Board of Executives Report
on Fortis Bank Polska SA activity in 2003

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I. SUMMARY OF THE BANK'S ACTIVITY IN 2003

A. Fortis Bank Polska financial performance in 2003

In 2003, Fortis Bank Polska generated a net profit of PLN 36 million, higher by PLN 4.6 million or 15% than in 2002. The pace of growth of gross profit, which increased by 17% up to PLN 52.8 million, was even better.

The net loan portfolio value went up by 49% and the loan portfolio quality improved in 2003. The balance of non-performing loan provisions increased by 3% only as compared to the end of 2002.

In the same period, total deposits in the Bank grew by 8%. At the same time, further growth was noted as regards the value of assets managed by Fortis Securities Polska SA (FSP), the Bank's subsidiary. Along with new or modified services offered by the Bank, branch offices cross sell products offered by FSP and Fortis Lease Polska to bank customers, which has contributed to a higher commission and fee income.

At the same time, the Bank controlled its operating expenses.

The Bank's ROE amounted to 7%.

On June 26, 2003, the Annual General Meeting of Shareholders of Fortis Bank Polska SA approved the Bank's financial statements for 2002 and the discharge of duties of both the Board of Executives and the Supervisory Board. The shareholders resolved that out of the 2002 net profit which amounted to PLN 31.4 million, the sum of PLN 30.1 million should be earmarked for the payment of dividends, whereas the remaining amount was allocated to the general risk fund.

The most important factors that affected the Bank's financial performance in 2003 were the following:

- Loan portfolio increase by 49% over 2002 up to PLN 3,243 million as of December 31, 2003. The value of mortgage loan portfolio almost tripled in 2003. The share of non-performing loans in the total portfolio amounted to 14% at the end of 2003 (1% of loans were classified to the "watch list" category) versus 16% as of the end of 2002 (with 3% of "watch list" loans).
- The outflow of customer deposits was stopped and the deposit balance increased by 8% as compared to December 2002. As of December 31, 2003 deposit volume amounted to PLN 2,495 million.
- Commission and fee income increase by 12% due to better sales of credit products.
- Net interest income in the amount of PLN 116 million was lower than in 2002 by PLN 14.4 million, which was mainly due to the decreasing interest rates.
- FX result reached PLN 56 million and was higher by 6% as compared to a similar period of 2002.
- The Bank reported a slight loss on financial operations, whereas in 2002, the Bank earned about PLN 20 million on securities transactions. The reason is a significant decrease in prices of debt securities that took place in the second half of 2003.
- Operating costs were on the level of last year. The cost/income ratio of the Bank amounted to 69%.
- Net provisioning for credit risks in 2003 amounted to PLN 21 million, i.e. it was lower by 59% than at the end of 2002 (when it equaled PLN 52 million).
- Tax charges related to CIT were at the level of 34.3%. It resulted from the reduction of CIT rate from 27% to 19% and the negative impact of that rate cut on the deferred tax (in the amount of PLN 4.7 million). Otherwise, the CIT charge would be by about 5.9% lower, which means that it would be a bit lower than the statutory rate (i.e. 27%).

B. External factors having had an impact on the Bank's development (*report by CASE*)

1. Macroeconomic Sphere of the Polish Economy in 2003

The economic growth in 2003 amounted to 3.7%. It meant a swift transition from the economic revival, which started in the second half of 2002, to a rapid pace of GDP growth of 4.7% in the 4th quarter of 2003. The driving force behind the economic growth was the household consumption and favorable situation of foreign trade.

The basis for a strong consumption (increase by 3.1%) was rapid growth of income generated on self-employment, property and the twilight zone (CASE estimation). Social benefits, pensions and disability benefits in particular, were growing very rapidly and their indexation exceeded the inflation level recorded. Growth of both the above income components was set off by a real decrease of total salaries. At the same time, households slightly augmented their savings ratio (CASE estimation), though it still remains low (10.1% of current income). Savings were usually made in the form of outlays for the construction of individually owned units with 130% growth of housing completions. Nevertheless, one should remember that the above figure includes a statistical effect related to the higher number of ready apartments and houses reported in connection with the announced increase of registration fees. The monetary savings of households, however, were negative (about PLN -8.4 billion), which was due to the withdrawal of PLN 3.5 billion of deposits and loan volume growth by PLN 12.2 billion balanced by the increase of cash savings by about PLN 7 billion. A considerable pace of growth of loans volume (about 9% on average in real terms, year-to-year) was noted for mortgage loans mainly whose average growth exceeded 40%. Negative pace of growth of consumer loans in 2003 however shows that the increase of households' consumption was not financed with the growth of loans.

The year 2003 was the third year in a row with lower investments (-0.9%) and even the significant acceleration of the GDP growth, starting from the second half of 2003, was not translated into higher investment outlays in any quarter of the last year. The situation is however quite diverse in specific sectors. According to the first three quarters data, investments of food processing industry sectors that are strongly related to export or food production grow dynamically, whereas they decrease in the other industry sectors. The impact of financial situation of companies on their investment decisions seems to be limited, as an investment drop was observed also in sectors with a considerable profitability. In 2003, average weighted PLN loan interest rates for companies decreased by 1.7 percentage points on average. This however had no significant impact on the larger loan supply (average annual increase by over 2% resulting from a significant growth of foreign currency (FC) loans and a drop of PLN loans). In addition to that, business entities invested their liquid funds in deposits. It seems therefore, that the investment demand is strongly linked to the economic and political risk assessment, including the risk related to public finances.

Lower foreign trade deficit resulted mainly from a considerable pace of growth of export (13%). An unexpected weakening of the Polish zloty towards euro which resulted from EUR/USD cross currency exchange fluctuations contributed to the above situation: real effective PLN rate depreciated by several percents on average. However, during most of the year, the pace of growth of export prices denominated in PLN was higher that the zloty's depreciation, which means that exporters did not use the weaker Polish currency to improve the competitiveness of their goods. In addition to the above, the higher foreign demand for Polish goods was also affected by other factors: quality, attractiveness of relatively low prices in the weak economic situation on the EU markets and the acquisition of new markets. At the same time however, the lack of investments and the weak zloty undermined the pace of import.

Strong growth of consumption and export in 2003 was translated into a higher added value in the industry and market services. The pace of production sold by the food processing industry accelerated up to over 10%. A slowdown was noted in the mining industry, whereas the energy, gas and water sectors recorded but an insignificant growth which affected the whole industry's results. Out of 21 processing industry sectors, only four noted production decrease. Particularly good results were noted in sectors related to export. Moreover, the prices of industrial production sold were visibly growing, which improved the sales income in this sector.

As investments were not rebuilt, the almost 4-year recession in the constructor sector continued. The drop of production sold in the construction and assembly sector amounted to 6.7% and it resulted from lower outlays for structures and both water and civil engineering (-5.4%) and also for construction installations (-14%). On the other hand, high production growth was recorded by companies offering fit-out works and preparation of land for construction, which may show an improvement of the economic situation. Due to a small share of the above enterprises in the sale of construction and assembly production however, the above results had no significant impact on the improvement of the whole sector, and the trend of rapidly growing number and surface of apartments in the housing sector is probably not included into the above statistics (it comprises business entities employing more than 9 persons).

Strong households' consumption resulted in a higher retail trade sales (7.9%), in particular in terms of food, beverages and tobacco products, likewise vehicles and fuel. The pace of growth of wholesale trade turnover was lower (3.6%) and the growth was observed for the same types of enterprises as in the case of retailers. As a result, the added value for trade and repair services increased by 6.5% (more than twice as much as the consumption). The added value increase in the transport sector (4.6%) was related to little growth in the volume of cargo transportation (including a significant pace noted in piping), almost a 6% growth of stevedoring in ports and, above all, growth pace in telecommunications' sales. As regards other market services, the pace of growth was much slower (below 2%).

FX Rates and Inflation

In 2003, the Polish zloty weakened by over 14% on average as compared to euro (17% if we compare December 2002 to December 2003) but simultaneously, it improved towards USD by almost 5% (3% December to December). The PLN fluctuations reflected the cross FX EUR/USD rate changes (a significant weakening of USD resulting from poor macroeconomic fundamentals in USA and the Iraqi war). A closer relation of PLN to USD than to EUR results probably from the dominance of financial transactions in USD. Similarly, the weakening of PLN in relation to the currency basket was due to reactions to domestic political events. Both the higher risk of a fast accumulation of public debt (to the level exceeding 55%) and doubts as to the prospects of Hausner's savings plan implementation resulted in further weakening of Polish zloty starting from September 2003.

The depreciation of zloty contributed but to a very limited extent to the inflation increase. Prices went up by 0.8% on average, but at the end of the last year, they were rising faster (1.7% December to December). The inflation's acceleration was mainly related to the supply. As a result of poor crops, the price fall recorded in the first half of 2003 changed into a significant rise in subsequent months (2.2% December to December) even though on average food prices diminished last year. Furthermore, fuel prices as well as regulated prices, i.e. gas, electricity and heating energy, likewise rail service prices significantly grew.

In 2003, for the first time in a few years, the price growth of sold industrial products (2.6% on average) exceeded consumer prices. It was due mainly to the change in world price tendencies, of oil and copper in particular, and also to the coal and energy price rise. Prices of sold industrial output were also influenced by a significant rise of export prices.

Labour market

In 2003, the labour market improved moderately. The positive tendencies noted include the unemployment rate stabilization (20%[1] at the end of 2003 and 2002) with the number of unemployed lower by 41,000 persons in the year. The above decrease took place with a higher headcount fluctuations on the labour market.

In 2003, the employment reduction in the economy was continued; in the enterprise sector, the employment decreased by 3.5%. The majority of sectors were involved in the process (the largest cut was observed in the construction sector) and the employment was higher in certain export-related sectors of the processing industry, IT, company service and public administration.

In 2003, the pace of growth of average salary was accelerated (real pay rise by 4.1%), by the end of the year in particular. The enterprise profitability improvement and significantly higher income resulted in pay rises rather than the employment increase. However, it does not mean

[1] Based on the results of the National Population and Housing Census carried out in 2002, the methodology of estimating the number of working people and unemployment rate was changed. According to the previous methodology, the estimate unemployment rate at the end of 2002 and in 2003 was 18.0%

that the work unit cost went up because the work efficiency in the non-agricultural sector improved by over 6% in 2003.

Foreign Trade and Payment Balance

In 2003, the export increased by 8% in terms of EUR payment balance, whereas the import grew by 1% only. As a result, the foreign trade deficit fell by EUR 2.3 billion (19%). Simultaneously, the surplus on the non-classified current turnover account went up by EUR 1.9 billion. Until September, it resulted from a higher turnover before the introduction of visas at the Eastern border in October 2003. By the end of the year, there were more visits of our Southern and Western neighbors recorded. The current account deficit fell by more than half and amounted to 1.9% of GDP at the end of 2003. It contributed to an improvement of the debt's financial structure which, despite the fact that the direct investments balance (EUR 3.2 billion) was lower than in 2002, covered the current account debits almost entirely. Considering the fact that income generated on the privatization was very small (ca. PLN 3 billion), the above data point to significant green-field-type outlays. The portfolio assets inflow was greater (EUR 3.4 billion) and EUR 700 million were dinvested from equity securities, that resulted in EUR 4.1 billion invested in debt securities, mostly the ones issued by the government.

Public Finance

The State budget income in 2003 was by PLN 3.5 billion lower than planned, which resulted from a smaller than assumed increase of indirect taxes and PIT. The situation was due to a lower inflation rate than specified in the budget and a different structure of the economic growth (more rapid growth of export, subject to a 0% VAT rate, and smaller domestic demand).

The State budget deficit was financed in 84% on the domestic market. Due to the total budget needs, the T-bond issue tripled in comparison to the plan and the foreign financing was exceeded by PLN 0.8 billion.. Higher investment risk assessment for the mid-term and long-term perspective, caused by the worsening of public finance prospects for 2004 and the following years, made financial market interest rates grow (the interest rate of 52W T-bonds increased from less than 5% at the end of the 3rd quarter to slightly above 6% at the end of 2003) and the profitability curve move up. Moreover, the average maturity of government securities shortened by 0.3 of a year (down to 2.6 of a year) as at the end of 2003.

2. Microeconomic Sphere of the Polish Economy in 2003

Financial Results of Companies

In 2003, company financial results further improved (data for the first three quarters of the last year). Net sales income generated by medium-sized and large firms increased by almost 50%. Furthermore, companies' operating costs were growing slower than their income and the gross profitability improved visibly to the level registered before the Russian crisis (3.2%). A negative profitability was noted only in such sectors as coal mining, shipbuilding, construction installation services and retail trade.

In a sector breakdown by ownership, the private sector was far more profitable than the public one (3.7% versus 1.4%), which is related to a slower growth of income. The public sector's net income represents merely less than 1% of the private sector's net income. The private sector increases its investments (by 10% within three quarters of 2003), whereas in the public sector, investments are deeply reduced (-12).

Banks' Performance

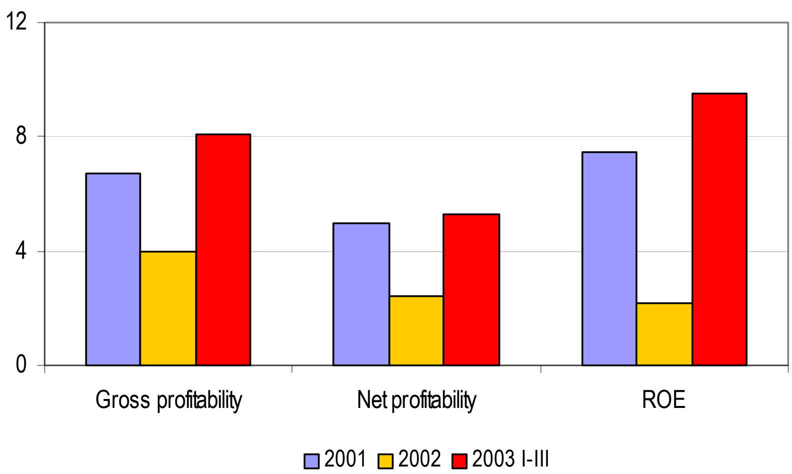
In the period from January to September 2003, the banking sector's assets grew by 3.7%. The above increase however was lower than in previous years and, additionally, it largely resulted from the Polish zloty's depreciation towards foreign currencies; otherwise, the above increase would amount to about 1.0%. The assets went up thanks to the growing demand for loans. Loan receivables due from the non-financial sector increased by PLN 12.9 billion (i.e. by 6.7% versus 5.0% in a similar period of 2002). Over three fourths of the above growth pertained to real estate, in particular housing loans contracted by households (growth by PLN 6.8 billion, or 34.3%) and also by corporate customers (by PLN 1.6 billion, or 20.5%). Real estate loans for other purposes went up by PLN 1.4 billion (by 65%).

At the end of September, FC loans represented 34.9% of commercial banks' loan portfolio. More than three fourths of such loans were contracted with the 9 biggest banks. In certain banks they represented more than half of their portfolio, whereas in three banks specialized in the housing financing - even more than 90% of their loan portfolio. The Polish zloty exchange rate fluctuations expose borrowers to the currency risk, which may change into credit risk for banks. The rapid pace of growth of relatively low priced FC loans observed in the previous years was stopped in 2003. The increase of such loans (by 29.2%) resulted mainly from FX changes and a different recognition of indexed loans in the bank reporting. In comparable conditions, FC loan receivables (PLN 71.8 billion) were lower (by 3.1%) than they were at the end of December 2002. The availability of FC loans was limited e.g. as a result of recommendations of the General Inspectorate of Banking Supervision that imposed more restrictive criteria for creditworthiness assessment, so that commercial banks limit their offering of FC loans to selected groups of customers or loan types.

Gross income of commercial banks after three quarters of 2003 was by 16.5% higher than in the same period of 2002. A balance of specific provisions made than released lower by 52.3% (or PLN 2.4 billion) contributed to the net income improvement (by 13.7%). The net income generated on banking activity was by PLN 1.9 billion lower than in 2002, which resulted mainly from the decrease of the following:

- FX result, by PLN 1.4 billion (or 37.7%), after the peak level reached in 2002 thanks to swap transactions;
- Net interest income, by PLN 0.5 billion (or 4.9%), due to lower interest income on debt securities issued by the NBP and the State Treasury and also to the interest rate cuts;
- Net financial operations income, by PLN 0.6 billion (or 43%), due to the debt securities price cuts which in the third quarter of 2003 contributed even to a loss on such transactions.

Chart 1. Profitability of commercial banks (%)
(source: GIBS)



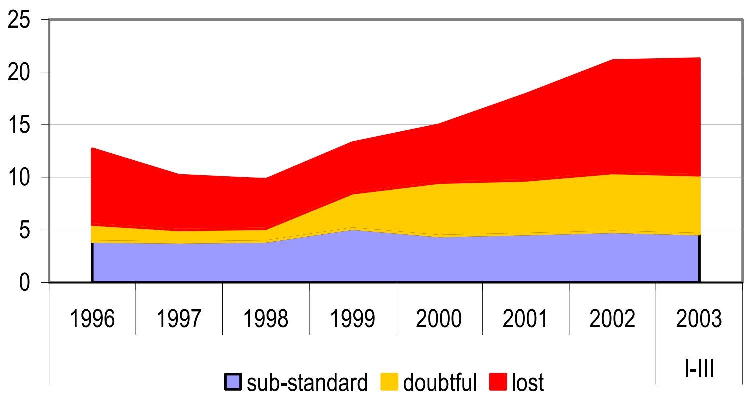
Preliminary data as of the end of 2003 show a net profit decrease in the year 2003 by 7.7% as compared to the year 2002 due to a record loss in the Polish banking sector generated by one of the banks and the need to pay a higher tax in connection with the CIT rate decrease from 27% to 19% starting from 2004. The latter factor resulted from the necessity of deferred tax revaluation. Banks decrease their tax amounts paid on a current basis by the value of deferred tax, therefore they had to take into account the CIT rate lower by 8 p.p. in their settlements. In this connection, amounts deducted were lower and the taxes paid for 2003 were higher. The banks' net profit was by 45.6% lower than their gross profit, which means that it was the effective tax rate on the profit actually, while the CIT rate amounted to 27%. The banks' performance however was the most affected by the PLN 1.57 billion loss incurred by one of the banks (the previous record loss, generated by PKO BP, amounted to PLN 1.3 billion in 1998). The above loss resulted mainly from the amended accounting principles (and also the CIT rate change) and the decision to make provisions of PLN 1.27 billion for assets, taken after the credit portfolio review.

The generally weak performance of the banking sector in 2003 comprised an equal number of banks that generated a higher net profit and those that recorded a lower net profit. It applies to large and small banks equally, though in certain cases the latter group generated losses as a result of a very dynamic operating development and the related cost increase.

The greatest impact on the performance of banks in 2003 had the interest rate cuts in the first half of 2003 and lower interest income (by almost 23% as compared to 2002). Banks were offsetting the above decrease by higher commission and fee income, which were only 3-times lower than interest income, whereas in 2002 the difference was fivefold. The majority of banks made loss also on T-bonds, when as a result of market disturbances caused by the worsening of public finances, the NBP interest rates ceased to fall in the second half of 2003, and there was even a risk that they might increase. Consequently, the prices of Treasury securities slumped (T-bond profitability growth by 170-190 basis points in the second half of 2003) and the market became less predictable than in the last 2 years when the NBP interest rates were systematically lowered.

Furthermore, the banks' performance was affected by non-performing loan provisions made in 2003. After three quarters of 2003, they were even greater than in the record year 2002 and the share of non-performing receivables in the whole banking sector increased up to 21.3% (21.1% as of the end of 2002), which was due mainly to the bigger share of lost receivables up to 11.1% from 10.7% in a similar period of 2002.

Chart 2. Share of non-performing loans in gross receivables of the banking sector, 1996-2003 (%) (source: GIBS, NBP)



3. Banking sector in 2003

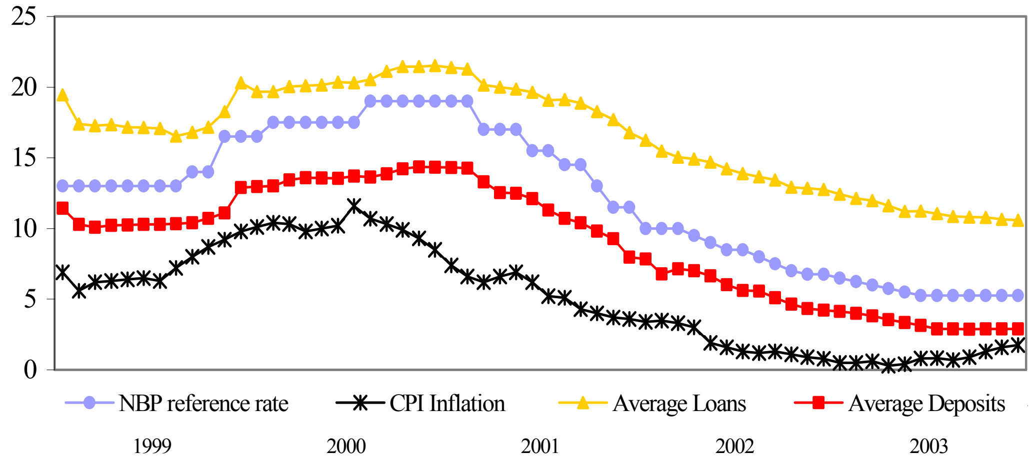
As a result of takeovers and mergers, the number of commercial banks operating in Poland decreased to 57 at the end of the 3rd quarter of 2003, from 59 at the end of 2002. Also the number of cooperative banks went down by 4 to 601, of which the majority (599) was associated in three structures. In comparison to the end of 2002, the number of domestic locations of commercial banks decreased by 639 (2 head offices, 126 branches and 511 other locations), and the number of employees fell by 5,383 persons (by 21,434 as compared to the end of 1999). In 2003, the majority of large banks and an increasing number of smaller banks offered their clients Internet services, whereas 3 banks operated the so-called virtual banks. As of the end of September 2003, 14.8 million cards (debit, credit, charge or prepaid) issued by commercial banks were in circulation, which was far less that at the end of 2002 (16.9 million cards), but both the number and value of transactions increased.

The share of foreign investors from 15 countries in the share capital of the banking sector decreased to 59.9% (or 0.6 p.p.) as compared to the end of 2002, and in the share capital of commercial banks went down to 62.7% (or 0.5 p.p.). The biggest foreign investors in the banking sector included Germany (PLN 1.8 billion), USA (PLN 1.1 billion) and Holland (PLN 0.8 billion).

The share of Treasury securities in the securities portfolio of commercial banks grew up to 76.0% (from 69.4% in December 2002), including mainly cash bills (by 11.9%) and T-bonds (by 35.5%), which shows an increasing effect of substitution for the financing of the private sector by the government sector.

As far as the monetary policy is concerned, the year 2003 was the third year in a row characterized by the monetary policy easing. The NBP interest rates were cut, including the reduction of a reference rate of 14-day open market transactions by 150 basis points down to 5.25%, lombard loan rate by 200 b.p. down to 6.75% and the NBP deposit rate by 100 b.p. down to 3.75%. At the same time, the level of mandatory reserves was decreased by 100 basis points to 3.5% and the rules of making non-performing loans provisions became less restrictive by the end of 2003. Additionally, the increase of inflation rate from 0.8% at the end of 2002 up to 1.7% at the end of 2003 furthered the fall of the NBP real interest rates from about 6% to about 3.5%, which along with the PLN FX rate depreciation towards the currency basket means that the indicator of the monetary policy restrictiveness has been lowered significantly.

Chart 3. Interest rates in the banking sector and inflation, 1999-2003 (%)
(source: the NBP)



In 2003, the process of easing the monetary policy by the NBP started to be quite visibly translated into an increase of loans for the private sector and also for the government sector. The growth of loans and other receivables due from the private sector by PLN 20 billion in 2003 was mainly attributable to the increased financing of households by PLN 12.2 billion (14% increase December to December), whereas the company debts increased by much less (by PLN 3.4 billion or 2.7%). The most important restraint for a more dynamic growth of loans for the private sector is still the high level of at-risk receivables, including lost receivables at a practically flat level.

In 2003, average loan interest rates fell down by 220 basis points with the average deposit interest rates decrease by 130 basis points and, as a result, the average interest rate spread diminished down to 7.7 percentage points from 8.5 percentage points at the end of 2002. The spread decrease in 2003 was bigger for households than for businesses, which may show that banks activated their credit policy towards the above customer group.

Chart 4. Business entities, interest rates, 1999-2003 (%) (source: NBP)

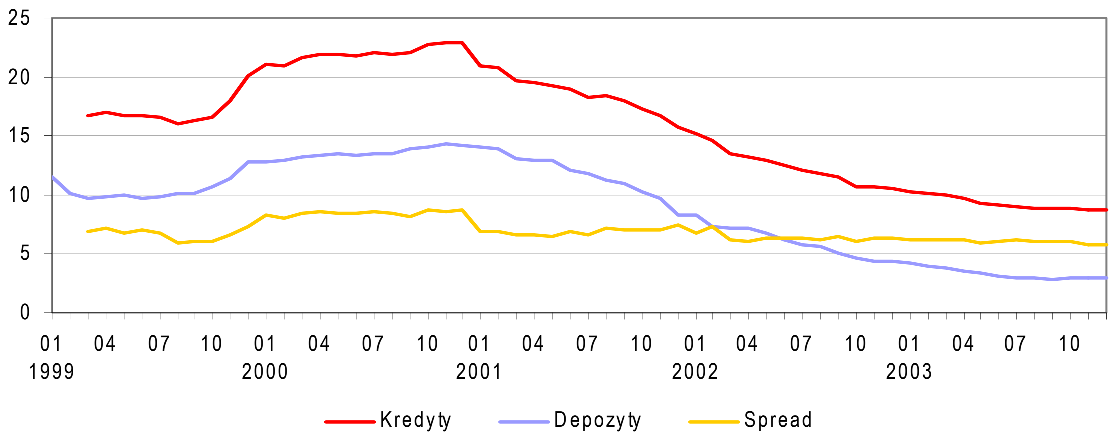
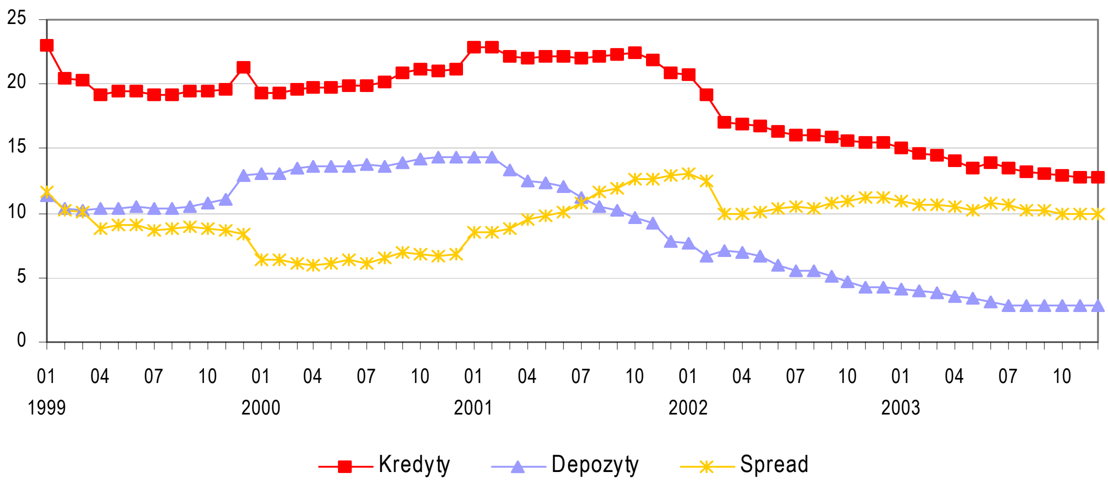
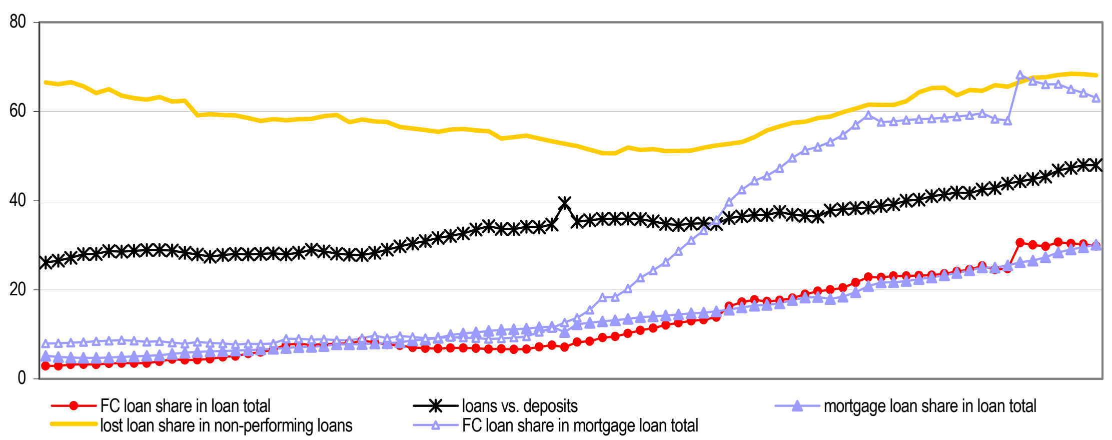


Chart 5. Households, interest rates, 1999-2003 (%) (source: NBP)



The second factor that controls the indebtedness of households is the continuous decrease of deposits and their structure change as well as the bigger share of foreign currency loans involving FX risks. The growth of current deposits held by individuals by PLN 7.5 billion in 2003 was not able to offset the fall of deposits of maturity up to 2 years, which amounted to almost PLN 11 billion. In the case of companies, both the current deposits and deposits up to 2 years went up, by PLN 5.9 billion and PLN 7.4 billion respectively.

Chart 6. Credit situation of households, 1996-2003 (%) (Source: NBP)



II. SHAREHOLDERS, CAPITAL AND FUNDS

A. Share capital

As of December 31, 2003 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 2003 no changes as regards the share capital occurred.

B. Changes in the ownership structure in 2003

As of December 31, 2003 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. in Brussels holds 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. – Fortis Bank S.A. 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 of December 31, 2003, the equity of Fortis Bank Polska SA amounted to PLN 516,525 thousand as compared to PLN 519,652 thousand of December 31, 2002. The Bank's equity still substantially exceeds the capital level required to secure the Bank's business.

On June 26, 2003, the Annual General Meeting of Shareholders of Fortis Bank Polska SA resolved to allocate PLN 30,155 thousand of the 2002 net profit to the payment of dividends, whereas the remaining PLN 1,219 thousand to be earmarked for the general risk fund.

Moreover, the Shareholders present at the AGM adopted a resolution regarding covering financial effects of the introduction in the Bank necessary changes resulting from the amendments to the Accounting Act dated 2001, amounting to PLN 2,716 thousand, by earmarking for that purpose a respective part of the Bank's additional capital.

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 515 thousand, and the financial assets revaluation reserve amounting to minus PLN 981 thousand at the end of 2003.

In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducted PLN 58,084 thousand from equity with regard to its net capital exposure in shares of Fortis Securities Polska SA (FSP) and PLN 6,567 thousand representing 60% of net intangible fixed assets.

The equity structure as of December 31, 2003, compared to December 31, 2002:

Category	Dec. 31, 2003 PLN thousand	Dec. 31, 2002 PLN thousand
Share capital	30,155	30,155
Additional capital	349,534	352,244
Reserve capital	17,018	17,018
General risk fund	80,263	79,044

Fixed assets revaluation reserve fund	515	521
Financial assets revaluation reserve fund	(981)	-
Retained earnings	10,521	7,805
Capital exposure relating to FSP	(58,084)	(6,572)
30% of net intangible assets – 2002	-	(4,338)
60% of net intangible assets – 2003	(6,567)	-
Total equity for the purpose of calculating the capital adequacy ratio	422,374	475,877

III. FINANCIAL RESULTS

A. Profit and loss account

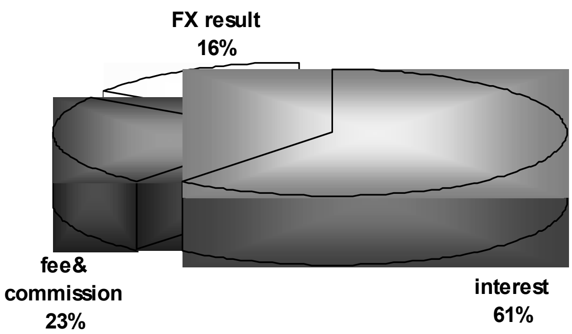
1. Income on banking activity

In 2003, the total income related to the banking activity amounted to PLN 351,729 thousand, or 22% less than in 2002 when it amounted to PLN 450,402 thousand. Interest income in the amount of PLN 215,374 thousand, or less by 29% than in the preceding year, remained the principal component. The interest income consists mainly of the following items:

- interest on loans: PLN 160,823 thousand
- interest on inter-bank placements: PLN 24,606 thousand
- interest on securities: PLN 27,971 thousand

The Bank recorded a 12% increase in fee and commission income to PLN 80,449 thousand in 2003 as compared to PLN 71,895 thousand earned in 2002.

Chart 7. Income on banking activity



As of December 31, 2003, the Bank's FX result reached PLN 55,906 thousand, which was higher by 6% than in 2002 when it amounted to PLN 52,620 thousand.

The Bank reported a slight loss of PLN 35 thousand on financial operations, being the difference between the amount of revenues of PLN 22,762 thousand and costs totaling PLN 22,797 thousand. For the purpose of comparison, in 2002 the Bank earned approx. PLN 19,976 thousand on transactions in securities. This loss on financial operations was due to a considerable decrease in prices of debt securities reported in the second half of 2003.

2. Financial costs relating to banking activity

Interest expenses reached PLN 99,335 thousand and were lower by 43% in comparison to 2002, when they totaled 174,041 thousand. The interest expenses include the following items:

- interest on customer deposits: PLN 64,835 thousand
- interest on inter-bank deposits: PLN 14,014 thousand

➢ interest on credits and loans: PLN 17,537 thousand.

The decrease of interest expenses resulted mainly from the gradual reduction of base interest rates by the Monetary Policy Council and ensuing lower interest rates on customer deposits.

In 2003, commissions and fees paid amounted to PLN 13,012 thousand and were higher by 18.5% than in 2002.

Chart 8. Financial costs relating to banking activity

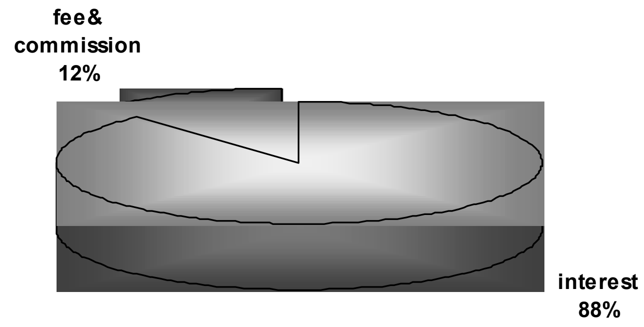
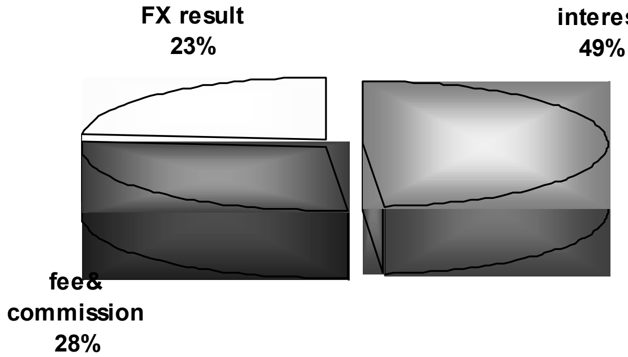


Chart 9. Result on banking activity



3. Other income and expenses

Other income includes mainly:

- ➢ income on account of lease agreements: PLN 1,611 thousand,
- ➢ income from sale or liquidation of fixed assets, intangible assets and assets for sale: PLN 1,270 thousand,
- ➢ income on account of intermediary services in customer acquisition: PLN 849 thousand,
- ➢ compensation, penalties and fines received: PLN 704 thousand,
- ➢ income from other non-operating services: PLN 1,557 thousand.

Other operating expenses include:

- ➢ expenses relating to the sale or liquidation of fixed assets and assets for sale: PLN 1,091 thousand,
- ➢ expenses related to making write-offs on prescribed, depreciated and unenforceable receivables: PLN 609 thousand,
- ➢ expenses related to making write-downs on disputed receivables: PLN 596 thousand,
- ➢ expenses relating to the enforcement of receivables: PLN 594 thousand,
- ➢ compensations, penalties and fines paid: PLN 97 thousand,
- ➢ other expenses: PLN 1,471 thousand.

Operating expenses reached PLN 140,542 thousand in 2003 and were slightly lower by 0.2% compared to 2002, when they amounted to PLN 140,766 thousand.

In 2003, depreciation of fixed and intangible assets amounted to PLN 26,402 thousand, i.e. were 5% lower than these costs in 2002.

In 2003, additional provisions were created in the amount of PLN 58,534 thousand, or lower nearly by half than in 2002, while provisions in the amount of PLN 37,423 thousand could be released. As a result the balance of the provisions increased by PLN 21,111 thousand, or by 59% less than the provision increase in 2002, when it amounted to PLN 51,867 thousand. Specific provisions for non-performing loans were the key component.

4. Profit

In 2003, the Bank generated a pre-tax profit of PLN 52,825 thousand, or higher by 17% than in 2002. The corporate income tax liability amounted to PLN 18,823 thousand.

As of December 31, 2003, the Bank's net profit amounted to PLN 36,021thousand and was higher by PLN 4,646 thousand or 15% than in 2002.

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

Profit and loss statement (in thousands)	Dec. 31, 2003	Dec. 31, 2002	Change 2003-2002
Net interest income	116,039	130,465	(11%)
Net fee and commission income	67,437	60,911	10.7%
FX result	55,906	52,620	6.2%
Result on banking activity	239,347	265,377	(9.8%)
Net operating income	52,825	45,134	17%
Gross profit	52,825	45,134	17%
Income tax	18,823	10,135	85.7%
Net profit	36,021	31,375	14.8%

B. Balance sheet

1. Total assets

Total assets as of December 31, 2003 amounted to PLN 4,585,974 thousand, which represents an increase by PLN 840,811 thousand over the similar period of 2002.

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

Balance-sheet item	Dec. 31, 2003	Share in total assets	Dec. 31, 2002	Share in total assets	Change 2003-2002
Cash and Central Bank balances	185,908	4%	248,987	7%	(25)%
Due from financial institutions	372,932	8%	496,359	13%	(25)%
Due from customers and the public sector	3,243,325	71%	2,173,483,	58%	49%
Due to financial institutions	1,398,993,	31%	759,946	20%	84%
Due to customers and the public sector	2,494,783	54%	2,307,202	62%	8%
Equity (including net profit)	516,176	11%	519,952	14%	(0,7)%
Retained earnings	10,521	0,2%	7,805	0,2%	35%
Share capital	30,155	0,7%	30,155	0,8%	-
Total assets	4,585,974		3,745,163		22.5%

2. Assets

Loans constituted the principal component of the Bank's assets (net, after deduction of non-performing loans provisions) and accounted for 71% of total assets as of December 31, 2003 as compared to 58% at the end of 2002. The net loan portfolio increased by PLN 1,069,937 thousand up to PLN 3,243,420 thousand (a 49% increase versus 2002). Provisions for non-performing loans amounted to PLN 152,378 thousand. The share of non-performing loans (excluding the "watch-list" category) stood at approximately 14%.

Over the year 2003, the share of debt securities in total assets decreased. At the end of 2003, the value of debt securities amounted to PLN 572,342 thousand, which means that their share in the assets fell from 18% at the end of December 2002 down to 12% as of December 31, 2003.

As of December 31, 2003, 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 171,789 thousand,
- Treasury bills issued by the Ministry of Finance: PLN 254,347 thousand,
- NBP bills: PLN 119,988 thousand,
- NBP bonds issued due to the reduction of the mandatory reserve rate: PLN 26,218 thousand.

As of the end of December 2003, the share of cash and the National Bank of Poland account balances in total assets decreased. As of December 31, 2003, it amounted to 4% of assets whereas as of December 31, 2002, it represented 7% of total assets.

Receivables due from the financial sector, including placements with other banks, accounted for 8% of total assets as of December 31, 2003, which was lower than at the end of 2002 when they made up 13% of total assets. The following items are included:

- PLN deposits: PLN 305,336 thousand
- foreign currency deposits: PLN 67,683 thousand;

In comparison to the end of December of 2002, the value of fixed assets decreased by PLN 13,325 thousand. The fixed assets primarily include:

- computer hardware: PLN 9,345 thousand,
- leasehold improvements (on rented office space): PLN 30,386 thousand.

Intangible fixed assets at the end of 2003 amounted to PLN 12,587 thousand and included computer software.

Other assets accounted for 1.4% of total assets. This item consists primarily of interbank settlements in the amount of PLN 48,818 thousand.

3. Liabilities

Current accounts and term deposits from customers and the State budget sector are the main liability. At the end of December of 2003 deposits from customers and the State budget sector reached PLN 2,494,783 thousand, which represented 54% of total liabilities. The major part of these deposits was denominated in zlotys and amounted to PLN 2,050,819 thousand, representing 82% of all customer deposits. Foreign currency deposits reached PLN 443,964 thousand at the end of 2003.

By the end of 2003, the share of deposits placed by the financial sector increased. As of December 31, 2003, it accounted for 31% of total liabilities, compared to 20% the year before.

Special funds and other liabilities accounted for 1.4% of total liabilities at the end of 2003. The main item (78%) concerns inter-bank settlements in the amount of PLN 50,691 thousand.

Other provisions item include a provision for contingent liabilities (PLN 1,628 thousand) and provision for future liabilities (PLN 164 thousand).

4. Off-balance sheet items

As of December 31, 2003, off-balance sheet items totaled PLN 7,015,726 thousand and were higher by PLN 3,563,197 thousand as compared to 2002 (i.e. 103%). They consist of:

- Off-balance sheet items relating to commitments of the Bank:
    - items related to financing: PLN 1,025,886 thousand (up by 33%),
    - guarantees: PLN 164,829 thousand (up by 35.5%).
- Off-balance sheet items relating to commitments in favor of the Bank:
    - items related to financing: PLN 538,324 thousand (up by 60%),
    - guarantees: PLN 195,237 thousand (up by 58%).
- Commitments related to the carrying out foreign currency exchange transactions concluded before year-end which did not yet mature on December 31, 2003: PLN 4,628,496 thousand, i.e. increase by 120% as compared to December 31, 2002, when they amounted to PLN 2,101,956 thousand.
- FX forward transactions: PLN 11,222 thousand.
- Derivatives: PLN 451,732, which include:
    - IRS contracts: PLN 300 million, and
    - Futures contracts: PLN 151,732 thousand.

C. Management of funds

1. Sources of funding, credits, loans, guarantees in favor of the Bank

Deposits, both from business entities and individuals, constitute the most important source of financing the Bank's credit activity.

As at December 31, 2003 the Bank used funds under the granted credit facilities from Fortis Bank (Nederland) N.V. in the amount of PLN 493 million. *(see also: Section V letter C "Transactions with Associated Entities")*.

The Bank also used a 5-year credit facility in the amount of EUR 20 million granted by the European Bank for Reconstruction and Development (EBRD) (starting from 2000) earmarked for financing SME.

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. Interest rate management

The 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 2003, following the NBP official interest rate cuts, Fortis Bank Polska SA decreased its interest rates on PLN deposits and loans. Also interest rates on EUR and USD deposits and loans were adjusted to the market.

3. Risk management

From January through December 2003, liquidity and market risks were kept at a safe level, within the limits defined by the Board of Executives.

The Asset and Liability Management Committee (ALCO) plays the primary function in the bank risk management. 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.

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 adopted by the Bank's Board of Executives in April 2003. 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.

The credit risk management is the primary responsibility of the Risk Assessment and Credit Analyses Department and the Bank's credit committees. 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 risk management objectives and rules is presented in Additional Notes Section 4.2.14.

4. Key financial indicators

The capital adequacy ratio was 20.70% at the end of 2002, compared to 12.78% at the end of 2003, and it still exceeds the minimum requirement of 8%. 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.

The Bank's equity decreased by 11% versus December 2002, while risk-weighted assets and off-balance sheet items increased by 44% in the corresponding period.

Capital adequacy ratio and its determinants

Indicator	31.12.2003	31.12.2002
Risk-weighted assets	3,053,077	2,108,029
Risk-weighted off-balance sheet items	211,533	158,308
Net equity for the purpose of capital adequacy calculation	422,374	475,877
Interest rate risk	3,141	-
Total capital requirement	264,310	183,925
Capital adequacy ratio	12.78%	20.70%

Performance indicators

Indicator	Dec. 31, 2003	December 31, 2002
Return on assets (ROA)	0.9%	0.8%
Return on equity (ROE)	7.2%	6.5%
Net interest margin	2.82%	3.27%

Profit per share	2.39	2.08
Book value per share	34.23	34.46

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)

b. Personal Customer Package loans:
   - debit limit
   - fast loan
   - mortgage loans

c. *Straight Loan* – credit facility disbursed in tranches, or advances, being separate transactions, designed for institutional customers.

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

Fortis Bank Polska under a co-operation agreement with Malopolska Agency for Regional Development (MARR S.A.) grants loans secured by MARR S.A. guarantees. The co-operation agreement covers Bank branches in Krakow and Zakopane.

In 2003, the Bank discontinued offering loans to institutional customers from the EBRD funds. Even though the Bank no longer extends any such loans, the loans already granted will be serviced by the Bank in the next 2-3 years until their full repayment. As of December 31, 2003, the outstanding balance of such loans totaled PLN 66,935 thousand, as compared to PLN 61,477 thousand as of December 31, 2002.

With a view to reducing credit risk, the Bank applies relevant procedures for granting and monitoring loans. In May 2003, the Bank Supervisory Board and the Board of Executives implemented amended regulations of the Bank Credit Committee and the Problem Asset Committee and changed the credit decisions' delegation model.

The Credits 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. In 2003, the reorganization of the Bank credit structure continued, with a view to improving operational effectiveness. The Risk Assessment &Credit Analysis Department was set up in the Credits function, composed of the Credit Analysis and Credit Risk Group.

In 2003, the Bank implemented a new loan application standard for loan applications recommended for approval at the Bank Credit Committee level, and a modified program for conducting financial analysis of economic entities (CAPS).

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.

Within Fortis group work continued on the implementation of a new uniform system of credit risk classification according to the International Accounting Standards (IAS). Starting 2004 the new system will apply to the Bank's entire credit portfolio, which will be used in parallel to the existing classification based on the Finance Ministry regulations.

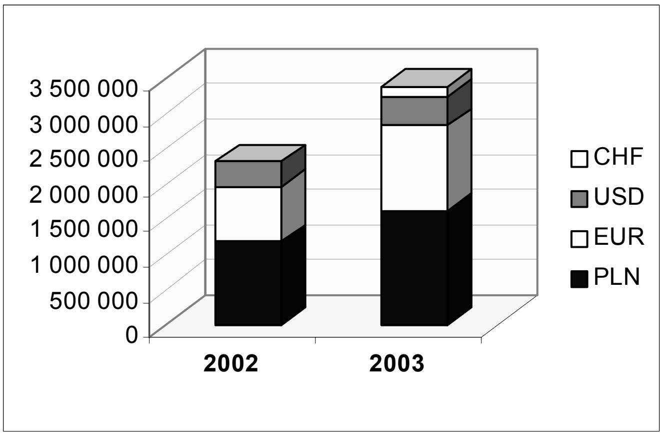
In October 2003, the Bank decided to implement tools and procedures for the calculation of required specific provisions as part of the rules for creating provisions for risk involved in banking operations (Finance Ministry classification and IAS classification) and to automate the accounting process. This project will be launched in the Bank in the second quarter of 2004.

1. Characteristics of credit portfolio

In comparison with the end of 2002, the net value of the credit portfolio was 49% higher. As of the end of 2002, the value of outstanding loans portfolio (with interest) totaled PLN 2,172,175 thousand, and rose to PLN 3,243,325 thousand at the end of December, 2003.

The value of the PLN loan portfolio (with interest) at the end of December 2003, totaled PLN 1,618,965 thousand and was 37% higher as compared to December 2002. Whereas, the value of the EUR portfolio stood at PLN 1,213,112 thousand at the end of December 2003, which represented a 56% increase as compared to the end of December, 2002. The balance of USD loans grew by 18% from December 2002 and amounted to PLN 424,853 thousand as of December 31, 2003. The volume of CHF loans at the end of 2002 totaled merely PLN 3,369 thousand, however, throughout the whole 2003, the balance of such loans increased almost 40 times to reach PLN 137,504 thousand.

Chart 10. Currency structure of the credit portfolio (with interest)



Credit exposure is concentrated in the following economic sectors: services, trading and manufacturing, respectively 33%, 23% and 17% of the loan portfolio as of the end of December, 2003, and in the other sectors it is relatively low. As compared to December 31, 2002, the Bank increased by 13.5% its exposure in the sector of individual customers, mainly as a result of an increase in the balance of mortgage loans.

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

In 2003, the Bank ran two campaigns promoting housing loans, as a result of which the portfolio of mortgage loans almost tripled with regard to both the loan balance the number of extended loans, as compared to 2002.

In terms of original maturities, at the end of December 2003, the structure of receivables from the non-financial sector was as follows: 17% represented overdrafts (decrease of 2% as compared to 2002), 1% - with a maturity of maximum 1 month (no changes as compared to 2002), 3% - with a maturity of 1 - 3 months (at the 2002 level), 23% - with a maturity of 3 months to 1 year (1% decrease), 21% - with a maturity of 1-5 years (6% decrease) and 35% - with a maturity exceeding 5 years (9% increase).

2. Non-performing loans

As of December 31, 2003, the balance of non-performing loans (without interest) due from non-financial entities (excluding the watch-list category) totaled PLN 447,177 thousand and made up 13.6% of the total loan balance, of which PLN 104,146 thousand represented sub-standard loans (i.e. 3.2% of the portfolio value), PLN 120,009 thousand – doubtful receivables (i.e. 3.6% of the portfolio value) and PLN 223,022 thousand – lost loans (i.e. 6.8% of the portfolio value).

3. Enforcement titles

The Bank's receivables that were not recovered as of December 31, 2003, under all the 218 enforcement titles totaled PLN 77,025 thousand, as compared to 72 enforcement titles of PLN 41,446 thousand, as of December 31, 2002.

B. Issued guarantees and letters of credit

As of the end of December 2003, the amount of guarantees issued by the Bank reached PLN 128,664 thousand, which represents a 23% increase in comparison to 2002.

In 2003, 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 explanatory notes (item. 9.)

At the end of December 2003, the Bank's commitments under opened import letters of credit totaled (in the PLN equivalent) PLN 59,840 thousand. Moreover, the Bank has on its books confirmed export LC's in the PLN equivalent of 12 448 thousand.

Item no. 8 and 9 of the additional explanatory notes include data regarding the currency structure of the LC's opened by the Bank.

C. Deposits

As of the end of December 2003, the balance of funds deposited by customers totaled PLN 2,494,783 thousand, and was 8% higher as compared to the end of December 2002, when deposits amounted to PLN 2,307,202 thousand. Customers may place deposits in foreign currencies, however, the majority of deposits are held in PLN (82%).

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 negotiable 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.

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, stock-exchange investment services and e-banking. These services and products are designed for individuals. 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.

The Bank offers individual securities accounts to domestic natural persons and legal entities and organizational units without legal personality. This account enables the purchase and sale of State Treasury bills on the primary and secondary market through Fortis Bank Polska SA.

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 stable debt securities issues by the State Treasury and 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
- domestic transfers
- day-to-day foreign exchange service
- forward transactions
- securities accounts
- import and export letters of credit
- purchase and collection of checks of other banks
- collection of checks drawn on foreign banks
- documentary collection.

As of July 1, 2003, customer bank account numbers were changed into the uniform Bank Account Number (*NRB*), which is to replace the existing bank account types. NRB was to be implemented in all the banks operating in Poland by the end of 2003. This change will improve and automate the handling of payments. The NRB project is directly related to the ongoing efforts and measures taken in Europe aimed to implement a uniform bank account standard in international transactions - IBAN (*International Bank Account Number*).

Outgoing payments are settled electronically through the ELIXIR and SORBNET systems. In August 2003, the Bank withdrew, except for the Mass Payment Processing Sub-branch in Poznan, from membership in the SYBIR system, which enabled phasing out paper-based documents from domestic interbank settlements.

The Bank customers are also offered to make payments using the direct debit facility.

In the first half of 2003, in order to improve and enhance the effectiveness of processes, the Bank divisions handling banking operations were reorganized and a new division of tasks was introduced in the Operations Department and the Network Support Department. As a result of these organizational changes, card service improved and some tasks previously performed by the Bank branches were further centralized. For example, jointly with the Call Center, electronic banking applications were adjusted to the relevant legal requirements regarding the prevention of money-laundering. The Bank centralized the process of posting deposits (to the Bank ledger) negotiated by customers with the Treasury Department and the process of posting and monitoring FX transactions negotiated by customers with the Treasury Department. Automation also involved the process of posting the Bank's transactions on the interbank market and appropriate tools for monitoring the correctness of their parameters were developed.

The Bank started to offer Forward Rate Agreement (*FRA*) and Interest Rate Swap (*IRS*) contracts. These are instruments enabling the management of interest rate risk offered to entities conducting business. Such transactions are also concluded on the interbank market.

G. Co-operation with international financial institutions

In 2003, Fortis Bank Polska SA continued to co-operate with foreign banks in the area of foreign exchange, placement/deposit transactions, securities and banknote transactions. The Bank holds accounts in many 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.

H. Development of banking services

Since the second half of 2003, the Bank has been running the project *To the European Union with Fortis Bank*. It is an information service offered to customers interested in EU-related issues, PHARE program and structural funds. Under this project the Bank co-operates with the Polish Agency for Enterprise Development (*PARP*), and Regional Financing Institutions (*RIFs*), which are responsible for the allocation of EU financial aid in Poland. In 2003, these actions were carried out under the auspices of the European Commission and the European Bank for Reconstruction and Development.

The main purpose of this project is to provide information about the European Union and available grants. This was done, amongst others, at meetings organized by the Bank. Hundreds of participants learnt not only about the types of EU financial aid, but most importantly, about the procedures for applying for a refund of investment costs and the Bank's role in the process of acquisition of PHARE grants. As much as 92% of the participants surveyed by the Bank have declared their intention to apply for EU grants.

Fortis Bank further extended its range for banking products for individual customers, amongst others, in bancassurance. Co-operation with Credit Suisse Life&Pensions SA enabled the Bank to introduce the *Better Tomorrow for Your Child* endowment life insurance. Another joint undertaking was a product combining a life insurance and mortgage loan, which is offered through the network of Credit Suisse agents. To those interested in more unconventional ways of investment, the Bank launched the *Pure Profit* – one year's life insurance. This is an insurance policy and investment product in one. Its key benefits include a life insurance and a guarantee to earn a higher yield than on a traditional term deposit.

I. Charity

For a few years now Fortis 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. In 2003, 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*.

J. Investments in information technology

Another important undertaking of Bank in the first half of 2003 was the upgrade of the Bank's IT systems to enable the handling of the new domestic Bank Account Number (*NRB*) standard under a broader project of introduction of the uniform International Bank Account Standard (IBAN). The project involved conversion of the existing bank account numbers to the new standard and modification of the databases.

In 2003, the Bank started to handle its Visa Charge cards on its own (until 2003, through another bank), following the rollout of applications that support cards generation, account opening, transaction settlement, fee charging and event tracing in the card system.

The Treasury Department uses *Diogene* system (Fortis group application) in the management of FX transaction, customer deposits, interbank placements, swaps, securities and derivatives.

Systems designed to detect money laundering activities were also enhanced.

In the second half of 2003, the Bank took some measures to set up the System of Bank Internal and External Reporting, comprising, amongst others, of mandatory reporting to the NBP and the Guarantee Fund (FG). The system will be a vital element supporting the work of the Corporate

Control&Accounting Department, in particular, the Financial Reports Group, Information Systems Department and others. The project is to be completed by the end of 2004.

In appreciation of the Bank's achievements in information technology, which translate into the Bank's competitive advantage and customer satisfaction, Fortis Bank was once again selected as a finalist in the *2003 Leader in Information Technology* competition in the finance and banking category organized for a number of years now by the *Computerworld* magazine.

K. Agreements significant for the Bank activity

1. 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 on the following conditions:

- making available to the brokerage house of premises in order to set up customer POS,
- 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 POS and information desks of Fortis Securities Polska S.A. located in the Bank's branches. POS 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.

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

Under the 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.

Agreements regarding transactions with parent entities and subsidiaries are presented in Chapter V Section C of this Report.

3. 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.

4. 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 December 29, 2003, Annex no. 10 was signed to this Agreement, and on February 20, 2004 – Annex no. 11.

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.

5. 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. Before the Bank participated in the VISA system only through ING Bank Śląski.

b) **Agreement concluded with the VISA International Service Association regarding the establishment of VISA Polska domestic organization, dated November 9, 2000.** The member banks of Visa International operating in Poland set up a domestic organization VISA POLSKA in order to standardize rules regarding the issuance of Visa cards and service of merchants handling VISA cards in Poland.

c) **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 31.10.2004.

d) **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 31.10.2004.

6. **Insurance policy of Allianz Polska S.A. insurance company, from 1.10.2003 until 30.09.2004.**

Insurance against banking risks, electronic and computer crime.

7. **Insurance Policy Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. from 1.10.2003 to 30.09.2004.**

All-risk insurance in the case of loss of damage of property – insurance of property, electronic equipment and civil liability.

8. **General Insurance Agreement concluded with the Europa S.A. insurance company dated June 21, 2001.**

Following the introduction of mortgage loans into its range of products, the Bank concluded an agreement with the Europa S.A. insurance company in order to provide insurance coverage for mortgage, construction, construction and mortgage loans as well as mortgage loans for the purchase of a building plot granted to private individuals.

9. **Agreement of June 12, 2003, concluded 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. The Bank extended this co-operation by introducing a new life insurance product for borrowers. On December 8, 2003, the Bank launched the Pure Profit one year's life insurance policy, which combines the features of an insurance policy and an investment product.

10. **Agreement of September 12, 2003 r. 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.

11. **Co-Operation agreement concluded with Bank Gospodarstwa Krajowego on April 23,**

2001.

This agreement concerns loans extended by the Bank and secured by guarantees from the funds of the National Credit Guarantee Fund (*Krajowy Fundusz Poręczeń Kredytowych*) established at Bank Gospodarstwa Krajowego under Act of May 8, 1997, on guarantees issued by the State Treasury and some legal entities.

12. **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 Banks Association (ZBP)**
13. **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,
    c) Agreement of July 25, 2001, on the use of the *Emitent* system concluded with the Securities and Exchange Commission (KPWIG).
14. **Agreement on participation in settlements through National Clearing Chamber (KIR) of February 15, 1999.**

The Bank participates in settlements through KIR in the ELIXIR and SYBIR systems.

15. **Agreement concluded with SWIFT international interbank network on May 22, 1998.**
16. **Agreement of April 10, 2003, concluded with the State Fund for the Rehabilitation of the Disabled (PFRON).**

The agreement defines terms and conditions under which PFRON shall subsidize interest on loans granted by the Bank to institutions enjoying the special status of employers of disabled persons, under Art. 32 item 1 of The Disabled Professional and Social Rehabilitation and Employment Act dated August 27, 1997. On October 30, 2003, Annex no. 4 to the Agreement was signed.

17. **Significant loan agreements**

As of December 31, 2003, the Bank's exposure exceeded 10% of capital equity towards 9 customers, and totaled PLN 599 million. As of 31.12.2002, the Bank's exposure exceeded that level in the case of 5 customers and totaled PLN 308 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 24.2 billion and around 54,000 employees, Fortis ranks in the top 20 of European financial institutions. At December 31, 2003, Fortis had total assets of EUR 523 billion (EUR 37 billion, i.e. 8% more than at the end of 2002). In its 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.

Despite the difficult economic situation in the beginning of 2003, Fortis reported a net profit for 2003 of EUR 2,197 million, as compared to EUR 532 million in 2002 (times four). Operating performance continued to improve thanks to further cost reductions, better interest margins on banking operations and excellent results in Non-life insurance.

The Banking business' s net operating profit increased by 25% from 1,154 million to EUR 1,446 million. Excluding value adjustments to the equity portfolio, net operating profit rose by 6% to EUR 1,438 million in 2003.

Fortis maintains a high level of net core capital of EUR 18.5 billion, which exceeds the threshold required by prudential standards by 83% and the threshold adopted by Fortis by 15%.

Key financial data:

	2003 results	2002 results	2003/2002 change
Net operating profit (before realized capital gains)	1 976 mln EUR	1 918 mln EUR	3%
Realized capital gains	582 mln EUR	241 mln EUR	
Net operating profit (before the value adjustment of the equity portfolio)	2 558 mln EUR	2 159 mln EUR	19%
Value adjustment of the equity portfolio	(311) mln EUR	(1 729) mln EUR	(82%)
Realized	(947) mln EUR	(697) mln EUR	36%
Not realized	636 mln EUR	(1 032) mln EUR	
Net operating profit (after value adjustment of the equity portfolio), incl.	**2 247 mln EUR**	**430 mln EUR**	
- banking	1 446 mln EUR	1 154 mln EUR	25%
- insurance	996 mln EUR	(616) mln EUR	
- other	(195) mln EUR	(108) mln EUR	
Non-operating items	(50) mln EUR	102 mln EUR	
Net profit	**2 197 mln EUR**	**532 mln EUR**	
- banking	1 495 mln EUR	1 293 mln EUR	
- insurance	897 mln EUR	(687) mln EUR	
- other	(195) mln EUR	(74) mln EUR	
ROE	**19%**	**4,3%**	

Banking	2003 results	2002 results	2003/2002 change
Net operating profit (before realized capital gains) - banking	1 102 mln EUR	1 059 mln EUR	4%
Realized capital gains	336 mln EUR	298 mln EUR	13%
Net operating profit (before the value adjustment of the equity portfolio)	1 438 mln EUR	1 357 mln EUR	6%
Value adjustment of the equity portfolio	8 mln EUR	(203) mln EUR	

In terms of balance-sheet total, it ranks in 17th place in Europe, whereas if various criteria are considered (i.e., value of sales, revenues, assets and market capitalization), it places 38th in the world.

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

In February 2004, Fortis has floated its American entity Assurant, Inc. in public offering on the US

Securities Exchange that brought an income in the amount of USD 2.02 billion. Fortis Bank intends to strengthen further its businesses in home markets, the Benelux countries, and to expand selected activities in Europe and certain skills, such as bancassurance, globally.

B. Fortis Securities Polska S.A.

Fortis Securities Polska S.A. (FSP) – owned in 100% by Fortis Bank Polska SA carries out distribution of State Treasury bonds, participation units in investment funds and asset management.

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

At the end of 2003 Fortis Securities Polska S.A. managed 990 portfolios of the total amount of over PLN 247 million, as compared to 779 portfolios totaling over PLN 163 million at the end of 2002, which means a 34% increase in the portfolio value.

On June 26, 2003, a decision was taken to increase the capital exposure of Fortis Bank Polska S.A. in Fortis Securities Polska S.A. by the total amount of PLN 50 million. This increase in the Bank's exposure involved subscription of 1,832,845 shares in the FSP increased share capital of FSP of the nominal value of PLN 24 per share for the issue price of PLN 27.28 per share. The acquired shares were covered by an in-kind contribution, consisting of 5,079 State Treasury bills valued at PLN 49, 997 thousand and a cash payment of PLN 2,7 thousand. This increase in the FSP equity capital aims to boost the trust and confidence of institutional investors in the company, who are currently the FSP target customer.

The FSP General Shareholders Meeting, held on June 26, 2003, appointed Supervisory Board members for a new term of office. Mr Leszek Niemycki, as the Supervisory Board Chairman, Mr Jan Bujak, Mr Ronald Richardson, Mr Daniel De Meeus d'Argenteuil and Mr Freddy Van den Spiegel as Board Members. Following the resignation of Mr Niemycki, the FSP Supervisory Board appointed Mr Jan Bujak as new Chairman and the Extraordinary Shareholders Meeting, held on December 19, 2003, made another change to the Board's composition by appointing Mr Bartosz Chytła as a Board Member.

C. Transactions with affiliated entities

1. **Credit Agreements of January 30, 2004, concluded with Fortis Bank with its registered office in Brussels and Fortis Bank (Nederland) N.V. with its registered office in Rotterdam**

   On January 30, 2004 (after the balance-sheet day) the Bank concluded two credit agreements with Fortis Bank S.A./N.V., with its registered office in Brussels and Fortis Bank (Nederland) N.V. with its registered office in Rotterdam:

   - credit agreement whereby the Bank was granted a credit (line) facility by Fortis Bank (Nederland) N.V., with the limit of EUR 200 million, for the period of 101 months, earmarked to finance the Bank's working capital. Under the credit facility, the Bank may draw advances in EUR, USD, CHF, JPY within 76 months of the Agreement signature. Interest: 1, 3, 6 or 12-month IBOR, depending on the currency and interest period of the particular advances. Commitment fee: 0.125% p.a. on the unused portion of the credit limit. This Agreement replaced the Agreement of September 24, 1998, amended by Annex no. 3 of November 12, 1999, whereby the Bank was granted a credit (line) facility with the limit of DEM 200 million, i.e., EUR. 102 million, which was repaid in full on February 5, 2004.
   - credit agreement, whereby the Bank was granted a credit (line) facility from Fortis Bank (Nederland) N.V., with the limit of EUR 200 million for the period of 27 months, with the option of prolongation, earmarked to finance the Bank's working capital. Under this facility, the Bank may draw advances in EUR, USD, CHF, JPY within 2 months of the Agreement signature. Interest: 1, 3, 6 or 12 - month IBOR, depending on the currency and the interest period of the particular advances. Commitment fee: 0.125% p.a. on the unused portion of the credit limit.

2. **Credit Agreement of September 24, 2001, concluded with Fortis Bank with its registered office in Brussels and Nederland NV, with its registered office in Rotterdam**

Under this Agreement the Bank was granted a credit (line) facility in the maximum amount of principal of EUR 50 million. The facility was repaid in full on January 24, 2004.

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

VI. STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE

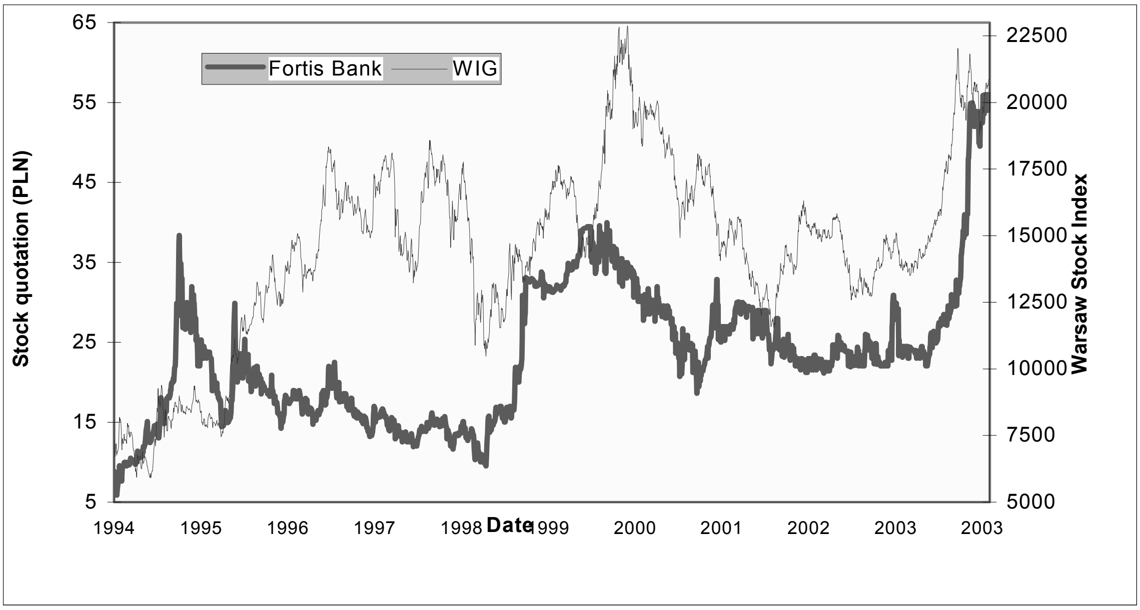
The Bank debuted on the primary market of the Warsaw Stock Exchange on November 7, 1994. From April 18, 2001 to January 18, 2004 the Bank's shares were quoted in a two-fixing system. As a result of the acquisition of over 98% of the Bank's shares by Fortis Bank, the liquidity of shares noticeably diminished in 2000. 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 2003, the share price amounted to PLN 30.90. After a temporary decline at the start of 2003, the price of the Bank shares rose to PLN 56.00 as of December 31, 2003, i.e., by 87% as compared to PLN 29.90 as of December 31, 2002. The average turnover in the Bank's shares in 2003 was 437 shares per session in comparison to 81 shares per session in 2002. 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, on the other, an increased activity of small individual investors after the payment of the dividend in September 2003 and steadily growing financial results.

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.

In 2003, the WIG index rose from 14 378.11 to do 20 820.07 and WIG-banks, a sector sub-index, grew from 24 066.33 to 26 221.76.

Figure 11. Trading in Fortis Bank shares and the WIG index in 2003



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

Indices	**31.12.2003**	**31.12.2002**
EPS ratio	2.39	2.08
P/E ratio	23.44	14.37
BVPS ratio	34.23	34.46
P/BV ratio	1.64	0.87

The book value per share is PLN 34.23. 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 §22a Par. 1 of the 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* and published them on June 30, 2003 in the form of a current report.

In 2003, no breach of the adopted rules was reported.

An updated statement of the Board of Executives, including information about the scope of application of the *Best Practices in Public Companies* by Fortis Bank Polska SA has been enclosed to this Report.

VIII. DEVELOPMENT PROSPECTS FOR BUSINESS ACTIVITY

The strategy of Fortis Bank Polska SA strategy is interwoven with the overall strategy of Fortis group.

While observing the paramount goals, i.e. safeguarding customer deposits and insuring liquidity, the Bank will focus on providing high quality services in a customers oriented manner and based upon the values of Fortis Group, implying that it should be caring, innovative, straightforward and stable while at all times complying with applicable laws, regulations and supervisory recommendations.

In line with the strategy of Fortis Group, the purpose of FBP is to achieve the profitability level of minimum 12% of RORE (return on required equity).

When the Executive Committee of Fortis Group published its financial statements for 2003, the prospective 2004 year-end financial results were not published.

Similarly as last year, the Board of Executives of Fortis Bank Polska does not make any financial forecasts public for 2004.

In the coming years the Bank will continue to 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.

The Bank aligns its organization structure to the concept of business lines in Fortis Bank group.

Through the new Global Markets business line (*GMK*) set up in the second quarter of 2003, 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 such as currency options, swaps and forward contracts on interest rates.

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. In order to ensure proper service of such customers, Fortis Bank Group has established a network of 100 Business Centers throughout Europe, which closely co-operate with each other. 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 solutions and not merely marketing/sale of products and services,
- further development of specialist services, such as cash management, leasing and export factoring,
- specialization in the financing of international trade
- financial markets (money market transactions) and introduction of new products in this regard in co-operation with the Global Markets business line,
- offering of products through a cohesive network of business centers supported by professionals

providing specialist financial products. As regards customer contact, electronic communications channels are preferred,

- in the case of operational service and functionality, Fortis aims at becoming a high value added, low cost producer. Thus emphasis is permanently put on the optimization of back and mid office.

Through traditional (branch network) and electronic distribution channels the Retail Banking business line (*RB*) will seek to increase its market share, through:

- organic growth targeting foremost the personal banking segment, whilst promoting asset gathering products and credit products related to the personal needs of such customers,
- developing its market share in the small companies segment, based upon a credit policy which defines the level of risk the Bank is willing to underwrite,
- offering innovative solutions and asking a fair price for services provided to customers,
- using low cost distribution channels, with a basic product offering, available also through both Internet and Call Center technology, for the purpose of growing market share in the lower-end retail customer segment.

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).

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
- Regional Credit Committees,
- Business Continuity Committee
- Security 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. The Credit Committee makes credit decisions with regard to issues concerning the Bank clients not reserved for the Problem Assets Committee, the Bank Board of Executives and/or Supervisory Board. The Problem Assets Committee (*PAC*) takes decisions concerning the assessment of borrowers' financial standing, classification of borrowers into risk categories and creating specific provisions for the Bank's receivables.

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.

The Security Committee is primarily to provide support to the Board of Executives in effective management of the Bank's security.

In order to improve project management processes, in May 2003 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 service to different customer groups. 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 and bespoke banking products.

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 IPS 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.

Following personal changes to the composition of the Board of Executives and new division of duties among specific members of the Board of Executives consistent with their experience, in May 2003, the Bank's organizational structure was modified. The changes are illustrated in the chart enclosed to this Report.

As of December 31, 2003, 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 (in cooperation with an external company), and
- 5 Business Centers.

X. SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES

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

As of January 1, 2003, the BoE composition was as follows:

Board of Executives:

Jean-Marie De Baerdemaeker - President
Ronald Richardson - First Vice-President
Andre Van Brussel - Vice-President, CFO
Jean – Luc Deguel - Vice-President
Leszek Niemycki - Vice-President
Gilles Polet - Vice-President

Throughout 2003, a number of changes occurred in the composition of the Board of Executives related specifically to the termination of work in Poland by Mr. Jean-Marie De Baerdemaeker, Mr. Andre Van Brussel and Mr. Gilles Polet and resignation of Mr Leszek Niemycki.

- As of January 9, 2003, i.e. following the consent issued by the Banking Supervision Commission for his appointment as the President of the Board of Executives of Fortis Bank Polska S.A, Mr. Ronald Richardson replaced Mr. Jean-Marie De Baerdemaeker in this position.
- Mr. De Baerdemaeker continued to work for the Board of Executives until April 30, 2003 as a First Vice-President.
- As of March 1, 2003, the Supervisory Board appointed Mr. Koen Verhoeven Vice-President of the Board of Executives and Head of the Credits Department;
- Mr. Koen Verhoeven replaced Mr. Gilles Polet, who after March 1, 2003 was a member of the Board of Executives until July 31, 2003;
- Mr. Andre Van Brussel submitted his resignation from the Board of Executives effective June 30, 2003. By the decision of the Supervisory Board from April 1, 2003 until the date of his resignation he held the position of a Member of the Board of Executives.
- As of May 1, 2003, the following were appointed to the Bank Board of Executives: Mr Jaromir Pelczarski as Vice-President, Operations and Support Services Director; and Mr Jan Bujak as Vice-President and Chief Financial Officer, responsible for legal and financial affairs;
- On October 23, 2003, the Bank Supervisory Board accepted the resignation of Mr Leszek Niemycki as BoE Member, following his decision to leave Fortis Bank Polska S.A. Mr Leszek Niemycki held the position of BoE Vice-President from 1995. Prior to his resignation, Mr Niemycki was in charge of the Retail Banking Business Line.
- On January 7, 2004, the Banking Supervision Commission (*KNB*), approved the appointment of Mr Jan Bujak and Mr Jaromir Pelczarski Vice-Presidents in the Bank's Board of Executives.

As of December 31, 2003, the BoE composition was as follows:

Board of Executives:

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

As of January 1, 2003, the Supervisory Board composition was as follows:

Supervisory Board

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

Effective April 1, 2003, Ms Kathleen Steel resigned from the Supervisory Board. She was Supervisory Board Member as from December 16, 1999.

Following her resignation, as of December 31, 2003, the Supervisory Board was composed of the following persons: Mr Luc Delvaux - Chairman, Mr Paul Dor - Deputy Chairman, Mr Antoni Potocki - Deputy Chairman, Mr Werner Claes, Mr Zbigniew Dresler, Mr Didier Giblet and Mr Roland Saintrond.

2. Remuneration paid to Members of the Board of Executives, Supervisory Board and holders of procuration

Remuneration paid to the Board of Executives Members in 2003 totaled PLN 3,799 thousand, as compared to PLN 6,012 thousand in 2002. Remuneration paid in 2003 to the Supervisory Board Members amounted to PLN 329 thousand, as compared to PLN 370 thousand in 2002. Remuneration for the holders of procuration from 01.01.2003 to 31.12.2003 totaled PLN 2,824 thousand, whereas from 01.01.2002 to 31.12.2002 - PLN 2,990 thousand.

3. Information on outstanding loans, guarantees granted to members of the Board of Executives and the Supervisory Board and their relatives

As of December 31, 2003, Supervisory Board Members used 2 VISA limits up to the total amount PLN 31 thousand. Whereas Board of Executives Members used 2 FC loans, with the total outstanding balance as of 31.12.2003 of EUR 89 thousand, 1 PLN loan, with the total outstanding balance as of 31.12.2003 of PLN 166 thousand, 2 overdrafts of total PLN 100 thousand, 4 VISA card limits totaling PLN 41 thousand. Interest does not differ from market conditions.

Information on loans, cash loans and guarantees granted to the Board of Executives and Supervisory Board Members is presented in the additional notes (item. 26.)

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

As of December 31, 2003 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.

5. Employees

The number of people employed was 876 FTE (full time equivalents) in December, 2002, while at the end of 2003 it decreased to 869 FTE. The majority of the employees, i.e., 468 or 54%, were university graduates.

Signatures of the Members of the Board of Executives :

Ronald Richardson, President, Jan Bujak, Vice-President, Jean-Luc Deguel, Vice-President, Jaromir Pelczarski, Vice-President, Koen Verhoeven, Vice-President