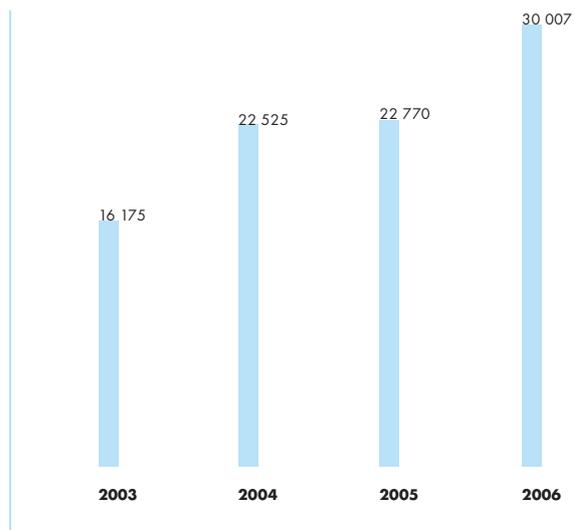


FACTORING ČESKÉ SPOŘITELNY

Annual Report 2006

Key data

Total turnover of Factoring České spořitelny (in CZK mil.)



- The total turnover of the company Factoring České spořitelny was raised by almost one third to CZK 30 billion in 2006
- Factoring České spořitelny has been maintaining its leading position on the factoring market in the Czech Republic for the third year with the market share over 27%.

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Foreword of the Chairman of the Board of Directors



Lubomír Cívín

Dear shareholders, dear business partners and dear collaborators,

Let us introduce you the company annual report for the year 2006. **This year it was the jubilee ten-year existence of our company and at the same time it has been the most successful year in our history.** We managed to fulfil all the key planned values of the budget indicators and even to surpass them. The factoring turnover of the company reached CZK 27.3 billion in 2006, and when we add the operations related to providing other services and products, it exceeded the record of CZK 30 billion. We are always deepening the co-operation with our parent bank and its business network, we enter new client segments with more determination, especially as regards the field of big corporations, we finance a lot of home companies in the SME segment.

Thanks to this, in 2006 we reached again the first position on the Czech factoring market with the market share of 27.2 percent. The income, according to Czech accounting standards, reached the value of CZK 21.3 million; according to the international ones it was even CZK 24.3 million. The development of the both capital participations abroad was also successful, both in Slovakia and newly in Croatia.

In the last year we also improved services for our clientele. Thanks to consistent introducing of new features of active work

with the portfolio of assigned receivables we shortened significantly average maturity dates of final collections. This saves significantly the clients' expenses related to financing and at the same time it reduces the credit risk, improves the area of cash-flow management and ensures the stability of working capital of most of our clients. In 2006 we newly introduced products focused especially on the field of financing of other business activities, in particular short-term ones, and also general forms to ensure risks of the clients and the management of their receivables.

We have also improved the whole system of the company risk management and thus contributed to the elimination of losses especially in the field of operational risks. Then we are improving information systems and technologies, and not only with the aim to improve our work, but also to contribute to increase the user comfort of our clientele.

As a consequence of all the stated measures we are experiencing a permanent improvement in important qualitative management parameters: an increase in labour productivity, income and added value per employee; a stagnation of expenses in our activity; an increase of the average salary of our employees and other improvement features in their social status and standard of living.

Thanks to the economic success in the year 2006 we could also apply ourselves to charitable activities and contribute within the co-operation with Nadace České spořitelny (Česká spořitelna Foundation) to the development and improvement of work and life of blind and dim-sighted people from PALATA home in Prague.

From these reasons we can consider the last year 2006 being extraordinarily successful and understand it as a good base for reaching similar and positive results in following periods.

To sum up, I would like to thank all our business partners, representatives of our only shareholder, other collaborators in Finanční skupina ČS (Financial Group ČS) and also Erste Bank, as well as our employees who contributed to the mutual quality co-operation and positive results of the company and to wish them a lot of success both at work and in their personal lives also in the following year.

Lubomír Cívín

Company profile

Factoring České spořitelny, a.s. was originally established as CS Factoring s.r.o. in November 1995. In 1997 the company became a joint stock company (a.s.), and Česká spořitelna obtained a 10 percent share. Then on 20 June 2001 it purchased the rest of the stock from the original owners and became the 100 percent owner of the company.

The registered office is in Pobřežní 46, Prague 8.

The registered capital reaches the amount of CZK 84 million.

The activity is focused on **the domestic, export and import factoring and the administration of receivables** in a wide range of commodities where the leading position belongs to the company clientele in the field of consumer industries, food industries, suppliers for trade chains, chemistry, metallurgy etc.

The year 2006 brought a meek market revival for factoring companies in the Czech Republic, that means also for

Factoring České spořitelny. This revival enabled the company to continue to maintain its market share. With more than 27 percent it stood again on **the first position on the market of factoring companies in the Czech Republic.**

In 2006 the company dedicated its efforts to a few fundamental projects:

- building the system to prevent operational risks with the aim to eliminate losses;
- improving information technologies which also means improving the user comfort for the clientele;
- business start of another subsidiary company on the Croatian market.

One of the basic preconditions of the future success continues to be the close co-operation with Česká spořitelna, the risk diversification, ensuring receivables in a consistent way and, last but not least, the high standard of services provided to the clients of Factoring České spořitelny.

Development of the key economic indicators

	2003	2004	2005	2006
Assets from client receivable financing	3 849 241	5 900 753	5 317 174	7 078 475
Registered capital	84 000	84 000	84 000	84 000
Owner's equity	92 613	109 392	111 779	136 114
Added value	52 717	62 403	57 345	65 174
Income before accounting and reserve and rectifying items generation	26 762	22 360	27 873	49 986
Income per accounting period	14 685	15 960	5 632	21 280

Directors and Officers

DIRECTORS AND OFFICERS AS AT 31st MARCH 2006

Board of Directors

- Rudolf Hanták, Chairman
- Radmila Jakobová, Vice-chairman
- Lubomír Cívín, Member

Supervisory Board

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

DIRECTORS AND OFFICERS SINCE 1st APRIL 2006

Board of Directors

- Lubomír Cívín, Chairman
- Radmila Jakobová, Vice-chairman

Supervisory Board

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

COMPANY MANAGEMENT

Company Management as at 31st March 2006

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

Company Management since 1st April 2006

- Lubomír Cívín, Chief Executive Officer
- Radmila Jakobová, Financial Manager
- Martin Štěpka, Sales and Marketing Manager
- Michael Jehlička, Client Service Manager

Company Management Since 5th July 2006

- Lubomír Cívín, Chief Executive Officer
- Radmila Jakobová, Financial Manager
- Martin Štěpka, Sales and Marketing Manager
- Michael Jehlička, Client Service Manager
- Luboš Kroulík, Risk Management Manager

Company Management Since 14th August 2006

- Lubomír Cívín, Chief Executive Officer
- Roman Studničný, Chief Sales and Business Development Officer
- Radmila Jakobová, Financial Manager
- Martin Štěpka, Sales and Marketing Manager
- Michael Jehlička, Client Service Manager
- Luboš Kroulík, Risk Management Manager

Organizational Chart of the Company

Supervisory Board



Company Management Report

The year 2006 was the tenth year of effective operation of the company on the Czech market. This enables us to try to recap in brief all achieved results of the past decade and to comment on the 2006 results on its background. In our history of the company, the year 2006 was exceptionally successful.

From the original limited liability company with the registered capital of CZK 1 million that was founded in November 1995 and joined the market in 1996, we have gradually transformed to a joint-stock company initially with a minor share of the Česká spořitelna in the amount of 10% of the registered capital of CZK 30 million. After the end of privatization of Česká spořitelna in 2001 we became the company with the only shareholder – Česká spořitelna. It gradually increased the registered capital up to CZK 84 million and changed the business name so that it better expressed the affiliation to its financial group. **The development of the equity capital was also dynamic in the past decade. From the initial CZK 1 million in 1996 it has gradually grown up to the current CZK 136 million in 2006.**

Thus at present, Factoring České spořitelny represents a financially strong and stable part of the Financial group of Česká spořitelna and it is the strongest subject dealing with factoring within the whole ERSTE BANK group. The whole factoring turnover of this group in 2006 was almost EUR 2 billion from which the share of the Factoring České spořitelny amounted almost to 48%.

Joining the Financial group of Česká spořitelna and through it the ERSTE BANK group in 2001 was the most important milestone is our company development. Since then we experienced a dynamic development of all areas of our activity, acquiring the leading position on the domestic market as well as the development of business activities within the property participation in abroad.

Our turnover in the mentioned years grew from the initial amount of about one billion up to 30 billion Czech crowns in 2006. The profit grew from initial CZK 100 thousand up to CZK 21 million according to the Czech accounting standards and up to CZK 24 million according to the international accounting standards.

Even by that reason the company management considers the anniversary year of 2006 as the most successful year in its ten-year long history of business on the Czech market. In comparison with the previous years marked by certain stagnation of development of the factoring market, the year 2006 became one of the most dynamically developing years in the history of this kind of business in the sphere of financial services in the Czech Republic. **The rate of growth of the Czech market reached more than 25% in 2006, whereas Factoring České spořitelny reached even higher rate, 27%. Thereby it further strengthened its position of the leader of the Czech factoring with market share of 27.2% and it secured its first place among the members of the Association of Factoring Companies in the Czech Republic.**

The positive development of business activity is further reflected in good overall economic results. The capital gains in the amount of CZK 21 million positively influences a series of qualitative parameters of company management proving the growth in effectiveness, productivity of labour as well as creation of added values. The 2006 indicators as the turnover per employee in the amount of CZK 857 million, profit margin per employee in the amount of CZK 2.9 million. Cost Income Ratio in the amount of 48.6%, the added value in the amount of CZK 11 million etc are evidence of effective company management and namely in comparing with previous periods they certify the improving development even in longer time horizons.

No less important are the indicators showing the improvement of quality of services for our clients.

The meaning of factoring does not lie in pure financing of the working capital but in providing series of financial services connected with active work with receivables possibly with other current assets of clients. From the clients' point of view, the added value of factoring is thus not only the acquisition of instant sources for financing the working capital, but also the turn acceleration of current assets, stabilization of liquidity, the possibility of discounts for timely payment and subsequent improvement of financial results. Factor's active work with his client's portfolio leads to cutting down the encashment period, decreasing financial costs bound to capital in outstanding receivables or low-turn stock. As last but not the least the

possibility of securing customer's credit risks by means of the factoring company improves the management of credit policy and decreases clients' risks resulting from customer's financial insolvency or reluctance.

In this area, Factoring České spořitelny, introduced a series of measures in 2006, that were reflected in work with portfolio of receivables, in shortening the payment periods on the part of clients as well as their customers, and in decreasing the credit risks and operating risks. Thanks to individual clients experience the growth of the added value of rendered services and their satisfaction raises. This is supported by such indicators as shortening the average encashment periods of managed due invoices from 5.08 in December 2005 to 2.86 days in the same period in 2006, decreasing the share of due receivables from 29% at the beginning of the year 2006 to 21% in the end of the year and so on. Perhaps thanks to those parameters many of the clients are loyal to the Factoring České spořitelny which is shown in permanently growing volume of forwarding receivables that reached the volume of CZK 4.5 billion by the end of 2006. It is the highest value in the history of the company.

The care for the client and the effort to meet all his requirements (often quite non-standard) was one of the fundamental aspects of business and operating activity of the company in 2006.

Business activities of the company were secured by means of its own business network then by using the gradually created network of external business representatives and based on the broadening cooperation with the paternal bank, namely with Business centres and Corporate Banking Division. In this sphere we managed to diversify the business relations with new clients in the segment of large corporations and to stabilize the clientele from the sphere of small and medium entrepreneurial subjects. The dynamical element of the growing turnover was the intensification of our own business activity in the segment of large corporate clients and innovative activities in the area of product policy.

The operating divisions of the company also participated on improvement of the duality of services for company clientele in 2006. By thorough implementation of the system of timely alert and by introducing other elements of active work with

receivables including the optimization of operating processes and providing support of innovation of the software base, the operating divisions improved the work connected with improvement of communication with the clients, with prevention of occurrence of non-standard situation. Establishment of the **Customer Care Department** and its new processes improved the quality of work with receivable portfolio. It enabled a systematic and more intense communication with debtors and an overall improvement of encashment services.

Risk Management Department underwent certain changes in the past year connected namely with standardization and partial automation of selected processes, broadening of the spectrum of monitored and evaluated risks, expanding the volume of evaluated data and data resources as well as with implementation of new control mechanisms, tools and operating procedures. Even thanks to those measures we managed to eliminate certain negative affects resulting from the growth of operating risks and recorded growth of criminal activity in the factoring market of the Czech Republic.

Financial management of the company represents a permanently stabilizing element of positive development of the company. It took part in optimization of management of certain key items of operating costs and in the balance of foreign exchange position. In the sphere of the overall management of financial flows and maintenance of liquidity of the company it is able to respond to all often very urgent and non-standard needs of clients. The stabilizing background of the paternal bank plays the decisive role in this area. It is an important point of financial security that the company may offer to its clients.

The work of the **IT Department** is considered one of the important factors of operating performance of the company. Despite the significant changes in the staff structure of the department they managed to preserve continuity of the operation as well as high level of its security and by improving the prevention they minimized the number of non-standard situations in this sensitive sector of financial services. For the company this department represents a significant element of product and technological innovation with the objective of improving the operation and level of services provided to the company clientele.

After all personnel changes in the previous year the **Company Management** focused on improvement of the strategic management of the company, stabilization of its market position and concentration of its efforts on selected key directions of development. We also paid attention to the international development of entrepreneurship and preparation of system measures for gradual implementation of the concept as designed by the factoring competence centre within the ERSTE BANK group.

Based on its excellent results achieved in the past decade, the Factoring České spořitelny wants to play the leading role in the development of the factoring market in the Czech Republic also in the future. It endeavours to enter the markets of other countries in the Central and Eastern European region. Existing results of mutual effort of the whole work team, of all members of the management team within the whole group of factoring companies with joined capitals in the region and of engaged representatives of the shareholder of the company and of the whole financial group that conditioned the achievement of successful results in the first decade of its existence and namely in the past year 2006, enable us to look optimistically at the following decades.

Report of the Supervisory Board

In the financial year 2006, **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 31/12/2006 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 31/12/2006.

The financial statements were audited by Deloitte Audit 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, 2006 and the income from

operations for 2006 in accordance with the Accounting Act and the applicable rules of the Czech Republic with reservations as to eventual modifications which it would find essential if it were possible to verify certain facts.

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 31/12/2006.**

Furthermore **the Supervisory Board recommends to the Shareholders Meeting to approve the way of distribution of the profit 2006 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 2006 to members of Board of directors.

In Prague, April 27th 2007



Dr. Heinz Knotzer
Chairman of the Supervisory Board

Independent Auditor's Report

to the Shareholders 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

We have audited the accompanying financial statements of Factoring České spořitelny, a. s., which comprise the balance sheet as of 31 December 2006, and the profit and loss account and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Factoring České spořitelny as of 31 December 2006, and of its financial performance for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

In Prague on 23 February 2006

Audit firm:
Deloitte Audit s. r. o., Certificate no. 79



Represented by:
Marie Kučerová, authorised employee



Statutory auditor:
Marie Kučerová, certificate no. 1207



Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Balance Sheet

as of 31 December 2006

CZK thousand

	31. 12. 2006			31. 12. 2005
	Gross	Adjustment	Net	Net
TOTAL ASSETS	7 209 699	117 007	7 092 692	5 296 205
B. Fixed assets	46 883	26 229	20 654	17 418
B.I. Intangible fixed assets	13 428	10 886	2 542	4 033
B.I.1. Start-up costs	863	863		
B.I.3. Software	11 586	10 023	1 563	4 033
B.I.7. Intangible fixed assets under construction	979		979	
B.II. Tangible fixed assets	20 852	15 343	5 509	4 831
B.II.2. Structures	439	239	200	208
B.II.3. Individual movable assets and sets of movable assets	19 669	15 104	4 565	4 623
B.II.7. Tangible fixed assets under construction	402		402	
B.II.8. Prepayments for tangible fixed assets	342		342	
B.III. Non-current financial assets	12 603		12 603	8 554
B.III.3. Other securities and investments	12 603		12 603	7 570
B.III.7. Prepayments for non-current financial assets				984
C. Current assets	7 160 813	90 778	7 070 035	5 276 625
C.II. Long-term receivables	13 482		13 482	7 526
C.II.7. Other receivables	542		542	712
C.II.8. Deferred tax asset	12 940		12 940	6 814
C.III. Short-term receivables	7 078 959	90 778	6 988 181	5 256 106
C.III.1. Trade receivables	7 077 533	90 778	6 986 755	5 252 263
C.III.6. State - tax receivables	405		405	2 962
C.III.7. Short-term prepayments made	943		943	177
C.III.8. Estimated receivables				700
C.III.9. Other receivables	78		78	4
C.IV. Current financial assets	68 372		68 372	12 993
C.IV.1. Cash on hand	12 146		12 146	82
C.IV.2. Cash at bank	56 226		56 226	12 911
D. I. Other assets	2 003		2 003	2 162
D.I.1. Deferred expenses	1 931		1 931	2 145
D.I.3. Accrued income	72		72	17

CZK thousand	31. 12. 2006	31. 12. 2005
TOTAL LIABILITIES & EQUITY	7 092 692	5 296 205
A. Equity	136 115	111 779
A.I. Share capital	84 000	84 000
A.I.1. Share capital	84 000	84 000
A.II. Capital funds	7 310	3 868
A.II.3. Gains or losses from the revaluation of assets and liabilities	7 310	3 868
A.III. Statutory funds	4 063	3 634
A.III.1. Statutory reserve fund / Indivisible fund	3 886	3 605
A.III.2. Statutory and other funds	177	29
A.IV. Retained earnings	19 461	14 645
A.IV.1. Accumulated profits brought forward	19 461	14 645
A.V. Profit or loss for the current period (+ -)	21 281	5 632
B. Liabilities	6 954 457	5 184 214
B.I. Reserves	9 365	7 548
B.I.4. Other reserves	9 365	7 548
B.III. Short-term liabilities	4 188 107	3 017 149
B.III.1. Trade payables	4 178 825	3 008 569
B.III.5. Payables to employees	945	1 051
B.III.6. Social security and health insurance payables	599	640
B.III.7. State - tax payables and subsidies	2 317	907
B.III.10. Estimated payables	5 404	5 966
B.III.11. Other payables	17	16
B.IV. Bank loans and borrowings	2 756 985	2 159 517
B.IV.2. Short-term bank loans	2 756 985	2 159 517
C. I. Other liabilities	2 120	212
C.I.1. Accrued expenses	1 073	212
C.I.2. Deferred income	1 047	

Profit and Loss Account

as of 31 December 2006

CZK thousand

	31. 12. 2006	31. 12. 2005
II. Production	90 674	87 703
II.1. Sales of own products and services	90 674	87 703
B. Purchased consumables and services	25 499	30 358
B.1. Consumed material and energy	845	744
B.2. Services	24 654	29 614
+ Added value	65 175	57 345
C. Staff costs	30 460	29 366
C.1. Payroll costs	22 234	21 357
C.3. Social security and health insurance costs	7 712	7 474
C.4. Social costs	514	535
D. Taxes and charges	2 185	447
E. Depreciation of intangible and tangible fixed assets	4 104	3 890
III. Sales of fixed assets and material	496	120
III.1. Sales of fixed assets	496	120
F. Net book value of fixed assets and material sold	1 562	
F.1. Net book value of sold fixed assets	1 562	
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	28 706	23 094
IV. Other operating income	12 144	2 708
H. Other operating expenses	9 904	19 037
* Operating profit or loss	894	-15 661
VI. Proceeds from the sale of securities and investments	10 213	
J. Cost of securities and investments sold	9 545	
X. Interest income	114 989	87 952
N. Interest expenses	73 714	50 742
XI. Other financial income	189 820	63 516
O. Other financial expenses	204 215	77 991
* Financial profit or loss	27 548	22 735
Q. Income tax on ordinary activities	7 161	1 442
Q 1. - due	14 374	8 244
Q 2. - deferred	-7 213	-6 802
** Profit or loss from ordinary activities	21 281	5 632
*** Profit or loss for the current period (+/-)	21 281	5 632
**** Profit or loss before tax	28 442	7 074

Cash Flow Statement

Year ended 31 December 2006

CZK thousand

	Year ended 31. 12. 2006	Year ended 31. 12. 2005
P. Opening balance of cash and cash equivalents	12 993	149 993
Cash flows from ordinary activities		
Z. Profit or loss from ordinary activities before tax	28 442	7 074
A.1. Adjustments for non-cash transactions	-60 331	-10 345
A.1.1. Depreciation of fixed assets	4 104	3 890
A.1.2. Change in provisions and reserves	-24 226	23 095
A.1.3. Profit/(loss) on the sale of fixed assets	1 066	-120
A.1.5. Interest expense and interest income	-41 275	-37 210
A.* Net operating cash flow before changes in working capital	-31 889	-3 271
A.2. Change in working capital	-536 521	193 400
A.2.1. Change in operating receivables and other assets	-1 708 659	582 087
A.2.2. Change in operating payables and other liabilities	1 172 138	-388 687
A.** Net cash flow from operations before tax and extraordinary items	-568 410	190 129
A.3. Interest paid	-73 714	-50 742
A.4. Interest received	114 989	87 952
A.5. Income tax paid from ordinary operations	-10 690	-19 207
A.*** Net operating cash flows	-537 825	208 132
Cash flows from investing activities		
B.1. Fixed assets expenditures	-3 869	-5 833
B.2. Proceeds from fixed assets sold	496	120
B.*** Net investment cash flows	-3 373	-5 713
Cash flow from financial activities		
C.1. Change in payables from financing	596 577	-333 419
C.2. Impact of changes in equity		-6 000
C.2.6. Dividends paid		-6 000
C.*** Net financial cash flows	596 577	-339 419
F. Net increase or decrease in cash and cash equivalents	55 379	-137 000
R. Closing balance of cash and cash equivalents	68 372	12 993

Changes in Shareholders' Equity

for the Year Ended 31 December 2006

CZK thousand	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 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
Distribution of profit or loss			816	4 816		-5 632	
Payments from other funds			-387				-387
Gains and losses from revaluation of investment		3 442					3 442
Profit or loss for the current period						21 281	21 281
Balance at 31 December 2006	84 000	7 310	4 063	19 461		21 281	136 115

Notes to the Financial Statements

for the Year ended 31 December 2006.

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 2006.

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 45,24,47,82.

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 account 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 2006, the Company had 35 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 and controlling department.

As of 31 March 2006, Mr Rudolf Hanták resigned from his position in the Board of Directors and from the position of the CEO. Mr Lubomír Cívín, the member of the Board of Directors, was elected the Chairman of the Board of Directors. The third member of the Board of Directors was not elected as of the balance sheet date.

Board of Directors and Supervisory Board as of 1 January 2006:

Board of Directors:

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

Supervisory Board:

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

As of 31 December 2006, the composition of the Company's statutory bodies were as follows:

Board of Directors:

- Lubomír Cívín, Chairman
- Radmila Jakubová, Vice Chairwoman

Supervisory Board:

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

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; 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 (assembly, freight, etc).

Tangible and intangible fixed assets with a useful life exceeding one year and an acquisition cost between CZK 20,000 and CZK 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 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, 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); and
- 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 subsequently 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.

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 2006, the Company established an accounting reserve for payroll costs that relate to the current accounting period.

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 2006, 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 any resulting translation gains and losses were recorded through the current year's financial income or financial expenses, as appropriate.

During the reporting 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); and
- 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 2006, 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. In addition, the income includes provision of know-how. 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

There were no changes in the accounting policies in the year ended 31 December 2006.

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 emphasise 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 implemented a series of new measures and work procedures designed to improve operational risk management over time and to eliminate fraudulent activities by clients.

The Company performs a regular assessment of the impact of exchange rate risks and takes appropriate steps on an ongoing basis to balance assets and liabilities denominated in foreign currencies. The lending method 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 2004	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006
Start-up costs	863	0	0	863	0	0	863
Software	10,657	2,782	201	13,238	466	2,118	11,586
Acquisition of intangible FA	510	0	510	0	979	0	979
Total	12,030	2,782	711	14,101	1,444	2,118	13,428

Accumulated Amortisation and Provisions

CZK thousand	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006
Start-up costs	863	0	0	863	0	0	863
Software	7,981	1,425	201	9,205	1,687	869	10,023
Acquisition of intangible FA	0	0	0	0	0	0	0
Total	8,844	1,425	201	10,068	1,687	868	10,886

Net Book Value

CZK thousand	Balance at 31 Dec 2004	Balance at 31 Dec 2005	Balance at 31 Dec 2006
Start-up costs	0	0	0
Software	2,676	4,033	1,563
Acquisition of intangible FA	510	0	979
Total	3,186	4,033	2,542

The largest investment in the year ended 31 December 2006 included the extension of the functionality of the HoC product and accounting system, the certain modules of which were introduced for pilot operations. This activity results in the disposal or sale of two systems supporting risk management activities – these activities were transferred to HoC II.

Amortisation of Intangible Fixed Assets Charged to Expenses

In the year ended 31 December 2006, amortisation of intangible fixed assets was CZK 1,687 thousand (CZK 1,425 thousand for the year ended 31 December 2005).

4.2 Tangible Fixed Assets

Cost

CZK thousand	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006
Structures	439	0	0	439	0	0	439
Individual movable assets	17,954	2,661	1,942	18,673	2,665	1,669	19,669
– Machinery and equipment	11,664	2,281	1,501	12,444	357	63	12,738
– Vehicles	6,290	380	441	6,229	2,308	1,606	6,931
Acquisition of tangible FA	84	0	84	0	744	0	744
Total	18,477	2,661	2,026	19,112	3,409	1,669	20,852

Accumulated Depreciation

CZK thousand	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006
Structures	223	8	0	231	8	0	239
Individual movable assets	13,535	2,457	1,942	14,050	2,409	1,355	15,104
– Machinery and equipment	9,750	947	1,501	9,196	1,401	44	10,553
– Vehicles	3,785	1,510	441	4,854	1,008	1,311	4,551
Acquisition of tangible FA	0	0	0	0	0	0	0
Total	13,758	2,465	1,942	14,281	2,417	1,355	15,343

Net Book Value

CZK thousand	Balance at 31 Dec 2004	Balance at 31 Dec 2005	Balance at 31 Dec 2006
Structures	216	208	200
Individual movable assets	4,419	4,623	4,565
– Machinery and equipment	1,914	3,248	2,185
– Vehicles	2,505	1,375	2,380
Acquisition of tangible FA	84	0	744
Total	4,719	4,831	5,509

In the year ended 31 December 2006, investments in tangible assets predominantly related to the renewal of car fleet and to hardware equipment.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets was CZK 2,417 thousand (CZK 2,465 thousand for the year ended 31 December 2005).

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 the Slovak legislation. As of 31 December 2006, the entity reported unaudited equity of SKK 155,916 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 2,635 thousand. The Company's share of equity is SKK 15,592 thousand, which is equal to CZK 12,451 thousand. This amount represents the best possible estimate of the fair value of the investment.

In 2005 and 2006, the Company was involved in the establishment of another factoring company within the Erste Bank Group in Croatia. ERSTE FACTORING d.o.o. was founded in Zagreb, having the share capital of HRK 5,000 thousand in which the Company owns 2.5 percent of shares. As of 31 December 2006, the Company reports unaudited equity of HRK 1,500.

This investment is classified within securities and equity shares available for sale. The cost of the investment amounted to HRK 125 thousand which translates to (including low value additional costs) CZK 503 thousand. The Company's equity interest is HRK 37,000 which is equal to CZK 152 thousand. This amount represents the best possible estimate of the fair value of the investment.

The Company has pledged no assets as collateral.

4.4 Receivables

4.4.1 Short-Term Receivables

CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Trade receivables	6,986,755	5,252,263
– customers	4,593,719	3,345,958
– bills of exchange to be collected	43,057	49,547
– prepayments made	2,440,737	1,921,472
– other balances	20	21
– provisions	-90,778	-64,735
State – tax receivables	405	2,962
Other prepayments made	943	177
Estimated balances	0	700
Other receivables	78	4
Total	6,988,181	5,256,106

The above receivables principally comprise factoring receivables, which are reported in the balance sheet line 'Trade Receivables', of CZK 6,986,755 thousand (2005: CZK 5,252,263 thousand).

Year-on-year changes in prepayments made are largely attributable to the increase turnover of assigned 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		
2006	Short-term	5,571,511	1,154,801	149,986	76,785	87,796	36,654	7,077,533	
	Provisions	0	0	26,148	13,386	15,306	35,938	90,778	
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	

The average maturity of receivables from the customers of the Company's factoring clients in 2006 was 51 days (2005: 54 days).

Provisioning for accounting purposes 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 in 2006 decreased by a written-off bankruptcy receivable on the basis of an approved schedule resolution. The provisions amounted to CZK 10,476 thousand in 2006 (2005: CZK 11,323 thousand) and 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 2006, tax non-deductible provisions amounted to CZK 80,301 thousand (2005: CZK 53,412 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 also includes the 2005 charge for the uncollectible financing of fictitious receivables arising from intentional fraudulent activities of a client.

4.5 Temporary Assets

Temporary assets amount to CZK 2,003 thousand (2005: CZK 2,162 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 2006, 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 2005 Profit

During 2006, the Company's sole shareholder acting in the capacity as the General Meeting approved the utilisation of the 2005 profit of CZK 5,632 thousand to allocate CZK 282 thousand to the statutory reserve fund and to allocate CZK 534 thousand to the social fund. The balance of the social fund as of the end of 2006 is CZK 177 thousand. The balance of the statutory reserve fund after the allocation is CZK 3,886 thousand. The remaining accumulated profit of prior years of CZK 19,461 thousand was, following a decision of the sole shareholder, is retained in equity.

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

The differences of CZK 7,310 thousand (2005: CZK 3,868 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 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
Addition to reserves	9,365	9,365
Use of reserves	7,548	7,548
31 December 2006	9,365	9,365

In 2006, the Company created a non-tax deductible reserve of CZK 9,365 thousand for payroll costs unrealised by the 2006 year-end (2005: CZK 7,548 thousand).

4.8 Payables

4.8.1 Trade Payables

CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Short-term payables	4,178,825	3,008,569
– Suppliers	4,144,217	2,975,133
– Advances received	34,608	33,436
Payables to employees	945	1,051
Payables arising from social security and health insurance	599	640
State – tax payables and subsidies	2,317	907
Estimated payables	5,404	5,966
Other payables	17	16
Total	4,188,107	3,017,149

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 receivable has been made by the client.

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

4.9 Bank Loans

2006

Bank/creditor CZK thousand	Purpose	Balance at 31 Dec 2006	Interest rate	Maturity	Collateral form
Česká spořitelna	operating – EUR overdraft	92,323	1,M Euribor + ČS margin	31 Oct 2007	uncollateralised
Česká spořitelna	operating – USD overdraft	179,785	1,M Libor + ČS margin	31 Oct 2007	uncollateralised
Česká spořitelna	operating – GBP overdraft	1,868	1,M Libor + ČS margin	31 Oct 2007	uncollateralised
Česká spořitelna	operating – SKK overdraft	23,785	1,M Bribor + ČS margin	31 Oct 2007	uncollateralised
Česká spořitelna	operating – PLN overdraft	18,707	1,M Wribor + ČS margin	31 Oct 2007	uncollateralised
Oberbank	operating – USD current account	187,884	1,M Libor + Ober margin	30 June 2007	ČS bank guarantees
Oberbank	operating – EUR current account	27,495	1,M Euribor + Ober margin	30 June 2007	ČS bank guarantees
HVB Bank	operating – CZK current account	550,000	1,M Pribor + HVB margin	28 Dec 2007	ČS bank guarantees
HVB Bank	operating – USD current account	167,008	1,M Libor + HCV margin	28 Dec 2007	ČS bank guarantees
Commerzbank	operating – CZK current account	1,140,000	1,M Pribor + CMB margin	unspecified	ČS bank guarantees
Commerzbank	operating – USD current account	313,140	1,M Pribor + CMB margin	unspecified	ČS bank guarantees
Commerzbank	operating – EUR current account	54,990	1,M Pribor + CMB margin	unspecified	ČS bank guarantees
		2,756,985			

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			

Payables to Group companies represent loans advanced by Česká spořitelna.

The average amount of the loans was CZK 311,607 thousand during 2006 (2005: CZK 340,282 thousand). The Company paid interest charges of CZK 11,449 thousand (2005: CZK 7,951 thousand) to Česká spořitelna, a. s.

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 1,700,000 thousand due on 31 July 2007, a guarantee to HVB Bank in the amount of CZK 800,000 thousand due on 5 February 2007, and a guarantee to Oberbank of CZK 250,000 thousand due on 30 June 2007.

4.10 Temporary Liabilities

Temporary liabilities totalling CZK 2,120 thousand (2005: CZK 212 thousand) primarily relate to accrued loan interest and operating payables.

4.11 Financial Assets and Liabilities Denominated in Foreign Currencies

2006

CZK thousand	CZK	USD	EUR	HRK	PLN	GBP	SKK	Total
Long-term receivables	61	0	481	0	0	0	0	542
Short-term receivables	4,752,334	1,769,424	392,903	0	18,672	4,665	50,429	6,988,427
Cash	67,847	373	152	0	0	0	0	68,372
Non-current financial assets	0	0	0	152	0	0	12,541	12,693
Temporary assets	1,866	0	137	0	0	0	0	2,003
Total	4,821,456	1,769,797	393,673	152	18,672	4,665	62,970	7,072,037
Short-term payables	3,026,055	922,677	206,473	0	0	3,720	27,062	4,185,987
Bank loans	1,690,000	847,816	174,808	0	18,707	1,868	23,785	2,756,984
Temporary liabilities	2,120	0	0	0	0	0	0	2,120
Total	4,719,889	1,770,493	381,281	0	18,707	5,588	50,847	6,945,091

2005

	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

4.12 Details of Income by Principal Activity

CZK thousand	Balance at 31 Dec 2006			Balance at 31 Dec 2005		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income fees	82,280	3,589	85,869	79,481	4,189	83,670
Advisory services	0	1,223	1,223	0	1,151	1,151
Other income	2,406	1,176	3,582	1,824	1,058	2,882
Interest income	103,722	11,267	114,989	79,586	8,366	87,952
Total income for the sale of own services	188,408	17,255	205,663	160,891	14,764	175,655

Compared to 2005, the Company generated increased income due to higher turnover; interest was additionally impacted by the higher volume of funded USD receivables.

4.13 Other Expenses and Income

CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Other operating income	12,144	2,708
of which: income from the sale of a receivable and release of a provision	1,079	852
insurance proceeds	10,149	1,609
Other operating expenses	-9,904	-19,037
of which: the value of the sold/written off receivable	-58	-7,338
credit insurance	-6,030	-6,288
Total other operating results	2,240	-16,329
Other financial income	189,820	63,516
of which: FX gains	189,751	63,286
Other	68	230
Other financial expenses	-204,215	-77,991
of which: FX losses	-192,327	-62,361
Other	-11,888	-15,630
Total other financial expenses and income	-14,395	-14,475

The operating result was primarily impacted by credit insurance expenses of CZK 6,030 thousand (2005: CZK 6,288 thousand) and unrecoverable VAT recovery of CZK 2,558 thousand (2005: CZK 2,904 thousand). The financial result was primarily impacted by foreign exchange rate gains and losses of CZK 2,229 thousand (2005: CZK 148 thousand), and the balance of spot and swap transactions during the year of CZK 347 thousand (2005: CZK 972 thousand) and fees to banks for bank guarantees, guarantee statements, loans and transaction payments of CZK 11,888 thousand (2005: CZK 15,404 thousand).

4.14 Due and Deferred Income Tax

Due Tax

CZK thousand	31 Dec 2006	31 Dec 2005
Due tax	14,374	8,244
Additional tax assessment/tax returned for the prior period	0	0
Total	14,374	8,244

The tax charge for the accounting period can be compared to the profit per the profit and loss account as follows:

CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Profit before tax	28,442	7,074
Tax at the local income tax rate of 24 % (2005: 26 %)	6,826	1,839
Tax effect of tax non-deductible items	7,479	6,510
Tax effect of tax deductible items	69	-105
Tax effect of tax relief	0	0
Tax effect of corrections	0	0
Current changes in the deferred tax	-7,213	-6,780
Impact of the change in the tax rate on the deferred tax	0	-22
Total income tax on ordinary and extraordinary activities	7,161	1,442

The effective tax rate is 25.2 percent (2005: 20.4 percent).

Deferred Tax

The total deferred tax asset as of 31 December 2006 amounted to CZK 12,940 thousand.

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

Deferred tax arising from CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Depreciation and amortisation of fixed assets	- 130	- 453
Revaluation of the financial investment	- 2,384	- 1,297
Provisions against receivables	13,206	6,753
Reserves	2,248	1,811
Total	12,940	6,814

Deferred tax asset – breakdown CZK thousand	Balance at 31 Dec 2006
Recognised receivable	12,940
Unrecognised receivable	0
Total	12,940

Analysis of the change in the balance CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Opening balance	6,814	1,116
Effect of the change of tax rate	0	- 76
Current changes charged against the profit and loss account	7,213	6,878
Current changes charged against equity	- 1,087	- 1,104
Total charges against the profit and loss account	7,213	6,802
Total charges against the equity	- 1,087	- 1,104
Total	12,940	6,814

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 2006 and 2005:

2006

CZK thousand	Number	Wages and salaries	Social security and health insurance	Other costs	Total staff costs
Employees	28	12,695	4,373	436	17,504
Management	5	9,539	3,339	78	12,956
Total	33	22,234	7,712	514	30,460

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

The number of employees is based on the average re-calculated headcount. Staff costs of management comprise costs of the Company's Managing Directors, two (three until March 2006) 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 2005 and 2006, the members of the Company's management received the following benefits in addition to their basic salaries:

2006

CZK thousand	Board of Directors	Supervisory Board	Management	Share-holders
Life and pension insurance	0	0	105	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	444	0

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

5.3 Summary of Relations with Related Parties

Given that the Company is a member of the Česká spořitelna, a. s. Group, its cooperation with the parent company, Česká spořitelna, a. s., continued during 2006, both with respect to acquisition operations and to raising finance from entities outside the Group to provide funding for other transactions.

As of 31 December 2006, receivables from Česká spořitelna amounted to CZK 68,612 thousand (2005: CZK 12,697 thousand). The above exclusively include receivables arising from current account balances.

As of 31 December 2006, payables to the parent company amounted to CZK 316,467 thousand (2005: CZK 335,456 thousand). These amounts predominantly related to balances on overdraft accounts.

For the year ended 31 December 2006, the Company recorded expenses and income in respect of Česká spořitelna totalling CZK 29,133 thousand and CZK 1,737 thousand, respectively (2005: CZK 27,395 thousand and CZK 1,523 thousand), respectively). The expenses primarily arise from interest and charges on the loans received.

Česká spořitelna issued bank guarantees to the Company for loans received from entities outside the Česká spořitelna Group in the total amount of CZK 3,000,000 thousand (2005: CZK 2,150,001 thousand).

The Company reports receivables of CZK 17,576 thousand (2005: CZK 16,303 thousand) and payables of CZK 10,338 thousand (2005: CZK 10,667 thousand) from and to Factoring Slovenskej sporitelne, a. s., Bratislava arising from factoring cooperation. The income includes amounts arising from the sale of a software licence and other software services of CZK 839 thousand (2005: CZK 1,058 thousand).

Income from Erste & Steiermarkische Bank, d.d., Rijeka of CZK 1,222 thousand (2005: nil) includes know-how and organisational share of the formation of ERSTE FACTORING d.o.o, Zagreb – subsidiary on the Croatian market. The Company reports receivables from this entity in the amount of CZK 393 thousand (2005: nil) and income of CZK 348 thousand (2005: nil) – both relate to the software equipment for the Croatian company.

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 2006:

CZK thousand	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Informatika České spořitelny, a. s.	2,171	1,951
Pojišťovna České spořitelny, a. s.	156	98
Penzijní fond České spořitelny, a. s.	189	224
Consulting České spořitelny	310	1,190

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.

Report on Relations

between Related Parties under Section 66a (9) of the Commercial Code for the Year Ended 31 December 2006

Factoring České spořitelny, a.s., having its registered office address in Prague 8, Pobřežní 46, 186 00, Corporate ID: 25 62 93 52, 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 2006 (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, a. s.	Slovenská spořitelňa, a. s.
Reporting entity	Factoring Slovenskej sporitelne, a. s.
Penzijní fond České spořitelny, a. s.	Erste & Steiermarkische Bank, d.d.
Informatika České spořitelny, a. s.	Erste Factoring d.o.o.
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 oesterreichischen 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, a. s.:

- **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**

Companies controlled by other members of the ERSTE Bank, a.s. Group:

- **Factoring Slovenskej sporitelne, a.s.**, with its registered office in Bratislava, Priemyselna 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**

- Erste & Steiermarkische Bank, d.d., with its registered office in Rijeka, Jadranski trg 3a, 51 000, Croatia, VAT 03337367

For a description of relations refer to **Appendix 2**

- ERSTE FACTORING d.o.o, with its registered office at Zagreb, Zaharova 7, 10 000 Croatia, VAT 080558484

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 2006 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 () 2007.

In Prague on 22 January 2007

Factoring České spořitelny, a. s.



Lubomír Cívín
Chairman of the Board
of Directors



Radmila Jakobová
Vice-Chairwoman
of the Board of Directors

APPENDIX 1 TO THE REPORT ON RELATIONS

DESCRIPTION OF RELATIONS WITH 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,	1997-2006	1997-2006	Opening and administration of	CZK 537 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 2006	Detriment incurred
Overdraft account loan contracts	Česká spořitelna,	2003-2006	2003-2006	CZK 530 million	CZK 312 million	CZK 11,984 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	2001-2006	The right to use the ČS, a. s. logo in the Company's logo	CZK 203 thousand	None
Contracts for participation	Česká spořitelna,	2003-2006	2003-2006	Contract for participation Corporate communication, marketing, internal audit	CZK 5,498 thousand	None
Contract for outsourcing of services	Česká spořitelna, a. s.	2006	2006	internal audit	CZK 546 thousand	None

1.2 Sale of Services

Other Sales

In the reporting period, the reporting entity 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	2005-2006	Monitoring pledged receivables for ČS, TOP Export	CZK 1,200 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.	2003-2006	2003-2006	Bank guarantee and statement of guarantee for Commerzbank AG, Prague branch	CZK 5,535 thousand	None
Contract for the provision of bank guarantees	Česká spořitelna, a. s.	2004-2006	2004-2006	Bank guarantee for HVB Bank, a. s. for the provision of a loan	CZK 3,730 thousand	None
Contract for the provision of bank guarantees	Česká spořitelna, a. s.	2005	2005-2006	Bank guarantees for Oberbank AG, Czech Republic branch for the provision of a loan	CZK 1,059 thousand	None
Insurance contract	Česká spořitelna, a. s.	2005	2005-2006	Insurance of operational risks	CZK 37 thousand	None

APPENDIX 2 TO THE REPORT ON RELATIONS

DESCRIPTION OF RELATIONS WITH THE FOLLOWING PARTIES:

PENZIJNÍ FOND ČESKÉ SPOŘITELNY, A. S.
CONSULTING ČESKÉ SPOŘITELNY, A. S.
POJIŠŤOVNA ČESKÉ SPOŘITELNY, A. S.
INFORMATIKA ČESKÉ SPOŘITELNY, A. S.
FACTORING SLOVENSKÉ SPOŘITELNY, A. S.
ERSTE & STEIERMARKISCHE BANK, D. D.
ERSTE FACTORING D. O. O.

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	2003-2006	Retirement benefit plan for the Company's employees	CZK 189 thousand	None
Contracts for cooperation	Consulting České spořitelny, a. s.	2002-2006	2002-2006	Consulting	CZK 310 thousand	None
Insurance contract	Pojišťovna České spořitelny, a. s.	2003	2003-2006	Injury benefit plan for the Company's employees, life	CZK 156 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
Contracts for provision of computers	Informatika České spořitelny, a. s.	2003-2006	2003-2006	Provisions of hardware	CZK 150 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 Slovenské spořitelny, a. s.	2003	2003-2006	Licence fees	CZK 839 thousand	None
Contract for cooperation	Erste & Steiermarkische Bank, d. d.	2006	2006	Consulting	CZK 1,222 thousand	None
Contract for the use of software	ERSTE FACTORING d. o. o.	2006	2006	Licence fees	CZK 348 thousand	None

2. OTHER CONTRACTUAL RELATIONS

Performance Received for Services Arising from Factoring Cooperation

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 and amount	Consideration	Detriment incurred
Factoring contracts	Factoring Slovenské spořitelny, a. s.	2004-2006	2006	Assignment, management and collection of receivables	CZK 241 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 Slovenské spořitelny, a. s.	2004-2005	2006	Assignment, management and collection of receivables	CZK 76 thousand	None

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