

Board of Executives Report  
on Fortis Bank Polska S.A. Activity  
for the First Half of 2007



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

### A. Key factors and events that affected the Bank's financial performance in 1H 2007

In the first half of 2007, Fortis Bank Polska SA generated the best financial results in its history. Net profit of PLN 86.4 million was higher by 81.2% than the net profit earned in the corresponding period of 2006, while the gross profit increased by PLN 43.3 million up to PLN 103 million.

The Bank's business efficiency improved further: return on equity (ROE) increased by 3.4 p.p. up to 19.2%, while the return on assets (ROA) improved by 0.05 p.p. up to 1.65%.

The financial performance of Fortis Bank Polska S.A. in the first half of 2007 results not only from the good macroeconomic situation and increased customer demand for financial services but also from further business development and fast growing sales of strategic products, both in retail and commercial banking segments. Furthermore, the Bank continued its strategy, adopted in 2006, to increase the Bank's share in the mortgage loan market and savings and investment products' market, improve the product offering to provide customers with a comprehensive set of banking services, and to open new branches. All the above actions greatly contributed to the income generated.

As compared to the situation as at the end of June 2006, total assets went up by 49.6% and reached PLN 11.9 billion. The amount of loans granted (PLN 9.1 billion) more than doubled (growth by 58%). Customer deposits (PLN 5.1 billion) also increased (by 35.9%).

The Bank's total income stood at PLN 263 million, which represents 35.9% growth in comparison to the first half of 2006. The net interest income increased by 37.9% while the net commission and fee income grew by 37.1% in comparison to the corresponding period of the previous year; the net profit on transactions in trading financial instruments increased by 24.9%.

The Bank's total operating expenses stood at PLN 147.7 million which was higher by 32.6% than in the corresponding period of 2006. The expenses increased as a result of investments in development of the distribution network and growth of the business activity scale. The income grew by 3 p.p. faster than expenses, thanks to which the CIR decreased by 1.3 p.p. down to 56.2%.

The Merchant & Private Banking Business Line improved its net income by 39%. The growth was generated thanks to a 14% increase of the net interest income, 59% rise in net profit on transactions in trading financial instruments (including a better result on FX transactions), and a net commission and fee income higher by 52%.

In the first half of 2007, the number of customers of the Merchant & Private Banking BL went up by 26%. It is the Customers of this business line who largely contributed to growth of the Bank's overall loan portfolio. Investment loans were especially popular in this group, with their outstanding balance growing by 72% after six months. Working capital loans increased by 30% whereas the biggest growth (by as much as 89%) was noted with respect to overdraft facilities.

The Merchant & Private Banking consists of two Client segments:

- Commercial Banking and
- Private Banking.

The Commercial Banking Business Line (CB BL), which accounts for 95% of the Merchant & Private Banking BL Customers, reported the best results. In the first half of the year, the balance of deposits held by its customers went up by 88%, and the volume of their loans – by 60%. In that business line,

in the beginning of 2007 a new Cash Management Group was created that deals with specialised settlement products. The Treasury Department has expanded its offering for Commercial Banking Clients and introduced energy derivatives in January, and concluded the first transaction on the market to hedge fluctuations of diesel oil price index.

The Private Banking Department closed the first half with a good result: since the end of 2005, when it was established, it gathered PLN 352 million assets from its Customers.

In the first half of 2007, the net income earned by the Retail Banking BL was higher by 33 % compared to the same period last year.

Retail Banking consists of the following Client segments:

- Small Enterprises
- Personal Banking (Affluent)
- Other Individuals,

Strategic products in this segment include investment products and mortgage loans. After two quarters, the balance of investment products reached PLN 0.5 billion, or nearly four times more (371%) than in the second quarter of 2006. Since the beginning of the year, the Bank organised two subscriptions for structured products. First, the Bank offered its Customers a fund investing on international real estate markets, and in March – a three-year PLN fund related with a basket of shares of 25 firms renowned in the world. In the first half of 2007, there were 10 new sub-funds of Fortis L Fund offered by the Bank, in addition to 15 already available. Fortis FIO investment portfolios managed by Fortis Private Investments Polska S.A. proved the most popular among Retail Banking Customers; only in the first two quarters of 2007, the sale of such products was three times higher than in the whole 2006.

Since the beginning of 2007, the Bank granted to Retail Banking customers 1,636 loans, whose balance totalled PLN 2.1 billion. The product sale was much supported by the promotion of mortgage loans.

In March 2007, the Bank offered its Customers a modernised version of PI@net, an internet banking system.

Within distribution network development, new model branches in Łódź, Warsaw, Szczecin and Poznań started their operating activity in the first half of 2007.

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

Fortis position in Poland.

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

### **Economy in the first half of 2007**

#### GDP – growth rate and components

In the first half of 2007 a high economic growth rate was maintained. In the first quarter, the GDP growth rate reached 7.4% YOY, while according to estimations of Fortis Bank Polska, the GDP was at 6.8% YOY during the entire first half of the year. The domestic demand continued to be the main growth factor. In the first half of the year, retail sales went up in real terms by 15.6% YOY which means an obvious improvement in comparison to 11% YOY noted the year before.

As regards sectors of the national economy, in the first half of 2007 the highest rate of production growth was recorded in the building industry (30.2% YOY). The industrial production increased in the period by 10.7% YOY. Among the main industry sectors, the highest production growth was reported for durable consumption goods and investment goods (18% YOY).

#### Labour market

In the first half of 2007, the situation on the labour market continued to improve. The number of the registered unemployed went down in that period by 414,000 people. Furthermore, employment in the sector of enterprises was by 4.4% higher than the year before. The highest employment growth was reported in the building industry (9.7% YOY), real estate service and service of companies (6.2% YOY) and in trade and repairs (5.9% YOY).

In the period in question, high rate of remuneration growth was maintained. In the first half of the year, the real gross remuneration increased by 6.2% YOY in comparison to 4.1% reported in the corresponding period of 2006.

#### Exchange rate and inflation

In the first half of 2007, the inflationary pressure kept rising. The consumer price index (CPI) increased from 1.4% YOY in December 2006 up to 2.6% YOY in June 2007. The highest price growth was noted primarily in the sectors of transport, food and non-alcoholic beverages.

PLN remained under appreciation pressure. In the first half of 2007, an average EUR/PLN rate stood at 3.8452, and was by 1.1% lower than the year before. An average USD/PLN rate was 2.8946 which means that in relation to USD, PLN grew stronger by 8.5% YOY.

#### Foreign trade and balance of payments

In June 2007, the cumulated 12-month current account deficit was EUR -8.7 billion or the equivalent of -3.1% of GDP. In that period, a gradual rise in trade deficit was attributable to the growing domestic demand. In the first half of 2007, the pace of growth of exports, denominated in EUR, stood at 14.1% YOY, while imports grew at the rate of 18.7% YOY.

#### Public finances

The budget deficit for the first half of 2007 was only PLN 3.7 billion, which is an equivalent of 12.3% of the plan for the entire year (the budget deficit planned for the whole 2007 is PLN 30 billion). The above budget performance was over five times better than the average budget execution noted in the corresponding period of the last seven year.

#### Financial performance of enterprises

In the first quarter of 2007, financial results of enterprises were better than the year before. In the analysed period, the total operating income soared by 17.4% YOY while operating expenses went up by 15.8% YOY. In the first three months of 2007, the gross profit/loss of the enterprise sector reached PLN 23.7 billion, i.e. it was evidently better than the year before (PLN 15.9 billion). The net profit/loss was PLN 19 billion versus PLN 12 billion recorded in the first quarter of 2006.

## **The banking sector in the first half of 2007**

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

Because the inflation exceeded the inflation target (2.5% YOY), in April 2007 the Monetary Policy Council raised the interest rates by 25 basis points. It was the first change of the central bank's interest rates since February 2006. In June 2007, the Monetary Policy Council decided to make another, 25-bp interest rate increase. As a result of the above, the NBP reference interest rate went up from 4.00% to 4.50% in the first half of 2007.

According to the NBP's aggregated data, an average interest rate of PLN loans for households and enterprises (excluding overdraft facilities) grew in June 2007 up to 8.0% from 7.2% recorded as the end of 2006. An average interest rate of deposits remained practically unchanged (3.2% in June 2007 versus 3.1% noted at the end of 2006).

In the first half of 2007, a higher growth rate of loans for the private sector was noted. In that period, loans for households grew at the rate of 37.8% YOY (increase from 23.9% YOY in the first half of 2006) while loans granted to the enterprises sector soared at the rate of 17.8% YOY (versus 4.2% YOY reported in the first half of 2006).

### Financial performance of banks

In the first quarter of 2007, the gross profit/loss of the banking sector reached PLN 4.45 billion, and was higher by 25% than the year before. The net profit reached PLN 3.64 billion (+22.3% YOY). Profitability ratios for the sector improved. The gross turnover profitability rate in the first quarter of 2007 was 14.8% while the net turnover profitability rate stood at 12.1% (while in the first quarter of 2006, 11.8% and 9.9%, accordingly).

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

### Changes in the shareholder structure

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

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

As at 30 June 2007 shareholders' structure specifying the major shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders was as follows:

| Shareholder  | Number of shares held | % of shares held | Number of votes at the AGM* | % of votes at the AGM |
|--------------|-----------------------|------------------|-----------------------------|-----------------------|
| Fortis Bank* | 16,635,287            | 99.19%           | 16,635,287                  | 99.19%                |
| Others       | 135,893               | 0.81%            | 135,893                     | 0.81%                 |
| Total        | 16,771,180            | 100%             | 16,771,180                  | 100%                  |

On March 7, 2007 the Banking Supervision Commission issued a permit to Fortis S.A./NV based in Brussels and Fortis N.V. based in Utrecht, through the agency of Fortis Bank S.A./NV based in Brussels to exercise more than 75% of the voting rights at the Bank's Annual General Meeting. As a result of the permit and after the acquisition of new issue shares, Fortis Bank S.A./NV is entitled to exercise voting rights attached to all shares held, i.e. 16,635,287 shares representing 99.19% of the share capital and 16,635,287 voting rights at the Annual General Meeting of the Bank, that constitute 99.19% of total votes.

On of conditions of granting the aforesaid permit is the majority shareholder's commitment to refrain from undertaking any actions leading to withdrawal of the shares of Fortis Bank Polska S.A. from the public trading on the Warsaw Stock Exchange (WSE, Giełda Papierów Wartościowych w Warszawie) until 2017, and to increase the liquidity of the Bank's shares quoted on the WSE up to at least 10-15% within 2 years of issuance of the aforesaid permit.

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

### Stock performance on the Warsaw Stock Exchange

The Bank's shares have been quoted on the primary market of the Warsaw Stock Exchange since November 7, 1994. From April 18, 2001 until January 18, 2004, the Bank's shares were traded in the

two-fixing single price system. Under the Resolution of the WSE Management Board, effective January 19, 2004, the existing trading system of the Bank's shares was replaced by a continuous trading system.

Since 1999, i.e. after Brussels-based Fortis Bank took over 98% of the Bank's shares, the liquidity of shares stood at a low level. At present, in trading there are only 135,893 shares owned by other shareholders, i.e. 0.81% of all the Bank's shares.

At the first session in January 2007, the Bank's shares were traded at PLN 118.70. On 29 June 2007, the Bank's share price increased to PLN 223.00, i.e. by almost 87.9%. The average turnover in the Bank's shares in the first half 2007 was 388 shares per session in comparison to 56 shares per session in 2006.

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

Quotations of the Bank shares and the WIG index from 1 January 2007 until 29 June 2007



The WIG index rose from 51,202.99 as at 2 January 2007 to 66,077.69 as at 29 June 2007 (change by 29.05%) and WIG-banks sector sub-index grew from 54,661.13 as at 30 June 2006 to 87,838.90 as at 29 June 2007 (change by 60.70%). Due to the slight liquidity the Bank's shares are not classified to any of the indices.

Below there are market indices for the shares of Fortis Bank Polska S.A.

| Indices    | 30.06.2007 | 30.06.2006 |
|------------|------------|------------|
| EPS ratio  | 5.15       | 316        |
| P/E ratio  | 27.08      | 20.33      |
| BVPS ratio | 63.38      | 49.01      |
| P/BV ratio | 3.52       | 2.35       |

*The book value per share is PLN 63.38. For proper calculation, the share capital, additional capital, revaluation reserve, other reserve capital, retained earnings from the previous years and the net profit for the fiscal year were included in equity capital.*



### III. THE BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING BUSINESS IN 1H 2007

#### A. Retail Banking

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

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

##### Small Enterprises segment

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

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

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

The Bank offers its Customers payment cards in VISA, the international payment organisation, including: Visa Business Classic cards, Visa Business Gold cards, and Visa Business Electron debit cards. The cards are accompanied by an insurance package including (depending on the card type) e.g. insurance against an unauthorised credit card use, insurance of cash withdrawn from an ATM, insurance of goods purchased with a card, lower price guarantee insurance, medical treatment and medical transport costs.

The Bank offers the following credit products for business entities:

- revolving overdraft facility,
- revolving / non-revolving working capital loan in a loan account,
- debit limit (available for holders of Fortis Class Package / Fortis Connect Package),
- cash loan,
- investment loan,
- investment loan "backed by subsidies," granted to finance projects subsidised by the European Union,
- commercial mortgage loan,
- Multipurpose credit line,

- General Financing Agreement,
- Letters of credit line
- Guarantee credit line.

Furthermore, the Bank offers its Customers FX transactions related to FX risk and interest rate risk. Such transactions are serviced by the Global Markets Business Line (GMK BL).

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

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

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

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

Within the co-operation with Fortis Lease Polska Sp. z o.o., the Bank offers the following lease types: financial lease, operating lease and sale-and-leaseback. The lease can cover movables, real estate, computer hardware and office equipment, likewise other assets, e.g. energy systems, gas turbines, windmills, or solar panels.

### **Personal Banking segment**

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

Within the packages the Bank offers saving and investment products, loan products, payment cards and e-banking services. The Bank also offers VISA Electron cards, credit cards and PI@net Internet banking system.

### Accounts and deposit products

Accounts and deposit products offered by the Bank to individual customers include in particular: Gold or Platinum Account in PLN, which combines deposit and credit offering; it is earmarked for depositing funds and making pecuniary settlements.

The following products and services are available within the account:

- Overnight deposits,
- credit facility in an account – Fast Loan
- standing orders, direct debits, domestic and international transfers,
- Debit cards: Visa Electron
- PI@net internet banking system,
- Call Center.

Foreign currency accounts in EUR and USD.

- Stock Investor's Accounts, earmarked for the service of investment portfolios (asset management service). The Bank maintains such accounts for customers using the services

of Fortis Private Investment Polska,

- standard and negotiated deposits in PLN, USD and EUR for individual customers,
- overnight deposits (a surplus of funds is automatically deposited on an overnight deposit while keeping access to the funds)
- inflation-proof deposit (of variable interest rate pegged to the base rate (1M - WIBID))
- promotional deposits,
- e-deposits (opened using the PI@net Internet banking system and the Call Center).

#### Investment products

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

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

As of 30 June 2007, there were 25 sub-funds of Fortis L Fund offered by the Bank. The international investment Fortis L Fund is an umbrella fund registered in Luxembourg and managed by Fortis Investment Management.

In addition to Fortis L foreign funds offered on an on-going basis, the Bank has periodical subscriptions for Fortis L Fix – foreign investment funds. They are term funds with the principal amount protection, and their profits are related to share markets or other instrument markets. These funds are disbursed in various currencies. In March 2007 the Bank carried out a subscription for the Fortis L Fix Great Brands sub-fund (of the commercial name "Fortis FreeProfit").

#### Asset Management

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

- Long-term debt securities portfolio,
- Treasury debt securities portfolio,
- Money market portfolio,
- Balanced portfolio 3x3
- 6x3 Stock portfolio
- Dividend portfolio (share portfolio)
- Debt securities portfolio in foreign currencies
- Active allocation portfolio with a defined proportion of shares – of the minimum value PLN 500,000 with an option, upon a prior consultation with a FPIP SA investment advisor, to construct an individual portfolio of a minimum initial value of at least PLN 1 million.

The FPIP's offering includes also investment fund portfolios:

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

#### Treasury bills transactions

The Bank provides an option to make Treasury bills transactions for minimum PLN 100,000. T-bills are issued for a period of 1 week to 52 weeks. Treasury bills can be purchased in a treasury bill tender – on the primary market, or from Fortis Bank Polska S.A. – on the secondary market.

#### Insurance products

The Bank offers the following insurance products:

- Clear Profit. An insurance policy and savings instrument which aims at financial security of: a policyholder – in the event of living until the end of the insurance period, or a beneficiary – in the event of death of the policyholder,
- Fortis DuoProfit. This product combines a 6M bank deposit with a life insurance with a single premium, and it is offered by Aegon TU. Under the insurance policy, the Customer invests funds in 23 Insurance Capital Funds, i.e. Union Investment, Legg Mason, Arka BZ WBK, ING, PKO/Credit Suisse, Pioneer. In connection with preparations to introduce a savings and mortgage loan combined with an investment program in the third quarter of 2007, it is planned to implement a Fortis DuoProfit mutation with a regular premium payable monthly or annually. The product will be also offered independently (without the loan) as a proposal for Customers interested in saving smaller amounts regularly for a longer time.
- Fortis RealProfit. At the end of January and beginning of February of 2007, in cooperation with Generali TU, the Bank conducted a subscription of a four-year structured insurance Fortis RealProfit related with the global real estate market.

#### Card products

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

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

The cards are accompanied by an insurance package including (depending on the card type) e.g. insurance against an unauthorised credit card use, insurance of cash withdrawn from an ATM, insurance of goods purchased with a card, lower price guarantee insurance, medical treatment and medical transport costs, corpse repatriation costs, immediate assistance costs, insurance coverage of accidents and personal injury, insurance against loss of or damage to travel

luggage, insurance against air flight delay, civil liability in private life, legal protection in private life, Assistance for home, and concierge services.

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

### Credit products

The Bank offers the following credit products to individual customers:

- Mortgage loans. The loans are earmarked for housing purposes, including: purchase of an apartment/house on the secondary or primary market, construction, redecoration, refinancing housing loans in other banks and refinancing costs incurred on account of the purchase/construction/redecoration of real estate. Loan currency: CHF, EUR, PLN. The mortgage loan offering is accompanied by two insurance types: bridging insurance (which constitutes transitory collateral for the loan until a mortgage, the target collateral, is established) and low down payment insurance (additional collateral for customers without the minimum down payment).
- Cash loans. "Any Purpose" cash loan combines two products: a consumer credit and a mortgage loan. The cash loan funds can be earmarked for debt consolidation or consumer purposes. Loan currency: CHF, EUR, PLN, USD.
- Overdraft facility. Holders of savings and settlement accounts can use a Fast Loan. The loan amount is established on the basis of an analysis of payments crediting the account, or by transferring a debit limit from another bank.

### Electronic Banking

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

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

### **Consumer Finance**

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

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

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

## Development of banking services for the Retail Banking segment

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

For the fourth quarter of 2007, further subscriptions of two Fortis L Fix principal-protected investment fund are planned. The autumn offer will consist of two funds differing in the investment currency (EUR and PLN) and investment strategy.

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

In the reporting period, Fortis offered the so-called Traveller's Package to holders of credit cards. Entry to the airport VIP lounges, special price conditions in hotels worldwide, elitist clubs or golf courses are just some of privileges provided by the new service. The new Package will be systematically enriched by new services, but already today it is an interesting supplement to what credit cards can offer to travellers. The Traveller Package includes Priority Pass card and Priority Traveller card.

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

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

## B. Commercial Banking

### Products and services offered to Commercial Banking Customers

Commercial Banking (CB) business line provides services through the network of its Business Centers, targeting medium corporate customers with the annual turnover over PLN 25 million. It focuses also on companies that are part of international capital groups, irrespective of their annual turnover.

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

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

### **Financing working capital**

The business of the Bank is characterised by readiness to provide services tailored to individual Customer needs based on a thorough analysis of his expectations using an international network of partners.

The Bank offers working capital loans and factoring to firms that are considering financing forms for their current operations.

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

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

### **Financing investment projects**

Enterprises that look for investment project financing the Bank offers:

- Investment loans,
- Lease, including lease of real estate and a wide range of fixed assets, including means of transport, construction equipment, typesetting machines and other equipment,
- Performance bonds,
- Advance return guarantee,
- Bid bond.

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

Solutions in this area are offered to commercial banking companies by Traders Group of the Treasury Department.

Commercial Banking companies have direct phone connection to Treasury Department traders in order to effect transactions, obtain information on situation on the FX market or preliminary valuation of a hedging strategy.

The Treasury Department of Fortis Bank Polska S.A. offers to clients the following services and their use in specific solutions:

Within the FX risk management, the Bank offers:

- FX Forward transactions,
- FX Swap,
- Foreign currency options.

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

- Forward Rate Agreement (FRA),
- Interest Rate Swap (IRS) – a swap of variable interest rate of liabilities or assets into a fixed interest rate or vice versa,
- Interest rate options (CAP, FLOOR),

- Cross Currency Swap (CCS) – a swap of currency of liabilities or assets along with a change from a variable interest rate into a fixed interest rate or vice versa,

The following products are available for the Bank's customers under investing surplus of funds:

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

### **Liquidity management**

Liquidity management, or cash management, includes products that enable enhancement of company's funds on its bank accounts.

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

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

Thanks to solutions that are used in the Bank, firms can control, effectively and on an ongoing basis, the collection of their receivables from a big number of their counterparties in a given period. Under the Automated Identification of Payments (AIP), a settlement between the Counterparty and the Customer takes place through an individual account number assigned. The counterparty can make the payment at any place (post office, branches of the Bank or branches of other banks).

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

MultiCash, an electronic banking system is one of the basic methods of access to accounts. A corporate customer does not need to visit a branch to get information on turnover on the company's accounts, he can initiate transfers taking into consideration various levels of authorisations to administer the accounts. Furthermore, there is an option of cooperation between our software applications with customer's financial and booking systems thus facilitating the process and saving the time.

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

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

Within the liquidity management, the Bank offers also a non-resident collecting account which is maintained for a business entity (legal person having its registered office abroad). The account can be opened in the following currencies: PLN, USD, EUR, CHF, GBP, JPY. The account is earmarked for making settlements in the form of transfers and cheques. Instructions are performed on the basis of SWIFT orders sent by the Customer's foreign bank, and also within



standing payment orders and cheque settlements. Funds deposits on the collective account in foreign currencies bear no interest.

### **International trade**

- Trade transaction risk mitigation

The Bank offers a comprehensive range of instruments that minimise risk inherent in trade cooperation with suppliers and customers, including documentary collection, import letters of credit, service of export letters of credit and guarantees.

- Accounts receivable financing

Acquisition of financial resources through the sale of trade receivables provides a flexible source of financial liquidity. In most cases, the sale of payables enables an acquisition of funds without the need to establish any additional collateral, or, with appropriate solutions selected, it provides a chance to "remove" the receivables from the balance sheet. Fortis finances both short-term and long-term receivables (invoices, bill of exchange). Financing of long-term export contracts can serve as an example. Attractiveness of the Bank's offering is further improved by cooperation with insurance companies (including primarily KUKE SA) and also Bank Gospodarstwa Krajowego (BGK)

- Foreign bank guarantees

The Bank issues also foreign bank guarantees that is the most effective form of collateral for payments under international contractual obligations. Guarantees issued by the Bank are irrevocable (unless the guarantee provides otherwise).

- Forfaiting – discount of term receivables

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

- EBRD program

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

- Export pre-finance

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

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

- Export finance: Buyer Credit, Supplier Credit

Thanks to cooperation with specialised institutions dedicated to support Polish exports such as KUKE S.A. (Export Credit Insurance Corporation) and BGK, Fortis Bank Polska S.A. can offer its Customers comprehensive solutions in the area of medium- and long-term financing for export contracts related to the sale of goods and investment services.

They include buyer credit granted to a foreign importer or its bank, and an alternative solution – supplier credit.

- Export finance under DOKE program

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

### **European Union funds**

Since 2004, the Bank conducts an information project for Customers called "In the European Union with Fortis Bank," aimed at providing advice to Polish entrepreneurs on how to acquire EU funds. Money for enterprises is available primarily under operating programs co-financed with structural funds and the Cohesion Fund. Under the project, the Bank finances investment projects subsidised with the European Union funds and conducts training and advice actions for entrepreneurs.

### **Energy markets**

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

Here the Bank uses financial instruments serviced by the Treasury Department, like Fixed-for-floating contracts, Swaps, Caps / Floors / Collars / Three-ways / Extendable, Baskets, Index-based formulas (including the FX market) and Weather derivatives - hedging against weather changes.

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

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

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

## **C. Private Banking**

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

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

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

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

Private Banking customers are offered the following:

- Investment products,
- Credit products,
- Daily Banking and cooperation with the international Fortis network,
- Special legal and tax structures.

### **Investment products**

The Bank offers the following investment products:

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

In addition to investment products, the Bank offers also:

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

### **Credit products**

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

### **Daily Banking products**

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

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

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

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

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

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

In the reporting period, the Private Banking Department continued to develop its team and prepared for implementation of new products, both credit facilities and investment instruments. The Private Banking offering was introduced into Business Centers in Krakow, Katowice, Gdańsk and Wrocław, and since September – in Poznań.

## D. Global Markets

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

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

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

FX risk-related currency transactions include:

- Spot transactions,
- Forward transaction,
- Foreign currency options,
- Zero-Cost structures.

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

Interest rate risk currency transactions include:

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

The following products are available for the Bank's customers under investing surplus of funds:

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

The Treasury Department of Fortis Bank Polska S.A. has started offering agency in trading in CO<sub>2</sub> emission allowances. The transactions are carried out in cooperation with the Belgian Fortis Bank, the owner of Fortis Bank Polska S.A. The offer of trading in allowances is addressed to firms that have a surplus or shortage of CO<sub>2</sub> emission allowances and wish to balance the actual emission size with the current production output. The Bank offers also a comprehensive service with respect to trading in emissions, by providing assistance in finding a counterparty and advice on how to perform the transaction, supplemented with market analyses related to such instruments.

Furthermore, the Bank makes market analyses for its customer needs based on fundamental data showing market trends and expectations. A "Carbon Weekly" report presents the situation in the recent period along with forecasts. The "Energy & Environmental Markets" special report is prepared only for special events occurring on the market that require a professional analysis.

## Development of banking services for the Global Markets segment

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

At the beginning of 2007, Fortis Bank supplemented its offering by products to hedge energy and fuel price indexes. New products are to reduce the risk of price volatility of liquid fuel such as petrol, fuel oil or diesel oil, whose prices depend on world quotations. The Bank entered into the first transaction on the market hedging against fuel oil price index fluctuations.

## E. Average interest rate of deposits and loans

Basic variable interest rates applied to loans by the Bank are based on LIBOR/EURIBOR rates for foreign currency loans, and WIBOR rate for PLN loans. Fixed interest rates, which are not subject to change before expiry of the loan agreement, are also applied.

In the first half of 2007, the Monetary Policy Council increased the level of official NBP interest rates by 50 base points.

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

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

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

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

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

## F. Custody services

The Bank offers services related to custody and transaction settlement with respect to securities traded on the Polish regulated and non-regulated markets and acts as an agent in transactions concluded on international markets. Under the Decision issued by the Securities and Exchange Commission of July 14, 2000 (KPWiG-4042-2/2000), custody services are provided by the Custody Services Group separated from the Bank's structure.

Since 2005, the Bank has been acting as a Depositary for two sub-funds under open investment fund, FORTIS FIO, founded by Towarzystwo Funduszy Inwestycyjnych Skarbiec S.A. and managed by Fortis Private Investments Polska S.A. In its capacity as Depositary, the Bank is particularly responsible for calculating the value of net asset value, estimating the value of a participation unit and controlling whether operation of funds is compliant with law.

In connection with the Bank's obligations of Paying Agent and Transfer Agent in favour of foreign investment funds - Fortis L Fix and Fortis L Fund, managed by Fortis Investment Management in Luxembourg, the Custody Services Group coordinates the distribution of participation units in Poland from an operational perspective.

## G. Money market and debt securities operations

The Bank's activity on the money market and the market of debt securities may be differentiated into the following categories:

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

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

The Bank's investment policy is established by the Risk and ALM (Assets & Liabilities Management) Committee. Capital is first of all invested in debt securities issued by the State Treasury or NBP.

The Bank offers derivative transactions to secure against interest rate risk and FX risk such as: Forward Rate Agreement (FRA), Interest Rate Swap (IRS), Overnight Interest Swap (OIS) as well as foreign exchange options and European interest rate options. The Bank's offer is developing dynamically especially as far as option transactions are concerned. In 2005, the following options have been introduced into the Bank's offer: American FX options, barrier options, and Asian options such as Average Rate Options. Such transactions are offered to customers running business activity and entered into by the Bank on the interbank market.

## H. Clearing activity

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

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

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

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

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

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

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

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

In the first half of 2007, the scope of services provided by the PSSC did not change. For the second half of 2007 it has been planned to start providing services in favour of a BC in France and Romania.

#### **I. Co-operation with international financial institutions**

The Bank co-operates with foreign banks in the area of foreign exchange, placement/deposit transactions, securities and banknote transactions. The Bank holds accounts in first-rate banks operating in the major world financial centers, and maintains PLN *Loro* accounts for foreign banks. Co-operation with Fortis group and other leading banks enables the Bank to effectively handle payments made by its customers and to carry out instructions received from abroad.

The Bank is a member of the SWIFT international interbank network, which enables faster payment processing, facilitates contact with foreign banks and enables the implementation of new products related to international transactions. Furthermore, the Bank established cooperation with the EBA (European Banking Association) and joined the European clearing system (STEP 2) on August 9, 2004.

### **IV. CHARITY**

Fortis Bank Polska SA applies the principles of social responsibility to its undertakings and endeavours to support actions or initiatives for example taken by some local communities.

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

On 20 December 2006, Fortis Foundation Polska S.A. was entered into the National Court Register of Associations, Other Social and Professional Organisations, Foundations and Public Health Care Institutions, maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register under No. 0000270411. The Foundation was provided with an establishment fund of PLN 40,000. In December 2006, the Bank's Board of Executives donated PLN 1 million to the Foundation. Following the example of other Fortis Foundations operating worldwide, the Foundation's aim is to support actions for public benefit in the areas of education,

culture and arts, health protection and social care.

In particular, the objective of Fortis Foundation Poland is to provide assistance to people wronged by fate, through e.g. supporting actions that represent social solidarity and fight against social exclusions. The Foundation's activities focus on three groups most vulnerable to asocial behaviour: children, the youth and the elderly. The Foundation performs its objectives mainly through its own social programme, which is to solve and counteract specific social problems. Projects undertaken by the Foundation are addressed to a specific group of people, and thus contribute to solving a given issue or improving the situation of the people concerned.

The main projects carried out by the Foundation in the first half of 2007 include:

- "Prometheus" Foundation of Krakow – financial support for the organisation of an Integration Carnival Ball (January 2007)
- Child and Family Support Centre in Zakopane – additional financing of a microbus bought to transport children of the Zakopane orphanage (February 2007)
- Foundation for the Jagiellonian University in Krakow – donating funds to promote and organise a voluntary service In particular, supporting the newly established Małopolska Voluntary Service Center (February 2007)
- Aid for the Disabled Association "Be with Us" in Krakow - additional financing of the purchase of art materials for artistically gifted children and the youth of Special Centers and Schools in the Kraków area (February 2007)
- The City Social Welfare Centre in Krakow, Branch no. 2 – donating funds to organise a trip to Bochnia salt mine for the Centre charges, a group of the lonely and disabled (March 2007)
- The Association of Parents of Disabled Children in Olsztyn – additional financing for an integration and education trip of the Association's charges (May 2007)
- Additional financing for the purchase of gifts for the Child's Day events organised by: Psychological and Pedagogical Outpatient Clinic in Zabierzów, Dreams Come True Foundation of Warsaw, Association of Parents and Friends of the Blind and Visual Impaired Children "Rainbow" of Warsaw, Aid for the Disabled Association "Be with Us" (June 2007)
- Entraide Foundation of Warsaw – financial support earmarked for the renovation of a centre for the disabled in Milanówek and establishment of an apartment for the group of the youth leaving the orphanage in Ełk (June 2007)
- The Priest Zygmunt Gorazdowski's Orphanage in Krosno – financing the purchase of a sports field equipment for the orphanage charges (June 2007)
- Children's Friends Association of the Branch in Oborniki Śląskie – additional financing of a health camp for the Association's charges, children from foster family homes and modest families (June 2007)
- Youth Educational Centre in Tolkmicko – additional financing of the purchase of equipment for activity clubs operating in the Centre (June 2007)
- Folk Sports Club "Zryw" (Spurt) in Lubaczów – financing the purchase of sports outfit for the Junior team (June 2007)
- Nowy Sącz Centre of Social Prophylactic in Nowy Sącz – additional financing of a social support and health camp for children from modest families and at risk of exclusion (June 2007)



2007)

The Foundation has been also continuing the cooperation started by Fortis Bank Polska S.A. with the United Way Poland foundation. The Bank employees voluntarily deduct a declared portion of their salaries and donate it to a social goal. As in previous years, the Bank management has declared to add one zloty to each zloty contributed by an employee, so as to double the amount of funds donated to the United Way Poland.

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

In April 2007, Fortis Bank Polska S.A. was the only bank winning a prize in the "Best Employers 2006" contest organised by Hewitt Associates, an international consulting firm. Out of 67 firms participating in this year's issue of the contest, 10 were rewarded.

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

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

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

### A. Income Statement

Dynamics of selected Income Statement items (in PLN thousand)

| Income statement<br>(in PLN thousand)                          | 01.01.2007<br>-30.06.2007<br>in PLN thousand | 01.01.2006<br>-30.06.2006<br>in PLN thousand | Dynamics<br>30.06.2007-<br>30.06.2006<br>(%) |
|--|--|--|--|
| Net interest income  | 129,604                                      | 93,951                                       | 37.9%  |
| Net fee and commission income                                  | 57,066                                       | 41,612                                       | 37.1%  |
| Dividend income  | 600  | 0  | 100%   |
| Net profit on transactions in trading<br>financial instruments | 67,976                                       | 54,403                                       | 24.9%  |
| Other income   | 7,724  | 4,683  | 64.9%  |
| Total income net   | 263,176                                      | 193,656                                      | 35.9%  |
| Personnel costs  | -76,084                                      | -53,904                                      | 41.1%  |
| Depreciation of fixed assets and intangible<br>fixed assets    | -10,195                                      | -10,972                                      | -7.1%  |
| Other costs  | -61,440                                      | -46,556                                      | 32.0%  |
| Write-offs for impairment                                      | -12,397                                      | -22,451                                      | -44.8%                                       |
| Gross profit   | 103,060                                      | 59,773                                       | 72.4%  |
| Income tax   | -16,621                                      | -12,082                                      | 37.6%  |
| <b>Net profit</b>  | <b>86,439</b>                                | <b>47,691</b>                                | <b>81.2%</b>                                 |

The main item of the income statement is the net interest income which as at 30 June 2007 reached PLN 129,604 thousand and was higher by 37.9% or PLN 34,653 than in the first half of 2006. High net interest income illustrate business growth visible especially in the credit area. In the first half of the year, average credit volumes increased by 56%. Average deposit volumes increased in that period by 42%.

The second major item of the Bank's income in terms of value was the net trading activity income (net profit on transactions in trading financial instruments of PLN 67,976 thousand (growth by 24.9 % over the first half of 2006). Currency exchange transactions of PLN 49,224 thousand were the main item of the above result (growth by 19.6 % over the first half of 2006). The Bank reported also a significant increase in net income on transactions in derivatives from PLN 13, 042 thousand as at June 30, 2006 up to PLN 20,151 thousand in the first half of 2007. In addition to options that have become increasingly popular among Customers (growth of 34% in the first half of 2007 over the first half of 2006), Customers invest considerably more also in IRS and CIRS transactions.

In the first half of 2007, the Bank generated Net commission and fee income of PLN 57,066 thousand, i.e. by 37.1% more than in the first half of 2006. The above result reflects both an increase in the number of Customers (on average by 17% in the analysed periods) and a higher number of transactions effected by Customers of Fortis Bank Polska S.A. The following examples illustrate the growth:

- number of current accounts – plus 10%
- average number of active loan agreements – plus 64%
- number of standard incoming and outgoing international transfers – plus 26%
- number of transactions made using credit cards – plus 187%

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

- average number of the Multicash users – plus 16%
- average number of the PI@net users – plus 23%
- number of transfers made via the Electronic distribution channels – plus 25%

In the first half of 2007, the Bank earned PLN 600 thousand dividend income from FPIP, the Bank's subsidiary.

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

## Net income

The Bank's net interest income grew by 56.2%. This item amounted to PLN 252,494 thousand in the first half of 2007 as compared to PLN 161,670 thousand in the first half of 2006.

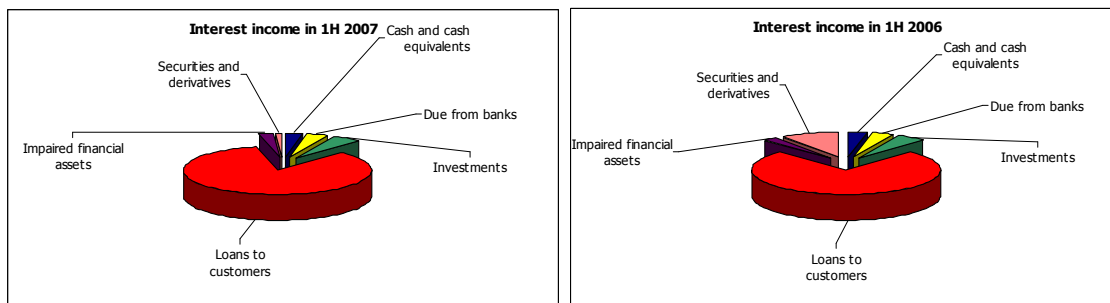
The main source of interest income were loans and credit facilities, next derivative instruments, investments and placements in other banks and cash.

The interest income consists mainly of the following items:

- Loans to Customers: PLN 213,652 thousand versus PLN 134,214 thousand in the first half of 2006,
- Due from other banks: PLN 9,303 thousand versus PLN 6,529 thousand in the first half of 2006,
- Investments: PLN 12,611 thousand versus PLN 9,670 thousand in the first half of 2006.

The interest expenses include in particular the following items:

- Due to banks: PLN 61,326 thousand versus PLN 27,119 thousand in the first half of 2006,
- Due to Customers: PLN 59,626 thousand versus PLN 39,134 thousand in the first half of 2006.



The Bank's commission and fee income growth reached 32.7%. This item amounted to PLN 61,642 thousand in the first half of 2007 as compared to PLN 46,457 thousand in the first half of 2006.

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

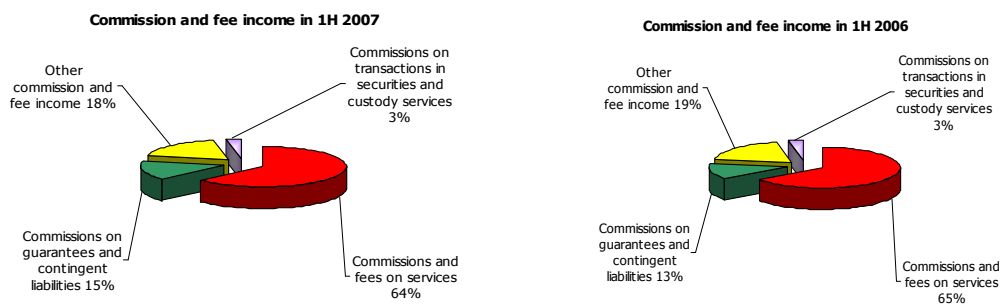
The commission and fee income consists mainly of the following items:

- Commissions and Fees on cash settlements: PLN 30,261 thousand versus PLN 25,457 thousand in the first half of 2006,
- Commission and fees on guarantees and contingent liabilities: PLN 7,328 thousand versus PLN 4,593 thousand in the first half of 2006.
- Income on card transactions: PLN 3,510 thousand versus PLN 4,001 thousand in the first half of 2006,
- On securities trading and custody services: PLN 1,425 thousand versus PLN 1,135 thousand in the first half of 2006.

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

- Card-related expenses: PLN 1,961 thousand versus PLN 1,916 thousand in the first half of 2006;
- Clearing commission expenses: PLN 717 thousand versus PLN 569 thousand in the first half of 2006;
- Commission expenses on custody services and transactions in securities: PLN 295 thousand versus PLN 366 thousand in the first half of 2006,

In the first half of 2007, commission and fee expenses amounted to PLN 4,576 thousand and were lower by 5.9 % than in the previous year when they equalled PLN 4,845 thousand.



## Structure of net income in the first half of 2007 and the first half of 2006

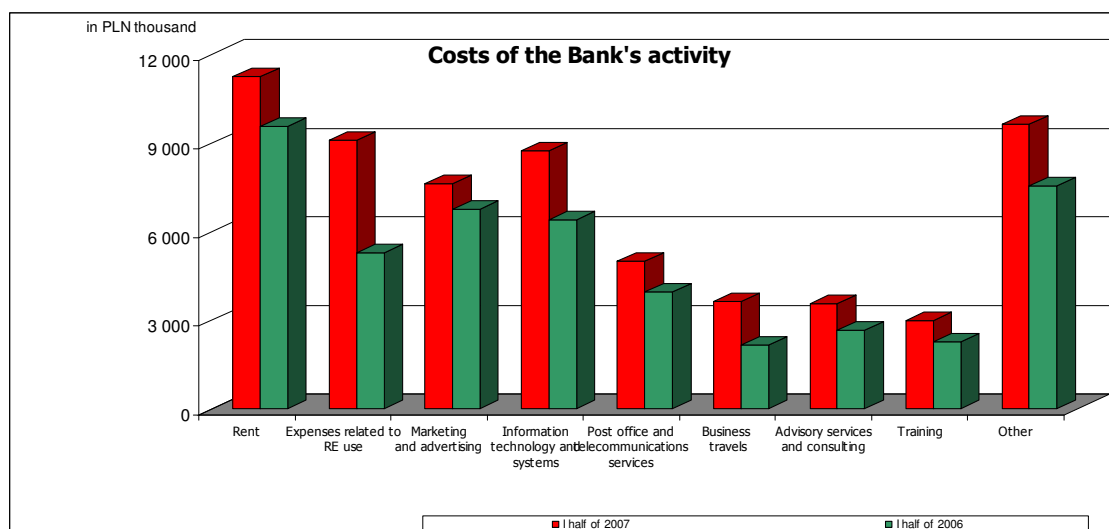
|   | 1st half of 2007 | 1st half of 2006 |
|---|------------------|------------------|
| Net interest income   | 49.2%            | 48.5 %           |
| Net fee and commission income   | 21.7%            | 21.5 %           |
| Dividend income   | 0.2 %            | -                |
| Net profit on transactions in trading financial instruments                   | 25.8 %           | 28.1%            |
| Net profit (loss) on transactions in available-for-sale financial instruments | 0.1%             | -0.4 %           |
| Other income  | 2.9 %            | 2.4%             |
| Total   | 100 %            | 100 %            |

## Personnel costs and other administration expenses

In the first half of 2006, operating expenses reached PLN 76,084 thousand and were higher by 41.1 % compared to the first half of 2005, when they amounted to PLN 53,904 thousand, chiefly due to employment growth in line with the Bank's development strategy adopted for the next years. In the first half of 2007, an average number of FTE increased by 37%.

Depreciation of fixed and intangible assets amounted to PLN 10,195 thousand and was lower by 7.1% than in the first half of 2006.

In the first half of 2007, the Bank's other expenses reached PLN 61,440 thousand and were higher by 32% compared to the first half of 2006, when they stood at PLN 46,556 thousand. The main items of other expenses are rent (PLN 11,240 thousand), information technologies and systems (PLN 8,731 thousand), marketing and advertising of PLN 7,619 thousand), advisory services and consulting (PLN 3,549 thousand).



Write-offs for impairment of loans and credit facilities decreased from PLN 22,451 thousand in the first half of 2006 down to PLN 12,397 thousand in the first half of 2007. The main item constituted the charge with credit risk costs on Loans to Customers which decreased from PLN 21,647 thousand down to PLN 11,944 thousand.

## Profit

In the first half of 2007, the Bank generated a pre-tax gross profit of PLN 103,060 thousand, which was higher by 72.4 % compared to the first half of 2006. The mandatory reductions of gross profit amounted to PLN 16,621 thousand.

The Bank's net profit (after tax) in the first half of 2007 stood at PLN 86,439 thousand and was higher by PLN 38,748 thousand i.e. by 81.2 % compared to the first half of 2006.

**B. Balance Sheet****Total assets**

Total assets of Fortis Bank Polska S.A. as at 30 June 2007 was PLN 11,923,228 thousand and was higher than as at the end of June 2006 by PLN 3,955,133 thousand, i.e. 49.6 %.

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

**Assets**

| <b>Balance sheet items</b>                                   | <b>30.06.2007</b> | <b>structure</b> | <b>31.12.2006</b> | <b>structure</b> | <b>30.06.2006</b> | <b>structure</b> | <b>Change<br/>30.06.2007-<br/>30.06.2006<br/>(%)</b> |
|--|-------------------|------------------|-------------------|------------------|-------------------|------------------|--|
| Cash and cash equivalents                                    | 1,668,517         | 14.0%            | 2,825,999         | 25.8%            | 1,181,504         | 14.8%            | 41.2%  |
| Trading Assets   | 175,690           | 1.5%             | 143,107           | 1.3%             | 95,149            | 1.2%             | 84.6%  |
| Due from banks   | 180,888           | 1.5%             | 200,405           | 1.8%             | 198,434           | 2.5%             | -8.8%  |
| Loans to Customers   | 8,991,100         | 75.4%            | 6,975,116         | 63.6%            | 5,656,215         | 71.0%            | 59.0%  |
| Investments  | 465,554,          | 3.9%             | 654,710           | 6.0%             | 694,026           | 8.7%             | -32.9%   |
| Property, Plant and Equipment                                | 84,691            | 0.7%             | 60,275            | 0.5%             | 48,911            | 0.6%             | 73.2%  |
| Goodwill and other intangible assets                         | 24,620            | 0.3%             | 23,664            | 0.2%             | 17,156            | 0.2%             | 43.5%  |
| Deferred tax assets  | 30,055            | 0.2%             | 21,289            | 0.2%             | 19,994            | 0.3%             | 50.3%  |
| Deferred acquisition cost, accrued interest and other assets | 302,113           | 2.5%             | 65,583            | 0.6%             | 56,706            | 0.7%             | 534%   |
| Trading Liabilities  | 110,868           | 0.9%             | 57,365            | 0.5%             | 54,275            | 0.7%             | 94.8%  |
| Due to banks   | 5,449,317         | 45.7%            | 5,106,686         | 46.6%            | 3,296,538         | 41.4%            | 65.3%  |
| Due to Customers   | 5,056,056         | 42.5%            | 4 476 883         | 40.9%            | 3,719,117         | 46.7%            | 35.9%  |
| Current tax payables   | 17,322            | 0.1%             | 3,963             | 0.0%             | 6,600             | 0.1%             | 162.5%   |
| Accrued interest and expenses and other liabilities          | 213,123           | 1.8%             | 333,483           | 3.0%             | 143,111           | 1.7%             | 53.1%  |
| Provisions   | 13,630            | 0.1%             | 12,260            | 0.1%             | 9,546             | 0.1%             | 42.8%  |
| Total Equity   | 1,062,912         | 8.9%             | 979,508           | 8.9%             | 738,908           | 9.3%             | 43.8%  |
| <b>Total assets</b>  | <b>11,923,228</b> | <b>100%</b>      | <b>10,970,148</b> | <b>100%</b>      | <b>7,968,095</b>  | <b>100%</b>      | <b>49.6%</b>   |

In the structure of assets, loans to customers constitute the major item; at the end of June 2007, they accounted for approx. 75% of total assets.

The change in the asset structure resulted chiefly from the increased volume of loans to Customers, primarily higher mortgage and commercial loans. Liabilities due to customers and banks continue to constitute the main source of asset financing. In comparison to the corresponding period of the previous year, they increased by 36% and 65%, respectively.

Loans to Customers represented also the highest growth in terms of value: by PLN 3,334,885 thousand, i.e. by 59% in comparison to the first half of 2006. The share of loans to customers in total assets increased from 71% as at the end of the first half of 2006 up to 75% as at the end of the first half of 2007.

Due from banks were lower by PLN 17,546 thousand, or 8.8%. Their share in total assets likewise decreased slightly from 2.5% to 1.5%.

Trading assets increased by as much as 85%, i.e. PLN 81,541 thousand in comparison to the balance as at the end of June 2006.

Cash and cash equivalents went up in comparison to the first half of 2006 by 41.2% and their share in total assets decreased from 14.8% in the first half of 2006 to 14% in the first six months of 2007.

Accruals and deferred income, interest accrued and other assets increased by PLN 245,407 thousand in comparison to the first half of 2006 and their share in total assets increased slightly from 0.7% to 2.5% at the end of June of 2007.

In comparison to the end of June 2006, the value of property, plant and equipment increased by 73.2% or PLN 35,780 thousand. The property, plant and equipment include:

- investments in non-company fixed assets: PLN 33,476 thousand
- machines and equipment and means of transport: PLN 25,552 thousand
- computer hardware: PLN 25,663 thousand

Investments decreased by 32.9% from PLN 694,026 thousand noted the first half of 2006. Their share in total assets likewise decreased from 8.7% to 3.9% as at the end of June 2007. In February 2007, Treasury bonds were sold in the nominal value of PLN 140 million.

As at June 30, 2007, the Bank's securities portfolio consisted of securities issued by the Polish State Treasury and the NBP. Investments available for sale comprised:

- Treasury bonds: PLN 422,338 thousand
- shares PLN 18,236 thousand
- Other: PLN 24,979 thousand PLN

As at the end of the first half of 2007, goodwill and other intangible assets stood at PLN 24,620 thousand and were higher by 43.5% than at the end of June 2006.

### **Non-financial sector credit portfolio profile**

Of all asset items, the highest value growth was recorded for net loans to Customers, by as much as PLN 3,334,885 thousand, or 59% in comparison to the first half of 2006.

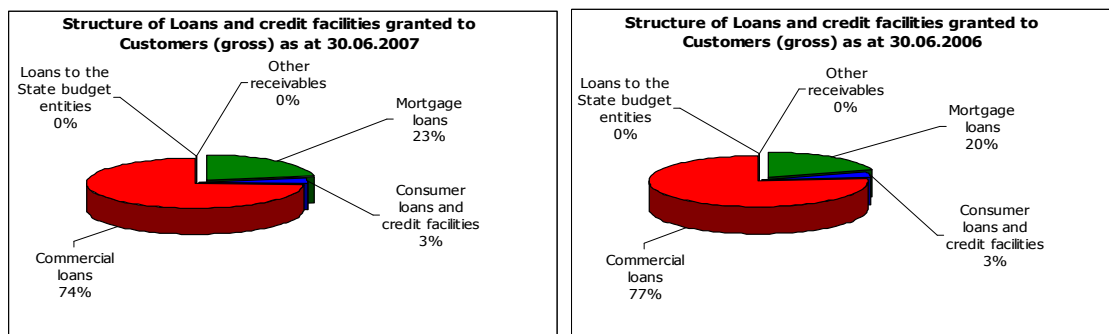
Commercial loans were the major item in the structure of loans to customers. Their share constituted 75.6% of total loans to customers net in the first half of 2007, down from 79.4% noted at the end of June 2006. However, the value of commercial loans increased most in comparison to the first half of 2006 – by 51.3%.

A considerable increase in volume of loans granted to Institutional Customers was noted. Investment loans, including loans for the purchase or construction of commercial real estate, grew by 72% over the second quarter of 2006; working capital loans went up by 30%, while the highest growth was reported for overdraft credit facilities – by as much as 89%.

Mortgage loans of PLN 2,066,829 thousand as at 30.06.07 increased by 80.8% as compared to 30.06.06, when they amounted to PLN 1,143,350 thousand. Their share in the structure of net loans to customers slightly increased from 20.2% at the end of June 2006 up to 23% at the end of June 2007.



Chart 5 and 6. Structure of loans and credit facilities granted to Customers (gross) (in PLN thousand)



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

| Loans to Customers                    | 30.06.2007 | structure | 31.12.2006 | structure | 30.06.2006 | structure | Change 30.06.2007-30.06.2006 (%) |
|---------------------------------------|------------|-----------|------------|-----------|------------|-----------|----------------------------------|
| Mortgage loans                        | 2,066,829  | 23%       | 1,573,712  | 22.6%     | 1,143,350  | 20.2%     | 80.8%                            |
| Consumer loans and credit facilities  | 296,885    | 3.3%      | 224,500    | 3.2%      | 197,217    | 3.5%      | 50.5%                            |
| Commercial loans                      | 6,797,418  | 75.6%     | 5,346,778  | 76.7%     | 4,492,223  | 79.4%     | 51.3%                            |
| Loans to budgetary entities and other | 955        | 0.0%      | 489        | 0.0%      | 507        | 0.0%      | 88.4%                            |
| Other receivables                     | 908        | 0.0%      | 1,296      | 0.0%      | 1,715      | 0.0%      | -47.1%                           |
| Total loans to customers              | 9,162,995  | 101.9%    | 7,146,775  | 102.5%    | 5,835,012  | 103.1%    | 57.0%                            |
| Write-offs for impairment             | -171,895   | -1.9%     | -171,659   | -2.5%     | -178,797   | -3.1%     | 3.9%                             |
| Total net loans to customers          | 8,991,100  | 100%      | 6,975,116  | 100%      | 5,656,215  | 100%      | 59.0%                            |

The value of the PLN non-financial sector loan portfolio (without interest) at the end of June 2007 totalled PLN 5,610,600 thousand and was by 67% higher as compared to June 2006. The balance of CHF loans (PLN equivalent) was PLN 1,038,241 thousand at the end of June 2006 and increased by almost 73% up to PLN 1,792,409 thousand as at the end of June 2007. The value of the EUR portfolio stood at PLN 1,604,650 thousand at the end of June 2007, i.e. increased by 28% as compared to June 2006. The volume of USD loans (PLN equivalent) decreased by 15% as compared to June 2006 and equalled PLN 155,194 thousand as at June 30, 2007.

For the above volumes, the share of the FBP loans in the banking sector loans increased from 1.9% in June 2006

to 2.4% in June 2007.

The Bank's financial exposure focuses on the following sectors: services, production, private individual customers, and real estate. The highest growth was noted in the real estate financing sector, the share of which in the gross portfolio increased from 3.6% at the end of June 2006 to 7.3% at the end of 1<sup>st</sup> half of 2007

The highest share in the services sector was attributable to distribution, hotel industry and catering. It made up 23.5%, which meant as increase of 0.03% in comparison to the end of June 2006. The exposure in the construction and engineering sectors decreased from 5.8% as at the end of the first half of 2006 to 5.4% as at 30 June 2007.

The gross exposure increased by 59.9% in comparison to the end of June 2006 (PLN 8,339,416 thousand) up to PLN 13,338,916 thousand at the end of June 2007.

In terms of original maturities, at the end of June 2006, the structure of receivables from the non-financial sector was as follows:

- Receivables with the maturity up to one (1) year accounted for 47.1% of net loans to customers and recorded 50.7% growth in comparison to the balance as at the end of June 2006.
- Receivables with the maturity of 1-5 years made up 24.6% of net loans to customers and recorded an increase by 47.3% in comparison to the end of June 30, 2006.
- Receivables with the maturity of exceeding 5 years made up 30.1% of net loans to customers and recorded an increase by 79.3% in comparison to the end of June 30, 2006.

In the first half of 2007, the Bank issued 32 enforcement titles for the total amount of nearly PLN 14,908 thousand, as compared to 73 titles of the total of PLN 11,070 thousand issued in the first half of 2006.

*Detailed data on the Bank's commitment concentration structure including specific sectors have been presented in Additional Notes, item 32.*

## Liabilities (Commitments)

Liabilities towards banks on account of funds deposited on current accounts and term deposits make up the main item in the structure of liabilities. As at the end of the first half of 2007, deposits from banks stood at PLN 1,763,917 thousand and were lower in comparison to the first half of 2006 by PLN 507,921 thousand. The share of due to banks made up 45.7% of total liabilities as compared to 41.3% in the first half of 2006.

Terms deposits absolutely prevail in the structure of due to customers: PLN 3,520,806 thousand, representing 69.6% of all customer deposits. Sight deposits reached PLN 1,535,250 thousand as at 30 June 2007.

As at the end of the first half of 2007, the share of "Accrued interest and expenses and other liabilities" remained unchanged, i.e. at 1.8%.

As at the end of the first half of 2007, the share of trading liabilities in total liabilities structure slightly increased by 0.2 pp, i.e. up to 0.9%. Their value changed as compared to the first half of 2006 by 94.8%. All the trading liabilities consisted of financial derivative instruments.

Trading derivative instruments increased from PLN 5,973,828 thousand recorded as at 30 June 2006 to PLN 16,484,866 thousand as at 31 December 2006 and to PLN 22,138,048 as at the end of the first half of 2007 in nominal values.

As at 30 June 2007, trading derivative instruments comprised:

- FX contracts - PLN 6,602,246 thousand.  
Including: FRAs and futures - PLN 3,547,222 thousand.

- Options - PLN 3,055,025 thousand.
  - Interest rate contracts - PLN 15,035,802 thousand.
- Including: FRA - PLN 1,500,000 thousand.  
 Swaps - PLN 13,694,444 thousand.  
 Options - PLN 341,358 thousand.

### Provisions

Other provisions item increased from PLN 9,546 thousand as at the end of June 2006 to PLN 13,630 thousand as at the end of June 2007 and included provisions for off-balance sheet liabilities (PLN 9,801 thousand, including PLN 8,811 thousand IBNR reserve), legal risk reserve (PLN 2,916 thousand) and office sub-lease reserve (PLN 913 thousand). The total provisions increased by 42.8% as compared to the balance recorded as at the end of June 2006.

### Equity

As at June 30, 2007, the equity capital of Fortis Bank Polska S.A. amounted to PLN 1,062,912 thousand, i.e. by 43.8 % more as compared to June 30, 2006 (PLN 738,908 thousand). Their share in total liabilities slightly decreased from 9.3% to 8.95% as at the end of June 2007.

As at 30 June 2007, the Bank's equity (as a category computed for calculation of capital adequacy ratio) stood at PLN 953,045 thousand. It exceeds the total capital requirement to ensure the Bank's safety, which was PLN 802,054 thousand as at 30 June 2007. In accordance with regulatory requirements concerning capital adequacy and exposure, the Bank deducts PLN 9,098 thousand from equity with regard to its net capital exposure in shares of Fortis Private Investments Polska SA and PLN 24,620 thousand representing 100% of net intangible fixed assets.

As at June 30, 2007, the capital adequacy ratio was 9.51% in comparison to 10.99% as at the end of June 2006.

## C. Other contingent assets and liabilities

### Lending commitments

As of the end of June 2007, the amount of guarantees issued by the Bank reached PLN 637,282 thousand, which represents a 44% increase in comparison to the end of June 2006, when it equalled PLN 442,588 thousand.

As at the end of the first half of 2007, the Bank's commitments under opened import letters of credit totalled PLN 311,772 thousand, i.e. were by 137% higher than at the end of June 2006, when they totalled PLN 131,429 thousand.

Moreover, the Bank has confirmed export LCs on its books, in the PLN equivalent of 86,153 thousand as at 30 June 2007. The item was lower by 8.9 % in comparison to PLN 94,561 thousand noted as at 30 June 2006.

Total lending commitments increased from PLN 2,082,577 thousand recorded as at 30 June 2006 to PLN 3,298,157 thousand as at the end of the first half of 2007. The growth reached 58.4%.

Contingent assets related to guarantees increased from PLN 130,777 thousand noted as at 30 June 2006 up to PLN 177,955 thousand in the first half of 2007. The growth was 36%.

Financial commitments received increased from PLN 925,603 thousand recorded as at 30 June 2006 to PLN 1,531,560 thousand as at the end of the first half of 2007.

## D. Performance indicators

| Indices                | 30.06.2007 | 30.06.2006 |
|------------------------|------------|------------|
| Return on assets (ROA) | 1.65%      | 1.6%       |
| Return on equity (ROE) | 19.2%      | 15.8%      |
| Net interest margin    | 2.45%      | 2.78       |
| Profit per share       | 5.15       | 3.16       |
| Book value per share   | 63.38      | 49.01      |

*Note: all values have been rounded up.*

## E. Management of funds

Deposits, both from business entities and individuals, constitute the most important source of financing of the Bank's credit activity. In connection with signing another credit agreement regarding a credit line taken by the Bank from Fortis Bank Nederland N.V. with the limit of PLN 1,300 million to finance the Bank's current operating activity, in the first half of 2007 the financing with credit lines granted by Fortis Bank Nederland N.V. As at 30 June 2007, the debt outstanding balance on account of credit lines with Fortis Bank Nederland N.V. stood at PLN 2,724.8 million in comparison to PLN 1,252.0 million as at 30 June 2006.

## VII. DEVELOPMENT PROSPECTS FOR BUSINESS ACTIVITY

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

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

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

In accordance with the major strategies of Fortis group, the Bank will target for 2007-2011:

- To systematically increase profitability to achieve annual growth of gross income of 15% and at the same time to continue to reduce the cost/income ratio;
- Increase of the Bank's share in financial services market;

- To smoothly complete integration with Dominet Bank and maintain cooperation with other Fortis companies in Poland.

The Bank has not published financial forecasts for 2006. The Supervisory Board and the Board of Executives continue the policy not make any financial forecasts public for 2007.

FBP broadens its cooperation with other financial institutions from Fortis group in terms of providing shared services to them, including clearing and other financial services. In the years 2005-2006, the Payment Shared Service Group provided services Fortis S.A. /N.V. BCs in Prague, Budapest, Vienna, Stockholm and Copenhagen. For the second half of 2007, it has been planned to start providing services in favour of a BC in France and Romania.

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

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

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

In the second half of 2007, Fortis intends to start insurance activity in Poland.

Plans of strategic development of Business Lines:

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

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

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

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

By the end of 2007, it is planned to open 9 new branches, and in 2008 – further 14 new offices.

Consumer Finance was launched in 2006. Consumer Finance focuses mainly on cash loans, credit cards for individuals (mass market). Considering the takeover of Dominet Bank by Fortis group in the first half of 2007, the Consumer Finance business will be moved to Dominet Bank. The latter will focus on development of the distribution network and the service of less affluent individual customers, including consumer credits, car loans and credit cards for individual customers. Parallel work will be carried out to prepare the merger between FBP and Dominet. It is expected that the merger process

of both banks will be completed in 2011 at the latest.

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

CB at Fortis Bank group level wants to be the preferred banker of European oriented Medium Sized Enterprises, offering them value added solutions through a homogeneous Network of Business Centres in Europe. In terms of operational and functional aspects, Fortis aims at becoming a high value added, low cost specialist service provider. Therefore emphasis is permanently put on back and mid office optimisation.

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

In 2008, Commercial Banking plans to open two new business centers.

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

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

Private Banking Business Line which started operations at the end of 2005, aims at winning a 5% market share in the segment of High Net Worth Individuals (HNWI). The Clients, apart from standard banking products, will be offered products and services tailored made to their individual needs (negotiated tariff, client advisor dedicated to a client, broad range of investment and prestige products). In cooperation with Fortis Private Investments Polska SA, asset management offering is developed including model portfolios and individual investment strategies. Professional advisors are taking care of a portfolio of a specified number of customers, being their one entry point to the Bank. Private Banking carries out its activity through the existing network of Business Centers. Along with the increasing number of BCs, the number of advisors is planned to grow as well.

In 2007, the Private Banking Department continues to develop its team and prepares for implementation of new products, both credit facilities and investment instruments.

In 2008, the most significant task will be to expand the basic offering by:

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

## **VIII. BASIC RISK TYPES AND RISK MANAGEMENT**

Taking into consideration the Bank's top priority objectives, that is protection of Customer deposits and securing liquidity, the management of Fortis Bank Polska S.A. pays utmost attention to monitoring and mitigation of risks inherent in the Bank's business.

The Risk and Asset and Liability Management Committee (Risk and ALM Committee) plays a vital role as regards liquidity risk management, market risk and assets and liabilities management risk, and as far as strategic aspects of credit risk management and operational risk are concerned. The Risk and

ALM Committee is chaired by the President of the Board of Executives of Fortis Bank Polska S.A., while the Chief Risk Officer, who reports directly to the President of the Board of Executives, is the Deputy Chairman.

The Risk & ALM Committee is entitled to set up supportive committees and delegate powers to these committees. Under the above authorisation, the following committees have been established till 30 June 2007: the Liquidity, Market and ALM Risk Management Committee, Operational Risk and Business Continuity Management Committee and the Credit Risk Management Committee.

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

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

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

The liquidity issue require special attention of the Bank's management, which develops long term solutions. In particular the Board of Executives considers the possibility to conduct another capital increase or drawing a subordinated loan.

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

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

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

FX risk comprises market FX risk and foreign currency transaction risk. Market FX risk is linked to adverse changes to the Bank's financial result caused by changes in market Forex SPOT rates. Foreign currency transaction risk is linked to adverse changes to the Bank's financial result arising from concluding by the Bank a foreign currency transaction on conditions, which are not convenient for the Bank and differ from market conditions. The Bank believes that a significant factor, which generates FX risk, is linked to defects and flaws of the risk management system and related processes. In its

operating activity, the Bank makes efforts to mitigate that risk by matching assets denominated in foreign currencies with sources of acquisition of funds denominated in those currencies.

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

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

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

For the needs of the operational risk management, Fortis Bank Polska S.A. has adopted an operational risk definition recommended by the Basle Committee in the New Capital Accord, according to which it is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risk includes legal risk, whereas reputation and strategic risks are excluded.

To reduce operational risk, the Bank uses the system for operational risk monitoring which is based on databases containing information on existing operational losses. The operational loss register is supervised by the Treasury Department. The Bank attaches special importance to reducing operational risk by the process of improving internal procedures and mitigating operational risk, which accompanies the introduction of new products and services.

At Fortis Bank Polska S.A., the Risk Self Assessment (RSA) has been implemented. RSA is conducted every year for all products offered by the Bank. RSA includes risk estimation (in risk exposure categories), effectiveness of controls, appropriate management actions and also examination of possible developments to assess the product exposure to high risk incidents. Furthermore, on the management level the Bank conducts an annual control and self-assessment of risks threatening the performance of the Bank's most vital business objectives.

In 2006, the Risk and ALM Committee updated the strategy and policy of operational risk management by setting out objectives with respect to the quality of the operational risk management and the manner of the Bank's adjustment to the New Capital Accord requirements likewise the requirements under Recommendation M issued by the Banking Supervision Commission. The Risk and ALM Committee, which is authorised to appoint committees to support its work, appointed the Operational Risk and Business Continuity Management Committee.

### **Risk related to outsourcing**

Specific risk is related to outsourcing, i.e. commissioning entrepreneurs or foreign entrepreneurs (including other Fortis entities) by Fortis Bank Polska to perform, in favour of the Bank, some legal or factual actions that constitute banking activity (i.e. the Bank's activity licensed by the Banking Supervision Commission) or factual actions related to the banking activity. Outsourcing of banking services can generate risk for the continuity of service provision and therefore a risk to security of financial means entrusted to a bank by its customers. Outsourcing can be performed under an agreement only. Pursuant to the provisions of the Banking Law Act, prior to the planned conclusion of an outsourcing agreement, a bank shall notify the BSC of such an intention, and, in cases specified by the law, obtain the BSC's permit. The bank must ensure that the outsourcing will not adversely affect the bank's operations or management, in particular by respective provisions of agreements that guarantee the fulfilment of such conditions. Therefore in selecting an outsourcer, the bank should be



guided primarily by its experience, technical and personnel resources, protection against access of third parties to confidential information, etc. Agreements with the outsourcer should contain appropriate clauses under which the Bank will be provided with emergency plans to ensure continued and undisturbed business operations that are the subject-matter of the agreement (in particular, business continuity plans in case of employee or technical problems, ensuring appropriate technical, financial and personnel reserves). The agreements must also include clauses under which the Bank is authorised to amend or terminate the agreement in the event the BSC orders such an amendment or termination. To fulfil the banking supervision requirements, internal rules on signing outsourcing agreements have been implemented in the Bank. The Compliance Department is responsible for monitoring of the Bank's duties when entering in outsourcing agreements. A detailed supervision over outsourcing and performing contractual terms and conditions is exercised by specific organisational units responsible for a given project.

### **Security policy**

To secure business processes is the key objective of the comprehensive Fortis Bank Polska S.A. Security Policy. The purpose of the Bank's Security Policy - which covers both a physical and technical safety, the safety of data and information systems - is to provide the customers and employees of the Bank with a maximum level of protection, i.e. by providing the basics for a safe management of the Bank's activity and directing attention to mitigating risks to the level regarded by the Board of Executives as acceptable.

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

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

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

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

Fortis Bank Polska S.A. does not cooperate with any virtual banks without a physical registered office.

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

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

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

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

It should be emphasised that considering the short time horizon remaining to the effective date of new regulations and their extensive scope, it cannot be absolutely excluded that the Bank will be unable to ensure that after 1 November 2007 all its operations subject to the MiFID are compliant with the new regulations. In such a situation the Bank will have to limit its business operations in the areas unadjusted on time to the MiFID requirements. In consequence of the Bank's violation of the MiFID requirements, respective sanctions can be imposed on the Bank by the relevant regulatory authorities.

## **C. Credit risk**

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

In the credit process applied by the Bank, functions related to customer acquisition and sale of credit products as well as credit risk assessment are distributed organizationally. Customers are acquired and products sold by the business lines: Commercial Banking, Private Banking, Retail Banking and Consumer Finance, while risk is assessed by Credits. Credits supervise credit activity of the Bank as far as credit risk analysis and monitoring is concerned, with respect to defining credit standards and procedures, credit administration, keeping credit files and observing debt recovery procedures.

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

Credit risk analysis is carried out based on a standard credit assessment methodology applied by the Bank. Subject to analysis are both a specific credit product related risk and the Bank's total exposure

risk towards an entity, including all credit facilities granted and financial products that convey such risks.

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

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

Under the Fortis Bank group's preparations to adjust to the requirements of the New Basle Capital Accord, the Bank takes an active part in projects that aim at implementing credit risk assessment methods to establish the required regulatory capital. Projects are carried out in the Bank to implement and develop credit risk assessment models, appropriately adjust IT systems and operational risk assessment systems. The objective of the work is to meet the NCA requirements and improve the effectiveness of the risk management system in the Bank.

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

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

Furthermore, the portfolio is constantly analysed with the view to dynamics of changes of mortgage collateral in the time axis. The analysis is supplemented by periodical examination of LTV and DTI, the key ratios from the point of view of the Bank's policy of granting mortgage loans.

Effective 1 January 2007, the Bank implemented a number of internal procedures and IT applications that enabled the change from current rules of credit risk assessment and creation of specific provisions into the rules of estimating an impairment of assets according to the International Financial Reporting Standards (IAS 39 Financial Instruments – Recognition and Measurement and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). Since January 2007, the existing rules based on Ordinance of the Ministry of Finance dated December 10, 2003, regarding rules of creation of provisions for risk connected with operations of banks are applied in the Bank only to determine the level of provisions that can constitute taxable costs.

The Bank uses internal IT tools to standardize the process of credit portfolio risk monitoring and classification process and to archive data for the needs of risk assessment models. The Bank uses a separate IT tool, i.e. the WIND system, to monitor and recover past due receivables. For the purposes of credit portfolio review monitoring and estimated impairment of credit exposures, the Monitoring Card is used.

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

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

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

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

In connection with the introduction of "Recommendation S on Good business Practice with Respect to Credit Exposures Secured by Mortgages" by the Banking Supervision Commission on 21 March 2006, the Bank undertook actions needed to implement it. The Recommendation indicates the need to reinforce systems and tools used by banks to measure FX risk and interest rate risk, introduce more precise concentration limits, match the maturity structure of assets and liabilities and more precise estimation of risks related to real estate accepted as collateral. Within adjustment work to the regulation in the case of foreign currency loans, the Bank has introduced the analysis of customer credit worthiness at the assumption that their interest rate equals the interest rate of PLN loan and the loan principal is higher by 20%.

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

Work on projects aimed at a further improvement of credit processes is carried out, including in particular reorganisation of the mortgage loans service system which takes into account requirements related to credit risk assessment pursuant to Recommendation S. It is expected that the new system for the service of mortgage loans granted (the so called "SPOKO") will be implemented in the third quarter of 2007.

As at 30 June 2007, impairment loans accounted only for 2.5% of total loans as compared to 4.8% recorded on 30 June 2006, which confirms the continued good quality of the Bank's credit portfolio.

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

### **Credit Agreement signed with Brussels-based Fortis Bank S.A./N.V and Fortis Bank (Nederland) N.V. based in Rotterdam**

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

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

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

Fortis Bank Polska SA entered into the following agreements on providing clearing services by the Shared Service Centre:

- a. Agreement of July 15, 2005 signed with Fortis Bank S.A./NV, pobočka Česká republika based in Prague (the Czech Republic branch), as amended by Agreement of January 31, 2007;
- b. Agreement of July 15, 2005 signed with Fortis Bank S.A./NV, Niederlassung Oesterreich based in Vienna (Austria branch), as amended by Agreement of January 31, 2007;
- c. Agreement of July 15, 2005 signed with Fortis Bank S.A./NV, Magyarországi Fióktelepe based in Budapest (Hungary branch), as amended by Agreement of January 31, 2007;
- d. Agreement of March 15, 2006 signed with Fortis Bank S.A./NV, Filial Stockholm based in Stockholm (Sweden branch), as amended by Agreement of January 31, 2007;
- e. Agreement of March 15, 2006 signed with Fortis Bank S.A./NV, Filial af Fortis Bank S.A./NV based in Copenhagen (Denmark branch), as amended by Agreement of January 31, 2007;
- f. Master Agreement of November 15, 2006 signed with Brussels-based Fortis Bank S.A./N.V regarding the Shared Service Centre payments.

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

Under the above agreements, the Bank is paid remuneration to cover operating costs of the Payment Shared Service Group, increased by a margin determined in the agreements. In 2006, the total remuneration received by the Bank (including reimbursement of costs and consideration for financial services) stood at PLN 1,778.2 thousand. The total remuneration received by the Bank in the period from January through June 2007 was PLN 787,877.

### **Co-operation Agreements made with Fortis Lease Polska Sp. z o.o.**

- Cooperation agreement of 2 January 2002. In April 2007 an Annex to the Cooperation Agreement was signed.
- Cooperation agreement of 17 February 2005

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

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

- Cooperation agreement of January 2, 2007 signed between Fortis Bank Polska S.A. and Dominet Bank SA based in Lubin. The agreement concerns rules of cooperation between the two banks with respect to agency services in offering FBP products to individual customers of Dominet Bank SA. For the performance of obligations under the agreement, Dominet Bank SA will be paid commission on amounts of the loans acquired. The agreement was concluded for an unlimited period of time.
- On 1 April 2007 a sales agreement was concluded between Fortis Bank Polska S.A. and Dominet Bank S.A. based in Lubin. The Agreement concerned the sale of investment outlays and equipment of credit centers, where card products and cash loans are offered to individual customers, to Dominet Bank S.A. The sale price was PLN 2.7 million.

### **Agreements signed with Fortis Commercial Finance Sp. z o.o.**

- Cooperation agreement of 19 March 2007 signed between Fortis Bank Polska S.A. and Fortis Commercial Finance Sp. z o.o. based in Warsaw. The agreement governs rules of cooperation with respect to providing financial intermediation services. The Bank will receive remuneration in the form of a commission on a factoring limit granted to a customer and on each invoice acquired. The agreement was concluded for an unlimited period of time.

*Information on agreements and transactions with parent entities and subsidiaries are presented in the Additional Note No 29 to the financial statements.*

### **Agreements with the NBP**

- Agreement dated 10 April 2007 regarding sending reports to the National Bank of Poland and use of the Reporting Information System Portal
- Under "Agreement on Extension of a Lombard Credit Facility" of 21 October 2003 entered into with the National Bank of Poland, the Bank took a Lombard loan of PLN 148,000 for the period from 29 June 2007 to 2 July 2007.

### **Co-operation agreement No. 14/KFPK/2006 signed on April 10, 2006 with Bank Gospodarstwa Krajowego**

- This agreement concerned cooperation in issuance by BGK of suretyships and guarantees of repayment of loans for enterprises made from the funds of the National Credit Guarantee

Fund (Krajowy Fundusz Poręczeń Kredytowych) established under Act on guarantees issued by the State Treasury and some legal entities (Dz.U. 2003 No. 174, item 1689 as amended) The agreement was terminated effective 1 May 2007.

### Insurance policies

- **Insurance policy with AIG Polska Towarzystwo Ubezpieczeń SA, from October 1, 2006 until September 30, 2007**

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

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

All-risk insurance against loss or damage of property – insurance of property, electronic equipment and civil liability. The insurance sum for investment outlays equals the book value of the Bank's investment outlays. In the remaining scope, the insurance sum has been determined on the basis of the new replacement value.

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

On 1 April 2007, Fortis Bank Polska S.A. signed an agreement with Generali Towarzystwo Ubezpieczeń na Życie S.A. The Agreement defines rules of group life insurance CERTUM, general terms and conditions of additional insurance against accidents (NW), approval of quotation no. 7206034 0307/1 1\_1. The maximum insurance amount that the Insurance Company can pay without the medical risk assessment is PLN 56,000.00 thousand. The Agreement is valid from 1 April 2007 until 31 March 2008.

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

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

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

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

On 15 May 2007 Annex no. 1 to the above Agreement was signed to extend the agreement period. Valid until 30 June 2008.

### Significant loan agreements

In May 2007, Fortis Bank Polska S.A. entered into a syndicated investment loan agreement for 11 years, under which the Bank's maximum exposure can reach EUR 30 million (the equivalent of PLN 113 million). Fixed interest rate: EURIBOR + margin of 1.15% p.a. The current outstanding balance of the Customer's debt is EUR 15.78 million (PLN 59.4 million).

As at 30 June 2007, the Bank did not exceed the maximum exposure limit towards one customer or capital group as stipulated under the Banking Law.

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

At the meeting held on October 16, 2006, the Bank's Supervisory Board, acting on the basis of the Bank's Statute and taking into consideration a motion of the Board of Executives and recommendation of the Audit Committee, chose KMPG Audyty Sp. z o.o. with the registered office in Warsaw as the auditor of the Bank's financial statements for 2006 and 2007 and the entity reviewing the Bank's financial statement for the first half of 2007 and the first half of 2008 (Supervisory Board's Resolution No. 18/2006 of October 16, 2006). The agreement with the auditor was signed on January 12, 2007. The expected remuneration due for the audit of the Bank's financial statements for 2006 and for the review of the Bank's financial statements for the first half of 2007 will be PLN 135 thousand (net) and reimbursement of other auditor's documented costs, if any, relating to the services provided to the Bank.

## **IX. ORGANIZATIONAL AND CAPITAL ASSOCIATIONS WITH OTHER ENTITIES**

### **A. Description of the Shareholder holding over 5% of votes at the General Shareholders Meeting**

Fortis Bank, with its registered office in Brussels, holds 99.19% shares of Fortis Bank Polska S.A.

Fortis is an international financial services provider active in the fields of banking and insurance. With a market capitalization of EUR 42.4 billion as at 28 February 2007 and about 57 thousand employees worldwide, Fortis ranks in the top 20 of European financial institutions. As at December 31, 2006, Fortis total assets went up to EUR 776 billion, and were by EUR 47 billion, i.e. about 6% higher than at the end of 2005 when they stood at EUR 729 billion. The employment level increased from 54,245 to 56,886 people, i.e. by 4.86%. At the end of 2006, 33% of staff members were employed outside the Benelux.

In its key home market, the Benelux countries, Fortis occupies a leading position and offers a broad range of financial services to individuals, companies and the public sector. In its international strategy, Fortis focuses on selected market segments and pursues its strategic plan to achieve 30% net profit on activity conducted outside the Benelux countries by 2009. In 2006, the share grew up to 21% from 15% in 2004.

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

In the first half of 2007, the net profit (before divestment) was EUR 2,782 million in comparison to EUR 2,718 million generated in the first half of 2006. Operating performance continued to improve thanks to good results on banking and insurance and in particular in the second quarter of 2007. Net profit in the second quarter of 2007 increased by 38% to EUR 1,616 million compared with EUR 1,167 million in the first quarter of 2007.

In the first half of 2007, the net profit generated by Fortis on banking activity reached EUR 2,062 million and was higher than the record-breaking result for the first half of 2006 when it stood at EUR 2,051 million. Such outstanding results were achieved thanks to a continued development of commercial activity in the Commercial Banking segment. The comparison with the previous year illustrates a solid and stable growth of revenues and net interest and commission and fee income generated by Commercial Banking. They were accompanied by considerable increase in the credit portfolio, deposit base and asset management. The effective tax rate, already structurally lower, is even better thanks to the Treasury Department's performance and capital gains. Changes in the loan loss provisions were also at a very low level. In the second quarter of 2007, the net profit was EUR



1,159 million which is the company's best result in history. It was generated thanks to a significant increase in income – albeit partly seasonal in nature – at the controlled cost growth by 2%. It should be emphasised that the gross profit growth resulted from a further dynamic development of commercial activity and also seasonally higher results earned by the Treasury Department and Global Markets. Expenses rose mainly due to accelerated investments in growth. In comparison to the first half of 2006, income increased by 3 % to the level of EUR 5,752 million while expenses rose by 13% to EUR 3,334 million. The net assets under management increased by 10 % to EUR 209 billion thanks to the inflow of EUR 10.3 billion net assets.

The insurance activity generated EUR 765 million net profit which accounts for 6% growth in comparison to the corresponding period of 2006. The result was achieved despite high compensations paid in the first and second quarters of 2007 for losses caused by the Kyrill hurricane and floods in the UK.

Key financial data in EUR million:

| <i>All data in EUR million</i>                    | <b>Result</b><br><b>for 1st half of 2007</b> | <b>Result</b><br><b>for 1st half of 2006</b> | <b>Change</b><br><b>in %</b> |
|---|--|--|------------------------------|
| <b>Net profit</b> (before divestments), including | <b>2,782</b>                                 | <b>2,718</b>                                 | <b>2%</b>                    |
| Banking   | 2,062  | 2,051  | 1%                           |
| Insurance   | 765  | 720  | 6%                           |
| Other   | (44)   | (53)   | (17%)                        |
| <b>Result on divestment</b>                       | <b>0,</b>                                    | <b>0,</b>                                    |                              |
| <b>Net profit</b>                                 | <b>2,782</b>                                 | <b>2,718</b>                                 | <b>2%</b>                    |

| <b>Banking</b>         | <b>Result</b><br><b>for 1st half of 2007</b> | <b>Result</b><br><b>for 1st half of 2006</b> | <b>Change</b><br><b>in %</b> |
|------------------------|--|--|------------------------------|
| Total income           | 5 752  | 5 578  | 3%                           |
| Total expenses         | 3 334  | 2 952  | 13%                          |
| Profit before taxation | 2,383  | 2,575  | -7%                          |
| <b>Net profit</b>      | <b>2,062</b>                                 | <b>2,051</b>                                 | <b>1%</b>                    |
| Result on divestment   | -  | -  |                              |
| <b>Net profit</b>      | <b>2,062</b>                                 | <b>2,051</b>                                 | <b>1%</b>                    |

On March 21, 2007, once the permit issued by the Banking Supervision Commission had been received, Fortis Bank S.A./N.V. finalised the purchase of 100% shares of Dominet SA, the owner of Dominet Bank S.A. - a Polish retail bank that offers consumer credits.

Fortis is well on track to compliance with New Capital Accord (Basel II) capital requirements. By choosing the most advanced approaches, i.e. AIRBA for credit risk and AMA for operational risk, Fortis shows its commitment towards a superior Risk Management. Fortis aims at reaching the maximum capital relief permitted by regulators.

Fortis has been awarded excellent long-term ratings by independent international rating agencies (Standard & Poor's: AA-; Moody's: Aa3, Fitch: AA-).

Fortis has continued hiring new staff: 7,014 new employees joined the company in the first half of 2007, while 3,161 left in that period. Out of that number, 2,229 new FTEs result from acquisitions, the most important of which include the purchase of Dominet in Poland and PCI in Hong Kong with the total number of 1,200 employees. At the end of June 2007, 36% of staff members were employed

outside the Benelux.

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

**Fortis Private Investments Polska S.A.** (formerly Fortis Securities Polska S.A.), owned in 100% by Fortis Bank Polska SA, conducts its business activity within:

- management of brokerage financial instruments portfolios to order
- accepting purchase or redemption orders for participation units in investment funds,
- management of investment fund.

Fortis Private Investments Polska SA (FPIP SA) share capital amounts to PLN 9,048 thousand. FPIP SA holds sufficient equity to safely run its current business activity and develop the company.

The offering of Fortis Private Investments Polska SA includes comprehensive solutions with respect to capital market investments. Fortis Private Investments Polska (FPIP) offers share, debt securities and balanced portfolios. FPIP provides management of assets of Fortis FIO (open-end investment fund) umbrella fund launched on the Polish market in 2004 in cooperation with SKARBIEC TFI S.A. Fortis FIO is the first umbrella fund on the Polish market with separated subfunds. The Fund comprises two subfunds: Fortis share sub-fund and Fortis stable growth sub-fund. Fortis FIO also maintains Individual Pension Accounts, IKE Fortis FIO.

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

Starting from year 2006 FPIP more actively offers portfolio management services in co-operation with new intermediaries, acquiring new customers. Acting under new name FPIP implements new strategy, developing an offer for High- Net Worth Individuals in co-operation with Private Banking of Fortis Bank.

At the end of June 2007, assets under management of Fortis Private Investments Polska S.A. totalled PLN 772 million as compared to PLN 260 million at the end of 2006 and 398 million as at the end of June 2006.

As sales of investment funds managed by FPIP SA have been growing fast, it is planned to transform the company into an Investment Fund Company. Following the change into an IFC, FPIP SA will continue to manage individual portfolios of financial instruments and it will develop activity related to investment funds. It is planned to expand the distribution network of investment fund units managed by FPIP SA by entities outside Fortis, e.g. by other Polish banks and independent financial advisors. Fortis Bank Polska S.A. will continue to support further development of FPIP SA consistent with the above strategy.

*The description of transactions related to the banking services rendered to the affiliated entities is presented in the additional note no. 29 to the financial statements.*

## X. CORPORATE GOVERNANCE

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

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

- Under rule no. 20 letter b) detailed criteria of independence of the Supervisory Board members should be determined in the Company's Statute; in the case of the Bank, detailed criteria of independence of the Supervisory Board members are provided for in the Regulations of the Supervisory Board and not in the Company's Statute.
- Rule no. 20 letter c) regarding adopting resolutions without the consent of the majority of independent Supervisory Board Members on the following issues: performances of any kind by the company and any entities associated with the company in favour of members of the Company's Management Board, consent to the execution by the Company or its subsidiary of a key agreement with an entity associated with the Company, member of the Supervisory Board or the Management Board, or with their associated entities, and appointment of a statutory auditor to audit the financial statements of the Company; the Bank does not use any such restrictions and independent members of the Supervisory Board vote on equal rights with other SB members.
- Rule no. 42 regarding the change of the Company's statutory auditor at least once in five (5) years – in this respect, the Bank follows the rules binding in Fortis group, however it should be pointed out that last year the Bank did change the statutory auditor. Pursuant to the rules adopted in Fortis, statutory auditor of a company is changed at least once in seven (7) years. At least once in three (3) years, the Bank's Audit Committee makes an assessment of the statutory auditor's performance and recommends the choice of a statutory auditor for the subsequent period to the Supervisory Board.

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

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

## XI. ORGANISATIONAL STRUCTURE

### A. Bank authorities

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

- General Meeting,
- Supervisory Board
- Management Board

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

Permanent committees:

- Risk and ALM Committee
- Credit Committee,
- Problem Assets Committee.

The Credit Committee and the Problem Assets Committee act in accordance with the regulations approved by the Supervisory Board. Credit decisions are made according to the internal regulations approved by the Bank's Supervisory Board and the Board of Executives.

## B. Business lines and sales outlets

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

As at 30 June 2007, the Bank had the following:

- 1). **30 full-service branches** (5 branches in Warsaw, 3 branches in Kraków, 2 branches in Łódź, Szczecin and Poznań each, 1 branch in Bielsko-Biala, Bydgoszcz, Częstochowa, Gdańsk, Gdynia, Gliwice, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Toruń, Wrocław, Zakopane and Pruszków each),
- 2). **1 Nowy Targ Sub-Branch** of the Zakopane Branch of Fortis Bank Polska S.A.
- 3). **6 Personal Banking sub-branches** – 2 in Warsaw, 1 in Wrocław, Poznań, Katowice and Łódź each, and 1 sub-branch of the Poznań Branch for Mass Transaction Processing, and
- 4). **8 CB Business Centers** - in Warsaw, Krakow, Gdańsk, Gliwice, Poznań, Wrocław, Rzeszów and Łódź.

At the beginning of 2007, new branches were opened in Warsaw, Łódź, Szczecin and Poznań.

The Bank's organization chart as at 30 June 2007 has been attached to this Report.

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

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

#### Board of Executives:

As at 30 June 2007, the Board of Executives composition was as follows:

|                    |  |
|--------------------|--|
| Jan Bujak          | - President of the Board of Executives |
| Alexander Paklons  | - Senior Vice-President                |
| Bartosz Chyła      | - Vice-President                       |
| Jean – Luc Deguel  | - Vice-President                       |
| Jaromir Pelczarski | - Vice-President                       |
| Koen Verhoeven     | - Vice-President                       |

In the first half of 2007, no changes as regards the composition of the Board of Executives took place.

With regard to the resignation submitted by Mr. Koen Verhoeven from the position of a Member of the Board of Executives and Vice-President of the same, to become effective on 31 August 2007, the Supervisory Board resolved to appoint Mr. Thierry Lechien as Vice-President of the Board of Executives of Fortis Bank Polska S.A. effective September 1, 2007 till the end of the current five-years' tenure, ending on the date of the Bank's Annual General

Shareholders' Meeting approving financial statements for fiscal year 2009.

### **Supervisory Board:**

As at 31 December 2006, the Supervisory Board composition was as follows:

|                  |                   |
|------------------|-------------------|
| Jos Clijsters    | - Chairman        |
| Werner Claes     | - Deputy Chairman |
| Antoni Potocki   | - Deputy Chairman |
| Zbigniew Dresler |                   |
| Didier Giblet    |                   |
| Bernard Levie    |                   |
| Thierry Schuman  |                   |
| Peter Ullmann    |                   |

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

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

Effective 16 June 2007, the Supervisory Board's composition is as follows:

|                  |                   |
|------------------|-------------------|
| Jos Clijsters    | - Chairman        |
| Werner Claes     | - Deputy Chairman |
| Antoni Potocki   | - Deputy Chairman |
| Zbigniew Dresler |                   |
| Didier Giblet    |                   |
| Thierry Schuman  |                   |
| Peter Ullmann    |                   |

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

Members of the Board of Executives (BoE) of Fortis Bank Polska S.A. are appointed and recalled in compliance with the provisions of the Code of Commercial Companies and Partnerships, Banking Law Act and the Statute of Fortis Bank Polska S.A. The BoE is composed of between three to eight Members, including the President of the BoE, one or more Vice-Presidents of the BoE and other Members of the BoE in the number specified by the Supervisory Board. Members of the BoE are appointed for the period of joint five-year tenure by the Supervisory Board. Appointment of two Members of the Board of Executives, including the President of the Board, is made with consent of the banking Supervision Commission, given upon a request of the Supervisory Board.

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

Individual Members of the BoE have no specific authority to take decisions on share issue or redemption.

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

The remuneration and the values of benefits obtained by the members of the Board of Executives, the Supervisory Board and by proxies of Fortis Bank Polska S.A. are specified in the table below:

| Remuneration            | 1.01.2007-<br>30.06.2007<br>in PLN<br>thousand | 1.01.2006 -<br>30.06.2006<br>in PLN<br>thousand |
|-------------------------|--|---|
| Board of Executives (*) | 3,525  | 3,080   |
| Supervisory Board (**)  | 235  | 215   |
| Proxies                 | 2,538  | 2,057   |

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

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

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

*Detailed information on the remuneration of the BoE and SuB Members is given in Section 25 of the Additional Notes.*

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

As at 30 June 2007, none of the Board of Executives' Members held any shares issued by Fortis Bank Polska S.A. or other financial instruments related to them or any holdings in affiliated entities of Fortis Bank Polska SA.

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

### **Employees**

The number of people employed was 1,200 FTE (full time equivalents) as at the end of June 30 June 2006. Over the next 12 months the employment increased by 348 FTEs to 1,548 FTEs at the end of June 2007. The majority of the employees, i.e. 62%, were university graduates.

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

In 2006, the Bank employed 506 people (gross) and further 238 people joined the Bank in the first half of 2007, practically in all areas of business.

To ensure high level of the Bank's employee qualifications, the Board of Executives has developed a coherent human resources management strategy, including in particular training programs, adaptation support for new employees and personnel management improvement. In 2007, a new bonus system, consistent with Fortis standards, will be introduced.

To increase the personal development opportunities and respect employee needs better, a number of actions have been undertaken to improve training availability and effectiveness, e.g., the budget for training has been increased, internal training programs have been adjusted, new e-learning programs have been implemented and the High Potentials Program and Graduate Program have been launched. Actions were planned in the area of development of leadership and managerial skills, including the participation of the Bank's management staff in the Harvard Manager's Academy and Fortis Leadership Programme.

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

#### Correctness and reliability of reports presented

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

The semi-annual financial statements of the Bank for the first half of 2007 and the comparative data were prepared pursuant to the binding accounting policies and they accurately, reliably and clearly reflect the property and financial situation of the Bank and its net profit in all material aspects.

The Board of Executives' report on the Bank's activity in the first half of 2007 contains the true picture of the Bank's development and achievements, including a description of basic risks and threats.

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

The Board of Executives of Fortis Bank Polska SA hereby represents that KPMG Audyt Sp. z o.o. based in Warsaw, an entity authorised to audit financial statements, was chosen, under Article 15 Section 3 item 8) of the Statute of Fortis Bank Polska SA by the Supervisory Board based on a recommendation given by the Board of Executives and the Audit Committee (Resolution no. 18/2006 of 16 October 2006), pursuant to the provisions of law, as the entity to review the Bank's financial statements for the first half of 2007, and that the above entity and statutory auditors employed to perform the audit meet the conditions to issue an impartial and independent audit report, in accordance with the respective provisions of the Polish law.

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

|            |  |                    |
|------------|--|--------------------|
| 28.09.2007 | Jan Bujak<br>BoE President<br>Responsible for accounting books                                     | .....<br>signature |
| 28.09.2007 | Alexander Paklons<br>Senior Vice-President<br>of the Board of Executives                           | .....<br>signature |
| 28.09.2007 | Bartosz Chyła<br>Vice-President of the Board of<br>Executives                                      | .....<br>signature |
| 28.09.2007 | Jean – Luc Deguel<br>Vice-President of the Board of<br>Executives                                  | .....<br>signature |
| 28.09.2007 | Jaromir Pelczarski<br>Vice-President of the Board of<br>Executives                                 | .....<br>signature |
| 28.09.2007 | Thierry Lechien<br>Vice-President of the Board of<br>Executives<br>starting from September 1, 2007 | .....<br>signature |
| 28.09.2007 | Koen Verhoeven<br>Vice-President of the Board of<br>Executives<br>until August 31, 2007            | .....<br>signature |



