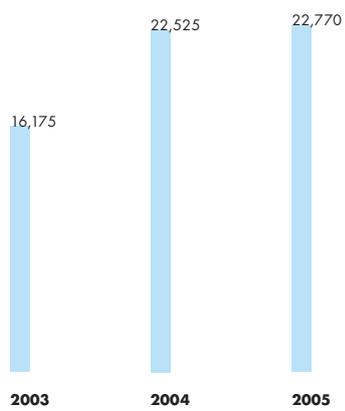


FACTORING ČS

ANNUAL REPORT 2005

Key Figures

Total Turnover of Factoring České spořitelny (CZK million)



- Total turnover of Factoring České spořitelny slightly increased to CZK 22,8 billion in 2005.
- With a market share of over 26 per cent, Factoring České spořitelny maintained its leading position on the factoring market in the Czech Republic in 2005.

Content

<	Key Figures
2	Foreword of the Chairman of the Board of Directors
3	Company Profile
3	Development of the Key Economic Indicators
4	Directors and Officers
4	Organizational Chart of the Company
5	Company Management Report
7	Supervisory Board Report
8	Financial Section
8	Auditor's Report Year ended 31 December 2005
9	Balance Sheet as of 31 December 2005
13	Profit and Loss Account Year ended 31 December 2005
15	Cash Flow Statement Year ended 31 December 2005
17	Notes to the Financial Statements Year ended 31 December 2005
36	Report on Relations

Foreword of the Chairman of the Board of Directors



Rudolf Hanták

Dear shareholders, business partners and colleagues,

2005 represents a year of stabilization within the company history. After the dynamic growth of the first half of this decade, in 2005 the growth of turnover and market share as well as other factors slowed down. It is the result of the development on the Czech factoring market that has grown into a full-scale and mature competitive environment in the last two years. It is a market that has been constantly seeing the entrance of new players and its conditions have become more and more demanding.

In view of these circumstances **we see our ability to maintain the leading position and the biggest market share among members of the Association of Factoring Companies in the Czech Republic representing the Czech market as an important result and we will strive to maintain it for the periods to come.**

Last year our efforts were focused on selected stabilization and development procedures in the area of trade and business cooperation with our sole shareholder as well as other members of our financial group in this country and in other countries

of Central and Eastern Europe. Last year our company had to react to a new market situation, slowdown of the dynamics of local factoring market, more demanding competitive environment, price and margin pressure but also growing risks related to business in this segment of financial services. We feel to be entitled to say that most, if not all, of our objectives have been met even in these difficult conditions.

We see the future of our company primarily in use of synergies provided to us by our membership in the strong Financial group Erste Bank, further development of international activities and upgrade of our business network. Versatile use of new information technologies will continue to be one of the main directions of our development aimed at upgrading of services provided to our clients, reducing costs, improving risk management and optimizing the client portfolio. We still expect to open new market segments and introduce new products in order to provide our clients with high level of quality and satisfaction with our services.

I would like to express my gratitude to our business partners, representatives of our sole shareholder and other co-workers within the financial group as well as employees that had arranged for smooth mutual cooperation and positive results, and make the best wishes for their professional and personal life.

Rudolf Hanták

Company profile

Factoring České spořitelny, a. s. (joint-stock company) was established in November 1995 as CS Factoring with the legal status of a limited liability company.

The main objective of the company was **provision of factoring and forfeiting services** enabling the funding of mutual Czech and Slovak trade.

In 1997 a contract was signed about Česká spořitelna, a. s. becoming a minority shareholder and the company was transformed to a joint-stock company with the registered capital of 30 million CZK.

In the same year ČS Factoring was adopted as a member of Factors Chain International – the biggest association of factoring companies in the world.

Within further operation in the Czech market the company expanded the range of services in the field of commercial funding in factoring and forfeiting to make its products meet all requirements on the side of the clients. **Currently, the company ranks among the largest factoring companies in the Czech Republic.**

In 2000, ČS Factoring became one of the founding members of the Association of Factoring Companies in the Czech Republic.

During 2001, Česká spořitelna obtained one hundred percent share in the company, increased the registered capital to 84 million CZK and the company with the new name **Factoring České spořitelny, a. s. became a member of the Financial group of Česká spořitelna.**

In 2002, the first daughter company abroad was registered – Factoring Slovenskej sporitelne, a. s. Since 2004 it has become the leading factoring company in the Slovak market.

In 2004, Factoring České spořitelny achieves the position of the biggest factoring company in the Czech market with the turnover of 21.4 billion CZK and market share of 26.4%. In 2004, the equity capital of the company exceeded 100 million CZK.

2005 is the tenth year of operation of the company in the Czech market. The company managed to maintain the biggest market share of 26.2% for a second year in a row.

In 2005, Factoring České spořitelny launches a project of establishing another foreign company with capital interest within the Financial group ERSTE BANK in Croatia.

Development of the key economic indicators

	2003	2004	2005
Assets from client claim financing	3,849,241	5,900,753	5,317,174
Registered capital	84,000	84,000	84,000
Owner's equity	92,613	109,392	111,779
Added value	52,717	62,403	57,345
Income before accounting and reserve and rectifying items generation	26,762	23,565	27,873
Income per accounting period	14,685	15,960	5,632

Directors and Officers

Board of Directors:

- Rudolf Hanták, Chairman
- Radmila Jakubová, Vice-Chairman
- Lubomír Cívín, Member

Supervisory Board

- Heinz Knotzer, Chairman
- Frank Michael Beitz, Vice-Chairman
- Karel Mourek, Member

Company Management

- Rudolf Hanták, Chief Executive Officer
- Radmila Jakubová, Financial Manager
- Lubomír Cívín, Risk Management Manager
- Martin Štěpka, Sales and Marketing Manager
- Michael Jehlička, Client Service Manager

Organizational Chart of the Company

Supervisory Board



Company Management Report

Compared to previous years of dynamic growth, year 2005 was a period of stabilization for Factoring České spořitelny.

While in the first half of the new millennium the overall market situation in the Czech Republic was significantly impacted by prevalingly positive trends both on the microeconomic and macroeconomic levels, last year saw the expected trends of the Czech factoring market in achieving maturity and fully competitive environment. It resulted in a slowdown of the overall market dynamics that affected all key players including our company.

Continuance of the low level of interest rates, slowdown of the growth of local market, entrance of new players to the local, ever more demanding market, permanent pressure on prices and margins and the growing new risks related to business in this segment of financial services were the factors that led to slowdown of the growth of turnover, market share and other indicators of the business and economic development of the company.

The result was that the current very dynamic development of business and economic parameters and the leading position in the Czech market were replaced by a period of **slowdown of the development dynamics**. In reaction to the new situation the company management focused on maintaining the strong position in the market and stabilizing the overall situation inside and outside the company. The strategy of the company management in these demanding conditions aimed at implementation of stabilization measures with the aim of maintaining of the achieved position complemented with possible efforts in improving areas that had proved to have a growth potential.

In these circumstances the company management sees the **ability to maintain the leading position in the Czech market and the biggest market share among members of the Association of Factoring Companies in the Czech Republic in 2005 as a very important and positive result.**

In collaboration with the parent bank the company management continued in using tools that had previously proved to be a very important carrier of dynamics of business activities. The management added new ways enabling achievement of higher flexibility in adjusting to the new market situation.

Business cooperation with the sales network of the bank was complemented with activation of additional distribution channels and new marketing activities. The use of CRM system with software support as a tool and method of systematic work, pro-active marketing and outsourcing of some business activities brought a number of good results. The focus on use of synergies within ERSTE BANK group and membership in the international network of FCI made it possible to dynamically develop business cooperation in the sphere of international factoring (especially import factoring).

Risk management focused primarily on identifying new risk areas, creating adequate tools of prevention and elimination of negative impacts. Last year the company continued in implementing measures related to gradual performance of objectives arising from the consolidated risk management within the Financial group of Česká spořitelna in connection with introduction of the NBCA (Basel 2) project in the Czech banking system that is to be fully applied from 2007.

Operation management mainly focused on the quality of services provided to clients of the company as the main bearer of added value contained in the company products. Quality, velocity, continuity of the running business and complexity of the rendered services, creation of personal relationships with clients, use of the latest technologies in e-business were the main tools to assist in performing the stabilization program of the company in this area. Last year the operation department was restructured with the objective of improving efficiency of work, communication with clients and their customers, improving work with the entire portfolio and reducing the company risks.

In 2005, the area of **financial management** of the company represented an important contribution to stabilization of the overall run of the company and its economics. Ensuring continuity of approach to the use of financial resources of the company and their optimization implemented through increased cooperation with the parent bank significantly contributed to stable performance and quality of the rendered services. Introduction of cost optimization elements, elimination of exchange rate risks with the aim of reducing exchange rate losses, improved controlling and reporting became the key instruments of effective financial management.

The company management sees **information technologies** as one of the main directions of development leading to generation of added value for clients, acceleration of the service processes, reduction of costs and improvement of risk management and client portfolio. In 2005, the company made some important upgrade investments in this area and started preparation for development of upgraded software meeting the requirements of a modern process-oriented tool able to ensure fast and flawless service of the company clients. The in-house development of software tools is an important component of the group strategy of knowledge management within the gradually developing group of factoring companies in ERSTE BANK financial group in the countries of Central and Eastern Europe.

It is the **strategy of development of factoring companies** in the countries of the region that is the important component

of the overall stabilization strategy. Its objective is gradual generation of a network of mutually collaborating business entities using the synergies given by international cooperation and involvement in a strong financial group. The project of the new company in Croatia commenced in 2005 is another step of implementation of this strategic line that should significantly contribute to more efficient use of human and material resources invested in development and ensure a new dimension of development of business and investment activities of Factoring České spořitelny in the periods to come.

The results of 2005 give ground to assume that even in more demanding conditions of the local market the company is likely to maintain its position within the territory of the Czech Republic and through a network of daughter and sister companies it will gradually build a new position within the entire region of Central Europe.

Report of the Supervisory Board

In the financial year 2005, **the Supervisory Board of Factoring České spořitelny, a. s. was carrying out its tasks stipulated by the law and the Statutes of the company.** As a controlling body, the Supervisory Board looked over the performance of the Board of Directors, progress of business activities and the management of the company. The Supervisory Board was informed on a regular basis about the business activities of the company, its financial situation and other significant factors.

The Supervisory Board has revised the financial statements of the company as to 31/12/2005 and has come to the conclusion that the accounting records and books were kept in a conclusive manner and in accordance with the accounting rules and that the financial statements reflect a real situation of Factoring České spořitelny, a. s. as to 31/12/2005.

The financial statements were audited by Deloitte s. r. o. which proved that the financial statements of Factoring České spořitelny, a. s. represent in all relevant aspects the real state of assets, liabilities and owners equity of Factoring České

spořitelny, a. s. as to December 31, 2005 and the income from operations for 2005 in accordance with the Accounting Act and the applicable rules of the Czech Republic. **The Supervisory Board acknowledges the auditor's opinion.**

Against this background, **the Supervisory Board recommends the Shareholders Meeting to approve the financial statements of Factoring České spořitelny, a. s. as to 31/12/2005.**

Furthermore **the Supervisory Board recommends to the Shareholders Meeting to approve the way of distribution of the profit 2005 as suggested by the Board of Directors.**

The Supervisory Board discussed and approved the Report on relations between connected parties under Section 66a (9) of the Commercial Code.

The Supervisory Board discussed and approved the payment of annual bonuses of 2005 to members of Board of directors.

In Prague, March 27th 2005



Dr. Heinz Knotzer
Chairman of the Supervisory Board

Independent Auditor's Report to the Shareholder of Factoring České spořitelny, a.s.

Having its registered office at: Pobřežní 46, 180 00, Prague 8
Identification number: 25629352
Principal activities: Provision of factoring and forfaiting

Financial Statements

Based upon our audit, we issued the following audit report dated 23 February 2006 on the unconsolidated financial statements which are included in this annual report on pages 10 to 36:

“We have audited the accompanying financial statements of Factoring České spořitelny, a.s., for the year ended 31 December 2005. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of Factoring České spořitelny, a.s., as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with accounting regulations applicable in the Czech Republic.”

Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of Factoring České spořitelny, a.s. for the year ended 31 December 2005 which is included in this annual report on pages 37 to 42. This related party transactions report is the responsibility of the Company's Board of Directors. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 and the related application guidelines 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 related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Factoring České spořitelny, a.s. for the year ended 31 December 2005 contains material factual misstatements.

Annual Report

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 22 June 2006



Audit firm:
Deloitte s.r.o.
Certificate no. 79
Represented by:



Marie Kučerová, authorised employee

Statutory auditor:



Marie Kučerová, certificate no. 1207

Balance Sheet

as of 31 December 2005

CZK thousand	31. 12. 2005			31. 12. 2004
	Brutto	Korrektion	Netto	Netto
ASSETS				
Total assets	5,385,289	89,084	5,296,205	6,025,441
A. Receivables for subscribed capital				
B. Fixed assets	41,767	24,349	17,418	11,129
B.I. Intangible fixed assets	14,101	10,068	4,033	3,186
B.I.1. Start-up costs	863	863		
B.I.2. Research and development				
B.I.3. Software	13,238	9,205	4,033	2,676
B.I.4. Valuable rights				
B.I.5. Goodwill				
B.I.6. Other intangible fixed assets				
B.I.7. Intangible fixed assets under construction				510
B.I.8. Prepayments for intangible fixed assets				
B.II. Tangible fixed assets	19,112	14,281	4,831	4,719
B.II.1. Land				
B.II.2. Structures	439	231	208	216
B.II.3. Individual movable assets and sets of movable assets	18,673	14,050	4,623	4,419
B.II.4. Perennial crops				
B.II.5. Breeding and draught animals				
B.II.6. Other tangible fixed assets				
B.II.7. Tangible fixed assets under construction				84
B.II.8. Prepayments for tangible fixed assets				
B.II.9. Valuation difference on acquired assets				
B.III. Non-current financial assets	8,554		8,554	3,224
B.III.1. Equity investments in subsidiaries				
B.III.2. Equity investments in associates				
B.III.3. Other securities and investments	7,570		7,570	3,224
B.III.4. Loans and borrowings – controlling entity, substantial influence				
B.III.5. Other non-current financial assets				
B.III.6. Acquisition of non-current financial assets				
B.III.7. Prepayments for non-current financial assets	984		984	

CZK thousand	31. 12. 2005			31. 12. 2004
	Brutto	Korrektion	Netto	Netto
ASSETS				
C. Current assets	5,341,360	64,735	5,276,625	6,010,657
<i>C.I. Inventories</i>				
C.I.1. Material				
C.I.2. Work in progress and semifinished goods				
C.I.3. Products				
C.I.4. Animals				
C.I.5. Goods				
C.I.6. Prepayments for inventory				
<i>C.II. Long-term receivables</i>	7,526		7,526	1,861
C.II.1. Trade receivables				
C.II.2. Receivables – controlling entity				
C.II.3. Receivables – substantial influence				
C.II.4. Receivables from partners and association members				
C.II.5. Long-term prepayments made				
C.II.6. Estimated receivables				
C.II.7. Other receivables	712		712	745
C.II.8. Deferred tax asset	6,814		6,814	1,116
<i>C.III. Short-term receivables</i>	5,320,841	64,735	5,256,106	5,858,803
C.III.1. Trade receivables	5,316,998	64,735	5,252,263	5,857,775
C.III.2. Receivables – controlling entity				
C.III.3. Receivables – substantial influence				
C.III.4. Receivables from partners and association members				
C.III.5. Social security and health insurance contributions				
C.III.6. State – tax receivables	2,962		2,962	
C.III.7. Short-term prepayments made	177		177	379
C.III.8. Estimated receivables	700		700	540
C.III.9. Other receivables	4		4	109
<i>C.IV. Current financial assets</i>	12,993		12,993	149,993
C.IV.1. Cash on hand	82		82	641
C.IV.2. Cash at bank	12,911		12,911	149,352
C.IV.3. Short-term securities and investments				
C.IV.4. Acquisition of current financial assets				
<i>D. I. Other assets</i>	2,162		2,162	3,655
D.I.1. Deferred expenses	2,145		2,145	3,639
D.I.2. Complex deferred expenses				
D.I.3. Accrued income	17		17	16

CZK thousand

LIABILITIES

	31. 12. 2005	31. 12. 2004
Total liabilities & equity	5,296,205	6,025,441
A. Equity	111,779	109,392
<i>A.I. Share capital</i>	84,000	84,000
A.I.1. Share capital	84,000	84,000
A.I.2. Treasury shares and holdings (-)		
A.I.3. Changes in share capital		
<i>A.II. Capital funds</i>	3,868	625
A.II.1. Share premium		
A.II.2. Other capital funds		
A.II.3. Gains or losses from the revaluation of assets and liabilities	3,868	625
A.II.4. Gains or losses from the revaluation upon transformations		
<i>A.III. Statutory funds</i>	3,634	2,807
A.III.1. Statutory reserve fund / Indivisible fund	3,605	2,807
A.III.2. Statutory and other funds	29	
<i>A.IV. Retained earnings</i>	14,645	6,000
A.IV.1. Accumulated profits brought forward	14,645	6,000
A.IV.2. Accumulated losses brought forward		
A.V. Profit or loss for the current period (+ -)	5,632	15,960
B. Liabilities	5,184,214	5,914,996
<i>B.I. Reserves</i>	7,548	6,589
B.I.1. Reserves under special legislation		
B.I.2. Reserve for pensions and similar liabilities		
B.I.3. Income tax reserve		
B.I.4. Other reserves	7,548	6,589
<i>B.II. Long-term liabilities</i>		
B.II.1. Trade payables		
B.II.2. Payables – controlling entity		
B.II.3. Payables – substantial influence		
B.II.4. Payables to partners and association members		
B.II.5. Long-term prepayments received		
B.II.6. Bonds issued		
B.II.7. Long-term bills of exchange to be paid		
B.II.8. Estimated payables		
B.II.9. Other payables		
B.II.10. Deferred tax liability		

CZK thousand	31. 12. 2005	31. 12. 2004
LIABILITIES		
<i>B.III. Short-term liabilities</i>	3,017,149	3,415,958
B.III.1. Trade payables	3,008,569	3,404,043
B.III.2. Payables – controlling entity		
B.III.3. Payables – substantial influence		
B.III.4. Payables to partners and association members		
B.III.5. Payables to employees	1,051	813
B.III.6. Social security and health insurance payables	640	559
B.III.7. State – tax payables and subsidies	907	8,119
B.III.8. Short-term prepayments received		
B.III.9. Bonds issued		
B.III.10. Estimated payables	5,966	2,395
B.III.11. Other payables	16	29
<i>B.IV. Bank loans and borrowings</i>	2,159,517	2,492,449
B.IV.1. Long-term bank loans		
B.IV.2. Short-term bank loans	2,159,517	2,492,449
B.IV.3. Short-term borrowings		
<i>C. I. Other liabilities</i>	212	1,053
C.I.1. Accrued expenses	212	1,053
C.I.2. Deferred income		

Profit and Loss Account as of 31 December 2005

CZK thousand	Year ended 31. 12. 2005	Year ended 31. 12. 2004
<i>I. Sales of goods</i>		
A. Costs of goods sold		
+ Gross margin		
<i>II. Production</i>	87,703	98,107
II.1. Sales of own products and services	87,703	98,107
II.2. Change in internally produced inventory		
II.3. Own work capitalized		
B. Purchased consumables and services	30,358	35,704
B.1. Consumed material and energy	744	845
B.2. Services	29,614	34,859
+ Added value	57,345	62,403
C. Staff costs	29,366	28,786
C.1. Payroll costs	21,357	20,745
C.2. Remuneration to members of statutory bodies		
C.3. Social security and health insurance costs	7,474	7,261
C.4. Social costs	535	780
D. Taxes and charges	447	361
E. Depreciation of intangible and tangible fixed assets	3,890	3,042
<i>III. Sales of fixed assets and material</i>	120	283
III.1. Sales of fixed assets	120	283
III.2. Sales of material		
F. Net book value of fixed assets and material sold		
F.1. Net book value of sold fixed assets		
F.2. Book value of sold material		
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	23,094	6,400
<i>IV. Other operating income</i>	2,708	11,012
H. Other operating expenses	19,037	17,426
<i>V. Transfer of operating income</i>		
I. Transfer of operating expenses		
* Operating profit or loss	- 15,661	17,683
<i>VI. Proceeds from the sale of securities and investments</i>		
J. Cost of securities and investments sold		
<i>VII. Income from non-current financial assets</i>		
VII.1. Income from subsidiaries and associates		
VII.2. Income from other non-current securities and investments		
VII.3. Income from other non-current financial assets		

CZK thousand	Year ended 31. 12. 2005	Year ended 31. 12. 2004
VIII. <i>Income from current financial assets</i>		
K. Costs of financial assets		
IX. <i>Income from the revaluation of securities and derivatives</i>		
L. Costs of the revaluation of securities and derivatives		
M. Change in reserves and provisions relating to financial activities		
X. <i>Interest income</i>	87,952	95,451
N. Interest expenses	50,742	57,357
XI. <i>Other financial income</i>	63,516	106,677
O. Other financial expenses	77,991	126,725
XII. <i>Transfer of financial income</i>		
P. Transfer of financial expenses		
* Financial profit or loss	22,735	18,046
Q. Income tax on ordinary activities	1,442	19,769
Q 1. - due	8,244	13,108
Q 2. - deferred	-6,802	6,661
** Profit or loss from ordinary activities	5,632	15,960
XIII. <i>Extraordinary income</i>		
R. Extraordinary expenses		
S. Income tax on extraordinary activities		
S.1. - due		
S.2. - deferred		
* Extraordinary profit or loss		
T. Transfer of share of profit or loss to partners (+/-)		
*** Profit or loss for the current period (+/-)	5,632	15,960
**** Profit or loss before tax	7,074	35,729

Cash Flow

CZK thousand

	Year ended 31. 12. 2005	Year ended 31. 12. 2004
P. Opening balance of cash and cash equivalents	149,993	15,234
Cash flows from ordinary activities		
Z. Profit or loss from ordinary activities before tax	7,074	35,729
A.1. Adjustments for non-cash transactions	-10,345	-28,935
A.1.1. Depreciation of fixed assets	3,890	3,042
A.1.2. Change in provisions and reserves	23,095	6,400
A.1.3. Profit/(loss) on the sale of fixed assets	-120	-283
A.1.4. Revenues from dividends and profit shares		
A.1.5. Interest expense and interest income	-37,210	-38,094
A.1.6. Adjustments for other non-cash transactions		
A.* Net operating cash flow before changes in working capital	-3,271	6,794
A.2. Change in working capital	193,400	-424,203
A.2.1. Change in operating receivables and other assets	582,087	-1,246,633
A.2.2. Change in operating payables and other liabilities	-388,687	822,430
A.2.3. Change in inventories		
A.2.4. Change in current financial assets		
A.** Net cash flow from operations before tax and extraordinary items	190,129	-417,409
A.3. Interest paid	-50,742	-58,428
A.4. Interest received	87,952	95,451
A.5. Income tax paid from ordinary operations	-19,207	-8,573
A.6. Receipts and expenditures relating to extraordinary activities		
A.7. Received dividends and profit shares		
A.*** Net operating cash flows	208,132	-388,959
Cash flows from investing activities		
B.1. Fixed assets expenditures	-5,833	-2,358
B.2. Proceeds from fixed assets sold	120	283
B.3. Loans provided to related parties		
B.*** Net investment cash flows	-5,713	-2,075
Cash flow from financial activities		
C.1. Change in payables from financing	-333,419	525,793
C.2. Impact of changes in equity	-6,000	
C.2.1. Cash increase in share capital		
C.2.2. Capital payments to partners		
C.2.3. Other cash contributions made by partners		
C.2.4. Settlement of loss by partners		
C.2.5. Payments from capital funds		
C.2.6. Dividends paid	-6,000	
C.*** Net financial cash flows	-339,419	525,793
F. Net increase or decrease in cash and cash equivalents	-137,000	134,759
R. Closing balance of cash and cash equivalents	12,993	149,993

Changes in Shareholders' Equity

for the Year Ended 31 December 2005

	Share capital	Capital funds	Statutory funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	Total Equity
Balance at 31 December 2003	84,000	-193	2,072	4,620	-12,571	14,685	92,613
Distribution of profit or loss			734	1,380	12,571	-14,685	
Gains and losses from revaluation of investment		818					818
Profit or loss for the current period						15,960	15,960
Balance at 31 December 2004	84,000	625	2,807	6,000		15,960	109,392
Distribution of profit or loss			1,315	14,645		-15,960	
Payments from other funds			-488				-488
Dividends paid				-6,000			-6,000
Gains and losses from revaluation of investment		3,243					3,243
Profit or loss for the current period						5,632	5,632
Balance at 31 December 2005	84,000	3,868	3,634	14,645		5,632	111,779

Notes to the Financial Statements

for the Year ended 31 December 2005.

1. GENERAL INFORMATION

1.1 Incorporation and Description of the Business

Factoring České spořitelny, a. s. (hereinafter the “Company”) was incorporated by a Founder’s Deed on 30 May 1997 and was recorded in the Register of Companies held at the Prague Municipal Court on 4 December 1997 in Volume B, File 5075.

The Company’s subscribed and paid-up share capital amounted to CZK 84 million as of 31 December 2005.

The sole shareholder of the Company is Česká spořitelna, a. s., having its registered office address at Olbrachtova 1929/62, 140 00 Prague 4, Corporate ID 45244782.

Shareholder	Ownership percentage
Česká spořitelna, a. s., Prague	100%

Share capital	Share capital in CZK thousand
	84,000

The Company is primarily engaged in providing factoring and forfaiting services which accounts for most of the Company’s revenues, generated both locally and abroad (refer to Note 4.12).

1.2 Organisational Structure

As of 31 December 2005, the Company had 32 employees, of which five were managers. The Company is organised into seven units as follows: management including secretariat, sales (representation) department, operations department (cross-border and in-country clients), customer service department, risk management department, IT department and finance department.

Board of Directors and Supervisory Board:

As of 31 December 2005, the Company’s statutory bodies were composed of the following individuals:

Board of Directors:

Position	Name
• Chairman	Rudolf Hanták
• Vice Chairwoman	Radmila Jakubová
• Member	Lubomír Cívín

Supervisory Board:

Position	Name
• Chairman	Heinz Knotzer
• Vice Chairman	Frank Michael Beitz
• Member	Karel Mourek

2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

The Company’s accounting books and records are maintained and the financial statements were prepared 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 by the Regulation 472/2003 Coll. and the Regulation 397/2005 Coll.; and Czech Accounting Standards for Businesses.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Tangible and Intangible Fixed Assets

Valuation

Tangible fixed assets include assets with an acquisition cost greater than CZK 40,000 on an individual basis and an estimated useful life greater than one year.

Intangible fixed assets include assets with an acquisition cost greater than CZK 60,000 on an individual basis and an estimated useful life greater than one year.

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

Tangible and intangible fixed assets with a useful life exceeding one year and an acquisition cost between CZK 20,000 and 40,000 or CZK 60,000, respectively, are depreciated/amortised over a period of two years from the moment when they are put into use.

Assets with an acquisition cost of CZK 20,000 or less are not treated as tangible and intangible assets and are charged directly to expenses.

The cost of fixed asset improvements exceeding CZK 40,000 in total for individual assets over the period increases the acquisition cost of the related fixed asset.

Depreciation for Accounting Purposes

Depreciation of fixed assets is recorded on a straight-line basis over the depreciation periods indicated below.

Category of assets	Depreciation period in years
Leasehold improvement of a leased building	8
Machinery and equipment	3 or 5
Vehicles	4
Software	3
Other	12

The depreciation period in years is established pursuant to the estimated useful life of the fixed assets.

3.2 Non-Current Financial Assets

Valuation

Securities and equity investments are carried at cost upon acquisition. The cost of securities or equity investments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges. At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments or debt securities held to maturity or securities and equity investments available for sale.

As of the balance sheet date, the Company records:

- Equity investments using the value established under the equity method of accounting;
- Debt securities held to maturity at cost increased to reflect interest income (including amortisation of premium or discount, if any);
- Securities and equity investments available for sale at fair value if determinable.

At the balance sheet date, securities and equity investments denominated in a foreign currency are re-translated using the exchange rate of the Czech National Bank prevailing as of that date, and any resulting foreign exchange rate gains or losses are treated as a component of fair value or the value established under the equity method of accounting. If the security or equity investment is not fair valued, the foreign exchange rate gains or losses are recognised as a component of gains or

losses arising from the revaluation of assets and liabilities, the only exception being debt securities.

3.3 Receivables

Upon origination, receivables are stated at their nominal value. Doubtful and bad amounts are reduced by the relevant provisions.

The Company accounts for factoring receivables on a “gross” basis. The factoring receivables are posted to assets in the short-term trade receivables account and the related payables to suppliers and the Company’s clients, as appropriate, are charged to liabilities in the short-term trade payables account. The short-term receivables account represents the nominal volume of the Company’s receivables from end customers.

The prepayments made with respect to the provision of recourse factoring are posted to the short-term prepayments account (a component of the short-term trade receivables line in the financial statements).

Provisioning

In respect of tax non-deductible provisions, the Company continuously applied the methodology adopted in 2003. The aggregate volume of receivables past their due dates by greater than 30 days was provisioned at 25 percent. This coefficient is based on the value of tax non-deductible provisions from previous years, respecting the reasonable estimate and the prudence principle.

The Company recognised a specific tax non-deductible provision in respect of a special instance of fraud uncovered by the Company during 2005.

3.4 Loans

Valuation

Loans are reported at the net book value of the principal. Interest expenses on these loans are included in accruals unless the interest had been paid at the effective date.

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

3.5 Reserves

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred or certain to be incurred, but which are uncertain as to the amount or the date on which they will arise.

During the year ended 31 December 2005, the Company established an accounting reserve for payroll costs that relate to the current accounting period (refer to Note 4.7).

3.6 Translation of Foreign Currencies

Transactions denominated in foreign currencies were translated at an annual fixed exchange rate. At the balance sheet date, that is, 31 December 2005, all assets and liabilities denominated in foreign currencies were translated at the exchange rate of the Czech National Bank effective as of that date, and the translation gains and losses were recorded through the current year’s financial income or financial expenses, as appropriate.

During the accounting period, foreign exchange rate differences arising from spot transactions were posted directly to income or expenses, while foreign exchange rate difference arising from swap transactions were recorded to profit or loss only after completion.

At the balance sheet date, the financial investment denominated in a foreign currency was translated using the effective exchange rate promulgated by the Czech National Bank as of that date. Any resulting foreign currency translation differences have been included in the recognised gain or loss arising from the fair value re-measurement

3.7 Derivative Financial Transactions

The Company enters into hedging currency swaps to hedge the currency risk arising from foreign exchange rate fluctuations over the period of financing factoring prepayments denominated in foreign currencies. Assets include factoring prepayments denominated in foreign currencies while liabilities reflect bank loans and overdrafts. All derivative financial transactions concluded during the year were designated as hedges of future cash flows. The Company maintains documentation for hedging derivatives and tests the effectiveness of hedging. The Company’s criteria for a derivative instrument to be accounted for as a hedge are as follows:

- At the inception of the hedge, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing and documenting whether the hedge is effective, and the hedging relationship is formally documented;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent);
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis.

Valuation

Derivative financial instruments are carried at cost at the acquisition date. The cost of derivative financial instruments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

As of the balance sheet date, financial derivative instruments are accounted for at fair value. The fair value is determined on the basis of a qualified fair valuation of all anticipated cash flows associated with hedging derivatives. As of 31 December 2005, the Company had no open derivative transactions.

Fair value changes in respect of hedging derivatives are recorded as gains or losses from the revaluation of assets and liabilities, reported within other financial expenses or income, as appropriate. The receivable or payable arising from the revaluation of hedging derivatives is reported within other receivables or other payables in the balance sheet.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a legally enforceable contract, a forecasted future transaction, groups of assets, groups of liabilities, legally enforceable contracts or forecasted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge.

Gains or losses arising over the term of the hedge from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised. Gains or losses arising from changes in fair values of hedging

derivatives contracted under cash flow hedging that are attributable to unhedged risks are recorded to expenses or income from derivative transactions at the measurement date.

3.8 Taxation

3.8.1 Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets for tax purposes is calculated using the accelerated method.

3.8.2 Current Tax Payable

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

3.8.3 Deferred Taxation

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

3.9 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash at hand, cash in bank or term deposits.

3.10 Revenues

The Company recognises its own revenues consisting of factoring charges and interest on funding based on the issued invoices. Other income relates to supplies provided by the credit insurance company. These are recognised based on the insured events list at the moment of the provision of cash proceeds by the insurance company. Revenues are recognised on an accruals basis.

3.11 Use of Estimates

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

3.12 Year-on-Year Changes in Valuation, Depreciation and Accounting Policies

In the previous period, the Company released a deferred tax asset arising from provisions against client receivables in response to the legislative changes made in 2004. In 2005, this deferred tax asset was re-recognised with a view to the new interpretation and legislative amendments.

3.13 Risk Management

Risks associated with the funding of ceded receivables are mitigated by using the services of insurance companies and by cooperating with partners within the international association

of factoring companies (the Company is a member of the FCI association). The Company stresses the importance of diversification of the debt portfolio which allows for the amounts recovered to cover the partial payments made to clients and allow the Company to exercise a lien.

In 2005, the Company was a victim of fraud committed by a client. As a result, the Company set up new measures and working procedures to prevent any similar actions by clients and improve operational risk management.

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

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

4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

4.1 Fixed Assets

4.1.1 Intangible Fixed Assets

Cost

CZK thousand	Balance at 31 Dec 2003	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Start-up costs	863	0	0	863	0	0	863
Software	8,934	1,723	0	10,657	2,782	201	13,238
Acquisition of intangible FA	844	510	844	510	0	510	0
Total	10,641	2,233	0	12,030	2,782	711	14,101

Accumulated Amortisation and Provisions

CZK thousand	Balance at 31 Dec 2003	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Start-up costs	863	0	0	863	0	0	863
Software	7,337	644	0	7,981	1,425	201	9,205
Acquisition of intangible FA	0	0	0	0	0	0	0
Total	8,200	644	0	8,844	1,425	201	10,068

Net Book Value

CZK thousand	Balance at 31 Dec 2003	Balance at 31 Dec 2004	Balance at 31 Dec 2005
Start-up costs	0	0	0
Software	1,597	2,676	4,033
Acquisition of intangible FA	844	510	0
Total	2,441	3,186	4,033

The start up costs include legal and other services related to the incorporation of the Company.

In the latter half of 2005, the Company decided to replace the original E-sam credit management system by incorporating its features into the HoC product system as the "Riskman" module. Another major investment related to HoC system supporting modules for the monitoring of customer receivables, and software supporting new servers. For the time being, the E-sam system was retained within the ownership of the Company as it will be used in 2006 as a database for launching the new Riskman module.

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets was CZK 1,425 thousand (CZK 644 thousand for the year ended 31 December 2004).

4.2 Tangible Fixed Assets

Cost

CZK thousand	Balance at 31 Dec 2003	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Structures	439	0	0	439	0	0	439
Individual movable assets	17,465	1,624	1,135	17,954	2,661	1,942	18,673
– Machinery and equipment	11,072	695	103	11,664	2,281	1,501	12,444
– Vehicles	6,393	929	1,032	6,290	380	441	6,229
Acquisition of tangible FA	739	84	739	84	0	84	0
Total	18,643	1,708	1,874	18,477	2,661	2,026	19,112

Accumulated Depreciation

CZK thousand	Balance at 31 Dec 2003	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Structures	215	8	0	223	8	0	231
Individual movable assets	12,280	2,390	1,135	13,535	2,457	1,942	14,050
– Machinery and equipment	8,850	1,003	103	9,750	947	1,501	9,196
– Vehicles	3,430	1,387	1,032	3,785	1,510	441	4,854
Acquisition of tangible FA	0	0	0	0	0	0	0
Total	12,495	2,398	1,135	13,758	2,465	1,942	14,281

Net Book Value

CZK thousand	Balance at 31 Dec 2003	Balance at 31 Dec 2004	Balance at 31 Dec 2005
Structures	224	216	208
Individual movable assets	5,185	4,419	4,623
– Machinery and equipment	2,222	1,914	3,248
– Vehicles	2,963	2,505	1,375
Acquisition of tangible FA	739	84	0
Total	6,148	4,719	4,831

In view of the fast growth of the product system database and associated modules, the Company decided in 2005 to purchase new server equipment, not only to speed up work but also to enhance the level of security. In addition, the Company modernised its fleet.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets was CZK 2,465 thousand (CZK 2,398 thousand for the year ended 31 December 2004).

4.3 Non-Current Financial Assets

Since late 2002, the Company has held a 10 percent investment in Factoring Slovenskej sporiteľne, a. s., a subsidiary of Slovenská sporiteľňa, a. s. The share capital of the former company is SKK 30 million, and the allocation to the reserve fund amounted to SKK 3 million in compliance with Slovak legislation. As of 31 December 2005, the entity reported unaudited equity of SKK 98,867 thousand. This investment is classified within securities and equity investments available for sale. The cost of the financial investment of the Company thus represents SKK 3,300 thousand which translates to CZK 2,527 thousand. The Company's share of equity is SKK 9,887 thousand, which is equal to CZK 7,570 thousand. This amount represents the best possible estimate of the fair value of the investment.

In 2005, the Company was involved in the establishment of another factoring company within Erste Bank in Croatia. In this respect, an equity investment prepayment of HRK 250 thousand (CZK 984 thousand) was made.

The Company has pledged no assets as collateral.

4.4 Receivables

4.4.1 Short-Term Receivables

CZK thousand	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Short-term trade receivables	5,252,263	5,857,775
– customers	3,345,958	3,359,083
– bills of exchange to be collected	49,547	36,838
– prepayments made	1,921,472	2,504,432
– other receivables	21	21
– provisions	-64,735	-42,599
State – tax receivables	2,962	0
Other prepayments made	177	379
Estimated balances	700	540
Other receivables	4	109
Total	5,256,106	5,858,803

The above receivables principally comprise factoring receivables, which are reported in the balance sheet line “trade receivables”, of CZK 5,252,263 thousand (2004: CZK 5,857,775 thousand).

Year-on-year changes in prepayments made are largely attributable to the cessation of financing of a major client's receivables. The line “Customers” includes nominal values, the line “Prepayments made” includes prepayments made for receivables under recourse factoring.

4.4.2 Aging of Trade Receivables

Year CZK thousand	Category	Before due date					Overdue	Total
			0-30 days	31-60 days	61-80 days	81-365 days	1 year and greater	
2005	Short-Term	4,041,448	751,696	440,671	8,283	41,133	33,767	5,316,998
	Provisions	0	0	25,453	1,140	26,819	11,323	64,735
2004	Short-Term	5,272,999	490,502	83,667	29,107	11,116	12,983	5,900,374
	Provisions	0	0	20,620	7,173	2,739	12,067	42,599

The average maturity of receivables from the customers of the Company's factoring clients in 2005 was 54 days. Provisioning is established by a percentage derived from the historical balance of losses and management's experience in respect of the recovery rates of distressed receivables. Given the limited availability of historical data regarding loss percentage rates, the Company was prudent in determining the risk coefficient.

The balance of tax-deductible provisions remained basically unchanged in 2005, amounting to CZK 11,323 thousand. These tax-deductible provisions are recognised against receivables registered for recovery under bankruptcy proceedings ceded to the Company before the effective date of the legislative amendment.

As of 31 December 2005, tax non-deductible provisions amounted to CZK 53,412 thousand (2004: CZK 31,277 thousand). This amount was established in line with the existing global methodology as a 25 percent share of the total volume of receivables overdue by greater than 30 days and increased by a tax non-deductible provision, necessary for the coverage of the problematic recovery of funding of fictive receivables from intentional fraudulent activities of a client.

4.5 Temporary Assets

Temporary assets amount to CZK 2,162 thousand (2004: CZK 3,655 thousand) and primarily comprise deferred expenses arising from fees for bank guarantees and written credit insurance premiums.

4.6 Shareholder's Equity

4.6.1 Share Capital

As of 31 December 2005, the subscribed, paid-up and registered share capital was CZK 84 million and consisted of 280 shares with a nominal value of CZK 300 thousand per share.

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

4.6.2 Distribution of the 2004 Profit

During 2005, the Company's sole shareholder acting in the capacity of the General Meeting approved the utilisation of the 2004 profit of CZK 15,960 thousand to declare dividends to the shareholder of CZK 6,000 thousand, to allocate CZK 796 thousand to the statutory reserve fund and to allocate CZK 519 thousand to the newly established social fund. The balance of the social fund as of the

end of 2005 is CZK 29 thousand. The balance of the statutory reserve fund after the addition is CZK 3,605 thousand. The remaining accumulated 2003 and 2004 profit of CZK 14,645 thousand was, following a decision of the sole shareholder, retained in equity.

4.6.3 Gains and Losses Arising from the Revaluation of Assets and Liabilities

The differences of CZK 3,868 thousand (2004: CZK 625 thousand) arising from the revaluation of assets and liabilities represent the difference arising from the re-measurement of non-current financial assets. The revaluation differences were decreased by the relevant deferred tax.

4.7 Reserves

CZK thousand	Other reserves	Total reserves
31 December 2003	10,081	10,081
Addition to reserves	6,589	6,589
Use of reserves	10,081	10,081
31 December 2004	6,589	6,589
Addition to reserves	7,548	7,548
Use of reserves	6,589	6,589
31 December 2005	7,548	7,548

In 2005, the Company created a reserve of CZK 7,548 thousand for payroll costs unrealised by the 2005 year-end (the balance of the reserve in 2004: CZK 6,589 thousand).

4.8 Payables

4.8.1 Trade Payables

CZK thousand	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Short-term payables	3,008,569	3,404,043
- Suppliers	2,975,133	3,328,410
- Advances received	33,436	75,633
Payables to employees	1,051	813
Payables arising from social security and health insurance	640	559
State - tax payables and subsidies	907	8,119
Estimated payables	5,966	2,395
Other payables	16	29
Total	3,017,149	3,415,958

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

The received advances represent the amounts collected from the customers of the Company's clients which were not accurately set off against the ceded receivables at the balance sheet date. The nature of factoring services requires that payables be paid immediately after a legal claim has been made by the client.

The year-on-year changes in trade payables are largely attributable to the cessation, that is, non-financing of ceded receivables of one of the major clients.

Other operating payables are settled within 14 days. The Company records no overdue payables.

4.9 Bank Loans

2005

Bank/creditor CZK thousand	Purpose	Balance at 31 Dec 2005	Interest rate	Maturity	Collateral form
Česká spořitelna	operating – CZK overdraft	24,270	1,M Pribor + ČS margin	30 Jun 2006	uncollateralised
Česká spořitelna	operating – EUR overdraft	141,150	1,M Euribor + ČS margin	30 Jun 2006	uncollateralised
Česká spořitelna	operating – USD overdraft	150,043	1,M Libor + ČS margin	30 Jun 2006	uncollateralised
Česká spořitelna	operating – GBP overdraft	4,345	1,M Libor + ČS margin	30 Jun 2006	uncollateralised
Česká spořitelna	operating – SKK overdraft	15,648	1,M Bribor + ČS margin	30 Jun 2006	uncollateralised
Oberbank	operating – USD current account	221,292	1,M Libor + Ober margin	31 Dec 2006	ČS bank guarantees
Oberbank	operating – EUR current account	29,005	1,M Euribor + Ober margin	31 Dec 2006	ČS bank guarantees
HVB Bank	operating – CZK current account	500,000	1,M Pribor + HVB margin	29 Dec 2006	ČS bank guarantees
HVB Bank	operating – USD current account	73,764	1,M Libor + HCV margin	29 Dec 2006	ČS bank guarantees
Commerzbank	operating – CZK current account	1,000,000	1,M Pribor + CMB margin	not specified	ČS bank guarantees
Total		2,159,517			

2004

Bank/creditor CZK thousand	Purpose	Balance at 31 Dec 2005	Interest rate	Maturity	Collateral form
Česká spořitelna	operating - CZK overdraft	25,896	1,M Pribor + ČS margin	30 Jun 2005	uncollateralised
Česká spořitelna	operating - EUR overdraft	153,498	1,M Euribor + ČS margin	30 Jun 2005	uncollateralised
Česká spořitelna	operating - SKK overdraft	2,444	1,M Bribor + ČS margin	30 Jun 2005	uncollateralised
Komerční banka	operating - CZK term account	43,000	1,M Pribor + KB margin	19 Jan 2006	ČS bank guarantees
Komerční banka	operating - EUR term account	30,465	1,M Euribor + KB margin	19 Jan 2006	ČS bank guarantees
Komerční banka	operating - USD term account	205,758	1,M Libor + KB margin	19 Jan 2006	ČS bank guarantees
HVB Bank	operating - CZK current account	380,103	1,M Pribor + HVB margin	30 Dec 2005	ČS bank guarantees
HVB Bank	operating - USD current account	201,285	1,M Libor + HCV margin	30 Dec 2005	ČS bank guarantees
Commerzbank	operating - CZK current account	1,000,000	1,M Pribor + CMB margin	31 May 2005	ČS bank guarantees
Commerzbank	operating - CZK account	450,000	1,M Pribor + CMB margin	Not specified	ČS term placement
Total		2,492,449			

Payables to Group companies represent loans advanced by Česká spořitelna.

The average amount of the loans was CZK 340,282 thousand during 2005 (2004: CZK 237,746 thousand). The Company paid interest charges of CZK 7,951 thousand (2004: CZK 5,884 thousand) to Česká spořitelna, a. s.

Loans were opened with Oberbank in the first half of 2005 in order to cover the need for further funding and the loans with KB were partially settled at the end of the year.

Česká spořitelna, a. s., as the sole shareholder, provided the following bank guarantees as collateral to the loans granted by banks outside the Česká spořitelna Group: a guarantee to Commerzbank in the amount of CZK 1,000 million due on 31 July 2006, a guarantee to HVB Bank in the amount of CZK 900 million due on 3 February 2006, and a guarantee to Oberbank of CZK 250 million due on 30 June 2006.

4.10 Temporary Liabilities

Temporary liabilities totalling CZK 212 thousand (2004: CZK 1,053 thousand) primarily relate to accrued loan interest and operating payables.

4.11 Assets and Liabilities Denominated in Foreign Currencies

2005

CZK thousand	CZK	USD	EUR	HRK	GBP	SKK	Total
Long-term receivables	61	0	651	0	0	0	712
Short-term receivables	3,965,873	862,522	383,184	0	7,882	36,645	5,256,106
Cash	12,480	435	77	0	0	1	12,993
Non-current financial assets	0	0	0	0	0	7,570	7,570
Prepayments made for non-current financial assets	0	0	0	984	0	0	0
Temporary assets	2,162	0	0	0	0	0	2,162
Total	3,980,576	862,957	383,912	984	7,882	44,216	5,280,527
Short-term payables	2,364,928	416,290	210,217	0	3,400	22,314	3,017,149
Bank loans	1,524,270	445,099	170,155	0	4,345	15,648	2,159,517
Temporary liabilities	212	0	0	0	0	0	212
Total	3,889,410	861,389	380,372	0	7,745	37,962	5,176,878

2004

CZK thousand	CZK	USD	EUR	CHF	GBP	SKK	Total
Long-term receivables	61	0	684	0	0	0	745
Short-term receivables	4,811,319	619,450	424,127	0	1,857	2,050	5,858,803
Cash	3,467	143,358	0	1,184	1,984	0	149,993
Non-current financial assets	0	0	0	0	0	3,224	3,224
Temporary assets	3,655	0	0	0	0	0	3,655
Total	4,818,502	762,808	424,811	1,184	3,841	5,272	6,016,420
Short-term payables	2,846,352	329,383	235,497	0	3,528	1,198	3,415,958
Bank loans	1,898,999	407,043	183,963	0	0	2,444	2,492,449
Temporary liabilities	1,053	0	0	0	0	0	1,053
Total	4,746,404	736,426	419,460	0	3,528	3,642	5,909,460

4.12 Details of Income by Principal Activity

CZK thousand	Balance at 31 Dec 2005			Balance at 31 Dec 2004		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income fees	79,481	4,189	83,670	92,903	3,568	96,471
Advisory services	0	1,151	1,151	0	0	0
Other income	1,824	1,058	2,882	928	708	1,636
Interest income	79,586	8,366	87,952	91,056	4,395	95,451
Total income for the sale of own services	160,891	14,764	175,655	184,887	8,671	193,558

Compared to 2004, the Company generated lower income, primarily due to the strengthening competition on the factoring market, as well as the banking sector pushing down the prices for factoring services.

4.13 Other Expenses and Income

CZK thousand	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Other operating income	2,708	11,012
of which: income from the sale of a receivable	852	4,716
insurance compensation	1,609	0
Other operating expenses	-19,037	-17,426
of which: the value of the sold/written off receivable	-7,338	-4,176
credit insurance	-6,288	-6,204
Total other operating results	-16,329	-6,414
Other financial income	63,516	106,677
of which: FX gains	63,286	106,346
Other	230	331
Other financial expenses	-77,991	-126,725
of which: FX losses	-62,361	-109,853
Other	-15,630	-16,872
	-14,475	-20,048

The operating result was mainly impacted by credit insurance expenses of CZK 6,288 thousand (2004: CZK 6,204 thousand) and an unclaimed VAT recovery of CZK 2,904 thousand (2004: CZK 3,121 thousand). The financial result was primarily impacted by foreign exchange rate gains and losses of CZK 148 thousand (2004: CZK 3,506 thousand), and the balance of spot and swap transactions during the year of CZK 972 thousand (2004: CZK 361 thousand) and fees to banks for bank guarantees, guarantee statements, loans and transaction payments of CZK 15,404 thousand (2004: CZK 16,873 thousand).

4.14 Due and Deferred Income Tax

Due Tax

CZK thousand	31 Dec 2005	31 Dec 2004
Due tax	8,244	13,102
Additional tax assessment/tax returned for the prior period	0	6
Total	8,244	13,108

The tax charge for the accounting period can be compared to the profit per the income statement as follows:

CZK thousand	31 Dec 2005	31 Dec 2004
Profit before tax	7,074	35,729
Tax at the local income tax rate of 26% (2004: 28%)	1,839	10,004
Tax effect of tax non-deductible items	6,510	-1,231
Tax effect of tax deductible items	-105	4,412
Tax effect of tax reductions	0	-83
Tax effect of corrections	0	6
Current changes in the deferred tax	-6,780	6,560
Impact of the change in the tax rate on the deferred tax	-22	101
Total income tax on ordinary and extraordinary activities	1,442	19,769

The effective tax rate is 20.4 percent (2004: 55 percent).

The change of the effective tax rate is principally attributable to the change in the deferred tax arising from provisions against receivables. In 2004, the deferred tax arising from tax non-deductible provisions was reversed on the grounds of the anticipated tax non-deductibility of the provisions, while they were re-recognised in 2005 (refer to Note 3.11).

Deferred Tax

The total deferred tax asset as of 31 December 2005 amounted to CZK 6,814 thousand.

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

Deferred tax arising from CZK thousand	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Depreciation and amortisation of fixed assets	-453	-480
Revaluation of the financial investment	-1,297	-118
Provisions against receivables	6,753	0
Reserves	1,811	1,714
Total	6,814	1,116

Deferred tax asset – breakdown CZK thousand	Balance at 31 Dec 2005
Recognised receivable	6,814
Unrecognised receivable	0
Total	6,814

Analysis of the change in the balance CZK thousand	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Opening balance	1,116	7,970
Effect of the change of tax rate	-76	-86
Current changes charged against the profit and loss account	6,878	-6,560
Current changes charged against equity	-1,104	-208
Total charges against the profit and loss account	6,802	-6,661
Total charges against the equity	-1,104	193
Total	6,814	1,116

4.15 Extraordinary Expenses and Income

The Company did not report any extraordinary items for the year ended 31 December 2005.

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 and staff costs for the years ended 31 December 2005 and 2004:

2005

CZK thousand	Number	Wages and salaries	Social security and health insurance	Other costs	Total staff costs
Employees	27	11,532	4,036	289	15,857
Management	5	9,825	3,438	246	13,509
Total	32	21,357	7,474	535	29,366

2004

CZK thousand	Number	Wages and salaries	Social security and health insurance	Other costs	Total staff costs
Employees	26	11,293	3,953	652	15,898
Management	5	9,452	3,308	128	12,888
Total	31	20,745	7,261	780	28,786

The number of employees is based on the average re-calculated headcount. "Other costs" of management comprise costs of the Company's managing directors, three of whom are also members of the Company's Board of Directors.

5.2 Loans, Borrowings, and Other Benefits Provided

During the years ended 31 December 2004 and 2003, the members of the Company's management received the following benefits in addition to their basic salaries:

2005

CZK thousand	Board of Directors	Supervisory Board	Management	Share-holders
Life and pension insurance	0	0	336	0
Other benefits	0	0	0	0
Cars/other movable assets for both business and private purposes (figure increases the tax base of employees)	0	0	511	0

2004

CZK thousand	Board of Directors	Supervisory Board	Management	Share-holders
Life and pension insurance	0	0	332	0
Other benefits	0	0	0	0
Cars/other movable assets for both business and private purposes (figure increases the tax base of employees)	0	0	511	0

5.3 Summary of Relations with Related Parties

As the Company is a member of the Česká spořitelna, a. s. Group, its cooperation with the parent company, Česká spořitelna, a. s., continued during 2005, both with respect to acquisition operations and to raising finance from entities outside the Group to provide funding for transactions.

As of 31 December 2005, intercompany receivables amounted to CZK 12,697 thousand (2004: CZK 147,629 thousand). The above exclusively include receivables arising from current account balances.

As of 31 December 2005, payables to the parent company amounted to CZK 335,456 thousand (2004: CZK 181,838 thousand). These amounts predominantly related to balances on overdraft accounts.

For the year ended 31 December 2005, the Company recorded intercompany expenses and income totalling CZK 27,395 thousand and CZK 1,523 thousand, respectively (2004: CZK 31,420 thousand and CZK 577 thousand, respectively). The expenses primarily arise from interest and charges on the loans received.

Česká spořitelna, a. s. issued bank guarantees to the Company for loans received from entities outside the Česká spořitelna Group in the total amount of CZK 2,150,001 thousand (2004: CZK 1,990,000 thousand).

Other business partners within the Group include Informatika České spořitelny, a. s., which is a mediator for the Company's purchases of computer technology, Pojišťovna České spořitelny, a. s. (accident insurance for the Company's employees), and Penzijní fond České spořitelny, a. s. (retirement benefit policies for the Company's employees) and Consulting České spořitelny, a. s. (advisory services and software supplies).

Overview of Supplies in Respect of these Companies for the Year Ended 31 December 2005:

CZK thousand	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Informatika České spořitelny, a. s.	1,951	117
Pojišťovna České spořitelny, a. s.	98	115
Penzijní fond České spořitelny, a. s.	224	348
Consulting České spořitelny, a. s.	1,190	516

6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS

The Company maintains no contingent liabilities and off balance sheet commitments.

The Company is involved in no legal dispute, the outcome of which would significantly impact the Company.

7. POST BALANCE SHEET EVENTS

No significant events occurred between the balance sheet date and the date when these financial statements were authorised for issue.



Rudolf Hanták
Chairman of the Board of Directors



Radmila Jakobová
Vice-Chairman of the Board of Directors

Report on Relations

between Related Parties under Section 66a (9) of the Commercial Code for the Year Ended 31 December 2005

Factoring České spořitelny, a. s., having its registered office address in Prague 8, Pobřežní 46, 186,00, Corporate ID: 25629352, incorporated in the Register of Companies, Section B, File 5075, maintained at the Municipal Court in Prague (hereinafter the “**Company**” or the “**reporting entity**”), is part of a business group (holding company) in which the following relations between the reporting entity and controlling entities and also between the reporting entity and entities controlled by the same controlling entities (hereinafter the “**related entities**”) exist.

This report on relations between the entities stated below was prepared in accordance with Section 66a (9) of the Commercial Code 513/1991 Coll., as amended, for the year ended 31 December 2005 (hereinafter the “**reporting period**”).

In the reporting period, the reporting entity and the entities listed below entered into the contracts listed below and adopted or effected the following legal acts and other factual measures:

A. CHART OF THE WHOLE BUSINESS GROUP/THE ENTITIES WHOSE RELATIONS ARE DESCRIBED

Erste Bank	
Česká spořitelna	
processor	Slovenská sporiteľňa, a. s.
Penzijní fond České spořitelny, a. s.	Factoring Slovenskej Sporitelne, a. s.
Informatika České spořitelny, a. s.	
Pojišťovna České spořitelny, a. s.	
Consulting České spořitelny, a. s.	

B. CONTROLLING ENTITIES

- **Česká spořitelna, a. s.**, with its registered office at Olbrachtova 1929/62, 140 00, Prague 4, Czech Republic, Corporate ID: 45244782
Relation to the Company: directly controlling entity
For a description of relations refer to Appendix 1

- **Erste Bank der österreichischen Sparkassen AG**, with its registered office at Am Graben 21, Vienna, Austria
Relation to the Company: indirectly controlling entity – entity controlling Česká spořitelna, a. s.
Description of relations – none

C. OTHER RELATED PARTIES

Companies directly controlled by Česká spořitelna:

- **Penzijní fond České spořitelny, a. s.**, with its registered office in Prague 4, Poláčkova 1976/2, 140 21, Corporate ID 61672033,
Relation to the Company: Fellow subsidiary of the Company
For a description of relations refer to Appendix 2
- **Informatika České spořitelny, a. s.**, with its registered office in Prague 7, Bubenská 1477/1, 170 00, Corporate ID 25631519,
Relation to the Company: Fellow subsidiary of the Company
For a description of relations refer to Appendix 2
- **Consulting České spořitelny, a. s.**, with its registered office in Prague 3, Vinohradská 1632/180, 130 00, Corporate ID 63079798
Relation to the Company: Fellow subsidiary of the Company
For a description of relations refer to Appendix 2
- **Pojišťovna České spořitelny, a. s.**, with its registered office in Pardubice, nám. Republiky 115, 530 02, Corporate ID 47452820
Relation to the Company: Fellow subsidiary of the Company
For a description of relations refer to Appendix 2
- **Factoring Slovenskej sporitelne, a. s.**, with its registered office in Bratislava, Priemyselná 1/a, 821 09, Corporate ID 35849665
Relation to the Company: Related party of the Company
For a description of relations refer to Appendix 2

Our review of the legal relations put in place between the reporting entity and the related parties indicates that the reporting entity suffered no detriment as a result of the contractual arrangements, other legal acts or other measures implemented,

made or adopted by the reporting entity during the year ended 31 December 2005 in the interest, or at the initiative, of individual related parties.

This Report was dealt with and approved by the Board of Directors of the Company on March 10th 2006.

In Prague on March 10th 2006
Factoring České spořitelny, a. s.



Rudolf Hanták
Chairman of
the Board of Directors



Radmila Jakubová
Vice-Chairman of
the Board of Directors



Lubomír Cívín
Member of
the Board of Directors

Appendix 1 to the Report on Relations
DESCRIPTION OF RELATIONS TO Česká spořitelna, a. s.

1. CONTRACTS

1.1 Purchase of Services

Current Account Contracts

In the prior reporting periods, the Company entered into current account contracts and used these accounts in the current reporting period:

Name	Party to the contract	Contract date	Effective date	Performance description	Interest income on the balance on accounts	Detriment incurred
Current account contracts	Česká spořitelna, a. s.	1997–2005	1997–2005	Opening and administration of current accounts	CZK 823 thousand	None

Loans Received

In the reporting period, the Company entered into the following contracts under which it received the following funds:

Name	Party to the contract	Contract date	Effective date	Total loan	Average received amount	Paid interest and other fees in the year ended 31 Dec 2005	Detriment incurred
Overdraft account loan contracts	Česká spořitelna, a. s.	2003-2005	2003-2005	CZK 530 million	CZK 340 million	CZK 8,934 thousand	None

Other Purchases

In the reporting period, the reporting entity entered into the following contracts under which it received services:

Name	Party to the contract	Contract date	Effective date	Performance description	Consideration	Detriment incurred
Contracts for the granting of the right to use a logo	Česká spořitelna, a. s.	2001	2001-2005	The right to use the ČS, a. s. logo in the Company's logo	CZK 523 thousand	None
Contracts for participation	Česká spořitelna, a. s.	2003-2005	2003-2005	Contract for participation	CZK 4,825 thousand	None
Holding regulation - cars	Česká spořitelna, a. s.	2005	2005	Lending of company cars	CZK 17 thousand	None

1.2 Sale of Services

Other Sales

In the reporting period, the Company entered into the following contracts under which it provided services:

Name	Party to the contract	Contract date	Effective date	Performance description	Consideration	Detriment incurred
Contract for cooperation	Česká spořitelna, a. s.	2005	2005	Monitoring pledged receivables for ČS	CZK 700 thousand	None

2. OTHER CONTRACTUAL RELATIONS

Collateral Received for the Company's Payables

The Company entered into the following contracts under which it received collateral for its payables to third parties in the current reporting period:

Name	Party to the contract	Contract date	Effective date	Performance description and amount	Consideration	Detriment incurred
Contracts for the provision of bank guarantees and statement of guarantees	Česká spořitelna, a. s.	2003-2005	2003-2005	Bank guarantee and statement of guarantee for Commerzbank AG, Prague branch	CZK 7,167 thousand	None
Contract for the provision of bank guarantees	Česká spořitelna, a. s.	2004	2004-2005	Bank guarantee for HVB Bank, a. s. for the provision of a loan	CZK 3,755 thousand	None
Contract for the provision of bank guarantees	Česká spořitelna, a. s.	2005	2005	Bank guarantees for Oberbank AG, Czech Republic branch for the provision of a loan	CZK 1,241 thousand	None
Contract for the provision of bank guarantees	Česká spořitelna, a. s.	2001-2004	2001-2005	Bank guarantee for KB, a. s. for the provision of a loan	CZK 912 thousand	None
Insurance contract	Česká spořitelna, a. s.	2005	2005	Insurance of operational risks	CZK 38 thousand	None

**APPENDIX 2 TO THE REPORT ON RELATIONS
DESCRIPTION OF THE RELATIONS TO THE FOLLOWING PARTIES:
PENZIJNÍ FOND ČESKÉ SPOŘITELNY, A. S.
INFORMATIKA ČESKÉ SPOŘITELNY, A. S.
CONSULTING ČESKÉ SPOŘITELNY, A. S.
POJIŠŤOVNA ČESKÉ SPOŘITELNY, A. S.
FACTORING SLOVENSKEJ SPORITELNE, A. S.**

1. CONTRACTS

1.1 Purchase of Services

In the reporting period, the Company entered into the following contracts under which it received services:

Name	Party to the contract	Contract date	Effective date	Performance description	Consideration	Detriment incurred
Insurance contracts	Penzijní fond České spořitelny, a. s.	2003	2003-2005	Retirement benefit plan for the Company's employees	CZK 224 thousand	None
Contracts for cooperation	Consulting České spořitelny, a. s.	2002-2005	2002-2005	Consultancy	CZK 990 thousand	None
Insurance contract	Pojišťovna České spořitelny, a. s.	2003	2003-2005	Injury benefit plan for the Company's employees	CZK 98 thousand	None

1.2 Purchase of Goods

In the reporting period, the Company entered into the following contracts under which it received goods:

Name	Party to the contract	Contract date	Effective date	Performance description	Consideration	Detriment incurred
Contract for provision of software	Consulting České spořitelny, a. s.	2003	2003-2005	Provision of software	CZK 200 thousand	None
Contracts for provision of computers	Informatika České spořitelny, a. s.	2003-2005	2003-2005	Provisions of hardware	CZK 1,951 thousand	None

1.3 Sale of Services

In the reporting period, the Company entered into the following contracts under which it provided services:

Name	Party to the contract	Contract date	Effective date	Performance description	Consideration	Detriment incurred
Contract for the use of software	Factoring Slovenskej sporitel'ne, a. s.	2003	2003-2005	Licence fees	CZK 1,058 thousand	None
Contracts for loan insurance and client solvency reviews – rebilling	Factoring Slovenskej sporitel'ne, a. s.	2004	2004-2005	Rebiling of loan insurance expenses	CZK 1,315 thousand	None

2 OTHER CONTRACTUAL RELATIONS

Performance Received for Services Arising from Factoring Co-operation

The Company entered into factoring contracts under which it received performance in the current reporting period:

Name	Party to the contract	Contract date	Effective date	Performance description	Consideration	Detriment incurred
Factoring contracts	Factoring Slovenskej sporitel'ne, a. s.	2004-2005	2005	Assignment, management and collecting of receivables	CZK 409 thousand	None

Performance Granted for Services Arising from Factoring Cooperation

The Company entered into factoring contracts under which it provided performance in the current reporting period:

Name	Party to the contract	Contract date	Effective date	Performance description and amount	Consideration	Detriment incurred
Factoring contracts	Factoring Slovenskej sporitel'ne, a. s.	2004-2005	2005	Assignment, management and collecting of receivables	CZK 70 thousand	None

Factoring České spořitelny, a. s.

Pobřežní 46

186 00 Prague 8

Czech Republic

IČ: 25629352, DIČ: CZ25629352

Telephone: +420 246 003 311

Fax: +420 246 003 319

E-mail: factoring@factoringcs.cz

Internet: www.factoringcs.cz

Member of the Factors Chain International



Annual Report 2005

