FORTIS BANK

Solidni w partnerstwie, elastyczni w działaniu

Board of Executives Report on Fortis Bank Polska SA activity in 2002

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I. SUMMARY OF THE BANK'S ACTIVITY IN 2002

A. Key factors affecting Fortis Bank Polska financial performance in 2002

Fortis Bank Polska generated a net profit of PLN 31.4 million in 2002, which is 32% or PLN 14.6 million lower than initially forecast, but three times better (+198%) when compared to the 2001 result. In the initial budget the Board of Executives had projected a net profit of PLN 46 million. As there were no signs of an economic recovery both in Poland and abroad, the initial target had been reviewed downwards during the year to PLN 30 million. The 2002 result is higher by 4.9% or PLN 1.5 million than the revised forecast.

In 2002, Fortis Bank Polska pursued a prudent credit policy. As a result, the value of the net loan portfolio was 16% lower than the projected figure, yet 3% higher (PLN 2.2 million) than at the end of 2001. Furthermore, the amount of provisions created for non-performing credit risks was lower than planned. Nevertheless, the share of the non-performing loans in the total loan portfolio was as high as 16%.

At the end of 2002, total deposits in the Bank fell by 8% (PLN 2.3 million). The balance of funds managed by Fortis Securities Polska, a subsidiary of Fortis Bank Polska increased significantly during the second half of 2002.

The Bank's solvency ratio is still at a more than comfortable level (20.7%) and in 2003 it is not foreseen to increase the Bank's equity.

The positive result of 2002 was achieved mainly thanks to:

- Strict control of operating costs and capital expenditure,
- Lower than expected loan losses,
- Significant revaluation and trading profits on the securities portfolio,

And notwithstanding

- Lower than expected interest and fee income mainly as a result of stocks of loans and deposits growing more slowly than expected but also due to the steady erosion of interest margins,
- The provision covering the restructuring cost and 2002 loss of FSP.

The most important factors that affected the financial performance of Fortis Bank Polska SA in 2002 were the following:

- **Loan portfolio increase and a simultaneous deterioration of its quality.** In 2002 the loan portfolio increased by 3% as compared to 2001 and reached PLN 2.174 billion at the end of 2002. The share of non-performing loans in the total portfolio amounted to 16% at the end of December (2.8% concerns loans classified in the "watch-list" category).
- **Decrease of customer deposits.** In 2002 customer deposits amounted to PLN 2.307 billion, 8% down compared to 2001.
- **Commission and fee income increase by 17%** due to the acquisition of new customers and diversification of the product range by adding new products.
- **Net interest income in the amount of PLN 130 million** was higher than in 2001 by PLN 6 million, which was mainly due to the higher amount of loans, however at narrowing interest margins.
- **Income from financial operations in the amount of PLN 20 million,** which consisted mainly of proceeds from sale of the debt securities.

- **FX result increase (PLN 53 million)** resulting from the growth of import-export transactions serviced by the Bank, disbursement of foreign currency loans and trading transactions. The FX result was higher by 5% compared to 2001.
- **Decrease in operating costs following the successful termination of the Zefir project** by 3% in comparison to 2001. The cost/income ratio amounted to 65%.
- **Increased provisioning for credit risks**. The deteriorating financial standing of several borrowers resulted in an increase of non-performing loans and, as a consequence, the need to create additional specific provisions. The balance of the provisions amounted to PLN 52 million.

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

1. Polish economy in 2002 at the macroeconomic level

GDP and real trends

2002 was the second consecutive year of slow economic growth (GDP rose by merely 1.3%, as compared to 1.0% in 2001), which is directly attributable to a marked decline in investments (by 7.2 % in 2002). However, a significant increase in household consumption (by 3.3%) and further decrease in foreign trade deficit (of over 11%) had a positive impact on economic growth.

The downward trend in investment activity continued for the second consecutive year due to a number of macro- and micro-economic factors. Given that around 50 % of investments in the sector of enterprises is financed with own funds, the prolonged low profitability of companies prevented an increase in investment outlays. Moreover, considering a slowdown in global demand worldwide (including the EU) and the strong zloty throughout the most of 2002, revenues from exports were below expectations. Shrinking consumption demand (as compared to the end of the 90's) and the low PPI (prices of sold production of industry), in turn, resulted in weaker revenues from sales on the domestic market. The continuing high level of bad debts in banks (nearly 22% of gross receivables of commercial banks at the end of 2002, of which 50% included lost loans) inhibits demand for loans. On the other hand, in spite of the interest rate cuts for economic entities, the real interest rate of business loans is still relatively high (on average over 11 % in real terms). In addition, loan interest rates offered to companies vary substantially, which reflects the quality of their investment projects. As the Polish economy shows no clear signs of improvement, businesses are more willing to deposit their funds in banks rather than use them on investments. In 2002, companies increased their debt in the banking sector merely by PLN 1.3 billion (which represents the smallest growth since the first publication of the NBP statistics in 1997, after allowing for inflation), while placing PLN 1.0 billion on deposit.

A relatively robust growth in household consumption results, on the one hand, from a sustained positive growth in the real income of population (1.4 % according to CASE estimates), on the other hand, from a further decline in savings (relationship between current savings and current disposable income). The 2002 growth in income resulted from social contributions (rise of 4.0% in real terms) and "other incomes", i.e. from self-employment, property held and "black market" (increase of over 4 % according to CASE estimates). In 2002, we saw a negative growth in salary income (approx. –2%), which reflects a fall in unemployment and an increase in average salary. Household savings decreased mainly through the withdrawal of PLN 6.6 billion from the banking sector (whereas in the previous years individual deposits grew up to PLN 20-30 billion annually). Such a massive withdrawal of deposits was partly attributable to the tax on bank savings", low interest on individual deposits (especially if we also consider the attractiveness of financial market products), a slow growth in the income of population and attempts to maintain the existing level of consumption. However, 2002 saw an increase in savings in other segments of the financial market (e.g. in investment funds) and outlays for residential construction, which was the only fast developing segment in the construction industry. The total of household savings so estimated made up 9.1 % of disposable income (as compared to 10.4 % in 2001).

Demand tendencies had an impact on real trends in the Polish economy. Strong consumption demand and an improved foreign trade balance prompted a revival in the industry as a whole (increase in sold production by 1.5 %) and boosted added value in market services (3.5 %, including trade and transport). While the decline in investment activity, mainly in outlays for residential buildings and other facilities, resulted in a decrease in construction and assembly output (by nearly 10 %).

Economic growth in 2002 was particularly feeble in the first six months of the year. From the third quarter onwards we observed a gradual economic revival (in the fourth quarter, the GDP grew by 2.1 year-on-year – CASE estimates). As there are no clear growth factors in the economy (including, a long-lasting drop in investment outlays), the projected increase in GDP in 2003 does not exceed 3 proc. (2.4 % – CASE forecasts).

Labor market

2002 saw further deterioration on the labor market, and only at the end of the year we saw a slight reversal of the negative tendencies. In 2002, employment was reduced by 3.8 % and the number of unemployed persons increased by 3.3 %. As a result, at the end of 2002, the unemployment rate rose to 18.1%. The gradual slowdown in the rise of the unemployment figure is partly due to institutional changes (the jobless are no longer required to register as unemployed in order to become entitled to health service if they have the right to health insurance from another title). The poor situation on the labor market is also reflected in the falling ratio of economically active population (share of active persons i.e., percentage of working persons or those looking for work in the population of 15-64 yrs.) – 55 % in the fourth quarter of 2002.

PLN rate and inflation

In 2002, the rate of the zloty against the US dollar generally stood at the same level as in 2001, however, it was on average 5 % depreciated against the euro (largely due to changes in the USD/EUR cross rate). At the end of 2002, due to a marked change in the USD/EUR rate, we saw a slight appreciation of the zloty against the US dollar and its further depreciation against the euro. At the end of 2002, (on average in December 2002.) the rate of the US dollar fell to 3.91 PLN/USD and the rate of the euro stood at 3.99 PLN/EUR.

Even though the currency basket fell approx. 3 %., average y-o-y inflation stood at 1.9 %. (0.8 % at the end of the year). This decrease was brought about by supply-related factors (fall in food prices as a result of a continuing overproduction of the main agricultural products and stable prices of oil) and demand-driven factors (sluggish growth in domestic demand). These factors offset a rise in the costs of residential utility, energy prices and most services.

Foreign trade and balance of payments

In 2002, foreign trade results in the balance of payments (expressed in USD) improved, even though this improvement to some extent resulted from the weakening of the US dollar against the euro. The balance of commodity payments was negative (PLN 10.3 billion), with exports increasing nearly by 9 % The surplus of non-classified current turnover amounted to USD 4.1 billion and was similar to the 2001 figure. As a result, the deficit on the current account totaled USD 6.7 billion and was lower than in the previous year, yet remaining on the safe level of 3.6% of GDP.

However, the structure of its financing deteriorated. The balance of direct foreign investments (USD 3.7 billion) represented slightly over 50% of the current account deficit. 2002 saw an increase in the amount of portfolio capital in Treasury bonds and bills. Over PLN 3.2 billion of currency deposits held by domestic banks were withdrawn from foreign banks. For comparison, in 2001, domestic capital placed on deposit abroad totaled PLN 3.5 billion. The level of NBP reserve assets at the end of 2002 amounted to USD 29.8 billion, which was equivalent to over 8 months' imports.

Public finances

In 2002, the budget deficit amounted to 98.5 % of the target figure (PLN 39.4 billion). The total state budget revenues were lower than planned due to weak domestic demand and a slow growth in the income of population, as well as the revision of collection prospects for certain items in the budget projections. As the financial situation of companies generally improved, the reported CIT revenues were higher than planned. The adjustment of expenditure to lower revenues was due to a fall in the profitability of the private sector, the strengthening of the US dollar against the zloty, a transfer of some expenditure to 2003 and slight cuts. The monetary statistics of the banking sector show that deficit was shifted from the central budget to other elements of the broad government sector – in 2002, we observed an increase of PLN 3 billion in the debt of the local government sector, social security funds and other entities in the government sector.

2. Polish economy in 2002 at the microeconomic level

Financial results of companies

In 2002, companies reported an improvement in their financial situation as compared to the previous year. Financial indicators generally improved as a result of a slower growth in costs than revenues. Revenues from product sales increased, which, given lower operating costs, contributed to the improvement in sales profitability from 2.6 % in 2001 to 3.3% in 2002. The financial net result of companies in 2002 continued to be negative and stood at the level of PLN -2 billion, as compared to PLN –2.6 billion in 2001.

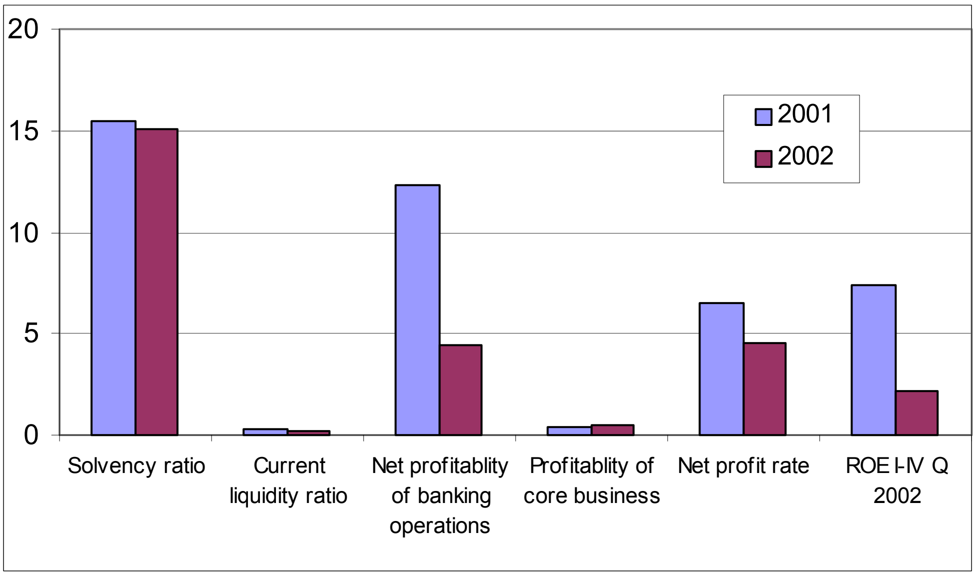
For the first time in six years we observed an increase in the number of companies who reported net profit. In 2002, 63.5 % of the total number of companies recorded profit, of which 64% in industrial processing, as compared to respectively 61.6 % and 59.6 % in 2001, and their share in revenues increased from 67.7% to 73.3 % (in industrial processing from 69.7% to 73.4%). Still the gross sales profitability ratio was very low (0.8%) and improved only slightly, while the net sales profitability ratio remained negative (-0.2%). In 2002, the six-year growth trend in the overall business costs index stabilized. However, for companies in general it remained on the very high 2001 level, i.e., of 99.3 %.

Financial results of banks

In 2002, the banks listed on the stock exchange (70% of the equity of all the banks in Poland) reported profits over twice lower than the previous year. This fall is attributable to the slowdown in the enterprise sector, weakening demand for loans and high credit risk, which involved creating additional provisions, and consequently, reduced bank profits. In 2002, bank provisions rose as much as 16 %.

Even though in 2002 the group of five banks which in 2001 reported losses increased only by one, their total losses grew almost ten-fold and amounted to PLN 777 million, however, the bulk of which (PLN 709 million) was reported by two banks (BRE and Kredyt Bank). The highest profit was recorded by Pekao S.A (however net profit fell by 38%) and BZ WBK (net profit grew by 84%). Among the main market players, the highest decrease in profits was reported by BPH PBK, where as yet we have not seen any synergies of the merger. Such positive effects, however, are visible in BZ WBK. Although twice smaller in size than BPH PBK, the bank had a twice better financial result.

Chart 1: Aggregate financial indicators of the banks listed on the Warsaw Stock Exchange (WGPW) in 2002 (in %).

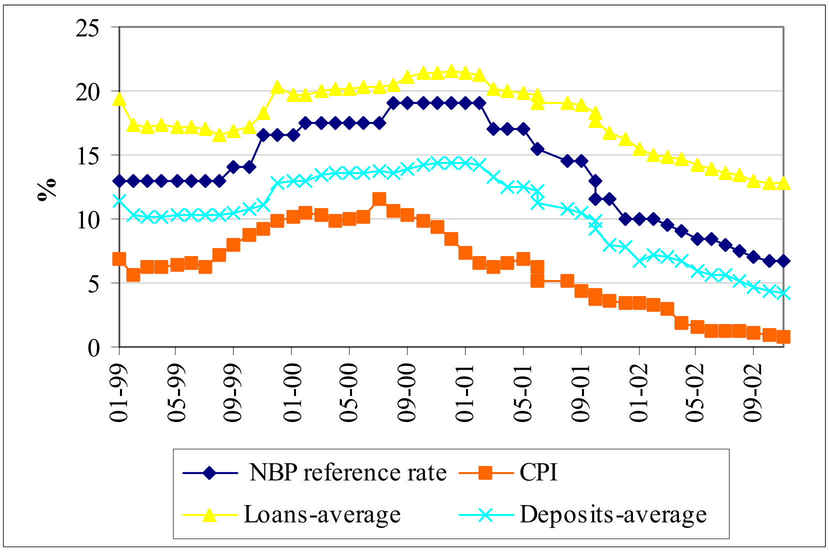


Source: Emitent, own estimates. Please note: aggregate financial indicators have been weighted by bank equity

3. Banking sector in 2002

The slowdown in the Polish economy and domestic demand had a considerable impact on the rapid decrease in the value of the inflation index and the Monetary Council's decisions to cut interest cuts. Inflation measured by the CPI fell from 3.6 % in 2001 to 0.8 %. (thus by 280 bp.) in December 2002, while the NBP reference interest rate was reduced from 11.5 % to 6.75 % (by 475 bp.). Consequently, the interest rate of money market instruments continued to fall – in the corresponding period the WIBOR 1M average fell from 12.1% to 6.9 %, average weighted yields on 52T bills decreased from 10.8 % in December 2001 to 5.8 %in December 2002. This downward trend contributed to bringing down deposit and loan interest rates offered by commercial banks. Average loan interest decreased from 16.8 % in December 2001, to 12.8 % in December 2002, and average interest on deposits fell from 8 % to 4.2 % in the corresponding period. Parallel cuts in interest rates on deposits and loans resulted in keeping the interest rate spread at the end of 2002 at the same level as in 2001 and amounted to 8.5 p.p. (as compared to 8.8 p.p.).

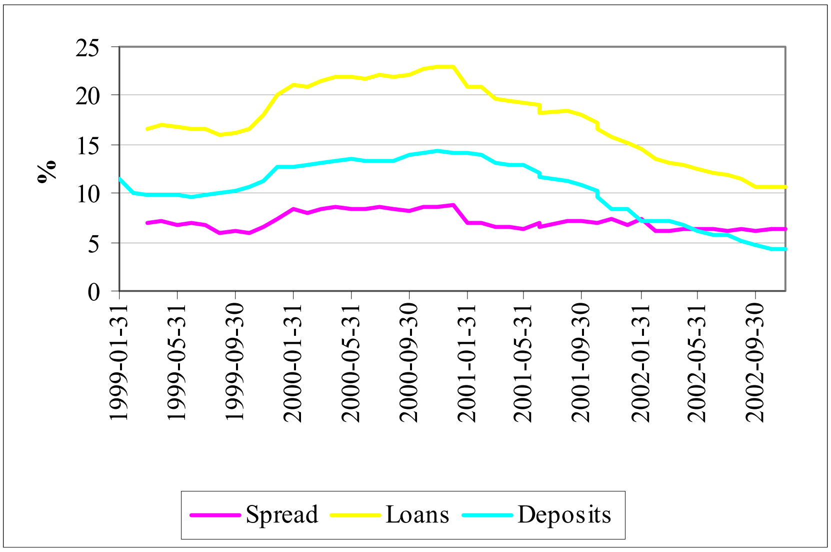
Fig 2: Interest rates in the banking sector and inflation, 1999-2002 (in %.)



Source: NBP

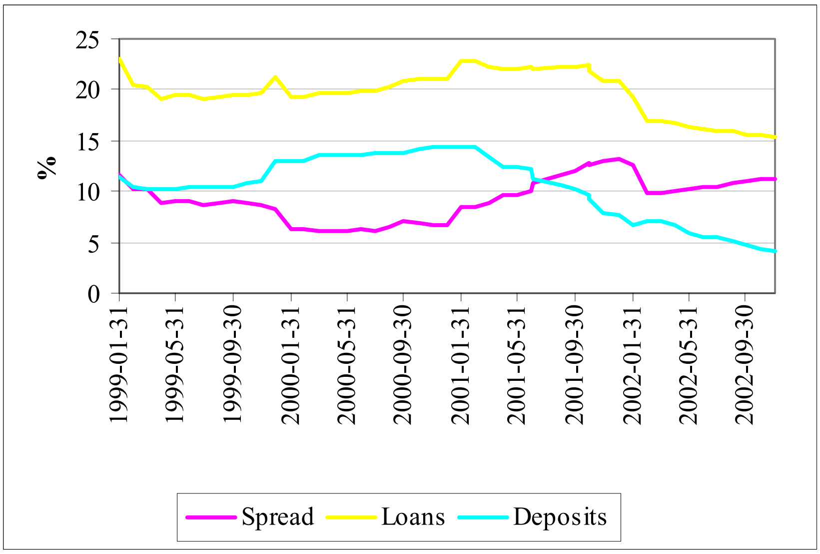
In 2002, the variety and diversity of trends in a breakdown of borrowers and depositors into economic and legal entities became even more apparent. The interest spread for economic entities is now twice lower than for households, while at the beginning of 2001, the two spreads were almost on the same level. The economic downturn and low demand for business loans prompted banks to boost their sales of loans to households at the start of 2002, which resulted in a faster decrease in loan interest rates and a fall in the spread to the level below 10% (by 300 b.p. as compared to 2001), whereas the spread for economic entities fell by around 100 b.p. This strategy did not bring the expected effects, as in 2002, household loans increased merely by PLN 7 billion (by 8.5 %), while the balance of deposits fell to PLN 7.8 billion (by 4 %.) and the amount at-risk receivables from households rose due to a slow reversal of the negative tendencies in the Polish economy as a whole and the labor market. Thus in the second half of 2002, the interest spread for households started to grow following interest cuts in deposits, but not loans. While the spread for economic entities stayed at the same level.

Fig 3: Economic entities, interest rates (1999-2002)



Source: NBP

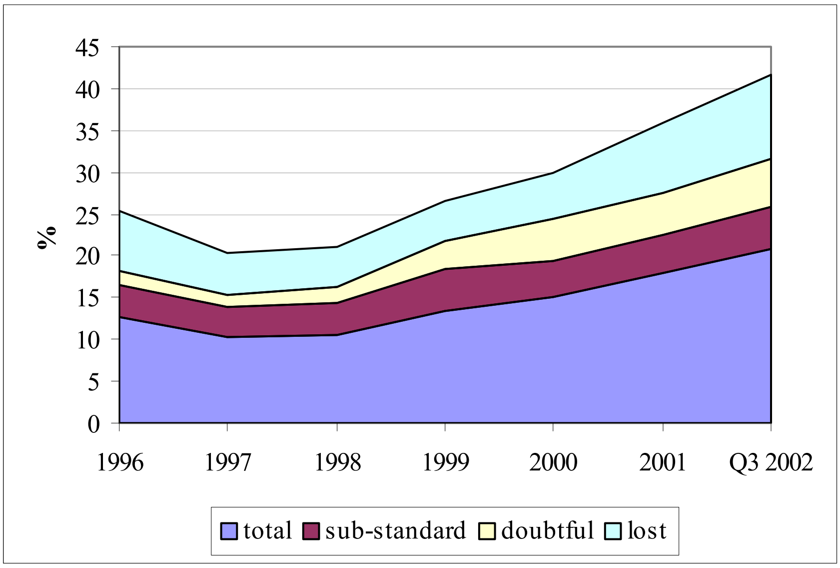
Fig 4: Households, interest rates (1999-2002)



Source: NBP

In the total receivables at-risk in the banking sector, we observed that the share of receivables from households increased from 15.8 % at the end of 2001 (and 16.1 % in the third quarter of 2001) to 26.4% in the third quarter of 2002, while the percentage of receivables from companies decreased from 83.2 % at the end of 2001 (83.3 in the third quarter of 2001) to 72.6 % in the third quarter of 2002. In percentage terms – at the end of the third quarter of 2002, at-risk receivables represented nearly 22% of the assets in the banking sector, of which 50% were lost receivables, which had an impact on the financial results of banks in 2002.

Fig. 5: Share of at-risk receivables in the gross receivables of the banking sector, 1996-2002



Source: GINB, NBP

The situation in the banking sector is still complex due to a number of adverse factors in Poland and abroad. As a result, the banking sector in Poland and abroad will continue to consolidate. During the first three quarters of 2002, the number of banks conducting operations fell from 69 to 61, following the merger of Powszechny Bank Kredytow SA with Bank Przemysłowo-Handlowy SA and 6 banks associating co-operative banks in Bank Polskiej Spółdzielczości SA and Gospodarczy Bank Wielkopolski SA with Pomorsko-Kujawski Banki Regionalny SA. Whereas Dolnośląski Bank Regionalny SA was taken over by Bank Polskiej Spółdzielczości SA. In four banks with a rapidly deteriorating financial situation (Bank Społem SA, Bank Wschodni SA, Wschodni Bank Cukrownictwa SA and Bank Przemysłowym SA in Lodz), the Banking Supervision Commission (KNB) appointed a trustee to oversee the management of such banks and prepare them for restructuring. However, the number of co-operative banks – as a result of mergers – decreased by 36 to 606 at the end of the third quarter in 2002 (from 642 at the end of 2001).

Consolidation processes driven by domestic factors will have an impact in the sector of co-operative banks, whereas corporate alliances among commercial banks will result from the consolidation of financial institutions which are strategic investors in Polish banks, and technology advancement, including e-banking. Most large retails banks and an increasing number of smaller banks already offer Internet access to accounts (including co-operative) and three banks (BRE BANK SA i PKO Bank Polski SA and VOLKSWAGEN BANK POLSKA SA) maintain “virtual” accounts (mBank, Inteligo i Volkswagen Bank Direct). Virtual banks (in particular BRE BANK SA) and other banks constantly diversify their offering by introducing more non-banking products. Given interest rate cuts and growing competition on the financial markets, such an approach will indicate the direction of development of the Polish banking sector, similarly to the latest trends observed worldwide.

II. SHAREHOLDERS, CAPITAL AND FUNDS

A. Share capital

As of January 1, 2002 the 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 2002 no changes as regards the share capital occurred.

B. Changes in the ownership structure in 2002

In 2002 no changes occurred in the shareholder structure.

As of December 31, 2002 the following entities held over 5% of Fortis Bank Polska SA shares:

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

**As of June 28, 2001 i.e. after share capital increase as a result of Series J shares issue, Fortis Bank S.A. in Brussels holds 99.10% of the Bank's shares, however, under Art. 26 of the Banking Law Act of 29.08.1997 (Dz. U /Official Journal/ No. 140, Item. 939 as amended) and according to Resolution No. 159/KNB/99 of the Banking Supervision Commission dated 16.08.1999 regarding the permission to acquire the Bank's shares by Fortis Bank S.A. – Fortis Bank S.A. may exercise not more than 75% of the total voting rights at the General Shareholders Meeting.*

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

Equity of Fortis Bank Polska SA increased from PLN 490,267 thousand as of December 31, 2001 to PLN 519,652 thousand (including retained earnings of previous years in the amount of PLN 7,805,000) as of December 31, 2002 and was more than sufficient to cover the solvency requirements imposed on the Bank.

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 521 thousand at the end of 2002.

In accordance with regulatory requirements concerning capital adequacy, the Bank deducted PLN 6,572 thousand from equity with regard to its net capital exposure in shares of Fortis Securities Polska SA and PLN 4,338 thousand representing 30% of net intangible fixed assets at the end of 2002.

The equity structure as of December 31, 2002 was as follows compared to December 31, 2001:

Category	Dec. 31, 2002 PLN thousand	Dec. 31, 2001 PLN thousand
Share capital	30,155	30,155
Additional capital	352,244	352,220
Reserve capital	17,018	17,018
General risk fund	79,044	79,044
Revaluation reserve fund	521	545
Retained earnings	7,805	(2,716)
Capital exposure relating to FSP	(6,572)	(10,196)
30% of net intangible assets – 2002	(4,338)	-
10% of net intangible assets – 2001	-	(2,198)
Total equity for the purpose of calculating the capital adequacy ratio	475,877	463,872

III. FINANCIAL RESULTS

A. Profit and loss account

1. Income relating to the banking activity

In 2002 total revenue amounted to PLN 450,402 thousand. Interest income in the amount of PLN 304,506 thousand remained the principal component and consists mainly of the following items:

- interest on loans: PLN 191,005 thousand
- interest on inter-bank placements: PLN 67,734 thousand
- interest on securities: PLN 45,765 thousand

The Bank recorded an increase in fees and commissions income to PLN 71,895 thousand in 2002.

In 2002, the FX result reached PLN 52,620 thousand, which accounted for 12% of total revenue.

2. Financial costs relating to the banking activity

Interest expenses reached PLN 174,041 thousand and were lower by 44% in comparison to 2001. This amount includes the following items:

- interest on customer deposits: PLN 144,075 thousand
- interest on inter-bank deposits: PLN 8,346 thousand
- interest on credits and loans: PLN 21,602 thousand.

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

In 2002, commissions and fees paid amounted to PLN 10,984 thousand representing a mere 6% of financial expenses.

3. Other income and expenses

Other revenue includes mainly:

- income from fines, financial penalties and compensations: PLN 1,232 thousand,
- income from sale or liquidation of fixed assets and assets for sale: PLN 425 thousand,
- income on account of lease agreements: PLN 1,132 thousand,
- income from other services: PLN 2,076 thousand.

Other operating expenses include:

- expenses relating to the sale or liquidation of fixed assets and assets for sale: PLN 496 thousand,
- expenses relating to the enforcement of receivables: PLN 827 thousand,
- expenses relating to recovered receivables that were past due and written-off: PLN 462 thousand,
- expenses relating to incorrect reimbursement of deposits: PLN 790 thousand,
- donations: PLN 39 thousand,
- other expenses: PLN 2,902 thousand.

Operating expenses reached PLN 140,766 thousand in 2002 and were lower by 3% compared to 2001. The decrease resulted from the Zefir project, which aimed at improving efficiency and effectiveness of the Bank's processes.

Depreciation of fixed and intangible assets amounted to PLN 27,772 thousand in 2002 and was higher than in 2001 by 7%.

In 2002, the additional provisions were created in the amount of PLN 111,218 thousand, while provisions in the amount of PLN 59,351 thousand could be released. As a result the balance of the provisions increased by PLN 51,867 thousand. Provisions for non-performing loans in the amount of PLN 51,363 thousand were the key component. The balance of created and released provisions for non-performing loans amounted to PLN 51,363 thousand.

4. Profit

In 2002, the Bank generated a pre-tax profit of PLN 41,134 thousand. The corporate income tax liability amounted to PLN 10,135 thousand.

In 2002, the Bank's net profit amounted to PLN 31,375 thousand and was higher by PLN 20,854 thousand than in 2001.

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

Profit and loss statement (in thousands)	Dec. 31, 2002	Dec. 31, 2001	Change 2002- 2001
Net interest income	130,465	124,704	5%
Net fee and commission income	60,911	57,333	6%
Net income on FX transactions	52,620	49,992	5%
Net income on banking activities	265,377	252,061	5%
Net operating income	45,134	15,763	186%
Gross profit	45,134	15,763	186%
Income tax	10,135	5,242	93%
Net profit	31,375	10,521	198%

B. Balance sheet

1. Total assets

Total assets as of December 31, 2002 amounted to PLN 3,745 million, which represents a decrease by PLN 349 million, i.e. by 8% versus 2001.

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

Balance-sheet item	Dec. 31, 2002	Share in total assets	Dec. 31, 2001	Share in total assets	Change 2002-2001
Cash and Central Bank balances	248,987	7%	407,644	10%	(39%)
Due from financial institutions	496,338	13%	992,170	24%	(50)%
Due from customers and the public sector	2,173,504	58%	2,113,741	52%	3%
Due to financial institutions	759,946	20%	912,238	22%	(17)%
Due to customers and the public sector	2,307,202	62%	2,505,105	61%	(8)%
Equity (including net profit)	519,652	14%	490,267	12%	6%
Retained earnings	7,805	0.21%	(2,716)	-	(387)%
Share capital	30,155	1%	30,155	1%	-
Total assets	3,745,163		4,094,225		(9)%

2. Assets

Loans constituted the principal component of the Bank's assets (net, after deduction of non-performing loans provisions) and accounted for 58% of total assets as of December 31, 2002 as compared to 52% at the end of December 31, 2001. The net loan portfolio rose by PLN 59,763 thousand and reached PLN 2,173,504 thousand (a 3% increase versus 2001). Provisions for non-performing loans amounted to PLN 147,809 thousand. The share of non-performing loans (excluding the "watch-list" category) stood at approximately 16%.

The share of debt securities in total assets increased from 7% in 2001 to 18% in 2002, reaching PLN 679,744 thousand as of December 31, 2002.

At the end of 2002, the securities portfolio consisted of securities issued by the Polish State Treasury and the NBP. The composition of the portfolio was as follows:

- Treasury bills issued by the Ministry of Finance: PLN 322,905 thousand,
- State Treasury bonds: PLN 57,398 thousand,
- NBP bills: PLN 255,644 thousand,
- NBP bonds to secure the mandatory reserve: PLN 43,797 thousand.

The share of cash and central bank account balances in total assets decreased from 10% in 2001 to 7% as of December 31, 2002.

Receivables relating to financial sector, including placements with other banks, accounted for 13% of total assets as of December 31, 2002, which was lower than at the end of 2001 when they made up 24% of total assets. Included are:

- PLN deposits: PLN 392,757 thousand
- foreign currency deposits: PLN 103,606 thousand

In comparison to 2001, the value of fixed assets decreased by PLN 8 million. The fixed assets primarily include:

- computer hardware: PLN 11,584 thousand,
- leasehold improvements (on rented office space): PLN 34,988 thousand.

Intangible fixed assets at the end of 2002 amounted to PLN 14,459 thousand and include computer software.

Other assets accounted for 0.4% of total assets. It consists mainly of tax settlements in the amount of PLN 6,232 thousand.

3. Liabilities

Current accounts and term deposits from customers are the main liability. At the end of 2002 they reached PLN 2,307,202 thousand, which represented 62% of total liabilities, as compared to 61% at the end of 2001. The major part of these deposits is in denominated in zlotys and amounted to PLN 1,856,747 thousand, representing 80% of all customer deposits. Foreign currency deposits reached PLN 450,455 thousand at the end of December 2002.

In 2002, the share of deposits financial sector slightly decreased. As of December 31, 2002, it accounted for 20% of total liabilities, compared to 22% the year before.

Special funds and other liabilities accounted for 1.7% of total liabilities at the end of 2002. The main item concerns inter-bank settlements in the amount of PLN 48,844 thousand.

The provision relating to Contingent liabilities shown in the balance sheet amounted to PLN 2,843 thousand.

4. Off-balance sheet items

At the end of 2002, off-balance sheet items totaled PLN 3,452,529 thousand and decreased by PLN 1,317,446 thousand as compared to 2001. They consist of:

- Off-balance sheet items relating to commitments of the Bank:
  - items related to financing: PLN 769,491 thousand,
  - guarantees: PLN 121,614 thousand.
- Off-balance sheet items relating to commitments in favor of the Bank:
  - items related to financing: PLN 335,889 thousand
  - guarantees: PLN 123,579 thousand
- foreign currency exchange transactions concluded before year-end which did not yet mature on December 31, 2002: PLN 2,101,956 thousand.

C. Management of funds

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

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

The Bank also used the credit facilities from Fortis Bank (Nederland) N.V., in the amount of EUR 102 million for 7 years (1998-2004) and in the amount of EUR 50 million for 4 years (2001-2005).

The Bank also used a 5 years credit facility in the amount of EUR 10 million granted by the European Bank for Reconstruction and Development (EBRD). Following the Bank's successful co-operation with the EBRD, the Bank concluded a second credit agreement with this institution under which the EBRD granted to the Bank an additional credit facility in the amount of EUR 20 million for 5 years (starting from 2000) to be disbursed in two tranches earmarked for financing SME.

The Bank has financed its activity also from internal sources. In 2002, the Bank's Shareholders again agreed that no dividend had to be paid, enabling the Bank to increase its equity through retained earnings.

Data about the funding sources and usage, with a breakdown into the main geographical regions of the country, is shown in additional notes in Items 2.

2. Interest rate management

The interest rates used in the Bank for floating rate loans are based on either LIBOR or EURIBOR interest rates with respect to foreign currency loans and WIBOR for PLN loans. The Bank also uses rates based on NBP Lombard and rediscount rates for PLN loans, i.e. the which are changed each time when the NBP Monetary Policy Council decides to change the concerned official interest rates. The Bank also agrees to use fixed interest rates that are not changed over the duration of the loan agreement.

In 2002, following the NBP official interest rate cuts, the Bank decreased its interest rates on PLN deposits and loans. Also interest rates on EUR and USD deposits and loans were adjusted following market trends.

3. Risk management

In 2002, liquidity and market risks were kept at within the limits defined by the Board of Executives.

Risk supervision independent from the business activity is taken care of by the Risk Department, a unit directly reporting to the Vice-President - Chief Financial Officer. The Risk Department is responsible for monitoring of market, liquidity and operational risks and the management of the Bank's asset and liability structure. The Risk Department is manages the internal pricing system for interest bearing products and sets its parameters. Moreover, the Risk Department is represented in the ALCO Committee and supports the Board of Executives advising it on the risks relating to new products or activities and the necessary changes to the existing structure of the balance sheet. The Risk Department manages the Bank's investment portfolio on a day-to-day basis.

The ALCO Committee meets on a monthly basis and whenever specific circumstances require so and supports the Board of Executives in the effective management of the Bank's assets and liabilities by setting the main policy guidelines, managing the balance sheet structure, setting the Bank's minimum margins on particular products, approving assumptions of the internal transfer pricing system and issuing opinions on the introduction of new products that affect the structure of the balance sheet.

The Business Continuity Committee plans and coordinates actions undertaken in emergency situations to ensure business continuity.

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

Detailed information on the risk management policy and systems is presented in additional notes in Item 4.2.14.

4. Key financial indicators

The capital adequacy ratio slightly increased in 2002. This indicator represents the relationship between the Bank's equity and risk-weighted assets and off-balance sheet items in accordance with the rules defined by the Banking Supervision Commission.

The Bank's equity increased by 3% versus 2001, while risk-weighted assets and off-balance sheet items decreased by 6% in the corresponding period.

Capital adequacy ratio and its determinants

Indicator	Dec. 31, 2002	Dec. 31, 2001
Risk-weighted assets	2,108,029	2,135,181
Risk-weighted off-balance sheet items	158,308	269,645
Net equity	475,877	463,872
Capital adequacy ratio	20.70%	19.29%

Performance indicators

Indicator	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000
Return on assets (ROA)	0.8%	0.3%	0.7%
Return on equity (ROE)	6.5%	2.7%	9.9%
Net interest margin	3.27%	3.33%	4.27%
Profit per share	2.08	0.70	2.09
Book value per share	34.46	32.52	27.75

These indicators were calculated as follows:

Capital adequacy ratio	Net equity to off balance-sheet weighted assets and liabilities
Return on equity (ROE)	Net profit earned for the last 12 months to average annual balance of equity
Return on assets (ROA)	Net profit earned for the last 12 months to average annual balance of total assets
Net interest margin	Net interest income to assets' average balance
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

1. Credit policy

Credit activity is one of the main sources of income of the Bank.

The Bank offers the following types of loans:

a. loans for companies:

- overdraft facility

- working capital and investment loans (PLN and FC)
- discount loan
- factoring loan

b. loans within the Personal Banking Packages:
   - overdraft limit
   - fast loan
   - mortgage loans.

c. Straight Loan – a fixed advance addressed to corporate clients.

The Bank grants loans under a co-operation and loan agreement with the European Bank for Reconstruction and Development, earmarked for loans (working capital loans, investment loans) and overdraft facilities. The Bank offers two types of loans: "a micro loan" of up to an equivalent of EUR 30 thousand and a "small loan" amounting between EUR 30 thousand and EUR 125 thousand both granted for a period of 1 to 5 years

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

Because of the present macro-economic environment, the Bank adopted a prudent credit risk policy. The objective was to improve the quality of the portfolio by taking a more selective approach to new risks and by reacting more quickly to financial problems of existing clients.

In order to reduce credit risk, the Bank applies specific procedures for granting and monitoring loans. Credit decisions are made by the credit committees authorized to do so by the Bank's *Supervisory Board* and Board of Executives. The Central Credit Committee takes decisions with respect to granting credit facilities, loans, guarantees and other kinds of credits. Subject to the approval of the Board of Executives, the Central Credit Committee delegates some of its authority to five local credit committees and authorized managers. The decision-making authority of Credit Managers as regards loans classified as performing amounts up to PLN 0.5 million, while that of local credit committees up to PLN 1.5 million of total exposure towards a customer. Whereas for debtors classified into watch-list or non-performing categories in accordance with the provisions of the Banking Supervision Commission, the decision-making authority of a Credit Manager and a local credit committee is maximum PLN 0.2 million and PLN 0.5 million, respectively.

In the second half of 2002, the credit department was reorganized in order to increase it efficiency.

In order to improve efficiency of debt recovery and restructuring, the debt recovery was centralized: local debt collectors now report to the Director of the new Intensive Care and Recovery Department. The existing Credit Risk Group was transformed into the Credit Risk Department while its functions were expanded. The Credit Administration Groups were joined to make one Credit Administration Department. The Credit function supervises the Bank's credit activity with respect to credit risk analysis and monitoring, setting out credit standards and procedures, credit administration, credit documentation, and debt recovery.

In the first half of 2002, the Bank implemented a Credit Risk Management system, thanks to which it has become possible to register all credit lines in the Equation system and to measure and monitor them.

In the second half of 2002, a central Collateral Recording database was launched to register collateral relating to credits and to classify them by collateral type and value, and establishment, renewal and expiry dates.

The Bank has introduced a new credit application standard and a modified financial analysis program for assessing economic entities that use full accounting (CAPS).

The Credits have started a project aiming at creating a central database of financial data of credit customers as well as a set of tools for monitoring these customers.

Following measures taken by the Fortis group to conform to the New Basel Capital Accord requirements, the Bank extensively participates in works aiming at the implementation of internal rating methods to be used for determining the required regulatory capital.

2. Loan portfolio structure

In 2002 loan production targets were not reached due to the economic slowdown and the Bank's conservative lending policy. The total net portfolio is 16% lower than planned but 3% higher than at the end of 2001.

At the end of 2001, net outstanding loans amounted to PLN 2,114 million. At the end of 2002 it had increased to PLN 2,174 million. The PLN loan portfolio amounted to PLN 1,181 million as of the end 2002, 4% higher than at the end of 2001. The EUR loan portfolio amounted to PLN 778 million, a decrease of 6% compared to December 2001. USD loans increased by 2% up to PLN 359 million as of December 31, 2002.

The Bank financial exposure is concentrated mainly on services (30% of the loan portfolio), trade (18%) and production (16%) as of December 31, 2002. Exposure in other sectors is relatively low. As compared to December 31, 2001, the Bank increased its exposure in services.

Information regarding the Bank's exposure to specific industries is presented in the additional explanatory notes - Item 1.1

In terms of original maturity dates at the end of 2002, the structure of receivables from the non-financial sector was as follows: 19% constitute overdrafts (+1% in comparison to 2001), 1% maturing in 1 month, 4% maturing in 1-3 months (+2%), 24% maturing 3 months to 1 year (-6%), 27% maturing in 1 to 5 years (-2%) and 26% loans with a maturity date longer than 5 years (+6%).

As of December 31, 2002, 825 loans amounting to EUR 33.6 million were extended under the EBRD credit line, as compared to 315 loans amounting to EUR 14.5 million (after adjustment) at the end of 2001. The outstanding balance amounted to EUR 14.9 million, compared to EUR 9.4 million (after adjustment) as of December 31, 2001.

3. Non-performing loans

As of the end of December 31, 2002, the balance of non-performing loans amounted to PLN 354 million (without the watch-list category) and comprised 16% of the total loan portfolio, including PLN 76 million of sub-standard loans (i.e. 3.4% of the total portfolio), PLN 58 million - doubtful loans (i.e. 2.6% of the portfolio) and PLN 220 million are lost loans (i.e. 9.9% of the portfolio).

4. Enforcement titles

The total amount of the Bank's receivables that have not been recovered as of December 31, 2002 under all the 72 enforcement titles was PLN 41,446 thousand.

B. Guarantees and Letters of Credit

As of the end of 2002, the Bank had issued 658 guarantees, 377 of which in PLN. Commitments from issued guarantees amounted to PLN 104,750 thousand, PLN 58,891 thousand of which referring to guarantees issued in PLN. In Fortis Bank Polska SA, the same procedures apply to issuing bank guarantees and granting loans.

In 2002, the Bank did not issue any sureties or guarantees to any entity (or its subsidiaries) whose total amount represented at least 10% of its equity.

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

At the end of 2002, the Bank's off-balance-sheet commitments resulting from import letters of credit totaled PLN 44,057 thousand and from confirmed export letters of credit in the equivalent of PLN 7,931 thousand.

Item no. 9 of the additional explanatory notes also includes data regarding the currency structure of the letters of credit opened by the Bank.

C. Customer Deposits

At the end of 2002, the customer deposits totaled PLN 2.307 billion, a decrease by 8% compared to 2001, when the customer deposits amounted to PLN 2.505 billion. Customers may place deposits in foreign currencies; however, the major part of the deposits is denominated in PLN (80%).

Deposit gathering is done through the branches, the Treasury Department, the Business Centers and the e-banking systems.

The Bank offers current and auxiliary accounts, FC accounts, PLN or FC accounts for non-residents, Silver, Gold, and Platinum accounts, Stock Investor accounts, deposits with negotiable interest rates (depending on the amount and term of deposit and the situation on the interbank market), as well as different types of fixed and variable interest term deposits in PLN and foreign currency.

The Bank deals in overnight, tomorrow/next, spot/next, and a term deposits with institutional customers on the inter-bank market.

With respect to personal banking, the Bank offers three tailor-made packages of services - Silver, Gold and Platinum - which enable effective and safe management of funds deposited on savings and checking accounts opened with the Bank. The packages contain also deposit and loan products, payment cards as well as stock-exchange investment services and e-banking. These services and products are designed for individuals with a higher-than-average income. The Bank is also offering VISA Electron cards and Planet, an e-Package based on home banking.

D. Custody services

The Bank offers a comprehensive service with respect to securities accounts on which publicly traded stocks, treasury bills and bonds are recorded. The custody services are offered under the Decision issued by the Securities and Exchange Commission dated July 14, 2000 (KPWiG-4042-2/2000) by a separately organized Custody Services Group.

The Bank provides also services for investment funds, involving, among others, determining the value of the funds' net assets, pricing participation units and checking whether the funds operate in line with the relevant laws.

In 2002, the Bank acted as a Depository for term investment funds established and managed by PDM Towarzystwo Funduszy Inwestycyjnych S.A. The Bank, as the Depository, was also the funds' liquidator.

E. Money market operations

The Bank invests excess liquidity in the money market. The Bank is active both on the primary and secondary market for Treasury bills and on the secondary market for T-bonds.

The Treasury Department is responsible for maintaining the required levels of liquidity, for managing the foreign currency position and ensuring a balanced structure of foreign currency assets and liabilities. Furthermore, the Department manages the investment portfolio and co-ordinates the Bank's policy with respect to cash operations in foreign currencies and Polish zloty. The investment policy recommended by the Assets and Liability Committee (ALCO) results in the Bank being basically not affected by market volatility. According to this policy investment can be made in debt securities issued by the Polish Central Bank and the Polish government only.

Income generated from foreign exchange transactions makes up a substantial share in the Bank's profits. Customers are offered a full range of currency operations, including FX forward transactions. The dealing room also reviews and updates the table of FX rates and sets preferential rates for high-value transactions.

F. Clearing activity

With respect to domestic and foreign clearing services, the Bank offers its clients:

- foreign payments: service of import and export orders in convertible currencies,
- domestic transfers,
- currency exchange,
- forward transactions,
- securities accounts maintenance,
- documentary, import and export letters of credit,
- collection of checks drawn by other banks,
- collection of checks drawn on foreign banks,
- documentary collections.

The Bank is preparing for the introduction of IBAN (International Bank Account Number). Since February 2001, the Bank is able to service the so-called passive IBAN form, i.e. it registers and checks correctness of IBAN numbers on payment documents received from other banks. The new account standard implementation schedule at the Bank assumes that Client account numbers will be changed in the second quarter of 2003, which all Clients will be duly informed in writing.

Gradually clearing through the SYBIR system has been replaced by clearing through the ELIXIR system. The number of payments sent through the SYBIR system represent 0.02% of the total volume. By the end of 2003 this kind of payments will have disappeared completely.

The Bank effects also payments through the SORBNET system.

Since 1999, the Bank has been offering direct debit services.

The Bank offers clients a collective account for non-resident business entities, to facilitate settlements with Polish business partners. Any instructions of the account holder, including opening of an account, are effected with the assistance of a correspondent bank and using authenticated SWIFT messages. This allows non-residents to become a Fortis Bank Polska SA client without having to come to Poland.

On July 1, 2002, the Accounts Service Group started its activity mainly to centralize a number of administrative tasks performed so far by the Branches.

The Bank is in the final stage of expanding its range of services by Forward Rate Agreements (FRA) and Interest Rate Swaps (IRS). These instruments, which facilitate interest rate risk management, will be offered to business entities and dealt on the interbank market.

G. Co-operation with international financial organizations

In 2002, the Bank continued to co-operate with foreign and domestic banks with respect to foreign exchange (including banknotes) and MM transactions. The Bank holds foreign currency accounts in prominent banks in the main financial centers abroad, and a maintains PLN accounts for banks of the Fortis group, enabling the Bank to effectively handle payment orders of its customers as well as to carry out instructions received from abroad.

Since September 1995, the Bank is a participant of the SWIFT international inter-bank network, which enables efficient and fast execution of payment orders, facilitates contacts with foreign banks and enables the implementation of new products related to international transactions. The

Bank co-operates with a large number of foreign banks with respect to documentary transactions, which involves opening, advising and confirming of all types of letters of credit, making payments related to documentary collections and collection of checks in foreign currencies.

H. Development of banking services

In 2002, the Financial Markets, corresponding to the Global Markets Business Line operating in the Fortis group, was established. The objective is to increase activity on the inter-bank market and acquire new customers, including other banks. The Bank intends to increase trading in derivatives, such as currency options, swaps, forward rate agreements, and securities.

In 2002, the Bank launched the Platinum Package destined for the most affluent Polish customers. It combines traditional banking services with investment products offered by Fortis Securities Polska and is intended for persons having assets of at least PLN 500,000 with the Bank. The package includes accounts, deposits, investment services, loans, payment cards and financial consulting service. For this purpose Private Banking Advisors have been appointed. Fortis Bank Polska has approx 11,000 affluent individual customers, of which 1,000 are eligible for this service

In order to acquire a higher number of customers, the Bank signed an agreement with Allianz Polska Services Sp z o.o. regarding agency services in selling the Bank's products.

In 2002, the Bank's by-laws were amended, as a result of which the scope of the Bank's core business was extended to personal insurance services, including life insurance.

I. Technology enhancements

The major IT project successfully completed in 2002 was the establishment of the Call Center which is now fully operational, allowing customers to instantaneously access any information about their accounts and transactions calling one telephone number from any place in Poland. The existing Infoline and automatic telephone service (Bankofon) were integrated in the Call Center.

In 2002, the Bank also significantly enhanced the Pl@net system. The changes considerably improve the system's efficiency, performance and functionality.

J. Important Agreements

1. Commercial Cooperation Agreement with Fortis Bank

Fortis Bank Polska SA and Fortis Bank S.A./N.V. in Brussels, undertook mutually to cooperate and to promote their operations and institutional development through the establishment and activities of the European Desk (currently the International Desk of Fortis Bank Polska).

The agreement provides that the parties undertake to cooperate on an exclusive basis. Both parties obliged themselves to refrain from entering into any agreements with any other institutions whose purposes or effects would be similar to the ones contained in the agreement.

2. Cooperation Agreement with Fortis Lease Polska Sp. z o.o.

Under the agreement dated January 2, 2002 and the Annex signed February 28, 2002, the Bank provides information to its clients about services offered by Fortis Lease Polska. Each time a client introduced by the Bank signs a lease agreement, 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 it granted to the Bank a credit facility of up to EUR 10 million for five years to finance small and medium size enterprises (SME Finance Facility).

As a result of the Bank's successful cooperation with the EBRD, on the Bank concluded another loan agreement with EBRD on December 21, 2001, under which the latter grants to the Bank an additional credit facility of EUR 20 million for 5 years (counting from 2000) to be disbursed in two tranches, earmarked for financing SME sector.

4. Agreements with the National Bank of Poland

a. **Agreement on maintaining bank account concluded with the NBP Payment System Department on June 23, 2000**. The agreement with the NBP Payment System Department regards maintaining a bank account in the SORBNET system. On December 19, 2002, Annex no. 8 to the agreement was signed.

b. **Agreement concluded with the NBP on December 27, 2001**. According to this agreement the Bank has opened a PLN term deposit account with the NBP Head Office Capital Operations Department. The Bank may keep funds on this account until the following business day.

c. **Agreement concluded with the NBP on September 20, 2002**. According to this agreement the Bank has opened an account and depository account for Treasury bills in the Central Register of Treasury Bills with the NBP.

d. **Agreement concluded with the NBP on January 2, 2002**. Due to the introduction of new ways of refinancing banks by NBP in the course of a business day, the Bank concluded an agreement with the NBP regarding a technical loan to be granted and secured through ownership right transfer of T-bills.

e. **Agreement concluded with the NBP on February 19, 2002**. The Agreement regards the exchange of NBP bonds held by the Bank, into a new issue of variable interest rate 10-year bonds, which took place on February 28, 2002.

5. Agreement concluded with the National Clearing Chamber (KIR) on February 15, 1999

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

6. Agreement concluded with Państwowy Fundusz Rehabilitacji Osób Niepełnosprawnych - PFRON (State Fund for the Rehabilitation of the Disabled) on February 4, 2002

The agreement superseded the previous one dated May 21, 1999. The agreement defines terms and conditions under which PFRON shall partly finance interest on loans granted by the Bank to the institutions of special status where persons disabled are employed, under the provisions of Art. 32 item 1 of The Disabled Professional and Social Rehabilitation and Employment Act dated August 27, 1997. On December 13, 2002, Annex no. 10 thereto was signed.

7. Agreement concluded with VISA International Service Association regarding issuance, service and settlement of VISA Classic and VISA Business payment cards

In 2000, the Bank concluded with VISA International Service Association the Annex to the License Agreement dated October 15, 1997 regarding issuance, functioning and settlement of VISA Classic and VISA Business payment cards. As of January 1, 2001 the Bank achieved the status of a Principal and Plus Member. Before the Bank performed its task in the VISA system only through Bank Śląski (BSK).

8. Agreement concluded with VISA International Service Association regarding the establishment of VISA Polska domestic organization, dated November 9, 2000

The member banks of Visa International operating in Poland have set up a domestic organization VISA POLSKA in order to standardize rules regarding the issuance of Visa cards and service of commercial outlets servicing VISA cards in Poland.

9. Insurance Agreements concluded with CIGNA STU SA Insurance and Reinsurance Company

a. **Insurance Agreement concluded with CIGNA STU SA Insurance and Reinsurance Company on June 20, 2001**, with Annex dated May 20, 2002. Insurance of holders of VISA Gold Cards issued by the Bank within the Personal Insurance Package with respect to the reimbursement of medical treatment and assistance costs incurred during travels abroad.

b. **Insurance Agreement concluded with CIGNA STU SA Insurance and Reinsurance Company on January 10, 2002**, with Annex dated November 22, 2002. Insurance of the holders of VISA Classic and VISA Electron Cards issued by Fortis Bank Polska within the Personal Insurance Package with respect to the reimbursement of medical treatment and assistance costs incurred during travels abroad.

c. **Insurance Agreement concluded with CIGNA STU SA Insurance and Reinsurance Company on May 20, 2002**. The Agreement concerns insurance of the holders of VISA Business Gold, VISA Business and VISA Business Electron Cards issued by the Bank.

d. **Insurance Agreement concluded with CIGNA STU SA Insurance and Reinsurance Company on June 20, 2002** with Annex no. 2 dated November 22, 2002. The Agreement concerns insurance of the holders of VISA Classic and VISA Gold Cards issued by the Bank as regards the coverage of post-warranty repairs.

10. General Insurance Agreement concluded with the Europa SA insurance company dated June 21, 2001.

Following the launch of mortgage loans, the Bank concluded an agreement with the Europa SA insurance company in order to provide insurance coverage for mortgage, construction, construction and mortgage loans as well as mortgage loans for the purchase of a building lot granted to private individuals.

11. Agreement concluded with Allianz Polska Services Sp. z o.o. on May 9, 2002

In order to improve sales, the Bank signed an agreement with Allianz Polska Services Spółka z o.o. regarding agency services in the sale of products offered by the Bank - packages for individual clients and loans for housing purposes. Under the Agreement, Allianz Polska Financial Consultants, acting as agents, will offer potential clients comprehensive information and consulting on the Bank's services.

12. Co-operation agreement concluded with Bank Gospodarstwa Krajowego on April 23, 2001

This agreement concerns loans extended by the Bank and secured by sureties established by the funds of the National Loan Surety Fund (Krajowy Fundusz Poręczeń Kredytowych) established at Bank Gospodarstwa Krajowego under Act of May 8, 1997, on sureties and guarantees issued by the State Treasury and some legal entities. Such sureties may secure investment loans and loans earmarked for the purchase of manufacture and raw materials contracted by residents in PLN or a foreign currency.

13. Agreement on the performance of tasks of WSE Member – Issuer's Market Maker concluded with CA IB Securities SA on November 3, 2000.

With the implementation of a new WARSET system by the Warsaw Stock Exchange, the Bank concluded an agreement with CA IB Securities SA under which CA IB Securities SA will act as the WSE Member – Issuer's Market Maker with respect to the Bank's publicly traded common bearer shares.

14. Agreement concluded the SWIFT international interbank network on May 22, 1998

15. Significant loan agreements

As of December 31, 2002, the Bank's exposure towards 5 Bank customers exceeded 10% of the Bank's equity and totaled to PLN 308 million. The loan exposure concentration limit specified in the banking law has not been exceeded towards any customer.

V. ORGANIZATIONAL AND CAPITAL ASSOCIATIONS WITH OTHER ENTITIES

A. The description of shareholder holding over 5% of votes at the General Shareholders' Meeting

Fortis Bank S.A. in Brussels holds 99.10% shares of Fortis Bank Polska SA.

Fortis is an international financial services provider active in the fields of insurance, banking and investment. With a market capitalization of EUR 22 billion and around 69 thousand employees, Fortis ranks among the 20 largest financial institutions in Europe. At the end of December 2002, Fortis total assets amounted to EUR 486 billion (almost EUR 3 billion more than at the end of 2001).

In its key 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, London and Luxembourg and has a sponsored ADR program in the United States.

In 2002, Fortis reported a net profit of EUR 532 million as compared to EUR 2,598 million for 2001. The financial results were adversely affected by the exceptional slump in the equity markets which depressed the market value of equity investments to such an extent that they fell below acquisition cost. Despite a difficult economic situation, the net operating profit before realized capital gains and value adjustment of the equity portfolio rose by 3%, i.e. stable as far as the insurance business is concerned and 6% up for the banking business.

The net operating profit of the banking business, after realized capital gains but before value adjustment of the equity portfolio, rose by 7%. This was mainly due to a sharp decline in costs (-9%) and stringent risk management, owing to which the allocation to the provision for credit risks was 8% lower than in 2001. The banking business contributed approximately 60% of Fortis' total profit.

Fortis has maintained a strong net Core Capital level at EUR 17.6 billion, which is much higher than the legally required minimum.

Key figures (EUR million):

	2002	2001	change 2002/2001
Net operating profit (before realized capital gains), of which:	1,918	1,868	+3%

- Insurance business	1,047	1,047	-
- Banking business	1,059	1,001	+6%
Realized capital gains	299	399	-25%
Net operating profit before value adjustment of the equity portfolio	2,217	2,267	-2%
Value adjustment of the equity portfolio	(1,787)	-	
Net operating profit (after value adjustment of the equity portfolio)	430	2,267	-81%
Non-operating elements	102	331	-69%
Net profit	532	2,598	- 80%
ROE	4.3%		

Fortis is the second largest financial service provider in the Benelux. With respect to its total assets, Fortis ranks 17th among institutions that provide financial services in Europe, and in terms of various criteria (i.e. sales, revenues, assets and market value), Fortis is 38th in the world.

Fortis enjoys high rating issued by independent international rating agencies (Standard & Poor's: AA-; Moody's: Aa3, Fitch: AA-).

Fortis intends to gradually develop selected areas of activity so as to strengthen its position in Europe, both through the development of its own structures and mergers with other institutions.

B. Fortis Securities Polska S.A.

Fortis Securities Polska S.A. (FSP) – a subsidiary 100% owned by Fortis Bank Polska SA.

The company stopped rendering brokerage services as of June 29, 2002 under a contingent Sale Agreement concluded on May 20, 2002 between FSP and DB Securities SA regarding the sale of an organized part of the company, used so far to provide brokerage services. The transaction is consistent with the strategy of the Fortis group in Poland.

FSP will continue its activity as a brokerage house that supplements the Bank's product range by distributing Treasury bonds, participation units in investment funds and asset management products.

On August 12, 2002, the Extraordinary General Shareholders' Meeting of PDM Investment Fund Society SA (a subsidiary of FSP) decided to liquidate PDM TFI.

C. Transactions with associated entities

1. Loan Agreement with Fortis Bank in Brussels and Fortis Bank (Nederland) NV in Rotterdam

On November 12, 1999, the third Annex to this Agreement dated September 24, 1998 was signed in order to increase the credit line facility granted by Fortis Bank (Nederland) N.V. in Rotterdam up to DEM 200 million (EUR 102 million) for a period of seven years.

2. Loan Agreement with Fortis Bank Nederland NV, in Rotterdam

On September 24, 2001, the Bank concluded an agreement with Fortis Bank (Nederland) N.V. in Rotterdam, under which the Bank was granted a credit facility in the principal maximum amount of EUR 50 million for a period of 4 years.

3. Cooperation Agreement with Fortis Securities Polska SA

The agreement signed in October 13, 2000 aims at increasing the scope of the co-operation between the Bank and FSP:

- the Bank lets the necessary office space to FSP,
- the Bank agrees to sell the brokerage house products and services, including participation units in investment, pension funds, and foreign investment funds, through its branches.

On January 23, 2001 Annex No. 2 to the Cooperation Agreement with respect to issues related to the organization and operation of the outlets of FSP located at the Bank's branches was signed. These outlets (POK) operating in the branches sell participation units of investment funds and investment portfolios and render agency services for concluding investment account agreements.

4. Annex to the Cooperation Agreement with Fortis Securities Polska SA concluded with DB Securities SA

In connection with the contingent agreement signed between FSP and DB Securities SA regarding the sale of an organized part of the company, the Bank and DB Securities SA signed in June 26, 2002 an Annex to the Cooperation Agreement signed between the Bank and FSP in October 13, 2000, according to which both will co-operate in servicing of loans for the purchase of securities on the secondary market granted by the Bank to the brokerage house clients.

5. Loan Agreements with Fortis Securities Polska SA

In order to finance FSP's restructuring costs, the Bank granted to FSP a non-revolving working capital loan of PLN 800,000 for three months under an Agreement dated June 14, 2002.

On September 30, 2002, the Bank granted Fortis Securities Polska SA an overdraft facility of PLN 1 million until March 31, 2004 at market conditions. As of December 31, 2002, FSP utilized the credit in the amount of PLN 352,000, the balance of PLN 648,000 being reported as an off-balance liability.

The description of other transactions related to banking services rendered to affiliated entities is presented in the additional explanatory notes - Item 16.2.

VI. STOCK PERFORMANCE ON THE WSE

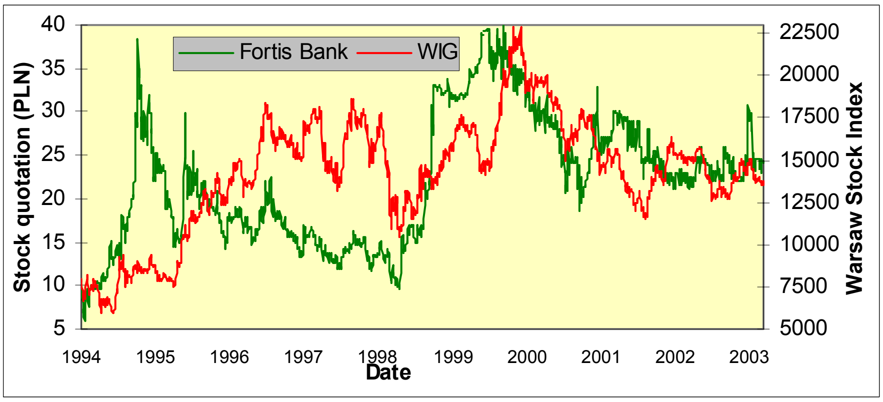
The Bank debuted on the primary market of the Warsaw Stock Exchange on November 7, 1994.

Since April 18, 2001, the Bank's shares are quoted in a two-fixing system. The Bank shares' name is abbreviated to FTS.

As a result of the acquisition of over 98% of the Bank's shares by Fortis Bank, the liquidity of the shares virtually disappeared in 2000, resulting in a gradual fall of the share price. At present all the other shareholders hold only 135,893 shares, i.e. 0.90% of the total number of the shares.

Average daily turnover of the shares in 2002 amounted to 81 shares per session.

At the first session in 2002, the share price amounted to PLN 22.20 and increased to PLN 29.90 as of December 31, 2002 whereas the WIG index grew from 13,995.24 to 14,366.65 points, and WIG-banks, a sector sub-index, also went up from 20,533.61 to 24,091.01.



Market indices for Fortis Bank Polska SA as of December 31, 2002 and December 31, 2001:

Ratio	Dec. 31, 2002	Dec. 31, 2001
EPS ratio	2.08	0.70
P/E ratio	14.37	32.86
BVPS ratio	34.46	32.52
P/BV ratio	0.87	0.71

The book value per share is PLN 34.46. To make the appropriate calculation, the share capital, reserve capital, revaluation reserve, other reserve capital and the net profit for the fiscal year were included in equity.

VII. STRATEGY AND DEVELOPMENT PLANS

Fortis Bank Polska's strategy is interwoven with the overall strategy of Fortis group.

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

The activities of Fortis group are built on business lines responsible for servicing a designated customer segment or a selected market and its present strategy assumes:

- to enhance Fortis leading position in Benelux countries offering a broad range of financial services through a variety of distribution channels,
- to expand on selected activities in other European countries (including Poland) through those business lines which service market segments with growth potential,
- to increase the contribution of operations in selected markets in Asia and the United States.

The Executive Committee of the Fortis group announced that considering the great uncertainty on the markets, it is unrealistic to give any guidance on the results for 2003. In line with this decision and in consideration of the present and future economic situation in Poland and its major trade partners, the Board of Executive has decided, for the time being, not to make any statements concerning the performance of the Bank in 2003 and following years.

In the coming years the Bank will continue to pursue it strategy aiming at growth of the customers portfolio and strict control of operating and capital costs and efficient use of capital.

The efficiency and productivity improvement project (the Zefir Project) was finalized in 2002. The positive impact on costs and process effectiveness exceeds initial expectations. The new Branch Operating Model was implemented, the Call Center opened, and the credit process streamlined. Improvements in the Operations Department include scanning of domestic payments (OCR), automation of processes and centralization of foreign exchange operations. Operational tasks in the past performed by the branches were centralized in the Accounts Serving Group.

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

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

The Business line ME focuses, through its business center concept, on servicing its customers, in a way that will bring added value to them and the Bank. The Business Line ME:

- is further developing the currently offered specialist services, such as cash management and leasing,
- and specializing in the financing of international trade and financial markets an area in which new products are being introduced in co-operation with the business line Financial Markets.

Through both brick and non-brick distribution channels, the business line IPS's objective is to increase its market share through:

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

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

Every year, it appears that potential customers of the Bank are more familiar with the Fortis brand. In 2002, the level of Fortis name recognition in the target segments increased by almost 100%. The research carried out by SMG/KRC Poland Media shows that while in 2001 Fortis Bank was mentioned by 7% of individual customers and 8% of corporate customers, these figures increased to 15% and 13% in 2002. So-called supported knowledge of the Fortis brand, turned out to be much better. In 2001, it reached 30% among individual customers and 49% corporate customers. In 2002 the Bank was recognized by as many as 52% of individual customers and 57% of corporate customers. In the same research, respondents highlighted exclusiveness and modernity as the main attributes of Fortis Bank, which was also described as an institution that has an individual approach to customers and offers high quality services.

VIII. ORGANIZATIONAL STRUCTURE

A. Bank's 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 or decision-making bodies:

- Assets and Liabilities Committee (ALCO)
- Credit Committee
- Problem Assets Committee
- Regional Credit Committees,
- Business Continuity Committee
- Security Committee.

The Credit Committee and the Problem Assets Committee operate in accordance with regulations approved by the Supervisory Board. The Credit Committee decides on granting credit lines exceeding PLN 1.5 million. The Problem Assets Committee (PAC) takes decisions concerning non-performing credits, provisions and issues relating to vindication.

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. In specific matters, in particular as far as liquidity and market risk management is concerned, the ALCO can take the necessary decisions. The scope, the organization and the tasks of the ALCO are defined in Regulations approved by Board of Executives.

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

In December 2002, the Security Committee was established to provide support to the Board of Executives in effective management of the Bank's security.

B. Business Lines and sales outlets

At of the end 2002, the Bank had 32 outlets in Poland.

The Bank's Head Office is in Warsaw at Postępu 15.

The Bank's organization is structured along business lines servicing different groups of customers. In particular:

- IPS (Individuals, Professionals and Small Enterprises) services clients through a network of branches and personal banking sub-branches,
- ME (Medium -sized Enterprises) operates through business centers,
- Global Markets operates through the Treasury Department.

The Global Markets business line which corresponds to a similar unit in the Fortis group, was set up in the second quarter of 2002 to increase the Bank's activity on the MM and FX markets and acquire new clients, including banks. The Global Markets BL provides support to the other two business lines by offering IPS and MEC customers financial market products.

In view of the need to simplify business line structure in accordance with Fortis standards, the Supervisory Board and the Board of Executives decided to modify the Bank's organizational structure by discontinuing the Regions effective January 2002. Consequently, the Board of

Executives removed the position of a Region Manager. Business Center Managers report now directly to the Vice-President of the Board of Executives - Head of the MEC Business Line, while Branch Managers report directly to the Vice-President of the Board of Executives - Head of the IPS Business Line.

As of the end of 2002, the Bank operated through the following units:

- 21 (twenty one) 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), and an Agency of Branch III in Kraków,)
- 6 (six) Personal Banking Sub-branches – two in Warsaw, one in Wrocław, Poznań, Katowice and Łodź, and a sub-branch of the Poznań Branch for Mass Transaction Processing (in cooperation with an external company), and
- 5 (five) ME Business Centers.

The organizational structure of Fortis Bank Polska SA, as of December 31, 2002, is shown in the chart enclosed to this Report.

IX. SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES

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

As of January 1, 2002, the Supervisory Board was composed of:

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

On June 27, 2002 the Annual General Meeting of Shareholders resolved to appoint Mr. Didier Giblet as a member of the Supervisory Board, Global Head of Forex and Money Markets in the Global Markets Business Line of Fortis.

As of October 1, 2002, Mr. Sjoerd van Keulen resigned as Chairman of the Supervisory Board.

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

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

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

Roland Saintrond	Member of the Supervisory Board
Didier Giblet	Member of the Supervisory Board

As of December 31, 2002, the composition of the Supervisory Board remained unchanged.

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

As of January 1, 2002, the Board of Executives was composed of the following members:

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

On December 20, 2001, the Supervisory Board decided to nominate Mr. Ronald Richardson, at that time Managing Director of Fortis Lease N.V. Belgium and also President of Executive Board of Fortis Lease Polska Sp. z o.o., as the new President of the Board of Executives, effective as from the date of acceptance by the Polish bank supervision authorities. In order to ensure a smooth transition period Mr. Richardson was appointed First Vice-President as of February 1, 2002.

As of December 31, 2002, the Board of Executives was composed of the following members:

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

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

The Supervisory Board at its meeting of January 16, 2003 appointed Mr. Koen Verhoeven as Vice-President of the Board of Executives and Head of Credits as of March 1, 2003. Mr. Koen Verhoeven will replace Mr. Gilles Polet, who after March 1, 2003 until July 31, 2003 will continue to be a member of the Board of Executives.

Effective March 1, 2003, the Board of Executives is composed of:

Ronald Richardson	President
Jean-Marie De Baerdemaeker	First Vice-President
Andre Van Brussel	Vice-President, CFO
Jean-Luc Deguel	Vice-President
Leszek Niemycki	Vice-President
Koen Verhoeven	Vice-President
Gilles Polet	Member of the Board

Having received a new appointment in Fortis, Brussels, Mr. Van Brussel submitted his resignation from the Board of Executives effective June 30, 2003. By the decision of the Supervisory Board from April 1, 2003 until the date of his resignation he will held the position of Member of the Board.

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

The total amount of salaries and bonuses paid to members of the Board of Executives in 2002 reached PLN 6,012 thousand, as compared to PLN 6,351 thousand in 2001, while total remuneration paid to members of the Supervisory Board in 2002 reached PLN 370 thousand as compared to PLN 342 thousand in 2001. The total amount of salaries and bonuses paid to holders of procuration in 2002 was PLN 2,990 thousand, whereas in 2001, the amount was PLN 3,972 thousand.

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

As of December 31, 2002, the outstanding balance of an overdraft facility granted to one member of the Supervisory Board amounted to PLN 25 thousand; two guarantees were issued for an indefinite period and amounted to USD 10 thousand and two VISA card limits were granted for an amount of PLN 42 thousand. To members of the Board of Executives one guarantee for one year with amounting to PLN 54 thousand and a VISA card limit of PLN 10 thousand existed. The interest rates and fees on these credits do not differ from market rates.

Information on loans, cash loans and guarantees granted to the Board of Executives and Supervisory Board members is presented in the additional explanatory notes -Item 26.

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

As of December 31, 2002 none of the members of the Board of Executives owned any shares issued by Fortis Bank Polska SA. Mr. Luc Delvaux, the Chairman of the Supervisory Board held 25 shares. Other members of the Supervisory Board did not hold any shares.

5. Employees

Actions initiated in June 2001 aiming at improving the efficiency and effectiveness of processes, further automation of processes and outsourcing have resulted in a decrease of the number of people employed from 946 FTE (full time equivalents) at the end of December 2001, down to 876 FTE at the end of 2002. This represents 911 employees of which 471 have a university degree.

Signatures of the Board of Executives members:

Ronald Richardson, President; Jean-Marie De Baerdemaeker, First Vice-President; Leszek Niemycki, Vice - President; Jean-Luc Deguel, Vice-President, Koen Verhoeven, Vice-President, Andre Van Brussel, Vice-President, Gilles Polet, Member of the Board.