

Fortis Bank Polska S.A. Capital Group

# The Board of Executives' Report on the Activity of Fortis Bank Polska S.A. Group for the First Half of 2008



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## **I. SUMMARY OF THE BANK'S ACTIVITY IN THE FIRST HALF OF 2008**

### **A. Introduction**

In 2008, Fortis Bank Polska SA ("the Bank") presents for the first time its consolidated financial statements containing results of the Bank and the Bank's subsidiary - Fortis Private Investments Polska SA. The results of the group depend vastly on the Bank's separate results.

The first half of 2008 was for the Bank another period of dynamic development and improvement of financial results. New products were added to the Bank's offering and the sales of the existing ones increased. Customers continued to regard the Bank as an institution providing top-level financial services. As a result of the Warsaw Stock Exchange slump, investors decided to shift some of their savings from shares to more stable capital investment forms in the financial sector. The Bank welcomed the situation by offering customers a wide range of savings and investment products, which guaranteed a stable income and thus met customer expectations.

The Bank constantly analyses the situation on financial markets to adjust its activity accordingly. To reduce risk the Bank undertakes actions to avoid the situation of many financial institutions after the mortgage crisis in the USA and the UK. For this reason the Bank has decided to temporarily stop granting foreign currency loans to individuals. This limitation does not refer to Private Banking Business Line customers. The actions undertaken to limit the risk did not materially influence the Bank's financial result.

Due to an integration of Fortis Bank Polska SA and Dominet Bank SA, both banks have substantially adjusted their activities to create one strong institution. Exchange of experience between employees of both banks contributes to improvement and optimisation of processes in all fields of the Bank's activity. Dominet Bank SA has introduced additional labelling of its outlets, documents and letters to indicate its Fortis membership. As the management of both institutions wish to use the chance resulting from the merger of the two complementary banks and properly direct the potential of the new entity, they make every effort to achieve the expected effect of the integration process.

In the first half of 2008, the Bank's strategy did not change and no substantial changes in the basic principles of the Bank management followed.

### **B. Key factors and events that affected the Bank's separate financial performance in 2008**

Total assets of the Bank as of the end of June 2008 amounted to PLN 18,394,917 thousand in comparison to PLN 11,937,171 thousand as at the end of June 2007 (increase by 54%).

Net revenues of the Bank in the first half of 2008 amounted to PLN 352,283 thousand, which represents a 34% increase in comparison to PLN 263,177 thousand in the first half of 2007. The net interest income increased by 46%, the net fee and commission income grew by 46% while the net trading income increased by 6% in comparison to the first half of the previous year.

Interest income for the first half of 2008 totalled PLN 467,127 thousand, which translates to the 85% growth in comparison to the result as of the end of June 2007. The increase in liabilities was followed by a 131% growth in interest expense.

Furthermore, in the first six months of 2008 the Bank recorded an increase of the FX transaction result by 12% in comparison to the first half of the previous year.

The return on equity ratio for Fortis Bank Polska SA Capital Group increased from 18.2% to 20.9% while the return on assets decreased by 0.1 p.p. down to 1.6%. Earnings per share grew by 42% up

to PLN 7.33.

Loans to customers increased by 40% in comparison to the end of June 2007, i.e. up to PLN 12,641,182 thousand. Commercial loans (71%) and mortgage loans (24%) accounted for the highest share in the loans to customers. The value of commercial loans granted to enterprises increased by PLN 2,399,482 thousand over the result recorded as of June 30 of the previous year.

Mortgage loans continue to be very popular among Private Individuals. In the middle of 2008, the balance of such loans reached PLN 3.15 billion, which means an increase by 53% as compared to the result of the first half of 2007.

As at the end of June 2008, liabilities due to customers likewise significantly increased up to PLN 7,791,316 thousand in comparison to PLN 5,192,205 thousand noted at the end of June of 2007. Term deposits value went up by 62%, while current deposits decreased by 10%, compared to the result as of June 30, 2007.

An intensive development of the Bank, launch of new products on the market and employment of new personnel resulted in expense growth. As the trend of fast-growing pay rises is observed in the financial sector, the Bank decided to adjust the level of salaries to the market situation, which resulted in personnel cost growth of the Bank from PLN 76 million to PLN 94 million, i.e. by 24% in comparison to the first half of the previous year.

The progressing zloty appreciation is well illustrated by foreign currency rates in Poland in the first six months of 2008. The domestic currency strengthening results in lower liabilities of the Bank in EUR and CHF, as well as a better position of the Bank on the interbank market. The increasing interest rates in Poland made the loans denominated in foreign currencies more popular among customers. Since 15 May 2008, when it was decided to withhold foreign currency credits for individual customers, the Bank has developed the offering of mortgage loans in PLN.

On 6 June 2008, the Annual General Meeting of Fortis Bank Polska S.A. approved the Bank's financial statements for 2007 and approved the discharge of duties of Members of the Supervisory Board and Board of Executives. The shareholders decided to earmark the net profit of the Bank earned in 2007 fiscal year amounting to PLN 177.6 million for the Bank's equity increase by allocating: PLN 77.6 million to the general risk fund, PLN 15.8 million for covering the costs of implementation of the International Financial Reporting Standards and the remaining PLN 84.2 million to the reserve capital.

## C. Outside Factors which Influence the Operation and Development of the Bank

### Economy in the first half of 2008

#### GDP – growth rate and components

In the first half of 2008, the economic growth rate remained high though it was clearly lower than in the corresponding period of the previous year. In the first quarter of 2008, the GDP grew at the rate of 6.1% year on year (YOY) which means a slowdown in comparison to 7.3% recorded the year before. According to the Bank's estimates, in the entire first half of 2008, the Polish economy growth rate was about 5.7% YOY (comparing to 6.9% the year before). Similarly as in the previous quarters, the domestic demand continued to be the main growth factor. In the first quarter of 2008, the contribution of the domestic demand into the GDP growth rate stood at 6.5 percentage points.

As regards sectors of the national economy, in the first half of 2008 the highest rate of production growth was still recorded in the building industry (18.2% YOY). However, it should be emphasised that growth rate in this sector was much lower than the result recorded in the first half of 2007 (30.2% YOY). The pace of industrial production also slowed down. In the first half of this year, the production in this sector developed at the rate of 7.2% YOY in comparison to 10.7% noted the year before. Among the main industry sectors, the highest production growth was reported for investment goods (20%) and durable consumption goods (14% YOY).

#### Labour market

In the first half of 2008, positive trends on the labour market continued. In this period, employment in the enterprises sector increased by 5.6% YOY. Furthermore, in June 2008 the unemployment rate fell to 9.6%, the index's record low since 1998. A pressure for remuneration increase also continued. In the first six months of 2008, the purchasing power of an average remuneration in the enterprises sector increased by 7.4% YOY which was higher than 6.2% YOY recorded in the corresponding period of the previous year.

#### Exchange rate and inflation

In the first half of 2008, the inflation pressure kept rising. In that period, the consumer price index (CPI) increased by 4.2% YOY (up from 2.2% noted the year before). The main inflation factors included rising prices of food and of house-related services and goods.

In the period discussed, appreciation of Polish zloty continued. In the first half of 2008, an average EUR/PLN rate stood at 3.4925, and was by 9.2% lower than the year before. An average USD/PLN rate was 2.2851, which means that in relation to USD, PLN grew stronger by 21.1% YOY.

#### Foreign trade and balance of payments

In May 2008, the cumulated twelve-month current account deficit stood at EUR (14.3) billion, signifying a major deterioration in comparison to the May 2007 result, when the index was EUR (8.9) billion. The current account deficit increased mainly due to a continuing decline of the goods trade balance which stood at EUR (12.2) billion in comparison to nearly EUR (8) billion the year before.

#### Public finances

After the first six months of 2008, the budget deficit stood at PLN (3.45) billion or 12.8% of the annual plan. The above result is much better than planned and close to the one noted in June 2007 when the budget deficit reached 12.3% of the annual plan.

#### Financial performance of enterprises

In the first quarter of 2008, financial results of enterprises continued to be better than the performance recorded the year before. In that period, the gross financial result of non-financial enterprises stood at PLN 25.7 billion in comparison to PLN 23.7 billion reached in the same period of the previous year. The net financial result was PLN 20.4 billion, comparing to PLN 19 billion earned the year before. Nevertheless, in comparison to the first quarter 2007, basic economic indexes of the sector slightly deteriorated. The total operating costs ratio was 94.2% (93.9% the year before) while the net turnover profitability ratio stood at 4.6% (4.9% the year before).

#### **The banking sector in the first half of 2008**

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

As the inflation pressure prevailed, in the first half of 2008 the Polish Monetary Policy Council continued its interest rate rise series. In that period, interest rates rose four times elevating the NBP reference rate to 6.00% up from 5.00% recorded at the end of 2007.

In the first half of 2008, the household deposit growth rate accelerated (18% YOY in comparison to 10% noted the year before). It was however accompanied by a clearly slower increase of enterprise sector deposits (8% down from 28% noted in the first half of 2007). Growth rate of household loans continued to be high (36% YOY in comparison to 38% recorded the year before) while loans to enterprises started to grow at the rate of 25% YOY (faster than 18% noted the year before).

##### Financial performance of banks

In the first quarter of 2008, the gross profit/loss of the banking sector reached PLN 4.8 billion, while the net profit/loss stood at PLN 4 billion. The above results were better than the ones achieved in the corresponding period of last year. However, the banking sector profitability clearly deteriorated. It stood at 8.7% comparing to 12.1% recorded the year before.

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

### The shareholder structure

The share capital of the Bank is PLN 503,135,400 and is divided into 16,771,180 shares with a nominal value of PLN 30 each.

All the shares of Fortis Bank Polska S.A. 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.

As at 30 June 2008, the shareholder structure specifying the major shareholders with at least 5% of the total number of votes at the General Meeting was as follows:

Shareholder		Number of shares held	% of shares held	Number of votes at the AGM	% of votes at the AGM
Fortis S.A./N.V.	Bank	16 636 072	99,19%	16 636 072	99,19%
Others		135 108	0,81%	135 108	0,81%
Total		16 771 180	100%	16 771 180	100%

On March 7, 2007 the Banking Supervision Commission issued a permit to Fortis S.A./NV based in Brussels and Fortis N.V. based in Utrecht, to exercise, through the agency of Fortis Bank S.A./NV based in Brussels, more than 75% of the voting rights at the Bank's Annual General Meeting. As a result of the permit and after the acquisition of new issue shares, Fortis Bank S.A./NV is entitled to exercise voting rights attached to all shares held, i.e. 16,636,072 shares representing 99.19% of the share capital and 16,636,072 voting rights at the Annual general Meeting of the Bank, that constitute 99.19% of total votes.

One of conditions of granting the aforesaid permit is the majority shareholder's commitment to refrain from undertaking any actions leading to withdrawal of the shares of Fortis Bank Polska S.A. from the public trading on the Warsaw Stock Exchange (WSE, *Giełda Papierów Wartościowych w Warszawie*) until 2017, and to increase the liquidity of the Bank's shares quoted on the WSE up to at least 10-15% within two (2) years of issuance of the aforesaid permit. In connection with a difficult situation on the WSE, representatives of the Bank's main shareholder initiated a dialogue with the Polish Financial Supervision Authority (PFSA, *Komisja Nadzoru Finansowego*) to request postponement of the share liquidity increase date by one year, i.e. until the first half of 2010.

The Bank has not been informed of any agreements that may result in changes in the proportions of shares held by the present shareholders in the future.

### Stock performance on the Warsaw Stock Exchange

The Bank's shares have been quoted on the primary market of the Warsaw Stock Exchange since November 7, 1994. From April 18, 2001 until January 18, 2004, the Bank's shares were traded in the two-fixing single price system. Under the Resolution of the WSE Management Board, effective January

19, 2004, the existing trading system of the Bank's shares was replaced by a 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 2008, in trading there are 135,108 shares owned by other shareholders, i.e. 0.81% of all the Bank's shares.

At the first session in January 2008, the Bank's shares were traded at PLN 221.70. On 30 June 2008, the Bank's share price went down to PLN 149.00, i.e. by 32.79%. In the corresponding period of 2007, the share price increased from PLN 118.70 up to PLN 223.00 (change by 87.87%). The Bank's share price decrease reflects the decline trend on the Warsaw trading floor and is not correlated with financial performance that has kept improving. In the first half 2008, an average turnover in the Bank's shares was 214 shares per session in comparison to 388 shares per session in the corresponding period of 2007.

The highest Bank's share price in the first half of 2008 was recorded on 11 February, when it stood at PLN 249.50. The lowest Bank's share price was recorded on 30 June 2008, when it was PLN 149.00. In the first half of 2007 it was PLN 398.00 and PLN 114.60, accordingly. An average price of the Bank's shares in the first half of 2008 was PLN 202.84.

Quotations of the Bank shares and the WIG index from 2 January 2008 until 30 June 2008



WIG, a stock exchange index, fell from 55,702.46 points noted on 2 January 2008 down to 41,146.26 points recorded on 30 June 2008 (by 25.89%). As at 29 June 2007, WIG was 66,077.69 points. WIG-banks, a sector sub-index, also recorded a decline in the period in question and decreased from 7,898.42 points as at 2 January 2008 down to 6,009.90 points as at 30 June 2008 (by 23.09%). Due to the slight liquidity the Bank's shares are not classified to any of the indices.

Below there are market indices for the Bank's shares.

Indices	30.06.2008	30.06.2007
Return on assets (ROA)*	1,6	1,7
Return on equity (ROE)*	20,9	18,2
Profit per share	7,33	5,15
Book value per share	75,81	63,50

*The book value per share is PLN 75.81. For proper calculation, the share capital, additional capital, revaluation reserve, other reserve capital, retained earnings from the previous years and the net profit for the fiscal year were included in equity capital.*



\*These ratios were calculated per annum as follows:

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

### III. THE BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING BUSINESS IN THE FIRST HALF OF 2008

#### A. Retail Banking

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

Retail Banking (RB) business line provides service to Customers through a network of branches and via the external sales network. RB BL services three customer segments: small enterprises of the annual turnover up to PLN 25 million, Personal Banking customers (affluent individual customers) and other individual customers.

##### Small Enterprises segment

The Bank offers Customers four sets of banking services: Fortis Class, Fortis Premium, Fortis Premium FX and Fortis Professional (addressed to Professionals, or liberal professions). Within the packages the Bank offers accounts, deposit products, payment cards, settlement services, loan products and e-banking services. Firms can also use products that facilitate settlements with their international business partners and hedge risks arising out of such cooperation.

For the small enterprises segment Customers, the Bank offers accounts and deposit products, including the following:

- current accounts and auxiliary accounts in PLN and foreign currencies,
- securities deposit account,
- term deposits in PLN with fixed and variable interest rates,
- foreign currency deposits in USD and EUR with fixed interest rate,
- overnight deposits.

The Bank offers its customers payment cards in VISA, the international payment organisation, including: Visa Business Classic cards, Visa Business Gold cards, and Visa Business Electron debit cards. 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 costs of warranty repairs of equipment purchased with a card, medical treatment and medical transport costs, corpse repatriation costs, insurance coverage of accidents and personal injury, insurance against loss of or damage to travel luggage, insurance against air flight delay.

The Bank offers the following credit products for business entities:

- overdraft facility,
- revolving / non-revolving working capital loan in a loan account,
- debit limit,
- investment loan,
- investment loan granted to finance projects subsidised by the European Union,

- mortgage loan,
- mortgage facility,
- multipurpose credit line,
- general financing agreement,
- guarantee credit line.

Furthermore, the Bank offers its Customers FX transactions related to FX risk and interest rate risk. Such transactions are serviced by the Global Markets (GMK) BL. For exporters and importers, the Bank offers also global trade finance products, such as e.g. letters of credit.

The Bank provides two remote access channels for the small enterprises segment customers:

- BiznesPI@net - Internet banking system,
- Call Centre.

The above solutions enable comprehensive management of enterprise's bank accounts and products.

The BiznesPI@net system functionality is tailored to corporate customer needs and enables integration with finance and accounting systems, differentiation of user authorisations or definition of transfer approval schemes. BiznesPI@net is a comprehensive platform. In addition to making transfers and generating account statements, it provides for the management of other products used by the enterprise (e.g. payment cards, loans, deposits), filing applications, correspondence with the Bank, etc.

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 and home banking systems.

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

### **Personal Banking segment**

The Bank offers packages of banking services to its individual customers: Gold and Platinum. These packages enable an effective and safe management of funds deposited on savings and checking accounts. The offering is addressed to high-net-worth individuals, i.e. management staff, enterprise owners, specialists and people representing liberal professions.

Within the packages the Bank offers savings and investment products, loan products, credit and debit cards and e-banking services through a modern PI@net system.

#### Accounts and deposit products

Accounts and deposit products offered by the Bank to individual customers include in particular:

- Gold or Platinum Account in PLN, which combines deposit and credit offering; it is earmarked for depositing funds and making pecuniary settlements. The following products and services are available within the account:
  - credit facility in an account – Fast Loan,
  - standing orders, direct debits, domestic and international transfers,
  - Debit cards: Visa Electron,
  - PI@net internet banking system,

#### Call Centre.

- 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 Investment Polska,
- standard and negotiated deposits in PLN, USD and EUR,
- overnight deposits (a surplus of funds is automatically deposited on an overnight deposit),
- inflation-proof deposit (of variable interest rate pegged to the base rate /1M – WIBID/);
- e-deposits (opened using the PI@net Internet banking system and the Call Center),
- Pure Profit. An insurance policy and savings instrument 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.

#### Investment products

The Bank offers both Polish and international investment funds. Polish funds include:

- Open Investment Fund Fortis FIO. It is an umbrella fund comprising two sub-funds: Fortis Stock Subfund and Fortis Stable Growth Subfund. The Open Investment Fund Fortis FIO is managed by Fortis Private Investments Polska S.A. The fund is offered to natural persons, legal persons and organisational units without legal status. The Fortis FIO is also offered in a 50/50 combination with a bank deposit as the Fortis FIO Deposit, and as an Individual Pension Account (IKE Fortis FIO).
- The Bank's offering includes also TFI DWS Polska, TFI BPH, TFI Skarbiec, Superfund TFI and TFI SEB investment funds.

As at 30 June 2008, there were 28 sub-funds of Fortis L Fund offered by the Bank. The international investment Fortis L Fund is an umbrella fund registered in Luxembourg and managed by Fortis Investment Management.

In addition to Fortis L foreign funds offered on an on-going basis, the Bank has periodical subscriptions for Fortis L Fix – foreign investment funds. They are term funds with the principal amount protection, and their profits are related to stock markets or other instrument markets. These funds are disbursed in various currencies. In the first half of 2008, two subscriptions of subfunds were organised: Fortis L Fix Bulls and Bears and Fortis L-Fix Green Bonus.

#### Asset Management

In cooperation with Fortis Private Investments Polska S.A. (FPIP S.A.), the Bank offers asset management services for its Customers. Within the FPIP S.A.'s offering, there are the following model portfolios:

- Long-term debt securities portfolio,
- Treasury debt securities portfolio,
- Money market portfolio,
- Balanced portfolio 3x3,
- 6x3 Stock portfolio,

- Dividend portfolio (share portfolio),
- Debt securities portfolio in foreign currencies,
- active allocation portfolio with a defined proportion of shares – of the minimum value PLN 500,000 with an option, upon a prior consultation with a FPIP investment advisor, to construct an individual portfolio of a minimum initial value of at least PLN 1 million.

The FPIP's offering includes also investment fund portfolios:

- Polish funds portfolios of minimum PLN 500,000, including a debt securities portfolio, balanced portfolio and stock portfolio.
- International funds portfolios of minimum PLN 500,000, or the equivalent in USD or EUR, including a debt portfolio of international funds, balanced portfolio of international funds and stock portfolio of international funds.

#### 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 1 week to 52 weeks. Treasury bills can be purchased in a treasury bill tender – on the primary market, or from Fortis Bank Polska S.A. – on the secondary market.

#### Insurance products

The Bank offers the following insurance products:

- Fortis DuoProfit., This product combines a 6M bank deposit with a life insurance with a single premium, and it is offered by Aegon TU.
- Fortis DuoProfit Regular. It is a life insurance offered by Aegon TU with a regular premium.

Under the insurance policy, the customer can invest funds in 70 Insurance Capital Funds, including: Union Investment, Legg Mason, Arka BZ WBK, ING, PKO/Credit Suisse, Pioneer.

#### Card products

The Bank offers its Customers payment cards in VISA, the international payment organisation. The Bank offers the following card products to Retail Banking BL individual Customers:

- Credit cards:
  - VISA Foto credit card,
  - Visa Classic credit card,
  - Visa Gold credit card,
  - Visa Platinum credit card;
- Debit cards:
  - Visa Electron,
  - VISA Electron Youth Card.

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, corpse repatriation costs, immediate assistance costs, insurance coverage

of accidents and personal injury, insurance against loss of or damage to travel luggage, insurance against air flight delay, civil liability in private life, legal protection in private life, assistance for home, and concierge services.

#### 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 on account of the purchase/construction/redecoration of real estate.
- The mortgage loan offering is accompanied by two insurance types: bridging insurance (which constitutes transitory collateral for the loan until a mortgage, the target collateral, is established) and low down payment insurance (additional collateral for Customers without the minimum down payment).
- Cash loans. "Any Purpose" cash loan combines two products: a consumer credit and a mortgage loan. The cash loan funds can be earmarked for debt consolidation or consumer purposes. Loan currency: CHF, EUR, PLN or USD.
- Overdraft facility. Holders of savings and checking accounts may use a "Fast Loan". The loan is granted and its amount established on the basis of an analysis of payments crediting the account, by transferring a limit from another bank.

Effective 15 May 2008, following its risk mitigation policy, Fortis Bank Polska S.A. suspended selling mortgage loans in currencies other than Polish zloty to private individuals. The above limitation does not refer to Private Banking Business Line customers. The Bank intends to develop the PLN mortgage loan offer. The existing portfolio of foreign currency loans will be serviced under unchanged terms and conditions.

#### 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.

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

In the first half of 2008, the Retail Banking Business Line developed its offering of investment products and focused on the sale of mortgage loans. Since the beginning of 2008, the Bank has organised two subscriptions of structured products and introduced new TFI (investment fund companies) into the investment fund offering available through PI@net. In the analysed period, Bank also added new sub-funds to the offering of international Fortis L Funds and promoted the Pure Profit savings-linked policy.

In the third and fourth quarters of 2008, some solutions are to be introduced to make the cash loan more attractive, such as e.g. for collateral in the form of a mortgage established on real estate – a change in price parameters, financing period, loan available amount and new collateral forms.

Furthermore, it is planned to amend the offering of mortgage loans and construction and mortgage loans by e.g. extending the financing period up to 50 years and changing the creditworthiness assessment manner.

In addition to the above, in the second half of 2008 it is planned to introduce solutions aimed at making Fast Loan more attractive by adding new rules of granting the above product on the basis of the balance of loans and deposits held in the Bank.

On the other hand the PI@net system was enhanced by e.g. additional security solutions, investment module and text messages to notify the customer about any events on the account.

As regards offering from enterprises, the Retail Banking BL has introduced a new mortgage product, i.e. a mortgage facility and considerably simplified credit processes for some credit products.

## **B. Commercial Banking**

### **Products and services offered to Commercial Banking Customers**

Commercial Banking (CB) business line provides services through the network of its Business Centres. CB BL targets at medium corporate customers with an annual turnover over PLN 25 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,
- energy markets.

### **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 Bank offers working capital loans and, in cooperation with Fortis Commercial Finance, factoring to firms that are considering financing forms for their current operations.

In addition to financing Customer turnover, Fortis Commercial Finance offers also a number of additional services in the standard package:

- administration of customer receivables (e.g. monitoring of punctuality of repayments made by counterparties),
- invoice settlement (maintaining factoring accounts of the Customer and his counterparties, periodical reporting on the current receivables balance to the Customer),
- recovery of past-due receivables (e.g. by telephone reminders, legal actions, supervision over bailiff enforcement).

**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.

**FX risk and interest rate risk management**

Solutions in FX risk and interest rate risk management are offered to commercial banking companies by Traders Group of the Treasury Department.

Commercial Banking companies have direct phone connection to Treasury Department traders 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:

- FX 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 under investing 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.

**Liquidity management**

Liquidity management, or cash management, include products that enable enhancement of company's funds 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), a settlement between the counterparty and the Customer takes place through an individual account number assigned. The counterparty can make the payment at any place (post office, branches of the Bank or branches of other banks).

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

MultiCash, an electronic 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.

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.

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.

## **International trade**

### 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.

### 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).



#### Foreign bank guarantees

The Bank offers foreign guarantees – it issues both own guarantees by the order of its Customers and re-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.

#### Forfaiting – discount of term receivables

The Bank offers forfaiting of short-term and long-term receivables of the maturity from one month up to five years.

#### EBRD program

Thanks to the cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank is ready to hedge and finance a higher number of import and export transactions concluded on high risk markets in the Central and Eastern Europe, in the Balkans and in the Post-Soviet states. The Bank is ready to hedge various international contract risks (including risk of missing payment for the contract performed, contract performance risk, advance return risk) through such financial instruments as e.g. letters of credit, performance bonds, advance return guarantees, payment guarantees, stand-by letters of credit, promissory notes and bills of exchange guaranteed by international banks.

#### Export pre-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.

#### Export finance: Buyer Credit, Supplier 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, and an alternative solution – supplier credit.

#### Export finance under DOKE program (Interest-Rate Support for Fixed-Rate Export Credits)

Thanks to cooperation with BGK, the Bank carries out a government project of supporting Polish export of goods and investment services under the DOKE program. Financing under the DOKE program consists in granting a medium- or long-term credit facility to a foreign buyer (or its bank) of investment goods or services originating in Poland.

### **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 the first half of 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.

### **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 Treasury Department 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.

### **Development of banking services for the Commercial Banking segment**

In that business line, in the beginning of 2007 a new Cash Management Group was established to deal with specialised settlement products. Cash Collection was added to the Bank's offering. It consists in collecting money from the Customers, then counting it and booking to the Customer's account. In 2007, the Cash Management Group worked on a modification of products available and implementation of new versions of the solutions already known to Customers.

The Bank continued to develop its program addressed to Customers applying for an additional financing using the EU funds. The Bank was also involved in an educational activity: workshops, seminars and conferences were organised for the Commercial Banking BL Customers, with experts invited from consulting firms and institutions responsible for management and implementation of the EU funds.

## **C. Private Banking**

### **Products and services offered to Private Banking Customers**

Private Banking Business Line - offers professional, comprehensive services to High Net Worth Individuals (HNWI). Currently this division operates within the organisational structure of the Private Banking Department.

The Private Banking offer is addressed to three segments of the Customers:

- Affluent segment – customers who in a short time horizon (one to two years) will acquire assets of EUR 1 million;
- High Net Worth Individuals segment – customers of investment funds / credit expectations exceeding EUR 1 million or its equivalent in another currency;
- Ultra High Net Worth Individuals segment – customers holding assets above EUR 5 million.

Private Banking customers are offered the following:

- investment products,
- credit products,
- Daily Banking and cooperation with the international Fortis network,
- special legal and tax structures.

### **Investment products**

The Bank offers the following investment products:

- a selection of domestic and international investment funds,
- asset management offering of Fortis Private Investments Polska S.A., including model portfolios and individual investment strategies,
- structured products.

In addition to investment products, the Bank offers also:

- insurance and investment products (actively managed portfolios of the best investment funds sold on the Polish market, combined with insurance);
- deposits (in PLN and in foreign currencies, for various terms, with negotiated interest rates).

### **Credit products**

Credit products offered by the Bank include mortgage loans, lombard loans and other credit facilities tailored to individual customer needs.

### **Daily Banking products**

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

- accounts in PLN and main convertible currencies,
- payment and credit cards (VISA, American Express),
- Pl@net Internet account,
- foreign exchange transactions.

### **Special legal and tax structures**

Such structures, offered in cooperation with Fortis Intertrust, serve to protect assets, optimise taxes and regulate succession issues.

### **Development of banking services for the Private Banking segment**

The Bank addresses its offering to Customers holding assets of EUR 1 million. In cooperation with Fortis Private Banking worldwide, e.g. in Switzerland, Luxembourg, Monaco, London, Dubai, Singapore or Guernsey, the Bank offers funds investing in atypical markets or sectors. The scope of services offered to Private Banking customers in Poland includes asset management by Fortis Private Investments Polska SA, comprising model portfolios and individual investment strategies.

In the reporting period, the Private Banking Department continued to develop its team and prepared for implementation of new products, both credit facilities and investment instruments.

## **D. Global Markets**

### **Products and services offered by the Global Markets segment**

Global Markets (GMK) business line offers financial markets products to Commercial Banking, Retail Banking and Private Banking Customers. The GMK BL is also responsible for relations with other banks and financial institutions likewise the management of the Bank's liquidity.

Furthermore, the Bank's GMK BL offers its Customers FX transactions and transactions designed to hedge FX risk and interest rate risk.

FX transactions include, in particular:

- spot transactions,
- forward transaction,
- foreign currency options,
- zero-cost structures.

FX options offered by the Bank and addressed to Customers exposed to the FX rate risk relating to liabilities and receivables held in foreign currencies include American options, European and American barrier options and Asian options.

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 (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 under investing surplus of funds:

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

GMK BL has started offering agency in trading in CO<sub>2</sub> emission allowances. The transactions are carried out in cooperation with the Belgian Fortis Bank Brussels. The offer of trading in allowances is addressed to firms that have a surplus or shortage of CO<sub>2</sub> emission allowances and wish to balance the actual emission size with the current production output. The Bank offers also a comprehensive service with respect to trading in emissions, by providing assistance in finding a counterparty and advice on how to perform the transaction, supplemented with market analyses related to such instruments. Furthermore, the Bank makes market analyses for its customer needs based on fundamental data showing market trends and expectations. A "Carbon Weekly" report presents the situation in the recent period along with forecasts. The "Energy & Environmental Markets" special report is prepared only for special events occurring on the market that require a professional analysis.

### **Development of banking services for the Global Markets segment**

In the analysed period, the Bank separated the Global Markets Business Line comprising the Treasury Department and Departments responsible for the sale of financial instruments to Retail Banking and Commercial Banking customers, respectively.

At the beginning of 2008, Fortis Bank supplemented its offering by products to hedge energy and fuel price indexes. New products are to reduce the risk of price volatility of liquid fuel such as petrol, fuel oil or diesel oil, whose prices depend on world quotations. The Bank entered into the first transaction on the market hedging against fuel oil price index fluctuations.

## **E. 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. Fixed interest rates, which are not subject to change before expiry of the loan agreement, are also applied.

In the first half of 2008, the Monetary Policy Council increased the level of official NBP interest rates by 100 base points.

In response to the situation on the money market, the Bank modified interest rates on deposits and loans in EUR and USD accordingly.

In the first half of 2008, the average nominal interest rate of current and term deposits assumed the following values:

- PLN deposits – 4.41%;
- foreign currency deposits – 2.46%.

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

- PLN loans – 7.24%;
- EUR loans – 5.71%;
- USD loans – 5.00%;
- CHF loans – 4.00%.

To compare, in the first half of 2007, the average nominal interest rate of current and term deposits assumed the following values:

- PLN deposits – 2.64%;
- foreign currency deposits – 2.39%.

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

- PLN loans – 5.77%;
- EUR loans – 5.25%;
- USD loans – 7.05%;
- CHF loans – 3.53%.

## **F. Custody services**

The Bank offers services related to custody and transaction settlement with respect to securities traded on the Polish regulated and non-regulated markets and acts as an agent in transactions concluded on international markets. Under the Decision issued by the Securities and Exchange

Commission of July 14, 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 been acting as a Depositary for two sub-funds under open investment fund, FORTIS FIO, founded by Towarzystwo Funduszy Inwestycyjnych Skarbiec S.A. The function of a Depositary is performed in the Bank by the Custody Services Group. In its capacity as a Depositary, the Group is responsible for maintaining a register of Fortis FIO assets, controlling the estimation of sub-funds net asset value and the value of a participation unit and controlling real and legal activities undertaken by Fortis FIO with respect to their compliance with Fortis FIO Statute and legal regulations.

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 Fortis Investment Management in Luxembourg, the Custody Services Group coordinates the distribution of participation units in Poland. At the end of June 2008, there were 28 sub-funds offered under Fortis L Fund.

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

The Bank's activity on the money market and the market of debt securities may be differentiated into the following 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 Department (Global Markets BL) 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 Department makes placements and deposits on the interbank market, FX swap transactions and investments in State Treasury bills and bonds and NBP bills.

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

The Bank offers derivative transactions to secure against interest rate risk and FX risk such as: Forward Rate Agreement (FRA), Interest Rate Swap (IRS), Overnight Interest Swap (OIS) as well as foreign exchange options and European interest rate options. The Bank's offering has been supplemented by American FX options, barrier options, and Asian options such as Average Rate Options. The above transactions are offered to customers running business activity.

## H. 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.

Effective March 2005, EuroELIXIR and SORBNET-Euro systems were introduced in Poland for domestic Euro payments. As of 30 May, 2005, their functionality was extended by cross-border instructions. 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.

Since July 2005, there is a shared service centre (The Payment Shared Service Group) which has been operating as a back-office for foreign outlets of Fortis Bank SA/NV in Europe. Now the shared service centre carries out the following services for the newly opened Business Centres:

- 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.

The above services are rendered for BCs in Prague, Budapest, Vienna, Stockholm, Copenhagen, Paris, Bucharest and Zurich.

Effective 28 February 2008, Fortis Bank Polska SA provides its customers with SEPA credit transfers (both incoming and outgoing ones).

## **I. 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 first-rate banks operating in the major world financial centres, and maintains PLN *Loro* accounts for foreign banks. Cooperation with Fortis 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 contact 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) and joined the European clearing system (STEP 2) on August 9, 2004.

In May 2008, 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.



## IV. CHARITY

In November 2006, the Bank set up Fortis Foundation Poland (the Foundation), to carry out its charitable projects.

### 1. Basic information about Fortis Foundation Polska

On 20 December 2006, the Foundation was entered into the National Court Register of Associations, Other Social and Professional Organisations, Foundations and Public Health Care Institutions, maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register under No. 0000270411. The Foundation was provided with an establishment fund of PLN 40,000. In December 2006, the Bank's Board of Executives donated PLN 1 million, while in December 2007 – PLN 500 thousand to the Foundation.

### 2. Objectives of Fortis Foundation Polska

The Foundation's aim is to prevent social exclusion especially among children, the youth and the elderly. 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.

It is just with employees in mind that the "Pomagaj<sup>2</sup>" (Help<sup>2</sup>) program has been developed. Thanks to this program, employees are sensitised to social problems and encouraged to undertake steps to provide support and assistance to people at risk of social exclusion. Under the project, in the first half of 2008, the "Fortis Grand Prix" project was accomplished. Furthermore, employees supported the action by issuing positive recommendations to applications for additional financing submitted by institutions operating in their local environments.

### 3. Strategic cooperation

Having regard to options and benefits related to cooperation with other institutions of similar statutory objectives, this year agreements have been signed with *Towarzystwo Przyjaciół Dzieci* (Society of the Friends of Children) and a Habitat for Humanity Poland foundation.

On 20 March 2008, a "Master Cooperation Agreement" was signed with the Management Board of Towarzystwo Przyjaciół Dzieci (TPD). Under the agreement, both institutions have undertaken to cooperate to prevent social exclusion of children and the youth. Moreover, the Foundation declared extending its support to TPD local childcare centres - *Środowiskowe Ogniska Wychowacze* as regards infrastructure improvement of these centres and carrying out educational actions for the benefit of TPD charges. "Szansa<sup>2</sup>" or "Chance<sup>2</sup>" is to become exactly such a program addressed to charges of TPD local centres and clubs. The Foundation strives to provide young people with good conditions for development and pursuit of their own hobbies and interests. In the first half of 2008, the Foundation earmarked more than PLN 39,000 on projects under "Chance<sup>2</sup>". The funds were allocated to the following projects: support for TPD in Oświęcim and Gorlice to improve the infrastructure and equipment of clubs; additional financing for *Koło Pomocy Dzieciom i Młodzieży o Niepełnej Sprawności Ruchowej TPD* (Association to Help Disabled Children and the Youth) in Krakow and TPD Poznań –

Jezyce to organise summer holidays for their charges; funds for TPD in Nowy Sącz allocated to the construction of a playground for children under their care.

Taking into account an effective cooperation in favour of TPD, the Fortis Foundation intends to form coalitions with associations that can provide know-how to aid the Foundation in accomplishment of its goals. On 20 June 2008, a "Mutual Cooperation Agreement was signed with the Habitat for Humanity Foundation. Under the above document, Habitat for Humanity will support the Fortis Foundation in the pursuit of the "Chance<sup>2</sup>" program by cooperation in renovation of buildings that house TPD local childcare centres (*Środowiskowe Ogniska Wychowawcze*).

#### **4. Projects accomplished**

##### *"Time for Forest"*

The project was carried out in May 2008 in the territory of Staroźreby *gmina* (municipality) in cooperation with the Aeris Futuro Foundation. It was attended by FBP employees, TPD charges from Warsaw and children from Children's Home no. 2 in Warsaw. The project aim was ecologic education, elimination of environment pollutions, social integration and prevention of social exclusions by an attractive organisation of spare time. Under the "Time for Forest" project, two all-day trips were organised during which all participants planted trees after ecology training, and in the afternoon there was a picnic accompanied by a fine arts workshop, ecology contests, sports tournament and a folk band performance.

##### *"Fortis Grant Prix"*

It was a contest addressed to Fortis employees in Poland for the best social projects. It consisted in preparing projects that that meet the criteria of the Foundation's statutory tasks. Applications with ideas were sent to the Foundation until 27 June. Then the contest jury selected the best five social projects. Authors of the best ones were given funds (grants) to carry out their projects.

#### **5. Subsidies awarded in favour of other institutions**

Within its scope of activity, the Foundation provides funds earmarked for carrying out social projects prepared by other institutions. In the first half of 2008, at meetings of the Foundation's Management Board, held in June, March and May, the Foundation donated almost PLN 90,000.

#### **6. Summary of expenses in the first half of 2008**

In total, in the first half of 2008, the Foundation spent almost PLN 200,000 on its tasks, including its own projects, support provided to TPD and other institutions, likewise operating actions and current activity.

## V. PRIZES AND DISTINCTIONS AWARDED

In February 2008, Fortis Bank Polska SA received a honourable mention from the Polish Bankers Association for its involvement in building the Single Euro Payments Area (SEPA). Fortis Bank was one of the first banks to introduce the SEPA system. The Polish Bankers Association appreciated the Bank for its contribution into SEPA development in Poland, and also for openness to changes and innovations.

SEPA, the pan-European credit transfer system was launched on 28 January 2008. At Fortis Bank Polska SA, SEPA credit transfers can be made in PI@net and BiznesPI@net internet banking systems and in MultiCash e-banking system. Thanks to SEPA, the Bank's customers can make their EUR transfers faster, monitor their status or avoid errors in filling out transfer forms. They also get more exhaustive information if transfers are returned or rejected.

A month later, the *Gazeta Bankowa* awarded the Bank with an honourable mention in the contest for "The Best IT Project in Financial Institutions in 2007." In the electronic banking and e-finance category, PI@net Internet banking system was given an award. The jurors recognised the project comprehensive nature. Functionalities for both individual customers – PI@net, and corporate customers – BisnesPI@net were appreciated.

## VI. ANALYSIS OF PERFORMANCE OF FORTIS BANK POLSKA SA CAPITAL GROUP IN THE FIRST HALF OF 2008

### A. Consolidated Income Statement

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

Consolidated Income statement (in PLN thousand)	01.01.2008 -30.06.2008	01.01.2007 -30.06.2007	Dynamics 30.06.2008- 30.06.2007 (w %)
Net interest income	183 135	129 604	41%
Net fee and commission income	98 262	65 849	49%
Dividend and other investment income	-	600	-100%
Net trading income	66 273	62 306	6%
Other revenues	7 455	4 612	62%
Total income, net	355 181	263 177	35%
Personnel expenses	-95 575	-76 084	26%
Depreciation of fixed assets and intangible fixed assets	-17 256	-10 195	69%
Other expenses	-66 076	-61 443	8%
Net impairment losses	-23 913	-12 397	93%
Profit before income tax	152 361	103 058	48%
Income tax expense	-29 476	-16 621	77%
<b>Net profit</b>	<b>122 885</b>	<b>86 437</b>	<b>42%</b>

\*for the first half of 2007, separate data of Fortis Bank Polska SA have been presented.

The main item of the income statement is the net interest income which as at 30 June 2008 reached PLN 183,135 thousand and was higher by 41% or PLN 53,531 thousand than in the first half of 2007. High net interest income illustrates business growth visible especially in the credit area. In the analysed period, average credit volumes increased by 47.3%. Average deposit volumes increased in that period by 46.7%.

A significant item of the Group's income was the net trading income of PLN 66,273 thousand. Currency exchange transactions of PLN 66,272 thousand were the main item of the above result (growth by 11 % as compared to the first half of 2007). Transactions in derivatives fell to PLN 1,259 thousand down from PLN 4,478 thousand recorded in the first half of 2007.

As at the end of June 2008, the Group generated net commission and fee income of PLN 98,262 thousand, i.e. by 63% more than in June 2007. The above result reflects growth in the number of active customers of business lines from 53,413 as at the end of June 2007 to 54,723 as at the end of June 2008, likewise an increase in the number of transaction carried out by the Bank's customers.

The following examples illustrate the growth:

- number of current accounts – growth by 10%,
- average number of active loan agreements – growth by 14%,

- number of standard incoming and outgoing international transfers – growth by 9%,
- growth in the number of all card transactions (with Electron, Charge and Credit cards) - by 7%.

The Bank's Customers use electronic distribution channels increasingly more often, which is reflected by the following growth:

- average number of the Multicash users – growth by 4%,
- average number of the Pl@net users – growth by 39%,
- number of transfers made via the electronic distribution channels – plus 20%.

High net interest income and commission and fee income were achieved thanks to a considerable growth of loan volume.

### Net income

The Bank's net interest income grew by 85%. This item stood at PLN 467,186 thousand at the end of the first half of 2008 as compared to PLN 252,494 thousand in the first half of 2007.

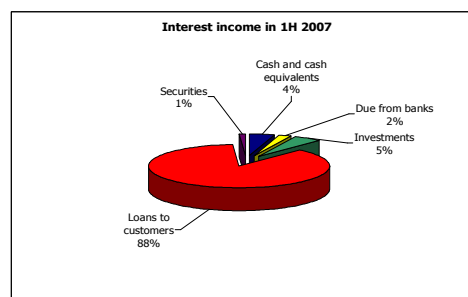
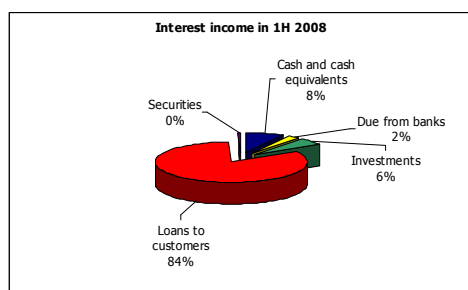
The main source of interest income included loans and credit facilities, hedging derivative instruments, investments and also placements in other banks and cash.

The interest income consists mainly of interest on account of:

- Loans to Customers: PLN 388,314 thousand versus PLN 220,022 thousand in the first half of 2007,
- Due from banks: PLN 9,197 thousand versus PLN 5,795 thousand in the first half of 2007,
- Investments: PLN 28,222 thousand versus PLN 12,612 thousand in the first half of 2007.

The interest expenses include in particular interest on account of:

- Due to banks: PLN 120,379 thousand versus PLN 61,327 thousand in the first half of 2007,
- Due to Customers: PLN 153,242 thousand versus PLN 59,626 thousand in the first half of 2007.



The Bank's commission and fee income growth reached 48%. This item stood at PLN 104,300 thousand in the first half of 2008 as compared to PLN 70,374 thousand in the first half of 2007.

The main source of the commission and fee income were fees and commissions on derivative instrument buy/sell transactions, fees and commissions on settlement services and services, commissions on guarantees likewise fees and commissions related to granting loans.

The commission and fee income consists mainly of the following items:

- Fees and commissions related to derivative instrument buy/sell transactions:

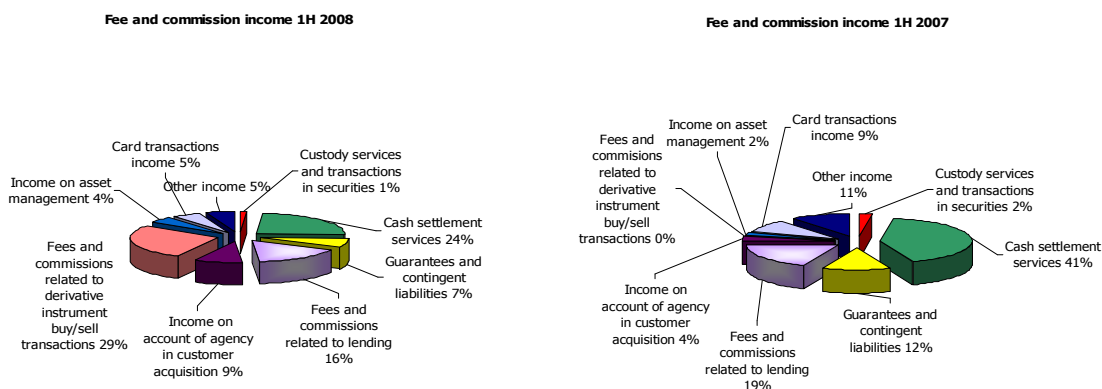
PLN 30,885 thousand,

- fees and commissions for cash settlements services: PLN 27,344 thousand versus PLN 25,733 thousand in the first half of 2007,
- commissions related to granting credit facilities: PLN 18,292 thousand versus PLN 11,455 thousand in the first half of 2007.
- card transactions income: PLN 5,871 thousand versus PLN 5,596 thousand in the first half of 2007.

The commission and fee expenses include in particular the following items:

- card related expenses: PLN 2,165 thousand versus PLN 1,923 thousand in the first half of 2007;
- cash transactions commission expenses: PLN 1,478 thousand versus PLN 1,168 thousand in the first half of 2007;
- settlement commission expenses: PLN 593 thousand versus PLN 717 thousand in the first half of 2007.

In the first half of 2008, commission expenses amounted to PLN 6,038 thousand and were higher by 33% than in the first half of previous year when they equalled PLN 4,525 thousand.



The net income structure in the first half of 2008 and the first half of 2007

	30.06.2008	30.06.2007
Net interest income	52%	49
Net fee and commission income	28%	25
Dividend income	-	-
Net trading income	18%	24
Net result on available-for-sale financial assets	-	-
Net profit (loss) on hedging transactions	-	-
Other revenues	2%	2
Total	100 %	100 %

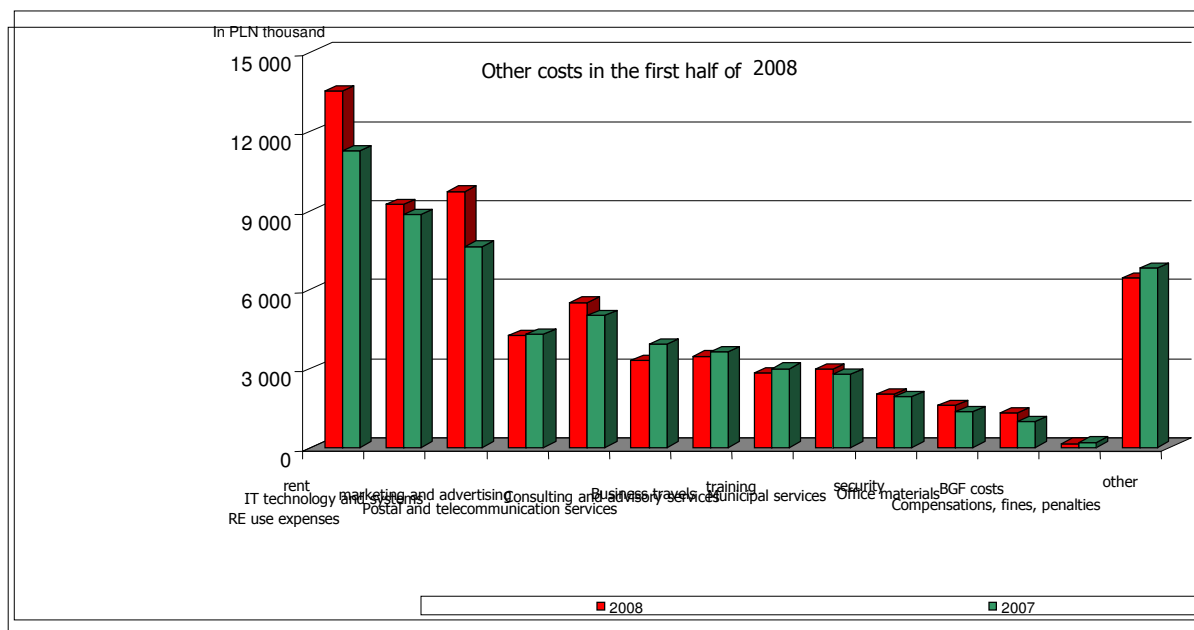
### Personnel costs and other administration expenses

As at the end of June 2008, the Groups' personnel expenses reached PLN 95,575 thousand and were higher by 26% compared to the expenses incurred in the first half of 2007, when they amounted to

PLN 76,084 thousand. The higher expenses were chiefly due to employment growth of highly qualified professionals and increase in employee remuneration that resulted from the Fortis Bank Polska SA Group development strategy adopted for the next years, likewise a dynamic increase of salaries in the economy.

The depreciation of fixed and intangible assets amounted to PLN 17,256 thousand and was higher by 69 % than in June 2007.

The Group's other expenses reached PLN 66,076 thousand and were higher by 8% compared to the first half of 2007, when they stood at PLN 61,443 thousand. The main items of other expenses are rent (PLN 13,528 thousand), information systems and technologies (PLN 9,216 thousand), marketing and advertising of PLN 9,705 thousand, postal and telecommunication services (PLN 5,481 thousand).



In the first half of 2008, net impairment losses increased up to PLN 23,913 thousand, and were higher by 93% than in the corresponding period of the previous year. The main item constituted the charge with credit risk costs on Loans to Customers, which increased from PLN 11,148 thousand up to PLN 22,717 thousand.

**Profit**

In the first half of 2008, the Group generated a gross profit of PLN 152,361 thousand, which was higher by 48% than in the first half of 2007. The mandatory reductions of gross profit amounted to PLN 29,476 thousand.

The Group's net profit amounted to PLN 122,885 thousand and was higher by PLN 36,448 thousand i.e. by 42% than in the first half of 2007.

## Balance Sheet

Consolidated balance sheet statement

The Group's total assets as at 30 June 2008 were PLN 18,377,926 thousand and were higher than total assets as at the end of June 2007 by PLN 6,440,755 thousand, i.e.54%.

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

### Assets

Balance sheet items	30.06.2008	Structure	30.06.2007	Structure	Change 30.06.08- 30.06.07 (%)
Cash and cash equivalents	3 231 063	18%	1 666 169	14%	94%
Financial assets held for trading	305 977	2%	185 211	2%	65%
Due from banks	421 646	2%	180 819	2%	133%
Loans to customers	12 641 182	69%	8 991 100	75%	40%
Investments - Available for Sale	1 359 103	7%	465 554	4%	192%
Property, Plant and Equipment	117 773	1%	90 051	-	31%
Intangible Assets	23 815	-	19 260	-	24%
Deferred tax assets	33 037	-	32 052	-	3%
Other assets	244 330	1%	306 955	3%	-20%
<b>LIABILITIES</b>					
Financial liabilities held for trading	275 438	1%	120 389	1%	128%
Due to banks	8 409 344	46%	5 309 536	45%	58%
Due to customers	7 772 390	42%	5 192 205	43%	50%
Subordinated liabilities	335 420	2%	-	-	100%
Current tax liabilities	14 691	-	17 322	-	-15%
Other liabilities	283 901	2%	219 182	2%	30%
Provisions	15 386	-	13 630	-	13%
Total equity	1 271 356	7%	1 064 907	9%	19%
<b>Total assets</b>	<b>18 377 926</b>	<b>100%</b>	<b>11 937 171</b>	<b>100%</b>	



In the structure of assets, loans to customers constitute the major item; at the end of June 2008, they accounted for approx. 69 % of total assets.

The change in the asset structure resulted chiefly from the increased volume of loans to Customers, primarily higher mortgage and commercial loans. Liabilities due to customers and banks continue to constitute the main source of asset financing. In comparison to the corresponding period of the previous year, they increased by 50% and 58%, respectively.

Of all asset items, the highest growth in terms of value was recorded for loans to customers, by as much as PLN 3,650,082 thousand, or 40% in comparison to the first half of 2007. The share loans to customers in the structure of total assets decreased from 75% recorded as at the end of 2007 up to 69% noted at the end of June 2008.

In the first half of 2008, due from banks increased by 133% in comparison to the corresponding period of the previous year, i.e. from PLN 180,819 thousand to PLN 421,646 thousand. The share of due from banks in total assets remained unchanged at 2%.

Financial assets held-for-trading increased by 65%, i.e. PLN 120,766 thousand in comparison to the balance as at the end of June 2007.

Cash and cash equivalents increased in comparison to June 2007 by 94% and their share in total assets increased from 14% in June 2007 to 18% in the first half of 2008.

Other assets decreased in comparison to the first half of 2007 by PLN 62,625 thousand and their share in total assets decreased from 3% to 1% at the end of June 2008.

In comparison to the end of June 2007, the value of property, plant and equipment increased by 31% or PLN 27,722 thousand. The property, plant and equipment include:

- investments in non-company fixed assets: PLN 42,485 thousand;
- machines and equipment and means of transport: PLN 27,250 thousand;
- computer hardware: PLN 48,038 thousand.

Investments available for sale increased by 192% in comparison to the first half of 2007. Their share in total assets likewise increased from 4% to 7% as at the end of June 2008.

As at 30 June 2008, the Group's securities portfolio consisted of securities issued by the Polish State Treasury and the NBP.

Investments available for sale comprised:

- Treasury bonds: PLN 1,069,037 thousand;
- Treasury bills: PLN 265,008 thousand;
- NBP bonds: PLN 24,979 thousand;
- Shares and stock: PLN 79 thousand;

As at the end of June 2008, intangible fixed assets stood at PLN 23,815 thousand and were higher by 24% than at the end of June 2007.

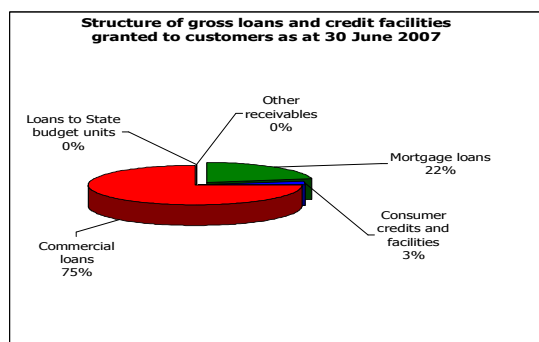
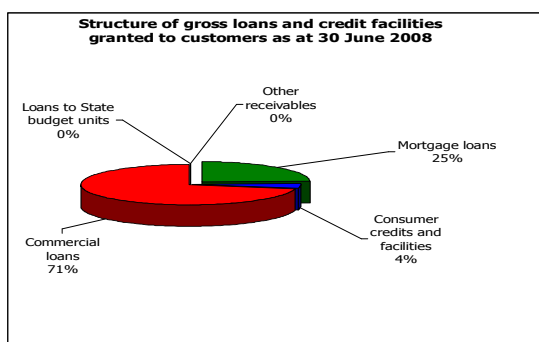
## Customer credit portfolio profile

Of all asset items, the highest growth in terms of value was recorded for net loans to customers, by as much as PLN 3,650,082 thousand, or 40% in comparison to the first half of 2007.

Commercial loans were the major item in the structure of loans to customers. Their share in the total net loans to customers made up 73% as at the end of June 2008, down from 76% recorded as at 30 June 2007. However, the value of commercial loans increased by 35% as compared to the first half of 2007.

The increase in volume of loans granted referred both to institutional customers: investment loans, including loans for the purchase or construction of commercial real estate, grew by 45% as compared to 30 June 2007; working capital loans went up by 21%, while overdraft credit facilities – by 31%; and individual customers: the balance of mortgage loans granted to individual customers increased by 53% in comparison to the level noted as at 30 June 2007.

Mortgage loans of PLN 3,152,948 thousand as at 30 June 2008 increased by 53% as compared to 30 June 2007, when they amounted to PLN 2,066,829 thousand. Their share in the structure of net loans to customers increased from 23% at the end of June 2007 up to 25% at the end of June 2008.



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

Loans to customers	30.06.2008	Structure	30.06.2007	Structure	Change 30.06.08-30.06.07 (%)
Mortgage loans	3 152 948	25%	2 066 829	23%	53%
Consumer loans and credit facilities	506 413	4%	296 885	3%	70%
Commercial loans	9 196 900	73%	6 797 418	76%	35%
Loans to budgetary entities and other	442	-	955	-	-54%
Other receivables	-	-	908	-	-100%
<b>Total loans to customers, gross</b>	<b>12 856 703</b>	<b>102%</b>	<b>9 162 995</b>	<b>102%</b>	<b>40%</b>
Write-offs for impairment and IBNR	-215 521	-2%	-171 895	-2%	25%
<b>Total net loans to customers</b>	<b>12 641 182</b>	<b>100%</b>	<b>8 991 100</b>	<b>100%</b>	<b>41%</b>

As at 30 June 2008, gross loans stood at PLN 12,856,703 thousand, which means an increase by PLN 3,693,708 thousand as compared to the first half of 2007.

PLN loans hold the biggest share in the loan volume and constitute 63% of the total volume. As at 30 June 2008, their value stood at PLN 8,035,597 thousand, which means an increase by PLN 2,424,996 thousand as compared to 30 June 2007.

The loans granted in CHF (in PLN equivalent) at the end of June 2007 reached PLN 1,792,409 thousand and grew by 56% up to PLN 2,793,503 thousand at the end of June 2008. In the first half of 2008, such loans made up 22% of gross total loans. CHF receivables due from private individuals account for 21% of total loans.

The credit portfolio in EUR (in PLN equivalent) grew from PLN 1,604,651 thousand in the first half of 2007 to PLN 1,920,335 thousand; however, at the same time their share in the total loan volume decreased from 18% as at 30 June 2007 to 15% as at 30 June 2008.

As at the end of June 2008, the Group's exposure focused mainly on the following sectors: individuals, wholesale trade, education – medical care, commercial and residential construction.

As at the end of June 2008, the exposure in individuals sector stood at PLN 23%, which means an increase by 3 pp as compared to June 2007.

As at 30 June 2007, the exposure in wholesale trade amounted to 17% and slightly decreased to 16%

at the end of June 2008.

*Information regarding the Bank's exposure concentration structure including specific sectors is presented in Section 30.1.10 of the Additional Notes to the financial statements.*

In the first half of 2008, the Bank issued 64 enforcement titles for the total amount of about PLN 19 million, as compared to 149 titles of the total of about PLN 14 million issued in the entire 2007.

## Liabilities

Liabilities towards 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 the first half of 2008, deposits from customers amounted to PLN 7,772,390 thousand, which means an increase by PLN 2,580,185 thousand as compared to the end of June 2007. The share of due to customers made up 42% of total liabilities and slightly decreased as compared to 43% in the first half of 2007.

Terms deposits absolutely prevail in the structure of due to customers: PLN 5,538,273 thousand, representing 71% of all customer deposits. Sight deposits reached PLN 1,335,508 thousand as at the end of June 2008.

The share of due to banks in total liabilities slightly increased from 45% in 2007 to 46% in 2008.

As at 30 June 2008, other liabilities made up 2% of total assets.

The share of financial liabilities held-for-trading in total liabilities remained unchanged, i.e. 1% as at the end of both the first half of 2008 and 2007. Their value changed as compared to June 2007 by 128%. All the financial liabilities held for trading consisted of financial derivative instruments.

Derivative instruments held for trading increased from PLN 120,389 thousand recorded at the end of the first half of 2007 to PLN 275,438 thousand as at 30 June 2008. Their nominal value stood at PLN 29,704,277 thousand as at the end of June 2008.

As at 30.06.08, derivative instruments held for trading in nominal values comprised:

- FX transactions – PLN 22,187,453 thousand;  
 including: forward (amounts purchased) – PLN 3,713,605 thousand;  
                   forward (amounts sold) – PLN 3,738,898 thousand;  
                   options (amounts purchased) – PLN 7,320,362 thousand;  
                   options (amounts sold) – PLN 7,367,920 thousand.  
                   CIRS (amounts purchased) – PLN 23,334 thousand;  
                   CIRS (kwoty sprzedane) – 23 334 tys. PLN  
                   CIRS (amounts sold) – PLN 23,334 thousand;
- Interest rate transactions – PLN 7,516,824 thousand;  
 including: FRA – PLN 600,000 thousand.  
                   IRS (amounts purchased) – PLN 2,819,182 thousand;  
                   IRS (amounts sold) – PLN 2,819,182 thousand;

options (amounts purchased)	– PLN 639,230 thousand;
options (amounts sold)	– PLN 639,230 thousand.

### Provisions

Provisions item increased from PLN 13,630 thousand as at the end of the first half of 2007 to PLN 15,386 thousand as at the end of the first half of 2008 and included provisions for off-balance sheet liabilities in the amount of PLN 11,682 thousand (including PLN 7,896 thousand of reserves for incurred but not reported losses - IBNR), legal risk reserve (PLN 2,900 thousand) and office sub-lease reserve (PLN 804 thousand). The total provisions increased by 13% as compared to the balance recorded as at the end of June 2007.

### Equity

As at 30 June 2008, the equity capital of the Bank amounted to PLN 1,271,356 thousand, i.e. by 19 % more as compared to 30 June 2007 (PLN 1,064,907 thousand). Its share in total liabilities decreased slightly from 9% to 7% as at the end of June 2008.

In order to increase the equity, in 2007 the Bank took a loan of EUR 100 million from Fortis Bank (Nederland) N.V. based in Rotterdam, and applied to the Banking Supervision Commission for a consent to include the above-mentioned subordinated loan into the Tier 2 capital. The consent was granted on 21 November 2007.

As at 30 June 2008, the capital adequacy ratio was 11.01 % in comparison to 9.47% as at the end of June 2007.

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

### Lending commitments

As at the end of the June 2008, the value of contingent liabilities granted reached PLN 4,887,589 thousand, which means an increase by 10% as compared to 30 June 2007.

Commitments to extend loans constituted the major item of off-balance sheet commitments granted; as at 30 June 2008, they amounted to PLN 3 845 046 thousand, what made up 96% of total liabilities granted. The above-mentioned commitments include credit lines granted, credit card limits and general financing agreements.

As at the end of June 2008, the contingent liabilities received stood at PLN 1,555,243 thousand and were higher by PLN 923,043 thousand than the balance as at 30 June 2007.

The main item of off-balance sheet commitments received constitute unused credit lines granted, which as at 30.06.08 amounted to PLN 1,272,032 thousand, and, respectively, PLN 454,245 thousand as at 30.06.07.

### C. Performance indicators

Indices	30.06.2008	30.06.2007
Return on assets (ROA)*	1,6	1,7
Return on equity (ROE)*	20,9	18,2
Profit per share	7,33	5,15
Book value per share	75,81	63,50

\*These indicators were calculated per annum as follows:

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

### D. Management of funds

Customer deposits, both from business entities and individuals, constitute the most important source of financing of the Bank's credit activity. In connection with signing an agreement on a credit line of EUR 300 million taken by Fortis Bank Polska SA with Fortis Banque Luxembourg S.A. to finance current operating activity of the Bank, in the first half of 2008 the financing with credit lines granted by affiliated entities had increased. As at 30 June 2008, the outstanding debt balance on account of the credit lines stood at PLN 4,512,593 in comparison to PLN 2,724,800 recorded as at 30 June 2008.

## VII. DEVELOPMENT PROSPECTS FOR BANK BUSINESS ACTIVITY

“Fortis back to growth” is the generic theme of the strategy and the ambition of Fortis is to grow from the leadership position in Benelux into a strategic position in Europe. The growth will be measured by the double-digit growth of the Net Operating Profit before capital gains (NOP BCG). Geographically, the focus on profitable growth means that Fortis will grow further in the Benelux - its home market, focus on the enlarged (by new EU countries) Europe and selectively grow in Asia and North America. Acquisitions are contemplated in order to accelerate the organic growth and penetrate new markets. By 2009, at least 30% of NOP BCG is to come from outside the Benelux.

In line with the strategy adopted in 2007, the Management of Fortis SA/NV resolved to join the Consortium, which included also the Royal Bank of Scotland and the Spanish Banco Santander, in order to take over the Dutch bank ABN AMRO. The transaction was finalised in October 2007.

Fortis, RBS and Santander shared the assets of ABN AMRO. Fortis took over the banking business in the Benelux and the global portfolio of private banking customers as well as the global asset Management platform. As a result of the transaction, Fortis became the leader in the Benelux in Retail Banking and Commercial Banking segments. What is more, Fortis joined the group of top world banks providing services to High Net Worth Individuals and gained the position of a leading asset management company in Europe.

In 2008, the merger process between Fortis and the ABN AMRO part taken over has entered a new stage. Regulatory authorities have approved the merger plans, some activities have already been taken over by target structures, and long-term capital plans account for the impact of the combination of both entities on the group’s capital position.

The group’s experience in mergers and acquisitions enables estimation of the duration of the ABN AMRO and Fortis merger process for approximately three years, i.e. until the end of 2010. The integration progress to date has indicated keeping the deadline and fulfilment of growth forecasts.

Fortis Bank Polska S.A. implements Fortis group strategy by leveraging regional environment and market opportunities.

As employer the Bank intends to provide an exciting and motivating working environment, caring for the staff and development of their competences. For its clients the Bank will provide top quality, flexible financial services adjusted to their needs. Offering professional advisory services and individual solutions the Bank wants to build long-term partnerships and thus to enable customers to develop and strengthen their market position.

The Supervisory Board and the Board of Executives follow the policy of not making financial forecast for 2008 public.

In line with the adopted Fortis strategy, Fortis Bank Polska SA will pursue the following strategic objectives for the years 2007-2011:

- to generate income 2.5 times higher than in 2006, i.e. to exceed PLN 1 billion,
- to systematically boost the profitability up and reach the return on equity (ROE) of 20%,
- to reduce the cost/income ratio down to 50%,
- to increase the share in financial service market,
- to efficiently integrate with Dominet Bank and ensure cooperation with other Fortis companies in Poland.

Fortis Bank Polska S.A. broadens its cooperation with other financial institutions from Fortis group in terms of providing shared services to them, including clearing and other financial services. In the years

2005-2006, the Payment Shared Service Group provided services to Fortis SA /NV BCs in Prague, Budapest, Vienna, Stockholm Copenhagen and Paris. In the first half of 2008, an agreement was signed regarding providing the services to Business Centres in Bucharest and Zurich.

Under an international Core Banking Retail Application (COBRA) project, since 2007 another shared services center has been operating in Krakow. It is responsible for a design and development of an IT system shared by all Fortis companies active in retail banking.

The Bank will continue cooperation with Fortis Investments with regard to sales of services offered by foreign investment funds.

Through the Global Markets business line (*GMK*), which corresponds to the Global Markets BL in the Fortis group structure, the Bank intends to increase its activity in the money market and the trade in securities. The development of the Global Markets BL is based on a customer driven strategy and includes providing a comprehensive range of financial market instruments for corporate customers. The Bank intends to expand its offer of derivatives.

In compliance with the commitment made to the Banking Supervision Commission (currently Polish Financial Supervision Authority), Fortis Bank Polska SA will merge with Dominet Bank. In the sight of the integration, in 2007 a number of activities were carried out to initiate the integration process, including regular meetings of the management bodies of both the banks in order to establish a platform enabling communication between the banks and taking key decisions related to the integration synchronisation. In the beginning of January 2008, representatives of both the banks signed a cooperation agreement to work towards merging both the entities. The agreement provides a basis to prepare integration documentation and apply for relevant permits. Efforts to develop an integration strategy were finalised in the first half of 2008. On 19 June 2008, information on the planned legal merger date and on the composition of the Management Board of the combined entity was published. Under the decision of the Integration Steering Committee, the legal merger will take place on 01 July 2009. The Management will be composed of the five existing Members of the Board of Executives of Fortis Bank Polska SA and the existing CEO of Dominet Bank, as the Board members responsible for Retail Banking.

Integration of the banks will ensure operating synergies for Fortis entities in Poland. Fortis Bank Polska S.A. and Dominet Bank S.A. are complementary to each other. Thanks to joined efforts it will be possible to reach a greater number of customers with the offering and to boost financial figures.

The integration with Dominet Bank SA has no impact on accomplishment of the Bank's investment projects in 2008 or on their funding structure, as that activity is financed entirely with the Bank's own resources.

In 2008, PLN 84 million is earmarked for investment projects, including PLN 16 million for IT system development, PLN 28 million for infrastructure (car fleet, office furniture, technical cash service facilities), PLN 0.8 million for investments related to security, PLN 34 million for internal projects and PLN 5 million for branch network expansion.

At the end of 2007, Fortis started to operate in insurance business in Poland through Fortis Insurance offering bancassurance services. Fortis insurance offering in Poland includes insurance products tailored to Dominet Bank's banking offer, namely insurance for credit cards and consumer credits (cash and car loans). In 2008, their further development is planned.

The Bank's strategy is interwoven with the overall strategy of Fortis group. This strategy is focused on Business Lines. Whenever Poland presents an opportunity to develop the activity of an additional Business Line, such a decision will be prepared and proposed by the Bank to the Business Line Management Committee in Fortis Group. If accepted by the latter then implementation of the relevant



business line will be a joint responsibility of the Bank's Management Board and the Business Line Management Committee.

### **Plans of strategic development of Business Lines:**

#### **Retail Banking Business Line (RB BL)**

RB BL will strive to increase its market share through organic growth targeting the Personal Banking segment and small enterprises. The objective will be attained by development of a credit offering for both private individuals (focus on mortgage loans) and enterprises, likewise through the developed offering of savings and investment products and credit cards.

In the years 2007 - 2010, the activities of RB BL will be focused on the following areas:

- Development of a distribution network (opening new branches, development of an external agents sales network, cooperation with financial intermediaries);
- Reinforcement of the position on the Personal Banking market by focus on target segments (HNWI and liberal professions), strengthening the position on the mortgage loan market and development of the offering in the saving and investment product segment;
- Reinforcement on the Small Enterprises market by improvement of the product offering to provide commercial customers with a comprehensive package of banking services, and reorganization of credit and operational processes for SME segment companies;
- Providing high quality client services through building relations and creating value for RB Clients.

Considering the takeover of Dominet Bank by the Fortis group, the Consumer Finance business was moved to Dominet Bank. In connection with the business activity reduction, Consumer Finance was reorganised and the customer portfolio of credit cards and cash loans was moved to other units of the Bank as of 1 June 2007. Dominet Bank will focus on development of distribution network and Customer service, in particular as far as consumer loans, car loans and credit cards for individuals are concerned. At the same time efforts are taken with a view to prepare the merger of the Bank and Dominet Bank and work out a business strategy for the merged banks.

#### **Strategy of the Commercial Banking Business Line (CB BL)**

CB at Fortis Bank group level wants to be the preferred banker of European oriented Medium Sized Enterprises, offering them value added solutions through a homogeneous Network of Business Centres in Europe. In terms of operational and functional aspects, Fortis aims at becoming a high value added, low cost specialist service provider; therefore, work optimization of the back and mid office came into focus.

As far as credit activity is concerned, this is driven by a clearly described credit policy, aiming at reducing risk, avoiding excessive plain vanilla lending and focus on value added, asset based lending.

The Bank will continue to develop Specialised Financial Services, including Global Trade Finance and Cash Management. The Bank intends also to develop Investment Banking by offering Corporate Advisory Services.

#### **Strategy of Private Banking (PrvtB)**

Private Banking Business Line which started operations at the end of 2005, aims at winning a 5% market share in the segment of High Net Worth Individuals (HNWI). The Clients, apart from standard banking products, will be offered products and services tailor-made to their individual needs (negotiated tariff, client advisor dedicated to a Client, broad range of investment and prestige

products). In cooperation with Fortis Private Investments Polska S.A., asset management offering is developed including model portfolios and individual investment strategies. Professional advisors are taking care of the portfolio of a specified number of customers, being their one entry point to the Bank. Private Banking carries on its activity through the existing network of Business Centers. Along with the increasing number of BCs, the number of advisors is planned to grow likewise.

In 2007, Private Banking developed a team of advisors and prepared for the implementation of new products, both credit facilities and investment instruments.

In 2008, the most significant task will consist in expanding the basic offering by:

- credit products,
- Structured products in cooperation with the Financial Instrument Sales Department in the GMK BL;
- Individual insurance solutions for the UHNWI and standard insurance products for other customers.

## VIII. 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 Group of Fortis Bank Polska SA pays utmost attention to monitoring and mitigation of risks inherent in the business of the Bank and its subsidiary.

The Risk and Asset and Liability Management Committee (Risk and ALM Committee) plays a vital role in liquidity risk management, market risk and assets and liabilities management risk, and also in strategic aspects of credit risk management and operational risk. The Risk and ALM Committee is chaired by the President of the Board of Executives of Fortis Bank Polska S.A., while the Chief Risk Officer, who reports directly to the President of the Board of Executives, is the Deputy Chairman.

The Risk & ALM Committee is entitled to set up supportive committees and delegate powers to these committees. The following committees have been established to date: the Liquidity, Market and ALM Risk Management Committee, Operational Risk Management Committee, Business Continuity Management Committee and the Credit Risk Management Committee.

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

Considering the preparation to the New Capital Accord requirement implementation status, the Bank started using a Standardised Approach (STA) in 2008 with respect to credit risk and the Basic Indicator Approach (BIA) with respect to operational risk. In the medium-term horizon (3-5 years), the Bank will still be obliged to implement the most advanced risk management methods – the AIRBA with respect to credit risk and AMA with respect to operational risk.

The Bank's management pays special attention to the liquidity issue and develops long-term solutions; in particular, the Board of Executives contemplates the option to carry out a new share capital increase or to take a subordinated credit facility.

### A. Liquidity, interest rate and FX risks

The Bank defines liquidity risk as the risk of losing its ability to: attend its payment commitments when due, acquire funds which are alternative to funds currently held, generate a positive cash flow balance within a specified time interval. In order to mitigate such risks, the Bank undertakes actions to differentiate the maturity ladder of assets and liabilities and ensure independent sources of financing in case of a liquidity crisis.

In its business, the Bank must also consider a potential negative effect of market interest rate changes on its financial performance. The interest rate risk occurs if it is impossible to compensate an income decrease necessitated by an increase the interest paid to customers or income decrease resulting from the required lowering of interest rates of the loans granted. Any of those cases will adversely affect the Bank's interest margin. To mitigate the interest rate risk, the Bank runs an active interest rate risk policy by appropriate modelling the balance sheet maturity structure, and e.g. inserts provisions to credit and deposit agreements under which interest rates can be changed, in specific cases, during the life of such agreements.

FX risk comprises market FX risk and foreign currency transaction risk. Market FX risk is linked to adverse changes to the Bank's financial result caused by changes in market Forex SPOT rates. Foreign currency transaction risk is linked to adverse changes to the Bank's financial result arising from concluding by the Bank a foreign currency transaction on conditions, which are not convenient for the Bank and differ from market conditions. In its operating activity, the Bank makes efforts to mitigate that risk by matching assets denominated in foreign currencies with sources of acquisition of funds denominated in those currencies.

The Bank monitors the liquidity risk, FX risk and interest rate risk by means of the multidimensional system of limits and reports. In particular, the Risk and ALM Committee determines risk management strategies and controls, on a regular basis, how such strategies are pursued, with the support of the Liquidity, Market and ALM Risk Management Committee.

## **B. Operational and Business Risk**

For the needs of the operational risk management, the Bank has adopted an operational risk definition recommended by the Basle Committee in the New Capital Accord, according to which it 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.

Operational risk is a basic risk inherent in the Bank's business activity. The operational risk management consists in continuous operational risk identification, analysis, monitoring, control and mitigation processes, considering determination of relevant scopes of responsibility for the above processes on different organisational levels. The Bank attaches special importance to reducing operational risk by the process of improving internal procedures and mitigating operational risk, which accompanies the introduction of new products and services.

To reduce operational risk, the Bank uses the system for operational risk monitoring which is based on databases containing information on existing operational losses. The operational loss register is supervised by the Operational Risk Management Department.

At the Bank, the Risk Self Assessment (RSA) process has been applied. The RSA is conducted every year for all products offered by the Bank. RSA includes risk estimation (in risk exposure categories), effectiveness of controls, appropriate management actions and also examination of possible developments to assess the product exposure to high risk incidents. Furthermore, on the management level the Bank conducts an annual control and self-assessment of risks threatening the performance of the Bank's most vital business objectives. The Bank shall periodically verify efficiency of the implemented operational risk management system and its adequacy to the Bank's current risk profile. In connection with the fact that the Bank is part of Fortis any rules binding at the Bank with respect to operational risk management are consistent with, or uncontradictory to, the methodology binding for all Fortis entities.

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.

In addition to the above, in the first half of 2008 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.

The Bank defines business risk as the 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 results mainly from external factors, it can be mitigated by efficient management actions. The business risk comprises two key sub-categories: strategic risk and reputation risk.

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.

In 2008, the Bank updated its operational risk management strategy and policy, extending the document by business risk, setting out goals regarding the operating risk and business risk management quality likewise the manner of the Bank's adjustment to the binding law requirements in this area. The Bank's strategy consists in implementing and maintaining high quality standards for the operational and business risk management and assessment to guarantee that customer deposits and the equity are secure and the Bank's financial performance is stable.

### **Risk related to outsourcing**

Specific risk is related to outsourcing, i.e. commissioning entrepreneurs or foreign entrepreneurs (including other Fortis entities) by Fortis Bank Polska to perform, in favour of the Bank, some legal or factual actions that constitute banking activity or factual actions related to the banking activity. Article 6 of the Polish Banking Law Act provides a specific way of commissioning such activities by banks and defines sanctions involved when the requirements are not respected. Outsourcing can be performed under an agreement only. Pursuant to the provisions of the Banking Law Act, prior to the planned conclusion of an outsourcing agreement, a bank shall notify the Financial Supervision Authority of such an intention, and, in cases specified by the law, obtain the FSA's permit. The Bank must ensure that the outsourcing will not adversely affect the Bank's operations or management, in particular by respective provisions of agreements that guarantee the fulfilment of such conditions. Therefore in selecting an outsourcer, the bank should be guided primarily by its experience, technical and personnel resources, protection against access of third parties to confidential information, etc. Agreements with such an entity should contain appropriate clauses under which the Bank will be provided with emergency plans to ensure continued and undisturbed business operations that are the subject-matter of the agreement (in particular, business continuity plans in case of employee or technical problems, ensuring appropriate technical, financial and personnel reserves). The agreements must also include clauses under which the Bank is authorised to amend or terminate the agreement in the event the FSA's orders such an amendment or termination. To fulfil the banking regulator's requirements, internal rules on signing outsourcing agreements have been implemented in the Bank. The Compliance Department is responsible for monitoring of the Bank's duties when entering into outsourcing agreements. A detailed supervision over outsourcing and performing contractual terms and conditions, is exercised by specific organisational units responsible for a given project.

**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.

From January 2008, the Bank has been running a project aimed at the creation of the Information Security Management System based on Fortis Information Security Policy and ISO/IEC 27001:2005 international standard. Under the project, information processed in Fortis Bank Polska SA has been classified into categories and rules of information handling have been developed. Furthermore, risk in the information security area was analysed to minimise the risk.

The purpose of activities involved in the organisation of information security is to develop a formal information security management structure, pursued in a comprehensive manner in the following areas: personal security, physical and environmental security, data communication security, legal security and business continuity.

In June 2008, the Bank's Board of Executives approved the "Information Security Policy of Fortis Bank Polska SA."

Measures undertaken by the Bank to effectively control risk and maintain it on an acceptable level resulted in a number of organisational changes, including the creation of the Risk Transfer and Information Security Department, IT Security Group, likewise the Physical Security and Technical Protection Group, whose primary aim is to ensure security of the Bank at the required level, in line with relevant areas of responsibility of specific units.

Taking into account a growing number of external and internal threats that bore the hallmarks of abuse or even offence against assets of the Bank or its customers, likewise continuously improved *modus operandi* of such events, the Bank extended and enhanced the process of counteraction, detection and examination of such cases. To accomplish the above objectives, a separate Investigations Department was created. The above measures are carried out under rules applied in Fortis and in close cooperation with financial market institutions in Poland.

**Anti-money laundering program and counteracting terrorist financing**

The following programs are in force at the Bank: "Anti Money Laundering and Detection of Terrorist Financing Program" and „Know Your Customer Program". The Program Coordinator appointed by the Board of Executives of the Bank is responsible for the performance of task and obligations laid down in the Anti Money Laundering Program. Besides, coordinators responsible for the performance of the Program at the level of a respective unit have been appointed in each branch and the units of the Bank's Head Office.

The legal basis for the Anti Money Laundering Program is the Act of 16 November 2000 on counteracting the bringing into financial circulation any asset values originating from illegal or undisclosed sources, likewise on counteracting the financing of terrorism. Upon accepting by the Bank any Customer order or instruction with a view to effecting a transaction whose circumstances indicate that funds may originate from illegal or undisclosed sources, such transaction is recorded by the Bank in the bank register and the General Inspector for Financial Information (GIIF) is immediately informed of the fact in writing. When the Bank accepts a Customer order or instruction to effect a transaction whose value exceeds an equivalent of EUR 15,000, the Bank's employee shall identify the customer who places such an order or instruction and record the transaction in the bank register. All

data on transactions recorded in the Bank's register are reported by the Bank to the General Inspector for Financial Information (GIIF).

The Bank does not cooperate with any virtual banks without a physical registered office.

### C. Credit risk

Credit risk is assessed on the basis of the Bank's internal standards, taking into account national credit regulations in force as well as standards binding in Fortis, pursuant to the "Credit Risk Management Policy at Fortis Bank Polska S.A." approved by the Bank's Supervisory Board.

In the credit process applied by the Bank, functions related to customer acquisition and sale of credit products as well as credit risk assessment are separated.

A philosophy of credit risk management at the Bank is based on an idea of an integrated management system. The integrated approach means that the risk identification, measurement, monitoring and control in all areas of the Bank's activity are performed under the common credit policy, uniform strategy and coherent rules, procedures, structures and tools to appropriately estimate and maintain the Bank's capital adequacy in relation to its risk profile.

The integrated approach covers operational and strategic dimensions the credit risk management.

The strategic credit risk management concerns the management on the aggregated level and is related with such aspects of the Bank's activity as the management of the Bank's capital and goodwill, pricing policy, planning or budgeting.

The strategic dimension focuses on the portfolio risk and covers the following activities:

- implementation of the Bank's credit policy and strategy,
- creation and development of credit systems and tools (credit engineering),
- monitoring and management of the portfolio credit risk,
- credit reporting, credit control.

An operational dimension of credit risk management focuses on the management from the point of view of a single exposure or borrower, with an emphasis on such components as identification, measurement, monitoring and control of specific credit risks.

The operational dimension consists of the following activities:

- credit analysis and credit decisions,
- credit administration,
- monitoring of risk related to individual credit exposures,
- restructuring,
- debt recovery.

Credit risk analysis is carried out based on a standard credit assessment methodology applied by the Bank. Subject to analysis are both a specific credit product related risk and the Bank's total exposure risk towards an entity, including all credit facilities granted and financial products that convey such risks.

In order to limit credit risk, the Bank applies internal procedures for loan granting and monitoring. The Bank's system applied to analyze credit applications and make credit decisions has several levels. This is to ensure a maximum objectivity in the assessment of a credit request and reduce the Bank's credit exposure risk. Credit decision-making model includes the following criteria: the Bank's total exposure towards a customer, assignment to a customer, internal rating, and credit risk category. The Bank introduced principles of setting up and monitoring sector exposure concentration limits.

Fortis Masterscale Rating, the system of internal rating, is used in the Bank to assess credit quality of commercial customers. A Rating Tool is also used in the Bank, which ensures the control of correctness and completeness of the portfolio credit rating, archives historical ratings in the database and generates rating reports. Furthermore, the LGD and EAD parameters have been internally validated for the Bank's commercial portfolio. Furthermore a rating system is now developed aimed at the assessment of small enterprises in the Bank's retail portfolio.

In order to monitor the mortgage loan portfolio, stress scenarios are carried out depending on predefined changes of market parameters such as interest rate, FX rates or average residential real estate prices.

Furthermore, the portfolio is analysed in terms of its quality. The analysis is supplemented by periodical examination of LTV and DTI, the key ratios from the point of view of the Bank's policy of granting mortgage loans.

In the first half of 2008, the Bank developed and adopted rules of estimation of internal capital for credit risk. The rules comply with Resolution no. 4/2007 of the Polish Financial Supervision Authority and enable the Bank to set out minimum capital requirements.

In addition to the above, since the beginning of 2008, the Bank estimates the capital requirement pursuant also to Resolution no. 1/2007 of the PFSA using the standard approach.

As part of work on integration with Dominet Bank, risk assessment procedures and methodologies in credit risk area have started to be standardised.

Effective 1 January 2007, the Bank implemented a number of internal procedures and IT applications that enabled the change from current rules of credit risk assessment and creation of specific provisions into the rules of estimating an impairment of assets according to the International Financial Reporting Standards. Since January 2007, the existing policies based on the Ministry of Finance's Ordinance dated December 10, 2003 regarding rules of making provisions for risk connected with operations of banks have been applied in the Bank only to determine the level of provisions that can constitute taxable costs.

The Bank uses internal IT tools to standardise the process of credit portfolio risk monitoring and classification process and to archive data for the needs of risk assessment models. The Bank uses the WIND system to monitor and recover past due receivables, while for the purpose of credit portfolio monitoring, review, and estimated impairment of credit exposures, the Monitoring Card is applied.

The Bank participates in the Banking Register system whose data administrator is the Polish Bankers Association (ZBP) and the Credit Information Bureau system. The participation in these information exchange systems as regards credit customers allows the banks to more thoroughly assess credit risk and accelerates the process of analysing credit applications and making credit decisions.

#### **D. Agreements significant for the Bank's activity**

##### **Credit Agreements signed with Brussels-based Fortis Bank SA/NV and Fortis Bank (Nederland) NV based in Rotterdam**

Credit agreement dated 5 February 2007 with Fortis Bank (Nederland) N.V. regarding the Bank's credit line with the limit of EUR 1,300 million in order to finance the Bank's operating activity. Under this credit line, the Bank can draw down advance payments in EUR, USD, CHF, JPY and PLN within 60 months of June 1, 2007. Interest rate: 1, 3, 6 or 12-month IBOR depending on the currency and interest rate term for specific advances. Commission: 0.125% p.a. on the unused credit limit amount.

On 23 October 2007, Fortis Bank Polska SA signed a credit agreement with Fortis Bank (Nederland) N.V. based in Rotterdam, on a subordinated loan with EUR 100 million limit granted to the Bank,



which replaced the agreement dated 28 September 2007. Interest rate was set out as follows: EURIBOR 3M for the first interest period, EURIBOR 1M + margin of 1% p.a. starting from the second interest period, EURIBOR 1M + margin increased by 0.5% p.a. starting from 28 December 2012.

On 21 November 2007, the Board of Executives of Fortis Bank Polska S.A. obtained the Banking Supervision Commission's consent to include the loan as subordinated debt into Tier 2 capital of the Bank, pursuant to Article 127 of the Banking Law.

#### **Credit agreement between Fortis Bank Polska S.A. and Fortis Finance Belgium S.C.R.L./C.V.B.A.**

On 6 December 2007, a credit agreement was signed between Fortis Bank Polska S.A. and Fortis Finance Belgium S.C.R.L./C.V.B.A. based in Brussels on taking a EUR 200 million revolving credit line by the Bank from Fortis Finance Belgium to finance the Bank's current operating activity. Detailed interest rate conditions and financing term were determined on 2 January 2008, at the disbursement of the credit first tranche of EUR 200 million. Variable interest rate is EURIBOR 1M plus 7 bp., interest is accrued monthly, and repayment period - from 4 January 2008 until 4 January 2010.

#### **Credit agreement between Fortis Bank Polska S.A. and Fortis Banque Luxembourg SA**

On 25 February 2008, Fortis Bank Polska S.A. signed a credit agreement with Fortis Banque Luxembourg SA based in Luxembourg regarding a credit line for Fortis Bank Polska S.A. with the limit of EUR 300 million (or its equivalent in USD or CHF) in order to finance the Bank's current operating activity. The credit line was granted to Fortis Bank Polska S.A. for 24 months, starting from 5 March 2008. Detailed interest rate conditions and financing term were determined on 5 March 2008, at the disbursement of the credit first tranche of CHF 470 million (equivalent of EUR 300 million). Variable interest rate is LIBOR 1M plus 7 bp., interest is accrued monthly, and repayment period - from 05/03/2008 until 05/03/2010.

#### **Cooperation agreements with Fortis Private Investments Polska S.A.**

On 19 July 2007, Fortis Bank Polska S.A. and Fortis Private Investments Polska S.A. signed an agreement for an indefinite term with SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A., under which Fortis Bank Polska S.A. and Fortis Private Investments Polska S.A. provide agency services related to the distribution of participation units of SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A. The Bank receives remuneration for financial agency services on conditions corresponding to the market conditions.

On 5 November 2007, Fortis Bank Polska S.A. signed a Distribution Agreement with Fortis Private Investments Polska S.A. regarding the acquisition by the Bank of customers interested in using third party's brokerage financial instrument portfolio services of Fortis Private Investments Polska S.A. The agreement replaced the cooperation agreement dated 7 January 2000.

#### **Agreements regarding financial services provided by Fortis Bank Polska S.A. in favour of foreign branches of Fortis Bank SA/NV.**

Since 2005, a shared service centre (Shared Service Center) which has been operating in Krakow as a back-office for new foreign outlets of Fortis Bank SA/NV in the Central and Eastern Europe. At present, the shared service centre clears cross-border and domestic payments of customers of Business Centers – branches of Fortis Bank SA/NV in the Czech Republic, Austria, Hungary, Denmark, Sweden and France, and since 2008 also in Romania and Switzerland.

The Bank entered into the following agreements on providing clearing services by the Shared Service Centre:

- Agreement of July 15, 2005 signed with Fortis Bank S.A./NV, Pobočka Česká Republica based in Prague (the Czech Republic branch), as amended by Agreement of January 31, 2007;
- Agreement of July 15, 2005 signed with Fortis Bank S.A./NV, Niederlassung Oesterreich based in Vienna (Austria branch), as amended by Agreement of January 31, 2007;
- Agreement of July 15, 2005 signed with Fortis Bank S.A./NV, Magyarorszagi Fiolkelepe based in Budapest (Hungary branch), as amended by Agreement of January 31, 2007;
- Agreement of March 15, 2006 signed with Fortis Bank S.A./NV, Filial Stockholm based in Stockholm (Sweden branch), as amended by Agreement of January 31, 2007;
- Agreement of March 15, 2006 signed with Fortis Bank S.A./NV, Filial af Fortis Bank S.A./NV based in Copenhagen (Denmark branch), as amended by Agreement of January 31, 2007;
- Master Agreement of November 15, 2006 signed with Brussels-based Fortis Bank S.A./N.V regarding the Shared Service Centre payments.
- Master Agreement of August 27, 2007 signed with Brussels-based Fortis Bank S.A./N.V France Branch regarding the Shared Service Centre payments.
- Agreement of 3 March 2008 signed with Fortis Bank S.A./NV Bruxelles Sucursala Bucuresti regarding the Shared Service Centre payments.
- Agreement of 30 June 2008 signed with Fortis Bank S.A./NV Bruxelles Zurich Branch regarding the Shared Service Centre payments.

The agreements concern the provision of financial services by Fortis Bank Polska S.A. with respect to clearing outgoing domestic ('domestic' from the point of view of the branch serviced) and cross-border payments, including both traditional and electronic transfers; settlement of incoming domestic and cross-border payments; handling customer complaints; settlement of transactions entered into by local treasury departments; disbursement of loans granted by local credit departments; reporting to the branches of Fortis Bank SA/NV.

Under the above agreements, 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 2007 stood at PLN 1,664,732 as compared to PLN 1,097,230 in the first half of 2008.

#### **Cooperation agreements with Fortis Bank SA/NV.**

On March 27, 2007, a master outsourcing agreement was signed between Fortis Bank Polska SA and Fortis Bank SA/NV that defined general terms and conditions of outsourcing provided in favour of Fortis Bank SA/NV.

Based on the master agreement, the parties signed a specific agreement under which Fortis Bank Polska S.A. shall provide services to Fortis Bank SA/NV related to the implementation and current maintenance of COBRA, an IT platform. Total consideration received by the Bank under the agreement in 2007 amounted to PLN 4,455,000.

Under an international Core Banking Retail Application (COBRA) project, in 2007 a new unit, Development Factory T24, has been established in the Bank's structure. It is responsible for the performance of the agreement, in particular for designing and developing an IT system shared by all Fortis companies active in retail banking.

On 30 April 2008, Fortis Bank Polska SA signed a cooperation agreement with Fortis Bank SA/NV on offering derivative instruments of Fortis Global Market by Fortis Bank Polska SA in Poland. The remuneration of Fortis Bank Polska SA on account of the agreement is the sales margin. The

remuneration amount depends on the value of transactions effected. The agreement was concluded for an unlimited period of time.

**Cooperation Agreements with Fortis Lease Polska sp. z o.o.**

Cooperation agreement of 2 January 2002. In April 2007 an Annex to the above Cooperation Agreement was signed.

Cooperation agreement of 17 February 2005.

According to these agreements, the Bank informs its customers that financing is available under leasing at Fortis Lease Polska (FLP). For each lease agreement signed by a customer introduced by the Bank, the Bank receives an agency commission. The co-operation agreement dated February 17, 2005 concerns cooperation and settlements with the Retail Banking Business Line. Under this agreement, the Bank entered into guarantee agreement with FLP sp. z o.o. for 50% of respective FLP receivables arising from lease agreements concluded through the Bank.

On October 18, 2007, Fortis Bank Polska SA and Fortis Lease sp. z o.o. signed an annex to the Lease Agreement of April 21, 2006 that amended the general terms and conditions of lease, lease asset insurance and conditions necessary for the obligation to arise to sell the lease asset to the lessee upon the lease term.

**Agreements signed with Dominet Bank S.A.**

Cooperation agreement of January 2, 2007 signed between Fortis Bank Polska SA and Dominet Bank SA based in Lubin. The agreement governs the rules of cooperation between the banks with respect to agency in offering products of Fortis Bank Polska SA to private individual customers of Dominet Bank SA. For performing the duties under the contractual provisions, Dominet Bank SA will receive remuneration in the form of commissions on loan amounts granted to customers. The agreement was concluded for an unlimited period of time.

On 9 January 2008, Fortis Bank Polska S.A. signed a Cooperation Agreement with Dominet Bank S.A., under which both parties thereto have committed to undertake all necessary initiatives leading to the merger of Fortis Bank Polska SA and Dominet Bank SA. The merger is to be effected by transferring the assets of Dominet Bank SA (the acquiree) to Fortis Bank Polska SA (the acquirer) in exchange for newly-issued FBP shares which will be allocated to the existing Dominet Bank shareholders, pursuant to Art. 492 § 1 of the Code of Commercial Companies and Partnerships.

**Agreements signed with Fortis Commercial Finance sp. z o.o.**

Cooperation agreement of 19 March 2007 signed between Fortis Bank Polska SA and Fortis Commercial Finance sp. z o.o. based in Warsaw. The agreement governs the rules of cooperation between the entities with respect to agency in offering products of Fortis Commercial Finance sp. z o.o. by employees of Fortis Bank Polska SA. For performing the duties under the contractual provisions, the Bank will receive remuneration in the form of commissions on factoring limits granted to customers and on invoice acquired. The agreement was concluded for an unlimited period of time.

*Agreements regarding transactions with parent entities and subsidiaries are presented in Section 28 of the Additional Notes to the financial statements.*

**Agreements with the National Bank of Poland**

Agreement dated 10 April 2007 regarding sending reports to the National Bank of Poland and use of the Reporting Information System Portal.

Master "Agreement on Extension of a Lombard Credit Facility" entered into with the National Bank of Poland on 21 October 2003.

### **Insurance policies**

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

Concluded with Fortis Corporation Insurance. Fortis Bank Polska SA has been included in the insurance program implemented via Fortis Bank in Belgium.

The Bank and the associated entities are covered by the global insurance policy established by Fortis Bank for all its subsidiaries worldwide.

The corporate program provides banking business insurance – bankers blanket bond, electronic and computer crimes (BBB - ECC) and Professional Indemnity (PI) insurance program up to EUR 250 million with the deductible of PLN 25 million per claim.

Fortis Bank Polska SA is the bond's beneficiary. Under the Master Policy, Fortis Bank introduced a system of redemption that aims at covering the deductible of EUR 25 million by Fortis captive insurance organisation in Luxembourg.

FB-Ré is a reinsurance company owned by Fortis Bank; it assumes all risks under master policy no. 49.377.944/70, whose terms and conditions apply to all Fortis entities worldwide. For Fortis Bank Polska S.A. the deductible has been reduced to EUR 150,000. The insurance policy covers the period from 1 October 2007 until 31 December 2008.

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

The policy was entered into pursuant to the provisions of the Finance Ministry 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 of EUR 1,500,000 for all incidents and EUR 1,000,000 for one incident. **The policy was signed with PZU SA for the period from 1 April 2008 until 31 March 2009.**

#### **Insurance agreement regarding payment cards issued by Fortis Bank Polska S.A., insurance policy signed with TU Interrisk S.A. (former Cigna STU) and TU Generali for the period from 1 November 2007 until 31 October 2008 and concerning VISA Platinum insurance – from 1 July 2008 until 30 June 2009**

- Risk of incurring financial losses by the Bank as a result of transactions effected with 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).

- Insurance for holders and users of payments cards issued by Fortis Bank Polska SA. The subject and coverage of the insurance depends on the card type (whether credit, debit or charge).

The construction of specific agreements is based on regulations under the Electronic Payment Instrument Act (Journal of Laws no. 169, item 1385).

Additionally, depending on the card type, the insurance protects the Bank's customers also as regards e.g. the following:

- luggage insurance,
  - departure delay,
  - costs of medical treatment of sudden illness abroad and international travel accident insurance.
- VISA platinum holders and users are additionally covered by the following insurance:
    - personal liability in private life,
    - legal assistance in private life,
    - home assistance,
    - concierge services.

**Property, electronic equipment and third party liability insurance. Insurance policy with PZU SA from 1 June 2008 till 31 May 2009**

All-risk insurance against loss or damage of property – insurance of property, electronic equipment and civil liability. 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.

**The comprehensive automotive policy [car breakdown (AC), third party liability (OC) and personal accident (NW)] for the Bank's company cars**

General Agreement dated 30 June 2008 signed with PZU SA for the period from 1 July 2008 through 30 June 2009. The Agreement determines cooperation rules as regards the settlement of motor insurance claims related to the Bank's company cars.

**Insurance of medical costs of Fortis Bank Polska SA employees during foreign business travel**, signed with TU AIG Europe Branch in Poland, for the period from 1 May 2008 until 30 April 2009. Under the policy, the insurance covers all Fortis Bank Polska SA employees travelling abroad for business purposes. The insurance coverage includes e.g.:

- death of the insured
- disablement (permanent health damage)
- costs of professional retraining

- medical treatment costs
- Assistance
- legal assistance costs
- civil liability

**Life insurance and insurance against accidents and personal injury for the Bank's employees, signed with TU Generali Życie SA for the period from 1 April 2008 until 1 April 2009.**

On 1 April 2007, Fortis Bank Polska S.A. signed an agreement with Generali Życie Towarzystwo Ubezpieczeń SA for the benefit of the Bank's employees. The agreement was prolonged under annex no. 2 dated 1 April 2008. It defines the principles of the group life insurance (CERTUM), general terms and conditions of additional insurance against accidents and personal injury, acceptance of quotation no. 7206034 0307/1 1\_1.

The maximum insurance amount that can be paid by the insurance company without the medical risk assessment is PLN 56,000.00.

The agreement is constructed on the basis of the accidents and personal injury (NNW) in four scopes:

- death of the insured as a result of personal injury following an accident
- death of the insured from natural causes
- permanent health damage of the insured due to personal injury following an accident
- inability to work as a result of an accident

**Agreements concluded with Towarzystwo Ubezpieczeniowe Europa S.A. for residential mortgage loans**

General Agreement for Residential Mortgage Loan Insurance signed with Towarzystwo Ubezpieczeniowe Europa S.A. on August 20, 2004. TU Europa S.A. provides the Bank with insurance protection for residential mortgage loans for individuals until such loans are secured in the form of legally valid mortgage entries.

General Agreement on Residential Mortgage Loan Low Down Payment Insurance with TU Europa S.A. of August 20, 2004 provides the Bank with insurance protection for residential mortgage loans for individuals. On February 1, 2006 Annex No. 1 thereto was signed.

The aforesaid agreements were amended by the *General Agreement for Residential Mortgage Loan Insurance* and the *General Agreement on Residential Mortgage Loan Low Down Payment Insurance* dated 24 January 2008.

**Agreements concluded with AXA Życie Towarzystwo Ubezpieczeń SA (formerly Winterthur Życie Towarzystwo Ubezpieczeń SA, formerly Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie SA)**

Cooperation agreement of February 20, 2003 for promoting and offering banking and insurance products.

Agreement dated June 12, 2003. Under this Agreement (and the subsequent annexes thereto), the Bank customers – personal account holders - may purchase whole life insurance policy called "Czysty Zysk" (Pure Profit) at the Bank branches.

**Agreement of October 28, 2005 signed with Aegon Towarzystwo Ubezpieczeń na Życie S.A. (formerly Nationwide Towarzystwo Ubezpieczeń na Życie S.A.), life insurance company**

The agreement along with subsequent annexes defines the rules of offering investment funds portfolio to the Bank's customers under Fortis DuoProfit with a single premium (former Fortis Investment Program) and Fortis DuoProfit Regular with a regular premium, in the form of a life insurance policy (*Program Inwestycyjny Multi PIN Aegon Lokata* and *Multi PIN AEGON*, accordingly). The investment in investment funds is made through insurance capital funds (life insurance with an insurance capital fund).

**Agreement of 3 March 2006 signed with Skania Życie Towarzystwo Ubezpieczeń SA**

The Agreement defines rules of offering an investment fund portfolio to Bank customers, under *MultiPortfel Fortis* insurance and investment product, in the form of a life insurance policy. The investment in investment funds is made through insurance capital funds (life insurance with an insurance capital fund).

**Card Service Agreements**

**Agreement for membership and licence of the trademark made with VISA International Service Association**

In 2001, the Bank was awarded the status of a Principal and Plus Member allowing the Bank to issue, maintain and settle VISA Classic and VISA Business payment cards. Now, the Bank is the VISA Europe Limited member.

**Insurance agreement for holders and/or users of VISA Platinum cards issued by Fortis Bank Polska S.A. dated 14 June 2006**

The Agreement stipulates insurance coverage for holders and/or users of VISA Platinum cards against unauthorized use of credit cards, robbery or theft of cash withdrawn from an ATM using a card and an accident (NNW) and assistance insurance package. It is valid until June 30, 2007.

On 15 May 2007 Annex no. 1 to the above Agreement was signed to extend the agreement period. The Agreement is valid until June 30, 2007.

**Insurance agreements signed with Towarzystwo Ubezpieczeń i Reasekuracji Cigna Stu S.A. (insurance and reinsurance company)**

Insurance agreement of October 6, 2003 regarding payment cards issued by Fortis Bank Polska S.A. The Agreement sets out risk insurance conditions in the case of financial losses resulting from transactions effected with payment cards issued by the Bank. On October 30, 2007 Annex No. 4 was signed under which the insurance covers risk of financial losses resulting from transactions made with VISA Electron, Charge and Credit cards issued by Fortis Bank. The agreement is valid from November 1, 2007 until October 31, 2008.

Insurance agreement for holders and users of payments cards issued by Fortis Bank Polska S.A. dated October 6, 2003. This Agreement provides for insurance coverage for holders and users of VISA Classic, Gold, Business, Business Gold and VISA Electron and Business Electron cards against unauthorized use of payment cards, robbery or theft of cash withdrawn from an ATM using a card and, depending on the type of card, an accident insurance package (NNW).

On October 30, 2007, Annex no. 5 was signed regarding a change of premiums on account of extending the insurance coverage to holders and/or users of Visa Gold, Visa Business Gold, Visa Business, Visa Business Electron, Visa Classic and Visa Electron cards. The agreement is valid from November 1, 2007 until October 31, 2008.

Insurance agreement for holders and/or users of credit cards issued by Fortis Bank Polska S.A. of October 17, 2005. The Agreement stipulates insurance coverage for holders and/or users of VISA Gold, VISA Classic, Ideal, Foto and *Ty i Twój Dom* credit cards against unauthorized use of credit cards, robbery or theft of cash withdrawn from an ATM using a card and, depending on the type of card, an accident insurance package (NNW). The agreement is valid until October 16, 2008.

On October 30, 2006, Annex no. 3 was signed regarding the agreement term from November 1, 2007 to October 31, 2008 and the scope of insurance coverage of holders and/or users of VISA Gold, VISA Classic, Visa Ideal and Visa Foto credit cards against unauthorized use of credit cards, robbery or theft of cash withdrawn from an ATM using a card and, depending on the type of card, an accident insurance package (NNW). Under the Annex, the *Ty i Twój Dom* credit card was withdrawn from the insurance.

Insurance agreement for holders and/or users of VISA Platinum cards issued by Fortis Bank Polska S.A. dated 14 June 2007. The Agreement stipulates insurance coverage for holders and/or users of VISA Platinum cards against unauthorized use of credit cards, robbery or theft of cash withdrawn from an ATM using a card and an accident (NNW) and assistance insurance package. The Agreement is valid until June 30, 2007.

**Cooperation agreement on providing information signed with Biuro Informacji Kredytowej S.A. (Credit Information Bureau) of November 16, 2004.**

The agreement sets out rules of cooperation between BIK S.A. and the Bank in gathering and providing the Bank, under Article 105 section 4 of the Banking Law Act, with the information subject to the bank's secrecy to the extent such information is necessary for the performance of banking activities, and also providing other products and services by BIK S.A.

**Agreement on participation and cooperation rules in exchanging information in the Interbank Business Information system – Bank Register of February 26, 2004, concluded with the Polish Bankers' Association (ZBP)**

The Agreement provides for the terms and conditions of participation and cooperation in exchanging information between the parties under the Interbank Business Information system – the Bank Register of Unreliable Customers (MIG-BR) operating under Article 105 section 1 and section 4 of the Banking Law Act.

**Agreements concluded with the National Clearing Chamber**

Agreement of participation in the ELIXIR system clearing PLN payment orders, maintained by the National Clearing Chamber (Krajowa Izba Rozliczeniowa S.A.) of September 27, 2004. The Bank participates in the clearing through ELIXIR system.

Agreement of participation in the EuroELIXIR system clearing EUR payment orders, maintained by the National Clearing Chamber (Krajowa Izba Rozliczeniowa S.A.) of February 1, 2005. The Bank participates in the clearing through EuroELIXIR system.

**Master Agreement for services provided by SWIFT (worldwide interbank financial telecommunication network) on May 22, 1998.**

The Bank joined SWIFT under the terms and conditions specified in the Agreement. The Participating Banks guarantee, on a bilateral basis, that Operations are carried out according to the Agreement standards and the relevant List of services.

**Significant loan agreements**

In the first half of 2008, the Bank signed two significant credit agreements with customers that were



not affiliated entities to the Capital Group of Fortis Bank Polska SA, for the total of PLN 500 million (PLN 300 million and PLN 200 million). The Agreements were concluded for the period up to one year and 10 years, respectively. Terms of such transactions correspond to market conditions.

As at 30 June 2008, the Bank did not exceed the maximum exposure limit towards one customer or capital group as stipulated under the Banking Law. The Bank's exposure exceeded 10% of capital equity towards 7 customers/capital groups, and totalled PLN 1,300 million.

In the first half of 2008, the Bank entered into no other agreements that are subject to information duty under the Ministry of Finance Ordinance dated 19 October 2005, regarding current and periodical information submitted by issuers of securities (Journal of Laws of 2005 No. 209, item 1744).

### E. Information on the agreement concluded with Auditor

At the meeting held on October 16, 2006, the Bank's Supervisory Board, acting on the basis of the Bank's Statute and taking into consideration a motion of the Board of Executives and recommendation of the Audit Committee, chose KMPG Audyt sp. z o.o. with the registered office in Warsaw as the auditor of the Bank's financial statements for 2006 and 2007 and the entity reviewing the Bank's financial statement for the first half of 2007 and the first half of 2008 (Supervisory Board's Resolution No. 18/2006 of October 16, 2006). The agreement with the auditor was signed on January 12, 2007. The consideration due includes PLN 110 thousand net for the review of the Bank's financial statements for the first half of 2008 and reimbursement of additional costs incurred by the auditor in connection with the services provided to the Bank.

The table below shows the auditor's contractual remuneration broken by service types (in PLN thousand):

Remuneration title:	<u>2007</u>	<u>2008</u>
Audit of the annual financial statements	310	-
Review of the semi-annual financial statements	135	110
<b>Total</b>	<b>445</b>	<b>110*</b>

\* Final data will be available once the agreement has been performed.

## IX. AFFILIATED ENTITIES

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

Fortis Bank, with its registered office in Brussels, holds 99.19% shares of Fortis Bank Polska SA (as at 30 June 2008).

Fortis is an international financial services provider active in the fields of banking and insurance. In the Benelux countries, its core market, Fortis occupies a leading position and offers a broad range of financial services to individuals, companies and the public sector. In its international strategy, Fortis focuses on selected market segments and pursues its strategic plan to achieve 30% net profit on activity conducted outside the Benelux countries by 2009. In 2007, the net profit share, divestments not included, grew up to 21% from 15% in 2004.

With a market capitalization of EUR 27 billion as at the end of June 2008 and 62,934 thousand employees worldwide, Fortis ranks in the top 20 of European financial institutions. Fortis total assets went up to EUR 974 billion, and were by EUR 103 billion, i.e. about 12% higher than at the end of 31 December 2007 when they stood at EUR 871 billion. The headcount increased from 60,739 employees at the end of June 2007 to 62,934 people at the end of June 2008, i.e. by 4%. At the end of the period analysed, 38% of staff members were employed outside the Benelux.

Fortis is listed on the exchanges of Amsterdam, Brussels and Luxembourg and has a sponsored ADR program in the United States.

Fortis first half year 2008 net profit of EUR 1,638 million was lower by 41% compared to a very strong performance recorded in the booming economy of the first half of 2007. Excluding EUR 591 million net of tax impact of credit market turmoil, net profit decreased by 21%. In connection with the subprime crisis, still in 2007 Fortis Bank made a provision of the total of EUR 2.7 billion (EUR 1.7 billion after tax). The performance of the assumed capital plan will enable the full integration with ABN AMRO and provide Fortis with financial flexibility.

In the first half of 2008, net profit in banking amounted to EUR 1,185 million (down by 43% as compared to record 2007), and in insurance to EUR 642 million (down by 16% as compared to 2007). Total income on banking increased by 6%, while total expenses were 4% higher, chiefly as a result with the integration with ABN AMRO. Stable inflow of Life insurance premiums was noted although the net profit at Life fell by 25%, while at Non-Life it increased by 8%. Operating costs were up 3%, mainly driven by growth initiatives and inclusion of acquired Fortis Insurance Company Asia

At the end of June 2008, Fortis core equity taken into account for the capital adequacy ratio calculation amounted to EUR 26.5 billion (Basel II) in comparison to EUR 28 billion (Basel I) at the end of 2007. In line with the time line of the transition and integration process of the acquired activities of ABN AMRO, Fortis will continue to strengthen its core equity position. Following the adjustment of capital management to new conditions, Fortis has announced its new capital plan and the decision not to pay an interim dividend to shareholders. The banking regulator has approved Fortis measures aimed at risk mitigation.

Key financial data in EUR million:

Fortis	<u>Result</u> for 1st half of 2008	<u>Result</u> for 1st half of 2007	<u>Change</u> in %
<b>Net profit</b> (before divestments), including	<b>1 638</b>	<b>2 782</b>	<b>(41%)</b>
Banking	1 185	2 062	(43%)
Insurance	642	765	(16%)
Other	(189)	(44)	330%
<b>Result on divestment</b>	<b>0</b>	<b>0</b>	
<b>Net profit</b>	<b>1 638</b>	<b>2 782</b>	<b>(41%)</b>

Banking	<u>Result</u> for 1st half of 2008	<u>Result</u> for 1st half of 2007	<u>Change</u> in %
Total income	6 090	5 752	6%
Total expenses	(3 483)	(3 334)	4%
Profit before taxation	1 520	2 383	(36%)
<b>Net profit</b>	<b>1 185</b>	<b>2 062</b>	<b>(43%)</b>

On 21 March 2007, once the permit of the Banking Supervision Commission was received, Fortis Bank SA/NV finalised the purchase of 100% shares of Dominet S.A., the owner of Dominet Bank S.A., Polish retail bank specialised in consumer loans. In 2007 the integration process of Fortis Bank Polska S.A. and Dominet Bank S.A. was initiated.

Fortis has maintained excellent long-term ratings awarded by independent international rating agencies. Current ratings include: Standard & Poor's: A+; Moody's: Aa3; Fitch: AA-.

In October 2007 the Consortium which included Royal Bank of Scotland and Banco Santander overtook the British Barclays in bidding for the purchase of the Dutch ABN AMRO. The transaction worth over EUR 71 billion (of which Fortis is financing 33.8 percent, i.e. EUR 24 billion) is the biggest takeover transaction in the history of banking.

Fortis, RBS and Santander shared the assets of ABN AMRO. Fortis acquired the banking business in the Benelux thereby becoming the indisputable market leader. Under the transaction Fortis also took over the global portfolio of private banking customers as well as the global asset management platform. As a result of the transaction, Fortis joined the group of top world banks providing services to High Net Worth Individuals with about EUR 200 billion funds under management. It also became one of the key European asset-managing banks – with the assets value of about EUR 300 billion.

On 10 March 2008, ABN AMRO obtained the approval of the merger plan from the Dutch banking regulator. From the activities that Fortis has acquired from ABN AMRO, a profit of EUR 614 billion was generated in the first half of 2008, compared to EUR 711 million generated in 2007.

## B. Fortis Private Investments Polska SA

**Fortis Private Investments Polska S.A.** (formerly Fortis Securities Polska S.A.), wholly owned by Fortis Bank Polska S.A., is an investment company operating in the brokerage business that includes:

- providing third party's brokerage financial instrument portfolio services, in particular managing investment portfolios of private individuals as well as portfolios of investment funds;
- accepting orders to subscribe or redeem participation titles in UCITS.

The share capital of Fortis Private Investments Polska S.A. (FPIP S.A. ) amounts to PLN 9,048,000. The equity level of FPIP S.A. is sufficient for secure current business as well as future development of the Company.

The offering of Fortis Private Investments Polska S.A. includes comprehensive solutions with respect to capital market investments. FPIP S.A. 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. FPIP provides management of assets of Fortis FIO (open-end investment fund) umbrella fund launched on the Polish market in 2004 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. Fortis FIO also maintains Individual Pension Accounts, IKE Fortis FIO.

In connection with the Bank's cooperation with FPIP S.A. to provide agency services of sale of financial instrument portfolio management, Fortis Bank Polska S.A. was registered by the Polish Financial Supervision Authority as the investment company's agent in February 2006.

Since 2006 FPIP S.A. has been offering financial instrument portfolio management services in cooperation with new intermediaries and acquiring new customers. Together with the Bank's Private Banking business line, FPIP offers investment services to high net worth individuals.

As sales of investment funds managed by FPIP S.A. have been growing fast, it is planned to transform the company into an Investment Fund Company. In the issue in question, an application to the Polish Financial Supervision Authority has been filed and is now considered. Following the change into an IFC, FPIP S.A. will continue to manage individual portfolios of financial instruments and it will develop activity related to investment funds. It is planned to expand the distribution network of investment fund units managed by FPIP S.A. by entities outside Fortis, e.g. by other Polish banks, independent financial advisors and electronic distribution channels. The Bank will continue to support further development of FPIP S.A. consistent with the above strategy.

*Information regarding transactions with parent entities and subsidiaries are presented in Section 29 of the Additional Notes to the financial statements.*

## X. CORPORATE GOVERNANCE

On July 4, 2007, the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych S.A.) adopted new corporate governance rules defined in "The Best Practices in Companies Listed on WSE" under Resolution No. 12/1170/2007. The new document became effective on January 1, 2008 thus replacing the existing "Best Practices in Public Companies 2005".

Being a listed Company, Fortis Bank Polska S.A. observes corporate governance rules and therefore the amended Best Practices affects also the Bank. Under the new rules, stock issuers are not obligated to publish declarations regarding observance of the Best Practices. However, should a permanent or incidental breach of rules arise, entities are bound to publish such declarations in the form of a current report. Moreover, once a year the Bank prepares a report on corporate governance observance which is attached to the company's annual report. The first such report on corporate governance applied in the Bank was added to Annual Report for 2007.

The Bank observes all the corporate governance rules defined in the "The Best Practices in Companies Listed on WSE." While appreciating the role and contribution of the corporate governance in corporate culture development in Poland, the Bank keeps up with all issues related to the evolution of "The Best Practices..." and internally propagates and monitors their functioning.

The Bank runs an investors relations section which provides shareholders and potential investors with access to any essential information concerning its organisation and business. The investors relations website is continually developed and updated. Furthermore, an information exchange platform between shareholders and the Bank in the form of a dedicated e-mailbox has been launched. Corporate documents and the Bank's reports are also available on the Bank's website.

The Bank publishes information about its General Meetings in compliance with legal requirements likewise corporate governance rules. Information regarding the General Meeting agenda and draft resolutions are available at the Bank's registered office and the website.

Since 2006, there has been the Audit Committee in the Bank which assists the Supervisory Board in its tasks related to the ensuring effectiveness of internal control systems at Fortis Bank Polska SA and monitoring of financial information reliability.

There is also the Compliance Department in the organisational structure of the Bank. One of the aims of its operating is to monitor compliance with corporate governance standards.

## XI. ORGANIZATIONAL STRUCTURE

### A. Bank authorities

According to the Statute, the Bank's authorities consist of:

- General Meeting,
- Supervisory Board
- Board of Executives

The following permanent and temporary committees acting as advisory and decision-making bodies are appointed:

Permanent committees include:

- Risk and Asset & Liability Management Committee (Risk&ALM Committee)
- Credit Committee,

Risk & ALM Committee composition, scope of competence and activity are specified in a resolution of the Bank's Board of Executives. Risk & ALM Committee is entitled to set up supportive committees, defining their composition, regulations, scope of activity and delegating powers to these committees. The following committees have been established to date:

- ALM, Liquidity and Market Risk Committee,
- Operational Risk Committee,
- Credit Risk Management Committee,
- Business Continuity Committee.

Credit Committee composition, scope of competence and activity are determined in Credit Decision Making Regulations accepted by the Board of Executives and approved by the Supervisory Board.

Until May 2008, in the Bank there was the Operational Risk and Business Continuity Committee which was divided into two separate committees: Operational Risk Committee and Business Continuity Committee.

Credit Risk Management Committee scope of competence and activity is determined in regulations adopted by the Risk & ALM Committee and approved by the Supervisory Board.

### B. Business lines and sales outlets

The Bank's organization is structured along business lines providing comprehensive service to specific customer and/or service market segments. In particular:

As at 30 June 2008, the Bank had the following:

- 1). 35 full-service branches (five branches in Warsaw, four branches in Kraków, three branches in Poznań, two branches in Łódź, Szczecin, Wrocław and Lublin each, and one branch in Bielsko-Biała, Bydgoszcz, Częstochowa, Gdańsk, Gdynia, Gliwice, Katowice, Kielce, Olsztyn, Opole, Rzeszów, Toruń, Zakopane and Pruszków each),

- 2). one Sub-Branch of the Zakopane Branch of Fortis Bank Polska S.A. in Nowy Targ,
- 3). five Personal Banking sub-branches – in Warsaw, Wrocław, Poznań, Katowice and Łódź, likewise one sub-branch of the Poznań Branch for Mass Transaction Processing, and
- 4). eight CB Business Centers: in Warsaw, Krakow, Gdańsk, Gliwice, Poznań, Wrocław, Rzeszów and Łódź.

The Bank's organization chart as at 30 June 2008 has been attached to this Report.



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

### Changes in the composition of the Board of Executives and the Supervisory Board Management Board:

As at 30 June 2008, the Board of Executives composition was as follows:

Alexander Paklons	President of the Board of Executives
Jan Bujak	Senior Vice-President of the Board of Executives
Bartosz Chytła	Vice President
Jean – Luc Deguel	Vice President
Thierry Lechien	Vice President
Jaromir Pelczarski	Vice President

With regard to the resignation submitted by Mr. Bartosz Chytła from the position of a Member of the Board of Executives and Vice-President of the same, from 1 July 2008 the Board of Executives composition is as follows:

Alexander Paklons	President of the Board of Executives
Jan Bujak	Senior Vice-President of the Board of Executives
Jean – Luc Deguel	Vice President
Thierry Lechien	Vice President
Jaromir Pelczarski	Vice President

### Supervisory Board:

As at 30 June 2008, the Supervisory Board composition was as follows:

Jos Clijsters	Chairman
Werner Claes	Deputy Chairman
Antoni Potocki	Deputy Chairman
Zbigniew Dresler	
Peter Ullmann	
Marc Luet	
Lucas Willemyns	

With regard to the resignation submitted by Mr. Bernard Levie, Mr. Thierry Schuman and Mr. Didier Giblet, the Supervisory Board's members, the Extraordinary Annual General Meeting of Fortis Bank Polska SA held on 21 February 2008 appointed Mr. Marc Luet and Mr. Lucas Willemyns to the Supervisory Board of Fortis Bank Polska S.A.

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

Members of the Board of Executives (BoE) of Fortis Bank Polska S.A. are appointed and recalled in compliance with the provisions of the Code of Commercial Companies and Partnerships, Banking Law Act and the Statute of Fortis Bank Polska S.A. The BoE is composed of between three to eight Members, including the President of the BoE, one or more Vice-Presidents of the BoE and other

Members of the BoE in the number specified by the Supervisory Board. Members of the BoE 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 consent of the Banking Supervision Commission, given upon a request of the Supervisory Board.

The BoE 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 BoE 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 BoE can delegate specific issues that belong to the scope of the BoE competence to specific BoE Members or the Bank 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 BoE resolution that defines the scope of such an authorization and the decision-taking manner.

Individual Members of the BoE 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.

#### **Board of Executives and Supervisory Board Members' remuneration value**

The remuneration and the values of benefits obtained by the members of the Board of Executives, the Supervisory Board and Managing Directors (i.e. Directors reporting directly to respective members of the FBP Board of Executives according to the organisational structure valid as the end of the given half-year) of Fortis Bank Polska S.A. are specified in the table below:

<b>Remuneration</b>	<b>01.01.08- 30.06.2008 PLN thousand</b>	<b>01.01.07 - 30.06.07 in PLN thousand</b>
Board of Executives	3 540	3 525
Supervisory Board	195	235
Managing Directors*	9 350	8 903

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

*Information regarding remuneration of the executives and the supervisors is presented in Section 28 of the Additional Notes to the financial statements.*

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

As at 30 June 2008, none of the Board of Executives' 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.

#### **Employees**

The number of people employed was 1,565 FTE (full time equivalents) as at 30 June 2007. Over the next 12 months the employment increased by 163 FTEs to 1,728 FTEs at the end of June 2008. The majority of the employees, i.e. 65%, were university graduates.

In 2007, the Bank employed 481 people (gross) and further 133 people joined the Bank in the first half of 2008, practically in all areas of business.

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. In 2007, a new bonus system, consistent with Fortis standards, was introduced.

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., the budget for training was increased, internal training programs were updated to ensure their adjustment to the needs, new e-learning programs were implemented and the subsequent edition of the High Potentials Program and Graduate Program were run. Further actions were planned in the area of development of leadership and managerial skills, including the participation of the Bank's management staff in the Harvard Manager's Academy.

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

#### Correctness and reliability of reports presented

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

The financial statements of the Bank for the first half of 2008 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 Bank and its net profit in all material aspects.

The Board of Executives' report on the Bank's activity in the first half of 2008 contains the true picture of the Bank'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 KPMG 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. 18/2006 of 16 October 2006), pursuant to the provisions of law, as the entity to review the Bank's financial statements for the first half of 2008, and that the above entity and statutory auditors employed to perform the audit meet the conditions to issue an impartial and independent audit report, in accordance with the respective provisions of the Polish law.

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

26 September 2008	Alexander Paklons President of the Board of Executives	..... signature
26 September 2008	Jan Bujak Senior Vice-President of the Board of Executives Chief Financial Officer	..... signature
26 September 2008	Jean – Luc Deguel Vice President	..... signature
26 September 2008	Thierry Lechien Vice President	..... signature
26 September 2008	Jaromir Pelczarski Vice President	..... signature