2009 Report of the Supervisory Board of Fortis Bank Polska SA

BNP PARIBAS FORTIS | Bank zmieniającego się świata

Assessment of the Bank's developments in 2009

The Supervisory Board is pleased to report that Fortis Bank Polska SA (hereinafter *the Bank*) successfully completed the legal and operational merger with Dominet Bank SA at the end of July 2009 and as a result became a universal bank with a broad range of business activities. The Bank's clients are able to execute basic banking transactions in any of 259 branches, including 9 business centres earmarked for corporate clients. Furthermore, following the takeover of Fortis Bank SA/NV with its subsidiaries by BNP Paribas SA in May 2009, the Bank became a part of the BNP Paribas international financial organisation.

The Polish economy performed relatively well in 2009 as compared to other countries, getting the status of the European leader of growth. However, the growth slowed down to 1.7% from 5% a year earlier – the weakest result for a decade. The deterioration in business conditions influenced the banking sector, mainly due to write-downs related to lower quality of loan and FX derivative portfolios.

The highlights of the Bank's 2009 performance (non-consolidated approach) include:

- As at the end of 2009, the Bank's total assets exceeded PLN 20.31 billion, i.e. they increased by PLN 0.43 billion or 2% as compared to 2008.
- As at 31 December 2009, total gross loans to customers stood at PLN 14,827 million and were lower by PLN 256 million than at the end of 2008.
- Total contingent liabilities granted decreased in 2009 by 30% as compared with 2008 and amounted to PLN 3,434 million.
- Net interest income of PLN 420.9 million was higher than in 2008 by PLN 26.1 million, i.e. by almost 7%. Drop of net fee and commission income by 16%. The net FX income of PLN 102 million decreased by 9% in comparison to the previous year.
- Total net income of PLN 567.7 million was higher by almost 8% than in 2008.
- At the end of December 2009, the Bank's personnel costs stood at PLN 224 million and were higher by 25% as compared to the end of December 2008, when they amounted to PLN 179 million. Higher expenses were attributable chiefly to the changes related to the merger of Fortis Bank Polska SA and Dominet Bank S.A., the employment growth (average FTE number in 2009 grew by 896 FTEs, i.e. by 50% than the average FTE number in 2008). The depreciation of fixed and intangible assets amounted to PLN 58 million and was higher by 52% than in 2008. Total other expenses and operating costs in 2009 exceeded PLN 224 million and were higher by almost 80 million than in 2008.
- At the end of December 2009, the Bank suffered a PLN 34.4 million loss on held-for-trading financial instruments (in comparison to the result recorded as at the end of December 2008, the loss was lower by PLN 20 million or 37%).
- Deterioration of the Bank's financial performance was mainly the result of a significant increase in net provisions for impaired loans from PLN 63 million in 2008 to PLN 581 million, i.e. by PLN 518 million.
- The Bank incurred a gross loss of PLN 519,928 thousand, whereas a gross profit of PLN 102,585 thousand was generated in 2008.
- The Bank's net loss amounted to PLN 428,670 thousand as compared to the net profit in the amount of PLN 78,191 thousand generated in 2008.
- As at 31 December 2009, the capital adequacy ratio stood at 13.28% in comparison to 9.78% as at the end of December 2008. The capital adequacy improved significantly over 2009 and was at the same level as an average in the banking sector (of 13.3 according to the preliminary data published by the Polish Financial Supervision Authority).
- ROE decreased from 6.2% as at 31 December 2008 to -34% as at 31 December 2009.
- ROA decreased from 0.4% as at 31 December 2008 to -2.1% as at 31 December 2009.
- Book value per share dropped from PLN 72.56 as at 31 December 2008 to PLN 56.74 as at 31 December 2009.

Due to a difficult situation on financial markets and depreciation of zloty, some customers that the Bank entered into foreign exchange hedging contracts with, were not able to meet their obligations resulting from the transactions in derivative instruments. To mitigate own credit risk - in the context of high volatility of PLN rates - the Bank decided to reduce this activity and entered into hedging transactions securing portfolios against further depreciation of PLN. Costs of hedging transactions and fair value adjustments of derivative instruments granted to customers significantly influenced the results of Fortis Bank Polska in the first half of 2009.

A huge increase in the net provisions for impaired loans to the amount of PLN 581 is attributable to deterioration of the credit portfolio. A group of the Bank's institutional customers faced problems with fulfilment of credit agreement obligations. The said loss increase was additionally affected by worsening repayment of consumer loans. High interest rates on deposits combined with lower fee income on credits and derivatives and related reduced FX income contributed to the decline in gross income at the end of 2009.

The Supervisory Board closely monitored both the evolution of the loan portfolio, especially non-performing loans and all the possible measures to mitigate risks.

Having recorded a net loss in the second quarter of 2009, the Bank was obliged to develop a recovery plan pursuant to art. 142 of the Banking Law Act .The Supervisory Board actively participated in the process of working over the *Restoration Program for Fortis Bank Polska SA*, submitted to the KNF. The *Program* has been implemented in order to mitigate various risks in the Bank's continued activity as well as to increase the activity effectiveness to result in returning to profitability and to improve the main economic indices.

The actions targeted at increasing efficiency of the Bank's operations were taken as a part of the Restoration Program. In the difficult economical environment and due to post merger project of integration of the existing functions and operations of Fortis Bank SA and Dominet Bank SA, the management pursued the project of optimisation of the Bank's operations, which will result in downsizing of employment, that may cover 361 staff members until the end of second quarter of 2010.

The Board monitored developments in the financial results and operation of the business lines, which in 2009 focused on maintaining their deposit base and reduction of the credit portfolio to secure liquidity. Credit risk acceptance strategy was revised and more conservative approach adopted for the period of less favourable macroeconomic conditions. It meant less involvement in customers who generate low rates of return, closer monitoring of risks and policy of limiting new lending in sectors and areas where the risk grew significantly as well as focusing upon providing new financing for corporate customers with good economic and financial standing and customers using a wide range of Bank's products.

- In 2009, Retail Banking BL implemented new segmentation of the clients, developed its offering of savings and investment products focusing on deposit promotion. Also modified the mortgages product offering. As regards offering for enterprises, the credit processes for loan products were considerably simplified and functionality of the Internet banking system was extended. The Trade on Pl@net function enables servicing letters of credit and Automatic Payment Identification lets the companies fully control payment of receivables.
- A lot of effort was given to the merger process of Dominet Bank's branches into Fortis Bank Polska network, including launching of uniform products into the offering of both banks and common product marketing in order to harmonize the product portfolio in view of the merger.
- In the fourth quarter 2009, Retail Banking started implementation of its new strategy aimed at new business activation. The Bank launched new simplified account packages for retail clients called S, M, L and XL, combining both standard services and complementary solutions like a savings account with a daily capitalization of interest. It also modified its package offering for Micro and SME customers.
- A new business line of Personal Finance has been established according to the model applied in the BNP Paribas Group. The Personal Finance BL is created to form a specialised competence centre in the Bank, responsible for Personal Finance products and utilisation of the BNP Paribas Group's knowledge and experience in this area. The Personal Finance BL specialises in financing customers, being responsible for product development likewise for the management (granting and recovery) of cash loans, car loans and credit cards for individual customers. As regards sales and distribution channels, the Personal Finance BL manages sales in external channels (i.e. dealers of new or used cars, financial intermediaries) and sales in alternative channels (i.e. call centre, Internet, mailing). Personal Finance BL cooperates with the Retail Banking BL while selling its products through the Bank's branch network.
- In 2009, Commercial Banking developed its services in transaction banking, the new Notional Pooling facility was extended which enables more effective management of funds accumulated on bank accounts. Within the development of the Internet banking system, the Bank implemented the Trade on Pl@net service offering more functionality in servicing import, export and domestic letters of credit.
- The Bank continued to develop its program addressed to customers applying for subsidies under the EU funds.
- Due to the loss on transactions in financial instruments, resulting mainly from the adjustment of fair value on account of credit risk of derivative instruments (FX options), in 2009, the Global Markets BL implemented restriction on the sale of financial instruments that generate counterparty or market risk until more efficient risk management procedures are introduced.

The Board appreciates the efforts of both the Bank's Board of Executives and employees in the challenging environment. In particular the Board congratulates the management and the employees on the successful merger with Dominet Bank and re-building of the strong liquidity and solvency position of the Bank.

The Supervisory Board closely monitors the performance of Fortis Private Investments Polska, the Bank's subsidiary. In 2009 the activity of FPIP was also affected by the financial crisis. At the end of 2009, assets under management of FPIP totalled PLN 193 million as compared to PLN 187 million at the end of December 2008. Due to unstable market situation the customers were making investments in less risky instruments mainly in deposits. The process of transformation of FPIP SA into the Investment Fund Company (TFI) has not been completed yet.

Annual General Meeting

The Annual General Meeting of Fortis Bank Polska SA was held on 26 June 2009 and adopted the various standard and non-standard AGM resolutions. The Bank's net profit for 2008 in the amount of PLN 78.2 million was distributed in the following manner: part of the profit in the amount of PLN 33.2 million was allocated to the supplementary capital and the remaining part, i.e. PLN 45 million – to the general risk fund. The General Meeting also resolved to increase the Bank's share capital through raising the nominal value of all Bank's shares from PLN 30 to PLN 50. At the same time, taking into consideration the need to reinforce the Bank's capital position, the shareholders decided on the share capital increase through issuance of the Series M shares with the exclusion of pre-emptive rights, i.e. available to the majority shareholder, that is Fortis Bank SA/NV.

As a result of adopted resolutions regarding changes to share capital, it eventually amounts to PLN 1 billion 206 million. The Annual General Meeting finally confirmed the merger with Dominet Bank as proposed in the Merger Plan. In view of the above decisions, the General Meeting adopted relevant amendments to the Bank's Statute.

The General Meeting changed the composition of the Supervisory Board and confirmed the formal decisions taken by the Supervisory Board from 26 September 2008 to 26 June 2009.

Changes in the ownership and capital structure

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

As at 31 December 2009, the shareholders' structure specifying the shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows:

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**
Fortis Bank SA/NV*	18 848 593	78.13%	18 848 593	78.13%
Dominet S.A.**	5 243 532	21.74%	5 243 532	21.74%
Others	31 381	0.13%	31 381	0.13%
Total:	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.

At the turn of the second and third quarters of 2008, the Fortis group assets have been taken over by the Belgian, Dutch and Luxembourgian governments. As a result of this takeover, the government of the Kingdom of Belgium took up 99.93% of shares in Fortis Bank SA/NV through Belgian Federal Participation and Investment Company (Société Fédérale de Participations et d'Investissement - SFPI). Since October 2008, Fortis Bank Polska SA has not been affiliated by capital with Fortis holding. At the end of 2008, Fortis Bank SA/NV was not able to execute the voting rights from the Bank's shares.

Tender announced by Société Fédérale de Participations et d'Investissement

On 10 January 2009, SFPI announced a tender offer to subscribe for shares of Fortis Bank Polska SA at PLN 222 per share. On 4 March 2009, as a result of conducting the tender offer, transactions of acquisition of 87,263 shares were concluded. In consequence of the aforesaid transaction, Fortis Bank SA/NV held 16,738,712 shares of Fortis Bank Polska SA, which represented 99.81% of all the Bank's shares.

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

In October 2008, the Belgian government reached an agreement with BNP Paribas, a financial and banking group registered in France, that agreed to acquire a 75% interest in Fortis Bank SA/NV and 100% of Fortis Insurance Belgium from the Belgian State Treasury and purchase a 16% share of Fortis Banque Luxembourg (thus increasing its controlling stake up to 67%) from the Luxembourgian State Treasury. The said agreement was questioned by Fortis minority shareholders. On 6 March 2009, a new agreement was signed with the amended terms of the transaction. The new agreement was submitted to the General Meetings of Fortis Shareholders in Gandava and Utrecht and approved in April 2009. In May 2009, the transaction was finalized - the Belgian government transferred 74.93% of shares in Fortis Bank SA/NV based in Brussels to BNP Paribas, the Luxembourg State transferred 15.96% of shares in Fortis Banque Luxemburg (currently BGL BNP Paribas) and Fortis Bank SA/NV acquired 25% of shares in Fortis Insurance Belgium (currently AG Insurance).

Owing to the acquisition of the majority stake in Fortis Bank SA/NV, BNP Paribas SA indirectly took up 16,738,712 shares in Fortis Bank Polska SA, representing 99.81% of the Bank's share capital.

Following the change of its parent entity, Fortis Bank SA/NV, the majority shareholder of Fortis Bank Polska SA, couldn't effectively exercise voting rights attached to shares held without a consent from the Polish Financial Supervision Authority (KNF), pursuant to Article 25 para. 1 of *the Banking Law Act of 29 August 1997* and until it fulfils the obligation to announce a tender offer for the remaining shares provided for in Article 74 Section 2 of the *Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies*.

On 20 May 2009, the Financial Supervision Authority granted the permit to BNP Paribas SA based in Paris to exercise via Fortis Bank SA/NV based in Brussels i) more than 75% of the voting rights at the General Meeting of Shareholders of Fortis Bank Polska SA and ii) more than 75% of the voting rights at the General Meeting of Shareholders of Dominet Bank SA based in Lubin. The permit has been granted provided that, among others, the following commitments are met:

- commitment to refrain from taking any actions towards the change of the business activity pursued currently in Poland by Fortis Bank Polska SA into a branch until 2017; Should a new branch of BNP Paribas be opened in Poland, it will conduct an activity other than the banking activity pursued currently by Fortis Bank Polska SA and Dominet Bank S.A.
- commitment to refrain from taking any actions leading to withdrawal of the shares of Fortis Bank Polska SA from the regulated trading on the Warsaw Stock Exchange until 2017 and increasing and maintaining the liquidity of the Bank's shares quoted on the Warsaw Stock Exchange to the level of at least 15% within 2 years of issuance of the aforesaid permits.

Tender announced by BNP Paribas SA

On 4 June 2009, BNP Paribas SA announced a tender offer to subscribe for shares of Fortis Bank Polska SA at PLN 196 per share. On 29 July 2009, as a result of conducting the tender offer, transactions of acquisition of 1,087 shares were closed. The acquiring entity was Fortis Bank SA/NV, which took up 16,739,799 shares of Fortis Bank Polska SA, accounting for 99.81% of all shares of the Bank. Upon announcement of the tender offer, Fortis Bank SA/NV, having been granted the FSA permit, acquired the right to exercise voting rights attached to all the shares held.

Merger of Fortis Bank Polska SA and Dominet Bank S.A. and Merger issue of L series shares

Pursuant to the commitment of Fortis Bank SA/NV based in Brussels to merge Fortis Bank Polska SA and Dominet Bank S.A. as one of the conditions set forth in March 2007 by the Polish Financial Supervision Authority to issue a permit to exercise voting rights attached to shares of both the banks, the merger process was carried out in 2009.

In November 2008 the management boards of the banks accepted the merger plan confirming that the merger of the banks will be done by transferring the assets of Dominet Bank S.A. (the acquiree) to Fortis Bank Polska SA (the acquirer) in exchange for newly-issued shares of Fortis Bank Polska SA which will be allocated to the existing Dominet Bank S.A. shareholders, pursuant to Art. 492 § 1 of the Code of Commercial Companies and Partnerships.

At the General Meeting of Fortis Bank Polska SA held on 26 June 2009, the shareholders approved the merger plan and adopted resolutions to increase the share capital of Fortis Bank Polska SA from PLN 503.1

million to PLN 660.4 million by the issue of 5,243,532 Series L ordinary bearer shares with the nominal value of PLN 30 each for the shareholder of Dominet Bank S.A. (i.e. Dominet S.A.).

On 8 July 2009, the Polish Financial Supervision Authority issued permit for the merger of both banks.

On 31 July 2009, the legal and operational merger of Fortis Bank Polska SA and Dominet Bank S.A. was completed. As a result of the merger, Fortis Bank Polska SA has assumed all the rights and obligations of Dominet Bank S.A., while Dominet Bank S.A. has been dissolved without conducting any liquidation proceedings. The transfer of assets of Dominet Bank S.A. over to Fortis Bank Polska SA in exchange for 5,243,532 Series L ordinary bearer shares for the shareholder Dominet Bank S.A. (i.e. Dominet S.A.) took place on the date of entering the merger into the Business Register maintained by the Registration Court in Warsaw. On the same day, the share capital increase resulting from the issuance of Merger Issue Shares was registered. The issue of Series L shares increased the share capital of the Bank by PLN 157 million on 31 July 2009.

After the merger date, Fortis Bank Polska SA and Dominet S.A. remain under joint control of Fortis Bank SA/NV whose principal shareholder is BNP Paribas.

Increase of the nominal value of shares from PLN 30 to PLN 50

The General Meeting held on 26 June 2009 resolved to increase the Bank's share capital through raising the nominal value of all Bank's shares, including the merger issue shares, from PLN 30 to PLN 50. The capital increase was entered into the National Court Register on 14 September 2009.

Private placement with exclusion of pre-emptive right to M series shares

The works on direct injection of capital into the Bank through issue of M series shares were completed in September. The issue of M series shares was offered in a private placement with pre-emptive rights excluded. The series M share subscription offer was addressed to the Bank's majority shareholder, i.e. Fortis Bank SA/NV. Under the Share Subscription Agreement signed on 6 August 2009, Fortis Bank SA/NV took up 2,108,794 ordinary bearer series M shares at the issue price of PLN 209 each. The issue value was PLN 440,737,946. The shares were covered in full by cash contribution.

On 14 September 2009, the share capital increased from PLN 660,441,360 to PLN 1,206,175,300, including PLN 440,294,240 as a result of increasing the share nominal value and PLN 105,439,700 as a result of the series M share issue.

Shareholders' structure as at 31 December 2009

As at 31 December 2009, BNP Paribas SA holds, 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 S.A. (a subsidiary of Fortis Bank SA/NV) holds 5,243,532 shares, i.e. 21.74% of the share capital.

Changes in the composition of the Supervisory Board

As at 31 December 2009, the Supervisory Board composition was as follows:

Camille Fohl	Chairman of the Supervisory Board
Jos Clijsters	Deputy Chairman
Antoni Potocki	Deputy Chairman
Zbigniew Dresler	Supervisory Board's Member
Reginald De Gols	Supervisory Board's Member

On 31 January 2009, Mr Christopher Norris resigned from his function in the Supervisory Board of Fortis Bank Polska SA. Mr Christopher Norris was a member of the Supervisory Board of Fortis Bank Polska SA since 26 September 2008.

On 26 June 2009, Mr Peter Ullmann resigned from his function in the Supervisory Board of the Bank. Mr Peter Ullmann was a member of the Supervisory Board of Fortis Bank Polska SA since 24 May 2005.

The Annual General Meeting held on 26 June 2009 appointed Mr Camille Fohl and Mr Reginald de Gols to the Supervisory Board, effective 26 June 2009. Mr Camille Fohl took up the position of the Chairman and Mr Jos Clijsters assumed the position the Deputy Chairman of the Bank's Supervisory Board.

On 25 September 2009, Mr Lucas Willemyns resigned from his function in the Supervisory Board of Fortis Bank Polska SA, effective 30 September 2009. Mr Lucas Willemyns was a member of the Supervisory Board of the Bank since 21 February 2008.

The aforementioned persons have been appointed to the Supervisory Board until the end of the current five-year tenure ending with the Annual General Meeting approving of the Bank's financial statement for 2009 fiscal year.

The Best Practices in Companies Listed on WSE require that in the composition of the Supervisory Board there are at least two independent members. Moreover, as regards supervisory board members' independence criteria and operation of the supervisory board committees, the document refers to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

Under the Bank's Statute at least two Supervisory Board Members are independent Members free of any relationship with the Bank, its shareholders or employees that might materially affect the ability to take impartial decisions by such independent Members. Independent members of the Supervisory Board of Fortis Bank Polska SA fulfil the independence criteria set out in the Supervisory Board Regulations approved by the General Meeting of the company. They however do not satisfy one of the independence criteria recommended by the EC, i.e. the limitation of the tenure to maximum 12 years. In order to preserve the continuity of the Supervisory Board operation during changes in ownership, independent members of the Board have not been changed during their term of office.

The Supervisory Board realizes that frequent changes in the composition of this Board resulting from ownership changes do not support the stability of the Bank's supervision but hope that following the acquisition be BNP Paribas as the new strategic investor and ultimate owner will secure the stability of the Bank management in the future. A more stable Board composition would improve its operations and increase effectiveness.

Review of 2009 meetings

Last year, the Supervisory Board held nine (9) meetings and adopted 53 resolutions, compliant with Article 389, section 3 of *the Code of commercial companies and partnerships*.

Recurring issues discussed at the meetings included financial performance of the Bank and results by business lines, review of annual accounts, strategic discussions on financial and business prospects of the Bank in Poland and issues brought to the attention of the Board by the Audit Committee. The Board was regularly briefed on developments in economic situation in Poland and the Bank's performance in comparison to competitive banks and the banking sector as well as upon the progress of the merger with Dominet Bank S.A. and works over *Restoration Program for Fortis Bank Polska SA.*

The issue of securing sound liquidity and solvency position of the Bank came up regularly, considering the situation after financial crisis in 2008. The Supervisory Board closely monitored measures taken to secure a short term liquidity position and advised on structural solutions to be worked out to secure the stabilisation of the company to meet liquidity and capital requirements in the long term. The Board discussed and approved transactions concluded to obtain additional financing:

- In the first half of 2009, the Bank signed an agreement with Fortis Finance Belgium SCRL/CVBA regarding contracting a subordinated loan of EUR 20 million; furthermore, the Bank issued bonds with unspecified redemption date and nominal value of EUR 30 million, acquired by Fortis Finance Belgium SCRL/CVBA, and received an additional capital injection of PLN 440 million. Dominet Bank was also granted a subordinated loan of PLN 60 million.
- In the second half of 2009, the Bank considerably reduced the value of commitments towards the Fortis Bank SA/NV group by prepaying the long-term loans in the amount of EUR 500 million, PLN 100 million and CHF 40 million, which were characterised by high interest costs.
- Furthermore, the Bank started cooperation with the European Investment Bank, by signing an agreement on long-term financing for small and medium enterprises on 30 November 2009, thus ensuring funding sources for up to EUR 50 million.

Follow – up on derivatives' issue came regularly to the Board attention, including reports on outstanding value adjustments and net provisions for impairment losses as well as requirements for risk mitigating measures.

The Board was presented with business development reports of business lines, including combined Retail Banking Business Strategy for FBP and DB strategy implementation, developments in Global Markets, and in Commercial Banking.

The Board reviewed the proposed agenda and draft resolutions for the Annual General Meeting, including those regarding profit distribution, amendments to the Statutes, its composition and remuneration of the Board members. The Board issued a positive recommendation as regards the Board of Executives activity in 2008.

The Board discussed HR development issues, including regular review of staffing and turnover figures, follow up on FTE cost optimization program and personal and organizational changes.

Major organizational changes were reported to the Supervisory Board and approved.

The Board considered and approved the Executive Board recommendation on FBP performance score for realization of targets by Fortis Bank Polska in 2008 for bonus calculations purpose.

The Board was presented with the status of key projects per Business Line vs. the 2009 plan and challenges to be met this year due to new requests from HO and legal requirements, new business initiatives and audit recommendations. The Board carefully monitored the progress of most important projects, while the merger with Dominet Bank and post merger projects engaged the majority of Bank's resources. With the perspective of the merger with Dominet Bank, the Board members closely followed the progress of integration tasks and advised on the implementation of the process to take advantage of synergies and increasing leadership.

Other topics of discussion at the Supervisory Board meetings included internal control systems, business risks, and risk management.

The following issues became the special attention points for the Supervisory Board:

- Approval of the budget for 2009 and long term financial plan assumptions;
- Integration with Dominet Bank S.A. and changes in business strategy;
- Credit lines taken from group companies;
- Follow-up on Control & Risk Self Assessment;
- Evolution of credit risk in view of deterioration of the loan and derivatives portfolio;
- Follow-up on derivatives issue;
- Integration with BNP Paribas and changes in business strategy;
- Reorganization of the Supervisory Board and its Committees after the personal changes in the Board's composition;
- Reorganization of the risk area at the Bank;
- Increases of share capital and the respective Statute amendments;
- Budget for 2010 assumptions in view of the Restoration Program.

The Board reviewed the performance of other Fortis Bank entities present in Poland, including Fortis Lease Polska and Fortis Private Investments Polska.

The above issues were the basis for the Supervisory Board's adopting a number of resolutions and recommendations for the Board of Executives. Some of the most important resolutions adopted by the Bank Supervisory Board during the year under review are:

- Approval of amendments to the organisational structure of Fortis Bank Polska SA, including approval of the new post-merger organizational structure;
- Approval of the Restoration Program for Fortis Bank Polska;
- Approval of the Budget 2009 and Target 2010-2013;
- Election of Chairman and Deputy Chairmen of the Supervisory Board;
- Decision on changes in the composition of the Audit and the Remuneration Committees;
- Approval of the Board of Executives' Report on the Bank's Activity in 2008;
- Recommendation of distribution of the 2008 profit;
- Review and approval of the Supervisory Board's Report for 2008;
- Approval of the proposed amendments to the Bank's Statute, comprising of amendments proposed in the Merger Plan and the planned subsequent capital increases;

- Determination of the consolidated texts of the Statutes of Fortis Bank Polska SA after the subsequent amendments;
- Approval of the amendments to the Internal Capital Adequacy Assessment Process (ICAAP) Methodology at Fortis Bank Polska SA;
- Approval of Financial Reports;
- Approval of drawing a long term subordinated credit line of EUR 50 million (decreased to EUR 20 mio);
- Approval of the issuance of subordinated inscribed bonds in the amount of EUR 30 mio and later on approval of early redemption of those bonds;
- Defining the performance score for realization of targets by Fortis Bank Polska in 2008 at 3 , i.e. 'Almost on target' due to the annual results being below the budget;
- Approval of the purchase of shares of Vistula Group SA;
- Appointment of new members of the Board of Executives an as a consequence the new division of responsibilities of the Executive Board members after the changes in the composition of the Board of Executives;
- Approval of the participation of Executive Board members in the Board of Executives of Dominet Bank SA, in the Supervisory Board of Fortis Private Investments Polska SA and in the Supervisory Board of Dominet SA;
- Approval of the Credit Committee Regulations Fortis Bank Polska SA and the Credit Risk and Provisioning Committee Regulations;
- Approval of the amended Credit Decision Making Regulations Fortis Bank Polska SA;
- Determination of maximum lending limit for Fortis Bank Polska SA;
- Approval of signing a credit agreement with the European Investment Bank for EUR 50 million;
- Approval of the amended Strategy and Policy on Interest Rate Risk in Fortis Bank Polska SA, the amended Strategy and Policy on FX Risk in Fortis Bank Polska SA, the amended Strategy and Policy on Liquidity Risk in Fortis Bank Polska SA;
- approval of the amended Strategy and Policy on Operational Event Risk and Business Risk in Fortis Bank Polska SA;
- Selection of KPMG as a certified external auditor to carry out the audit of the Bank's financial statements concerning 2008 and 1st Half 2009;
- Selection of Mazars as a certified external auditor to carry out the audit of the financial statements for 2009 and review of the financial statements for the 1st Half 2010.

Remuneration adjustments, other changes in the terms and conditions of the employment contracts and bonus payments for the Board of Executives members were considered and decided on by the Compensation Committee of the Supervisory Board, which signed 12 decisions in 2009.

Audit Committee activities

The principal responsibilities of the Audit Committee (AC), established in 2006 in line with the corporate governance standards, are to take care of co-ordination of external auditor's and internal auditors' activity and monitor the quality of internal controls and material risk management systems. In order to fulfil its responsibilities of i) assessing the processes related to the company' risks and control environment, ii) overseeing financial reporting process and iii) evaluating the internal and external audit processes, AC cooperates closely with Internal Audit function. For purpose of risk management system monitoring, AC cooperates with the Risk Line and Compliance Department.

On 1 September 2009, the Bank's Supervisory Board assessed qualifications of the Audit Committee members and confirmed that the Audit Committee operates in accordance with the binding regulations of the Act on Statutory Auditors and Their Council of 7 May 2009. Formal qualifications of one of the independent members of the Board meet requirements as regards accountancy.

AC recommendations and opinions are presented to the Supervisory Board by the Committee Chairman. Additionally, the AC should submit an annual report of its activity to the Supervisory Board.

As at 31 December 2009, the Audit Committee composition was as follows:

Reginald De Gols	Chairman
Jos Clijsters	Committee member
Antoni Potocki	Committee member
Zbigniew Dresler	Committee member

In 2009, the FBP Audit Committee held six (6) meetings at which the following issues were discussed:

- Review of the issues related to the merger between Fortis Bank Polska SA and Dominet Bank S.A.;
- Review of the issues related to the integration between Fortis Bank Polska SA and BNP Paribas group;
- Reports on the activity of Audit Department presented by the Head of Audit and reports from the Risk & ALM Committee on risks overview presented by the Chief Risk Officer;
- Organisation of the Audit Department and relationship with the statutory auditor;
- Review of financial statements together with the opinion of the Statutory Auditor twice a year, i.e. including the semi-annual report and annual report, and presenting its opinion thereon to the Supervisory Board;
- Review of the Control & Risk Self Assessment report and Action Plan prepared in accordance with Fortis procedure and signed by the FBP Board of Executives;
- Information on co-operation with the statutory auditor and issuing opinion on the selection of the auditor for the next reporting period;
- Review of the Agenda and draft resolutions for the General Meeting of Shareholders and amended corporate documents to be submitted to the shareholders;
- Review of reports on execution of the FBP Compliance Action Plan 2009 and the Annual Compliance Report 2008;
- Close review of the Investigations Department activity;
- Credit Risk Inspection’s work results;
- Implementation of recommendations of internal and external audits;
- Cash collection management process;
- Review of Final Report on Derivatives’ issue (2008/2009) and offering derivative financial instruments;
- Implementation of Recommendation S;
- Review of the franchise network - governance risk management and control processes with regard to the partner branch network;
- Management of Global Markets, incl. establishment of the internal control within Treasury;
- Status of Mifid implementation in Poland.

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

- Permanent monitoring of the tasks & schedule implementation within integration with Dominet Bank Project;
- Necessary improvement of internal control and risk management in Treasury Products Sales Departments;
- Strengthening of the cash collection management system within the Bank;
- Further strengthening of credits analysis and monitoring in the face of financial crisis;
- Adherence to requirements regarding real estate financing (Recommendation S);
- Further monitoring of derivative business, including relaunching of business under strictly defined rules.

The AC finds the internal controls and the risk management systems of FBP effective and highly developed. Compliance, Risk, Investigations and Audit are functioning on very professional basis. AC intends to monitor closely their further evolution. At the same time, the AC is concerned with deterioration of financial results of the Bank and advises to monitor quality of credit portfolio. Major topics for 2010 for the Bank are: maintaining sound solvency and liquidity position, improvement of credit portfolio quality, re-launching of the business while maintaining high internal controls and risk mitigating standards, integration with BNP Paribas group and overall increase of operational efficiency in line with the assumptions of the Budget 2010 and Restoration Program.

Prospects

The Bank closed the difficult year 2009 as an organization with a strong capital base, supported by a financially stable group of global scope and experience.

Despite unfavourable changes in the macroeconomic environment, the Bank managed to generate expected results from current activity. At the same time, liquidity and solvency ratios were maintained at the desired level. The equity capital increased in September 2009 by PLN 440.7 million as a result of capital injection by the parent entity, which proved to be essential for the maintenance of safe capital position of Fortis Bank Polska. As at the end of 2009, the Bank's capital adequacy ratio stood at 13.28%, thus considerably exceeding the minimum threshold of 8% required under the Banking Law Act.

Pursuant to the intention of the majority shareholder and its commitment towards the Financial Supervision Authority, Fortis Bank Polska SA and Dominet Bank SA were merged legally and operationally on July 31, 2009. This proved to be the first simultaneous formal and operational merger on the Polish banking market. As a result of the merger, the position of the Bank on the Polish market has 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, offering its products and services to every market segment. Today, the integrated Bank employs 2.6 thousand people, services 400 thousand clients through distribution network of 250 branches and 9 Business Centres.

It is expected that improving macroeconomic situation, condition of the financial sector and changes that took place in Fortis Bank SA/NV Group in 2009, namely the takeover of Fortis Bank SA/NV and its international subsidiaries (including Fortis Bank Polska SA) by BNP Paribas, will positively affect the prospects of the Bank's activity development.

The Bank's strategy is intertwined with the overall strategy of Fortis Bank SA/NV and development strategy for BNP Paribas group on the Polish market. BNP Paribas Group is a leading European organisation operating in the financial sector, 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. The Group has been operating in Poland through a number of subsidiaries, in particular Fortis Bank Polska SA and BNP Paribas Branch in Poland. 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 (including customers of Dominet Bank acquired by the Bank) and develop the 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 successful merger of Fortis Bank Polska SA and Dominet Bank SA, 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. The Industrial Plan provides for a setup of a new Personal Finance Business Line. "One organisation" concept will be introduced which will allow 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.

As part of 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. The new division will ensure transparency of operations and non-competition between units of the BNP Paribas Group in Poland. 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 futures transactions. BNP Branch will offer Investment banking products (such as structured finance, consulting on mergers and acquisitions, advanced derivative instruments and treasury products) to selected customers in Poland.

In connection with a new division of the competences among organisational units of the BNP Paribas Group in Poland in 2010, some customers, with their consent, will be transferred from the BNPP Branch to the Bank. The Supervisory Board approved the terms and conditions of the transaction as stipulated in the agreement signed between the Bank and the Branch. The legal scheme for the transaction will be a sale of the organised part of the enterprise, which is subject to approval of the Polish Financial Authority (KNF). The organized part of the enterprise, constituting the object of the agreement, will be composed of the Branch's selected assets and specific liabilities towards the group of its customers, including loan receivables, deposits and selected components of the fixed assets, as well as selected operational agreements related to services rendered for the customer portfolio taken over. In order to perform the agreement, the Bank will take over the service of approximately 150 capital groups, representing 350 customers, upon their consent to such a transfer. The assessed value, as at 31 December 2009, of the loan receivables taken over equals EUR 95 million and liabilities on account of deposits – approximately EUR 238 million.

The main objectives for the Bank for the years 2010 - 2012 remain the following:

- Building of a universal bank with use of competitive edges offered by Fortis Bank (affluent and corporate customer) and Dominet Bank (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.
- Enhancement of the efficiency of business processes functioning in the Bank after the merger, in particular ensuring the efficiency of sales activities.
- 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. The Bank will focus on developing relations with the existing customers and Cross-selling to increase the number of products held by specific customers and thereby improving customer loyalty and profitability.
- Building a strong deposit base. To build a strong deposit base, the Bank acquires deposits both from retail (mass retail in particular) and corporate customers. Increase in the number of deposits will be used to improve the Bank's liquidity and change its financing sources.

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 Professionals and SE. The Bank's strategy assumes a significant increase in the number of customers within the next 5 years. In the case of Affluent customers, the merged Bank will adopt a strategy of increasing the number of products held by the present customers and building their loyalty. In the beginning of 2010 Retail Banking has started the re-launch of the business. The product offer is 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 and development of car loans and credit cards offer. The Bank intends to promote the responsible lending concept taking into account all the relations with its customer.

The new business line of Personal Finance, established as a specialised competence centre in the Bank, responsible for product development likewise for the management (granting and recovery) of cash loans, car loans and credit cards for individual customers will be further developed. Personal Finance BL will cooperate with the Retail Banking BL by selling its products in the network of both own and franchised branches.

The Bank continues cooperation as regards provision of clearing and other financial services in favour of foreign branches of Fortis Bank SA/NV. The Bank will continue cooperation with Fortis Investments with regard to sales of services offered by foreign investment funds. Also the relationships with the remaining subordinated entities and other entities within the Fortis Bank SA/NV Group will be continuously developed, i.e. with the entities that offer banking, leasing and asset management services in Poland, addressed to individual customers, commercial entities and the public sector.

The Bank has undertaken measures to mitigate credit risk related to futures contracts held by the Bank, in particular FX options and FX forward transactions. The Bank forecasts that in 2010, the identified credit risk will continue to materially affect the Bank's financial performance.

Actions targeted at increasing efficiency of the Bank's operation should improve financial performance of Fortis Bank Polska. Further, they are a part of the Restoration Program prepared in accordance with Article 142 of the Banking Law Act, which was submitted to the Polish Financial Supervision Authority (the KNF) and approved. The most important assumptions of the program are taking actions with the view to ensure proper risk control in various areas of the Bank's activity, ensuring sources to cover losses, stable growth of the credit portfolio and improving the cost management efficiency, in particular after the integration with Dominet Bank S.A.

The KNF positively assessed the Bank's actions performed so far, which resulted in a significant improvement of the Bank's capital and liquidity position. The KNF obliged the Bank's Board of Executives to fully implement the program assumptions and to present quarterly reports on the restoration program implementation. According to assumptions to the Program, the Bank will achieve a positive financial result and, pursuant to the provisions of Article 142 Para. 4 of *the Banking Law Act*, its equity capital will gradually increase following the transfer of financial results into the additional capital (the Bank does not plan to pay any dividends until 2012). The program is to be completed by the deadline set i.e. 31 December 2012.

The Bank did not publish financial forecasts for 2009. The Supervisory Board and the Board of Executives follow the policy of non-disclosing the result forecasts for 2010 to the public.

Annual accounts and Board of Executives' Reports

The Supervisory Board reviewed the consolidated Board of Executives' Report on Fortis Bank Polska SA Capital Group's business activity in 2009 as well as the audited Annual Consolidated Financial Statements of Fortis Bank Polska SA Capital Group for 2009, comprising:

1). Consolidated balance sheet drawn up as at 31 December 2009 disclosing total assets and liabilities of PLN 20,294,483 thousand;

2). Consolidated profit and loss account for the financial year ended 31 December 2009 disclosing a net loss of PLN 429,880 thousand;

3). Consolidated statement of comprehensive income for the financial year ended 31 December 2009 disclosing a negative income of PLN 420,653 thousand;

4). Capital adequacy ratio of 13.40%;

5). Consolidated statement of changes in equity for the financial year ended 31 December 2009 disclosing an increase of consolidated equity of PLN 150,712 thousand;

6). Consolidated cash flow statement for the financial year ended 31 December 2009 disclosing a decrease of cash balance by PLN 1,291,575 thousand;

7). Notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory notes.

The Supervisory Board reviewed the separate Board of Executives' Report on Fortis Bank Polska SA business activity in 2009 as well as the audited Annual Separate (Non-consolidated) Financial Statements of Fortis Bank Polska SA for 2009, comprising:

1). Balance sheet drawn up as at 31 December 2009 disclosing total assets and liabilities of PLN 20,311,849 thousand;

2). Profit and loss account for the financial year ended 31 December 2009, disclosing a net loss of PLN 428,670 thousand;

3). Statement of comprehensive income for the financial year ended 31 December 2009, disclosing a negative income of PLN 419,443 thousand;

4). Capital adequacy ratio of 13.28%;

5). Statement of changes in equity for the financial year ended 31 December 2009, disclosing an increase by PLN 151,922 thousand;

6). Cash flow statement for the financial year ended 31 December 2009, disclosing a decrease of cash balance by PLN 1,291,575 thousand;

7). Notes to the financial statements comprising a summary of significant accounting policies and other explanatory notes.

Based on the audit of the consolidated and non-consolidated financial statements as at the year end (i.e. as at 31 December 2009), Mazars Audyt Sp. z o.o. issued unqualified opinions on these financial statements.

Considering the positive opinion of the Audit Committee, the Supervisory Board approves the Board of Executives' Reports on Fortis Bank Polska SA and its Capital Group's business activity in 2009 and submits the Fortis Bank Polska and its Capital Group's Financial Statements for 2009 for the consideration of the Annual General Meeting to be held on 29 April 2010.

Covering losses

As a result of its activity in the 2009 fiscal year, the Bank incurred a net loss of **PLN 428 670 334,75** (say: four hundred twenty eight million six hundred seventy thousand three hundred thirty four and 75/100 Polish zlotys).

Having considered the Board of Executives' motion, the Supervisory Board recommends presenting the Annual General Meeting with a draft resolution on covering the 2009 net loss in total with resources from the Bank's additional capital.

Moreover, due to the settlement of the merger of Dominet Bank SA and Fortis Bank Polska SA, the Bank incurred a loss in the amount of **PLN 23,982,330.81** (say: twenty three million nine hundred eighty two thousand three hundred thirty and 81/100 Polish zlotys).

Having considered the Board of Executives' motion, the Supervisory Board recommends presenting the Annual General Meeting with a draft resolution on its consent to cover the loss incurred due to the merger with resources from the Bank's additional capital.

Materials for the Annual General Meeting comprise the audited consolidated and separate financial statements, the reports of Board of Executives on the Bank's and Capital Group activity in 2009 and this report of the Supervisory Board.

Warsaw, 29 April 2010