Board of Executives Report on Fortis Bank Polska SA activity in 2004

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I. SUMMARY OF THE BANK'S ACTIVITY IN 2004

A. Introduction

The year when Poland joined the European Union proved beneficial for the entire economy of Poland, including Fortis Bank Polska S.A.

In 2004, Fortis Bank Polska S.A. generated a record net profit of PLN 74.6m, i.e. over twice as much as in 2003. The pace of growth of the Bank's gross profit was also high: 56% increase over 2003 results, up to PLN 82m. Moreover, the Bank allocated PLN 12m to the general risk reserve.

The result on banking activity amounting to PLN 284m (by 19% higher than in 2003) contributed the most to the above profit level. It was possible thanks to higher interest income of PLN 155.6m (i.e. by 34% more than in 2003), higher commission income of PLN 72m (i.e. up by 7% versus 2003) and a higher FX result of PLN 60m (up by 8% versus 2003).

As compared to the situation at the end of December 2003, total assets have grown by 17%, and profit generating assets by 20%. The Bank recorded a 4% growth of the credit portfolio and a 6% growth of non-financial sector customer deposits.

As a result of an effective cost control, the cost-income ratio (CIR) decreased down to 58.5%.

The Bank's ROE amounted to 13.4%.

In 2004, the Bank was actively promoting its services tailored to the changing customer and market needs. The advertising campaign of the "In the European Union with Fortis Bank" project continued. Under the above project, the Bank offers advice to SMEs how to apply for the EU subsidies and provides loans to customers to finance undertakings covered by the subsidies. Our loan facilitating EU subsidies acquisition has been recognized by the *BusinessWeek* weekly the Best Financial Product of 2004.

The Bank keeps working over extension of its offering by both Polish and foreign investment fund units. In July 2004 the Bank was granted the relevant license by the Securities and Exchange Commission.

B. Key factors that affected the Bank's financial performance in 2004 :

- Loan portfolio of non-financial sector customers increased by 4% as compared to December 2003, i.e. up to PLN 3,382m as of December 31, 2004. The portfolio growth was adversely affected by the strengthening of the Polish zloty versus other currencies. The share of non-performing loans in the total portfolio went down to 10.6% at the end of December 2004 (of which 1.9% were classified to the watch category) versus 15% as at the end of December 2003 (including with 1.4% of watch loans).
- As compared to December 2003, the deposit balance of non-financial sector customers increased by 6%. As at the end of December 2004, the deposit balance amounted to PLN 2,622m. The balance of FC deposits grew up by PLN 149m.
- Commission and fee income increased by 6%, which resulted mainly from non-credit commissions. Credit commission income was by 3% lower than in 2003 due to lower sales of loans and the fact that since January 2004, some credit related commissions and fees are depreciated on a straight-line basis. If the accounting principles had not been changed, the credit commission amount would have been by PLN 2.5m higher than in 2004.
- Net interest income in the amount of PLN 155.6m was higher than in December 2003 by almost PLN 40m, i.e. by 34%, mainly as a result of higher interest rates.
- FX result reached PLN 60m and was higher by 8% as compared to December 2003.
- The Bank reported a loss of PLN 4m on financial operations, which was higher than in 2003. The reason is a significant decrease in prices of debt securities that took place in 2004.
- Operating costs amounted to PLN 147m and were by 5% higher than in the last year, when they amounted to PLN 141m. The cost/income ratio of the Bank for 2004 amounted to 58.5% vs. 69% in 2003.
- Net provisioning for credit risks in 2004 amounted to PLN 35 million, i.e. more by 65% than at the end of 2003 (when it equaled PLN 21 million). Net provisions in 2004 were higher than in the corresponding period of 2003, which was due mainly to a higher level of provisions released in 2003.

- In September and December 2004, the Bank was reimbursed an overpaid corporate income tax in the amount of PLN 3,5m, under of the verdict given by the Supreme Administrative Court in April 2004 related to the TFI PDM S.A. fund liquidation.

C. Outside Factors which Influence the Operation and Development of the Bank

/source: Center for Social and Economic Research /

1. Polish Economy in 2004

Gross Domestic Product and the Real Sphere

In 2004, economic growth accelerated to 5.3%. Export was a strong growth factor – it increased by about 15% in the real perspective which, still in the first half of the year, was favoured by further depreciation of the Polish zloty, and as of the second part of the year, by joining the EU.

Consumption of households was also dynamically increasing (3.2). The growth of consumption was based on the income generated by self-employment, properties and other factors (including the "grey economy") since salaries and social security benefits were not really increasing. This was caused by inflation higher than expected, and in the case of salaries also a further decrease in employment.

It is probable that households once again slightly lowered their savings rate (they were saving less in relation to current income than a year before). In the fourth quarter, there was a visible slowdown in the consumption rate (below 2%) what was related to negative real salary dynamics. Direct farming subsidies, paid starting from October 2004, failed to make up for the slower growth of income, which suggests that subsidies were not widely appropriated for consumption purposes.

In 2004, there was a growth of investment (for the first time in the past four years, by 5.1%). In particular, outlays of middle-size and big companies increased, with the biggest growth in the sphere of means of transport and the building industry, and the smallest in that for machines and devices (data valid up to September 2004). In the period of decrease in investments since 2001, they were most widely limited by enterprises (their weight dropped to a little more than 50%). That is why the influence of their outlays for the general investment dynamics is currently limited. Clearly, the government sector (especially on the local level) withheld investments in 2004, in order to connect them with Union projects which, due to various delays, shall be realized in 2005 at the earliest.

In 2004, an increment in economic reserves was a potent growth factor. Partially it resulted from the overestimation of demand, but to a higher degree, from the purchase of raw materials and production materials. Considering the fact that prices of metals and some raw materials were increasing last year, such actions might have been optimal from the point of view of the companies. However, from the point of view of the economic growth, it means a slowdown in the coming quarters. Assuming that reserves would increase in 2004 in the same way as in 2003, the rate of the growth of the national domestic product would not be higher than 3.7%.

Strong national and foreign demand influenced a slightly faster import growth in comparison with the past year, in particular in the second part of 2004, when the Polish zloty was becoming stronger. Nevertheless, import continued to grow at a slower rate than export and, as a result, the deficit in foreign trade was diminishing, which in turn positively influenced the growth of the national domestic product . However, that positive effect started to wane from the second part of last year, together with the growing import dynamics. Other potent factors of growth of the national domestic product in the whole of 2004 were also weaker by the end of the year (consumption, accumulation of reserves), and the acceleration of investments in the fourth quarter made up for those tendencies to an inadequate degree. That is why the dynamics of the national domestic product in the fourth quarter was curbed down to 3.9%.

The high rate of domestic demand (including reserves) and the export caused a substantial increase in sales in industry (over 12%). Sales increased in all branches, yet the most potently in the ones manufacturing investment goods (by 35%) – half of these were mechanical vehicles (passenger cars, lorries, tractors, buses), slightly slower in the case of consumption goods of permanent use and supply ones. As a result of a slowdown in economic growth, in the fourth quarter there was a drop in sales rate of industry down to around 6%.

In the construction industry in 2004, once again a decrease in sales was noted (in reference to companies employing over 9 persons), although it was much smaller than in the previous years (-0.9%). Smaller sales occurred in the case of works of an investment nature, while growth was noted in the case of renovation works. In turn, in the division into stages of the building process, the sales level in the sphere of site preparation for construction works and finishing works was increasing, and decreasing in the spheres which play the biggest share in sales i.e., erection of buildings and construction building installations. The above mentioned increase in investments of construction companies, in the light of a decrease in sales of construction companies, suggests that in the past year building and infrastructure expenditures were diminishing in other sectors (governmental and household). Growth in the building production in the fourth quarter was a certain breakthrough (by almost 6%) which might be evidence of launching Union projects, especially those connected with infrastructure.

The brisk economic activity in 2004 also favoured the development of market services (increase in added value by 5.0%). It applied first and foremost to commerce (increased turnover especially directly before and after the accession), telecommunications and companies' servicing as well as real estate.

Employment Market

2004 was not a breakthrough year for the employment market. Employment in companies of over 9 persons continued to decrease, although at a dropping rate (in the enterprise sector by nearly 1% on average). This tendency pertained to almost all branches in the economy, with rare exceptions (substantial growth in employment) seen only in branches of record-breaking sales growths (vehicle manufacture, radio-television-telecommunications equipment, rubber products, furniture or the computer science branch). Employment also slackened slightly in small companies (including the one-person ones) and other units. Nevertheless, in 2004 we saw a continual decrease in unemployment in comparison with similar periods in the previous year (in both the number of the unemployed – below 3 million at the end of the year and the unemployment rate – 19.1% at the end of December). The improvement is connected with the outflow of a part of the unemployed outside the employment market (inactivity, work abroad, grey economy, further educating). Although the total number of employed did not increase, the positive characteristic of positions taken up was the increase in the share of the employment not subsidized by the state.

On a scale of the whole economy, work productivity increased in 2004 by almost 5%, while in the processing industry only (companies of over 9 persons employed) by over 14%.

Exchange Rate and Inflation and the Monetary Policy

Changes in the average level of the exchange rate of the Polish zloty in the whole of 2004 – appreciation against the dollar by 6% and depreciation against the euro by 3.1%, do not mirror the strong trend of appreciation of the Polish zloty in the yearly perspective which begun to take shape from the middle of the third quarter of 2004. It was caused by the trend of appreciation of the euro against the dollar and the appreciation of the Polish zloty itself. In December, the average value of the zloty exchange rate amounted to 4.14 PLN/euro (which meant a yearly appreciation at the level of 11%) and 3.10 PLN/USD (18%). The Polish zloty was becoming stronger mostly as a result of the inflow of portfolio investments which was encouraged by the growth of market percentage rates in the middle of the year as well as the general positive perception of the Polish economy connected with the first months after the accession.

One of the short-term and unexpected effects of joining the EU was a substantial price arbitrage, seen mainly on the food market. A big demand on the part of EU buyers mostly for Polish raw meat and also for some of the milk products caused an increase in prices in the country. The yearly dynamics of food prices were increased up to 10% in August. A part of the price increase was of speculative nature (for instance sugar) – increase in prices was caused by their expectation after joining the EU. The "Union effects" were accompanied by the world markets' tendency to the increase oil prices and prices of other raw materials, as well as the "pig hole" on the Polish market as a result of over-production in the previous years. In consequence, the yearly inflation accelerated up to 4.6% in July and August of the past year. However, the completely supply oriented nature of the increase as well as the lack of demand impulses in the economy did not cause a further acceleration of the inflation. It was also caused by the strict tightening of the monetary policy – in the June-August period the Monetary Policy Council increased the rates of the National Bank of Poland, by a total of 125 basis points. Following the increase of the National Bank of Poland rates, the market interest rates were also increased in the July-October period even more than the rates of the central bank, which was connected with the expectation of further increases. In the following months of slow waning of the inflation pressure, the expectations of a continued increase in relation to NBP rates were diminishing and at the same time market interest rates became slightly lower. (WIBOR 3M in December average 6.7%).

Foreign Trade and the Balance of Payments

The dynamic growth of export (both in the real expression of the national accounts – by 15%, as well as in the spot prices in the balance of payments – goods and services by 19% in euro) was basically stable throughout 2004. The appreciation of the zloty in the second part of the year influenced the slightly lower values of export in spot prices. Sales of goods to Central-Eastern Europe countries were increasing at the fastest rate (but after excluding from the group the countries which entered the EU on the first of May), although sales to the developing countries also increased – over 40% in euro. It turns out that the acceptance of Union tariffs as of the moment of accession widened the access of Polish export to those markets. The increase in sales in the EU (including in the new member states) was much lower (23% in euro), but, as a result of the high share of export to the Union since the first of May in the whole of the Polish export (79.1%), it was the main growth factor of the abroad sales. Germany still remains the biggest buyer of the Polish export, although its share is gradually diminishing (30% in 2004), it is followed by France (6.1%) and Italy (6.0%).

Among the goods groups of at least 1% share, the sales of fuel were increasing the most rapidly (by 65% in PLN, yet partially due to the effect of the increase in oil prices), as well as machines, devices and food (by 34% and 32% respectively). In the case of food, since a similar increase also took place in 2003, it therefore is not a spectacular influence of the opening of the Union market.

In the real perspective, the import volume increased by 13%, and in the perspective of the balance of payments in spot prices in euro – by 17%, while the strong zloty most probably influenced the growth of the dynamics of the volume in the second part of the year in comparison with the first part. The growth of the import of goods from developing countries was the most rapid (by 31% in euro); and slightly slower from the remaining regions (16-19%). Currently, almost 68% of the import comes from the EU, including 24% from Germany, 8% from Italy; 7% of the value of imported goods comes from Russia. The biggest part of the import is constituted of machines, devices and transportation equipment (39%), followed by other industrial goods (29%).

In 2004, the balance of goods payments in the balance sheet of payments amounted to almost (-5.0) a billion euro (similarly as in 2003), the balance of services was positive and higher than in 2003 (1 billion euro). The high negative balance of income was covered with a surplus by the high positive balance of current transfers (4.6 billion euro), including a part of Union transfers, and a result, the deficit in the current account was diminished to 3 billion euro (1.5% of the gross domestic product) in 2004.

The deficit was entirely covered by the inflow of direct foreign investments (balance of 3.5 billion euro), however about 1 billion euro came solely from an operational transaction (the change of the debt of a Polish company to a foreign partner into shares in another Polish company). This means that Poland's accession to the EU did not cause a big inflow of investment capital from abroad, it is quite to the contrary – excluding the above mentioned transaction, the inflow was lower than in the previous year.

In 2004, a very high inflow of portfolio investments was noted (7.9 billion euro), including 7.4 billion euro into debt securities (mainly of the State Treasury). The inflow was partially balanced by the investments of the Polish financial sector abroad (6.3 billion euro).

Public Finances

The situation of the public finances was better than that in the budget plan. The budget deficit was lower than planned by almost 4 billion PLN, and was caused almost in half by the lower than planned expenditures and higher budget income. Nevertheless, the latter tendency mirrors only partially good economic situation – only the CIT income was higher than planned (CIT rate was lowered from 27% to 19%); other tax incomes resulted from a change in law, i.e., transfer of the means of special budget units to the central budget. As a result, the state deficit amounted to 4.7% (6.0% having acknowledged the transfer to the OFE), which points to its growth in comparison with 2003 (by 1.5 percentage point).

In 2004 the planned privatization income was acquired, which was achieved for the last time in 2000, and furthermore – with a surplus (10.2 billion PLN, including 7.1 billion PLN – sale of PKO BP bank shares). With the lower than planned deficit and higher privatization income, the net loan needs estimated for 50.8 billion PLN amounted to 48.1 billion PLN. This situation and the decrease in the sales of the treasury bonds as well as the increase in the sales of medium-term bonds made it possible to prolong the average maturity date of the SPW, which, for the first time in history, exceeded 3 years. This will limit the cumulation of payments for the medium-term debts in 2006.

Financial Results of Enterprises

In 2004, there was an improvement in the financial results of enterprises of record-breaking levels.

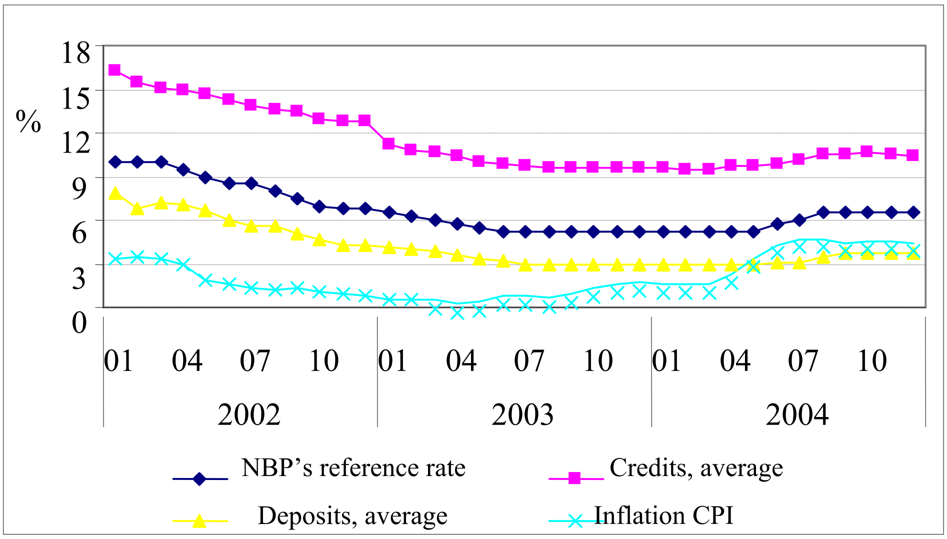
After the three quarters of the previous year, gross profitability amounted to 6.4% (7.0% in the public sector, 6.2% in the private sector), and the net profitability was at the level of 5.1%. Such good results were influenced first and foremost by the high dynamics of income from the total of activity (17%) with expenditures growing more slowly at the same time (by 14%). Growth in product sales was the most rapid (19%), as a result of good economic conditions in the country as well as a high level of export. Financial results in the fields of sales of products, goods and materials were improved by as much as nearly 70%. The dynamics cost was kept under control as a result of reorganization activities of the past years as well as the improvement in work productivity, which resulted in the dynamic production growth in 2004 that took place along with the further reduction in employment. In the current, still difficult, situation on the employment market, the companies could allow for a low payment dynamics.

2. The Banking Sector in 2004.

NBP's Monetary Policy and Interest Rates of Commercial Banks

The Monetary Policy Council raised the NBP's interest rates by a total of 125 basis points in 2004 as the reaction to the increase in inflation expectations caused by a strong supply pressure, including mainly the results of the increase in prices of food after Poland joined the EU in May and the prices of raw materials on the world market. The increase in the average interest of credits in commercial banks amounted to 75 basis points and that of the deposits to 85 basis points. It must be noted though that the increase in interest of credits for economic entities amounted to 116 basis points, while that for households was minimally decreased. The interest rate of enterprises' deposits was increased by 40 basis points, and that of households by 96 basis points.

Chart 1: Interest Rate in the Ranking Sector and the Inflation, 2002-2004 (%)



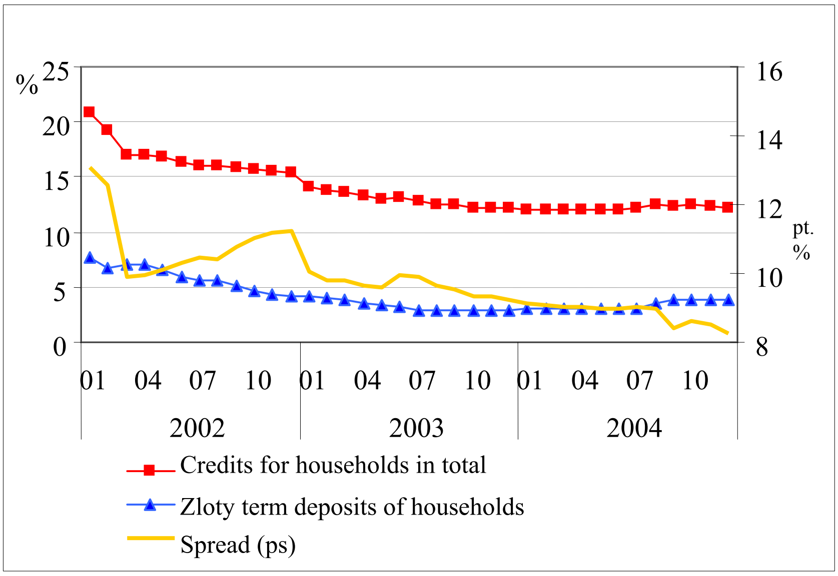
Source: NBP

The bank's zloty receivables in 2004 were increased by 13% year to year, while the foreign currency receivables expressed in PLN were diminishing with the appreciation of the zloty exchange rate by 18% year to year. The increase in total receivables of banks in 2004 was therefore not significant and amounted to 3.6% in comparison with 7.1% in 2003.

The increase in total credits of households year to year remained stable – 13.3% in 2004 in comparison with the 13.6% increase in 2003. However, there were significant changes in the structure of the credits – there was a substantial growth in the zloty credits by 20.6% in 2004 in comparison with 4.7% in 2003, with weaker dynamics of the increase in foreign currency credits – of about 11% in 2004 in comparison with 34% in 2003. There were also changes in the structure of credits for households. In December (in a 12-month perspective) the dynamics of the most popular, over 5 year long credits was increasing at a slower rate than in the previous years (around 48% of credits for the total of private persons in 2004), and it started to accelerate in the case of credits of a shorter period of maturity (from 1 to 2 years and from 3 to 5 years), but also in the case of credits up to 1 year (within current accounts). The development of the situation on the credit market at the end of 2004 might indicate an increase in clients' interest in consumption credits; indeed, consumption credits increased in the fourth quarter faster than in the previous months (8% in the yearly perspective in December). On the part of the banks, after definitional changes in classification of doubtful receivables at the beginning of 2004, the share of the doubtful receivables of private persons was diminished from about 11% at the turn of 2003/2004 to the level of 7.2% in December 2004. Therefore, the banks could have been more inclined to accept a higher risk of consumption credits. On the other hand, they were still acting passively since credit interest for individual clients or households did not change in comparison with 2003. A slight decrease in the spread for households resulted, in turn, from the increase of deposit interest rate (together with the raise in the NBP's interest rates).

In 2004 the total of household deposits was diminished, but that resulted from the decrease in the value of foreign currency deposits, since zloty deposits increased by 1.6% year to year. It was a relatively small increase, but in 2003 a decrease of zloty deposits was noted (by 1.2%) and a total decrease by 2%.

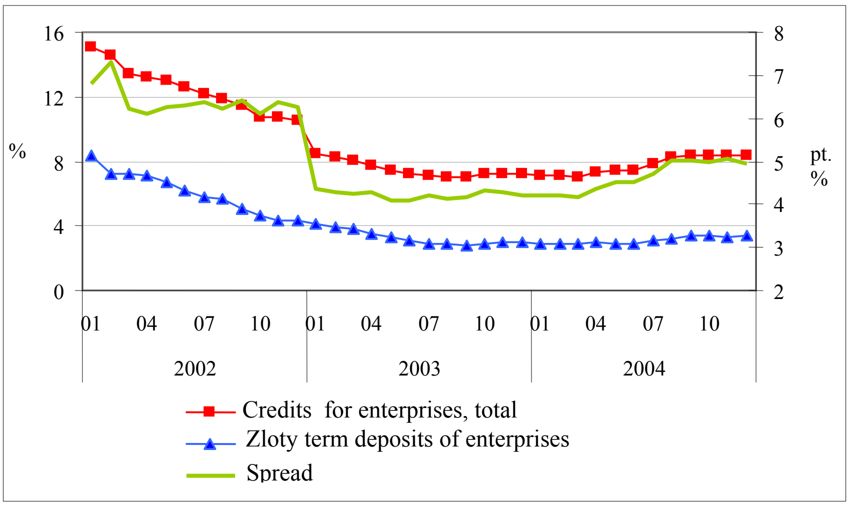
Chart 2: Households, Interest Rate (2002-2004)



Source: NBP

In total, the credits for enterprises showed negative dynamics (-3.9%). It resulted from the reduction (paying off) of foreign currency debts which decrease exceeded the scale of the appreciation of the zloty against the dollar and the euro. The zloty credits for enterprises, in turn, showed positive growth dynamics (6.9% in 2004 in comparison with -2.1% in 2003), but it resulted mostly from the growth of credit dynamics within current accounts. The share of doubtful receivables of enterprises was diminished (from 25–26% between 2003/2004 to less than 19% in December 2004). The scale of the decrease was therefore slightly larger than that of the doubtful receivables of households, which nevertheless did not influence the balance of demand and supply of credits for enterprises.

Chart 3: Economic Entities, Interest Rate (2002-2004)



Source: NBP

NBP's data which average the level of interest rates of deposits and credits in commercial banks, though of insufficient quality, mirror the general trend in bank policies – in 2004 they still preferred the safe mortgage credits for households to running a credit risk connected with financing dynamic but small companies not having appropriate financial securities. And the big companies continued not to be interested in credits, their interest being solely in deposits.

In 2004 we saw an increasing ratio of enterprise deposits to household deposits: in December 2004 it was 41%, and in September the share amounted to a little more than 37% against a little less than 33% in December 2003. Further increase in enterprise deposits at this rate will cause the value of enterprise deposits to exceed half of the value of household deposits in a year.

Financial Results of the Banks

Within the period of three quarters of 2004, the assets of the banking sector (526 billion PLN) increased by 7.6% in relation to the end of the previous year, that is twice as fast than in the analogous period of 2003 (by 3.7%). The source of financing of the growth of the assets of commercial banks were first and foremost funds acquired from the banking sector (current and term deposits, liabilities connected with own issues and loans pledged with treasury debt securities). In the January-September period, the capital (funds) and subordinated liabilities shown in banks' balances were increased by 3.9% as a result of gaining the means from the divided profit for 2003 and additional capitalization (in 94% by foreign investors) of nine banks (by 1.3 billion PLN in total). The dynamics would have been higher if it had not been for the diminishing of the reserve fund of a big universal bank as a result of covering a loss in 2003.

The net and gross results of banks in the third quarter of 2004 reached an unprecedented level (6.0 billion PLN and 5.3 billion PLN), higher by 45.8% and 95.3% respectively than the ones achieved in the analogous period of 2003.[1]

The increase in the gross result (by 1.9 billion PLN) was achieved by commercial banks first and foremost owing to the higher interest result (by 1.2 billion PLN, by 12.2%) and commission result (by 476mln PLN, by 94%) than in 2003. What was also of substantial significance, was the lower balance of created and dissolved purpose reserves for doubtful receivables (by 708mln PLN, by 32.2%), mainly lost and being below the standard, as well as the general risk and observed receivables, following both a dissolution of the majority of the reserves and smaller deductions. What negatively influenced the gross result was a further, though slower than in 2003, decrease in the exchange result (by 246mln PLN, by 10.3%), and a negative result of the treasury bonds operations (worse than last year by 74mln PLN). It was nevertheless, to a large extent, balanced with a higher (by 221mln PLN, by 42.6%) result of derivative instruments operations. Consequently, the total result of financial operations was lower by only 3.4% (by 25mln PLN), in relation to the 45.9% decrease (0,6 billion PLN) of last year. Incomes from shares also dropped (by 9.1%, by 33mln PLN).

Credit risk, measured with the share in the portfolio of doubtful receivables, was diminished since the increase in gross receivables (by 2.1%) was accompanied by a decrease in doubtful receivables (by 21.7%). At the end of September 2004, the share of doubtful receivables in receivables from the non-financial sector was lower by 5.2 percentage points than in December 2003 (the result of new, more liberal receivables classification rules, a better financial situation of clients, cautious credit policy especially in relation to foreign currency credits, reorganization-recovery activities, moving the lost receivables into the off-balance records).

II. SHAREHOLDERS, CAPITAL AND FUNDS

A. Share capital

As of December 31, 2004 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 2004 no changes as regards the share capital occurred.

1 *Higher dynamics of the net result in relation to the gross result (by almost 50 percentage points) is the effect of the higher by 0.5 billion PLN share of banks in the results of subordinate companies calculated using the method of ownership rights (included in the profit and loss account) and the lower (by 15.2%) due income tax as a result of the lowering of the rate of the CIT tax (from 27% to 19%) and acknowledging by the banks of future tax allowances. The effective charge of the gross result with the income tax was diminished by 12.8 percentage points (down to 17.9%).*

B. Changes in the ownership structure in 2004

As of December 31, 2004 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*	**14,941,807**	**99.10%**	**11,308,275**	**75%**
Others	**135,893**	**0.90%**	**135,893**	**0.90%**
Total:	**15,077,700**	**100%**		

**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 29.08.1997 (Dz. U /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.*

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

C. Equity

As at December 31, 2004, the equity capital of Fortis Bank Polska SA amounted to PLN 595,177 thousand, i.e. by 16% more as compared to in December 31, 2003 (PLN 513,445 thousand).

On June 24, 2004, the Annual General Meeting of Shareholders of Fortis Bank Polska SA resolved to allocate the total net profit of PLN 36,021 thousand to increase the Bank's equity capital: PLN 32m for the general risk fund and PLN 4.021m as retained earnings.

The Bank's equity as a category calculated for the needs of capital adequacy ratio amounted to PLN 447,982 thousand as at December 31, 2004 and exceeded the capital level required to secure the Bank's business, which was PLN 292,449 thousand as at the end of December 2004.

Pursuant to the provisions of Article 127 of the Banking Law Act, items classified as the Bank's equity include also the fixed assets revaluation reserve fund amounting to PLN 511 thousand as at the end of December 2004 as compared to PLN 515 thousand as at the end of December 2003, and the financial assets revaluation reserve amounting to PLN (-352 thousand) at the end of December 2004 as compared to PLN (-981 thousand) as at the end of December 2003.

In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducted PLN 62,582 thousand from equity with regard to its net capital exposure in shares of Fortis Securities Polska SA (FSP) and PLN 10,380 thousand representing 100% of net intangible fixed assets.

The equity structure as of December 31, 2004, compared to December 31, 2003 for the purpose of capital adequacy ratio calculation was the following:

Category	December 31, 2004 PLN thousand	Dec. 31, 2003 PLN thousand
Share capital	30,155	30,155
Additional capital	349,539	349,534
Reserve capital	17,018	17,018
General risk fund	112,262	80,263
Fixed assets revaluation reserve fund	511	515
Financial assets revaluation reserve fund	(352)	(981)
Retained earnings	11,811	10,521
Capital exposure relating to FSP	(62,582)	(58,084)
60% of net intangible assets – 2003		(6,567)

100% of net intangible assets – 2004	(10,380)	
Total equity for the purpose of calculating the capital adequacy ratio	**447,982**	**422,374**

III. FINANCIAL RESULTS

A. Profit and loss account

1. Income on banking activity

Interest income in the amount of PLN 270,853 thousand, or more by 26% than in the preceding year, remained the principal component of the banking activity income structure.

The interest income consists mainly of the following items:

- interest on loans: PLN 210,157 thousand as compared to PLN 160,823 thousand in 2003,
- interest on securities: PLN 44,415 thousand versus PLN 29,065 thousand in 2003,
- interest on inter-bank placements: PLN 15,537 thousand versus 24,606 thousand in 2003.

The Bank recorded a 6% increase in fee and commission income to PLN 84,924 thousand in 2004 as compared to PLN 80,449 thousand earned in 2003.

In 2004, the Bank's FX result reached PLN 60,286 thousand, which was higher 8% than in 2003 when it amounted to PLN 55,906 thousand.

Income on securities operations amounted to PLN 59,140 thousand and was by 31% higher than in 2003, when it amounted to PLN 45,312 thousand. However, the Bank reported a loss of PLN (4,266) on financial operations, vs. PLN (35) thousand loss in 2003; which resulted from the fact that the costs of securities operations (PLN 123,692) exceeded the income generated.

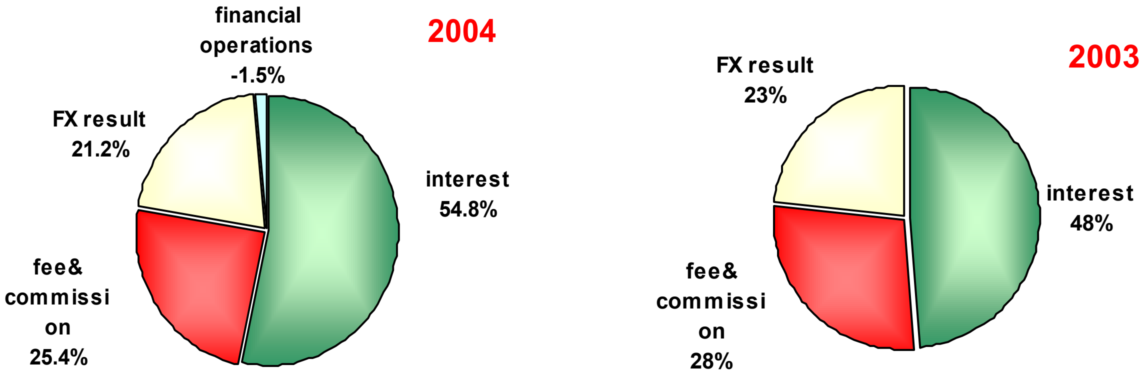
2. Banking activity costs

Interest expenses reached PLN 115,291 thousand and were higher by 16% in comparison to 2003, when they totaled 99,335 thousand. The interest expenses include the following items:

- interest on customer deposits: PLN 76,125 thousand (PLN 67,158 thousand in 2003),
- interest on inter-bank deposits: PLN 16,417 thousand (PLN 14,014 thousand in 2003),
- interest on credits and loans: PLN 22,105 thousand (PLN 17,537 thousand in 2003).

In 2004, commission and fee expenses amounted to PLN 12,759 thousand and were lower by 2% than in the previous year when they equaled PLN 13,012 thousand.

Chart 4. Result on banking activity in 2004 and 2003



3. Other income and expenses

The balance of other operating income and expenses was positive and amounted to PLN 2, 406 thousand. Other operating income grew by 5% over the year 2003 and included income on account of lease agreements (PLN 1.7 million) as the main item; other operating expenses went down by 13% as compared to the year 2003.

In 2004, operating expenses reached PLN 147,074 thousand and were higher by 5% compared to 2003, when they amounted to PLN 140,542 thousand.

Depreciation of fixed and intangible assets amounted to PLN 21,729 thousand in 2004 and was by 18% lower than these costs in 2003.

In 2004, provisions were created in the amount of PLN 56,127 thousand, or lower by 4% than in 2003, while the income on account of released provisions amounted to PLN 21,244 thousand. In 2004, the balance of provisions made versus provisions released equaled PLN 34,883 thousand, whereas in 2003, this difference amounted to PLN 21,111 thousand.

Provisions for at risk receivables constituted the largest item affecting the provisioning level. In 2004, the level of provisions for receivables at risk amounted to PLN 33,728 thousand, as compared to PLN 54,592 thousand in 2003. The Bank released provisions in the amount of PLN 14,270 thousand, whereas in 2003 the level of provisions released reached PLN 32,924 thousand.

Furthermore, the Bank created a general risk reserve of PLN 12 million.

4. Profit

The Bank generated a pre-tax gross profit of PLN 82,467 thousand or by 56% more than in 2003. The mandatory reductions of gross profit amounted to PLN 11,784 thousand.

The Bank's net profit (after tax) amounted to PLN 74,553 thousand and was higher by PLN 38,532 thousand or 107% than in 2003.

Dynamics of selected items of the profit and loss account (PLN thousand)

Profit and loss statement (in thousands)	**01.01.2004 -31.12.2004 in PLN thousand**	**01.01.2003 -31.12.2003 in PLN thousand**	dynamics 2004-2003
Net interest income	115,562	116,039	134%
Net fee and commission income	72,165	67,437	107%
FX result	60,286	55,906	108%
Result on banking activity	283,747	239,347	119%
Net operating income	82,467	52,825	156%
Gross profit	82,467	52,825	156%
Income tax	11,784	18,823	63%
Net profit	**74,553**	**36,021**	**207%**

B. Balance sheet

1. Total assets

Total assets as at December 31, 2004 amounted to PLN 5,382,942 thousand, which represents an increase by PLN 797,968 thousand or by 17% over 2003.

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

Balance-sheet item	Dec. 31, 2004	Share in total assets	Dec. 31, 2003	Share in total assets	Change 2004-2003
Cash and Central Bank balances	146,381	3%	185,908	4%	(21)%

Due from financial institutions	1,298,936	24%	372,932	8%	248%
Due from customers and the public sector	3,381,638	63%	3,243,414	71%	4%
Debt securities	346,505	6%	572,342	12%	(39)%
Due to financial institutions	1,927,845	36%	1,398,993	31%	38%
Due to customers and the public sector	2,647,317	49%	2,494,783	54%	6%
Equity (including net profit)	595,176	11%	516,176	11%	15%
Retained earnings	11,811	0.2%	10,521	0.2%	12%
Share capital	30,155	0.6%	30,155	0.7%	-
Total assets	**5,382,942**		**4,585,974**		**17%**

2. Assets

Receivables due from customers and public sector (net, after non-performing loan provisions) constituted the principal component of the Bank's assets and accounted for 63% of total assets as at the end of 2004 as compared to 71% at the end of 2003. The net portfolio of loans granted to the above customers increased by PLN 131,167 thousand up to PLN 3,422,934 thousand (a 4% increase versus December 31, 2003). Provisions for non-performing loans amounted to PLN 159,483 thousand as at December 31, 2004. The share of non-performing receivables due from customers in the amount of PLN 297,539 (excluding the watch category) stood at approximately 8.7%.

At the end of December 2004, the value of debt securities amounted to PLN 346,505 thousand. Their share in the assets dropped from 12% at the end of December 2003 to 6% as of December 31, 2004.

As of December 31, 2004, 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 202,081 thousand,
- Treasury bills issued by the Ministry of Finance: PLN 118,210 thousand,

The Bank also holds NBP bonds issued due to the reduction of the mandatory reserve rate: PLN 26,214 thousand.

As of the end of December 2004, the share of cash and the National Bank of Poland account balances in total assets decreased. As of December 31, 2004, it amounted to 3% of assets whereas as of December 31, 2003, it represented 4% of total assets.

Receivables due from the financial sector, including placements with other banks, accounted for 24% of total assets at the end of December 2004 and were higher as compared to December 31, 2003, when they made up 8% of total assets.

As at the end of December 2004, the following items are included:

- PLN receivables: PLN 362,778 thousand
- foreign currency receivables: PLN 936,233 thousand;

In comparison to the end of December 2003, the value of fixed assets decreased by PLN 6,577 thousand. The fixed assets primarily include:

- leasehold improvements (on rented office space): PLN 27,841 thousand.

- computer hardware: PLN 7,019 thousand

Intangible fixed assets at the end of December 2004 amounted to PLN 10,380 thousand, i.e. by 18% less than at the end of December 2003. This item included computer software.

Other assets accounted for 0.7% of total assets. The most important items in this group include inter-bank settlements in the amount of PLN 31,496 thousand or 83% of this group.

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

3. Liabilities

Current accounts and term deposits from customers and the public sector are the main liability. At the end of December 2004 deposits from customers and the public sector reached PLN 2,647,317 thousand and increased by PLN 152,534 thousand as compared to December 2003. They represented 49% of total liabilities versus 54% in 2003. The major part of these deposits was denominated in zlotys and amounted to PLN 2,054,149 thousand, representing 77.6% of all customer deposits. Foreign currency deposits reached PLN 593,211 thousand at the end of December 2004.

By the end of the year, the share of deposits placed by the financial sector increased. As of December 31, 2004, it accounted for 36% of total liabilities, compared to 31% the year before.

Special funds and other liabilities accounted for 0.77% of total liabilities at the end of 2004. The main item (52%) concerns inter-bank settlements in the amount of PLN 21,474 thousand.

Other provisions item increased from PLN 1,792 thousand as at the end of December 2003 to PLN 13,653 thousand as at December 31, 2004 and included a provision for contingent liabilities (PLN 1,339 thousand), general risk reserve (PLN 12,000 thousand) and provision for future liabilities (PLN 314 thousand).

4. Off-balance sheet items

As at the end of December 2004, off-balance sheet items stood at approximately PLN 10,040,983 thousand and were higher by PLN 3,025,257 thousand as compared to December 2003 (i.e. by 43%). They consist of:

- Off-balance sheet items relating to commitments of the Bank:
  - items related to financing: PLN 1,298,294 thousand (up by 27%),
  - guarantees: PLN 321,764 thousand (up by 95%).
- Off-balance sheet items relating to commitments in favor of the Bank:
  - items related to financing: PLN 798,092 thousand (up by 48%),
  - guarantees: PLN 582,948 thousand (up by 199%).
- Commitments related to the carrying out foreign currency exchange transactions concluded before year-end which did not yet mature on December 31, 2004: PLN 4,284,187 thousand, i.e. decrease by 7% as compared to December 31, 2003, when they amounted to PLN 4,628,496 thousand.

In connection with the extension of the Bank's offering by a wide range of derivative instruments, their value grew six times from PLN 451,732 thousand up to PLN 2,755,698 thousand.

The derivatives include:

- hedging IRS contracts: PLN 150,000 thousand
- speculative IRS contracts: PLN 570,000 thousand
- speculative FRA contracts: PLN 120,000 thousand
- options: PLN 518,218 thousand.

C. 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 the Bank's credit activity.

In 2004, the structure of the Bank's inter-bank deposits and funding from other banks substantially changed. In particular, similarly to the previous years, the Bank used credit lines from Fortis Bank (Nederland) N.V. Since February 2004, the Bank's liability on account of credit lines from Fortis Bank (Netherland) N.V. has increased in connection with two new credit lines granted by Fortis Bank (Netherland) N.V.: one facility up to EUR 200m for 101 months to finance current operating business of the Bank, and the other one up to EUR 200m for 27 months with the option to extend it for a longer period.

As of December 31, 2004, the total outstanding balance on account of credit lines granted by Fortis Bank (Nederland) N.V. equaled PLN 1,085m as compared to PLN 493m as at December 31, 2003 (on account of previous agreements).

Data about the funding sources and utilization, with a breakdown into the main geographical regions of the country and specific sectors, is shown in Additional Notes in Section 2.

2. Risk management

The Asset and Liability Management Committee (ALCO) plays the primary role in the market risk management, which includes interest rate, liquidity and currency risks. Specifically, ALCO defines risk management strategies subject to the approval of the Board of Executives and the Supervisory Board, and monitors their realization on the on-going basis.

The base interest rates used in the Bank for floating rate loans are based on either LIBOR or EURIBOR interest rates with respect to foreign currency loans and WIBOR for PLN loans. In some cases fixed interest rates may be used that are not changed over the duration of the loan agreement.

In connection with the growing inflation in 2004, the Monetary Policy Council increased the level of official NBP interest rates in the period July-August by 125 basis points. As a response to the money market situation, the Bank adjusted the interest rates on EUR and USD loans and deposits accordingly.

In 2004 the average interest rates calculated based upon the actually drawn interest expenses and acquired interest revenues amounted for:

1. PLN loans – 7.96%
2. FC loans – 4.12%
3. PLN deposits – 3.62%
4. FC deposits – 0.41% (incl. term deposits – 0.70%).

Risk supervision independent from the business activity is taken care of by the Risk Management Department. The liquidity and market risk (i.e. the FX and interest rate risks) are monitored by the Bank using a multi-dimensional system of limits and reports. ALCO reviews the limits and reporting techniques at least once a year. The Bank's Board of Executives may at any time decide to change the existing limits upon a motion made by ALCO.

In order to limit operational risk, the Bank implemented a complex system of operational risk monitoring and management based on databases containing information about operating losses. The Bank pays particular attention to the reduction of operational risk by improving internal processes and limiting the risk related to the implementation of new products and services. Considering needs for monitoring the operating risk and establishing capital requirements related to the above risk in the future, the operating risk includes also legal risk.

Business process safety is a key objective of the comprehensive FBP Security Policy. The Bank's security policy, including physical and technical safety likewise the security of information and IT systems is to provide an optimum security level to the Bank's customers and employees, i.e. to create foundations for the secure management of the Bank's business, aimed at limiting risks to the level which is considered safe by the Board of Executives.

Fortis Bank Polska SA implemented the "Anti-Money Laundering and Counteracting Financing Terrorism Program and also the "Know Your Customer Program". The responsibility for the realization of tasks and duties specified in the Anti-Money Laundering Program is assumed by the Program Coordinator appointed by the Bank Board of Executives. Moreover, in every Branch office and in Head Office units there are appointed Coordinators of the Program responsible for the Program realization at their respective level. Every employee of the Bank shall abide by these programs.

The Anti-Money Laundering Program has been implemented under the Act on Counteracting introduction of property values coming from illegal or undisclosed sources to financial trading and counteracting financing terrorism dated November 16, 2000. When accepting a customer's instruction or order to effect a transaction whose occurrences show that the property values may come from illegal or undisclosed sources, the Bank shall register such a transaction in the bank register and notify the General Inspector of Financial Information (GIFI) thereof in writing.

Whereas when accepting a customer's instruction or order to carry out a transaction whose PLN equivalent exceeds EUR 15,000, the Bank's employee shall identify the principal of such a transaction and enter the transaction into the bank register. Since July 1, 2004, Fortis Bank Polska SA shall report about information on transactions entered into the bank register to the General Inspector of Financial Information.

Fortis Bank Polska SA does not cooperate with virtual banks having no physical registered place of business.

The credit risk management is the primary responsibility of the Risk Monitoring Department. The credit risk analysis is based on a standard assessment methodology applied in the Bank. The analysis covers both the risk related to a given credit product and the risk of the Bank's total credit exposure towards the entity, including all the loans and credit risk-bearing financing products granted. There is a multi-level system of credit application analysis and credit decision making applied in the Bank, the purpose of which is to provide maximum objectivity in the application assessment and minimization of risk related to the Bank's credit exposure.

More information on the Bank's credit policy and the organization of the credit function is presented in Section IV.1 of this Report.

A detailed description of financial risk management objectives and financial instruments held in the Bank's portfolio is presented in Additional Notes Section 4.2.14.

3. Key financial indicators

The capital adequacy ratio was 12.30% at the end of December 2004, compared to 12.78% at the end of December 2003. 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. 5 dated December 12, 2001* issued by the Banking Supervision Commission as amended by *Resolution No. 1 dated June 4, 2003* issued by the Banking Supervision Commission.

The Bank's equity increased by 6% versus December 2003, while risk-weighted assets and off-balance sheet items increased by 11% in the corresponding period.

Capital adequacy ratio and its determinants

Indicator	**Dec 31, 2004**	**Dec. 31, 2003**
Risk-weighted assets	3,348,050	3,053,077
Risk-weighted off-balance sheet items	285,359	211,533
Net equity for the purpose of capital adequacy calculation	447,982	422,374

Short-term capital	1,776	
Credit risk	290,673	3,141
Interest rate risk	514	
Delivery settlement and counterparty risk	1,262	
Total capital requirement	292,449	264,310
Capital adequacy ratio	**12.30%**	**12.78%**

Performance indicators

Indicator	**Dec. 31, 2004**	**Dec. 31, 2003**
Return on assets (ROA)	1.48%	0.9%
Return on equity (ROE)	13.4%	7.0%
Net interest margin	3.09%	2.8%
Profit per share	4.94	2.39
Book value per share	39.47	34.23

Note: all values have been rounded up.

These indicators were calculated as follows:

Capital adequacy ratio	Net equity to the total capital requirement * 12.5
Return on assets (ROA)	Net profit earned for the last 12 months to average annual balance of total assets
Return on equity (ROE)	Net profit earned for the last 12 months to average annual balance of equity
Net interest margin	Net interest income to average balance of assets
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

Note: All the numbers were rounded up to integers.

IV. 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:

- overdrafts
- working capital and investment loans (PLN and FC)

Since December 20, 2004 the offer for small and medium-size enterprises has been extended by investment loan for the purchase/construction of real estate for commercial purposes. The loan advantages include a long term of financing (up to 15 years) and option to negotiate terms and conditions of financing.

b. Retail credit granted within product Packages for private individuals:

- debit limit
- fast loan
- mortgage loans

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

The Bank discontinued offering loans to institutional customers from the EBRD funds in 2003. Even though the Bank no longer extends any such loans, the loans already granted will be serviced by the Bank until their full repayment. As of December 31, 2004, the outstanding balance of such loans totaled PLN 50,987.5 thousand (EUR 12.5m), as compared to PLN 82,547.5 thousand (EUR 17m) as of December 31, 2003.

With a view to reducing credit risk, the Bank applies specific procedures for granting and monitoring loans. In the Bank's credit process, the customer acquisition and sale of credit products and also credit risk assessment functions have been split organizationally. Customer acquisition and sale of credit products are accomplished by the Retail Banking and Commercial Banking business lines, whereas the risk assessment is assumed by the Credits. The Credit function supervises the Bank's credit activity with regard to credit risk analysis and monitoring, establishment of credit standards and procedures, credit administration and maintenance of credit documentation and debt recovery.

As part of the adjustment process of Fortis Bank Group to the standards of the New Basel Capital Accord, the Bank actively participates in the project of implementation of credit risk assessment methods needed to determine the required regulatory capital.

In 2004, the Bank set up IT tools to standardize the credit portfolio risk monitoring and classification processes, taking into account the regulations by the Ministry of Finance, International Financing Reporting Standards (IFRS) classification and the requirements of the New Basel Capital Accord, and also to automate the process of calculation and posting of specific provisions and registering the risk category in the Bank's operating system.

In February 2004, the Bank signed an agreement to resume the Bank's participation in the Inter-bank Economic Information system (the Banking Register is administered by the Polish Bankers' Association) which since March 1, 2004 has operated based on a new IT system. The Bank also enrolled in the Credit Information Bureau (BIK in Polish).

In 2004, the Bank started preparing projects to further streamline credit processes, e.g. implementation of tools to support the process of mortgage loan granting and credit risk assessment with respect to mortgage loans granted to individuals, including scoring, and also the implementation if IT system for the loan application assessment, decision-making and loan agreement conclusion.

Furthermore, the Bank works on developing a centralized financial database of companies, credit customers, and on automating the credit report generation process for risk management purposes based on a data warehouse.

In 2004, the Bank implemented a credit policy for real estate financing, providing loans to small enterprises and granting mortgage loans.

As of October 1, 2004, the Credits started to operate within a new, more centralized organization structure and also the development of a new Risk Monitoring Department has commenced.

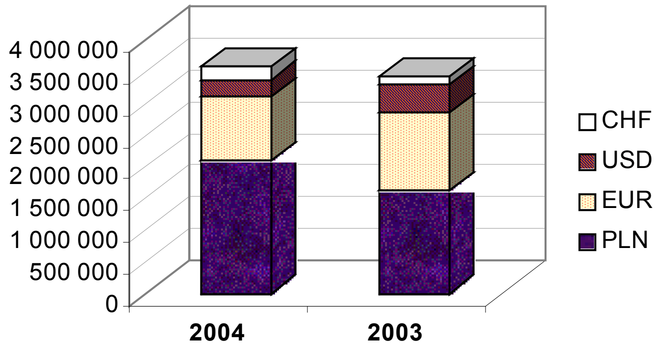
1. Characteristics of non-financial sector credit portfolio

In comparison with the end of 2003, the gross value of the credit portfolio (including interest, without provisions) was by 4% higher. As at the end of December 2003, the value of outstanding loans portfolio (with interest) due from customers totaled PLN 3,395,616 thousand, and rose to PLN 3,541,066 thousand at the end of December 2004. The credit portfolio growth was adversely affected by the strengthening of the Polish zloty against other currencies.

The value of the PLN loan portfolio (with interest) at the end of December 2004, totaled PLN 2,081,020 thousand and was by 29% higher as compared to December 2003. Whereas, the value of the EUR portfolio stood at PLN 992,082 thousand at the end of December 2004, which represented an 18% decrease as compared to December 2003. The balance of USD loans fell by 36% from December 2003 and amounted to PLN 272,547 thousand as of December 31, 2004. The volume of CHF loans at the year-end 2004 totaled PLN 194,589 thousand, and increased by

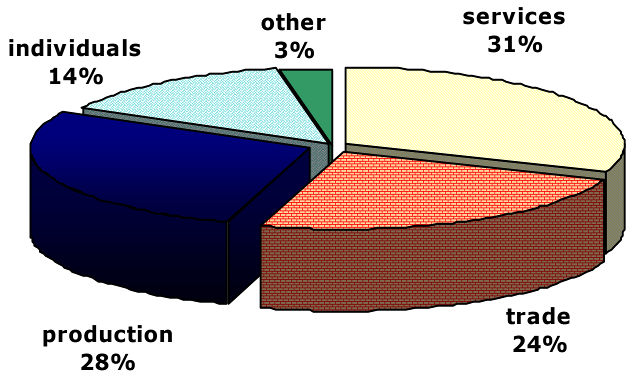
42% in comparison with 2003.

Chart 5. Currency structure of the credit portfolio (with interest) as of Dec. 31, 2004



The Bank's exposure focuses on the sectors of services, production and trade and it amounts to 31%, 28% and 24% of the credit portfolio value respectively, as at the end of December 2004. As far as all other sectors are concerned, the exposure is relatively low. As compared to December 31, 2003, the Bank increased its exposure in production and trade whereas the services sector exposure went down. Over 14% represents the Bank's exposure in individual customers group.

Chart 6. Credit portfolio economic sector structure - December 31, 2004



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

In terms of original maturities, at the end of December 2004, the structure of receivables from the non-financial sector was as follows: 23% represented overdrafts (increase of 6% versus 2003), 3% - with a maturity of maximum 1 month (increase by 1% as compared to December 2003), 1% - with a maturity of 1-3 months (decrease by 2% versus 2003), 21% - with a maturity of 3 months to 1 year (2% decrease), 18% - with a maturity of 1-5 years (decrease by 3% as compared to 2003) and 34% - with a maturity exceeding 5 years (1% decrease).

2. Non-performing loans

As at December 31, 2004, the value of non-performing loans (without interest) due from non-financial entities (excluding the watch category) totaled PLN 297,539 thousand and made up 8.7% of the total loan balance in that sector and 6.3% of the Bank's total loan portfolio, of which PLN 28,155 thousand represented substandard loans (i.e. 0.8% of the portfolio value), PLN 85,451 thousand – doubtful receivables (i.e. 2.5% of the portfolio value) and PLN 183,933 thousand – lost loans (i.e. 5.4% of the portfolio value).

3. Enforcement titles

In 2004, 161 enforcement titles for the total amount of PLN 33,672 thousand were issued with respect to the Bank's receivables, as compared to 218 titles of the total of PLN 77,025 thousand in 2003.

B. Issued guarantees and letters of credit

As of the end of 2004, the amount of guarantees issued by the Bank reached PLN 279,630 thousand, which represents a 117% increase in comparison to the end of 2003, when it equaled PLN 128,664 thousand.

In 2004, the Bank did not issue guarantees to one entity (or its subsidiaries) whose total amount would represent at least 10% of the Bank's equity capital.

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

At the end of December 2004, the Bank's commitments under opened import letters of credit totaled (in the PLN equivalent) PLN 81,824 thousand. Moreover, the Bank has on its books confirmed export LC's in the PLN equivalent of 7,640 thousand.

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

C. Deposits

As of the end of December 2004, the balance of funds deposited by customers totaled PLN 2,801,316 thousand, and was by 11% higher as compared to the end of December 2003, when deposits amounted to PLN 2,519,722 thousand. Although customers deposit also in foreign currencies, the majority of deposits are held in PLN (78%).

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, PLN and FC fixed and variable interest deposits with different maturities, including deposits with negotiated interest rates (depending on the deposit amount, term and the situation on the interbank market), and collecting accounts for non-residents. Institutional clients are also offered deposits priced based on the interest rates on interbank market. Upon entering into force of the Act on Individual Pension Accounts, the Bank launched open savings individual pension accounts in the second half of 2004.

The Bank offers three basic packages of services to its individual customers: Silver, Gold and Platinum. These bespoke banking products enable effective and safe management of funds deposited on savings and checking accounts opened. Within the packages the Bank offers deposit and loan products, payment cards, investment services and e-banking. The Bank also offers VISA Electron cards, Pl@net Internet banking system and 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. Custody services are offered under the Decision issued by the Securities and Exchange Commission dated July 14, 2000 (KPWiG-4042-2/2000) by the separately organized Custody Services Group.

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. 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 Asset and Liability Committee (*ALCO*). Capital is first of all invested in debt securities issues by the State Treasury or NBP.

F. Clearing activity

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

- cross-border transfers: service and export orders in convertible currencies and PLN
- domestic transfers
- direct debit
- day-to-day foreign exchange service
- forward transactions
- securities accounts
- 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.

In 2004, customer bank account numbers were changed into the uniform Bank Account Number (*NRB*) in the Polish banking system, and the IBAN standard started to be used in the international trading. In this connection as from June 30, 2004 the Bank discontinued carrying out payments that included the former bank account format and starting from July 1, 2004, payment orders to the NRB standard account numbers only are effected in domestic settlements. Thus clearing processes have been further automated. Payments are posted on the customer accounts based on the NRB number only, without checking the consistency of the transfer beneficiary's name with the account name.

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

In response to the continually smaller interest of customers in settlements through checks top savings and checking accounts (ROR), as from June 30, 2004, the Bank withdrew from the "Inter-bank Agreement on cashing checks against savings and checking accounts" dated July 11, 1990, and as a result the Bank ceased cashing checks against savings and checking accounts issued by other banks. Additionally as from June 30, 2004 the Bank gave a notice of termination to the agreement with American Express as regards the service of traveler's checks.

In connection with the Poland's entering the European Union, the process of adjusting internal regulations of the Bank to the EU standards took a significant part of the year 2004.

Within the development of electronic banking products, in December 2004 the Bank started to offer a new service: RPI (Remote Payment Initiation) enabling customers to manage their bank accounts held with other banks (both domestic and foreign ones) through one electronic system.

Based on the reorganization of bank units handling banking operations, carried out in 2003, and the new assignment of tasks in the Operations and Network Support Departments, actions to streamline and enhance the effectiveness of processes were continued, including a further centralization of certain operations formerly carried out by the Bank branches. As a result of these organizational and technical changes, card service improved, mailing to Customers was centralized, the electronic banking applications were adjusted to the relevant legal requirements regarding the prevention of money-laundering and the process of posting deposits and FX transactions negotiated by customers with the Treasury Department was centralized. The process of posting the Bank's transactions on the interbank market was automated and appropriate tools for monitoring the correctness of their parameters were developed. Procedures and IT tools to process derivative transactions were implemented.

The Bank started to offer Forward Rate Agreement (*FRA*), Interest Rate Swap (*IRS*) contracts and foreign exchange options and European type interest rate options. These are instruments enabling the management of interest rate risk offered to entities conducting business. Such transactions are also concluded on the interbank market. In 2005 the Bank intends to extend its offering of options.

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. The Bank holds accounts in first-rate banks operating in the major world financial centers, and maintains PLN *loro* accounts for foreign banks. 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. Moreover, the Bank established cooperation with the EBA (European Banking Association) and joined the European clearing system (STEP 2) on August 9, 2004.

H. Development of banking services

In 2004, the Bank continued the project *In the European Union with Fortis Bank,* started in the middle of 2003, and added some new features to the program. This project was initiated with a view to opportunities and challenges faced by small and medium-sized enterprises in connection with Poland's joining the European Union. The basic purpose of the project is to provide information on in EU-related issues and aid funds available. To carry out this purpose, the Bank organizes European Meetings and provides entrepreneurs with publications (available in the Branch offices) which constitute EU subsidy compendia (*Entrepreneur on the EU Market, SME Aid Programs Guidebook*). Additionally, a special Internet based service to provide detailed information on the above program has been created. Fortis Bank Polska SA carried out also a large campaign (TV, press, Internet) advertising the "In the EU with Fortis Bank" project likewise it was a sponsor of a book on EU funds entitled *Miliony dla Polski czyli jak zdobyć unijne dotacje* (*Millions for Poland or How to Get EU Subsidies*).

Fortis Bank further extended its range for banking products for individual customers. Individual Pension Accounts (IKE) are offered as a bank account or in the form of an investment fund managed by Fortis Securities Polska SA. Bank Individual Pension Account (IKE) is a variable interest savings account into which payments can be made any time and for any amount. IKE Fortis FIO (i.e. open-end investment fund) accounts are eventually maintained with an open-end investment fund with separated sub-funds: share sub-fund and stable growth sub-fund. Fortis FIO is an umbrella fund, the first such fund on the Polish market. It enables to transfer assets from one sub-fund to another in an uncomplicated way, depending on the market situation, and to choose a pension plan (IKE) tailored to customer needs based on a range of sub-funds with different risk profiles available.

Moreover, the Bank continued the cooperation with Credit Suisse Life&Pensions SA in terms of bancassurance offering life insurance endowment policy with an insurance capital fund (*Better Tomorrow for Your Child)* and the *Czysty Zysk* – 12-month life insurance policy which combines an insurance policy and investment product in one.

By the end of 2004, Fortis Bank Polska implemented a Credit Processing Management System; this new tool in the mortgage loan service automation process will allow the Bank to shorten the loan request processing down to 24 hours. In a further perspective, the system will be also used for the processing of a wide range of credit products offered by Fortis Bank Polska.

Upon receiving an approval of the Securities and Exchange Commission in July 2004, the Bank has become an intermediary in offering domestic investment fund participation units. Moreover, the Bank was preparing both organizationally and technically to extend its offering by foreign investment fund participation units.

I. Charity

Although Fortis Bank Polska SA does not engage in philanthropy on a wide scale, it does not evade of social responsibility in the activity conducted either, and reserves the option and right to assume the philanthropic role in specific undertakings, e.g. support for local societies and their initiatives. In particular, the Bank provides the option of material support for Bank employees (including bank employees who retired or receive a pension) who suffered from an accident or natural disaster.

For a few years now the Bank has been co-operating with the *United Way Poland* foundation. The Bank employees voluntarily deduct a portion of their salaries and donate it to the disabled, terminally ill and poor. Similarly to the year 2003, in 2004 the Bank management decided 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*.

Additionally, the Bank provided financial support to institutions to which the Bank has been related for some years, e.g. Integracyjny Klub Sportowy (Integration Sports Club) and the ITAKA foundation.

J. Investments in information technology

The works to streamline the business process in terms of past due receivables monitoring and debt recovery, which started in 2003, were concluded in 2004 as a result of implementation of the WIND system which has been developed taking into account the specificity of the Bank's business.

As far as other business projects are concerned, FBP implemented also the Orlando system (in cooperation with Comarch) to maintain derivative instruments and the Co-sign v. 2.0 system to store electronic version of customer signature specimen cards. Moreover, the Bank introduced a new release of SWIFT and finished works over the Notional Cash Pooling service to facilitate an effective liquidity management of funds on accounts maintained in the whole network of Bank locations.

In mid October 2004, the Bank finalized works over the extension of the Pl@net internet banking system accessibility for the system users. In the new system release, a user's private key can be stored on any carrier: from diskette to Pen Drive. Thus, the system security has improved. The new version of the system can also co-operate with different browsers.

By the end of the year 2004, the Bank implemented the Credit Processing Management System developed by InfoVide. Initially, the system is to be used in the mortgage loan process. It has been implemented to streamline the mortgage loan application processing, which resulted in having credit decision within 24 hours, automated generation of agreements and fast disbursement of loans.

Upon development of an appropriate interface, Fortis Bank Polska SA has been registered on the list of banks that use data exchange within the Credit Information Bureau (BIK).

Additionally, in 2004 the Bank initiated further works to streamline business processes in the following areas: adjustment of the Equation banking system to the NBP requirements regarding Effective Interest Rate, external reporting (including mandatory reporting to the NBP and BFG (the SPIDER system)) and the implementation of credit cards.

K. Agreements significant for the Bank activity

1. Credit Agreements of January 30, 2004 signed with Fortis Bank based in Brussels 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 Fortis Bank (Nederland) NV based in Rotterdam:

- Credit agreement with Fortis Bank (Nederland) NV regarding the Bank's credit line with the limit of EUR 200m 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, JPY within 76 months of the agreement conclusion. Interest rate: 1, 2, 3 or 12- month IBOR depending on the currency and interest rate term for specific advances. The commitment fee is 0.125% p.a. on the unused credit limit.

  This agreement has replaced the agreement dated September 24, 1998, amended by Annex No. 3 dated November 12, 1999, regarding the Bank's credit line up to DEM 200m, i.e. EUR 102m, repaid on February 5, 2004.

- Credit agreement on the Bank's credit line with Fortis Bank (Nederland) N.V. with the limit up to EUR 200m for the period of 27 months with the option to extend, 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 within 2 months of the agreement conclusion. Interest rate: 1, 3, 6 or 12 month IBOR depending on the currency and interest rate term for specific advances. Commission: 0.125% p.a. on the unused credit limit amount.

On March 29, 2004, Annexes to the above Agreements were signed. The annexes stipulate that the English language version of the Agreements shall be binding.

2. Co-operation agreement with Fortis Securities Polska S.A.

The Agreement of January 7, 2000, aims to extend the scope of the Bank's co-operation with the brokerage house as regards the following:

- making available to the brokerage house of premises in order to set up customer service outlets,
- co-operation in the sale of brokerage products within the Bank's organizational structure, including: the sale of participation units in investment funds.

On January 23, 2001, Annex no. 2 to the Co-operation Agreement was signed, the subject matter of which was co-operation in the organization and operation of customer service outlets and information desks of Fortis Securities Polska S.A. located in the Bank's branches. Customer service outlets of Fortis Securities operating in the Bank branches sell participation units in investment funds, investment portfolios and provide agency services in concluding investment account agreements. In December 2002, Annex no. 3 was signed, aimed to further develop co-operation in agency services related to financial products.

3. Co-operation Agreement with Fortis Lease Polska Sp. z o.o.

Under an Agreement of January 2, 2002, and Annex of February 28, 2002, the Bank provides to its customers information about services offered by 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.

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

4. Loan Agreements concluded with the European Bank for Reconstruction and Development (EBRD)

On January 26, 2000, the Bank concluded a loan agreement with the European Bank for Reconstruction and Development under which the EBRD extended to the Bank a credit line of up to EUR 10 million for five years to finance small and medium size enterprises (*SME Finance Facility*). As a continuation of successful cooperation, on December 21, 2001 Fortis Bank Polska SA concluded another loan agreement with the EBRD, under which the latter granted to the Bank a credit facility up to EUR 20 million for 5 years (counting from 2000) to be disbursed in two tranches, earmarked for financing the SME sector.

In 2003, the Bank discontinued granting loans from EBRD funds under the mentioned agreements, however, it still services the already extended credit facilities.

5. Agreements with the NBP

a) Bank account agreement of June 23, 2000. Under the Agreement, the NBP maintains a current account for the Bank in the SORBNET system. On February 20, 2004, Annex no. 11 was signed to this Agreement.
b) Agreement on the Bank's PLN term deposit account of December 27, 2001.
c) Agreement on the maintenance of a securities deposit account in the Securities Register on October 9, 2003.
d) Agreement on extension of a technical credit facility and transfer of rights under State Treasury securities of October 13, 2003.
e) Agreement on extension of a lombard credit facility and a provision of a pledge securing such facility of October 21, 2003.

6. **Card Agreements**
   a) **Agreement concluded with the VISA International Service Association regarding issuance, service and settlement of VISA Classic and VISA Business payment cards**. In 2000, the Bank concluded with the VISA International Service Association an annex to the License Agreement of October 15, 1997 regarding the issuance, functioning and settlement of VISA Classic and VISA Business payment cards. On January 1, 2001, the Bank was awarded the status of a Principal and Plus Member.
   b) **Insurance agreement regarding payment cards issued by Fortis Bank Polska S.A. of October 6, 2003, concluded with the insurance and reinsurance company Cigna Stu S.A.** The Agreement sets out risk insurance conditions in the case of financial losses resulting from transactions effected with VISA Electron and Charge cards issued by the Bank. Valid until 31/10/2005.
   c) **Insurance agreement for holders and users of payments cards issued by Fortis Bank Polska SA of October 6, 2003, concluded with the insurance and reinsurance company Cigna Stu S.A.** 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 31/10/2005.
7. **Insurance policy with Allianz Polska S.A. insurance company, from 1.10.2003 until 30.09.2005**

The insurance covers banking risks, likewise electronic and computer crime.

8. **Insurance Policy with Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. from 1.10.2003 to 30.09.2005**

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

9. **General Insurance Agreements signed with Towarzystwo Ubezpieczeniowe Europa S.A. on August 20, 2004.**

The Bank signed new agreements with Towarzystwo Ubezpieczeniowe Europa S.A. (insurance company) in order to provide insurance coverage for housing loans until legally valid mortgage entries are established as the loan collateral and also insurance of a low down payment for housing loan.

10. **Agreement of June 12, 2003, signed with Credit Suisse Life &Pensions Towarzystwo Ubezpieczeń na Życie S.A.**

Under this Agreement, 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. As a result of signing Annex No. 1 to the Agreement on September 12, 2003, the Bank introduced a new life insurance product for borrowers. Since December 2003, the Bank has offered the *Czysty Zysk* - one year's life insurance policy, which combines the features of an insurance policy and an investment product.

11. **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 of Fortis Bank Polska S.A. for individual customers. Currently such agency services concern only mortgage and construction and mortgage loans.

12. **General Co-operation Agreement with Fundusz Górnosląski SA dated August 24, 2004**

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 the loans granted by the Bank and credit facilities granted by the

Fund.

13. Distribution Agreement with Górnośląskie Towarzystwo Funduszy Inwestycyjnych SA (investment fund company) dated June 2, 2004.

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).

14. Co-Operation agreement No. 21/DC/2002 signed with Bank Gospodarstwa Krajowego on January 24, 2003

This agreement concerns sureties/guarantees for companies issued by BGK 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. 79 item 484 as amended).

15. Co-Operation agreement No. 31/FPU/2004 signed with Bank Gospodarstwa Krajowego on July 22, 2004

The agreement provides for granting by the Bank of loans and credit facilities secured by sureties and guarantees issued from the European Union Guarantee Fund established in Bank Gospodarstwa Krajowego under the Act dated April 16, 2004.

16. Co-Operation agreement on providing information signed with Biuro Informacji Kredytowej SA (credit information bureau) on November 16, 2004.

The agreements sets rules of co-operation between BIK SA and the Bank in gathering and providing the Bank, under Article 105 section 4 of the Banking Law Act, with information covered by the bank secrecy to the extent such information is necessary for the performance of banking activities, and also providing other products and services by BIK SA.

17. Agreement on participation and co-operation rules in exchanging information in the Interbank Business Information system – Bank Register of February 26, 2004, concluded with the Polish Bankers' Association (ZBP)

The Agreement provides on terms and conditions of participation and co-operation in exchanging information between the parties within the Interbank Business Information system – Bank Register of Unreliable Customers (MIG-BR) operating under Article 105 section 1 and section 4 of the Banking Law Act.

18. Agreements related to service of stock exchange listing of FBP shares

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

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

19. Agreement on participation in settlements through National Clearing Chamber (KIR) of February 15, 1999.

The Bank participates in settlements through KIR in the ELIXIR system.

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

The Bank entered into the 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.

21. Significant loan agreements

As of December 31, 2004, the Bank's exposure exceeded 10% of capital equity towards 10 customers, and totaled PLN 670 million i.e. by 60% more than as at June 30, 2003, when the Bank's exposure exceeded that level in the case of 7 customers and totaled PLN 418 million.

V. 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 25 billion and 52,000 employees over the world, Fortis ranks in the top 20 of European financial institutions. At December 31, 2004, Fortis had total assets of almost EUR 571 billion (by over EUR 47 billion, i.e. 9% more than at the end of 2003).

In its key home market, the Benelux countries, Fortis occupies a leading position and offers a broad range of financial services to individuals, companies and the public sector. Outside its home market, Fortis concentrates on selected market segments.

Fortis is listed on the exchanges of Amsterdam, Brussels and Luxembourg and has a sponsored ADR programme in the United States.

Fortis reported very good financial results for 2004. Net operating profit of EUR 3,197 million was by 42% higher than in 2003 when it amounted to EUR 2,247 million. Operating performance continued to improve thanks to higher yield generated on capital markets, concentration on revenue increase and strict cost control.

The Banking business's net operating profit increased by 36% from EUR 1,446 million for 2003 to EUR 1,970 million for 2004. Excluding value adjustments to the equity portfolio, net operating profit rose by 49% from EUR 1,102 to EUR 1,646 million in the first half of 2004.

Fortis maintains a high level of net core capital of EUR 21.3 billion, which exceeds the threshold required by prudential standards by 106% and the threshold adopted by Fortis by 30%.

Key financial data:

All data in EUR million	**2004**	**2003**	**2004/2003 change**
Net operating profit (before realized capital gains)	EUR 2,469m	EUR 1,976m	25%
Realized capital gains	EUR 356m	EUR 582m	(39%)
Net operating profit (before the value adjustment of the equity portfolio)	EUR 2,825m	EUR 2,558m	10%
Value adjustment of the equity portfolio	EUR 372m	EUR (311)m	
Realized	EUR (63)m	EUR (947)m	93%
Not realized	EUR 435m	EUR 636m	(32%)
Net operating profit (after value adjustment of the equity portfolio), incl.	**EUR 3,197m**	**EUR 2,247m**	**42%**
- banking	EUR 1,970m	EUR 1,446m	36%
- insurance	EUR 1,480m	EUR 996m	48%
- other	EUR (253)m	EUR (195)m	29%
Non-operating items	EUR 161m	EUR (50)m	
Net profit	**EUR 3,358m**	**EUR 2,197m**	**53%**
- banking	EUR 1,855	EUR 1,495m	35%
- insurance	EUR 1,599	EUR 897m	

- other	EUR (96)m	EUR (195)m	

Banking	**2004**	**2003**	**2004/2003 change**
Net operating profit (before realized capital gains)	**EUR 1,646m**	**EUR 1,102m**	**49%**
Realized capital gains	EUR 296m	EUR 336m	(12%)
Net operating profit (before the value adjustment of the equity portfolio)	**EUR 1,942m**	**EUR 1,438m**	**35%**
Value adjustment of the equity portfolio.	EUR 28m	EUR 8m	

Net interest income on the banking business went up by 5% to EUR 4,587m and commission and fee income by 10% to EUR 1,987m, as compared to 2003. Capital gains however decreased by 12% and other income, financial transactions in particular, dropped by 9%. Operational costs remain stable.

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

B. Fortis Securities Polska S.A.

Fortis Securities Polska S.A. (FSP) – owned in 100% by Fortis Bank Polska SA carries out distribution of participation units in investment funds and asset management on behalf of a client.

Since the second half of 2002, when FSP discontinued brokerage activity, the company has reported a substantial increase in customer assets under management.

FSP offers share, debt securities and balanced portfolios.

At the end of 2004, assets under management of Fortis Securities Polska S.A. totaled almost PLN 376.1m, as compared to PLN 247m at the end of 2003.

In March 2004, FSP took over the management of investment portfolios of GTFI (Górnośląskie Towarzystwo Funduszy Inwestycyjnych S.A.).

In 2004 Fortis Securities Polska S.A. in cooperation with SKARBIEC TFI S.A. launched the new investment fund on the Polish market - Fortis Open Investment Fund (Fortis FIO). Fortis FIO is a white label fund, which means that instead of establishing its own fund, FSP commissioned TFI Skarbiec to establish the fund. The fund assets are managed by FSP. Fortis FIO is the first umbrella fund on the Polish market with the separated subfunds. Such a structure entails the effective and cheap movement of investment units between subfunds depending upon runs keeps also Individual Pension Accounts IKE Fortis FIO.

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.)

VI. 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. From April 18, 2001 to January 18, 2004 the Bank's shares were quoted in a two-fixing system. Under the resolution of the Management Board of the Warsaw Stock Exchange, as of January 19, 2004, the existing trading system of the Bank shares was replaced by the continuous trading system.

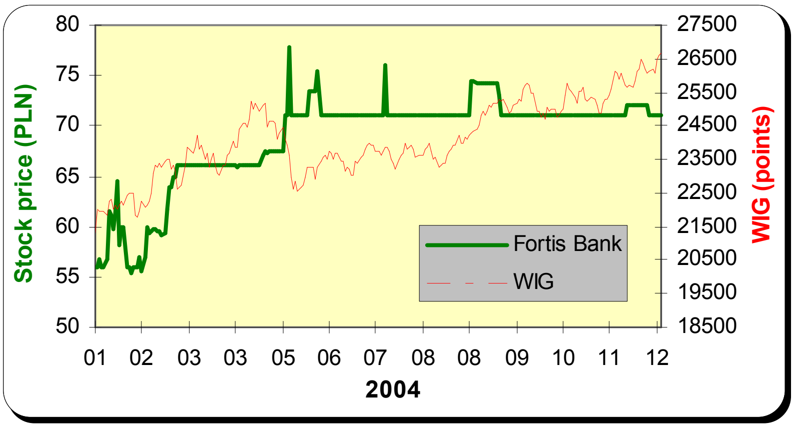
Since 1999, i.e. after the acquisition of over 98% of the Bank's shares by Fortis Bank seated in Brussels, the liquidity of shares has been maintaining at rather low level. At present all the other shareholders hold only 135,893 shares, i.e. 0.90% of the total number of the shares.

At the first session in January 2004, the share price amounted to PLN 56.00. The price of the Bank's shares rose to PLN 71.00 as of December 31, 2004, i.e., by 26.79%. The average turnover in the

Bank's shares in 2004 was 137 shares per session in comparison to 437 shares per session in 2003. Given such a small number of shares, the relative growth in the turnover and price was due to, on the one hand, the general recovery on the Stock Exchange following the accession of Poland to the EU, on the other Bank's steadily growing financial results.

In 2004, the WIG index rose from 20,820.07 as at December 31,2003 to 26,636.19 as at December 31,2004 (change by 27.94%) and WIG-banks, a sector sub-index, grew from 26,221.76 as at December 31,2003 to 35,454.37 as at December 31,2004 (change by 35.21%). Due to the slight liquidity the Bank's shares are not classified to any of the indices.

Chart 7. Trading in Fortis Bank shares and the WIG index from Jan. 2, 2004 to Dec. 31, 2004



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

Indices	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
EPS ratio	4.94	2.39	2.08
P/E ratio	14.36	23.44	14.37
BVPS ratio	39.47	34.23	34.46
P/BV ratio	1.80	1.64	0.87

The book value per share is PLN 39.47. For proper calculation, the share capital, reserve capital, revaluation reserve, other reserve capital, undistributed profit from the previous years and the net profit for the fiscal year were included in equity capital.

VII. CORPORATE GOVERNANCE

Under Warsaw Stock Exchange Regulations and resolutions of the Management and Supervisory Board of the Warsaw Stock Exchange, the Bank Board of Executives, in compliance with the intention of the Shareholders expressed at the General Shareholders Meeting and in compliance with the intention of the Supervisory Board, adopted the *Best Practices in Public Companies in 2002.* An up-to-date declaration of the Board of Executives that include information on the extent of application of the Best Practices in Public Companies by the authorities of Fortis Bank Polska SA was attached to the Bank's Financial Statements for 2003. In 2004, no breach of the adopted rules was reported.

The new statement on application of the Best Practices in Public Companies 2005 will be published by July 1, 2005 following the amendments have been adopted by the Annual Shareholders' Meeting.

VIII. DEVELOPMENT PROSPECTS FOR BUSINESS ACTIVITY

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

"Fortis back to growth" is the generic theme of the strategy update 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 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 (compared to 15% now).

The following elements should contribute to achieving these goals:

1) Focus on the customer, i.e. to gear the products and distribution channels to the needs of the customers. To this end Fortis will invest in innovation, sales and service provision. The success indicators will be reduction of complaints and increased customer satisfaction.
2) Growing market share, through development of existing distribution channels in Benelux and increase of the potential through selective acquisitions and partnerships. Strengthening of sales capacity in Commercial Banking & Private Banking and Merchant Banking is planned. On the new European markets, new Business Centres will be opened and Commercial Banking with Private Banking will cooperate more closely in the new organizational structure. Insurance will accelerate its international growth thanks to innovation, cost control and better service at branches and through intermediaries. Also bancassurance in Europe and Asia will be developed. To increase market share, Fortis plans to use the Fortis brand for the main businesses within 2 years and increase Fortis visibility.
3) New commercially oriented organization structure, where the winning spirit will become embedded in the corporate structure. Fortis will invest in management development and mobility, with clear accountability and be able to reward outstanding performance. Cross-business and cross-border cooperation is essential in implementing the new growth acceleration strategy. Further harmonization of insurance and banking distribution systems and products under one brand is of paramount importance. Commercial Banking and Private Banking will be the 'backbone' of pan-European expansion and becoming the leading, integrated solution provider for 'Enterprise and the Entrepreneur'.

Fortis Bank Polska plans to implement Fortis group strategy by leveraging regional opportunities. As employer the Bank intents to provide an exciting and motivating working 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. 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.

Continuing its policy from previous years, the Board of Executives of Fortis Bank Polska will not publish any financial forecasts public for 2004.

In the coming years the Bank will pursue it 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 the efficiency of lending procedures and risk management and expanded the Bank's activity on financial markets. In 2005 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.

Considering the possibility to offer investment fund units by foreign investment funds on the local market, which exist from the date Poland joined the European Union, FBP in cooperation with Fortis Investments plans to introduce sale of umbrella investment funds units - Fortis L-Fund and Fortis L-Fix - to its product offering. FBP will also diversify its offer by selling funds of other providers, including for example Merrill Lynch Torrus 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). In the case of acquisition of new customers, this will be the target segment,
- offering of products through a cohesive network of business centers supported by professionals providing specialist financial products,
- offering of solutions and not merely marketing/sale of products and services,
- further development of specialist services, including specialization in the financing of international trade
- offering financial market products (money market transactions and derivatives) to the Bank's clients in co-operation with the Global Markets business line,

The mission of Retail Banking is to provide perfectly and in a long-term manner satisfy financial needs of small enterprises and individual affluent clients thanks to professional counseling and our offering of individual solutions in the scope of financing and assets management, including, thanks to engagement and skills of our employees. Through traditional (branch network) and electronic distribution channels the Retail Banking business line (RB) will seek to increase its market share in selected market segments. Opening of 4 new sales outlets with out cash operations in Polish towns where the Bank was not present until now is planned in 2005. These locations will be designed to grant investment loans to small enterprises, offer asset gathering products to customers of personal banking, sell mortgage loans and offer daily banking through electronic distribution channels.

In 2004 it was a big challenge for the Bank management to adjust internal policies and operating procedures to the changes in Polish legislation that follow Poland's accession to the European Union. These efforts will be continued. A 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.

Under the Fortis Bank 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.

The Bank management plans a 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). In particular the Bank will update its policies and procedures as regards liquidity and operating risk management is concerned.

IX. ORGANIZATIONAL STRUCTURE

A. Bank authorities

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

- General Shareholders' Meeting,
- Supervisory Board,
- Board of Executives.

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

- Assets and Liabilities Committee (ALCO)
- Credit Committee
- Problem Assets Committee
- Business Continuity Committee
- Projects and User Applications Steering Committee.

The Credit Committee and the Problem Assets Committee operate in accordance with 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.

The Assets and Liabilities Committee (*ALCO*) is an advisory and decision-making body supporting the Board of Executives in effective management of the Bank's assets and liabilities by setting the main assumptions for the policy and the management of the balance sheet structure, setting minimal margins of the bank for specific products, approval of assumptions for the internal transfer price system and issuance of opinions on the introduction of new products that affect the structure of the balance sheet. In specific matters, in particular, as far as liquidity and market risk management is concerned, the ALCO can take the necessary decisions. The scope, the organization and the tasks of the ALCO are defined in Regulations approved by Board of Executives.

The Business Continuity Committee plans and coordinates actions to be undertaken in emergency situations in order to ensure continuity of the Bank's operations.

In order to improve project management processes, the Projects and User Applications Steering Committee was set up which coordinates also development of information technology solutions for the needs of specific organizational units of the Bank.

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 – (small enterprises and individual customers) providing service through a network of branches and personal banking sub-branches. The difference between individual customers and Personal Banking customers lies in the level of their income or financial assets. FBP individual customers, apart from depositing funds, do not use other services offered by the Bank. The customers of the Personal Banking sub-segment, with a higher income (and thus generating a higher profit), are provided both standard banking products and specific solutions.

b) Commercial Banking (*CB*) business line (medium and corporate enterprises) provides services through the network of Business Centers, targeting customers with a turnover in the PLN equivalent of EUR 2.5 - 250 million. In particular, the Bank renders services to Polish companies with import and export operations, or foreign companies (mainly from Western Europe) conducting business in Poland.

c) Global Markets (*GMK*) business line operates within the organizational structure of the Treasury Department, which, amongst others, supports the other business lines, offering to RB and CB customers products related to financial markets. The Global Markets BL is also responsible for relations with other banks and the management of the Bank's liquidity.

On February 25, 2004 a second office of the Warsaw's Personal Banking Sub-Branch no. 1 (at ul. Wiejska 20) was officially opened at ul. Nowy Świat 64 in Warsaw.

Effective April 1, 2004, the Business Center West was divided into two Business Centers: BC Wrocław and BC Poznań. Thus, currently there are six regional Business Centers operating in the Bank which are located in the largest cities of Poland.

As of December 31, 2004, the Bank conducted operations through the following units:

- 21 full-service branches (three branches in Kraków, four branches in Warsaw, Łódź Branch, Lublin Branch, Częstochowa Branch, Gliwice Branch, Katowice Branch, Poznań Branch, Gdynia Branch, Wrocław Branch, Bydgoszcz Branch, Zakopane Branch, Szczecin Branch, Kielce Branch, Bielsko-Biała Branch and Gdańsk Branch),
- 6 Personal Banking sub-branches – two in Warsaw, one in Wrocław, Poznań, Katowice and Łodź, and a sub-branch of the Poznań Branch for Mass Transaction Processing, and
- 6 Business Centers.

In 2005, the Bank intends to extend its network of operational units with 4 new small (with limited range of services) Branches in Olsztyn, Opole, Rzeszów, Toruń.

The Bank's organization chart as at December 31, 2004 is attached to this Report.

X. SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES

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

The Board of Executives

As at December 31, 2004, the Board of Executives composition was as follows:

Ronald Richardson	- President of the Board of Executives
Jan Bujak	- Vice-President, CFO
Bartosz Chytła	- Vice-President
Jean – Luc Deguel	- Vice-President
Jaromir Pelczarski	- Vice-President
Koen Verhoeven	- Vice-President

Effective May 1, 2004 Mr. Bartosz Chytła, Head of Retail Banking Business Line joined the Board as Vice-President of the Board of Executives.

In November 2004, Mr. Ronald Richardson resigned from the position of the President of the Board of Executives at Fortis Bank Polska SA and his employment in Fortis group effective from 31 January 2005.

At the meeting held on the 6th of January 2005, the Bank's Supervisory Board approved his resignation and recalled him from the positions held by him in the Bank's Board of Executives as of the 10th of January 2005.

At the same time, the Supervisory Board appointed Mr. Jan Bujak the President of the Board of Executives from January 11th, 2005, provided that the Commission for Banking Supervision agrees to this appointment. On February 9th, 2005, the Commission for Banking Supervision approved the appointment of Mr. Bujak.

As of the 1st of February 2005, Mr. Alexander Paklons has been appointed to the Bank's Board of Executives as the Senior Vice President and Country Manager.

Supervisory Board

As at December 31, 2004, the Supervisory Board composition was as follows:

Luc Delvaux	- Chairman
Paul Dor	- Deputy Chairman
Antoni Potocki	- Deputy Chairman
Werner Claes	
Zbigniew Dresler	
Didier Giblet	
Roland Saintrond	

The composition of the Supervisory Board did not change in 2004.

Information on remuneration paid to the Members of the Bank's supervisory and management bodies is included in the Additional notes (Section 25)

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

As of December 31, 2004 none of the Board of Executives Members owned any shares issued by Fortis Bank Polska S.A. Mr. Luc Delvaux, Chairman of the Supervisory Board, held 25 shares. Other members of the Supervisory Board do not hold any shares.

3. Employees

The number of people employed was 884 FTE (full time equivalents) as at the end of 2003, while the employment increased over the next 12 months by 10 FTE to 894 FTE at the end of December 2004. The majority of the employees, i.e. 54%, 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 Chytła, Vice-President, Jean-Luc Deguel, Vice-President, Jaromir Pelczarski, Vice-President, Koen Verhoeven, Vice-President