INTRODUCTION

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1. **NAME (FIRM) OF THE ISSUER AND REGISTERED OFFICE**: Fortis Bank Polska S.A. with its registered office in Warsaw, ul. Postępu 15.

   Register court and register number: The register court competent for the Bank is the District Court for the capital city of Warsaw, XX Commercial and Registration Department of the National Court Register, ul. Barska 28/30, 02-315 Warsaw, register no. KRS 6421.

   Issuer's basic scope of activity: The scope of the activities of Fortis Bank Polska S.A. covers banking transactions both in Polish zlotys and foreign currencies for domestic and foreign private individuals and legal persons and other organizations without legal personality. The core business of the Bank according to Polish Business Classification is 'other banking activity' (PKD 6512A), whereas according to the classification adopted by the regulated market, the sector is defined as 'Financial institutions and banks.'

   The scope of the Bank's business includes:

   - accepting deposits due on demand and/or in fixed date and maintaining bank accounts for such deposits,
   - maintaining the other bank accounts,
   - granting credits and loans, including consumer credits and loans,
   - carrying out pecuniary settlements, including payment card settlements, likewise payment card issuance,
   - issuing and confirming bank guarantees, granting sureties, likewise opening and confirming L/Cs,
   - issuing securities, including convertible bonds and banking securities, likewise carrying out commissioned tasks, and assuming obligations related to the issuance of securities,
   - participating in securities trading, including maintenance of securities custody accounts,
   - conducting operations on money and FX markets including forward and derivative instrument transactions,
   - conducting check and bill-of-exchange operations and warrant transactions,
   - purchasing and selling of cash debts,
   - purchasing and selling foreign exchange,
   - safekeeping valuable objects and securities, likewise rendering available safe-deposit boxes,
   - rendering the following financial services:
     - consulting services,
     - custody services,
     - leasing services,
     - brokerage activity,
   - commission sale of open pension funds and safekeeping pension funds' assets
   - providing agency services related to the distribution of participation units, investment certificates or participation units of investment funds, likewise agency services related to their sale and redemption, or safekeeping of investment funds' assets.
   - providing agency services related to property insurance.
   - intermediating within the scope of personal insurance, including life insurance,
   - rendering certification services under the regulations governing electronic signatures, except for issuing qualified certificates used by the Bank with regard to actions to which it is a party,
   - acting as an agent in making money transfers and FX settlements,
   - issuance of instrument of electronic money.

2. PERIOD OF THE ISSUER'S BUSINESS, IF DEFINITE

The period of operations of Fortis Bank Polska S.A. is indefinite.

3. PERIODS COVERED BY THE FINANCIAL STATEMENTS AND PERIODS OF COMPARABLE FINANCIAL DATA

The financial statements present financial data for the period from January 1, 2005 through December 31, 2005 and comparative data for the period from January 1, 2004 through December 31, 2004.

4. COMPOSITION OF THE ISSUER'S BOARD OF EXECUTIVES AND SUPERVISORY BOARD

As at December 31, 2005, the composition of the Board of Executives of Fortis Bank Polska S.A. was as follows:

name	*function*
Jan Bujak	President of BoE
Alexander Paklons	Senior Vice-President
Bartosz Chytła	Vice President
Jean-Luc Deguel	Vice President
Jaromir Pelczarski	Vice President
Koen Verhoeven	Vice President

In 2005, the composition of the Board of Executives has changed as follows:

- at the meeting on January 6, 2005, the Supervisory Board accepted resignation of Mr. Ronald F.E. Richardson and recalled him from the position of the Board of Executives' President effective January 10, 2005.
- Under Resolution of the Supervisory Board no. 3/2005 dated January 6, 2005, the former Vice-President of the Board of Executives, Mr. Jan Bujak, was appointed to the position of the Board of Executives' President. On February 9, 2005, the Commission for Banking Supervision approved the nomination of Mr. Jan Bujak to the President of the Board of Executives.
- Effective February 1, 2005, Mr Alexander Paklons has been appointed Senior Vice-President of the Board of Executives under Resolution no. 2/2005 of the Supervisory Board dated January 6, 2005.

As at December 31, 2005, the composition of the Supervisory Board of Fortis Bank Polska S.A. was as follows:

name	*function*
Jos Clijsters	Chairman
Paul Dor	Deputy Chairman
Antoni Potocki	Deputy Chairman
Werner Claes	Board Member
Zbigniew Dresler	Board Member
Didier Giblet	Board Member
Bernard Levie	Board Member
Roland Saintrond	Board Member
Thierry Schuman	Board Member
Peter James Ullmann	Board Member

The Annual General Meeting of Fortis Bank Polska held on May 24, 2005 in Warsaw approved the following changes to the composition of the Supervisory Board of our Bank.

Shareholders have appointed following persons to the Bank's Supervisory Board: Bernard Levie, Thierry Schuman and Peter Ullmann. With regard to new official responsibilities in Fortis Group, previous chairman Luc Delvaux has resigned from sitting on the Board. Jos Clijsters, member of Fortis Executive Committee and Fortis Bank Management Committee responsible for Retail Banking Business Line replaced Luc Delvaux on this position effective July 1, 2005.

Thus since July 1, 2005, Fortis Bank Polska Supervisory Board has been composed of the following: Jos Clijsters, Paul Dor, Antoni Potocki, Werner Claes, Zbigniew Dresler, Didier Giblet, Bernard Levie, Roland Saintrond, Thierry Schuman, and Peter Ullmann.

5. INDICATION WHETHER FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA CONTAIN AGGREGATE DATA – WHEN THE ISSUER'S ENTERPRISE CONSISTS OF INTERNAL ORGANIZATIONAL UNITS THAT MAKE THEIR OWN FINANCIAL STATEMENTS

Within the enterprise of Fortis Bank Polska S.A., there are no internal organizational units that would make their own financial statements.

6. INDICATION WHETHER THE ISSUER IS A DOMINANT ENTITY OR A SIGNIFICANT INVESTOR AND WHETHER THE ISSUER MAKES A CONSOLIDATED FINANCIAL STATEMENTS

The Bank's only controlled entity is Fortis Securities Polska S.A. (FSP). Pursuant to Art 58 section 1 item 1 of the Accounting Act, the Bank is not required to prepare a consolidated statement, as the financial data of this subsidiary is immaterial for a reliable and transparent presentation of the property, financial situation and financial result of the Bank. As of the end of December 2005, total assets of Fortis Securities Polska S.A. constituted 1% of the Bank's total assets, FSP's total income accounted for 0.7% of the Bank's total income, whilst its net profit represented 2.1% of the Bank's net profit.

7. IN THE EVENT OF FINANCIAL STATEMENTS MADE FOR THE PERIOD WHEN THERE WAS A MERGER – INDICATION THAT THESE ARE FINANCIAL STATEMENTS MADE AFTER THE MERGER OF COMPANIES AND THE INDICATION OF THE APPLIED METHOD OF THE MERGER SETTLEMENT

In 2005, there was no merger of Fortis Bank Polska S.A. with any other business entity.

8. INDICATION WHETHER THE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITH THE ASSUMPTION OF THE ISSUER'S BUSINESS CONTINUITY IN THE FORESEEABLE FUTURE AND WHETHER THERE ARE ANY CIRCUMSTANCES THAT MIGHT JEOPARDIZE THE BUSINESS CONTINUITY

The financial statements of Fortis Bank Polska S.A. has been prepared with the assumption that its business will be continued in the foreseeable future; the Board of Executives has no knowledge whatsoever of any circumstances that may disrupt the Bank's operations.

9. DECLARATION THAT THE FINANCIAL STATEMENTS HAVE BEEN TRANSFORMED IN ORDER TO ENSURE DATA COMPARABILITY

Effective January 1, 2005, the Bank has applied a change of its accounting principles with respect to the measurement of loans and credit facilities at amortized cost using the effective interest rate (EIR) and considering the rules of building provisions for risk related to banking activity. A description of the above changes along with the reasons of no transformation made to ensure data comparability is presented in Section 33 of the Additional Notes.

Furthermore, the Bank has made the following changes to the presentation of comparable data as at December 31, 2004:

- Interest income and expenses on derivatives – IRS hedging contracts;
- Classification of receivables broken by maturity;
- Result on FX forward and FX Swap valuation;

- Accounts of revenues due related to unpaid commissions and fees.

The detailed description on the above changes in the presentation method is presented in Section 32 of the Additional Notes.

10. INDICATION WHETHER THERE HAVE BEEN ANY ADJUSTMENTS TO FINANCIAL STATEMENTS OR COMPARABLE FINANCIAL DATA RESULTING FROM QUALIFICATIONS IN OPINIONS OF AUTHORIZED AUDITORS

No adjustments resulting from any qualifications in opinions of auditors authorized to audit financial statements for the previous years have been made to either this annual financial report for 2005 or the comparable financial data for 2004.

11. DESCRIPTION OF ACCOUNTING PRINCIPLES (POLICY) INCLUDING METHODS OF ASSET AND LIABILITY MEASUREMENT, LIKEWISE INCOME AND EXPENSE MEASUREMENT, DETERMINATION OF PROFIT/LOSS AND THE MANNER OF PREPARING THE FINANCIAL STATEMENT AND COMPARABLE DATA

As at 31 December 2005, Fortis Bank Polska S.A. maintains its accounting records in accordance with:

Accounting Act dated September 29, 1994 (Journal of Laws no. 76, Item 694 of 2002 as amended);

Financial Instrument Trading Act of July 29, 2005 (Journal of Laws No. 183 item 1538 of 2005);

Ordinance of the Finance Minister of December 10, 2001, regarding special accounting principles for banks (Journal of Laws no. 149, item 1673 of 2001 as amended);

Ordinance of the Finance Minister of December 12, 2001, regarding the detailed principles of recognition, valuation methods and the scope of including financial instruments and manner of their presentation (Journal of Laws no. 149, Item 1674 of 2001 as amended);

Ordinance of the Finance Minister of December 10, 2003, regarding the rules of creation of provisions for risk related to banking activity (Journal of Laws no. 218, Item 2147 of 2003);

Accounting principles are set out in the Accounting Policy (Order no. B/01/2005 of the President of the Board of Executives of Fortis Bank Polska S.A., dated January 11, 2005).

The Bank applies the main principles defined in the Accounting Act, and in particular, the following:

consistency concept

The Bank applies the adopted accounting standards consistently. Thus in subsequent financial years it follows the same rules for grouping of transactions on accounts, valuation of assets, including depreciation (amortization) charges, and liabilities, determination of the financial result and preparation of financial statements so that data for the subsequent years shown in such statements could be compared. The Bank may, with effect from the first day of a financial year, regardless of the day of taking such a decision, supersede the applied to-date solutions with others provided in relevant regulations. In such a case, in the financial statements for the financial year during which such changes occurred, the Bank explains reasons of the changes and determines their numerical impact on the profit/loss.

continuity concept

In the valuation of assets and liabilities and in determination of the financial result, the Bank assumes that it will continue in business in the foreseeable future within a scope that has not been materially changed and that no bankruptcy or winding-off proceedings will be instituted against the Bank, unless actual or legal circumstances suggest otherwise.

accrual basis and matching concept

In its books and in the financial result, the Bank records all income earned and due to the Bank and related costs incurred in a given financial year, irrespective of the date of their payment. In order to ensure that income and related costs are matched, the Bank recognizes, in assets or liabilities related to a given financial year, costs or income referring to future reporting periods and costs referring to the current reporting period which have not yet been incurred.

prudence (conservatism) concept

The Bank measures individual assets and liabilities at the actual cost of their acquisition. In particular, in the financial result, regardless of its amount, the Bank recognizes:

- reductions in the useful or commercial value of assets, including depreciation (amortization) write-offs,
- only unquestionable other operating income and extraordinary profits,
- all operating costs and extraordinary losses incurred,
- provisions for risk identified by the Bank, impending losses and effects of other events.

no-offset principle

The value of particular assets and liabilities, income and related costs, as well as profits and extraordinary losses are determined separately. Values of different-in-kind assets and liabilities, income and related costs as well as profits and extraordinary losses may not offset each other.

materiality concept

When applying accounting standards, the Bank may accept certain simplifications, unless they have a significant adverse impact on the principle of true and fair view of the Bank's property and financial situation and the financial result. Information is deemed material if its omission or misrepresentation may have an effect on economic decisions taken by users based on financial statements. The materiality of information depends on the amount of an item or error assessed in the given circumstances.

substance over form principle

Events, including economic transactions, should be included in the Bank's books of accounts and shown in the financial statement in accordance with their substance and economic reality.

11.1. The Bank's books of accounts are maintained in compliance with Polish laws using the computerized system "Equation" developed by the British company Misys International Banking Systems Ltd., London (approved by the Bank's Board of Executives' President in Order dated August 1, 1994, on the implementation of the Equation system).

11.2. The Bank's financial reporting is prepared pursuant to Enclosure No. 2 to Accounting Act dated September, 29, 1994 (Journal of Laws no 76, Item 694 of 2002 as amended). Due to the fact that the Bank's shares are admitted to trading on the official stock exchange quotations market (in the meaning of the Financial Instrument Trading Act), the Bank's reports and accounts are prepared also according to the Ordinance of the Finance Minister dated October 19, 2005 regarding current and periodic information to be provided by issuers of securities (Journal of laws no. 209 item 1744) and the Ordinance of the Finance Minister of October 18, 2005 regarding the scope of information included in financial statements and consolidated financial statements, required with respect to issue prospectuses from issuers with the registered office in the territory of the Republic of Poland to which Polish accounting principles are applicable (Journal of Laws no. 209, Item 1743).

11.3. The Bank has documentation describing the adopted accounting principles regarding, without limitation, methods of measurement of assets and liabilities and determination of financial result. The Chart of Accounts includes a list of accounts and a set of parameters used to mark the accounts in the Equation system. Commentary to the Chart of Accounts comprises a description of accounts and indexes of typical accounting entries.

11.4. Tangible and intangible fixed assets are measured as at the end of each reporting period at the acquisition price less their depreciation. In addition, the Bank recognizes revaluation conducted according to valid regulations as well as impairment losses.

11.5. The acquisition price of fixed tangible and intangible assets purchased in foreign currency is converted into Polish zloty at the NBP mid-rate applied on the day of payment.

11.6. Fixed tangible and intangible assets are depreciated based on the valid depreciation schedule determined by the Bank. The depreciation schedule includes depreciation rates specified in a separate document, i.e., the "Valuation Rules of the Bank". Therefore, balance sheet depreciation rates can be different from tax depreciation rates. Depreciation on fixed tangible and intangible assets is calculated monthly on a straight line basis.

11.7. Fixed assets not exceeding PLN 3,500 are charged to costs as one-time expenses in the month they are made available for use. In 2005, the Bank incurred the respective costs in the amount of PLN 1,138 thousand.

11.8. Financial instruments:

Debt securities have been classified to the following categories:

- held for trading

  These are debt securities which have been purchased in order to obtain gains as a result of short-term price fluctuations. At the balance-sheet date debt securities held for trading are measured to market value, whereas assets which have no existing active market – at fair value and the valuation effect is included in the financial operations result;

- available for sale

  These are debt securities not classified to the "securities held for trading" category, the "debt securities held to maturity" category or the "credits and loans granted by the Bank and other own receivables" category. They are measured at fair value and the valuation effect is included into the revaluation reserve.

- Loans and credit facilities

  Loans and credit facilities granted are measured at amortized cost using the effective interest rate and the binding rules of creating provisions for risk related to banking activity. The measurement at amortized cost and using the effective interest rate applies to loans and credit facilities with future cash flow dates and amounts determined, that is, with the loan/credit repayment schedule established. To loans and credit facilities are classified also securities purchased on the primary market for which no active market exists.

- Financial assets held to maturity

  These are financial assets for which contracts set out the repayment date of their nominal value and define the right to receive the economic gains on fixed dates, e.g. fixed or determinable interest, provided that the unit has an intention to and is able to hold them to maturity.

Securities transactions entered into by the Bank include repurchase agreements. Under repurchase agreement one of the parties, i.e., the seller, agrees to transfer the other party, i.e., the buyer, on the purchase date, the ownership of negotiable securities (sell-buy-back) or put a block on such securities in favor of the buyer (repo) in exchange for the purchase price paid by the buyer. At the same time, the seller agrees to return to the buyer the received funds and the buyer agrees to transfer back the ownership of the securities (in the case of sell-buy-back transactions) or to take the block off the securities (repo transactions). Repurchase transactions are of a placement and deposit nature (a placement at the buyer's and a deposit at the seller's). The Bank records receivables and liabilities resulting from interest on repo transactions on an on-going basis. As at the reporting date such transactions are measured at market value.

11.9. Shares and holdings in subsidiaries are measured by equity method. The effect of valuation of these assets is shown in the profit and loss account as a share in the net profit (loss) of subsidiaries measured by equity method, whereas the effect of changes in the subsidiary's own funds not presented in its profit and loss account is shown by the Bank as the revaluation reserve. Other shares and interests recognized as fixed assets are valued at the acquisition price, taking into account write-downs for impairment losses.

11.10. Amounts receivable and payable on account of loans, credit facilities and other debts are recognized at the amount of the payment due, which also includes the value adjustment on the account of the effective commission settlement, the interest due, taking into account specific provisions created according to the Ordinance of the Finance Minister of December 10, 2003, regarding the rules for creation of provisions for risk related to banking activity (Journal of Laws no. 218, Item 2147). The required provisions are built at the end of each reporting period. Receivables and provisions for receivables denominated in foreign currencies are converted into zlotys. In some specifically defined cases, the Bank writes credit exposures to specific provisions under the binding provisions.

When classifying credit exposures into risk categories, the Bank applies two independent criteria:

- punctuality of a loan principal or interest repayment,
- economic and financial standing of the borrower.

Following the regulations on creating specific provisions for risk related to banking activity, the Bank, when classifying credit exposures into risk categories, may take into account the type of collateral which secure those exposures.

Detailed criteria of credit exposures classification and reclassification are defined by separate internal regulations.

Specific provisions are created with regard to credit exposures classified into the following risk categories:

- “performing” – with regard to credit exposures arising from consumer loans;
- “watch” category;
- “non-performing” – including exposures classified into “substandard”, “doubtful” or “lost” categories”.

For irrevocable off-balance-sheet receivables bearing the non-performing customer risk, specific provisions are made in compliance with the binding regulations.

11.11. The Bank settles deferred expenses if such expenses relate to months that follow the month in which they were incurred.

The Bank settles accrued expenses in an amount referring to the current reporting period, arising in particular from:

- obligations towards employees, in particular, for rights acquired by the employees involving unused vacation leave, bonuses and other variable portions of remuneration, etc.,
- obligations related to the Bank’s day-to-day operations, in particular, obligations towards audit firms, for legal service, telecommunications costs, rent, office materials, etc.

Deferred and accrued expenses are written off in relation to the lapse of time or the amount of payments. The time and manner of settlement depends on the nature of settled costs, according to the prudence (conservatism) concept.

Expected, however, not yet incurred expenses recognized in the settlement of accrued expenses reduce current expenses in the reporting period in which it was determined that such liabilities did not arise.

Deferred income includes, in particular:

- payments received or due from counterparties for services to be performed in future reporting periods,
- interest on non-performing receivables – until their receipt (payment) or write-off.

11.12. The Bank creates provisions for future liabilities whose:

- amount or the time when they arise is not certain,
- arising is certain or very likely, which means that they result from past events involving a payment obligation; as a consequence, the present or future assets of the unit will be used;
- reliable assessment of the liability amount is possible.

Further, the Bank creates provisions for economic transactions that result in losses. Such transactions include in particular:

- agreements regarding office space sublease at prices lower than those agreed in lease agreements,

Provisions are created in the amount of the actual or estimate costs that the Bank is not able to avoid.

The Bank also creates provisions for other future liabilities, and in particular, for the outcomes of pending judicial proceedings. The created provisions for future liabilities are charged to other operating costs.

If liabilities for which provisions have been created arise, they will decrease the amount of the created provisions. If the risk for which a provision has been created is reduced or eliminated, such unused provision will increase the balance of other operating income or financial income on the date on which it is no longer required.

11.13.Due to temporary differences between the value of assets and liabilities shown in the books of accounts and their tax value and the tax loss deductible in the future, at the end of each reporting period the Bank establishes the amount of deferred tax liability and deferred tax assets.

Deferred tax assets are determined in an amount anticipated to be tax deductible in the future, due to negative temporary differences, which in the future will result in reducing the tax base and deductible tax loss determined according to the prudence (conservatism) concept.

Deferred tax liability is established in the amount of the income tax that will have to be paid in the future, due to positive temporary differences, i.e., differences which will result in increasing the tax base in the future.

Under the art.38a of Corporate Income Tax Law dated February 15, 1992 (Journal of Laws 00.54.654 as amended), the Bank includes receivables due from the Tax Office in the books in the amount of 8% of the value of specific provisions for receivables on account of loans classified by banks into the lost or doubtful risk categories, that were made by the Bank but were not recognized as tax deductible as at December 31, 2002.

11.14. The Bank measures the equity in the nominal value.

11.15.The net financial result includes: net operating result, net extraordinary gains/losses, and mandatory charges to the financial result on account of income tax. The net operating result includes the banking activity result adjusted for the difference between other operating revenues and other operating costs, cost of the activity, depreciation of fixed assets and intangible assets, net charges to/release of provisions and revaluation. The banking activity result includes: interest and fee income, income from shares, holdings and other securities, result on financial transactions and FX result.

11.16.The Bank includes the following items into its interest income at the end of a reporting period:

- income not received in the reporting period arising from:
  - interest due to the Bank, including discount and capitalized interest on receivables classified as performing or watch,.
  - interest income, including discount, received in the previous reporting period referring to the current reporting period,

- current interest income referring to the reporting period,
- commissions and fees on performing, watch and at-risk receivables, referring to the reporting period and settled using the effective interest rate,
- costs on account of matured and not matured interest on the Bank's liabilities referring to the reporting period.

The Bank does not include the following items in its interest income:

- matured and not matured interest due, including capitalized interest – on "at-risk" receivables which are treated as deferred income until they are collected or written off,
- discount and interest collected in advance referring to future reporting periods.

11.17. Commissions that adjust the effective interest rate (interest income) on performing, watch and at-risk receivables, are included into the Bank's income. Unsettled commissions and fees referring to future reporting periods decrease the value of a loan or credit facility in the Bank's balance sheet. Commissions and fees settled in time using the effective interest rate are considered interest income while the commissions and fees settled using the straight-line method are considered commission and fee income. In order to calculate the specific provisions, the Bank does not decrease the value of non-performing loans and credit facilities by commissions and fees settled in time using either the straight-line method or effective interest rate method. Provisions for non-performing loans are calculated based on the nominal value of non-performing loans.

11.18. The Bank evaluates daily FC positions (with reference to the NBP mid-rate). The result from the above-mentioned operations is recorded as expense or income related to FX transactions and revaluation, accordingly. The FX transaction result is calculated on a daily basis and recorded as expense or income related to FX transactions and revaluation, respectively. Both accounts are presented in the profit and loss account in the position "Net result of FX differences".

The result on forward transactions whose maturity does not fall prior to the end of the reporting period is included, with a future value date, in the FX financial result of that reporting period. The result is calculated according to the following rule:

- result on current FX spot transactions, FX swaps, futures and forward transactions is calculated by comparing the transaction rate with the market rate applicable to analogous transactions at the end of the reporting period, if the difference between the value date and the current date exceeds two days. In other cases, the reference rate is the NPB mid-rate.

11.19. The Bank determines the amount of income tax on the basis of the gross financial result adjusted for permanent differences between tax income and financial income. The amount of tax resulting from temporary differences, due to the fact that particular items were recognized in income or costs for taxation and accounting purposes at different dates is shown as deferred tax assets or deferred tax liability. The amount of deferred tax liability and deferred tax assets is determined according to income tax rates applied during the fiscal year when the tax liability arises.

Specific provisions created by the Bank excluded from the assessment of corporate income tax liability have been recognized in temporary differences for the purpose of assessing the amount of deferred income tax.

11.20. The Bank includes the following transactions to derivative instruments:

- **Forward** - consists in a purchase / sale of a specific currency for zlotys (or a foreign currency) at a predetermined date in the future at the exchange rate agreed on the transaction date.
- **FX Swap** are the foreign exchange transactions of purchase or sale of a specific currency at a current exchange rate and a simultaneous sale or purchase of the same amount of the currency at a forward rate.

- **FRA** – obligation to pay or receive interest on the amount of the contractual deposit on a specified date in the future at an agreed interest rate in exchange for the receipt or payment of interest on the deposit calculated at a market rate. At the transaction settlement, the amount resulting from the difference between the market interest rate and the interest rate agreed upon in the agreement is paid.
- **IRS contracts** – consist in an exchange of interest payments based on a variable market interest rate for interest accrued at a fixed interest rate agreed upon in the contract. At the interest payment dates the parties may set off their mutual payments, depending on the relation between interest rate market values on which the payments to be exchanged are based, or the gross interest amount under the contract may be paid.
- **CIRS contracts** – consist in the exchange of fixed interest payment into variable ones in two different currencies. The transaction settlement method is similar to the one used for IRS contracts,
- **FX Futures** are standardized stock exchange contracts for foreign currency exchange. The essence of the contract consists in the daily market valuation at the stock exchange and the related cash flows. Contracts may be settled by a physical supply of foreign currency or by providing the difference between the contract rate of exchange and the final settlement price,
- **options** – contracts under which a party purchases the right to buy (call option) or sell (put option) underlying assets at a predetermined price and date. The option holder has the right to carry out, i.e. to buy (in the case of a call option) or to sell (put option) the option. In the event the holder applies to execute the option, the other party of the transaction, i.e. option writer, shall buy or sell the option depending on the contract terms and conditions.

External costs of a derivative transaction are not taken into account when entering the financial instrument into the Bank's books. Their value is considered immaterial.

FRA, IRS, CIRS contracts, FX Swap, Forward, options and futures, classified as financial instruments held for trading (unless the concluded contracts are regarded as hedging instruments) are measured at their fair value. The measurement is recognized in the net result on financial transactions.

11.21. The Bank applies hedge accounting to a limited extent. Out of three types of hedging. i.e. fair value, cash flows and net investment hedge, the Bank uses the fair value hedge only. The hedge accounting consists in a symmetrical recognition of the impact exercised by changes in a hedging item and the hedged asset upon financial result. The reason to hedge a fair value is to limit the risks of fair value change impact upon financial result, arising from a specific risks associated to assets and liabilities or their portion entered into books. The Bank applies hedge accounting against risks of changes to fair value as a result of interest rate changes. A specific hedge item can be applied as a hedge to more than one type of risks, provided that:

- types of hedged risk can be determined
- hedge effectiveness can be proved,
- it is possible to ensure that a hedging item can be assigned to hedge against different types of risk.

Hedge effectiveness can be assessed by comparing the change in the value of the hedging instrument or the resulting cash flow to the change in the value of the hedged asset or the resulting cash flow.

A hedge can be considered effective if during the period of its use the changes in the hedged item's fair value or the resulting cash flow changes are set off in 80% up to 125% by the change in the hedging item's fair value or the resulting cash flow changes.

The Bank ceases to apply a fair value hedge accounting should one of the following events arise:

1) a hedging item expires, gets sold, its use comes to an end or it is carried out;

2) a hedge ceases to comply with the applicable hedge accounting criteria, as defined in detailed accounting regulations.

11.22. Financial data included in the annual report have been prepared according to the rules of asset and liability valuation and measurement of the net financial result determined on the balance-sheet day, taking into account adjustments related to provisions, deferred tax assets and liability, referred to in the Accounting Act, and asset revaluation.

12. PRESENTATION OF EUR/PLN MID-RATES SET BY THE NBP IN PERIODS COVERED BY THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA

Below, there are presented mid EUR/PLN rates for 2005 and 2004 (for comparable data) set by the National Bank of Poland, applied to convert selected items from the balance sheet, the profit and loss account and cash flow account:

- As at 31 December 2005, the mid EUR rate published by the NBP on 30 December 2005 was PLN 3.8598;
- As at 31 December 2004, the mid EUR rate published by the NBP on 31 December 2004 was PLN 4.0790;
- The mid rate calculated as a simple average of mid rates set by the National Bank of Poland on the last days of the months from January to December 2005, was PLN 4.0233; the mid rate calculated as a simple average of mid rates set by the National Bank of Poland on the last days of the months from January to December 2004, was PLN 4.5182;
- in 2005, the highest mid EUR rate of PLN 4.2756 was published by the NBP on April 29, 2005; and the lowest mid EUR rate of PLN 3.8223 was published by the NBP on December 13, 2005;
- in 2004, the highest mid EUR rate of PLN 4.9149 was published by the National Bank of Poland on March 1, 2004; whereas the lowest mid EUR rate of PLN 4.0518 was published by the National Bank of Poland on December 28, 2004.

13. PRESENTATION OF AT LEAST BASIC ITEMS OF THE BALANCE SHEET STATEMENT, PROFIT AND LOSS ACCOUNT AND CASH FLOW STATEMENT FROM THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA, CONVERTED INTO EURO, WITH THE INDICATION OF RULES ADOPTED FOR SUCH A CONVERSION

BASIC FINANCIAL DATA (in EUR thousand)	January 1, 2005-December 31, 2005	January 1, 2004-December 31, 2004
Interest income	74,987	61,958
Fee and commission income	21,756	18,796
Result on banking activity	80,317	62,801
Net operating result	30,421	18,252
Gross profit (loss)	30,421	18,252
Net profit (loss)	25,228	16,501
Total assets	1,650,319	1,326,010
Due from other financial institutions	339,641	318,445
Due from customers and the budget sector	1,112,533	829,036
Due to the Central Bank	0	0
Due to other financial institutions	564,375	472,627
Due to customers and budget sector	821,476	649,011
Own equity, including:	179,229	145,912
- Share capital	7,813	7,393
Net cash flow from operating activity	20,597	102,211

Net cash flow from investing activity	16,281	(186,807)
Net cash flow from financial activity	(10,177)	164,789
Net cash flow	26,700	80,193

Key items in the balance sheet, profit and loss account and cash flow statement in the financial statements for 2005 and the corresponding financial figures for 2004 displayed on the cover page of the annual report have been converted into EUR according to the following rules:

- particular items in the profits and loss account and cash flow statement as at the end of December 2005 have been converted into EUR at the mid-rate applied on December 30, 2005, published by the National Bank of Poland, i.e. PLN 3.8598; comparable financial data have been converted into EUR at the mid-rate published on December 31, 2004, i.e., PLN 4.0790, published by the National Bank of Poland;
- particular items in the profits and loss account and cash flow statement for 2005 have been converted into EUR at a rate which is a simple average of mid rates set by the National Bank of Poland for the last days of the months from January to December 2005, i.e. PLN 4.0233; comparative data have been translated into EUR at a rate which is a simple average of mid rates set by the National Bank of Poland for the last days of the months from January to December 2004, i.e., PLN 4.5182.

14. PRESENTATION AND EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL STATEMENT AND COMPARABLE DATA ACCORDING TO THE POLISH ACCOUNTING STANDARDS AND THE FINANCIAL STATEMENTS AND COMPARABLE DATA WHICH WOULD BE PRESENTED USING THE INTERNATIONAL ACCOUNTING STANDARDS.

The Bank continues preparations for making financial statements in accordance with the International Financial Reporting Standards (IFRS). Currently, the implementation of IT tools is in progress to enable identification and measurement of credit portfolio's impairment loss.

Notwithstanding due care, it is at present unfeasible to determine reliable difference amounts between the two accounting standards and therefore the differences are presented in a descriptive manner.

Between the financial statements of Fortis Bank Polska S.A. prepared as at December 31, 2005, in accordance with the Polish Accounting Principles (PZR), and statements that would have been prepared according to the International Financial Reporting Standards (IFRS) there would be differences with respect to the valuation of specific provisions and the measurement of the Bank's shares in its subsidiary.

- The Bank makes specific provisions for impairment of receivables due on account of loans, credit facilities and other receivables reported in the financial statement prepared according to the Polish Accounting Principles set by the Finance Minister's Ordinance dated December 10, 2003 on rules for creating provisions for risks related to banking activity. As provided in IAS 39, an impairment loss is recognized whenever there is any objective evidence of such impairment. The write-down amount shall be established as the difference between the receivable balance-sheet value and the discounted value of the receivable future cash flows, by applying the effective interest rate. Besides, individually significant receivables for which no impairment loss was found out during their individual analysis and the other receivables that were not subject to individual tests are measured jointly within groups of similar credit risk profile.
- The Bank's shares in the subsidiary, i.e. Fortis Securities Polska, are measured by equity method, whereas in the financial statements according to the IFRS the valuation would be made at the acquisition costs (taking into account write-downs for impairment loss) or at the fair value according to IAS 39.

Apart from the above, both the manner of presentation and the scope of data whose disclosure is required under the International Financial Reporting Standards are materially different as compared to the financial statements prepared in compliance with the Polish Accounting Principles.