

## **Commentary to the quarterly report of Fortis Bank Polska S.A. for the second quarter of 2005**

**(under Article 98 para. 3 and 4 of the Council of Ministers' Ordinance dated March 21, 2005  
– Journal of Laws No. 49, item 463)**

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

- 1.1. Fortis Bank Polska S.A. keeps its accounting records pursuant to the rules set out in:
  - 1.1.1. Accounting Act dated September 29, 1994 (*Journal of Laws* No. 76, item 694, of 2002 as amended),
  - 1.1.2. Ordinance of the Ministry of Finance dated December 12, 2001 (*Journal of Laws*, No 149, item 1674 of 2001) regarding a model chart of accounts for the banks.
  - 1.1.3. Public Trading in Securities Act dated August 21, 1997 (*Journal of Laws* No. 49, item 447 of 2002 as amended),
  - 1.1.4. Ordinance of the Ministry of Finance dated December 10, 2001, regarding special rules of bank accounting (*Journal of Laws* No. 149 item 1673 as amended),
  - 1.1.5. Ordinance of the Ministry of Finance dated December 12, 2001, regarding special rules of recognition, measurement methods, the scope of recognition and manner of presentation of financial instruments (*Journal of Laws* No. 149 item 1674 as amended),
  - 1.1.6. Ordinance of the Ministry of Finance dated December 10, 2003, regarding rules of creation of reserves for risk connected with operations of banks (*Journal of Laws* No. 218, item 2147).
- 1.2. A detailed description of the accounting policies applied by the Bank was presented in the Introduction to the 2004 Annual Report published on April 14, 2005.
- 1.3. Financial data included in the quarterly report have been prepared using valuation rules applicable to assets and liabilities, and the calculation of the net financial profit/loss binding on the balance sheet day, taking into account the adjustments resulting from provisions, and deferred tax assets and liabilities, referred to in the Accounting Act, and write-downs for impairment.
- 1.4. For the purpose of financial reporting the Bank applies the Model Chart of Accounts implemented under the Ministry of Finance Ordinance dated December 12, 2001, regarding the bank model chart of accounts (*Journal of Laws* No. 152, item 1727). Due to the fact that the Bank's shares are admitted to public trading under the Law on the Public Trading of Securities, the Bank's financial reporting is prepared according to the Council of Ministers' Ordinance dated March 21, 2005, regarding current and periodical information submitted by issuers of securities (*Journal of Laws* No. 49, item 463) and the Council of Ministers' Ordinance dated August 11, 2004 on detailed requirements applicable to issue prospectuses and abbreviated versions of such prospectuses (*Journal of Laws* No. 186, item 1921, as amended).
- 1.5. Selected financial data included in this report have been converted into EUR, according to the following rules:
  - 1.5.1. Particular assets and liabilities of the balance sheet were converted into EUR at the NBP mid-rate announced on June 30, 2005, i.e. PLN 4.0401; whereas particular items of the balance sheet assets and liabilities for the comparable data were converted into EUR at the NBP mid-rate announced on June 30 31, 2004, which amounted to PLN 4.5422;
  - 1.5.2. Particular items in the profit and loss account and cash flows as at the end of the second quarter of 2005 were converted into EUR at the rate based on the arithmetic mean of mid rates determined by the National Bank of Poland as at the last days of the months from January through June 2005, which amounted to PLN 4.0805, whereas particular items of the profit and loss account and cash flows for comparable data for as at the end of the second quarter of 2004 were converted into EUR at the rate based on the arithmetic mean of mid rates determined by the National Bank of Poland as of the last days of the months from January through June 2004, which amounted to PLN 4.7311;

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

- rate as at the end of January 2005 - EUR/PLN 4.0503
- rate as at the end of February 2005 - EUR/PLN 3.9119
- rate as at the end of March 2005 - EUR/PLN 4.0837
- rate as at the end of April 2005 - EUR/PLN 4.2756
- rate as at the end of May 2005 - EUR/PLN 4.1212
- rate as at the end of June 2005 - EUR/PLN 4.0401
  
- rate as at the end of January 2004 - EUR/PLN 4.7614
- rate as at the end of February 2004 - EUR/PLN 4.8746
- rate as at the end of March 2004 - EUR/PLN 4.7455
- rate as at the end of April 2004 - EUR/PLN 4.8122
- rate as at the end of May 2004 - EUR/PLN 4.6509
- rate as at the end of June 2004 - EUR/PLN 4.5422

1.6. The only controlled entity of the Bank is Fortis Securities Polska S.A. (FSP). Pursuant to Art. 58 of the Accounting Act, the Bank is not obligated to prepare consolidated financial statements, as the financial data of this subsidiary are immaterial for a reliable and transparent presentation of the property, financial situation and financial result of the Bank. As at the end of June 2005, the total assets of Fortis Securities Polska S.A. constituted 1.2% of the Bank's total assets, FSP total income made up 0.1% of the Bank's total income, while FSP net profit accounted for 0.4% of the Bank's net profit.

2. A type of collateral used by the Bank is the transfer of a specific amount to the Bank's account, whereas the Bank undertakes to return this amount upon repayment of the debt along with interests and fees due. This form of collateral is provided for in Art. 102 of the Banking Law Act dated August 29, 1997. As at June 30, 2005, the value of this type of collateral accepted by the Bank amounted to PLN 296,827 thousand and was recognized as "Dues for financial sector" and "Dues for non-financial sector" items of the balance sheet, which is a part of this quarterly report.

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

3.1. as at June 30, 2005, the deferred income tax assets amounted to PLN 31,538 thousand, and deferred income tax liability totaled PLN 10,236 thousand. As at June 30, 2004, the corresponding amount of deferred income tax assets was PLN 26,815 thousand, and deferred tax liability amounted to PLN 7,441 thousand.

3.2. The value of FSP SA shares is measured by the equity method. As a result of valuation, the Bank reported an increase of FSP share value, which has been recognized in the profit and loss account as a 'share in a net profit/loss of subsidiaries measured by equity method' amounting to PLN 1,452 thousand, and also in the balance-sheet as the revaluation reserve capital increase by PLN 439 thousand.

3.3. In the period from January through June 2005, the Bank created provisions for loans and off-balance sheet liabilities in the amount of PLN 27,901 thousand. The above amount includes also a reserve for general risk built in the first quarter in the amount of PLN 8,910 thousand to cover risks related to banking activity, including especially the credit activity. The creation of the general risk reserve is one of the stages of the Bank's preparation for the implementation of reporting compliant with the International Financial Reporting Standards. Excluding the general risk reserve, at the end of the second quarter the value of provisions created exceeded the value of provisions released by PLN 6,572 thousand.

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

Loans and credit facilities granted are measured at amortized cost using the effective interest rate method

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

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

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

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

In order to obtain comparable data in connection with the implementation of changes to accounting principles effective January 1, 2005, regarding the introduction of the measurement of loan and credit facilities at amortized cost using the effective interest rate method, the following changes have been introduced to the balance sheet for the comparable data as of December 31, 2004.

Assets:

	As at Dec 31, 2004	Change of accounting rules	As at Dec 31, 2004 after reclassification
<b>IV. Due from customers</b>	<b>3,381,583</b>	<b>1,205</b>	<b>3,382,788</b>
<b>1. Current</b>	<b>796,516</b>		<b>796,516</b>
<b>2. Term</b>	<b>2,585,067</b>	<b>1,205</b>	<b>2,586,272</b>
<b>XVI. Prepayments and accrued income</b>	<b>33,729</b>	<b>1,752</b>	<b>35,481</b>
<b>1. Deferred income tax</b>	<b>29,351</b>	<b>1,752</b>	<b>31,103</b>
<b>Total assets</b>	<b>5,383,942</b>	<b>2,957</b>	<b>5,386,899</b>

Liabilities:

	As at Dec 31, 2004	Change of accounting rules	As at Dec 31, 2004 after reclassification
<b>IX. Accruals and deferred income</b>	<b>122,550</b>	<b>10,425</b>	<b>132,975</b>
<b>3. Other accruals and deferred income</b>	<b>110,029</b>	<b>10,425</b>	<b>120,454</b>
<b>XVIII. Retained earnings (uncovered loss) from prior years</b>	<b>11,811</b>	<b>(7,468)</b>	<b>4,343</b>
<b>Total liabilities</b>	<b>5,383,942</b>	<b>2,957</b>	<b>5,386,899</b>

<b>ADJUSTMENTS RELATED TO ACCOUNTING PRINCIPLES</b>	
<b>PLN (7,468,000)</b>	The amount regarding commissions and fees received and effectively settled which were previously recognized in the net profit/loss

<b>PLN (7,468,000)</b>	<b>PLN 1,752,000</b>		The amount of deferred income tax pertaining to commissions and fees received and effectively settled which were previously recognized in the net profit/loss
	<b>PLN (9,220,000)</b>		The amount of commissions and fees received and effectively settled
	<b>PLN (9,220,000)</b>	<b>PLN (1,205,000)</b>	The amount of commissions and fees received and effectively settled, moved to “ <b>Due from customers; Term</b> ”
		<b>PLN (10,425,000)</b>	The amount of commissions and fees received and effectively settled, moved to “ <b>Other accruals and deferred income</b> ”

As a result of changing the item “Retained earnings (uncovered loss) from prior years” (i.e. decreasing it by PLN 7,468 thousand), the Bank’s solvency ratio, which at the end of 2004 amounted to 12.30%, would diminish to 12.10%.

As regards the remaining comparable period, i.e. as of June 30, 2004, the Bank does not have comparable data related to the change of accounting principles.

In the second quarter of 2005, the Bank did not change its accounting principles. In this report, the manner of presentation of interest income on account of IRS hedging contracts has changed. In the previous reports, this income was presented in the ‘Net result on financial transactions’ whereas starting from this report, it is recognized in ‘Interest income’ and ‘Interest expense,’ accordingly. In order to obtain data comparability, the following changes were introduced to the presentation of the Profit and Loss Statement for comparable data:

<b>Data for the period 01.01.2005 – 30.06.2005.</b>	<b>Data before change</b>	<b>Change of presentation rules</b>	<b>Data changed</b>
I. Interest income	155,389	4,847	160,236
II. Interest expense	69,325	4,829	74,154
III. Net interest income (I-II)	86,064	18	86,082
VIII. Net result on financial transactions	874	-18	856
<b>X. Result on banking activity</b>	<b>157,063</b>	<b>0</b>	<b>157,063</b>

<b>Data for the period 01.04.2004 r. – 30.06.2004 r.</b>	<b>Data before change</b>	<b>Change of presentation rules</b>	<b>Data changed</b>
I. Interest income	68,361	2,202	70,563
II. Interest expense	26,507	2,428	28,935
III. Net interest income (I-II)	41,854	-226	41,628
VIII. Net result on financial transactions	(2,114)	226	(1,888)
<b>X. Result on banking activity</b>	<b>75,511</b>	<b>0</b>	<b>75,511</b>

<b>Data for the period 01.01.2004 r. – 30.06.2004 r.</b>	<b>Data before change</b>	<b>Change of presentation rules</b>	<b>Data changed</b>
I. Interest income	128,419	4,330	132,749
II. Interest expense	52,176	4,856	57,032
III. Net interest income (I-II)	76,243	-526	75,717
VIII. Net result on financial transactions	(240)	526	286
<b>X. Result on banking activity</b>	<b>138,799</b>	<b>0</b>	<b>138,799</b>

The above change in the presentation manner has no effect on the Bank’s financial result.

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

The net profit for the second quarter of 2005 amounted to PLN 26,956 thousand and was higher by 24% than the result earned in the first quarter of 2005. The result on banking activity increased by PLN 5,349 thousand, i.e. by 6%.

In comparison to financial results for the second quarter of 2004, the improvement of basic profit and loss statement items was also noted.

- 5.1. net interest income in the amount of PLN 43,772 thousand, which is higher (by 5%) than within the corresponding period of 2004. The net interest income generated in the second quarter of 2004 amounted to PLN 41,628 thousand;
- 5.2. net commission and fee income amounting to PLN 21,456 thousand, which is higher by 18.3% than within the second quarter of 2004. In the second quarter of 2004, commission and fee income totaled PLN 18,142 thousand;
- 5.3. FX result of PLN 16,461 thousand, which is lower by 7% than in the corresponding period of 2004 (as at the end of the second quarter of 2004 it amounted to PLN 17,629 thousand);
- 5.4. Bank's operating expenses of PLN 40,008 thousand, which are higher by 4.7% than in the second quarter of 2004 (as at the end of the second quarter of 2004, the operating expenses amounted to PLN 38,203 thousand);
- 5.5. the Bank's gross profit of PLN 32,175 thousand is higher by 22% than in the corresponding period of 2004 (at the end of the second quarter of 2004, it amounted to PLN 26,362 thousand);
- 5.6. in the second quarter of 2005, the excess of all created provisions over the released ones amounted to PLN 5,781 thousand, and was lower by PLN 364 thousand, i.e. 6% than in at the end of the second quarter of 2004.

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

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

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

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

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

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

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

In the second quarter of 2005, no dividend was paid. No decision was made on the dividend payment declaration, either.

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

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

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

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

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

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

	as at June 30, 2005	as at December 31, 2004
<b>I. Contingent liabilities and assets</b>	<b>2,739,380</b>	<b>3,001,098</b>
<b>1. Contingent liabilities granted:</b>	<b>1,798,581</b>	<b>1,620,058</b>

a) lending commitments	1,368,763	1,298,294
b) guarantees	429,818	321,764
<b>2. Contingent assets received:</b>	<b>940,799</b>	<b>1,381,040</b>
a) lending commitments	726,274	798,092
b) guarantees	214,525	582,948