



# Board of Executives Report on Fortis Bank Polska S.A. Activity for the First Half of 2006

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## **I. SUMMARY OF THE BANK'S ACTIVITY IN 2006**

### **A. Introduction**

Pursuing the development strategy, Fortis Bank Polska S.A. generated very good financial results in the first half of 2006. The Bank earned PLN 58.4 million net profit, i.e. up by nearly 20% from the first half of 2005, when it totaled PLN 48.7 million.

In comparison to the situation as at the end of June 2005, total assets went up by 32%. The Bank reported credit portfolio growth by 52% and growth of non-financial sector customer deposit balance by 25%.

As at the end of June 2006 the Bank's ROE equaled 18% as compared to 16% as at June 30, 2005.

In the first half of 2006 the Bank continued to develop its offer by introducing new service packages for Small and Medium-sized Enterprises, new types of foreign and domestic investment funds and consumer credits (credit cards and cash loans for individual customers). Sales of housing loans proved very successful.

The special attention should also be paid to the dynamic development of commercial banking activity providing services for large and medium-sized companies where not only the credit and deposit production grew significantly but also sales of derivatives and complex foreign trade financing services continuously adjusted to the needs of customers active on the international market. At the same time the Bank has been developing its private banking offering of specialist services for high net worth individuals.

The Bank's subsidiary, Fortis Securities Polska S.A. changed its name into Fortis Private Investments Polska S.A.

### **B. Key factors that affected the Bank's financial performance in the first half-year 2006:**

#### Balance sheet items

- ✓ growth of total assets up to PLN 7,333 million as at June 30, 2006, i.e. by 32% as compared to PLN 5,557 million as at June 30, 2005 and by 15% as compared to PLN 6,370 million as at the end of 2005;
- ✓ growth of the credit portfolio of non-financial sector customers by circa PLN 1,961 million, i.e. by 52% as compared to the balance as at June 30, 2005 and by circa PLN 1,423 million, i.e. by 33% as compared to the situation as at December 31, 2005;
- ✓ improvement in the credit portfolio quality;
  - the value of non-performing receivables net of watch loans was lower by nearly 17% than as at the end of June 2005 and was lower by nearly 9% as at the end of 2005,
  - the share of non-performing receivables net of watch loans in the entire receivables portfolio diminished from nearly 6% as at the June 30, 2005 and from 5% as at December 31, 2005 down to 4% as at the end of June 2006,
- ✓ growth of liabilities towards non-financial sector customers by circa PLN 697 million, i.e. by 24% as compared to the situation as at June 30, 2005 and by circa PLN 394 million, i.e. by 13% as compared to the situation as at December 31, 2005;
- ✓ balances on current accounts went up by 21%, and on term deposit accounts – by 11% since the end of December 2005;
- ✓ the book value per share rose by 16% from PLN 42.56 as at June 30, 2005 and by 7% from PLN 45.88 as at December 31, 2005 up to PLN 49.40 as at June 30, 2006.

#### Changes in the selected items of the Profit & Loss account for the first half of 2006 as compared to the first half of 2005:

- ✓ growth of net interest income by 13% from PLN 83,307 thousand up to PLN 93,951 thousand
- ✓ growth of net FX result by 58% from PLN 31,616 thousand up to PLN 49,982 thousand
- ✓ growth of net result on banking activity by 20% from PLN 157,069 thousand up to PLN 188,828 thousand
- ✓ growth of other operating income by 33% from PLN 4,070 thousand up to PLN 5,400 thousand
- ✓ growth of net operating income by 22% from PLN 58,219 thousand up to PLN 71,273 thousand
- ✓ growth of Bank's general expenses by 29% from PLN 76,496 thousand up to PLN 98,830 thousand
- ✓ growth of gross profit by 22% from PLN 58,219 thousand up to PLN 71,273 thousand
- ✓ growth of net profit by 20% from PLN 48,702 thousand up to PLN 58,423 thousand

## **C. Outside Factors that Affect the Bank's Operation and Development**

### **1. Economic Situation in the First Half of 2006**

In the first half of 2006 there was a visible boost of the economic growth rate. According to GUS (Central Statistical Office), the GDP dynamics stood at 5.2% in the first quarter and, according to the Bank's estimates, it remained at a similar level over the entire first half of the year. Good results of Polish economy are attributed mainly to the improvement of the domestic demand. In the first quarter, individual consumption increased by 5.1% yoy (compared to 1.4 yoy the year before) while the investments increased by 7.4% yoy (by only 1.4 yoy the year before).

The main factor which impacted the boost of consumption growth was higher income in the domestic household sector. In the second quarter of this year the real growth of remuneration fund increased by 6.7% yoy and was similar to the growth rate in the previous quarter. Further, in the second quarter of 2006 there was a clear improvement of income on the social security system. In this period an average retirement and disability pension in the non-agricultural insurance system increased in real terms by 7.4% yoy (as compared to +3.7% in the first quarter of 2006). Growth of individual farmers' pensions in real terms in the second quarter stood at 6% yoy so it was over three times higher than in the previous quarter. As the income from hired labor and social security benefits constitutes jointly about 80% of an average income per person in the domestic household sector, the improvement in those two categories was sufficient to make the growth in the reported period more dynamic.

In the first half of the year the positive investment sentiment continued. High dynamics of economic growth was the key factor determining a need to engage in investment activity: according to a poll survey made by NBP (National Bank of Poland) the usage index of production capacity was in the second quarter equal to 81.3% and was the highest in the entire history of making surveys. The inflow of UE funds, although still limited, also had a positive impact on the evolution of investment processes.

In the first several months of 2006 the export dynamics remained on a high, two-digit level. The exports denominated in euro were higher by 23.3% than a year before (data from GUS). In the same period the income on exports in Polish zlotys exceeded the income in the corresponding period of 2005 by 16.3%. Good foreign sales results partly resulted from the improvement of FX conditions. Demand of the main commercial partners also improved. In the EU-25 countries (which receive 78% of Polish export) the economic growth boosted in the first quarter of 2006 up to 2.2% yoy (from 1.9% yoy in the fourth quarter of 2005).

In spite of a significant improvement of the consumption demand in the first half of the year there was no inflation pressure. In June the inflation rate amounted to 0.8% yoy, so it was similar to the level of December 2005 (0.7% yoy). In the whole analyzed period the inflation rate remained below the lower limit of the inflation goal of the Monetary Policy Council (2.5% +/- 1 percentage point). Short-term price fluctuations resulted mainly from the changeability of fuel, food and regulated prices, while the remaining part of the basket (reflecting strength of the demand pressure on prices) remained stable.

### **2. Situation in the Banking System in the First Half of 2006**

In the first half of 2006 the assets of the banking sector increased by 6.8% and at the end of the period amounted to PLN 674.4 billion. The relation of the banking sector assets to GDP (reflecting the level of saturation with banking services) at the end of the first half of the year was about 67%, which still ranks Poland among the EU countries with the lowest level of this ratio.

The loans and credits of domestic entities is the category which affected the growth of assets in this sector to the highest extent. In the first half of the year they increased by 13% yoy on average. An unquestionable leader in terms of the loan and credit portfolio growth rate was the domestic households' sector, in which the value of loans and credits increased in the first half of the year by 24% yoy on average. Housing loans still grew the fastest (by 46% on average in the first half of 2006). At the same time, there was a visible boost in the growth in the "Other loans and credits" category, which in the first half of 2006 grew by 23% (annualized average), which is much more than ca. 13% reported in the corresponding period of 2005. This positive tendency may result from the credit policy of banks which in the first two quarters of 2006 were inclined to ease credit conditions for domestic households, especially in the consumer credit sector.

The growth of credits and loans in the sector of enterprises was definitely lower (by 4.1% yoy on average in the first half of the year) but the annual dynamics showed some growth tendency. The improvement in this respect was confirmed by the poll survey of NBP, which in the second quarter reported a significant growth of demand for credits and loans in the sector of enterprises. The main, declared reason of contracting loans and credits is financing of investment projects, which means that the investment boom at last translates into the demand for loans and credits in the banking sector.

The most important source of financing the growth of assets is still the growth of deposits. In the first half of

2006 they increased by nearly 10% yoy on average. The vital part in this area was still played by the enterprise sector, in which an average annual growth of deposits amounted to 21% in the first half of the year. It resulted from a further improvement of financial performance of enterprises: in the first quarter of 2006 a net profit was generated by 59.6% of firms as compared to 57.7% the year before. As regards domestic households, the growth of deposits remains low (by 3.2% yoy on average). Low interest rate of this form of savings had a considerable impact on a moderate deposit popularity. For example, according to the NBP an average interest rate of annual deposits was 3.1% in the first half of 2006, so it was lower than a year before by 1 percentage point. A small inflow of deposits to the banking sector was also affected by good results of investment funds which in the first months of the year attracted a considerable amount of spare money of the domestic household sector.

## II. SHAREHOLDERS, CAPITAL AND FUNDS

### A. Share capital

As at June 30, 2006, the Bank's share capital amounted to PLN 30,155,400 and was divided into 15,077,700 common bearer shares of PLN 2 nominal value each. In the first half of 2006, no changes as regards the share capital occurred. The Annual General Meeting (AGM) which was held on June 2, 2006 resolved on the Bank's share capital increase from PLN 30,155,400 up to PLN 452,331,000 using the Company's funds, through the increase of the share nominal value from PLN 2.00 to PLN 30.00, i.e. by PLN 28. The capital increase was registered in the National Court Register on September 4, 2006.

### B. Changes in the ownership structure in the first half of 2006

As at June 30, 2006 shareholders' structure specifying the major shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows:

Shareholder	Number of shares owned		Number of votes at the AGM*	
Fortis Bank S.A./N.V.*	14 941 807	99.10%	11 308 275	75%
Others	135 893	0.90%	135 893	0.90%
<b>Total:</b>	<b>15 077 700</b>	<b>100%</b>		

\*As of June 28, 2001 i.e. after share capital increase as a result of Series J shares issue, Fortis Bank S.A./N.V. in Brussels has held 99.10% of the Bank's shares, however, under Art. 26 of the Banking Law Act of August 29, 1997 (Journal of Laws, no. 140, item 939 as amended) and according to Resolution No. 159/KNB/99 of the Banking Supervision Commission dated 16.08.1999 regarding the permission to acquire the Bank's shares by Fortis Bank S.A./N.V. – Fortis Bank S.A./N.V. may exercise not more than 75% of the total voting rights at the Annual General Meeting of Shareholders.

Fortis Bank SA/NV based in Brussels filed an application to the Banking Supervision Commission for issuing a permission to exceed 75% voting rights at the Annual General Meeting of Shareholders of the Bank. Until the date of publication of this semi-annual report, i.e. until September 27, 2006, this permission has not been issued.

The Bank has not been informed of any agreements that may result in changes in the proportions of shares held by the present shareholders in the future.

### C. Equity capital

As at June 30, 2006, the equity capital of Fortis Bank Polska SA amounted to PLN 744,844 thousand, i.e. by 16% more as compared to June 30, 2005 (PLN 641,656 thousand).

On June 2, 2006, the Annual General Meeting of Fortis Bank Polska SA resolved to allocate the total 2005 net profit of PLN 101,499 thousand to increase the Bank's equity capital: PLN 41,499 thousand for the general risk fund and PLN 60,000 thousand for reserve capital.

The Annual General Meeting resolved also to allocate the entire amount of the fund comprising retained earnings of PLN 64,542 thousand to the additional capital. Negative financial effects related to the implementation of necessary changes to accounting principles at the Bank, in the amount of PLN 2,731 thousand from the implementation of a principle of commission settlement on a straight-line basis and in the amount of PLN 7,468 from the implementation of an effective interest rate, were covered in full with the Bank's additional capital.

A part of the general risk fund in the amount of over PLN 111,270 thousand was allocated to the reserve capital, earmarked in particular for the increase of the Company's share capital. The above facilitated making a decision on the Bank's share capital increase from PLN 30,155 thousand up to PLN 452,331 thousand using the Company's funds, including PLN 243,887 thousand from the additional capital and PLN 178,288 thousand from the reserve capital.

The Bank's equity as a category calculated for the needs of specifying the capital adequacy ratio amounted to PLN 653,295 thousand as at June 30, 2006 and exceed by 27% the capital level required to secure the Bank's business, which was PLN 512,869 thousand as at the end of June 2006.

In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducted PLN 15,970 thousand from equity with regard to its net capital exposure in shares of Fortis Private Investments Polska SA and PLN 17,156 thousand representing 100% of net intangible fixed assets.

The equity structure as at the end of June, 2006, compared to the end of 2005 and the end of June 2005 for the purpose of capital adequacy ratio calculation was the following:

Category	30.06.2006 in PLN thousand	31.12.2005 in PLN thousand	30.06.2005 in PLN thousand
Share capital	30,155	30,155	30,155
Additional capital	403,883	349,539	349,539
Reserve capital	186,177	17,018	17,018
General risk fund	67,045	136,816	136,816
Fixed assets revaluation reserve fund	510	510	510
Financial assets revaluation reserve fund	(1,349)	1,905	4,573
Retained earnings	0	54,343	54,343
Capital exposure (related to Fortis Private Investments Polska S.A.)	(15,970)	(15,360)	(64,515)
100% of net intangible assets	(17,156)	(14,522)	(11,756)
<b>Net equity for the purpose of capital adequacy calculation</b>	<b>653,295</b>	<b>560,404</b>	<b>516,683</b>
<b>Total capital requirement</b>	<b>512,869</b>	<b>407,231</b>	<b>354,676</b>
<b>Capital adequacy ratio</b>	<b>10.29 %</b>	<b>11.11 %</b>	<b>11.71 %</b>

### III. FINANCIAL RESULTS

#### A. Profit and loss account

##### 1. Income on banking activity

Interest income amounting to PLN 165,511 thousand remained the principal component of the banking activity income structure, as compared to PLN 157,448 thousand in the first half of 2005, i.e. it increased by 5%.

The interest income consists mainly of the following items:

- interest on loans: PLN 139,114 thousand versus PLN 123,009 thousand in the first half of 2005,
- interest on inter-bank placements: PLN 6,349 thousand versus PLN 16,442 thousand in the first half of 2005,
- interest on securities: PLN 15,317 thousand versus PLN 11,609 thousand in the first half of 2005.

The Bank's commission and fee income increased by 7%. This item amounted to PLN 45,916 thousand in

the first half of 2006 as compared to 42,831 thousand in the first half of 2005.

In the first half of 2006, the Bank's FX result reached PLN 49,982 thousand, which was higher by 58% than the result of the first half of 2005 when it amounted to PLN 31,616 thousand.

Income on transactions in financial instruments amounted to PLN 80,973 thousand and was higher by 25% than in the first half of 2005 when it amounted to PLN 64,825 thousand. Costs of transactions in securities amounted to PLN 77,149 thousand and the result on financial operations amounted to PLN 3,824 thousand as compared to PLN 3,637 thousand in the first half of 2005, i.e. it was higher by 5%.

## 2. Banking activity costs

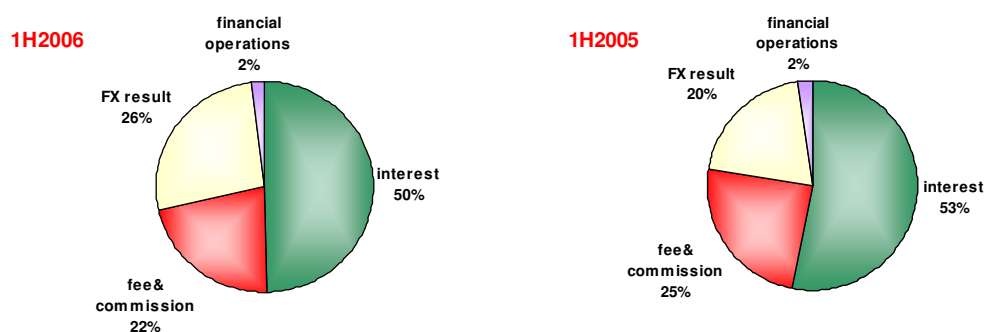
Interest expenses reached PLN 71,560 thousand and were lower by 3.5% than in the first half of 2005, when they totaled 74,141 thousand.

The interest expenses include the following items:

- interest on customer deposits: PLN 39,170 thousand as compared to PLN 46,880 thousand in the first half of 2005
- interest on inter-bank deposits: PLN 16,643 thousand as compared to PLN 10,892 thousand in the first half of 2005
- interest on credits and loans contracted: PLN 10,439 thousand as compared to PLN 11,338 thousand in the first half of 2005.

In the first half of 2006, commission and fee expenses amounted to PLN 4,845 thousand and were higher by 12% than in the previous year when they amounted to PLN 4,322 thousand.

**Chart 1. Structure of result on banking activity in the first half of 2006 and 2005**



	1st half of 2006	1st half of 2005
Net interest income	49.75%	53.04%
Net fee and commission income	21.75%	24.52%
FX result	26.47%	20.13%
Net profit on financial operations	2.03%	2.32%

## 3. Other income and expenses

The balance of other operating income and expenses was positive and amounted to PLN 3,839 thousand as compared to PLN 2,251 thousand in the first half of 2005. A considerable amount of other operating income, which grew by nearly 33% as compared to the first half of 2005, was attributable to the income on account of insurance of loans and credits in the amount of PLN 796 thousand. Other operating costs decreased by 14% as compared to the first half of 2005.

In the first half of 2006, operating expenses reached PLN 98,830 thousand and were higher by 29% compared to the first half of 2005, when they amounted to PLN 76,496 thousand.

Depreciation of fixed and intangible assets amounted to PLN 11,389 thousand in the first half of 2006 and was higher by 25% than the level in the first half of 2005.

In the first half of 2006, costs on account of creating provisions, including general risk reserve, amounted to PLN 24,360 thousand and were lower by 13% than in the first half of 2005. Without this reserve, specific provision creating expenses amounted to PLN 15,272 thousand, i.e. were lower by 20% in



relation to the first half of 2005, which reflects improvement of the credit portfolio quality. On the other hand, provision release income was established at the level of PLN 13,185 thousand as at June 30, 2006 as compared to PLN 12,419 thousand as at June 30, 2005.

In the first half of 2006, the balance of provisions made versus provisions released equaled PLN (11,175) thousand, whereas in the first half of 2005, this difference amounted to PLN (15,482) thousand.

Provisions for at risk receivables constituted the largest item affecting the provisioning level. In the first half of 2006, specific provisions for at risk receivables were created in the amount of PLN 9,843 thousand as compared to PLN 12,719 thousand created in the first half of 2005. In the first half of 2006, provisions for at risk receivables were released in the amount of PLN 9,239 thousand as compared to the amount of PLN 9,750 thousand released in the first half of 2005.

In the first half of 2006, the general risk reserve amounted to PLN 9,088 thousand as compared to PLN 8,910 thousand as at the end of June 2005.

#### 4. Profit

In the first half of 2006, the Bank generated a pre-tax gross profit of PLN 71,273 thousand, which was higher by over 22% compared to the first half of 2005. The mandatory reductions of gross profit amounted to PLN 13,311 thousand.

The Bank's net profit (after tax) in the first half of 2006 amounted to PLN 58,423 thousand and was higher by PLN 9,721 thousand i.e. by 20% compared to the first half of 2005.

Dynamics of selected P&L account items (in PLN thousand)

Profit & Loss Account (in PLN thousand)	01.01.2006 -30.06.2006 in PLN thousand	01.01.2005 -30.06.2005 in PLN thousand	Dynamics 1st half of 2006 - 1st half of 2005 (in %)
Net interest income	93,951	83,307	13%
Net fee and commission income	41,071	38,509	7%
FX result	49,982	31,616	58%
Result on banking activity	188,828	157,069	20%
Net operating income	71,273	58,219	22%
Gross profit	71,273	58,219	22%
Income tax	13,311	10,969	21%
<b>Net profit</b>	<b>58,423</b>	<b>48,702</b>	<b>20%</b>

## B. Balance sheet

### 1. Total assets

As at June 30, 2006, total assets of Fortis Bank Polska S.A. amounted to PLN 7,332,935 thousand, which represents an increase by PLN 1,776,130 thousand, i.e. by 32%, as compared to the end of June 2005.

Structure and dynamics of selected balance-sheet items (in PLN thousand)

Balance-sheet item	30.06.2006	structure	31.12.2005	structure	30.06.2005	structure	dynamics 30.06.2006- 30.06.2005 (in %)
Cash and Central Bank balances	331,387	4.5%	231,374	4%	77,862	1%	326%
Due from other financial institutions	360,062	5%	1,311,254	21%	1,232,208	22%	(71%)
Due from customers and the public sector	5,716,676	78%	4,294,154	67%	3,755,712	68%	52%
Debt securities	718,289	10%	311,428	5%	277,435	5%	159%



Due to other financial institutions	2,655,911	36%	2,178,376	34%	1,736,959	31%	53%
Due to customers and the public sector	3,588,560	49%	3,174,641	50%	2,887,277	52%	24%
Equity (including net profit)	744,844	10%	691,785	11%	641,656	12%	16%
Retained earnings	0	0	54,343	1%	54,343	1%	(100%)
Share capital	30,155	0.4%	30,155	0.5%	30,155	0.5%	--
<b>Total assets</b>	<b>7,332,935</b>	<b>100%</b>	<b>6,369,903</b>	<b>100%</b>	<b>5,556,805</b>	<b>100%</b>	<b>32%</b>

## 2. Assets

Receivables due from customers and public sector constitute the principal component of the Bank's assets and as at the end of June 2006 accounted for almost 78% of total assets as compared to 67% as at the end of June 2005.

The net portfolio of loans (without interest) granted to the above customers increased by PLN 2,013,288 thousand, i.e. by 52%, up to PLN 5,853,643 thousand as compared to June 30, 2005. Provisions for non-performing loans due from customers amounted to PLN 150,656 thousand as at June 30, 2006. The share of non-performing receivables due from customers, in the amount of PLN 232,489 (excluding the watch category) stood at approximately 4% in the total credit portfolio.

As at June 30, 2006, the value of debt securities amounted to PLN 718,289 thousand. Their share in the assets increased from 5% as at June 30, 2005 to 10% as at June 30, 2006.

As at June 30, 2006, the securities portfolio consisted of securities issued by the Polish State Treasury and the NBP. The composition of the portfolio was as follows:

- State Treasury bonds: PLN 684,106 thousand
- Treasury bills issued by the Ministry of Finance: PLN 8,849 thousand

The Bank also holds NBP bonds issued due to the reduction of the mandatory reserve rate: PLN 25,334 thousand.

As at the end of June 2006, the share of cash and funds on the National Bank of Poland account balances in total assets increased. As at June 30, 2006, it amounted to PLN 331,387 thousand, which made up 4.5% of assets while as at June 30, 2005, it amounted to PLN 77,862 thousand, what presented only 1% of total assets.

Receivables due from the financial sector, including placements with other banks, accounted for 5% of total assets as at June 30, 2006 and were significantly lower as compared to June 30, 2005 when they accounted for 22% of total assets.

As at June 30, 2006, the following items are included:

- PLN receivables: PLN 261,982 thousand
- foreign currency receivables: PLN 98,154 thousand

In comparison to the end of June 2005, the value of fixed assets increased by PLN 1,581 thousand. The fixed assets primarily include:

- leasehold improvements (on rented office space): PLN 20,487 thousand
- means of transport: PLN 10,344 thousand
- computer hardware: PLN 7,008 thousand

Intangible fixed assets as at June 30, 2006 amounted to PLN 17,156 thousand, i.e. by 46% more than as at June 30, 2005. This item included computer software.

Other assets accounted for 0.2% of total assets.

*Bank's commitment concentration structure data including main geographical regions of the country and specific sectors have been presented in Additional Notes, Section 1.*

*Detailed data on financial assets, their description and measurement are presented in Additional Notes in Section 4.2.*

### 3. Liabilities

Liabilities towards a non-financial and public sector on account of funds deposited on current accounts and term deposits make up the main item in the structure of liabilities. As at June 30, 2006 deposits from customers and the public sector reached PLN 3,588,560 thousand and increased by PLN 701,283 thousand as compared to June 2005. They represented 49% of total liabilities versus 52% in the first half of 2005. The major part of these deposits was denominated in Polish zlotys: PLN 2,693,098 thousand, representing 75% of all customer deposits. Foreign currency deposits reached PLN 895,462 thousand as at June 30, 2006.

As at the end of June 2006, the share of the financial sector's deposits in balance sheet total increased. As at June 30, 2006, it accounted for 36% of total liabilities, compared to 31% as at June 30, 2005.

Special funds and other liabilities accounted for 1% of the balance sheet total as at June 30, 2006. The main item (67%) concerns inter-bank settlements amounting to PLN 60,259 thousand.

Other provisions item increased from PLN 26,526 thousand as at June 30, 2005 to PLN 32,995 thousand as at June 30, 2006 and included general risk reserve (PLN 29,998 thousand), provisions for contingent liabilities (PLN 2,094 thousand), provisions for onerous contracts in the amount of PLN 887 thousand and provision for future liabilities (PLN 16 thousand).

### 4. Off-balance sheet items

As at June 30, 2006, off-balance sheet items stood at approximately PLN 17,709,289 thousand and were higher by PLN 8,037,696 thousand as compared to June 30, 2005 (i.e. by 83%).

Off-balance sheet items consist of:

- Off-balance sheet items relating to commitments of the Bank:
  - financial, including granted credit lines, VISA charge card limits and credit card limits, commitment letters and opened letters of credit: PLN 2,213,888 thousand (up by 62%),
  - guarantees, including issued suretyships and guarantees, guarantee commitment letters and export letters of credit confirmed by the bank: PLN 603,178 thousand (up by 40%).
- Contingent assets received:
  - financial in the form of opened credit lines: PLN 925,603 thousand (up by 27%)
  - guarantees, including received guarantees, suretyships and counter-guarantees, received guarantees on standby letters of credit and others: PLN 130,777 thousand (down by 39%).

Commitments related to carrying out foreign currency exchange transactions, which were concluded before the end of June 2006 but not yet mature as at June 30, 2006: PLN 5,164,084 thousand, i.e. increased by 56% as compared to June 30, 2005, when they amounted to PLN 3,311,394 thousand. They include day-to-day foreign exchange transactions (spot) and forward transactions (market swap transactions and forward transactions).

The value of derivatives grew by 139% from PLN 3,620,819 thousand as at June 30, 2005 up to PLN 8,671,759 thousand.

Derivatives according to their par value include:

- IRS contracts held for trading: PLN 785,588 thousand
- FX contracts held for trading: PLN 1,676,709 thousand
- FX swap contracts held for trading: PLN 111,239 thousand
- FRA contracts held for trading: PLN 1,002,170 thousand
- FX options held for trading: PLN 2,335,881 thousand
- IR options held for trading: PLN 84,482 thousand
- hedging IRS contracts: PLN 150,000 thousand related to hedging the fair value.

## C. Performance indicators

Indices	30.06.2006	31.12.2005	30.06.2005
Return on assets (ROA)	1.8%	1.8%	1.6%
Return on equity (ROE)	18.1%	17.5%	15.7%
Net interest margin	2.84%	2.98%	3.09%
Profit per share	7.38	6.73	5.65
Book value per share	49.40	45.88	42.56

*Note: all values have been rounded up.*

These indicators were calculated as follows:

Return on assets (ROA)	Net profit earned for the last 12 months to annual average of monthly asset balance
Return on equity (ROE)	Net profit earned for the last 12 months to annual average of monthly equity balance
Net interest margin	Net interest income to annual average of monthly asset balance
Profit per share	Net profit earned for the last 12 months to average weighted number of shares issued
Book value per share	Book value to the number of shares issued

## D. Management of funds

### 1. Sources of funding, credits, loans, guarantees and sureties

Deposits, both from business entities and individuals, constitute the most important source of financing of the Bank's credit activity. In the first half of 2006, liabilities due to financial sector increased by 53%. Similarly to the previous years, Fortis Bank Polska S.A. used credit lines from Fortis Bank (Nederland) N.V.: one facility up to EUR 200 million for 101 months to finance current operating business of the Bank, and the other one up to EUR 200 million for 27 months with the option to extend.

As at June 30, 2006, the total outstanding balance on account of credit lines granted by Fortis Bank (Nederland) N.V. equaled PLN 1,252 million as compared to PLN 1,086 million as at June 30, 2005.

In July 2006 the Bank concluded another agreement on using a credit line from Fortis Bank (Nederland) N.V. in order to finance current operating business of the Bank on the basis of which the Bank may draw down advance payments in EUR, USD, CHF, JPY and also in PLN up to the amount of EUR 300 million, i.e. ca. PLN 1,174 million.

*Data on fund acquisition and utilization sources, with a breakdown into the main geographical regions of the country and specific sectors, have been shown in Additional Notes in Section 2.*

## E. Interest Rate

Basic variable interest rates applied to loans by the Bank are based on LIBOR/EURIBOR rates for foreign currency loans, and WIBOR rate for PLN loans. Fixed interest rates, which are not subject to change before expiry of the loan agreement, are also applied.

In the first half of 2006, the Monetary Policy Council reduced the level of official NBP interest rates by 50 base points.

In response to the situation at the money market, the Bank modified interest rate on deposits and loans in EUR and USD accordingly.

In the first half of 2006, the average nominal interest rate of current and term deposits assumed the following values:

1. PLN deposits – 2.4084 %
2. foreign currency deposits – 1.0650%

Average nominal interest rates for performing loans, broken by currency, were the following in the first half of 2006:

1. PLN loans – 5.8208%
2. EUR loans – 4.8147%
3. USD loans – 6.1055%
4. CHF loans – 2.5566%.

## **IV. DESCRIPTION OF BASIC RISKS AND THREATS**

### **A. Risk types and risk management**

#### **1. Management of liquidity, interest rate and FX risks**

The Bank defines liquidity risk as the risk of losing its ability to: attend its payment commitments when due, acquire funds which are alternative to funds currently held, generate a positive cash flow balance within a specified time interval. Defective liquidity management processes are one of the main factors that generate liquidity risk.

Interest rate risk is a transaction-related interest rate risk and a market interest rate risk. Transaction-related interest rate risk is a risk of entering by the Bank into transactions on unfavorable conditions differing from market conditions (transaction risk). Market interest rate risk is related to unfavorable changes in the Bank's financial result or the Bank's equity amount, which arises from one of the following reasons: i) a different way of making dependent interest rate of the Bank's assets and liabilities financing such assets on market rates (mismatch risk); ii) changes in market interest rates that have influence on fair value of the Bank's open positions (interest rate volatility risk) or iii) effecting by customers options built in the bank product which may be made as a result of changes to market interest rates (customer option risk). The Bank believes that a significant factor, which generates interest rate risk, is related to defects and flaws of the risk management system and related processes.

FX risk comprises market FX risk and foreign currency transaction risk. Market FX risk is linked to adverse changes to the Bank's financial result caused by changes in market Forex SPOT rates. Foreign currency transaction risk is linked to adverse changes to the Bank's financial result arising from concluding by the Bank a foreign currency transaction on conditions, which are not convenient for the Bank and differ from market conditions. The Bank believes that a significant factor, which generates FX risk, is linked to defects and flaws of the risk management system and related processes.

With the development of a more integrated risk management structure in view, in the beginning of 2006 the Bank Board of Executives took a decision on transforming the Assets and Liabilities Management Committee (ALCO) into the Risk and Assets and Liabilities Management Committee (Risk & ALM Committee) and on appointing Chief Risk Officer, who reports directly to the President of the Board of Executives.

The Risk and ALM Committee plays a vital role as regards liquidity risk management, market risk and assets and liabilities management risk, and as far as strategic aspects of credit risk management and operational risk are concerned. In particular, the Committee determines risk management strategies and controls, on a regular basis, how such strategies are pursued. In the first half of 2006 the Committee amended the strategy and policy of liquidity management. The Risk and ALM Committee, which is authorized to appoint committees to support its work, appointed the Liquidity, Market and ALM Risk Management Committee.

The Bank monitors the liquidity risk, FX risk and interest rate risk by means of the multidimensional system of limits and reports.

#### **2. Operational and legal risk management**

For the needs of the operational risk management, Fortis Bank Polska S.A. has adopted an operational risk definition recommended by the Basle Committee in the New Capital Accord, according to which it is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risk includes legal risk, whereas reputation and strategic risks are excluded.

To reduce operational risk, the Bank uses the system for operational risk monitoring which is based on databases containing information on existing operational losses. The operational loss register is supervised by the Risk Department. The Bank attaches special importance to reducing operational risk by the process

of improving internal procedures and mitigating operational risk, which accompanies the introduction of new products and services.

The role of the Risk and ALM Committee is fundamental in the operational risk management. In the first half of 2006, the Risk and ALM Committee updated the strategy and policy of operational risk management by setting out objectives with respect to the quality of the operational risk management and the manner of the Bank's adjustment to the New Capital Accord requirements likewise the requirements under Recommendation M issued by the Banking Supervision Commission. The Risk and ALM Committee, which is authorized to appoint committees to support its work, appointed the Operational Risk and Business Continuity Management Committee.

To secure business processes is the key objective of the comprehensive Fortis Bank Polska S.A. Security Policy. The purpose of the Bank's Security Policy - which covers both a physical and technical safety, the safety of data and information systems - is to provide the customers and employees of the Bank with a maximum level of protection, i.e. by providing the basics for a safe management of the Bank's activity and directing attention to mitigating risks to the level regarded by the Board of Executives as acceptable.

The following programs are in force at Fortis Bank Polska S.A.: "Anti Money Laundering and Detection of Terrorist Financing Program" and „Know Your Customer Program". The Program Coordinator appointed by the Board of Executives of the Bank is responsible for the performance of task and obligations laid down in the Anti Money Laundering Program. Besides, coordinators responsible for the performance of the Program at the level of a respective unit have been appointed in each branch and the units of the Bank's Head Office.

The legal basis for the Anti Money Laundering Program is the Act of 16 November 2000 on counteracting the bringing into financial circulation any asset values originating from illegal or undisclosed sources, likewise on counteracting the financing of terrorism. Upon accepting by the Bank any customer order or instruction with a view to effecting a transaction whose circumstances indicate that funds may originate from illegal or undisclosed sources, such transaction is recorded by the Bank in the bank register and the General Inspector for Financial Information (GIIF) is immediately informed of the fact in writing. When the Bank accepts a customer order or instruction to effect a transaction whose Polish equivalent exceeds EUR 15,000, the Bank's employee identifies the customer who places such an order or instruction and records a transaction in the bank register. Following 1 July, 2004, all data on transactions recorded in the Bank's register are reported by Fortis Bank Polska to the General Inspector for Financial Information (GIIF).

Fortis Bank Polska S.A. does not cooperate with any virtual banks without a physical registered office.

### **3. Credit risk management**

Credit risk is assessed on the basis of the Bank's internal standards, taking into account national credit regulations in force as well as standards binding in the Fortis group.

In the credit process applied by the Bank, functions related to customer acquisition and sale of credit products as well as credit risk assessment are distributed organizationally. Customers are acquired and products sold by the business lines: Commercial Banking, Private Banking, Retail Banking and Consumer Finance, while risk is assessed by Credits. Credits supervise credit activity of the Bank as far as credit risk analysis and monitoring is concerned, with respect to defining credit standards and procedures, credit administration, keeping credit files and observing debt recovery procedures.

Credit risk management on the operational level is the main responsibility of the Credit Risk Monitoring Department. Credit risk analysis is carried out based on a standard credit assessment methodology applied by the Bank. Both a specific credit product related risk and the Bank's total exposure risk towards an entity are analyzed, including all credit facilities granted and financial products that convey such risks.

In order to limit credit risk, the Bank applies internal procedures for loan granting and monitoring. The Bank's system applied to analyze credit applications and make credit decisions has several levels. This is to ensure a maximum objectivity in the assessment of a credit request and reduce the Bank's credit exposure risk. Credit decision-making model includes the following criteria: the Bank's total exposure towards a customer, assignment to a customer, internal rating, and credit risk category. The Bank introduced principles of setting up and monitoring sector exposure concentration limits.

Under the Fortis group's preparations to adjust to the requirements of the New Basle Capital Accord, the Bank takes an active part in projects that aim at implementing credit risk assessment methods to establish the required regulatory capital. Fortis Masterscale Rating, the system of internal rating, was introduced at the Bank. In the first half of 2006 the Bank implemented for usage an internally developed software

application called Rating Tool, which combines various elements of rating process in one tool, ensures the control of correctness and completeness of the portfolio credit rating, archives historical ratings in the database and generates rating reports.

At the turn of 2005/2006 the Bank assumed work to move from current rules of credit risk assessment and creation of specific reserves into the rules of estimating the permanent loss of value of assets according to the International Financial Reporting Standards (IAS 39 Financial Instruments – Recognition and Measurement and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). Currently, work on development of internal procedures and IT software applications is carried out, which will enable implementation of IFRS rules as at January 1, 2007.

The Bank uses internal IT tools to standardize the process of credit portfolio risk monitoring and classification process and to archive data for the needs of risk assessment models. The Bank uses a separate IT tool, i.e. the WIND system, to monitor and recover past due receivables. For the purposes of credit portfolio review and monitoring the Monitoring Card is used.

The Bank participates in the Banking Register system whose data administrator is the Polish Bankers Association (ZBP) and the Credit Information Bureau system. The participation in these information exchange systems as regards bank credit customers allows more thorough assessment of credit risk and accelerates the process of analyzing credit applications and making credit decisions.

Centralized credit commercial customer database is being developed by the Bank.

In 2005, a credit policy was implemented regarding real estate financing, lending funds to small enterprises and granting mortgage loans. In connection with changes to the rules of granting mortgage loans, relevant modifications were made to the software applications supporting workflow and processing of mortgage loans. Work on projects aiming at further improvement of credit processes is carried out, in particular including reorganization of the mortgage loans service system which takes into account requirements related to credit risk assessment pursuant to Recommendation S issued by the Banking Supervision Commission.

In the first half of 2006 the authorizations related to strategic management of credit risk were entrusted to the Risk and ALM Committee. The Credit Risk Strategic Dimension Management Group was created within the Risk Management Department, which is responsible for credit risk management at an aggregated level, which covers in particular:

- checking whether a binding strategy and policy have been effectively communicated and applied at the Bank and also monitoring their adequacy and compliance with legal requirements in force,
- credit engineering development,
- portfolio management that encompasses monitoring of the entire credit portfolio's composition and quality, including monitoring of credit risk concentration,
- providing the Bank Board of Executives with information on contracting parties and loan agreements allowing the Board to assess the credit portfolio standing,
- designing, implementation, management and continual improvement of the internal control system in order to ensure that the Credits and its employees act in compliance with the binding law provisions, regulations and ethical standards.

*A detailed description of financial risk management rules and financial instruments held in the Bank's portfolio has been presented in Additional Notes Section 4.2.15.*

#### **4. Capital adequacy ratio**

The capital adequacy ratio was 10.29% as at June 30 2006, compared to 11.71% at the end of June 2005. This indicator represents the relationship between the Bank's equity and risk-weighted assets and off-balance sheet items increased by capital requirements related to specific risks. The scope and detailed rules of capital requirements related to specific risks calculation and capital adequacy ratio calculation is defined in *Resolution No. 4/2004 dated September 8, 2004* issued by the Banking Supervision Commission.

The Bank's equity (as a category computed for calculation of capital adequacy ratio) increased by 25% up to PLN 653,295 thousand as at June 30, 2006 as compared to the level of PLN 516,683 thousand as at June 30, 2005, while risk-weighted assets and off-balance sheet items grew from the level of PLN 4,400,081 thousand as at June 30, 2005 up to PLN 6,334,226 thousand as at June 30, 2006, i.e. by 44%.

### Capital adequacy ratio and its determinants

<b>Indices</b>	<b>30.06.2006 in PLN thousand</b>	<b>31.12.2005 in PLN thousand</b>	<b>30.06.2005 in PLN thousand</b>
Risk-weighted assets	5,798,926	4,576,388	4,045,167
Risk-weighted off-balance sheet items	535,300	448,345	354,914
Net equity for the purpose of capital adequacy calculation	653,295	560,404	516,683
Short-term capital	6,131	5,253	2,670
Credit risk	506,738	401,979	352,006
Interest rate risk	3,496	3,294	576
Delivery settlement and counterparty risk	2,635	1,958	2,094
Total capital requirement	512,869	407,231	354,676
<b>Capital adequacy ratio</b>	<b>10.29%</b>	<b>11.11%</b>	<b>11.71%</b>

*Capital adequacy ratio has been calculated in the following way: net equity/total capital requirement \*12.5*

## **V. OPERATING ACTIVITY**

### **A. Credit activity**

Credit activity is one of the Bank's main sources of income. The Bank offers the following credit products:

- a. Loans for enterprises:
  - overdraft credit facility
  - working capital and investment loans (PLN and FC)
  - mortgage loans for companies
  - loans against EU subsidies

In the first year of 2006 the Bank introduced a new type of revolving working capital loan for enterprises called tranche loan.

- b. Retail credit granted within product Packages for private individuals:
  - debit limit
  - fast loan
  - cash loan
  - mortgage loans
- c. credit products for Individual Customers offered by the Consumer Finance
  - credit card
  - cash loan

The Bank also issues PLN and FC guarantees, opens import letters of credit, advises and confirms export letters of credit.

#### **1. Non-financial sector credit portfolio profile**

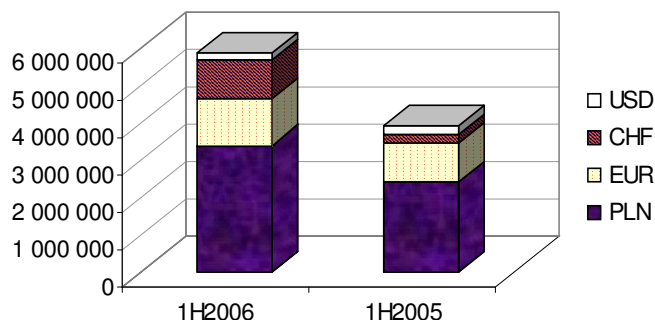
The gross value of the credit portfolio (including interest, without provisions) totaled PLN 5,984,530 thousand and was by 32% higher than at the end of June 2005. The value of outstanding loans portfolio (with interest) due from customers totaled PLN 5,866,823 thousand at the end of June 2006, i.e. rose by 50% as compared to PLN 3,915,055 thousand as at the end of June 2005.

The value of the PLN non-financial sector loan portfolio (without interest) at the end of June 2006 totaled



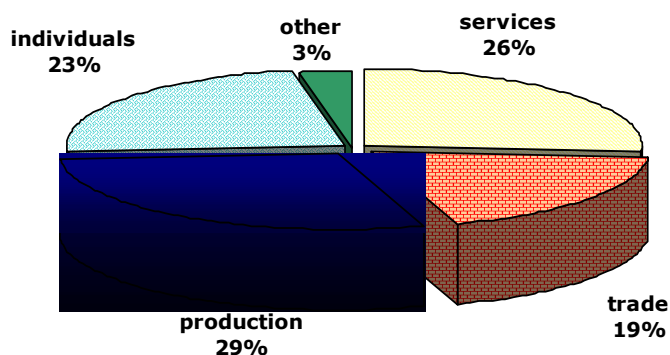
PLN 3,387,411 thousand and was by 40% higher as compared to June 2005. Whereas, the value of the EUR portfolio stood at PLN 1,255,685 thousand at the end of June 2006, i.e. increased by 20% as compared to June 2005. The balance of CHF loans (converted to PLN) was equal to PLN 1,033,224 thousand at the end of June 2006, i.e. increased by 382% from the level of PLN 214,505 thousand as at the end of June 2005. The volume of USD loans (converted to PLN) decreased by 22% as compared to June 2005 and equaled PLN 190,096 thousand as at June 30, 2006.

**Chart 2. Currency structure of the credit portfolio (with interest) as at June 30, 2006 and June 30, 2005.**



The Bank's exposure focuses on the following sectors: production, services, private individual customers and trade and as at the end of the first half of 2006 it made up 29%, 26%, 23% and 19% of the credit portfolio value, respectively. As far as all other sectors are concerned, the exposure is relatively low. As compared to June 30, 2005, the Bank decreased its exposure in service and trade sectors whereas the exposure in private individual customers' segment and production sector increased. The highest growth of exposure was reported in the nonferrous metallurgy sector, whereas the biggest decrease was reported in the sea transport sector.

**Chart 3. Credit portfolio economic sector structure as at June 30, 2006**



*Information on the structure of the Bank's exposure in the specific economic sectors is presented in the additional notes (Section 1.1.)*

In terms of original maturities, at the end of June 2006, the structure of receivables from the non-financial sector was as follows: 19% represented overdrafts (decrease by 2% as compared to the first half of 2005), 17% - with a maturity of maximum 1 month (decrease by 5% as compared to the first half of 2005), 3% - with a maturity of 1-3 months (decrease by 4% as compared to the first half of 2005), 3% - with a maturity of 3 months to 1 year (no change), 8% - with a maturity of 1-5 years (decrease by 3%) and 50% - with a maturity exceeding 5 years (16% increase as compared to the first half of 2005).

## 2. Non-performing loans

As at June 30, 2006, the value of non-performing loans (without interest) due from non-financial entities (excluding the watch category) decreased by 17% as compared to the amount of PLN 232,489 thousand as at June 30, 2005, and made up 4% of the total loan balance in that sector. PLN 28,762 thousand represented substandard loans (i.e. 1% of the portfolio value), PLN 53,739 thousand – doubtful

receivables (i.e. 0.5% of the portfolio value) and PLN 149,988 thousand – lost loans (i.e. 2.5% of the portfolio value).

### **3. Enforcement titles**

In the first half of 2006, 73 enforcement titles for the total amount of PLN 11,070 thousand were issued with respect to the Bank's receivables, as compared to 161 titles of the total value of PLN 33,672 thousand in the first half of 2005.

## **B. Issued guarantees and letters of credit**

As of the end of June 2006, the amount of guarantees issued by the Bank reached PLN 442,588 thousand, which represents a 20% increase in comparison to the end of June 2005, when it equaled PLN 369,739 thousand.

*Detailed information on guarantees issued by the Bank with a breakdown into currencies is shown in the additional notes (Section 9).*

As at the end of June 2006, the Bank's commitments under opened import letters of credit totaled (in the PLN equivalent) PLN 131,429 thousand, i.e. by 25% higher than at the end of June 2005, when they totalled PLN 104,893 thousand. Moreover, the Bank has on its books confirmed export LCs in the PLN equivalent of 94,561 thousand.

*Sections no. 8 and 9 of the Additional notes include data regarding LCs opened by the Bank.*

## **C. Deposits**

As at the end of June 2006, the balance of funds deposited by customers of non-financial and budgetary sector likewise financial sector (banks excluded) totaled PLN 3,744,488 thousand, and was by 23% higher than at the end of June 2005, when deposits amounted to PLN 3,042,183 thousand. Customers may make deposit also in foreign currencies however the majority of deposits, i.e. 75%, are held in PLN.

Deposit-related activity is conducted through the Bank's branches, Business Centers, Treasury Department and e-banking systems.

The Bank offers current and auxiliary accounts, FC accounts, PLN or FC accounts for non-residents, Silver, Gold, Platinum accounts, IKE savings and checking account, PLN and FC fixed and variable interest deposits with different maturity dates, including deposits with negotiable interest rates (depending on the deposit amount, term and the situation on the interbank market), and collective accounts for non-residents. Institutional clients are also offered deposits priced based on interest rates on the interbank market.

The Bank offers three basic packages of services to its individual customers: Silver, Gold and Platinum. These packages enable an effective and safe management of funds deposited on savings and checking accounts. Within the packages the Bank offers deposit and loan products, payment cards, investment services and e-banking services. The Bank also offers VISA Electron cards, credit cards and PI@net Internet banking system as well as the e-Package based on the electronic banking system.

## **D. Custody services**

The Bank offers services related to custody and transaction settlement with respect to securities traded on the Polish regulated and non-regulated markets and acts as an agent in transactions concluded on international markets. Under the Decision issued by the Securities and Exchange Commission of July 14, 2000 (KPWiG-4042-2/2000), custody services are provided by the Custody Services Group separated from the Bank's structure.

At the beginning of 2005, the Bank started to act as a Depositary for two sub-funds under open investment fund, FORTIS FIO, founded by Towarzystwo Funduszy Inwestycyjnych Skarbiec S.A. In its capacity as Depositary, the Bank is particularly responsible for calculating the value of net asset value, estimating the value of participation unit and controlling whether operation of funds is compliant with law.

In its capacity as Paying Agent, the Bank also monitors, by the Custody Services Group, the distribution of participation titles in foreign investment funds from operational perspective. 15 sub-funds were offered under Luxembourg Fortis L Fund managed by Fortis Investment Management in Luxembourg at the end

of 2005. Furthermore, in May 2006, the Custody Services Group was busy with the process of subscription to the Luxembourg L Fix Fund, Equity 6 subfund.

## **E. Money market and debt securities operations**

The Bank's activity on the money market and the market of debt securities may be differentiated into the following categories:

- activity related to liquidity management,
- activity related to the management of interest rate risk,
- activity related to the Bank's investment policy concerning equity funds.

The Treasury Department is responsible for the Bank's liquidity and interest rate risk on the operational level. This involves ensuring funding sources for the Bank's assets and investment of financial surpluses. To this end, the Treasury Department makes placements and deposits on the interbank market, FX swap transactions and investments in State Treasury bills and bonds and NBP bills.

The Bank's investment policy is established by the Risk and ALM Committee. Capital is first of all invested in debt securities issues by the State Treasury or NBP.

The Bank offers derivative transactions to secure against interest rate risk and FX risk such as: Forward Rate Agreement (FRA), Interest Rate Swap (IRS), Overnight Interest Swap (OIS) as well as foreign exchange options and European interest rate options. The Bank's offer is developing dynamically especially as far as option transactions are concerned. In 2005, the following options have been introduced into the Bank's offer: American FX options, barrier options, and Asian options such as Average Rate Options. Such transactions are offered to customers running business activity and entered into by the Bank on the interbank market.

## **F. Clearing activity**

With regard to domestic and foreign settlements, the Bank's business customers are offered the following services:

- cross-border transfers: handling incoming and outgoing payment orders in convertible currencies and PLN
- domestic transfers
- direct debit
- day-to-day foreign exchange transactions
- forward transactions
- securities accounts
- documentary import and export letters of credit
- discount of export letters of credit
- collection of checks of other banks
- collection of checks drawn on foreign banks
- documentary collection

Outgoing PLN payments to domestic banks are now settled electronically only through the ELIXIR and SORBNET systems.

As of March 2005, EuroELIXIR and SORBNET-Euro systems were introduced in Poland for domestic Euro payments. As of 30 May, 2005, their functionality was extended by cross-border instructions. From the beginning i.e. since March 2005, the Bank has participated in EuroELIXIR system for handling domestic transfer orders. The Bank handles incoming orders via SORBNET-Euro system, while to clear cross-border transactions the Bank participates in the STEP2 system since August 2005.

Since July 2005, there is a shared service centre (The Payment Shared Service Group) which has been operating as a back-office for foreign outlets of Fortis Bank SA/NV in Europe. Now the shared service center carries out the following services for the newly opened Business Centers:

- clearing of incoming and outgoing domestic transfers (“domestic” from the viewpoint of a serviced Business Centre – BC) in local currencies using local clearing systems,
- clearing of incoming and outgoing foreign transfers using the SWIFT system,
- clearing of transactions of any type concluded by local treasury departments including customers’ and inter-bank transactions,
- disbursing loans granted by local credit departments,
- support to BC in operational work with customers, e.g. handling customer complaints, posting fees and commissions, reporting and support in processes of ensuring liquidity on nostro accounts of particular branches.

The above services are rendered for BCs in Prague, Budapest, Vienna and starting from August 15, 2006 also for Stockholm and Copenhagen. For 2007, the shared service center expansion is planned; services will be rendered to Business Centers also in other countries.

## **G. Co-operation with international financial institutions**

The Bank co-operates with foreign banks in the area of foreign exchange, placement/deposit transactions, securities and banknote transactions. Co-operation with Fortis group and other leading banks enables the Bank to effectively handle payments made by its customers and to carry out instructions received from abroad.

The Bank is a member of the SWIFT international interbank network, which enables faster payment processing, facilitates contact with foreign banks and enables the implementation of new products related to international transactions. Furthermore, the Bank established cooperation with the EBA (European Banking Association) and joined the European clearing system (STEP 2).

## **H. Development of banking services**

In the first half of 2006, in cooperation with Fortis Investments, the asset manager of Fortis, the Bank’s offering of Fortis L foreign investment funds was enlarged by three new subfunds. At present, the Bank offers 15 Fortis L fund subfunds out of 20 registered for distribution in Poland. New subfunds are: Bond Convertible Europe (denominated in EUR), Equity Best Selection Asia (denominated in USD) and Real Estate Europe (denominated in EUR). Fortis L is an umbrella fund registered in Luxembourg and composed of subfunds denominated in USD and EUR adjusted to the investor’s profile in terms of differentiated risk level and rate of return.

In 2006, during one-month subscription, the Bank offered participation titles to closed-end Fortis L FIX Equity 6 investment fund. This is a USD-denominated fund which enables profit generation (up to 26%) without any capital loss risk. The fund invests in shares of 20 international firms, including Apple Computer, DaimlerChrysler, Bristol - Myers Squibb, Eli Lilly, Fortis and France Telecom. The return on investment will depend on the equity basket results.

In the first half of 2006 the Bank continued offering Fortis PI. This is a long-term investment and savings product. Fortis PI is offered in cooperation with AEGON Towarzystwo Ubezpieczeń Na Życie SA (life insurance company). The product combines a portfolio of investment funds wrapped up in an insurance policy and an additional 6-months high-interest bank deposit. Such a product structure enables customers to invest in one or several funds selected from 23 renowned investment funds and freely transfer funds between the funds. One of them is a guaranteed fund from which investors are assured to yield a minimum, predetermined rate of return.

The Bank has widened the credit card offering range for individual customers by a Fotokarta – the first credit card on the market which can be designed on one’s own at [www.fortisfotokarta.pl](http://www.fortisfotokarta.pl). Using the above service, the entire card face surface can be covered with any photograph or another picture in electronic format. The card has also attractive additional services such as skip payment that offers the possibility of postponing the debt repayment to the subsequent month and a special insurance – a guarantee of the lowest price of goods which means that if upon payment for the goods effected with the card it turns out that the same product could have been bought cheaper, then the price difference will be reimbursed to the cardholder. The fotokarta launch was preceded by the offer of the “Ideal” credit card.

In the first half of 2006 the Bank continued also the promotion of mortgage loans for individual customers.

Fortis offered lower interest rate for CHF and PLN loans and charged no loan origination fees. The Bank's very good sales results of these loans are also attributable to the cooperation with renowned financial intermediaries on the Polish market, namely Expander, Open Finance and Creditfield.

In the first half of 2006, services for high-net-worth individuals were also developed. Fortis Bank Private Banking offers comprehensive asset management services.

In the first half of 2006 the Bank developed the offering of commercial mortgage loans. The loan advantages appreciated by customers are long financing period up to 15 years and a wide range of purposes it may be earmarked for, e.g. purchase or construction of real property for intended or existing conducting business or lease, refinancing of investment expenditure or loan repayment in another bank.

In the first half of 2006, the Bank thoroughly restructured its offering for small enterprises and in June launched four service packages. The offering was modified following results of research on this enterprise segment. The Bank surveyed the interest of this customer group in specific financial services and how entrepreneurs use them. Based on that, selected financial tools were modified and relationship managers responsible for the cooperation with customers were trained. Thus a new offering was developed which consist of four packages: Connect, Class, Premium and Premium FX. Each package is earmarked for entrepreneurs of different needs, the distinction criterion being the annual turnover.

## **I. Charity**

Although not involved in charity on any large scale, Fortis Bank Polska SA applies the principles of social responsibility to its undertakings and endeavors to support actions or initiatives for example taken by some local communities.

In the first half of 2006 the Bank continued cooperation with the United Way Poland foundation. The Bank employees voluntarily deduct a declared portion of their salaries and donate it to a social goal. As in previous years, the Bank management has declared to add one zloty to each zloty contributed by an employee, so as to double the amount of funds donated to the *United Way Poland*.

In the first half of 2006 the Bank continued to support financially the institutions with which it has been cooperating for many years, e.g. Integracyjny Klub Sportowy (Integration Sport Club), and was also involved in other charitable actions, among other provided support for Fundacja Dziecięca Fantazja (Child's Imagination Foundation).

## **J. Agreements significant for the Bank's activity**

### **1. Credit Agreements of January 30, 2004 signed with Brussels-based Fortis Bank and Fortis Bank (Nederland) N.V. based in Rotterdam**

On January 30, 2004, the Bank signed two credit agreements with Fortis Bank SA/NV with the office registered in Brussels and Rotterdam-based Fortis Bank (Nederland) NV:

- Credit agreement with Fortis Bank (Nederland) NV regarding the Bank's credit line with the limit of EUR 200 million for the period of 101 months in order to finance the Bank's operating activity. Under this credit line, the Bank can draw down advance payments in EUR, USD, CHF and JPY within 76 months of the agreement conclusion. Interest rate: 1, 3, 6 or 12-months. IBOR depending on the currency and interest rate term for specific advances. Commission: 0.125% p.a. on the unused credit limit amount.
- the second agreement with the limit of EUR 200 million was concluded for the period of 27 months under similar terms and conditions and was prolonged in 2006.

### **2. Credit Agreement of July 27, 2006 signed with Brussels-based Fortis Bank and Fortis Bank (Nederland) N.V. based in Rotterdam**

On July 27, 2006, the Bank signed another credit agreement with Fortis Bank SA/NV based in Brussels and Fortis Bank (Nederland) N.V. based in Rotterdam, regarding the Bank's credit line with the limit of EUR 300 million for the period of 60 months in order to finance the Bank's current operating activity.

Under this credit line, the Bank can draw down advance payments in EUR, USD, CHF and JPY and also in PLN within 60 months of the agreement conclusion. Interest rate: 1, 3, 6 or 12-months. IBOR depending on the currency and interest rate term for specific advances. Commission: 0.125% p.a. on the unused credit limit amount.

### **3. Co-operation agreement of 7 January 2000 made with Fortis Securities Polska S.A. (currently Fortis Private Investments Polska S.A.)**

The subject of the Agreement (including annexes thereto) is cooperation between the Bank and Fortis Private Investments Polska S.A. with respect to customer service outlets (POKs) and information desks (PI) of Fortis Private Investments Polska S.A. located in the Bank's branches and financial intermediary of the Bank in selling the products of Fortis Private Investments Polska S.A.

On July 28, 2005, Annex no. 5 was signed, aimed to further develop co-operation in agency services for the sale of FORTIS FIO products.

### **4. Agreement on sale of shares concluded on December 30, 2005 with Fortis Securities Polska S.A. (currently Fortis Private Investments Polska S.A.)**

Under the agreement, the Bank sold to Fortis Private Investments Polska S.A. 1,832,746 R series shares and 99 S series shares that jointly account for 82.94% of FPIP share capital in order for FPIP to redeem them and decrease the share capital. The total price of the purchased shares was PLN 50,000,011.60. The agreement was performed in 2006.

### **5. Co-operation Agreements made with Fortis Lease Polska Sp. z o.o.**

- a. Cooperation agreement of January 2, 2002
- b. Cooperation agreement of February 17, 2005

According to these agreements, the Bank informs its customers that financing is available under leasing at Fortis Lease Polska (FLP). For each lease agreement signed by a customer introduced by the Bank, the Bank receives an agency commission.

A further co-operation agreement was signed on February 17, 2005 providing details of the cooperation and settlements with the Retail Banking Business Line. In performance of this agreement, the Bank entered into guarantee agreement with FLP Sp. z o.o. for 50% of respective FLP receivables arising from leasing agreements made through the Bank.

*Agreements regarding transactions with parent entities and subsidiaries are presented in Sections 16.1 and 2 of the Additional Notes.*

### **6. Loan Agreements concluded with the European Bank for Reconstruction and Development (EBRD)**

The European Bank for Reconstruction and Development granted two (2) credit lines to the Bank in 2000 and 2001 – up to EUR 10 million and EUR 20 million respectively for the period of 5 years (starting from 2000) to be used for financing small and mid-sized enterprises.

In 2003, the Bank discontinued granting new loans from EBRD funds; however, it still provides services for the already granted credit facilities until they are paid off. Outstanding debt balance amounted to PLN 20,217 thousand (EUR 5 million) as at June 30, 2006 compared to PLN 40,401 thousand (EUR 10 million) as at June 30, 2005.

### **7. Agreements with the NBP**

- a. **Bank account agreement of June 23, 2000.** Under this Agreement, the NBP maintains a current account for the Bank in the SORBNET system. On December 30, 2005 Annex no. 15 to the above Agreement was signed.
- b. **Agreement stipulating the terms and conditions for opening and maintaining RTGS account in the SORBNET-EURO system, dated 3 March 2005.** Under this Agreement, the NBP maintains the account for effecting domestic and cross-border transactions in Euro currency. On April 20, 2006 Annex no. 2 to the above Agreement was signed.
- c. **Agreement on the Bank's PLN term deposit account of December 27, 2001.** On June 12, 2006 Annex no. 1 to the above Agreement was signed.
- d. **Agreement on the maintenance of securities deposit account in the Securities Register on October 9, 2003.**
- e. **Agreement on extension of a technical credit facility and transfer of rights under State Treasury securities of October 13, 2003.**
- f. **Agreement on extension of a lombard credit facility and a provision of a pledge securing such facility of October 21, 2003.**

## 8. Card Agreements

- a. **Agreement for membership and license of the trademark made with VISA International Service Association.** In 2001, the Bank was awarded the status of a Principal and Plus Member allowing the Bank to issue, maintain and settle VISA Classic and VISA Business payment cards. Now, the Bank is the VISA Europe Limited member.

- b. **Insurance agreements signed with Towarzystwo Ubezpieczeń i Reasekuracji Cigna Stu SA (insurance and reinsurance company):**

Insurance agreement regarding payment cards issued by Fortis Bank Polska S.A. of October 6, 2003. The Agreement sets out risk insurance conditions in the case of financial losses resulting from transactions effected with payment cards issued by the Bank. Valid until October 31, 2006.

Insurance agreement for holders and users of payments cards issued by Fortis Bank Polska SA of October 6, 2003. This Agreement provides for insurance coverage for holders and users of VISA Classic, Gold, Business, Business Gold and VISA Electron and Business Electron cards against unauthorized use of payments cards, robbery or theft of cash withdrawn from an ATM using a card and, depending on the type of card, an accident insurance package (NNW). Valid until October 31, 2006.

Insurance agreement for holders and/or users of credit cards issued by Fortis Bank Polska SA of October 17, 2005. Insurance agreement for holders and users of payments cards issued by Fortis Bank Polska SA of October 6, 2003. The Agreement stipulates insurance coverage for holders and/or users of VISA Gold, VISA Classic, Ideal cards and photocards against unauthorized use of credit cards, robbery or theft of cash withdrawn from an ATM using a card and, depending on the type of card, an accident insurance package (NNW). Valid until October 16, 2006.

Insurance agreement for holders and/or users of VISA Platinum cards issued by Fortis Bank Polska S.A. of June 14, 2006. Insurance agreement for holders and users of payments cards issued by Fortis Bank Polska SA of October 6, 2003. The Agreement stipulates insurance coverage for holders and/or users of VISA Platinum credit cards against unauthorized use of credit cards, robbery or theft of cash withdrawn from an ATM using a card and an accident insurance package (NNW). Valid until October 16, 2006.

## 9. Bank insurance policies

- a. **Insurance policy with Allianz Polska S.A. insurance company, from October 1, 2003 until September 30, 2006**

The insurance covers banking risks, likewise electronic and computer crime with the coverage limit of EUR 5 million.

- b. **Insurance Policy with Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. from June 1, 2006 until May 31, 2007**

All-risk insurance against loss or damage of property – insurance of property, electronic equipment and civil liability.

## 10. Agreements concluded with Towarzystwo Ubezpieczeniowe Europa S.A. for housing loans

- a. **General Agreement for housing loan insurance signed with Towarzystwo Ubezpieczeniowe Europa S.A. on August 20, 2004.**

TU Europa S.A. provides the Bank with insurance protection for housing loans for individuals until such loans are secured in the form of legally valid mortgage entries.

- b. **General Agreement for insuring a low down payment for housing loans, dated August 20, 2004**

TU Europa S.A. provides the Bank with insurance protection for housing loans for individuals. On February 1, 2006 Annex No 1 thereto was signed.

## 11. Agreements concluded with Winterthur Życie Towarzystwem Ubezpieczeń S.A.

- a. **Cooperation agreement of February 20, 2003 for promoting and offering banking and insurance products**



**b. Agreement of June 12, 2003**

Under this Agreement (and annexes thereto), the Bank customers – personal account holders - may purchase at the Bank branches: the Better Tomorrow for Your Child endowment life insurance with insurance capital fund, life insurance policy called “Czysty Zysk” (*Pure Profit*). Borrowers are offered an individual life insurance.

**12. Agreement of September 12, 2003 r. signed with Credit Suisse Life&Pensions Services Sp. z o.o.**

This Agreement provides for the agency services of Credit Suisse in offering banking products (housing loans) of Fortis Bank Polska S.A. for individual customers.

**13. Agreement of October 28, 2005 signed with Aegon Towarzystwo Ubezpieczeń na Życie S.A.**

The Agreement defines rules of offering to Bank customers, under Fortis PI (investment program), investment fund portfolio in the form of a life insurance policy (Aegon Investment Program – deposit 2004). Life insurance with insurance capital fund.

**14. Agreement with Merrill Lynch International of February 15, 2005**

This agreement regards distribution of participation units in Torrus Funds sub-funds on the territory of Poland.

**15. General Co-operation Agreement with Fundusz Górnośląski SA dated August 24, 2005**

The agreement sets general rules of co-operation between Fundusz Górnośląski (Fund) and the Bank, in particular as regards providing financial support to SME operating in the area of the Śląskie Voivodship by offering loans granted by the Bank and credit facilities granted by the Fund.

**16. Distribution Agreement with Górnośląskie Towarzystwo Funduszy Inwestycyjnych SA (investment fund company) dated June 2, 2005.**

The Agreement sets rules of the Bank’s agency services as regards distribution and redemption of GTFI funds participation units. The Bank was granted a license by the Securities and Exchange Commission (KPWiG) for agency services in distribution and redemption of investment fund participation units (Resolution no. 517 passed by KPWiG on July 13, 2004).

**17. Agreements with Bank Gospodarstwa Krajowego (BGK)**

**a. Co-operation agreement No. 14/KFPK/2006 signed on April 10, 2006**

This agreement concerns cooperation in issuance by BGK of suretyships and guarantees of repayment of loans for enterprises made from the funds of the National Credit Guarantee Fund (Krajowy Fundusz Poręczeń Kredytowych) established under Act on guarantees issued by the State Treasury and some legal entities (Dz.U. 2003 No. 174, item 1689, as amended).

**b. Co-Operation agreement No. 31/FPU/2005 signed on July 22, 2004**

Under this agreement the Bank undertakes to grant loans and credit facilities secured by sureties and guarantees issued from the funds of the European Union Guarantee Fund established in Bank Gospodarstwa Krajowego under the Act dated April 16, 2004. On July 27, 2005, Annex No 3 thereto was signed.

**18. Co-Operation agreement on providing information signed with Biuro Informacji Kredytowej SA (Credit Information Bureau) on November 16, 2005.**

The agreements sets out rules of co-operation between BIK S.A. and the Bank in gathering and providing the Bank, under the Banking Law Act, with the information subject to the bank’s secrecy to the extent such information is necessary for the performance of banking activities, and also providing other products and services by BIK S.A.

**19. Agreement on participation rules in the Bank Register of February 25, 2006, concluded with the Polish Bankers Association (ZBP)**

The Agreement provides for the terms and conditions of participation and co-operation in exchanging information between the parties under the Bank Register of Unreliable Customers operating under Article 105 para. 1 and para. 4 of the Banking Law Act.

**20. Agreements related to stock-exchange maintenance**

Agreement of November 3, 2000, with CA IB Securities S.A. on the performance of tasks of WSE Member – Issuer’s Market Maker.

Agreement of April 22, 1994, concluded with CDM Pekao SA on the performance of tasks as the issue sponsor.

### **21. Agreements concluded with the National Clearing Chamber**

Agreement of participation in the ELIXIR system clearing PLN payment orders, maintained by the National Clearing Chamber (Krajowa Izba Rozliczeniowa S.A.) of September 27, 2004. The Bank participates in the clearing through ELIXIR system.

Agreement of participation in the Euro ELIXIR system clearing EUR payment orders, maintained by the National Clearing Chamber (Krajowa Izba Rozliczeniowa S.A.) of February 1, 2005. The Bank participates in the clearing through EuroELIXIR system.

### **22. Framework Agreement signed with SWIFT international interbank network on May 22, 1998.**

The Bank joined SWIFT under the terms and conditions specified in the Agreement. The participating Banks guarantee, on a bilateral basis, that operations are carried out according to the agreement standards and the relevant list of services.

### **23. Significant loan agreements**

As at June 30, 2006, the Bank did not exceed the maximum exposure limit towards any customer or capital group as stipulated under the Banking Law. The Bank’s exposure exceeded 10% of capital equity towards 13 customers/capital groups, and totaled PLN 1,144 million. To compare, as at June 30, 2005, the Bank’s exposure exceeded that level in the case of 18 customers and totaled PLN 1,355 million.

## **K. Information on the agreement concluded with Auditor**

At the meeting held on September 22, 2005, the Bank’s Supervisory Board chose PricewaterhouseCoopers Sp. z o.o. with the registered office in Warsaw as the auditor of the Bank’s financial statements for 2005 and the entity reviewing the Bank’s financial statement for the first half of 2006. The agreement with the auditor was concluded on March 13, 2006.

The amount due for the audit of the Bank’s financial statements for 2005 and for the review of the Bank’s financial statements for the first half of 2006 will be PLN 271 thousand (net).

In previous reporting periods, the function of auditor of the Bank’s financial statements was performed by KPMG Audyty Sp. z o.o. The payment under the agreement for auditing the Bank’s financial statements for 2004 and an agreement on reviewing financial statements for the first half of 2005 amounted to PLN 317 thousand (net) in total and was made in 2004 and 2005.

## **VI. ORGANIZATIONAL AND CAPITAL ASSOCIATIONS WITH OTHER ENTITIES**

### **A. Description of the Shareholder holding over 5% of votes at the General Shareholders Meeting**

Fortis Bank, with its registered office in Brussels, holds 99.10% shares of Fortis Bank Polska S.A.

Fortis is an international financial services provider active in the fields of banking and insurance. With a market capitalization of EUR 36.2 billion as at the end of July 2006 and ca. 58 thousand employees over the world, Fortis ranks in the top 20 of European financial institutions. As at June 30, 2006, Fortis total assets equaled EUR 777 billion (and were by EUR 48 billion, i.e. by 6.6% higher than at the end of 2005, when they totaled EUR 729 billion).

In the Benelux countries, Fortis occupies a leading position and offers a broad range of financial services to individuals, companies and the public sector. In its international strategy, Fortis focuses on selected market segments and pursues its strategic plan to achieve 30% net profit on activity conducted outside the Benelux countries by 2009. In the first half of 2006 it was already 20%.

Fortis is listed on the exchanges of Amsterdam, Brussels and Luxembourg and has a sponsored

ADR program in the United States.

Fortis prepares its financial statements according to International Financial Reporting Standards (IFRS).

In the first half of 2006 Fortis pursued its strategy of sustainable development in favorable economic conditions. Net profit generated (before divestment) of EUR 2,718 million was by 29% higher than in the first half of 2005 when it amounted to EUR 2,105 million. This growth resulted mainly from the increase of result on banking activity by 36%.

Income on banking activity increased by 22% up to EUR 5,633 million and the Bank's general expenses increased by 17% up to EUR 3,007 million. Net profit on banking activity was achieved owing to a dynamic increase of income on basic operating activity, a moderate increase of write-offs for non-performing loans and low tax rates.

Fortis maintains a high level of net core capital of EUR 24.9 billion, which exceeds the threshold required by prudential standards by EUR 12.1 billion (i.e. 95%) and the threshold adopted by Fortis by 20%.

Key financial data in EUR million:

	<u>Result</u> <u>for 1st half of 2006</u>	<u>Result</u> <u>for 1st half of 2005</u>	<u>Change</u> <u>2006-2005</u>
<b>Net profit</b> (before divestments), including	<b>2,718</b>	<b>2,105</b>	<b>29%</b>
Banking	2,051	1,503	36%
Insurance	720	684	5%
Other	(53)	(82)	(35%)
<b>Result on divestment</b>	<b>0</b>	<b>443</b>	<b>(100%)</b>
<b>Net profit</b>	<b>2,718</b>	<b>2,548</b>	<b>7%</b>

<b>Banking</b>	<u>Result</u> <u>for 1st half of 2006</u>	<u>Result</u> <u>for 1st half of 2005</u>	<u>Change</u> <u>2006-2005</u>
Total income	5,633	4,621	22%
Total expenses	3,007	2,568	17%
Profit before taxation	2,576	2,015	28%
<b>Net profit</b>	<b>2,051</b>	<b>1,503</b>	<b>36%</b>

Fortis has been awarded excellent long-term ratings by independent international rating agencies (Standard & Poor's: AA-; Moody's: Aa3, Fitch: AA-).

## **B. Fortis Private Investments Polska S.A.**

**Fortis Private Investments Polska S.A.** (formerly Fortis Securities Polska S.A.), owned in 100% by Fortis Bank Polska SA, conducts its business activity within:

- Management of broker-traded financial instruments portfolio on request,
- Accepting purchase or redemption orders for participation units in investment funds.

At the end of June 2006, assets under management of Fortis Private Investments Polska S.A. totaled over PLN 398 million as compared to almost PLN 455.5 million at the end of June 2005.

Fortis Private Investments Polska offers share, debt securities and balanced portfolios. Moreover, Fortis Private Investments Polska provides management of GTFI (Górnośląskie Towarzystwo Funduszy Inwestycyjnych S.A.) investment funds and of assets of Fortis FIO (open-end investment fund) umbrella fund launched on the Polish market in 2005 in cooperation with SKARBIEC TFI S.A. Fortis FIO is the first umbrella fund on the Polish market with separated subfunds. The Fund comprises two subfunds: Fortis share subfund and Fortis stable growth subfund. Fortis FIO also maintains Individual Pension Accounts, IKE Fortis FIO.

In connection with the Bank's cooperation with Fortis Private Investments Polska S.A. to provide agency services of sale of financial instrument portfolio management, Fortis Bank Polska SA was registered by

the Polish Securities and Exchange Commission as the investment company's agent on February 21, 2006. Fortis Private Investments Polska S.A. bought back series R and S shares accounting for 82.94% of the company's share capital from Fortis Bank Polska SA in order to redeem them at its own initiative. Over the entire period of the procedures provided in Art. 456 §1 of the Polish code of commercial companies and partnerships, the Bank retained 100% of votes at the General Meeting of Fortis Private Investments Polska S.A. In June 2006, the company's share capital decrease from PLN 53,036,280 down to PLN 9,048,000 as a result of own shares' redemption was registered.

*The description of transactions related to the banking services rendered to the affiliated entities is presented in the additional explanatory notes (Section 16.1 and 2).*

## VII. STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE

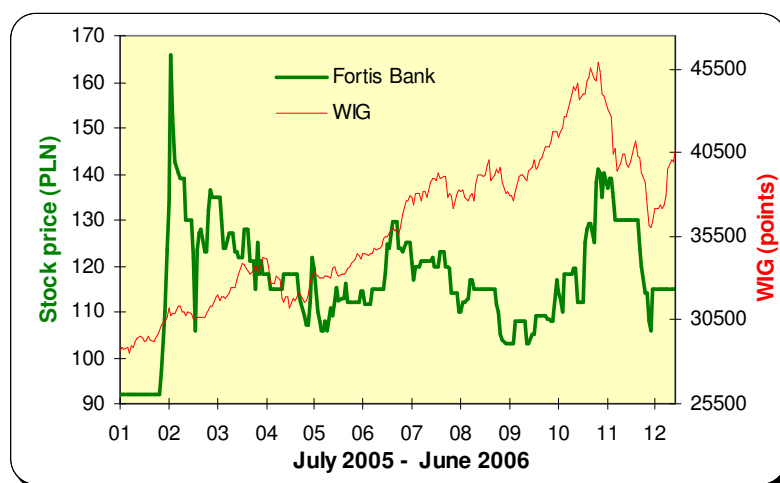
The Bank's shares have been quoted on the primary market of the Warsaw Stock Exchange since November 7, 1994. The Bank's shares are quoted in the fixed quotation system.

Since 1999, i.e. after Brussels-based Fortis Bank took over 98% of the Bank's shares, the liquidity of shares stood at a low level. At present, in trading there are only 135,893 shares owned by other shareholders, i.e. 0.90% of all the Bank's shares.

At the first session in January 2006 the Bank's shares price equaled PLN 124.00. The Bank's shares price decreased down to PLN 115.00 as at June 30, 2006, i.e. by almost 7.3%. The average turnover in the Bank's shares in 2006 was 58 shares per session in comparison to 45 shares per session in 2005.

The WIG index rose from 28,332.05 as at June 30, 2005 to 40,644.58 as at June 30, 2006 (growth by over 43%) and WIG-banks sector sub-index grew from 38,333.66 as at June 30, 2005 to 54,661.13 as at June 30, 2006 (growth by almost 43%). Due to the slight liquidity the Bank's shares are not classified to any of the indices.

**Chart 4. Quotations of the Bank shares and the WIG index from July 1, 2005 until June 30, 2006**



Below there are market indices for the shares of Fortis Bank Polska S.A.

Indices	30.06.2006	31.12.2005	30.06.2005
EPS ratio	7.38	6.73	5.65
P/E ratio	15.59	18.42	16.28
BVPS ratio	49.40	45.88	42.56
P/BV ratio	2.33	2.70	2.16

*The book value per share is PLN 49.40. For proper calculation, the share capital, reserve capital, revaluation reserve, other reserve capital, retained earnings from the previous years and the net profit for the fiscal year were included in equity capital.*

## VIII. CORPORATE GOVERNANCE

Under §29 of the Warsaw Stock Exchange Regulations and Resolution No 44/1062/2004 of the Warsaw Stock Exchange Management of December 15, 2004, and Resolution No 445/2004 of the Warsaw Stock Exchange Supervisory Board of December 15, 2004, the Bank's Board of Executives, in compliance with the intention of the Shareholders expressed at the Annual General Meeting and in compliance with the intention of the Supervisory Board, adopted the amended *Best Practices in Public Companies in 2005*. A statement of the Board of Executives on that was made public in current report no 8/2006 of June 3, 2006. The amendments related mainly to introducing the provisions regarding functioning of Audit Committee and Compensation Committee into the Regulations of the Supervisory Board. The Audit Committee established in 2006 supports the Supervisory Board in fulfilling its obligations as regards ensuring the effectiveness of internal control systems in the Bank and monitoring the reliability of financial information.

In the first half of 2006, no breach of the adopted rules was reported.

## IX. DEVELOPMENT PROSPECTS FOR BUSINESS ACTIVITY

The strategy of Fortis Bank Polska S.A. is interwoven with the overall strategy of Fortis group. In 2005, the new CEO of Fortis, Jean Paul Votron announced Fortis development strategy for 2005-2009.

"Fortis back to growth" is the generic theme of the strategy and the ambition of Fortis is to grow from the leadership position in Benelux into a strategic position in Europe. The growth will be measured by the double-digit growth of the Net Operating Profit before capital gains (NOP BCG). Geographically, the focus on profitable growth means that Fortis will grow further in its home markets, focus on the enlarged (by new EU countries) Europe and selectively grow in Asia and North America.

Acquisitions will be considered to accelerate the organic growth and penetrate new markets. By 2009, at least 30% of NOP BCG will come from outside the Benelux.

Fortis Bank Polska plans to implement Fortis group strategy by leveraging regional opportunities. As employer the Bank intends to provide an exciting and motivating work environment, caring for the staff and development of their competences. For its clients the Bank will provide top quality, flexible financial services adjusted to their needs. By offering professional advisory services and individual solutions the Bank wants to build long-term partnerships and thus to enable customers to develop and strengthen their market position.

It is Fortis Bank Polska S.A. objective to generate growth of the Bank's incomes by 15% annually, likewise to achieve ROE of minimum 12%.

Continuing its policy from previous years, the Board of Executives of Fortis Bank Polska will not make any financial forecasts public for 2006.

In the coming years, the Bank will pursue its strategy aiming at growth of the high-net-worth customer portfolio and SME portfolio. The strict control of costs and efficient use of capital should result in a further improvement of the financial performance. The Bank will seek to secure sufficient assets and deposits to finance its credit portfolio, and will also conclude credit agreements with its main shareholders in order to ensure supplemental funding for its assets in FC.

Thanks to the support of the Fortis group, both in financial and organizational terms, the Bank has acquired important customers, improved efficiency of lending procedures and different risk management and expanded the Bank's activity on financial markets. Starting with the establishment in 2005 of the Shared Services Center in Cracow, FBP intends to broaden its cooperation with other financial institutions from Fortis group in terms of providing shared services to them, including clearing and other financial services.

In particular Fortis Bank Polska S.A. will continue cooperation with Fortis Investments with regard to sales of services offered by foreign investment funds.

Through the Global Markets business line (*GMK*), which corresponds to the Global Markets BL in the Fortis group structure, the Bank intends to increase its activity in the financial market and the trade in securities. The development of the Global Markets BL is based on a customer driven strategy. The Bank intends to expand its offer of derivatives.

The Commercial Banking (*CB*) business line focuses, through its business center concept, on servicing its

customers, in a way that will bring added value to them and the Bank. The strategy of the CB business line in Poland, assumes, in particular:

- focus on internationally active customers, be it either multilocal (active in several countries) or having cross-border business (significant imports or exports);
- offering products through a cohesive network of business centers supported by professionals providing specialist financial products. In contact with a customer, electronic delivery channels are preferred.
- offering solutions and not merely marketing/sale of products and services;
- further development of skills, including specialization in international trade finance;
- close cooperation with Global Markets BL to offer the customers financial market products (money market transactions and derivatives);
- cooperation with the Private Banking department and Fortis Private Investments Polska in order to develop a comprehensive offering of banking and investment services for affluent individuals, including owners and managerial staff of companies – clients of CB business line;
- development of the network of business centers.

The Private Banking business line will develop by focusing its offering on high-net-worth individuals. The offering will include such products and services as: assets management, domestic and foreign investment funds, package of banking services based on Private Banking Account, mortgage loans, custody services and lombard loans. In particular the Private Banking Department addresses its offering to high-net-worth individuals, entrepreneurs representing liberal professions, likewise foundations and associations.

The mission of the Retail Banking is to perfectly and in a long-term manner satisfy financial needs of small enterprises and individual affluent clients thanks to professional counsel and our offering of individual solutions in the scope of financing and assets management, and thanks to involvement and skills of our employees.

In 2006 activities of the Retail Banking business line will be focused on the following areas:

- development of branch network – in 2006 as many as 6 new branches of the Bank will be opened, and 10 branches in 2007,
- development of an external sales network comprising over 270 financial advisers dealing with the acquisition of mortgage loans and small companies,
- development of electronic distribution channels intended for individuals and companies,
- implementation of the Personal Banking strategy that focuses on having edge over competition in such areas as asset gathering and mortgage loans,
- focusing on high-net-worth customers through changing target segments and client servicing model, likewise changing client portfolio management,
- development of the offering related to asset gathering,
- development of the network and skills of Personal Banking Advisors and Portfolio Building SE Advisors,
- improvement of sales effectiveness through the introduction of a new sales management model,
- improvement of the quality of operating and credit processes.

The activity of Consumer Finance in Poland focuses on the acquisition of a significant share in the retail market of credit cards and cash loans.

It is a big challenge for the Bank's management to adjust internal policies and operating procedures to changes in the Polish legislation after Poland's accession to the European Union. Particular attention and organizational effort are needed for implementing the requirements set out in the New Basle Capital Accord and the International Financial Reporting Standards, likewise with respect to the Banking Law amendments and automation of the NBP reporting.

The Bank's management plans further improvement of operating standards and strengthening of risk management and internal controls in line with Fortis guidelines and the recommendations of the General Inspectorate of Banking Supervision (GINB).

## X. ORGANIZATIONAL STRUCTURE

### A. Bank authorities

According to the Statute, the Bank's authorities consist of:

- General Meeting,
- Supervisory Board,
- Board of Executives

The following permanent and temporary committees act as advisory and decision-making bodies:  
Permanent committees:

- Risk and ALM Committee
- Credit Committee,
- Problem Assets Committee.

The Credit Committee and the Problem Assets Committee act in accordance with the regulations approved by the Supervisory Board. Credit decisions are made according to the internal regulations approved by the Bank's Supervisory Board and the Board of Executives.

In January 2006 the Assets and Liabilities Committee (ALCO) was transformed into the Risk and Assets and Liabilities Management Committee (Risk and ALM Committee). The Risk and ALM Committee is a body which manages chief risks in the Bank, i.e. strategic aspects of credit risk, market risk, operational risk, ALM and liquidity risk. The Committee obtained wider decision-making authority and may create committees to support its work and further delegate authority to these committees. The scope, organization and tasks of the Risk and ALM Committee are defined in the Regulations approved by the Board of Executives.

### B. Business lines and sales outlets

The Bank's organization is structured along business lines providing comprehensive service to specific customer and/or service market segments. In particular:

- a) **Retail Banking (RB) business line** – provides service through a network of branches and personal banking sub-branches: small enterprises of the annual turnover up to PLN 25 million, Personal Banking customers (affluent individual customers) and other individual customers. Since 2005, an external sales network has been developed within the RB business line.
- b) **Commercial Banking (CB) business line** - provides services through the network of Business Centers, targeting medium corporate customers with the annual turnover over PLN 25 million. The CB BL focuses also on companies that are part of international capital groups, irrespective of their annual turnover.
- c) **Global Markets (GMK) business line** operates within the organizational structure of the Treasury Department. The GMK BL offers financial market products to customers of the other business lines. The GMK BL is also responsible for relations with other banks and financial institutions likewise the management of the Bank's liquidity.
- d) **Consumer Finance (CF) sub-business line** – specialized in providing services to individual customers, offering such products as credit cards and low cash loans. The Consumer Finance sub-business line operates within the organizational structure of the Bank's Head Office and credit centers that constitute a network of branches separated for consumer loans and credits. In 2006 first two credit centers were opened in Warsaw.
- e) **Private Banking (PrvtB) Business Line** - offers professional services to High Net Worth Individuals (HNWI). Currently this division operates within the organizational structure of the Private Banking Department.

As at June 30, 2006, the Bank had the following:

- a) **25 full-service branches** (4 branches in Warsaw, 3 branches in Kraków, 1 branch in Bielsko-Biała, Bydgoszcz, Częstochowa, Gdańsk, Gdynia, Gliwice, Katowice, Kielce, Lublin, Łódź, Olsztyn, Opole, Poznań, Rzeszów, Szczecin, Toruń, Wrocław, Zakopane each),

At first, the branches opened in 2005 in Olsztyn, Opole, Rzeszów and Toruń provided banking services in respect of granting investment loans for small companies, accumulating assets of the



Personal Banking segment customers, selling mortgage loans and daily banking through electronic channels. In 2006 they are being transformed into full-service branches.

**1 sub-branch** – in July 2006 a sub-branch of the branch in Zakopane was opened in Nowy Targ,

- b) **2 credit centers** of the Consumer Finance Sub-business Line in Warsaw,
- c) **6 Personal Banking sub-branches** – 2 in Warsaw, 1 in Wrocław, Poznań, Katowice and Łódź each, and 1 sub-branch of the Poznań Branch for Mass Transaction Processing, and
- d) **8 Business Centers** for the maintenance of mid-sized and large companies in Warsaw, Krakow, Gdańsk, Gliwice, Poznań and Wrocław. In 2006 a new business center was opened in Rzeszów and a business center in Łódź was separated from Warsaw business center.

The Bank's organization chart as at June 30, 2006 is attached to this Report.

## **XI. SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES**

### **1. Changes in the composition of the Board of Executives and the Supervisory Board**

#### **Board of Executives:**

As at June 30, 2006, the Board of Executives composition was as follows:

- Jan Bujak - President of the Board of Executives
- Alexander Paklons - Senior Vice-President
- Bartosz Chyła - Vice-President
- Jean – Luc Deguel - Vice-President
- Jaromir Pelczarski - Vice-President
- Koen Verhoeven - Vice-President

In the first half of 2006, no changes as regards the composition of the Board of Executives took place.

#### **Supervisory Board**

As at June 30, 2006, the Supervisory Board composition was as follows:

- 1). Jos Clijsters - Chairman
- 2). Werner Claes - Deputy Chairman
- 3). Antoni Potocki - Deputy Chairman
- 4). Zbigniew Dresler
- 5). Didier Giblet
- 6). Bernard Levie
- 7). Thierry Schuman
- 8). Peter Ullmann

In connection with the resignations handed in by Mr. Paul Dor, Deputy Chairmen of the Supervisory Board and Mr. Roland Saintrond, a Member of the Supervisory Board, the Annual General Meeting of Fortis Bank Polska S.A. recalled them as at June 2, 2006 (Resolution of AGM no. 15/2006 of June 2, 2006). The members of the Supervisory Board appointed Mr. Werner Claes as the Deputy Chairman of the Supervisory Board (Resolution of the Supervisory Board no. 15/2006 of June 2, 2006).

### **2. Rules of appointment and recalling members of the Board of Executives and the scope of their authority**

Members of the Board of Executives (BoE) of Fortis Bank Polska S.A. are appointed and recalled in compliance with the provisions of the Code of Commercial Companies and Partnerships, Banking Law Act and the Statute of Fortis Bank Polska S.A. The BoE is composed of between three to eight Members, including the President of the BoE, one or more Vice-Presidents of the BoE and other Members of the BoE in the number specified by the Supervisory Board. Members of the BoE are appointed for the period of joint five-year tenure by the Supervisory Board. Appointment of two Members of the Board of

Executives, including the President of the Board, is made with consent of the Banking Supervision Commission, given upon a request of the Supervisory Board.

The BoE manages the Bank's operational activity and represents the Bank before external parties. The scope of tasks of the BoE includes primarily all the issues that are not reserved for the competence of other bodies of the Bank. The BoE takes decisions by way of resolutions regarding the assumption of liabilities or disposal of assets, the total amount of which in relation to one entity exceeds 5% of the Bank's equity. The BoE can delegate specific issues that belong to the scope of the BoE competence to specific BoE Members or the Bank employees. Decisions on the assumption of liabilities or disposal of assets whose total value in relation to one entity exceeds 5% of the Bank's equity, can be taken by committees of the Bank or designated people acting under the BoE resolution that defines the scope of such an authorization and the decision-taking manner.

Individual Members of the BoE have no specific authority to take decisions on share issue or redemption.

### 3. Board of Executives and Supervisory Board Members' remuneration value

The remuneration and the values of benefits obtained by the members of the Board of Executives, the Supervisory Board and by proxies of Fortis Bank Polska S.A. are specified in the table below:

Remuneration	January 1, 2006 – June 30, 2006 in PLN thousand	January 1, 2005 – June 30, 2005 in PLN thousand
Board of Executives (*)	3,080	2,942
Supervisory Board (**)	215	169.5
Proxies	2,057	1,891

Three members of the Board of Executives of Fortis Bank Polska S.A. that are at the same time members of Supervisory Board of Fortis Private Investments Polska S.A. (Jan Bujak, Alexander Paklons and Bartosz Chyła) did not receive remuneration for this, either in 2005 or in the first half of 2006.

*Detailed information on the remuneration of the BoE and SuB Members is given in Section 25 of the Additional Notes.*

### 4. Information on shares of the Bank held by members of the Board of Executives and the Supervisory Board

As at June 30, 2006, none of the Board of Executives Members owned any shares of or interest in, Fortis Bank Polska S.A. or affiliated entities.

None of the Supervisory Board Members hold any shares of the Bank or rights to shares.

### 5. Employees

The number of people employed was 926 FTE (full time equivalents) as at the end of June 2005. Over the next 12 months the employment increased by 274 FTEs to 1,200 FTEs at the end of June 2006. The majority of the employees, i.e. 60%, were university graduates.

#### Signatures of the Members of the Board of Executives (on the Polish original):

*Jan Bujak, President of the Board* .....

*Alexander Paklons, Senior Vice-President* .....

*Bartosz Chyła, Vice-President* .....

*Jean-Luc Deguel, Vice-President* .....

*Jaromir Pelczarski, Vice-President* .....

*Koen Verhoeven, Vice-President* .....