

2002 Report of the Supervisory Board of Fortis Bank Polska SA

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General

In 2002, a deteriorating macroeconomic situation posed a real challenge for the Bank. Last year was difficult both for the economy and the banking sector.

Overall in 2002, Fortis Bank Polska earned PLN 31.4 million after tax, which is 32% or PLN 14.6 million lower than initially forecast, but three times better (+198%) when compared to the 2001 result.

The Board appreciates the efforts of both the Bank's Board of Executives and Employees to keep operating costs reasonable while increasing the net operating income. Plenty of organizational and system solutions were successfully implemented to support the said objectives. Pursuant to the decision of the Supervisory Board and Board of Executives, since 2001, the Bank conducted an efficiency and productivity improvement project ('Zefir') concerning the basic areas of the Bank's operations. The project was finalized in 2002 and its positive impact on costs and process effectiveness exceeds initial expectations. Operating expenses are now under control.

Along with lower operating costs, the Bank improved by several percent its basic performance indicators, such as net interest income, net commission and fee income, net FX income and the net operating income.

Facing the challenging macro-economic environment, in 2002, the Bank adopted a prudent credit risk policy. The objective was to improve the quality of the portfolio by taking a more selective approach to new risks and by reacting more quickly to financial problems of existing clients. As a result, the net credit portfolio was not as high as the management expected though still higher by several percent than at the end of 2001. Furthermore, specific provisions created for non-performing loans were lower than initially budgeted. The surplus difference between the established and released provisions reached PLN 52 million. Despite this, the share of non-performing loans was at a substantial 16% level at the end of the year, which had a significant impact on the Bank's net profit.

The Bank's solvency ratio is still at a more than comfortable level (19%).

In the initial budget the Board of Executives had projected a net profit of PLN 46 million. As there were no signs of an economic recovery both in Poland and abroad, the initial target had been reviewed downwards during the year to PLN 30 million. The 2002 result is higher by 4.9% or PLN 1.5 million than the revised forecast.

The positive result of 2002 was achieved mainly thanks to strict control of operating costs and capital expenditure and lower than expected loan losses. The Bank enjoyed also significant

revaluation and trading profits on the securities portfolio.

On the other hand, lower than expected interest and fee income resulted mainly of stocks of loans and deposits growing more slowly than expected but also was due to the steady erosion of interest margins. One should also take notice of the PLN 4 million provision covering the restructuring cost and 2002 loss of Fortis Securities Polska, the Bank's subsidiary.

Based on the Board recommendations regarding strategic options for Fortis Securities Polska SA (FSP), the company's scope of activity was limited to asset management to serve high net worth individuals within the IPS business line.

According to the development directions set by the Supervisory Board, the Board of Executives introduced further organizational changes to adjust operations and management systems to the structures of Fortis Bank and enhancing the quality of services rendered.

In view of the need to simplify business line structure in accordance with Fortis standards, the Bank organizational structure was modified by discontinuing the Regions effective January 2002. In 2002, the Bank didn't open any further outlets.

The two business lines IPS (Individuals, professionals and small enterprises) and ME (medium-size businesses and corporate customers), set up in the middle of 2000, were further developed and now, through 27 branch offices and 5 business centers, offer comprehensive services for their specific customer groups.

With the support of the Board, in 2002, Global Markets business line, which corresponds to a similar unit in Fortis Bank, was established in the bank structures. The objective was to increase activity on the money and foreign exchange markets and acquire new clients. The Global Markets BL provides support to the other two business lines by offering IPS and ME customers financial market products. The Bank intends to increase trading in derivatives, such as currency options, swaps, forward rate agreements, and securities. The Bank is in the final stage of expanding its range of services by Forward Rate Agreements (FRA) and Interest Rate Swaps (IRS). These instruments, which facilitate interest rate risk management, will be offered to business entities and dealt on the interbank market.

At the Extraordinary Shareholders Meeting in October 2002, the Bank's articles of association were amended, as a result of which the scope of the Bank's core business was extended to intermediating within the scope of personal insurance services, including life insurance.

The 2001 financial statements were approved at the shareholders meeting on 27 June 2002 where it was resolved to allocate the profit for the previous financial year of PLN 10,521 thousand to equity as undistributed profit from previous years. As a result of the change in the accounting rules, the Bank had to adjust the valuation of certain assets, which resulted in a loss amounting to PLN 2,716 thousand. The loss has been charged to retained earnings, which now stand at PLN 7,805 thousand. Bank Management agreed to propose to the Shareholders' Meeting of June 26, 2003 to cover the loss from the Bank's additional capital.

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Changes in the ownership and capital structure

In 2002 no changes occurred in the shareholder structure.

The last Series J share issue of PLN 200 million was closed back in 2001 and the Bank's own funds increased to PLN 479 million.

Since that time the main investor Fortis Bank seated in Brussels, which acquired all Series J

shares, owns 99.10% of all Fortis Bank Polska SA share capital.

Equity of Fortis Bank Polska SA, before dividend distribution, increased from PLN 490,267 thousand as of December 31, 2001 to PLN 519,652 thousand (including retained earnings of previous years in the amount of PLN 7,805 thousand) as of December 31, 2002 and was more than sufficient to cover the solvency requirements imposed on the Bank.

The Bank meets the National Bank of Poland (NBP) requirements with regard to the value of equity needed to ensure the safety of the banking system and the limits of acceptable exposure.

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Composition of the Supervisory Board

The composition of the Supervisory Board has changed in the course of the year 2002.

Pursuant to the decision of the Annual General Meeting of Shareholders on June 27, 2002, Mr. Didier Giblet, Global Head of Forex and Money Markets in the Global Markets Business Line of Fortis was appointed new member of the Supervisory Board.

Mr. Sjoerd van Keulen resigned as Chairman of the Supervisory Board effective October 1.

At the Supervisory Board meeting held on September 19, 2002, the Board acknowledged this resignation and elected Mr. Luc Delvaux, formerly Deputy Chairman of the Board as the new Chairman and Mr. Paul Dor as one of the two Deputy Chairmen of the Supervisory Board.

As of October 1, 2002, until the end of the year the Supervisory Board was composed of:

Luc Delvaux	Chairman
Antoni Potocki	Deputy Chairman
Paul Dor	Deputy Chairman
Zbigniew Dresler	Member of the Supervisory Board
Kathleen Steel	Member of the Supervisory Board
Werner Claes	Member of the Supervisory Board
Roland Saintrond	Member of the Supervisory Board
Didier Giblet	Member of the Supervisory Board

Ms. Kathleen Steel resigned from the Board effective April 1, 2003.

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Review of 2002 meetings

In the year under review, the Supervisory Board met on 3 occasions and adopted 20 resolutions. Several resolutions were adopted in lieu of a meeting, using the procedure of

voting in writing and by electronic means.

Recurring issues discussed at the meetings included financial performance of the Bank and results by business lines, review of annual accounts, setting up future financial and business goals of the Bank in Poland, credit policy and risk management.

At the February 2002 meeting the Board discussed the unsatisfactory results of Fortis Securities Polska and reviewed the strategic options for the company. It was decided that the company's scope of activity should be limited by eliminating brokerage and IPO/advisory activities and making FSP an asset management company offering services complementary to the personal banking activity of IPS business line. Consequently, the Board followed-up on this issue.

The Board devoted a great deal of attention to credit policy issues, managing credit risk and the restructuring of the Credit Department. Changes in the credit process organization and procedures were continued from 2001, under the efficiency improvement project 'Zefir'.

The Board of Executives reported to the Directors on the changes of the Bank's organizational structure, HR management and business development, with a focus on the measures taken to increase income, through improved efficiency and cost control.

Actions aiming at improving the efficiency and effectiveness of processes, further automation of processes and outsourcing have resulted in a decrease of the number of people employed (from 946 FTE (full time equivalents) at the end of Dec. 2001, down to 876 FTE at the end of 2002). The changes on the Executive level and reorganization of processes created a challenging work environment for the staff. The Board was informed on the results of the employee satisfaction and organization climate survey and the action plan aimed at staff retention and increasing the staff satisfaction.

The Board reviewed the proposed agenda and draft resolutions for the Annual Shareholders' Meeting, including those regarding retaining the 2001 earnings, amendments in the Statutes, composition and remuneration of the boardmembers. The Board issued a positive recommendation as regards the Board of Executives activity in 2002.

Further topics of discussion were internal control systems, business risks, and developments in economic situation in Poland and the world.

The Board was informed on the NBP Supervision audit results and received periodical reports on the status of implementation of the post-audit recommendations.

The Board supported the close cooperation with Fortis Lease Polska. Under the agreement signed in the beginning of the year 2002, the Bank provides information to its clients about services offered by Fortis Lease Polska and each time a client introduced by the Bank signs a lease agreement; the Bank receives an agency commission.

The remuneration adjustments for the Board of Executives members, as well as changes in the Board of Executives composition were other matters resolved by the Board.

Having decided in December 2001, to nominate Mr. Ronald Richardson, at that time Managing Director of Fortis Lease N.V. Belgium and also President of Management Board of Fortis Lease Polska Sp. z o.o., as the new President of the Board of Executives, effective as from the date of acceptance by the Polish bank supervision authorities, the Supervisory Board appointed Mr. Richardson First Vice-President as of February 1, 2002 in order to ensure a smooth transition period.

The above issues were the basis for the Supervisory Board adopting a number of resolutions and recommendations regarding the current work of the Board of Executives.

Some of the most important resolutions adopted by the Bank Supervisory Board during the year under review are:

- approval of 2001 Board of Executives Report and the review of annual accounts, The financial statements for the period from 1 January 2001 to 31 December 2001 were audited by KPMG Polska Audyt Ltd., who issued an unqualified opinion.
- approval of the report on audit activities in 2001
- approval of the 2002 financial plan adjustments,
- selection of KPMG Polska Audyt Ltd. as the Bank's external auditor for 2002
- recommending a motion regarding retaining the 2001 earnings,
- nominating Mr. Didier Giblet as new member of the Supervisory Board,
- recommending to maintaining the compensation of Supervisory Board members on the existing level,
- confirming the unified text of the Statute authorized by the June 27th Shareholders Meeting,
- decisions on salary adjustments for the Board of Executives members, and changes in the terms and conditions of the employment contracts of the Board of Executives members,
- approval of the pool for incentive bonus payments for the Bank's senior and middle level managers,
- approval of the recommended Statute amendments re. enlarging the scope of Bank's business by intermediation in offering life insurance products, to be decided at Extraordinary Shareholders Meeting of October 31, 2002.
- election of the new Chairman and second Deputy Chairman of the Supervisory Board after receiving the resignation of Mr. Sjoerd van Keulen effective October 1, 2002.
- nominating Ronald Richardson to take over the presidency of the Board of Executives from Mr. De Baerdemaeker and applying to the Bank Supervision Commission for approval of this appointment. To ensure a smooth transition, Mr. Richardson was appointed to the position of First Vice President of the Bank Board of Executives effective February 1, 2002.

As of January 9, 2003, i.e. having received the letter of consent of the Banking Supervision Commission for his appointment as President of the Board of Executives of Fortis Bank Polska SA, Mr. Ronald Richardson replaced Mr. Jean-Marie De Baerdemaeker in this position. In accordance with a decision of the Supervisory Board, Mr. De Baerdemaeker has held the position of First Vice-President of the Board of Executives until April 30, 2003.

The Board wishes to thank Mr. Jean-Marie De Baerdemaeker for his important contribution to the management and development of the Bank while he was President of the Board of Executives. As a token of appreciation, the Board resolved to confer upon Mr. De Baerdemaeker the title of "Honorary President of the Board of Executives of Fortis Bank Polska".

At the first meeting in January 2003 the Board approved the appointment of Mr. Verhoeven as Vice President of the Bank Board of Executives and Head of Credits to replace Gilles Polet who took up a new assignment at Fortis Bank in Brussels.

Given that no meeting could be held in December last year, the approval of the budget for 2003, and Multiyear Financial Plan for 2003-2005, was postponed to January 2003.

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Prospects

Considering the uncertainty as to the future macro and micro economic situation, Fortis Bank Polska has not published financial forecasts for 2003.

In the coming years the Bank will continue to pursue its strategy aiming at growth of the customers portfolio while managing an acceptable level of risk and strict control of operating costs and efficient use of capital.

The Bank will focus on growing the number of customers in the high-net-worth private individuals and small and medium enterprises segments. The Bank is aiming to be seen as innovative and asking a fair price for services provided to customers.

In line with the overall strategy of Fortis group, in the medium term (2003-2004) FBP is set to achieve the targeted yield of 12% return on required equity and continue measures to reduce the cost-income ratio to 55%.

Thanks to the support of the Fortis group, both in financial and organizational terms, the Bank has acquired important customers, improved the effectiveness and efficiency of lending procedures and risk management and expanded the Bank's activity on financial markets.

Through the Global Markets business line set-up during the second quarter of 2002 the Bank intends to increase its activity in the financial market based on a customer driven strategy. The introduction of new products, such as currency options, swaps and forward contracts on interest rates, improved efficiency of treasury operations on money, FX and securities markets coupled with adequate risk monitoring will be feasible thanks to the new computer systems implemented in the 1st quarter of 2003.

The business line ME is further developing the specialist services, such as cash management and leasing, and financing of international trade. In the financial markets area, new products are being introduced in co-operation with the business line Global Markets.

The business line IPS's objective is to increase its market share through organic growth targeting foremost the personal banking segment, whilst 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. In the personal banking segment the focus goes to asset gathering products and credit products related to the personal needs of such customers. Using low cost distribution channels is promoted. With a basic product offering, available also through both internet and call center technology, IPS will try first to grow the market share in the lower-end retail customer segment.

Additionally, the Bank plans to create additional distribution capacity thanks to co-operation with an insurance company and in the field of bancassurance and assurance.

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

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Annual accounts and Board of Executives Report

The Supervisory Board reviewed the report of Fortis Bank Polska SA Board of Executives on the bank's activity in 2002 and the bank's financial statements comprising:

1. introduction;
2. the balance sheet as at 31 December 2002, with total assets and total liabilities and equity of PLN 3,745,163 thousand;
3. the capital adequacy ratio;
4. the statement of contingencies and commitments granted as at 31 December 2002 amounting to PLN 891,105 thousand;

5. the profit and loss account for the period from 1 January 2002 to 31 December 2002 with a net profit of PLN 31,375 thousand;
6. the statement of changes in equity for the period from 1 January 2002 to 31 December 2002 with an increase in equity of PLN 29,385 thousand;
7. the cash flow statement for the year then ended with a decrease in cash amounting to PLN 265,454 thousand;
8. the supplementary information and explanations.

As a result of its activity in the 2002 fiscal year, the Bank earned a net profit of PLN 31.374.465,79 (say: thirty one million three hundred and seventy four thousand four hundred sixty five and 79/100).

The Board approves the Board of Executives Report on the Bank's activity in 2002 and submits the Fortis Bank Polska Financial Statements for 2002 for the consideration of the General Meeting of Shareholders on 26 June 2003.

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Dividend

Supervisory Board, having considered the Board of Executives' motion regarding allocation of the Bank's after-tax profit for the business year 2002 amounting to PLN 31.374.465,79, recommends to present to the Annual Shareholders' Meeting a draft resolution assuming allocation of the net profit in the following way:

1. The amount of PLN 30,155,400 (say: thirty million one hundred and fifty five thousand four hundred) is allocated to the payment of a dividend. i.e. each share entitles to PLN 2.00 of dividend and to determine the date of establishing the right to dividend (dividend date) as July 15, 2003 while the dividend payment date - as September 2, 2003.
2. The remaining profit amount of PLN 1,219,065,79 (say: one million two hundred nineteen thousand sixty five and 79/100) is allocated for the general risk fund.

To the General Shareholders Meeting will be provided financial statements, the report of Fortis Bank Polska SA Board of Executives on the Bank's activity in 2002 and this report of the Supervisory Board.

Warsaw, June 26, 2003