

Fortis Bank Polska S.A.

# Board of Executives Report on Fortis Bank Polska S.A. activity for 2007



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## **I. SUMMARY OF THE BANK'S ACTIVITY IN 2007**

### **A. Introduction**

In 2007, Fortis Bank Polska S.A. (the Bank) generated the best financial results in its history. The gross profit stood at PLN 214,607 thousand (growth by 106% as compared to 2006) while the net profit reached PLN 177,594 thousand (increase by 109% as compared to 2006).

The financial performance of the Bank in 2007 results not only from the good macroeconomic situation and increased customer demand for financial services, but also from further business development and fast growing sales of strategic products, both in RB BL and CB BL. Furthermore, the Bank continued its strategy to increase the Bank's share in the mortgage loan market and savings and investment products' market, improve the product offering to provide customers with a comprehensive set of banking services, and to further develop the network of branches. All the above actions greatly contributed to the income generated.

In March 2007, having obtained a permission of the Banking Supervision Commission for Fortis S.A./NV based in Brussels and Fortis N.V. based in Utrecht, through the agency of Fortis Bank S.A./NV based in Brussels to exercise more than 75% of the voting rights at the Annual General Meeting of Dominet Bank S.A. based in Lubin, a transaction regarding the purchase of Dominet S.A. group, the owner of Dominet Bank S.A. and Dominet Finance S.A. was finalised. Thus the scope of operations of Fortis group on the Polish financial services market was expanded. When issuing the permit for the takeover of Dominet S.A., the Banking Supervision Commission obliged the investor to merge Dominet Bank S.A. with Fortis Bank Polska S.A. within the next four years. Until the moment of formal merger, two separate banks within Fortis group in Poland will operate: Fortis Bank Polska S.A. and Dominet Bank S.A. The former will offer services for high-net-worth individuals (Personal and Private Banking) and products for Polish and international enterprises. The latter will focus on mass retail banking (Consumer Finance). When the profiles of both banks are clearly defined, they can develop faster and more effectively, and their merger in the future will contribute to further reinforcement of Fortis position in Poland.

In 2007, basic rules of the Bank management did not materially change.

### **B. Key factors and events that affected the Bank's financial performance in 2007**

As at the end of 2007, total assets stood at PLN 14,211,014 thousand and were higher by 29% than at the end of 2006.

The Bank's total income in 2007 stood at PLN 580 million, which represents 38 % growth in comparison to 2006. The net interest income increased by 39% while the net commission and fee income grew by 26% in comparison to the previous year; the net profit on transactions in held-for-trading financial instruments increased by 41 %.

Interest income on loans to customers for 2007 stood at PLN 530,974 thousand and was higher by 70% than the result recorded for 2006. Interest expense growth followed the increase in liabilities: of which, due to customers by 76% while due to banks – by 99%.

Furthermore, in 2007 the Bank recorded an increase of the FX transaction result by 23% in comparison to 2006.

The Return on Equity ratio clearly improved up to 16.3%, while the Return on Assets ratio improved by 0.4 p.p. up to 1.4%. Earnings per share grew by 109% as compared to the previous year, up to

PLN 10.59.

Loans to customers increased by 60 % in comparison to the end of 2006, i.e. up to PLN 11.2 billion. Commercial loans (72%) and mortgage loans (23%) prevailed in the "Loans to customers." The value of commercial loans granted to enterprises increased by nearly PLN 3 billion over the result recorded in the previous year.

Mortgage loans continue to be very popular among Private Individuals. As at the end of 2007, the balance of such loans reached PLN 2.6 billion, which means an increase by 68% as compared to the end 2006.

A considerable increase in volume of loans granted to Institutional Customers was noted. Investment loans, including loans for the purchase or construction of commercial real estate, grew by 72% as compared to 2006; working capital loans went up by 39 %, while the highest growth was reported for overdraft credit facilities – by 75%.

As at the end of 2007, liabilities due to customers likewise significantly increased up to PLN 6.3 billion in comparison to PLN 4.6 billion noted in the end of 2006. In comparison to the end of 2006, term deposits grew by 40% while current deposits increase was smaller – by 32%.

An intensive development of the Bank, including new offices opened, launch of new products on the market, employment of new personnel, resulted in expense growth: of which personnel costs increased by about 32% over the previous year.

The Bank's total operating expenses stood at PLN 324.4 million which was higher by 22.7 % than in the previous year. The expenses increased as a result of investments in development of the distribution network and growth of the business activity scale. The income grew by 15 p.p. faster than expenses, thanks to which the CIR decreased by 6.7 p.p. down to 55.7%.

Within distribution network development, new units (operating according to the new branch model implemented at the Bank) in Łódź, Warsaw, Pruszków, Szczecin, Poznań, Wrocław, Lublin and Kraków started their operating activity in 2007.

In March 2007, the Bank offered its Customers a modernised version of Pl@net, an Internet banking system, which enables customers to have a convenient access to banking services. The Bank's Internet site was modernised in order to facilitate its navigation.

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

### **Economy in 2007**

#### GDP – growth rate and components

In 2007, high rate of economic growth was maintained. In that period, GDP dynamics was 6.5%, slightly higher than 6.2% noted the year before. The domestic demand continued to be the main growth engine. Individual consumption increased in the previous year by 5.2% YOY, mainly as a result of high remuneration growth and a significant increase in domestic household sector indebtedness. Gross outlays for fixed assets grew by 20.4% YOY, that is at a pace not recorded for 10 years. The main factor which influenced the growth in investments was the necessity to increase production capacity. Similarly as in the preceding year, dynamics of investment outlays were highly influenced by a direct investment inflow and EU funds' absorption.

### Labour market

In 2007, the situation on the labour market continued to improve. The number of the employed in the national economy increased during the previous year by 400 thousand persons. At the same time, a considerable decrease in an unemployment rate was observed. In 2007, the unemployment rate stood at 11.4% and was by 3.4 percentage points lower than the year before. In the period in question, problems with acquiring a qualified workforce noticeably escalated. As the NBP survey of the market situation showed, in the fourth quarter of 2007, the above problem was reported by 14.2% of the surveyed enterprises what means that in this period it was the most severe barrier to enterprises development.

Similarly as in the preceding year, a high labour demand raised the pressure for remuneration increase. The real remuneration increase in the national economy in the first three quarters of 2007 stood at 8.6% YOY, i.e. it exceeded more than twice the level reached in the entire 2006 (4.0% YOY).

### Exchange rate and inflation

In 2007, a zloty appreciation trend was maintained. An average annual EUR/PLN rate in this period stood at 3.7829, and was by 2.9% lower than the year before. An average annual USD/PLN rate stood at 2.7667, and was by 10.8% lower than the year before. The above results were affected greatly by USD weakening observed in the previous year (EUR/USD rate in the previous year stood at 1.37 as compared to 1.26 the year before).

Despite the strengthening of the Polish zloty in 2007, the growth of a consumer price index (CPI) visibly accelerated. An average annual CPI increased to 2.5% YOY from 1.0% YOY the year before. The inflation growth was mainly connected with rising food prices and higher prices of services related to accommodation. These categories increased the inflation dynamics respectively by 1.26 and 0.89 percentage point. The above inflation structure indicates that in 2007, like in the preceding years, the inflation fluctuations resulted mainly from factors of a supply nature.

### Foreign trade and balance of payments

After eleven months of 2007, the cumulated 12-month current account deficit was EUR -11.7 billion and was over 50% higher than the year before. The worsening of the current account balance was caused mainly by the increasing imbalance in foreign trade – in the above-mentioned period the trade deficit reached EUR -8.4 billion as compared to EUR -4.8 billion the year earlier.

The ratios reflecting the payment stability of the country still remained at a satisfactory level. The ratio of a current account deficit coverage with a direct investment inflow stood at 126%, when the foreign currency reserves level covered almost 5 months of import.

### Public finances

In 2007 the state budget recorded a deficit amounting to PLN -16.9 billion. Such a result made up 56.4% of the statutory plan assumed (PLN -30 billion). The budgetary revenues higher than planned (103.1% of the plan) as well as the expenses lower than expected (97.7% of the plan) contributed to the better fiscal result.

### Financial performance of enterprises

According to the data for the three quarters of 2007, financial results of non-financial enterprises were much better than the year before. The gross profit of the sector was PLN 79.2 billion, and the net profit – PLN 64.6 billion (the year before, respectively: PLN 63.1 billion and PLN 50.7 billion).

## **The banking sector in 2007**

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

The gradual inflation growth in 2007 made the Monetary Policy Council decide to increase the NBP interest rates. The NBP reference rate increased in this period by 1 percentage point and in December 2007 stood at 5.00%. The gradual tightening of a monetary policy along with the worsening market liquidity conditions caused a significant growth of market rates. For example, an average monthly WIBOR 3-M increased in December 2007 to 5.67% from 4.20% in January the same year.

The increase of market rates was reflected in loan and deposit interest rates in the banking system. Pursuant to the NBP collective data, the interest rate of total PLN receivables (without current accounts) in December 2007 stood at 8.3% and was 110 basis points higher than the year before. In the same period, the interest rate of deposits (without current accounts) grew from 3.1% to 3.8%.

In 2007, loans granted to households grew at the rate of 38.7%, and it was considerably higher than 27.5% noted the year before. The prevailing part in this category was still played by the increase in housing loans (an average annual growth by 54.7% as compared to 49.6% the year before). However, in the fourth quarter of 2007, a slow-down in the dynamics of this loan group could be observed. It was the stop in domestic real estate prices increase as well as gradual tightening of the criteria for granting housing loans resulting from the crisis on the American sub-prime market that contributed to the situation. Simultaneously, a clear acceleration of consumption loans growth could be observed. In 2007, enterprise loan dynamics was 21% (increase from 7.3% the year before), mainly as a result of an increased demand for investment financing.

High deposit dynamics in the enterprise sector was maintained (23.7% in 2007 as compared to 22.1% the year before). It was mainly the result of a good financial situation of the sector that enabled further capital accumulation. The growth in household deposit sector accelerated slightly (9.4% in 2007 as compared to 6.5% the year before), however, still maintained at a moderate level.

### Financial performance of banks

In the first three quarters of 2007, financial results of the banking sector were much better than the year before. The operating income continued to increase faster than expenses (19.5% and 18%, respectively). As a result, the gross profit/loss of the banking sector reached PLN 12,896.2 million, and was higher by 25% than in the corresponding period of the preceding year. The net profit of the sector stood at PLN 10,487.9 million (25% higher than the year before).

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

### Changes in the shareholder structure

Under the Resolution of the Extraordinary General Meeting of the Bank dated October 26, 2006 regarding the Bank's share capital increase from PLN 452,331,000 up to PLN 503,135,400 by a share issue with pre-emptive rights excluded, and listing the shares on the regulated market, 1,693,480 Series K common bearer shares were issued. All the private placement Series K shares were subscribed for by Fortis Bank SA/NV at the issue price of PLN 118.10. The issue value was PLN 199,999,988. The Bank's share capital increase by PLN 50,804,400 was registered on January 2, 2007. Following the registration, the Bank's share capital amounts to PLN 503,135,400 and is divided into 16,771,180 shares of PLN 30 nominal value 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 December 31, 2007 shareholders' structure specifying the major shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows:

<b>Shareholder</b>	<b>Number of shares held</b>	<b>% of shares held</b>	<b>Number of votes at the AGM</b>	<b>% of votes at the AGM</b>
Fortis Bank	16 635 287	99,19%	16 635 287	99,19%
Others	135 893	0,81%	135 893	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, through the agency of Fortis Bank S.A./NV based in Brussels to exercise 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. 16,635,287 shares representing 99.19% of the share capital and 16,635,287 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 2 years of issuance of the aforesaid permit.

The Bank has not been informed of any other 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 Warsaw Stock Exchange 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. At present, in trading there are 135,893 shares owned by other shareholders, i.e. 0.81% of all the Bank's shares.

At the first session in January 2007, the Bank's shares were traded at PLN 118.70. As at December 28, 2007, the Bank's share price increased to PLN 221.70, i.e. by almost 86.8 %. The average turnover in the Bank's shares in 2007 was 353 shares per session in comparison to 56 shares per session in 2006.

On 8 March 2007, following the announcement that Fortis had obtained the consent of the Banking Supervision Commission to buy shares of Dominet S.A. (the owner of Dominet Bank and Dominet Finanse) and that the share liquidity was intended to increase to 10-15%, the share price of Fortis Bank grew by over 76%, i.e. up to PLN 300, in comparison to PLN 170 at the end of the previous quotations. It was an absolute record in the history of the Bank's shares quotations. Their price exceeded the book value over five-and-a-half times. The owner was changed for 1,300 shares, and the turnover was nearly PLN 609,000. In the opinion of analysts, for the share price to reflect the average valuation of banks listed at the WSE, it should be at about PLN 130. The highest Bank's share price of PLN 398 was recorded on 9 March 2007.

#### Quotations of the Bank's shares from December 28, 2006 until January 3, 2008



The WIG index rose from 51,202.99 as at 2 January 2007 to 55,648.97 as at 28 December 2007 (change by 8.68 %) and WIG-banks sector sub-index stood at 7,949.94 as at 28 December 2007 to as compared to 8,014.23 as at 5 February 2007 (drop by 0.8%). As at 29 December 2006 WIG-banks index stood at 70,858.39, however this value cannot be used for comparison, because of the change of its value calculation manner effective from 5 February 2007. 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.

<b>Indices</b>	<b>31.12.2007</b>	<b>31.12.2006</b>
EPS ratio	10,59	5,08
P/E ratio	20,93	20,37
BVPS ratio	68,81	58,52
P/BV ratio	3,22	2,03

*The book value per share is PLN 68.81. 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.*

### **III. THE BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING BUSINESS IN 2007**

#### **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 personal banking sub-branches, likewise via the external sales network. RB BL services the following customer segments: small enterprises of the annual turnover up to PLN 25 million and Personal Banking Customers (affluent individual customers).

##### **Small Enterprises segment**

The Bank offers Customers four sets of banking services: Fortis Class, Fortis Premium, Fortis Premium FX and Fortis Connect. Within the packages the Bank offers accounts, deposit products, payment cards, settlement services, loan products and e-banking services.

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 for business entities,
- collective account for non-residents that are business entities,
- remuneration account (an auxiliary account used for remuneration transfers),
- securities deposit account,
- non-resident account – for foreign persons, in PLN and convertible currencies,
- term deposits in PLN with fixed and variable interest rates for business entities,
- foreign currency deposits in USD and EUR with fixed interest rate for business entities,
- overnight deposits,
- inflation-proof deposit.

The Bank offers its Customers payment cards in VISA, the international payment organisation, including: Visa Business Classic and Visa Business Gold cards, and Visa Electron Business debit card. The 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.

The Bank offers the following credit products for business entities:

- revolving overdraft facility,

- revolving / non-revolving working capital loan in a loan account,
- debit limit (available for holders of Fortis Class Package / Fortis Connect Package),
- cash loan,
- investment loan,
- investment loan "backed by subsidies," granted to finance projects subsidised by the European Union,
- commercial mortgage loan,
- multipurpose credit line,
- general financing agreement,
- L/Cs line,
- guarantee 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.

The Bank offers two electronic distribution channels for the small enterprises segment customers:

- PI@net Internet banking system,
- Multicash home-banking system.

The systems enable comprehensive management of accounts and company banking products, narrowing user access rights down to specific accounts and functions, integration with financial and accounting systems, and report generating. The PI@net system provides Customers with an access to individual and corporate accounts. Additionally, the system enables management of credit and savings products, and in the future also of letters of credit and information on foreign currency exchange related to money market and currency risks.

Another distribution channel is the Call Centre, whose functionality includes: providing information on the current scope of the Bank's offering, specific nature of its products, effecting payment orders via the automated Bank-o-phone service and Helpdesk for electronic 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 cover movables, real estate, computer hardware and office equipment, likewise other assets, e.g. energy systems, gas turbines, windmills, or solar panels.

### **Personal Banking segment**

The Bank offers packages of banking services to its individual customers: Gold, Platinum and Premium Platinum Packages. 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 saving and investment products, loan products, credit and debit cards and e-banking services.

#### 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:
  - overnight deposits (a surplus of funds is automatically deposited on an

- overnight deposit while keeping access to the funds),
  - credit facility in an account – Fast Loan,
  - standing orders, direct debits, domestic and international transfers,
  - Visa Electron debit cards,
  - 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 S.A.
- standard and negotiated deposits in PLN, EUR and USD for individual customers;
- inflation-proof deposit (of variable interest rate pegged to the base rate /1M – WIBID/);
- promotional deposits;
- e-deposits (opened using the PI@net Internet banking system and the Call Centre).

#### Investment products

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

- Open Investment Fund Fortis FIO. It is an umbrella fund comprising two sub-funds: Fortis share sub-fund and Fortis stable growth sub-fund. 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 and TFI SEB investment funds.

As of December 31, 2007 there were 26 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 March 2007 the Bank carried out a subscription for the Fortis L Fix Great Brands sub-fund (of the commercial name "Fortis FreeProfit"), and in November and December 2007 two sub-funds were offered: Fortis L Fix Green Bonus (Fortis EuroProfit) and Fortis L Fix Boom Plus (Fortis KomfortPlus).

#### 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,
- stock portfolio 6x3,
- dividend stock portfolio,
- debt securities portfolio in foreign currencies,
- mid & small caps portfolio,
- 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, balanced portfolio 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 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:

- Clear 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;
- Fortis DuoProfit., This product combines a 6M bank deposit with a life insurance with a single premium, and it is offered by Aegon TU. Under the insurance policy, the Customer invests funds in 36 Polish and international Insurance Capital Funds (e.g. Union Investment, Legg Mason, Arka BZ WBK, ING, PKO/Credit Suisse, Pioneer).
- Fortis DuoProfit Regular – similar to Fortis DuoProfit, a life insurance with a regular premium (monthly or annual), offered by Aegon TU. Under the insurance policy, the Customer invests funds in 36 Polish and international Insurance Capital Funds (e.g. Union Investment, Legg Mason, Arka BZ WBK, ING, PKO/Credit Suisse, Pioneer). The product is offered without a deposit, it is available independently or together with a mortgage loan under a Savings and Mortgage Loan.
- Fortis RealProfit. At the end of January and beginning of February of 2007, in cooperation with Generali TU, the Bank conducted a subscription of a four-year structured insurance Fortis RealProfit related to the global real estate market.

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

The cards are accompanied by an insurance package including (depending on a 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.

The Bank's customer can also use American Express cards.

#### 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. Loan currency: CHF, EUR, PLN. 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).
- Savings and Mortgage Loan (S&ML) – combination of a mortgage loan and Fortis DuoProfit Regular.
- 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 debit limit from another bank or based on Customer's income.

#### Electronic Banking

The Bank offers two electronic distribution channels for individual customers: The first one is PI@net, the Internet banking system. The system is a developed platform for a comprehensive management of accounts and banking products. It provides also an aggregate view of all accounts held and banking products used. It enables management of accounts, payment cards, deposits, credit products and also access to investment products. Customers are sent text messages and e-mails on transactions processed. Customers have also access to individual and corporate accounts upon a single logging into

the system.

Another distribution channel is the Call Centre, whose functionality includes: providing information on the current scope of the Bank's offering, specific nature of its products, effecting payment orders via Bank-o-phone service and Helpdesk for electronic banking systems.

### **Consumer Finance Segment**

In 2006, the Bank entered into a new Consumer Finance market (mass retail banking segment), offering credit cards and cash loans to private individuals.

Within Consumer Finance (CF) sub-business line, until 30 March 2007 there were credit centres operating that specialised in providing services to individual customers, offering such products as credit cards and low cash loans.

In March 2007, pursuant to the decision of the Banking Supervision Commission, Fortis finalised the purchase of 100% of shares of Dominet S.A. – the owner of Dominet Bank S.A. As a result of the transaction, the Consumer Finance sub-line was incorporated into the organisational structures of Dominet. On 31 March 2007, credit centres "Your Credit" where customers could buy Consumer Finance products were moved to Dominet Bank. Currently they sell Dominet Bank's products.

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

In 2007, the Retail Banking Business Line developed its offering of investment products and focused on the sale of mortgage loans. In January, the Bank offered its Customers a fund investing on international real estate markets (Fortis RealProfit). The new product guaranteed the return of the principal invested and released customers from the tax on profits. Customers could also use a subscription of a three-year PLN fund (Fortis FreeProfit) investing in a basket of shares of 25 world-renowned firms. In the analysed period, the Bank added six new sub-funds to its offering of international Fortis L Funds.

In the second half of the year, the Bank organised two subscriptions for structured products. In November and December 2007 two Fortis L Fix sub-funds were offered: Green Bonus (Fortis EuroProfit) and Boom Plus (Fortis KomfortPlus). The first one, available in EUR, is a four-year investment in an alternative energy market with a full principal protection, the second one – also ensuring the return of 100% of the principal is a four-year-and-a-half investment in the global stock market. The savings and investment products offering was also expanded with a Fortis DuoProfit variant that enables investing in form of regular payments – monthly or annual.

Retail banking customers bought investment products but also took mortgage loans in the Bank. At the beginning of the year, the Bank joined the BASF and Termo Organika's campaign that encouraged energy saving. Customers who decide to construct an energy-saving house are offered a mortgage loan, so called "Warm Loan", from the Bank on special terms: with preferential pricing, shortened loan granting time, and in some cases, limited number of documents required.

The Bank also offered its Customers a mortgage and savings loan as a combination of a mortgage loan and an investment product, Fortis DuoProfit. Moreover, the Bank introduced a bundle sale i.e. a mortgage loan together with other bank products (personal account, credit card, etc.).

In the reporting period, the Bank offered the so-called Traveller's Package to holders of Visa Gold and Visa Platinum credit cards. Entry to the airport VIP lounges, special price conditions in hotels worldwide, elitist clubs or golf courses are just some of privileges provided by the new service. The

new Package will be systematically enriched by new services, but already today it is an interesting supplement to what credit cards can offer to travellers. The Traveller Package includes Priority Pass card and Priority Traveller card.

In 2007, the Bank introduced a possibility for credit cards holders to be released from charges for a card renewal depending on effecting by a Customer of a specific number of non-cash transactions.

At the beginning of the year, the Bank modernised the Internet banking system, PI@net. It was enhanced by e.g. additional security solutions, investment module and text messages to notify the customer. The new PI@net is already the system's third generation. The first version was released in January 2000 and was one of the first Internet banking systems in Poland.

## **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 booking systems thus facilitating the process and saving the time.

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 KUKI 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.

### **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 Polska, serve to protect assets, optimise taxes and regulate succession issues.

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

The Bank addresses the Private Banking services to Customers holding assets of over 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 S.A., 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. The Private Banking offering was introduced into Business Centres in Krakow, Katowice, Gdańsk and Wrocław, and since September – in Poznań.

## **D. Global Markets**

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

Global Markets (GMK) is a business line that takes care of the Bank's current liquidity management and FX risk and interest rate risk management. It is authorised to conclude transactions of a speculative nature on the interbank market within the limits granted. Moreover, GMK offers financial market products to Commercial Banking and Retail Banking Customers.

Within GMK BL, the Bank offers its Customers basic foreign exchange and interest rate transactions and also derivatives.

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 European and American options, 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. 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 2007, the 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 2007, 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 2007, the average nominal interest rate of current and term deposits assumed the following values:

- PLN deposits – 2.93%;
- foreign currency deposits – 2.64%.

In 2007, average nominal interest rates for total loans, both performing and non-performing ones, broken by currency, were the following:

- PLN loans – 6.12%;
- EUR loans – 5.48%;
- USD loans – 6.99%;
- CHF loans – 3.78%.

In 2006, the average nominal interest rate of current and term deposits assumed the following values:

- PLN deposits – 2.49%,
- foreign currency deposits – 1.69%.

In 2006, average nominal interest rates for total loans, both performing and non-performing ones, broken by currency, were the following:

- PLN loans – 5.91%,
- EUR loans – 4.27%,
- USD loans – 6.67%,
- CHF loans – 3.00%.

## 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 Depository for two sub-funds under open investment fund, FORTIS FIO, founded by Towarzystwo Funduszy Inwestycyjnych Skarbiec S.A. The function of a Depository is performed in the Bank by the Custody Services Group. In its capacity as a Depository, 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 2007, there were 26 sub-funds offered under Fortis L Fund. Furthermore, in 2007 three subsequent subscriptions were carried out for the following Fortis L Fix sub-funds: Great Brands, Boom Plus, Green Bonus.

## **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 offer is developing dynamically especially as far as option transactions are concerned. In 2005, the following options have been introduced into the Bank's offer: American FX options, barrier options, and Asian options such as Average Rate Options. Such transactions are offered to Customers running business activity and entered into by the Bank on the interbank market. In 2007, a dynamic increase in the number of option transactions concluded took place, there were works performed to improve the existing products and introduce new product, what would lead to expanding the Bank's offering in this area in 2008.

## **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.

At the end of 2007, the Bank was preparing to implement cross-border payment instruments in a new standard - SEPA. Their implementation is planned for January 2008.

Since July 2005, there is a shared service centre in the Bank (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 and Copenhagen.

In 2007 services started to be provided to the France Branch and it is planned for 2008 to start providing services to the Romania Branch.

## **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.

The introduction of the Single Euro Payments Area (SEPA) on January 28, 2008 will contribute to establishment of a coherent and integrated Pan-European payments market in EUR. SEPA means new



cross-border payment instruments – transfer orders, direct debit and card payments. At the beginning, those instruments will operate concurrently with the existing domestic systems. It is expected that by the end of 2010 the majority of payments will be effected using new instruments. Effecting and receiving euro payments in the entire Europe will be as easy, secure and cost-effective for companies and consumers as it is now in case of domestic payments realised locally.

The countries that have joined SEPA so far include European Union member states, Switzerland, Iceland, Liechtenstein and Norway.

The technical framework of the project was established by the European Payments Council (EPC) which represents the banking community. Simultaneously, the European Commission stipulated harmonised legal norms (Payment Services Directive), which would remove barriers that hinder the SEPA establishment. The Payment Services Directive shall be adopted in Poland until November 2009.

The National Clearing Chamber has proposed banks to effect EUR transactions in the new SEPA standard using EuroELIXIR-Ok system.

Starting January 2008, the Bank settles SEPA payments through a special converter in Fortis Bank Head Office in Brussels.

## IV. CHARITY

The Bank applies the principle of social responsibility to its undertakings and endeavours to support actions taken by some local communities. It promotes civil attitudes and volunteer actions. This principle was expressed through a financial support given to the Foundation for the Jagiellonian University earmarked for organising and launching the Małopolska Voluntary Service Centre. Fortis also supports actions in favour of education that promotes such initiatives as "The Best of the University of Economics Competition", which enables selecting and rewarding distinguishing students of the University of Economics, and "Career Days", job and training fairs in Poland arranged by AIESEC.

Furthermore, the Bank supports Fortis Foundation Polska (the Foundation), founded in November 2006, through which it undertakes actions of charity nature. In December 2007, the Bank donated to the Foundation the amount of PLN 500,000 to support its statutory actions. The Foundation's activity relates to three groups, which are mostly exposed to antisocial behaviours: children, youth and the elderly. The Foundation achieves its goals mainly through support provided to local communities both in form of additional financing of the institutions as well as conducting own projects.

The main initiatives supported by the Foundation in 2007 include:

- Child and Family Support Centre in Zakopane /*Centrum Wsparcia Dziecka i Rodziny w Zakopanem*/ – additional financing of a microbus bought to transport children of the Zakopane orphanage (February 2007),
- Foundation for the Jagiellonian University in Krakow /*Fundacja dla Uniwersytetu Jagiellońskiego w Krakowie*/ – donating funds to promote and organise a voluntary work; in particular, supporting the newly established Volunteerism Centre of Małopolska Region /*Małopolskie Centrum Wolontariatu*/ (February 2007);
- Association of Parents of Disabled Children in Olsztyn /*Stowarzyszenie Rodziców Dzieci Niepełnosprawnych w Olsztynie*/ – additional financing for an integration and education stay of the Association's charges (May 2007);
- Rev. Zygmunt Gorazdowski's Children's Home in Krosno – financing the purchase of a sports field equipment for the home charges (June 2007);
- Children's Friends Association of the Branch in Oborniki Śląskie – additional financing of a health camp for the Association's charges, children from foster family homes and modest families (June 2007);
- Youth Care and Education Centre in Tolkmicko /*Młodzieżowy Ośrodek Wychowawczy w Tolkmicku*/ – additional financing of the purchase of equipment for activity clubs operating in the Centre (June 2007);
- Nowy Sącz Centre of Social Prophylactic in Nowy Sącz /*Nowosądecki Ośrodek Profilaktyki Społecznej w Nowym Sączu*/ – additional financing of a social support and health camp for children from impoverished families and at risk of exclusion (June 2007);
- Integration Sport Club in Warsaw /*Integracyjny Klub Sportowy w Warszawie*/ – financial support for organisation of the Wheelchair Fencing World Cup "O Szablę Kilińskiego" (August 2007);
- MONAR MARKOT Human Aid Centre in Bełchatów /*Bełchatowskie Centrum Pomocy Bliźniemu MONAR MARKOT*/ – additional financing of a holiday stay for homeless children

- (August 2007);
- "Spring" Association from Krakow */Stowarzyszenie Wiosna z Krakowa/* – additional financing of an educational project for children from impoverished families "Let's Share Our Knowledge" (August 2007);
  - "Community of Hope" Foundation from Krakow */Fundacja Wspólnota Nadziei z Krakowa/* – additional financing of artistic workshop for autistic persons (August 2007);
  - "Beczka" Academic Association from Krakow */Stowarzyszenie Akademickie „Beczka” z Krakowa/* – additional financing for an integration and rehabilitation stay of the Association's charges (September 2007);
  - Community day-room in Suwałki – additional financing of the room redecoration (October 2007);
  - Foundation for the Blind and Poor-Sighted in Krakow */Fundacja na Rzecz Osób Niewidomych i Słabowidzących w Krakowie/* – financial support for occupational training of the blind, purchase of a mixing console (October 2007);
  - "U Siemachy" Association */Stowarzyszenie U Siemachy/* – financing of computer purchase to the computer lab for the Youth Skills Club in Krakow */Młodzieżowy Klub Umiejętności/* (October 2007);
  - Children's Home in Sulejów – financing school starting packages for the orphanage charges (October 2007);
  - "Live-Life-to-the-Full" Academy from Krakow */Akademia Pełni Życia z Krakowa/* – additional financing of "Internet for the Third Age learners" project addressed to the elderly (October 2007);
  - Foundation for "Leonardo" Social Development Support in Krakow */Fundacja Wspierania Rozwoju Społecznego „Leonardo” w Krakowie/* – additional financing of the purchase of a car to carry the disabled to occupational therapy classes (December 2007);
  - Pomeranian MONAR MARKOT Human Aid Centre in Gdańsk */Pomorskie Centrum Pomocy Bliźniemu MONAR MARKOT w Gdańsku/* – additional financing of meetings with Santa Clause for children, the Centre charges.

In the fourth quarter of 2007, the Foundation has begun carrying out own projects within the "Chance<sup>2</sup>" programme, which aims at supporting community educational centres of the Children's Friends Association and undertaking actions that will contribute to ensure equal development opportunities to its charges.

The actions addressed to the children from the day-rooms of the Children's Friends Association (CFA) have been realised through the following projects:

- Together with Aeris Futuro Agency, under "Save Our Forests Now" project, in September and October 2007, there were two actions of educational and integration character carried out – children from CFA day-rooms along with the Bank's employees took part in a forestation action.
- In five Polish towns, nearly 550 children from CFA day-rooms were invited to special theatre shows combined with Santa Clause's visits.
- During six meetings in three towns, children from CFA day-rooms together with the elderly (over 100 persons) took part in artistic workshops in ethnographic museums, during which they prepared traditional Christmas decorations. The workshops were combined with

visiting the exhibitions and a treat at the Christmas Eve table as well as gifts for the participants.

The Foundation has been also continuing the cooperation started by the Bank with the United Way foundation. In 2007, the Foundation joined the Partnership for Children that realises "What a boredom" programme. Moreover, the Bank's employees voluntarily deduct a declared portion of their salaries and donate it to a chosen social goal. As in the previous years, the Bank's management has declared to add one zloty to each zloty contributed by an employee, so as to double the amount of funds donated to the United Way Foundation.

## **V. PRIZES AND DISTINCTIONS AWARDED**

In April 2007, Fortis Bank Polska S.A. was the only bank in Poland winning a prize in the "Best Employers 2006" contest organised by Hewitt Associates, an international consulting firm. Out of 67 firms participating in the contest, 10 were rewarded. In December 2007, the Bank was once again honoured with the emblem "Investor in Human Capital". In the six-year history of the contest, the Bank has become its prize-winner for the second time, what confirms the Bank consequently realises its mission and vision assumptions, which emphasise the Bank's pursuance to be the best employer in the financial sector in Poland.

The Bank was moreover considered one of the strongest business brands – "Business Superbrands" – on the Polish market. The Superbrands organisation, which has awarded a distinction to the Bank, has been rewarding selected brands for 12 years. In its opinion, Fortis is one of the strongest and best recognised brands in the business to business (B2B) sector in Poland.

In 2007, the Bank also won the first prize in the "universal banks" category in the "50 largest banks in Poland 2007" ranking organised by the *BANK Financial Monthly*. The ranking took into account the economic position and development of banks on the financial market in the past two years.

## VI. ANALYSIS OF THE BANK'S PERFORMANCE IN 2007

### A. Income Statement

Dynamics of selected Income Statement items (in PLN thousand)

<b>Income statement (in PLN thousand)</b>	<b>01.01.2007 -31.12.2007</b>	<b>01.01.2006 -31.12.2006</b>	<b>Dynamics 31.12.2007- 31.12.2006 (%)</b>
Net interest profit (loss)	<b>289 033</b>	<b>207 671</b>	39%
Net commission and fee profit (loss)	<b>123 757</b>	<b>98 053</b>	26%
Dividend and other investment income	3 400	-	100%
Net trading income	<b>155 961</b>	<b>110 803</b>	41%
Other income	10 987	5 751	91%
Total income, net	<b>580 289</b>	<b>421 254</b>	38%
Personnel costs	-160 198	-121 370	32%
Depreciation of fixed assets and intangible fixed assets	-25 257	-22 068	14%
Other expenses	-138 918	-120 421	15%
Net impairment losses	-41 309	- 53 283	-22%
Gross profit	<b>214 607</b>	<b>104 112</b>	106%
Income tax	-37 013	-18 975	95%
<b>Profit after tax</b>	<b>177 594</b>	<b>85 137</b>	<b>109%</b>

The main item of the income statement is the net interest income which as at December 31, 2007 reached PLN 289,033 thousand and was higher by 39% or PLN 81,362 thousand than in 2006. High net interest income illustrates business growth visible especially in the credit area. In the analysed period, average credit volumes increased by 58%. Average deposit volumes increased in that period by 45%.

The second major item of the Bank's income in terms of value was the net profit on transactions in held-for-trading financial instruments of PLN 155,961 thousand (growth by 41 % as compared to 2006). Currency exchange transactions of PLN 129,812 thousand were the main item of the above result (growth by 25 % as compared to 2006). The Bank reported also a significant increase in net income on transactions in derivatives from PLN 6,450 thousand in 2006 up to PLN 30,799 thousand in 2007. In addition to options that have become increasingly popular among Customers (growth of 140% in 2007 over 2006), Customers invest considerably more also in IRS and CIRS transactions.

In 2007, the Bank generated net commission and fee income of PLN 123,757 thousand, i.e. by 26% more than in 2006. The above result reflects both an increase in the number of Customers (on average by 14% in the analysed periods) and a higher number of transactions effected 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 50%,

- number of standard incoming and outgoing international transfers – growth by 19%,
- number of transactions made using credit cards – growth by 83%.

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 17%,
- average number of the Pl@net users – growth by 27%,
- number of transfers made via the electronic distribution channels – plus 25%.

In 2007, the Bank earned PLN 3,400 thousand dividend income from Fortis Private Investment Polska S.A., the Bank's subsidiary.

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 61 %. This item stood at PLN 606,041 thousand in 2007 as compared to PLN 375,542 thousand in 2006.

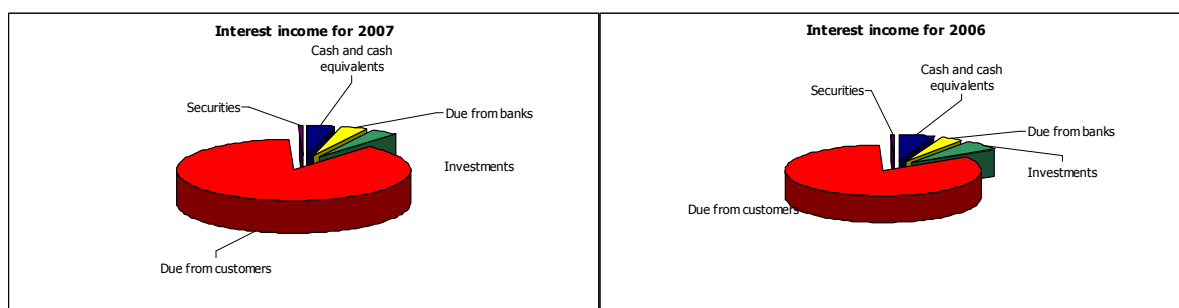
The main source of interest income included loans and credit facilities, hedging derivative instruments, investments and also placements in other banks and cash.

The interest income consists mainly of interest on account of:

- Loans to Customers: PLN 530,974 thousand versus PLN 312,073 thousand in 2006,
- Due from banks: PLN 21,023 thousand versus PLN 13,862 thousand in 2006,
- Investments: PLN 22,972 thousand versus PLN 25,014 thousand in 2006.

The interest expenses include in particular interest on account of:

- Due to banks: PLN 157,942 thousand versus PLN 79,098 thousand in 2006,
- Due to Customers: PLN 149,777 thousand versus PLN 84,968 thousand in 2006.



The Bank's commission and fee income growth reached 25%. This item stood at PLN 134,231 thousand in 2007 as compared to PLN 107,614 thousand in 2006.

The main source of the commission and fee income were commissions and fees on clearing services, commissions on guarantees and contingent liabilities and other commission and fee income.

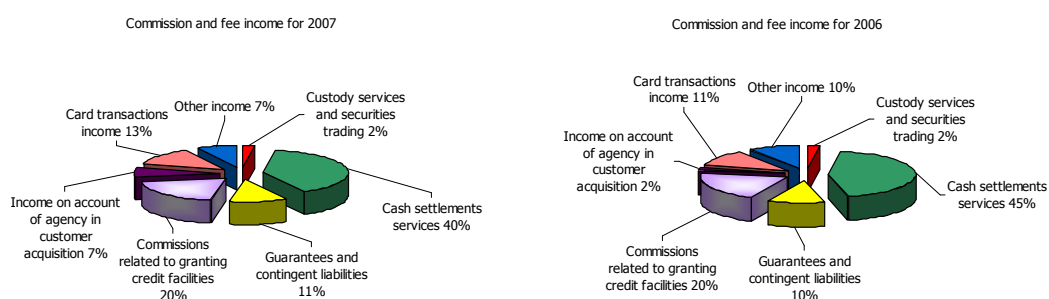
The commission and fee income consists mainly of the following items:

- fees and commissions for cash settlements services: PLN 53,082 thousand versus PLN 47,611 thousand in 2006;
- commission and fees on guarantees and contingent liabilities: PLN 14,852 thousand versus PLN 11,259 thousand in 2006;
- commissions related to granting credit facilities: PLN 26,295 thousand versus PLN 21,662 thousand in 2006;
- income on account of agency in customer acquisition: PLN 10,050 thousand versus PLN 2,307 thousand in 2006;
- card transactions income: PLN 17,009 thousand versus PLN 11,938 thousand in 2006.

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

- card related expenses: PLN 4,357 thousand versus PLN 3,718 thousand in 2006;
- cash transactions commission expenses: PLN 3,062 thousand versus PLN 2,543 thousand in 2006;
- clearing commission expenses: PLN 1,431 thousand versus PLN 1,274 thousand in 2006.

In 2007, commission expenses amounted to PLN 10,474 thousand and were higher by 10% than in the previous year when they equalled PLN 9,561 thousand.



The net income structure in 2007 and 2006

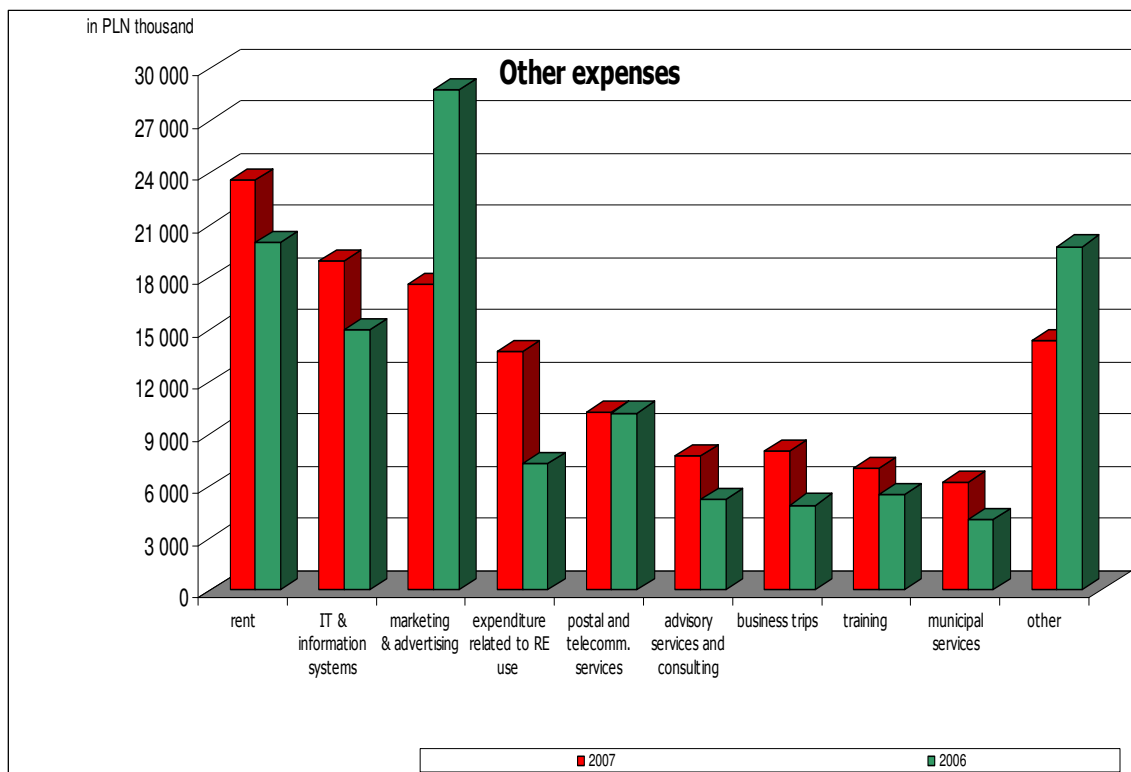
	<b>2007</b>	<b>2006</b>
Net interest income	49,8 %	49,3 %
Net fee and commission income	21 %	23,2 %
Dividend income	1 %	-
Net trading income	26,8 %	26,4 %
Net result on available-for-sale financial assets	-0,5%	-0,3%
Other income	1,9 %	1,4%
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

**Personnel costs and other administration expenses**

In 2007, personnel expenses reached PLN 160,198 thousand and were higher by 32% compared to the expenses incurred in 2006, when they amounted to PLN 121,370 thousand. The higher expenses were chiefly due to employment growth that resulted from the Bank’s development strategy adopted for the next years. In 2007, an average number of FTE increased by 30%.

The depreciation of fixed and intangible assets amounted to PLN 25,257 thousand and was higher by 14.5 % than in 2006.

In 2007, the Bank's other expenses reached PLN 138,918 thousand and were higher by 15.4 % compared to 2006, when they stood at PLN 120,421 thousand. The main items of other expenses are rent (PLN 23,551 thousand), information systems and technologies (PLN 18,670 thousand), marketing and advertising of PLN 17,528 thousand, advisory services and consulting (PLN 7,946 thousand).



Write-offs for impairment of loans and credit facilities decreased from PLN 53,283 thousand at the end of 2006 down to PLN 41,309 thousand in 2007. The main item constituted the charge with credit risk costs on Loans to Customers, which decreased from PLN 50,291 thousand down to PLN 37,953 thousand.

### Profit

In 2007, the Bank generated a gross profit of PLN 214,607 thousand, which was higher by 106 % than in 2006. The mandatory reductions of gross profit amounted to PLN 37,013 thousand.

The Bank's net profit in 2007 amounted to PLN 177,594 thousand and was higher by PLN 92,457 thousand i.e. by 109 % as compared to 2006.



## B. Balance Sheet

### Total assets

The Bank's total assets as at 31 December 2007 were PLN 14,211,014 thousand and were higher than total assets as at the end of December 2006 by PLN 3,215,206 thousand, i.e. 29%.

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

### Assets

Balance sheet items	31.12.2007	Structure	31.12.2006	Structure	Change 31.12.2007- 31.12.2006 (%)
Cash and cash equivalents	1 590 463	11,2%	2 826 975	25,7%	-43,7%
Financial assets held for trading	253 301	1,8%	146 869	1,3%	72,4%
Due from banks	228 525	1,6%	199 129	1,8%	14,7%
Loans to Customers	11 172 026	78,6%	6 975 222	63,4%	60,1%
Investments - Available for Sale	603 235	4,2%	654 710	6,0%	-7,8%
Property, Plant and Equipment	113 816	0,8%	72 057	0,7%	57,9%
Intangible Assets	22 287	0,2%	11 882	0,1%	87,5%
Deferred tax assets	33 873	0,2%	23 285	0,2%	45,4%
Other assets	193 488	1,4%	85 679	0,8%	125,8%
<b>LIABILITIES</b>					
Financial liabilities held for trading	201 381	1,4%	61 127	0,6%	229,4%
Due to banks	5 895 545	41,5%	4 955 977	45,1%	18,9%
Due to Customers	6 307 428	44,4%	4 627 357	42,1%	36,3%
Subordinated liabilities	358 200	2,5%	-	-	100%
Current tax liabilities	26 601	0,2%	3 963	-	571%
Other liabilities	251 929	1,8%	353 619	3,2%	-28,7%
Provisions	15 974	0,1%	12 260	0,1%	30,2%
Total equity	1 153 956	8,1%	981 505	8,9%	17,5%
<b>Total assets</b>	<b>14 211 014</b>	<b>100%</b>	<b>10 995 808</b>	<b>100%</b>	<b>29,2%</b>

In the structure of assets, loans to customers constitute the major item; at the end of 2007, they accounted for approx. 79% 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 36% and 19%, respectively.

Loans to customers represented also the highest growth in terms of value: by PLN 4,196,804 thousand, i.e. by 60% in comparison to 2006. The share of loans to customers in total assets increased from 60% as at the end of 2006 up to 79% as at the end of 2007.

As at the end of December 2007, due from banks were higher by PLN 29,396 thousand, i.e. by 14.7% as compared to 2006. Their share in total assets decreased slightly from 1.8% to 1.6%.

Financial assets held-for-trading increased by 72.4%, i.e. PLN 106,432 thousand in comparison to the balance as at the end of 2006.

Cash and cash equivalents decreased in comparison to 2006 by 43.7% and their share in total assets decreased from 25.7% in 2006 to 11.2% in 2007.

Other assets increased in comparison to 2006 by PLN 107,809 thousand and their share in total assets increased slightly from 0.8% to 1.4% at the end of 2007.

In comparison to 2006, the value of property, plant and equipment increased by 57.9% or PLN 41,759 thousand. The property, plant and equipment include:

- investments in non-company fixed assets: PLN 42,511 thousand;
- machines and equipment and means of transport: PLN 23,147 thousand;
- computer hardware: PLN 48,158 thousand.

Investments available for sale decreased by 7.8% from PLN 654,710 thousand noted at the end of 2006. Their share in total assets likewise decreased from 6% to 4.2% as at the end of 2007.

In February 2007, Treasury bonds were sold in the nominal value of PLN 140 million.

As at the end of 2007, the securities portfolio consisted of securities issued by the Polish State Treasury and the National Bank of Poland.

Investments available for sale comprised:

- Treasury bonds: PLN 464,186 thousand;
- Treasury bills: PLN 95,835 thousand;
- NBP bonds: PLN 24,979 thousand;
- Shares: PLN 18,235 thousand;

As at the end of 2007, intangible fixed assets stood at PLN 22,287 thousand and were higher by 87.5% than at the end of 2006.

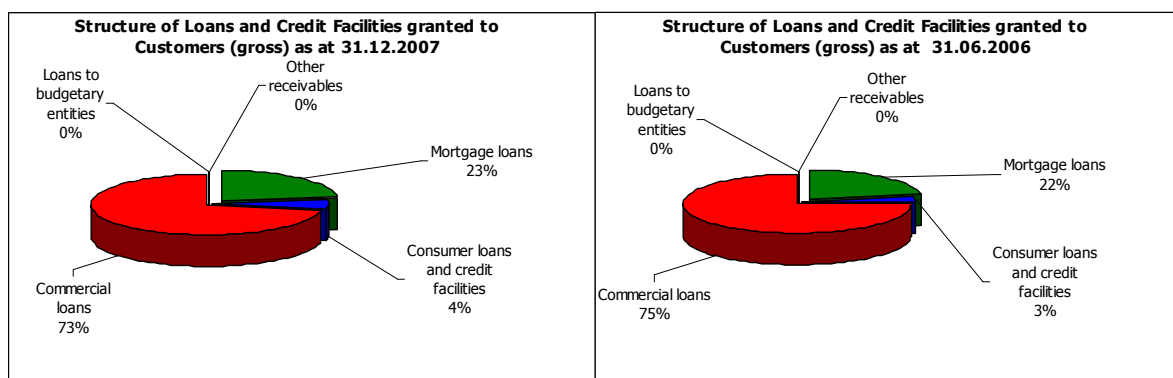
### Non-financial sector credit portfolio profile

Of all asset items, the highest growth in terms of value was recorded for net loans to customers, by as much as PLN 4,196,804 thousand, or 60.1% in comparison to 2006.

Commercial loans were the major item in the structure of loans to customers. Their share in the total net loans to customers made up 73.5% as at the end of 2007 and decreased from 76.7% as compared to the end of 2006. However, the value of commercial loans increased by 53.5% as compared to 2006.

A considerable increase in volume of loans granted to institutional customers was noted. Investment loans, including loans for the purchase or construction of commercial real estate, grew by 65% as compared to 31 December 2006; working capital loans went up by 32%, while overdraft credit facilities – by 55%.

Mortgage loans of PLN 2,660,307 thousand as at 31 December 2007 increased by 69% as compared to 31 December 2006, when they amounted to PLN 1,573,712 thousand. Their share in the structure of net loans to customers slightly increased from 22.6% at the end of 2006 up to 23.8% at the end of 2007.



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

Loans to Customers	31.12.2007	Structure	31.12.2006	Structure	Change 31.12.2007- 31.12.2006 (%)
Mortgage loans	2 660 307	23,8%	1 573 712	22,6%	69,0%
Consumer loans and credit facilities	489 765	4,4%	220 129	3,2%	122,4%
Commercial loans	8 215 694	73,5%	5 351 146	76,7%	53,5%
Loans to budgetary entities and other	454	0	492	0	-7,7%
Other receivables	215	0	1 299	0	-83,4%
Total loans to customers, gross	11 366 435	101,7%	7 146 778	102,4%	59,0%
Write-offs for impairment and IBNR	-194 409	-1,7%	-171 556	-2,5%	13,3%
<b>Total net loans to customers</b>	<b>11 172 026</b>	<b>100%</b>	<b>6 975 222</b>	<b>100%</b>	<b>60,2%</b>

As at 31 December, the gross value of loans reached PLN 11,366,220 thousand, which means an increase by PLN 4,220,741 thousand as compared to 2006.

PLN loans hold the biggest share in the loan volume and constitute almost 60% of the total volume. As at 31 December 2007, their value stood at PLN 6,793,452 thousand, which means an increase by PLN 2,571,668 thousand as compared to 2006.

The loans granted in CHF (in PLN equivalent) at the end of 2006 reached PLN 1,406,255 thousand and grew by 65.2 % up to PLN 2,323,075 thousand at the end of 2007. In 2007, the share of such loans in total loans gross was 20.4%; CHF loans to individuals constitute 19.7% of the total loans balance.

The credit portfolio in EUR (in PLN equivalent) grew from PLN 1,373,225 thousand in 2006 to PLN 2,119,549 thousand; however, at the same time their share in the total loan volume decreased from 19.2 % in 2006 to 18.7% as at 31 December 2007.

As at the end of 2007, the Bank's exposure focused mainly on the following sectors: individuals,

wholesale trade, education – medical care, commercial and residential construction.

As at the end of 2007, the exposure in individuals sector stood at PLN 21.9%, which means an increase by 2 pp as compared to 2006.

As at 31 December 2006, the exposure in wholesale trade amounted to 17.75% and slightly decreased to 15.96 % at the end of 2007.

*Information regarding the Bank's exposure concentration structure including specific sectors is presented in Section 34.1.10 of the Additional Notes to the financial statements.*

In 2007, the Bank issued 149 enforcement titles for the total amount of nearly PLN 14 million, as compared to 48 titles of the total of PLN 11.5 million issued in 2006.

## **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 2007, deposits from customers amounted to PLN 6,023,299 thousand, which means an increase by PLN 1,649,817 thousand as compared to 2006. The share of due to customers made up 44.4% of total liabilities and slightly decreased as compared to 42.1% in 2006.

Terms deposits absolutely prevail in the structure of due to customers: PLN 4,597,824 thousand, representing 76.3% of all customer deposits. Sight deposits reached PLN 1,425,475 thousand as at the end of 2007.

The share of due to banks in total liabilities decreased from 45.1% in 2006 to 41.5% in 2007.

As at 31 December 2007, the share of other liabilities in total assets stood at 1.8%.

The share of financial liabilities held-for-trading in total liabilities increased slightly by 0.8 pp, i.e. to 1.4% at the end of 2007. Their value changed as compared to 2006 by 229.4%. All the financial liabilities held for trading consisted of financial derivative instruments.

Derivative instruments held for trading increased from PLN 61,127 thousand recorded at the end of 2006 to PLN 201,381 thousand as at 31 December 2007 and to PLN 31,939,783 thousand as at the end of 2007 in nominal values.

As at 31 December 2007, derivative instruments held for trading in nominal values comprised:

- FX transactions – PLN 18,801,332 thousand;  
including: forward (amounts purchased) – PLN 4,972,872 thousand;  
forward (amounts sold) – PLN 4,970,143 thousand;  
options (amounts purchased) – PLN 4,413,435 thousand;  
options (amounts sold) – PLN 4,444,882 thousand.
- Interest rate transactions - PLN 13,138,451 thousand;  
including: FRA (amounts purchased) – PLN 600,000 thousand;  
FRA (amounts sold) – PLN 826,947 thousand;  
IRS (amounts purchased) – PLN 5,493,356 thousand;

IRS (amounts sold) – PLN 5,493,356 thousand;  
options (amounts purchased) – PLN 362,396 thousand;  
options (amounts sold) – PLN 362,396 thousand.

### **Provisions**

Provisions item increased from PLN 12,260 thousand as at the end of 2006 to PLN 15,974 thousand as at the end of 2007 and included provisions for off-balance sheet liabilities in the amount of PLN 12,639 thousand (including PLN 7,728 thousand of reserves for incurred but not reported losses, IBNR), legal risk reserve (PLN 2,900 thousand) and office sub-lease reserve (PLN 435 thousand). The total provisions increased by 30.3% as compared to the balance recorded as at the end of 2006.

### **Equity**

As at 31 December 2007, the equity capital of the Bank amounted to PLN 1,153,956 thousand, i.e. by 17.6 % more as compared to 31 December 2006 (PLN 981,505 thousand). Its share in total liabilities decreased slightly from 8.9% to 8.1% as at the end of 2007.

In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducted PLN 18,196 thousand from equity with regard to its net capital exposure in shares of Fortis Private Investments Polska S.A. (FPIP) and PLN 22,287 thousand representing 100% of net intangible fixed assets.

In order to increase the equity, 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 Bank received such a consent on 21 November 2007.

As at 31 December 2007, the capital adequacy ratio was 11.72% in comparison to 11.45% as at the end of 2006.

## **C. Contingent Liabilities - Off-balance Sheet Commitments**

### **Lending commitments**

As at the end of 2007, the value of contingent liabilities granted reached PLN 4,606,568 thousand, which means an increase by 30.2% as compared to 2006.

Commitments to extend loans constituted the major item of off-balance sheet commitments granted; as at 31.12.07, they amounted to PLN 3,482,888 thousand, what made up 93% of liabilities granted. The above-mentioned commitments include credit lines granted, credit card limits and general financing agreements.

As at the end of December 2007, the contingent liabilities received stood at PLN 843,944 thousand and were higher by PLN 321,287 thousand than the balance as at 31 December 2006.

The main item of off-balance sheet commitments received constitute unused credit lines granted, which as at 31 December 2007 amounted to PLN 584,232 thousand, and, respectively, PLN 330,194 thousand as at 31 December 2006.

## D. Performance indicators

Indices	31.12.2007	31.12.2006
Return on assets (ROA)*	1,4	1,0
Return on equity (ROE)*	16,3	10,7
Net interest margin*	2,34	2,40
Profit per share	10,59	5,08
Book value per share	68,81	58,52

\*These indicators were calculated 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
Net interest margin	Net interest income / average assets as at the end of four subsequent quarters

## E. 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 next credit agreement regarding a credit line taken by the Bank from Fortis (Nederland) N.V. with the limit of PLN 1,300 million and EUR 100 million to finance the Bank's current operating activity, in 2007 the financing with credit lines granted by Fortis Bank (Nederland) N.V. As at 31 December 2007, the debt outstanding balance on account of credit lines with Fortis Bank (Nederland) N.V. stood at PLN 3,666,796 thousand in comparison to PLN 2,591,117 thousand as at 31 December 2006.

Furthermore, in 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, with a limit of EUR 200 million also to finance the Bank's current operating activity. The credit line under the above credit agreement was disbursed in January 2008.

## VII. DEVELOPMENT PROSPECTS FOR BANK BUSINESS ACTIVITY

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.

"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 will share the assets of ABN AMRO. Fortis will take over the banking business in the Benelux and the global portfolio of private banking customers as well as the global asset Management platform. Consequently, Fortis will become the Benelux leader in the Retail Banking and Commercial Banking segments as well as join the top worldwide banks providing services to High Net Worth Individuals (HNWI) and gain the position of a leading asset management company in Europe. In terms of net profit, Fortis will rank fifth in Europe in the financial services sector as a bank employing over 80 thousand people, and third as a bank operating in the Private Banking segment.

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 will carry out the following strategic purposes 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 17%,
- 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 and Copenhagen. In 2007, the France Branch was included in the services coverage and a shared service agreement is planned to be signed with the Romania Branch.

Under an international Core Banking Retail Application (COBRA) project, another shared services center was established in Krakow in 2007. It will be responsible for designing and developing 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 further expand its offer of derivatives.

Under the commitment towards the Banking Supervision Commission, the process of integration between Fortis Bank Polska S.A. and Dominet Bank should finish by 2011. 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 should be finalized in the first half of 2008.

Integration of the banks will ensure operating synergies for the 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, further development of the insurance activity is planned.

## **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.

In 2007, 9 new branches were opened, and in 2008 it is planned to open further 3 new offices.

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 has been reorganised and the customer portfolio of credit cards and cash loans was moved to other units of the Bank as of June 1, 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 will be made 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 Bank's top priority objectives, that is, protection of Customer deposits and liquidity security, the management of Fortis Bank Polska S.A. pays utmost attention to monitoring and mitigation of risks inherent in the Bank's business.

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 to the Senior Vice-President of the Board of Executives supervising the Risk Line, 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 and 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.

In 2007, the Bank continued work on building a more integrated risk management structure.

Considering the preparation to the New Capital Accord requirement implementation status, the Bank's authorities decided that FBP will start 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 particular attention to the liquidity issue and develops long-term solutions in this regard.

### 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.

In February 2007, the Supervisory Board approved the strategy and policy of interest rate risk and FX risk management, amended by the Risk and ALM Committee.

In September 2007, the Supervisory Board approved an updated Fortis Bank Polska SA strategy and policy of FX, interest rate, liquidity and operational risk management.

## **B. Operational risk and legal risk**

For the needs of the operational risk management, the Bank has adopted a definition recommended by the Basle Committee for Banking Supervision, according to which operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risk includes legal and compliance risks, whereas reputation and strategic risks are excluded. Operational risk management 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, including determination of relevant scopes of responsibility for the above processes on different organisational levels of the Bank.

The Bank's strategy consists in implementing and maintaining high quality standards for the operational risk management to guarantee that customer deposits and the equity are secure and the Bank's financial performance is stable. The Bank's strategy and policy regarding the operational risk management are described in the document adopted by the Bank: "Operational Risk Management. Strategia i polityka Fortis Bank Polska S.A."

The Bank's Board of Executives makes a periodic assessment of how the Bank operational risk management strategy assumptions are executed. With this end in view, the Bank's Board of Executives is kept informed on an on-going basis on the scale and types of operational risk the Bank is exposed to, and also its consequences and operational risk management methods. The Risk and ALM

Committee, which consists of all the BoE members and Risk Line Director (Chief Risk Officer), is a body managing the main risks at the Bank, including the operational risk.

Furthermore, there are specialised Operational Risk and Business Continuity Committees operating in the Bank that make recommendations to the Risk & ALM Committee on issues pertaining to operational risk and business continuity management.

Ongoing examination of operational risk along with development and improvement of adequate risk control techniques are the tasks of the dedicated organisational unit, Operational Risk Management Department of the Risk Line.

The Bank's aim is to ensure a precise division of duties related to operational risk management, adjusted to the existing organisational structure of the Bank, taking into account recording, monitoring, mitigation and reporting operational risk level. Furthermore, the Bank is to ensure processes of verification whether the implemented operational risk management system functions effectively.

Registration of operational losses enables effective analysis and monitoring of operational risk. The Bank is particularly committed to identification and assessment of reasons of current exposure to operational risk related to banking products, reduction of operational risk by improving internal processes and mitigation of operational risk that accompanies the introduction of new products and services.

According to the Bank's Policy, all the Bank's employees check the operational risk level on an ongoing basis within processes they operate, and actively minimise the risk by undertaking all and any actions to avoid operational losses. Managers of individual organisational units ensure that processes in the areas of increased operational risk are subject to especially intensive current control.

Operational risk mitigation is, next to current risk control, the most important process in the operational risk management. Decisions on operational risk mitigation each time directly affect the overall operational risk profile at the Bank.

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

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 non-contradictory to, the methodology binding for all Fortis entities.

As regards business continuity, the Bank has defined a framework of integrated business continuity management system. The system will enable identification of potential threats to organisation, estimation of expected impact of those threats, should they occur, on the processes existing in the Bank, and development of a structure leading to building immunity of the organisation thanks to which it will become possible to effectively react to protect the interests of the organisation, its reputation, brand and actions that form its goodwill.

Rules of the integrated management system of the Bank's business continuity are described in internal regulations: "The Crisis Management at Fortis Bank Polska S.A." and "The Business Continuity Management Policy of Fortis Bank Polska SA" that together form theoretical basis for risk analyses regarding business continuity (Risk Analysis, Business Impact Analysis) and the system of reaction to incidents.

**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 outsourcer should contain appropriate clauses under which the Bank will be provided a.o. 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**

Business process security constitutes an important item of the Bank's comprehensive Security Policy. The purpose of the Bank's Security Policy - which covers both a physical and technical safety, the safety of data and information systems - is to provide the Customers and employees of the Bank with an optimum level of protection, that is to provide the basics for a safe management of the Bank's activity and directing attention to mitigating risks to the level regarded by the Board of Executives as acceptable.

Taking into consideration the changing profile of offences against the bank's property, moving from the crime of violence to economic offence, to better coordinate actions related to counteracting offences against the bank and frauds, new "Rules for Counteracting Offences and Frauds at Fortis Bank Polska S.A." have been implemented in the Bank and an Anti-Fraud and Investigations Department was formed within the Operations Department. The main objective of the Department is to counteract operational losses related to internal and external offences and frauds.

**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.

In the first half of 2007, the Bank implemented new procedures regarding the conduct when providing services to entities subject to international economic sanctions, including the European Union sanctions and restrictions against third country governments, introduced under the Common Foreign and Security Policy (CFSP), and OFAC sanctions, aimed at the performance of the foreign policy of the United States and ensuring national security by counteracting sanctioned countries, terrorists, international drug dealers, entities involved in trading in weapons of mass destruction or fission materials, and diamond traders. The purpose of new regulations is to eliminate the reputation risk, operational risk and legal risk related to the Bank's participation in transactions with sanctioned entities.

#### **Risk related to the non-adjustment of the Bank's business to the MiFID Directive requirements.**

After 1 November 2007, i.e. the MiFID effective date, selected areas of the Bank's business (regarding financial instruments and investment services) should be adjusted to new European regulatory requirements with respect to financial instrument markets provided for under the MiFID and in relevant administrative acts to that Directive. To ensure such an adjustment, some changes must be made in particular to the management of the information processing system, risk management and management of conflicts of interests, likewise customer categorisation requirements must be implemented along with rules of pre-trade and post-trade transparency, rules of order execution and registration, and changes to internal audit.

The Bank has undertaken necessary actions that are to ensure compliance of the Bank's operations with the MiFID.

Considering that the MiFID has not been implemented into the Polish legal system yet, adjustment solutions developed by the Bank in the areas mentioned above will eventually be implemented after the Act on Trading in Financial Instruments is amended and new administrative acts to the Act are issued. As at February 1, 2008 the government's law draft was still under development, so it is impossible to define when the Directive would come into force in Poland.

### **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 distributed organizationally. Customers are acquired and products sold by the business lines: Commercial Banking (CB), Private Banking, Retail Banking (RB), while risk is assessed by Credits CB and Credits RB, accordingly. Both Credits Lines supervise credit activity of the Bank as far as credit risk analysis and monitoring is concerned, with respect to defining credit standards and procedures, credit administration, keeping credit files and observing debt recovery procedures.

Credit risk management on the operational level is the main responsibility of the Credit Risk Monitoring Department. In January 2007, within the Credit Risk Monitoring Department three teams were established with the scope of duties covering the existing tasks of the Department and also extending them. The new teams are: Risk Monitoring, Management Support and Real Estate Expert.

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, business line to which a Customer belongs, internal rating, and credit risk category. The Bank introduced principles of setting up and monitoring sector exposure concentration limits.

In the first half of 2007, credit instructions were revised and updated, to adjust them to changing standards of the credit risk assessment, and also to develop separate regulations specific for the Retail Banking BL and Commercial Banking BL.

Under Fortis Bank group's preparations to adjust to the requirements of the New Basle Capital Accord and pursuant to Resolution No. 1/2007 of the Banking Supervision Commission of March 13, 2007, the Bank has implemented a method of establishing the required regulatory capital using STA. In line with Resolution No. 4 of the Banking Supervision Commission of March 13, 2007 and Fortis Bank standards, an internal capital estimation tool was implemented. Moreover, the Bank has carried out projects with a view to properly adjust IT systems. Solutions that have been developed are based on an internal data warehouse and are attuned to the Bank's business specific environment. The objective of those efforts is to meet the NCA requirements and improve the effectiveness of the risk management system in the Bank.

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. Moreover, the bank started developing a rating system aimed at the assessment of small enterprises in the Bank's retail portfolio.

In order to monitor the dynamically growing 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 constantly analysed in view of dynamics of changes of mortgage



collateral in the time axis. 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.

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.

In the first half of 2007, in the Risk Management Department a Credit Risk Inspection Group was established to estimate the credit risk quality in the Bank through periodical analyses of the entire credit risk management cycle, including:

- Analysis of credit policies
- Review of the analysis made and decisions on selected credit files
- Checking loan agreements and their administrative service
- Analysis of monitoring and reporting
- Checking intensive care and recovery actions.

In June 2007, the Risk and ALM Committee decided to form a Credit Risk Committee (CRC) as a support body that took over the function of the Problem Assets Committee. Next, the Supervisory Board confirmed the decision and approved the Credit Risk Committee's Regulations. CRC's scope of activity includes not only taking decisions regarding restructuring or specific provisions but also discussions about issues related to credit risk policy and portfolio management as well as findings of the Credit Risk Inspection Group.

In June 2007, the Supervisory Board approved amendments to the "Credit Risk Management Policy at Fortis Bank Polska S.A." resulting from organisational changes and aimed at assignment of the existing organisational units to various strategic and operational activities with respect to integrated credit risk management.

In connection with the introduction of "Recommendation S on Good business Practice with Respect to Credit Exposures Secured by Mortgages" by the Banking Supervision Commission on 21 March 2006, the Bank undertook necessary actions to implement it. The Recommendation indicates the need to reinforce systems and tools used by banks to measure FX risk and interest rate risk, introduce more precise concentration limits, match the maturity structure of assets and liabilities and more precise estimation of risks related to real estate accepted as collateral. Within adjustments to the regulation in terms of foreign currency loans, the Bank has introduced the analysis of customer creditworthiness under the assumption that the interest rate equals the interest rate of PLN loan and the loan principal

is higher by 20%.

With respect to loans secured by standard residential real estate mortgages, target loan collateral is, jointly, the following: (i) a mortgage on the real property financed with the loan, or other real property owned by the borrower or, upon the Bank's specific consent, on real property owned by a third party, and (ii) the assignment of rights under an insurance policy against fire and other force majeure for the financed real property. The Bank may also establish additional collateral for a period shorter or equal to the financing term. Another, temporary collateral can be an insurance of low down payment, established until the Customer repays a predefined amount. Other temporary collateral, established for the period until the target collateral is made for the loan, include loan repayment insurance with an insurance company that the Bank has signed an agreement with on providing loan insurance, or a transfer of an amount to the Bank's account.

In 2007 the Bank was extensively working on projects aimed at a further improvement of credit processes, including in particular reorganisation of the mortgage loans service system which takes into account requirements related to credit risk assessment pursuant to Recommendation S. It is expected that the new system for the service of mortgage loans granted ("SPOKO" system) will be implemented in the first quarter of 2008.

As at 31 December 2007, impaired loans accounted only for 2.1% of total loan balance, as compared to 2.6% recorded on 31 December 2006, which confirms the continued good quality of the Bank's credit portfolio.

#### **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 S.A. 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.

### **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.

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 Republika 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, Magyarországi Fióktelepe 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.

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. In 2006, the total remuneration received by the Bank (including reimbursement of costs and consideration for financial

services) stood at PLN 1,778.2 thousand. The total remuneration received by the Bank in 2007 was PLN 1,664,732. In 2007, the remuneration received by the Bank was lower than in 2006 as a result of a decrease in expenses of telecommunications connections, by introducing a cost allocation key of the telecommunications link lease.

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

On March 27, 2007, a master outsourcing agreement was signed between Fortis Bank Polska S.A. 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.

#### **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 S.A. 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 S.A. and Dominet Bank S.A. based in Lubin. The agreement governs the rules of cooperation between the banks with respect to agency in offering products of Fortis Bank Polska S.A. to private individual customers of Dominet Bank S.A. For performing the duties under the contractual provisions, Dominet Bank S.A. 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 1 April 2007 a sales agreement was concluded between Fortis Bank Polska S.A. and Dominet Bank S.A. based in Lubin. The Agreement concerned the sale of investment outlays and equipment of credit centers, where card products and cash loans are offered to individual customers, to Dominet Bank S.A. The sale price was PLN 2.7 million.

On 26 November 2007, Fortis Bank Polska SA signed an annex to the Agreement on Investment Outlays Sale concluded in Krakow on 1 April 2007 with Dominet Bank S.A. based in Lubin. Under the

Annex, the final date for the Final Price determination was changed into 10 December 2007.

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

Cooperation agreement of 19 March 2007 signed between Fortis Bank Polska S.A. 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 S.A. 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.

**Donation Agreement in favour of Fortis Foundation Polska**

On 13 December 2007, Fortis Bank Polska S.A. and Fortis Foundation Polska signed an agreement on a PLN 500,000 donation in favour of Fortis Foundation Polska.

**Furthermore, the following important agreements were signed with an affiliated entity after the balance sheet date:**

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 S.A. and Dominet Bank S.A. The merger is to be effected by transferring the assets of Dominet Bank S.A. (the acquiree) to Fortis Bank Polska S.A. (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.

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.

*Agreements regarding transactions with parent entities and subsidiaries are presented in Section 29 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.

Under the master "Agreement on Extension of a Lombard Credit Facility" of 21 October 2003 entered into with the National Bank of Poland, the Bank took a lombard loan of PLN 148 million for the period from 29 June 2007 to 2 July 2007.

**Cooperation Agreement No. 14/KFPK/2006 signed on April 10, 2006 with Bank Gospodarstwa Krajowego**

This agreement concerned cooperation in issuance by BGK of suretyships and guarantees of repayment of loans for enterprises from the funds of the National Credit Guarantee Fund (Krajowy Fundusz Poręczeń Kredytowych) established under the Act on guarantees issued by the State Treasury and some legal entities (Dz.U. 2003 No. 174, item 1689, as amended) The agreement was terminated effective 1 May 2007.

## **Insurance policies**

### **Insurance policy with AIG Polska Towarzystwo Ubezpieczeń S.A., from October 1, 2006 until September 30, 2007**

The insurance covers banking risks, likewise electronic and computer crime and professional indemnity of a financial institution, with the coverage limit of EUR 5 million.

### **Insurance Policy with Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. from June 1, 2007 until May 31, 2008**

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.

### **Agreement of 1 April 2007 signed with Generali Życie Towarzystwo Ubezpieczeń S.A.**

On 1 April 2007, Fortis Bank Polska S.A. signed an agreement with Generali Życie Towarzystwo Ubezpieczeń S.A. The Agreement defines rules of group life insurance CERTUM, general terms and conditions of additional insurance against accidents (NW), approval of quotation no. 7206034 0307/1 1\_1. The maximum insurance amount that the Insurance Company can pay without the medical risk assessment is PLN 56 million. The Agreement is valid from April 1, 2007 to March 31, 2008.

### **General Agreement on Motor Insurance (civil liability (OC), AC and insurance against accidents (NW)) of June 21, 2007 signed with PZU S.A.**

The agreement governs cooperation in settlement of motor insurance claims.

### **Agreement of 12 January 2007 signed with Generali Życie Towarzystwo Ubezpieczeń S.A.**

The Agreement governs cooperation with respect to the coverage by insurance offered by Generali for Fortis Bank customers who are natural persons who have signed bank account agreements with the Bank or who have been issued payment cards by the Bank ("Fortis Bank Customers").

### **Banking risks, electronic and computer crime and professional indemnity insurance for a financial institution, from 1 October 2007 to 31 December 2008.**

Fortis Bank Polska S.A. has been included in the global "Combined Bankers Blanket Bond" insurance program implemented via Fortis Bank.

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

The Master Program launched by Fortis on the insurance market 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 S.A. 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.

### **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.

**Agreements concluded with 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 at the Bank branches the following: the Better Tomorrow for Your Child endowment life insurance with insurance capital fund, whole life insurance policy called "Czysty Zysk" (*Pure Profit*). Borrowers are offered an individual life insurance.

Agreement dated September 12, 2003 with Credit Suisse Life & Pension Services sp. z o.o. The Agreement and the related annex govern agency services of Credit Suisse in offering banking products (residential mortgage loans) of Fortis Bank Polska S.A. for individual customers.

**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 defines rules of offering to Bank customers, under Fortis PI (investment program), investment fund portfolio in the form of a life insurance policy (Aegon Investment Program – deposit 2004) - Life insurance with 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 May 2007, Fortis Bank Polska S.A. entered into a syndicated investment loan agreement for 11 years, under which the Bank's maximum exposure can reach EUR 30 million (the equivalent of PLN 113 million). Fixed interest rate: EURIBOR + margin of 1.15% p.a. The current outstanding balance of the Customer's debt is EUR 15.78 million (PLN 59.4 million).

As at 31 December 2007, 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 6 customers/capital groups, and totalled PLN 1,032 million. To compare, as at December 31, 2006, the Bank's exposure exceeded the 10% level in the case of 13 customers/capital groups and totalled PLN 1,259 million.

In 2007, 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 remuneration due includes PLN 445 thousand net, of which PLN 135 thousand for the review of the Bank's financial statements for the first half of 2007, and PLN 310 thousand for the audit of the Bank's financial statements for the fiscal year ended 31 December 2007 plus reimbursement of auditor's additional expenses relating to the services provided to the Bank.

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

<b>Remuneration title:</b>	<b>2007</b>	<b>2006</b>
Audit of the annual financial statements	310	280
Review of the semi-annual financial statements	135	80
Other	*-	25
<b>Total</b>	<b>445*</b>	<b>385</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 S.A.

Fortis is an international financial services provider active in the fields of banking and insurance. With a market capitalization of EUR 32.3 billion as at 29 February 2008 and about 62 thousand employees worldwide, Fortis ranks in the top 15 of European financial institutions. As at December 31, 2007, Fortis total assets went up to EUR 871 billion, and were by EUR 95 billion, i.e. about 12% higher than at the end of 2006 when they stood at EUR 776 billion. The employment level increased from 56,886 to 62,010 people, i.e. by 9%. At the end of 2007, 37% of staff members were employed outside the Benelux.

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.

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

In 2007, the net profit (before divestment) was EUR 3,047 million in comparison to EUR 4,352 million generated in 2006. The lower profit resulted from impairment write downs related to sub prime bond portfolio in the USA and the payment of compensation after Windstorm Kyrill and UK floods. In connection with the subprime crisis, Fortis Bank made a provision of the total of EUR 2.7 billion (EUR 1.7 billion after tax). In 2007, net profit in banking amounted to EUR 1,768 million (down by 44% as compared to 2006), and in insurance to EUR 1,587 million (up by 12% as compared to 2006). Total revenues in 2007 were of EUR 120.5 billion, while total costs amounted to EUR 117.5 billion.

The insurance profit was generated despite high compensation amounts on account of losses caused by windstorm Kyrill and UK floods paid in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2007. Life insurance premiums grew by 9% up to EUR 13.2 billion and property insurance premiums by 9% up to EUR 5.5 billion.

The comparison with the previous year illustrates a solid and stable growth of revenues and net interest and commission and fee income generated by Commercial Banking. They were accompanied by considerable increase in the credit portfolio, deposit base and funds under management (up by 9% to EUR 208 billion).

Fortis recorded a 10% net profit increase on banking activity (excluding subprime crisis impact). In 2007 loan volume grew considerably, i.e. by 16%. Net interest income went to EUR 95 billion up from EUR 72.5 billion in 2006. Net commission and fee income in 2007 increased to EUR 4.4 billion up from EUR 3.7 billion in 2006. The total expense growth from EUR 91 billion in 2006 to EUR 117.5 billion in 2007 was due to the faster development of the capital group.

Key financial data in EUR million:

<b>Fortis Group</b>	<b>Result for Year 2007</b>	<b>Result for Year 2006</b>	<b>Change in %</b>
<b>Net profit</b> (before divestments), including	<b>3 047</b>	<b>4 352</b>	<b>-30%</b>
Banking	1 768	3 150	-44%
Insurance	1 587	1 419	12%
Other	-308	-217	-42%
<b>Result on divestment</b>	<b>947</b>	<b>0</b>	
<b>Net profit</b>	<b>3 994</b>	<b>4 352</b>	<b>-8%</b>

<b>Banking</b>	<b>Result for Year 2007</b>	<b>Result for Year 2006</b>	<b>Change in %</b>
Total income	11 185	10 210	10%
Total expenses	6 928	6 205	12%
Profit before taxation	1 423	3 848	-63%
<b>Net profit</b>	<b>1 768</b>	<b>3 150</b>	<b>-44%</b>
Result on divestment	-	-	
<b>Net profit</b>	<b>1 768</b>	<b>3 150</b>	<b>-44%</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 is well on track to compliance with New Capital Accord (Basel II) capital requirements. By choosing the most advanced approaches, i.e. AIRBA for credit risk and AMA for operational risk, Fortis shows its commitment towards a superior Risk Management. Fortis aims at reaching the maximum capital relief permitted by regulators.

Fortis has been awarded excellent long-term ratings by independent international rating agencies (Standard & Poor's: AA-; Moody's: Aa2, 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 will share the assets of ABN AMRO. Fortis will acquire the banking business in the Benelux thereby becoming the market leader. Under the transaction Fortis will also take over the global portfolio of private banking customers as well as the global asset Management platform. As a result of the transaction, Fortis will join the group of top world banks providing services to High Net Worth Individuals with about EUR 200 billion funds under management. It will also become one of the key European asset-managing banks – with the assets value of about EUR 300 billion.

From the activities that Fortis has acquired from ABN AMRO, a profit of EUR 1.355 billion was generated in 2007, which accounts for a 17% growth over the year 2006. After 76 days of consolidation, the said activities impacted Fortis net profit by EUR 179 million. Already at this stage we can see the positive effects of the synergy and revenue growth resulting from the ABN AMRO takeover.

Last year Fortis sold its shares in CaiFor, joint-venture operating in bancassurance. This transaction

generated about EUR 1 billion net profit for Fortis.

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

**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.

At the end of 2007, assets under management of FPIP S.A. totalled PLN 551.5 million as compared to PLN 260 million at the end of 2006.

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. 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 28 June 2007, the Bank's Board of Executives published current report no. 18/2007, containing a current statement regarding adherence by the Bank to corporate governance rules contained in *Best Practices in Public Companies in 2005*.

The Bank observes the majority of corporate governance rules defined in "The Best Practices in Public Companies" adopted by the Warsaw Stock Exchange. Only in the areas mentioned below, the following rules of 'The Best Practices in Public Companies' were not observed:

- Under rule no. 20 letter b) detailed criteria of independence of the Supervisory Board members should be determined in the Company's Statute; in the case of the Bank, detailed criteria of independence of the Supervisory Board members are provided for in the Regulations of the Supervisory Board and not in the Company's Statute.
- Rule no. 20 letter c) regarding adopting resolutions without the consent of the majority of independent Supervisory Board Members on the following issues: performances of any kind by the company and any entities associated with the company in favour of members of the Company's Management Board, consent to the execution by the Company or its subsidiary of a key agreement with an entity associated with the Company, member of the Supervisory Board or the Management Board, or with their associated entities, and appointment of a statutory auditor to audit the financial statements of the Company; the Bank does not use any such restrictions and independent members of the Supervisory Board vote on equal rights with other SB members.

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 S.A 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.

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 becomes 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 will not be obligated to publish declarations regarding observance of the Best Practices. However, should a permanent or incidental breach of rules arise, entities will be bound to publish such declarations in the form of a current report. Moreover, once a year a report on corporate governance observance should be prepared and attached to the company's annual report.

## **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 and Business Continuity Committee
- Credit Risk Management Committee

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

Till September 2007 the Bank's structure included the Problem Assets Committee whose function has been taken over by the Credit Risk Management 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 December 31, 2007, the Bank had the following:

- 1). 34 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, and Zakopane and Pruszków each),
- 2). one Sub-Branch of the Zakopane Branch of Fortis Bank Polska S.A. in Nowy Targ,

3). six Personal Banking sub-branches – two in Warsaw, one in Wrocław, Poznań, Katowice and Łódź each, and 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.

In 2007, new branches were opened in Warsaw, Pruszków, Łódź, Szczecin, Wrocław, Lublin and Kraków and two in Poznań.

The Bank's organization chart as at 31 December 2007 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 Board of Executives:

As at 31 December 2007, the Board of Executives composition was as follows:

Alexander Paklons	BoE President
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. Koen Verhoeven from the position of a Member of the Board of Executives and Vice-President of the same, to become effective on 15 June 2007, the Supervisory Board resolved to appoint Mr. Thierry Lechien as Vice-President of the Board of Executives of Fortis Bank Polska S.A. effective September 1, 2007 till the end of the current five-years' tenure, ending on the date of the Bank's Annual General Shareholders' Meeting approving financial statements for fiscal year 2009.

At the meeting of December 7, 2007, the Supervisory Board resolved to appoint Mr. Alexander Paklons, Senior Vice-President of the Board of Executives and Country Manager, as the President of the Board of Executives of Fortis Bank Polska S.A., effective December 8, 2007. At the same time the Board decided to recall Mr. Jan Bujak from the function of the President of the Board of Executives as of December 7, 2007 and appoint him as Senior Vice-President, effective December 8, 2007. Both the appointments shall be valid until the end of the current five-years' tenure of the Board of Executives, ending on the date of the Bank's Annual General Shareholders' Meeting approving financial statements for fiscal year 2009.

### Supervisory Board:

As at 31 December 2007, the Supervisory Board composition was as follows:

Jos Clijsters	Chairman
Werner Claes	Deputy Chairman
Antoni Potocki	Deputy Chairman
Zbigniew Dresler	
Peter Ullmann	

On 15 June 2007, the Annual General Meeting of Fortis Bank Polska S.A. approved the Bank's financial statements for 2006 and approved the discharge of duties of Members of the Supervisory Board and Board of Executives. The shareholders decided to earmark the Bank's net profit of PLN 108.3 million earned in 2006 fiscal year for the Bank's equity increase by allocating PLN 50 million to reserve capital and PLN 58.3 million to the general risk fund. The AGM resolved amendments to the Bank's statute. On 27 June 2007, the Bank applied to the Banking Supervision Commission for their approval.



With regard to the resignation submitted by Mr. Bernard Levie, the Supervisory Board's member, the Annual General Meeting of Fortis Bank Polska S.A. held on June 15, 2007 confirmed that effective June 15, 2007 Mr. Bernard Levie will cease to be member of the Supervisory Board of Fortis Bank Polska S.A. Mr. Bernard Levie was in the Supervisory Board since May 24, 2005.

On December 7, 2007 Messrs. Thierry Schuman and Didier Giblet resigned from their functions in the Supervisory Board of Fortis Bank Polska S.A. Mr. Thierry Schuman was the Bank Supervisory Board's member since May 24, 2005 and Mr. Didier Giblet assumed his function in the Supervisory Board since June 27, 2002.

Considering that it was necessary to complement the composition of the Supervisory Board, a decision was taken to call an Extraordinary Meeting of Shareholders in February 2008.

### **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 BoE 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 by proxies of Fortis Bank Polska S.A. are specified in the table below:

<b>Remuneration</b>	<b>1.01.2007- 31.12.2007 PLN thousand</b>	<b>1.01.2006 - 31.12.06 in PLN thousand</b>
Board of Executives	6 187	5 302
Supervisory Board	445	452
Managing Directors*	8 995	11 261

*\*Gross remuneration paid out of the salary fund, including ZUS (Social Security) contributions.*

Three members of the Board of Executives of Fortis Bank Polska S.A. that are at the same time members of Supervisory Board of Fortis Private Investments Polska S.A. (Jan Bujak, Alexander Paklons and Bartosz Chytła) did not receive remuneration for this, either in 2006 or in 2007.

Upon finalising the transaction of purchase of Dominet S.A. group by Fortis Bank SA/NV on March 21, 2007, under decisions of the Supervisory Board of Dominet S.A. and Extraordinary General Meeting of Shareholders of Dominet Bank S.A., the following members of the Board of Executives of Fortis Bank Polska S.A. were appointed to the management of companies from Dominet S.A. group, i.e.:

- Mr. Alexander Paklons took up the position of the President of the Board of Executives of Dominet S.A. effective March 22, 2007 and was appointed to the Supervisory Board of Dominet Bank S.A. effective March 29, 2007, and then was appointed the Chairman of the Supervisory Board of Dominet Bank S.A. (effective April 20, 2007).
- Mr. Jaromir Pelczarski was appointed to the Supervisory Board of Dominet Bank S.A. effective April 21, 2007.

*Information regarding remuneration of the executives and the supervisors is presented in Section 30 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 31 December 2007, 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.

Mr. Antoni Potocki, Deputy Chairman of the Supervisory Board, as of December 31, 2006, held five (5) shares of the Bank. On March 8, 2007 as a result of a transaction concluded at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) the above mentioned shares were sold.

### **Employees**

The employment level in terms of FTE (full time equivalents) stood at 1,429 as at December 31, 2006. Over the next 12 months the employment increased by 272 FTEs to 1,701 FTEs at the end of December 2007. The majority of the employees, i.e. 64%, were university graduates.

The Bank's Board of Executives has been consistent in implementing its human resources management strategy, aiming at the acquisition and retention of highly qualified personnel.

In 2006, the Bank employed 506 people (gross) and further 480 people joined the Bank in 2007, practically in all areas of business.

To ensure high level of the Bank's employee qualifications, the Board of Executives has developed a coherent human resources management strategy, 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 have been undertaken to improve training availability and effectiveness, e.g., the budget for training has been increased, internal training programs have been adjusted, new e-learning programs have been implemented and the High Potentials Program and Graduate Program have been launched. 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 and Fortis Leadership Programme.

### 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 annual financial statements of the Bank for 2007 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 2007 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 S.A. hereby represents that KPMG Audyty 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 audit the Bank's financial statements for 2007, 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):

2 April, 2008	Alexander Paklons BoE President	..... signature
September 30, 2006	Jan Bujak Senior Vice-President of the Board of Executives Chief Financial Officer	..... signature
2 April, 2008	Bartosz Chyła Vice-President	..... signature
2 April, 2008	Jean – Luc Deguel Vice-President	..... signature
2 April, 2008	Thierry Lechien Vice-President	..... signature
2 April, 2008	Jaromir Pelczarski Vice-President	..... signature