Fortis Bank Polska S.A.

# Annual Financial Statements of Fortis Bank Polska S.A. for 2007

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# 1. Financial Highlights

| Financial Highlights | in PLN thousand | | in EUR thousand | |
|---|---|---|---|---|
| | 31/12/2007 (YTD) | 31/12/2006 (YTD) | 31/12/2007 (YTD) | 31/12/2006 (YTD) |
| Interest income | 606 041 | 375 542 | 160 464 | 96 315 |
| Fee and commission income | 134 231 | 107 614 | 35 541 | 27 600 |
| Total income net | 580 289 | 421 254 | 153 646 | 108 039 |
| Gross profit | 214 607 | 104 112 | 56 822 | 26 702 |
| Net profit | 177 594 | 85 137 | 47 022 | 21 835 |
| Net cash provided by operating activities | -2 792 917 | -643 592 | -739 493 | -165 062 |
| Net cash provided by investing activities | -56 377 | -390 640 | -14 927 | -100 187 |
| Net cash provided by (used in) financing activities | 1 612 932 | 1 787 900 | 427 063 | 458 542 |
| Total net cash flow | -1 236 362 | 753 668 | -327 357 | 193 293 |
| Total assets | 14 211 014 | 10 995 808 | 3 967 341 | 2 870 069 |
| Due to banks | 5 895 545 | 4 955 977 | 1 645 881 | 1 293 583 |
| Due to Customers | 6 307 428 | 4 627 357 | 1 760 868 | 1 207 809 |
| Equity | 1 153 956 | 981 505 | 322 154 | 256 187 |
| | | | | |
| Number of shares | 16 771 180 | 16 771 180 | | |
| | | | | |
| Book value per share (in PLN / EUR) | 68,81 | 58,52 | 19,21 | 15,28 |
| Diluted book value per share (in PLN / EUR) | 68,81 | 58,52 | 19,21 | 15,28 |
| Capital adequacy ratio | 11,72% | 11,44% | | |
| | | | | |
| Basic Earnings Per Share (PLN/EUR) | 10,59 | 5,08 | 2,80 | 1,30 |
| Diluted Earnings Per Share (PLN/EUR) | 10,59 | 5,08 | 2,80 | 1,30 |

Key items in the balance sheet, profit and loss account and cash flow statement in the financial statements for 2007 and the corresponding financial figures for 2006 have been converted into EUR according to the following rules:

- particular assets and liabilities items in the balance sheet and book value per share as at the end of 2007 have been converted into EUR at the mid-rate binding as at 31 December 2007 published by the National Bank of Poland on 31 December 2007, i.e. EUR 1 = PLN 3.5820; comparative financial data as at the end of 2006 have been converted into EUR at the mid-rate binding as at 31 December 2006, i.e., PLN 3.9835, published by the National Bank of Poland on 29 December 2006, i.e. EUR 1 = PLN 3.8312;
- particular items in the profit and loss account and cash flows, and earnings per share as at the end of 2007 were converted into EUR at the rate based on the arithmetic mean of mid rates determined by the National Bank of Poland as at the last days of the months from January through December 2007, i.e. EUR 1 = PLN 3.7768, whereas comparative data as at the end of 2006 were converted into EUR at the rate based on the arithmetic mean of mid rates determined by the National Bank of Poland as of the last days of the months from January through December 2006, i.e. EUR 1 = PLN 3.8991.

# 2. Income Statement

| in PLN thousand | Notes | 1.01.2007 - 31.12.2007 | 1.01.2006 - 31.12.2006 |
|---|---|---|---|
| Interest income | 11.1 | 606 041 | 375 542 |
| Interest expense | 11.2 | -317 008 | -167 871 |
| **Net interest profit (loss)** | | **289 033** | **207 671** |
| Fee and commission income | 11.3 | 134 231 | 107 614 |
| Fee and commission expense | 11.4 | -10 474 | -9 561 |
| **Net fee and commission income** | | **123 757** | **98 053** |
| Dividend and other investment income | 11.5 | 3 400 | - |
| Net trading income | 11.6 | 155 961 | 110 803 |
| Net result on available-for-sale financial assets | 11.7 | -2 723 | -1 031 |
| Net profit (loss) on hedging transactions | 11.8 | -126 | 7 |
| Other income | 11.9 | 10 987 | 5 751 |
| **Total income net** | | **580 289** | **421 254** |
| Personnel expenses | 11.10 | -160 198 | -121 370 |
| Depreciation of fixed assets and intangible fixed assets | 11.11 | -25 257 | -22 068 |
| Other expenses | 11.12 | -138 918 | -120 421 |
| Net impairment loss | 11.13 | -41 309 | - 53 283 |
| **Profit before income tax** | | **214 607** | **104 112** |
| Income tax | 11.14 | -37 013 | -18 975 |
| **Profit after tax** | | **177 594** | **85 137** |
| | | | |
| **Earnings per Share** | 11.15 | | |
| Net profit (in PLN) | | 177 594 000 | 85 137 000 |
| Weighted average number of ordinary shares | | 16 771 180 | 16 771 180 |
| EPS ratio (in PLN) | | 10,59 | 5,08 |
| | | | |
| Weighted average diluted number of ordinary shares | | 16 771 180 | 16 771 180 |
| Diluted EPS ratio (in PLN) | | 10,59 | 5,08 |

Notes published on the following pages constitute an integral part of the financial statements.

# 3. Balance Sheet

| in PLN thousand | Notes | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 12 | 1 590 463 | 2 826 975 |
| Financial assets held for trading | 13.1 | 253 301 | 146 869 |
| Due from banks | 14.1 | 228 525 | 199 129 |
| Loans to Customers | 14.2 | 11 172 026 | 6 975 222 |
| Investments - Available for Sale | 15 | 603 235 | 654 710 |
| Property, Plant and Equipment | 16 | 113 816 | 72 057 |
| Intangible Assets | 17 | 22 287 | 11 882 |
| Deferred tax assets | 18 | 33 873 | 23 285 |
| Other assets | 19 | 193 488 | 85 679 |
| **Total assets** | | **14 211 014** | **10 995 808** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 13.2 | 201 381 | 61 127 |
| Due to banks | 20.1 | 5 895 545 | 4 955 977 |
| Due to Customers | 20.2 | 6 307 428 | 4 627 357 |
| Subordinated liabilities | 21 | 358 200 | - |
| Current tax liabilities | | 26 601 | 3 963 |
| Other liabilities | 22 | 251 929 | 353 619 |
| Provisions | 23 | 15 974 | 12 260 |
| **Total liabilities** | | **13 057 058** | **10 014 303** |
| **EQUITY CAPITAL** | | | |
| Share capital | | 503 135 | 503 135 |
| Additional capital | | 308 656 | 308 814 |
| Other capital | | 183 200 | 74 934 |
| Revaluation reserve | | -2 818 | 2 167 |
| Retained earnings | | -15 811 | 7 318 |
| Net profit (loss) for the year | | 177 594 | 85 137 |
| **Total equity** | 24 | **1 153 956** | **981 505** |
| **Total liabilities and equity** | | **14 211 014** | **10 995 808** |

Notes published on the following pages constitute an integral part of the financial statements.

# 4. Statement of Changes in Shareholders' Equity

**Statement of Changes in Shareholders' Equity in 2006 (in PLN thousand)**

| Balance as at 01.01.06 acc. to PAP | Share capital | Additional capital | Retained earnings | Net profit (loss) for the year | Other capital | Revaluation reserve | Total capital |
|---|---|---|---|---|---|---|---|
| Share capital | 30 155 | - | - | - | - | - | 30 155 |
| Additional capital | - | 349 528 | - | - | 11 | - | 349 539 |
| Revaluation reserve | - | - | 510 | - | - | 1 905 | 2 415 |
| Other reserve capital | - | - | - | - | 153 834 | - | 153 834 |
| Retained earnings | - | - | 155 842 | - | - | - | 155 842 |
| First-Time Adoption of IFRS | - | - | 6 808 | - | - | -208 | 6 600 |
| **Balance as at 01.01.06 acc. to IFRS** | **30 155** | **349 528** | **163 160** | **-** | **153 845** | **1 697** | **698 385** |
| Net profit (loss) for the year | - | - | - | 85 137 | - | - | 85 137 |
| Net profits/losses not recognised in the income statement (investments available for sale) | - | - | - | - | - | 771 | 771 |
| Net profits/losses recognised in the income statement (investments available for sale) | - | - | - | - | - | -191 | -191 |
| Deferred tax – net profits/losses (investments available for sale) | - | - | - | - | - | -110 | -110 |
| **Total income in 2006** | **-** | **-** | **-** | **85 137** | **-** | **470** | **85 607** |
| Share issue | 50 804 | 149 196 | - | - | - | - | 200 000 |
| Share issue expense | - | -377 | - | - | - | - | -377 |
| Profit allocation | - | - | -101 499 | - | 101 499 | - | - |
| Coverage of uncovered losses with the reserve capital | - | - | 10 199 | - | -10 199 | - | - |
| Movement of undistributed retained earnings to additional capital | - | - | - 64 542 | - | 64 542 | - | - |
| Movement of funds from other capital | 422 176 | -189 533 | - | - | -232 643 | - | - |
| Other | - | - | - | - | -2 110 | - | -2 110 |
| **Balance as at 31.12.06** | **503 135** | **308 814** | **7 318** | **85 137** | **74 934** | **2 167** | **981 505** |

## Statement of Changes in Shareholders' Equity in 2007 (in PLN thousand)

| | Share capital | Additional capital | Retained earnings | Net profit (loss) for the year | Other capital | Revaluation reserve | Total capital |
|---|---|---|---|---|---|---|---|
| **Balance as at 01.01.07** | **503 135** | **308 814** | **92 455** | **-** | **74 934** | **2 167** | **981 505** |
| Net profit (loss) for the year | - | - | - | 177 594 | - | - | 177 594 |
| Net profits/losses not recognised in the income statement (investments available for sale) | - | - | - | - | - | -6 857 | -6 857 |
| Net profits/losses recognised in the income statement (investments available for sale) | - | - | - | - | - | 703 | 703 |
| Deferred tax – net profits/losses (investments available for sale) | - | - | - | - | - | 1 169 | 1 169 |
| **Total income in 2007** | **-** | **-** | **-** | **177 594** | **-** | **-4 985** | **172 609** |
| Distribution of retained earnings | - | - | -108 266 | - | 108 266 | - | - |
| Share issue expense | - | -158 | - | - | - | - | -158 |
| **Balance as at 31.12.07** | **503 135** | **308 656** | **-15 811** | **177 594** | **183 200** | **-2 818** | **1 153 956** |

Notes published on the following pages constitute an integral part of the financial statements.

# 5. Cash Flow Statement

| in PLN thousand | 01.01.2007 - 31.12.2007 | 01.01.2006 - 31.12.2006 |
|---|---|---|
| **Cash and cash equivalents, gross, opening balance** | **2 827 141** | **2 073 473** |
| **Gross profit** | **214 607** | **104 112** |
| **Adjustments for:** | **-3 007 524** | **-747 704** |
| Depreciation | 25 257 | 22 068 |
| Write-offs for impairment | 26 205 | 12 774 |
| Profits/losses on account of FX rate differences | -3 | |
| Profits/losses on investing activities | 13 773 | 7 044 |
| Changes in operational assets and liabilities: | -3 047 792 | -746 510 |
| - financial assets and liabilities held for trading | 33 822 | -67 996 |
| - due from banks | -29 415 | 7 255 |
| - loans to customers | -4 219 657 | -2 762 372 |
| - change in the balance of available for sale investments | 11 677 | 64 |
| - due to banks | -315 164 | 563 221 |
| - due to customers | 1 680 071 | 1 290 560 |
| - other assets and liabilities (Note 25) | -209 126 | 222 758 |
| Income tax (current and deferred) | -24 964 | -43 080 |
| **Net operating cash flows** | **-2 792 917** | **-643 592** |
| Purchase of available-for-sale investments | -667 467 | -693 681 |
| Purchase of property, plant and equipment and intangible fixed assets | - 87 723 | -49 211 |
| Proceeds from sales of available-for-sale investments | 702 283 | 354 115 |
| Proceeds from sales of property, plant and equipment | 3 703 | 1 633 |
| Other investment expenses | -7 173 | -3 496 |
| **Net cash provided by investing activities** | **-56 377** | **-390 640** |
| Issuance of subordinated liabilities | 358 200 | - |
| Loans and credit facilities taken | 2 149 206 | 2 392 695 |
| Repayment of loans and credit facilities | -894 474 | -802 307 |
| Share issue | - | 197 512 |
| **Net cash provided by (used in) financing activities** | **1 612 932** | **1 787 900** |
| **Cash and cash equivalents, gross, ending balance (Note 12)** | **1 590 779** | **2 827 141** |
| **Change in gross cash and cash equivalents** | **- 1 236 362** | **753 668** |

Cash Flow Statement is prepared using an indirect method.

Notes published on the following pages constitute an integral part of the financial statements.

# Additional Notes to Financial Statements

## 6. Information on the Bank

**Basic data on the Issuer**

Fortis Bank Polska S.A. ("the Bank"), with its registered office in Warsaw at ul. Suwak 3, was entered in the register of entrepreneurs of the National Court Register (KRS) maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register under No. KRS 6421.

The Bank was assigned statistical number (REGON) 003915970, and tax identification number (NIP) 676-007-83-01.

The Bank is a company with an indefinite period of operation, and its business has no seasonal or periodical nature.

**Issuer's Principal Line of Business:**

The scope of the Bank's business covers banking transactions both in Polish zlotys and foreign currencies for domestic and foreign private individuals and legal persons and other organizations without legal personality. The core business of the Bank according to Polish Classification of Activities is 'other banking activity' (PKD 6512A), whereas according to the classification adopted by the regulated market, the sector is defined as 'Financial institutions and banks'.

The scope of the Bank's business include:

- accepting deposits due on demand and/or in fixed date and maintaining bank accounts for such deposits,
- maintaining the other bank accounts,
- granting credits and loans, including consumer credits and loans,
- carrying out pecuniary settlements, including payment card settlements, likewise payment card issuance,
- issuing and confirming bank guarantees, granting sureties, likewise opening and confirming L/Cs,
- issuing securities, including convertible bonds and banking securities, likewise carrying out commissioned tasks, and assuming obligations related to the issuance of securities,
- participating in trading in financial instruments, including maintaining securities custody accounts,
- conducting operations on money and FX markets including forward and derivative instrument transactions,
- conducting check and bill-of-exchange operations and warrant transactions,
- purchasing and selling cash debts,
- purchasing and selling foreign currencies,
- safekeeping valuables and securities, likewise rendering safe-deposit boxes available,
- providing the following financial services:
  - consulting services in financial matters,
  - custody services,
  - leasing services,
  - brokerage activity,
- conducting commission sale in favour of open pension funds and safekeeping pension funds' assets,
- providing agency services related to the distribution of participation units, investment certificates or participation titles to investment funds, likewise agency services related to their sale and redemption, or safekeeping of investment funds' assets,
- providing agency services related to property insurance,
- intermediating within the scope of personal insurance, including life insurance,
- rendering certification services under the regulations governing electronic signatures, except for issuing qualified certificates used by the Bank with regard to actions to which it is a party,
- acting as an agent in making money transfers and FX settlements,
- issuance of electronic money instrument.

The Bank does not conduct any brokerage activities.

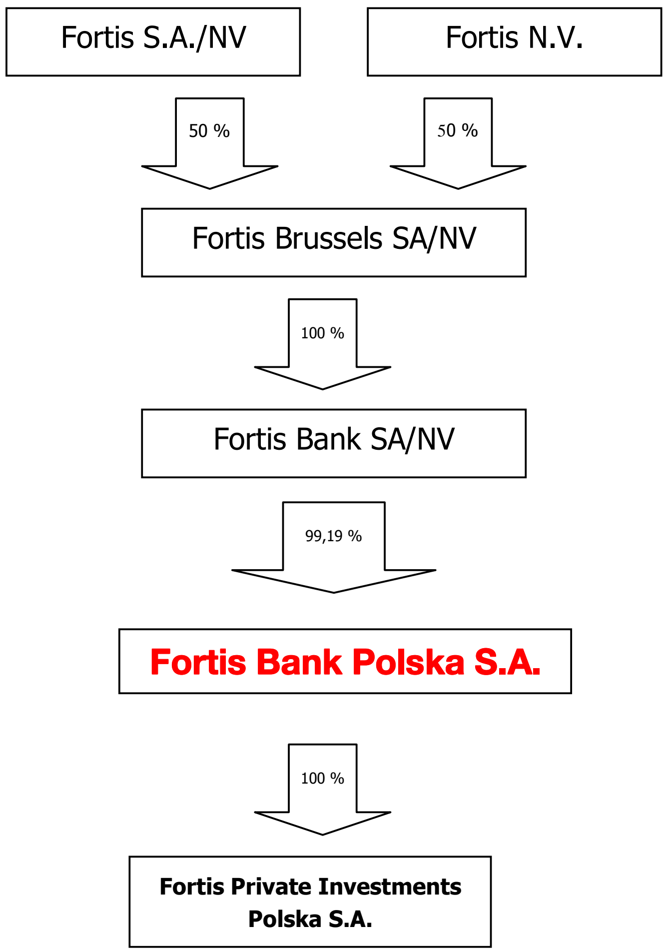
The 2006 financial statements were approved by the Annual General meeting on 15 June 2007.

**The Group's structure**

The Bank is part of Fortis, an international banking and insurance group. The ultimate parent entities are: Fortis SA/NV and Fortis N.V. Fortis Bank SA/NV based in Brussels is the Bank's parent entity. Fortis Bank Polska S.A. is the parent entity of Fortis Private Investments Polska S.A., holding 100% of its shares. Considering no material importance, the aforesaid subsidiary was not consolidated in this financial report.

The diagram below presents the position of Fortis Bank Polska SA in Fortis.

Structure of the group of Fortis Bank Polska S.A.



# 7. Accounting Policies

**Basis of presentation**

Statement on consistency with the IFRS

These financial statements have been prepared pursuant to the International Financial Reporting Standards published in the Commission Regulation (EC) no. 1725/2003 of 29 September 2003 as amended, and in the scope not regulated by the above standards, pursuant to the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76, item 694, as amended) and administrative acts based thereon, likewise in accordance with requirements set out in 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).

Previous adoption of standards that are not binding as at the balance sheet date

The following standards (interpretations) issued by the International Accounting Standards Board (International Financial Reporting Interpretations Committee) have not become effective yet:

- IFRS 8 *Operating Segments*; it applies to annual periods starting after 1 January 2009;

- Amendments to IFRS 23 *Borrowing Costs*, effective 1 January 2009; as at the date of making these financial statements, the amendments to IAS 23 have not been approved by the European Commission;

- Amendments to IAS 1 *Presentation of Financial Statements*, effective 1 January 2009; as at the date of making these financial statements, the amendments to IAS 1 have not been approved by the European Commission;

- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*, effective 1 January 2009; as at the date of making these financial statements, the amendments to IFRS 3 and IAS 27 have not been approved by the European Commission;

- Interpretation IFRIC 11 *Group and Treasury Share Transactions*, applies to annual periods starting after 1 March 2007;

- Interpretation IFRIC 12 *Service Concession Arrangements*; it applies to annual periods starting after 1 January 2008; as at the date of making these financial statements, IFRIC 12 has not been approved by the European Commission;

- Interpretation IFRIC 13 *Customer Loyalty Programmes*; it applies to annual periods starting after 1 July 2008; as at the date of making these financial statements, IFRIC 13 has not been approved by the European Commission;

- Interpretation IFRIC 14 *The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction*; it applies to annual periods starting after 1 January 2008; as at the date of making these financial statements, IFRIC 14 has not been approved by the European Commission.

The Bank did not use the option of an earlier adoption of standards and interpretations that were approved by the European Commission but that became or will become effective after the balance sheet date only. The Bank now analyses in detail the effect of new standards and interpretations on the financial statements. In the opinion of the Bank's Board of Executives, the implementation of new standards and interpretations will not materially affect the Bank's financial statements.

Transformation of comparative data

The annual financial statements of the Bank for the year ended on 31 December 2006 were prepared pursuant to the relevant Polish accounting principles. The said principles (Polish Accounting Principles, PAP) were described in the Bank's financial statements for 2006. The Bank transformed the data contained in the 2006 report to obtain relevant comparative data consistent with IFRS. The effects of adopting the IFRS are presented in Note 9 hereof.

Additionally, in order to ensure comparability, data presentation manner was changed in the comparable period. Detailed explanations are presented in Section "Comparability with Previously Published Reports."

**Business continuity, historical cost principle**

The financial statements of the Bank were prepared assuming the continuation of the Bank's business in the foreseeable future. The Bank's Board of Executives is not aware of any circumstances indicating any risk to the business continuation.

The financial statements of the Bank were prepared based on the historical cost principle, except for derivative financial instruments, financial assets and liabilities measured at fair value through profit or loss, available-for-sale financial assets which were measured at fair value, and available-for-sale assets measured at the amount that is the lower of their balance sheet value and fair value less cost to sell.

**First-Time Adoption of IFRS**

In the first-time adoption of the International Financial Reporting Standards a retrospective method was used pursuant to IFRS 1.

**Comparative data**

The financial statements present financial data for the period from 1 January 2007 through 31 December 2007 and comparative data for the period from 1 January 2006 through 31 December 2006.

**Accounting Estimates**

When preparing the financial statements pursuant to the IFRS, the Bank's management is required to make subjective evaluations, estimations and accept assumptions that affect both the accounting policies applied and the assets and liabilities, likewise income and expenses. Estimations and assumptions are made based on available historical data and a number of other factors that are considered appropriate in given circumstances.

The results care the basis for making estimations referring to balance sheet assets and liabilities. Actual results can differ from estimated values. Estimations and assumptions are subject to ongoing reviews. Adjustments to estimations are recognised in the period in which a given estimation was changed provided that the adjustment refers to that period only, or in the period when the change was made and in the future periods if the adjustment affects both the current period and the future ones.

<u>Fair value</u>

The fair value of financial instruments that are not traded on an active market is measured using valuation models using the market yield curve. Some variables used in such models require the adoption of expert estimations. Change of the models adopted or a different estimation of variables could affect the estimation of fair values determined using such models.

<u>Write-downs for impairment of financial assets</u>

The Bank regularly reviews the credit portfolio with the view to impairment in monthly periods. In the estimation of write-downs for impairment, the Bank assesses whether there is any evidence of impairment for specific financial asset or group of financial assets. A catalogue of impairment indicators includes events determined both in terms of quantity (e.g. delays in or lack of repayment of a matured part of borrower's liabilities) and quality (e.g. a significant deterioration of borrower's financial standing reflected in an internal rating decrease below a specified level). The catalogue of indicators includes gradations of indicator materiality. Impairment can be confirmed by one indicator or a combination of several ones.

Financial assets with respect to which impairment evidence was identified, are subsequently subject to an estimation of a write-down for impairment. In the process, future cash flows on account of such receivables are estimated.

Such estimations for receivables due from business entities whose total exposure exceeds (for one customer) the equivalent of EUR 50 thousand are made based on an individual analysis of future cash flow (individual analysis).

For remaining receivables (individual customers and business entities of exposure up to the tier of EUR 50 thousand), estimations are made on the basis of recoverability parameters, determined by models for specific homogeneous credit portfolios and credit collateral types (portfolio analysis).

Recoverability parameters of specific portfolio models have been determined based on historical credit loss experience and expert assessments. The methodology and assumptions on the basis of which estimated cash flow amounts and periods when they occur are determined, are subject to periodical reviews to diminish differences between the estimated and actual loss value.

When there is no evidence of impairment of a receivable, it is included into the portfolio of similar characteristics and takes part in the portfolio analysis of impairment to determine write-downs for impairment for the incurred, but not reported losses (IBNR).

A write-off on that account is estimated on the basis of historical loss patterns that characterise the given part of the portfolio. Statistical models and parameters they use are subject to periodical reviews and the results obtained are validated by comparison to actual losses.

When objective evidence of an available-for-sale financial asset impairment is found, cumulated losses recognised so far in the equity capital are derecognised from the equity capital and recognised in the income statement, even if the financial asset has not been removed from the balance sheet. The cumulated loss amount which is derecognised from the equity capital and recognised in the income statement, constitutes the difference between the acquisition cost (net of any principal repayments and depreciation) and the present fair value reduced by any losses on account of impairment of that asset, previously recognised in the income statement.

If the fair value of an available-for-sale debt instrument subsequently increases, and the increase can be objectively determined to result from an event following the recognition of an impairment loss in the income statement, then the reversed provision amount is recognised in the income statement.

Write-downs for non-financial assets' impairment

A non-financial asset is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use.

The determination of the value in use is related to the Bank's estimation of future cash flows, expected to arise from continuing use of an asset, and discounting those values.

Useful lives and residual values

The useful life is a time period over which an item of the property, plant and equipment and intangible assets is expected to be used by the Bank.

A residual value of an item of property, plant and equipment and intangible assets is the expected amount that the Bank would currently obtain from disposal of the asset, after the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Other Accounting Estimates

The Bank made provisions on account of long-term employee benefits on the basis of an actuarial valuation.

Legal risk provisions are calculated on the basis of an estimated amount of the Bank's liabilities should a court case end unfavourably, or should a case be likely to end unfavourably for the Bank.

In addition to the above estimates, the Bank makes also other subjective assessments during the accounting policy implementation process (e.g. as regards the classification of financial assets into a category required under IAS 39). Assessments made by the Bank affect the presentation in the financial statements.

**Foreign Currency**

The financial statements are stated in Polish zlotys (PLN), rounded up to one thousand zlotys, unless indicated otherwise. The functional currency is Polish zloty (PLN).

Foreign currency transactions are accounted for using the exchange rate at the date of the transaction settlement. Outstanding balances in foreign currencies at the end of a reporting period are translated at the exchange rates binding the end of the reporting period. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date of the transaction. Exchange differences arising from the settlement of liabilities relating to the acquisition of an asset are recognised as income or as an expense in the period in which they arise.

**Rules of Balance Sheet Recognition of Financial Assets and Liabilities**

The Bank recognises a financial asset or liability in the balance sheet when the Bank becomes a party to such an instrument.

The Bank recognises standardised purchase and sale transactions of financial assets in the balance sheet at the trade date which is the date of the Bank's commitment to purchase or sell a given financial asset.

Standardised purchase or sale transactions of financial assets constitute transactions whose contractual terms require delivery of an asset in the period established by the binding regulations or conventions in the market place.

Standardised purchase or sale transactions in the Bank apply in particular to FX spot currency transactions, deposits and placements likewise to purchases and sales of securities, where it is customary that two business days elapse between the trade date and settlement date.

**Rules of financial asset derecognition from the balance sheet**

The Bank derecognises financial assets from the balance sheet when contractual rights to cash flows from a financial asset expire or when the Bank transfers a financial asset pursuant to paragraphs 18 and 19 of IAS 39, and the transfer meets the conditions of derecognition from the balance sheet in line with paragraph 20 of IAS 39.

**Segment Reporting**

Business segments

A business segment is a distinguishable component of a business entity that is engaged either in providing products or services, or a group of products and services, which is subject to risks and rewards that are different from those of other business segments.

As the risk that the Bank is exposed to and the rate of return achieved depend chiefly on differentiation of products and services provided, the business segment has been defined as the primary reporting segment pursuant to the IAS 14 requirements.

In the Bank's business, the following segments exist:

- Retail Banking Business Line (RB BL)

- Merchant & Private Banking Business Line (GMK, CB and PB BL)
- Asset & Liability Management (ALM) and support units (horizontal functions) are the Bank's Head Office units, except the Global Markets BL, which belongs to the Merchant & Private Banking Business Line.

Geographical segments

Geographical segment is a distinguishable component of an enterprise that provides products and services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.
The Bank operates in Poland as the sole geographical segment.

**Offsetting**

Financial assets and liabilities are offset and the net amount recognised in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.
Both as at 31 December 2007 and as at 31 December 2006, the Bank made no offsetting referred to above.

**Interest Income and Expense**

Interest income and interest expense are recognised in the income statement for all financial instruments on an accrual basis using the effective interest method based on the acquisition price including direct transaction costs.

For financial assets written-down for impairment, interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of estimating the write-down for impairment.

**Net profit/loss on transactions in financial instruments**

Net profit/loss on transactions in financial instruments includes:
- net profit/loss on transactions in financial instruments classified as available for sale, i.e. realised gains or losses on sales that represent the difference between the sales proceeds received and the amortised cost of the asset sold, minus any write-downs for impairment previously recognised in the income statement;
- net profit/loss on transactions in financial instruments carried at fair value through profit or loss, i.e. the difference between the carrying value at the end of the current reporting period and the previous reporting period.

**Fees and Transaction Costs**

Fees related to granting a loan or changing its material conditions, constitute an integral part of the effective interest rate of a financial instrument. Thus the Bank recognises origination fees, fees for granting a loan or other preliminary fees for such actions as an assessment of borrower's financial standing, collateral assessment and recording. Such fees are deferred and recognised in the interest income as an adjustment to the effective interest rate.

Commissions and fees that do not constitute an integral part of the effective interest rate of a financial instrument are recognised through profit or loss, during the time of providing services or at the moment of performing a significant action.

Commissions and fees regarding receivables with respect to which the effective interest rate calculation cannot be applied (receivables of indefinite term of payment of specific instalments and undetermined interest rate changes) are spread over time using the straight-line method and included into the commission and fee income.

Loan syndication fees are recognised as revenue when the process related to the syndication organisation has been completed.

Transaction costs are included in the initial measurement of financial assets and liabilities other than those measured at fair value through profit or loss. Transaction costs are costs directly attributable to the acquisition or disposal of a financial asset or liability. They include fees and commissions paid to intermediaries, advisers, brokers, and dealers levied by regulatory agencies and securities exchanges, and transaction taxes and duties. Such costs are deferred and recognised as an adjustment to the effective interest rate of financial instruments.

**Current and deferred income tax**

Income tax in the income statement includes a current tax and deferred tax. The current tax constitutes the Bank's tax liability computed on the basis of relevant tax law provisions.
Deferred tax is recognised using the balance sheet method, based on identification of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In order to determine amounts of deferred tax assets and liabilities, statutory tax rates are applied.
Deferred tax assets are recognised to the extent to which they can be utilised to decrease future tax liability.
Deferred tax and current tax related to fair value measurement of available-for-sale assets which are charged or credited directly to the revaluation reserve are also directly recognised in the revaluation reserve and subsequently recognised in the income statement together with the gain or loss on such an investment.

**Earnings per Share**

Basic earnings per share are calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in the period.

For the diluted earnings per share, the weighted average number of ordinary shares and the net profit are adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

**Classification and Measurement of Financial Assets and Liabilities**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- financial assets that the Bank intends to sell immediately or in the near term, and those that upon initial recognition were designated as measured at fair value through profit or loss;

- financial assets that upon initial recognition were designated by the Bank as available for sale.

Loans and receivables upon the initial recognition are measured at fair value including transaction costs.

After the initial recognition, the loans and receivables are measured at amortised cost, using the effective interest rate method, including write-downs for impairment.

In the category of loans and receivables, the Bank classifies due from banks and loans to customers.

Investments held to maturity

Held-to-maturity investments consist of financial assets with fixed or determinable payments and fixed maturity which are not derivative instruments and for which the entity has a positive intent and ability to hold to maturity.

Held-to-maturity investments are measured at initial recognition at fair value including transaction costs.

After the initial recognition, the held-to-maturity investments are measured at amortised cost, using the effective interest rate method, including write-downs for impairment.

The Bank does not classify any financial assets into the category of held-to-maturity assets.

Financial assets measured to fair value through profit or loss

Financial assets measured to fair value through profit or loss are the assets:

a) classified at initial recognition as held for trading if they were acquired chiefly to be sold in the short term;
b) that are part of a portfolio of identified financial instruments that are managed together and for short-term profit taking,
c) that are derivative instruments (excluding derivative instruments that constitute effective hedging instruments), or
d) classified at the initial recognition as measured to fair value through profit or loss.

The Bank classifies held-for-trading financial assets into the category of financial assets, in particular:

a) held-for-trading securities,
b) derivative instruments (excluding derivative instruments that constitute effective hedging instruments).

The Bank did not classify assets at their initial recognition as measured to fair value through profit or loss.

Financial assets available for sale

Available-for-sale financial assets are those that are not derivative instruments and are classified at initial recognition as available for sale or assets that are not:

a) loans and receivables,
b) investments held to maturity,
c) financial assets measured to fair value through profit or loss.

Available-for-sale financial assets are held at fair value. Gains or losses on an available-for-sale financial asset shall be recognised directly in the revaluation reserve, through the statement of changes in equity, except for impairment losses and FX differences on cash financial assets until the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in profit or loss.
Interest income on available-for-sale financial assets is computed using the effective interest rate method and recognised in profit or loss.

Financial liabilities measured to fair value through profit or loss

Financial liabilities measured to fair value through profit or loss are the liabilities:

a) classified at initial recognition as held for trading if they were assumed chiefly to be repurchased in the short term;
b) that are part of a portfolio of identified financial instruments, which are managed together and for short-term profit taking, or
c) that are derivative instruments (excluding derivative instruments that constitute effective hedging instruments).

The Bank classifies held-for-trading financial liabilities into the category of financial liabilities, in particular:

a) derivative instruments (excluding derivative instruments that constitute effective hedging instruments).
b) liabilities on account of short sale of securities.

Other financial liabilities

Other financial liabilities are the liabilities not held for trading and not measured to fair value through profit or loss.

Other financial liabilities are measured at initial recognition at fair value including transaction costs.

After the initial recognition, other financial liabilities are recognised in amounts that require payment at amortised cost including the effective interest rate method.

The Bank classifies in particular the following into the category of other financial liabilities:

a) due to banks;
b) due to customers.

**Fair Value of Financial Instruments**

Fair value of balance sheet and off-balance sheet financial instruments is the price for which a given asset could be exchanged or a liability settled through an arm's length transaction between the willing and knowledgeable parties.

The fair value of financial instruments is determined based on quoted prices in active markets. When quoted prices in active markets are not available, valuation techniques are used. Valuation techniques make maximum use of market inputs but are affected by the assumptions accepted, including discount rates and estimates of future cash flows.

Valuation techniques include:

- market prices of comparable investments,
- discounted cash flows,
- option pricing models,
- market multiples valuation methods.

The principal methods and assumptions used in determining the fair value of financial instruments:

- Fair values for securities are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Discount factors are based on the market interest rate curves.
- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.
- Fair values of loans are determined using discounted cash flow models based upon present interest rates for similar type loans. For variable-rate loans that re-price frequently, fair values are approximated by the carrying amount,
- The carrying amounts are considered to approximate fair values for other financial assets and liabilities, such as short-term payables and receivables.

**Asset Impairment**

Financial assets

A financial asset (or a group of financial assets) is considered impaired if there is objective evidence of impairment as a result of one or more events, occurring after the initial recognition of the asset, that affect the future cash flow of the given financial instrument (or a group of financial instruments) if such cash flow can be reliably estimated.

As at each balance sheet date, the Bank makes an assessment whether there is any objective evidence of impairment of a financial asset (or group of financial assets).

When objective evidence of loans and receivables impairment is found, the Bank estimates a write-off amount as a difference between the carrying value and present value of expected future cash flows (discounted by an original effective interest rate of the instrument) recognising it in the income statement and reducing loans and receivables using the provision account.

Write-downs for impairment are determined using an individual method for receivables due from business entities whose total exposure exceeds (for one customer) the equivalent of EUR 50 thousand (individual analysis of future cash flows). For remaining receivables (individual customers and business entities of exposure up to the tier of EUR 50 thousand), write-offs are set using recoverability parameters, determined by models, on account of voluntary repayments and collateral value (portfolio analysis of future cash flows).

The Bank creates write-downs for impairment for incurred but not reported losses (IBNR) when there is objective evidence with respect to loans and receivables that probable losses are present in components of the loan portfolio, without having specifically identified impaired loans and receivables. The write-down for impairment for IBNR losses is estimated based upon historical patterns of losses in each component, reflecting the current economic climate in which the borrowers operate.

The Bank creates write-downs for impairment for incurred but not reported (IBNR) losses. Such write-downs reflect the level of credit losses estimated on the basis of a history of losses, pertaining to assets of similar risk characteristics, that were incurred by the Bank as at a balance sheet date, but for which the Bank is not yet able to identify individual exposures with impairment.

As regards uncollectible loans and receivables, in the event legal and procedural ways of their repayment enforcement have been exhausted, the Bank writes down such loans and receivables to the related write-downs for their impairment.

Any amounts subsequently recovered are charged to the Net write-offs for impairment in the income statement.

As regards available-for-sale financial assets with objective evidence of impairment, the cumulated losses recognised so far directly in the revaluation reserve are now recognised in the income statement. The amount of cumulated losses that is derecognised from the revaluation reserve and recognised in the income statement constitutes the difference between the acquisition price (less any capital repayment and depreciation) and the present fair value.

Non-financial Assets

A non-financial asset is impaired when its carrying amount exceeds its recoverable amount.

As at each balance sheet date, the Bank makes an assessment whether there is any indicator of a non-financial asset impairment and in the event any such indicators are identified, the Bank estimates the asset's recoverable value.

The recoverable value is the higher of the following:

- the fair value less cost to sell, and
- the value in use.

Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs.

Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

**Cash Flow Statement**

The statement of cash flow, presented by the Bank, has been prepared using an indirect method, according to which the net profit is adjusted by non-cash transactions, accruals and settlements of the future and past cash flows, likewise by cash flows items related to investing or financing activity.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, freely available balances with the central bank and other banks and other financial assets with original maturity less than three months at the balance sheet date.

**Due from Banks and Loans to Customers**

Due from banks and loans to customers include loans originated by the Bank by providing money directly to a borrower and loans purchased from third parties that are carried at amortised cost less impairment losses. Debt securities not traded on an active market are also recognised as loans.

Costs incurred and loan origination fees earned for granting a loan are deferred and amortised over the life of the loan as an adjustment to the loan effective interest rate.

Rules governing impairment estimation are presented above.

**Sale and Repurchase Agreements and Lending/Borrowing Securities**

Securities subject to a repurchase agreement ('repos', 'sell buy backs') are not derecognised from the balance sheet. The liability resulting from the obligation to repurchase the assets is included in due to banks or due to customers depending on the type of counterparty. Securities purchased under agreements to resell ('reverse repos', 'buy sell backs') are not recognised in the balance sheet. The right to receive cash from the counterparty is recorded as due from banks or loans to customers depending on the type of counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

If securities acquired under agreements to resell ('reverse repos,' 'buy sell backs') are sold to third parties, the Bank records proceeds from the sale and a liability for the obligation to return the collateral (liability for the short sale of securities). The obligation to return the collateral is measured at fair value through profit or loss and is classified as a held-for-trading liability.

**Shares in subsidiaries**

Shares in subsidiaries which are not subject to consolidation due to immateriality are measured by acquisition price method, including write-downs for impairment.

**Property, Plant and Equipment**

Property, plant and equipment include assets of foreseeable useful life longer than one (1) year, that are complete and used by the Bank in order to provide services.

Property, plant and equipment are recognised at acquisition cost less accumulated depreciation and write-downs for impairment. The residual value and useful life of property, plant and equipment are subject to annual reviews.

Any impairment loss identified is recognised in the income statement.

The acquisition price is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition.

Depreciation is calculated using the straight-line method to write down the value subject to depreciation over the asset estimated useful life.

Repairs and maintenance expenses of a property, plant and equipment component are charged to the income statement when the expenditure is incurred.

Expenditures that enhance or extend the benefits of the property, plant and equipment beyond their original use are capitalised and subsequently depreciated.

Software for computer hardware that cannot operate without that specific software, such as the operating system, is an integral part of the related hardware and it is treated as property, plant and equipment.

In 2007, the Bank applies the following balance-sheet depreciation rates for basic groups of the property, plant and equipment:

- leasehold improvements – 10%,
- equipment: IT and telephone equipment – 10%, 17%, 20%, 33% - depending on the useful life of a given asset,
- means of transport – 33%, 25% – depending on the useful life of a given asset,
- operating system software – 20%,
- other fixed assets – 10%, 20% – depending on the useful life of a given asset.

**Non-Current Assets Held for Sale and Discontinued Operations**

Non-current assets held for sale are such assets or a group of assets for which the Bank will recover the carrying amount from a sale transaction instead of through continuing use. Such assets are carried at the lower of the following:

- their book value as at the time of being classified to this category, or
- their fair value less cost to sell.

Assets that are classified as held for sale are not depreciated.

The results of operations that are classified as discontinued operations are presented separately in the income statement.

The Bank does not hold any non-current assets held for sale and discontinued operations.

**Intangible Assets**

Intangible assets are identifiable assets which are not physical in nature and are recognised at acquisition cost. An intangible asset is recognised in the balance sheet if it will generate financial benefits in the future and can be reliable measured. The Bank assesses regularly if an intangible asset may be impaired.

Intangible assets include intangible assets with definite lives, such as trademarks and licenses. They are amortised over their useful lives using the straight-line method.

The Bank does not have any intangible assets of indefinite useful life.

Intangibles are recorded on the balance sheet at acquisition cost less any amortisation and any write-downs for impairment. The residual value and useful life of intangible assets are subject to annual reviews.

Any impairment loss identified is recognised in the income statement.

In 2007, the Bank applies the following balance-sheet depreciation rates for basic groups of intangible assets:

- system software, i.e. other than operating system software – 33%,

**Derivative instruments**

Derivative instruments are financial instruments whose value changes in response to the change in a market variable and which are settled at a future date, likewise instruments that either require no initial net investment or require an initial net investment in the amount lower than the investment in other contract types while permitting creation of an analogous risk exposure.

Derivative instruments in the Bank include the following transactions:

a) IRS Contracts

IRS contracts consist in an exchange of interest payments based on a variable market interest rate for interest accrued at a fixed interest rate agreed upon in the contract. The purpose of IRS contracts is to hedge against interest rate risk and to obtain gains as a result of short-term price changes.

IRS contracts are measured to fair value using the Discounted Cash Flow method, based on discount factors estimated on the basis of market yield curve as of the measurement date. The measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

b) FX Forward Contracts

FX Forward Contracts consist in a purchase or sale of a specific currency at a predetermined date in the future at the exchange rate agreed on the transaction date. The purpose of FX Forward contracts is to hedge against FX rate risk and to maintain liquidity, likewise to obtain gains as a result of short-term price changes.

FX Forward contracts are measured to fair value using the Discounted Cash Flow method. The fair value is established by comparing present cash flows translated into PLN equivalents. The measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

c) FX Swap Contracts

FX Swap Contracts consist in a purchase or sale of a specific currency at a spot exchange rate and a simultaneous sale or purchase of the same amount of the currency at a forward rate agreed at the transaction date. Transactions may be concluded as a combination of a transaction with the value date equal to the transaction date and the simultaneous reverse transaction for the value date of the following day. The purpose of FX Swap contracts is to regulate liquidity and hedge against FX rate risk of the Bank's currency loan portfolio, likewise to obtain gains as a result of short-term price changes.

FX Swap contracts are measured to fair value using the Discounted Cash Flow method. The fair value is established by comparing present cash flows translated into PLN equivalents. The measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

d) Interest Rate Options

Interest rate options consist in a purchase (sale) of a right to receive the settlement amount in exchange for a premium paid (received). Depending on the option type (cap/floor), the counterparty receives on a specified settlement day the settlement amount resulting from the difference between the predetermined transaction rate and the reference rate. The purpose of OIS contracts is to hedge against interest rate risk and also to obtain gains as a result of short-term price changes.

Interest rate options are measured to fair value based on the modified Black-Scholes model. The volatility parameter, which is required when using the above model, is assumed in the form of the so-called implied volatility parameter what ensures consistency of the price obtained with the actual market price. The measurement result is recognised in the income statement in net profit (loss) on transactions in held-for-trading financial instruments.

e) FX Options

FX options consist in a purchase of a right, or the Bank's assuming an obligation, to buy (sell) a foreign currency at the forward FX rate established on the transaction conclusion date in exchange for a premium paid (received).

FX Options are measured to fair value based on the Garman-Kohlhagen model. The volatility parameter, which is required when using the above model, is assumed in the form of the so-called implied volatility parameter what ensures consistency of the price obtained with the actual market price. The measurement result is recognised in the income statement in net profit (loss) on transactions in held-for-trading financial instruments.

f) FRA Contracts

FRA contracts consists in an agreement between the parties to the transaction (on the transaction date) upon a fixed interest rate for a specific value of deposit. On the day of the transaction settlement, the buyer of a FRA contract shall pay the settlement amount to the seller if the reference rate on the date of effecting the transaction is lower than the agreed transaction rate. The seller of the instrument shall pay the buyer, on the transaction settlement date, the settlement amount when the reference rate is higher than the agreed transaction rate. FRAs are measured at the fair value using the Discounted Cash Flow method based on the market yield curve. The measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

g) CIRS Contracts

CIRS contracts consist in an exchange of interest payments based on a variable market interest rate in one currency in exchange for interest accrued at a fixed interest rate in another currency agreed upon in the contract, with the exchange of principal amounts at the predetermined exchange rates at the beginning and end of the period, or with the exchange made only at the end of the period for which the transaction was concluded, or without any principal amount exchange. The purpose of IRS contracts is to hedge against interest rate risk and to obtain gains as a result of short-term price changes.

CIRS contracts are measured to fair value using the Discounted Cash Flow method based on the market yield curve. The measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

h) OIS Contracts

OIS contracts consist in an exchange of interest payments based on a fixed contractual interest rate for interest payments based on a variable interest rate. The variable interest rate is determined on the basis of a rate compounded of WIBOR Overnight indexes or based on POLONIA rates determined every business day during the interest period. Such contracts are entered into for the period up to one year. The purpose of OIS contracts is to hedge against interest rate risk and also to obtain gains as a result of short-term price changes.

OIS contracts are measured to fair value using the Discounted Cash Flow method, based on discount factors estimated on the basis of market yield curve as of the measurement date. The measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

i) Futures contracts

Futures contracts consist in a purchase or sale of foreign currency at the rate determined at the transaction conclusion at the Warsaw Commodity Exchange. The contracts are standardised with respect to amounts and maturities. The purpose of entering into contract is to hedge against the FX rate risk.

The futures contracts are measured to market FX rate provided by the Warsaw Commodity Exchange. At the same time, there are daily flows on account of the contract's marking to market. The daily measurement result is recognised in the net profit (loss) on transactions in held-for-trading financial instruments.

Derivative instruments that are hedging instruments

On its recognition date, a derivative instrument can be designated as either a fair value hedge of a recognised asset or liability (fair value hedge), a hedge of a net investment in a foreign entity or a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

The Bank applies hedge accounting with respect to interest rate risk hedging. The fair value is hedged to limit a risk that fair value changes resulting from a specific risk related to financial assets and liabilities held, or a specific part thereof, may affect the financial result.

Changes in the fair value of a hedged asset or liability related to the hedged risk and any changes in the fair value of the hedging instrument within a fair value hedge are recognised in the income statement. If the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, the adjustment to the carrying amount of a hedged interest-bearing financial instrument that results from hedge accounting is amortised using the new effective interest rate calculated on the hedge accounting discontinuation date.

Embedded derivatives

Financial assets or liabilities can include embedded derivatives. If the host contract for such an instrument is not measured at fair value through profit or loss, and the embedded instrument's economic characteristics and risk are not closely related to those of the host contract, the embedded instrument shall be separated and presented independently, to be measured to fair value. Changes in fair value of a separated derivative instrument are recognised in the income statement. The host contracts are measured pursuant to rules applicable to their respective category of financial assets or liabilities.

The separated embedded derivatives are reported as hedging or held-for-trading derivatives, as appropriate.

The Bank does not have in-built derivative instruments.

**Due to Customers**

Liabilities on account of Customer deposits equal the amount due at the balance sheet date. Liabilities due to Customers are measured at amortised cost.

**Employee Benefits**

Long-Term Obligations to Employees

The Bank measures reserves established for retirement severance pay, disability benefits and post-death benefits due to eligible employees under the Labour Code provisions, likewise for liabilities on account of customary jubilee awards. The reserve amounts are estimated on the basis of actuarial calculations.

The value of reserves and costs on account of employee benefit obligations is estimated using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Under this method, the cost of providing these benefits is charged to the income statement to spread the pension cost over the service lives of employees. The value of obligations on account of retirement severance pay, disability benefits, post-death benefits and jubilee awards is calculated at the present value of the estimated future cash outflows using interest rates determined by reference to market yields.

Short-term Obligations to Employees

Employee entitlements to vacation leave and additional leave are recognised when they accrue to employees. A reserve is made for the estimated liability for the vacation leave and additional leave up to the balance sheet date.

**Provisions**

Provisions are liabilities with uncertainties in the amount or timing of payments.
The Bank recognises provisions in the balance sheet, when:

a) there is a present legal or customarily expected obligation as a result of past events;
b) cash outflow is likely to take place in order to perform the obligation;
c) a reliable estimate can be made at the balance sheet date.

When an impact of the time value of money is material, while estimating the provision amount the Bank discounts the estimated future liability amount.

**Contingent liabilities - off-balance sheet commitments**

Contingent liabilities are:

a) a possible obligation arising as a result of past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or
b) a present obligation, which arises as a result of past events, however it is not recognised in the balance sheet because it is unlikely that an outflow of economic benefits will be necessary to perform the obligation or the liability amount cannot be reliably estimated.

The Bank recognises as contingent liabilities such off-balance sheet commitments that do not meet the balance sheet recognition criteria of liabilities, in particular:

- contingent liabilities granted on account of credit lines extended by the Bank – in the amount unused by customers;
- contingent liabilities granted on account of guarantees issued by the Bank in favour of customers – in the amount specified in agreements;
- contingent liabilities on account of export and import letters of credit;

- contingent liabilities on account of financial and guarantee master agreements concluded – in the amount unutilised by the customer;
- contingent liabilities on account of credit lines obtained by the Bank – in the amount available for use by the Bank;
- contingent liabilities on account of guarantees received by the Bank – in the amount specified in agreements.

**Equity Capital**

The equity capital comprises capital and funds established pursuant to the binding regulations, i.e. the statute and the applicable Acts.

**Share Issue Costs**

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

**Dividends on Ordinary Shares**

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the shareholders. The dividend income is recognised in the income statement at the acquisition of rights. Dividends paid are classified in the cash flow statement as cash provided by (used in) financing activities. Dividends received are classified in operating cash flow.

**Other Equity Capital Components**

Other components that are recognised in equity refer to:

- First-time adoption of the IFRS
- Measurement of available-for-sale financial assets to market.

# 8. Comparability with Previously Published Reports

There have been changes made with respect to the manner of presentation of the data, published previously in the report for the first half of 2007 as at 31 December 2006 to ensure data comparability.

**Balance as at 31 December 2006**

| Item | Report for the first half of 2007 | 2007 Annual Report | Difference | Change description |
|---|---|---|---|---|
| **Cash and cash equivalents** | 2 825 999 | 2 826 975 | 1 312 | Short-term due from banks |
| | | | 112 | IBNR - cash and cash equivalents |
| | | | -448 | Measurement of FX Spot transactions |
| **Financial assets held for trading** | 143 107 | 146 869 | 3 762 | Change in presentation of interest rate derivative instruments |
| **Due from banks** | 200 405 | 199 129 | -1 312 | Short-term due from banks |
| | | | 38 | IBNR - due from banks |
| | | | -2 | Effective interest rate - banks |
| **Loans to Customers** | 6 975 116 | 6 975 222 | -112 | IBNR - cash and cash equivalents |
| | | | -38 | IBNR - due from banks |
| | | | 254 | Reclassification of interest on substandard category |
| | | | 2 | Effective interest rate - banks |
| **Property, Plant and Equipment** | 60 275 | 72 057 | 11 782 | Operating software |
| **Intangible Assets** | 23 664 | 11 882 | -11 782 | Operating software |
| **Deferred tax assets** | 21 289 | 23 285 | 1 996 | Adjustment to the opening balance regarding change in the value of deferred tax on account of IBNR |
| **Other assets** | 65 583 | 85 679 | -254 | Reclassification of interest on substandard category |
| | | | 20 350 | Recognition of financial instruments at the transaction date |
| **Total changes** | | | **25 660** | |
| **Financial liabilities held for trading** | 57 365 | 61 127 | 3 762 | Change in presentation of interest rate derivative instruments |
| **Due to banks** | 5 106 686 | 4 955 977 | -150 614 | Reclassification of Due to Brokerage Houses from Due to Banks |
| | | | -95 | Measurement of FX Spot transactions |
| **Due to Customers** | 4 476 883 | 4 627 357 | 150 614 | Reclassification of Due to Brokerage Houses from Due to Banks |
| | | | -140 | Measurement of FX Spot transactions |
| **Other liabilities** | 333 483 | 353 619 | 20 136 | Recognition of financial instruments at the transaction date |
| **Retained earnings** | 5 633 | 7 318 | 1 251 | Adjustment to the opening balance regarding change in the value of deferred tax on account of IBNR |
| | | | 434 | Other adjustments |
| **Net profit (loss) for the year** | 84 825 | 85 137 | 746 | Adjustment regarding change in the value of deferred tax on account of IBNR |
| | | | -434 | Other adjustments |
| **Total changes** | | | **25 660** | |

# 9. Effects of Adopting IFRS

These financial statements of the Bank are the first annual financial statements prepared pursuant to the International Financial Reporting Standards and comply with the IFRS1 that defines the rules of making reports under the IFRS for the first time.

Accounting policies presented in Note 7 have been applied in the preparation of financial statements for twelve months ending on 31/12/2007, the presentation of comparable data for the fiscal year ended on 31 December 2006 as well as in the preparation of the opening balance under the IFRS as at 1 January 2006.

The previously published annual financial statements of the Bank were prepared pursuant to the Polish Accounting Principles (PAP).

In the preparation of the opening balance according to the IFRS, the Bank adjusted the values disclosed in the previous financial statements, which were prepared pursuant to the Polish Accounting Principles (PAP). The tables below and the accompanying notes present explanation how the movement from the PAP to the IFRS affected balance sheet items, equity capital, including net profit/loss and cash flow of the Bank.

**Loss and Profit Account**

The impact of adopting IFRS on the Bank's income statement for periods ending on 31 December 2006:

| 01.01.2006 - 31.12.2006 (in PLN thousand) | Note | Pursuant to Polish Accounting Principles | Adjustment | Pursuant to IFRS |
|---|---|---|---|---|
| Net interest profit (loss) | | 207 671 | - | 207 671 |
| Net commission and fee profit (loss) | | 98 053 | - | 98 053 |
| Dividend and other investment income | a) | 1 104 | -1 104 | - |
| Net profit (loss) on transactions in held-for-trading financial instruments | b) | 110 680 | 123 | 110 803 |
| Net profit (loss) on transactions in available-for-sale financial assets | | -1 031 | - | -1 031 |
| Net profit (loss) on hedging transactions | | 7 | - | 7 |
| Other income | | 5 751 | - | 5 751 |
| **Total income net** | | **422 235** | **- 981** | **421 254** |
| Personnel costs | | -121 370 | - | -121 370 |
| Depreciation of fixed assets and intangible fixed assets | | -22 068 | - | -22 068 |
| Other expenses | c) | -120 632 | 211 | -120 421 |
| Net write-offs for impairment | d) | -25 320 | -27 963 | -53 283 |
| **Gross profit** | | **132 845** | **-28 733** | **104 112** |
| Income tax | e) | -24 579 | 5 604 | -18 975 |
| **Net profit** | | **108 266** | **-23 129** | **85 137** |

Explanation of adjustments made is presented below:

**a) Dividend and other investment income**

| Adjustment | 01.01.2006 - 31.12.2006 |
|---|---|
| Reversal of a share in subsidiary valuation by equity method | -1 104 |
| **Total** | **-1 104** |

**Elimination of a result of a subsidiary valuation by equity method**

In the financial statements pursuant to the IFRS, shares in an immaterial subsidiary were measured at acquisition cost, while pursuant to the previous accounting principles the valuation was made by the equity method.

### b) Net profit (loss) on transactions in held-for-trading financial instruments

| Adjustment | 01.01.2006 - 31.12.2006 |
|---|---|
| Difference in the net result on FX differences | 123 |
| **Total** | **123** |

Adjustments related to the transformation of the financial statements had an impact on the FX position and hence, on its measurement result.

### c) Other expenses

| Adjustment | 01.01.2006 - 31.12.2006 |
|---|---|
| Depreciation of capital raise costs | 211 |
| **Total** | **211** |

#### Depreciation of capital raise costs

In the financial statements according to the IFRS, the capital raise costs decrease the equity capital when the expenditure is incurred, while pursuant to the previous accounting principles the costs were booked as assets and then depreciated through profit or loss for five years.

### d) Net write-offs for impairment

| Adjustment | 01.01.2006 - 31.12.2006 |
|---|---|
| Write-downs for impairment for incurred and reported losses | -24 038 |
| Elimination of the general risk reserve | 9 833 |
| Change in the balance of write-downs for impairment for incurred but not reported (IBNR) losses | -13 758 |
| **Total** | **-27 963** |

#### Change in the balance of write-downs for impairment for incurred but not reported losses

The adjustment results from a difference between the rules of valuation of provisions for loan receivables under the PAP and the rules of measurement of write-downs for impairment pursuant to IAS 39. Additionally, the general risk reserve created under the PAP was eliminated and write-downs for impairment for losses incurred but not reported as at the balance sheet date, made under IAS 39, were booked.

### e) Adjustments of deferred income tax load

| Adjustment | 01.01.2006 - 31.12.2006 |
|---|---|
| Impact of the change in the balance of write-downs for impairment on incurred and reported losses | 4 648 |
| The impact of the elimination of a share in subsidiary valuation by equity method | 210 |
| Impact of the change in the balance of write-downs for impairment for incurred but not reported (IBNR) losses | 746 |
| **Total** | **5 604** |

## Balance Sheet

The impact of adopting IFRS on the Bank's balance sheet statement as at 1 January 2006:

| Balance as at 01.01.06 (in PLN thousand) | Note | Pursuant to Polish Accounting Principles | Adjustment | Pursuant to IFRS |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | a) | 1 274 818 | 798 468 | 2 073 286 |
| Financial assets held for trading | b) | 61 370 | -3 158 | 58 212 |
| Due from banks | | 206 443 | -72 | 206 371 |
| Loans to Customers | c) | 4 228 773 | -7 110 | 4 221 663 |
| Investments | d) | 311 903 | 2 835 | 314 738 |
| Property, Plant and Equipment | | 52 756 | - | 52 756 |
| Intangible Assets | | 9 220 | - | 9 220 |
| Deferred tax assets | e) | 29 899 | -14 790 | 15 109 |
| Other assets | f) | 194 721 | -108 784 | 85 937 |
| **Total assets** | | **6 369 903** | **667 389** | **7 037 292** |
| **Liabilities** | | | | |
| Financial liabilities held for trading | g) | 43 625 | -3 158 | 40 467 |
| Due to banks | h) | 2 016 093 | 786 275 | 2 802 368 |
| Due to Customers | i) | 3 324 440 | 12 357 | 3 336 797 |
| Current tax liabilities | | 19 892 | - | 19 892 |
| Deferred tax reserve | j) | 10 854 | -10 854 | - |
| Other liabilities | k) | 239 424 | -108 551 | 130 873 |
| Provisions | l) | 23 790 | -15 280 | 8 510 |
| **Total liabilities** | | **5 678 118** | **660 789** | **6 338 907** |
| **Total equity** | | **691 785** | **6 600** | **698 385** |
| **Total liabilities and equity** | | **6 369 903** | **667 389** | **7 037 292** |

The impact of adopting IFRS on the Bank's balance sheet statement as at 31 December 2006:

| Balance as at 31.12.06 (in PLN thousand) | Note | Pursuant to Polish Accounting Principles | Adjustment | Pursuant to IFRS |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | a) | 2 129 020 | 697 955 | 2 826 975 |
| Financial assets held for trading | b) | 167 317 | -20 448 | 146 869 |
| Due from banks | | 199 186 | -57 | 199 129 |
| Loans to Customers | c) | 7 024 074 | -48 852 | 6 975 222 |
| Investments Available for Sale | d) | 663 315 | -8 605 | 654 710 |
| Property, Plant and Equipment | | 72 057 | - | 72 057 |
| Intangible Assets | | 11 882 | - | 11 882 |
| Deferred tax assets | e) | 37 381 | -14 096 | 23 285 |
| Other assets | f) | 150 479 | -64 800 | 85 679 |
| **Total assets** | | **10 454 711** | **541 097** | **10 995 808** |
| **Liabilities** | | | | |
| Financial liabilities held for trading | g) | 81 575 | -20 448 | 61 127 |
| Due to banks | h) | 4 389 374 | 566 603 | 4 955 977 |
| Due to Customers | i) | 4 609 841 | 17 516 | 4 627 357 |
| Current tax liabilities | | 3 963 | - | 3 963 |
| Deferred tax reserve | j) | 15 794 | -15 794 | - |
| Other liabilities | k) | 514 215 | -160 596 | 353 619 |
| Provisions | l) | 41 407 | -29 147 | 12 260 |
| **Total liabilities** | | **9 656 169** | **358 134** | **10 014 303** |
| **Total equity** | | **798 542** | **182 963** | **981 505** |
| **Total liabilities and equity** | | **10 454 711** | **541 097** | **10 995 808** |

The tables below present an explanation of material adjustments between the Bank's financial statements prepared according to the PAP and the statements made pursuant to the IFRS:

## a) Cash and cash equivalents

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Adjustment on account of recognition of financial assets at the trade date | 698 121 | 798 655 |
| Write-downs for impairment of IBNR losses – financial assets | -166 | -187 |
| **Total** | **697 955** | **798 468** |

## b) Financial assets held for trading

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Change of presentation of interest accrued on held-for-trading derivatives | -20 448 | -3 158 |
| **Total** | **-20 448** | **-3 158** |

## c) Loans to Customers

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Write-downs for impairment for incurred and reported losses | -15 904 | 15 103 |
| Write-downs for impairment of IBNR losses | -32 948 | -22 213 |
| **Total** | **-48 852** | **-7 110** |

## d) Investments Available for Sale

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Elimination of a subsidiary valuation by equity method | 1 565 | 2 835 |
| Adjustment on account of recognition of acquisition/disposal of available-for-sale securities at the trade date | -10 170 | - |
| **Total** | **-8 605** | **2 835** |

## e) Deferred tax assets

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Impact of the elimination of a subsidiary valuation by equity method | -378 | -587 |
| Impact of write-downs for impairment for incurred and reported losses | - | -4 648 |
| Impact of Write-downs for impairment of IBNR losses | 1 996 | 1 251 |
| Netting of deferred tax | -15 714 | -10 806 |
| **Total** | **-14 096** | **-14 790** |

## f) Other assets

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Elimination of deferred interest income | -84 266 | -107 963 |
| Write-downs for impairment of other assets | 168 | 165 |
| Elimination of capital raise costs | - | -211 |
| Change of presentation of interest accrued on hedging derivatives | -730 | -779 |
| Recognition of financial instruments at the transaction date | 20 350 | - |
| Others | -322 | 4 |
| **Total** | **-64 800** | **-108 784** |

## g) Financial liabilities held for trading

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Change of presentation of interest accrued on derivatives | -20 448 | -3 158 |
| **Total** | **-20 448** | **-3 158** |

## h) Due to banks

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Recognition of financial instruments at the transaction date | 566 603 | 786 275 |
| **Total** | **566 603** | **786 275** |

## i) Due to Customers

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Recognition of financial instruments at the transaction date | 17 516 | 12 357 |
| **Total** | **17 516** | **12 357** |

## j) Deferred tax reserve

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Netting of deferred tax | -15 714 | -10 806 |
| Others | -80 | -48 |
| **Total** | **-15 794** | **-10 854** |

## k) Other liabilities

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Removal of deferred interest income | -84 266 | -107 963 |
| Recognition of financial instruments at the transaction date | 124 167 | - |
| Unregistered share issue | -199 913 | - |
| Write-downs for impairment of other assets | 168 | 165 |
| Change of presentation of interest accrued on hedging derivatives | -730 | -779 |
| Others | -22 | 26 |
| **Total** | **-160 596** | **-108 551** |

## l) Provisions

| Adjustment | 31.12.2006 | 01.01.2006 |
|---|---|---|
| Provisions for off-balance sheet commitments | -6 485 | 607 |
| Write-downs for impairment of IBNR losses regarding off-balance sheet liabilities | 8 081 | 5 023 |
| Elimination of the general risk reserve | -30 743 | -20 910 |
| **Total** | **-29 147** | **-15 280** |

**Explanation of adjustments made**

**Accounting as at the Trade Date.**

In the financial statements pursuant to the PAP, assets and liabilities, settlements on account of standardized FX spot transactions, securities purchase and sale transactions, likewise deposit and placement transactions on the interbank market were recognised at the settlement date. Pursuant to the IFRS, such transactions are recognised in the balance sheet at the trade date.

**Valuation of shares in a subsidiary.**

In the financial statements pursuant to the PAP, shares in a subsidiary were measured by the equity method.
In the financial statements according to the IFRS, shares in a subsidiary were measured at the acquisition cost.

**Write-downs for loan impairment and provisions for off-balance sheet liabilities.**

In the financial statements under the PAP, provisions were created for receivables and off-balance sheet credit exposures, under Polish accounting laws based on minimum percentage ratios of receivable principal coverage by provisions (depending on receivable risk category), while in the statements under the IFRS write-downs for receivable impairment and provisions for off-balance sheet liabilities are made.

**Elimination of contractual interest accrued after determination of the receivable impairment.**

In the financial statements pursuant to the PAP, the contractual interest accrued after the determination of the receivable impairments was accrued in correspondence with deferred interest income (that constitutes a specific item of the liabilities).
In the financial statements pursuant to IFRS, interest accrued by effective interest rate method on the net value of receivables with impairment identified, is recognised in the income statement.

**Impact on deferred tax.**

Tax effect of adjustments on account of adopting the IFRS.

**Presentation of deferred tax assets and liabilities in net amounts.**

In the financial statements pursuant to the PAP, deferred tax assets and deferred tax liabilities were presented separately in assets and liabilities, accordingly.
In the financial statements pursuant to the IFRS, deferred tax assets and liabilities are presented in net amounts in assets or liabilities.

## Reconciliation of Equity

The impact of adopting IFRS on the Bank's equity capital as at 1 January 2006 and 31 December 2006:

| **As at:** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| **Equity pursuant to PAP** | **798 542** | **691 785** |
| New share issue – prior to the registration in KRS | 199 623 | - |
| Write-downs for impairment for incurred and reported losses | -15 904 | 15 103 |
| Provisions for off-balance sheet commitments | 6 485 | -607 |
| Elimination of the general risk reserve | 30 743 | 20 910 |
| Write-downs for impairment of IBNR losses | -41 251 | -27 494 |
| Elimination of a subsidiary valuation | 1 565 | 2 835 |
| Tax effect (deferred tax) | 1 698 | -3 936 |
| Capital raise costs booked in assets | - | -211 |
| Other differences | 4 | - |
| **Equity consistent with the IFRS** | **981 505** | **698 385** |

The tables below present an explanation of differences between the Bank's financial statements according to the PAP and the statements pursuant to the IFRS with respect to equity capital.

### New share issue – prior to the registration in KRS

In the financial statements under the PAP, an issue increased the equity at the registration date.
In the financial statements under the IFRS, an unregistered share issue was recognised at the payment date.

### Write-downs for impairment for incurred and reported losses and provisions for off-balance sheet liabilities

The adjustment results from a difference between the rules of valuation of provisions for loan receivables under the Polish Accounting Principles (PAP) and the rules of measurement of write-downs for impairment.

### Elimination of the general risk reserve

In the financial statements under the PAP, the Bank recognised the general risk reserve, established according to the Polish accounting rules.
In the statements under the IFRS, the effects of that reserve were removed.

### Write-downs for impairment of IBNR losses

In the statements pursuant to the IFRS, the Bank recognizes write-downs for impairment of losses incurred but not reported as at the balance sheet date, that are made pursuant to IAS 39.
Such a reserve was not recognised in the financial statements under the PAP.

### Capital raise costs

In the financial statements pursuant to the PAP, capital raise costs were booked as intangible assets and then depreciated through profit or loss for five (5) years.
In the financial statements according to the IFRS, such costs decrease the equity at the moment they are incurred.

### Elimination of a subsidiary valuation

In the financial statements pursuant to the PAP, the Bank's shares in a subsidiary were measured by the equity method.
In the financial statements according to the IFRS, shares in an immaterial subsidiary have been measured at the acquisition cost.

### Tax effect (deferred tax)

Tax effect presented in the above equity reconciliation table comprises the following detailed items:

| **As at:** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| Subsidiary valuation – adjustment of retained earnings | -378 | -587 |
| Subsidiary valuation – adjustment of revaluation reserve | 80 | 48 |
| Write-downs for impairment of IBNR losses | 1 996 | 1 251 |
| Write-downs for impairment for incurred and reported losses | - | -4 648 |

| | | |
|---|---|---|
| **Total** | **1 698** | **-3 936** |

## Cash flow

Adjustments concerning the cash flow statement result directly from adjustments of balance sheet and income statement items.

## Changes in the presentation

The table below represents changes in the presentation of the income statement between the financial statements layout according to the PAP and according to the IFRS, for the period ended 31 December 2006:

| **IFRS: Interest income** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Interest income | 383 038 |
| PAP: Interest expense | -961 |
| **Total PAP** | **382 077** |
| IFRS adjustments | -6 534 |
| **Total** | **375 543** |

| **IFRS: Interest expense** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Interest expense | -174 406 |
| **Total PAP** | **-174 406** |
| IFRS adjustments | 6 534 |
| **Total** | **-167 872** |

| **IFRS: Commission and fee income** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Commission and fee income | 104 982 |
| PAP: Other operating income | 2 632 |
| **Total PAP** | **107 614** |
| IFRS adjustments | - |
| **Total** | **107 614** |

| **IFRS: Commission and fee expense** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Commission and fee expense | -9 561 |
| **Total PAP** | **-9 561** |
| IFRS adjustments | - |
| **Total** | **- 9 561** |

| **IFRS: Dividend and other investment income** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Share in net profit (loss) of subsidiaries measured by equity method | 1 104 |
| **Total PAP** | **1 104** |
| IFRS adjustments | **-1 104** |
| **Total** | **-** |

| **IFRS: Net profit (loss) on transactions in held-for-trading financial instruments** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Net result on financial transactions | 6 914 |
| PAP: Net result on FX differences | 103 766 |
| **Total PAP** | **110 680** |
| IFRS adjustments | 123 |
| **Total** | **110 803** |

| **IFRS: Net profit (loss) on transactions in available-for-sale financial instruments** | **01.01.2006 - 31.12.2006** |
|---|---|
| PAP: Net result on financial transactions | -1 031 |
| **Total PAP** | **-1 031** |
| IFRS adjustments | - |
| **Total** | **-1 031** |

| IFRS: Net profit (loss) on hedging transactions | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: Net result on financial transactions | 7 |
| **Total PAP** | **7** |
| IFRS adjustments | - |
| **Total** | **7** |

| IFRS: Other income | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: Commission and fee income | -4 734 |
| PAP: Net result on financial transactions | 3 |
| PAP: Other operating income | 10 481 |
| PAP: Income tax | 1 |
| **Total PAP** | **5 751** |
| IFRS adjustments | - |
| **Total** | **5 751** |

| IFRS: Personnel costs | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: General expenses | -121 370 |
| **Total PAP** | **-121 370** |
| IFRS adjustments | - |
| **Total** | **-121 370** |

| IFRS: Depreciation of fixed assets and intangible fixed assets | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: Depreciation of fixed assets and intangible fixed assets | -22 068 |
| **Total PAP** | **-22 068** |
| IFRS adjustments | - |
| **Total** | **-22 068** |

| IFRS: Other expenses | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: Net result on financial transactions | -68 |
| PAP: Other operating income | 1 802 |
| PAP: Other operating expenses: | -5 241 |
| PAP: General expenses | -113 630 |
| PAP: Depreciation of fixed assets and intangible fixed assets | -3 495 |
| **Total PAP** | **-120 632** |
| IFRS adjustments | 211 |
| **Total** | **-120 421** |

| IFRS: Net write-offs for impairment | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: Other operating income | 1 313 |
| PAP: Other operating expenses: | -2 900 |
| PAP: General expenses | 629 |
| PAP: Write-offs to specific provisions and the general risk reserve | -52 798 |
| PAP: Release of provisions and other decreases in respect of revaluation | 28 436 |
| **Total PAP** | **-25 320** |
| IFRS adjustments | -27 963 |
| **Total** | **-53 283** |

| IFRS: Income tax | 01.01.2006 - 31.12.2006 |
|---|---|
| PAP: Income tax | -24 579 |
| **Total PAP** | **-24 579** |
| IFRS adjustments | 5 604 |
| **Total** | **-18 975** |

The table below represents changes in the presentation of the balance sheet statement between the financial statements layout according to the PAP and according to the IFRS, as at 1 January 2006 and 31 December 2006:

| **IFRS: Cash and cash equivalents** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Cash and Central Bank balances | 375 763 | 231 204 |
| PAP: Due from other financial institutions | 1 752 808 | 1 042 973 |
| PAP: Other securities and other property rights | 449 | 641 |
| **Total PAP** | **2 129 020** | **1 274 818** |
| IFRS adjustments | 697 555 | 798 468 |
| **Total** | **2 826 975** | **2 073 286** |

| **IFRS: Financial assets held for trading** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Debt securities | 87 508 | 10 000 |
| PAP: Other securities and other property rights | 79 809 | 51 370 |
| **Total PAP** | **167 317** | **61 370** |
| IFRS adjustments | -20 448 | -3 158 |
| **Total** | **146 869** | **58 212** |

| **IFRS: Due from banks** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Due from other financial institutions | 199 186 | 206 443 |
| **Total PAP** | **199 186** | **206 443** |
| IFRS adjustments | -57 | -72 |
| **Total** | **199 129** | **206 371** |

| **IFRS: Loans to Customers** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Due from other financial institutions | 102 261 | 59 867 |
| PAP: Due from customers | 6 921 321 | 4 168 378 |
| PAP: Due from the budget sector | 492 | 528 |
| **Total PAP** | **7 024 074** | **4 228 773** |
| IFRS adjustments | -48 852 | -7 110 |
| **Total** | **6 975 222** | **4 221 663** |

| **IFRS: Investments** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Debt securities | 646 642 | 296 500 |
| PAP: Shares and investments in subsidiaries | 16 630 | 15 360 |
| PAP: Shares and investments in other entities | 43 | 43 |
| **Total PAP** | **663 315** | **311 903** |
| IFRS adjustments | -8 605 | 2 835 |
| **Total** | **654 710** | **314 738** |

| **IFRS: Property, Plant and Equipment** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Property, Plant and Equipment | 60 275 | 47 454 |
| PAP: Intangible fixed assets | 11 782 | 5 302 |
| **Total PAP** | **72 057** | **52 756** |
| IFRS adjustments | - | - |
| **Total** | **72 057** | **52 756** |

| **IFRS: Intangible Assets** | **31.12.2006** | **01.01.2006** |
|---|---|---|
| PAP: Intangible fixed assets | 11 882 | 9 220 |
| **Total PAP** | **11 882** | **9 220** |
| IFRS adjustments | - | - |
| **Total** | **11 882** | **9 220** |

| IFRS: Deferred tax assets | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Accruals and deferred income | 37 381 | 29 899 |
| **Total PAP** | **37 381** | **29 899** |
| IFRS adjustments | -14 096 | -14 790 |
| **Total** | **23 285** | **15 109** |

| IFRS: Other assets | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Cash and Central Bank balances | 202 | 170 |
| PAP: Due from other financial institutions | 4 635 | 1 665 |
| PAP: Due from customers | 116 272 | 125 245 |
| PAP: Due from the budget sector | 2 | 3 |
| PAP: Debt securities | 7 446 | 4 928 |
| PAP: Other securities and other property rights | 745 | 779 |
| PAP: Other assets | 14 521 | 58 828 |
| PAP: Accruals and deferred income | 6 656 | 3 103 |
| **Total PAP** | **150 479** | **194 721** |
| IFRS adjustments | -64 800 | -108 784 |
| **Total** | **85 679** | **85 937** |

| IFRS: Financial liabilities held for trading | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Other liabilities in respect of financial instruments | 81 575 | 43 625 |
| **Total PAP** | **81 575** | **43 625** |
| IFRS adjustments | -20 448 | -3 158 |
| **Total** | **61 127** | **40 467** |

| IFRS: Due to banks | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Due to the central bank | 320 000 | - |
| PAP: Due to other financial institutions | 4 069 280 | 2 015 822 |
| PAP: Other liabilities in respect of financial instruments | 94 | 271 |
| **Total PAP** | **4 389 374** | **2 016 093** |
| IFRS adjustments | 566 603 | 786 275 |
| **Total** | **4 955 977** | **2 802 368** |

| IFRS: Due to Customers | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Due to other financial institutions | 367 301 | 158 335 |
| PAP: Due to customers | 4 209 198 | 3 140 048 |
| PAP: Due to the budget sector | 33 202 | 26 011 |
| PAP: Other liabilities in respect of financial instruments | 140 | 46 |
| **Total PAP** | **4 609 841** | **3 324 440** |
| IFRS adjustments | 17 516 | 12 357 |
| **Total** | **4 627 357** | **3 336 797** |

| IFRS: Current tax liabilities | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Special funds and other liabilities | 3 963 | 19 892 |
| **Total PAP** | **3 963** | **19 892** |
| IFRS adjustments | - | - |
| **Total** | **3 963** | **19 892** |

| IFRS: Deferred tax liabilities | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Provisions | 15 794 | 10 854 |
| **Total PAP** | **15 794** | **10 854** |
| IFRS adjustments | -15 794 | -10 854 |
| **Total** | **-** | **-** |

| IFRS: Other liabilities | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Due to other financial institutions | 14 088 | 4 219 |
| PAP: Due to customers | 6 268 | 4 643 |
| PAP: Due to the budget sector | 18 | 31 |
| PAP: Other liabilities in respect of financial instruments | 5 865 | 7 997 |
| PAP: Special funds and other liabilities | 364 012 | 88 433 |
| PAP: Accruals and deferred income | 123 964 | 134 101 |
| **Total PAP** | **514 215** | **239 424** |
| IFRS adjustments | -160 596 | -108 551 |
| **Total** | **353 619** | **130 873** |

| IFRS: Provisions | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Accruals and deferred income | - | 1 157 |
| PAP: Provisions | 41 407 | 22 633 |
| **Total PAP** | **41 407** | **23 790** |
| IFRS adjustments | -29 147 | -15 280 |
| **Total** | **12 260** | **8 510** |

| IFRS: Share capital | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Share capital | 452 331 | 30 155 |
| **Total PAP** | **452 331** | **30 155** |
| IFRS adjustments | 50 804 | - |
| **Total** | **503 135** | **30 155** |

| IFRS: Additional capital | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Additional capital | 159 995 | 349 528 |
| **Total PAP** | **159 995** | **349 528** |
| IFRS adjustments | 148 819 | - |
| **Total** | **308 814** | **349 528** |

| IFRS: Other capital | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Additional capital | - | 11 |
| PAP: Other reserve capital | 74 934 | 153 834 |
| **Total PAP** | **74 934** | **153 845** |
| IFRS adjustments | **-** | **-** |
| **Total** | **74 934** | **153 845** |

| IFRS: Revaluation reserve | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Revaluation reserve | 2 506 | 1 905 |
| **Total PAP** | **2 506** | **1 905** |
| IFRS adjustments | -339 | -208 |
| **Total** | **2 167** | **1 697** |

| IFRS: Retained earnings and net profit (loss) for the year | 31.12.2006 | 01.01.2006 |
|---|---|---|
| PAP: Revaluation reserve | 506 | 510 |
| PAP: Additional capital | 4 | - |
| PAP: Retained earnings (uncovered loss) from previous years | - | 54 343 |
| PAP: Net profit | 108 266 | 101 499 |
| **Total PAP** | **108 776** | **156 352** |
| IFRS adjustments | -16 321 | 6 808 |
| **Total** | **92 455** | **163 160** |

# 10. Segment Reporting

**Information on Segments**

A segment is a distinguishable component of the Bank that is engaged either in providing products or services, which are subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10% or more of all the segments are reported separately. The Bank's reportable segments are defined using the "management approach" which are those reviewed by Management to strategically manage the Bank and make business decisions and are based on the risks and rewards of the product lines and services provided. The primary segmentation covers a breakdown by products and services.

**Primary segmentation**

The main business profile of the Bank includes financial services rendered within the following segments:

- Retail Banking
- Merchant & Private Banking
- ALM and support units (horizontal functions)

Accounting principles for specific segments are the same as the ones described in the accounting principles. Transactions between specific business segments are subject to customary commercial and market conditions. In the income statement costs are at first presented as direct costs in all business lines (except ALM) and support units (horizontal functions). In the rebilling process, costs flow from these units to business lines as well as between the business lines and between the support units. ALM doesn't generate direct costs, only accepts costs from support units (horizontal functions) in the rebilling process. This is a separate process in reporting that is presented in a separate report position (costs allocation – rebilling). As a result of the process, all costs generated by support units (horizontal functions) are absorbed by business lines. The financial result of support units (horizontal functions) at the process end is zero.

Transfer prices between segments are determined primarily to transfer interest rate risk to the Merchant & Private Banking BL or ALM, so that fixed margins can be allocated to the remaining business lines. In the case of products whose interest rate are related to market interest rates, the transfer price and margin on a transaction are fixed. For products whose interest rates are not related to market interest rates, transfer prices change every day.

Transfer prices are calculated for standard periods of product duration, based on official WIBOR, WIBID, LIBOR and EURIBOR indexes.

**Banking segments:**

- **Retail Banking**

**Retail Banking** specialises in the service of small enterprises and Private Individuals, by providing financial services for retail customers, professionals (liberal professions) and small enterprises. Moreover, the segment offers consulting on all forms of daily banking, savings, investment and lending, likewise providing retail banking services.

**Consumer Finance**, separated within the Retail Banking business line, specialises in sale and service of credit cards and cash loans for Private Individuals.

- **Merchant & Private Banking**

Within this segment the following lines exist:

**Global Markets** offers a wide range of products for corporate and institutional customers and also takes care for relations with other banks and the Bank's liquidity management.

**Commercial Banking** specialises in the service of medium and big enterprises of annual turnover exceeding PLN 25 million, focusing on clients that operate internationally, by offering them financial solutions based on standard products and banking services as well as specialist financial products.

**Private Banking** provides integrated services and solutions in terms of asset management for the most affluent Private Individuals.

- **ALM and support units (horizontal functions)**

The ALM segment plays a major role in the management of the Bank's balance sheet and off-balance sheet items; it manages risk and capital and sets out transfer and external prices. Costs of support units (horizontal functions), treasury and financial functions as well as other activity not related with the core banking activity are also included in the segment.

**Secondary segment**

The Bank runs its business in Poland as the only geographical segment, therefore all revenues earned, costs incurred and assets pertain to one geographical segment – Poland.

## Income Statement by Business Segments

| 1 Jan. 2007 – 31 Dec. 2007 (in PLN thousand) | Retail Banking | Merchant & Private Banking | ALM and support units (horizontal functions) | Total |
|---|---|---|---|---|
| Interest income (external) | 271 146 | 305 161 | 29 734 | 606 041 |
| Transfer prices expense (internal) | -185 051 | -405 262 | -38 158 | -628 471 |
| Interest expense (external) | -83 976 | -230 076 | -2 956 | -317 008 |
| Transfer prices income (internal) | 133 419 | 415 642 | 79 410 | 628 471 |
| **Net interest profit (loss)** | **135 538** | **85 465** | **68 030** | **289 033** |
| **Other transfer prices (internal)** | **-152** | **21 940** | **-21 788** | **-** |
| Commission and fee income (external) | 86 184 | 44 567 | 3 480 | 134 231 |
| Commission and fee expense (external) | -7 089 | -1 102 | -2 283 | -10 474 |
| **Net commission and fee profit (loss)** | **79 095** | **43 465** | **1 197** | **123 757** |
| Dividend and other investment income (external) | - | - | 3 400 | **3 400** |
| Net profit (loss) on transactions in held-for-trading financial instruments (external) | 66 163 | 89 798 | - | **155 961** |
| Net profit (loss) on transactions in available-for-sale financial assets (external) | - | -111 | -2 612 | **-2 723** |
| Net profit (loss) on hedging transactions (external) | - | - | -126 | **-126** |
| Other operating revenues (external) | 8 313 | 2 668 | 6 | **10 987** |
| **Total income net** | **288 957** | **243 225** | **48 107** | **580 289** |
| Personnel costs (external) | -63 934 | -44 502 | -51 762 | **-160 198** |
| Depreciation of fixed assets and intangible fixed assets* (external) | - | - | -25 257 | **-25 257** |
| Other expenses* (external) | -26 369 | -7 491 | -105 058 | **-138 918** |
| Net write-offs for impairment (external) | -27 168 | -14 148 | 7 | **-41 309** |
| Costs allocation - rebilling (internal) | -155 786 | -25 780 | 181 566 | **-** |
| **Gross profit** | **15 700** | **151 304** | **47 603** | **214 607** |
| Income tax | -4 239 | -24 807 | -7 967 | **-37 013** |
| **Net profit** | **11 461** | **126 497** | **39 636** | **177 594** |

| 1 Jan. 2006 – 31 Dec. 2006 (in PLN thousand) | Retail Banking | Merchant & Private Banking | ALM and support units (horizontal functions) | Total |
|---|---|---|---|---|
| Interest income (external) | 165 107 | 178 685 | 31 750 | 375 542 |
| Transfer prices expense (internal) | -100 292 | -227 384 | -24 870 | -352 546 |
| Interest expense (external) | -60 675 | -103 978 | -3 218 | -167 871 |
| Transfer prices income (internal) | 97 873 | 210 822 | 43 851 | 352 546 |
| **Net interest profit (loss)** | **102 013** | **58 145** | **47 513** | **207 671** |
| **Other transfer prices (internal)** | **1 765** | **13 698** | **-15 463** | **-** |
| Commission and fee income (external) | 67 311 | 37 545 | 2 758 | 107 614 |
| Commission and fee expense (external) | -6 139 | -913 | -2 509 | -9 561 |
| **Net commission and fee profit (loss)** | **61 172** | **36 632** | **249** | **98 053** |
| Net profit (loss) on transactions in held-for-trading financial instruments (external) | 47 355 | 63 448 | - | **110 803** |
| Net profit (loss) on transactions in available-for-sale financial assets (external) | - | 47 | -1 078 | **-1 031** |
| Net profit (loss) on hedging transactions (external) | - | - | 7 | **7** |
| Other operating revenues (external) | 2 916 | 2 552 | 283 | **5 751** |
| **Total income net** | **215 221** | **174 522** | **31 511** | **421 254** |
| Personnel costs (external) | -54 620 | -27 997 | -38 753 | **-121 370** |
| Depreciation of fixed assets and intangible fixed assets* (external) | -11 119 | -2 976 | -7 973 | **-22 068** |
| Other expenses* (external) | -73 383 | -17 359 | -29 679 | **-120 421** |
| Net write-offs for impairment (external) | -27 116 | -26 190 | 23 | **-53 283** |
| Costs allocation - rebilling (internal) | -69 173 | -6 824 | 75 997 | **-** |
| **Gross profit** | **-20 190** | **93 176** | **31 126** | **104 112** |
| Income tax | -967 | -13 658 | -4 350 | **-18 975** |
| **Net profit** | **-21 157** | **79 518** | **26 776** | **85 137** |

* In 2006, direct costs were recognised in segments according to entries in the general ledger, i.e. according to where they originated (by profitability codes).

In 2007, following a change in the rebilling methodology, specific cost groups (e.g. costs related to the management of the property, plant and equipment and intangible assets, depreciation) are recognised in units responsible (with respect to the content) for the level of such costs. Subsequently, the costs are transferred to where they have originated, i.e. business lines and support units (horizontal functions) through rebilling.

| Total assets (in PLN thousand) | As at: | Retail Banking | Merchant & Private Banking | ALM and support units (horizontal functions) | Total |
|---|---|---|---|---|---|
| **Assets** | **31.12.2007** | 6 327 794 | 6 854 586 | 1 028 634 | **14 211 014** |
| | **31.12.2006** | 4 069 299 | 6 108 613 | 817 896 | **10 995 808** |
| **Liabilities** | **31.12.2007** | 3 451 684 | 9 435 715 | 1 323 615 | **14 211 014** |
| | **31.12.2006** | 2 897 092 | 6 812 959 | 1 285 757 | **10 995 808** |

The table below presents non-monetary expenses other than depreciation for the reporting periods ended on 31/12/2007 and 31/12/2006. The following have been classified into the non-monetary expenses: unrealised profit/loss on financial instruments, write-downs for impairment, provisions.

| in PLN thousand | As at: | Retail Banking | Merchant & Private Banking | ALM and support units (horizontal functions) | Total |
|---|---|---|---|---|---|
| **Non-monetary costs** | **31.12.2007** | 56 968 | 204 614 | 26 060 | **287 642** |
| | **31.12.2006** | 45 915 | 83 762 | 18 004 | **147 681** |

The table below presents costs incurred to acquire tangible fixed assets and intangible fixed assets for the reporting period ended on 31/12/2007 and 31/12/2006.

| in PLN thousand | As at: | Retail Banking | Merchant & Private Banking | ALM and support units (horizontal functions) | Total |
|---|---|---|---|---|---|
| **Asset acquisition costs** | **31.12.2007** | - | - | 88 337 | **88 337** |
| | **31.12.2006** | - | - | 48 336 | **48 336** |

## Description of Segment Activity

## Retail Banking

### Customers

Retail Banking is a dynamically developing business line. As at the end of 2007, the number of active customers of this line reached 51,719. On average, the number of the line's customers increased by 14% (2007 compared to 2006). Private Individuals (69%) and enterprises (21%) prevail among the Retail Banking customers, while the remaining 10% are mass market customers acquired by the end of the first quarter 2007 within the RB dedicated line - Consumer Finance. Portfolios of that line's customers (credit cards, cash loans) continue to be maintained, however the Bank does not focus on this area any longer.

### Distribution channels

Retail Banking customers have at their disposal both a network of branches as well as alternative channels: Pl@net Internet banking system Multicash (Home Banking system) and Call Center. The RB BL develops all the above distribution channels. Out of 35 branches that service Retail Banking BL Customers, ten were opened in 2007. The Bank's statistics show that alternative distribution channels have becoming increasingly popular among Customers. When comparing data for 2007 and 2006 (YTD), the Bank recorded:
- increase in the number of Customers using the Pl@net banking system by 27%,
- increase in the number of Customers using the MultiCash banking system by 12%,
- increase in the number of transfers made via the Pl@net by 49%,
- increase in the number of transfers made via the MultiCash by 17%.

### Products

RB BL customers use a wide range of credit, deposit, investment and card products.
The following products are largely popular among Private Individuals:
- mortgage loans: 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;
- credit cards: as at the end of 2007, the number of credit cards for Private Individuals and mass market Customers stood at 10,158 while the balance of card credits increased by 135% (the average of 2007 as compared to the average of 2006);
- investment type products: e.g. foreign investment funds like L-FIX and L-Funds managed by Fortis Investments or Fortis FIO investment portfolios managed by Fortis Private Investments Polska S.A.; their balance (PLN 0.6 billion as at the end of the fourth quarter of 2007) increased by 113% over the balance noted as at the end of the fourth quarter of 2006.

The following products are largely popular among Enterprises:
- investment loans: as at the end of 2007, the balance of such loans reached PLN 1.9 billion, which means an increase by 57% as compared to the end of 2006;
- currency exchange instruments: the number of table-based and negotiated transactions in 2007 increased by

23% as compared to 2006, and the average monthly volume of such transactions oscillates around PLN 1.5 billion.

**Results**

The growing interest of Retail Banking Customers in the Bank's products is reflected in the Bank's income statement as this line's net revenues increased by 34% in 2007 as compared to 2006 (YTD). This increase was generated thanks to:

- net income on held-for-trading financial instruments higher by 40%, which was attributable both to the net FX income (growth by 22%) and the net income on derivative instruments (insignificant in 2006, and in 2007 amounting to approx. PLN 9 million);
- net interest profit higher by 33%.
- net commission and fee profit higher by 29%,

The Retail Banking intensive development also resulted in costs increase. Personnel costs grew by 17%. The increase was however mainly due to the growth in FTEs (in periods analysed by 28% on average). The "costs allocation (rebilling)" item is the net value of business line costs allocated and transferred from Retail Banking to other units. The increase of the costs by 125% in 2007 as compared to 2006 (YTD) was affected by the change of a methodology of defining the bank's units' direct costs (details are specified below in the part regarding ALM and support units [horizontal functions]). Having disregarded the costs related to the changed methodology, the increase of costs transferred amounted to 40% and resulted from the growth of customers' activity and the increase in products and services sold. The support units (horizontal functions) involved in the service of such products and services, transferred to business lines costs proportional to the increasing production.

## Merchant & Private Banking

**Customers**

As at the end of 2007, the number of active customers of this line reached 2,496. On average, the number of the line's customers increased by 28% (2007 compared to 2006). Large and medium enterprises that form the Commercial Banking Business Line (CB BL), have the biggest share (93%) in the number of Merchant & Private Banking customers. The Private Banking line was separated in 2006.

**Distribution channels**

M&PB customers have at their disposal both a network of Business Centres (8), which are part of the international Fortis Bank network including about 125 centres in 20 countries, as well as alternative channels: Multicash, Pl@net systems and Call Centre. As statistics show, these channels are more and more willingly used by the customers.

When comparing data for 2007 and 2006 (YTD), the Bank recorded:

- increase in the number of Customers using the MultiCash home-banking system - by 27% (the system is installed by 66% of CB BL institutional customers),
- increase in the number of transfers made via the MultiCash by 21%.

**Products**

M&PB Customers use a wide range of credit and deposit products, financing international commercial transactions or performing transactions on international financial markets.

Products offered by the Bank to institutional customers include:

- investment loans (including loans to purchase / construction of commercial real properties): as at the end of 2007, the balance of such loans exceeded PLN 2.7 billion, which means an increase by 72% as compared to the balance recorded at the end of 2006;
- working capital loans: as at the end of 2007, the balance of such loans reached PLN 1.4 billion, which means an increase by 39% as compared to the end of 2006;
- overdraft facilities: as at the end of 2007, the balance of such loans reached PLN 1.3 billion, which means an increase by 75% as compared to the end of 2006;
- deposits: as at the end of 2007, the total balance of deposits reached PLN 2.9 billion, which means an increase by 56% as compared to the end of 2006;
- currency exchange instruments: the number of negotiated and table-based transactions in 2007 reached 51,000, and the average monthly volume of such transactions oscillates around PLN 1.6 billion.

Private Banking customers gathered approx. PLN 502 million in 2007 (deposits and investment type products).

The range of products offered has expanded. In 2007, the Bank has added the following to its offering: energy derivatives and cash collection. Changes in the organisational structure have continued to provide a better and more precise service of institutional customers. To this end, a Cash Management Group has been established to deal with specialised settlement products such as Notional Cash Pooling or Cash Collection.

**Results**

The constantly developing base of Merchant & Private Banking customers and growing interest in the Bank's products is reflected in the Bank's income statement as this line's net revenues increased by 39% in 2007 as compared to 2006. This increase was generated thanks to:

- net profit on transactions in held-for-trading financial instruments higher by 42%, including e.g. net FX income (increase by 34%),
- net interest profit higher by 47%.
- net commission and fee profit higher by 19%,

The Merchant & Private Banking intensive development also resulted in costs increase. Personnel costs increased by 59%. It mainly resulted from the increased employment (by 34%) and adjustment of the remuneration policy to the present situation on the labour market. Moreover, within the presented segment, a new specialised business line (Private Banking) and the back-office units processing credit transactions have dynamically developed. Costs allocation (rebilling) position is the net value of business line costs allocated and transferred from M&PB line to other units. The increase of the costs by 278% in 2007 as compared to 2006 was affected by the change of a methodology of defining the bank's units' direct costs (details are specified below in the part regarding ALM and support units [horizontal functions]). The other factor affecting the increase of costs transferred was the growth of Customers' activity and the increase in products and services sold – support units engaged in the process of servicing these products and services transferred to business lines costs proportional to the increasing production.

## ALM and support units (horizontal functions)

**Results**

On one hand, the ALM segment presents the results of interest rate and liquidity risk management (net profit on the activity increased by 53%), and on the other hand, costs of support units reflecting the Bank's development.
In 2007, the Bank implemented a new methodology of costs allocation, in accordance with the methodology applied in the Fortis Group. This methodology introduces a new definition of the unit's direct costs i.e. the cost that is in the area of a given unit's responsibility is treated as a direct cost of a given unit. In accordance with this methodology, costs of depreciation, rent and training are reported as a direct cost of appropriate support units responsible for this cost. Finally, the costs are allocated to business units, in a proportion appropriate to the support rendered to a given business line, increasing the unit's allocation costs. According to the methodology applied in 2006, costs of this type were other (direct) costs of business lines.

# 11. Additional Notes to Income Statement

Below there is detailed information on revenues and expenses of the Bank in the year ended on 31 December 2007 and comparative data for the year ended on 31 December 2006.

Note 11.1

| **Interest income (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Cash and cash equivalents | 24 207 | 22 052 |
| Due from banks | 21 023 | 13 862 |
| Investments | 22 972 | 25 014 |
| Loans to Customers | 530 974 | 312 073 |
| Securities | 6 865 | 2 541 |
| **Total interest income** | **606 041** | **375 542** |

Interest income include interest accrued on non-performing loans of PLN 13,331 thousand for the year ended on 31/12/2007, and of PLN 8,440 for the year ended on 31/12/2006.

Note 11.2

| **Interest expense (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Due to banks | -157 942 | -79 098 |
| Due to Customers | -149 777 | -84 968 |
| Subordinated liabilities | -5 437 | - |
| Derivative hedging instruments | -2 932 | -3 204 |
| Others | -920 | -601 |
| **Total interest expense** | **-317 008** | **-167 871** |

Note 11.3

| **Commission and fee income (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Custody services and securities trading | 3 043 | 2 314 |
| Cash settlements services | 53 082 | 47 611 |
| Guarantees and contingent liabilities | 14 852 | 11 259 |
| Commissions related to granting credit facilities (amortised using the straight-line method) | 20 122 | 17 325 |
| Commissions related to granting credit facilities (incurred one time) | 6 173 | 4 337 |
| Income on account of agency in customer acquisition | 10 050 | 2 307 |
| Card transactions income | 17 009 | 11 938 |
| Others | 9 900 | 10 523 |
| **Total commission and fee income** | **134 231** | **107 614** |

Note 11.4

| **Commission and fee expense (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Custody services and securities trading | -680 | -687 |
| Card related expenses | -4 357 | -3 718 |
| Cash transactions expenses | -3 062 | -2 543 |
| Settlements | -1 431 | -1 274 |
| Others | -944 | -1 339 |
| **Total commission and fee expenses** | **-10 474** | **-9 561** |

Net commission and fee profit (loss) includes:

- commission and fee income of PLN 29,335 thousand for the year ended 31 December 2007, and PLN 23,136 thousand for the year ended 31 December 2006;
- commission and fee expense of PLN 1,310 thousand for the year ended 31 December 2007, and PLN 1,855 thousand for the year ended 31 December 2006;

(other than the ones covered by the effective interest rate calculation), which refer to assets and liabilities not measured at fair value through profit or loss.

Note 11.5

| **Dividend and other investment income (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Dividend income from the subsidiary | 3 400 | - |
| **Total dividends and other investment income** | **3 400** | **-** |

Note 11.6

| **Net profit (loss) on transactions in held-for-trading financial instruments (in PLN thousand)** | **01.01.2007 – 31.12.2007** | **01.01.2006 – 31.12.2006** |
|---|---|---|
| Securities | -2 142 | 463 |
| Derivative instruments | 28 291 | 6 450 |
| Foreign exchange transactions | 129 812 | 103 890 |
| **Total net profit (loss) on transactions in held-for-trading financial instruments** | **155 961** | **110 803** |

Securities held for trading are acquired mainly for the purpose of generating profits on short-term price or trader's margin fluctuations; they are initially recognised at acquisition price. In this item, realised and unrealised changes of fair value of held-for-trading financial instruments are recognised.

Derivative instruments held for trading are all the derivative instruments that do not qualify for hedge accounting. In this item, all the changes to fair value regarding such instruments are recognised.

Note 11.7

| **Net profit (loss) on transactions in available-for-sale financial assets (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Securities | -2 723 | -1 031 |
| **Total net profit (loss) on transactions in available-for-sale financial assets** | **-2 723** | **-1 031** |

Note 11.8

| **Net profit (loss) on hedging transactions (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Change to fair value of hedged instruments | -4 306 | -2 131 |
| Change to fair value of hedging instruments | 4 180 | 2 138 |
| **Total net profit (loss) on hedging transactions** | **-126** | **7** |

Note 11.9

| **Other income (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| - consulting as regards software | 4 455 | 333 |
| - rental and lease income | 2 648 | 1 331 |
| - income on account of providing financial services | 1 640 | 1 760 |
| - compensation, penalties and fines | 527 | 213 |
| - profit earned the sale and liquidation of fixed assets | 43 | - |
| - other | 1 674 | 2 114 |
| **Total other income** | **10 987** | **5 751** |

Note 11.10

| Personnel costs (in PLN thousand) | 1.01.2007 – 31.12.2007 | 1.01.2006 – 31.12.2006 |
|---|---|---|
| - remuneration | -129 699 | -92 758 |
| - surcharges on remuneration | -18 801 | -13 760 |
| - provisions on severance pay related to retirement, unused vacation leaves and other employee benefits | -11 698 | -14 852 |
| **Total personnel costs** | **-160 198** | **-121 370** |

Note 11.11

| Depreciation of fixed assets and intangible fixed assets (in PLN thousand) | 1.01.2007 – 31.12.2007 | 1.01.2006 – 31.12.2006 |
|---|---|---|
| Fixed assets, including: | -20 128 | -20 725 |
| - leasehold improvements | -6 599 | -6 736 |
| - computer hardware | -8 980 | -10 247 |
| - other fixed assets | -4 549 | -3 742 |
| Intangible Assets | -5 129 | -1 343 |
| **Total depreciation of fixed assets and intangible fixed assets** | **-25 257** | **-22 068** |

Note 11.12

| Other expenses (in PLN thousand) | 1.01.2007 – 31.12.2007 | 1.01.2006 – 31.12.2006 |
|---|---|---|
| - rents | -23 551 | -19 930 |
| - information technologies and systems | -18 918 | -14 919 |
| -marketing and advertising | -17 528 | -28 704 |
| - expenditure related to RE use | -13 714 | -7 225 |
| - postal and telecommunication services | -10 194 | -10 164 |
| - advisory services and consulting | -7 670 | -5 157 |
| - business travels | -7 931 | -4 883 |
| - training | -6 996 | -5 508 |
| - municipal services: | -6 178 | -4 041 |
| - security | -4 388 | -3 746 |
| - stationery | -3 063 | -1 974 |
| - Banking Guarantee Fund costs | -1 953 | -1 200 |
| - compensation, penalties and fines | -463 | -433 |
| - other | -16 371 | -12 537 |
| **Total other costs** | **-138 918** | **-120 421** |

The above note presents general expenses and operating costs.

Note 11.13

| Net write-offs for impairment (in PLN thousand) | 1.01.2007 – 31.12.2007 | 1.01.2006 – 31.12.2006 |
|---|---|---|
| Net cash and cash equivalents, including: | -150 | 21 |
| - write-offs for Incurred But Not Reported losses (IBNR) | -150 | 21 |
| Due from banks, net, including: | -20 | 14 |
| - write-offs for Incurred But Not Reported losses (IBNR) | -20 | 14 |
| Loans to customers, net, including: | -37 953 | -50 291 |
| - write-offs for credit receivables | -23 482 | -39 557 |
| - write-offs for Incurred But Not Reported losses (IBNR) | -16 111 | -10 734 |
| - income on account of receivables written-off, | 1 640 | 841 |
| Off-balance sheet liabilities, net, including: | -3 833 | -1 972 |
| - provisions for off-balance sheet commitments | -4 186 | 1 086 |
| - write-offs for Incurred But Not Reported losses (IBNR) | 353 | -3 058 |

| | | |
|---|---|---|
| Other assets, net | 538 | -98 |
| Other provisions, net | 109 | -1 798 |
| **Total write-offs for impairment, net** | **-41 309** | **-53 283** |

The major components of the income tax expense:

Note 11.14.1

| **Income tax (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Current tax | -47 988 | -27 261 |
| Current tax for the previous year | 1 557 | - |
| Deferred tax | 9 418 | 8 286 |
| **Total income tax** | **-37 013** | **-18 975** |

Current tax for the previous year recognised in the current year's profit or loss results from items that under the Corporate Income Tax are income tax expenses of 2006 and were reported in the income tax return for 2007. In the current year, such items are considered non-tax-deductible expenses.

Actual income tax expenses as at 31 December 2007 and for comparative data as at 31 December 2006 differ from the estimate computed using the binding tax rate due to the following factors:

Note 11.14.2

| **Effective tax rate reconciliation (in PLN thousand)** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Gross profit | 214 607 | 104 112 |
| Binding tax rate in % | 19% | 19% |
| Tax computed at the rate | -40 775 | -19 781 |
| Tax increases / decreases on account of: | | |
| Tax effects of tax-free accounting revenues: | 2 588 | 1 850 |
| - tax-exempt interest | 1 850 | 1 850 |
| - non-taxable dividends from subsidiaries | 646 | - |
| - other | 92 | - |
| Tax effects of not tax-deductible accounting costs | -1 468 | -1 913 |
| Tax effect of recognition of previous year costs | 568 | - |
| Others | 2 074 | 869 |
| Total tax increases / decreases | 3 762 | 806 |
| **Total effective tax rate reconciliation** | **-37 013** | **-18 975** |

Note 11.15

| **Earnings per Share** | **1.01.2007 – 31.12.2007** | **1.01.2006 – 31.12.2006** |
|---|---|---|
| Number of shares as at 31 December | 16 771 180 | 16 771 180 |
| Weighted average number of ordinary shares | 16 771 180 | 16 771 180 |
| Net profit of the period (annualised) in PLN thousand | 177 594 | 85 137 |
| EPS ratio in PLN | 10,59 | 5,08 |
| Weighted average diluted number of potential ordinary shares | 16 771 180 | 16 771 180 |
| **Diluted EPS ratio (PLN per share)** | 10,59 | 5,08 |

The basic earnings per share are computed as a quotient of the profit attributable to the Bank's shareholders and a weighted average number of ordinary shares during the period.
The diluted earnings per share are computed as a quotient of the profit attributable to the Bank's shareholders and a weighted average number of ordinary shares adjusted to take into consideration the impact of all potential ordinary shares that cause the EPS dilution.
As at the reporting date, there occurred no factors resulting in the dilution of potential ordinary shares.

# 12. Cash and Cash Equivalents

Note 12.1

| **Cash and cash equivalents (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Cash at hand | 543 343 | 299 142 |
| Due from the Central Bank | 17 153 | 76 620 |
| Short-term due from banks, including: | 1 006 442 | 2 433 752 |
| -nostro accounts | 97 | 2 223 |
| - short-term deposits from banks | 150 516 | 1 864 588 |
| -other short-term receivables | 855 829 | 566 941 |
| Short-term loans to customers | 23 841 | 17 627 |
| **Cash and cash equivalents, gross** | **1 590 779** | **2 827 141** |
| **Write-offs for impairment** | **-316** | **-166** |
| - for Incurred But Not Reported losses (IBNR) | -316 | -166 |
| **Total cash and cash equivalents, net** | **1 590 463** | **2 826 975** |

Note 12.2

| **Write-offs for impairment (in PLN thousand)** | **2007** | | **2006** | |
|---|---|---|---|---|
| | **Write-off for impairment** | **(IBNR)** | **Write-off for impairment** | **(IBNR)** |
| **As at 1 January** | **-** | **-166** | **-** | **-187** |
| Increases | - | -446 | - | -133 |
| Decreases | - | 296 | - | 154 |
| **As at 31 December** | **-** | **-316** | **-** | **-166** |

The item "Due from the Central Bank" includes the balance on the nostro account and overnight deposits at the National Bank of Poland (NBP). At the nostro account with the NBP, funds that constitute the mandatory reserve are kept, computed on the basis of the arithmetic mean of daily balances on current and term accounts for a given month.

The average balance of the mandatory reserve declared at the end of 2007 stood at PLN 257,516 thousand, while at the end of 2006, it made up PLN 143,288 thousand.

# 13. Financial Assets and Liabilities Held for Trading

Note 13.1

| Financial assets held for trading (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Held-for-trading securities, including:** | **48 241** | **87 508** |
| - treasury bonds | 33 309 | 87 508 |
| - treasury bills | 14 932 | - |
| **Derivative financial instruments, including:** | **205 060** | **59 361** |
| - foreign currency contracts | 160 130 | 44 419 |
| - interest rate contracts | 44 930 | 14 942 |
| **Total financial assets held for trading** | **253 301** | **146 869** |

As at 31 December 2007 and 31 December 2006, in the Bank's balance sheet there were no buy-sell-back repo securities held for trading.

Note 13.2

| Financial liabilities held for trading (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Derivative financial instruments, including:** | **201 381** | **61 127** |
| - foreign currency contracts | 157 620 | 46 152 |
| - interest rate contracts | 43 761 | 14 975 |
| **Total financial liabilities held for trading** | **201 381** | **61 127** |

The table below presents fair values of derivative financial instruments.

Note 13.3

| Derivative financial instruments held for trading (in PLN thousand) | 31.12.2007 | | 31.12.2006 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Foreign currency contracts: | 160 130 | 157 620 | 44 419 | 46 152 |
| - Forward (including the forward leg of a swap contract) | 91 183 | 88 675 | 28 639 | 30 372 |
| - Options | 68 947 | 68 945 | 15 780 | 15 780 |
| Interest Rate contracts: | 44 930 | 43 761 | 14 942 | 14 975 |
| - FRA | 947 | 982 | 985 | 671 |
| - IRS | 40 097 | 38 893 | 13 429 | 13 776 |
| - Options | 3 886 | 3 886 | 528 | 528 |
| **Total derivative financial instruments held for trading** | **205 060** | **201 381** | **59 361** | **61 127** |

The table below shows nominal values of held-for-trading derivative instruments recognised on off-balance sheet accounts:

Note 13.4

| Held-for-trading derivative instruments by nominal value (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **a) FX transactions** | **18 801 332** | **6 895 890** |
| - Forward (including the forward leg of a swap contract) – amounts purchased | 4 972 872 | 2 239 122 |
| - Forward (including the forward leg of a swap contract) – amounts sold | 4 970 143 | 2 239 998 |
| - Options - amounts purchased | 4 413 435 | 1 208 385 |
| - Options - amounts sold | 4 444 882 | 1 208 385 |
| **b) interest rate transactions** | **13 138 451** | **23 574 716** |
| - FRA | 1 426 947 | 2 500 000 |
| - IRS - amounts purchased | 5 493 356 | 10 430 420 |
| - IRS - amounts sold | 5 493 356 | 10 430 420 |
| - Options - amounts purchased | 362 396 | 106 938 |
| - Options - amounts sold | 362 396 | 106 938 |
| **Total financial instruments** | **31 939 783** | **30 470 606** |

# 14. Receivables

Note 14.1

| **Due from banks (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Loans/Credits | 74 999 | 20 000 |
| Debt securities not traded on an active market | 150 639 | 155 295 |
| Other receivables | 2 964 | 23 891 |
| **Total due from banks, gross** | **228 602** | **199 186** |
| **Write-downs for impairment** | **-77** | **-57** |
| - for Incurred But Not Reported losses (IBNR) | -77 | -57 |
| **Total net due from banks** | **228 525** | **199 129** |

Note 14.2

| **Loans to Customers (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Loans to budgetary entities | 454 | 492 |
| Mortgage loans | 2 660 307 | 1 573 712 |
| Consumer loans and credit facilities | 489 765 | 220 129 |
| Commercial loans | 8 215 694 | 5 351 146 |
| Other receivables | 215 | 1 299 |
| **Total loans to customers, gross** | **11 366 435** | **7 146 778** |
| **Write-downs for impairment** | **-194 409** | **-171 556** |
| - for incurred, reported losses | -145 351 | -138 609 |
| - for Incurred But Not Reported losses (IBNR) | -49 058 | -32 947 |
| **Total net loans to customers** | **11 172 026** | **6 975 222** |

Note 14.3

| **Write-offs for impairment (in PLN thousand)** | **Due from banks** | **Loans to Customers** | |
|---|---|---|---|
| | **Write-offs for Incurred But Not Reported losses (IBNR)** | **Write-off for impairment** | **Write-offs for Incurred But Not Reported losses (IBNR)** |
| **Balance as at 1 January 2006** | **-71** | **-140 529** | **-22 213** |
| Increases | -11 | -67 554 | -14 489 |
| Decreases | 25 | 27 997 | 3 755 |
| Write-downs to provisions | - | 39 466 | - |
| FX rate differences | - | 2 011 | - |
| **Balance as at 31 December 2006** | **-57** | **-138 609** | **-32 947** |
| | | | |
| **Balance as at 1 January 2007** | **-57** | **-138 609** | **-32 947** |
| Increases | -62 | -64 838 | -16 598 |
| Decreases | 42 | 41 357 | 487 |
| Write-downs to provisions | - | 12 992 | - |
| FX rate differences | - | 3 747 | - |
| **Balance as at 31 December 2007** | **-77** | **-145 351** | **-49 058** |

# 15. Investments - Available for Sale

Note 15.1

| Investments Available for Sale at fair value (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Treasury bonds | 464 186 | 606 496 |
| Treasury bills | 95 835 | 4 997 |
| NBP Bonds | 24 979 | 24 979 |
| Shares | 18 235 | 18 238 |
| **Total investments available for sale** | **603 235** | **654 710** |

The Bank holds 100% of the share capital and 100% of total votes at the General Meeting of the Bank's subsidiary Fortis Private Investments Polska S.A. (FPIP). FPIP, the subsidiary, runs brokerage activity in Poland and has been controlled by the Bank since 23 December 1999. FPIP is measured at the acquisition cost including write-downs for impairment. The value of shares at the acquisition price is PLN 18,196 thousand.
The note below presents selected data of the subsidiary regarding receivables, liabilities, capital and financial performance, reviewed by statutory auditors.

Note 15.2

| in PLN thousand | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | 21 602 | 13 936 |
| Loans to Customers | 1 151 | 584 |
| **Total assets** | **23 740** | **18 210** |
| **LIABILITIES** | | |
| Due to banks | 3 162 | - |
| Due to Customers | 1 | 651 |
| **Total liabilities** | **4 083** | **1 304** |
| **EQUITY CAPITAL** | | |
| Share capital | 9 048 | 9 048 |
| Additional capital | 5 528 | 5 164 |
| Other capital, including: | 4 325 | 2 369 |
| - net profit (loss) for the year | 6 136 | 1 071 |
| **Total equity** | **18 901** | **16 581** |
| **Total liabilities and equity** | **23 740** | **18 210** |
| **Sales revenues** | **21 617** | **5 856** |

Note 15.3

| Shares in other units at balance sheet value (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| S.W.I.F.T. s.c. | 40 | 43 |
| **Total shares in other units at balance sheet value** | **40** | **43** |

Note 15.4

| Change in the balance of available for sale investments (in PLN thousand) | Debt securities | Shares | Total |
|---|---|---|---|
| **Balance as at 1 January 2007** | **636 472** | **18 238** | **654 710** |
| Increases | 670 964 | - | 670 964 |
| Decreases (sale and maturity) | -703 053 | - | -703 053 |
| Measurement to fair value | -6 857 | - | -6 857 |
| Other (including FX differences) | -12 526 | -3 | -12 529 |
| **Balance as at 31 December 2007** | **585 000** | **18 235** | **603 235** |

| Change in the balance of available for sale investments (in PLN thousand) | Debt securities | Shares | Total |
|---|---|---|---|
| **Balance as at 1 January 2006** | **296 500** | **18 238** | **314 738** |
| Increases | 694 759 | - | 694 759 |
| Decreases (sale and maturity) | -354 162 | - | -354 162 |
| Measurement to fair value | 771 | - | 771 |
| Other (including FX differences) | - 1 396 | - | -1 396 |
| **Balance as at 31 December 2006** | **636 472** | **18 238** | **654 710** |

The table below presents profits and losses on available-for-sale investments which in the given period were recognised directly in the equity and then were derecognised from the equity and recognised in the net profit/loss of the given period from 1 January 2007 to 31 December 2007 and for the period from 1 January 2006 to 31 December 2006.

Note 15.5

| Investments Available for Sale (in PLN thousand) | 1.01.2007 - 31.12.2007 | 1.01.2006 - 31.12.2006 |
|---|---|---|
| Profits recognised directly in the equity and then derecognised from the equity and recognised in the net profit/loss | 1 828 | 220 |
| Losses recognised directly in the equity and then derecognised from the equity and recognised in the net profit/loss | -2 531 | -29 |
| **Total** | **-703** | **191** |

# 16. Property, Plant and Equipment

Note 16.1

| Property, Plant and Equipment by groups (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| investments in non-company fixed assets: | 42 511 | 29 142 |
| Machines and equipment and means of transport: | 23 147 | 17 894 |
| Computer hardware | 48 158 | 25 021 |
| **Total Property, Plant and Equipment** | **113 816** | **72 057** |

The table below presents changes in tangible fixed assets in 2007, and comparative data for 2006.
Note 16.2

| in PLN thousand | investments in non-company fixed assets: | Machines and equipment and means of transport: | Computer hardware | Total |
|---|---|---|---|---|
| **Gross value as at 01.01.07** | **64 085** | **31 306** | **112 625** | **208 016** |
| - increase (incl. purchase) | 23 386 | 15 272 | 32 626 | 71 284 |
| - balance decrease (sale, liquidation) | -3 712 | -2 050 | -21 984 | -27 746 |
| - other | -351 | -5 003 | -1 406 | -6 760 |
| **Gross value as at 31.12.07** | **83 408** | **39 525** | **121 861** | **244 794** |
| **Depreciation as at 01.01.07** | **-34 943** | **-13 412** | **-87 604** | **-135 959** |
| - depreciation | -6 599 | -4 549 | -8 980 | -20 128 |
| - balance decrease (sale, liquidation) | 645 | 1 491 | 21 938 | 24 074 |
| - other | - | 92 | 943 | 1 035 |
| **Depreciation as at 31.12.07** | **-40 897** | **-16 378** | **-73 703** | **-130 978** |
| **Fixed assets net as at 31.12.07** | **42 511** | **23 147** | **48 158** | **113 816** |

| in PLN thousand | investments in non-company fixed assets: | Machines and equipment and means of transport: | Computer hardware | Total |
|---|---|---|---|---|
| **Gross value as at 01.01.06** | **56 075** | **25 549** | **96 112** | **177 736** |
| - increase (incl. purchase) | 11 298 | 12 926 | 20 725 | 44 949 |
| - balance decrease (sale, liquidation) | -2 894 | -5 737 | -3 101 | -11 732 |
| - other | -394 | -1 432 | -1 111 | - 2 937 |
| **Gross value as at 31.12.06** | **64 085** | **31 306** | **112 625** | **208 016** |
| **Depreciation as at 01.01.06** | **-30 297** | **-13 153** | **-81 530** | **-124 980** |
| - depreciation | -6 736 | -3 742 | -10 247 | - 20 725 |
| - balance decrease (sale, liquidation) | 2 090 | 3 465 | 3 069 | 8 624 |
| - other | - | 18 | 1 104 | 1 122 |
| **Depreciation as at 31.12.06** | **-34 943** | **-13 412** | **-87 604** | **-135 959** |
| **Fixed assets net as at 31.12.06** | **29 142** | **17 894** | **25 021** | **72 057** |

The Bank does not own any land or buildings kept for its own use.

The Bank has not entered into any financial lease agreements.

Property, plant and equipment held by the Bank are neither restricted nor pledged as security for liabilities.

# 17. Intangible Assets

Intangible assets include system software and licenses for such software.

The table below presents a statement of changes in intangible assets.

Note 17

| **Intangible Assets (in PLN thousand)** | **1.01.2007 - 31.12.2007** | **1.01.2006 - 31.12.2006** |
|---|---|---|
| **Gross value opening balance** | **17 171** | **13 381** |
| - balance increase (incl. purchase) | 16 439 | 4 262 |
| - liquidation | -52 | -429 |
| - other | -905 | -43 |
| **Ending balance gross** | **32 653** | **17 171** |
| | | |
| **Depreciation opening balance** | **-5 289** | **-4 161** |
| - depreciation costs | -5 129 | -1 343 |
| - balance decrease (sale and liquidation) | 52 | 215 |
| **Depreciation ending balance** | **-10 366** | **- 5 289** |
| | | |
| **Total intangible assets net Ending balance** | **22 287** | **11 882** |

Intangible assets held by the Bank are neither restricted nor pledged as security for liabilities.

# 18. Deferred Tax Assets and Liabilities

The table below presents deferred tax assets and liabilities as at 31 December 2007 and comparative data as at 31 December 2006.

Note 18.1

| in PLN thousand | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Deferred tax assets | 57 369 | 34 013 |
| Deferred tax reserve | 23 496 | 10 728 |
| **Net deferred tax** | **33 873** | **23 285** |

Deferred tax is computed on all temporary differences using the balance sheet liability method at nominal tax rates which will be binding at the date of reversal of such differences.

Note 18.2

| Deferred tax assets (in PLN thousand) | Opening balance 01.01.07 | Increases / decreases recognised in income statement | Increases/ decreases recognised in capital | Closing balance 31.12.07 |
|---|---|---|---|---|
| Interest accrued to be paid | 3 922 | 4 297 | - | 8 219 |
| Negative fair value – trading derivatives | 310 | -197 | - | 113 |
| Negative fair value - hedged and hedging items | 25 | 56 | - | 81 |
| Write-offs for impairment and provisions | 15 935 | 6 606 | - | 22 541 |
| Other non-tax-deductible provisions | 5 700 | 2 795 | - | 8 495 |
| Measurement of held-for-trading securities | 3 272 | 10 337 | - | 13 609 |
| Measurement of available-for-sale investments | - | - | 661 | 661 |
| Commissions and fees settled in time | 4 460 | -981 | - | 3 479 |
| Others | 389 | -218 | - | 171 |
| **Total deferred tax assets** | **34 013** | **22 695** | **661** | **57 369** |
| | | | | |
| **Deferred tax liabilities in PLN thousand** | | | | |
| Interest accrued to be received | 9 132 | 3 942 | - | 13 074 |
| Positive fair value - trading derivatives | 175 | 178 | - | 353 |
| Difference between balance sheet depreciation and tax depreciation | 286 | 2 739 | - | 3 025 |
| Investment relief settlement | 31 | -25 | - | 6 |
| Measurement of held-for-trading securities | 584 | 6 323 | - | 6 907 |
| Measurement of available-for-sale investments | 509 | - | -509 | - |
| Others | 11 | 120 | - | 131 |
| **Total deferred tax liabilities** | **10 728** | **13 277** | **-509** | **23 496** |
| | | | | |
| **Net deferred tax** | **23 285** | **9 418** | **1 170** | **33 873** |

| Deferred tax assets (in PLN thousand) | Opening balance 01.01.06 | Increases / decreases recognised in income statement | Increases/ decreases recognised in capital | Closing balance 31.12.06 |
|---|---|---|---|---|
| Interest accrued to be paid | 1 845 | 2 077 | - | 3 922 |
| Negative fair value – trading derivatives | - | 310 | - | 310 |
| Negative fair value - hedged and hedging | 26 | -1 | - | 25 |

| | | | | |
|---|---|---|---|---|
| items | | | | |
| Write-offs for impairment and provisions | 11 058 | 4 877 | - | 15 935 |
| Other non-tax-deductible provisions | 3 410 | 2 290 | - | 5 700 |
| Measurement of held-for-trading securities | 3 797 | -525 | - | 3 272 |
| Commissions and fees settled in time | 4 200 | 260 | - | 4 460 |
| Others | 35 | 354 | - | 389 |
| **Total deferred tax assets** | **24 371** | **9 642** | **-** | **34 013** |
| | | | | |
| **Deferred tax liabilities in PLN thousand** | | | | |
| Interest accrued to be received | 6 254 | 2 878 | - | 9 132 |
| Positive fair value - trading derivatives | 31 | 144 | - | 175 |
| Difference between balance sheet depreciation and tax depreciation | 234 | 52 | - | 286 |
| Investment relief settlement | 492 | -461 | - | 31 |
| Measurement of held-for-trading securities | 436 | 148 | - | 584 |
| Measurement of available-for-sale investments | 399 | - | 110 | 509 |
| Others | 1 415 | -1 404 | - | 11 |
| **Total deferred tax liabilities** | **9 261** | **1 357** | **110** | **10 728** |
| | | | | |
| **Net deferred tax** | **15 110** | **8 285** | **-110** | **23 285** |

The change in net deferred tax does not equal the deferred tax expense because deferred taxes on unrealised gains and losses on available for sale financial assets is recognised directly in the revaluation reserve.

As at 31 December 2007, the total current and deferred tax liabilities related to items decreasing or increasing the equity stood at PLN 1,170 thousand while as at 31 December 2006 it was PLN (110) thousand.

# 19. Other assets

Note 19

| Other assets (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Deferred acquisition cost | 2 540 | 4 865 |
| Interest to be received, including: | 69 714 | 37 970 |
| - on cash and cash equivalents | 41 | 2 103 |
| - on due from banks | 1 623 | 1 122 |
| - on loans to customers | 51 964 | 27 299 |
| - on debt securities held for trading | 1 143 | 1 164 |
| - on debt securities available for sale | 14 943 | 6 282 |
| Financial assets recognised at the trade date | 97 400 | 20 337 |
| Interbank settlements | 1 559 | 805 |
| Income to be received | 5 200 | 1 792 |
| Receivables due form counterparties | 9 680 | 3 925 |
| Others | 8 881 | 18 002 |
| **Total other assets** | **194 974** | **87 696** |
| Write-offs for impairment | -1 486 | -2 017 |
| **Total other assets, net** | **193 488** | **85 679** |

# 20. Liabilities

Note 20.1

| Due to banks (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Due to the central bank** | **-** | **320 000** |
| **Banks' deposits** | **1 373 528** | **1 478 163** |
| -Current | 103 769 | 87 199 |
| - Term | 856 300 | 1 209 771 |
| - Cash collateral | 316 059 | 181 193 |
| - Other deposits | 97 400 | - |
| **Loans and credit facilities received** | **3 666 796** | **2 591 117** |
| **Others** | **855 221** | **566 697** |
| **Total due to banks** | **5 895 545** | **4 955 977** |

Note 20.2

| Due to Customers (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Current deposits | 1 425 475 | 1 076 486 |
| Term deposits | 4 597 824 | 3 296 996 |
| Cash collateral | 260 334 | 236 219 |
| Others | 23 795 | 17 656 |
| **Total due to customers** | **6 307 428** | **4 627 357** |

## 21. Subordinated Liabilities

On 28 September 2007, the Bank 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. The loan was granted for the period ending on 28 September 2017. Interest rate: EURIBOR 3M plus a margin of 1% p.a. The agreement meets the criteria of a significant agreement, because the value of the agreement subject, at NBP rate at the end of December 2007, constitutes 31% of the value of the Bank's equity capital that equalled PLN 1,154 million as at the end of December 2007.

On 23 October 2007, the Bank 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. The loan was granted for the period ending on 28 September 2017. Interest rate was determined 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 consent of the Banking Supervision Commission to include the loan as subordinated debt into Tier 2 capital of the Bank, pursuant to Article 127 of the Banking Law in order to take it into account in the capital adequacy ratio calculation.

# 22. Other Liabilities

Note 22

| **Other liabilities (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Accrued interest and expenses | 14 042 | 12 819 |
| Interest to be paid, including: | 41 434 | 18 876 |
| - on due to banks | 32 794 | 13 402 |
| - on due to customers | 8 423 | 5 474 |
| - on subordinated debt | 217 | - |
| Expenses to be paid | 11 911 | 4 720 |
| Taxes to be paid | 6 913 | 4 234 |
| Employee Benefits | 31 522 | 23 751 |
| Derivative instruments - hedging | 751 | 5 129 |
| Interbank settlements | 58 642 | 127 658 |
| Liabilities on account of recognition of financial assets at the trade date | 20 700 | 124 167 |
| Liabilities due to counterparties | 14 087 | 2 750 |
| Settlement on account of loan-related debt | 32 642 | 14 542 |
| Others | 19 285 | 14 973 |
| **Total other liabilities** | **251 929** | **353 619** |

# 23. Provisions

Note 23.1

| Provisions by titles (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Provisions for off-balance sheet commitments | 4 911 | 735 |
| IBNR reserve – off-balance sheet commitments | 7 728 | 8 081 |
| Legal risk provisions | 2 900 | 2 916 |
| Provisions for office sub-lease | 435 | 528 |
| **Total provisions** | **15 974** | **12 260** |

The Bank created a provision in case of an unfavourable outcome for the Bank of the decision issued by the President of Office of Competition and Consumer Protection on December 29, 2006 regarding a penalty to be imposed on the Bank and other banks for illegal practices of inflating fees for non-cash card transactions. Penalty of PLN 2.9 million was imposed on the Bank. The provision creation costs were included in the Bank's net profit of 2006.

The notes below present change sin the balance of provisions:

Note 23.2.1

| Change in provisions for off-balance sheet commitments (in PLN thousand) | 01.01.2007 – 31.12.2007 | 01.01.2006 – 31.12.2006 |
|---|---|---|
| **Opening balance** | **8 816** | **6 864** |
| Increases | 6 222 | 3 864 |
| - for off-balance sheet commitments | 4 863 | 582 |
| - for IBNR losses – off-balance sheet commitments | 1 359 | 3 282 |
| Decreases | -2 389 | -1 892 |
| - for off-balance sheet commitments | -677 | -1 668 |
| - for IBNR losses – off-balance sheet commitments | -1 712 | -224 |
| FX rate differences | -10 | -20 |
| **Ending balance** | **12 639** | **8 816** |

Note 23.2.2

| Changes in other provisions (in PLN thousand) | 01.01.2007 – 31.12.2007 | 01.01.2006 – 31.12.2006 |
|---|---|---|
| **Opening balance** | **3 444** | **1 646** |
| Increases | 1 936 | 2 900 |
| - for legal risk | 1 401 | 2 900 |
| - for office sub-lease | 535 | - |
| Decreases | -2 045 | -1 102 |
| - for legal risk | -1 417 | -473 |
| - for office sub-lease | -628 | -629 |
| **Ending balance** | **3 335** | **3 444** |

# 24. Equity

Note 24.1

| Equity (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Share capital | 503 135 | 503 135 |
| Additional capital | 308 656 | 308 814 |
| Other capital | 183 200 | 74 934 |
| Revaluation reserve | -2 818 | 2 167 |
| Retained earnings | -15 811 | 7 318 |
| Net profit (loss) for the year | 177 594 | 85 137 |
| **Total equity** | **1 153 956** | **981 505** |

The share capital is recognised in the nominal value pursuant to the Bank's Statute and entries in the National Court Register.

The share capital of the Bank is PLN 503,135,400.00 and is divided into 16,771,180 shares with a nominal value of PLN 30 each.

The Bank's shares are bearer shares of equal nominal value that entitle to equal voting rights and participation in profit at the same rules. There are no preferences or restrictions related to any group of shares. The shares were paid for in cash.

Note 24.2

| Series / issue | Registration date | Number of shares | Series / issue value at nominal value |
|---|---|---|---|
| A | 19.12.1990 | 634 060 | 19 021 800 |
| B | 30.04.1991 | 1 115 940 | 33 478 200 |
| C | 14.07.1994 | 2 000 000 | 60 000 000 |
| D | 11.07.1996 | 1 250 000 | 37 500 000 |
| E | 11.04.1997 | 1 250 000 | 37 500 000 |
| F | 04.06.1998 | 625 000 | 18 750 000 |
| G | 04.06.1998 | 740 000 | 22 200 000 |
| H | 08.10.1999 | 761 500 | 22 845 000 |
| I | 03.07.2000 | 1 675 300 | 50 259 000 |
| J | 28.06.2001 | 5 025 900 | 150 777 000 |
| K | 02.01.2007 | 1 693 480 | 50 804 400 |
| **Total** | | **16 771 180** | **503 135 400** |

The shareholder structure as at 31 December 2007 and as at 31 December 2006 was as follows:

Note 24.3

| Balance as at 31.12.07 | number of shares owned | share (%) in the equity | number of votes at the AGM | share (%) in the total number votes at the AGM |
|---|---|---|---|---|
| **Fortis Bank S.A./N.V.** | 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%** |

| Balance as at 31.12.06 | number of shares owned | share (%) in the equity | number of votes at the AGM | share (%) in the total number votes at the AGM |
|---|---|---|---|---|
| **Fortis Bank S.A./N.V.** | 16 635 287 | 99,19% | 12 578 385 | 75,00% |
| **Others** | 135 893 | 0,81% | 135 893 | 0,81% |
| **Total:** | **16 771 180** | **100%** | **12 714 278** | **75,81%** |

Another equity component is the additional capital which is established from net profit deductions, amounting to the level to be decided upon at the General Meeting of Shareholders. The additional capital shall also accommodate differences between the issue and nominal price of the Bank shares. Net profit deductions to replenish the additional capital make up at least 8% and are made until the additional capital reaches no less than one third of the Bank's share capital.

The other capital types are basically established from annual net profit deductions approved by the General Meeting of Shareholders. Reserve capital is earmarked for the coverage of specific losses and expenses, while the general risk fund is allocated to cover unidentified risks related to banking activity. Decisions on using other capital are made by the General meeting of Shareholders.

Note 24.4

| Other capital (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| General risk fund | 117 045 | 67 045 |
| Reserve capital | 66 155 | 7 889 |
| **Total other capital** | **183 200** | **74 934** |

Revaluation reserve as at 31 December 2007 and as at 31 December 2006 stood at:

Note 24.5

| Revaluation reserve (in PLN thousand) | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Measurement of available-for-sale financial assets, including: | -3 479 | 2 677 |
| - Treasury bills | -93 | -2 |
| - Treasury bonds | -3 386 | 2 679 |
| Deferred tax | 661 | -510 |
| **Total revaluation reserve** | **-2 818** | **2 167** |

The revaluation reserve includes write-downs for measurement of available-for-sale investments. The amount of the write-down made will increase or decrease, respectively, the value of available-for-sale investments.

As at the derecognition date of a financial asset available-for-sale from accounting books, the total effects of a fair value change in a given period recognised in the revaluation reserve are derecognised and recognised in the income statement. When available-for-sale financial assets are found impaired, the cumulated profits or losses recognised previously in the revaluation reserve are recognised in the income statement.

The revaluation reserve is not subject to distribution.

**Information on planned allocation of net profit/loss and dividend payment**

The Board of Executives intends to recommend that the Annual General Shareholders' Meeting should resolve to pay no dividend and allocate the entire 2007 net profit to increase the Bank's equity funds.

# 25. Additional Notes to Cash Flow Statement

This note presents the change in other assets and liabilities broken by types:

Note 25

| **Other assets and liabilities (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Change in costs to be paid | 7 091 | -11 336 |
| Change in the balance of financial assets and liabilities recognised at the trade date | -180 530 | 103 830 |
| Change in interest to be received | -31 744 | -13 925 |
| Change in interest to be paid | 22 558 | 10 142 |
| Change in interbank settlements | -69 770 | 70 289 |
| Change in employee benefits | 7 771 | 11 611 |
| Settlement of the sale of subsidiary shares | - | 50 000 |
| Change in the balance of settlements on account of credit debt | 18 100 | 9 775 |
| Change in the balance of settlements with counterparties | 5 582 | -3 778 |
| Others | 11 816 | -3 850 |
| **Total other assets and liabilities** | **-209 126** | **222 758** |

## 26. Assets that Secure Own Commitments

Pursuant to the rules of protection fund of guaranteed deposits under the Bank Guarantee Fund Act (dated 14 December 1994 as amended), as at 31 December 2007 the Bank's books contained Treasury bonds, which were separated from assets, to secure the BGF in the nominal value of PLN 20,000,000. Type of assets and their amount registered in the Bank's books earmarked for the coverage of the BGF is consistent with conditions defined in particular in Article 26 para. 1 and 2 and Article 13 of the said Act.

Note 26.1

**Available-for-sale securities that constitute collateral for the Guaranteed Deposits Protection Fund under the Bank Guarantee Fund**

| **(in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| - Treasury bills at nominal value | - | 5 000 |
| - Treasury bills at balance sheet value | - | 4 997 |
| - Treasury bonds at nominal value | 20 000 | 3 000 |
| - Treasury bonds at balance sheet value | 20 001 | 2 795 |
| **Total available for sale securities at balance sheet value** | **20 001** | **7 792** |
| | | |
| **Value of cash deposited at the Bank and guaranteed by the system** | **7 928 153** | **4 485 463** |

A lombard loan is taken based on the *Regulations of Refinancing Banks by the NBP through a Lombard Loan* published in Resolution no. 42/2003 of the NBP Management Board dated 3 October 2003 (Official Journal of the NBP no. 18 of 2003) which governs terms and conditions of granting the lombard loan to banks, conditions of its utilisation and rules and manner of securing the repayment of the lombard loan by a pledge established on rights to securities. The lombard loan can be drawn up to 80% of the amount of securities pledged.

Note 26.2

**Securities pledged in the KDPW against the lombard loan**

| **(in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| - Treasury bonds at nominal value | 271 000 | 711 000 |
| - Treasury bonds at balance sheet value | 269 448 | 688 969 |
| of which used against the loan taken: | - | 400 000 |
| **Total securities pledged in the KDPW against the lombard loan, balance sheet value** | **269 448** | **688 969** |

The Bank uses a technical loan granted by the NBP. Terms and conditions of granting the technical loan to banks by the NBP that is used and repaid intraday, are determined in particular in the "*Regulations of Intraday Refinancing of Banks by the NBP."* The technical loan repayment is secured by an ownership transfer of rights derived from the securities over to the NBP. The NBP grants the technical loan by transferring funds into the bank's current account maintained by the NBP Payments Systems Department, in the amount equal to 80% of the nominal value of the securities subject to the ownership transfer to secure the repayment of the facility, if they are denominated in PLN; if they are in EUR, the funds equal to 100% of the collateral. The technical loan bears no interest, if it is utilised and repaid on the same day.

# 27. Derivative Financial Instruments

The table below presents the breakdown of hedging derivative instruments at nominal value as at 31.12.2007 and as at 31.12.2006, broken by residual maturity.

Note 27.1

| Hedging derivative instruments (in PLN thousand) | 31.12.2007 | | | | | |
|---|---|---|---|---|---|---|
| | Fair value | | Denomination | | | |
| | positive | negative | up to 1 year | 1-5 years | > 5 years | Total |
| **Interest Rate contracts** | **-** | **751** | **150 000** | **-** | **-** | **150 000** |
| - Swaps | - | 751 | 150 000 | - | - | 150 000 |
| **Total hedging derivative instruments** | **-** | **751** | **150 000** | **-** | **-** | **150 000** |
| Not traded on regulated markets | - | 751 | 150 000 | - | - | 150 000 |
| **Total** | **-** | **751** | **150 000** | **-** | **-** | **150 000** |

| Hedging derivative instruments (in PLN thousand) | 31.12.2006 | | | | | |
|---|---|---|---|---|---|---|
| | Fair value | | Denomination | | | |
| | positive | negative | up to 1 year | 1-5 years | > 5 years | Total |
| **Interest Rate contracts** | **-** | **5 129** | **-** | **150 000** | **-** | **150 000** |
| - Swaps | - | 5 129 | - | 150 000 | - | 150 000 |
| **Total hedging derivative instruments** | **-** | **5 129** | **-** | **150 000** | **-** | **150 000** |
| Not traded on regulated markets | - | 5 129 | - | 150 000 | - | 150 000 |
| **Total** | **-** | **5 129** | **-** | **150 000** | **-** | **150 000** |

Information about hedge accounting rules applied:
The Bank applies hedge accounting to a limited extent. Out of the existing three types of hedging relations, i.e. fair value hedging, cash flow hedging and net investment hedging, the Bank applies only the hedging for the risk of changing the fair value of bonds presented as receivables, which risk results exclusively from the variability of the risk-free interest rate.

As at 31 December 2007, to hedge interest rate risk of bonds of Credit Suisse First Boston, Singapore branch in the nominal value of PLN 150,000 thousand, an IRS contract was concluded in the nominal value of PLN 150,000 thousand. Over the entire period of applying hedge accounting, changes in the fair value on account of the bond risk hedged were PLN (4,656) thousand, while the change in fair value of the hedging derivative in the same period stood at PLN 4,378 thousand. Changes to fair value were recognised in the income statement of the Bank.

Hedging for bonds of Credit Suisse First Boston Singapore Branch:

| **Instrument hedged: Credit Suisse First Boston bonds (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| nominal value | 150 000 | 150 000 |
| fair value change | -4 656 | -2 481 |

| **Hedging instrument: IRS contract (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| nominal value | 150 000 | 150 000 |
| fair value change | 4 378 | 2 089 |

At present the Bank does not intend to enter into any subsequent transactions that will be hedged.

The table below presents the breakdown of held-for-trading derivative instruments at nominal value as at 31.12.2007 and as at 31.12.2006, broken by residual maturity.
Note 27.2

| **Derivative instruments held for trading (in PLN thousand)** | **31.12.2007** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value** | | **Nominal value by maturity** | | | | | |
| | **positive** | **negative** | **Up to 1 month** | **1-3 months** | **3 months-1 year** | **1-5 years** | **> 5 years** | **Total** |
| **Foreign currency contracts:** | **160 130** | **157 620** | **5 046 133** | **5 394 345** | **7 915 633** | **445 221** | **-** | **18 801 332** |
| - Forward (including the forward leg of a FX swap contract) - amounts bought | 91 183 | 88 675 | 1 793 730 | 1 358 631 | 1 763 600 | 56 911 | - | **4 972 872** |
| - Forward (including the forward leg of a FX swap contract) - amounts sold | | | 1 785 511 | 1 359 654 | 1 770 323 | 54 655 | - | **4 970 143** |
| - Options – amounts purchased | 68 947 | 68 945 | 733 446 | 1 338 030 | 2 185 614 | 156 345 | - | **4 413 435** |
| - Options – amounts sold | | | 733 446 | 1 338 030 | 2 196 096 | 177 310 | - | **4 444 882** |
| **Interest Rate contracts** | **44 930** | **43 761** | **6 489 270** | **598 561** | **1 288 456** | **2 966 594** | **1 795 570** | **13 138 451** |
| - FRA | 947 | 982 | 508 070 | 118 877 | 800 000 | - | - | **1 426 947** |
| -IRS – amounts purchased | 40 097 | 38 893 | 2 990 600 | 239 842 | 200 000 | 1 377 570 | 685 344 | **5 493 356** |
| - IRS – amounts sold | | | 2 990 600 | 239 842 | 200 000 | 1 377 570 | 685 344 | **5 493 356** |
| - Options – amounts purchased | 3 886 | 3 886 | - | - | 44 228 | 105 727 | 212 441 | **362 396** |
| - Options – amounts sold | | | - | - | 44 228 | 105 727 | 212 441 | **362 396** |
| **Total derivative instruments held for trading** | **205 060** | **201 381** | **11 535 403** | **5 992 906** | **9 204 089** | **3 411 815** | **1 795 570** | **31 939 783** |
| Not traded on regulated markets | 205 060 | 201 381 | 11 535 403 | 5 992 906 | 9 204 089 | 3 411 815 | 1 795 570 | **31 939 783** |
| **Total** | **205 060** | **201 381** | **11 535 403** | **5 992 906** | **9 204 089** | **3 411 815** | **1 795 570** | **31 939 783** |

| **Derivative instruments held for trading (in PLN thousand)** | **31.12.2006** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value** | | **Nominal value by maturity** | | | | | |
| | **positive** | **negative** | **Up to 1 month** | **1-3 months** | **3 months-1 year** | **1-5 years** | **> 5 years** | **Total** |
| **Foreign currency contracts:** | **44 419** | **46 152** | **1 936 694** | **1 968 163** | **2 936 502** | **54 531** | **-** | **6 895 890** |
| - Forward (including the forward leg of a FX swap contract) - amounts bought | 28 639 | 30 372 | 745 570 | 535 936 | 952 704 | 4 912 | - | **2 239 122** |
| - Forward (including the forward leg of a FX swap contract) - amounts sold | | | 748 060 | 535 323 | 951 748 | 4 867 | - | **2 239 998** |
| - Options – amounts purchased | 15 780 | 15 780 | 221 532 | 448 452 | 516 025 | 22 376 | - | **1 208 385** |
| - Options – amounts sold | | | 221 532 | 448 452 | 516 025 | 22 376 | - | **1 208 385** |
| **Interest Rate contracts** | **14 942** | **14 975** | **300 000** | **4 148 080** | **12 037 680** | **6 034 324** | **1 054 632** | **23 574 716** |
| - FRA | 985 | 671 | 300 000 | 600 000 | 1 600 000 | - | - | **2 500 000** |
| -IRS – amounts purchased | 13 430 | 13 776 | - | 1 774 040 | 5 207 346 | 2 967 212 | 481 822 | **10 430 420** |
| - IRS – amounts sold | | | - | 1 774 040 | 5 207 346 | 2 967 212 | 481 822 | **10 430 420** |
| - Options – amounts purchased | 528 | 528 | - | - | 11 494 | 49 950 | 45 494 | **106 938** |
| - Options – amounts sold | | | - | - | 11 494 | 49 950 | 45 494 | **106 938** |
| **Total derivative instruments held for trading** | **59 361** | **61 127** | **2 236 694** | **6 116 243** | **14 974 182** | **6 088 855** | **1 054 632** | **30 470 606** |
| Not traded on regulated markets | 59 361 | 61 127 | 2 236 694 | 6 116 243 | 14 974 182 | 6 088 855 | 1 054 632 | **30 470 606** |
| **Total** | **59 361** | **61 127** | **2 236 694** | **6 116 243** | **14 974 182** | **6 088 855** | **1 054 632** | **30 470 606** |

# 28. Contingent Liabilities - Off-balance Sheet Commitments

The Bank recognises as contingent liabilities such off-balance sheet commitments that do not meet the balance sheet recognition criteria as assets or liabilities.

The tables below present contingent liabilities of the Bank as at 31.12.2007 and comparative data as at 31.12.2006.

Note 28.1

| **Contingencies and Commitments (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| **Contingent liabilities granted** | | |
| - items related to financing | 3 730 140 | 2 757 239 |
| - guarantees | 876 428 | 779 640 |
| **Total contingent sheet commitments granted** | **4 606 568** | **3 536 879** |
| **Contingent liabilities received** | | |
| - items related to financing | 584 232 | 330 194 |
| - guarantees | 259 712 | 192 463 |
| **Total contingent sheet commitments received** | **843 944** | **522 657** |
| **Total contingent liabilities** | **5 450 512** | **4 059 536** |

The major item of off-balance sheet commitments granted constitute commitments to extend loans which as at 31 December 2007 made up PLN 3,482,888 thousand or 93% of the Bank's financial off-balance sheet commitments granted, and, respectively, PLN 2,592,323 thousand as at 31 December 2006. Commitments to extend loans include credit lines granted (unutilised), credit card limits, unused overdraft credit facilities and general financing agreements.

The off-balance sheet financial commitments granted include also import letters of credit issued.

Off-balance sheet guarantee commitments granted result from guarantees issued in favour of customers and pertain chiefly to contract performance bonds and receivables repayment guarantees. The Bank offers its customers the issuance of guarantees under the standard credit offering addressed mainly to corporate customers. Commission and fee income related to guarantees issued are settled using the straight-line method and recognised in the commission and fee income in the Bank's income statement.
Off-balance sheet guarantee commitments granted include also export letters of credit issued and general guarantee agreements.

The major item of off-balance sheet commitments received by the Bank constitute unused credit lines granted by the NBP and the entity affiliated by management which as at 31 December 2007 made up PLN 584,232 thousand, and, respectively, PLN 330,194 thousand as at 31 December 2006.

Off-balance sheet guarantee commitments received include guarantees and suretyships to secure loans granted; such commitments totalled PLN 259,712 thousand as at 31 December 2007 and PLN 192,463 thousand as at 31 December 2006.

# 29. Custody Activity and Other Functions in Favour of Investment Funds

**Comprehensive scope of services**

The Bank offers its customers a comprehensive banking product that includes:

- maintenance of securities accounts used to register assets, in particular shares, bonds, treasury bills and commercial papers;
- settlement of transactions in securities entered into on domestic and international markets;
- performing operations on securities (dividend payment, payment of interest on bonds, debt securities redemption);
- acting as an intermediary in Stock Exchange and interbank market transactions;
- generation of reports tailored to customer needs;
- providing information on market events;

**Custody of securities**

The Bank is a direct member of the KDPW S.A. (National Depository of Securities), the central depository of securities admitted to public trading. The Bank holds a securities account there, dedicated specifically to its Customers. Thus the Bank's assets are separated from Customer assets.

With respect to securities not admitted to public trading, the Bank cooperates with other institutions that provide custody for the capital market securities and money market securities.

**Settlement of transactions**

All transactions are settled upon the receipt of a settlement instruction from the Customer. The exception is when the Custody Services Group makes securities purchase or sale instructions at the Warsaw Stock Exchange and CTO (Central Offering Table), where the Customer's order replaces the Instruction. Transactions entered into on specific markets are settled on dates consistent with the binding law provisions, or if there are no general rules, they are settled the date agreed with the Customer.

**Reports for Customers**

The Bank provides Customers with reports on their investment activity. The content and form of reports, frequency and manner of their sending are agreed individually with each Customer and are adjusted to Customer needs.

**Depository**

The Bank performs the role of a depositor for Fortis FIO, an investment fund. Pursuant to the binding provisions, the Bank's tasks in this respect include in particular:

- keeping a register,
- checking the calculation of the net value of assets and value appraisal of the participation unit,
- supervision over the correct transaction settlements,
- supervision over the correct payment settlements,
- supervision over the adjustment of Fortis FIO investment limits to Fortis FIO Statute and law regulations,
- checking factual and legal activities undertook by Fortis FIO with respect to their compliance with Fortis FIO Statute and legal regulations.

The Bank maintains securities accounts in favour of customers. Details regarding the accounts maintained are presented in the table below:

| | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Number of accounts maintained in favour of customers | 56 | 58 |
| Funds deposited on such Customer accounts (in PLN thousand) | 3 997 609 | 1 849 774 |

**Other functions performed in favour of investment funds**

Under relevant agreements entered into with Fortis L Fund and Fortis L Fix, Luxembourg investment funds, the Bank performs a number of functions in favour of the funds, which consist in particular in the following:

- representation of funds before their participants and the Polish Financial Supervision Authority;
- acceptance of complaints from fund participants;
- providing information on funds to fund participants;
- verification of customer orders and forwarding them to the Transfer Agent;
- making pecuniary settlements with customers in connection with investments in participation titles;
- making pecuniary settlements with funds;
- sending reports to customers;
- service of investment fund distributors other than Fortis Bank Polska SA;
- distribution of fund participation units.

# 30. Payments related to Lease Agreements

Fortis Bank Polska SA, pursuant to lease agreements occupies mainly office premises, storehouses, parking spaces and garages. The major agreements concern buildings in Warsaw and Krakow.
In 2007, the Bank incurred expenses related to rent for the above real property of PLN 23,551 thousand, as compared to PLN 9,545 thousand incurred in the comparable period. The above fees were recognised in the income statement in Note "Other costs."

Note 30.1

| Future liabilities under lease agreements by maturity in PLN thousand | 31.12.2007 | 31.12.2006 |
|---|---|---|
| up to 1 year | 34 297 | 18 714 |
| from 1 up to 5 years | 97 642 | 35 395 |
| above 5 years | 73 432 | - |
| **TOTAL** | **205 371** | **54 109** |

Some agreements have been concluded for an unlimited period of time. For agreements concluded for an unspecified period of time, future liabilities have been determined based on the contractual notice period.
Lease agreements are entered into both in PLN and in foreign currencies. The notice period is usually 1, 3 or 6 months.
When the lease period ends, pursuant to the contractual provisions the Bank shall restore the premises to the technical condition that existed before the lease period.

Pursuant to lease agreements, the Bank leases out office premises, storehouses, parking spaces and garages.

Note 30.2

| Future receivables under lease agreements by maturity in PLN thousand | 31.12.2007 | 31.12.2006 |
|---|---|---|
| up to 1 year | 2 955 | 883 |
| from 1 up to 5 years | 6 391 | 823 |
| above 5 years | 5 211 | - |
| **TOTAL** | **14 557** | **1 806** |

Some agreements have been concluded for an unlimited period of time. For agreements concluded for an unspecified period of time, future receivables have been determined based on the contractual notice period. The notice period is usually 3, 6 or 12 months.

# 31. Information on Related Party Transactions

The Bank is part of Fortis, an international banking and insurance group. Fortis Bank S.A./NV based in Brussels is the Bank's parent entity. Fortis consolidated financial statements are published at the Belgian Stock Exchange in Brussels.

The Bank holds 100 % shares in its subsidiary - Fortis Private Investments Polska S.A. Considering no material importance, the aforesaid subsidiary was not consolidated in this financial report.

Information on transactions with employees, the Board of Executives, Supervisory Board, managers and persons related with them are presented in Note 32.

Information on transactions of the Bank with its parent company, its subsidiary and entities affiliated by management is presented below. These transactions refer to banking operations performed within a standard business activity; the terms and conditions of transactions presented correspond to market conditions.

Note 31.1

| **31.12.2007 (in PLN thousand)** | **Parent entity** | **Subsidiary** | **Entities affiliated by management** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 527 221 | - | 40 340 | 567 561 |
| Financial assets held for trading | 103 238 | - | - | 103 238 |
| Due from Banks and Loans to Customers | - | 1 | 119 540 | 119 541 |
| Other assets | 197 | 402 | 488 | 1 087 |
| **Total** | **630 656** | **403** | **160 368** | **791 427** |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 104 540 | - | - | 104 540 |
| Due to banks and customers | 834 133 | 10 171 | 4 007 143 | 4 851 447 |
| Subordinated liabilities | - | - | 358 200 | 358 200 |
| Other liabilities | 829 | 15 | 38 372 | 39 216 |
| **Total** | **939 502** | **10 186** | **4 403 715** | **5 353 403** |

| **31.12.2006 (in PLN thousand)** | **Parent entity** | **Subsidiary** | **Entities affiliated by management** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 1 645 323 | - | 2 223 | 1 647 546 |
| Financial assets held for trading | 17 282 | - | - | 17 282 |
| Due from Banks and Loans to Customers | 1 226 | - | 43 211 | 44 437 |
| Other assets | 1 866 | 89 | 91 | 2 046 |
| **Total** | **1 665 697** | **89** | **45 525** | **1 711 311** |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 19 432 | - | - | 19 432 |
| Due to banks and customers | 227 160 | 3 005 | 2 779 197 | 3 009 362 |
| Other liabilities | 5 185 | 11 | 12 923 | 18 119 |
| **Total** | **251 777** | **3 016** | **2 792 120** | **3 046 913** |

Note 31.2

| 1.01.2007 – 31.12.2007 (in PLN thousand) | Parent entity | Subsidiary | Entities affiliated by management | Total |
|---|---|---|---|---|
| **Loss and Profit Account** | | | | |
| Interest income | 20 285 | - | 3 413 | 23 698 |
| Interest expense | -3 985 | -299 | -126 745 | -131 029 |
| Commission and fee income | 3 814 | 8 537 | 2 227 | 14 578 |
| Commission and fee expense | -1 867 | - | -2 | -1 869 |
| Dividend and other investment income | - | 3 400 | - | 3 400 |
| Net profit (loss) on transactions in held-for-trading financial instruments | 34 746 | - | 28 | 34 774 |
| Net profit (loss) on hedging transactions | 4 180 | - | - | 4 180 |
| Other income | 6 095 | - | - | 6 095 |

| 1.01.2006 – 31.12.2006 (in PLN thousand) | Parent entity | Subsidiary | Entities affiliated by management | Total |
|---|---|---|---|---|
| **Loss and Profit Account** | | | | |
| Interest income | 20 295 | - | 1 926 | 22 221 |
| Interest expense | -3 446 | -397 | -45 847 | -49 690 |
| Commission and fee income | 2 998 | 1 396 | 1 478 | 5 872 |
| Commission and fee expense | -1 195 | - | - | -1 995 |
| Net profit (loss) on transactions in held-for-trading financial instruments | 22 889 | - | 9 | 22 898 |
| Net profit (loss) on hedging transactions | 2 138 | - | - | 2 138 |
| Other income | 1 760 | - | - | 1 760 |

Note 31.3

| 31.12.2007 (in PLN thousand) | Parent entity | Subsidiary | Entities affiliated by management | Total |
|---|---|---|---|---|
| **Contingent liabilities and transactions in derivative instruments** | | | | |
| Contingent liabilities granted: | - | 49 | 74 076 | 74 125 |
| - items related to financing | - | 49 | 46 663 | 46 712 |
| - guarantees | - | - | 27 413 | 27 413 |
| Contingent liabilities received: | 12 109 | - | 167 343 | 179 452 |
| - items related to financing | - | - | 107 432 | 107 432 |
| - guarantees | 12 109 | - | 59 911 | 72 020 |
| Transactions in derivative instruments* | 19 058 624 | - | - | 19 058 624 |

| 31.12.2006 (in PLN thousand) | Parent entity | Subsidiary | Entities affiliated by management | Total |
|---|---|---|---|---|
| **Contingent liabilities and transactions in derivative instruments** | | | | |
| Contingent liabilities granted: | - | 49 | 89 677 | 89 736 |
| - items related to financing | - | 49 | 59 026 | 59 075 |
| - guarantees | - | - | 30 651 | 30 651 |
| Contingent liabilities received: | 18 914 | - | 127 953 | 146 867 |
| - items related to financing | - | - | 69 168 | 69 168 |
| - guarantees | 18 914 | - | 58 785 | 77 699 |
| Transactions in derivative instruments* | 21 656 349 | - | - | 21 656 349 |

*In the item "Transactions in derivative instruments," the derivative instrument purchase and sale transactions are presented.

## Material agreements with related parties

## Fortis Bank

On February 5, 2007, the Bank signed another credit agreement with Fortis Bank SA/NV based in Brussels and Fortis Bank (Nederland) N.V. based in Rotterdam, regarding taking a credit line by the Bank from Fortis (Nederland) N.V. with the limit of PLN 1,300 million in order to finance the Bank's current 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.

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 consent of the Banking Supervision Commission to include the loan as subordinated debt into Tier 2 capital of the Bank, pursuant to Article 127 of the Banking Law.

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.

## Dominet Bank

Surety agreement of 28 December 2006 under which the Bank issued a surety to Dominet Bank SA based in Lubin up to PLN 50 million for borrowers' receivables due to Dominet Bank on account of car loans. The surety was issued for the period ending on 31 December 2007. Under Annex to the Agreement, signed on 23 March 2007, the validity of surety was extended till 1 May 2008.

Cooperation agreement of 2 January 2007 signed between the Bank and Dominet Bank SA based in Lubin. The agreement concerns rules of cooperation between the two banks with respect to agency services in offering the Bank's products to individual customers of Dominet Bank S.A. For the performance of obligations under the agreement, Dominet Bank S.A. will be paid commission on amounts of the loans acquired. The agreement was concluded for an unlimited period of time.

Cooperation agreement of 1 April 2007 signed between the Bank and Dominet Bank SA based in Lubin. The Agreement concerned the sale of investment outlays and office equipment to Dominet Bank S.A. The sale price stood at PLN 2,997 thousand, and the net profit on sale reached PLN 263 thousand.

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.

## Others

Cooperation agreement of 19 March 2007 signed between the Bank 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 the Bank's employees. 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.

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.

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

# 32. Transactions with the Board of Executives, Supervisory Board, Managers and Employees

The total remuneration and the value of benefits obtained by the members of the Board of Executives, Supervisory Board and by proxies of the Bank are specified in the table below:

Note 32.1

| in PLN thousand | 01.01.2007 - 31.12.2007 | 01.01.2006 - 31.12.2006 |
|---|---|---|
| Board of Executives, including: | 6 187 | 5 302 |
| - remuneration | 3 385 | 3 082 |
| - benefits* | 606 | 768 |
| - other** | 2 196 | 1 452 |
| Supervisory Board | 445 | 452 |
| Managing Directors*** | 8 995 | 11 261 |

* The "Benefits" item includes expenses related to medical care, company car (lump sum), accommodation and participation in the "Fortis Executives and Professionals Stock Option Plan" for shares of Fortis Bank NV.

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

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

**Stock options granted to employees**

Fortis Bank Polska SA participates in Fortis Executives and Professionals Stock Option Plan ("the Plan") organised by Fortis SA/NV and Fortis NV (Fortis). Under the Plan, Fortis grants options for Fortis shares to selected executives of Fortis companies.

Conditions for the rights acquisition

Stock options are awarded free of charge by Fortis. The options granted are strictly personal and not open to transfer of ownership, or any other way of transfer of ownership rights. Options are granted exclusively on a voluntary basis.

Maximum duration of options granted

The options have a term of 10 years of the Date of Offer made to employees. The options that are not exercised by the end of their term shall expire without any indemnification.

Options can be exercised in the period starting from the fifth anniversary of the Date of Offer, and ending on the day preceding the tenth anniversary of the Date of Offer.

Settlement method

Options can be exercised using one of the following methods:

(i) delivery of Fortis shares to a securities account;
(ii) immediate sale of shares on behalf of the employee (the Participant) on Euronext Brussels.

Number and average weighted exercise prices of stock options held by the managers of Fortis Bank Polska SA:

Note 32.2

| | 31.12.2007 | | 31.12.2006 | |
|---|---|---|---|---|
| | **Number of options** | **Option average weighted price (in EUR)** | **Number of options** | **Option average weighted price (in EUR)** |
| (i) opening balance | 51 100 | 21,99 | 34 700 | 18,45 |
| (ii) granted (and accepted) in a given period | 42 100 | 34,19 | 16 400 | 29,48 |
| (iii) redeemed in a given period | - | - | - | - |
| (iv) exercised in a given period | - | - | - | - |
| (v) expired in a given period | - | - | - | - |
| (vi) ending balance | 93 200 | 27,50 | 51 100 | 21,99 |
| (vii) that can be exercised at the end of a given period | - | - | - | - |
| average weighted period left to the end of a contractual stock option period (in months) | 97 | | 96 | |

The table below presents detailed information in remuneration paid to members of the Board of Executives in 2007, and comparative data for 2006.

Note 32.3

| **1.01.2007 – 31.12.2007 (in PLN thousand)** | | **Remuneration** | **Benefits** | **Other** | **Total** |
|---|---|---|---|---|---|
| Alexander Paklons | BoE President since 8 Dec 2007 | - | 273 | 662 | 935 |
| Jan Bujak | Senior Vice-President since 8 Dec 2007 | 690 | 6 | 605 | 1 301 |
| Bartosz Chytła | Vice-President | 675 | 6 | 287 | 968 |
| Jean – Luc Deguel | Vice-President | 618 | 130 | 238 | 986 |
| Jaromir Pelczarski | Vice-President | 687 | 6 | 245 | 938 |
| Thierry Lechien | Vice-President since 1 Sept 2007 | 234 | 54 | - | 288 |
| Koenraad Verhoeven | Vice-President until 31 August 2027 | 481 | 131 | 159 | 771 |
| **Total** | | **3 385** | **606** | **2 196** | **6 187** |

| **1.01.2006 – 31.12.2006 (in PLN thousand)** | | **Remuneration** | **Benefits** | **Other** | **Total** |
|---|---|---|---|---|---|
| Jan Bujak | BoE President | 600 | 63 | 204 | 867 |
| Alexander Paklons | Senior Vice-President | - | 331 | 621 | 952 |
| Bartosz Chytła | Vice-President | 524 | 35 | 193 | 752 |
| Jean – Luc Deguel | Vice-President | 688 | 134 | 109 | 931 |
| Jaromir Pelczarski | Vice-President | 576 | 7 | 213 | 796 |
| Koenraad Verhoeven | Vice-President | 694 | 198 | 112 | 1 004 |
| **Total** | | **3 082** | **768** | **1 452** | **5 302** |

Three members of the Bank's Board of Executives who are at the same time members of the Supervisory Board of Fortis Private Investments Polska S.A. did not receive remuneration for this, either in 2007 or in 2006.

The table below presents detailed information in remuneration paid to members of the Supervisory Board in 2007, and comparative data for 2006.

Note 32.4

| **1.01.2007 – 31.12.2007 (in PLN thousand)** | | **Remuneration** |
|---|---|---|
| Jos Clijsters | Chairman | 72 |
| Antoni Potocki | Deputy Chairman | 66 |
| Werner Claes | Deputy Chairman | 66 |
| Zbigniew Dresler | Supervisory Board Member | 54 |
| Didier Giblet | Supervisory Board Member | 54 |
| Bernard Levie | Supervisory Board Member (until 15.06.07) | 25 |
| Thierry Schuman | Supervisory Board Member | 54 |
| Peter Ullmann | Supervisory Board Member | 54 |
| **Total** | | **445** |

| **1.01.2006 – 31.12.2006 (in PLN thousand)** | | **Remuneration** |
|---|---|---|
| Jos Clijsters | Chairman | 63 |
| Paul Dor | Deputy Chairman (until 2 June 2006) | 20 |
| Antoni Potocki | Deputy Chairman | 57 |
| Werner Claes | Deputy Chairman (from 3 June 2006) | 54,5 |
| Zbigniew Dresler | Supervisory Board Member | 48 |
| Didier Giblet | Supervisory Board Member | 48 |
| Bernard Levie | Supervisory Board Member | 48 |
| Roland Saintrond | Supervisory Board Member (until 2 June 2006) | 17,5 |
| Thierry Schuman | Supervisory Board Member | 48 |
| Peter Ullmann | Supervisory Board Member | 48 |
| **Total** | | **452** |

Note 32.5

| **Employee indebtedness on account of cash loans granted from the Company Social Benefits Fund (ZFŚS)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| in PLN thousand | 581 | 666 |

**Information on unpaid advances as at the end of the period:**
As at the end of the reporting period, the Bank recorded 12 unpaid and unsettled advances in its books totalling PLN 9 thousand.
In the comparative period as at 31 Dec 2006, the Bank recorded 36 unpaid and unsettled advances in its books totalling PLN 23 thousand.

The table below presents provisions for employee benefits for vital managers as at 31 December 2007 and comparative data as at 31 December 2006:
Note 32.6

| **Provisions for employee benefits for vital managers, by groups (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Short-term, including: | 3 687 | 4 687 |
| - Board of Executives | 1 675 | 1 174 |
| - Managing Directors | 2 012 | 3 513 |
| Long-term, including: | 173 | 226 |
| - Board of Executives | 64 | 61 |
| - Managing Directors | 109 | 165 |
| **Total provisions for employee benefits for vital managers** | **3 860** | **4 913** |

**Information on loans, credit facilities, guarantees and sureties granted by the Bank to: employees, Managing Directors, Members of the Bank's Board of Executives and Supervisory Board.**

**As at 31 December 2007, the Bank granted:**

to the Supervisory Board's Members:

- 1 credit card limit, the amount of limit granted and utilised was PLN 29 thousand;
- one (1) guarantee issued for the amount of USD 5 thousand with the original maturity from 5 to 10 years;

to the Board of Executives' Members:

- 2 FC loans of total outstanding balance amounting to PLN 1,351 thousand and maturity from 5 to 30 years;
- 2 debit limits in the savings and checking accounts (ROR) in the total amount of PLN 100 thousand;
- 6 credit card limits totalling PLN 72 thousand, of which PLN 11 thousand were utilised as at the end of 2007;

to Managing Directors:

- 25 loans totalling PLN 5,500 thousand, including 15 FC loans of the total of PLN 3,882 thousand with original maturity from 2 to over 30 years;
- 7 debit limits in the savings and checking accounts (ROR) totalling PLN 80 thousand, of which PLN 19 thousand were utilised as at the end of 2007;
- 15 credit card limits totalling PLN 101 thousand, of which PLN 44 thousand were utilised as at the end of 2007;

to persons related to managing and supervising persons:

- 4 loans including 3 FC loans of total outstanding balance amounting to PLN 736 thousand and maturity from 5 to 30 years;
- 1 debit limit in the savings and checking accounts (ROR) of PLN 50 thousand, of which PLN 39 thousand were utilised as at the end of 2007;
- 2 credit card limits totalling PLN 15 thousand, of which PLN 6 thousand were utilised as at the end of 2007;

**As at 31 December 2006, the Bank granted:**

to the Supervisory Board's Members:

- 1 credit card limit of PLN 29 thousand, with the outstanding balance of PLN 11 thousand;
- one (1) guarantee issued for the amount of USD 5 thousand with the original maturity from 5 to 10 years;

to the Board of Executives' Members:

- 4 loans including 3 FC loans of total outstanding balance amounting to PLN 1,010 thousand and maturity from 3 to over 20 years;
- 1 debit limit in the savings and checking account (ROR) of PLN 50 thousand, with the debt of PLN 34 thousand;
- 1 unused VISA card limit of PLN 5 thousand;
- five (5) credit card limits with the total debt outstanding balance of PLN 16 thousand on this account; the total limits granted made up PLN 52 thousand;

to Managing Directors:

- 28 loans totalling PLN 4,955 thousand, including 13 FC loans of the total of PLN 1,846 thousand with original maturity from 1 to 30 years;
- 9 debit limits in the savings and checking accounts (ROR) totalling PLN 120 thousand, of which PLN 35 thousand were utilised;
- 24 credit card limits totalling PLN 143 thousand, of which PLN 35 thousand were utilised;

to persons related to managing and supervising persons:

- 4 debit limits in the savings and checking accounts (ROR) totalling PLN 42 thousand; debt outstanding balance was PLN 37 thousand with maturity up to 1 year;
- 1 loan of PLN 89 thousand with maturity from 5 to 10 years;
- 3 VISA card limits with the total debt outstanding balance of PLN 12 thousand on this account; the total limits granted made up PLN 25 thousand;

Moreover, the Bank's employees are entitled to use employee loans. The outstanding balance of such loans is shown in the table below:

Note 32.7

| **Employee loans granted** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| in PLN thousand | 106 029 | 54 664 |
| According to the number of employees | 991 | 658 |

General terms and conditions of loans, credit facilities, guarantees and sureties received by employees, Managing Directors, Members of the Bank's Board of Executives and Supervisory Board do not differ from the applied market conditions.

# 33. Employee Benefits

The number of full-time equivalents (FTEs) in the Bank was as follows:

Note 33.1

| **Employment:** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| FTEs | 1 701 | 1 429 |
| of which, having education: | | |
| - Higher | 64% | 61% |
| - BA | 12% | 11% |
| - Secondary | 24% | 28% |

Employee benefits consist of:

- Short-term employee benefits, including:
  - reserve for bonuses
  - reserve for unused vacation leaves
  - CSBF (Company Social Benefit Fund)
  - others
- Long-term employee benefits, including:
  - reserve for pension benefits
  - reserve for jubilee awards

Details regarding reserves for short-term employee benefits broken by titles:

Note 33.2

| **Short-term employee benefits by titles (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Reserve for employee bonuses | 23 750 | 16 700 |
| Reserve for unused vacation leaves | 4 984 | 4 452 |
| CSBF (Company Social Benefit Fund) | 581 | 666 |
| Others | 44 | 5 |
| **Total short-term employee benefits** | **29 359** | **21 823** |

The Bank does not finance employee pension schemes.

Long-term employee benefits include the Bank's liabilities on account of retirement severance pay, disability benefits and post-death benefits, likewise liabilities on account of jubilee awards. Both types of benefits are specific benefit programs that are not financed by assets. The Bank applies the rule of full recognition of actuarial profits and losses in the income statement.

Retirement severance pay, disability benefits and post-death benefits are governed by relevant Labour Code provisions and are obligatory. The Bank performs also voluntarily a jubilee award payment program. Although an obligation to pay such awards has not been provided for in the Bank's internal regulations, a long period of the solution application and the related employee expectations regarding the maintenance of the program in the future resulted in the valuation of such liabilities on the same level as the liabilities under the Labour Code. In regard to the jubilee award program the liabilities were measured on the basis of customary payment amounts.

In the table below, a breakdown of long-term employee benefits by programs is presented:

Note 33.3

| **Current value of liabilities (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Retirement severance pay, disability benefits and post-death benefits | 975 | 796 |
| Jubilee awards | 1 188 | 1 132 |
| **Total long-term employee benefits** | **2 163** | **1 928** |
| **Liabilities recognised in the balance sheet** | **2 163** | **1 928** |

The tables below present opening and ending balances of the present value of long-term employee benefits:

Note 33.4

| **Retirement severance pay, disability benefits and post-death benefits (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| **Present value of liabilities – opening balance** | **796** | **-** |
| Current employment costs | 199 | 108 |
| Interest expense | 36 | 22 |
| Past employment costs | - | 676 |
| Actuarial Profits (+) / Losses (+) | -36 | -5 |
| Benefits paid out (-) | -20 | -5 |
| **Present value of liabilities – ending balance** | **975** | **796** |

Note 33.5

| **Jubilee awards (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| **Present value of liabilities – opening balance** | **1 132** | **-** |
| Current employment costs | 232 | 214 |
| Interest expense | 48 | 31 |
| Past employment costs | - | 972 |
| Actuarial Profits (+) / Losses (+) | 20 | 22 |
| Benefits paid out (-) | -244 | -107 |
| **Present value of liabilities – ending balance** | **1 188** | **1 132** |

Current and past employment costs and actuarial profit/losses are recognised in the "personnel costs" item while interest expense is recognised in the "Interest expense" item of the income statement.

Note 33.6

| **Actuarial assumptions for measurement** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Minimum discount rate | 5,3% | 4,5% |
| Maximum discount rate | 5,5% | 5,2% |
| Expected remuneration growth rate | 5,0% | 5,0% |

The above assumptions were applied to measure both types of benefits.

# 34. Risk Management

The Bank identifies, measures, monitors and manages all risks that occur in its activity.
The Bank divides monitoring and control processes related to the risk control and management into the following categories:

- credit risk
- liquidity risk
- FX risk,
- interest rate risk
- counterparty risk
- operational risk

The Bank's Board of Executives defines the risk policy and applies the rule of risk management and control, determines the limit setting policy for all relevant risk types as well as risk control procedures.

## Credit risk

### Credit risk management

In its business, the Bank grants loans and credit facilities likewise issues guarantees to its customers and develops other forms of financing. This type of activity results in the Bank's exposure to risk that a loan or another form of financing granted by the Bank is not repaid by a borrower at a contractual date.
The risk occurs irrespective of the financing form, and the main risk source is customer's inability to meet its liabilities towards the Bank.

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

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

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

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

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

The operational dimension consists of the following activities:

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

The strategic and operational risk management is the responsibility of separate organizational units of the Bank.

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

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

The main assumptions and rules of the credit risk management system in the Bank are included in the Credit Risk Management Policy, which covers all the regulations issued by the banking supervision, including the provisions of the New Capital Accord.

The Policy determines credit risk management rules and manners and covers the following functional areas of the Bank:
- loan granting process in specific business lines,
- procedures regarding monitoring credit exposures on the individual and portfolio levels,
- rules and qualitative criteria regarding the use of legal collateral for loans,
- credit exposure mitigation process,
- problem loan management process.

**Credit losses absorption strategies**

Models used in the credit risk quantification on the individual and portfolio level, fulfil the following assumptions:

- they are calibrated using historical data representative for the Polish market,
- they are subject to validation with a stress test at annual intervals.

In the area of risk identification and measurement, the Bank uses measures that illustrate expected, unexpected and incurred credit losses, generated by the credit portfolio. These are:

- Incurred but not reported losses, for which a write-down for impairment is created (IBNR),
- Write-downs for impairment for incurred and reported losses,
- Provisions for off-balance sheet commitments,
- Actual economic losses,
- Expected losses,
- Unexpected losses.

An effective credit risk management system is conditioned not only on an efficient system of risk division and control, but also on the credit loss absorption capacity. Depending on the credit loss category, the Bank applies various loss coverage strategies to absorb the loss, as illustrated in the table below:

| Credit loss category | Loss absorption strategy |
|---|---|
| Incurred losses | Appropriate level of write-downs for impairment for incurred and reported losses, provisions for off-balance sheet commitments and write-downs for impairment for incurred but not reported losses is maintained |
| Expected losses | In the credit exposure interest rate (price) setting process, a margin is added to cover standard risk costs generated by a transaction |
| Unexpected losses | A buffer of equity capital is maintained at least at the level required by the regulatory capital |

**Credit risk components**

In measurement of credit risk on a customer level, the Bank takes into account the following risk components:

- **PD** (Probability of Default) - the likelihood that a customer is assigned the default status which is a statistically estimated probability of an event of default and the customer's classification into the default category for one year,

- **EAD** (Exposure at Default) – a parameter that estimates the credit exposure value at the moment the customer is assigned the default status based on the current credit exposure and its possible changes in the future,

- **LGD** (Loss Given Default) – a statistically estimated amount that the Bank expects to lose as a result of the borrower's default status.

The above components constitute the basis for an internal credit risk measurement in the Bank's portfolios.

The default status is assigned to borrowers with respect to which the Bank identified indicators of default on their obligations under the credit agreement. The default definition applied by the Bank is consistent with the uniform definition binding in Fortis.

The catalogue of objective indicators (events of default) includes quantitative and qualitative data, such as the following:

- Bankruptcy risk
- Composition agreement
- Composition proceedings initiated
- Economic crime
- Termination of loan agreements by other banks
- Default longer than 90 days on the repayment of a loan principal and/or interest that has been continued in any account of the customer, or a credit limit granted to the customer that has been exceeded.

Expected losses constitute a statistical measure that reflects the amount of the most probable credit loss from the economic point of view (taking into account a discount over time and outlays incurred in the debt restructure and recovery process), expected within one year, from the portfolio of credit exposures towards performing borrowers at the beginning of the period. Expected losses constitute the basic category of risk costs and are used in budgeting of banking products' profitability. From such a perspective, they are the risk premium that the Bank should ensure when setting a credit price. They are calculated using the above-mentioned three risk components, i.e. PD, EAD and LGD.

Within the credit risk identification and measurement, the expected losses are compared to write-downs for impairment which are based on losses incurred as at a balance sheet date, and not on expected estimations.

The calculation of the Incurred But Not Reported losses (IBNR) is based on the likelihood that a given credit exposure is reclassified from the performing portfolio into the portfolio of individually impaired assets in a given period of time, referred to as an incubation period, and subsequently the exposure is assigned the default status. The loss incubation period is set for nine (9) months.

Write-downs for impairment on account of IBNR losses are computed and booked monthly, based on the credit portfolio balance (balance sheet and off-balance sheet items) as at the end of a month directly preceding the month in which they have been booked.

**Rating system**

The creditworthiness of customers of the Bank is estimated based on Fortis Masterscale (FMS), a rating system that contains 17 rating classes to assess entities that fulfil the payment obligations and three (3) rating classes for defaults.

Rating is assigned to Commercial Banking BL customers and those Retail Banking BL customers towards which the Bank's total credit exposure exceeds EUR 1,000. The table below presents FMS rating groups and classes with their respective default probabilities assigned.

| Rating Class | Average Probability of Default (PD) (in %) |
|---|---|
| **0** | 0 |
| **1-7** | 0,03 -0,74 |
| **8-10** | 1,01 - 1,87 |
| **11-12** | 2,54 - 3,45 |
| **13-17** | 4,69 - 17,00 |

Borrowers with reference to which there is a probability that the Bank will not recover all the receivables due unless collateral is used, or which are in default for over 90 days regarding any material credit liability due to the Bank, are classified into risk classes: 18, 19 or 20 and are assigned the default status.

Fortis Group has assumed that the assessment of the borrower's risk level obtained using any models applied in Fortis in any countries where the Group operates, should always be presented using the uniform Fortis Masterscale system.

### Credit risk analysis

The tables below present maximum exposure of financial assets and off-balance sheet items to credit risk, the level of write-downs for impairment and provisions for off-balance sheet commitments as at 31 December 2007 and comparative data as at 31 December 2006.

Note 34.1.1

| **Information on exposure quality (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| **Cash and cash equivalents, gross** | **1 590 779** | **2 827 141** |
| - performing | 1 590 779 | 2 827 141 |
| **Financial assets held for trading** | **253 301** | **146 869** |
| - performing | 253 301 | 146 869 |
| **Due from banks, gross** | **228 602** | **199 186** |
| - performing | 228 602 | 199 186 |
| **Loans to Customers, gross** | **11 366 435** | **7 146 778** |
| - performing | 10 711 417 | 6 792 492 |
| - special mention | 399 305 | 120 226 |
| - impaired and uncertain, including: | 139 219 | 85 890 |
| determined on a case-by-case basis | 138 186 | 84 005 |
| determined using a collective method | 1 033 | 1 885 |
| - impaired and doubtful, including: | 116 494 | 148 170 |
| determined on a case-by-case basis | 84 976 | 109 989 |
| determined using a collective method | 31 518 | 38 181 |
| **Investments Available for Sale** | **603 235** | **654 710** |
| - performing | 603 235 | 654 710 |
| **Off-balance sheet commitments granted** | **4 606 568** | **3 536 879** |
| **items related to financing** | **3 730 142** | **2 757 239** |
| - performing | 3 528 255 | 2 656 618 |
| - special mention | 141 974 | 85 285 |
| - impaired and uncertain, including: | 59 363 | 13 960 |
| determined on a case-by-case basis | 59 228 | 13 555 |
| determined using a collective method | 135 | 405 |
| - impaired and doubtful, including: | 550 | 1 376 |
| determined on a case-by-case basis | 245 | 972 |

| | | |
|---|---|---|
| determined using a collective method | 305 | 404 |
| **guarantees** | **876 428** | **779 640** |
| - performing | 833 567 | 757 836 |
| - special mention | 35 474 | 11 798 |
| - impaired and uncertain, including: | 6 843 | 193 |
| determined on a case-by-case basis | 6 728 | 36 |
| determined using a collective method | 115 | 157 |
| - impaired and doubtful, including: | 544 | 9 813 |
| determined on a case-by-case basis | 478 | 9 639 |
| determined using a collective method | 66 | 174 |

The held-for-trading financial assets include positive measurement of derivative instruments whose balance sheet equivalent stood at PLN 352,399 thousand as at 31 December 20007, and PLN 90,586 thousand as at 31 December 2006.

Note 34.1.2

| **Write-offs for impairment and provisions (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| **Write-offs for impairment** | | |
| Cash and cash equivalents | -316 | -166 |
| - for Incurred But Not Reported losses (IBNR) | -316 | -166 |
| Due from banks | -77 | -57 |
| - for Incurred But Not Reported losses (IBNR) | -77 | -57 |
| Loans to Customers | -194 409 | -171 556 |
| - for incurred, reported losses | -145 351 | -138 609 |
| determined on a case-by-case basis | -125 949 | -115 820 |
| determined using a collective method | -19 402 | -22 789 |
| - for Incurred But Not Reported losses (IBNR) | -49 058 | -32 947 |
| **Total write-downs for impairment** | **-194 802** | **-171 779** |
| **Provisions** | | |
| - for off-balance sheet commitments | 4 911 | 735 |
| determined on a case-by-case basis | 4 596 | 325 |
| determined using a collective method | 315 | 410 |
| - for IBNR losses – off-balance sheet commitments | 7 728 | 8 081 |
| **Total provisions** | **12 639** | **8 816** |

Risk assessment expressions used in the above table have the following meaning:

**performing** – no risk has been identified, normal risk;

**special mention** – some weaknesses have been identified in the customer's operations that may have an adverse impact on the timely service of payment obligations in the future. At the same time, there is a need to assign higher risk categories;

**impaired and uncertain** – expressly defined risk, highly probable delay in repayment and Bank's losses likely related to the Customer's failure to meet his payment obligations in the event his situation does not improve.

**impaired and doubtful** – delays in instalment payments, high probability of the Bank's losses related to discontinuation of customer's loan service, problems with liquidity.

Note 34.1.3

| **Analysis of gross loans to customer portfolio (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Performing receivables without impairment | 11 014 603 | 6 840 934 |
| Non-performing receivables without impairment | 96 119 | 71 784 |
| Receivables with impairment determined on a case-by-case basis | 222 462 | 193 994 |
| Receivables with impairment determined collectively | 33 251 | 40 066 |
| **Total loans to customers, gross** | **11 366 435** | **7 146 778** |

The analysis of loans to customers which are neither past-due nor impaired, broken down by rating classes as at 31 December 2007 along with comparative data as at 31 December 2006, is presented in the table below:

Note 34.1.4

| **Performing receivables without impairment (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| 1-7 | 2 445 404 | 1 341 352 |
| 8-10 | 3 532 205 | 2 356 129 |
| 11-12 | 1 750 645 | 1 132 340 |
| 13-17 | 136 694 | 264 114 |
| Unrated | 3 149 655 | 1 746 999 |
| **Total** | **11 014 603** | **6 840 934** |

The "unrated" category covers the Bank's customers that were not assigned the Fortis Masterscale credit rating or had an expired rating. Some customers are not assigned rating pursuant to the rules of application of Fortis Masterscale in the Bank. According to that system, rating assignment procedure is applied only to Commercial Banking BL customers and those Retail Banking BL customers towards which the Bank's total credit exposure exceeds EUR 1000.

The table below presents an aging analysis of financial assets that are past-due but not impaired as at a reporting date.

Note 34.1.5

| **Past-due period of non-performing receivables, without impairment (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| from 1 to 30 days | 78 573 | 65 659 |
| from 31 to 60 days | 15 412 | 4 949 |
| from 61 to 90 days | 2 134 | 1 176 |
| **Total non-performing receivables without impairment** | **96 119** | **71 784** |

The table below presents types of collateral accepted by the Bank to secure credits and loans granted to loans as at 31 December 2007 and comparative data as at 31 December 2006.

Note 34.1.6

| **Nominal value of collateral established in favour of the Bank (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Financial collateral - cash and cash equivalents | 661 647 | 341 605 |
| Financial collateral - other | 10 453 551 | 7 311 744 |
| Non-financial collateral - tangible | 11 590 331 | 7 541 216 |
| Non-financial collateral - other | 285 642 | 247 663 |
| Guarantees and sureties | 6 290 037 | 4 135 169 |
| **Total collateral received** | **29 281 208** | **19 577 397** |

The collateral presented above includes the following collateral types:

- financial collateral – cash and cash equivalents – collateral established on cash or securities in the form of a guaranty deposit, hold on a bank account or on securities account;
- financial collateral – other – collateral established on investment fund participation units in the form of a hold on an account, transfer of receivables, borrower's promissory notes, power of attorney to administer an account;
- non-financial collateral – tangible – established as registered pledge, ordinary pledge, ownership transfer, mortgage;
- non-financial collateral – other – letter of comfort, letter of intent;
guarantees and suretyships.

The portfolio of customer loans that became impaired include receivables of renegotiated terms and conditions, of PLN 2,335 thousand as at 31 December 2007 and PLN 11,014 thousand as at 31 December 2006.

Below there is an analysis of credit exposures (excl. banks) broken by business lines as at 31 December 2007 and comparative data as at 31 December 2006.

Note 34.1.7

| **Credit exposures broken by business lines 31.12.2007 (in PLN thousand)** | **Retail Banking** | **Merchant & Private Banking** | **Total** |
|---|---|---|---|
| Balance sheet credit exposures | 5 863 293 | 5 503 142 | 11 366 435 |
| Off-balance sheet credit exposures | 1 376 739 | 3 123 804 | 4 500 543 |
| **Total credit exposures, gross** | **7 240 032** | **8 626 946** | **15 866 978** |
| Write-downs for impairment for incurred and reported losses | -86 179 | -59 172 | -145 351 |
| Provisions for off-balance sheet commitments | -1 115 | -3 796 | -4 911 |
| Write-downs for Incurred But Not Reported losses (IBNR) | -29 796 | -26 991 | -56 786 |
| - balance sheet receivables | -27 371 | -21 687 | -49 058 |
| - Off-balance sheet commitments | -2 424 | -5 304 | -7 728 |
| **Total credit exposures, net** | **7 122 942** | **8 536 987** | **15 659 930** |

| **Credit exposures broken by business lines 31.12.2006 (in PLN thousand)** | **Retail Banking** | **Merchant & Private Banking** | **Total** |
|---|---|---|---|
| Balance sheet credit exposures | 3 845 767 | 3 301 011 | 7 146 778 |
| Off-balance sheet credit exposures | 1 021 468 | 2 317 097 | 3 338 565 |
| **Total credit exposures, gross** | **4 867 235** | **5 618 108** | **10 485 343** |
| Write-downs for impairment for incurred and reported losses | -82 294 | -56 315 | -138 609 |
| Provisions for off-balance sheet commitments | -423 | -312 | -735 |
| Write-downs for Incurred But Not Reported losses (IBNR) | -18 667 | -22 361 | -41 028 |
| - balance sheet receivables | -16 491 | -16 456 | -32 947 |
| - Off-balance sheet commitments | -2 176 | -5 905 | -8 081 |
| **Total credit exposures, net** | **4 765 851** | **5 539 120** | **10 304 971** |

Note 34.1.8

| Segment / Risk category 31.12.2007 | Retail Banking Credit exposure value in PLN thousand | in % | Merchant & Private Banking Credit exposure value in PLN thousand | in % | Total |
|---|---|---|---|---|---|
| . | 6 938 502 | 95,8 | 8 028 710 | 93,01 | 14 967 212 |
| Special mention | 137 636 | 1,9 | 439 117 | 5,1 | 576 753 |
| Impaired and: | 163 894 | 2,3 | 159 119 | 1,8 | 323 013 |
| - uncertain | 73 238 | - | 132 187 | - | 205 425 |
| - doubtful | 90 656 | - | 26 932 | - | 117 588 |
| **Total credit exposures, gross** | **7 240 032** | **100** | **8 626 946** | **100** | **15 866 978** |

| Segment / Risk category 31.12.2006 | Retail Banking Credit exposure value in PLN thousand | in % | Merchant & Private Banking Credit exposure value in PLN thousand | W % | Total |
|---|---|---|---|---|---|
| . | 4 688 950 | 96,3 | 5 319 683 | 94,6 | 10 008 633 |
| Special mention | 56 893 | 1,2 | 160 416 | 2,9 | 217 309 |
| Impaired and: | 121 392 | 2,5 | 138 009 | 2,5 | 259 401 |
| - uncertain | 13 553 | - | 86 489 | - | 100 042 |
| - doubtful | 107 839 | - | 51 520 | - | 159 359 |
| **Total credit exposures, gross** | **4 867 235** | **100** | **5 618 108** | **100** | **10 485 343** |

The table below presents an analysis of mortgage loans for individuals, through the relation of disbursed mortgage loans to the value of collateral for repayment of the loans, as at 31 December 2007 along with comparative data as at 31 December 2006.

Note 34.1.9

| Mortgage loans for private individuals 31.12.2007 | PLN | FC | Total |
|---|---|---|---|
| Balance sheet value (in PLN thousand) | 434 572 | 2 225 735 | 2 660 307 |
| Average maturity (years) | 20,5 | 25,7 | 25,0 |
| Average LTV (%) | 85,6% | 88 ,9% | 88,4% |

| Mortgage loans for private individuals 31.12.2006 | PLN | FC | Total |
|---|---|---|---|
| Balance sheet value (in PLN thousand) | 202 368 | 1 371 345 | 1 573 712 |
| Average maturity (years) | 17,0 | 24,5 | 23,5 |
| Average LTV (%) | 84,0% | 88,1% | 87,7% |

The table below presents credit portfolio concentration, gross, for balance sheet and off-balance sheet exposures (excl. banks) broken by sectors, as at 31 December 2007 and comparative data as at 31 December 2006. The data below exclude write-downs for impairment.

Note 34.1.10

| **Credit portfolio by sectors** | **31.12.2007** | | **31.12.2006** | |
|---|---|---|---|---|
| | **in PLN thousand** | **in %** | **in PLN thousand** | **in %** |
| Natural persons | 3 474 053 | 21,89 | 2 075 041 | 19,79 |
| Wholesale | 2 531 651 | 15,96 | 1 861 472 | 17,75 |
| Education, medical care | 1 368 557 | 8,63 | 842 090 | 8,03 |
| Machines | 991 586 | 6,25 | 782 256 | 7,46 |
| Commercial construction and engineering | 918 221 | 5,79 | 531 770 | 5,07 |
| Chemicals and plastics | 748 753 | 4,72 | 373 304 | 3,56 |
| Food, tobacco, beverages | 700 142 | 4,41 | 559 735 | 5,34 |
| Retail trade | 679 421 | 4,28 | 500 520 | 4,77 |
| Wood, woodwork | 447 109 | 2,82 | 162 477 | 1,55 |
| Sports, tourism, culture and arts | 357 519 | 2,25 | 204 471 | 1,95 |
| Vessels | 316 453 | 1,99 | 181 854 | 1,73 |
| Motor vehicles | 283 986 | 1,79 | 184 643 | 1,76 |
| Financial institutions | 244 271 | 1,54 | 250 204 | 2,39 |
| Furniture and electrical industry | 238 448 | 1,50 | 174 147 | 1,66 |
| Administration services | 214 493 | 1,35 | 159 418 | 1,52 |
| Textiles, leather articles | 198 056 | 1,25 | 149 219 | 1,42 |
| Ceramics and glass | 169 333 | 1,07 | 174 195 | 1,66 |
| Transport | 162 352 | 1,02 | 143 632 | 1,37 |
| Print shops and publishers | 151 567 | 0,96 | 112 114 | 1,07 |
| Paper and stationery | 118 307 | 0,75 | 137 720 | 1,31 |
| Other means of transport: | 91 647 | 0,58 | 106 572 | 1,02 |
| Production of metals and nonmetals | 71 763 | 0,45 | 39 367 | 0,38 |
| Residential construction | 61 047 | 0,38 | 44 516 | 0,42 |
| Communications | 33 902 | 0,21 | 20 247 | 0,19 |
| Other services | 56 929 | 0,36 | 33 942 | 0,32 |
| Other production | 406 926 | 2,56 | 176 488 | 1,68 |
| Others | 830 486 | 5,24 | 503 929 | 4,83 |
| **Total credit portfolio by sectors** | **15 866 978** | **100,00** | **10 485 343** | **100,00** |

## Credit risk concentration

The Bank fully complies with and monitors limits under the Banking Law Act that define levels of receivables concentrations bearing risk of one entity or entities affiliated by capital or management.

Pursuant to Article 71 of the Banking Law Act, maximum limits for the Bank were as follows:

- PLN 345,130 thousand (under the law, 25% of the Bank's equity) as regards the Bank's exposure towards each entity or entities affiliated by capital or management, where none of them is affiliated with the Bank,

- PLN 276,104 thousand (under the law, 20% of the Bank's equity) as regards the Bank's exposure towards each entity or entities affiliated by capital or management, where any of such entities is the Bank's parent entity or subsidiary, or a subsidiary of the Bank's parent entity,

- PLN 138,052 thousand (under the law, 10% of the Bank's equity) as regards the limit that defines the level that determines large exposure.

The Bank did not exceed the maximum exposure limit towards any customer or capital group as stipulated under the Banking Law Act, either in the period from 1 January 2007 through 31 December 2007, or in the period from 1 January 2006 through 31 December 2006.

## Liquidity, FX and interest rate 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 horizon.

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

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

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

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

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

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

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

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

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

In its policy the Bank has adopted a rule that business functions (direct transaction conclusion), operating functions (e.g. transaction booking, transaction settlement), control functions (risk level measurements and monitoring), that are part of the FX, interest rate and liquidity risk management, are performed by units that are mutually organisationally separate and report to different Members of the Board of Executives.

The policy that consists in a plain separation of:

- business functions from the risk level control functions - is to ensure that the quality of FX and interest rate risk level control would not deteriorate as a result of an internal conflict of interest, and that any control results that show an excessive FX risk would trigger an appropriate reaction of the Bank's management,
- operating functions from the risk control function - is to ensure that the quality of risk level control would not worsen as a result of an internal conflict of interest, and that any control results that show an excessive risk level would trigger an appropriate reaction of the Bank's management,
- operating functions from business functions - is to ensure that the quality of operating processes would not decrease as a result of an internal conflict of interest.

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

The Bank obtained no financial or non-financial assets by taking over collateral established to improve the credit terms and conditions, either in 2007 or in 2006.

## Liquidity Risk

The Bank identifies the following liquidity types:

- Immediate liquidity – within a current day,
- Future liquidity – for a period exceeding the current day, which may be further broken down by the following:
  - Current liquidity – within the term up to 10 days
  - short-term liquidity – up to 3 months,
  - mid-term liquidity – from 3 months up to 1 year,
  - long-term liquidity – from 1 year up to three years,
  - long-term liquidity – up to five years,
  - long-term liquidity – up to ten years.

The Bank defines liquidity risk as the risk of losing its ability to:

- settle its payment obligations timely,
- acquire funds alternative to the funds currently held,
- generate positive cash flow balance within a specified time horizon.

The Bank's strategy consists in the following:

- Ensuring high quality standards for the liquidity management processes. Under the strategy, steps towards quality improvement of the liquidity management processes have been assigned the top priority at the Bank;
- Striving to ensure that the Bank's dependence on market conditions is limited to such an extent that in a market crisis the Bank will be able to keep its liquidity for three months, without limiting the range of services or initiating changes in the core business. In the event of a market crisis lasting for a longer period, the Bank's strategy provides that liquidity is sustained, however, the previous development direction might be changed in this situation and the Bank would allow for costly changes in the business profile;
- Minimisation, in an active way, of the prospect for the occurrence of unfavourable events for the Bank. Since, however, the probability that such factors occur may not be completely eliminated, the Bank's strategy consists also in ensuring that, should such factors occur, the Bank will sustain its financial liquidity at minimum own costs (measurable and immeasurable) and take efficient steps to regain the confidence of customers and financial institutions as soon as possible.

In addition to deposit base of non-bank customers, the chief source of financing are loans extended by Fortis. The Bank is provided with a permanent source of financing through long-term loans.

As at 31 December 2007, the structure of loans disbursed was as follows:

EUR 60 million – maturity in June 2012;

CHF 210 million – maturity in June 2012;

CHF 242 million – maturity in June 2012;

PLN 725 million – maturity in June 2012;

CHF 100 million – maturity in July 2011;

PLN 790 million – maturity in July 2011;

EUR 18 million – maturity in July 2011;

CHF 88 million – maturity in July 2011;

EUR 10 million – maturity in May 2010;

EUR 30 million – maturity in April 2008;

CHF 160 mln – maturity in April 2008.

The loans maturing in April 2008 have been rolled-over for a subsequent two-year period. On 6 December 2007, the Bank entered into a credit agreement with Fortis Finance Belgium S.C.R.L./C.V.B.A. based in Brussels, under which the Bank has access to a credit facility in the amount equivalent to EUR 200 million, maturing in 2010.

Note 34.2.1

| Liquidity gap (in PLN million) | | Amount | Unused limit | Limit | % of the limit used | Limit has been exceeded |
|---|---|---|---|---|---|---|
| 31.12.2007 | 10D | 1 352 | 126 | 1 478 | 91% | No |
| | 3M | 2 009 | -544 | 1 466 | 137% | Yes |
| | 1Y | 1 272 | - | 1 272 | 100% | No |
| 31.12.2006 | 10D | 472 | 693 | 1 165 | 41% | No |
| | 3M | 50 | 1 102 | 1 153 | 4% | No |
| | 1Y | -372 | 1 491 | 1 119 | -33% | No |

The three-month gap limit was exceeded as at 31 December 2007 because the available though unused loan extended by Fortis Bank Belgium of EUR 200 million was not taken into account. If the aforesaid loan amount had been accounted for the limit would not have been exceeded.

The table below presents an analysis of balance sheet items and derivative instruments broken by residual maturity as at 31 December 2007 and comparative data as at 31 December 2006.

Note 34.2.2

| **31.12.2007 (in PLN thousand)** | Without any maturity determined | **up to 1 month** | **1 - 3 months** | **3 - 12 months** | **1 - 3 years** | **3 - 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 560 348 | 1 030 115 | - | - | - | - | - | **1 590 463** |
| Financial assets held for trading | - | 64 215 | 56 292 | 70 268 | 5 636 | 43 134 | 13 756 | **253 301** |
| Due from banks | -77 | 35 510 | 40 711 | 151 991 | 390 | - | - | **228 525** |
| Loans to Customers | 2 113 297 | 440 572 | 351 789 | 1 660 554 | 2 012 759 | 1 130 346 | 3 462 709 | **11 172 026** |
| Investments Available for Sale | 18 196 | - | - | 95 835 | 219 261 | 179 939 | 90 004 | **603 235** |
| Other assets | - | - | - | - | - | - | - | **363 464** |
| **Long position** | **2 691 764** | **1 570 412** | **448 792** | **1 978 648** | **2 238 046** | **1 353 419** | **3 566 469** | **14 211 014** |
| Financial liabilities held for trading | - | 48 073 | 58 159 | 77 196 | 4 209 | 6 617 | 7 127 | **201 381** |
| Due to banks | 103 769 | 1 801 978 | 17 057 | 483 626 | 306 934 | 3 068 400 | 113 781 | **5 895 545** |
| Due to Customers | 1 446 520 | 4 198 543 | 241 757 | 94 094 | 3 162 | 16 119 | 307 233 | **6 307 428** |
| Subordinated liabilities | - | - | - | - | - | - | 358 200 | **358 200** |
| Other liabilities | - | - | - | - | - | - | - | **1 448 460** |
| **Short position** | **1 550 289** | **6 048 594** | **316 973** | **654 916** | **314 305** | **3 091 136** | **786 341** | **14 211 014** |
| **Gap – balance sheet** | **1 141 475** | **-4 478 182** | **131 819** | **1 323 732** | **1 923 741** | **-1 737 717** | **2 780 128** | **-** |
| **Derivative instruments** | | | | | | | | |
| Amounts bought | - | 5 717 776 | 2 936 503 | 4 743 442 | 925 860 | 770 693 | 897 785 | **15 992 059** |
| Amounts sold | - | 5 817 627 | 3 056 403 | 4 760 647 | 944 569 | 770 693 | 897 785 | **16 247 724** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Gap – off-balance sheet** | **-** | **-99 851** | **-119 900** | **-17 205** | **-18 709** | **-** | **-** | **-255 665** |

| **31.12.2006** (in PLN thousand) | Without any maturity determined | **up to 1 month** | **1 - 3 months** | **3 - 12 months** | **1 - 3 years** | **3 - 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 356 819 | 2 470 156 | - | - | - | - | - | **2 826 975** |
| Financial assets held for trading | - | 8 293 | 16 017 | 22 456 | 5 982 | 62 894 | 31 227 | **146 869** |
| Due from banks | -57 | 22 933 | 5 326 | 15 632 | 155 295 | - | - | **199 129** |
| Loans to Customers | 1 118 006 | 328 362 | 278 200 | 1 134 572 | 1 249 989 | 771 073 | 2 095 020 | **6 975 222** |
| Investments Available for Sale | 18 196 | 4 997 | - | 48 025 | 384 203 | 139 020 | 60 269 | **654 710** |
| Other assets | - | - | - | - | - | - | - | **192 903** |
| **Long position** | **1 492 964** | **2 834 741** | **299 543** | **1 220 685** | **1 795 469** | **972 987** | **2 186 516** | **10 995 808** |
| Financial liabilities held for trading | - | 10 637 | 15 338 | 23 295 | 7 069 | 1 862 | 2 926 | **61 127** |
| Due to banks | 87 198 | 2 099 174 | 2 704 | 16 226 | 943 267 | 1 158 314 | 649 094 | **4 955 977** |
| Due to Customers | 1 080 422 | 2 956 295 | 213 049 | 75 524 | 3 487 | 20 253 | 278 327 | **4 627 357** |
| Other liabilities | - | - | - | - | - | - | - | **1 351 347** |
| **Short position** | **1 167 620** | **5 066 106** | **231 091** | **115 045** | **953 823** | **1 180 429** | **930 347** | **10 995 808** |
| **Gap – balance sheet** | **325 344** | **-2 231 365** | **68 452** | **1 105 640** | **841 646** | **-207 442** | **1 256 169** | **-** |
| **Derivative instruments** | | | | | | | | |
| Amounts bought | - | 1 167 102 | 3 158 428 | 7 687 569 | 2 908 004 | 286 446 | 527 316 | **15 734 865** |
| Amounts sold | - | 1 069 592 | 2 957 815 | 7 286 613 | 2 907 959 | 286 446 | 527 316 | **15 035 741** |
| **Gap – off-balance sheet** | **-** | **97 510** | **200 613** | **400 956** | **45** | **-** | **-** | **699 124** |

## FX risk

The Bank's strategy consists in ensuring high quality standards for the currency risk management processes. Under the strategy, steps towards quality improvement of the currency risk management processes have been assigned high priority at the Bank.
Pursuant to the Bank's strategy regarding exposures to market currency risk, the Bank makes transactions that result in assuming currency positions sensitive to market FX rate changes in order to generate a positive financial result.
Moreover, the level of the Bank's exposure to the market currency risk is at all times limited by a ceiling in such a way as to be able to ensure with high probability that:

- in a situation of an ordinary (not emergency) market volatility, on any day of a calendar year, the annual cumulated financial profit/loss (generated on account of the Bank's exposure to the currency risk), does not reach a loss exceeding the double profit planned for this year (on account of the Bank's exposure to the currency risk),
- in a situation of a market crisis, on any day of a calendar year, the annual cumulated financial profit/loss (generated on account of the Bank's exposure to the currency risk), does not reach a loss exceeding 10% of the capital.

Pursuant to the Bank's policy, the FX market risk is managed by the Treasury Department. The Treasury Department manages the risk by managing the Bank's FX position through entering into FX transactions with

Customers and other banks. To manage the FX position effectively and precisely, the Treasury Department uses the Bank's information system, which provides online up-to-date information on the following:

- FX position,
- global FX position,
- intraday Value at Risk (VaR),
- night VaR,
- intraday financial result achieved from FX position management (after deducting risk-free commercial margins).

End-of-day values are prepared and reported by the Market and Liquidity Risk Management Department.
In its policy, the Bank pays special attention to the quality of the methodology applied to VaR determination. Value at Risk (VaR) – is the measure by which the market value of an asset or a portfolio of assets can diminish with specific assumptions, in defined time and with a predetermined probability. The VaR must be determined with the 99% confidence level. The VaR calculation for F/X risk includes the one-day term for keeping FX positions. This methodology is subject to an annual quality control by comparing the projected values with the values determined on the basis of actual FX rate changes, assuming that the given FX position is maintained (a historical review or the so-called 'back testing'). The comparative period refers to the last 250 business days.

Information on the FX position and VAR limit utilisation is presented in the table below:

Note 34.3.1

| **Information on FX risk (in PLN thousand)** | **31.12.2007** | | **31.12.2006** | |
|---|---|---|---|---|
| Position limit utilization | 15% | 22 744 | 23% | 16 240 |
| VaR limit utilization | 23% | 279 | 8% | 35 |

Effective 1 February 2007, new limits were introduced for the FX risk portfolio managed by the Treasury Department. Taking into account the new limits, their utilisation since the beginning of 2007 was as follows:

Note 34.3.2

| **1.01.2007 – 31.12.2007** | **Limit utilisation** | | |
|---|---|---|---|
| | **minimum** | **medium** | **maximum** |
| **VaR** | 2% | 12% | 50% |
| **Global FX position** | 4% | 13% | 30% |

The table below presents currency structure of assets and liabilities of the Bank in PLN equivalents, as at 31 December 2007 along with comparative data as at 31 December 2006.

Nota 34.3.3

| **FX position components** | **31.12.2007** | | **31.12.2006** | |
|---|---|---|---|---|
| **(in PLN thousand)** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **HUF** | 65 | 383 | 716 | 90 |
| **CZK** | 283 | 4 454 | 131 | 812 |
| **AUD** | 249 | 323 | 1 010 | 707 |
| **JPY** | 2 519 | 283 | 2 936 | 865 |
| **USD** | 507 739 | 573 721 | 1 014 505 | 705 527 |
| **CAD** | 1 528 | 1 615 | 2 290 | 1 504 |
| **GBP** | 89 289 | 88 724 | 72 285 | 66 115 |
| **DKK** | 39 606 | 22 320 | 4 232 | 331 |
| **NOK** | 54 115 | 16 045 | 8 471 | 6 194 |
| **CHF** | 2 326 553 | 1 793 333 | 1 407 883 | 1 295 588 |
| **SEK** | 35 483 | 21 975 | 7 497 | 3 921 |

| | | | | |
|---|---|---|---|---|
| **EUR** | 2 674 748 | 2 850 280 | 1 715 818 | 1 840 185 |
| **SKK** | 9 | 498 | 201 | 467 |
| **PLN** | 8 478 823 | 8 836 403 | 6 757 833 | 7 073 502 |
| **Other convertible currencies** | 5 | 657 | - | - |
| **Total** | **14 211 014** | **14 211 014** | **10 995 808** | **10 995 808** |

## Interest Rate Risk

The Bank's strategy with respect to exposures to market interest rate risk consists in the Bank's making operations resulting in assuming open interest rate risk positions in order to generate a positive financial result. Moreover, the level of the Bank's exposure to the market interest rate risk is at all times limited by a ceiling in such a way as to be able to ensure with high probability that:

- in a situation of an ordinary (not emergency) market volatility, on any day of a calendar year, the cumulated financial profit/loss[1] amount (generated on account of transactions subject to the exposure to the market interest rate risk), together with the cumulated change of the capital value[2] does not reach a negative value exceeding the profit planned for this year (on account of transactions subject to the exposure to the market interest rate risk),
- in a situation of an ordinary (not emergency) market volatility, on any day of a calendar year, the cumulated financial profit/loss amount (generated on account of transactions subject to the exposure to the market interest rate risk), together with the cumulated change of the capital value' does not reach a negative value exceeding 10% of the capital,

The market interest rate risk is concentrated in the aforesaid two separate portfolios: GMK IR portfolio managed by the Treasury Department and ALM portfolio managed by the Market Risk, Liquidity and ALM Committee. Under the Bank's policy the interest rate risk is analysed in each of the said portfolios separately, as well as on the level of the entire banking portfolio.

The Bank's policy determines three basic analysis types for the banking portfolio and the ALM Portfolio.
The analyses constitute an integral part of the interest rate risk mitigation system in the Bank and are carried out monthly or quarterly – as described below.

1. Value at Risk (VaR) analysis for the banking portfolio and ALM portfolio

The VaR is computed with the 99% confidence level and for two-month period of keeping a fixed interest rate risk position. The analysis is conducted every month.

2. Earnings at Risk (EaR).

The analysis consists in simulations of future (within the next three years) net interest earnings assuming diverse interest rate curve scenarios. The simulations are made on the current balance sheet structure which changes dynamically under the impact of the budget plans' performance and in response to interest rate curve changes. Under the policy, simulations are made at least quarterly and at least for the following six basic scenarios of an interest rate curve.

- The Central Scenario – which consists in keeping the actual interest rate curve.
- Forward Scenario – which consists in the assumption that future interest rate curves will be actually consistent with the currently observed future interest rate levels.
- The (+ 100bp) Shift Scenario – which consists in a parallel shift of the actual interest rate curve up by 100 bp. The shift takes place in the first month subject to the simulation, and then the curve shape does not change any longer.
- The (- 100bp) Shift Scenario – which consists in a parallel shift of the actual interest rate curve down by 100 bp. The shift takes place in the first month subject to the simulation, and then the curve does not change any longer.

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[1] i.e., cumulated year-to-date, or for the period from the beginning of the calendar year until the given day of the calendar year.

[2] Cumulated change of the capital value, understood as the cumulated change in the fair value of financial instruments (resulting from the change of interest rates), the measurement of which, in the light of the binding accounting provisions, is recorded in the Bank's capital.

- The (+100 bp KT - 100 bp LT) Scenario – otherwise called flattening, consists in changing the current curve shape by moving it up at the 1M level by 100 bp and moving it down at the level of 10Y by 100 bp. The shift takes place in the first month subject to the simulation, and then the curve shape does not change any longer.
- The (-100 bp KT + 100 bp LT) Scenario – otherwise called steepening, consists in changing the current curve shape by moving it down at the 1M level by 100 bp and moving it up at the level of 10Y by 100 bp. The shift takes place in the first month subject to the simulation, and then the curve shape does not change any longer.

3. Sensitivity to the parallel shift of the interest rate curve (+100 bp shift). The analysis consists in determination of sensitivity of net present value of the Bank's assets and liabilities, to the parallel interest rate curve shift up by 100 bp. The sensitivity is determined as an absolute value of the difference between the net current value of assets and liabilities obtained by (i) discounting with the current curve and (ii) discounting with the curve shifted up by 100 bp. The analysis is made every month.

**Basic interest rate analyses made for the Interest Rate portfolio managed by the Treasury Department (GMK IR).**

Pursuant to the Bank's policy, two basic analysis types are made for the portfolio. The analyses constitute an important and integral part of the interest rate risk mitigation system in the Bank and are carried out every day – as described below.

1. Value at Risk (VaR) analysis.

The VAR is computed with the 99% confidence level and for one-day period of keeping a fixed interest rate risk position. The analysis is conducted every day.

2. Modified Duration (N) analysis.

The purpose of the analysis is a determination of the first derivative of (Modified Duration(N)), a function describing the present value of the portfolio depending on the variable i.e. the interest rate. The analysis is conducted every day.

**Additional analyses**

In addition to the above, basic interest rate risk analyses of key importance for the interest rate risk mitigation, in its Policy the Bank runs a set of standard interest rate risk analyses.

1. Basis Point Sensitivity.

The BPS methodology constitutes an estimation of the portfolio present value sensitivity to changes at specific points of interest rate curves by 1 basis point (0.01%).

2. Analyses of sensitivity to extreme interest rate changes (stress tests).

In addition to the aforesaid analyses aimed at the estimation of the portfolio sensitivity (understood as the adjustment of the present value and of future net interest earnings) to the interest rate changes on the market, the Bank carries out analyses to estimate the sensitivity to extreme interest rate changes, i.e. the ones considerably higher than usually noted. The analyses are conducted for the banking portfolio.

**Information on interest rate risk**

As at the end of 2007 and in the comparative period of 2006, the Bank's interest rate change risk was the following:

Note 34.4.1

| **2-month VaR on the banking portfolio (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| | 12 110 | 17 049 |

Note 34.4.2

| **Bp sensitivity (+1bp): 31.12.2007 (w tys. PLN) 1** | **CHF** | **EUR** | **PLN** | **USD** | **Others** | **Total** |
|---|---|---|---|---|---|---|
| **D7** | -0,5 | -1,2 | -1,8 | - | - | -3,5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **M1** | -2,4 | 3,1 | -4,4 | 0,9 | 0,1 | -2,7 |
| **M3** | -0,1 | -1,6 | -8,2 | 0,1 | - | -9,8 |
| **M6** | 0,4 | -0,5 | -5,3 | - | - | -5,4 |
| **M9** | - | 0,3 | -6,1 | 0,1 | - | -5,7 |
| **M12** | - | - | -2,5 | - | - | -2,5 |
| **Y2** | - | -0,7 | -37,9 | - | - | -38,6 |
| **Y3** | - | -1,4 | -20,9 | - | - | -22,3 |
| **Y5** | - | -1,1 | -25,4 | - | - | -26,5 |
| **Y10** | - | 0,2 | -4,6 | - | - | -4,4 |
| **Total** | -2,6 | -2,9 | -117,1 | 1,1 | 0,1 | |

| **Bp sensitivity (+1bp): 31.12.2006 (in PLN thousand)** | **CHF** | **EUR** | **PLN** | **USD** | **Others** | **Total** |
|---|---|---|---|---|---|---|
| **D7** | -0,2 | -0,6 | 0,1 | -0,3 | - | -1,0 |
| **M1** | 0,6 | 3,1 | -1,8 | 1,2 | 0,1 | 3,2 |
| **M3** | -2,8 | 1,2 | -12,5 | 0,1 | - | -14 |
| **M6** | -1,8 | 3,1 | -19,0 | 0,1 | - | -17,6 |
| **M9** | - | 0,2 | -6,2 | 0,2 | - | -5,8 |
| **M12** | - | 0,1 | -36,9 | 0,2 | - | -36,6 |
| **Y2** | - | -0,7 | -35,4 | 0,1 | - | -36,0 |
| **Y3** | - | -1,2 | -15,7 | - | - | -16,9 |
| **Y5** | - | -1,3 | -31,5 | - | - | -32,8 |
| **Y10** | - | - | -9,5 | - | - | -9,5 |
| **Total** | -4,2 | 3,9 | -168,4 | 1,6 | 0,1 | |

Effective 1 February 2007, new limits were introduced for the interest rate risk portfolio managed by the Treasury Department. Taking into account the new limits, their utilisation since the beginning of 2007 was as follows:

Note 34.4.3

| **1.01.2007 – 31.12.2007** | **Limit utilisation** | | |
|---|---|---|---|
| | **minimum** | **medium** | **maximum** |
| **VaR** | 9% | 27% | 53% |
| **Global interest rate position** | 3% | 40% | 74% |

## Counterparty risk

Counterparty risk is the risk of the counterparty's default on its liabilities under contracts included in the Bank's trading portfolio. The counterparty risk is related to exposures at risk of such market factors as interest rates or FX rates. The impact of market factors on transactions can result in a change in the exposure scale over time, thus generating credit risk when customer is insolvent. Actual exposure depends on contract measurement and surcharge that depends on a transaction type, customer type and settlement dates.

As at the end of 2007, the counterparty risk calculation included the following transaction types included in the Bank's trading portfolio:

- day-to-day foreign exchange contracts
- interest rate contracts
- FX options

- interest rate options

## Fair value

Note 34.5.1

| Fair value table (in PLN thousand) | 31.12.2007 Balance sheet value | Fair value | 31.12.2006 Balance sheet value | Fair value |
|---|---|---|---|---|
| Cash and cash equivalents | 1 590 463 | 1 590 434 | 2 826 975 | 2 826 127 |
| Due from banks | 228 525 | 228 462 | 199 129 | 198 283 |
| Loans to Customers | 11 172 026 | 11 050 168 | 6 975 222 | 6 831 768 |
| | | | | |
| Due to banks | 5 895 545 | 5 814 213 | 4 955 977 | 4 868 323 |
| Due to Customers | 6 307 428 | 6 303 603 | 4 627 357 | 4 624 519 |

The Bank calculates fair values presented in the table based on market interest rates. Interest rates obtained from the market enable to determine a market yield curve that shows discounting ratios for the future cash flow at any date. The curve is used to discount future cash flows for specific financial instruments.
A fair value of a financial instrument is determined as the total of discounted future cash flows regarding such an instrument.
The Bank determines fair values by discounting future cash flows using interest rate curves that reflect market conditions relevant for such loans.

An interest rate curve used to calculate a loan fair value consists of the total of:
- interest rate curve free of credit risk
- market margin

For instruments where future cash flows cannot be determined it is assumed that their fair value equals the carrying value.

## Operational 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 risk, 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 and policy regarding the operational risk management are described in the document adopted by the Bank: "Operational Risk Management. Strategy and Policy of Fortis Bank Polska S.A." The document defines, *inter alia*, objectives regarding:

- quality of operational risk management,
- the manner of the Bank's adjustment to legal requirements.

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

The Bank's Board of Executives makes a periodic assessment of how the Bank operational risk management strategy assumptions are 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 is a dedicated Operational Risk and Business Continuity Committee at the Bank. Members of that Committee include the Risk Line Director (CRO) and directors of selected units of the Bank's head office who support the implementation of the Committee recommendations with respect to their respective areas of responsibility. The Committee addresses running recommendations on the Bank's operational risk and business continuity management to the Risk and ALM Committee.

Depending on needs, meetings of the above committees are attended also by other people who provide content-related support relative to their field of specialisation.

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 policy applied by the Bank as regards the manner of recording operational losses is to enable efficient and error-free registration of all operational losses. The loss recording process is supervised by the Operational Risk Management Department which also keeps content-related documentation of the data registered and is responsible for data quality and completeness.

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. Therefore, each operational loss is classified taking into account operational incident type, reasons why operational risk has arisen, existence of an affiliated risk, accounting consequences and a claim lodged, if any, by third parties.

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

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.

On the basis of recommendations issued by the Operational Risk and Business Continuity Committee regarding the areas of the Bank's activity of increased operational risk level, the Risk and ALM Committee takes decisions on further actions of the Bank leading to operational risk mitigation or acceptance, or discontinuation of operations accompanied by that risk. The Risk and ALM Committee can also decide on the need to insure an identified risk.

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

In connection with the fact that the Bank is part of Fortis any rules binding at the Bank with respect to operational risk management are consistent with, or uncontradictory to, the methodology binding for all Fortis entities.

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.

The Risk Line Director exercises an overall supervision over the Bank's actions under the business continuity program at Fortis Bank Polska SA. The Risk Line Director and the Operational Risk and Business Continuity Committee members, who support his actions in their respective areas of responsibility, are the Managers of the business continuity program at the Bank. At the level of basic organisational units, business continuity actions are the responsibility of designated Coordinators.

The Bank develops business continuity plans that precisely describe actions that should be taken to restore business functions before, during and after an incident.

## Capital management

### Capital adequacy

The present policy of the Bank regarding maintaining adequate level of equity funds refers to the capital adequacy category, solvency ratio and the structure of equity funds described in the Banking Law and its relevant administrative law provisions.

The basic goal of FBP in the analysed period is to maintain the equity funds at the level that guarantees the solvency ratio of at least 9%.

Should there arise any risk of going below that threshold (i.e. below 9%), the Bank will undertake steps aimed at the equity funds' increase, including the Tier 1 funds, and in particular the share capital, additional capital and reserve capital.

The consistent policy of building the core capital, applied in recent years, has provided the Bank with a foundation that now ensures a greater flexibility in looking for alternative sources of financing its business activity.

Note 34.6.1

| **Capital adequacy and financial liquidity (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Share capital | 503 135 | 503 135 |
| Additional capital | 308 656 | 308 814 |
| Other capital | 183 200 | 74 934 |
| Subordinated liabilities included in the capital* | 358 200 | - |
| Other elements of the equity capital included in the capital adequacy ratio calculation | 67 810 | 67 909 |
| **Gross equity capital, total** | **1 421 001** | **954 792** |
| **Deductions** | | |
| Capital shares in financial entities | 18 196 | 18 196 |
| Net intangible assets | 22 287 | 11 882 |
| **Total deductions** | **40 483** | **30 078** |
| **Net equity capital** | **1 380 519** | **924 714** |
| **Short-term capital** | 14 286 | 9 533 |
| including current profit on the Trading Portfolio | 14 286 | 9 533 |
| **Total equity capital plus short-term capital** | **1 394 805** | **934 247** |
| **Risk-weighted off-balance sheet assets and liabilities** | **11 726 693** | **8 040 041** |
| **Capital requirement for:** | | |
| Credit risk | 938 135 | 643 203 |
| Market risk | 14 286 | 9 533 |
| **Total capital requirement** | **952 421** | **652 736** |
| **Capital adequacy ratio** | **11,72%** | **11,45%** |

*On 21 November 2007, the Bank obtained the consent of the Banking Supervision Commission to include the loan as subordinated debt into Tier 2 capital of the Bank, pursuant to Article 127 of the Banking Law in order to take it into account in the capital adequacy ratio calculation.

As at 31 December 2007 the capital adequacy ratio was 11.72% in comparison to 11.45% as at the end of December 2006. The ratio expresses the proportion between the Bank's capital and its exposure on account of specific risks.
The Bank's equity (as a category computed for calculation of capital adequacy ratio) increased by 49% in versus the end of 2006, while risk-weighted assets and off-balance sheet items increased by 46% in the corresponding period.

Capital requirements for specific risks have been calculated pursuant to rules defined in Resolution no. 1/2007 of the Banking Supervision Commission dated 13 March 2007, regarding the scope and detailed rules of setting out capital requirements for specific risks, including the scope and conditions of use of statistical methods and the scope of information enclosed to applications for the issuance of permit for their use, rules and conditions of taking into consideration agreements on assignment of receivables, subparticipation agreements, credit derivative instrument agreements and agreements other than agreements on assignment of receivables and subparticipation agreements for the needs of setting capital requirements, conditions, scope and manner of use of ratings assigned by external creditworthiness institutions and export credit agencies, the manner and detailed rules of calculation of the banks' capital adequacy ratio, the scope and manner of taking bank's business in holdings into account in the calculation of capital requirements and the capital adequacy ratio likewise the determination of additional items in the bank's balance sheet statement recognised jointly with the equity in the capital adequacy computation and the scope, manner and terms of their setting out (Official Journal of the NBP, no. 2, item 3).

The table below presents minimum capital requirements as at 31.12.07 and for comparative data:

Note 34.6.2

| **Minimal capital requirements (in PLN thousand)** | **31.12.2007** | **31.12.2006** |
|---|---|---|
| Credit risk | 938 135 | 643 203 |
| Market risk, including: | 14 286 | 9 533 |
| - general interest rate risk | 5 707 | 6 768 |
| - delivery settlement and counterparty risk | 8 579 | 2 765 |
| **Total capital requirement** | **952 421** | **652 736** |

## 35. Events after the Balance Sheet Date

On 9 January 2008, Fortis Bank Polska SA 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. Fortis Bank Polska SA and Dominet Bank S.A. remain under joint control.

On 21 February 2008, the Extraordinary General Meeting of the Bank's Shareholders appointed Mr. Marc Luet and Mr. Lucas Willemyns to the Bank's Supervisory Board.

The new Supervisory Board Members were appointed in connection with the resignation of Mr. Thierry Schuman and Mr. Didier Giblet from their functions of the Supervisory Board Members. The new Members will perform their functions until 2010.

On 21 February 2008, the Extraordinary General Meeting of the Bank's Shareholders approved amendments to the Bank's Statute. The amendments will be registered in the National Court Register subject to the consent of the Polish Financial Supervision Authority.

On 25 February 2008, the Bank signed a significant agreement with an entity affiliated by management, i.e. Fortis Banque Luxembourg S.A., on a credit line up to EUR 300 million, or its equivalent in USD or CHF, granted to FBP to finance its current business needs. The credit line was granted for 24 months, starting from 5 March 2008.

# 36. Other Material Information

### Shareholders Holding at least 5% of Total Voting Rights at the AGM

| The shareholder structure as at 31 December 2007 | number of shares owned | share (%) in the equity | number of votes at the AGM | share (%) in the total number votes at the AGM |
|---|---|---|---|---|
| **Fortis Bank S.A./N.V.** | 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% |

Upon registration of the Bank's share capital on January 2, 2007, the share capital is divided into 16,771,180 shares of PLN 30 nominal value each, which entitle to 16,771,180 votes at the Bank's General Meeting.

### Shares of Fortis Bank Polska S.A. held by Management or Supervisory Board Members

As of 31 December 2007 like in the comparable period of the previous year, none of the Board of Executives Members owned any shares issued by Fortis Bank Polska S.A.

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.

Other members of the Supervisory Board, as of 31 December 2007, held neither shares of the Bank nor rights to them.

### Pending Proceedings before Court, Relevant Arbitration Body or Public Administration Body

In 2007, there were no pending proceedings related to the obligations or claims of the Bank or its subsidiary before court, relevant authority for arbitration or state administration bodies, whose total value would account for at least 10% of the Bank's equity.

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

| | | |
|---|---|---|
| 2.04.2008 r | Alexander Paklons<br>President of the Board of Executives | ........................................................<br>signature |
| 2.04.2008 | Jan Bujak<br>Senior Vice-President of the Board of Executives<br>Chief Financial Officer | ........................................................<br>signature |
| 2.04.2008 | Bartosz Chytła<br>Vice-President | ........................................................<br>signature |
| 2.04.2008 | Jean – Luc Deguel<br>Vice-President | ........................................................<br>signature |
| 2.04.2008 | Jaromir Pelczarski<br>Vice-President | ........................................................<br>signature |
| 2.04.2008 | Thierry Lechien<br>Vice-President | ........................................................<br>signature |