

## **2008 REPORT OF THE SUPERVISORY BOARD OF FORTIS BANK POLSKA S.A.**

### ***Assessment of the Bank's developments in 2008***

The Supervisory Board has the pleasure to report that in 2008, following its development strategy, the Bank increased the balance sheet by 40% and consistently developed its activity. Integration process with Dominet Bank gathered pace. Fortis Bank Polska SA (FBP) for the first time published consolidated financial statements that included the performance of both the Bank and its subsidiary, i.e. Fortis Private Investments Polska S.A.

The first three quarters of 2008 were for the Bank the period of dynamic development and improved financial results. The Bank added new products to its offering and intensified the sales actions, using a good market situation and the fact that investors moved their capital from the weakening stock exchange to more stable investments. The fourth quarter of 2008 was characterised by changes in the capital group that the Bank is part of, and symptoms of the Polish economy deterioration which adversely affected the final annual performance of the Bank. The Bank earned PLN 78,496 thousand net profit which was lower by PLN 99,098 thousand, i.e. 56% than the profit generated in 2007. The reason of worse results was chiefly a negative valuation of derivative instruments.

Following the economy decline in the fourth quarter, the global financial sector faced a liquidity shortage. The cost of money significantly increased, which was reflected in a more difficult access for bank customers to loans and very attractive terms of opening deposits.

The GDP in 2008 stood at 4.8%, much less than 6.7% recorded in 2007. The performance of enterprises translated also into the condition of the financial sector. Slumping stock exchange indexes, weakening zloty, outflow of foreign investments and speculative investments in financial derivative instruments resulted in the so-called "Polish option crisis" that considerably reduced profits and in some cases led to bankruptcies of companies considered market leaders.

The market situation, Fortis breakup and the ensuing weakening of the brand under which the Bank is known, were painfully felt by the Bank. Measures undertaken to mitigate the risk of worsening the Bank's situation evidenced a good preparation of the Bank's management to operate in difficult environment, and the Supervisory Board thanks and congratulates the Board of Executives for that.

The highlights of the Bank's 2008 performance include:

- After-tax net profit of PLN 78.5 million was lower by 55.8% than the profit recorded in 2007. The gross profit decreased by 52% down to PLN 102.97million
- In 2008, the Bank's total assets exceeded PLN 19.87 billion, i.e. it increased over 2007 by PLN 5.67 billion or 39.9%
- As at 31 December 2008, gross loans stood at PLN 15,082 million and were higher by PLN 3,690 million than at the end of 2007.
- Total contingent liabilities increased in 2008 by 6.9% as compared with 2007 and amounted to PLN 4,926 million.
- Net interest income of PLN 395.9 million was higher than in 2007 by PLN 106.9 million, i.e. by 37%. Growth of fee and commission income by 27%. The net FX income of PLN 111,3 million decreased by 14% in comparison to the previous year.
- The result on banking activity of PLN 531.8 million was lower by 9.3% than in 2007. Total operating expenses in 2008 exceeded PLN 429 million and were higher than in 2007 by PLN 64 million,

following the distribution network development and investments in the new activities. At the end of December 2008, the Group's personnel costs stood at PLN 182 million and were higher by 14% compared to the end of December 2007, when they amounted to PLN 160 million. Higher expenses were attributable chiefly to employment growth (average FTE number in 2008 was higher by 8% than the average FTE number in 2007) and to the increase in employee remuneration resulting from salary growth in the economy.

- As at the end of 2008, the Group suffered a PLN 54.5 million loss on held-for-trading financial instruments (in comparison to the result recorded as at the end of December 2007 it means a decrease by PLN 194.7 million or 139%). The decline resulted from a negative adjustment of the fair value of option transactions entered into with the Bank's customers.
- In the fourth quarter of 2008, the Group of Fortis Bank Polska SA suffered a net loss of PLN 105 million on that account, while the gross profit of PLN 102.9 million earned for the entire 2008 was lower by 52% than in 2007
- As at 31 December 2008, the capital adequacy ratio was 9.88% in comparison to 11.72% as at the end of December 2007.
- ROE decreased from 17.7% as at 31 December 2007 to 6.2% as at 31 December 2008.
- ROA decreased from 1.4% as at 31 December 2007 to 0.4% as at 31 December 2008.
- Book value per share rose from PLN 68.81 as at 31 December 2007 to PLN 72.62 as at 31 December 2008.

FBP performed well in comparison to other banks on the market:

- Despite slower growth of Bank's credit portfolio than previous year, the growth was stronger than the sector. Compound annual growth rate (CAGR) in loans is 38% (2002-2008) and growth of the credit portfolio 2008 vs. 2007 was 32%. The banking sector grew respectively 19% and 38%.
- The loans granted in CHF at the end of 2007 reached the equivalent of PLN 2,318 thousand and grew by 81% up to PLN 4,195 thousand at the end of 2008. In 2008, the share of such loans in total loans gross was 28%; CHF loans to individuals constitute 26% of the total loans balance. The credit portfolio in EUR (in PLN equivalent) grew from PLN 2,113 million in 2007 to PLN 2,643 million in 2008; however, at the same time their share in the total loan volume decreased from 19 % in 2007 to 18% as at 31 December 2008.
- In deposit production, compound annual growth rate (CAGR) of 20% (2002- 2008) and 1% 2008/2007. Average for banking sector being at 11% and 19% respectively.
- 2008 Bank's Gross Income decreased by 8% in comparison with 2007, which was a result of decrease of net gain on available-for-sale financial assets by 139% (major influence of fair value correction). The decrease was amortized by the growth of the interest income (37%) and fee and commission income (28%).
- Net provisions for customers dues increased from PLN – 23,482 thousand at the end of 2007 to PLN – 66 013 thousand at the end of 2008 (PLN 42,531 thousand difference).
- ROE of 6.2% for FBP is below average of the banking sector (19.8%). Cost income ratio at 62% is higher than average in the banking sector (53%).

The Board appreciates the efforts of both the Bank's Board of Executives and employees to continue the growth strategy of the group and increasing the Bank's customer base and market share. At the same time, more risk mitigating measures were implemented. The whole team managed not only to meet the challenge of the dynamically growing Bank but also diminish effects of economic downturn and the related market turbulences.

The Board monitored developments in the results and operation of the business lines, which focused on its growth strategy, introducing new products and growing the customer base, while mitigating risk exposure. In the fourth quarter, attention was drawn to the Bank's activity in the field of trading in derivative instruments and monitoring customers whose stability could have been upset by the economy downturn. At the same time the Business lines had to focus on maintaining their deposit base to secure liquidity.

- In 2008, Retail Banking business line developed its customer base, improving competencies both in the existing areas of operation and in new markets. Offering addressed to small and medium enterprises likewise to their owners and management staff was particularly extended. The year 2008 was also the period of preparation for the merger with Dominet Bank SA, launch of uniform products into the offering of both banks and common product marketing in order to harmonize the product portfolio in view of the merger.
- For the major part of the year, pursuant to the strategy adopted and in response to the market situation, the Bank continued the promotion of mortgage loans for private individuals achieving very good sales results, thanks also to cooperation with renowned financial intermediaries. At the same time the Bank developed its offering of commercial mortgage loans. In connection with a trend reversal in the fourth quarter, the Retail BL slowed down the loan production and reinforced its deposit offering.
- The Bank developed the investment products offer, organised further subscriptions for Fortis L foreign investment funds and Luxemburg-registered Fortis L-Fix closed investment fund managed by Fortis Private Investments. In 2008, there were 32 international sub-funds offered under Fortis L Fund.
- At the same time the Bank developed its activity in relation to private banking by offering specialist services for High Net Worth Individuals in cooperation with Fortis Private Banking worldwide and Fortis Private Investments Polska. In 2008 Private Banking BL developed its team and carried out projects to introduce new products, both credit and investment ones.
- Consumer Finance (mass retail banking segment) with credit cards and cash loans for individuals was transferred to Dominet Bank. This activity was under special attention of the Supervisory Board, which welcomed the decision of Fortis to expand by acquisition of Dominet Bank in March 2007 and decision to speed up the integration of both banks. In the beginning of the year, the managements of FBP and Dominet Bank signed the cooperation agreement and worked on developing the integration plan, which was approved in the first quarter of 2008. In June 2008, the Management Board of the combined Bank was announced and in September, a new organisational structure planned as at the merger date was published. Throughout the year the working streams have carried out the preparations to the operational and legal merger under the supervision of the Integration Steering Committee.
- Commercial Banking (CB) reached excellent results in terms of gross profit and volumes. In line with its strategy, CB focused on further development of specialised services, such as leasing, international trade finance services and factoring. In co-operation with the Global Markets business line, CB offered new products based on derivative instruments that enjoyed intensive growth which ended in the fourth quarter, when speculative measures of numerous Polish companies were uncovered. The Bank offered a comprehensive service with respect to trading in emissions, starting from assistance in finding a counterparty, through advice on carrying out transactions to offering market analyses with regard to these instruments.
- The Bank continued to develop its program addressed to customers applying for subsidies under the EU funds.
- Overall the Global Markets Business Line (GMK BL) performed well, especially in money market transactions and sales of options, thanks also to the strengthening of customer desk and good cooperation with the CB and RB business lines. However, due to market downturn GMK suffered an important loss in derivatives transactions in the 4<sup>th</sup> quarter. GMK worked on intensifying contacts with customers, introduction of new products in synergy with other business lines, improvement of inter-bank activity, improvement in reporting on sales and risk monitoring. In 2008 the Bank extended its offering by products based on energy option transactions and fuel price indexes.

Extraordinary General Meeting on February 21st 2008 was convened to authorise the changes in the composition of the Supervisory Board and Statute amendments resulting from recent changes in the Banking Law, new requirements of the Banking Supervisory Commission and organisational changes at the Bank. In particular, new provisions were added concerning the management system in the Bank including the risk management system and internal controls and appropriate amendments to the scope of activity of Bank's authorities.

The Annual General Meeting on 6 June 2008 approved the 2007 financial statements of the Bank and confirmed the discharge of duties of both the Board of Executives and the Supervisory Board members. The shareholders decided to earmark the net profit of the Bank earned in 2007 fiscal year amounting to PLN 177.6

million for the Bank's equity increase by allocating: PLN 77.6 million to the general risk fund, PLN 15.8 million for covering the costs of implementation by Fortis Bank Polska SA of the International Financial Reporting Standards and the remaining PLN 84.2 million to the reserve capital.

On September 25<sup>th</sup>, another Extraordinary General Meeting was held to authorize changes in the composition of the Supervisory Board.

The Board was informed about implementation of new Best Practices for companies listed on the Warsaw Stock Exchange, which became effective on 1 January 2008. Pursuant to the intention of the Supervisory Board and Shareholders of Fortis Bank Polska SA the Extraordinary General Meeting of 21 February 2008 adopted new corporate governance rules in the scope recommended by the Board of Executives and Supervisory Board. The Supervisory Board confirms that in 2008 no breach of the adopted corporate governance standards was reported at Fortis Bank Polska.

The Supervisory Board closely monitors the performance of Fortis Private Investments Polska the Bank's subsidiary. In 2008, FPIP actively offered financial instrument portfolio management services in cooperation with new intermediaries and acquiring new customers. FPIP pursued its new strategy and developed the offer for affluent individual clients in co-operation with Private Banking Business Line of Fortis. At the end of 2008, assets under management of FPIP S.A. totalled PLN 186.8 million as compared to PLN 424 million at the end of December 2007. At the same time assets under management of the Private Banking Line as of December 2008 YTD were at PLN 433 million, out of which 66% was made by customer deposits at FBP. In twelve months of 2008 deposits grew by 50% as compared to twelve months of 2007. The significant transfer of assets is related to the fact that, due to changeable market situation customers were investing their funds in less risky instruments for example in deposits.

Since mid 2008, a process of transformation of FPIP SA into the Investment Fund Company (TFI) has been carried out. In the issue in question, an application to the Polish Financial Supervision Authority has been filed and is now considered. Following the change into an TFI the company strategy is to continue to manage individual portfolios of financial instruments and develop activity related to investment funds. It is planned to expand the distribution network of investment fund units managed by FPIP S.A. by entities outside the group, e.g. by other Polish banks, independent financial advisors and electronic distribution channels. The Bank will continue to support further development of FPIP S.A. consistent with the adopted strategy and the financial market implications.

### **Changes in the ownership and capital structure**

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

As at 31 December 2008, 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 S.A./N.V.	16 651 449	99.29%	16 651 449	99.29%
Others	119 731	0,71%	119 731	0,71%
Total	16 771 180	100%	16 771 180	100%

\* In connection with a change of Fortis Bank SA/NV parent entity (currently the Belgian Federal Participation and Investment Company), Fortis Bank SA/NV couldn't exercise its voting rights attached to the shares held until the Belgian Federal Participation and Investment Company a relevant consent from KNF (the Polish Financial Supervision Authority).

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

On 25 November 2008, Fortis Bank Polska SA and Dominet Bank SA signed an Annex to cooperation agreement dated 9 January 2008. The planned date of a legal merger between Fortis Bank Polska SA and Dominet SA was postponed from 30 June 2009 to 31 July 2009.

Until 10 October 2008, Fortis Bank Polska S.A. was part of Fortis, an international banking and insurance group. The ultimate parent entities were: Fortis SA/NV and Fortis N.V. In that period, Fortis Bank SA/NV based in Brussels was the Bank's parent entity.

Since 10 October 2008, the Bank has been part of a banking group where the parent entity was the Government of the Kingdom of Belgium, through the agency of Societe Federale de Participation et d'Investment (the Belgian Federal Participation and Investment Company, SFPI). Societe Federale de Participation et d'Investment based in Brussels at Avenue Louise 54/B1, founded on 16 September 1994, is owned by the State Treasury of the Kingdom of Belgium. It is a joint stock company of a holding nature which implements public interest projects. The Belgian Federal Participation and Investment Company became the major shareholder (holding 99.93% of shares) of Fortis Bank SA/NV based in Brussels, a company that is the direct parent entity of Fortis Bank Polska S.A. and an indirect parent entity of Dominet Bank S.A.

In October 2008, Fortis holding, BNP Paribas and SFPI signed an agreement regarding the takeover of Fortis activities in Belgium and Luxemburg, including a resale of 75% of Fortis Bank S.A./NV shares to French BNP Paribas. The said agreement was questioned by Fortis minority shareholders. As a result, it was subject to voting at the General Meeting which rejected the proposed transaction. On 6 March 2009, a new agreement was signed regarding amended terms of the transaction. The new agreement was submitted to shareholders for approval at the general meetings of shareholders of Fortis SA/NV in Brussels and of Fortis N.V. in Utrecht, in April 2009 and approved.

Following the change of the parent entity of Fortis Bank S.A./NV, the majority shareholder of Fortis Bank Polska SA couldn't effectively exercise voting rights attached to shares held without a consent from the Polish Financial Supervision Authority (FSA), pursuant to Article 25 para. 1 of the Banking Law Act of 29 August 1997 and until it fulfills the obligation to announce a tender offer for the remaining shares provided for in Article 74 Section 2 of the Act of July 29, 2005 on Public Offerings and Conditions Governing the Introduction of Financial Instruments to an Organized System of Trading, and on Public Companies. In January 2009 the Belgian Federal Participation and Investment Company (SFPI) announced a tender offer and on 30 March 2009, filed an application to the Polish Financial Supervision Authority for a consent to exercise voting rights attached to shares of Fortis Bank Polska SA.

The ownership issue was finally clarified, when BNP Paribas acquired indirectly on May 12, 2009, 16,738,712 shares in Fortis Bank Polska SA which represents approximately 99.81% of Fortis Bank Polska's share capital as a result of acquisition of a 54.55% stake in Fortis Bank SA/NV. On May 20th BNP Paribas received the consent from FSA to exercise their voting rights held indirectly through Fortis Bank SA/NV. Then BNP Paribas fulfilled the obligation to announce a tender offer on June 4.

### ***Changes in the composition of the Supervisory Board***

As at 31 December 2008, the Supervisory Board composition was as follows:

Jos Clijsters	- Chairman
Antoni Potocki	- Deputy Chairman
Zbigniew Dresler	- Supervisory Board Member
Peter Ullmann	- Supervisory Board Member
Lucas Willemyns	- Supervisory Board Member
Christopher Norris	- Supervisory Board Member

With regard to the resignation submitted by Mr. Bernard Levie, Mr. Thierry Schuman and Mr. Didier Giblet, the Supervisory Board's members, the Extraordinary Annual General Meeting of Fortis Bank Polska SA held on 21 February 2008 appointed Mr. Marc Luet and Mr. Lucas Willemyns to the Supervisory Board of Fortis Bank Polska S.A. On 25 September 2008, Messrs. Werner Claes and Marc Luet resigned from their functions in the Supervisory Board of Fortis Bank Polska S.A. The Extraordinary General Meeting held on 25 September 2008 appointed Mr Christopher Norris to the Supervisory Board, effective 26 September 2008. The above

composition of the Supervisory Board was valid from 26 September 2008. Effective 31 January 2009, Mr Christopher Norris resigned from his function in the Supervisory Board of Fortis Bank Polska S.A.

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

### **Review of 2008 meetings**

Last year, the Supervisory Board met on five (5) occasions and adopted 31 resolutions.

Recurring issues discussed at the meetings included financial performance of the Bank and results by business lines, review of annual accounts, strategic discussions on financial and business prospects of the Bank in Poland and issues brought to the attention of the Board by the Audit Committee. The Board was regularly briefed on developments in economic situation in Poland and the Bank's performance in comparison to competitive banks and the banking sector.

The issue of securing sound liquidity and solvency position of the Bank came up regularly, considering the ambitious growth plans and favourable market conditions resulting in rapid growth of the balance sheet. The Supervisory Board closely monitored measures taken to secure a short term liquidity position and advised on structural solutions to be worked out to secure the growth of the company to meet long term liquidity and capital requirements. During 2008 the Bank has drawn long term credit lines from Fortis Banque Luxembourg SA (March 2008) and Fortis Finance Belgium (in December 2008).

The Board was presented with strategies of particular business lines, including a combined Retail Banking Business Strategy FBP and DB on Retail Banking co Strategy implementation, developments in Global Markets, strategies for development of new activities in Commercial and Private Banking.

The Board recommended to convene the FBP Extraordinary General Meeting of February 21st 2008 to authorise the changes in the composition of the Supervisory Board and Statute amendments. And then another EGM in September.

The Board reviewed the proposed agenda and draft resolutions for the Annual General Meeting, including those regarding profit distribution, amendments to the Statutes, its composition and remuneration of the Board members. The Board issued a positive recommendation as regards the Board of Executives activity in 2007.

The Board carefully monitored the progress of two important projects, i.e. Recommendation S and the Basel 2 project (compliance with requirements set out in the New Basle Capital Accord).

The Board discussed HR development issues, including regular review of staffing and turnover figures, changes in the management of Retail Banking and related personal and organizational changes.

The Board considered and approved the Executive Board recommendation on FBP performance score for realization of targets by Fortis Bank Polska in 2008 set at "3 – almost at target" for bonus calculations purpose.

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

Line management structure was introduced in the Finance and Legal arising from the further development of reporting and risk, and in the Technology and Operations to align their structures to the future development and support the service of increasing volumes. Other changes in TOPS reflect the new model of security and safety management, aiming at centralization of responsibilities within particular departments, improvement of existing processes, reorganization of Investigations, implementation of Information Security Management standards (ISO 27001). Reorganization of FBP Human Resources Management function was done in line with Fortis model and considering target organization after merger with Dominet Bank. Changes in Marketing and Corporate Communication took place in September in view of the need of 2009 planning process, execution of new strategy including the re-branding and repositioning process. Organizational changes in Private Banking were introduced to support the new business strategy. Reorganization of Investigations was completed to align to Fortis Bank model.

With the perspective of the future merger with Dominet Bank, the Board members closely followed the progress of integration tasks and advised on the implementation of the process to take advantage of synergies and increasing leadership.

The Board was presented with the status of key projects per Business Line vs. the 2008 plan and challenges to be met this year due to new requests from HO and legal requirements, new business initiatives and audit recommendations.

In view of the future development plans, the merger and optimisation of the Bank's facilities the Board approved the Management Board decision to sign a long term lease agreement for a new office building in Krakow.

Other topics of discussion at the Supervisory Board meetings included internal control systems, business risks, and risk management. The following issues became the special attention points for the Supervisory Board:

- Approval of the budget for 2008 and long term financial plan assumptions
- Integration with Dominet Bank S.A. and changes in business strategy
- Credit lines taken from group companies
- Plan of collection and sustaining of deposits from insurance companies
- Discussion of option business and requirements for risk mitigating measures
- Implementation of New Risk Management Policy and amendments in various risk management methodologies, including updating policies for liquidity risk and credit risk management.
- Follow-up on Control & Risk Self Assessment
- Discussion of various possible measures to maintain liquidity in view of the liquidity crisis coupled with reputational risk arising from the dissolving of the Fortis group.
- Evolution of credit risk in view of deterioration of the derivatives portfolio.

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

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

- Approval of the Risk Management Policy at Fortis Bank Polska SA
- Approval of the amended Credit Decision Making Regulations after the organizational changes,
- Approval of amendments to the Capital Management Policy at Fortis Bank Polska SA
- Decision on changes in the composition of Compensation Committee
- Approval of amendments to the organisational structure of Fortis Bank Polska SA
- Approval of Board of Executives' report for 2007
- Recommendation of distribution of the 2007 profit
- Approval of the Supervisory Board's report for 2007
- Approval of the amended Strategy and Policy of Operational Risk Management at Fortis Bank Polska SA
- Approval of the Internal Capital Adequacy Assessment Process at Fortis Bank Polska SA
- Determination of a consolidated text of the Statutes of Fortis Bank Polska SA
- Decision on changes in the composition of the Audit Committee
- Determination of the assessment of Fortis Bank Polska SA for 2007
- Approval of budget 2008 adjustment
- Approval of amendments to credit product granting regulations, pursuant to the provisions of Articles 79 and 79a of the Banking Law Act dated 29 August 1997
- Approval of amendments to the Regulations for granting credit products to members of the Board of Executives or Supervisory Board or persons holding managerial positions in the Bank and entities affiliated by capital or management with the above-mentioned persons.
- Approval of the Compliance Risk Management Policy at Fortis Bank Polska SA

- Approval of the Strategy and Policy of Liquidity Risk Management at Fortis Bank Polska SA

Remuneration adjustments, other changes in the terms and conditions of the employment contracts and bonus payments for the Board of Executives members were considered and decided on by the Compensation Committee of the Supervisory Board, which signed 11 decisions in 2008.

### **Audit Committee**

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

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

In 2008, the composition of the Audit Committee was as follows:

1. Peter Ullmann – Chairman,
2. Zbigniew Dresler,
3. Antoni Potocki,
4. Christopher Norris – appointed effective 26 September 2008; resigned effective 31 January 2009,
5. Werner Claes – resignation submitted effective 25 September 2008.

In 2008, the FBP Audit Committee held five (5) meetings at which the following issues were discussed:

- Defining the Activity Plan for 2008.
- Reports on the activity of Audit Department presented by the Head of Audit and reports from the Risk & ALM Committee on risks overview presented by the Chief Risk Officer.
- Organisation of the Audit Department and relationship with the statutory auditor.
- Review of financial statements together with the opinion of the Statutory Auditor twice a year, i.e. including the semi-annual report and annual report, and presenting its opinion thereon to the Supervisory Board.
- Review of the Control & Risk Self Assessment report and Action Plan prepared in accordance with Fortis procedure and signed by the FBP Board of Executives.
- Information on co-operation with the statutory auditor and issuing opinion on the selection of the auditor for the next reporting period.
- Review of the Agenda and draft resolutions for the General Meeting of Shareholders and amended corporate documents to be submitted to the shareholders.
- Review of reports on execution of the FBP Compliance Action Plan and the Annual Compliance Report.
- Implementation of recommendations of internal and external audits.
- Adaptation of the Bank to the Basle II requirements.
- PI@net internet banking system operation.
- Audit of the subsidiary – FPIP SA.
- Audit of the internal regulations' system.
- Progress in the SPOKO project and implementation of the identity and access management system.
- Credit Risk Inspection's work results.
- Progress of the integration with Dominet Bank S.A.



- o Offering derivative financial instruments.
- o Cash management process.
- o Implementation of Recommendation S.

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

- o Challenges and risks in the integration process.
- o Operation of new branches from the credit risk viewpoint.
- o Information on the implementation of Recommendation S.
- o Negative impact of derivatives position resulting from devaluation of the zloty and deteriorating economic situation of clients.
- o Treasury function in the context of AC recommendation to limit derivative deals to professional counterparties and no speculative transactions to be executed.

The AC finds the internal controls and the risk management systems of FBP effective and highly developed. Compliance, Risk, Investigations and Audit are functioning on very professional basis. AC intends to monitor closely their further evolution. At the same time, the AC is concerned with deterioration of financial results of the Bank and advises to monitor quality of credit portfolio. Major topics for 2009 for the Bank are: counteracting the impact of financial crisis on the Bank's activity, effective merger with Dominet Bank and solving derivatives issue.

### **Prospects**

The prospects of the Bank's activity development are materially affected by the current macroeconomic situation, condition of the financial sector at the period of deepening crisis on international financial markets and changes that took place in Fortis in the fourth quarter of last year.

As a result of a takeover of Fortis activities by the Belgian, Dutch and Luxembourgian governments in September and October 2008, likewise following further agreements signed by the government of the Kingdom of Belgium and Fortis, there was a change in the ownership structure of the principal shareholder of Fortis Bank Polska SA. On 10 October 2008, the government of the Kingdom of Belgium through the Belgian Federal Participation and Investment Company became the parent entity of the group.

As described in section "Changes in ownership and capital structure" based on agreements between Fortis holding, BNP Paribas and the Belgian Federal Participation and Investment Company, the Belgian government committed to transfer 75% of shares in Fortis Bank SA.NV (Fortis Bank Belgium) to BNP Paribas.

This was realized only after a new agreement was submitted to shareholders of Fortis SA/NV in Brussels and of Fortis N.V. in Utrecht for approval at the general meetings in April 2009.

Fortis Bank SA/NV based in Brussels remains the direct parent entity of Fortis Bank Polska SA and the indirect parent entity of Dominet Bank SA. The Bank's strategy continues to be closely interwoven with the overall strategy of Fortis Bank Belgium, which is now in the process of integration with BNP Paribas group.

The BNP Paribas group significantly strengthens its position in Eurozone, building on additional two domestic markets (Belgium and Luxemburg) and additional retail banking networks in Poland and Turkey. The strategy of BNP Paribas is to develop in Poland the integrated Universal Bank Model providing banking services to all Client segments. The cross-selling of products offered within the group will be developed based on the current customer base of Fortis Bank Polska and Dominet Bank. The existing plans of Fortis as regards increasing market share and branch network development will be continued adding the expertise of BNP Paribas. Especially in the corporate and investment banking, there is high potential for transfer of best practices and use of BNP Paribas rich experience. This strategy will be implemented in two steps. First the target structure of the group's activity in Poland will be determined. In the second step new integrated strategic plan will be developed based on common knowledge and after detailed profitability and risk analysis.

The new owner confirmed that Integration of Fortis Bank Polska S.A. and Dominet Bank S.A. should be completed as planned. Integration of the banks will ensure operating synergies for group entities in Poland. Thanks to joined efforts it will be possible to reach a greater number of customers with the offering and to boost financial figures.

As a result of the merger, the position of Fortis Bank Polska SA at the Polish market will change – Fortis Bank Polska SA, from a bank servicing mainly corporate customers and affluent individuals so far, will become a universal bank. The Mass Retail and Micro-companies segments, serviced to date by Dominet Bank S.A., will

become one of the key businesses of the merged Bank. The Bank will continue cooperation with Fortis Investments with regard to sales of services offered by foreign investment funds.

The Bank will reinforce its position on the retail banking market through a significant increase of the serviced customer volume. The Bank will position itself on the retail banking market as a friendly and universal bank, which supports customers in building their future, offers them services and financial consulting in a friendly and modern environment. The Bank plans to differentiate its business strategy in relation to particular customer segments, focusing on an active acquisition of new customers from the Mass Retail segment and also Professionals and SE. The Bank's strategy assumes a significant increase in the number of customers within the next 5 years. In the case of Affluent customers, the merged Bank will adopt a strategy of increasing the number of products held by the present customers and building their loyalty.

The Bank's management assumes that in the area of corporate banking and private banking the Bank's strategy and positioning will not change in consequence of the merger as compared to the present strategy. Also the relationships with the remaining subordinated entities and other entities within the Fortis Bank Belgium group will retain the present form; it concerns the entities that offer banking, leasing and asset management services in Poland. Further changes may take place in the process of integration into BNP Paribas group.

The Bank did not publish financial forecasts for 2008. The Supervisory Board and the Board of Executives follow the policy of publishing no financial result forecasts for the end of 2009.

In connection with a downturn in the global financial markets, the Bank has undertaken measures to mitigate credit risk related to derivatives held by the Bank, in particular FX options and FX forward transactions. The Bank forecasts that in 2009, credit risk will materially affect the Bank's financial performance.

The issues of ensuring liquidity and maintaining adequate solvency level demand a special attention of the Bank's management and development of a long-term solutions, especially that even assuming the 2008 profit retention, considering the planned balance sheet development on one hand and the need to cover potential losses on credits and derivatives' transactions, it is impossible to obtain sufficient funding from deposits acquired. The capital adequacy ratio as at the end of 2008 of 9.88% and 2009 simulations indicate the need of a substantial capital increase. Also in view of FSA requesting banks to maintain higher than regulatory solvency ratio, i.e. at 10%. Therefore the major shareholder committed to an EUR 100 mio equivalent equity injection. As for legal reasons this capital increase cannot be completed prior to the merger registration, a bridge financing of EUR 50 mio subordinated debt is organized.

In view of the uncertain situation at the market, which is characterised by a high changeability of macroeconomic conditions (including e.g. FX rates), the minimisation of risk and further development of internal controls, risk management and compliance function become a priority. The Bank implements the recommendations of the Polish Financial Supervision Authority in this regard.

As has been decided by the Basle 2 Steering Committee, in consultation with the Fortis Bank Head Office and approved by the Supervisory Board the Bank started using the Standardised Approach (STA) in 2008 with respect to credit risk and the Basic Indicator Approach (BIA) with respect to operational risk. In the medium-term horizon (3-5 years), the Bank will still be obliged to implement the most advanced risk management methods – the AIRBA with respect to credit risk and AMA with respect to operational risk. The Bank will continue to work on the implementation of advanced risk measurement methods in a medium-term horizon (3-5 years).

The Board advised the management to focus on the following priorities in the year 2009:

- o Risk management, especially efforts must be taken to build a stronger, better credit risk organization.
- o Liquidity management, to close the liquidity gap concentrating on deposits acquisition, and maybe also decreasing the assets on the balance sheet.
- o Cost management and cutting costs. To be persistent in implementation of the cost cutting program launched at the Bank, which aims at significant cost in FBP & DB in 2009 and next years and implementation of real cost awareness of staff and management of the change. FTE optimization resulting from merger synergies and limiting operational activity being in scope.
- o To complete successfully integration with Dominet Bank.
- o To clarify and simplify the organizational structure and to bring it in line with new ownership structure and group operating structure.

## **Annual accounts and Board of Executives' Reports**

The Supervisory Board reviewed the stand alone and consolidated reports of Fortis Bank Polska SA Board of Executives on the Bank's activity in 2008 and the Bank's and Group consolidated financial statements comprising (consolidated approach):

- 1). the introduction;
- 2). the balance sheet as at 31 December 2008, with total assets and total equity and liabilities of PLN 19,869,004 thousand;
- 3). The capital adequacy ratio;
- 4). the statement of off-balance-sheet items as at 31 December 2008, showing a total of PLN 4,926,427 thousand;
- 5). the income statement for the financial year from 1 January 2008 to 31 December 2008 with a net profit of PLN 78,496 thousand;
- 6). the statement of changes in equity for the period from 1 January 2008 to 31 December 2008 with an increase in equity by PLN 63,966 thousand;
- 7). the cash flow statement for the financial year from 1 January 2008 to 31 December 2008 with a decrease in gross cash down to PLN 711,109 thousand;
- 8). the additional notes and explanations.

Based on the audit of the financial statements of the Bank as at the year end (i.e. as at 31 December 2008), KPMG Audyt Sp. z o.o. issued an unqualified opinion on these financial statements.

As a result of its activity in the 2008 fiscal year, the Bank earned a net profit of PLN 78,191 (in words: seventy eight million one hundred ninety one thousand Polish zlotys).

Considering the positive opinion of the Audit Committee, the Supervisory Board approves the Board of Executives Report on the Bank's activity in 2008 and submits the Fortis Bank Polska Financial Statements for 2008 for the consideration of the Annual General Meeting to be held on 26 June 2009.

## **Profit distribution**

Having considered the Board of Executives' motion, the Supervisory Board recommends presenting the Annual General Meeting with a draft resolution on the allocation of the 2008 net profit of PLN 78 190 773.02 (say: seventy eight million one hundred ninety thousand seven hundred seventy three and 02/100), for the increase of own funds in the following way

- the portion of the profit of PLN 33 190 773.02 to be allocated for supplementary capital,
- the remaining portion of the profit of PLN 45 000 000 to be allocated to general risk fund.

Materials for the Annual General Meeting comprise consolidated and standalone financial statements, the reports of Fortis Bank Polska SA Board of Executives on the Bank's and Capital Group activity in 2008 and this report of the Supervisory Board.

*Warsaw, 26 June 2009.*