

# The Board of Executives' Report on Fortis Bank Polska SA Capital Group's business activity for the first half of 2010



**BNP PARIBAS**  
**FORTIS**

| Bank zmieniającego się świata



# Table of Contents

1.	SUMMARY OF FORTIS BANK POLSKA SA CAPITAL GROUP ACTIVITY IN THE FIRST HALF OF 2010 .....	3
1.1.	<b>Introduction</b> .....	3
1.2.	<b>Key factors and events that most affected the Group's financial performance in the first half of 2010</b> .....	3
1.3.	<b>Other factors – cooperation with BNP Paribas SA Branch in Poland</b> .....	4
1.4.	<b>Fortis Bank Polska SA operating activity optimisation project</b> .....	5
1.5.	<b>Outside factors that influenced the operation and development of the Group in the first half of 2010</b> .....	5
2.	SHAREHOLDERS AND STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE .....	8
2.1.	<b>The shareholder structure</b> .....	8
2.2.	<b>Changes in the shareholder structure of the Fortis Bank Polska SA Capital Group</b> .....	8
2.3.	<b>Stock performance on the Warsaw Stock Exchange</b> .....	8
3.	BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING ACTIVITY IN THE FIRST HALF OF 2010 .....	10
3.1.	<b>Retail Banking</b> .....	10
3.2.	<b>Enterprise and Transaction Banking</b> .....	19
3.3.	<b>Other Banking Activity</b> .....	23
3.4.	<b>Average interest rate of deposits and loans</b> .....	24
3.5.	<b>Custody services</b> .....	25
3.6.	<b>Clearing activity</b> .....	25
4.	CORPORATE SOCIAL RESPONSIBILITY .....	27
5.	ANALYSIS OF PERFORMANCE OF FORTIS BANK CAPITAL GROUP IN THE FIRST HALF OF 2010 .....	29
5.1.	<b>Consolidated Income Statement</b> .....	29
5.2.	<b>Balance Sheet</b> .....	32
5.3.	<b>Contingent Liabilities - Off-balance Sheet Commitments</b> .....	37
5.4.	<b>Management of funds</b> .....	38
6.	DEVELOPMENT PROSPECTS FOR BANK BUSINESS ACTIVITY .....	40
7.	BASIC RISK TYPES AND RISK MANAGEMENT .....	43
7.1.	<b>Credit risk</b> .....	44
7.2.	<b>Counterparty risk</b> .....	45
7.3.	<b>Liquidity risk and market risk (interest rate risk, FX risk)</b> .....	45
7.4.	<b>Operational risk</b> .....	46
7.5.	<b>Compliance risk</b> .....	47
7.6.	<b>Security policy</b> .....	48
7.7.	<b>Business risk</b> .....	49
8.	Agreements significant for the Bank's activity .....	50
8.1.	<b>Agreements with BNP Paribas SA</b> .....	50
8.2.	<b>Agreements signed with BNP Paribas SA Branch in Poland</b> .....	50
8.3.	<b>Agreement with Fortis Finance Belgium SCRL/CVBA</b> .....	50
8.4.	<b>Closing of the securitisation transaction of Dominet Bank SA</b> .....	50
8.5.	<b>Cooperation Agreement with Fortis Lease Polska sp. z o.o.</b> .....	51
8.6.	<b>Annex to the credit line agreement with Fortis Lease Polska sp. z o.o.</b> .....	51
8.7.	<b>Annex to the Cooperation Agreement with Fortis Private Investments Polska SA</b> .....	51
8.8.	<b>Significant agreements with entities unrelated with the Fortis Bank Polska SA capital group</b> .....	51
8.9.	<b>Insurance agreements</b> .....	51
8.10.	<b>Agreements with the central bank and the regulators</b> .....	53
8.11.	<b>Agreement with auditor</b> .....	53
9.	AFFILIATED ENTITIES .....	54
9.1.	<b>Profile of the Shareholder with over 5% of votes at the General Shareholders Meeting</b> .....	54
9.2.	<b>Fortis Private Investments Polska SA (currently Towarzystwo Funduszy Inwestycyjnych Fortis Private Investments SA)</b> .....	55
9.3.	<b>Minority interest of the Bank</b> .....	55
10.	CORPORATE GOVERNANCE .....	56
11.	ORGANISATIONAL STRUCTURE .....	57
11.1.	<b>Bank authorities</b> .....	57
11.2.	<b>Business lines and sales outlets</b> .....	57
12.	SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES .....	59
12.1.	<b>Board of Executives of Fortis Bank Polska SA</b> .....	59
1.1.	<b>Supervisory Board of Fortis Bank Polska SA</b> .....	59
12.2.	<b>Rules of appointment and recalling members of the Board of Executives and the scope of their authority</b> .....	60
12.3.	<b>Information on shares of the Bank held by members of the Board of Executives and the Supervisory Board</b> .....	61
12.4.	<b>Staff</b> .....	61
13.	STATEMENTS OF THE BANK'S BOARD OF EXECUTIVES .....	62



# 1. SUMMARY OF FORTIS BANK POLSKA SA CAPITAL GROUP ACTIVITY IN THE FIRST HALF OF 2010

## 1.1. Introduction

The first half of 2010 witnessed an improvement of the general economic situation in Poland and stable rate of economic growth in both quarters. At the same time, the Capital Group of Fortis Bank Polska SA (hereinafter "the Group") started generating positive financial results. Still, the main factor that had a significant impact on the Bank's activity was the merger with Dominet Bank SA in 2009. The Group has also started developing its strategy on the Polish market under the BNP Paribas Fortis brand.

In 2010, Fortis Bank Polska SA (hereinafter "the Bank") started to implement its new business strategy by introducing a few attractive products and focusing on the credit offering for small and medium enterprises, and also by capitalising on benefits from the cross-selling offer addressed to the existing customers. Simultaneously, the Bank avoided competition in the area of deposit prices and maintained a selective approach to risk. The consistent risk management started to bring awaited results.

Thanks to the support of the BNP Paribas group, the Group maintains a strong capital and liquidity position.

The global integration of BNP Paribas Fortis provides the opportunity to strengthen the cooperation and synergy between numerous entities representing the Group in Poland, the Bank and BNP Paribas Branch in Poland in particular. In July 2010 the Bank concluded a purchase transaction of an organised part of the banking enterprise and commenced the process of transferring a group of the Branch's customers to the Bank.

## 1.2. Key factors and events that most affected the Group's financial performance in the first half of 2010

Fortis Bank Polska SA and Dominet Bank SA merged on 31 July 2009. Pursuant to the accounting standards adopted, after the merger Fortis Bank Polska SA does not present financial statements retrospectively, i.e. with relevant items of Dominet Bank SA included in comparative data. The Bank's results for the first half of 2009 do not include the result of Dominet Bank SA.

The lack of retrospective data presentation of the merged banks has influenced the amount of comparisons and the calculated indices.

The Group's total assets as at 30 June 2010 amounted to PLN 18,660,082 thousand and were lower than the total assets as at the end of December 2009 by PLN 1,634,401 thousand, i.e. 8%.

The Group's net income in the first half of 2010 stood at PLN 428,594 thousand, which represents a 160% growth compared to the first half of 2009.

The Group's net interest income grew up by 62%, while the net fee and commission income grew up by 31% as compared to the corresponding period of the previous year. In the first half of 2010, the Group observed a positive net trading income as compared to the last year's loss. At the same time, net impairment losses decreased by PLN 145,407 thousand.

Interest income in the first half of 2010 reached the level of PLN 453,927 thousand, i.e. increased by 9% if compared to PLN 415,243 thousand noted in the corresponding period of 2009.

For the first 6 months of 2010 interest expenses decreased by 31%, down to PLN 163,048 thousand in comparison to PLN 236,110 thousand recorded at the end of the first half of 2009.

ROE increased to 2.1% (compared to -39.8% as at the end of the first half of 2009). ROA stood at 0.2% (compared to -2.4% as at the end of the first half of 2009). Earnings per share equalled PLN 0.61.

The level of net loans to customers at the end of June 2010 was similar to the level from the end of the previous year and totalled PLN 13,814,460 thousand and accounted for 74% in the assets structure. Commercial loans constituted the major item in the structure of net loans to customers. Their share in the total gross loans to customers constituted 51% as at the end of June 2010, down from 53% recorded as at the end of December 2009. However, the value of commercial loans decreased by 3% as compared to the end of 2009, i.e. by PLN 229,872 thousand.

The decrease in volume of loans granted related mainly to institutional customers. Balance of working capital loans decreased by 8% as compared to the volume as at the end of December 2009, however investment loans (including loans for purchase/ construction of commercial real estate) went down by 2%.



As at the end of June 2010, the gross value of mortgage loans stood at PLN 4,982,329 thousand and was by 10% higher than as at the end of December 2009.

As at the end of June 2010, liabilities due to customers decreased to PLN 7,467,961 thousand in comparison to PLN 9,226,324 thousand noted at the end of December 2009. This significant decrease was mainly the result of the policy of not competing with high interest rate of deposits, which brought an outflow of funds of price-driven customers. Term deposits absolutely prevail in the structure of liabilities due to customers: PLN 5,248,661 thousand, representing 70% of all liabilities due to customers. Sight deposits reached PLN 2,061,985 thousand as at the end of June 2010. Liabilities due to banks decreased by 21%.

For the first half of 2010, the Group's personnel costs stood at PLN 118,370 thousand and were higher by 37% compared to the corresponding period of previous year, when they amounted to PLN 86,560 thousand. The cost increase resulted mainly from the hiring of new employees in connection with the integration with Dominet Bank SA. Moreover, depreciation costs increased by 88% also due to the integration with Dominet Bank SA.

The Group's other expenses reached PLN 137,800 thousand and were higher by 79% compared to the first half of 2009, when they stood at PLN 77,191 thousand. The main items of other expenses are rents (PLN 31,814 thousand), information systems and technologies (PLN 20,011 thousand), marketing and advertising (PLN 13,675 thousand), postal and telecommunication services (PLN 13,458 thousand).

In the first half of 2010, net impairment losses significantly decreased - to PLN 110 288 thousand, and were lower by PLN 145 407 thousand compared to the previous year. The decrease in net impairment losses is attributable to restructuring activities undertaken by the Bank and consistently performed cautious policy of granting new loans. 80% of net impairment losses in the first half of 2010 were attributable to customers of the Retail Banking Business Line.

The consolidated profit of the Group generated in the first half of 2010 results from the increase of income (not expenses) and was mainly influenced by higher net trading income and net interest income and net commission and fee income, while net impairment losses related to loans in the corresponding period of 2009 were lower.

The Group's gross profit generated in the first half of 2010 accounted for PLN 21,932 thousand as compared to the gross loss of PLN 275,828 thousand recorded in the first half of 2009. The Group's net profit amounted to PLN 14,787 thousand as compared to the net loss in the amount of PLN 231,938 thousand incurred in the corresponding period of the previous year.

### **1.3. Other factors – cooperation with BNP Paribas SA Branch in Poland**

On 30 March 2010, an agreement was signed between Fortis Bank Polska SA and BNP Paribas SA Branch in Poland. The purpose of the agreement was the acquisition by the Bank of the organised part of the bank enterprise of the Branch upon fulfillment of the terms and conditions specified in the agreement. On 26 May 2010, the Polish Financial Supervision Authority (KNF) granted its consent to this transaction.

The sale agreement regarding the organised part of the enterprise was concluded on 1 July 2010 between Fortis Bank Polska SA – as a purchaser, and BNP Paribas SA Branch in Poland – as a seller. A legal title to the organised part of the banking enterprise was transferred to Fortis Bank Polska SA on 3 July 2010. The Bank has purchased the organised part of the banking enterprise maintained by the Branch, including selected assets and liabilities towards a group of the Branch's customers – approximately 150 capital groups, i.e. 350 customers in total. The organised part of the enterprise includes such segments of the banking activity as: credit activity, cash management, trade finance, issuance of bank guarantees and rendering other typical banking services.

The final transaction price will be established within 120 days following the end of the second quarter of 2010.

Pursuant to the Banking Law Act, BNP Paribas Branch in Poland is a credit institution branch. BNP Paribas SA based in Paris is the higher level parent company in relation to Fortis Bank Polska SA. Indirectly, it owns 99.87% of the Bank's share capital.

This transaction will enhance the transparency of the activities pursued in Poland by the BNP Paribas entities and will eliminate potential competition between the Bank and the Branch. The Branch's priority will be to serve the largest corporate and institutional customers of the BNP Paribas Group and offer advanced



investment banking products. The Bank will focus on rendering services related to daily banking operations for enterprises, including cash management, full credit service, global trade finance and selected forward transactions. The activity of the two entities is not mutually competitive.

#### **1.4. Fortis Bank Polska SA operating activity optimisation project**

The process of integration of functions and operations carried out by the Head Office of Dominet Bank SA in Lubin with operating structures of Fortis Bank Polska SA was completed in 2010. The employment restructuring process, which covered 263 employees whose employment contracts were terminated due to group lay-offs, finished in the second quarter of 2010. In connection with the transformation of franchise branches into own branches, the employment reduction was a bit lower than previously estimated.

Actions targeted at increasing efficiency of the Bank's operation should improve financial performance of Fortis Bank Polska SA. At the same time, they make up a part of a rehabilitation programme pursuant to Article 142 of the Banking Law.

On 9 March 2010 the Bank was notified about the KNF's approval of the "Rehabilitation Programme for Fortis Bank Polska SA" filed by the Bank on 16 December 2009, with amendments. The purpose of the programme is to mitigate various areas of risk in the continued activity of the Bank and increase efficiency of its operations, which should result in positive financial results, amelioration of the main economic indices and also total coverage of loss in 2010 with additional capital. The completion of the programme is scheduled on 31 December 2012.

The most important assumptions of the programme, whether completed or under implementation, include:

- risk management improvement, including strengthening of the liquidity management and preparation of the Bank to maintain the liquidity in a crisis situation;
- stable and balanced development of the Bank's activity as a universal bank, working out a target activity structure after the merger of Fortis Bank Polska SA and Dominet Bank SA and carrying out an effective integration within the BNP Paribas Group in Poland;
- improvement of efficiency by implementation of a programme on limitation of costs related to Bank's activity and sales processes efficiency improvement;
- strengthening the Bank's capital position;
- ensuring liquidity sources, both in the form of a support from the capital group and ensuring financing from the Polish interbank market and European Investment Bank;
- mitigation of risk related to credit portfolio by strengthening and developing credit analysis, monitoring and debt collection;
- hedging a credit and counterparty risk arising from derivative instruments purchase/ sale transactions with their customers.

KNF has positively assessed the Bank's operations to date, what resulted in a significant improvement of the Bank's capital and liquidity position. KNF obliged the Bank's Board of Executives to complete implementation of the programme and presentation of quarterly reports on the implementation progress.

In accordance with the obligation imposed on the Bank's Board of Executives related to the submission of quarterly reports on the "Rehabilitation Programme" implementation process, on 20 April 2010 the Bank submitted to KNF the "Quarterly Report on Implementation of the Rehabilitation Programme for the first quarter of 2010" and on 19 July 2010 the "Quarterly Report on Implementation of the Rehabilitation Programme for the second quarter of 2010".

#### **1.5. Outside factors that influenced the operation and development of the Group in the first half of 2010**

##### **Economy in the first half of 2010**

##### GDP – growth rate and components

At the beginning of 2010 the signs of the economic revival were still observed. In the first half of 2010 an economic growth rate amounted to 3%. Individual consumption increased at the pace close to the average of 2009 (2.2% as compared to 2.3% in 2009), whereas the investment growth rate deteriorated significantly. In the first quarter of 2010, the investments shrank by 12.4% year on year (YOY) in comparison to 0.8% fall recorded in the entire 2009. Weak investments results were caused to a great extent by difficult weather conditions observed in this period.



In the first quarter of 2010, as regards the sectors of the national economy industry recorded the best financial results (+11.2% YOY) as well as trade and repair services (+3.7% YOY). And the building industry recorded the worst result – the production decreased by 5.8%.

#### Labour market

In the first half of 2010, the situation on the labour market significantly improved. In the first half of 2010, an employment in the enterprises sector increased by 1.1% YOY, what meant an essential improvement of the labour demand if compared to the drop by 1.9% YOY in the corresponding period of the previous year. Moreover, the remuneration growth improved. In June 2010, the remuneration in the enterprises sector increased nominally by 3.5% YOY. In real terms, the value increased by 2.3% YOY, thus indicating the fourth month in row with real remuneration growth in the enterprises sector.

#### Exchange rate and inflation

Since the beginning of 2010 a downward trend of inflation was observed. In June the inflation rate amounted to 2.3% YOY, what was a value significantly lower than 3.5% recorded at the beginning of the year. June was also the third subsequent month when the inflation rate remained below the NBP inflation target (2.5%). Prices of food and energy remained the main inflation factors. The net inflation (i.e. CPI without food and energy) amounted to 1.5% YOY.

In the first half of 2010, an increased volatility on the zloty market continued. The first months of the year brought about Polish currency appreciation against euro. The EUR/PLN rate decreased from 4.11 as at the end of 2009 to PLN 3.86 as at the end of the first quarter of 2010. Simultaneously, the EUR/USD rate fluctuations resulted that in the same period, Polish zloty appreciation was not observed in relation to a dollar. In the second quarter of the year, problems of the European economy (and especially, anxiety about solvency of the South Europe countries) spoiled the global financial markets sentiment what was also reflected in weakening of the Polish currency. At the end of the second quarter of 2010, the Polish currency was quoted at 4.15 in relation to euro and 3.39 in relation to the US dollar.

#### Foreign trade and balance of payments

In the first half of 2010 the balance of payments remained positive. As at the end of June 2010, the cumulated twelve-month surplus in the balance of payments stood at EUR 16.4 billion, what was a substantially better result than in the previous 12 months, when a deficit in the balance of payments was recorded at the level of EUR (9) billion. In consequence, a significant growth in the foreign currency reserve was observed. In June 2010, the Polish foreign currency reserve reached EUR 69.9 billion and was by EUR 22 billion higher than the year before.

International trade finance still noted good results. In the first six months of 2010, an increase in the export denominated in zlotys amounted to 9.3% YOY on average, what meant an essential improvement if compared to the drop by 1.3% in the corresponding period of the previous year.

#### Public finances

After the first six months of 2010, the central budget deficit stood at PLN (36.8) billion or 70.5% of the annual budget plan for 2010. The result was distinctly better than the schedule for the current year assuming that at the end of the first half of the year the budget deficit should reach PLN (41.4) billion. In the first half of 2010, the budgetary revenues reached PLN 114.2 billion (45.9% of the plan), while the expenses stood at PLN 151 billion (50.1% of the plan).

#### Financial performance of enterprises

In the first half of 2010, financial results of non-financial enterprises continued to be better than the performance recorded the year before. At that time, the net profit of the sector stood at PLN 39.3 billion and was higher by 6% than in the first half of 2009. The income on sale of products, goods and materials was by 3.6% higher than the year before. Furthermore, the result on financial transactions improved and reached PLN 0.2 billion in comparison to PLN (4.2) billion in the first half of 2009.



## **The banking sector in the first half of 2010**

### Monetary policy of the NBP and interest rates of commercial banks

Since the beginning of the year the central bank interest rates have remained unchanged. Thus, the reference rate was constantly at the level of 3.5%. However, in the first half of the year a significant change in the monetary policy took place, since the central bank carried out intervention on the foreign currency market breaking this way a period of many years when the zloty rate developed under fully market conditions.

The significant liquidity surplus is maintained. At the end of June 2010, the balance of NBP bills reached PLN 75.5 billion and was by PLN 42 billion higher than the year before. Deposits increased at a stable pace. In June 2010, deposits of the households were by 9.3% higher than the year before and deposits of enterprises increased by 13.2% YOY. At the same time a restrictive credited policy continued to be executed. As at the end of the first half of 2010, loans for the households increased by 13% YOY, i.e. at a three times slower pace than the year before; and loans for enterprises declined by 4.5% as compared to the corresponding period of the previous year.

### Financial performance of banks

According to the KNF data, in the first quarter of 2010, the net profit of the banking sector reached PLN 2.5 million, and was higher by 18.6% than in the corresponding period of the preceding year. The result on banking activity was in the same period higher by 5.5% than the year before.



## 2. SHAREHOLDERS AND STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE

As at 30 June 2010 and report publication date, i.e. 31 August 2010, the share capital of the Bank was PLN 1 206 175 300 and was divided into 24 123 506 shares with a nominal value of PLN 50 each, which was not changed since 31 December 2009.

All the shares of Fortis Bank Polska SA are bearer ones and entail no limits with respect to any ownership transfer or exercise of voting rights. All the shares entitle their holders to the same rights. Any limitations can only be based on specific provisions, e.g. of the Banking Law Act or Public Offering Act.

In the first half of 2010 and as at report publication date, i.e. 31 August 2010, Bank has not taken any actions to introduce L and M series shares to public trading. All other shares (series A to K) have been admitted and introduced to public trading.

### 2.1. The shareholder structure

As at 30 June 2010 and report publication date, i.e. 31 August 2010, shareholders' structure specifying the shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows:

Shareholder	Number of shares held	Share (%) in 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 held, via Fortis Bank SA/NV, 24,092,125 shares constituting 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.

### 2.2. Changes in the shareholder structure of the Fortis Bank Polska SA Capital Group

#### Acquisition of shares by BNP Paribas SA and KNF approval for exercising voting rights

In the first half of 2010, no changes as regards the shareholder structure or share capital of the Bank took place. The Bank has not been informed of any agreements that may lead to changes in the proportions of shares held by the present shareholders in the future.

### 2.3. Stock performance on the Warsaw Stock Exchange

The Bank's shares have been quoted on the primary market of the Warsaw Stock Exchange since 7 November 1994. Since the year 2004, the Bank's shares have been quoted in the continuous trading system.

Since 1999, i.e. after Brussels-based Fortis Bank took over 98% of the Bank's shares, the liquidity of shares stood at a low level. As at 30 June 2010, the free float included 31,381 shares held by other shareholders, i.e. 0.13% of all the Bank's shares. In October 2008, the Bank joined the Liquidity Support Programme implemented by GPW SA to increase the liquidity of stock trading on the WSE.

At the first session in January 2010, the Bank's shares were traded at PLN 164.50. As at 30 June 2010, the Bank's share price went down to PLN 148.10, i.e. by 9.97%. An average turnover in the Bank's shares was





7.3 shares per session in the first half of 2010 and was lower in comparison to the average turnover recorded in 2009 (over 32 shares per session).

The highest Bank's share price in 2009 was recorded on 16 March 2010, when it stood at PLN 175.90. The lowest Bank's share price was recorded on 30 June 2010, when it was PLN 148.10. The average share price in the first half of 2010 was PLN 159,77 compared to the average price of PLN 196.60 in 2009.

#### Quotations of the Bank shares from 4 January 2010 to 30 June 2010



Source: <http://www.money.pl>

WIG, a stock exchange index, fell from 40,775.24 points noted on 4 January 2010 to 39,392.47 points recorded on 30 June 2010 (decrease by 3.4%). The lowest level of WIG index was recorded on 11 February 2010 when the index reached 37,322.52 points. However, this was a level by 75% higher than the minimum recorded in February previous year.

WIG-Banks, a sector sub-index fell in the first half of 2010 from 6 003.13 points noted on 4 January 2010 to 5 786,52 points recorded on 30 June 2010 (change by 3.6%). The index drops have been significantly affected by the trends at the worldwide markets.

Minor liquidity of the Bank's shares prevents them from being classified to any of the indexes.

Below there are market indices for the Bank's shares. Positive indices values result from the profit obtained in the first half of 2010.

Index	30.06.2010	31.12.2009	30.06.2009
Return on assets (ROA)*	0.2	-2.1	-2.4
Return on equity (ROE)*	2.1	-34.1	-39.8
Earnings (loss) per share	0.61	-21.92	-13.83
Book value per share	57.70	56.73	56.73

The book value per share is PLN 57.70. For proper calculation, the share capital, additional capital, revaluation reserve, other reserve capital, retained earnings from the previous years and the net profit (loss) for the fiscal year were included in equity capital.

\*These ratios were calculated per annum as follows:

Return on assets (ROA)	Net profit/loss / average assets as at the end of four subsequent quarters
Return on equity (ROE)	Net profit/loss / average equity as at the end of four subsequent quarters



## 3. BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING ACTIVITY IN THE FIRST HALF OF 2010

### 3.1. Retail Banking

#### Products and services offered to Retail Banking customers

Retail Banking which entails now small enterprises, individual and private banking customers offers comprehensive services to the following customer groups: individual customers, including affluent customers segment, and enterprises that meet the criterion of annual turnover of less than PLN 40 million. In particular the Bank targets its offering at the following segments:

- Mass Retail segment – customers of monthly net income below PLN 7,500, where additionally a sub-segment of Mass Retail Aspiring Customers, with income of over PLN 2,500, has been separated;
- Mass Affluent Customer segment – customers of net monthly income at minimum PLN 7,500 and/or investing assets through Fortis Bank Polska SA in the minimum amount of PLN 100 thousand, up to PLN 1 million;
- Affluent Banking (HNWI) segment – customers who invest assets through Fortis Bank Polska SA in the minimum amount of PLN 1 million, including the Ultra-HNWI group of customers holding assets above PLN 5 million;
- Micro enterprises segment – business entities generating annual revenues below PLN 500,000.
- Small and Medium Enterprises (SME) segment – business entities with annual turnover ranging from PLN 500,000 to PLN 40 million.

In 2010 the development of the Personal Finance Area continued. Personal Finance deals in particular with the preparation of product offering and management of consumer loans offered via external distribution channels.

#### Mass Retail and Mass Affluent – segments of individual customers

Fortis Bank Polska SA has a comprehensive offering of products and services responding to various customer needs. The offering is based on four core packages of personal accounts for customers:

1. S Package – dedicated to customers who contact the bank for the first time, e.g.: minor customers, first jobbers and the elderly;
2. M Package – its core is a standard bank account giving access to a full range of banking transactions;
3. L Package – for more aware and demanding customers;
4. XL Package – mainly for Mass Affluent customers.

All packages enable an effective and safe management of funds deposited on savings and checking accounts. Additionally, M, L, XL Packages and accounts for Affluent Banking customers give access to a wide range of assistance services, helpful in everyday life of customers. The packages offered by the Bank also include saving and investment products, loan products, payment cards and e-banking services.

The following products and services are available for holders of Packages:

- Overdraft facility within current account and Authorised Debit Balance;
- Savings account with the interest capitalisation on each business day;
- Settlement services: standing orders, direct debits, domestic and international transfers;
- Debit cards: Visa and MasterCard;
- Pl@net Internet banking system;
- Call Centre;
- Assistance insurance (with the exception of S Package).

Furthermore, holders of packages are offered:

- Foreign currency accounts: in EUR and USD;
- Stock Investor's Accounts earmarked for the service of investment portfolios (asset management service); The Bank maintains such accounts for customers using the services of Fortis Private



Investments Polska SA (currently the investment fund company);

- Term deposits with various maturity terms, bearing fixed or variable interest rate, standard and negotiated deposits in PLN, EUR and USD;
- overnight deposits (a surplus of funds is automatically deposited on an overnight deposit),
- "Pure Profit" (*Czysty Zysk*) and "Pure Profit Plus" (*CzystyZysk Plus*) insurance policies that are savings products in nature; This is an insurance which aims at financial security of: a policyholder – in the event of living until the end of the insurance period, or a beneficiary – in the event of death of the policyholder.

In January 2010, the Bank supplemented the offering for package holders with a medical insurance, AXA MED. The insurance ensures private health care in over 1,200 medical centres in the country in four variants: basic and extended variant for individuals and basic and extended variant for a family.

### **1. Investment products**

The Bank offers both Polish and international investment funds, including:

- Open-End Investment Fund Fortis FIO; It is an umbrella fund comprising two sub-funds: Fortis Stock Subfund and Fortis Stable Growth Subfund;
- Investment funds including TFI DWS Polska, TFI BPH, TFI Skarbiec, TFI PKO, Superfund TFI and TFI Opera, TFI Union Investment;
- Foreign funds of HSBC, one of the largest asset management firms in the world; Under HSBC Global Investment Funds (HGIF) umbrella fund, 40 sub-funds were offered.

In addition to Fortis L foreign funds offered on an on-going basis and HSBC funds, the Bank has periodical subscriptions for Fortis L Fix – foreign investment funds. They are term funds, mainly with the principal amount protection, and their profits are related to stock markets or other instrument markets.

### **2. Asset Management**

In cooperation with Fortis Private Investments Polska SA, the Bank offers asset management services for its customers.

### **3. Treasury bills transactions**

The Bank provides an option to make Treasury bills transactions for minimum PLN 100,000. T-bills are financial instruments issued for a period of up to 52 weeks.

### **4. Insurance products**

The following insurance products are offered by the Bank in cooperation with insurance companies:

- property insurance (insurance covering real estate, insurance linked to payment cards);
- financial insurance (insurance coverage for LTV exceeding the accepted standards, bridge insurance for mortgage products, insurance against job loss, "Guarantee of Income" insurance);
- personal insurance – mainly linked to credit products (inability to work, accidents and personal injury),
- life insurance – mainly linked to credit products or standalone – "Safe Decade" insurance;
- assistance services – mainly linked to packages, but also available as a standalone offer;
- investment and insurance products: Fortis DuoProfit, Multi-portfolios;
- medical insurance – dedicated to package holders.

### **5. Card products**

The Bank's customers are offered payment cards of two international payment organisations - Visa and MasterCard. The Bank offers the following card products to individual customers served by Retail Banking BL:

- Credit cards: Standard, Classic, Gold, Platinum and Photocard;
- Debit cards;
- Pre-paid cards (MasterCard).

These cards are accompanied by an insurance package, including (depending on the card type) e.g.: insurance against an unauthorised credit card use, insurance of cash withdrawn from an ATM, insurance of goods purchased with a card, lower price guarantee insurance, medical treatment and medical transport costs, immediate assistance costs, and many others.



## **6. Credit products**

The Bank offers the following credit products to individual customers:

- Mortgage loans. The loans are earmarked for housing purposes, including: purchase of an apartment/house on the secondary or primary market, construction, redecoration, refinancing housing loans in other banks and refinancing costs incurred for purchase/construction/redecoration of real estate. In the first half of 2010, the mortgage loans offering was supplemented with a housing loan with subsidies, "Rodzina na swoim" (Family's own home), which enables borrowers to subsidise interest accrued on the mortgage loan for 8 years from loan disbursement date using resources granted by the State Treasury; maximum support may amount to 50% of calculated interest amount. A new mortgage product added to the Bank offering is a dual currency housing loan that enables borrowers to get a mortgage facility in two currencies: Polish zlotys and euros in the 50:50 proportion;
- Any purpose cash loans;
- Car loans earmarked for purchase of both new and used cars;
- Overdraft facility within current account and Authorised Debit Balance (ADB); A decision to grant a loan or ADB, including the loan or ADB amount, is based on an analysis of fund inflows into an account.

## **7. Electronic Banking**

The Bank offers two remote access channels for individual customers: PI@net Internet banking system and the Call Centre. PI@net is a comprehensive platform to manage accounts and other banking products such as payment cards, loans, savings and investment products.

The Call Centre provides information on the current scope of the Bank's offering and specific nature of its products, executes payment orders and provides technical service as regards Internet banking.

## **Affluent Banking (Private Banking)**

In addition to all products and services available to individual customers of the Bank, Private Banking provides integrated services and solutions in terms of asset management for affluent Private Individuals. The services offered include:

- Deposit and investment products;
- Credit products;
- Daily Banking products;
- Special legal and tax structures;
- Fortis Club.

Private Banking customers are also given access to services and products offered by the international BNP Paribas network.

### **1. Deposit and investment products.**

The Bank offers the following savings and investment products:

- Deposits (in PLN and in foreign currencies, for various terms, overnight deposits with negotiated interest rates), including structured deposits;
- A wide selection of domestic and international investment funds (250 funds);
- The offer of assets management by Fortis Private Investments Polska SA (currently investment fund company) includes:
  - model portfolios and investment strategies tailored to individual customer needs as regards acceptable risk, expected yield and investment horizon;
  - investment fund portfolios actively managed by investment advisors who customise the portfolio structure by selecting the funds they view as the best investments. Within the fund portfolios, cooperation with the following investment companies has been established: Franklin Templeton International Services S.A., HSBC Trinkaus & Burchardt AG, BlackRock Merrill Lynch Investment Managers, AIG Towarzystwo Funduszy Inwestycyjnych S.A.;
  - Individual pension accounts;



- FORTIS FIO umbrella fund;
- Fortis FIO deposit which is a combination of a 6-month term deposit with a selected Fortis FIO sub-fund: Fortis FIO Stocks or Fortis Stable Growth;
- Structured products prepared within and outside the Bank, including instruments that are custom-built for customers.

In addition to investment products, the Bank offers also products combining insurance and investment (actively managed portfolios of selected investment funds sold on the Polish market linked to insurance).

*Table: Specification of the number of funds offered by external Investment Fund Companies to Private Banking Customers broken by fund type*

Lp	Name of Investment Fund Company	FUND TYPE				TOTAL
		High risk	Balanced	Stable growth	Conservative	
1	BPH TFI S.A.	5	2	3	1	11
2	DWS Polska TFI S.A.	14	3	2	2	21
3	SKARBIEC TFI S.A.	12	4	3	1	20
4	HSBC Global Asset Management	57	13	-	-	70
5	ING TFI S.A.	13	3	4	2	22
6	QERCUS TFI S.A.	6	-	1	-	7
7	PKO TFI S.A.	15	4	8	1	28
8	OPERA TFI S.A.	3	1	3	-	7
9	UNION INVESTMENT TFI SA	9	3	2	2	16
10	SUPERFUND TFI S.A.	14	-	-	-	14
11	BNP Paribas Investment Partners	21	2	7	2	32

## **2. Credit products**

The following loans are available to customers:

- mortgage and mortgage and construction loans- long-term loans for purchase of an apartment or a house on the primary or secondary market, for construction or refurbishment of real estate and land plot purchase;
- any purpose cash loans, short and medium-term facilities;
- credit lines available in a current account – the maximum financing term for a credit line is 1 year with a possibility to extend it;
- other types of loans tailored to customer needs, e.g. purchase of real estate in another country, financing of a yacht purchase.

## **3. Daily Banking products**

Private Banking customers have access to, among others, the following:

- accounts in PLN and main convertible currencies;
- foreign exchange transactions executed at negotiated rates;
- savings account with daily interest capitalization;
- PI@net Internet banking system;
- Payment cards - Visa and MasterCard;
- Credit cards (Visa, MasterCard), in particular Gold and Platinum cards which give access to insurance services, assistance and concierge services and Traveller Package;
- Charge cards (American Express) - best customers may apply for a titanium card "Centurion". Holders of Centurion cards may use such services as: round-the-clock concierge services, Fast Track service that allows to avoid check-in queues at the airport, insurance, likewise various privileges offered during stays at hotel chains including Hilton, Starwood, Intercontinental, Sofitel, Radisson SAS, Kempinski and many others.



#### **4. Special legal and tax structures**

Such structures, offered in cooperation with external business partners, serve to protect assets, optimise taxes and regulate inheritance issues.

#### **5. Fortis Club**

Private Banking customers may use Fortis Club offer and take part in various events and workshops organised for Fortis Club members. Members of Fortis Club are offered invitations for cultural events (theatre, opera, concerts etc.).

### **Personal Finance**

Personal Finance deals in particular with the preparation of product offering and management of consumer loans offered via external distribution channels.

The main products offered by Personal Finance include:

- cash loans;
- car loans (both for the purchase of new and used cars);
- credit cards unrelated to the current account.

The products of Personal Finance will be mainly sold through the Bank's branches. Other distribution channels used by the line include: Internet, Call Centre, insurance institutions, financial brokers.

#### **1. Cash loans**

Personal Finance, within management of cash loans for individual customers, provides service of three products:

- "Na Tak" (Just say yes) cash loan;
- "VIP Finansista" (VIP Financier)/ "VIP Profesjonalista" (VIP Professionalist) loans;
- "Dowolny Cel" (Any purpose) cash loan.

"Na Tak" and "VIP Finansista"/ "VIP Profesjonalista" loans are offered to Mass Retail customers (also Mass Affluent customers may use the products), whereas "Dowolny Cel" loan is dedicated to the Mass Affluent segment. Cash loans are non-revolving facilities and earmarked for consumer purposes. "VIP Finansista" loan is a product offered to employees of the Polish banking sector. "VIP Profesjonalista" is a loan granted to customers that obtain their income on account of performing specific professions (e.g. legal counsel, lawyer, doctor, architect). "Dowolny Cel" is a loan with a permissible collateral option with appropriately high loan amounts.

The above products are sold in the Bank branches.

In July and August 2010 new, more attractive conditions for "Na Tak" cash loan were introduced, it is one of the elements of the Bank's products promotion campaign carried out under a name "Wydłużamy weekendy" (We extend weekends).

The next campaign is planned for September – October this year to promote cash loans, it is based on a concept of a competition for the most interesting project financed with BNP Paribas Fortis cash loan.

Presently, there are works being carried out to build new products in the cash loans area. The project includes both the new positioning of the offer on the market and improvement of processes, and also an introduction of a new system servicing products sale.

#### **2. Car Loans**

In April 2010 a loan for purchase of a vehicle at an authorised car dealer was included in the offering and a new credit application, Rat@tu implemented. The product is sold by employees of a car dealer.

In May 2010 a new offer for the "Kredyt Elastyczny" (Flexible loan) was introduced. The loan conditions have been significantly changed:

- non-obligatory life insurance and insurance against job loss;
- lower interest rates;
- loan agreement in the form of bicontract (credit card).



The product is sold in in the Bank branches and by the Network Customer Advisors (mobile advisors) and financial brokers.

## **SME and Micro Enterprises**

A share of micro companies and small and medium enterprises in generating the Polish GDP amounts to 50% and keeps growing. Therefore these are significant segments of the enterprise market in Poland. As regards the Bank, the SME segment is of strategic nature, which means that the needs of customers from this segment come under particular scrutiny of the Bank. As a consequence, the Bank's offering addressed to the SME customers is successively developed and modified.

Retail Banking targets at Micro and SME customers with an annual turnover below PLN 40 million. Product offering of the Bank for these entities includes:

1. accounts and packages;
2. deposits;
3. payment cards;
4. credit products;
5. Internet banking;
6. trade finance;
7. risk management;
8. other financial services (API, lease facilities, cash collection, financing agreement, purchase/sale of foreign currencies);
9. EU offering.

### **1. Accounts and packages**

Companies that are looking for an efficient finance management are offered the following packages:

#### **1.1. Biznes Profit Moja Firma**

'Biznes Profit Moja Firma' Package is addressed to individuals conducting a business activity and to civil law partnerships. In particular it is addressed to start-ups with an annual turnover of up to PLN 500 thousand that apply a simplified accounting system.

The package comprises of a current account in zlotys, term deposit account and overnight deposits, placement account, debit card along with insurance, access to the basic version of the BiznesPI@net Internet banking system, access to the Call Centre and assistance services package.

#### **1.2. Biznes Profit Class**

'Biznes Profit Class' Package is addressed to companies with an annual turnover from PLN 500 thousand to 3 million that apply a full or simplified accounting system, members of liberal professions, farmers who conduct business activity.

The package comprises of a current account in zlotys, term deposit account and overnight deposits, debit card along with insurance, access to the basic version of the BiznesPI@net internet banking system, access to the Call Centre and assistance services package in a variant adequate for the needs of such companies.

#### **1.3. Biznes Profit Premium**

'Biznes Profit Premium' Package is addressed to companies with an annual turnover from PLN 3 million to 40 million that apply a full accounting system, actively use electronic channels and make FX transactions.

The package comprises of a current account in zlotys, term deposit account and overnight deposits, debit card along with insurance, access to the extended version of the BiznesPI@net Internet banking system, access to the Call Centre, foreign currency account, FX limit, extensive package of assistance services (office assistance, car assistance, travel assistance) and financial consulting provided by a dedicated Relationship Manager.



#### **1.4. Biznes Profit Organizacja**

'Biznes Profit Organizacja' Package is addressed to non-profit organisations, foundations, regional governments, housing cooperatives, universities and schools.

The package comprises of a current account in zlotys, term deposit account and overnight deposits, debit card along with insurance, access to the basic version of the BiznesPI@net Internet banking system, access to the Call Centre and a financial consulting provided by a dedicated Relationship Manager.

#### **2. Deposits**

Fortis Bank Polska SA has on its offer an array of deposits allowing effective management of financial surpluses.

We also offer various deposit types, both in PLN and in foreign currency, with attractive interest rates and in terms adjusted to company's needs.

Deposits offered by the Bank to micro companies and SME customers include:

- 21-day deposit;
- e-deposits;
- deposits in PLN opened through the Internet or Call Centre;
- deposits in PLN with fixed and variable interest rates;
- deposits in USD and EUR with fixed and variable interest rates;
- overnight deposit – automated depositing of a surplus of funds while keeping access to these funds.

#### **3. Payment cards**

##### **Cards for micro and SME companies**

Fortis Bank Polska SA offers to micro companies and SME debit cards (VISA Business, MasterCard Business) and charge cards (VISA Business, VISA Business Gold).

Debit card users can use it to pay for goods and services in service facilities and shops and withdraw cash at branches of banks and in ATMs displaying the VISA Electron logo, both in Poland and abroad.

Charge cards enable payments for goods and services in service facilities and shops in Poland and abroad, and making payments via the Internet or on the phone.

#### **4. Credit products**

Credit products offered by Fortis Bank Polska SA enable its customers to choose the best financing method adjusted to their current operational activity and investment activity.

##### **4.1. Financing of the current business activity:**

For financing of the current business activity, Fortis Bank Polska SA offers:

- debit limit;
- overdraft facility;
- revolving working capital loan;
- non-revolving working capital loan;
- multi-option credit line;
- payroll line – a credit facility for remuneration (implemented on 1 June 2010);
- Stock Financing Loan for car dealers who report increased demand for working capital.

##### **4.2. Financing the investment project:**

Credit products for financing investment projects that enable a dynamic development of companies through purchase and modernisation of production means or real estates are an essential component of the offering of Fortis Bank Polska SA for small enterprises. Enterprises that look for investment project financing the Bank offers:

- investment loan;
- EIB (European Investment Bank) investment loan – this product has by principle lower interest rates and relatively longer financing term (up to 10 years) as compared to a standard offer; Lower interest rates for a customer result from the application of so-called EIB bonus that is a percentage discount guaranteed under the agreement between Fortis Bank Polska SA and EIB;





- loan against European Union subsidies;
- mortgage loan – investment loan earmarked for a purchase or construction of real estate for commercial purposes;
- home equity loan – earmarked for financing any purposes related to pursued business activity;
- lease facility;
- commercial car loan.

Within the cooperation with Fortis Lease Polska Sp. z o.o., the Bank offers lease services: financial lease, operating lease and sale-and-leaseback. The lease can include means of transport, machines and equipment as well as real estate.

## **5. Internet Banking**

Offerings of Internet banks continuously evolve. Implementation of alternative – electronic communication and distribution channels is an indispensable condition to maintain high competitiveness of offering and the Bank itself. In the era of universal access to the Internet and increasing mobility of society, unrestrained access to the offering of the Bank is a “to be or not to be” issue.

Security systems are the basic challenge of the Internet banking. They are of great importance in building confidence between a customer and a bank.

Fortis Bank Polska SA offers a functional and secure Internet banking system - BiznesPI@net.

The system functionality is tailored to the needs of business customers. For example, it enables differentiation of rights assigned to system users and integration with the financial and accounting system of the company (file import/export).

BiznesPI@net:

- allows users to effectively manage all banking products: accounts, cards, loans, deposits, letters of credit, transaction hedging against foreign exchange and interest rate risks;
- presents data transparently and allows for an intuitive usage, so even those who have not previously used the Internet banking system have no troubles using it;
- secure – thanks to the application of multiple complementary security mechanisms;
- provides an integrated access to all accounts and banking products;
- ensures access to always updated data and current banking services.

## **6. Trade finance**

An essential part of enterprise’s activity is purchase of goods, raw materials, materials and services and subsequent sale of products or services on domestic or foreign markets. To ensure adequate sources of financing is a key role in this process, likewise is the need to make secure purchase and sale transactions.

### **6.1. Trade transaction risk mitigation**

Fortis Bank Polska SA offers a comprehensive range of instruments that minimise risk inherent in trade cooperation with suppliers and customers, including:

- documentary collection;
- import letters of credit;
- service of export letters of credit;
- guarantees.

These are traditional banking products, yet the advantage of the offering of Fortis Bank Polska SA over offers available on the market consists in swift response, efficient operational service, individual advisory services and assistance in choosing appropriate solution – taking into account both, costs and minimising commercial transactions risk.

### **6.2. Trade finance – micro companies**

Micro companies that need support in trade finance can use the following products:

- documentary collection - a conditional form of payment in which the bank collects a given sum from the buyer for the account of the seller upon delivery of documents received from the seller, according to agreed conditions;



- bank guarantees – securing the company against situations in which partners to transactions fail to meet their obligations arising under the contract.

### **6.3. Trade finance - SME**

Trade finance products available to small and medium companies include:

- documentary collection;
- documentary letter of credit - a conditional, written obligation of the issuing bank to transfer a fixed amount to the seller, against presentation of documents; the type of documents and their presentation period are precisely defined in the letter of credit;
- bank guarantees;
- foreign bank guarantees – the most effective form of collateral for payments under international contractual obligations;
- pre-export financing – a solution earmarked mainly for financing export contracts in progress, i.e. before the subject of a contract has been manufactured or sent abroad.

## **7. Financial risk management**

Offering of Fortis Bank Polska SA is an ideal solution for companies looking for possibilities to reduce financial risks in pursued business. On its offering the Bank has products that enable exporters/importers to manage FX risk and interest rate risk.

### **7.1. FX risk management – exporters / importers**

- Spot / outright transaction

Spot transaction is an agreement between Fortis Bank Polska SA and a customer in which parties to the transaction commit to buy or sell currency on a second business day after concluding the transaction.

- Forward transaction

Forward transaction is an agreement between Fortis Bank Polska SA and a customer in which parties to the transaction commit to buy or sell currency in the future at the previously determined rate.

- FX swap

Swap transaction consists of two operations of which the first is usually a spot transaction and the second is forward transaction.

### **7.2. Interest rate risk management**

Interest Rate Swap (IRS) – an agreement between Fortis Bank Polska SA and a customer on a future swap of credit or investment interest rate from variable to fixed (or vice versa).

## **8. Other financial services**

Other services of Fortis Bank Polska SA addressed to micro or SME companies include:

- cash collection – a service consisting in depositing described cash to the Bank without counting it at the moment of making the deposit;
- Automated Identification of Payments (AIP) – a product for companies that have a lot of crediting transactions and want to automate accounting processes and reduce unit costs related to the service of mass payments;
- general financing agreement;
- currency purchase/ sale;
- system of sureties and credit guaranties for companies (individual mode) in cooperation with Bank Gospodarstwa Krajowego; the system may cover: overdraft facility, revolving/ non-revolving working capital loan, investment loan, credit facility against subsidies and mortgage loan.

## **9. EU offering**

In years 2007-2013, according to various estimates, Polish companies may directly procure from the EU funds even EUR 9 billion for realisation of their projects. The EU counts on small and medium companies as they generate a significant part of GDP and employ the majority of professionally active Europeans. Therefore, the SME are to be the main beneficiary of funds sent to the private sector; however, big companies are not passed over in nationwide programmes. Money for enterprises will be available primarily under the following operational programmes co-financed with structural funds and the Cohesion Fund:



- 16 regional operational programmes (R OP);
- Human Capital (OP HC);
- Innovative Economy (OP IE);
- Environment and Infrastructure (OP EI).

Entrepreneurs operating in the food processing, farming and fishery sector can use separate programmes:

- Rural Development Programme;
- "Sustainable Development of the Fisheries Sector and Coastal Fishing Areas" Operational Programme.

### **Development of banking services for the Retail Banking customers**

In December 2009, the Bank implemented 4 new current account packages for individuals, what initiated changes in the Bank's offering aimed at realisation of the Bank's strategy adopted for 2010. The objective of these changes is to implement a unique product offering in which, apart from standard bank services, the Bank offers products to grant its customers security, convenience and assistance on a daily basis (including medical insurance, extended assistance packages). These changes are supposed to build long-lasting relations with customers based on transparent offering and friendly service processes.

In the second half of 2009 and at the beginning of 2010 Fortis Bank Polska SA modified its package offering for Micro and SME customers. Six packages previously offered have been replaced by four new packages under common name of 'Biznes Profit': Biznes Profit Moja Firma, Biznes Profit Class, Biznes Profit Premium and Biznes Profit Organizacja. Additionally the package offering has included assistance services and placement account for companies (in the 'Biznes Profit Moja Firma' package).

In January 2010, the Bank introduced an investment loan based on European Investment Bank credit line. Currently, the following actions take places:

- continuation of the cooperation with the European Investment Fund related to the implementation of a credit guarantee system for SME;
- continuation of the cooperation with the European Bank for Reconstruction and Development related to financing projects for SME and ETB companies connected with a reduction of energy consumption;
- development of a concept of insurance products for institutional customers implementation;
- continuation of works aiming at implementation of a credit card for micro and SME companies.

## **3.2. Enterprise and Transaction Banking**

### **Products and services offered to Enterprise and Transaction Banking customers**

Enterprise and Transaction Banking Business Line (ETB) provides comprehensive services through the network of its Business Centres. ETB targets at corporate customers with an annual turnover over PLN 40 million. It focuses also on companies that are part of international capital groups, irrespective of their annual turnover.

The Bank offers a wide variety of financial solutions for this market segment. They include:

- financing working capital;
- financing investment projects;
- FX risk and interest rate risk management;
- liquidity management;
- international trade;
- European Union funds.

#### **1. Financing working capital**

The business of the Bank is characterised by readiness to provide services tailored to individual customer needs based on a thorough analysis of his expectations using an international network of partners. The financing is available in the form of a multi-option credit line, overdraft facility, revolving working capital loan, guarantee credit line or letter of credit line.



## **2. Financing investment projects**

Enterprises that look for investment project financing the Bank offers:

- investment loans;
- lease, including lease of real estate and a wide range of fixed assets, including means of transport, construction equipment, typesetting machines and other equipment;
- performance bonds;
- advance return guarantees;
- bid bonds.

## **3. FX risk and interest rate risk management**

Solutions in FX risk and interest rate risk management are offered to ETB companies by the Fixed Income and Treasury Line.

ETB companies have direct phone connection to the FX Support Group dealers in order to effect transactions, obtain information on situation on the FX market or preliminary valuation of a hedging strategy.

Within the FX risk management, the Bank offers:

- forward transactions;
- FX swap;
- foreign currency options.

In addition to FX risk management services, the Bank offers also interest rate risk management, including:

- Forward Rate Agreement (FRA);
- Interest Rate Swap (IRS) – a swap transaction of variable interest rate of liabilities or assets into a fixed interest rate or vice versa;
- interest rate options (CAP, FLOOR);
- Cross Currency Swap (CCS) – a swap of currency of liabilities or assets along with a change from a variable interest rate into a fixed interest rate or vice versa.

The following products are available for the Bank's customers who wish to invest a surplus of funds:

- term deposits in PLN and foreign currencies (e.g. USD, EUR); free funds can be invested on overnight deposits or long-term deposits (up to one year);
- treasury bills on the primary and secondary markets; "buy sell back" and "sell buy back" transactions;
- State Treasury bonds.

## **4. Internet banking**

Offerings of Internet banks continuously evolve. Implementation of alternative – electronic communication and distribution channels is an indispensable condition to maintain high competitiveness of the Bank's offering. In the era of universal access to the Internet and increasing mobility of society, unrestrained access to the offering of the Bank is just a necessity.

Security systems are the basic challenge of the Internet banking. They are of great importance in building confidence between a customer and a bank.

Fortis Bank Polska SA offers functional and secure Internet banking systems: BiznesPI@net and Connexis.

The systems functionality is tailored to the needs of business customers. For example, it enables differentiation of rights assigned to system users and integration with the financial and accounting system of the company (file import/export).

### **BiznesPI@net is:**

- allows users to effectively manage all banking products: accounts, cards, loans, deposits, letters of credit, transaction hedging against foreign exchange and interest rate risks;
- presents data transparently and allows for an intuitive usage, so even those who have not previously used the Internet banking system have no troubles using it;
- secure – thanks to the application of multiple complementary security mechanisms;
- provides an integrated access to all accounts and banking products;



- ensures access to always updated data and current banking services;
- provides a mobile access to the company's data via the Internet browser from any place in the world.

#### **Connexis V2 is:**

- international platform, available in 42 countries and 12 languages;
- created in an advanced technology, Adobe Flash;
- secure – dynamic passwords generated by token;
- consolidation of accounts balances in any currency;
- Holding Firm function (many companies available under one contract);
- automated process of generating various reports types;
- e-mail notification about transfers' readiness for authorisation;
- extended Administrator's panel;
- mass payments;
- provides a mobile access to the company's data via the Internet browser from any place in the world.

#### **5. Liquidity management**

Liquidity management or cash management include products that enable a company to streamline the management of funds accumulated on its bank accounts.

With the use of the full range of cash management products, the Bank's customers can effectively accelerate the cash flow process and reduce their administrative and financial costs by:

- current control over receivables collection;
- current control over payables balance;
- efficient management of information and liquidity.

Thanks to solutions that are used in the Bank, customers can control, effectively and on an ongoing basis, the collection of their receivables from a big number of their counterparties in a given period. Under the Automated Identification of Payments (AIP/PIR), a settlement between a counterparty and a customer takes place through an individual account number assigned. A counterparty can make a payment at any place (post office, branches of the Bank or branches of other banks). A new service, Payment Identification and Reconciliation (PIR) will provide customers with bigger possibilities for controlling receivables collection:

- reports generated in any text form;
- providing reports even several times a day.

The Bank also offers tools necessary to enable easy, fast and safe method of an effective management of company's payables.

BiznesPI@net, an Internet banking system, is one of the basic tools of access to accounts. A corporate customer does not need to visit a branch to get information on turnover on the company's accounts, he can initiate transfers taking into consideration various levels of authorisations to administer the accounts. Furthermore, there is an option of cooperation between the Bank's software applications with customer's financial and accounting systems. Apart from a basic transactional functionality, the system ensures an access to other services like:

- cards management;
- letters of credit service;
- foreign currency exchange platform;
- current information about utilisation of an overdraft and specific purpose loan.

Within the efficient information and liquidity management, the Bank offers products that enable not only forwarding information to the customer but also remote management of accounts in other banks, as well as management of liquidity on specific accounts in the customer's capital group.

- Multi Bank Reporting (MBR);
- Remote Payment Initiation (RPI);
- Notional Cash Pooling;
- Cash Collection.



The Cash Collection service consists in collecting pecuniary values from points appointed by a customer, then sorting, counting and booking them to the customer's account at Fortis Bank Polska SA. Payments are posted on the next business day. Besides cash collection the Bank also offers a possibility of cash supplies to points appointed by a customer.

The services is provided nationwide and refers to payments in zlotys.

The service is rendered in cooperation with Asekuracja Cash Handling Sp. z o.o., which for many years has been providing services of cash processing and cash transports; the company renders its services to reputable financial institutions in Poland.

Within the liquidity management, the Bank offers also a non-resident collecting account which is maintained for a business entity (legal person having its registered office abroad). The account can be opened in the following currencies: PLN, USD, EUR, CHF, GBP or JPY. The account is earmarked for making settlements in the form of transfers and cheques. Instructions are performed on the basis of SWIFT orders sent by the customer's foreign bank, and also within standing payment orders and cheque settlements. Funds deposits on the collective account in foreign currencies bear no interest.

## **6. International trade**

### **6.1. Trade transaction risk mitigation**

The Bank offers a comprehensive range of international trade instruments that minimise risk inherent in trade cooperation with suppliers and customers and also facilitate settlements in international trade. The product portfolio includes: documentary collection, letters of credit (import and export), stand-by letters of credit and foreign guarantees.

### **6.2. Accounts receivable financing**

Acquisition of financial resources through the sale of trade receivables provides a flexible source of financial liquidity. In case of forfaiting solutions the Bank also offers financing without recourse to the seller. The Bank finances both short-term and long-term receivables (invoices, bills of exchange, receivables resulting from export documentary letters of credit). Financing of long-term export contracts can serve as an example. Attractiveness of the Bank's offering is further improved by cooperation with insurance companies (including primarily Export Credit Insurance Corporation, KUKE S.A.) and also Bank Gospodarstwa Krajowego (BGK).

### **6.3. Foreign bank guarantees**

The Bank offers foreign guarantees – it issues both, own guarantees by the order of its customers and counter guarantees of other foreign banks, and also the Bank services guarantees received in favour of its customers. The Bank serves various guarantee types: bid bonds, advance return guarantees, performance bonds, payment guarantees.

### **6.4. Pre-export finance**

The service is convenient in a situation when an exporter looks for funds to buy raw materials needed to produce the goods exported or to finance its inventory stock, prior to finishing the production or delivery of supplies.

The collateral for and source of repayment of such loans can be future export receivables arising under a contract signed, while the contractual payments can be secured by a documentary letter of credit, bank payment guarantee, insurance policy or receivables due to the exporter under the export contract signed.

### **6.5. Export letters of credit: buyer credit**

Thanks to the Bank's cooperation with specialised institutions dedicated to support Polish exports such as KUKE S.A. and BGK, the Bank can offer its customers comprehensive solutions in the area of medium- and long-term financing for export contracts related to the sale of goods and investment services.

They include buyer credit granted to a foreign importer or its bank.

## **7. European Union funds**

Since 2004, the Bank conducts an information project for customers called "In the European Union with Fortis Bank," aimed at providing advice to Polish entrepreneurs on how to acquire EU funds. Money for enterprises is available primarily under operating programmes co-financed with structural funds and the



Cohesion Fund. Under the project, the Bank finances investment projects subsidised with the European Union funds and conducts training and advice actions for entrepreneurs.

In 2008, in cooperation with the "Gazeta Prawna" daily, the Bank prepared an educational project "The European Union Funds in the years 2007-2013." The project is to provide practical knowledge about options, requirements and obstacles related to using the EU funds. The project was divided into 19 regional seminars to enable interested entrepreneurs from all parts of Poland to participate.

## **8. Energy markets**

Solutions offered by the Bank for energy markets include an optimum management of price fluctuation risk with respect to energy raw materials markets. Price fluctuation risk concerns all energy types: crude oil and oil products (diesel oil, fuel oil, jet fuel), natural gas, coal, power and CO<sub>2</sub> emission allowances.

The Bank uses in this area financial instruments serviced by the Fixed Income and Treasury Line such as Fixed-for-floating contracts, Caps/ Floors/ Collars/ Three-ways/ Extendable Swaps, index-based formulas (including the FX market) and weather derivatives - hedging against weather changes.

### **3.3. Other Banking Activity**

In the first half of 2010 organisational changes took place in this area and three types of activity were separated: the Treasury, Fixed Income and Assets and Liabilities Management (ALM).

#### **Products and services offered to the Fixed Income and Treasury Line customers**

The Fixed Income and Treasury Line is a business line operating on the financial markets that specialises in servicing banks and other financial institutions, and also a selected group of customers. The Line carries out operations on the money market and FX market, it also participates in trading in securities. The Fixed Income and Treasury Line supports other business lines providing a selected group of customers with financial market products and instruments via standard and off-balance sheet transactions. The activities are performed through the Treasury Group, FX Support Group and the Financial Markets Sales Department.

Furthermore, the Bank offers its customers FX transactions and transactions designed to hedge FX risk and interest rate risk.

FX transactions include, in particular:

- spot transactions;
- forward transactions;
- foreign currency options;
- zero-cost structures.

Interest rate risk currency transactions include:

- Forward Rate Agreement (FRA);
- Interest Rate Swap (IRS) – a swap of variable interest rate of liabilities or assets into a fixed interest rate or vice versa;
- Interest Rate Options (IRO): CAP/ FLOOR;
- Currency Interest Rate Swap (CIRS) – a swap of currency of liabilities or assets along with a change from a variable interest rate into a fixed interest rate or vice versa.

The following products are available for the Bank's customers who wish to invest a surplus of funds:

- treasury bills on the primary and secondary markets; "buy sell back" and "sell buy back" transactions;
- State Treasury bonds.

The activity related to financial instruments offering at the Bank has been adjusted to the amended Act on trading in financial instruments, which implemented requirements of the EU Directive, Markets in Financial Instruments Directive (MiFID). Appropriate actions have been undertaken in this regard, they include for example:

- modification of the derivative product offering and new product acceptance process at the Bank;
- modification of procedures, documents' models and operation of the IT systems that support the sales and customer service processes;



- modification of legal aspects of master agreements on financial instruments so as to enhance the applied security measures;
- far-reaching information campaign for customers and additional training for the Bank's employees.

### **Money market and debt securities operations**

The Bank's activities on the money market and the market of debt securities may be grouped into three categories:

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

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

Foreign exchange transactions concluded by the FX Support Group makes it an active player in forex market. The FX Support Group manages the Bank's FX risk occurring in relation to the Bank's FX positions and FX transactions concluded by customers.

The Bank's investment policy is established by the Asset and Liability Management Committee. Capital is first of all invested in debt securities issued by the State Treasury or NBP.

### **3.4. Average interest rate of deposits and loans**

Basic variable interest rates applied to loans by the Bank are based on LIBOR/EURIBOR rates for foreign currency loans, and WIBOR rate for PLN loans.

In the first half of 2010, the Monetary Policy Council left the level of official NBP interest rates unchanged.

In the first half of 2010, the average nominal interest rate of current and term deposits stood at:

- PLN deposits – 3.46%;
- foreign currency deposits – 1.32%.

Average nominal interest rates for total loans, both performing and non-performing ones, broken by currency, were the following:

- PLN loans – 8.58%;
- EUR loans – 3.57%;
- USD loans – 3.27%;
- CHF loans – 1.44%.

To compare, in the first half of 2009, the average nominal interest rate of current and term deposits assumed the following values:

- PLN deposits – 4.91%;
- foreign currency deposits – 1.90%.

Average nominal interest rates for total loans, both performing and non-performing ones, broken by currency, were the following:

- PLN loans – 6.36%;
- EUR loans – 3.79%;
- USD loans – 2.55%;
- CHF loans – 2.42%.





### 3.5. Custody services

The Bank offers custody services related to maintenance of securities accounts, safekeeping customer assets and settlement of transactions concluded on domestic and international markets. Under the Decision issued by the Securities and Exchange Commission of 14 July 2000 (KPWiG-4042-2/2000), custody services are provided by the Custody Services Group separated from the Bank's structure.

Since 2005, the Bank has acted as a Depositary for two sub-funds under open investment fund, FORTIS FIO, set up by Towarzystwo Funduszy Inwestycyjnych Skarbiec S.A. The function of a Depositary is performed in the Bank by the Custody Services Group. Considering the transformation of Fortis Private Investments Polska S.A., a subsidiary of Fortis Bank Polska SA, into an investment fund company (*Towarzystwo Funduszy Inwestycyjnych*), the function of the Depositary for Fortis FIO funds was transferred to Deutsche Bank Polska S.A. on 30 March 2010. The Depositary change was a condition necessary to obtain a consent of the Polish Financial Supervision Authority for the transformation of the Fortis Private Investments Polska S.A. into an investment fund company.

In connection with the Bank's obligations of a Service Agent and Paying Agent in favour of foreign investment funds - Fortis L Fix and Fortis L Fund, managed by BNP Paribas Investment Partners Luxembourg, the Custody Services Group coordinates the distribution of participation units in Poland. At the end of June 2010, there were 32 sub-funds of various participation classes offered under Fortis L Fund.

### 3.6. Clearing activity

With regard to domestic and foreign settlements, the Bank's business customers are offered the following services:

- cross-border transfers: handling incoming and outgoing payment orders in convertible currencies and PLN;
- domestic transfers;
- direct debit;
- day-to-day foreign exchange transactions;
- forward transactions;
- securities accounts;
- documentary import and export letters of credit;
- discount of export letters of credit;
- collection of checks of other banks;
- collection of checks drawn on foreign banks;
- documentary collection.

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

From the beginning i.e. since March 2005, the Bank has participated in EuroELIXIR system for handling domestic transfer orders. The Bank handles incoming orders via SORBNET-Euro system, while to clear cross-border transactions the Bank participates in the STEP2 system since August 2004.

Effective February 2008, Fortis Bank Polska SA provides its customers with SEPA credit transfers (both incoming and outgoing ones).

Since July 2005, there is a shared service centre at Fortis Bank Polska SA, which has been operating as a back-office for foreign outlets of Fortis Bank SA/NV in the Central and Eastern Europe. The Centre carries out the following services:

- clearing of incoming and outgoing domestic transfers ("domestic" from the viewpoint of a serviced Business Centre – BC) in local currencies using local clearing systems;
- clearing of incoming and outgoing foreign transfers using the SWIFT system;
- clearing of transactions of any type concluded by local treasury departments, including customers' and interbank transactions;
- disbursing loans granted by local credit departments;
- supporting BC in operational work with customers, e.g. handling customer complaints, posting fees and commissions, reporting and support in processes of ensuring liquidity on nostro accounts of particular branches.



At present, the shared service centre clears payments of customers of Business Centres - branches in the Czech Republic (Prague), Austria (Vienna), Hungary (Budapest), Denmark (Copenhagen), Sweden (Stockholm), France (Paris) and Romania (Bucharest). Servicing of Switzerland (Zurich Business Centre) was transferred to the BNP Branch in Geneva at the end of June 2010.

For these services the Bank is paid remuneration to cover operating costs of the Payment Shared Service Group, increased by a margin determined in the agreements. The total remuneration paid to the Bank in the first half of 2010 stood at PLN 1 139 thousand as compared to PLN 2 262 thousand in the first half of 2009.

### **Cooperation with international financial institutions**

The Bank cooperates with foreign banks in the area of foreign exchange, placement/deposit transactions, securities and banknote transactions. The Bank holds accounts in renowned banks operating in the major world financial centres, and maintains PLN *Loro* accounts for foreign banks. Cooperation with BNP Paribas group and other leading banks enables the Bank to effectively handle payments made by its customers and to carry out instructions received from abroad.

The Bank is a member of the SWIFT international interbank network, which enables faster payment processing, facilitates contacts with foreign banks and enables the implementation of new products related to international transactions. Furthermore, the Bank established cooperation with the EBA (European Banking Association) by joining the European clearing system (STEP 2) in 2004.

The Bank joined the TARGET2 system – trans European automated real time gross settlement express transfer for large amounts. The Bank became an indirect member using the agency of the National Bank of Poland.



## 4. CORPORATE SOCIAL RESPONSIBILITY

Fortis Bank Polska SA applies the principle of social responsibility to its undertakings, which demonstrates in a support provided to local communities through BNP Paribas Fortis Foundation established in 2006 (until 21 July 2010 the foundation operated under the name of Fortis Foundation Polska), implementation of employee projects engaging the Bank's employees, cooperation with the United Way Poland Foundation within a scheme of voluntary remuneration deductions, or through enabling local leaders to expand their competences under the Third Sector Academy supported by the Bank.

### **BNP Paribas Fortis Foundation**

#### 1. Basic information and objectives of the Foundation actions

The Foundation's aim is to prevent social exclusion especially among children and the youth. The objectives are accomplished through initiation, support and performance of social programs, providing financial and non-cash support for institutions of similar goals, support for social activity of Fortis employees and involving them in the Foundation actions on a volunteer basis, likewise promoting charity ideas.

#### 2. Main pillars of the Foundation actions

##### **cooperation with the Society of the Friends of Children (TPD)**

carrying out partner social projects  
in favour of children and the youth

**volunteer activities  
of employees,**  
grant contests, collections,  
promotion of charity ideas



**Cooperation  
with business organisations**  
joint involvement in performance of social  
projects in local communities

#### 3. Volunteer activities of employees

It is just with the employees in mind that a programme supporting volunteer work and charity ideas has been developed. Thanks to this programme, employees are sensitised to social problems and encouraged to undertake steps to provide support and assistance to people at risk of social exclusion. Employees are engaged in educational and integration projects. The Foundation offers grant contests for the best social projects whose winners carry out their projects by themselves using the Foundation's funds.

In 2010, under the programme, the following actions were carried out:

- Grant consent "Na skrzydłach wiosny" (On the wings of spring). There were 19 project proposals, developed by the Bank's employees, submitted for the contest. Seven projects, assessed as the best, were awarded a grant of PLN 4,000 for project execution (March – August 2010);
- collection of gifts for flood victims; the collected gifts, food and żywność i środki czystości przekazano stowarzyszeniu Bank Żywności, który rozdystrybuował je na rzecz potrzebujących w regionie małopolskim i mazowieckim. The support donated by the Bank's employees was evaluated at approx. PLN 20 thousand (nationwide project, May 2010);
- In the first half of 2010, the Foundation allocated approx. PLN 28 thousand for volunteer actions performed by the Bank's employees.

#### 4. Strategic cooperation with the Society of the Friends of Children (TPD)

In 2010, under the cooperation with TPD, the Foundation continued implementation of projects supporting local childcare centres and TPD day rooms (Środowiskowe Ogniska Wychowawcze and Świetlice TPD) as regards improvement of the centres infrastructure and performance of educational actions for the TPD charges:

- "Release the power of your passion!" – completion of 5 projects that supported development of TPD charges' passions and interests in 5 childcare centres in various regions of the country (nationwide project, January – June 2010);
- "Holiday Tourist Office" – a project consisted in selection and financing of the most interesting ideas for the upcoming holidays. Out of almost 60 contesting centres from all over Poland, 7 the most interesting projects were selected. They were awarded PLN 5,000 thousand grant each for the organisation of the planned activities (nationwide project, May - August 2010);



- "Children's Day" – almost 5,000 artist sets were handed over to the TPD charges all over Poland – they were passed by Euro-Trade in cooperation with the Foundation (nationwide project, June 2010);
- "I know I can..." – a literary contest for the charges of the TPD Centre "Helenów" – disabled children and youth. In the contest 8 winners were selected; they went for a few-day trip to Wrocław, where, among other things, they participated in a wheelchair tennis tournament sponsored by the Bank, "Wrocław Cup 2010". During the tournament, children and the youth met professional tennis players and observed the finals (local project, May – July 2010).

Altogether, the Foundation spent over PLN 90 thousand for all the TPD support activities in the first half of 2010.

Additionally, the TPD was also supported by Fortis Bank Polska SA, which provided assistance passing computer equipment and furniture. The donation was passed to the TPD centres in Warsaw, Gdańsk, Złotów, Łódź, Bydgoszcz and Nowy Dwór Mazowiecki.

#### 5. Additional funding

Acting under the Foundation Council guidelines, the Foundation's Management Board decided that in 2010 it would not transfer funds earmarked for carrying out social projects prepared by other institutions. The amounts transferred in favour of other organisations under „project funding” until June 2010 resulted from earlier commitments made by the Management Board in the previous year and they totalled PLN 18.1 thousand.

#### 6. Summary of expenses in the first half of 2010.

In the first half of 2010, the Foundation allocated over PLN 136 thousand in total for its statutory tasks performance. Funds spent for operating and current activity equalled almost PLN 45 thousand.

#### 7. Awards for the Foundation

The Foundation was honoured with the title of "Krakow Philanthropist of the Year". The award committee appreciated the support granted by the Foundation to its strategic partner – Towarzystwo Przyjaciół Dzieci.

#### **Third Sector Academy**

The Bank assumed patronage over the "Third Sector Academy" (ATS), the project of the Foundation for the Jagiellonian University aimed at improvement of qualifications of people who either work or wish to act in support of the third sector. The Project was inaugurated at the end of 2009 and its present edition lasted until July 2010.

It is a project targeted at improving and complementing the competences of employees and volunteers of non-governmental organisations. The 2<sup>nd</sup> edition's training schedule was even better tailored to the needs of employees and NGO volunteers as it took into account comments made in the evaluation questionnaire by participants of the ATS 1<sup>st</sup> edition. The training courses included: organisation image building with a particular focus on cooperation with the media, human resources management in a non-governmental organisation including cooperation with volunteers, time management, development personal skills in terms of public speaking, assertiveness and development of leadership skills and interpersonal skills.

#### **1% tax deduction – information to Bank's customers**

In the period from January to April 2010, customers visiting the Bank's Branches in Poland had the possibility of getting familiarised with two Public Benefit Organisations – the Society of the Friends of Children (Towarzystwo Przyjaciół Dzieci) and United Way Poland Foundation – by reading their promotional materials (leaflets, posters and newsletters) and they could decide whether they would like to allocate 1% of their personal income tax for 2009 to public benefit organisations. Information about those organisations was also passed to the Bank's customers through the BankNotes periodical.



## 5. ANALYSIS OF PERFORMANCE OF FORTIS BANK CAPITAL GROUP IN THE FIRST HALF OF 2010

After the merger with Dominet Bank SA, Fortis Bank Polska SA does not present financial statements retrospectively, i.e. with respective items of Dominet Bank SA included in comparative data.

The result of Dominet Bank SA for the reporting period from 1 January to 31 July 2009 is not included in the result of the merged Bank for 2009. The data of the merged Bank are presented starting from August 2009.

The lack of retrospective data presentation of the merged banks affects the number of comparisons made and ratios calculated.

### 5.1. Consolidated Income Statement

Dynamics of selected Consolidated Income Statement items (in PLN thousand)

Consolidated Income Statement in PLN thousand	01.01.2010 - 30.06.2010	01.01.2009 - 30.06.2009	Dynamics of items (%)
			30.06.2009 - 30.06.2010
Net interest income	290 879	179 133	62%
Net fee and commission income	79 295	60 409	31%
Net trading income	49 129	-88 850	-155%
Net gain/loss on available-for-sale financial assets	1 310	6 300	-79%
Other revenues	7 913	8 058	-2%
<b>Total income, net</b>	<b>428 594</b>	<b>165 050</b>	<b>160%</b>
Personnel expenses	-118 370	-86 560	37%
Depreciation of fixed assets and intangible fixed assets	-40 204	-21 432	88%
Other expenses	-137 800	-77 191	79%
Net impairment losses	-110 288	-255 695	-57%
<b>Gross profit/loss</b>	<b>21 932</b>	<b>-275 828</b>	<b>-108%</b>
Income tax expense	-7 145	43 890	-116%
<b>Net profit/loss</b>	<b>14 787</b>	<b>-231 938</b>	<b>-106%</b>

The main item of the income statement is the net interest income, which in the first half of 2010 reached PLN 290,879 thousand and was higher by 62%, i.e. by PLN 111,746 thousand than the result of the first half of 2009. Average credit volumes went down by 5% in the analysed period, which is mainly attributable to a reduction of credit activity caused by a weaker demand, likewise a more restrictive credit policy. Average deposit volumes increased in that period by 19%. However, in connection with the policy of non-competing in terms of deposit interest rates adopted by the Group, since November 2009 a gradually slowing down decrease in average deposit volumes was observed. A 62% growth of net interest result with a simultaneous drop in average credit volumes is due, on the one hand, to lower costs of deposits and loans obtained from the BNP Paribas Fortis group, but on the other hand, to higher average margins for loans related to e.g. an increase in the number of cash loans and car loans, likewise to higher interests on available-for-sale investments. However, it should be taken into account that the changes arising from the merger of Fortis Bank Polska SA and Dominet Bank SA affected these results.

A major income item was the fee and commission income. In the first half of 2010, the Group generated net commission and fee income of PLN 79,295 thousand, i.e. a growth by 31% as compared to the corresponding period of the previous year. The income is a consequence of revenues on sale of insurance products introduced into the offering after the merger with Dominet Bank SA, likewise of higher revenues on cash settlements.



The number of active business lines' customers increased from 61,968 at the end of June 2009 to 365,795 at the end of June 2010. The customer number went up following the merger of Fortis Bank Polska SA and Dominet Bank SA.

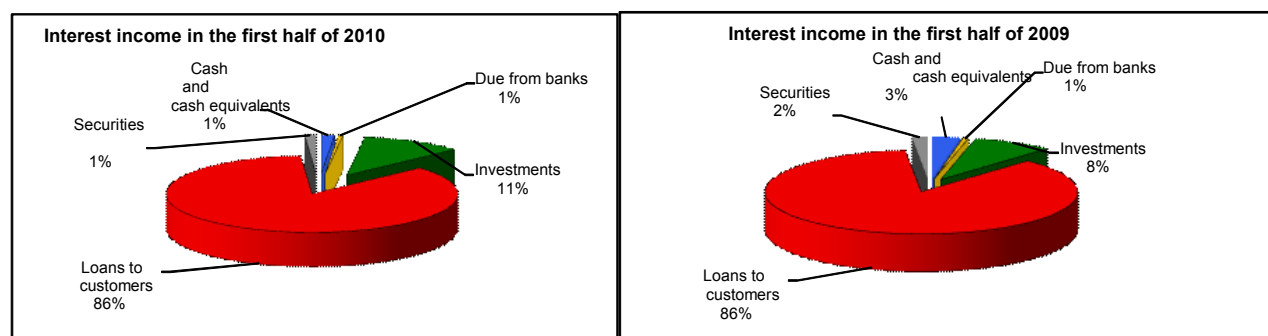
In the first half of 2010, the Group noted a net trading income in the amount of PLN 49,129 thousand (in comparison to the loss of PLN 88,850 thousand in the first half of 2009); this means an improvement by PLN 137,979 thousand, i.e. 155%. The net trading income improvement is related to a better result on derivative instruments. The total result on derivative instruments for the first half of 2010 stood at PLN (1,560 thousand), which compared to the loss of PLN (149,792 thousand) in the first half of 2009 meant a reduction by PLN 148,232 thousand and was mainly a result of a decrease in fair value adjustment on account of derivatives credit risk (positive influence of PLN 20,079 thousand on the result). The loss for the first half of 2009 was a result of a high negative adjustment of fair value on account of credit risk related to option transactions concluded with customers of the Group, and a negative measurement to fair value of options bought to mitigate risk related to the FX rates increase with respect to EUR and CHF. The net FX income of PLN 49,058 thousand decreased by 17% (or PLN 10,278 thousand) in comparison to the corresponding period of the previous year. In the same period, the result on valuation of securities held for trading grew by PLN 25 thousand, and reached PLN 1,631 thousand at the end of the first half of 2010.

### Net income

Net income of the Group increased from PLN 165,050 thousand in the first half of 2009 to PLN 428,594 thousand in the first half of 2010 (an increase by 160%).

Interest income increased by 9%. This item stood at PLN 453,927 thousand in the first half of 2010 as compared to PLN 415,243 thousand in the corresponding period of 2009. The main source of interest income included loans and credit facilities, investments and cash. The interest income consists mainly of interest on account of:

- Loans to customers: PLN 388,046 thousand as compared to PLN 359,093 thousand in the first half of 2009;
- Available-for-sale investments: PLN 51,184 thousand as compared to PLN 34,682 thousand in the first half of 2009;
- Cash and cash equivalents: PLN 6,616 thousand as compared to PLN 12,336 thousand in the first half of 2009.



Interest expense increased by 31% from PLN 236,110 thousand in the first half of December 2009 up to PLN 163,048 thousand for the first half of 2010. The interest expenses include in particular interest on account of:

- Due to Customers: PLN 121,922 thousand as compared to PLN 141,726 thousand in the first half of 2009;
- Loans and credit facilities received: PLN 17,879 thousand as compared to PLN 67,569 thousand in the corresponding period of 2009;
- Due to banks: PLN 11,228 thousand as compared to PLN 16,929 thousand in the first half of 2009.

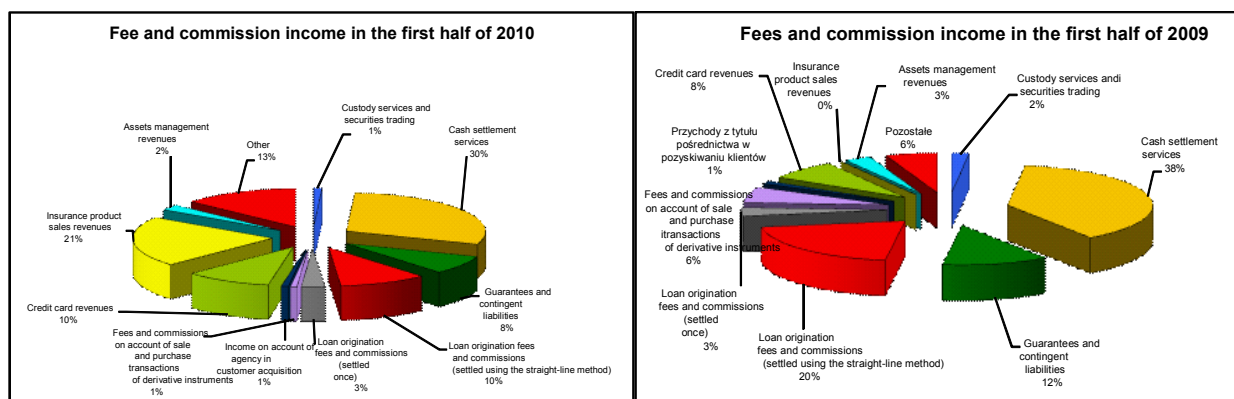
Fee and commission income increased by 61%. In the first half of 2010, this item amounted to PLN 106,600 thousand as compared to PLN 66,398 thousand in the corresponding period of 2009.

The main source of fee and commission income were commissions and fees on account of cash settlements, commissions and fees related to sale of insurance products, granting loans and guarantees, likewise card fees and commissions.

The commission and fee income include in particular:



- commissions and fees on account of cash settlement services: PLN 31,540 thousand as compared to PLN 25,510 thousand in the first half of 2009 (an increase by 24%);
- commissions and fees on account of sale of insurance products: PLN 22,596 thousand (no such products in the corresponding period of 2009);
- commissions and fees related to granting loans: PLN 13,752 thousand as compared to PLN 15,732 thousand in the corresponding period of 2009 (down by 13%);
- card transactions income: PLN 10,743 thousand as compared to PLN 5,219 thousand in the first half of 2009 (an increase by 106%);
- commissions and fees related to issuance of guarantees and other contingent liabilities: PLN 8,357 thousand as compared to PLN 7,846 thousand in the first half of 2009 (an increase by 7%).



Commission and fee expenses amounted to PLN 27,305 thousand in the first half of 2010 and grew by 356% compared to the corresponding period of 2009 when they equalled PLN 5,989 thousand.

The fee and commission expenses include in particular:

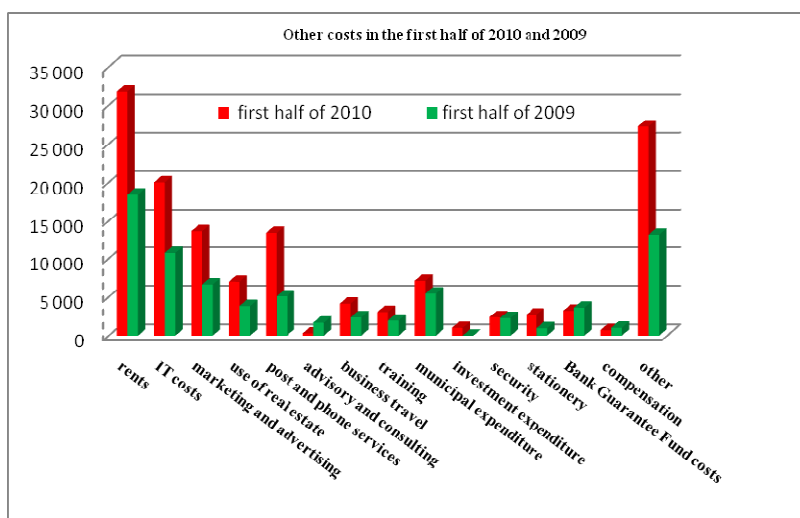
- card-related expenses: PLN 7,933 thousand as compared to PLN 2,731 thousand in the first half of 2009 (an increase by 190%);
- commissions and fees expenses related to franchisee: PLN 8,854 thousand (in the first half of 2009, there were no such costs as they entirely concern costs of the franchise network of the former Dominet Bank SA);
- settlement commission and fee expenses: PLN 724 thousand as compared to PLN 754 thousand in the first half of 2009 (down by 4%).

### Personnel costs and other administration expenses

In the first half of 2010, the Group's personnel costs amounted to PLN 118,370 thousand and were higher by 37% as compared to costs incurred in the corresponding period of the previous year, when they reached PLN 86,560 thousand. The higher expenses level resulted mainly from an employment increase related to the merger with Dominet Bank SA (average number of FTE in the first half of 2010 was 60% higher than in the corresponding period of 2009). On the other hand, in the first half of the year, severance pay costs incurred in relation to the employment restructuring carried out this year were lower than the reserve previously created for this purpose, which resulted in releasing a part of the restructuring provision created in 2009.

The costs related to depreciation of fixed assets and intangible fixed assets amounted to PLN 40,204 thousand and were 88% higher than in the first half of 2009 as a result of increasing the Group's fixed assets after the merger with Dominet Bank SA.

The Group's other expenses reached PLN 137,800 thousand and were higher by 79% compared to costs incurred in the first half of 2009, when they stood at PLN 77,191 thousand. The main items of other expenses are rents (PLN 31,814 thousand), information systems and technologies (PLN 20,011 thousand), marketing and advertising (PLN 13,675 thousand), likewise postal and telecommunication services (PLN 13,458 thousand).



### Net impairment losses

In the first half of 2010, net impairment losses amounted to PLN 110,288 thousand, what is a decrease by PLN 145,407 thousand in comparison to the corresponding period of the previous year. The decrease in net impairment losses is attributable to restructuring activities undertaken by the Bank and consistently performed cautious policy of granting new loans. In the first half of 2010, 80% of net impairment losses related to loans concerned customers of the Retail Banking Business Line, where an increase in net impairment losses was noted as compared to the first half of 2009, as a result of the portfolio quality deterioration related to, among others, an economic downturn. The remaining 20% concerns the Enterprise & Transaction Banking Business Line corporate customers, where a decrease in net impairment losses was observed.

### Result

The consolidated profit of the Group generated in the first half of 2010 results from the increase of income (not expenses) and was mainly influenced by higher net trading income and net interest income and net commission and fee income, while net impairment losses related to loans in the corresponding period of 2009 were lower.

In the first half of 2010, the Group noted a gross profit of PLN 21,932 thousand, whereas in the first half of 2009 it incurred a gross loss of PLN (275,828 thousand).

The Group's net profit amounted to PLN 14,787 thousand as compared to the net loss of PLN (231,938 thousand) in the corresponding period of 2009.

## 5.2. Balance Sheet

### Consolidated balance sheet statement

As at 30 June 2010, the Group's total assets amounted to PLN 18,660,082 thousand and were lower by PLN 1,634,401 thousand, i.e. by 8% than total assets as at the end of December 2009.

Loans granted to customers constitute the major item of the asset structure. They increased slightly by PLN 2,904 thousand in comparison to the end of December 2009. The share of loans to customers in the structure of total assets represented 74% as at the end of June 2010 and 68% at the end of December 2009, respectively.

Customer deposits and loans and credit facilities received continue to be the main source of asset financing. Customer deposits went down by 19%. At the same time, the volume of loans and credit facilities received increased by 8% compared to December 2009.





Structure and pace of growth of selected balance-sheet items (in PLN thousand)

Balance sheet items	31.06.2010	Structure	31.12.2009	Structure	Dynamics
					30.06.2010-31.12.2009 (in %)
<b>ASSETS</b>					
Cash and cash equivalents	454 021	2%	832 724	4%	-45%
Financial assets held for trading	494 806	3%	664 305	3%	-26%
Due from banks	602 977	3%	1 573 242	8%	-62%
Loans to customers	13 814 460	74%	13 811 556	68%	0%
Investments - Available for Sale	2 687 057	14%	2 785 842	14%	-4%
Other investments	12	0%	12	0%	0%
Property, Plant and Equipment	178 615	1%	188 372	1%	-5%
Intangible assets	28 439	0%	42 229	0%	-33%
Settlements on account of income tax	22 772	0%	48 554		
Deferred tax assets	232 629	1%	227 819	1%	2%
Other assets	144 294	1%	119 828	1%	20%
	<b>18 660 082</b>	<b>100%</b>	<b>20 294 483</b>	<b>100%</b>	<b>-8%</b>
<b>LIABILITIES</b>					
Financial liabilities held for trading	135 178	1%	171 474	1%	-21%
Due to banks	1 597 582	9%	2 011 154	10%	-21%
Due to customers	7 467 961	40%	9 226 324	45%	-19%
Loans and credit facilities received	7 084 114	38%	6 560 893	32%	8%
Liabilities related to issuance of debt securities	30 000	0%	30 000		
Subordinated liabilities	587 496	3%	582 984	3%	1%
Current tax liabilities	131	0%	107	0%	22%
Other obligations	304 476	2%	148 140	1%	106%
Provisions	61 308	0%	56 773	0%	8%
<b>Total equity</b>	<b>1 391 836</b>	<b>7%</b>	<b>1 368 634</b>	<b>7%</b>	<b>2%</b>
	<b>18 660 082</b>	<b>100%</b>	<b>20 156 483</b>	<b>100%</b>	<b>-7%</b>

As at the end of June 2010, due from banks decreased by PLN 970,265 thousand, i.e. by 62% in comparison to the end of the previous year (i.e. from PLN 1,573,242 thousand to PLN 602,977 thousand). The share of due from banks in the total assets structure decreased from 8% recorded as at the end of December 2009 down to 3% noted at the end of June 2010.

The value of financial assets held for trading decreased by 26%, i.e. PLN 169,499 thousand in comparison to the end of December 2009, retaining a 3% share in total assets.

As compared to December 2009, cash and cash equivalents decreased by 45%, and their share in total assets structure decreased from 4% in December 2009 to 2% in June 2010.



Other assets increased by PLN 24,466 thousand (20%) as compared to the end of December 2009.

In comparison to the end of December 2009, the value of property, plant and equipment went down by 5% (i.e. by PLN 9,757 thousand).

Investments available for sale noted a decrease by 4% (PLN 98,785 thousand) in comparison to the end of December 2009, whereas their share in the asset structure remained unchanged (at the level of 14%).

As at the end of December 2009 the Group's securities portfolio included securities issued by the Polish State Treasury and the National Bank of Poland.

Investments available for sale comprised:

- Treasury bonds: PLN 1,149,639 thousand;
- Treasury bills: PLN 281,361 thousand;
- NBP cash bills: PLN 1,149,888 thousand;
- Bonds issued by banks: PLN 81,184 thousand;
- Shares and stock PLN 24,985 thousand.

As at the end of June 2010, intangible fixed assets stood at PLN 28,439 thousand, i.e. 33% less than at the end of 2009.

### Customer credit portfolio profile

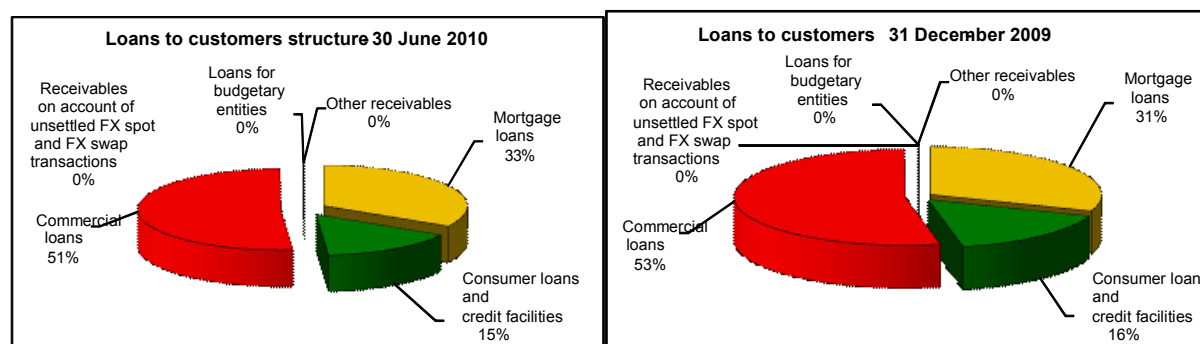
As at the end of June 2010, net loans to customers remained unchanged in comparison to the end of December 2009.

Commercial loans were the major item in the structure of loans to customers. Their share in the total gross loans to customers constituted 51% as at the end of June 2010, down from 53% recorded as at the end of December 2009. However, as compared to the end of 2009 the value of commercial loans decreased by 3%, i.e. by PLN 229,872 thousand.

The loan volume decrease referred mainly to institutional customers: the balance of working capital loans went down by 8% as compared to the end of December 2009, while investment loans (including loans for purchase/ construction of commercial real properties) decreased by 2%. Also the value of cash loans for individual customers decreased by 7%. At the same time, the balance of mortgage loans granted to individual customers increased by 10% in comparison to the level noted as at 31 December 2009.

As at the end of June 2010, the value of mortgage loans stood at PLN 4,982,329 thousand (10% increase) as compared to PLN 4,532,934 thousand at the end of December 2009. Their volume growth, however, resulted from higher FX rates. Excluding the impact of FX rate changes (due to zloty depreciation the value of mortgage loans grew by PLN 505,761 thousand), mortgage loans decreased by 1% in comparison to December 2009. Their share in the structure of gross loans to customers increased from 31% at the end of December 2009 up to 33% at the end of June 2010.

The value of impairment losses and IBNR totalled PLN 1,125,895 thousand as at the end of June 2010, as compared to PLN 1,015,426 thousand recorded at the end of December 2009. An increase in impairment losses and IBNR is mainly triggered by the delayed effects of a deteriorating situation on the financial markets and economic downturn observed last year, which made a portion of the Group's customers unable to repay their commitments.



Gross loans as at 30 June 2010 amounted to PLN 14,940,355 thousand, and increased by PLN 113,373 thousand as compared to the end of December 2009. Foreign currency loans constituted 47% of gross loans to customers. Excluding the impact of FX rate changes, the value of gross loans went down by 3% as compared to December 2009.



PLN loans hold the biggest share in the gross loan volume and constitute 53% of the total volume. As at the end of June 2010, their value stood at PLN 7,898,713 thousand, which represents a decline by PLN 247,599 thousand (3%), as compared to 31 December 2009.

Gross loans granted in CHF (in PLN equivalent) as at the end of June 2010 reached PLN 4,511,220 thousand and grew by 10% as compared to PLN 4,088,948 thousand at the end of December 2009 (as a result of zloty depreciation). At the end of June 2010, such loans made up 30% of total gross loans, as compared to 28% recorded as at the end of December 2009).

The portfolio of EUR loans (in PLN equivalent) went down from PLN 2,525,328 thousand at the end of December 2009 to PLN 2,434,615 thousand (4% decrease). Their share in the total gross loan volume went down from 17% as at the end of December 2009 to 16% at the end of June 2010.

Structure and dynamics of loans to customers (in PLN thousand)

Loans to customers	30.06.2010	Structure	31.12.2009	Structure	Dynamics
					30.06.10 -31.12.2009 (in %)
Loans to budgetary entities	1 169	0%	429	0%	172%
Mortgage loans	4 982 329	33%	4 532 934	31%	10%
Consumer loans and credit facilities	2 286 435	15%	2 394 363	16%	-5%
Commercial loans	7 656 904	51%	7 886 776	53%	-3%
Receivables on account of recognition of financial instruments (FX spot and FX swap transactions) on the transaction date	2 767	0%	2 054	0%	35%
Other receivables	10 751	0%	10 426	0%	3%
<b>Total loans to customers, gross</b>	<b>14 940 355</b>	<b>100%</b>	<b>14 826 982</b>	<b>100%</b>	<b>1%</b>
Impairment losses	-1 125 895		-1 015 426		11%
<b>Total net loans to customers</b>	<b>13 814 460</b>		<b>13 811 556</b>		<b>0%</b>

As at the end of 2009, the Group's exposure focused mainly on the following sectors: individuals, wholesale trade, education – medical care, commercial construction and engineering, machines.

Credit portfolio by sector	30 June 2010		31 December 2009	
	in PLN thousand	in %	in PLN thousand	in %
Natural persons	7 446 548	40,76	7 118 971	39,10
Wholesale	1 814 465	9,93	1 876 822	10,31
Education, medical care	1 395 042	7,64	1 503 933	8,26
Commercial construction and engineering	1 200 433	6,57	1 243 866	6,83
Other services	830 786	4,55	832 588	4,57
Machines	823 188	4,51	751 197	4,13
Retail trade	774 127	4,24	701 459	3,85
Food, tobacco, beverages	624 073	3,42	548 547	3,01
Chemicals and plastics	448 118	2,45	516 503	2,84
Vessels	416 050	2,28	448 446	2,46
Wood, woodwork	346 470	1,9	377 601	2,07
Sports, tourism, culture and arts	342 180	1,87	342 590	1,88
Motor vehicles	256 062	1,4	273 060	1,50
Furniture and electrical industry	188 934	1,03	194 773	1,07
Ceramics and glass	188 557	1,03	180 572	0,99
Financial institutions	186 844	1,02	171 628	0,94
Transport	173 161	0,95	143 675	0,79
Other means of transport	114 134	0,62	133 237	0,73



Administration services	106 461	0,58	120 223	0,66
Textiles, leather articles	105 626	0,58	105 185	0,58
Paper and stationery	90 349	0,49	101 106	0,56
Print shops and publishers	73 542	0,4	101 218	0,56
Other production	47 804	0,26	59 925	0,33
Production of metals and non-metals	41 381	0,23	30 135	0,17
Communications	28 882	0,16	16 087	0,09
residential construction	7 673	0,04	63 335	0,35
Others	199 556	1,09	248 105	1,37
<b>Total credit portfolio by sectors</b>	<b>18 270 446</b>	<b>100</b>	<b>18 204 787</b>	<b>100</b>

As at the end of June 2010, the share of natural persons' credit portfolio in the total credit portfolio amounted to 41%, which means an increase by 5% as compared to December 2009.

As at 30 June 2010, the exposure in wholesale trade accounted for 10% of the total credit portfolio, and as compared to 31 December 2009 decreased by 3%.

The share of other major sectors remained at a level similar to the one recorded at the end of December 2009, despite a few percent decrease in volumes. The share and exposure grew in such sectors as: retail trade, food and beverages and other services.

## Liabilities

Liabilities to customers on account of funds deposited on current accounts and term deposits make up the main item in the structure of liabilities. As at the end of June 2010, liabilities to customers amounted to PLN 7,467,961 thousand and decreased by PLN 1,758,363 thousand (i.e. by 19%) as compared to the end of December 2009. At the end of June 2010, the share of liabilities to customers represented 40% of total liabilities, it went down by 5 p.p. as compared to the end of December 2009. A decrease in the deposit balance is connected with the policy of not competing with high deposit interest rates adopted by the Group. This brought an outflow of funds of price-driven customers. The influence of FX rates shifts on the deposit level was marginal (+ 0.5%).

Term deposits prevail in the structure of liabilities due to customers: PLN 5,248,661 thousand, what constitutes 70% of the value of all liabilities to customers (as compared to 77% at the end of December 2009). Sight deposits reached PLN 2,061,985 thousand as at the end of June 2010 (which accounted for 28% in total liabilities due to customers). Their increased share in liabilities to customers (by 7 percentage points as compared to December 2009) and an increase in value (by PLN 144,399 thousand, i.e. by 8%) is observed.

As at the end of June 2010, received loans and credit facilities amounted to PLN 7,084,114 thousand and accounted for 38% of total liabilities, compared to PLN 6,560,893 thousand as at the end of December 2009 (32% of total liabilities).

As a result of an increase in FX rates, loans and credit facilities received from BNP Paribas Fortis Group banks, which grew by 10% (PLN 568,666 thousand) as compared to the balance as at the end of December 2009, represent 88% of received loans and facilities. As at the end of June 2010, the balance of such loans was PLN 6,254,954 thousand.

The share of due to banks in total liabilities decreased from 10% at the end of December 2009 to 9% at the end of June 2010. In terms of its value, due to banks balance decreased by PLN 413,572 thousand (21%) as compared to December 2009 due to repayment of loans contracted at other banks (their share in the total due to banks decreased from 72% at the end of December 2009 to 31%, i.e. by PLN 961,581 thousand or 66%); whereas the share and balance of other banks deposits placed in the Bank increased (by PLN 548,009 thousand, i.e. by 98%), mainly term deposits. As at the end of June 2010, the balance of other banks' deposits amounted to PLN 1,104,588 thousand including term deposits in the amount of PLN 590,800 thousand.

As at 30 June 2010, other liabilities made up 2% of total assets.

The share of financial liabilities held for trading in total liabilities structure as at the end of June 2010 amounted to 1% and remained at the level noted at the end of December 2009. Their value decreased by 21% as compared to the end of December 2009. All the financial liabilities held for trading consisted of financial derivative instruments. The balance sheet value of derivatives held for trading decreased from PLN 171,474 thousand as at end of December 2009 to PLN 135,178 thousand as at 30 June 2010.



## Provisions

The balance sheet provisions amount, which increased from PLN 56,773 thousand as at the end of December 2009 up to PLN 61,308 thousand as at the end of June 2010; concerns the following: provisions for off-balance sheet liabilities (PLN 46,517 thousand), reserves for incurred but not reported losses (IBNR) on account of off-balance sheet liabilities (PLN 7,687 thousand), legal risk reserves (PLN 4,710 thousand), likewise office sub-lease reserves (PLN 2,393 thousand). The total provisions increased by 8% as compared to the balance recorded as at 31 December 2009.

## Equity

As at 30 June 2010, the equity capital of the Bank amounted to PLN 1,391,836 thousand, i.e. 2% more in comparison to PLN 1,368,634 thousand as of 31 December 2009. An increase of equity results from the net profit generated in the first half of 2010. The share of equity capital in the structure of total liabilities remained unchanged (at the level of 7%).

The General Meeting of Fortis Bank Polska SA held on 29 April 2010 decided to cover the Bank's loss (after tax) in the amount of PLN 428.6 million (net loss) for the fiscal year of 2009 from its additional capital. At the same time, the loss in the amount of PLN 23,982 thousand resulting from the merger of Fortis Bank Polska SA with Dominet Bank SA was covered from the additional capital.

## Capital adequacy ratio

As at 30 June 2010, the Group's capital adequacy ratio was 13.76% in comparison to 13.40% as at the end of December 2009.

Considering the negative impact of losses incurred by the Group in 2009 on the capital adequacy ratio, the Bank undertook a number of measures with the view to improve the capital situation.

In order to increase the equity capital included in the calculation of capital adequacy ratio and solvency ratio, the Bank took out a credit facility of EUR 20 million from Fortis Finance Belgium SCRL in the first half of 2009. The Polish Financial Supervision Authority granted its consent on June 30, 2009 to include the subordinated loan in Tier 2 capital of the Bank. Consequently, the total value of the Bank's subordinated commitments as at the balance sheet date of 31 December 2009 amounted to PLN 582,984 thousand. An increased value of the subordinated commitments (up to PLN 587,496 thousand) as at the end of June 2010 was solely the result of an FX rates increase.

## 5.3. Contingent Liabilities - Off-balance Sheet Commitments

### Lending commitments

As at the end of June 2010, the value of contingent liabilities granted reached PLN 3,373,727 thousand, a decrease by 2% as compared to 31 December 2009.

<b>Contingencies and Commitments (in PLN thousand)</b>	<b>30 June 2010</b>	<b>31 December 2009</b>
<b>Total contingent liabilities received</b>		
- financial	2 381 011	4 242 177
- guarantee	136 178	259 672
<b>Total contingent liabilities received</b>	<b>2 517 189</b>	<b>4 501 849</b>
<b>Contingent liabilities granted</b>		
- financial	2 446 905	2 628 305
- guarantee	926 822	805 490
<b>Total contingent liabilities granted</b>	<b>3 373 727</b>	<b>3 433 795</b>
<b>Total contingent liabilities</b>	<b>5 890 916</b>	<b>7 935 644</b>

This item includes, among others: credit lines granted, bank guarantees granted, credit cards limits, commitments under opened import letters of credit, likewise general financing agreements.

As at the end of June 2010, the contingent liabilities received amounted to PLN 2,517,189 thousand and were lower by PLN 1,984,660 thousand (44%) than the balance recorded as at 31 December 2009.



## Enforcement titles

Total number of enforcement titles issued in the enterprises and affluent banking customers segment in the first half of 2010 was 73; their total value amounted to PLN 78,176 thousand. Moreover, in the Mass Retail customer segment, which has been created as a result of the merger with Dominet Bank SA, in the first half of 2010, 28,265 enforcement titles were issued of the total value of PLN 161,033 thousand as at 30 June 2010. In the first half of 2010 Fortis Bank Polska SA (excluding Dominet Bank SA) issued 144 enforcement titles of the total value of PLN 83,899 thousand.

## 5.4. Management of funds

The Bank's credit activity is financed mainly with customer deposits, both from business entities and natural persons, likewise long-term credit facilities from financial institutions, including credit lines and subordinated loans granted by entities of BNP Paribas group.

The stability of funding sources is assessed as satisfactory by the Bank.

Structure of financing sources	30.06.2010	31.12.2009	Change
Customer deposits	7 467 961	9 226 324	-19%
Long-term debt and subordinated debt	7 671 610	7 143 877	7%
Equity capital	1 391 836	1 368 634	2%

In the first half of 2010, the Bank reported a decline in deposit base (by PLN 1.76 billion, i.e. over 19% as compared to the end of 2009), mainly due to the maturity of high interest PLN deposits and the fact that customers not closely related to the Bank (i.e. not using other products offering) left. The Bank maintains an attractive products offering, however, it does not plan to win deposit customers of the highest price sensitivity. In accordance with profitability assumptions, the Bank does not intend to participate in a "deposit war".

As at the end of June 2010, opened and utilised credit lines of the Bank (in the Group) were the following:

Credit Lines of the Group

Agreement date	Counterparty	Amount	Maturity
30 January 2004	BGL BNP Paribas Luxembourg	EUR 200 million	30 June 2012
30 January 2004	BGL BNP Paribas Luxembourg	EUR 200 million	31 October 2010
3 July 2006	BGL BNP Paribas Luxembourg	EUR 300 million	3 July 2011
16 January 2007	BGL BNP Paribas Luxembourg	PLN 1 300 million	1 June 2012
18 April 2008	FORTIS BANK SA/NV	PLN 150 million	31 March 2014
18 April 2008	FORTIS BANK SA/NV	PLN 240 million	30 March 2029
4 January 2010	Fortis Finance Belgium SCRL/CVBA	EUR 200 million	4 February 2011
7 June 2010	BNP Paribas	EUR 300 million	7 June 2012

In accordance with the adopted financing strategy, if liquidity needs grow, the Bank takes advantage of the capital group support.

In the first half of 2010, the volume of credit lines from the BNP Paribas group, as well as subordinated loans remained unchanged, whereas their value as at the end of June 2010 (converted into PLN) increased to PLN 7,084.11 million and to PLN 587.5 million, respectively as compared to PLN 6,560.89 million and PLN 582.98 million as at the end of 2009, what resulted from a change in the FX rates level in this period (zloty depreciation).

The credit lines whose maturity fell in the first quarter of 2010 have been extended in accordance with the Bank's declarations (4 January 2010 – EUR 200 million, 5 March 2010 – EUR 300 million).

On 7 June 2010, the line of EUR 300 million was transferred from BGL BNP Paribas Luxembourg to BNP Paribas SA based in Paris.



At the end of June 2010, subordinated loans contracted were the following:

Subordinated loans:

Agreement date	Counterparty	Amount	Maturity
13 July 2004	External investors	PLN 30 million	29 July 2014
23 October 2007	BGL BNP Paribas Luxembourg	EUR 100 million	28 September 2017
21 April 2009	Fortis Finance Belgium SCRL/CVBA	EUR 20 million	22 April 2019
21 April 2009	FORTIS BANK SA/NV	EUR 60 million	22 April 2019

The Bank is also ensuring liquidity through available credit lines both in the Polish and foreign interbank markets.

The policy adopted in the Bank and related with financial support from the capital group members, approved by the owner, assumes active financing of a part of the credit portfolio, in particular assets in foreign currencies, with funds derived directly from the capital group.



## 6. DEVELOPMENT PROSPECTS FOR BANK BUSINESS ACTIVITY

The prospects of the Bank's business activity development will be materially affected by an improving macroeconomic situation, likewise the financial sector condition and implementation of the development strategy of BNP Paribas on the Polish market.

BNP Paribas Group is a leading European organisation operating in the financial sector at the international level, which focuses on investment, corporate and retail banking, asset and property management as well as insurance services. BNP Paribas group is present in 85 countries worldwide. In Europe its key markets include Belgium, France, Italy and Luxembourg. The Group has been operating in Poland through a number of subsidiaries, in particular Fortis Bank Polska SA and BNP Paribas Branch in Poland.

Fortis Bank SA/NV based in Brussels remains the direct parent entity of Fortis Bank Polska SA.

The BNP Paribas strategy for banking activities in Poland is based on the following key assumptions:

- BNP Paribas will develop an integrated "Universal Banking Activity Model" to reach all types of customers (individual customers, small and medium enterprises and corporate customers) while extending its product offering based on the combined know-how of BNP Paribas and Fortis;
- BNP Paribas will use the current customer base of Fortis Bank Polska SA and develop promotion of products offered within the group (cross-selling);
- BNP Paribas will implement the initial plans of Fortis regarding an increase of a market share and development of the branch network, supporting the strategy by its expertise in the following areas:
  - Consumer Finance (as regards bancassurance);
  - Corporate and Investment Banking.

After the merger of Fortis Bank Polska SA and Dominet Bank SA in mid-2009, the next stage of the strategy implementation was to formulate a new integrated strategic plan based on the shared expertise after an in-depth analysis of profitability and risk. Plans of BNP Paribas towards the Bank are included in the so-called "Industrial Plan" that covers the scope of integration of selected business and operational parts of the activity conducted in Poland within the BNP Paribas Group. "One organisation" concept has been introduced which allows to strengthen the cooperation and synergy between numerous entities representing the group in Poland. Fortis Bank Polska SA and BNP Paribas Branch in Poland, in spite of preserving a separate legal status, will cooperate closely to offer a full range of services to enterprises in Poland.

The Bank's strategy for the years 2009-2010 assumes the achievement of the following main objectives:

- Building of a universal bank with use of competitive edges offered by Fortis Bank SA (affluent and corporate customer) and Dominet Bank SA (mass customer and microenterprises) thanks to the merger of the banks.
- Cutting down on operating costs of the merged Bank over two-year period by about PLN 100 million annually owing to synergies that include elimination of overlapping jobs in the Bank and integration of the product offering and IT systems.
- Improvement of the risk management quality at the Bank, in particular in the area of credit risk and market risk, by reviewing and modifying the existing risk assessment methodologies, with the emphasis put on the credit risk related to off-balance sheet liabilities. Consequently, the Bank adopted a more conservative approach to risk assessment and a selective approach to customer financing. The Bank will also take regular actions with a view to improve the efficiency of monitoring of the existing exposures as well as debt recovery processes.
- The emphasis put on effectiveness of the business development and widely-understood marketing, including first of all a selective approach to the bank offering modification. Focusing on a full business use of the products already available in the offering will be a priority. In the years 2009-2010 any product development cost increase is anticipated only in the strategic areas such as:
  - deposit offering, in order to increase the balance of term deposits (in particular, an increase of deposit balance in relation to credit balance);
  - transaction banking offering (daily banking, including internet banking and cash management) as a support for the existing customer relationship development, risk management support (thorough knowledge of the Customer owing to extended transaction banking relations) and deposit base building (increase of current account balances).
- Building a strong deposit base. To do so, the Bank acquires deposits both from retail (mass retail in particular) and corporate customers. Since the Bank does not plan to pursue an aggressive pricing policy, the key drive for the deposit rise will be a rise in marketing expenses. An increase in the number of deposits will be used to improve the Bank's liquidity and change its financing sources. In the years 2009-2010, the Bank intends to limit the amount of funds acquired from the Group.
- Enhancement of the efficiency of business processes functioning at the Bank after the merger, in particular ensuring the efficiency of sales activities.





As a result of the merger of Fortis Bank Polska SA and Dominet Bank SA on 31 July 2009, the position of the Bank on the Polish market changed. Fortis Bank Polska SA, from a bank servicing mainly corporate customers and affluent individuals has turned into a universal bank with an extended profile of activities.

The integrated Bank's strategic purpose for the next years is to improve the sales activities efficiency. For this purpose:

- the Bank will focus on developing relations with the existing customers instead of incurring high cost of acquisition of new customers. Cross-selling will be a priority; it will focus on increasing the number of products held by specific customers and thereby improving customer loyalty and profitability;
- Customer profitability will also be positively affected by an efficient management of historical, low-margin credit balance with respect to both Institutional Customers and Individuals;
- As regards distribution channels, the key strategy component consists in an implementation of a multi-channel and integrated distribution network for the product offering based on the nationwide branch network supported by electronic channels, Call Centre and franchise branches. Moreover, internet banking will be considered a priority (as regards internet banking system; the Bank will use the existing advanced solutions);
- The network of the Bank's own branches will be developed to implement the strategy of staying close to the customers, whereas the dynamics of opening new branches will depend on market conditions and the Bank's financial results. The Bank's strategy assumes regular monitoring of branch profitability and elimination of branches, which will fail to achieve the required results. Considering the current financial performance, the Bank has limited opening of new branches in the short-term perspective.

As part of the integration of the BNP Paribas Group in Poland in the corporate banking area, a new division of competences between the BNP Paribas Branch and the Bank will be introduced in order to ensure transparency and non-competition between the BNP Paribas Group members in Poland. The division is based on the following assumptions:

- Transaction banking products, Trade Finance, simple credit products and simple treasury products will be offered by the Bank to all customers;
- Investment banking products (i.e., e.g. structured finance, consulting on mergers and acquisitions, advanced derivative instruments and treasury products) will be offered by the BNP Branch to selected customers in Poland.

In connection with the new division of competences among organisational units of the BNP Paribas group in Poland in 2010, some customers, with their consent, will be transferred (i.e. their agreements on products they use), from the BNP Branch to the Bank. The transfer of customers started on 1 July, i.e. after Fortis Bank Polska SA and BNP Paribas SA Branch in Poland (as a seller) concluded a sale agreement regarding the organised part of the enterprise. The organised part of the banking enterprise acquired by the Bank includes the following banking activity segments: credit activity, cash management services, trade finance services, issuing bank guarantees, likewise provision of other standard banking services. Under this transaction, the Bank acquired specific assets and took over liabilities of total of 350 Branch customers.

The Bank will reinforce its position on the retail banking market. The Bank positions itself as a friendly and universal bank, which supports aspiring customers in building their future, offers them services and financial consulting in a friendly and modern environment. The Bank plans to differentiate its business strategy in relation to particular customer segments, focusing on an active acquisition of new customers from the Mass Retail segment and also members of liberal professions and small enterprises. It is assumed that the number of customers will increase substantially within the next 5 years.

In the case of Affluent Banking customers, the Bank adopted a strategy of increasing the number of products held by the present customers and building their loyalty. As regards cross-selling, it will be important to make use of the potential of Mass Retail customers and carry out active sale to customers of this segment. The other main area of concentrated actions will be cross-selling between various customer segments at the Bank, e.g. development of cooperation with businesses in terms of parallel service of a company and personal finances.

The product offer will be developed through:

- reviewing the offer of accounts and packages for individual customers and companies, including a wide range of assistance services added to the offer;
- offering mortgage loans on competitive terms and conditions;
- development of the car loans offering, likewise development of existing products for dealers financing;
- development of the credit cards offering, including a new range of products (credit cards with enhanced functionality) and credit card limits management;



- the cash loans offering remodelling.

The Bank intends to promote a responsible lending concept taking into account the entire relation with its customer.

In connection with the formal and legal merger with Dominet Bank SA and integration of operating systems of both banks, the Bank continues the project of optimisation of its operations. The integration of the existing functions and operations carried out by the Head Office of Dominet Bank SA in Lubin with operating structures of Fortis Bank Polska SA is the next step to increase the operating efficiency of the Bank. Consequently, the project realisation caused an employment reduction, which covered 263 employees in the entire Bank between the fourth quarter of 2009 and the end of June 2010 .

Actions targeted at increasing efficiency of the Bank's operation should improve the financial performance of the Capital Group of Fortis Bank Polska SA. Further, they are a part of the Rehabilitation Programme prepared in accordance with Article 142 of the Banking Law Act, which at present is being implemented with consent of the Polish Financial Supervision Authority. The most important assumption of this programme is to undertake actions to ensure an adequate risk control in various areas of the Bank's operations, sources for loss coverage, stable growth of its credit portfolio, likewise an improvement of cost management.

The Bank undertakes several steps in order to boost the growth of its income, which is slightly lower than assumed. The costs remain on the assumed level, in the case of provisions on non-performing loans they are even slightly lower. Striving to increase the sales efficiency by greater number of products used by customers (use of mix marketing basic components and cross-selling – refreshing product offering, advertising campaigns, activities that strengthen BNP Paribas Fortis brand) and consistency in risk management of the portfolio held should ensure an improvement in the Bank's income level in future.

The Bank does not plan to win deposit customers of the highest price sensitivity. According to the previous declarations and profitability assumptions, it is not the Bank's intention to compete in terms of interest rates of deposits. The Bank will use the Group's support if increased liquidity needs arise. The Bank's liquidity and capital situation remain stable.

According to the assumptions to the Rehabilitation Programme, the Bank will achieve a positive financial result and, pursuant to the provisions of Article 142, section 4 of the Banking Law Act, its equity capital will gradually increase following the transfer of financial results into the additional capital (the Bank is not planning to pay any dividends until 2012). The Bank's capital adequacy ratio, which at the end of 2009 was equal to 13.40%, and as at 30 June 2010 amounted to 13.76%, exceeds significantly the minimum level of 8% required by the Banking Law.

The Supervisory Board and the Board of Executives follow the policy of non-disclosing the result forecasts for 2010.



## 7. BASIC RISK TYPES AND RISK MANAGEMENT

Taking into consideration the Group's top priority objectives, that is, protection of customer deposits and securing liquidity, the Fortis Bank Polska SA Group pays utmost attention to monitoring and mitigation of risks inherent in the business of the Bank and its subsidiary.

Since 2009 the Bank has been working to change the risk management system to enhance its quality, likewise to allow for the changes connected with the merger with Dominet Bank SA and BNP Paribas group. The changes in the policy of offering credit facilities and loans, likewise financial instruments, also affected the risk management system.

The risk management system structure includes the Supervisory Board, the Board of Executives, specific committees and Departments of the Risk Area.

The Supervisory Board of the Bank supervises the compliance of the Bank's policy in the area of risk assumption with the strategy and financial plan of the Bank, in particular, the Board supervises the functioning of risk management and internal control systems, assesses their adequacy and efficiency and approves procedures in this area.

At the Supervisory Board's level, there is also the Audit Committee, whose key tasks include monitoring of the internal control system quality and assessment of the financial information integrity. Specifically, the Audit Committee assesses the Bank's business risk processes and environment control, supervises financial reporting process and assesses internal and external control processes.

The Board of Executives of the Bank is responsible for the efficiency of risk management and internal control systems, the process of assessment of internal capital and for reviews of the assessment process, for the maintenance of the internal capital and for the supervision of efficiency of these processes. The relevant committees support the Bank's Board activity in the risk management area.

Assets and Liabilities Management Committee (ALCO) supervises the Bank's assets and liabilities management, likewise makes decisions in this regard. This Committee is responsible for implementation and approval of new methodologies of liquidity, currency and interest rate risk management, likewise for their subsequent application. The Committee approves also assumptions regarding the Bank's financing, sets out transfer prices and supervises the fulfilment of internal and regulatory market and liquidity risk measurements.

The Risk Committee makes decisions with respect to operational risk, counterparty risk and strategic aspects of credit risk. The important function of the Risk Committee is to consolidate information regarding different types of risk at the Bank, likewise ensuring finally that the risk management model is adequate to the scale of the activity conducted and resources held. This Committee cooperates closely with other committees at the Bank, in particular with Assets and Liabilities Management Committee.

The Credit Committee is a body authorised to take credit decisions at Fortis Bank Polska SA up to the level specified by the maximum credit limit, set up by the Supervisory Board of the Bank. The main tasks of the Committee include taking decisions regarding the following:

- granting, increase, decrease or renewal of loans and other products bearing credit risk, the establishment of legal collateral for loans, fundamental changes of loan terms and conditions (including changes of legal collateral), risk/rating classification determination/change;
- restructuring, composition agreement concluding, transfers from balance-sheet to off-balance-sheet records;
- amendments to credit decisions or agreement conditions that do not significantly affect the credit relationship between a customer and the Bank.

Other committees that directly affect the risk profile of the Bank include: New Products, Activities and Organisations and Exceptional Transaction Validation Committee and Credit Risk and Provisioning Committee.

The key role in the risk monitoring and management system is played by the Risk Area, separated organisationally, as well as by the Compliance and Control Line that includes among others the Oversight of Operational Permanent Control Department that supervises the operational risk management process.

The Vice President of the Board of Executives, who acts as the Country Chief Risk Officer, heads the consolidated Risk Area. Since 15 October 2009 the Risk Line includes three lines responsible for operating activity: Credit Risk Individuals Line, Credit Risk SME Line, International and Big Credit Exposures and IC/R Line, likewise two lines operating in the risk strategy area: Credit Risk Strategy, Reporting and Control Line and Transversal Risk Management Line.

In the risk monitoring, control and management process the Bank differentiates the following types of risk:

- credit risk;



- liquidity risk;
- market risk;
- ALM risk;
- counterparty risk;
- operational risk;
- compliance risk;
- business risk (break-even risk);
- strategic risk;
- reputation risk.

The Bank's Board of Executives defines the risk management strategy that includes all types of risk, likewise policies applicable to all individual types of risk. This strategy is approved by the Supervisory Board.

### 7.1. Credit risk

Customer financing with the use of various types of credits, loans, limits is the main source of risk in the Bank's operations because it affects its profits and capitals. The credit risk results from debtor's failure to fulfil any agreement or from other acts inconsistent with the contractual provisions.

Fortis Bank Polska is a universal Bank that provides services to retail and corporate customers. Retail customers of the Bank do not constitute a homogenous group – they are both "mass" customers and "micro-enterprises" formerly using the services of Dominet Bank, and wealthy customers from the Fortis Bank's "Mass Affluent" line. The segment of retail customers also includes customers from the SME sector.

The services of the Enterprise & Transaction Banking segment are used by customers from the medium-sized and large enterprises sector. The structure of this segment includes also the Currency and Deposit Department, which services ETB and RB business line customers with respect to currency exchange (spot, forward and FX swap), likewise money market products (deposits, treasury bonds and treasury bills).

The customer services are divided into segments according to the concept of lines of business applicable in the Fortis Bank Group. The process of credit risk management is organised in a similar manner. This ensures a transparent division of responsibilities within the process.

Each of the business lines has its regulations (Credit Policies,) which define rules and criteria for financing within the product offering of the given line of business, excluding customers from financing options, the types of available credits and loans, objectives, conditions and limits of financing. According to the criteria contained in the Credit Policy, the Bank is willing to co-operate with those customers that have good reputation and economic and financial standing (they form a target market for the Bank).

The Credit Policy defines a set of general standards applicable to the credit process and gives the basis for detailed regulations concerning various customer groups.

The Credit Policy defines in particular:

- credit products designed for various customers;
- maximum credit amount;
- credit currency;
- maximum repayment period;
- maximum grace period;
- maximum value of the LTV ratio;
- expected rate of return for a customer (measured using RARORAC).

In order to mitigate the risk of exposure concentration towards specific customers and groups of affiliated customers, under the decision of the Bank's Board of Executives and the Supervisory Board, an internal limit of maximum exposure of PLN 100 million has been implemented.

An assessment (scoring/rating) is assigned to each customer, according to the rules applicable at the Bank. Scoring/rating is a synthetic metric of customer's risk profile assessment, including the customer's economic and financial standing, and supports the process of crediting decision-making. To mitigate credit risk, the Bank requires that applicants should submit a proposal of legal collateral securing the loan repayment (where this is reasonable and consistent with the product features).

The Bank has defined decision-making levels and regulations concerning credit decision-making. The Credit Decision Making Regulations provide for a possibility of and determine the rules of delegating the Credit Committee's authority, likewise define decision making rules by credit committees in business lines. The powers may be delegated as an authorisation to make decisions according to the "4-eyes" (2 persons) or "2-eyes" (individually) principles.



The Bank has also implemented rules for an adjustment of scoring, so called “overrides” and “overruling” that introduce expert adjustments to the quantitative rating/scoring system.

The Credit Policy also defines rules for verification of customers, collateral and reliability of submitted documents, to prevent obtaining loans by false pretences.

The Bank has prepared user manuals for systems supporting the credit process, to enhance employees’ awareness of the application functionality.

The leading products in the Bank’s portfolio include mortgage loans and commercial loans.

In 2010, the Bank introduced the MARS system – a system designed for automated monitoring of the entire credit products portfolio available at the Bank, likewise for identifying potential threats that affect credit risk increase.

## 7.2. Counterparty risk

Counterparty (credit) risk is a risk that the parties fail to fulfil their obligations arising from transactions included in the Bank’s trading portfolio. The counterparty risk is related to exposures at risk of such market factors as interest rates or FX rates. The impact of market factors on these transactions may result in a change in the exposure scale over time, thus affecting the risk of customer’s insolvency. The exposure level depends directly on the current valuation of transactions concluded. Apart from the current transaction valuation, the counterparty risk assessment includes also an additional surcharge on a transaction type, settlement date and current fluctuation of market parameters.

At the end of the first half of 2010, the counterparty risk calculation covered the following transaction types included in the Bank’s trading portfolio:

- foreign exchange transactions;
- interest rate contracts;
- foreign currency options;
- interest rate options.

The counterparty credit risk assessment for transactions that generate a counterparty risk is the same as for credit granting. The rules for foreign exchange, derivative transactions and for granting, use and monitoring of credit limits in these transactions made with the customers at the Bank are regulated in dedicated instructions. According to the Bank’s policy, the Bank concluded all transactions on the basis of individually granted limits and its knowledge of the customer. However, the Bank did not provide investment advisory services regarding financial instruments, in the understanding of the MiFID Directive.

In 2009, the Bank made an adjustment of fair value of financial instruments on account of counterparty credit risk towards customers who had problems with repayment of their obligations, or in respect to which such situation was very likely to occur. In the first half of 2010, the Bank was monitoring the adjustments made, and modified the value of adjustments made in previous periods.

## 7.3. Liquidity risk and market risk (interest rate risk, FX risk)

The Bank defines liquidity risk as the risk of losing its ability to: meet its payment commitments when due, acquire funds which are alternative to funds currently held, generate a positive cash flow balance within a specified time horizon.

Market interest rate risk is related to unfavourable changes in the Bank’s financial result or the Bank’s capital, which arises from one of the following reasons:

- a different way of making interest rate of the Bank’s assets and of liabilities financing such assets dependent on market rates (mismatch risk);
- changes in market interest rates that affect fair value of the Bank’s open positions (interest rate volatility risk); or
- exercise by customers of options built in the bank products which may be exercised as a result of changes in market interest rates (customer option risk).

Market FX risk is linked to adverse changes to the Bank’s financial result caused by changes in market Forex spot rates.

The Bank monitors the liquidity risk, FX risk and interest rate risk by means of the multidimensional system of limits and reports.



A system of limits is imposed on the majority of analysed parameters of liquidity, FX and interest rate risks. The limits are set in such a way so as to:

- keep the desired market risk profile, determined in the Bank's strategies;
- keep the limits set out by the Bank within the limits, if any, determined for the same portfolios and risk types by Fortis Bank SA/NV based in Brussels.

In the event a limit is exceeded, the unit responsible for keeping the reported values below a given limit is required to undertake actions to enable reduction of a given risk pursuant to procedures binding at the Bank.

The Bank's IT system is developed so as to enable the Bank to monitor, analyse and report the Bank's liquidity, FX and market interest rate risk level on a daily basis, in a fully automated manner. Furthermore, the IT system ensures collecting (recording) data on interest rate operations and transactions, various risk indicators and market rates.

As regards the risk management, the Bank's policy objective is that employees responsible for the supervision and service of risk management processes have high moral standards and long-term expertise and theoretical knowledge required for such duties.

The Bank has adopted a rule of control functions independence included in the FX, interest rate and liquidity risk management process. Control units are organisationally separated from other units and report to other member of the Board of Executives. Furthermore, the Bank introduces control mechanisms that include several steps into the risk management process.

The Bank has developed policies on operational risk control and management, likewise on the conduct in the event of crisis situations. The said policies naturally refer to FX and interest rate risk management processes.

#### **7.4. Operational risk**

The operational risk management consists in continuous operational risk identification, analysis, monitoring, control and mitigation processes, including determination of relevant scopes of responsibility for the above processes at different organisational levels of the Bank. Operational risk is a basic risk inherent in the Bank's business activity which increases proportionally to the complexity of organisation, systems applied, likewise products and services offered.

For the needs of the operational risk management, the Bank has adopted a definition recommended by the Basel Committee for Banking Supervision, according to which operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk.

The Bank's strategy and policy regarding the operational risk management are described in the document adopted by the Bank: "Strategy and Policy regarding Operational Risk at Fortis Bank Polska SA."

The Bank's strategy consists in implementing and maintaining high quality standards for the operational risk management to guarantee that customer deposits and the equity are secure and the Bank's financial performance is stable.

The Bank's Board of Executives makes a periodic assessment of how the Bank operational risk management strategy assumptions are put into practice. To this end, the Bank's Board of Executives is kept informed on a regular basis on the scale and types of operational risk the Bank is exposed to, its consequences and operational risk management methods.

An ongoing examination of operational risk along with development and improvement of adequate risk control techniques are the tasks of the dedicated organisational unit, the Oversight of Operational Permanent Control Department of the Compliance and Control Line. The co-ordination of the process of operational risk management in the units belonging to Technology, Operations and Process Services (TOPS) Line falls within the competence of the Operational Risk Coordinator for TOPS. The Risk Transfer Group in the Administration and Security Department is responsible for definition and implementation of the Bank's strategy in terms of the Bank's insurance, as a risk mitigation method.

The Bank precisely divides duties related to operational risk management, adjusted to the existing organisational structure, taking into account operational losses recording, monitoring, mitigation and reporting of operational risk level.

Recording of operational losses enables effective analysis and monitoring of operational risk. The policy applied by the Bank as regards the manner of recording operational losses is to enable efficient and error-free recording of all operational losses. The loss recording process is supervised by the Oversight of



Operational Permanent Control Department which also keeps content-related documentation of the data recorded and is responsible for data quality and completeness.

The Bank is particularly committed to identification and assessment of reasons for current exposure to operational risk related to banking products, reduction of operational risk by improving internal processes and mitigation of operational risk that accompanies the introduction of new products and services. Therefore, each operational loss is classified taking into account operational incident type, reasons why operational risk has arisen, existence of an affiliated risk, accounting consequences and a claim lodged, if any, by third parties.

Under the Bank's policy, operational losses are allocated to business lines. The principal idea of allocation is to ensure that the business line management is directly interested in the control quality and efficiency of mitigation of operational risk accompanying the service of specific products.

Risk areas that are vital for products offered by the Bank are subject to ongoing monitoring of exposure to operational risk. To this end, the Bank checks operational risk level using predefined Key Risk Indicators, i.e. measurable values that enable ongoing monitoring of changes in operational risk profile, analysis of a trend of changes in exposure to risk and early detection of increased operational risk for specified areas of the Bank's activity.

The Bank shall periodically verify efficiency of the implemented operational risk management system and its adequacy to the Bank's current risk profile. The operational risk management system is supervised and regularly reviewed by the Audit Department, which is operationally independent and employs competent and appropriately trained personnel. The Bank's Supervisory Board oversees the control of the operational risk management system and assesses its adequacy and efficiency.

In order to compute the capital requirement for operational risk, the Bank uses the Basic Indicator Approach.

As a part of legal risk management, the Legal Department for Corporate Customers and Legal Department for Retail Customers and Support Functions monitor and analyse the above-mentioned areas and notify the Compliance Department and Audit Department about any risks or irregularities identified.

#### **Fortis Private Investments Polska SA**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and technology systems, or from external events.

Under the Finance Minister's Ordinance dated 18 November 2009 regarding the scope and detailed rules of setting out capital requirements for brokerage companies and maximum amount of loans and credit facilities and issued debt securities in relation to equity, the operational risk is considered a material risk and the Company mandatorily calculates operational risk exposure. As the Bank's subsidiary, FPIP shall provide financial data with a view to computing the operational risk exposure for further reporting by the Bank. In order to calculate the capital requirement for operational risk, FPIP provides financial data consistent with regulatory recommendations to the capital requirement calculation for operational risk according to the Basic Indicator Approach.

Under the New Capital Accord, the Bank shall evidence operational losses of its subordinated entity, i.e. Fortis Private Investments Polska (FPIP). Operational losses suffered by FPIP are evidenced in a database kept by the Bank on the basis of information provided by FPIP.

### **7.5. Compliance risk**

The Bank's Supervisory Board considers the Bank's image and trust that is systematically built in relationship with its customers, business partners, shareholders and employees, one of key factors that conditions efficient operation and implementation of the Bank's mission and business strategy. The Bank's and its employees' failure to comply with governing law provisions or internal regulations is considered one of the greatest threats to the Bank's good reputation and image.

In order to ensure security and stability of the Bank's business, especially through elimination or mitigation of compliance risk and the related risk of legal sanctions, financial losses or reputation loss, essential for the current or future position of the Bank in relation to its competitors and the public, the "Compliance Risk Management Policy at Fortis Bank Polska SA" was developed. At the same time, processes of monitoring, identification and analysis whether the Bank's internal regulations, banking practice and the conduct of Bank's employees are compliant with the binding law, were implemented. The said processes are the responsibility of the Compliance Department.

The Bank developed an internal Customer Acceptance Policy, thus implementing necessary IT software used to verify whether customers serviced were recorded on sanctioned entities lists, and adjusting the Bank to the requirements of the Act on Countering Introduction into Financial Circulation of Property Values Derived



from Illegal or Undisclosed Sources, and on Counteracting the Financing of Terrorism being amended, which is part of compliance risk management.

### **Fortis Private Investments Polska SA**

The Internal Compliance Team of FPIP is responsible for ensuring and control of compliance of the investment firm's activity and conduct of its employees, both with the binding legal regulations and internal procedures of FPIP. Procedures and organisational solutions required under the capital market regulations are systematically implemented in compliance with amendments to law provisions, if any. Internal compliance performance reports are regularly sent to the Management Board and Supervision Board of FPIP likewise to the Polish Financial Supervision Authority, which enables the market regulator to assess the effectiveness of those actions at FPIP.

Using the methodology developed in the capital Group, every year FPIP analyses the compliance risk to determine a plan indicating priority actions in areas that demand particular attention.

## **7.6. Security policy**

The Bank focuses on risk minimisation and therefore takes into consideration the need to ensure an adequate level of security of assets and information in legal and business aspects.

Considering that financial services require specialist knowledge and permanent access to data, while reliable information determines the financial entity's position, the Bank pays particular attention to system solutions that provide continuous and appropriate protection of information against threats and susceptibilities.

The system solution that allows for improvement, monitoring and control over the information security at each level of the Bank's management is the Information Security Management System. This system is based on a process approach in the aspect of implementation of the security measures applied.

The designed and implemented system approach to information security, with respect to the applied security measures, is driven by the need of a continued improvement of products and services offered to customers.

System actions, consisting in risk analysis, information classification, incident management, centralised management and control of access to IT systems, likewise change management, systematised business continuity process, information exchange and access standards, property security standard, altogether lead to a comprehensive approach to the information security issue.

The Bank implements the scheme of actions taken under the Information Security Management System through its Information Security Policy and area policies that comprise the Information Security Management System, i.e. Data Communication Security Policy, Physical Security Policy, Compliance Risk Management Policy, Personal Data Security Policy, Business Continuity Management Policy, and the Crisis Management Policy.

In order to plan and implement corrective and preventive actions, a system of gathering incident data has been put in place by the Bank. The system enables the Bank to develop a database of threats and susceptibilities that affect confidentiality, availability and reliability of information and data processed in the Bank.

It is assumed that such actions contribute to mitigating the risk of losing availability, reliability or confidentiality of information, through anticipating and preventing negative factors that are reflected in the quality of products and services offered.

The information security process in the Bank is coordinated by the Information Security and Business Continuity Department, Information Security Committee and specialised units that perform their tasks in specific Information Security areas: Information Systems and Technology Line, Facility Management and Procurement Line, Compliance and Control Line and Human Capital Management Line.

The Information Security Management System is subject to an annual assessment carried out by an external auditor that confirms its compliance with ISO/IEC 27001. The audit results confirm efficiency of implemented, maintained and developed security measures.

Organisational changes arising from the take-over of Fortis Bank Polska by BNP Paribas resulted in the fact that business continuity management area was transferred to the Information Security and Business Continuity Department. The Bank carries out tasks aimed at creation of an integrated business continuity management system that will facilitate identification of potential threats for the organisation and estimate a probable impact that such treats, if they occur, might have on processes existing at the Bank.

Rules of the Bank's business continuity management are described in internal regulations: "Crisis Management at Fortis Bank Polska SA" and "Business Continuity Management Policy of Fortis Bank Polska SA."





There is a specialised Business Continuity Committee in the Bank, established as an approving body to support the Board of the Executives in an effective management of the Bank's business continuity.

The Bank makes analyses regarding business continuity and indicating the need to secure a given area, develops business continuity plans that precisely describe actions that should be taken to restore business functions before, during and after an incident.

The Business Continuity Group in the Information Security and Business Continuity Department is responsible for performance of tasks regarding the Bank's business continuity management.

Taking into account a growing number of external and internal threats that bore the hallmarks of abuse or offence against assets of the Bank or its customers, likewise continuously improved *modus operandi* of such events, the Bank maintains and constantly enhances the process of counteraction, detection and examination of such cases. The aforementioned competences are assigned to the Fraud Prevention Department at the Bank; it performs its tasks based on close cooperation with the system of justice authorities and institutions of the financial market.

#### **Fortis Private Investments Polska SA**

Considering the size of the investment firm and the area of its operations, FPIP has introduced the "Information Security Policy at Fortis Private Investments Polska S.A." along with the "Instructions for management of IT system for personal data processing at Fortis Private Investments Polska S.A." and applies security measures to ensure confidentiality, reliability and availability of information, pursuant to the binding law provisions and requirements of the owner.

### **7.7. Business risk**

Business risk is a risk of financial or non-financial losses resulting from changes in the Bank's competitive environment, current business activity or wrong business decisions. Although business risk usually results from external factors, it can be mitigated by efficient management actions.

In the business risk area, the Bank identifies strategic risk and reputation risk.

The strategic risk should be construed as the risk of negative financial consequences of management decisions on the choice of business strategies and their implementation method, taking into account the ability to efficiently respond to external factors.

Reputation risk is the Bank's risk of losing the image of a solid business partner and, consequently, of deterioration or loss of confidence of customers, shareholders, counterparties or regulators as a result, for instance, of incorrect actions taken by the Bank or its employees, involvement of the Bank in unclear business relations, or as a consequence of lost lawsuits.

The reputation risk should be understood as the risk that may adversely affect the business potential and scale of activity of the whole Bank as well as of other BNP Paribas Fortis group entities. Reputation risk may have a material impact on present and future revenues of the organisation and its ability to acquire capital, which results directly from the negative perception of the institution by public opinion. Moreover, this type of risk also affects the Bank's possibilities of initiating new relations or continuing to provide services to existing customers.

The Bank makes business risk assessment as part of regular (annual) Control and Risk Self Assessment (CRSA) sessions attended by the members of the Board of Executives and invited representatives of senior management of the Bank. During such sessions, the Bank determines an amount of internal capital for business risk in line with the methodology currently adopted by the Bank.

The Bank manages business risk by continuous monitoring and analysis of business decisions taken with respect to effects of their realisation and changes in market environment. The Bank's strategy consists in implementing and maintaining high quality standards for business risk management and assessment to guarantee that customer deposits and the equity are secure and the Bank's financial performance is stable.

#### **Fortis Private Investments Polska S.A.**

For the needs of business risk management, FPIP has adopted the definition of risks consistent with the definitions applied at the Bank.

FPIP makes business risk assessment as part of regular (annual) Control and Risk Self Assessment (CRSA) sessions attended by representatives of senior management of FPIP. During such sessions, FPIP determines an amount of internal capital for business risk in line with the methodology currently adopted.

***Financial data regarding risk management in Fortis Bank Polska SA Capital Group are presented in Chapter 15 of the Financial Statement.***



## 8. Agreements significant for the Bank's activity

### 8.1. Agreements with BNP Paribas SA

#### **Loan Agreement with BNP Paribas SA superseding the annex to the agreement with BGL BNP Paribas SA**

On 5 March 2010 an annex to the loan agreement dated 25 February 2008 between BGL BNP Paribas SA (former Fortis Banque Luxembourg SA) based in Luxembourg and the Bank. The agreement referred to a credit line granted to the Bank by BGL BNP Paribas SA with the limit of EUR 300 million (or its equivalent in USD or CHF) in order to finance the Bank's current operating activity. Under the annex the credit line is renewed starting from 5 March 2010. The credit line was to be available till 5 March 2011. The other financing terms and conditions remained unchanged were not different from market conditions.

On 2 June 2010 a credit agreement was signed between the Bank and BNP Paribas SA based in Paris which has superseded the above agreement and the annex. The debt balance with BGL BNP Paribas was paid off and the Bank obtained from BNP Paribas SA a new credit line of EUR 300 million, available till 7 June 2012. The credit interest rate has been established based on the EURIBOR interest rate increased by a margin. The terms and conditions of the financing granted correspond to market conditions.

#### **Loan agreement with BNP Paribas SA**

On 27 July 2010 (i.e. after the balance sheet date) a loan agreement was signed between BNP Paribas SA based in Paris and the Bank on granting a credit line up to EUR 100 million to the Bank. Till the agreement signing date a tranche of EUR 50 million was made available. Funds under the credit line will be allocated to the Bank's current operating activity and general corporate purposes. The financing term is up to fifteen years. The credit interest rate has been established based on the EURIBOR interest rate increased by a margin. The terms and conditions of the financing correspond to market conditions.

#### **Sub-license agreement with BNP Paribas Personal Finance**

On 13 July 2010 (after the balance-sheet date) a sub-license agreement was signed with BNP Paribas Personal Finance SA under which the Bank has been given the right to use the Tallyman system for management of consumer loans under debt collection.

### 8.2. Agreements signed with BNP Paribas SA Branch in Poland

***For a detailed description of the agreements, see Item 1.3 hereof and Item 16.1 of the Financial Statements.***

### 8.3. Agreement with Fortis Finance Belgium SCRL/CVBA

On 29 December 2009 a credit agreement was signed between Fortis Finance Belgium SCRL/CVBA based in Brussels and the Bank on granting a credit line up to EUR 200 million to the Bank. The Agreement superseded the loan agreement dated 7 December 2007 that expired on 4 January 2010. The credit was drawn down on 4 January 2010. Funds under the credit line will be allocated for the Bank's general corporate purposes. The financing term is 13 months counted from the credit drawdown date. The credit interest rate has been established based on the EURIBOR interest rate increased by a margin. The terms and conditions of the financing granted correspond to market conditions.

### 8.4. Closing of the securitisation transaction of Dominet Bank SA

As a result of merger of Fortis Bank Polska SA and Dominet Bank SA, the loan portfolio covered by the securitisation agreement of 30 January 2006 was recognised in the books of the merged Bank. Dominet Bank SA entered into the securitisation agreement on receivables arising from granted retail loans (car and cash loans) with Polish Assets SPV Limited (SPV), a special purpose vehicle incorporated for the needs of the transaction, and Merrill Lynch International, as the financing entity. The securitisation transaction constituted one of the elements of Dominet Bank SA own funds management strategy. Dominet Bank SA sold a separated portion of its loan portfolio to the SPV; consequently, the value of credit exposures to be taken into account for calculation of capital requirements on account of credit risk was reduced. The credit portfolio acquisition by the SPV was financed through an issue of securities to Merrill Lynch Int. backed by the receivables being sold. As at 31 December 2009, the value of the securitised loans presented in the assets of Fortis Bank Polska SA stood at PLN 87,546 thousand. The Bank kept the entire risk as well as all benefits derived from the holding of the financial asset and therefore, receivables sold under the securitisation transaction were not excluded from the balance sheet. At the same time, the Bank disclosed in the liabilities the financial commitment up to the amount of payment received for the receivables sold.

On 11 February 2010 an agreement was signed by and between the parties to the securitisation agreement under which the Bank repurchased from the SPV credit the receivables that resulted from the securitisation of Dominet Bank SA consumer credit portfolio.



### **8.5. Cooperation Agreement with Fortis Lease Polska sp. z o.o.**

On 18 March 2010 Fortis Bank Polska SA signed a cooperation agreement with Fortis Lease Polska sp. z o.o. under which the Bank informed its customers about financing available through lease at Fortis Lease Polska (FLP). On 27 May 2010, an annex to the above agreement was signed under which the cooperation agreements dated 2 January 2002 and 1 August 2009 were terminated.

### **8.6. Annex to the credit line agreement with Fortis Lease Polska sp. z o.o.**

On 2 March 2010 the Bank signed an annex to the multioption credit line agreement with Fortis Lease Polska sp. z o.o. dated 17 November 2000. The credit line can be utilised as an overdraft facility, L/C line or guarantee credit line. The credit limit has not changed and equals PLN 175 million. The agreement amendments referred to the financing term extension by subsequent 6 months, i.e. till the end of July 2010. On 23 July 2010 (after the balance-sheet date), the Bank agreed to extend the credit line for the subsequent current credit term, i.e. till 29 September 2010.

### **8.7. Annex to the Cooperation Agreement with Fortis Private Investments Polska SA**

On 5 November 2007, Fortis Bank Polska SA signed a Distribution Agreement with Fortis Private Investments Polska SA regarding acquisition by the Bank of customers interested in using third party's brokerage financial instrument portfolio services provided by Fortis Private Investments Polska SA. On 27 April 2010 an Annex to the remuneration arrangement was signed. The amendment resulted from the intention to increase the sales volume of investment fund participation units.

***Details regarding agreements and transactions with affiliated entities for the first half of 2010 and comparative data for 2009 are presented in Item 14 of the Financial Statements.***

### **8.8. Significant agreements with entities unrelated with the Fortis Bank Polska SA capital group**

#### **Conclusion of a significant agreement with a customer not affiliated with the Bank**

On 2 April 2010 the Bank signed a master agreement on currency transactions with a customer not affiliated with the Bank; consequently, the value of agreements concluded with the customer within the past 12 months amounts to PLN 154 million.

The largest agreement with the said customer pertains to a guarantee line concluded on 15 January 2010, as amended, with the credit limit of PLN 134 million. The credit limit is a non-revolving limit and the financing term is three years, i.e. till 14 January 2013.

The guarantee granting terms and conditions are not different from market conditions.

#### **Credit Agreement with the European Investment Bank**

On 30 November 2009, a credit agreement was signed between European Investment Bank (EBI) based in Luxembourg and the Bank under which agreement EBI granted the Bank a credit line up to EUR 50 million. The Bank obtained funds allocated for financing of investment projects of small and medium-sized enterprises.

Financing details shall be defined for each credit tranche disbursed separately. Maximum repayment term for a credit tranche is 12 years. Fixed or variable interest rate will depend on the currency of a credit tranche to be disbursed (EUR, PLN, GBP or USD): relevant reference rate (EURIBOR, WIBOR, LIBOR) plus margin.

Fortis Bank SA/NV based in Brussels issued a guarantee for the fulfilment of the Bank's obligations under the credit agreement.

#### **Guarantees and sureties**

On 17 July 2009 Fortis Bank Polska SA signed an arrangement with a Customer, not affiliated with Fortis Bank Polska SA capital group, to amend the terms and conditions of the loan agreement dated 25 April 2008. The amendment concerned a credit limit increase from PLN 200 million up to PLN 205.8 million and change of the credit limit type from the multi-option to a guarantee credit line.

*The Bank did not exceed the maximum exposure limit towards any customer or capital group as stipulated under the Banking Law Act, either in the first half of 2010 or in 2009.*

### **8.9. Insurance agreements**

#### **Banking risks, electronic and computer crime and professional indemnity insurance for a financial institution**

Fortis Bank Polska SA is included in the corporate insurance programme dedicated to Fortis Bank SA/NV and its subsidiaries worldwide. The Combined Crime and Civil Liability programme provides banking



business insurance – bankers blanket bond, electronic and computer crimes (BBB - ECC) and Professional Indemnity (PI) insurance programme up to EUR 150 million, with the deductible of PLN 50 million per claim (External Master Policy); Fortis Bank Polska SA is the insurance beneficiary. Within the Master Policy structure, Fortis Bank SA/NV introduced a system of the deductible buyback intended to cover the deductible of EUR 50 million – through a Captive Policy. For Fortis Bank Polska SA the deductible has been reduced with respect to the main risks to, respectively: in relation to professional indemnity down to EUR 3 million and in relation to the other risks down to EUR 500,000. The insurance was concluded for the period from 1 July 2009 to 30 June 2010. Starting from 1 July 2010 the binding insurance programme shall be systematically integrated with the insurance programme of BNP Paribas SA, following the expiration date of the programme dedicated to Fortis Bank SA/NV.

Since May 2009, Fortis Bank Polska SA as a subsidiary of Fortis Bank SA/NV has been covered by the insurance programme of BNP Paribas as far as the Directors and Officers Insurance Programme is concerned. The insurance sum for the policy dedicated to all entities of Fortis Bank SA/NV (under BNP Paribas programme) is EUR 250 million. The D&O policy was extended with the liability term from 1 July 2010 to 1 April 2011.

### **Third party liability insurance on account of agency services**

The policy was entered into pursuant to the obligation resulting from the Finance Minister's Ordinance dated 23 June 2005 regarding obligatory third party liability insurance on account of agency services (Journal of Laws No. 122, item 1027 of 2005). The guarantee sum is EUR 1.5 million for all claims and EUR 1 million per claim. The insurance policy was signed with TU InterRisk Vienna Insurance Group for the period from 20 February 2010 to 19 February 2011.

**Property, electronic equipment and third party liability insurance.** The insurance policy was signed with AVIVA Towarzystwo Ubezpieczeń Ogólnych SA (former Commercial Union Polska – Towarzystwo Ubezpieczeń Ogólnych SA) for the period from 26 April 2010 to 25 April 2011.

The coverage includes all-risk insurance against loss or damage of property (including insurance of pecuniary values) and electronic equipment. Moreover, the insurance programme covers the Bank's professional indemnity under property owned and business activity conducted and also a national CARGO insurance for IT hardware. The insurance sum for investment outlays equals the book value of the Bank's investment outlays. In the remaining scope, the insurance sum has been determined on the basis of the new replacement value.

### **Comprehensive automotive insurance policy [all-risks (AC) and third party liability (OC)] for the Bank's company cars**

A general agreement dated 21 June 2010 signed with AXA Towarzystwo Ubezpieczeń i Reasekuracji SA (insurance and reinsurance company) for the period from 1 July 2010 to 30 June 2011. The agreement defines the subject and scope of the company car insurance policy of Fortis Bank Polska SA with respect to both mandatory and optional risks and it specifies detailed rules of cooperation in car claim management in relation to the utilisation of company cars owned by Fortis Bank Polska SA.

### **Insurance of medical costs of Fortis Bank Polska SA employees during foreign business travel, signed with Chartis Europe S.A. Branch in Poland (former AIG Europe S.A., Branch in Poland) for the period from 1 May 2010 to 30 April 2011.**

The insurance coverage under the policy extends to all Fortis Bank Polska employees going for a business travel abroad and includes costs such as: medical treatment and emergency medical aid, legal aid, rescue action and additional unforeseen travel costs (including assistance services).

**Insurance of risk of incurring financial losses by Fortis Bank Polska SA in relation to transactions effected with valid payment cards issued by Fortis Bank Polska SA under which the Bank is liable towards cardholders on the basis of and to the extent specified in Electronic Payment Instruments Act of 12 September 2003 (Journal of Laws No. 169, item 1385).** The insurance policy was concluded with TU PZU SA from 1 November 2009 till 30 October 2010.

The insurance covers financial losses incurred by Fortis Bank Polska SA in connection with unauthorised card use as a result of theft, robbery, loss or skimming.



## **8.10. Agreements with the central bank and the regulators**

### **Agreements with the National Bank of Poland**

#### **Agreement on extension of a lombard credit facility and a provision of a pledge securing such facility**

Under the agreement signed on 15 March 2010, the NBP shall grant the Bank lombard credit facility against a pledge of securities denominated in PLN and deposited with the Securities Register maintained by the NBP Domestic Operations Department or with the National Depository of Securities (KDPW in Polish).

#### **Agreement on extension of a technical credit facility and transfer of rights under securities**

Under the agreement signed on 15 March 2010, the NBP shall grant the Bank a technical loan secured by an assignment of rights to securities denominated in PLN and deposited with the Securities Register maintained by the NBP Domestic Operations Department or with the National Depository of Securities (KDPW in Polish).

## **8.11. Agreement with auditor**

On 1 September 2009, the Bank's Supervisory Board appointed Mazars Audyt Sp. z o.o. with the registered office at ul. Piękna 18, 00-549 Warsaw, KIBR (Polish National Chamber of Statutory Auditors) register number 186, as the entity authorised to audit the consolidated and separate financial statements of Fortis Bank Polska SA capital group for 2009 and to review financial statements for the first half of 2010.

The agreement with Mazars Audyt sp. z o.o. was signed on 9 October 2009. Total consideration under the agreement is EUR 162 thousand.

In June 2010 the Bank's Supervisory Board re-appointed Mazars Audyt sp. z o.o. to audit financial statements for the years 2010 and 2011 and to review financial statements for the first half of 2011.



## 9. AFFILIATED ENTITIES

### 9.1. Profile of the Shareholder with over 5% of votes at the General Shareholders Meeting

**BNP Paribas SA based in Paris** is the higher level parent company in relation to Fortis Bank Polska SA. As at 16 July 2010, the share capital of BNP Paribas SA amounted to EUR 2,396 million and was divided into 1,198,153,534 shares of EUR 2 nominal value each.

BNP Paribas Group is a leading European organisation operating in the financial sector worldwide, which focuses on investment, corporate and retail banking, asset and property management as well as insurance services. The largest – as much as 60% – share in the revenues of BNP Paribas is generated by retail banking. BNP Paribas is the largest bank in the Euro zone in terms of deposits and one of the six most reliable banks worldwide (according to the rating agency Standard & Poor's), which employs over 205 thousand people in 85 countries. Belgium, France, Italy and Luxembourg are the Group's key markets in Europe. The Group has been operating in Poland through a number of subsidiaries, in particular Fortis Bank Polska SA and BNP Paribas SA Branch in Poland.

BNP Paribas SA is listed on the Paris Euronext Stock Exchange and its shares are included in the CAC- 40 index (40 largest companies among 100 companies with the highest capitalisation).

BNP Paribas SA is at the same time the parent entity of Fortis Bank SA/NV based in Brussels and operates under the BNP Paribas Fortis brand.

The parent entity of Fortis Bank Polska SA is Fortis Bank SA/NV based in Brussels which holds 99.87% of the Bank's shares, of which 78.13% directly while 21.74% through Dominet SA. The share capital of Fortis Bank SA/NV is EUR 9,375 million. Fortis Bank issued 483 241 153 shares, of which 74.93% is held by BNP Paribas SA, 25% is owned by the Belgian State through the investment entity SFPI (Société Fédérale de Participations et d'Investissement), whereas the remaining 0.07% is held by dispersed shareholders.

As of 12 May 2009 Fortis Bank SA/NV became part of the BNP Paribas SA group, after finalisation of the purchase transaction of 74.93% of Fortis Bank SA/NV shares from Société Fédérale de Participations et d'Investissement by BNP Paribas. Since May 2009, intensive works have been carried out with the view to integration of Fortis Bank SA/NV and BNP Paribas under BNP Paribas Fortis brand. In December 2009, a business plan (Industrial Plan) was announced that assumed synergies of EUR 900 million annually until 2012, of which EUR 850 million are cost synergies and EUR 50 million are revenue synergies. In 2009 synergies of EUR 120 million were obtained and in the first half of 2010 synergies amounting to EUR 123 million were booked. Total synergy amount to be reached by the end of 2010 is EUR 402 million.

BNP Paribas group has proved the efficiency of its integrated business model applied to the new group composition, extended by BNP Paribas Fortis. Despite the unfavourable economic situation in the first half of 2010 the group made excellent financial results.

The BNP Paribas Group generated net profit of EUR 4,388 million for the first half of 2010, which accounts for a 38.8% growth over the corresponding period in 2009.

The BNP Paribas Group made income of EUR 22,704 million, thereby exceeding by 16.6% the result generated within the first 6 months of 2009. Owing to the reduced growth of operating costs, gross operating income reached EUR 9,694 million, or 16.7% more than in the first half of 2009. In the first half of 2010 a new increase of risk-related costs was reduced by 45.5% which enabled BNP Paribas SA to generate a solid operating profit.

Return on equity was 13.7% as compared to 11.8% in the first half of 2009.

Tier 1 capital adequacy ratio at the end of June 2010 was 10.6% as compared to 10.1% at the end of December 2009.

Profit per (ordinary) share of EUR 3.6 was by 25% higher than in the first half of 2009.



## **Dominet S.A.**

Dominet SA based in Piaseczno is a credit, leasing and insurance intermediary operating mainly on the vehicle purchase financing market. The share capital of the company is PLN 2,971,349. Until 31 July 2009 Dominet SA was the sole owner of Dominet Bank SA.

## **9.2. Fortis Private Investments Polska SA (currently Towarzystwo Funduszy Inwestycyjnych Fortis Private Investments SA)**

Fortis Private Investments Polska SA (FPIP SA) currently Towarzystwo Funduszy Inwestycyjnych Fortis Private Investments SA), entity wholly owned by Fortis Bank Polska SA, is an investment company which in the first half of 2010 was operating in the brokerage business that included:

- managing financial instrument portfolios of individuals and investment portfolios of investment funds;
- accepting orders to subscribe or redeem participation titles in UCITS.

The share capital of Fortis Private Investments Polska SA amounts to PLN 9,048 thousand and is divided into 377,000 shares with the nominal value of PLN 24 each. The equity level of FPIP SA is sufficient for secure current business as well as future development of the company.

FPIP SA has been managing customer assets since 1996. The offering of Fortis Private Investments Polska SA includes comprehensive solutions with respect to Polish as well as foreign capital market investments. FPIP SA offers asset management services (portfolio management) and investment fund investments. FPIP SA offers equity, balanced and debt securities portfolios, including also Polish and foreign funds portfolios as well as active allocation portfolios with a defined share of equity. To customers interested in public offerings FPIP SA offers IPO portfolios. FPIP manages the investment portfolio of Fortis FIO (open-end investment fund) umbrella fund launched on the Polish market in 2005 in cooperation with SKARBIEC TFI S.A. Fortis FIO is the first umbrella fund on the Polish market with separated subfunds. The Fund comprises two subfunds: Fortis share subfund and Fortis stable growth subfund. Within Fortis FIO, Individual Pension Accounts, IKE Fortis FIO, are also available.

In connection with the Bank's cooperation with FPIP SA in providing agency services of offering financial instrument portfolio management services, since February 2006 Fortis Bank Polska SA has been registered by the Polish Financial Supervision Authority as an investment company's agent.

In cooperation with the Affluent Banking Department, FPIP offers investment services to high net worth individuals, customers of the Bank.

On 16 June 2010 the Financial Supervision Authority issued a decision authorising FPIP SA to operate as an investment fund company (TFI), that is to pursue the activity of opening and management of investment funds and management of financial instruments portfolios. At the same time, at the request of FPIP, the Financial Supervision Authority revoked the permit for brokerage activity. On 5 July 2010, the new name and activity type were registered in the National Court Register. After the Financial Supervision Authority's decision has become effective, i.e. as of 15 July 2010 the company started operating as Towarzystwo Funduszy Inwestycyjnych Fortis Private Investments S.A.

Upon transformation into an investment fund company, the company will develop the investment fund activity and will continue to manage individual portfolios of financial instruments. It is planned to expand the distribution network of investment fund units managed by the TFI by entities outside the BNP Paribas Fortis group, e.g. by other Polish banks, independent financial advisors and electronic distribution channels.

Fortis Bank Polska SA will support further development of the company. In the second half of 2010, the TFI will take over the umbrella Fortis FIO fund from TFI Skarbiec SA.

## **9.3. Minority interest of the Bank**

As at 30 June 2010, Fortis Bank Polska SA capital group held interest exceeding 5% of share capital of the following entities:

### **Vistula Group SA**

As a result of taking up shares in exchange for the company's obligations, in December 2009 Fortis Bank Polska SA owned 8,247,423 series I bearer shares of Vistula Group SA, which accounted for 7.39% interest in the company's share capital. The shares held enable to exercise 8,247,423 votes at the general meeting of shareholders of the company, or 7.39% share in the general number of votes at the general meeting of shareholders. On 28 July 2009, the company's shareholders signed an arrangement with the Bank which included, among other things, the commitment to vote together at the company shareholders' meetings



with respect to candidatures to the company's supervisory board. Once the shares have been taken up by the Bank, the parties to the arrangement held jointly 28,907,159 shares that entitled to 25.91% share in the general number of votes.

#### **Odlewnie Polskie SA**

On 27 May 2010 Fortis Bank Polska SA received information that confirmed that the Court's decision approving the composition agreement signed on 4 May 2010 by Odlewnie Polskie SA based in Starachowice with its creditors became effective.

Under the said composition, through conversion of receivables of PLN 5,858,688 into shares pursuant to Article 294 para. 3 of the Bankruptcy and Rehabilitation Act dated 28 February 2003, the Bank took up 1,952,896 Series G non-preference bearer shares that account for 9.45% of the company's share capital after the receivables conversion. The shares taken up enable to exercise 1,952,896 votes at the general meeting of shareholders of the company, which represents about 9.45% share in the general number of votes at the general meeting.

On 29 April 2010 an agreement was concluded between the company, the banks taking up shares under the composition agreement and the company's main shareholder which stipulated, among other things, unanimous voting of the shareholders at the general meeting of the shareholders. Upon concluding the composition agreement and taking up the shares by the banks, the parties to the arrangement held jointly 13,574,128 shares that entitled to 65.69% of total votes.

#### **Dolnośląska Szkoła Bankowa Sp. z o.o.**

Furthermore, Fortis Bank Polska SA holds 24.75% shares in Dolnośląska Szkoła Bankowa Sp. z o.o., based in Lubin, associated entity.

## **10. CORPORATE GOVERNANCE**

Fortis Bank Polska SA, being a listed company, observes corporate governance rules, as well as internally promotes and monitors their application.

Pursuant to the Warsaw Stock Exchange Regulations and the Finance Minister's Ordinance dated 19 February 2009 regarding current and periodical information submitted by issuers of securities, on 12 March 2010 Fortis Bank Polska SA published a Report on Corporate Governance Rules at Fortis Bank Polska in 2009, together with the annual report for 2009. At the end of 2009, the Bank joined the EBI system (electronic database), made available by GPW SA (the Warsaw Stock Exchange).

In the first half of 2010 the Bank started a number of measures with a view to adjust more fully to the corporate governance requirements. The Ordinary General Meeting of Shareholders held on 29 April 2010 approved amendments to the Bank's Statute and new Rules of Procedure of the General Meeting in order to take account of the amended Polish code of commercial companies and partnerships, especially as regards organisation of general meetings.

The Extraordinary General Meeting of Shareholders of the Bank held on 29 June 2010 appointed three independent members of the Supervisory Board; hence as of 1 July 2010, the Bank is fully compliant with rule no. III.6 of the Best Practices in Public Companies.

In June 2010, based on the Model Investor Relations Service, the Bank updated the Investor Relations service available on the Bank's website.





## 11. ORGANISATIONAL STRUCTURE

### 11.1. Bank authorities

Pursuant to the Bank's Statute the Bank's bodies comprise:

- General Meeting;
- Supervisory Board;
- Board of Executives.

Permanent and temporary committees acting as advisory and decision-making bodies are appointed at the Bank.

Permanent committees include:

- Assets and Liabilities Committee (ALCO);
- Risk Committee;
- Credit Risk Management and Provisioning Committee;
- Credit Committee;
- Internal Control Coordination Committee along with the following sub-committees:
  - Operational Risk Committee;
  - Information Security Committee;
- Business Continuity Committee;
- New Products, Activities and Organisations and Exceptional Transaction Validation Committee;
- Investment Committee.

The Assets and Liabilities Management Committee (ALCO Committee) composition, scope of competences and activity are determined in the Assets and Liabilities Management Committee Regulations, adopted by a resolution of the Board of Executives.

The Risk Committee composition, scope of competences and activity are determined in the Risk Management Committee Regulations accepted by the Board of Executives. The Risk Committee is entitled to set up supportive committees, defining their composition, regulations, scope of activity and delegating powers to these committees.

The Credit Risk and Provisioning Committee composition, scope of competences and activity are determined in regulations accepted by the Risk and ALM Committee (Resolution of the Bank's Board of Executives dated 8 April 2010, Risk and ALM Committee was dissolved on 15 April 2010) and approved by the Supervisory Board.

The Credit Committee scope of competence and activity is determined in regulations accepted by the Board of Executives and approved by the Supervisory Board. In the Bank there are also credit sub-committees (international and domestic) that operate under the Credit Decision Making Regulations at Fortis Bank Polska SA approved by the Supervisory Board.

The following operate within the Supervisory Board of Fortis Bank Polska SA:

- Audit Committee;
- Compensation Committee.

They are established pursuant to the Bank's Statute and the Regulations of the Supervisory Board.

### 11.2. Business lines and sales outlets

The Bank's organisation is structured along business lines providing comprehensive service to specific customer and/or service market segments. In particular: Retail Banking (including Personal Finance), Enterprise and Transaction Banking and Fixed Income and Treasury (Other Banking Activity).

As at 30 June 2010, the Bank had the following operating units dedicated to service customers:

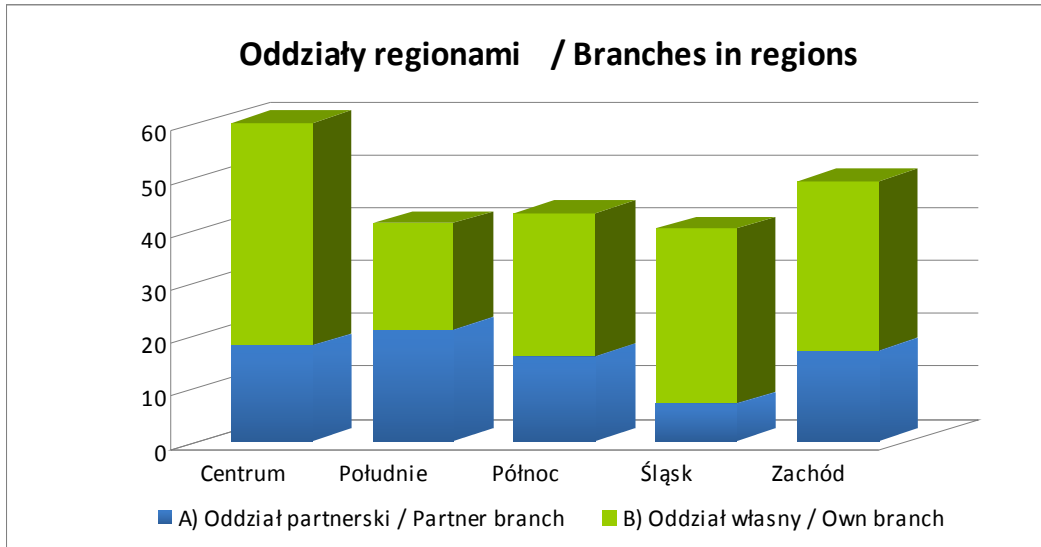
- 154 branches, including 30 leading branches (five branches in Warsaw, three branches in Kraków, two in Poznań, Wrocław and Lublin each, and one branch in Bielsko-Biała, Bydgoszcz, Częstochowa, Łódź, Gdańsk, Gdynia, Gliwice, Katowice, Kielce, Lubin, Olsztyn, Opole, Rzeszów, Szczecin, Zakopane and Ząbki each);
- 79 franchised branches;
- 9 Business Centers: in Warsaw, Kraków, Gdańsk, Bydgoszcz, Katowice, Poznań, Wrocław, Rzeszów and Łódź.



Leading branches are subject to registration in the National Court Register (KRS). Leading branches are responsible for the performance of own tasks and those of the subordinated operating units in a given territory (own subordinated branches and franchise branches and also sub-branches). The present structure of the distribution network reflects a division of the country into five geographic areas of operation:

- Central Region – 60 branches;
- South Region – 41 branches;
- Silesia Region – 40 branches;
- Western Region – 49 branches;
- North Region – 43 branches.

The Bank's distribution network is supported by 79 franchise outlets which service the Bank's customers under cooperation agreements signed with the Bank.



**The Bank's organisational chart as at 1 July 2010 is attached to this Report.**



## 12. SUPERVISORY BOARD, BOARD OF EXECUTIVES AND EMPLOYEES

### 12.1. Board of Executives of Fortis Bank Polska SA

The composition of the Board of Executives of Fortis Bank Polska SA as at 1 January 2010:

- |                           |  |
|---------------------------|--|
| 1. Alexander Paklons      | - President of the Board of Executives |
| 2. Jan Bujak              | - Senior Vice President                |
| 3. Frédéric Amoudru       | - Vice President                       |
| 4. Jean-Luc Deguel        | - Vice President                       |
| 5. Jacek Obłękowski       | - Vice President                       |
| 6. Jaromir Pelczarski     | - Vice President                       |
| 7. Michel Thebault        | - Vice President                       |
| 8. Philippe Van Hellemont | - Vice President                       |

On 30 April 2010, the Supervisory Board of Fortis Bank Polska SA appointed the Board of Executives in the existing composition for the next five-year tenure, ending on the date of the Bank's Annual General Shareholders Meeting approving financial statements for fiscal year 2014.

At the same time, the Supervisory Board appointed Ms. Marta Oracz as a member of the Board of Executives of Fortis Bank Polska SA effective from 1 June 2010.

On 18 June 2010 the Bank Board of Executives appointed Mr. Frédéric Amoudru, Vice President of the Board of Executives and General Manager of the BNP Paribas Group in Poland, to the position of the President of the Board of Executives of the Bank effective from the date of approval by the Polish Financial Supervision Authority (KNF) of the appointment, 1 July 2010 at the earliest.

From 1 July 2010 until KNF gives its consent, the Supervisory Board has appointed Mr. Frédéric Amoudru to perform duties of the President of the Board of Executives of the Bank.

Mr. Alexander Paklons submitted his resignation from the function of President of the Board of Executives and from his membership in the Bank Board of Executives, effective 30 June 2010. Mr. Alexander Paklons assumed his duties in Fortis Bank Polska SA since February 2005.

Furthermore, the Supervisory Board accepted Mr. Jean-Luc Deguel's resignation from the function of Vice President of the Board of Executives effective 30 June 2010. Mr. Deguel joined the Bank on 1 June 1998 when he was appointed to the Board of Executives as a representative of Generale Bank (later Fortis Bank).

Furthermore, the Supervisory Board appointed Mr. Jean-Philippe Stéphane Rodes to the position of the member of the Board of Executives of Fortis Bank Polska SA effective 1 July 2010 until the end of the current five-years' tenure of the Board of Executives, ending on the date of the Bank Annual General Shareholders' Meeting approving financial statements for fiscal year 2014.

As at 1 July 2010, the Bank Executive Board's composition is as follows:

- |                           |   |
|---------------------------|---|
| 1. Frédéric Amoudru       | - acting President of the Board of Executives |
| 2. Jan Bujak              | - Senior Vice President                       |
| 3. Jacek Obłękowski       | - Vice President                              |
| 4. Jaromir Pelczarski     | - Vice President                              |
| 5. Michel Thebault        | - Vice President                              |
| 6. Philippe Van Hellemont | - Vice President                              |
| 7. Marta Oracz            | - Member                                      |
| 8. Stephane Rodes         | - Member                                      |

### 12.2. Supervisory Board of Fortis Bank Polska SA

As at 1 January 2010, the Bank Supervisory Board's composition was as follows:

- |                     |                            |
|---------------------|----------------------------|
| 1. Camille Fohl     | - Chairman                 |
| 2. Jos Clijsters    | - Deputy Chairman          |
| 3. Antoni Potocki   | - Deputy Chairman          |
| 4. Zbigniew Dresler | - Supervisory Board Member |
| 5. Reginald De Gols | - Supervisory Board Member |

Mr. Reginald De Gols resigned from his function in the Bank's Supervisory Board from 1 April 2010. The reason of Mr. De Gols' resignation was his intention to leave the BNP Paribas Fortis group in connection with his retirement.



On 29 April 2010, the General Meeting of Shareholders 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. Three new members of the Supervisory Board have been appointed: Mr. Mark Selles, Mr. Lars Machenil and Mr. Jean-Marie Bellafiore representing the BNP Paribas group. At the same time, on the date of the Annual General Meeting the tenure of Mr. Antoni Potocki, Vice President of the Bank's Supervisory Board and Mr. Zbigniew Dresler, Member of the Bank's Supervisory Board (both engaged in the works of the Bank's Supervisory Board for many years), expired.

In connection with the above, effective from 30 April 2010, the Fortis Bank Polska SA Supervisory Board's composition was as follows:

1. Camille Fohl - Chairman
2. Jos Clijsters - Deputy Chairman
3. Mark Selles - Supervisory Board Member
4. Lars Machenil - Supervisory Board Member
5. Jean-Marie Bellafiore - Supervisory Board Member

On 29 June 2010 the Extraordinary General Meeting of Shareholders appointed to the Supervisory Board, effective 1 July 2010, the following new members: three independent members – Ms. Monika Bednarek, Mr. Jarosław Bauca and Mr. Andrzej Wojtyna, and also Mr. Jean Deullin representing BNP Paribas Personal Finance till the end of the current five-year tenure ending with the Annual General Meeting approving of the financial statement for the fiscal year 2014.

The Extraordinary General Meeting of the Bank's Shareholders discharged Mr. Jean-Marie Bellafiore from his function of the Supervisory Board member effective 30 June 2010 and appointed Mr. Jean Deullin to the Supervisory Board.

Effective 1 July 2010, the Board of Executives composition is as follows:

1. Camille Fohl - Chairman
2. Jos Clijsters - Deputy Chairman
3. Jarosław Bauc - Supervisory Board Member
4. Monika Bednarek - Supervisory Board Member
5. Jean Deullin - Supervisory Board Member
6. Lars Machenil - Supervisory Board Member
7. Mark Selles - Supervisory Board Member
8. Andrzej Wojtyna - Supervisory Board Member

### **12.3. Rules of appointment and recalling members of the Board of Executives and the scope of their authority**

Members of the Board of Executives of Fortis Bank Polska SA are appointed and recalled pursuant to the provisions of the Code of Commercial Companies and Partnerships, the Banking Law Act and the Statute of Fortis Bank Polska SA. The Board of Executives is composed of three to ten members, including President of the Board of Executives, one or a number of Vice Presidents of the Board of Executives, and members of the Board of Executives in the number that is defined by the Supervisory Board. Members of the Board of Executives are appointed for the period of joint five-year tenure by the Supervisory Board. Appointment of two Members of the Board of Executives, including the President of the Board, is made with a consent of the Polish Financial Supervision Authority, given upon a request of the Supervisory Board.

The Bank's Board of Executives manages the Bank's operational activity and represents the Bank before external parties. The scope of tasks of the Board includes primarily all the issues that are not reserved for the competence of other bodies of the Bank. The Board of Executives takes decisions by way of resolutions regarding the assumption of liabilities or disposal of assets, the total amount of which in relation to one entity exceeds 5% of the Bank's equity. The Board of Executives may delegate specific issues that belong to the scope of the Board of Executives competence to specific Board of Executives' Members or the Bank's employees. Decisions on the assumption of liabilities or disposal of assets whose total value in relation to one entity exceeds 5% of the Bank's equity, can be taken by committees of the Bank or designated people acting under the Board of Executives's resolution that defines the scope of such an authorisation and the decision-taking manner.

Individual members of the Board of Executives have no specific authority to take decisions on share issue or redemption. The Bank and the managing persons entered into no agreements providing for any compensation in the event such people resign or are dismissed from their job position without an important reason, or when they are recalled or dismissed due to the Bank's merger by acquisition.



The total remuneration and the value of benefits obtained by the members of the Board of Executives, Supervisory Board and by Managing Directors of Fortis Bank Polska SA are specified in the table below:

in PLN thousand	01.01.2010 - 30.06.2010	01.01.2009 - 30.06.2009
Board of Executives, including:	4 861	2 178
- remuneration	2 247	1 459
- benefits*	555	281
- other**	2 059	438
Supervisory Board	288	283
Managing Directors***	7 026	5 176

\* The "Benefits" item includes expenses related to medical care, company car (lump sum), accommodation.

\*\* The "Other" item includes equivalent for holiday leave and remuneration for the Board of Executives' meetings.

\*\*\*Gross remuneration paid out of the salary fund, including ZUS (Social Security) contributions for Directors directly reporting to the Board of Executives.

As at 30 June 2010 three members of the Board of Executives of Fortis Bank Polska S.A. were at the same time members of the Supervisory Board of Fortis Private Investments Polska S.A., however did not receive any remuneration on this account, either in the first half of 2010 or in 2009.

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

As at 30 June 2010 and the date of this report publication, i.e. 31 August 2010, none of the Board of Executives' Members and Supervisory Board's Members held any shares issued by Fortis Bank Polska S.A. or other financial instruments related to them or any holdings in affiliated entities of Fortis Bank Polska SA.

#### 12.5. Staff

The employment level in terms of FTE (full time equivalents) stood at 2,640 as at 30 June 2010 as compared to 2,664 as at 31 December 2009. In accordance with the assumptions made, the employment restructuring process, which covered 263 employees whose employment contracts were terminated due to group lay-offs, finished in the second quarter of 2010. In connection with the transformation of franchise branches into own branches, the employment reduction was a bit lower than previously estimated.

The majority, i.e. 60.45%, of the employed at the end of June 2010 were university graduates (BA equivalent – 9.71%, others – 29.84%).

To ensure high level of the Bank's employee qualifications, the Bank implements a coherent human resources management strategy developed by the Board of Executives, including in particular training programs, adaptation support for new employees and personnel management improvement.

To increase the personal development opportunities and respect employee needs better, a number of actions were undertaken to improve training availability and effectiveness, e.g., internal training programs were updated to ensure their adjustment to the needs and new e-learning programs were implemented. Further measures were implemented in the area of development of leadership and managerial skills, including the participation of the Bank's management staff in the Manager's Academy.

The Bank realises the "Competence Development Academy- ARKa" training project under the "Development of Human Capital of Enterprises" of the Human Capital Operational Programme, for which the Bank obtained a subsidy in the amount of PLN 3,200 thousand. The ARKa Project includes 26 types of training courses in various fields, such as change management, project and process management, financial analysis, negotiation techniques, HR management, time and stress management. The courses are addressed to all the Bank's employees. The project will last to December 2010.



## 13. STATEMENTS OF THE BANK'S BOARD OF EXECUTIVES

### **Correctness and reliability of reports presented**

Board of Executives of Fortis Bank Polska S.A. represents that, to the best of their knowledge:

The interim abbreviated consolidated financial statements of the Fortis Bank Polska SA Capital Group for 2010 and the comparative data were prepared pursuant to the binding accounting policies and they accurately, reliably and clearly reflect the property and financial situation of the Capital Group the Bank is part of and its net result in all material aspects.

The Board of Executives' report on the Fortis Bank Polska SA Capital Group activity in the first half of 2010 contains the true picture of the Group's development and achievements, including a description of basic risks and threats.

### **Selection of an entity authorised to audit the financial statements**

The Board of Executives of Fortis Bank Polska SA hereby represents that Mazars Audyt sp. z o.o. based in Warsaw, an entity authorised to audit financial statements, was chosen, under Article 15 Section 3 item 8) of the Statute of Fortis Bank Polska S.A. by the Supervisory Board based on a recommendation given by the Board of Executives and the Audit Committee (Resolution no. 29/2009 of 1 September 2009), pursuant to the provisions of law, as the entity to review the Fortis Bank Polska SA Capital Group's financial statements for the first half 2010, and that the above entity and statutory auditors employed to perform the review meet the conditions to issue an impartial and independent review report, in accordance with the respective provisions of the Polish law.



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

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26 August 2010	Frédéric Amoudru p.o. acting President of the Board of Executives	..... signature
26 August 2010	Jan Bujak Senior Vice President of the Board of Executives Financial Director	..... signature
26 August 2010	Jacek Obłękowski Vice President	..... signature
26 August 2010	Jaromir Pelczarski Vice President	..... signature
26 August 2010	Michel Thebault Vice President	..... signature
26 August 2010	Philippe Van Hellemont Vice President	..... signature
26 August 2010	Marta Oracz Member of the Board of Executives	..... signature
26 August 2010	Stephane Rodes Member of the Board of Executives	..... signature

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