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

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I. SUMMARY OF THE BANK'S ACTIVITY IN THE FIRST HALF OF 2004

A. Fortis Bank Polska half-yearly financial results

In the first half of 2004, Fortis Bank Polska generated a net profit of PLN 38m, higher by almost PLN 21m or 121% than in the first half of 2003. The pace of growth of gross profit, which increased by 105% up to PLN 43.7m, was almost equally better.

The following contributed the most to the above profit level: interest income that for the 1st half 2004 YTD amounted to PLN 76m (up by 34% as compared to the corresponding period in 2003), commission income at the level of PLN 33m, i.e. by 7% higher than in the 1st half of 2003, and FX result of PLN 29.6m (up by 38% vs. 1st half 2003).

In the first half of 2004, the Bank was actively promoting its services tailored to the changing customer and market needs: advertising campaign of mortgage loans and the "In the European Union with Fortis Bank" project. Under the above project, the Bank offers advice to SMEs how to apply for the EU subsidies and provides loans to customers to finance undertakings covered by the subsidies.

The Bank intends to extend its offering by both Polish and foreign investment fund units. In July 2004 the Bank was granted the relevant license by the Securities and Exchange Commission.

Since the beginning of the year total deposits in the Bank grew by 4%.

The Bank's ROE amounted to 11.8%.

On June 24, 2004, the Annual General Meeting of Shareholders of Fortis Bank Polska SA approved the Bank's financial statements and the discharge of duties of both the Board of Executives and the Supervisory Board. The shareholders resolved to allocate the entire net profit earned, which amounted to PLN 36m, to increase the Bank's own funds.

The most important factors that affected the Bank's financial performance in the first half of 2004 were the following:

- Loan portfolio increase by 30% as compared to June 2003, i.e. up to PLN 3,396m as of June 30, 2004. The share of non-performing loans in the total portfolio amounted to 10% at the end of June 2004 (2% of loans were classified to the "watch list" category) versus 15% as of the end of June 2003 (with 3% of "watch list" loans).
- The balance of customer deposits increased by 22% as compared to June 2003 and amounted to PLN 2,604m.
- Commission and fee income increased by 7%, which resulted mainly from better non-credit commission result.
- Net interest income in the amount of PLN 76m was higher than in June 2003 by PLN 19.4m.
- FX result reached PLN 29.6m and was higher by 38% as compared to June 2003.
- The Bank reported a slight loss on financial operations, whereas in the first half of 2003, the Bank earned about PLN 0.6m on securities transactions. The reason is a significant decrease in prices of debt securities held that took place in the first half of 2003.
- Operating costs amounted to PLN 73m and were by 5% higher than in the corresponding period of last year, when they amounted to PLN 69m. The cost/income ratio of the Bank for the 1st half of 2004 amounted to 60% vs. 75.5% in the first half of 2003.
- Net provisioning for credit risks in the first half of 2004 amounted to PLN 11 million, i.e. more by 91% than at the end of the first half of 20023 (when it equaled PLN 6 million).

B. External factors having had an impact on the Bank's development

1. Banking sector in the first half of 2004

The banking sector's net profit generated in the first half of 2004 amounted to PLN 3.72bn, which was almost double as much as in the first half of 2003 and by 60% higher that in the entire 2003, when it amounted to PLN 2.3bn. In 2004, almost all banks made higher profits, even though over one half of the banking sector net profit is generated by top three banks. 6 commercial banks only made losses in the first half of this year whereas in the same period of the last year, they were 10 such banks.

Banks made better results thanks to the revival of the entire economy. In the first half of 2004, the banking sector's assets increased by 5.5% in nominal terms, but considering the high inflation level, by 1.9% in real terms.

The significant growth of net profit results from much lower specific provisions for non-performing loans as compared to 2003 and from the CIT rate decrease from 27% down to 19%. Therefore the net profit growth by 80%, as compared to the first half of 2003, was higher than the 32% growth of the gross profit (before taxes). However the profit on banking activity improved due to better results on interest and on commissions and fees. The interest income increased, on one hand, from broader loan offering and, on the other hand, from higher loan margin applied (3.01% at the end of 2003 up to 3.18% at the end of the 1st quarter 2004). The continuous growth of commission and fee income is due to various fees and commissions charged with respect to loans and also to the development of new intermediary services offered by banks, i.e. insurance, asset-management, etc.

The indebtedness of companies goes decreasingly. Loans granted to retail customers, with mortgages growing the fastest, have remained the main credit offer drive. Poland's accession to the EU opened before Polish business entities new markets and opportunities to acquire EU subsidies for investments. However the companies tend to defer their decisions on new investments and taking investment loans.

II. SHAREHOLDERS, CAPITAL AND FUNDS

A. Share capital

As of June 30, 2004 the Bank's share capital amounted to PLN 30,155,400 and was divided into 15,077,700 common bearer shares of PLN 2 nominal value each. In the first half of 2004 no changes as regards the share capital occurred.

B. Changes in the ownership structure in the first half of 2004

As at June 30, 2004 shareholders' structure specifying the major shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows:

Shareholder	Number of shares owned		Number of votes at the AGM	
Fortis Bank*	**14,941,807**	**99.10%**	**11,308,275**	**75%**
Others	**135,893**	**0.90%**	**135,893**	**0.90%**
Total:	**15,077,700**	**100%**		

**As at June 28, 2001 i.e. after share capital increase as a result of Series J shares issue, Fortis Bank S.A./N.V. in Brussels 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./N.V. – Fortis Bank S.A./N.V. may exercise not more than 75% of the total voting rights at the Annual General Meeting of Shareholders.*

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

C. Equity

As at June 30, 2004, the equity of Fortis Bank Polska SA amounted to PLN 450,559 thousand as compared to PLN 422,211 thousand of June 30, 2003. The Bank's equity still exceeds the capital level required to secure the Bank's business.

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

Pursuant to the provisions of Article 127 of the Banking Law Act, items classified as the Bank's equity include also the fixed assets revaluation reserve fund amounting to PLN 511 thousand, and the financial assets revaluation reserve amounting to minus PLN 12,611 thousand at the end of June 2004.

In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducted PLN 59,272 thousand from equity with regard to its net capital exposure in shares of Fortis Securities Polska SA (FSP) and PLN 9,621 thousand representing 100% of net intangible fixed assets.

The equity structure as of June 30, 2004, compared to December 31, 2003 and June 30, 2003:

Category	June 30, 2004 PLN thousand	Dec. 31, 2003 PLN thousand	June 30, 2003 PLN thousand
Share capital	30,155	30,155	30,155
Additional capital	349,539	349,534	349,528
Reserve capital	17,018	17,018	17,018
General risk fund	112,263	80,263	80,263
Fixed assets revaluation reserve fund	511	515	521
Financial assets revaluation reserve fund	(1,845)	(981)	0
Retained earnings	11,811	10,521	10,521
Capital exposure relating to FSP	(59,272)	(58,084)	(57,061)
60% of net intangible assets – 2003		(6,567)	(8,734)
100% of net intangible assets – 2004	(9,621)		
Total equity for the purpose of calculating the capital adequacy ratio	**450,559**	**422,374**	**422,211**

III. FINANCIAL RESULTS

A. Profit and loss account

1. Income on banking activity

In the first half of 2004, the total income related to the banking activity amounted to PLN 196,984 thousand, or 18% more than in the first half of 2003 when it amounted to PLN 167,204 thousand. Interest income in the amount of PLN 128,419 thousand, or more by 19% than in the preceding year, remained the principal component. The interest income consists mainly of the following items:

- interest on loans: PLN 99,237 thousand
- interest on inter-bank placements: PLN 6,555 thousand
- interest on securities: PLN 17,798 thousand

The Bank recorded a 6% increase in fee and commission income to PLN 38,932 thousand in the first half of 2004 as compared to PLN 36,888 thousand earned in the first half of 2003.

As of June 30, 2004, the Bank's FX result reached PLN 29,633 thousand, which was higher by 38% than in the first half of 2003 when it amounted to PLN 21,413 thousand.

The Bank reported a slight loss of PLN 240,000 and on financial operations, being the difference between the amount of revenues of PLN 56,669 thousand and costs totaling PLN 56,909 thousand. For the purpose of comparison, in the first half of 2003 the Bank earned approx. PLN 588 thousand on transactions in securities.

2. Banking activity costs

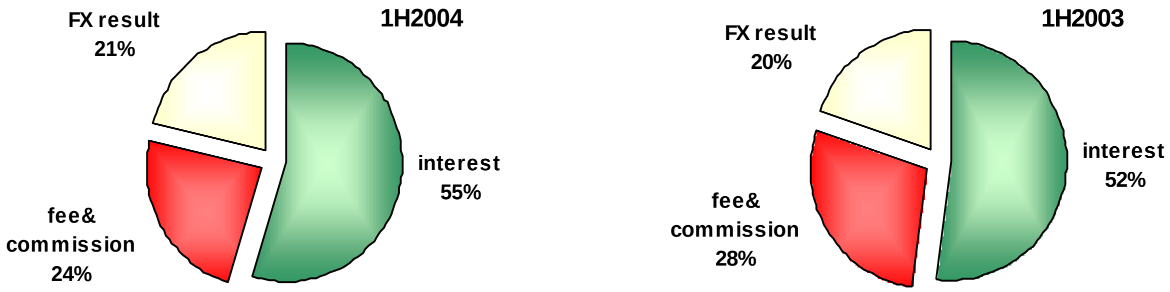
Interest expenses reached PLN 52,176 thousand and were higher by 1% in comparison to first half of 2003, when they totaled 51,518 thousand. The interest expenses include the following items:

- interest on customer deposits: PLN 33,296 thousand
- interest on inter-bank deposits: PLN 7,835 thousand

➢ interest on credits and loans: PLN 10,625 thousand.

In the first half of 2004, commissions and fees paid amounted to PLN 5,769 thousand and were lower by 0.6% than in the first half of 2003.

Chart 1. Result on banking activity in 2004 and 2003



3. Other income and expenses

Other income includes mainly:

- income on account of lease agreements: PLN 877 thousand,
- income on recovered prescribed, depreciated and irrecoverable receivables: PLN 601 thousand,
- income from sale or liquidation of fixed assets, intangible assets and assets for sale: PLN 33 thousand,
- income on account of intermediary services in customer acquisition: PLN 472 thousand,
- compensation, penalties and fines received: PLN 96 thousand,
- income from other non-operating services: PLN 1,062 thousand.

Other operating expenses include:

- expenses relating to the sale or liquidation of fixed assets and assets for sale: PLN 57 thousand,
- expenses related to making write-offs on prescribed, depreciated and unenforceable receivables: PLN 173 thousand,
- expenses related to making write-downs on disputed receivables: PLN 99 thousand,
- expenses relating to the enforcement of receivables: PLN 395 thousand,
- compensations, penalties and fines paid: PLN 96 thousand,
- other expenses: PLN 1,071 thousand.

Operating expenses reached PLN 73,112 thousand in the first half of 2004 and were higher by 5% compared to first half of 2003, when they amounted to PLN 69,383 thousand.

In the first half of 2004, depreciation of fixed and intangible assets amounted to PLN 11,914 thousand, i.e. were 13% lower than these costs in the first half of 2003.

In the first half of 2004, provisions were created in the amount of PLN 20,040 thousand, or lower by 41% than in the first half of 2003, while provisions in the amount of PLN 8,720 thousand were released. Thus, the level of provisions grew by PLN 11,320 thousand. Similarly, in the first half of 2003 provisions increased by PLN 5,930 thousand. Specific provisions for non-performing loans had the greatest impact on the level of provisions.

4. Profit

In the first half of 2004, the Bank generated a pre-tax profit of PLN 43,703 thousand, or doubled (higher by 105%) than in the first half of 2003. The mandatory reductions of gross profit amounted to PLN 7,705 thousand.

As at June 30, 2004, the Bank's net profit (after tax) amounted to PLN 38,050 thousand and was higher by PLN 20,800 thousand or 121% than in the first half of 2003.

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

Profit and loss statement (in thousands)	June 30, 2004	December 31,2003	June 30, 2003	Change 2004-2003
Net interest income	76,243	116,039	56,797	34%
Net fee and commission income	33,163	67,437	31,086	7%
FX result	29,633	55,906	21,413	38%
Result on banking activity	138,799	239,347	109,884	26%
Net operating income	43,703	52,825	21,307	105%
Gross profit	43,703	52,825	21,307	105%
Income tax	7,705	18,823	4,414	75%
Net profit	**38,050**	**36,021**	**17,250**	**121%**

B. Balance sheet

1. Total assets

Total assets as at June 30, 2004 amounted to PLN 5,161,836 thousand, which represents an increase by PLN 1,000,822 or by 24% thousand over the first half of 2003.

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

Balance-sheet item	June 30, 2004	Share in total assets	June 30, 2003	Share in total assets	Change June 2004-June 2003
Cash and Central Bank balances	70,185	1%	166,463	4%	(58%)
Due from financial institutions	898,998	17%	743,271	18%	21%
Due from customers and the public sector	3,396,542	66%	2,614,316	63%	30%
Due to financial institutions	1,813,187	35%	1,242,870	30%	46%
Due to customers and the public sector	2,604,315	50%	2,132,104	51%	22%
Equity (including net profit)	546,736	11%	506,299	12%	8%
Retained earnings	11,811	0%	10,521	0%	12%
Share capital	30,155	1%	30,155	1%	0%
Total assets	**5,161,836**	**100%**	**4,161,014**	**100%**	**24%**

2. Assets

Loans constituted the principal component of the Bank's assets (net, after deduction of non-performing loans provisions) and accounted for 66% of total assets as at the end of the fist half of 2004 as compared to 63% at the end of the first half of 2003. The net loan portfolio increased by PLN 775,291 thousand up to PLN 3,288,165 thousand (a 31% increase versus June 30, 2003). Provisions for non-performing loans amounted to PLN 159,291 thousand. The share of non-performing loans (excluding the “watch-list” category) stood at approximately 10%.

At the end of June 2004, the value of debt securities amounted to PLN 617,671 thousand, which means that their share in the assets grew from 10% at the end of June 2003 to 12% as of June

30, 2004.

As of June 30, 2004, the securities portfolio consisted of securities issued by the Polish State Treasury and the NBP. The composition of the portfolio was as follows:

- State Treasury bonds: PLN 192,053 thousand,
- Treasury bills issued by the Ministry of Finance: PLN 333,580 thousand,
- NBP bills: PLN 66,562 thousand,
- NBP bonds issued due to the reduction of the mandatory reserve rate: PLN 25,476 thousand.

As of the end of June 2004, the share of cash and the National Bank of Poland account balances in total assets decreased. As of June 30, 2004, it amounted to 1% of assets whereas as of June 30, 2003, it represented 4% of total assets.

Receivables due from the financial sector, including placements with other banks, accounted for 17% of total assets as of June 30, 2004, which was lower than at the end of June 2003 when they made up 18% of total assets. The following items are included:

- PLN deposits: PLN 469,144 thousand
- foreign currency deposits: PLN 429,939 thousand;

In comparison to the end of June of 2003, the value of fixed assets decreased by PLN 8,868 thousand. The fixed assets primarily include:

- computer hardware: PLN 7,078 thousand,
- leasehold improvements (on rented office space): PLN 28,322 thousand.

Intangible fixed assets at the end of June 2004 amounted to PLN 9,621 thousand and included computer software.

Other assets accounted for 0.4% of total assets. The most important items in this group include settlements on account of tax reimbursement in the amount of PLN 9,097 thousand.

3. Liabilities

Current accounts and term deposits from customers and the public sector are the main liability. At the end of June of 2004 deposits from customers and the public sector reached PLN 2,604,315 thousand, which represented 50% of total liabilities. The major part of these deposits was denominated in zlotys and amounted to PLN 1,911,624 thousand, representing 73% of all customer deposits. Foreign currency deposits reached PLN 692,691 thousand at the end of June 2004.

By the end of the first half of 2004, the share of deposits placed by the financial sector increased. As at June 30, 2004, it accounted for 35% of total liabilities, compared to 30% the year before.

Special funds and other liabilities accounted for 1.1% of total liabilities at the end of June 2004. The main item (54%) concerns inter-bank settlements in the amount of PLN 31,428 thousand.

Other provisions item include a provision for contingent liabilities (PLN 3,214 thousand) and provision for future liabilities (PLN 406 thousand).

4. Off-balance sheet items

As at the end of June 2004, off-balance sheet items totaled PLN 6,479,648 thousand and were higher by PLN 2,141,598 thousand as compared to June 2003 (i.e. by 49%). They consist of:

- Off-balance sheet items relating to commitments of the Bank:
  - items related to financing: PLN 997,778 thousand (up by 15%),
  - guarantees: PLN 220,988 thousand (up by 69%).
- Off-balance sheet items relating to commitments in favor of the Bank:
  - items related to financing: PLN 1,067,552 thousand (up by 258%),

* guarantees: PLN 532,065 thousand (up by 337%).

- Commitments related to the carrying out foreign currency exchange transactions concluded before year-end which did not yet mature on June 30, 2004: PLN 2,289,612 thousand, i.e. decrease by 20% as compared to June 30, 2003, when they amounted to PLN 2,866,009 thousand.
- FX forward transactions: PLN 45,422 thousand.
- Derivatives: PLN 1,326,231, which include:
  * hedging IRS contracts: PLN 300,000 thousand
  * speculative IRS contracts: PLN 860,000 thousand
  * speculative FRA contracts: PLN 140,000 thousand
  * options: PLN 21,647 thousand
  * Futures contracts: PLN 4,584 thousand.

C. Management of funds

1. Sources of funding, credits, loans, guarantees and sureties

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

However, in the first half of 2004, the structure of the Bank's sources of financing changed. The Bank used less funding from the inter-bank market because at the end of January 2004 it was granted two credit lines from Fortis Bank (Nederland) N.V.: one facility up to EUR 200m for 101 months to finance current operating business of the Bank, and the other one up to EUR 200m for 27 months with the option to extend it for a longer period.

As at June 30, 2004, the total outstanding balance on account of credit lines granted by Fortis Bank (Nederland) N.V. equaled PLN 1,223m as compared to PLN 493m as at December 31, 2003.

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

In the first half of 2004 the interest rates on PLN loans and deposits at Fortis Bank Polska SA remained stable. As of July 1, 2004, one year after the last interest rate decrease, the Polish Monetary Policy Council resolved to raise the official interest rates.

In response to the money market situation, the Bank adjusted the interest rates on EUR and USD loans and deposits accordingly.

3. Risk management

The 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. 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 12.89% at the end of June 2004, compared to 14.99% at the end of June 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 as amended by *Resolution No. 1 dated June 4, 2003* issued by the Banking Supervision Commission.

The Bank's equity increased by 7% versus June 2003, while risk-weighted assets and off-balance sheet items increased by 24% in the corresponding period.

Capital adequacy ratio and its determinants

Indicator	**June 30, 2004**	**Dec. 31, 2003**	**June 30, 2003**
Risk-weighted assets	3.291,699	3,053,077	2,584,900
Risk-weighted off-balance sheet items	190,454	211,533	212.370
Net equity for the purpose of capital adequacy calculation	450,559	422,374	422.211
Short-term capital	2,789		
Credit risk	278,572		
Interest rate risk	1,805	3,141	
Delivery settlement and counterparty risk	984		
Total capital requirement	281,361	264,310	225.273
Capital adequacy ratio	**12.89%**	**12.78%**	**14.99%**

Performance indicators

Indicator	June 30, 2004	Dec. 31, 2003	June 30, 2003
Return on assets (ROA)	1.2%	0.9%	0.7%
Return on equity (ROE)	11.8%	7.2%	5.9%
Net interest margin	3.0%	2.8%	3.1%
Profit per share	3.77	2.39	1.96
Book value per share	36.26	34.23	33.58

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. Retail credit:
- debit limit
- fast loan
- mortgage loans

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

The Bank discontinued offering loans to institutional customers from the EBRD funds in 2003. Even though the Bank no longer extends any such loans, the loans already granted will be serviced by the Bank until their full repayment. As of June 30, 2004, the outstanding balance of such loans totaled PLN 68,133 thousand, as compared to PLN 80,226 thousand as of June 30, 2003.

With a view to reducing credit risk, the Bank applies specific procedures for granting and monitoring loans. 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.

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.

Since January 1, 2004, the Bank has applied the system of credit risk classification according to the International Accounting Standards (IAS). The system is used in parallel to the existing classification based on the Finance Ministry regulations.

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

In February 2004, the Bank signed an agreement to resume the Bank's participation in the Inter-bank Economic Information system (the Banking Register is administered by the Polish Bankers' Association) which since March 1, 2004 has operated based on a new IT system. The Bank also enrolled in the Credit Information Bureau (BIK in Polish). It is planned that the Bank commences using information on individuals in 4Q of 2004.

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

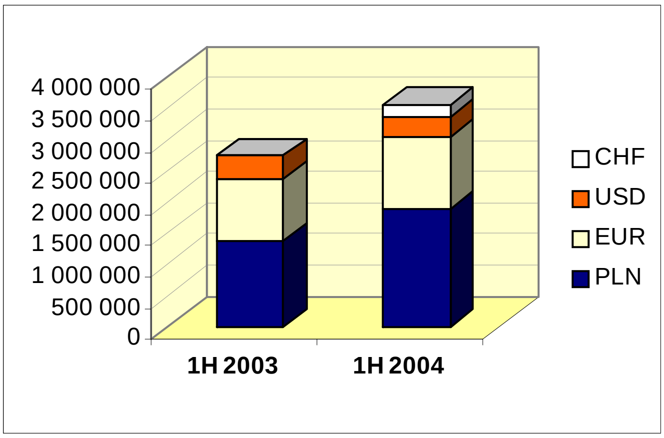
Furthermore, the Bank works on developing a centralized financial database of companies, credit customers, and on automating the process of credit report generation for risk management purposes based on a data warehouse.

1. Characteristics of credit portfolio

In comparison with the end of June 2003, the net value of the credit portfolio was by 30% higher. As of the end of June 2003, the value of outstanding loans portfolio (with interest) totaled PLN 2,614,312 thousand, and rose to PLN 3,396,465 thousand at the end of June 2004.

The value of the PLN loan portfolio (with interest) at the end of June 2004, totaled PLN 1,889,073 thousand and was by 37% higher as compared to June 2003. Whereas, the value of the EUR portfolio stood at PLN 1,150,372 thousand at the end of June 2004, which represented a 16% increase as compared to the end of June 2003. The balance of USD loans fell by 13% from June 2003 and amounted to PLN 319,905 thousand as of June 30, 2004. The volume of CHF loans at the end of June 2004 totaled PLN 195,376 thousand, and increased by 481% in comparison with the first half of 2003.

Chart 2. Currency structure of the credit portfolio (with interest)



The Bank's exposure focuses on the sectors of services, trade and production and it amounts to 40%, 24% and 13% of the credit portfolio value respectively, as at the end of June 2004. As far as all other sectors are concerned, the exposure is relatively low. As compared to June 30, 2003, the Bank slightly increased its exposure in services whereas the production sector exposure went down.

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

In response to market needs the Bank has been promoting housing loans offered to individual customers since the beginning of 2003. Housing loan balances tripled between June 2003 and June 2004.

In terms of original maturities, at the end of June 2004, the structure of receivables from the non-financial sector was as follows: 22% represented overdrafts (increase of 2% as compared to June 2003), 1% - with a maturity of maximum 1 month (decrease by 3% as compared to June 2003), 3% - with a maturity of 1-3 months (at the level of June 2003), 15% - with a maturity of 3 months to 1 year (1% decrease), 19% - with a maturity of 1-5 years (at the level of June 2003) and 30% - with a maturity exceeding 5 years (7% increase).

2. Non-performing loans

As at June 30, 2004, the balance of non-performing loans (without interest) due from non-financial entities (excluding the watch-list category) totaled PLN 340,459 thousand and made up 9.9% of the total loan balance, of which PLN 44,526 thousand represented sub-standard loans (i.e. 1.3% of the portfolio value), PLN 110,045 thousand – doubtful receivables (i.e. 3.2% of the portfolio value) and PLN 185,888 thousand – lost loans (i.e. 5.4% of the portfolio value).

3. Enforcement titles

In the first half of 2004, 91 enforcement titles for the total amount of PLN 24,454 thousand were issued with respect to the Bank's receivables, as compared to 73 titles of PLN 57,411 thousand issued in the first half of 2003, and 218 titles of the total of PLN 77,025 thousand in 2003.

B. Issued guarantees and letters of credit

As of the end of June 2004, the amount of guarantees issued by the Bank reached PLN 128,664 thousand, which represents a 23% increase in comparison to June 2003.

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

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

At the end of June 2004, 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 LCs opened by the Bank.

C. Deposits

As of the end of June 2004, the balance of funds deposited by customers totaled PLN 2,604,315 thousand, and was by 22% higher as compared to the end of June 2003, when deposits amounted to PLN 2,132,104 thousand. Although customers deposit also in foreign currencies, the majority of deposits are held in PLN (73%).

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, investment services and e-banking. The Bank also offers VISA Electron cards, Pl@net Internet banking system and the e-Package based on the electronic banking system.

D. Custody services

The Bank offers services related to custody and transaction settlement with respect to securities traded on the Polish regulated and non-regulated markets and acts as an agent in transactions concluded on international markets. Custody services are offered under the Decision issued by the Securities and Exchange Commission dated July 14, 2000 (KPWiG-4042-2/2000) by the separately organized Custody Services Group.

E. Money market and debt securities operations

The Bank's activity on the money market and the market of debt securities may be differentiated into the following categories:

- activity related to liquidity management,
- activity related to the management of interest rate risk,
- activity related to the Bank's investment policy concerning equity funds.

The Treasury Department is responsible for the Bank's liquidity and interest rate risk. This involves ensuring funding sources for the Bank's assets and investment of financial surpluses. To this end, the Treasury Department makes placements and deposits on the interbank market, FX swap transactions and investments in State Treasury bills and bonds and NBP bills.

The Bank's investment policy is established by the Asset and Liability Committee (*ALCO*). Capital is first of all invested in 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
- direct debit
- day-to-day foreign exchange service
- forward transactions
- securities accounts
- import and export letters of credit
- discount of export letters of credit
- collection of checks of other banks
- collection of checks drawn on foreign banks
- documentary collection.

As of July 1, 2004, customer bank account numbers were changed into the uniform Bank Account Number (*NRB*) in the Polish banking system, and the IBAN standard stared to be used in the international trading. In this connection as from June 30, 2004 the Bank discontinued carrying out payments that included the former bank account format and starting from July 1, 2004, payment orders to the NRB standard account numbers only are effected in domestic settlements. Keeping in mind the benefit of our customers, with respect to cross-border transfers, the bank decided to extend the transition period in which it is accepts the former account number format.

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

Also as from June 30, 2004, the Bank withdrew from the "Inter-bank Agreement on the cashier's cheque to be paid from savings and checking accounts" dated July 11, 1990, and as a result the Bank ceased effecting cheques to savings and checking accounts issued by other banks.

Additionally as from June 30, 2004 the Bank gave a notice of termination to the agreement with American Express as regards the service of traveler's cheques.

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

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

G. Co-operation with international financial institutions

The Bank co-operates with foreign banks in the area of foreign exchange, placement/deposit transactions, securities and banknote transactions. The Bank holds accounts in first-rate banks operating in the major world financial centers, and maintains PLN *loro* accounts for foreign banks. Co-operation with Fortis group and other leading banks enables the Bank to effectively handle payments made by its customers and to carry out instructions received from abroad.

The Bank is a member of the SWIFT international interbank network, which enables faster payment processing, facilitates contact with foreign banks and enables the implementation of new products related to international transactions. Moreover, in the first half of 2004, the Bank established cooperation with the EBA (European Banking Association) in view of participating, soon, in the European clearing system.

H. Development of banking services

Since the middle of 2003, the Bank has been running the project *To the European Union with Fortis Bank;* this year as Poland already entered the EU, the project name was changed into the *In 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 grants investment loans and bridge financing for undertakings covered by the subsidies.

This year, the Bank extended the project by cooperation with consulting agencies that offer assistance in completing applications for subsidies. Considering the enormous interests in EU subsidies shown by company owners, the Bank resolved to organize European Meetings (with entrepreneurs, regarding EU funds) in all the Bank branches, and not only in selected ones as it was last year. A new item in the project is the website www.dotacje.fortisbank.com.pl which is entirely devoted to issues related EU aid funds for SMEs.

Fortis Bank further extended its range for banking products for individual customers. To those interested in more unconventional ways of investment, the Bank launched, in co-operation with Credit Suisse Life&Pensions SA, the *Pure Profit* for six months (in addition to the 12-month) – life insurance policy. 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.

Furthermore, in cooperation with Górnośląskie Towarzystwo Funduszy Inwestycyjnych S.A. (GTFI S.A.) the Bank resolved to provide agency services as regards distribution and redemption of investment fund participation units.

I. Charity

For a few years now Fortis Bank Polska SA 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. Since 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

In the first half of 2004 the Bank started to deploy IT systems to streamline business processes in the following areas: overdue receivables monitoring and debt recovery, mortgage loan service, maintenance of derivative instruments and the Bank's participation in data exchange under the Credit Information Bureau (BIK).

Moreover, the Bank started infrastructural projects to further optimize costs and management of the IT structure by the Bank's IT environment standardization and servers consolidation. A new Help Desk system support supplier was selected.

The Bank continued to work on further improvements of the security and functionality of the Pl@net Internet banking system. Under the project, the Bank intends to implement the service of the Public Key Structure and chip cards and also to ensure a full compliance with the Electronic Signature Act provisions.

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 as regards the following:

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

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

In December 2002, Annex no. 3 was signed, aimed to further develop co-operation in agency services related to financial products.

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

Under an Agreement of January 2, 2002, and Annex of February 28, 2002, the Bank provides to its customers information about services offered by Fortis Lease Polska (FLP). For each lease agreement signed by a customer introduced by the Bank, the Bank receives an agency commission.

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 February 20, 2004, Annex no. 11 was signed to this Agreement.

b) Agreement on the Bank's PLN term deposit account of December 27, 2001.

c) Agreement on the maintenance of a securities deposit account in the Securities Register on October 9, 2003.

d) Agreement on extension of a technical credit facility and transfer of rights under State Treasury securities of October 13, 2003.

e) Agreement on extension of a lombard credit facility and a provision of a pledge securing such facility of October 21, 2003.

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.

   b) **Insurance agreement regarding payment cards issued by Fortis Bank Polska S.A. of October 6, 2003, concluded with the insurance and reinsurance company Cigna Stu S.A.** The Agreement sets out risk insurance conditions in the case of financial losses resulting from transactions effected with VISA Electron and Charge cards issued by the Bank. Valid until 31.10.2004.

   c) **Insurance agreement for holders and users of payments cards issued by Fortis Bank Polska SA of October 6, 2003, concluded with the insurance and reinsurance company Cigna Stu S.A.** This Agreement provides for insurance coverage for holders and users of VISA Classic, Gold, Business, Business Gold and VISA Electron and Business Electron cards against unauthorized use of payments cards, robbery or theft of cash withdrawn from an ATM using a card and, depending on the type of card, an accident insurance package (NNW). Valid until 31.10.2004.

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

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

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

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

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

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

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

Under this Agreement, the Bank customers – personal account holders may purchase at the Bank branches the *Better Tomorrow for Your Child* endowment life insurance with insurance capital fund. 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. signed with Credit Suisse Life&Pensions Services Sp. z o.o.**

This Agreement provides for the agency services of Credit Suisse in offering banking products of Fortis Bank Polska S.A. for individual customers. Currently such agency services concern only mortgage and construction and mortgage loans.

11. **Distribution Agreement with Górnośląskie Towarzystwo Funduszy Inwestycyjnych S.A. (investment fund company) dated June 2, 2004**

The agreement sets rules of providing agency services by the Bank as regards distribution and redemption of GTFI funds participation units. The Bank was granted a license by the Securities and Exchange Commission (KPWiG) for agency services in distribution and redemption of investment fund participation units (Resolution no. 517 passed by KPWiG on July 13, 2004).

12. **Co-Operation agreement signed with Bank Gospodarstwa Krajowego on July 22, 2004**

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

13. **Co-Operation agreement signed 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.

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

15. **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).

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

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

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

18. **Agreement of April 10, 2003 signed 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.

19. **Significant loan agreements**

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

V. ORGANIZATIONAL AND CAPITAL ASSOCIATIONS WITH OTHER ENTITIES

A. Description of the Shareholder holding over 5% of votes at the General Shareholders Meeting

Fortis Bank, with its registered office in Brussels, holds 99.10% shares of Fortis Bank Polska S.A.

Fortis is an international financial services provider active in the fields of banking and insurance. With a market capitalization of EUR 23.6 billion and over 52,000 employees, Fortis ranks in the top 20 of European financial institutions. At June 30, 2004, Fortis had total assets of EUR 563 billion (EUR 40 billion, i.e. 7.5% more than at the end of 2003).

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.

Fortis reported very good financial results for the first half of 2004. Net operating profit of EUR 1,829 million was three times higher than in the first half of 2003 when it amounted to EUR 683 million. Operating performance continued to improve thanks to higher yield generated on capital markets, concentration on revenue increase and strict cost control.

The Banking business's net operating profit increased by 36% from EUR 851million in the first half of 2003 to EUR 1,157 million in the first half of 2004. Excluding value adjustments to the equity portfolio, net operating profit rose from EUR 883.8 to EUR 1,083.5 million in the first half of 2004.

Fortis maintains a high level of net core capital of EUR 19 billion, which exceeds the threshold required by prudential standards by 87% and the threshold adopted by Fortis by 16%.

Key financial data:

	1H 2004	1H 2003	2004/2003 change
Net operating profit (before realized capital gains)	1,226mln EUR	923mln EUR	33%
Realized capital gains	332 mln EUR	500 mln EUR	(34%)
Net operating profit (before the value adjustment of the equity portfolio)	1,558mln EUR	1,423mln EUR	10%
Value adjustment of the equity portfolio	271 mln EUR	(740) mln EUR	
Realized	(92) mln EUR	(647) mln EUR	
Not realized	363 mln EUR	(93) mln EUR	
Net operating profit (after value adjustment of the equity portfolio), incl.	**1,829 mln EUR**	**683 mln EUR**	**168%**
- banking	1,157 mln EUR	851 mln EUR	36%
- insurance	766 mln EUR	(34) mln EUR	
- other	(94) mln EUR	(134) mln EUR	
Non-operating items	249 mln EUR	(12) mln EUR	
Net profit	**2,078 mln EUR**	**671 mln EUR**	**210%**
- banking	1,150 mln EUR	851 mln EUR	35%
- insurance	865 mln EUR	(46) mln EUR	
- other	62 mln EUR	(134) mln EUR	

Banking	1H 2004	1H2003	2004/2003 change
Net operating profit (before realized capital gains)	**814 mln EUR**	**515 mln EUR**	**58%**
Realized capital gains	283 mln EUR	342 mln EUR	(17%)
Net operating profit (before the value adjustment of the equity portfolio)	1,097 mln EUR	857mln EUR	28%
Value adjustment of the equity portfolio.	60 mln EUR	(6) mln EUR	

Net interest income on the banking business went up by as much as 11% and commission and fee income by 13%, as compared to the first half of 2003. Capital gains however decreased by 25% and other income, financial transactions in particular, dropped by 32% and therefore the total income was at the same level as in the first half of 2003.

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

Fortis intends to strengthen further its position in the Benelux countries, expand selected business activities in Europe, and certain skills, such as bancassurance, globally. In July 2004, Fortis took over control over insurance business (health and life) of the Portuguese Banco Comercial Portugęs (BCP). Fortis and BCP formed Milleniumbcp Fortis Insurance Group, a joint-venture in which Fortis has a controlling interest of 50%.

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. FSP offers share, debt securities and balanced portfolios.

At the end of June 2004, Fortis Securities Polska S.A. managed 751 portfolios of the total amount of almost PLN 460 million, as compared to 990 portfolios totaling over PLN 247 million at the end of June 2003, which means an 86% increase in the portfolio value. The above assets value increase resulted from the taking over, in March 2004, the management of investment portfolios of GTFI (Górnośląskie Towarzystwo Funduszy Inwestycyjnych S.A.).

In the ranking asset-management companies results in 2003, published by the *Rzeczpospolita* daily, the Aggressive portfolio offered by FSP ranked 3 among 66 portfolios assessed. The rate of return for 2003 amounted to 68.8%, for 3 years it totaled 123.4%, and for 5 years – 154.9%. Moreover, the 6x3 share portfolio finished in 10th position: the rate of return for the last year equaled 53.9%, for 3 years it amounted to 78.8%, and for 5 years - as much as 130.8%. Both portfolios are counted among the group that made the best results within the past 5 years.

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 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 a particular advance. 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.

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

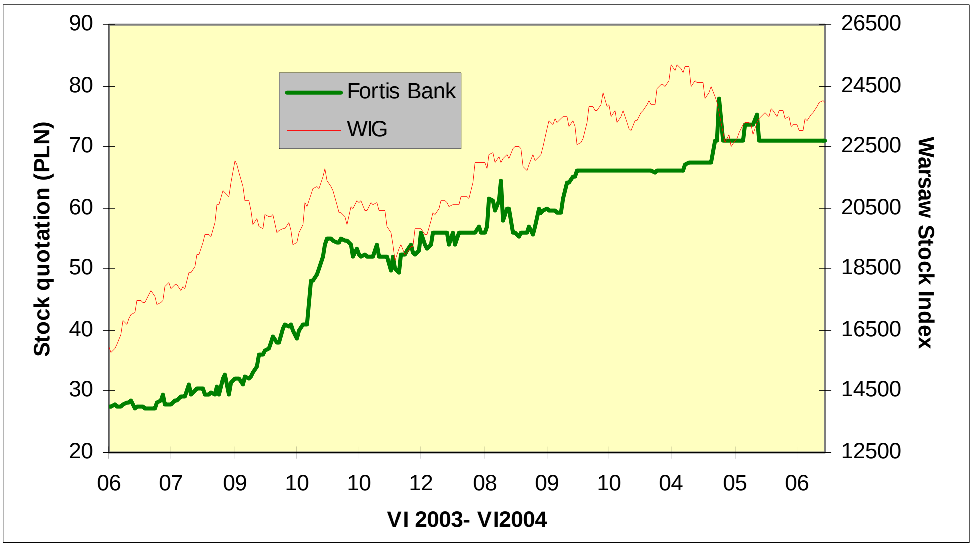
The Bank's shares have been quoted on the primary market of the Warsaw Stock Exchange since November 7, 1994. From April 18, 2001 to January 18, 2004 the Bank's shares were quoted in a two-fixing system. As a result of the acquisition of over 98% of the Bank's shares by Fortis Bank based in Brussels (in 1999), 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 2004, the share price amounted to PLN 56.00. The price of the Bank's shares rose to PLN 71.00 as of June 30, 2004, i.e., by 159% as compared to PLN 27.40 as of June 30, 2003. The average turnover in the Bank's shares in the first half of 2004 was 257 shares per session in comparison to 213,5 shares per session in the first half of 2003. Given such a small number of shares, the relative growth in the turnover and price was due to, on the one hand, the general recovery on the Stock Exchange, on the other 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 the first half of 2004, the WIG index rose from 21,229.37 to 23,949.32 and WIG-banks, a sector sub-index, grew from 26,800.67 to 30,687.59.

Trading in Fortis Bank shares and the WIG index from June 2003 to June 2004



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

Indices	June 30, 2004	Dec. 31, 2003	June 30, 2003
EPS ratio	3.77	2.39	1.96
P/E ratio	18.84	23.44	13.95
BVPS ratio	36.26	34.23	33.58
P/BV ratio	1.96	1.64	0.82

The book value per share is PLN 36.26. 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.* An up-to-date declaration of the Board of Executives that include information on the extent of application of the Best Practices in Public Companies by the authorities of Fortis Bank Polska SA was attached to the Bank's Financial Statements for 2003.

In the first half of 2004, no breach of the adopted rules was reported.

VIII. DEVELOPMENT PROSPECTS FOR BUSINESS ACTIVITY

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

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).

As we already notified in the Management's report for 2003, the Board of Executives of Fortis Bank Polska will not publish any financial forecasts public for 2004.

In the coming years the Bank will pursue it strategy aiming at growth of the high-net-worth customer portfolio and SME portfolio. The strict control of costs and efficient use of capital should result in a further improvement of the financial performance.

The Bank will seek to secure sufficient assets and deposits to finance its credit portfolio, and will also conclude credit agreements with its main shareholders in order to ensure supplemental funding for its assets in FC.

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

To enhance the Bank's competitiveness in credit offering and improve the credit risk management, a number of projects to enhance process support systems for loan granting and service are carried out in 2004.

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.

The Commercial Banking (*CB*) business line focuses, through its business center concept, on servicing its customers, in a way that will bring added value to them and the Bank. The strategy of the CB business line in Poland, assumes, in particular:

- Focus on internationally active customers, be it either multilocal (active in several countries) or having cross-border business (significant imports or exports). In the case of acquisition of new customers, this will be the target segment,
- offering of products through a cohesive network of business centers supported by professionals providing specialist financial products. As regards customer contact, electronic communications channels are preferred,
- 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,

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 retail customer segment.

It is a big challenge for the Bank management to adjust internal policies and operating procedures to the changes in Polish legislation that follow Poland's accession to the European Union. A particular attention and organizational effort are needed for implementing the requirements set out in the New Basle Capital Accord and the International Financial Reporting Standards, likewise with respect to the Banking Law amendments and automation of the NBP reporting.

Under the Fortis Bank group's preparations to adjust to the requirements of the New Basle Capital Accord, the Bank takes an active part in projects that aim at implementing credit risk assessment methods to establish the required regulatory capital.

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

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
- Local 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, the Projects and User Applications Steering Committee was set up which coordinates also development of information technology solutions for the needs of specific organizational units of the Bank.

B. Business lines and sales outlets

The Bank's organization is structured along business lines providing comprehensive service to specific customer and/or service market segments. In particular:

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

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

c) Global Markets (*GMK*) business line operates within the organizational structure of the Treasury Department, which, amongst others, supports the other business lines, offering to 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.

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

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

As of June 30, 2004, the Bank conducted operations through the following units:

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

The Bank's organization chart as at June 30, 2004 is attached to this Report.

X. SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES

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

<u>As at January 1, 2004, the BoE composition was as follows:</u>

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

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

From May 1, 2004, the BoE composition was as follows:

Board of Executives:

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

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	

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

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 the first half of 2004 totaled PLN 2,093 thousand, as compared to PLN 1,913 thousand in the first half of 2003. Remuneration paid in the first half of 2004 to the Supervisory Board Members amounted to PLN 159 thousand, as compared to PLN 170 thousand in the first half of 2003. Remuneration for the holders of procuration from 01.01.2004 to 30.06.2004 totaled PLN 1,897 thousand, whereas from 01.01.2003 to 30.06.2003 - PLN 1,782 thousand.

The Board of Executives of Fortis Bank Polska SA was covered by the "Fortis Executives and Professionals Stock Option Plan for Fortis shares.

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

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 June 30, 2004 none of the Board of Executives Members owned any shares issued by Fortis Bank Polska S.A. Mr Luc Delvaux, Chairman of the Supervisory Board held 25 shares. Other members of the Supervisory Board do not hold any shares.

5. Employees

The number of people employed was 884 FTE (full time equivalents) in June 2003, while at the end of June 2004 it decreased to 873 FTE. The majority of the employees, i.e. 52%, were university graduates.

Signatures of the Members of the Board of Executives (on the Polish original):

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