

## Report on the observance of corporate governance rules in Nordea Bank Polska S.A. in 2007.

### I. The list of the rules of corporate governance that were not followed by the Company in 2007

In 2007, the Management Board of Nordea Bank Polska S.A. declared the intention to comply with the rules of corporate governance included in the document entitled „Best practices in public companies in 2005” with the exception of rules No 9, 20, 26, 28, and 42. Below, we present the rules that were not complied with in the Company in 2007 with a comment from the Company:

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„Best practices in public companies in 2005”	Comments from Nordea Bank Polska S.A. regarding the rules set forth in the document entitled „Best practices (...) 2005”

#### The best practices relating to general meetings of shareholders

9. A General Meeting should be attended by members of the Supervisory Board and of the Management Board. An auditor should be present at the ordinary general meeting of shareholders and at an extraordinary general meeting of shareholders if the meeting is to discuss the company’s financial matters. The absence of a member of the Management Board or a member of the Supervisory Board at the meeting must be explained. The explanation should be presented at the meeting.	The general meeting of shareholders is attended by representatives of the Management Board, and Supervisory Board selected by these authorities. An auditor is invited to the ordinary general meeting of shareholders or an extraordinary general meeting of shareholders, where the financial matters of the company are discussed.
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#### The good practices of supervisory boards

20. a) At least half of the members of the Supervisory Board should be constituted by independent members, with the reservation of point d). The independent members of the Supervisory Board should be free of any connections with the company and with its shareholders or employees which could have a material impact on the independent member’s ability to make impartial decisions; b) The detailed criteria of independence should be formulated in the company’s statutes; c) Without permission from the majority of independent members of the supervisory board no resolutions should be passed in the following matters: - a performance rendered under any title by the company and entities related to the company, for the benefit of members Management Board; - the granting of permission for the conclusion by the company or by an entity dependent on the company of any material agreement with an entity related to the company, a member of the Supervisory Board or of the Management Board and with entities related with them; - election of an auditor for carrying out the audit of the company’s financial statements. d) In companies where one shareholder holds a stake granting him more than 50% of the total number of votes, the Supervisory Board should be composed of at	In this matter, the Majority Shareholder pursues its own policy.  The majority of the members of the Supervisory Board are constituted by representatives of the majority shareholder. In the opinion of the majority shareholder, this solution allows the company to properly and effectively implement the Company’s strategy and sufficiently protects the interests of all the groups of shareholders and of other groups connected with the Company.  The rules of election of the members of the Supervisory Board are set forth in the Bank Statutes, which also stipulate that a majority of the members of the Management Board and of the members of the Supervisory Board of the Bank, including the President of the Management Board and Chairman of the Supervisory Board are Polish citizens who are permanent residents of Poland.  The majority of the members of the Supervisory Board, who are Polish citizens, do not have any capital, organizational or personal relationship with the Majority
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<p>least two independent members, including an independent chairman of the audit committee, if such a committee was established.</p>	<p>Shareholder.</p>
<p>26. A Member of the Supervisory Board should make it possible for the management board to make a public announcement (according to the relevant procedure concerning information about the sale or purchase of shares in the company or in its dominant company or dependent company, as well as about any transactions with such companies, as long as the transactions are material for his financial standing</p>	<p>Members of the Supervisory Board provide information to the company about the sale or purchase of shares in the company (Bank) or in its dependent company, as well as any transactions with them. The company does not possess any information concerning the sale or purchase by a member of the Supervisory Board of shares in its dominant company (Nordea Group).</p>
<p>28. The Supervisory Board should act in accordance with the Supervisory Board Rules, whose text should be publicly available. The Rules should envisage the establishment of at least two committees:</p> <ul style="list-style-type: none"> <li>▪ the audit committee and</li> <li>▪ the salary committee</li> </ul> <p>The audit committee should be composed of at least two independent members and of at least one with qualifications and experience in accounting and finances.</p> <p>The tasks performed by the committees should be specified in detail in the Supervisory Board Rules. The committees should submit to the Supervisory Board annual reports on their activity. The company should make these reports available to the shareholders.</p>	<p>The principles of the functioning of the Supervisory Board are defined by the Bank Statutes: The Supervisory Board conducts its activities on the basis of Rules approved by the General Meeting of Shareholders.</p> <p>The Supervisory Board Rules were approved by the Ordinary General Meeting of Shareholders on 29-06-2000. The Rules are available for examination by the shareholders at the company's offices and on its website. The Supervisory Board Rules do not define the principles of establishment and functioning of the audit and salary committees.</p> <p>The Bank Statutes set forth the principles of establishment and activities of the Audit Committee: The Supervisory Board established the Audit Committee in order to support and supervise the fulfillment of the audit tasks,. The activities of the Audit Committee are regulated by the Audit Committee Statutes, approved by the Supervisory Board.</p> <p>The Supervisory Board passed a resolution establishing a Committee for the Contracts of the Members of the Bank Management, authorizing it to analyze and update the contracts, formulate the rules governing the contracts for newly appointed members and authorizing the Chairman, acting on behalf of the Supervisory Board, to sign relevant documents.</p>

**Good practices with regard to relations with external persons and institutions**

<p>42. In order to ensure the independence of opinion, the company should change its auditor at least once every five years. By a change of auditor we mean also a</p>	<p>The change of the auditor is made at the same time as the change of the auditor for the Group.</p>
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<p>change in the person who carries out the audit. In addition, in the longer time horizon, the company should not make use of the same auditing entity.</p>	<p>The Bank, being part of the Nordea Capital Group, uses the services of the auditor selected for the whole Group. Despite the passage of 5 years (period indicated in the Rule), the Bank is still using the services of the same entity, following the rules established by the Nordea Group.</p> <p>The Bank is convinced that the reliability and independence of the opinions issued by the auditor are independent of the period in which such services are rendered.</p>
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## **II. Description of the method of functioning of the general meeting of shareholders and its primary rights as well as the rights of shareholders and the method of exercising these rights**

General Meetings of Shareholders are called by the Company in accordance with the applicable Polish laws (i.e. pursuant to the Commercial Companies Code), the Bank Statutes and the Rules of General Meetings of Shareholders (WZA).

General Meetings of Shareholders take place in the company's offices, on business days, in afternoon hours, so that the biggest number of shareholders can attend the meetings. The calling of a WZA is effected by placing an announcement in the Monitor Sądowy i Gospodarczy, which contains also the expected agenda and the potential amendments to the Bank Statutes.

The notice of the WZA with the agenda is delivered to the shareholders by mail 15 days before the WZA. The draft texts of resolutions to be passed by the WZA as well as other important materials are made available to the shareholders at the company's offices 7 days before the WZA.

The company follows the general rule of not canceling or changing dates of General Meetings that have already been announced, unless extraordinary or especially justified circumstances arise, of which the shareholders are immediately informed in writing.

The Supervisory Board of the Bank, acting pursuant to the Bank Statutes, reviews all matters that are tabled at the WZA.

The WZA considers all matters that are listed in the agenda.

General Meetings of Shareholders can be attended by holders of bearer shares who deposit (at the Company's offices at least one week ahead of the WZA) registered certificates of deposit issued in order to confirm the right of the holder of dematerialized shares to attend the meeting.

The eligible holders of bearer shares, who have the right to vote, are entitled to attend the General Meetings of Shareholders (WZA), if they were entered in the share ledger at least one week before the date of the WZA.

Shareholders may attend the WZA and may exercise their right to vote personally or through a proxy.

The company accepts a proxy authorization granted in writing (under pain of nullity) only if it is furnished with a stamp (stamp duty). The authorization includes the shareholder's declaration of authorizing the proxy to represent him at the General Meetings of Shareholders.

The WZA is presided over by a shareholder who must be elected for this function at every meeting. The election takes place prior to the commencement of any actions. Until the election of the Chairman, the WZA is presided over by one of the members of the Supervisory Board of the Bank.

The Chairman of the WZA is responsible for an efficient progression of the meeting and for respecting the rights vested in all the shareholders.

The Chairman of the WZA signs the minutes of the general meeting immediately after the text has been drawn up by a public notary.

Representatives of the Supervisory Board of the Bank and of the Management Board, designated by these boards, as well as the auditor invited by the Company (if present) offer explanations and information to the attendees regarding the Company, to the extent to which they are entitled and qualified to offer such information and explanations.

Each shareholder who is against the passing of a resolution or who makes a declaration concerning an item of the agenda has the right to demand that his dissenting vote and declaration are recorded in the minutes of the WZA (in the notarized minutes).

Company authorities do not limit access to information.

The Management Board of the Company does not have any objections to the presence of media representatives at the WZA, but such presence must not impede the progression of the meetings.

The Management Board of the Company makes every attempt to make available to media representatives reliable information concerning the current operations of the Company and its economic standing, subject to the reservation, however, that when offering information to shareholders and to all investors, the Company fulfils its information-providing requirement in accordance with the Act on public trading in securities.

### **III. The composition and the rules of operation of management and supervisory boards in the company and of the company's committees**

#### The composition of the Management Board of Nordea Bank Polska S.A. as at 31.12.2007:

Włodzimierz Kiciński – President of the Management Board

Sławomir Żygowski – First Vice President of the Management Board – Deputy President of the Management Board

Janne Hirsto – Vice President of the Management Board

Jacek Kalisz – Vice President of the Management Board

Wojciech Papierak – Vice President of the Management Board

Bohdan Tillack – Vice President of the Management Board

#### The rights (principles of work) of the managers:

The Management Board of the Bank works on the basis of the Rules approved by the Supervisory Board of the Bank, in accordance with the Bank's Statutes. The Rules define the specific areas of responsibility of the Management Board of the Bank and the matters that must be collectively considered and resolved by the Management Board of the Bank.

The Management Board handles the Bank's matters, manages its assets and represents the Bank externally, in addition, the responsibilities of the Management Board include all matters that are not reserved for the sphere of responsibility of the General Meetings of Shareholders or the Supervisory Board of the Bank.

#### The composition of the Supervisory Board of Nordea Bank Polska S.A. as at 31.12.2007:

Wojciech Rybowski – Chairman of the Supervisory Board

Thomas Neckmar – Vice Chairman of the Supervisory Board

Members of the Supervisory Board:

Emilia Osewska-Mądry

Maciej Dobrzyniecki

Esa Tuomi

Rauno Päivinen

Henrik Bernhard Winther

Eugeniusz Kwiatkowski

Andrzej Zwara

Asbjorn Hoyheim

Jacek Wańkiewicz

#### The rights (principles of work) of the members of the Supervisory Board:

The Supervisory Board of the Bank works on the basis of Rules approved by the General Meeting of Shareholders in accordance with the Bank's Statutes. The Rules define the specific areas of responsibility of the Supervisory Board of the Bank and the matters that must be collectively considered and resolved by the Supervisory Board. The area of responsibility of the Supervisory Board includes all matters that are not reserved for the area of responsibility of the General Meeting of Shareholders or for the Management Board of the Bank.

#### The committees that operate in the Bank:

##### I. The Audit Committee:

The Bank's Statutes define the principles of establishment and functioning of the Audit Committee. In order to support and supervise the fulfillment of audit tasks, the Supervisory Board established the Audit Committee. The activities of the Audit Committee are regulated by the Statutes of the Audit Committee, approved by the Supervisory Board of the Bank.

##### II. The Contracts Committee:

The Supervisory Board passed a resolution establishing the Committee for the Contracts of the Members of the Management Board. The Committee is authorized to analyze and update contracts, define rules governing the contracts of newly appointed members of the Management Board and authorize the Chairman (acting on behalf of the Supervisory Board) to sign relevant documents.

#### **IV. The description of the basic features of the company's systems of internal control and risk management with regard to the process of preparation of financial statements**

Nordea Bank Polska S.A. is exposed to the following types of financial risk resulting from its operations:

- credit risk (including the counter party's credit risk)
- market risk (including: interest rate risk, FX risk and equity price risk)
- liquidity risk.

The goal of risk management is to limit the potentiality of losses resulting from:

- changes in the market situation (market risk),
- counter party's insolvency (credit risk),

and to assure the adequate and safe structure of finance for the Bank (liquidity risk) as well as a value of equity adequate to the risk involved.

The Bank manages the risk resulting from financial instruments, subject to a division into the following risk areas: credit risk, market risk (interest rate risk, FX risk and equity market price risk), and liquidity risk.

#### Credit risk

When granting loans, the Bank follows the common rules established by the Nordea Group. The primary rules and the relevant decision-making authorities are described in the Nordea Group's credit policy, its strategy and credit instructions.

All the specific procedures relating to the granting of loans are presented in the Bank's internal instruction manuals.

When assessing the credit risk resulting from exposures to business entities, the Bank uses an internal rating model. Every customer with a significant credit exposure receives a solvency rating (financial rating) and a collateral rating, which represent a synthetic measure of the risk generated by the customer.

The assessment of the credit ability of private individuals is based on the estimation of the borrower's net income surplus (NIS). NIS is the average monthly net income less:

- 1) house/flat upkeep costs,
- 2) the costs of living of the members of the household,
- 3) encumbrances resulting from writs of enforcement,
- 4) financial encumbrances

In addition, the Bank's rules applicable to specific products (e.g. a mortgage loan) impose requirements relating to e.g. the maximum value of the debt service/net income ratio and the maximum value of the LTV ratio.

When making credit decisions, Nordea Bank Polska follows the principle of consensus. This means that an increase in credit commitment requires the consent of all the members of the decision-making authority.

Independent Head Office segments (those that are not involved in the accomplishment of the sale targets) are responsible for the monitoring of the quality of the credit portfolio, supervision over the proper classification of credit exposures, the value of the writedowns and the control of credit operations.

### Market risk

Market risk is managed on the basis of a market risk management policy adopted by the Bank.

The exposure to market risk is formally mitigated by risk limits established by the Management Board as part of the limits approved by the Supervisory Board of the Bank. These limits cover the value at risk (foreign exchange risk, interest rate risk, equity market price risk) sensitivity to interest rate changes (interest rate risk) and limitation of the nominal amounts of exposures (foreign exchange risk).

The measurement of risk and the control of its compliance with the limits accepted by the Management Board for particular risks is carried out on a daily basis by a specialized unit operating independently of the business divisions responsible for meeting profit targets. Regular reports on market risk are discussed at meetings of the Assets and Liabilities Management Committee (ALCO) and are presented to the Bank's Management Board.

The limits for specific risk categories approved by the Management Board are reviewed from time to time to ensure that they comply with the current goals and strategy of the Bank.

### Liquidity risk

The Bank's policy adopted by the Management Board provides for a conservative approach to the liquidity risk. The Bank avoids any unnecessary exposure and maintains risk at a level being in appropriate proportion to the Bank's capacity to bear it.

Short-term liquidity risk is managed by the Treasury Department, which arranges funds to finance the Bank's current operations. To ensure finance at each moment of the Bank's activity, the Bank uses a minimum limit of its liquid funds, the so called liquidity buffer.

Mid-term and long-term risk is controlled by a separate unit in charge of risk control based on the analysis of expected future cash flows, changes in the sources of finance, the use of these sources and the stability and concentration of the Bank's deposit base. Regular, periodical reports on liquidity risk are discussed at meetings of the Assets and Liabilities Management Committee (ALCO) and presented to the Management Board.

The Bank has developed a contingency plan in case of unexpected disruptions in liquidity. The plan has been approved by the Management Board.

The Bank uses a number of methods to measure its liquidity risk. Starting from daily monitoring of its short-term liquidity gap being the reflection of the Bank's current demand for liquid funds through the periodical observation of various liquidity ratios to the analysis of the long-term liquidity gap established on the grounds of statistical results of a deposit base study and estimates related to maturities of particular balance-sheet items and the possibility of liquidation of Bank's assets.

## The control and management of operational risk

Operational Risk Management is the process controlled by the Management Board of the Bank, heads of organizational entities and units and all employees of the Bank supported by competent structures of the Nordea Group established so as to assist in achieving the set aims within:

Identification of areas where losses or excessive costs are incurred,

- Optimization of procedures and banking processes,
- Enhancing customer satisfaction and a competitive edge of the Bank,
- Implementing a pro-active policy and loss prevention,
- Reducing exposure to reputation damage,
- Reducing capital requirements,
- Providing market information on effective risk management systems.

The Bank manages its operational risk in compliance with the rules set in the standards of Polish law, regulations issued by NBP (National Bank of Poland) and other competent authorities as well as in compliance with standards set by the Nordea Group. The whole area relating to operational risk management is controlled by the Operational Risk Management Team at the Internal Control Department.

The process of risk identification involves the determination of risks relating to operational risk in all major areas of the Bank's operation as well as for all new products, processes and systems.

Effective operational risk identification should take into account:

- 1) internal factors (the Bank's structure, types of services, bank products and activities, personnel quality and changes of organizational and human resources),
- 2) external factors (the Bank's environment, political, legal and socio-demographic factors, competition, changes in the sector, new technologies), which may have a negative impact on achieving the Bank's aims.

Identification of operational risk factors at the Bank is based on:

- self-assessment process within operational risk,
- Quality and Risk Analysis (QRA) – the analysis that involves all changes in the business operation of the Bank, both due to a launch of new types of businesses and modifications of present ones, resulting in changes of business and other processes and being potential sources of operational risk,
- analysis of internal control results, both functional and institutional,
- reports on current incidents,

The measurement and assessment of operational risk involves the estimation of sensitivity (exposure) to risk of all products, processes, measures and systems present in the Bank, mostly based on the analysis of loss volume and structure resulting from events due to operational risk. Effective risk management provides the suitable identification of risk areas (a so-called 'risk map') and the adequate adaptation of management mechanisms of such risk.

Risk assessment is effected by:

Measurement of key operational risk factors – they involve key values/volumes of events that result in losses. Moreover they include the statistical, numerical and financial data that are calculated and subject to periodic analysis and refer to specific types of risk.

Within the human factor

- Analysis of a historic database – involving the data on losses incurred inside the Bank and in the Bank's environment. The aim of collecting and analysing the data is to recognise and eliminate factors that caused the losses.
- Scenarios analysis – conducted based on external market data on hazards that are present in the banking sector.
- Independent internal audit operations.
- Institutional internal control.

The monitoring is effected by:

- Incident management that involves the analysis of actual events resulting in operational losses as well as potential events that could have resulted in serious consequences, either tangible or intangible ones.
- Database of losses that contains data on losses incurred inside the Bank and in the Bank's environment. The aim of collecting and analysing data is to recognise and eliminate factors that have caused the occurrence of losses.
- Reporting involves the production of regular reports on operational risk for the Bank's Management Board and competent organizational units in the Nordea Group.

An effective monitoring system is based on systematic collection of data concerning causes of losses and information on their volume, frequency and severity, in order to use them for risk measurement.

The reducing and limiting of operational risk is effected by:

- Implementation of control recommendations issued within international functional and institutional control,
- Implementing action plans, i.e. remedial measures,
- Remedial measures taken as a result of analysing mechanisms of registered incidents.
- Application of the 'best practice' in the on-going operational risk management involving:
  - a) Preventing money laundering – 'Programme of Counteracting Money Laundering and Financing Terrorism at Nordea Bank Polska S.A.' that involves a so-called 'Meet your Customer' practice".
  - b) Preventing crimes – protecting the Bank against frauds, either internal or external, is of fundamental importance for the Bank and therefore it requires special attention from employees on all levels of responsibility.
  - c) Formulating the Business Continuity Planning (BCP) – in order to provide the failure-free operation of critical business functions on the level required by the Bank; it involves the determination of roles and job descriptions as regards the aims and premises set at the stage of developing business continuity plans.
  - d) Formulating Emergency Plans – aimed at recreating and resuming the operation of critical business processes in compliance with adopted aims of reconstruction.
  - e) Insurance of the Bank's assets (including the Bank's own assets) – provided to secure the Bank against unforeseeable errors or operational events with significant financial impact (complaints/claims of third parties due to losses by the Bank's fault or the events of force majeure).
  - f) Outsourcing – determining both the required supervision authorities and the rules of good practice for management of outsourcing risk that have to be followed in case of ordering banking or financial services or other business operations from external firms.

Internal control is a process performed by the Management Board of the Bank, managers of the organizational units and segments of the Bank and by all employees of the, established in a way facilitating the accomplishment of targets in the following areas:

- the effectiveness and efficiency of operations,
- the reliability of financial reporting,
- compliance with external and internal regulations,
- safety of assets, including adequate management of the risk relating to the Bank's operations.

Internal control is based on the control environment including the following elements: management values and culture, target-orientation and monitoring of the accomplished targets, clear and transparent organizational structure, division of tasks, quality and efficiency of internal communication, as well as an independent assessment process.

The effectiveness of activities conducted within the framework of internal control depends on adequately conducted and well-documented risk assessment.

The system of internal control is based on two pillars – internal institutional control and internal functional control

The purpose of internal institutional control is to monitor the following areas:

- organisational structures of the Bank, with particular emphasis on their adaptation to changing environment,
- correct division of decision making limits and monitoring of compliance with such limits,
- mutual coherence of the applicable internal normative documents and their consistence with external law,
- safety and adequacy of operations and transactions conducted by the Bank,
- effectiveness of conducted activities, including the effectiveness of particular bank operations,
- adequacy and reliability of the system of financial reporting and the system of accounting,
- quality of management of organisational units and cells of the Bank,
- adequacy of the functioning of information systems, in particular the protection of access to computer data bases,
- degree of preparedness of the Bank to maintain continuity of operation in case of malfunctions and accidents.

Internal functional control is conducted by all Bank employees, organizational units and segments of the Bank, in particular by organizational segments of the Head Office established for this purpose. The managers of organizational units and segments of the Bank are responsible for the organization and proper functioning of internal functional control.

The functional control process shall be aimed in particular at:

- ongoing examination of the extent of implementation of the tasks assigned to the organisational unit or segment,
- examination of the compliance of the operations of organisational units and segments with the normative rules that are in force in the Bank,
- determining the reasons for and consequences of the disclosed irregularities and finding out the responsible persons,
- proposing the methods and instruments that make possible the elimination of the disclosed irregularities and breaches,
- taking steps aimed at prevention of future occurrence of the discovered weaknesses.

The effectiveness of the system of internal control in the Bank is subject to regular assessment by an independent internal audit segment.