

## **Commentary to the quarterly report of Fortis Bank Polska S.A. for the fourth quarter of 2005 (4Q)**

**(under Article 91 para. 3 and 4 of the Ministry of Finance Ordinance dated October 19, 2005  
– Journal of Laws No. 209, item 1744)**

### **1. Accounting principles adopted in the report.**

- 1.1. Fortis Bank Polska S.A. keeps its accounting records pursuant to the rules set out in:
  - 1.1.1. Accounting Act dated September 29, 1994 (*Journal of Laws* No. 76, item 694, of 2002 as amended),
  - 1.1.2. Ordinance of the Ministry of Finance dated December 12, 2001 (*Journal of Laws*, No 152, item 1727 of 2001) regarding a model chart of accounts for the banks.
  - 1.1.3. Act dated July 29, 2005 on Public Offering and Conditions of Financial Instruments Introduction into an Organized Trading System, and on Public Companies (*Journal of Laws* No. 184, item 1539).
  - 1.1.4. Ordinance of the Ministry of Finance dated December 10, 2001, regarding special rules of bank accounting (*Journal of Laws* No. 149 item 1673 as amended),
  - 1.1.5. Ordinance of the Ministry of Finance dated December 12, 2001, regarding special rules of recognition, measurement methods, the scope of disclosure and manner of presentation of financial instruments (*Journal of Laws* No. 149 item 1674 as amended),
  - 1.1.6. Ordinance of the Ministry of Finance dated December 10, 2003, regarding rules of creation of provisions for risk connected with operations of banks (*Journal of Laws* No. 218, item 2147).
- 1.2. A detailed description of the accounting policies applied by the Bank was presented in the Introduction to the 2005 Semi-Annual Report published on September 28, 2005.
- 1.3. Financial data included in the quarterly report have been prepared using valuation rules applicable to assets and liabilities, and the calculation of the net financial profit/loss binding on the balance sheet day, taking into account the adjustments resulting from provisions, and deferred tax assets and liabilities, referred to in the Accounting Act, and write-downs for impairment.
- 1.4. For the purpose of financial reporting the Bank applies the Model Chart of Accounts implemented under the Ministry of Finance Ordinance dated December 12, 2001, regarding the bank model chart of accounts (*Journal of Laws* No. 152, item 1727). Due to the fact that the Bank's shares are admitted to trading on the official stock quotations market under the *Act on Public Offering and Conditions of Financial Instruments Introduction into an Organized Trading System, and on Public Companies*, the Bank's financial reporting is prepared according to the Ministry of Finance Ordinance dated October 19, 2005, regarding current and periodical information submitted by issuers of securities (*Journal of Laws* No. 209, item 1744) and the Ministry of Finance Ordinance dated October 18, 2005 on the scope of information reported in financial statements and consolidated financial statements required in issue prospectuses from issuers that have their registered offices on the territory of the Republic of Poland and are subject to Polish accounting principles (*Journal of Laws* No. 209, item 1743).
- 1.5. Selected financial data included in this report have been converted into EUR, according to the following rules:
  - 1.5.1. Particular assets and liabilities of the balance sheet were converted into EUR at the NBP mid-rate announced on December 30, 2005, i.e. PLN 3.8598; whereas particular items of the balance sheet assets and liabilities for the comparable data were converted into EUR at the NBP mid-rate announced on December 31, 2004, which amounted to PLN 4.0790;
  - 1.5.2. Particular items in the profit and loss account and cash flows as at the end of the fourth quarter of 2005 were converted into EUR at the rate based on the arithmetic mean of mid rates determined by the National Bank of Poland as at the last days of the months from January through December 2005, which amounted to PLN 4.0233, whereas particular items of the profit and loss account and cash flows for comparable data for as at the end of the fourth quarter of 2004 were converted into EUR at the rate based on the arithmetic mean of

mid rates determined by the National Bank of Poland as of the last days of the months from January through December 2004, which amounted to PLN 4.5182;

1.5.3. The following rates were applied in the currency conversion, according to the above mentioned rules:

|  |                |
|--|----------------|
| • rate as at the end of January 2005 -   | EUR/PLN 4.0503 |
| • rate as at the end of February 2005 -  | EUR/PLN 3.9119 |
| • rate as at the end of March 2005 -     | EUR/PLN 4.0837 |
| • rate as at the end of April 2005 -     | EUR/PLN 4.2756 |
| • rate as at the end of May 2005 -       | EUR/PLN 4.1212 |
| • rate as at the end of June 2005 -      | EUR/PLN 4.0401 |
| • rate as at the end of July 2005 -      | EUR/PLN 4.0758 |
| • rate as at the end of August 2005 -    | EUR/PLN 4.0495 |
| • rate as at the end of September 2005 - | EUR/PLN 3.9166 |
| • rate as at the end of October 2005 -   | EUR/PLN 3.9893 |
| • rate as at the end of November 2005 -  | EUR/PLN 3.9053 |
| • rate as at the end of December 2005 -  | EUR/PLN 3.8598 |
| • rate as at the end of January 2004 -   | EUR/PLN 4.7614 |
| • rate as at the end of February 2004 -  | EUR/PLN 4.8746 |
| • rate as at the end of March 2004 -     | EUR/PLN 4.7455 |
| • rate as at the end of April 2004 -     | EUR/PLN 4.8122 |
| • rate as at the end of May 2004 -       | EUR/PLN 4.6509 |
| • rate as at the end of June 2004 -      | EUR/PLN 4.5422 |
| • rate as at the end of July 2004 -      | EUR/PLN 4.3759 |
| • rate as at the end of August 2004 -    | EUR/PLN 4.4465 |
| • rate as at the end of September 2004 - | EUR/PLN 4.3832 |
| • rate as at the end of October 2004 -   | EUR/PLN 4.3316 |
| • rate as at the end of November 2004 -  | EUR/PLN 4.2150 |
| • rate as at the end of December 2004 -  | EUR/PLN 4.0790 |

1.6. The only controlled entity of the Bank is Fortis Securities Polska S.A. (FSP). Pursuant to Art. 58 of the Accounting Act, the Bank is not obligated to prepare consolidated financial statements, as the financial data of this subsidiary are immaterial for a reliable and transparent presentation of the property and financial situation and financial result of the Bank. As at the end of December 2005, the total assets of Fortis Securities Polska S.A. constituted 1% of the Bank's total assets, FSP total income made up 0.7% of the Bank's total income, while FSP net profit accounted for 2.2% of the Bank's net profit.

2. A type of collateral used by the Bank is the transfer of a specific amount to the Bank's account, whereas the Bank undertakes to return this amount upon repayment of the debt along with interests and fees due. This form of collateral is provided for in Art. 102 of the Banking Law Act dated August 29, 1997. As at December 31, 2005, the value of this type of collateral accepted by the Bank amounted to PLN 202,994 thousand and was recognized as "Due to the financial sector," "Due to the non-financial sector" and "Due to the budget sector" items of the balance sheet, which is a part of this quarterly report.

**3. The information about adjustments made on account of provisions, including deferred tax assets and liabilities, referred to in the Accounting Act:**

- 3.1. As at December 31, 2005, the deferred income tax assets amounted to PLN 30,540 thousand, and deferred income tax liability totaled PLN 10,853 thousand. As at December 31, 2004, the corresponding amount of deferred income tax assets was PLN 29,351 thousand, and deferred tax liability amounted to PLN 9,778 thousand.
- 3.2. The value of FSP SA shares is measured by the equity method. As a result of valuation, the Bank reported an increase of FSP share value, which was recognized in the profit and loss account as a 'share in a net profit/loss of subsidiaries measured by equity method' amounting to PLN 2,214 thousand, and also in the balance-sheet as the revaluation reserve capital increase by PLN 592 thousand.
- 3.3. In the period from January through December 2005, the Bank created provisions for loans and off-balance sheet liabilities in the amount of PLN 51,605 thousand. The above amount includes also a reserve for general risk built in the first quarter of 2005 in the amount of PLN 8,910 thousand to cover risks related to banking activity, including especially the credit activity. The creation of the general risk reserve is one of the stages of the Bank's preparation for the implementation of reporting compliant with the International Financial Reporting Standards. Excluding the general risk reserve, at the end of the fourth quarter the value of provisions created exceeded the value of provisions released by PLN 16,267 thousand.

**4. Effective January 1, 2005, the Bank adopted the following changes to its accounting principles:**

Loans and credit facilities granted are measured at amortized cost using the effective interest rate method and taking into account regulations governing the creation of provisions for risk related to banking activity. The measurement at amortized cost using the effective interest rate method is applied to these loans and credit facilities where terms and amounts of future cash flows have been determined, that is, which have repayment schedule set out.

To determine the effective interest rate, commissions and fees received are taken into account, which are related to the production of a given asset, that is, loan origination fees and fees for the loan amount increase. For the purpose of the effective interest rate determination, the loan origination fee needs to be expressed in the loan currency. In the cases where the fee is charged in a currency different from the loan currency, the fee currency is converted using the currency sell rate as of the fee charging date.

Commissions and fees settled in time using the effective interest rate method are recognized in the interest income from January 1, 2005, whereas commissions and fees settled using the straight-line method are recognized in the commission and fee income from January 1, 2004. As a result, commissions and fees previously recognized when received as one-off income items are at present amortized in time as interest income over the entire life of a given financial instrument.

The measurement rules changed as a result of the introduction of law provisions under the Finance Ministry Ordinance dated December 10, 2001 regarding detailed accounting rules for banks.

In order to obtain comparable data in connection with the implementation of changes to accounting principles effective January 1, 2005, regarding the introduction of the measurement of loan and credit facilities at amortized cost using the effective interest rate method, changes have been introduced to the balance sheet for the comparable data as of December 31, 2004. The changes on account of data transformation and their effect on the net profit/loss and solvency ratio were presented in item 33 of the Additional Notes of the Semi-Annual Report of Fortis Bank Polska SA published on September 28, 2005.

For comparable periods, the Bank does not have data transformed on account of the change of accounting principles.

In Quarter IV of 2005, the rules of vehicle depreciation computation were changed. For three years, the depreciation rate of 33% will be applied to passenger cars bought under agreement signed on April 29, 2005 with Toyota Motor Poland Company Limited Sp. z o. o. with a repurchase guarantee after three years of the car use. The depreciable amount of the assets is determined after deducting the asset residual value, which is the repurchase value specified in the agreement.

**5. A brief description of the issuer's material accomplishments or failures occurred in the reporting period, with the specification of the most significant related events.**

The main Bank's achievements in four quarters of 2005:

#### Balance sheet items

- ✓ Growth of the credit portfolio from December 31, 2004 by about PLN 928 thousand i.e. 27%;
- ✓ Doubling the number of mortgage loans granted in 2005 and their balance growth by 66% from PLN 371,808 thousand as at December 31, 2004 up to PLN 617,559 thousand at the end of 2005;
- ✓ Improvement in the credit portfolio quality:
  - Non-performing receivables decreased by 11% since the beginning of the fiscal year,
  - The share of non-performing loans in the entire credit portfolio diminished from 8.5% as at the end of 2004 down to 7.4% as at the end of December 2005.
- ✓ Total assets rose by about PLN 1 million or 18% from December 31, 2004.
- ✓ Balances on current accounts went up by 25%, and on term deposit accounts – by 20% since the end of 2004.
- ✓ The balances of Individual Pension Accounts doubled in 2005 from PLN 688 thousand as at December 31, 2004 up to PLN 1,577 thousand at the end of December 2005.
- ✓ The book value per share rose by 18% from PLN 38.98 as at December 31, 2004 up to PLN 45.85 at the end of December 2005.

#### Changes in the selected items of the profit&loss account as compared to December 31, 2004:

- ✓ growth of net interest income by 23%,
- ✓ growth of result on banking activity by 14% ,
- ✓ growth of operating profit by 48%
- ✓ growth of Bank's general expenses by 18%,
- ✓ growth of net profit by 36%,

ROE increased from 14.98% as of Dec. 31, 2004 to 17.44% at the end of 2005.

#### The most important factors affecting the achieved net profit for Quarter IV of 2005.

The net profit for the fourth quarter of 2005 amounted to PLN 24,724 thousand and was lower by about 11% than the result earned in the third quarter of 2005. The result on banking activity grew by PLN 6,361 thousand, i.e. by 8% as compared to the third quarter of 2005 and amounted to PLN 86,343 thousand.

In the fourth quarter of 2005, the FX result increased by 29% from the previous quarter and reached PLN 24,047 thousand.

In comparison to financial results for the fourth quarter of 2004, the following changes of essential profit and loss statement items were noted:

| <i><b>Profit and Loss Statement<br/>Main items</b></i> | <b>Qtr. IV 2005<br/>PLN thousand</b> | <b>Qtr. IV 2004<br/>PLN thousand</b> | <b>Change<br/>(%)</b> |
|--|--------------------------------------|--------------------------------------|-----------------------|
| Net interest income                                    | 41,239                               | 39,991                               | 3%                    |
| Net commission and fee income                          | 20,526                               | 19,980                               | 3%                    |
| FX result  | 24,047                               | 15,605                               | 54%                   |
| Net profit on financial operations                     | 531                                  | (49)                                 | 1,184%                |
| Result on banking activity                             | 86,343                               | 75,527                               | 14%                   |
| Other operating income                                 | 2,646                                | 1,931                                | 37%                   |
| Bank's general expenses                                | 46,063                               | 39,067                               | 18%                   |
| Net charges to/release of provisions and revaluation   | (5,053)                              | (12,446)                             | (59%)                 |
| Gross profit   | 30,135                               | 20,106                               | 50%                   |
| Net profit   | 24,724                               | 17,087                               | 45%                   |

#### **6. Description of factors and events, especially a typical ones, having a material effect on the financial results generated.**

In the fourth quarter of 2005, no a typical factors or events occurred in the Bank's activity that affected its financial results.

#### **7. Explanations regarding seasonal or periodical nature of the issuer's business in the reporting period.**

In the Bank's activity, there are no material seasonal or periodical events.

#### **8. Information regarding the issue, redemption and reimbursement of debt and capital securities.**

In the fourth quarter of 2005, there were no such transactions.

**9. Information regarding the dividend paid (or declared), in total and per one share, broken by ordinary and preference shares.**

The Board of Executives intends to recommend that Shareholders' Meeting should pay no dividend and allocate the entire 2005 net profit to increase the Bank's own funds.

**10. Events that occurred following the date as of which the abbreviated quarterly financial statements were made, which were not included in such statements and which could have a material effect on the issuer's future results.**

In the fourth quarter of 2005, no such events occurred.

**11. Results of changes in the structure of a business unit, including changes following a merger of business units, takeover or sale of capital group units, long-term investments, division, restructuring or discontinuation of business.**

In the fourth quarter of 2005, no such changes occurred.

**12. Information on changes to contingent liabilities or assets occurred in the period from the close of the last fiscal year.**

Changes to contingent liabilities and assets are presented in the table below:

|   | as at<br>December 31, 2005<br>in PLN thousand | as at<br>December 31, 2004<br>in PLN thousand |
|---|---|---|
| <b>I. Contingent liabilities and assets</b> | <b>3,404,019</b>                              | <b>3,001,098</b>                              |
| <b>1. Contingent liabilities granted:</b>   | <b>2,509,107</b>                              | <b>1,620,058</b>                              |
| a) lending commitments                      | 1,960,410                                     | 1,298,294                                     |
| b) guarantees                               | 548,697                                       | 321,764                                       |
| <b>2. Contingent assets received:</b>       | <b>894,912</b>                                | <b>1,381,040</b>                              |
| a) lending commitments                      | 737,016                                       | 798,092                                       |
| b) guarantees                               | 157,896                                       | 582,948                                       |