intangible FA balance comprises the Aquarius software.

4.2. Tangible Fixed Assets

Cost

(CZK '000)	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Buildings	642	0	0	642	0	0	642
Individual tangible movable assets	0	0	0	0	0	0	0
– Machinery and equipment	2 029	0	0	2 029	0	–221	1 808
– Vehicles	3 100	0	–2 188	912	0	–912	0
– Furniture and fixtures	209	0	0	209	0	0	209
Works of art	645	0	0	645	0	0	645
Total	6 625	0	–2 188	4 437	0	–1 133	3 304

Accumulated Depreciation

(CZK '000)	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Buildings	491	3	0	494	3	0	497
Individual tangible movable assets	0	0	0	0	0	0	0
– Machinery and equipment	662	668	0	1 330	668	–221	1 777
– Vehicles	2 897	203	–2 188	912	0	–912	0
– Furniture and fixtures	209	0	0	209	0	0	209
Total	4 259	874	–2 188	2 945	671	–1 133	2 483

Net Book Value

(CZK '000)	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Buildings	148	145
Individual tangible movable assets	0	0
– Machinery and equipment	699	32
– Vehicles	0	0
Works of art	645	645
Total	1 492	821

In the years ended 31 December 2019 and 2018, the Company acquired tangible assets that were expensed as incurred in the amounts of CZK 239 thousand and CZK 251 thousand, respectively. The assets represent low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported in fixed assets. The assets are recognised as inventory and charged directly to expenses on an individual basis.

4.3. Receivables

(CZK '000)		31 Dec 2019	31 Dec 2018
Trade receivables from operating activities	Before due date	0	121
Receivables from factoring activities and from the assignment of receivables	Before due date	4 168 707	3 679 322
	Past due date	627 237	537 880
Total trade receivables		4 795 944	4 217 323
Other receivables	Before due date	0	0
Estimated receivables		0	0
Short-term prepayments made		23	19
State – tax receivables		3	3
Total other receivables		26	22
Provisions against doubtful receivables		-66 121	-100 056
Net book value of short-term receivables		4 729 849	4 117 289
Deferred tax asset (refer to Note 12)		13 204	0
Net book value of long-term receivables		13 204	0
Total net book value of receivables		4 743 053	4 117 289

In the years ended 31 December 2019 and 2018, the Company created provisions against receivables regarded as doubtful based on the estimate of individual cases in terms of risk and anticipated cash flows.

As of 31 December 2019, the Company does not report any receivables with maturity of more than 5 years.

In the year ended 31 December 2019, receivables in the amount of CZK 50,437 thousand (2018: CZK 9,858 thousand) were written off through expenses due to uncollectability, rejection of bankruptcy and settlement, and failure to recover receivables in the bankruptcy proceedings or sale. The amortisation is reported in the profit and loss account as "Other operating expenses".

Receivables from related parties are disclosed in Note 4.3.1.

Change in the provision against receivables:

(CZK '000)	Provisions against receivables – tax deductible	Provisions against receivables – other	Total
Opening balance at 31 December 2017	9 697	88 797	98 494
Provisions created	0	11 259	11 259
Provisions released	-9 697	0	-9 697
Closing balance at 31 December 2018	0	100 056	100 056
Provisions created	0	114 541	114 541
Provisions released	0	-148 476	-148 476
Closing balance at 31 December 2019	0	66 121	66 121

4.3.1. Intercompany Receivables

(CZK '000)	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Name of the entity		
UniCredit Factoring S.p.A. (IT)	0	6 707
Total intercompany receivables	0	6 707

4.4. Equity

(CZK '000)	31 Dec 2019		31 Dec 2018	
	Number (pieces)	Carrying amount	Number (pieces)	Carrying amount
Common shares	3 975	222 600	3 975	222 600

Common shares amount to CZK 56 thousand per piece and are paid in full.

In the years ended 31 December 2019 and 2018, no dividends or directors' fees were paid out.

It was not decided on the allocation of the profit for 2019 as of the financial statements approval date, which is why the Company does not present the decision.

As of 31 December 2019 the sole shareholder was UniCredit Bank Czech Republic and Slovakia, a.s., Prague.

On 19 February 2019, the Company's sole shareholder approved the Company's financial statements for the year ended 31 December 2018 and decided that the aggregate profit of CZK 33,281 thousand for the year ended 31 December 2018 would be transferred to retained earnings in full.

4.5. Reserves

(CZK '000) Reserves	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Income tax reserve	2 765	5 718
Other reserves	7 140	0
Total	9 905	5 718

Since 1 January 2019, there has been a change in the accounting policy, according to which reserves for expected losses related to undrawn portions of approved financing lines of individual clients (calculated solely for exposures without the debtor's default) have also been reported under reserves.

4.6. Payables

(CZK '000) Payables	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Trade payables from operating activities	1 025	33
Payables from factoring activities and the assignment of receivables	1 982 240	1 485 393
Other payables	9 946	8 084
Total	1 993 211	1 493 510

Short-term payables from factoring activities represent payables arising from the cost of purchased receivables.

Other short-term payables comprise namely estimated payables. As of 31 December 2019, estimated payables amounted to CZK 7,086 thousand (as of 31 December 2018: CZK 5,070 thousand) and include mainly unpaid bonuses and unbilled supplies and services.

The Company does not report any payables past their due dates.

4.6.1. Payables to Related Parties

(CZK '000) Company name	31 Dec 2019	31 Dec 2018
UniCredit Factoring S.p.A. (IT)	616 715	623 231
UniCredit Leasing CZ, a.s. (CZ)	0	38 850
Total intercompany payables	616 715	662 081

4.7. Bank Loans

4.7.1. Bank Loans

All bank loans mature within one year from the balance sheet date. They are used namely through tranches up to 3 months at the maximum. The Company may draw funds for its operations up to the credit limit by means of overdraft facilities.

As of 31 December 2019, interest expenses related to bank loans amounted to CZK 13,489 thousand (2018: CZK 9,034 thousand).

Bank loans may be divided as follows:

(CZK '000) Bank	Dates / Terms	Credit limit as of 31 Dec 2019	Use of tranches as of 31 Dec 2019	Use of facilities overdraft as of 31 Dec 2019	Use of loans as of 31 Dec 2019 incl. overdraft facilities	Use of loans as of 31 Dec 2018 incl. overdraft facilities
UniCredit Bank Czech Republic and Slovakia, a.s.	Loan agreement Maturing on 31 May 2020	2 628 500	2 245 090	173 945	2 419 035	2 324 739
Komerční banka, a.s.	Loan agreement Indefinite period	12 705	0	7 186	7 186	8 969
Československá obchodní banka a.s.	Loan agreement Indefinite period	20 000	0	7 020	7 020	9 640
Total		2 661 205	2 245 090	188 151	2 433 241	2 343 348

As of 31 December 2019, the Company maintained a bank guarantee issued by UniCredit Bank Czech Republic and Slovakia, a.s. in favour of Komerční banka, a.s. in the amount of EUR 500 thousand (collateral for a loan agreement payable), and a bank guarantee credited to PASSERINVEST BBC 1, s.r.o. in the amount of EUR 67 thousand (collateral for a lease agreement payable).

4.8. Income Taxation

4.8.1. Deferred Taxation

Deferred tax is calculated from all temporary differences using the balance sheet liability method and the relevant tax rate. In calculating net deferred tax assets and liabilities, the Company offsets deferred tax assets against deferred tax liabilities arising from income tax paid to the same tax authority in the same tax category. The Company's management believes that the Group will be able to recover its deferred tax asset reported as of 31 December 2019 in full with regard to the current and the anticipated future amount of taxable profit. On the grounds of prudence, in the year ended 31 December 2018, the Company did not report the deferred tax asset.

The deferred tax asset/(liability) is analysed as follows:

(CZK '000) Deferred tax items	31 Dec 2019		31 Dec 2018	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between tax and accounting net book values of fixed assets	0	716	0	787
Difference between tax and accounting values of provisions against receivables	13 920	0	2 139	0
Net deferred tax asset	13 204		1 352	
Deferred tax asset – breakdown			31 Dec 2019	31 Dec 2018
Recognised asset			13 204	0
Unrecognised asset			0	1 352
Total			13 204	1 352

4.8.2. Income Tax Charge (Credit)

(CZK '000)	31 Dec 2019	31 Dec 2018
Profit before tax	34 488	44 870
Difference between depreciation for accounting and tax purposes	367	167
Non-tax revenue:		
Provisions released	0	0
Non-deductible expenses:		
Provisions created	0	0
Realised receivables	60 750	19 326
Other (eg representation costs, deficits and damage)	-30 100	-3 371
Taxable income	65 505	60 992
Income tax rate	19%	19%
Tax	12 446	11 588

4.9. Due Amounts arising from Social Security and Health Insurance Contributions and Tax Arrears

The due amounts arising from social security contributions and contributions to the State employment policy were CZK 314 thousand and CZK 336 thousand as of 31 December 2019 and 31 December 2018, respectively.

The due amounts arising from public health insurance contributions were CZK 160 thousand and CZK 169 thousand as of 31 December 2019 and 31 December 2018, respectively.

The Company did not report tax arrears to the local taxation authorities as of 31 December 2019 and 2018.

The Company was assessed due income tax for the year ended 31 December 2018 in the amount of CZK 19 thousand. The tax was settled.

4.10. Details of Income by Principal Activity

Income from factoring activities was generated as follows:

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Commission income from factoring activities	52 481	58 293
Total sales of own services	52 481	58 293
Other income	14	110
Total income from operating activities	52 495	58 403
Interest income from factoring activities	61 943	51 943
Total income from operating activities and interest income	114 438	110 346

Income generated with related parties is disclosed in Note 4.10.1.

4.10.1. Related Party Transactions

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Expense		
UniCredit Bank Czech Republic and Slovakia, a.s. (CZ)	19 224	14 611
UniCredit Leasing CZ, a.s. (CZ)	481	194
UniCredit Factoring S.p.A. (IT)	140	192
Income		
UniCredit Factoring EAD (BG)	1	7
UniCredit Factoring S.p.A. (IT)	3 098	2 851
Loans		
UniCredit Bank Czech Republic and Slovakia, a.s. (CZ)	2 408 345	2 319 387

4.11. Consumed Purchases

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Consumed material	425	508
Consumed energy	213	261
Total consumed purchases	638	769

4.12. Services

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Repairs and maintenance	107	148
Travel expenses	218	178
Representation costs	174	194
Administration and maintenance of information technology	7 008	5 645
Rental	3 063	2 612
Consulting	2 963	2 578
Legal services	1 144	1 161
Import factor commissions	228	272
Mediation services	451	1 120
Audit services	607	589
Information on the financial position of entities	365	334
Distrains, insolvencies and preliminary measures	94	211
Services related to the lease of premises	277	206
Telephone, fax, internet	147	166
Tax advisory	116	116
Lectures, courses, seminars	297	246
Other services	261	238
Total	17 520	16 014

Other services predominantly comprise the costs of cleaning (CZK 104 thousand), expenses of the preparation of the annual report (CZK 52 thousand), postal fees (CZK 43 thousand), exhibitions and presentations (CZK 38 thousand), translation and photocopying (CZK 13 thousand).

4.13. Remuneration to the Statutory Audit Firm

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Obligatory audit of the financial statements	607	589
Total	607	589

4.14. Depreciation of Intangible and Tangible Fixed Assets

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Depreciation of intangible and tangible fixed assets	1 339	1 549
Extraordinary write-offs when fixed assets are taken out of service through liquidation	7	0
Total depreciation	1 346	1 549

4.15. Other Operating Expenses

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Write-off of receivables	50 437	9 858
Sundry operating expenses	5 883	6 098
Total	56 320	15 956

Sundry operating expenses namely comprise expenses incurred on securing receivables, operating insurance and membership in professional associations.

4.16. Other Financial Income

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Foreign exchange rate gains	53 263	45 146
Other financial income	7 573	2 167
Total	60 836	47 313

Other financial income primarily includes income from distrains and legal disputes, as well as a profit share received from an insurance company.

4.17. Other Financial Expenses

(CZK '000)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Foreign exchange rate losses	53 311	44 698
Banking fees	3 208	3 289
Total	56 519	47 987

5. Employees, Management and Statutory Bodies

5.1. Staff Costs and Number of Employees

The following tables summarise the average number of the Company's employees and managers for the years ended 31 December 2019 and 2018:

2019

(CZK '000)	Number of staff	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Staff	16	9 390	3 208	693	13 291
Managers	6	2 890	1 852	3 762	8 504
Total	22	12 280	5 060	4 455	21 795

2018

(CZK '000)	Number of staff	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Staff	15	7 484	2 538	455	10 477
Managers	7	4 118	2 319	3 448	9 885
Total	22	11 602	4 857	3 903	20 362

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

6. Research and Development Activities

In the year ended 31 December 2019, the Company did not perform any research and development activities.

7. Environmental Impacts of the Company's Activities

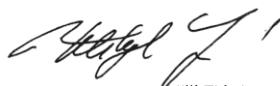
As the Company's activities comprise providing financial services, its actions do not directly affect the environment.

8. Organisational Branches Abroad

The Company does not have any foreign branches.

9. Post Balance Sheet Events

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.



Jiří Flégl
Chairman of the Board of Directors



Olga Pavličková
Chief Financial Officer



Zdeněk Bílý
Member of the Board of Directors

Report on Relations

among the Controlling and Controlled Entities and among the Controlled Entity and Other Entities Controlled by the Same Controlling Entity

Company Name:

UniCredit Factoring Czech Republic and Slovakia, a.s.

Registered Office: **Želetavská 1525/1, 140 00 Prague 4 – Michle**

Legal Status: **Joint Stock Company**

Corporate ID: **15272028**

In accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations, the Board of Directors of UniCredit Factoring Czech Republic and Slovakia, a.s., having its registered office at Želetavská 1525/1, 140 00 Prague 4 – Michle, incorporated in the Register of Companies maintained by the Municipal Court in Prague, File B, Insert 649, prepared this Report on Relations for the period from 1 January 2019 to 31 December 2019 (the “period”).

During the above-stated period, UniCredit Factoring Czech Republic and Slovakia, a.s. was controlled by UniCredit Bank Czech Republic and Slovakia, a.s., Želetavská 1525/1, 140 92 Prague 4 – Michle.

1. The Structure of Relations among UniCredit Factoring Czech Republic and Slovakia, a.s. and the Controlling Entity and Entities Controlled by the Same Controlling Entity

Controlled Entity:

UniCredit Factoring Czech Republic and Slovakia, a.s.

Želetavská 1525/1, 140 00 Prague 4 – Michle

Corporate ID No.: 15272028

(hereinafter “UCF”)

Directly Controlling Entity:

UniCredit Bank Czech Republic and Slovakia, a.s.

Želetavská 1525/1, 140 92 Prague 4 – Michle

Corporate ID No.: 649 48 242

(hereinafter “UCB”)

Indirectly Controlling Entity:

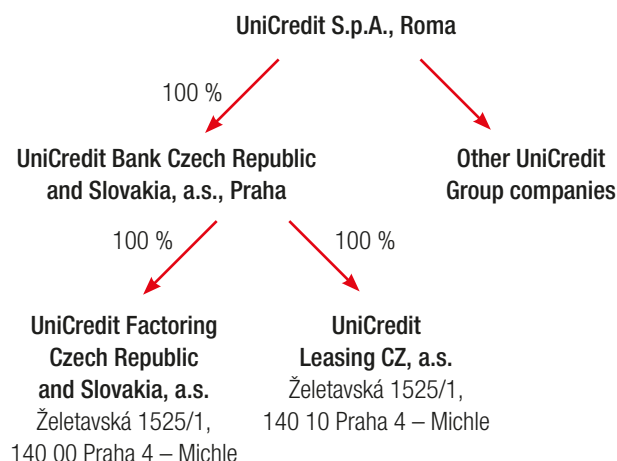
UniCredit S.p.A.

Via Alessandro Specchi 16

00186 Rome, Republic of Italy

The structure of the UniCredit group is described in detail in the Appendix to this Report.

The following is a simplified structure of relations as of 31 December 2019 among UCF and the companies the relations of which are described below:



The parent company is UniCredit Bank Czech Republic and Slovakia, a.s. The Company is part of its consolidation group. The parent company of UniCredit Bank Czech Republic and Slovakia, a.s. is UniCredit, S.p.A., having its registered office at Via Alessandro Specchi 16, 00186 Rome, Italy, which is the ultimate controlling entity of UniCredit Factoring Czech Republic and Slovakia, a.s.

Further related entities comprise other companies in the UniCredit Bank Czech Republic and Slovakia, a.s. group.

2. The Role of UniCredit Factoring Czech Republic and Slovakia, a.s. in the Group

The role of UniCredit Factoring Czech Republic and Slovakia, a.s. in the UniCredit financial group involves the provision of receivable funding services on the Czech and Slovak markets, namely the factoring, collection and securing of trade receivables and invoice discounting. Another role of UniCredit Factoring Czech Republic and Slovakia, a.s. involves attending to the corporate clients of UniCredit on the Czech and Slovak markets and making use of the resulting synergistic effects. As part of the UniCredit Group, the Czech and Slovak Republics are among the key markets in which the UniCredit Group intends to expand in the long term.

3. Method and Tools of Control

The supreme body of UniCredit Factoring Czech Republic and Slovakia, a.s. is the General Meeting. UniCredit Bank Czech Republic and Slovakia, a.s. applies its will through exercising its shareholder rights by the decisions of the sole shareholder acting in the capacity of the General Meeting.

According to the Articles of Association of UniCredit Factoring Czech Republic and Slovakia, a.s., the capacity of the General Meeting also extends to the appointment of Supervisory Board members. The Supervisory Board then supervises the performance of business activities of UniCredit Factoring Czech Republic and Slovakia, a.s. and the exercise of authority of the General Meeting. Furthermore, the Supervisory Board appoints and dismisses members of the Board of Directors and recommends to the Board of Directors candidates for the office of Chairman and Vice-Chairman of the Board of Directors. However, members of the Board of Directors are not bound by this recommendation.

The controlling entity has its representatives in the Supervisory Board of UniCredit Factoring Czech Republic and Slovakia, a.s.

The method employed in controlling UniCredit Factoring Czech Republic and Slovakia, a.s. as a member of the UniCredit Group must be, with the exception of relevant legal regulations, in observance of the regulations issued by UniCredit S.p.A. within UCB and all the entities controlled by it.

4. Summary of Contracts Concluded between UniCredit Factoring Czech Republic and Slovakia, a.s. and the Controlling Entity or between Controlled Entities

The Company has concluded the following types of contracts with the related entities:

Related Entity	Type of Contract and General Terms
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on a loan and other banking services provided in the form of a multi-purpose loan facility dated 25 June 2010
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on the exchange of parking spaces dated 4 June 2015
UniCredit Bank Czech Republic and Slovakia, a.s.	Framework contract on financial market trading dated 21 January 2015
UniCredit Bank Czech Republic and Slovakia, a.s.	Service contract and assignment contract dated 4 January 2016
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on mutual mediation of business cases dated 4 January 2016
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on the right for the position of the logo dated 21 January 2016
UniCredit Bank Czech Republic and Slovakia, a.s.	Contract on risk participation (participation contract) dated 29 March 2017
UniCredit Bank Czech Republic and Slovakia, a.s.	Agreement dated 30 October 2018 on Zero Balancing
UniCredit Leasing CZ a.s.	Contract on the provision of IT services of 1 December 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601800138 of 28 August 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601800139 of 28 August 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601800140 of 28 August 2018
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601900503 of 1 September 2019
UniCredit Fleet Management, s.r.o.	Contract on the lease of a vehicle no. 6601900522 of 24 June 2019
UniCredit Factoring EAD, BG	Interfactor Agreement dated 22 February 2010
UniCredit Factoring S.p.A., IT	FCI Interfactor Agreement dated 16 November 2015

The effective contracts concluded by the Company include long-term contracts on cooperation with the factoring companies UniCredit Factoring EAD, Bulgaria, and UniCredit Factoring S.p.A. These are standard contracts pursuant to the rules of FCI (Factors Chain International), ie the international association of factoring companies governing mutual relations arising from the performance of factoring among the companies.

The contract concluded between UniCredit Factoring Czech Republic and Slovakia, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. is a due loan contract providing funds for the financing of the Company's commercial and operating activities. Except for the aforementioned contracts, other contracts concluded between UniCredit Factoring Czech Republic and Slovakia, a.s. and UniCredit Bank Czech Republic and Slovakia, a.s. under arm's length conditions were effective in the past reporting period. These contracts relate to other bank products

(payment cards, current accounts, deposit products, system of cash payment etc). The Company has concluded similar contracts under comparable business terms with other banking entities as well. In addition, the Company has concluded a service contract supporting the Company's business activity. The contract on mutual mediation of business cases is also meant to support the business activities of both contractual parties.

UniCredit Factoring Czech Republic and Slovakia, a.s. concluded a legitimate contract on the provision of IT services with UniCredit Leasing CZ a.s., predominantly on the administration of the UCF information system and hosting services of the UCF servers.

5. Assessment of whether the Controlled Entity Incurred any Detriment and Assessment of Detriment Settlement Pursuant to Sections 71 and 72 of the Business Corporations Act

The Company's Board of Directors declares that UniCredit Factoring Czech Republic and Slovakia, a.s. incurred no detriment as a result of the concluded contracts.

6. Assessment of advantages and disadvantages arising from related party transactions according to section 82 (1) of the business corporations act

The advantages arising from the transactions between UniCredit Group entities principally include the following:

- An internationally-recognised brand and reputational benefit from the UniCredit Group being included among SIFIs (Strategically Important Financial Institution).
- Provision and sharing of the bank's know-how in trade finance.
- Provision of a more competitive source of refinancing for factoring transactions.
- Possibility of utilising synergistic effects with the bank in the business area. Operational synergy enabling to cut operating costs.
- Development of human resources associated with the sharing of the UniCredit Group's experience in European markets, an opportunity for employees to obtain hands-on experience in other banks or management structures of the Group, career opportunities in the UniCredit Group.
- Possibility of using the UniCredit Group's sponsoring and marketing at a European level in the local conditions.

Assessing the overall impact of including UniCredit Factoring Czech Republic and Slovakia, a.s. in the UniCredit Group indicates that the advantages arising from this position substantially prevail. UniCredit Factoring Czech Republic and Slovakia, a.s. actively prevents any potential disadvantages by undertaking operational measures in local management and communicating and building a strong brand at the local level.

In 2019, no legal acts were taken in the interest of the related parties and no measures were adopted or taken at the instigation or in the interest of the related parties.

Management of the Company believes that all related party transactions were conducted on an arm's length basis.

In Prague on 24 January 2020



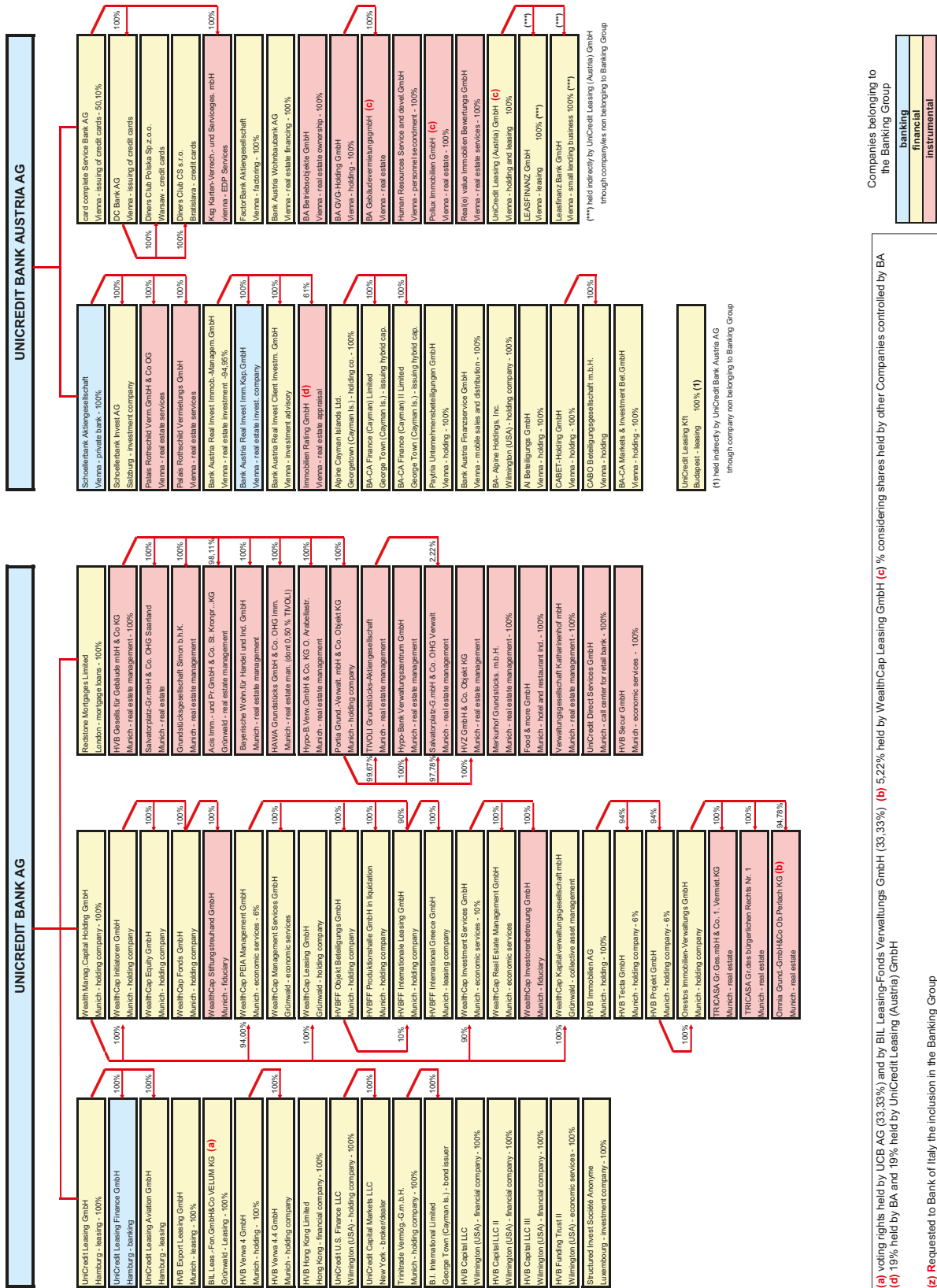
Jiří Flégl
Chairman of the Board of Directors



Zdeněk Bílý
Member of the Board of Directors

Appendix: Organisational chart of the UniCredit Group

Annex A



Companies belonging to the Banking Group

banking
financial
instrumental

Updated January 14th 2020

Companies belonging to the Banking Group

banking
financial
instrumental

Updated January 14th 2020

(a) wholly rights held by UCB AG (33,33%) and by Bill Leasing-Fonds Verwaltungs GmbH (33,33%) (b) 5,22% held by WealthCap Leasing GmbH (33,33%) (c) 19% held by BA and 19% held by UniCredit Leasing (Austria) GmbH

(*) Requested to Bank of Italy the inclusion in the Banking Group

Solutions that matter. |  **UniCredit**
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