



**CONSOLIDATED  
FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**



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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Transfinance a.s.

We have audited the accompanying consolidated financial statements of Transfinance a.s. and its subsidiary ("the Group"), which comprise the consolidated balance sheet as at 31 December 2005, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and the notes. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2005, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young Audit & Advisory, s.r.o., člen koncernu



Roman Hauptfleisch  
auditor

13 January 2006

Prague, Czech Republic

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER

In thousands of Czech Crowns	Note	2005	2004
<b>NON CURRENT ASSETS</b>			
Intangible assets	3	526	958
Property, plant and equipment	4	5,475	6,777
Other non-current assets	5	2,624	3,624
		<b>8,625</b>	<b>11,359</b>
<b>CURRENT ASSETS</b>			
Investments held to maturity, net	6	534,645	591,770
Receivables, net	7	2,341,620	2,124,834
Prepayments and other assets	9	1,553	4,773
Derivative financial instruments	25	301	0
Cash and cash equivalents	8	14,871	28,321
		<b>2,892,990</b>	<b>2,749,698</b>
<b>TOTAL ASSETS</b>		<b>2,901,615</b>	<b>2,761,057</b>
<b>NON CURRENT LIABILITIES</b>			
Deferred tax liability	20	163	283
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	379,977	481,059
Bank borrowings	11	2,258,150	2,054,341
Income tax payable		10,060	82
Accruals and other provisions	12	10,266	13,809
Derivative financial instruments	25	301	0
		<b>2,658,754</b>	<b>2,549,291</b>
<b>TOTAL LIABILITIES</b>		<b>2,658,917</b>	<b>2,549,574</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	112,000	112,000
Legal reserve fund	14	9,438	7,587
Retained earnings		121,260	91,896
		<b>242,698</b>	<b>211,483</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,901,615</b>	<b>2,761,057</b>

The notes on pages 7 to 24 form an integral part of the consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

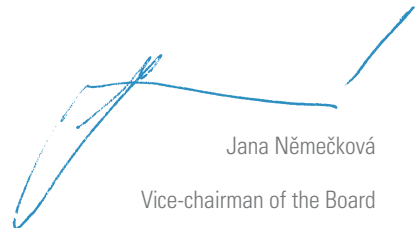
In thousands of Czech Crowns	Note	2005	2004
Factoring revenue		137,826	143,698
Interest revenue, net	15	53,005	54,943
Administration expenses	16	(37,244)	(37,233)
Staff costs	17	(25,398)	(25,026)
Depreciation and amortization		(2,933)	(5,090)
Allowance for impairment and provisions	18	(34,165)	(63,524)
Other operating expenses, net	19	(8,564)	(13,587)
Profit on sale of share in associate		–	224
Financial expense, net		(9,362)	(10,386)
<b>Foreign exchange result, net</b>		<b>378</b>	<b>6,773</b>
<b>NET INCOME BEFORE TAXES</b>		<b>73,543</b>	<b>50,792</b>
Taxation	20	(28,150)	(14,821)
<b>NET INCOME</b>		<b>45,393</b>	<b>35,971</b>

Signed on behalf of the Board



Jiří Matula

Chairman of the Board



Jana Němečková

Vice-chairman of the Board

Prague

13 January 2006

The notes on pages 7 to 24 form an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Czech Crowns	Share capital	Legal reserve fund	Retained earnings	Total
Balance as at 1 January 2004	112,000	5,306	79,207	196,513
Transfer to Legal reserve fund	–	2,281	(2,281)	–
Dividends	–	–	(21,000)	(21,000)
Profit for the year	–	–	35,971	35,971
<b>Balance as at 31 December 2004</b>	<b>112,000</b>	<b>7,587</b>	<b>91,896</b>	<b>211,483</b>
Balance as at 1 January 2005	112,000	7,587	91,896	211,483
Transfer to Legal reserve fund	–	1,851	(1,851)	–
Dividends	–	–	(14,178)	(14,178)
Profit for the year	–	–	45,393	45,393
<b>Balance as at 31 December 2005</b>	<b>112,000</b>	<b>9,438</b>	<b>121,260</b>	<b>242,698</b>

The notes on pages 7 to 24 form an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

In thousands of Czech Crowns	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income before taxes	73,543	50,792
Adjustments for:		
Depreciation and amortization	2,933	5,090
Allowance for impairment and provisions	34,165	63,524
Foreign exchange gains/losses	(378)	4,437
Gain/(Loss) on disposal of tangible assets	170	(233)
<b>Operating profit before working capital changes</b>	<b>110,433</b>	<b>123,610</b>
Decrease/(Increase) in debtors and other assets	(291,776)	(335,198)
(Decrease)/Increase in creditors and other liabilities	(2,418)	60,563
Cash generated from (used in) operations	(183,761)	(151,025)
Income taxes paid	(18,292)	(26,288)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(202,053)</b>	<b>(177,313)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	170	4,409
Purchase of intangible assets, property, plant and equipment	(1,198)	(2,624)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,028)</b>	<b>1,785</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short term borrowings	203,809	99,526
Dividends paid	(14,178)	(21,000)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>189,631</b>	<b>78,526</b>
<b>NET CASH DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13,450)</b>	<b>(97,002)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>28,321</b>	<b>125,323</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>14,871</b>	<b>28,321</b>
<b>Supplemental information:</b>		
Interest income received:	113,023	116,315
Interest expense paid:	(60,018)	(61,372)

The notes on pages 7 to 24 form an integral part of the consolidated financial statements.

## 1 CORPORATE INFORMATION

Transfinance a.s. ('the Company') is a joint stock company which, is incorporated in the Czech Republic, and which is the parent company of the Group.

The registered office of the Company is located at Křižíkova 237/36a, Prague 8, Czech Republic.

During the year, the principal activities of the Company were factoring services, mainly the purchase of export debts and domestic debts.

The Company operates in the Czech Republic and employed an average of 38 employees in 2005, (36 in 2004).

The shareholders of the Company are Intermarket Bank AG, Austria (50%) and BRE Bank SA, Poland (50%). Its parent company is BRE Bank SA, Warsaw, Poland and the Company is part of its consolidation group. The parent company of BRE Bank SA is Commerzbank AG, Germany.

The consolidated financial statements include the following subsidiary:

### 2005 and 2004

Subsidiary	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
Vartimex s.r.o.	100%	Czech Republic	30 September 1996	Trading	30 September 1996

The following associate was accounted for in 2004 under the equity method:

### 2004

Associate	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition	Date of disposal
Transfinance Slovakia a.s.	33%	Slovak Republic	18 April 1996	Factoring	18 April 1996	28 December 2004

In 2004, the Company sold its share in the associate to its parent company Intermarket Bank AG. The Company realized a gain of CZK 224 thousand on the sale of the associate (see also Note 21).

The consolidated financial statements of the Group for the year ended 31 December 2005 were authorized for issue by directors on 13 January 2006.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements of Transfinance a.s. and its subsidiary and associate ('the Group') have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Czech crowns ('CZK') and all values are rounded to the nearest thousand ('TCZK') except when otherwise indicated.

### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.



**Basis for consolidation**

The Company and its subsidiary maintain their books of accounts and prepare statements for regulatory purposes in accordance with local accounting principles. The accompanying consolidated financial statements are based on the accounting records of the Company and its subsidiary, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with accounting standards as prescribed by the International Accounting Standards Board.

**2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES****Estimation uncertainty**

The presentation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and their reported amounts of revenues and expenses during the reporting period. Actual results will differ from those estimates and such differences could be material.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Allowance for impairment of investments held to maturity and receivables**

The Group regularly reviews its investments held to maturity and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties. Management uses estimates based on historical loss experience for an assessment of the overall credit risk in receivables and in the portfolio of investments held to maturity to assess the amount of potential impairment losses.

**Impairment of other non-current assets**

The Group regularly reviews the other non-current assets to assess impairment. This requires an estimation of the recoverable amount of the asset.

**Taxation**

Czech tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. As such, significant additional taxes, penalties and interest may be assessed. As at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

### **Legal claims**

At the 2005 year end, there is one legal action initiated against the Group, which may result in maximum contingent liability of EUR 12,250 (originally DEM 23,959). The Group's management believes that the Group will not be required to pay the above amount.

## **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Intangible assets**

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The cost of intangible assets is amortized on a straight-line basis over the estimated useful lives of the assets with the exception of intangible fixed assets with a cost of less than CZK 60 thousand that are expensed in the year of purchase. The amortization expense on intangible assets with finite lives is recognized in the income statement in the line item of 'Depreciation and amortization'.

The estimated useful lives in years of the main categories of intangible assets are as follows:

Software	4 years
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Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets with the exception of tangible fixed assets with a cost of less than CZK 40 thousand that are expensed in the year of purchase.

The estimated useful lives in years of the main categories of tangible assets are as follows:

Leasehold improvements	10 years or the life of the lease, whichever is shorter
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Plant and equipment	3 - 6 years
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### **Subsidiaries**

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an

impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

### **Investment in an associate**

The Group's investment in associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The income statement reflects the share of the results of operations of the associate. The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### **Investments held to maturity and receivables**

Investments held to maturity and receivables are connected with the factoring activities of the Group. The Group purchases receivables either with the right to return the receivable if they are not paid (recourse factoring) or without such a possibility (non-recourse factoring). The Group charges commissions for the collection of those receivables. Commissions are based on the amount of factored receivables and are recognized on an accrual basis and are reported as Factoring revenue. The Group also provides factoring financing to its clients up to an agreed percentage of transferred receivables. The Group earns interest on this financing which is recognized within Financial revenue.

Purchased non-recourse trade receivables are classified as Investments held to maturity. They are recognized at the fair value of the consideration given and are carried at amortized cost, after provision for impairment.

Purchased receivables and resulting liabilities from recourse factoring are not recorded on the balance sheet as the risks and rewards are not transferred to the Group. The Group recognizes assets to the extent of factoring financing provided to clients reduced by subsequent repayments resulting from the underlying purchased recourse receivables. Factoring financing for recourse receivables is classified as receivables. It is recognized at the fair value of the consideration given and carried at amortized cost, after provision for impairment. Underlying recourse receivables and liabilities are maintained in an off balance sheet account.

### **Provision for impairment**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

**Liabilities from purchased non-recourse receivables**

Liabilities arising from purchased non-recourse trade receivables are recognized at the original invoiced amount of the purchased trade receivables less subsequent repayments provided by the Group.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and deposits in banks.

**Derivative financial instruments**

In the normal course of business, the Group enters into derivative financial instruments including forwards and swaps. The Group uses the derivative financial instruments to secure its currency position, it enters into foreign exchange forward transactions with clients in connection with its business activities and at the same time the Group enters into back-to-back foreign exchange forward transactions with the bank to cover the exposure. Such financial instruments are reported as held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on market rates. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated Income Statement as foreign exchange result.

**Foreign currency translation**

Transactions in foreign currencies are recorded during the year at the fixed exchange rate used by the Group. The Group calculates the fixed exchange rates as an average of three average exchange rates for three past years and the exchange rate prevailing on the first working day of the current year. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Czech Crowns using the year-end foreign exchange rates. All exchange differences are recorded in the Income Statement.

**Share capital**

The share capital of the Group is stated at the amount recorded in the Commercial Register maintained by the Regional Court.

**Legal reserve fund**

Under Czech legislation, in the first year in which profit is generated, a joint-stock company should allocate 20% of profit after tax (however, not more than 10% of basic capital) to the legal reserve fund. In subsequent years, the legal reserve fund is allocated a minimum 5% of profit after tax determined under Czech accounting standards until the fund reaches 20% of basic capital. These funds can only be used to offset losses.

**Revenue recognition**

Revenue is recognized as earned to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

**Taxation and deferred taxation**

The taxation charge is calculated in accordance with Czech regulations and is based on the profits reported in the Income Statement prepared under Czech accounting regulations after adjustments for tax purposes.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The tax effects of these temporary differences are reflected as deferred tax items. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilized.

**Social security and pension schemes**

Contributions are made to the Czech government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the Income Statement in the same period as the related salary costs.

**Borrowing costs**

Borrowing costs are recognized as expenses in the period in which they are incurred.

**Operating Leases**

Leases of assets, under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

### 3 INTANGIBLE ASSETS

Intangible assets consist of the following:

	2005	2004
Cost:	Software	Software
At 1 January	19,060	18,132
Additions – externally purchased	65	928
Disposals	–	–
<b>At 31 December</b>	<b>19,125</b>	<b>19,060</b>
<b>Accumulated amortization:</b>		
At 1 January	(18,102)	(15,228)
Amortization charge for the year	(497)	(2,874)
Disposals	–	–
<b>At 31 December</b>	<b>(18,599)</b>	<b>(18,102)</b>
<b>Net book value:</b>		
<b>At 31 December</b>	<b>526</b>	<b>958</b>

### 4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Cost:	Leasehold improvements	Plant and equipment	Total
At 1 January 2004	1,304	19,110	20,414
Additions	–	1,696	1,696
Disposals	–	(1,579)	(1,579)
<b>At 31 December 2004</b>	<b>1,304</b>	<b>19,227</b>	<b>20,531</b>
At 1 January 2005	1,304	19,227	20,531
Additions	–	1,132	1,132
Disposals	–	(2,141)	(2,141)
<b>At 31 December 2005</b>	<b>1,304</b>	<b>18,218</b>	<b>19,522</b>
<b>Accumulated depreciation:</b>			
At 1 January 2004	(326)	(12,789)	(13,115)
Depreciation change for the year	(131)	(2,085)	(2,216)
Disposals	–	1,577	1,577
<b>At 31 December 2004</b>	<b>(457)</b>	<b>(13,297)</b>	<b>(13,754)</b>

At 1 January 2005	(457)	(13,297)	(13,754)
Depreciation change for the year	(130)	(2,306)	(2,436)
Disposals	–	2,143	2,143
<b>At 31 December 2005</b>	<b>(587)</b>	<b>(13,460)</b>	<b>(14,047)</b>

**Net book value:**

<b>At 31 December 2004</b>	<b>847</b>	<b>5,930</b>	<b>6,777</b>
<b>At 31 December 2005</b>	<b>717</b>	<b>4,758</b>	<b>5,475</b>

The Group moved to rental offices in 2001. The leasehold improvements represent technical improvements (office equipment) to the offices, which are rented.

## 5 OTHER NON-CURRENT ASSETS

Other non-current assets represent primarily items obtained as settlement for bad debts resulting from factoring activities of the Group.

In 2005, the Group reported an impairment loss of TCZK 1,000, which represents the write-down of an item of other non-current assets to the recoverable amount. This has been recognized in the income statement in the line item of "Allowance for impairment and provisions". The recoverable amount was based on estimate made by the management of the Group.

## 6 INVESTMENTS HELD TO MATURITY, NET

	2005	2004
Purchased trade receivables	550,591	612,656
Impairment provision (Note 18)	(15,946)	(20,886)
<b>Purchased trade receivables, net</b>	<b>534,645</b>	<b>591,770</b>

For terms and conditions relating to related party receivables, refer to Note 21.

Purchased trade receivables are acquired by the Group under the non-recourse factoring service. The Group provides financing to the original creditor as a compensation for the receivables transfer. The balance of financing paid is subject to accrued interest. The purchased trade receivables thereby represent indirectly a source of the interest revenue of the Group and are generally on 30-90 day terms.

## 7 RECEIVABLES, NET

	2005	2004
Factoring financing	2,510,133	2,288,010
Impairment provision (Note 18)	(168,513)	(163,176)
<b>Factoring financing, net</b>	<b>2,341,620</b>	<b>2,124,834</b>

Factoring financing is interest bearing and is generally on 30-90 day terms.

## 8 CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	120	156
Cash at bank	14,751	28,165
	<b>14,871</b>	<b>28,321</b>

Cash at bank earns interest at floating rate based on daily bank deposit rates.

## 9 PREPAYMENTS AND OTHER ASSETS

	2005	2004
Prepayments	773	782
Other receivables	780	3,991
	<b>1,553</b>	<b>4,773</b>

Other receivables are non-interest bearing and generally on 30 day terms.

## 10 ACCOUNTS PAYABLE

	2005	2004
Liabilities from purchased non-recourse receivables	368,124	471,216
Other payables	11,853	9,843
	<b>379,977</b>	<b>481,059</b>

For terms and conditions relating to related party receivables, refer to Note 21.

Liabilities for purchased non-recourse receivables are non-interest bearing and are normally settled on 30-90 day terms.

Other payables are non-interest bearing and are normally settled on 30 day terms.



## 11 BANK BORROWINGS

Bank borrowings mature within one year of the balance sheet date. Individual borrowings are without security. In 2005, the borrowings bear interest of approximately 2,8% p.a. (2004: 3.1% p.a.), and the weighted average interest rate as of 31 December 2005 was 2,8% p.a. (2004: 3.1% p.a.).

Bank borrowings are drawn using one-month revolving credits. Additionally, the Group is entitled to use an overdraft account up to the balance of the unused credit limit.

### 11 BANK BORROWINGS (CONTINUED)

Bank:	Type of borrowing:	Credit limit as of 31 December 2005	Drawn bank borrowings as of 31 December 2005	Drawn bank borrowings as of 31 December 2004
Živnostenská banka, a.s.	Credit limit with not specified maturity	500,000	330,294	212,705
Raiffeisenbank, a.s.	One year credit limit, repayable 31 May 2006	450,000	220,616	363,947
Komerční banka, a.s.	One year credit limit, repayable 31 January 2006	282,762	171,637	6,964
Commerzbank AG	Credit limit not specified maturity	1,200,000	367,447	480,128
BAWAG Bank a.s.	One year credit limit, repayable 30 June 2007	400,000	345,510	254,390
HVB Czech Republic, a.s.	One year credit limit, repayable 31 December 2006	850,000	493,195	535,267
ING Bank N.V.	Credit limit with not specified maturity	500,000	329,451	200,940
<b>Total</b>		<b>4,182,762</b>	<b>2,258,150</b>	<b>2,054,341</b>

As of 31 December 2005, the Group had drawn CZK 367,447 thousand of borrowings from related parties (2004: 480,128 thousand).

## 12 ACCRUALS AND OTHER PROVISIONS

	2005	2004
Accrued expenses	7,766	11,309
Other provisions	2,500	2,500
	<b>10,266</b>	<b>13,809</b>

Other provisions were created in relation to business risks identified by the Group; it is expected that the potential risks would materialize within 1 year.

### 13 SHARE CAPITAL

Share capital consists of 2,000 ordinary bearer shares of 56,000 Czech Crowns each; all shares are fully paid up as of 31 December 2005 and 2004 respectively.

The Group paid out CZK 7 thousand of dividends per share in total amount of CZK 14,000 thousand and royalties in total amount of CZK 178 thousand on 23 May 2005 out of the 2004 profit. In 2004, the Group paid out CZK 10.5 thousand of dividends per share in total amount of CZK 21,000 thousand out of the 2003 profit.

### 14 LEGAL RESERVE FUND

	2005	2004
At 1 January	7,587	5,306
Allocation of profit from prior years	1,851	2,281
<b>At 31 December</b>	<b>9,438</b>	<b>7,587</b>

### 15 INTEREST REVENUE, NET

	2005	2004
Interest income	113,023	116,315
Interest expense	(60,018)	(61,372)
	<b>53,005</b>	<b>54,943</b>

Interest income is derived primarily from the factoring activities of the Group. Interest expense relates to the bank loans.

### 16 ADMINISTRATION EXPENSES

	2005	2004
Materials and energy consumption	1,701	1,918
Services	35,543	35,315
	<b>37,244</b>	<b>37,233</b>

## 17 STAFF COSTS

	2005	2004
Salaries and wages	19,751	19,927
Social and health insurance	4,795	4,317
Other social costs	672	602
Remuneration of board members	180	180
	<b>25,398</b>	<b>25,026</b>

Included in salaries and wages is management remuneration of CZK 6,156 thousand (2004: CZK 6,253 thousand).

## 18 ALLOWANCE FOR IMPAIRMENT AND PROVISIONS

The movements in allowances for impairment were as follows:

	Investments held to maturity	Receivables	Other non-current assets	Total
December 31, 2003	23,061	143,440	–	166,501
Amounts written off	–	(42,729)	–	(42,729)
Charge for the year (reversal)	(2,175)	65,699	–	63,524
FX difference	–	(3,234)	–	(3,234)
December 31, 2004	20,886	163,176	–	184,062
Amounts written off	–	(31,186)	–	(31,186)
Charge for the year (reversal)	(4,940)	38,105	1,000	34,165
FX difference	–	(1,582)	–	(1,582)
December 31, 2005	15,946	168,513	1,000	185,459

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

## 19 OTHER OPERATING EXPENSES, NET

	2005	2004
Other income	820	1,624
Other taxes and fees	(290)	(1,166)
Insurance	(10,063)	(13,595)
Gain/(loss) on sale of fixed assets	170	9
Others	799	(459)
	<b>(8,564)</b>	<b>(13,587)</b>

## 20 TAXATION

The major components of income tax expense for the years ended 31 December 2005 and 2004 are:

	2005	2004
Current income tax charge	28,363	15,090
Adjustment in respect of current income tax of previous years	(93)	(109)
Deferred income tax	(120)	(160)
Total income tax expense	28,150	14,821

A reconciliation between the tax expense and the accounting profit multiplied by the statutory tax rate for the years ended 31 December 2005 and 2004 is as follows:

	2005	2004
Accounting profit before income tax	73,543	50,792
At Czech statutory income tax rate 26% (2004: 28%)	19,121	14,222
Adjustment in respect of current income tax of previous years	(93)	(109)
Write off of receivable	6,509	–
Other non-deductible expenses	2,612	767
Non-taxable income	–	(59)
Taxation charge	28,150	14,821
Effective tax rate	38%	29%

Deferred taxes at 31 December 2005 and 2004 relates to the following:

	Balance 31.12.2003	Recognized in Income Statement	Balance 31.12.2004	Recognized in Income Statement	Balance 31.12.2005
Difference between NBV of fixed assets for accounting and tax purposes	443	(160)	283	(120)	163
Deferred income tax provision/(asset)	443	(160)	283	(120)	163

## 21 RELATED PARTIES DISCLOSURE

During the year, the Group entered into transactions with related parties in the ordinary course of business. The transactions with related parties are performed on an arm's length basis. Those transactions, along with related balances at 31 December 2005 and 2004 and for the years then ended, are presented in the following tables:

2005	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Parent/ultimate parent companies:				
BRE Bank	–	–	–	–
Commerzbank	–	13,817	–	367,447
Intermarket Bank	–	2,157	746	2,039
Other companies in the BRE Bank consolidation group:				
Magyar Factor	139	–	–	2,418
Polfactor	425	–	–	7,997

2004	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Parent/ultimate parent companies:				
BRE Bank	–	853	–	–
Commerzbank	–	14,999	–	480,128
Intermarket Bank	4,400	2,179	2,537	2,024
Associate:				
Transfinance Slovakia	1,375	–	–	76,020
Other companies in the BRE Bank consolidation group:				
Magyar Factor	190	–	–	3,949
Polfactor	165	–	–	5,093

### Terms and conditions of transactions with related parties

Outstanding balances of trade receivables and payables at the year-end are unsecured, interest free and settlement occurs in cash. Balances related to loans received are subject to interest accruing under standard business terms. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2005, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2004: nil).

## 22 COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as a Lessee

Rental expense for office space was CZK 3,270 thousand for the year ended 31 December 2005 (2004: CZK 3,294 thousand).

Future minimum rentals under non-cancellable leases are as follows:

	2005	2004
Within one year	2,261	3,392
After one year but less than five years	–	2,261
<b>Total minimum rentals</b>	<b>2,261</b>	<b>5,653</b>

### Capital Commitments

The Group had no capital commitments at 31 December 2005 (2004: nil).

### Pension commitments

The Group makes contributions only to the basic state pension scheme. Contributions for state pension benefits are charged to the Income Statement on an accrual basis.

### Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

### Guarantees

As at 31 December 2005, the Group had bank guarantees received totaling CZK 26 million and EUR 32 thousand in order to cover its operations, and bank guarantees totaling CZK 26 million issued for a benefit of other companies. The Group issues these guarantees as part of provision of normal services to clients within its business activities.

## **23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdraft, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally currency swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in Note 2.

The Group has risk management policies and guidelines, which specifies the general risk management philosophy and has established processes to monitor and control risks in a timely and accurate manner.

### **Interest rate, currency risk, liquidity risk**

The Group manages its interest rate risk, currency risk and liquidity risk mainly by natural hedging. Maturity, currency and interest rate structure of monetary assets and liabilities is matched in order to manage the exposure.

As of 31 December 2005, the monetary assets of the Group are denominated 61% in CZK, 22% in EUR, 11% in USD and 6% in other currencies. As of 31 December 2005, the monetary liabilities of the Group are denominated 62% in CZK, 21% in EUR, 11% in USD and 6% in other currencies.

All monetary assets and liabilities of the Group mature within one year. Due to the short-term nature of monetary assets interest rates of those assets are reprised based on the development of interest rates on monetary liabilities.

### **Credit risk**

As of 31 December 2005, the Group's maximum exposure to credit risk (not taking into account the value of any collateral insurance or other security held) in the event that counterparties fail to perform their obligations as of 31 December 2005 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the balance sheet.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial assets is broadly diversified along industry and product, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.

Purchased trade receivables are acquired under contract terms, which transfer all or partially all of the risks and rewards associated with their collection to the Group. The Group manages the credit risk exposure by either obtaining insurance cover or guarantees from other international factoring companies.

## 24 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Due to the short-term nature of monetary assets and liabilities, the carrying amounts of those monetary assets and liabilities as presented in the consolidated balance sheet approximates their fair values.

## 25 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments to secure its currency position. Such financial instruments do not meet all the necessary requirements stipulated by IFRS to be classified as held for hedging and are therefore reported as held for trading. The outstanding deals with derivative financial instruments are as follows:

Foreign exchange contracts	Notional principal	2005		Notional principal	2004	
		Fair values			Fair value	
		Asset	Liability		Asset	Liability
Forwards	154,194	301	(301)	–	–	–

## 26 OFF BALANCE SHEET

The Group uses purchased recourse receivables as collateral for provided financing to the clients. Such receivables are accounted for as off-balance sheet items. Off-balance sheet liabilities reported by the Group represent related liability to transfer the recourse liabilities back to the clients. The difference between the amount of off-balance sheet assets and liabilities represents actual financing provided by the Group and comprises the major part of the Factoring financing (see Note 7).

As at 31 December 2005 and 2004, the Group reported the following off-balance sheet assets and liabilities relating to recourse factoring:

	2005	2004
Recourse receivables	3,623,590	3,249,984
Recourse liabilities	(1,108,603)	(980,444)

As of 31 December 2005, the Group also holds the promissory notes used as collateral for factoring financing in the total nominal amount of CZK 270,013 thousand (2004: CZK 219,797 thousand).



## 27 EVENTS AFTER BALANCE SHEET DATE

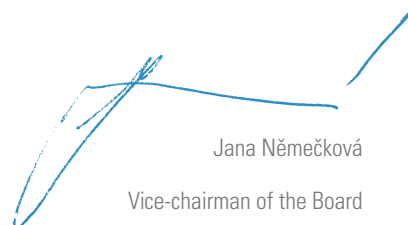
No events with the effect on the presented financial statements occurred after the balance sheet date.

Signed on behalf of the Board



Jiří Matula

Chairman of the Board



Jana Němečková

Vice-chairman of the Board

Prague

13 January 2006

