

# 2010 Report of the Supervisory Board of Fortis Bank Polska SA



**BNP PARIBAS**  
**FORTIS**

| Bank zmieniającego się świata



## **Brief Assessment of Fortis Bank Polska Standing in 2010, including Evaluation of Internal Control System and Significant Risk Management**

Fortis Bank Polska SA (hereinafter the Bank) through the year 2010 targeted to re-ignite its commercial development after a year of commercial consolidation in 2009, increasing efficiency of the Bank's operations after the legal and operational merger with Dominet Bank in 2009, and also in progressing with the integration into the BNP Paribas Group, its new ultimate shareholder group since May 2009.

Right from early 2010, the economic situation in Poland gradually improved. The growth of Gross Domestic Product (GDP) rate amounted to 3.8% over the entire year, i.e. by 2.1. p.p. higher than in the previous year.

The economic growth was mainly driven by domestic demand which increased by 3.9% in 2010. In that given context, the performance of the Polish banking sector also slowly has improved.

The Supervisory Board is pleased to report that in 2010 Fortis Bank Polska SA has returned to profitability and earned a net profit of PLN 42.6 million, positively impacted a.o. by improved market conditions and by consistent risk management of the bank, resulting in a significant reduction of net write-downs for impairment.

Within the frame of the integration into the BNP Paribas Group, the Bank successfully completed the acquisition of the organized part of the bank enterprise from BNP Paribas SA Branch in Poland, including the selected assets and liabilities towards a group of Branch customers, which represented nearly 150 capital groups, i.e. approximately 350 customers.

In 2010, the Bank has started to implement a new business strategy *Kierunek*, supported by its stable capital base and liquidity position, with its main objective building a strong sizeable universal bank on the Polish market.

The highlights of the Bank's 2010 performance (non-consolidated approach) include:

- A total commercial staff of over 1000 FTE, in a network of 229 branches and 10 business centers, serve the customers of the bank. As at 31 December 2010, the total number of employees in the Bank amounted to 2,816, as compared to 2,664 as at 31 December 2009.
- The Bank's total assets reached PLN 18 556 million.
- Total gross loans to customers stood at PLN 14 387 million, the loan portfolio undergoing a re-shuffling towards a better sustained risk profile.
- Customer deposits reach PLN 8,211 million.
- Total net income in the amount of PLN 846 million.
- In 2010, the Bank's total costs stood at PLN 594 million, including integration costs, scope change due to the integration of Dominet Bank SA, although contained through to stringent control of operational cost control and positive one-offs.
- Improvement of the Bank's financial results derives mainly as the result of a significant reduction in net provisions for impaired loans down to PLN 193 million in 2010.
- In 2010 the Bank generated a net profit of PLN 42.6 million, as compared with a loss incurred in 2009.
- The capital adequacy ratio as at 31 December 2010, stood at 13.52%.
- The return-on-equity (ROE) and the return-on-assets (ROA) returned to the modest positive values, i.e. respectively ROE in the amount of 3.1% and ROA in the amount of 0.2% as at 31 December 2010.
- Book value per share stood at PLN 55.34 as at 31 December 2010



The Board appreciates the efforts in 2010 of the Bank's Board of Executives, under the leadership of Frederic Amoudru, President since July 2010, and of all its employees in realization of the many new projects in 2010 and the return to profitability.

*The Supervisory Board positively assesses the Bank's management system, including internal controls system and risk management system.*

In 2010, with approval of the Supervisory Board, a new structure of internal control has been introduced based on the BNP Paribas model and in line with Polish regulatory requirements. The internal control system in the Bank is composed of two categories of control

- permanent control (1<sup>st</sup> and 2<sup>nd</sup> level controls, including functional control and operational control) and
- institutional control (3<sup>rd</sup> level control, including internal audit).

The functional control and the permanent operational control are performed in line with the internal control rules binding at the Bank subject to the approval of the Board of Executive and the Supervisory Board.

The new Internal Control Coordination Committee (ICCC) was set up as an advisory body to support the Board of Executives in execution of the new internal control system.

The Audit Department's operation (3<sup>rd</sup> level control) is supervised directly by the President of the Bank Board of Executives. Pursuant to internal BNP Paribas Group audit regulations, i.e., the Audit Charter, the activities of the Audit Department are "embedded" in Inspection Generale organisation, i.e. the internal audit of the BNP Paribas Group, the ultimate shareholder group of the Bank. The Audit Department applies the audit methodology likewise the risk analysis methodology, reporting and planning used in the Group and in line with Polish regulatory requirements.

The Audit Department periodically notifies the Audit Committee of the Supervisory Board, and at appropriate intervals the Supervisory Board, of eventual weaknesses identified together with conclusions resulting from the internal audit assignments conducted likewise actions undertaken to remove these weaknesses or fulfill given recommendations.

### **General Meetings**

The Supervisory Board reviewed and presented their opinions on issues subject to resolutions of the General Meeting.

The Annual General Meeting of Fortis Bank Polska SA (AGM) was held on 29 April 2010. The AGM adopted all submitted resolutions in respect to fiscal year 2009. The AGM adopted also the relevant amendments to the Bank's Statute and approved new Rules of Procedure of the General Meeting, which reflected the changes in the amended Code of Commercial Companies and Partnerships, especially as regards organization of general meetings.

On 29 June 2010, an Extraordinary General Meeting took place, which approved of the changes in the Supervisory Board's composition, including appointment of three independent members of the Board. In addition, some minor amendments to the Bank's Statute were adopted.

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

In 2010, no change took place in the ownership and share capital structure.

As at 31 December 2010, the share capital of the Bank is PLN 1,206,175,300 and is divided into 24,123,506 ordinary bearer shares with a nominal value of PLN 50 each.

The shareholders' structure specifying the shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows as at 31 December 2010:



Shareholder	Number of shares held	% of the share capital	Number of votes at the GM	Share (%) in the total number of votes at the GM
<b>Fortis Bank SA/NV*</b>	18 848 593	78,13%	18 848 593	78,13%
<b>Dominet SA**</b>	5 243 532	21,74%	5 243 532	21,74%
<b>Others</b>	31 381	0,13%	31 381	0,13%
<b>Total:</b>	24 123 506	100,00%	24 123 506	100,00%

\* BNP Paribas SA is the parent entity (74.93% shares) of Fortis Bank SA/NV based in Brussels.

\*\*Fortis Bank SA/NV based in Brussels is the parent entity (100% shares) of Dominet S.A.

BNP Paribas SA holds, via Fortis Bank SA/NV, 24,092,125 shares that constitute 99.87% of share capital of Fortis Bank Polska SA that entitle to 24,092,125 votes, constituting 99.87% of the total number of votes at the General Meeting of Fortis Bank Polska SA.

Fortis Bank SA/NV based in Brussels holds directly 18,848,593 shares in the Bank representing a 78.13% stake in the share capital and giving the right to exercise 18,848,593 of total votes at the general meeting. Dominet SA (a subsidiary of Fortis Bank SA/NV) holds 5,243,532, i.e. 21.74% of the share capital.

### **Changes in the composition of the Supervisory Board**

As at 31 December 2010, the Supervisory Board composition was as follows:

Camille Fohl	Chairman
Jarosław Bauc	Deputy Chairman
Lars Machenil	Deputy Chairman
Monika Bednarek	Supervisory Board's member
Jean Deullin	Supervisory Board's member
Mark Selles	Supervisory Board's member
Andrzej Wojtyna	Supervisory Board's member

Mr Reginald De Gols, leaving the BNP Paribas Fortis Group for reasons of retirement, resigned from his function in the Bank's Supervisory Board from 1 April 2010.

On 29 April 2010, the General Meeting appointed the Supervisory Board for a five-year tenure ending with the Annual General Meeting approving of the Bank's financial statement for 2014 fiscal year. At that AGM,

- three new members of the Supervisory Board have been appointed: Mr Mark Selles, Mr Lars Machenil and Mr Jean-Marie Bellafiore,
- the tenure of Mr Antoni Potocki, Deputy Chairman of the Bank's Supervisory Board and Mr Zbigniew Dresler, Member of the Bank's Supervisory Board ended, both members serving with commitment and competence on the Bank board since 16 years.

On 30 June 2010, Mr Jean-Marie Bellafiore did resign from the board given new professional responsibilities within the BNP Paribas Group.

The Extraordinary General Meeting of the Bank's Shareholders, which took place on 29 June 2010, appointed to the Supervisory Board, effective 1 July 2010, the following new members: Ms Monika Bednarek, Mr Jarosław Bauc, Mr Andrzej Wojtyna, Mr Jean Deullin.

Ms Monika Bednarek, Mr Jarosław Bauc and Mr Andrzej Wojtyna were appointed as independent members fulfilling the independence criteria set out in the *European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board*.

On 30 August 2010, the Supervisory Board appointed Mr Jarosław Bauc as a Deputy Chairman of the Supervisory Board of Fortis Bank Polska SA.



Effective 30 September 2010, Mr Jos Clijsters resigned from his function of the Deputy Chairman and members in the Bank's Supervisory Board, a member of which he was since 1 July 2005.

On 5 November 2010, the Supervisory Board appointed Mr Lars Machenil as a Deputy Chairman of the Supervisory Board.

The new composition of the Remuneration Committee was established, composed of: Mr. Fohl, Mr. Machenil and Ms. Bednarek.

The Audit Committee was recomposed and today is chaired by Mr Lars Machenil, with Mr Bauc, Mr Selles and Mr Wojtyna being members.

### **Review of 2010 meeting**

The Supervisory Board held seven (7) meetings and adopted 48 resolutions..

Recurring issues discussed at the meetings included financial performance of the Bank and results by business lines, review of financial statements, the balance sheet key equilibriums, evolution of the loan portfolio of the bank, its risk management as well as adopted risk strategy, the human resources evolution, executive remuneration, strategic discussions on financial and business prospects of the Bank and issues and/or reports from the regulator, brought to the attention of the Board by the Audit Committee.

The Board was presented at regular intervals with business development reports of business lines Enterprise & Transaction banking, retail banking, personal finance and discussed the related business development strategies.

The Board was regularly briefed on developments in economic situation in Poland and the Bank's performance in comparison to competitive banks and the banking sector.

The Board discussed at several meetings the status of works over new *Mission, Vision and Strategy for Fortis Bank Polska SA* specified in the document *Kierunek*.

A Risk reporting dashboard for market indicators was developed and provided to the Board on monthly basis.

The SuB discussed and approved the transaction of purchase by Fortis Bank Polska of the organised part of the bank enterprise run by BNP Paribas Branch in Poland (the selected part of the corporate client portfolio);

The Board also took note of the review of the execution of the Rehabilitation Program for Fortis Bank Polska SA, as approved by KNF. The KNF did positively assess the Bank's actions undertaken in the first half of the year, which resulted in a significant improvement of the Bank's capital and liquidity position and issued recommendations for further improvement of the bank.

### **Audit Committee activities**

The principal responsibilities of the Audit Committee include the coordination of the external auditors' and internal auditors' activity in order to ensure the integrity of the Bank's financial statements and monitoring the quality of internal controls and material risk management systems. In order to fulfill its responsibilities of i) assessing the processes related to the company' risks and control environment, ii) overseeing financial reporting process and iii) evaluating the internal and external audit processes, the Audit Committee cooperates closely with the Audit Department and the Internal Control Coordination Committee. For purpose of risk management system monitoring, the Audit Committee cooperates with the Risk Area and the Compliance and Control Line (Conformite).

As from April 30, 2010 until appointment of new independent members of the Supervisory Board and an appointment of an independent Board member to the Audit Committee, on temporary basis, the whole Supervisory Board acted as the Audit Committee.



On 30 August 2010, the Bank's Supervisory Board appointed to the Audit Committee two independent members, who meet the independence criteria and the requirements of formal qualifications in accountancy in accordance with Article 86, item 4 of the Act dated 7 May 2009 on Statutory Auditors and Their Council .

As at 31 December 2010, the Audit Committee composition was as follows:

Lars Machenil	Chairman
Jarosław Bauc	Member of the Committee, independent
Mark Selles	Member of the Committee
Andrzej Wojtyna	Member of the Committee, independent

The Audit Committee recommendations and opinions are presented to the Supervisory Board by the Committee Chairman.

In 2010, the Bank Audit Committee held four (4) meetings at which the following issues were discussed:

- Audit Department activity, including reports on major audit assignments, organization of the Audit Department and the amendments to the Audit Charter in Fortis Bank Polska SA;
- Discussion over the audit of the financial statements for 2009 and review the financial statements for the 1st half of 2010 by the statutory auditor and the Management Letter of Audit for 2009;
- Review of the Bank's performance and financial standing before publication of the quarterly reports of Fortis Bank Polska SA Capital Group.
- Review of the responsiveness of management to the recommendations made in the external auditor's management letter.
- Information on the approval of Rehabilitation Program for Fortis Bank Polska SA by KNF and the reports on the Program execution;
- Cooperation with the regulators, in particular as regards the stress tests and the inspection conducted by KNF;
- Review of the issues related to the integration of Fortis Bank Polska SA into the BNP Paribas Group;
- Implementation of new audit methodology.
- Review of implementation of the recommendations issued by the Internal Audit;
- Approval of the changes in the Plan of audit assignments for 2010.
- Review of the Annual Report of Compliance Department for 2009 and the organizational changes within the Compliance and Control Line.
- Special attention was given to implementation of new Internal Control System including the project aimed to establish local definition and implementation of the operational permanent controls network according to BNP Paribas EM model (using Fundamental Monitoring Points – FMPs).
- Implementation of new regulations pertaining handling inside information/conflict of interest in the Bank and review of International Sanctions Policies, adjusted both to the requirements of the Polish law and to the solutions functioning in BNPP capital group.
- Review of the macroeconomic situation and risk management, in particular credit risk management, projects run by Risk area and update of risk strategies and policies.
- Reorganization of Risk committees aligned to BNPP standards and new credit delegation for Corporate/SME.



The key topics that were brought to the Supervisory Board attention included:

- Approval of Financial Statements for 2009 and the 1st half of 2010, based on the auditor's non-qualified opinions both on the separate and consolidated financial statements
- Recommendation on the selection of the statutory auditor for carrying out the audits in the next reporting periods;
- Changes of the credit policy for offering the derivative financial instruments;
- Harmonization of local financial reporting standards with group accounting for consolidation purposes.
- Necessary improvements of internal controls and risk management, including changes in the Internal Control Rules and Risk Strategy.

In its role to monitor the performance of the external audit process the Audit Committee:

- Issued a positive recommendation to the Supervisory Board on re-appointment of Mazars Audyt Sp. z o. o. as the Bank's external auditor who will continue with i) the audit of the consolidated financial statements of Fortis Bank Polska SA Capital Group and the Bank's separate financial statements for the years 2010 and 2011 and ii) the review of the consolidated semi-annual financial statements of Fortis Bank Polska SA Capital Group and the Bank's separate semi-annual financial statements for the 1st half of 2011.
- Has been overseeing the work performed by the external auditors and endorsed the external auditors' audit plan, In the process of review of financial statements the professionalism and quality of communication with the Bank's CFO and Accounting and Reporting Line was appreciated.
- Monitored adherence to the policy of the external auditors' independence and objectivity.

The Audit Committee fulfilled all its duties imposed in the current legal environment.

The Audit Committee finds the Bank's internal control system, and in particular the risk management system and the processes for monitoring compliance with laws as adequate to the identified risks, effective and highly developed. Compliance and Control, Risk and Audit are functioning on professional basis and reporting regularly to the Audit Committee.

Major topics for 2011 for the Bank are:

- Maintaining sound solvency and liquidity position of the Bank;
- Full implementation of the operational permanent controls system in line with BNP Paribas Group standards.
- Realization of running projects and implementation of audit recommendations improving risk management system, aiming at ensuring that the main risks are properly identified, managed and disclosed.
- Alignment of provisioning and IBNR due to changes in the methodology towards BNP Paribas standards.
- Overall increase of operational efficiency in line with the assumptions of the Budget 2011 and Rehabilitation Program, aimed at enhanced revenue generation while maintaining high internal controls and risk mitigating standards;
- Implementation of the new business strategy *Kierunek*;
- Monitoring of integration projects with BNP Paribas Group.
- Monitoring the execution of post- audit recommendations issued by Polish Financial Authority.





## **Prospects**

The prospects for development of Fortis Bank Polska SA Capital Group will be positively impacted by an improving macro-economic condition as well as the implementation of the BNP Paribas development strategy on the Polish market.

After the merger of Fortis Bank Polska SA and Dominet Bank SA in 2009, the integration into BNPParibas Group was designed and implemented along a "Industrial Integration Plan", covering the integration of various businesses of the BNP Paribas Group in Poland and aligning the Bank operational and business models to the BNP Paribas Group principles and methodology.

On the Polish territory, the "One organisation" concept was introduced with a view to strengthening the cooperation and synergy potential between numerous entities of the Group in Poland. In particular Fortis Bank Polska SA and BNP Paribas Branch in Poland, whilst preserving a separate legal status, will cooperate closely to offer a full range of services to enterprises in Poland, each one in its specific customer focus.

The Board of Executives and Supervisory Board of the Bank adopted a new "Mission, Vision and Strategy for the next 5 years", the ambition being to build a strong universal bank on the Polish market serving individual customers (inclusive of private banking), micro, small and medium enterprises as well as domestic and international corporate customers.

The development within the corporate segment will be strongly supported by the international position of the BNP Paribas Group serving as "One bank for corporate in Europe". Dedicated relationship managers work hand-in-hand with highly skilled product specialists (cash management, structured financing, forex, trade finance, leasing, factoring etc).

The Bank strives to reinforce its position on the retail banking market. The Bank positions itself as a preferred provider of daily account, financing, saving and investment solutions to its individual clients, its micro-enterprise and SME client base with a special focus on responsible lending, product innovation. Fairness and transparency are at the core of our relationship with our clients.

To achieve these ambitions, the Bank will increase the size, quality, tools and technologies of our distribution network, boost our brand recognition, conduct continuous customers acquisition with attractive promotional product campaigns and reinforce cross-selling thanks to a Group supported deployment of multichannel banking platform and CRM tools.

The Personal Finance Business Line was created in 2009 within the Bank as a specialized business unit in charge of the consumer finance portfolio of products (cash loans, car loans and credit cards for individual customers). For distribution, this business unit relies on the Retail Banking network and on direct relations with car dealers.

In 2010 the process of statute change of Fortis Private Investments, the Bank's subsidiary so far specialized in management of private individuals' assets within financial instrument portfolios, into an Investment Fund Company (Towarzystwo Funduszy Inwestycyjnych, TFI) was completed, enabling to enhance products and service to customers in this domain.

Sustainable and ambitious development in above mentioned segments within an appropriate risk control framework, improving the operational and financial performance of the Bank and its customer service are continuous management priorities of the Bank.

These priorities are reflected in the Rehabilitation Program prepared in accordance with Article 142 of the Banking Law Act and implemented with the consent of the Polish Financial Supervision Authority.

The Bank capital adequacy ratio stood at 13.52% as at 31 December 2010, significantly exceeding the minimum level of 8% required by the Banking Law Act.

The major challenge for 2011 is to progress with implementation of the new business strategy, continuing initiatives to reinforce the Bank's income generation potential.

The Rebranding Project towards BNP Paribas Bank Polska SA has been initiated in line with Kierunek plan, was duly registered by the National Court Register on 29 April 2011 and is commercially effective since beginning of May.





As already practised in 2010, the Supervisory Board and Board of Executives do not disclose the financial performance projections for 2011.

### **Annual accounts and Board of Executives' Reports**

The Supervisory Board reviewed the consolidated Board of Executives' Report on Fortis Bank Polska SA Capital Group's business activity in 2010 as well as the audited Annual Consolidated Financial Statements of Fortis Bank Polska SA Capital Group for 2010, comprising:

- 1). Consolidated balance sheet as at 31 December 2010 disclosing total assets and liabilities amounting to PLN **18 539 076** thousand;
- 2). Consolidated profit and loss account for the period from 1 January 2010 to 31 December 2010 disclosing a net profit amounting to PLN **41 574** thousand;
- 3). Consolidated statement of comprehensive income for the period from 1 January 2010 to 31 December 2010 disclosing a total income of PLN **43 459** thousand;
- 4). Capital adequacy ratio of **13.64%**;
- 5). Consolidated statement of changes in equity for the period from 1 January 2010 to 31 December 2010 disclosing a decrease in the consolidated equity by PLN **34 551** thousand;
- 6). Consolidated cash flow statement for the period from 1 January 2010 to 31 December 2010 disclosing an increase in cash balance by PLN **569 666** thousand;
- 7). Notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory notes.

The Supervisory Board reviewed the separate Board of Executives' Report on Fortis Bank Polska SA business activity in 2010 as well as the audited Annual Separate (Non-consolidated) Financial Statements of Fortis Bank Polska SA for 2010, comprising:

- 1). Separate balance sheet as at 31 December 2010 disclosing total assets and liabilities amounting to PLN **18 556 235** thousand;
- 2). Separate profit and loss account for the period from 1 January 2010 to 31 December 2010 disclosing a net profit amounting to PLN **42 656** thousand;
- 3). Separate statement of comprehensive income for the period from 1 January 2010 to 31 December 2010 disclosing a total income of PLN **44 277** thousand;
- 4). Capital adequacy ratio of **13.52%**;
- 5). Separate statement of changes in equity for the period from 1 January 2010 to 31 December 2010 disclosing a decrease in the separate equity by PLN **33 733** thousand;
- 6). Separate cash flow statement for the period from 1 January 2010 to 31 December 2010 disclosing an increase in cash balance by PLN **569 656** thousand;
- 7). Notes to the financial statements comprising a summary of significant accounting policies and other explanatory notes.

Based on the audit of the consolidated and non-consolidated financial statements as at the year-end (i.e. as at 31 December 2010), Mazars Audyt Sp. z o.o. issued unqualified opinions on these financial statements.

Having considered the Audit Committee's positive opinion, the Supervisory Board approves of the Board of Executives' Reports on Fortis Bank Polska SA and its Capital Group's business activity in 2010 and submits the Fortis Bank Polska and its Capital Group's Financial Statements for 2010 for the consideration of the Annual General Meeting to be held on 10 May 2011.



### ***Distribution of the net profit for 2010***

As a result of its activity in the 2010 fiscal year, the Bank generated the net profit in the amount of **PLN 42 655 723.97** (in words: forty two million six hundred fifty five thousand seven hundred twenty three and 97/100 Polish zlotys)

Having considered the Board of Executives' motion, the Supervisory Board recommends that the draft resolution should be submitted to the Annual General Meeting on the distribution of the 2010 profit in the following way:

- the portion of the profit in the amount of PLN 3 412 457.92 to be allocated for additional capital,
- the remaining portion of the profit in the amount of PLN 39 243 266.05 to be allocated to general risk fund.

Moreover, having considered the Board of Executives' motion, the Supervisory Board recommends that the draft resolution should be submitted to the Annual General Meeting concerning the settlement of the purchase of an organized part of banking enterprise from BNP Paribas SA Branch in Poland. The negative difference of PLN 78,009,195.80 (in words: seventy eight million nine thousand one hundred ninety five and 80/100 Polish zlotys), arising from the purchase of an organized part of an enterprise shall be covered from the reserve capital, after the preceding allocation of funds in the amount of PLN 79 million from the general risk fund to the reserve capital.

Materials for the Annual General Meeting comprise the audited Consolidated and Separate Financial statements, the Reports of Board of Executives on the Bank's and Capital Group activity in 2010 and this Report of the Supervisory Board.

*Warsaw, 10 May 2011*