

# 2003 Report of the Supervisory Board of Fortis Bank Polska SA

- [Assessment of the Bank's developments in 2003](#)
- [Changes in the ownership and capital structure](#)
- [Composition of the Supervisory Board](#)
- [Review of 2003 meetings](#)
- [Prospects](#)
- [Annual accounts and Board of Executives Report](#)
- [Profit distribution](#)

## Assessment of the Bank's developments in 2003

The Supervisory Board has the pleasure to report that Fortis Bank Polska SA (FBP) has closed the year 2003 with very good results. The Bank earned PLN 36 million after tax, which is 15% higher when compared to the 2002 result. The pace of growth of gross profit, which increased by 17% up to PLN 52.8 million, was even better. Economic revival and the improving financial results of Polish firms contributed to our good results.

During 2003 Polish economy started growing. In the perspective of joining the European Union, there was a significant improvement of macroeconomic fundamentals such as GDP (3.7 per cent YoY), industrial production, export, capital spending and low inflation. Especially in the 4th quarter of 2003 positive trends continued in trade and industry. Foreign demand for Polish goods and services played a dominant role. Inflation remained under control (CPI of 1.7% YoY). NBP interest rates were kept on hold. The rate of further economic growth will to a large extent depend on Poland's capacity to absorb the European funds. The greatest impact on the performance of banks in 2003 had the interest rate cuts in the first half of 2003 and lower interest income. Banks were offsetting the reduction in margins by higher commission and fee income. However, banks were unable to reduce the level of provisions for non-performing loans - on the contrary, after three quarters of 2003, the share of non-performing receivables in the whole banking sector increased up to 21.3 per cent compared to 21.1 per cent as of the end of 2002. Other factors having influence on the banking sector were growing demand for housing loans and the need to pay a higher tax in connection with lower deductions by the value of deferred tax, as a result of the CIT rate reduction from 27% to 19% effective 2004.

Fortis Bank Polska SA financial results are satisfactory as compared to those of other banks on the market. The highlights of FBP 2003 performance are:

- Net loan balances increased by 49% and the quality of the loan portfolio improved. The value of mortgage loan portfolio almost tripled in 2003. The Bank was also successful in competing for corporate customers. The balance of non-performing loan provisions increased by 3% only as compared to the end of 2002. The share of non-performing loans in the total portfolio decreased to 14% at the end of 2003 versus 16% as of the end of 2002.
- The outflow of customer deposits was stopped and the customer deposits portfolio increased by 8% above the level in December 2002.
- Net interest income in the amount of PLN 116 million was lower than in 2002 by PLN 14.4 million, which was mainly due to the decreasing interest rates. Credit related fees increased while non-credit related fees are stable. Other income was lower than in 2002 given not as much income from investment in bonds. The Bank reported a slight loss on financial operations, whereas in 2002, the Bank earned about PLN 20 million on securities transactions. The reason is a significant decrease in prices of debt securities that took place in the second half of 2003.
- Commission and fee income increase by 11% due to better sales of credit products.
- FX result reached PLN 56 million and was higher by 6% as compared to 2002.
- Result on banking activity dropped from PLN 265 million (2002) to PLN 239 million or by 9.8%.

- Operating costs were on the level of last year. The cost/income ratio of the Bank amounted to 69%. Operating expenses are now under control.
- ROE ratio in 2003 reached 7%.
- Net provisioning for credit risks in 2003 amounted to PLN 21 million, i.e. it was lower by 59% than in 2002 (when it equaled PLN 52 million).
- Tax charges related to CIT were at the level of 34.3%. It resulted from the reduction of CIT rate from 27% to 19% and the negative impact of that rate cut on the deferred tax (in the amount of PLN 4.7 million). Otherwise, the CIT charge would be by about 5.9% lower, which means that it would be a bit lower than the statutory rate (i.e. 27%).
- The Bank's solvency ratio is still at comfortable level (13%).

The Board highly appreciates the efforts of both the Bank's Board of Executives and Employees to increase the net operating income while keeping operating costs reasonable. 'Production' was the motto for the year 2003 and it should so be continued in 2004. A prudent credit risk policy adopted in 2002 was continued in 2003. 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. Specific provisions created for non-performing loans were lower than initially budgeted.

The Board acknowledged good results of Fortis Securities Polska SA (FSP), the Bank's subsidiary. Following the restructuring of the company and limiting its scope of activity to asset management and sales of investment funds' units, FSP improved its performance over the year and reached operating profit. At the end of 2003 Fortis Securities Polska S.A. managed 990 portfolios of the total amount of over PLN 247 million. Its assets under management increased by 34%. Majority of FSP customers are high net worth individuals within the Retail Banking business. In June 2003 FBP invested PLN 50 mio in FSP capital covered mainly by an in-kind contribution of State Treasury bills. The Supervisory Board closely monitors the performance of the investment. The increase in the FSP equity capital should help to boost the confidence of institutional investors in the company, who are currently the FSP target customers.

Thanks to the support of the Fortis group, both in financial and organizational terms, the Bank has acquired important customers, improved the efficiency of lending procedures and risk management and expanded the Bank's activity on financial markets. The Board monitored developments in the results and operation of the business lines. The two business lines Retail Banking (Individuals, self-employed and small enterprises) and Commercial banking (medium-size businesses and corporate customers), operate now through 27 branch offices and 5 business centers, offering comprehensive services for their specific customer groups. In 2003 the business lines focused on developing their products and customer base, but at the same time improving their risk profile. The new business line, Global Markets BL, established in the second quarter of 2003, corresponds to the Global Markets BL in the Fortis group structure and provides customers of both RB and CB with treasury and foreign exchange products. Through the new business line the Bank intends to increase its activity in the financial market and the trade in securities.

The Board supports and highly values the Board of Executives initiative to launch "To The European Union With Fortis Bank" customer information program aimed at advising Polish entrepreneurs on how to gain access to PHARE subsidies. Using the experience gained during several-year cooperation with the European Bank for Reconstruction and Development, the Bank organized meetings throughout the country devoted to the European Union related issues. Those meetings enabled customers to learn about EU subsidy types available, procedures and conditions to apply for investment costs refund. As a result, in the second half of 2003, entrepreneurs contracted investment loans with our Bank linked to PHARE subsidies.

Throughout 2003, a number of changes occurred in the composition of the Board of Executives related specifically to the termination of work in Poland by Mr. Jean-Marie De Baerdemaeker, Mr. Andre Van Brussel and Mr. Gilles Polet and finally resignation of Mr. Leszek Niemycki. As of January 9, 2003, i.e. following the consent issued by the Banking Supervision Commission for his appointment as the President of the Board of Executives of Fortis Bank Polska S.A, Mr. Ronald Richardson replaced Mr. Jean-Marie De Baerdemaeker in this position. Effective May 1, 2003 two new Vice-Presidents joined the Board of Executives, Mr. Jan Bujak as Vice-President

and Chief Financial Officer, responsible for legal and financial affairs and Mr. Jaromir Pelczarski as Vice-President, Operations and Support Services Director. Consequently, the organization chart was revised to make it more logical, better reflect the business strategy and make an optimal use of the experience and knowledge of all the BoE members. In October the Board accepted the resignation of Mr. Leszek Niemycki, who held the position of BoE Vice-President from 1995. The Board took actions, so that a professional executive from within the organization could succeed him to head the Retail Banking Business Line.

The Bank's financial statements for 2002 were approved at the Annual General Meeting of Shareholders (AGM) on June 26, 2003. The AGM confirmed the discharge of duties of both the Board of Executives and the Supervisory Board members. The shareholders resolved that out of the 2002 net profit which amounted to PLN 31.4 million, the sum of PLN 30.1 million should be earmarked for the payment of dividends, whereas the remaining amount was allocated to the general risk fund. The Bank's articles of association were amended, to adjust the scope of the Bank's core business to changes in the banking law and instrument of electronic payment act and to include a principle allowing for delegation of Supervisory Board authority regarding determination of compensation to a sub-committee of 2-3 designated members.

The Board of Executives and the Supervisory Board discussed corporate governance standards adopted by the Boards of the Warsaw Stock Exchange and the Securities Commission and confirmed their will to implement them to the extend possible. To that end the Statute, the AGM Procedures and Supervisory Board Regulations were reviewed to make them compliant with the corporate governance standards. Having received a positive opinion of the Supervisory Board and in compliance with the intention of the Shareholders expressed at the General Shareholders' Meeting, the Bank Board of Executives adopted a statement on compliance to Best Practices in Public Companies in 2002 and made it public. The Supervisory Board confirms that in 2003 no breach of the adopted rules was reported at Fortis Bank Polska.

[do góry](#)

### **Changes in the ownership and capital structure**

In 2003 no changes occurred in the shareholder structure.

Since 2001 the main investor Fortis Bank SA/NV seated in Brussels, which then acquired all Series J shares, owns 99.10% of Fortis Bank Polska SA share capital.

As of December 31, 2003, the equity of Fortis Bank Polska SA amounted to PLN 516,176 thousand as compared to PLN 519,652 thousand of December 31, 2002.

Fortis Securities Polska S.A. (FSP) is the Bank's subsidiary (100%). In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducted PLN 58,084 thousand from equity with regard to its net capital exposure in shares of FSP and PLN 6,567 thousand representing 60% of net intangible fixed assets.

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.

[do góry](#)

### **Composition of the Supervisory Board**

There was a change in composition of the Supervisory Board in the course of the year 2003.

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

As of April 1, 2003, 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
Werner Claes	Member of the Supervisory Board
Roland Saintrond	Member of the Supervisory Board
Didier Giblet	Member of the Supervisory Board

[do góry](#)

### **Review of 2003 meetings**

In the year under review, the Supervisory Board met on 5 occasions and adopted 34 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 and credit policy issues. The Board was briefed on developments in economic situation in Poland.

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 extending the product range, improved efficiency and cost control.

Supervisory Board reviewed corporate documents in view of implementation of corporate government standards recommended by the Board of Warsaw Stock Exchange in the document Best Practices in Public Companies in 2002.

The Board reviewed the proposed agenda and draft resolutions for the Annual Shareholders' Meeting, including those regarding dividend payment out of the 2002 earnings, amendments in the Statues, 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 risk management. The Board was informed on the status of two major projects, i.e. implementation of International Accounting Standards and the capital requirements under Basel II. The drivers of both projects come on one hand from Fortis group and on the other form the local supervisor.

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 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. In order to facilitate taking decisions regarding remuneration adjustments for the members of the Board of Executives, and in particular salary adjustments for expatriates resulting from exchange rate differences, the Board took the initiative to establish a Committee consisting of two Supervisory Board members, including the Chairman. At the June AGM, the Bank's Statute was amended in a way to legalize the possibility of establishing a Compensation Committee for determination of remuneration of members of the Executive Board.

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 the budget for 2003-2005
- approval of 2002 Board of Executives Report and review of annual accounts. The financial statements for the period from 1 January 2002 to 31 December 2002 were audited by KPMG Polska Audyt Ltd., who issued an unqualified opinion.
- adopting corporate governance standards for public companies as recommended by the Warsaw Stock Exchange and adjusting AGM Procedures and Board of Executives Regulations to those standards; Having reviewed the BOE statement regarding compliance to corporate governance rules, the Board confirmed its support to implement these principles is in the best interest of Fortis Bank Polska. However the Bank is not compliant as regards the number of independent members on the Supervisory Board. Fortis Bank, enjoying a massive majority shareholder position, appoints its own representatives, in order to realize the Company's strategy, and to protect its interests. The Bank will also not comply to the rule to change the expert auditor at least once every five years. In this respect the principles applied in the Fortis group are applicable.
- amending the Board of Executives regulations to reflect the changes in the generally binding legal acts and facilitating the effective operation of the Board,
- confirming amendments in Credit Committee and Problem Asset Committee Regulations
- recommend Statute amendments and confirming the unified text of the Statute authorized by the June 26th Shareholders Meeting and entered in the commercial register
- decision on increase of the capital investment of the Bank in Fortis Securities Polska
- selection of KPMG Polska Audyt Ltd. as the Bank's external auditor for 2003
- approval of the report on audit activities and amended Audit Charter
- recommending to maintain the compensation of Supervisory Board members at the existing level,
- recommending a motion regarding payment of a dividend from the 2002 earnings,
- 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,
- establishing the Compensation Committee, which is authorized to approve on behalf of the Supervisory Board the financial terms of employment of members of the Board of Executives, in terms of taking decisions on adapting semi-annually to costs of living indexes and/or to foreign exchange rates the salary package of expatriates, members of the BoE. The Committee will also prepare proposals for the Supervisory Board on all other matters related to the compensation of the members of the Board of Executives; however for such matters, the final decision belongs to the Supervisory Board.
- 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,
- appointments of Mr. Jan Bujak as Vice-President and Chief Financial Officer, responsible for legal and financial affairs and Mr. Jaromir Pelczarski as Vice-President, Operations and Support Services Director, effective May 1, 2003
- accepting on October 23, 2003, the resignation of Mr. Leszek Niemycki as BoE Member, following his decision to leave Fortis Bank Polska SA.

## Prospects

The strategy of Fortis Bank Polska SA is interwoven with the global strategy of Fortis Group. The Bank aligns its organization structure to the concept of business lines in Fortis Bank group.

In the coming years the Bank will continue to pursue its 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 shareholder in order to ensure supplemental funding for its assets in FC.

The Bank has not published financial forecasts for 2003. The Supervisory and Executive Boards pursue this policy and do not make any financial forecasts public for 2004.

In line with the overall strategy of Fortis group, FBP is set to achieve the profitability level of 12% return on required equity and continue measures to reduce the cost-income ratio.

The Bank will focus on growing the number of customers in targeted market segments. The Bank is aiming to be seen as innovative, value adding thanks to its various skills, and asking a fair price for services provided to customers. As regards customer contacts, electronic communication channels are preferred.

Through the new Global Markets business line (GMK) set up in the second quarter of 2003, the Bank intends to increase its activity in the financial market and the trade in securities. The development of the Global Markets BL is based on a customer driven strategy. The Bank intends to expand its offer of derivatives such as currency options, swaps and forward contracts on interest rates.

The business line Commercial Banking focuses on internationally active customers, offering its products through a cohesive network of business centers. Its strategy assumes offering solutions and further developing the specialist services, such as cash management, leasing, export factoring and specialization in 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 Retail Banking objective is to increase its market share through organic growth targeting foremost the personal banking segment, but also developing its market share in the small companies segment. In the personal banking segment the focus goes to asset gathering products and credit products related to the personal needs of such customers. The use of low cost distribution channels is promoted. With a basic product offering, available also through both internet and call center technology, RB will try to grow the market share in the retail customer segment.

Additionally, the Bank will continue to develop additional distribution capacity thanks to co-operation with an insurance company and in the field of bancassurance and assurfinance.

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).

The Bank will continue its preparations to fully implement the IAS standards, imposed by the European Commission decision to introduce uniform accounting standards for all companies listed on the regulated markets by 2005. The Board was informed that most of the IAS solutions have already been implemented in Poland in the Polish Accounting Act amended in 2001. FBP timely implemented all changes in accounting and reporting imposed by Banking Supervision.

- The Global IAS Programme is currently developed in Fortis aimed at converting the existing heterogeneous standards to a single uniform financial reporting language.

- Starting in 2005 reported consolidated budget will be prepared based on IAS.
- The schedule assumes that starting from the balance sheet for Dec. 31, 2003 (2004 opening balance), comparative information for 2004 and then first quarterly report as at March 31, 2005, and the first annual report as at Dec. 31, 2005 financial reports will be prepared in compliance with IAS.
- Project schedule in FBP assumed first modification of operational and accounting procedures and changes in the chart of accounts (done at the end of September), then creating data base following the Magnitude system chart of accounts requirements and creating appropriate interfaces (end of December).

The second important project is the Revised Basel Capital Accord (Basel II), which provides new rules of calculating capital adequacy risk weighted commitments (credits) and off balance sheet commitments and methodology of how to calculate capital requirements to cover market risks.

- The rules published by Basel Committee on Banking Supervision should become applicable throughout the EU at 2006 year-end.
- From the legal point of view - Basel II is giving advice and regulator in each country will introduce their regulations. Following rules set by a local regulator, each bank's management will be responsible for selection and implementation of an approach appropriate to the stage of its development.
- In terms of operational and market risks, Fortis Bank Polska will adopt Fortis Operational Risk Management procedures and measurements methodologies, and opt for advanced method.
- The selection of an approach for credit risk calculations is still under discussion of Bank's authorities.

The recognition of the Fortis brand on the Polish market has increased over 2003 thanks to new product marketing campaigns and the "With Fortis Bank to the EU" program. FBP wants to build up its image as a 'European bank'. In 2004 the Bank will continue the customer information program under the motto "In EU with Fortis Bank" sharing its competence with entrepreneurs to help them apply for and effectively finance investments eligible for EU subsidies.

[do góry](#)

### **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 2003 and the bank's financial statements comprising:

1. introduction;
2. the balance sheet as at 31 December 2003, with total assets and total liabilities (including equity) of PLN 4,585,974 thousand;
3. the capital adequacy ratio;
4. the statement of contingencies and commitments granted as at 31 December 2003 amounting to PLN 1,190,715 thousand;
5. the profit and loss account for the period from 1 January 2003 to 31 December 2003 with a net profit of PLN 36,021 thousand;
6. the statement of changes in equity for the period from 1 January 2003 to 31 December 2003 with a decrease in equity of PLN 3,476 thousand;
7. the cash flow statement for the year then ended with a decrease in cash amounting to PLN 158,148 thousand;
8. the supplementary information and explanations.

As a result of its activity in the 2003 fiscal year, the Bank earned a net profit of PLN 36,021,431.24 (say: thirty six million twenty one thousand four hundred thirty one and 24/100). The Board approves the Board of Executives Report on the Bank's activity in 2003 and submits the Fortis Bank Polska Financial Statements for 2003 for the consideration of the General Meeting of Shareholders on 24 June 2004.

[do góry](#)

**Profit distribution**

Supervisory Board, having considered the Board of Executives' motion regarding allocation of the Bank's after-tax profit for the business year 2003 amounting to PLN 36,021,431.24 recommends to present to the Annual Shareholders' Meeting a draft resolution assuming allocation of the 2003 net profit for distribution for the increase of own funds as retained earnings.

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 2003 and this report of the Supervisory Board.

[do góry](#)

*Warsaw, June 24, 2004*