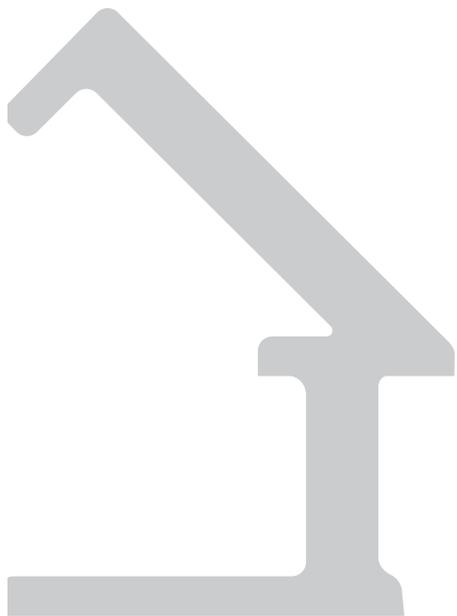




BUILDING SAVINGS
IN 2006

AČSS 



BUILDING SAVINGS BANKS ARE AN ESSENTIAL PART OF FINANCING HOUSING NEEDS IN THE CZECH REPUBLIC

Since the first building savings banks were established in the Czech Republic in 1993, the sector has developed substantially.

The clients who use building savings banks continue to appreciate the stability of all six banks on the market and the advantages that their product offers. This isn't only a way to take advantage of state funding but also offers an advantageous solution for a wide variety of housing needs.

Since their inception, building savings banks have provided more than CZK 261 billion in the form of 1,3 million loans for the housing purposes. They currently oversee 5,9 million contracts in regards to building savings. Account deposits have reached a total of almost CZK 360 billion.

Alongside Germany and Austria, the Czech Republic now belongs amongst countries which use building savings as an essential part of financing housing, developing housing construction and to the restoration of housing funds.

For the Association of Czech Building Savings Banks,

Vojtěch Lukáš, Chairman

ECONOMIC SITUATION

The Czech economy grew by six percent in 2005 this growth continued in 2006. Inflation reached 2.5% which was 0.6% higher than 2005. In contradiction to market predictions, the 2W Repo Rate was only increased twice to a resulting 2.5%. The Czech economy can be considered as low inflation.

The rate of domestic indebtedness moderately decreased while in relation to the rest of Europe, the level of debt isn't very high. The amount of bank loans amounted to approximately CZK 500 billion while leasing and financing companies lent over CZK 60 billion. 70% of bank loans were for housing needs which were acquired through building savings and mortgages while the rest were consumer loans. The reason for an increase in interest for building loans was especially the low interest rate and the large amount of available real estate as well as worries that the VAT rate might increase for construction work as of 2008.

Last year construction began on 43 747 new homes which is a year on year increase of 8.3% which is the largest amount of growth since 1993. 30 187 homes were completed while 168 762 remained under construction. According to the Czech Statistical Office this positive development was aided substantially by loans from building savings banks.

BUILDING SAVINGS: A FINANCIAL TOOL THAT HELPS WITH INDIVIDUAL HOUSING NEEDS

The principle of building savings is the combination of using resources that have already been saved with the eventual provision of a building loan. The primary goal of building savings is financing housing needs. Building savings banks use the client's resources who are motivated by amongst other things, state funding. Together, these resources provide the means for providing loans, for the purchase of a home, modernization of apartments and houses as well as other housing needs.

In this way, building savings not only helps a person to cultivate their own resources, but also provides the opportunity for a loan which allows people to solve housing needs before they have the entire amount saved up that they require. When the loan is considered, a client's resources are effectively more than doubled.

Clients who need to finance their housing needs sooner than they can claim a loan are offered a "bridging loan" by building savings banks. This allows the client to resolve their housing needs essentially immediately.

The system of building savings essential works like a "cooperative" system. The money which some clients are leaving available, the "savers", is used to fund the clients who need the money to finance their housing.

In order for the system to generate enough loan resources as well as ensure smooth operation, there needs to be clients who save money. Without their cooperation the system would practically be unable to function.

Typical Building Savings Contract Process

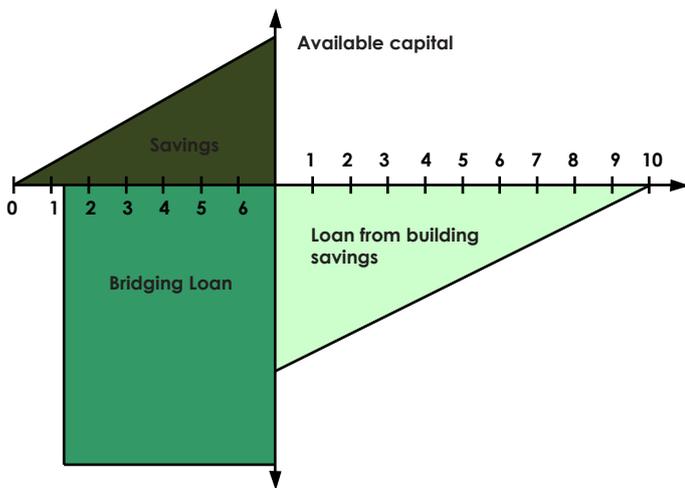


Fig. 1: In order for the system to work it is necessary for there to be a higher number of saving clients as opposed to clients who require loans, this is because usually people borrow a larger amount than they have saved. Domestic clients most often use the bridging loan between the first and second years of saving.

Due to the stability of this enclosed and self-financing system, building savings banks are able to guarantee their clients fixed interest rates for both savings and loans. As soon as a client signs their contract with the building savings bank, they are immediately made aware of their monthly payment amount if they decide to take out a loan (after fulfilling the required conditions). This certainty is especially important to clients in the case of growing interest rates on the market. Because building savings, including the payment of the loan, is a 10 - 15 year process, it is difficult to imagine that interest rates would not increase over that amount of time.

BUILDING SAVINGS AND FINANCING HOUSING IN 2006

For the third year in a row, the number of new building savings contracts increased. In 2006, 516 thousand new contracts were closed in the Czech Republic which were signed for a total target amount of CZK 125 billion.

310 thousand existing building savings contracts increased their final target amount by CZK 59 billion.

Amount of deposits (in CZK billions)

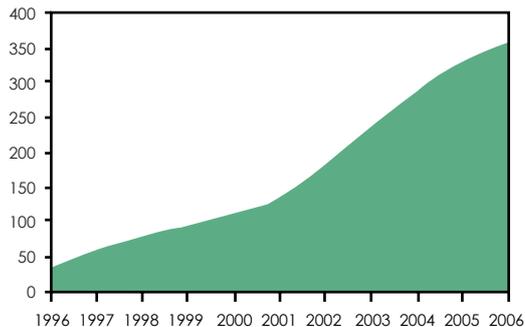


Fig. 2: Clients of building savings banks are also motivated to make periodic deposits to their accounts due to state funding.

The total amount saved in the building savings sector grew once again and reached approximately CZK 360 billion. At the end of 2006 the number of valid contracts that were in the saving phase totaled 5.3 million.

In 2006 Czech building savings banks provided approximately 156 thousand bridging loans as well as building loans in the amount of CZK 51.6 billion, which is a fifth more than in 2005.

Loans Provided (in billions of CZK)

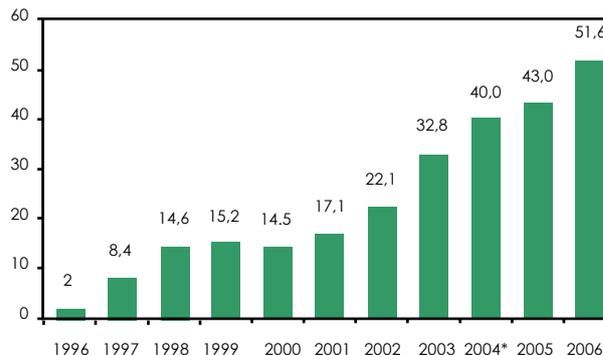


Fig. 3: As of right now, building savings banks provided the most financing in 2006, 8.6 billion CZK more than the year before.

Statistics also show that in 2006 the proportion of loans to savings once again grew. It increased by 4.8% over the year and reached a total of 37.6%.

Progress of Balances on Loan Accounts (in CZK billions)

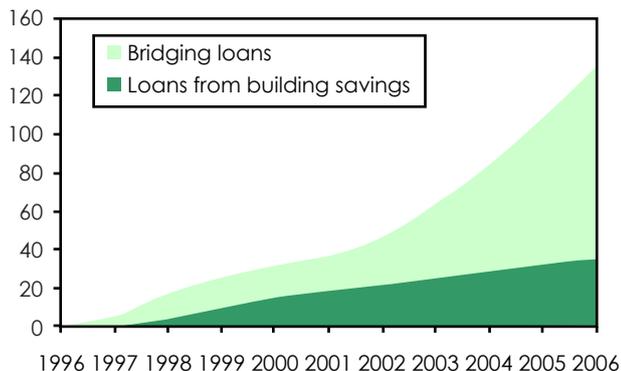


Fig. 4: Building savings banks in the Czech Republic provide loans to clients even when they still don't have the ability to file for a regular loan from building savings banks.

Bridging loans and loans from building savings are the most used resources for financing housing needs in the Czech Republic. People use these resources nearly 2.5 times more than mortgages.

Proportion of Loans for Housing				
	Building Savings	Mortgages	Building Savings	Mortgages
Number	155 263	62 953	71,2 %	28,8 %
Amount (billion CZK)	51,6	115,2	30,9 %	69,1 %

The loan offerings provided by building savings banks allows clients to have advantageous conditions while solving a wide array of housing needs. In this way the client can finance everything from projects that take tens of thousands of crowns to investments that require millions without any problems. In regards to the loan conditions, a loan from a building savings bank is often the only option for residents of the Czech Republic.

SELECTED GAINS BY BUILDING SAVINGS

By December 31st, 2006, building savings banks registered approximately 5.9 million contracts relating to building savings for a total target amount of CZK 1,306 billion. Educated guesses say that these contracts belong to 5.2 million clients. That means that one half of Czech citizens have at least one building savings contract.

Proportion of Building Savings Clients by Age Group

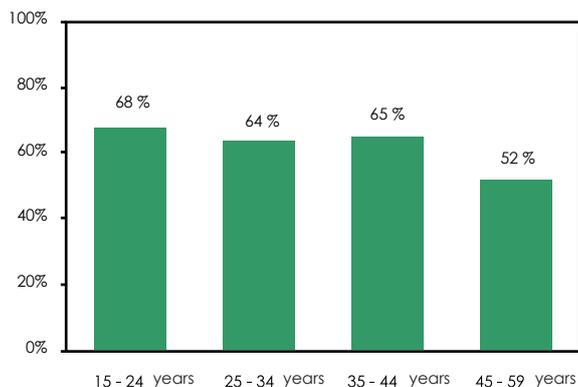


Fig. 5: Building savings is most popular among the younger generation.

According to a survey by GfK, the largest portion of building savings accounts amongst all age groups belong to people between 15 and 24 years old. According to the survey it is 68%. In comparing people with families that use and don't use building savings, it was found that more people with families use building savings than those that don't.

Since its inception in 1993 until 2006, building savings banks in the Czech Republic have financed building loans in the amount of approximately CZK 261 billion. When compared to building loans provided by other domestic financial institutions, this accounts for 44% of the total market.

Loans from building savings banks contributed to the building of approximately 172 thousand apartments and homes between 1993 and the end of 2006 which accounts for approximately 52% of all new finished homes in that time period.

Using a building savings loan allows clients to also successfully realize their projects with a less demanding investment, which is not possible with a mortgage.

Finished Apartments and Homes from 1993 - 2006 (amount)

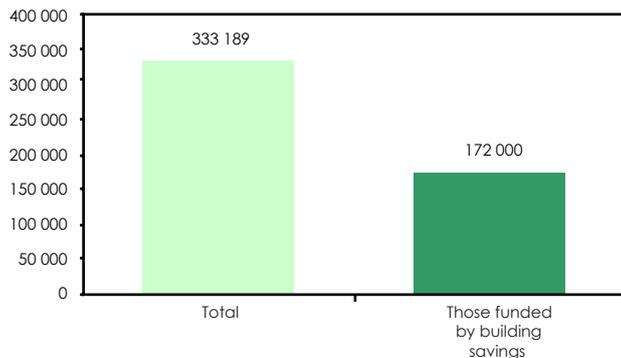


Fig. 6: More than half of the apartments and houses finished in the past 14 years were funded with the help of building savings.

ASSOCIATION OF CZECH BUILDING SAVINGS BANKS

The Association of Czech Building Savings Banks (ACSS) includes all six building savings banks operating in the Czech Republic.

The advantage that the Association brought to clients is the implementation of a product codex and on the basis of this they created the ACSS Voluntary Codex for Providing Precontract Information in Regards to Housing Loans. The codex which was agreed to by all members is another step in the increase of information for current and future clients of the building savings system. This explains basic notions and questions which effect every client and increase their knowledge of not only the product, but also how to use it.

One of the more noticeable changes in terms of providing information was the new ACSS internet page launched at the end of 2006. Information for the public and professionals can be found at www.acss.cz.

EUROPEAN FEDERATION OF BUILDING SOCIETIES

There are dozens of organizations which participate in some kind of building savings in Europe. The European Federation of Building Societies (EFBS) encompasses these kind of organizations from 17 countries, primarily within Europe.

With its results and the interest of the public in building savings, the Czech Republic has placed itself next to Austria and Germany as a country where building savings is used extensively in Europe. In the past few years, the number of contracts in the Czech Republic has exceeded that of Austria. Another indicator of the importance of Czech building savings in Europe is also that they have representatives in the top bodies of the EFBS.

Results of the influential work of the Czech building savings banks are also reflected in the fact that they are the organizing the next EFBS Congress, which takes place once every three years. In 2007, Prague will welcome some of the most important building savings people in the industry.



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