

**Consolidated  
Annual Report 2000**  
of the Capital Group  
of Bank Śląski S.A.



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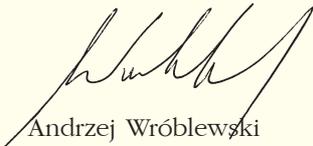
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# REPORT OF THE SUPERVISORY BOARD

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*From the results of the audit for the year 2000: the consolidated financial statements of Bank Śląski Capital Group and the report of the Bank Management Board on the operation of the Capital Group of Bank Śląski S.A.*

The Supervisory Board of Bank Śląski Spółka Akcyjna w Katowicach, pursuant to the Art. 382 § 3 of the Act of September 15th 2000 – Commercial Companies Code (Journal of Laws No 94, section 1037), and in relation to art. 52 section 3 of the Accounting Act of 29.09.1994, having familiarised itself with the financial statements of Bank Śląski Capital Group, and with the report of the Bank Management Board from the operation of the Capital Group of Bank Śląski S.A. in the year 2000, as well as with the Financial Audit Report of the Capital Group of Bank Śląski S.A. made by KPMG Polska Audyt Sp. z o.o., hereby declares that it does not raise any objections to the audited materials and presents this report to the General Meeting of Shareholders of Bank Śląski S.A.



Andrzej Wróblewski  
Chairman  
Supervisory Board  
of Bank Śląski S.A.

Warsaw, April 20th 2001

## LETTER OF THE SUPERVISORY BOARD TO SHAREHOLDERS

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### ***Ladies and Gentlemen,***

*The year 2000 was a period of a slow-down in economic growth, which had a negative impact on the Capital Group. Changes in the economic environment lead to deterioration of financial standing of our Customers and thus influenced their investment behaviours. Less dynamic economic activity resulted in a smaller number of projects financed with credit or lease. Additionally several current customers of lease companies and banks faced solvency problems, which forced their creditors to form significant provisions to offset the risk.*

*In such a situation, the positive results achieved the Group in the year 2000 should be welcome. They are the outcome of the efforts undertaken by the Management Boards to make product and service offers more attractive as well as to optimise costs.*

*In 2000 the structure of the Capital Group changed as the result of increasing the capital of its current subsidiaries and creation of a new entity – "Śląski Bank Hipoteczny Spółka Akcyjna" (Mortgage Bank). The dominant unit in the Group is Bank Śląski, which has a decisive impact on the results of the whole Group. Thanks to persistent policy of enhancing the product offer, development of the network of small branches close to customers and introducing advanced electronic services, the Bank increased its shares both in retail and corporate markets.*

*The Brokerage House of Bank Śląski maintained its good market position. The Customers of the Brokerage House constitute 4.5% of total number of customers of all brokerage houses. Despite a difficult year for lease companies BSK Leasing significantly increased the number of agreements by utilising the branch network of Bank Śląski and intensifying its own sales efforts. In 2000 PTE NN Polska S.A. attracted the most new customers and maintained its leading position in Poland in terms of net assets among the pension funds. This was reflected in the increased value of the whole Group.*

*The strengthening position of the BSK Capital Group is the result of good co-operation between its subsidiaries. Its Customers are offered a broad range of financial-insurance products and the acquired funds are better invested by specialised units.*

*We would like to thank the Management Boards and the employees of our subsidiaries for their effort and involvement, which allowed the BSK Capital Group to strengthen its market position. We would like to express our gratitude to all our Shareholders for their confidence and we would like to ensure them that we shall continue the strategy of development and growth of value of the Subsidiaries of the BSK Capital Group.*

**Sincerely yours,  
Supervisory Board of Bank Śląski**

## LETTER OF THE MANAGEMENT BOARD TO SHAREHOLDERS

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### ***Ladies and Gentlemen,***

*In difficult macroeconomic situation in the year 2000, the Capital Group of Bank Śląski achieved a significant increase of scale of its operation. Provisions formed by Bank Śląski, due to deterioration of solvency of Customers, as well as high payments for customers of the bankrupt Bank Staropolski brought about a result of PLN 151 million.*

*Efforts of the Capital Group focused on development of services and distribution channels based on integrated actions within the Group. Bank Śląski, the dominant entity, was enhancing its customer-oriented offer. It was implementing technologically advanced products utilising capabilities of its IT system. The result of these efforts was an increased market share in both credit and deposit segments. Bank Śląski is aware of the importance of quality of customer service, which is becoming an essential factor driving customers in their choices of banks. Bank Śląski was also developing tools of financial and credit risk management. The Bank was also implementing its policy of stricter cost discipline.*

*In the year 2000, the Brokerage House of BSK strengthened its market position. Intensive acquisition efforts and co-operation with Bank Śląski contributed to a significant increase of scale of operation of BSK Leasing. However, it was a difficult year for lease companies and BSK Leasing concluded the year with a loss and considerable provisions. The year 2000 was another successful year for Nationale-Nederlanden Polska S.A. Pension Fund. The NNP Open Pension Fund achieved the best rate of return (15.7%) and reported the highest number of new customers from among the largest pension funds.*

*The Capital Group of Bank Śląski is building its market position taking advantage of the strength of joint actions in distribution and development of product offers. Financial and insurance services are being integrated as a consequence of co-operation with other ING subsidiaries. These activities are the basis of stable growth of value of the Capital Group of Bank Śląski.*

*We would like to thank our Shareholders for their trust in us and the Supervisory Board of Bank Śląski for assistance in completing a very ambitious development programme of the Group. Our goal is increasing the number of Customers pleased with our services and satisfaction of our Shareholders.*

**Sincerely yours,  
Management Board of Bank Śląski**



# COMMENTARY OF THE MANAGEMENT BOARD

## regarding the activity of Capital Group of Bank Śląski S.A. in 2000

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### I. Capital Group of Bank Śląski S.A.

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#### *Composition of the Capital Group in 2000*

As per 31.12.2000 the Capital Group of Bank Śląski incorporated 9 entities of Bank Śląski Spółka Akcyjna (the dominant entity), Dom Maklerski Banku Śląskiego Spółka Akcyjna (a subsidiary – 100% of owned authorised capital), BSK Leasing S.A. (a subsidiary – 100% owned authorised capital), Śląski Bank Hipoteczny S.A. (a subsidiary – 100% of owned authorised capital), Centrum Banku Śląskiego Sp. z o.o. (an affiliated entity – 60% if owned authorised capital, 50% of total votes in the General Shareholders Meeting of the Company), FINPLUS Sp. z o.o. (an affiliated entity – 50% of owned authorised capital), Centrum Elektronicznych Usług Płatniczych "eService" Spółka Akcyjna (an affiliated entity – 50% of owned authorised capital), ING BSK Asset Management S.A. (an affiliated entity – 47% of owned authorised capital), Powszechne Towarzystwo Emerytalne Nationale-Nederlanden Polska S.A. (an affiliated entity – 20% of owned authorised capital).

All the companies of the Group were established by Bank Śląski independently or with other entities. Bank Śląski has also capital exposures via ING BSK Asset Management S.A. in the company ING BSK Towarzystwo Funduszy Inwestycyjnych S.A. in Warsaw.

#### *Changes to the structure of the Capital Group in 2000*

The following changes in the structure of the Capital Group took place in the period from 1st January till 31st December 2000.

On 16th May 2000 an increase of capital in the company Powszechne Towarzystwo Emerytalne Nationale-Nederlanden Polska S.A., pursuant to the resolution of the ESM dated September 1999, was entered to the commercial register.

An increase of the authorised capital to the amount of PLN 33 million, i.e. by the amount of PLN 4 million took place by an issue of 40 inscribed shares of a nominal value of

PLN 100 thousand and an issue price of PLN 1,250,000 each. Bank Śląski covered 20% in the increased capital of the Company.

On 7th January 2000 an increase of capital in FINPLUS Sp. z o.o. was registered in court. In December 1999 the Meeting of Partners in the Company which is a joint venture of Bank Śląski as well as Cofinoga Soci t  Anonyme (50% of the involved capital each), passed a resolution on increasing the initial capital of the Company to the amount of PLN 8.8 million by establishing 40,000 new shares on nominal value PLN 100 each. These shares were covered by the so-far shareholders in proportion 50:50. The Company partners passed another resolution on increasing the Company initial capital to the amount of PLN 14.8 million, out of which PLN 3.0 million was entered to the commercial register in July 2000. Additional shares were covered by the so far shareholders in proportion 50:50.

The raise in the equity of ING BSK Asset Management S.A., up to the amount of PLN 19.2 million, was registered on July 19th 2000. The share in the raised equity was taken up in 100% by ING Bank N.V. Due to the raise in the equity, the share of Bank Śląski amounts to 47%.

On 8th November 2000 the Banking Supervision Committee issued the permit to establish the mortgage bank named "Śląski Bank Hipoteczny Spółka Akcyjna" seated in Warsaw.

On 20th December 2000 the company named "Śląski Bank Hipoteczny S.A." was registered in the District Court for the Capital City of Warsaw. Bank Śląski S.A., being the founder, took up 1000 inscribed ordinary shares of A series of a nominal value of PLN 50,000 each. The total value of the purchased shares amounts to PLN 50.0 million. The shares bought by Bank Śląski S.A., totally covered with the in-kind contribution, constitute 100% of the equity of Śląski Bank Hipoteczny S.A. Thus Bank Śląski S.A. owns 100% of shares and votes in the General Shareholders' Meeting of the Company.

On 29th December 2000 the raise in the equity of BSK Leasing S.A. was registered up to the amount of PLN 15.0 million, i.e. by PLN 10.5 million. The share in the raised was taken up in 100% by Bank Śląski, which authorises the Bank to execute 100% of votes in the General Shareholders' Meeting of the Company.

In 2000 there was a change in the hitherto classification of Centrum Banku Śląskiego Sp. z o.o. from an entity subordinated to associated with the Bank because of lack of dominated influence. In 2000 the investment of the New Head Office construction carried out by BSK Centrum Sp. z o.o. was rendered for usage. Upon completing the investment process, the actual influence on Company's operation is divided into all shareholders steadily.

In 2000 Bank Śląski S.A. sold all the shares of RAFAMET S.A. (sales transactions were concluded in September and November 2000).

Dom Maklerski Banku Śląskiego S.A., the subsidiary of Bank Śląski holds 70,026 shares authorising it to 4.86% of the total number of votes in the General Shareholders' Meeting of RAFAMET S.A. constituting 4.86% of the Company's equity.

## ***Financial results of the Group for 2000***

The financial results of the Capital Group of Bank Śląski gained in 2000 were mainly determined by the changes in macroeconomic situation and their influence on the operation of business entities and income of the population.

Despite of keeping the yearly economic growth ratio on the last year level, the year 2000 was the period of significant worsening of the economic situation in Poland. The rate of economic growth was going down from one quarter to another, especially during the last months of the year the considerable slow-down of economy could have been noted. The major reason for the drop in the rate of development was the rapid decrease in domestic demand, both the consumptive and investment one. This decrease resulted from the low rate of remuneration growth, increasing unemployment and – first of all – restrictive monetary policy: the basic NBP interest rates were raised twice in 2000 (in February and August).

The policy of high interest rates had a significant impact on customer behaviours – we could observe a lower demand for credit and higher tendency to save among individual customers. In the year 2000 the growth rate of corporate deposits was low, which was the result of the deteriorating financial standing of businesses. Many customers of the Bank and other entities of the Capital Group were hurt by the negative consequences of a slow-down in the growth rate of the Polish economy. The deteriorating economic situation hit mainly the industries that undergo restructuring processes (steel and machine industries, heavy chemistry, food processing). Lease also reported poorer financial results. Growing

delays and failures of privatisation programmes forced Bank Śląski to apply more stringent risk assessment and collateral valuation principles. High level of provisions, formed in compliance with international standards, significantly impacted the financial result of the year 2000, however provisions enhance security and the Bank's credibility.

## ***Development directions***

The basic assumption of the strategy of the Capital Group of Bank Śląski is synergy between servicing retail and corporate markets. Various distribution channels are developed: branches, ATMs as well as electronic and telephone banking. Despite the deterioration of the market in 2000, the Capital Group of Bank Śląski continued to implement its strategy: ensure high quality service for a broad range of corporate and retail customers, customer focus and application of modern technologies.

The programmes of network development and technology modernisation were continued. In the year 2000 the range of products and services offered by Bank Śląski and other entities of the Group was broadened. Intensive work was started on the Internet distribution channel.

These efforts brought some quantifiable effects. The share<sup>1</sup> of Bank Śląski in the market segment of receivables from non-financial entities rose from 5.23% in December 1999 to 5.58% at the end of 2000. Also the market share in non-financial deposit sector increased – up to 4.89% in December 2000 (compared to 4.22% on 31.12.1999). Bank Śląski maintained, in 2000, its market share of 8% in current account segment – the basic product offered to retail customers. Commercial successes were also reported by members of the Group.

The Open Pension Fund Nationale-Nederlanden Polska reported the highest number of new members from amongst all the funds. The customers of the Brokerage House constituted app. 4.5% of the total number of customers of all brokerage houses in Poland.

## ***Co-operation within the Group***

Mutual relations and co-operation within the Group are developed based on the concept of integrated financial. Co-operation within the Group focuses on complementary offer of products and services and their distribution.

<sup>1</sup> The share in the market of receivables and deposits of the non-financial sector has been calculated based on the balance sheet of the consolidated banking system.

ING BSK Investment Fund Company signed agreements with Bank Śląski, which acts for the ING Funds as a custodial bank, a transfer agent and a distributor. The Brokerage House of Bank Śląski intermediates in offering securities management services of ING BSK Asset Management S.A. The Bank Branches are a distribution channel of lease products. The new Head Office in Katowice was constructed by Centrum Banku Śląskiego S.A.

Bank Śląski is one of the distribution channels of participation contracts in the Open Pension Fund Nationale-Nederlanden Polska S.A.

## II. Consolidated results of the Capital Group of Bank Śląski S.A.

### *Balance sheet*

*(Bank Śląski jointly with the Brokerage House, BSK Leasing and Śląski Bank Hipoteczny S.A. consolidated by the full consolidation method and with Powszechno Towarzystwo Emerytalne Nationale-Nederlanden Polska S.A., consolidated by properties method).*

### ASSETS

The net balance sheet footing of the Capital Group of Bank Śląski as at the end of 2000 was PLN 19,317.9 million and was higher compared to last year by PLN 4,483.9 million, i.e. 30.2%.

The biggest item (56.3%) in the structure of assets was represented by the amounts owed by customers (the non-financial and budgetary sectors). Their net value (upon deducting the value of provisions) as at the end of December 2000 was PLN 10,885.6 million. The amount of specific provisions concerning this group of receivables at the end of December 2000 was PLN 683.8 million. As at 31 December 1999 the amounts owed by the customers and the budgetary sector were PLN 8,962.3 million and constituted 60.4% of the balance sheet footing while the amount of specific provisions for classified debt in this group was PLN 384.8 million.

The second biggest item of assets was represented by the amounts owed by the financial sector. As at the end of December 2000 they were PLN 3,205.5 million, constituting 16.6% of the sum of the Group's assets. As at the end of December 1999 the amounts owed by financial institutions were PLN 1,333.4 million, representing 9.0% of assets.

Another large item of assets was represented by debt securities. As at the end of 2000 they amounted to PLN 2,161.3 million, being 11.2% of the sum of assets. The structure of debt securities was as follows: 51.3% securities issued by central banks; 47.8% securities issued by the state budget; 0.9% securities issued by the other units. In 1999 the debt securities were PLN 2,241.3 million, representing 15.1% of the sum of assets. The item of assets "Cash, operations with the central bank" in 2000 was PLN 919.0 million, being 4.8% of assets. This item at the end of December of the last year was PLN 952.0 million, representing 6.4% of the sum of assets.

Tangible assets as well as intangible and legal assets were 5.0% of the total sum of assets. The share of consolidated entities in tangible assets and intangible and legal assets of the Group as at the end of December 2000 was some 32.2% (25.6% in 1999). As at the end of 1999 the share of tangible assets and intangible and legal assets in the total sum of assets was 5.7%.

The item "Other assets" was 1.4% of the balance sheet footing as at the end of December 2000. This item is mainly composed of: various debtors and interbank settlements and public and legal settlements. The share of this item in the sum of assets as at the end of 1999 was 0.8%. Active interim settlements as at 31.12.2000 were 0.8% of the Group's assets (0.1% as at the end of 1999).

### LIABILITIES

The dominant item (70.6%) in the structure of liabilities of the Capital Group of Bank Śląski was represented by the liabilities towards customers and the budgetary sector amounting to PLN 13,642.0 million. The structure of liabilities was as follows: current deposits – PLN 3,567.5 million, term deposits – PLN 10,074.5 million. As at the end of December 1999 the liabilities towards customers and the budgetary sector were PLN 10,275.7 million, being 69.3% of the total liabilities.

The liabilities towards the Central Bank and other financial institution were in total PLN 3,223.2 million, being 16.7% of the total liabilities of the Group. As at the end of December 1999 those liabilities amounted to PLN 2,354.2 million, representing 15.9% of the total liabilities.

The own capital of the Group as at 31.12.2000 was PLN 1,498.1 million (8.0% of the total liabilities) and covered: the equity capital at PLN 92.6 million, reserve capital at PLN 36.7 million, stand-by capital based on update of fixed assets at PLN 40.2 million, the other reserve capital in total of PLN 1,328.5 million. The own capital of the Capital Group of Bank Śląski as at 31 December 1999 was PLN 1,377.5 million (9.3% of the total liabilities) and included: the equity capital at PLN 92.6 million, reserve capital at PLN 36.1

million, stand-by capital based on update of fixed assets at PLN 40.3 million, the other reserve capital in total of PLN 1 208.5 million. Special funds (including: the Company Fringe Benefit Funds) and other liabilities (among others interbank settlements) represented 1.4% of the total liabilities (1.3% as at the end of December 1999).

Passive interim settlements and revenues related to future periods were 1.8% of the total liabilities (the main items are reserved interest and interest compounded on the basis of contracts). At the end 1999 this item represented 1.6% of the total liabilities. The net profit earned in w 2000 represented 0.8% of the total liabilities (1.4% as at the end of December 1999). The overall share of provisions in the Bank liabilities as at the end of December 2000 was 0.9% (1.0% as at the end of December 1999). The other provisions covered: the reserve for off-balance-sheet liabilities, customers' claims and the expected loss due to operating leasing.

The balance sheet footing of Bank Śląski as at 31 December 2000 was PLN 19,051.1 million. In the consolidation process of the Brokerage House, BSK Leasing and Śląski Bank Hipoteczny S.A. (their balance sheet footings were respectively PLN 105.9 million, PLN 595.4 million and PLN 50.0 million) was corrected by PLN 462.3 million. Due to the PTE NN S.A. consolidation by the properties method, the correction totalling PLN 22.4 million was made.

## ***Off-balance-sheet operations***

The value of off-balance-sheet items as at the end of December 2000 was PLN 10,162.9 million and represented 52.6% of the balance sheet footing. The biggest item of off-balance-sheet liabilities represented the liabilities connected with the realisation of the purchase and sale operations amounting to 55.9% of the total off-balance-sheet liabilities. Another largest item was represented by the off-balance-sheet conditional liabilities which were composed in 94.1% of liabilities and in 5.9% of receivables. Their balance as at the end of December 2000 was PLN 3,568.7 million, representing 35.1% of the total off-balance-sheet liabilities. The share of the other items (among others due to F/X operations) was much lower and amounted to 9.0%.

## ***Consolidated P&L statement***

Total revenues<sup>2</sup> of the Capital Group of Bank Śląski were PLN 3,125.1 million in 2000 (PLN 2,265.4 million as at the end of December 1999), an increase by 37.9% in comparison to the previous year. The biggest item of the Group revenues was represented by the interest revenues amounting to PLN 2,280.9 million (PLN 1,635.2 as at the

end of December 1999), and their share in total revenues was 73.0% (72.2% in the previous year). The structure of interest revenues was as follows: the revenues due to interest from customers and the budgetary sector represented 72.6% (72.7% in 1999), revenues due to interest on securities were 18.4% (19.1% in the previous year), and the revenues due to interest from financial institutions and other revenues represented 9.0% (8.2% in 1999).

The non-interest revenues amounted to PLN 844.2 million and represented 27.0% of total revenues (as at the end of December 1999 they were PLN 630.2 million, representing 27.8% of the total revenues). The dominant share in this item was related to revenues due to commissions – 51.1% (56.9% in 1999), the result on F/X position – 31.9% (15.8% in the previous year) and other operating revenues – 16.8% (12.6% in 1999).

The total costs<sup>3</sup> of the Capital Group at the end of 2000 were PLN 2,978.0 million (PLN 1,918.8 million as at the end of December 1999). The interest costs amounted to PLN 1,569.8 million (PLN 954.8 million in December 1999) and represented 52.7% of the total costs (49.8% in the previous year), while the interest costs on operations related to customers and the budgetary sector were 80.9% (81.9% in 1999), on operations related to financial institutions were 19.0% (18.0% in the previous year), and other interest costs were 0.1% (0.1% in 1999). The non-interest costs were PLN 1,408.2 million, and their share in the total costs was 47.3% (as at the end of December 1999 they amounted to PLN 964.0 million, being 50.2% of the total costs). The biggest share in this item was represented by the costs of the Bank's operation – 49.6% (63.2% in 1999), the difference of the value of provisions and update – 29.8% (14.6% in 1999), depreciation of fixed assets and intangible and legal assets – 11.3% (15.1% in the previous year).

The result on the banking activity in 2000 was PLN 1,371.2 million (PLN 1,209.3 million as at the end of December 1999) and increased by 13.4% in comparison to the previous year. It has the following structure: the result due to interest was PLN 711.1 million (PLN 680.4 million in December 1999) and represented 51.9% (56.3% in the previous year), the results due to commission was PLN 396.1 million (PLN 337.1 million in 1999) and represented 28.9% (27.9% in the previous year), the result on the F/X position and the result on financial operations amounted jointly to PLN 262.9 million (PLN 191.8 million in 1999) and constituted 19.2% (15.8% in the previous year).

The overhead costs in 2000 were PLN 858.4 million (PLN 755.2 million as at the end of December 1999). The costs of the bank operation (personnel costs and

<sup>2</sup> The total revenues include the balance of the F/X position.

<sup>3</sup> The total costs include the balance of difference between the provisions and update value.

exploitation costs together, including the cost of payments for the bankrupt Bank Staropolski – PLN 20.8 million) were PLN 698.6 million (PLN 609.6 million in 1999) and represented 81.4% of the overhead costs (80.7% in the previous year). Depreciation amounted to PLN 159.8 million (PLN 145.6 million in December 1999) and represented 18.6% of the overhead costs (19.3% in the previous year). The decrease in depreciation resulted from the change in accounting principles consisting in separation of two types of depreciation: balance-sheet depreciation and tax depreciation.

The gross profit earned in 2000 was PLN 147.1 million. Due to the change of methodology of calculation of provisions for deferred tax, the burden on profit due to income tax as at the end of 2000 was negative and amounted to minus PLN 5.5 million. The Capital Group closed the year 2000 with a net profit of PLN 150.9 million. The net profit per 1 share was PLN 16. In the year 1999, the gross profit was PLN 346.6 million, the net profit – PLN 205.6 million and the profit per 1 shares – PLN 22.

The profitability ratio, calculated as the ratio of the gross profit to the total costs, was 4.9% in 2000 (18.1% in 1999). The share of overhead costs (the cost of the Bank operation plus depreciation of fixed assets and intangible and legal assets) in the result on the banking operation was 62.6% in 2000 (62.4% in the similar period of the previous year). The profitability ratio, calculated as the ratio of net profit to the net assets was 0.8% (1.4% in 1999). The return on equity calculated as the ratio of the net profit to own capital and funds was 10.1% in 2000 (14.9% in 1999). The interest margin ratio, illustrating the ratio of net interest revenues to average income assets<sup>4</sup> of the Bank, was 4.72% in the year 2000 while in the previous year it was 5.79%.

### III. Entities of the Capital Group subject to consolidation

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#### Bank Śląski S.A.

#### *The Bank financial results for the year 2000*

The financial results of Bank Śląski obtained in 2000 have been largely determined by changes in the current macroeconomic situation as well as the impact of the past credit decisions.

<sup>4</sup> The average assets are calculated based on the data as at 31.12.1999, 30.06.2000 and 31.12.2000.

In 2000 Bank Śląski achieved an increase of income on basic activity. The result on banking activity generated at the end of December 2000 was PLN 1,323.0 million and was higher by PLN 150.0 million i.e. by 12.8% in comparison with the year 1999. It was possible owing to a growth of the Bank's share in the market.

Under the circumstances of increasing competition the Bank continued the programs concerning the network development and modernisation of the technological base, which had been initiated earlier. The tasks aimed at increasing the scale of the Bank's operation were realised while continuously striving after more stringent cost discipline (costs of the Bank's operation together with depreciation increased in 2000 by 10.3%).

The relatively high revenues combined with the cost reduction policy allowed the Bank to generate income higher than in the previous year before the risk costs. However, the results of 2000 were encumbered with the cost of payments for the bankrupt Bank Staropolski (PLN 20.8 million) as well as high level of specific provisions established to cover the increasing credit risk. The balance of specific provisions in 2000 equalled PLN 346.4 million (in comparison with PLN 110.5 million in 1999), whereas the general risk reserve was increased by PLN 73.8 million (in 1999 PLN 25 million was assigned).

The high level of provisions established in 2000 derived from the amendments to legal regulations and stricter consistence in obeying cautious standards that are applied in the Bank. The increasing delays in privatisation programs as well as more and more frequent failures in their implementation induced the Bank to apply more stringent principles of risk assessment and evaluation of possible collateral. The reduced economic boom affected in particular the companies from the sectors subject to restructuring (metallurgy, machine-building industry, heavy chemistry, food industry), concentrated on the traditional markets of Bank Śląski. When determining of the amount of provisions Bank Śląski adopted the principles of evaluation of collateral introduced in 2000 and resulting from the international banking practice with the Bank's experience in debts restructuring taken into account. The provisions established according to the international standards improve the Bank security and reliability.

The above reasons significantly influenced the net financial result that for the year 2000 was PLN 138.3 million and was lower by 30.7% than the one achieved in 1999.

The strategy of developing distribution channels, implemented for a few years, as well as the Bank reorganisation initiated in 1999, aimed at separating the

operational activity from the commercial area resulted in a higher operations growth rate than in the previous year. The assets of Bank Śląski as per 31.12.2000 achieved the value of PLN 19,051.1 million, which constitutes a 28.9% increase in comparison with 1999 (in relation to a 17.9% increase in the previous year).

As at 31.12.2000, the Bank's assets were covered with external funds in 90.5% (liabilities towards customers, financial institutions and other entities) and own funds in 9.5%. In the previous year the relation was respectively: 88.4% – external funds and 11.6% – own funds.

The main element of external funds (79.0%) and at the same time the basic source of the Bank's financial resources was made up of liabilities towards customers and budgetary the sector, which in 2000 grew by PLN 3,367.7 million in relation to 31.12.1999, i.e. by 32.8%. The significant increase of this item resulted from intensified activities of the Bank, and in particular from expanding the product offer, effecting varied distribution channels and running active pro-sales policy. Obtaining the additional funds from customers allowed the Bank to limit drawing funds on the inter-bank market.

As at 31st December 2000, the total value of liabilities towards the financial, non-financial and budgetary sectors amounted to PLN 16,781.7 million and grew by PLN 4,106.3 million, i.e. 32.4% in relation to the end of December 1999. The major geographical regions which constitute the funds source at Bank Śląski are provinces: śląskie, mazowieckie, małopolskie and opolskie.

The funds collected by the Bank were first of all used to finance the lending business. At the end of December 2000, the value of the total credit exposure, i.e. the value of loans given to corporates, the budgetary sector, the financial sector and individuals was PLN 11,901.5 million<sup>5</sup> and grew in relation to the end of 1999 by PLN 2,392.6 million, i.e. 25.2%.

PLN loans constituting 71.6% of the total loans prevailed in the structure of the credit exposure by a currency criterion. F/X loans constituted the remaining 28.4%.

The value of classified receivables was PLN 1,825.7 million and grew by PLN 593.1 million in relation to the end of December 1999, i.e. by 48.1%. The share of classified receivables in the total credit portfolio grew from 13.0% at the end of December 1999 to 15.4% at the end of 2000. The substandard receivables constituted

3.4% of the Bank credit portfolio (3.1% as at 31.12.1999), doubtful receivables – 7.2% (7.5%) and lost – 4.8% (2.5%).

## *Main elements of the Bank's strategy*

The main target of Bank Śląski deriving from its strategy is to develop and strengthen the position in the Polish banking sector by providing integrated financial services as well as maintaining the character of a customer-oriented bank. The factors supporting an implementation of the assumed targets are co-operation with the ING Group, application of modern technology, and development of distribution channels as well as delivering of top quality services.

In the corporate banking area, the Bank is developing market segmentation, adjusting the product offer and distribution channels to particular groups of customers. The strategy of retail banking development includes providing integrated financial services, development of cross-selling and conservative approach to the risk. Finally, the customers should have 24 x 7 availability of the Bank services.

Electronic banking is used for the customer convenience and for moving transactions to cheaper distribution channels.

## *Implementation of main targets in 2000*

The year 2000 was for Bank Śląski a continuation of activities resulting from the adopted development strategy. A quick development of the market, adjusting the offer to growing customers' requirements as well as improving the quality of rendered services by competitors motivated the Bank to a continuous effort to improve the offer and establishment of lasting relations with customers.

In 2000 the number of products and services offered by Bank Śląski was expanded as well as the development of distribution channels – both traditional and electronic – was continued. The actions brought tangible effects in the form of strengthened the market position of Bank Śląski. The share in the market of receivables<sup>6</sup> from non-financial entities increased from 5.23% in December 1999 to 5.58% at the end of 2000. An increase of share in the market was also recorded in the scope of deposits of the non-financial sector – the Bank's share increased to the level of 4.89% at the end of December 2000 (4.22% as per 31.12.1999). In 2000, Bank Śląski maintained the share of 8% in the market of current accounts – a basic product offered to retail customers.

<sup>5</sup> The presented value includes the loans granted to business entities, budgetary and financial sectors units as well as private individuals. The value comprises discount loans and subordinated loan; it does not cover accepted inter-bank deposits, suspense receivables and unpaid due interest and charged interest before due date.

<sup>6</sup> The share in the market of receivables and deposits of the non-financial sector has been calculated based on the balance sheet of the consolidated banking system.

In September 2000 the new Bank Head Office was open, due to which effectiveness of operation is improving.

## ***Financial and credit risk management***

### *Credit risk*

Bank Śląski has in its portfolio a significant share of loans extended to the sectors subject to restructuring, located on the traditional Bank's markets. This situation has influenced the policy of credit risk management.

Bank Śląski was improving the existing tools of credit risk management. The sector limits were set, more stringent criteria of credit capacity assessment were accepted and risk migration was analysed. Bank Śląski, discerning the increase of general economic risk, accepted more conservative approach to the collateral reducing the basis for establishing specific provisions, according to the international standards. The new policy regarding collateral selection and evaluation (Severity Rating) is closely connected with implementation of the multi-stage project RAROC – Risk Adjusted Return on Capital, the portfolio risk assessment generally applied in the ING Group. As a result of adopted solutions the ratio of classified receivables to specific provisions increased from 28.8% in 1999 to 37.1% in 2000; the ratio of doubtful and lost receivables to specific provisions increased respectively from 33.5% to 44.4%.

More flexible credit procedures with reference to the retail customer and small enterprises were manifested in the implementation of the automatic and centralised application supporting the risk assessment, based on the scoring card. Possibilities of the system will be fully utilised at the moment of direct connection with the Credit Information Bureau. Having in mind the safety of the Bank credit portfolio we improved the main banking application, owing to which we are able to complete full data on the collaterals for loans granted to Bank customers.

### *Financial risk management*

In 2000 the Management Board of Bank Śląski, aided by the Assets and Liabilities Committee, run an active policy of financial resources management. The decisions taken in this scope covered the following areas: management of the balance sheet structure, development of an appropriate pricing policy for banking products and services as well as an efficient management of financial risk.

### Liquidity risk

In 2000 Bank Śląski continued the process of improving the methods and techniques applied to measure the liquidity risk. The present measurement indices of short- and medium-term liquidity are based on comparing the amount of liquid assets and the variable part of the deposit portfolio, on a current analysis of the deposit base stability with the use of statistic methods as well as on analysis of the mismatch of fixed payment dates for assets and liabilities. The system of monitoring the Bank liquidity covers measurement and reporting the liquidity ratios on a daily and monthly basis.

In 2000 Bank Śląski maintained an adequate portfolio of negotiable assets so that if additional liquidity needs arise, there is a possibility of generating free funds quickly, without a negative impact on the profitability. The significant decisions concerning the management of the Bank balance sheet and having an impact on the liquidity level were preceded by simulations and analyses of different possible scenarios.

### F/X risk

The management of F/X risk was implemented by maintaining F/X positions within the internal limit system. The Bank has a system of managing and monitoring the F/X risk within which the Bank Management Board as well as the Assets and Liabilities Committee determines the structure of internal limits for commercial and non-commercial F/X positions of the Bank.

### Interest rate risk

The year 2000 was characterised by a high volatility of interest rates. The Bank Management Board actively managed the interest rate risk by minimising the mismatch of fixed dates for revaluation of assets and liabilities in appropriate time periods. The interest rate risk was managed by matching the Bank receivables and liabilities as regards financial characteristics (interest rate and maturity date of a banking product), as well as by utilising the existing tools of money market to secure the interest rate risk.

The internal model for calculating value at risk is used to measure the F/X and interest rate risk. The model allows to determine with high probability the maximum loss that might arise as a result of unfavourable change of exchange rates or interest rates. This technique combines the analysis of historical volatility of market realities with the analysis of present portfolio structure and allows to determine

a number of VAR limits in the scale of the entire Bank and selected portfolios based on the risk level accepted by the Management Board. The market risk for commercial portfolios is monitored during an operational day (every 5 minutes).

#### Interest rates policy

The main factors influencing the Bank pricing policy in the year 2000 were: interest rates of the inter-bank market, basic interest rates of NBP, interest of the open market operations, level of mandatory provisions, interest of bonds in the Bank portfolio in connection with a reduction of the mandatory provision rates, costs of risk and service of particular products as well as the necessity to maintain the competitive advantage in the banking sector.

In 2000 Bank Śląski revised the interest rates for deposits and loans several times. At the end of December 2000 the average interest for retail PLN deposits was 14.35% (11.35% at the end of December 1999). The average interest for wholesale PLN deposits was 12.04% at the end of December 2000 (9.08% at the end of December 1999). The average interest for retail PLN loans at the end of December 2000 equalled 23.09% (21.45% at the end of December 1999), whereas the average interest for wholesale PLN loans – 20.94% (18.99% at the end of December 1999). At the end of December 2000 the interest spread equalled 6.02%.

The prices of banking products denominated in foreign currencies, similarly as products in PLN, were based on appropriate quotations of the money market corrected by product margins.

### ***Operation on the corporate market***

In 2000 Bank Śląski realised the policy of strengthening its position on the corporate and institutional market. As at the end of December 2000 the Bank Śląski's share in the corporate loans market<sup>7</sup> was 5.85% (5.62% as at 31.12.1999) and the share in the corporate PLN deposits was 5.57% (4.52% as at the end of 1999), while the share in the F/X deposits of corporate customers as at 31.12.2000 was 3.42% (2.19% as at the end of December 1999).

#### *Credit services*<sup>8</sup>

As at the end of December 2000 the value of loans granted to business entities, budgetary sector and the financial sector totalled PLN 9,611.9 million and increased

in comparison to the end of 1999 by PLN 1,439.5 million, i.e. by 17.6%.

The Bank's credit exposure due to the loans granted to business entities amounted to PLN 8,799.2 million and was higher than at the end of 1999 by PLN 1,548.6 million i.e. by 21.4%. The value of the loans granted to corporate customers constituted 73.9% of the total credit exposure of the Bank. The loans granted to the budgetary sector units amounted to PLN 235.4 million and constituted 2.0% of the whole credit portfolio, whereas the value of the loans extended to the financial sector units (inclusive of the subordinated loan for Kredyt Bank SA amounting to PLN 60 million) totalled PLN 577.2 million, which constituted 4.9% of the total portfolio.

The Structure of the portfolio of loans granted to business entities was as follows: amounts receivable from state owned corporations and companies – 24.8% of the portfolio (35.7% as at 31.12.1999), amounts receivable from private corporations and companies as well as co-operatives – 63.0% (53.4% as at the end of December 1999), amounts receivable from individual entrepreneurs – 11.3% (10.0%), amounts receivable from individual farmers – 0.3% (0.3%), other entities – 0.9% (0.6%).

PLN loans dominated in the structure of the credit portfolio constituting 66.8% of all loans granted to corporate entities. F/X loans constituted the remaining 33.2%.

As at 31.12.2000 Bank Śląski had 13 large exposures, i.e. exposures amounting to 10% or more of the Bank own capitals for the following amounts: PLN 360.7 million, PLN 310.7 million, PLN 287.7 million, PLN 272.9 million, PLN 270.2 million, PLN 251.8 million, PLN 195.6 million, PLN 173.7 million, PLN 170.0 million, PLN 159.9 million, PLN 159.6 million, PLN 144.6 million, PLN 144.2 million. Two of the entities are capital-related to Bank Śląski.

As at the end of December 2000 Bank Śląski served 2,178 business entities whose total exposure exceeded PLN 500 thousand. It is an increase by 619 entities (i.e. 38%) in comparison to December 1999. In terms of exposures exceeding PLN 500 thousand for one entity the biggest exposures were observed in such sectors as: trade – 15.81% (13.29% at the end of December 1999), financial brokerage, insurance – 11.53% (5.39%), production of food and beverages – 10.81% (10.9%), power supply industry – 7.92% (10.19%), metallurgical industry – 6.77% (8.25% as at 31.12.1999).

<sup>7</sup> The share in the corporate deposit and credit market is calculated based on the balance sheet of the consolidated banking system.

<sup>8</sup> The figures cover the loans granted to business entities, budgetary and financial sectors units, inclusive of discount loans and subordinated loan. The value does not include accepted inter-bank deposits, suspense receivables and unpaid due interest and charged interest before due date.

As at 31.12.2000 the value of special mention receivables was PLN 974.5 million being 10.2% of the whole portfolio of loans granted to corporate entities, budgetary sector and the financial sector (the calculations does not include PLN 60 million worth of subordinated loan).

The value of classified loans of corporate entities (without unpaid due interest and charged interest before due date) was PLN 1,562.3 million and increased in comparison to the end of 1999 by PLN 478.6 million, i.e. by 44.2%. The share of classified loans in the whole portfolio of loans granted to corporate entities, the budgetary sector and the financial sector increased from 13.36% at the end of 1999 to 16.36% at the end of 2000. Substandard loans constituted 3.08% of the portfolio (3.03% as at 31.12.1999), doubtful loans – 8.59% (8.44%) and lost loans – 4.68% (1.89%).

Specific provisions for classified loans in relation to the overall exposure in corporate loans significantly increased in relation to the previous year and amounted to 5.5% (3.2% as at the end of 1999). The reason for the high level of provisions established in 2000 was the application of conservative norms, deterioration of customers' standing, and delays in rerating customers to higher risk groups.

### *Bank guarantees*

As at December 31, 2000 the value of (domestic and foreign) guarantees granted by Bank Śląski amounted to PLN 651.1 million and increased in comparison to December 1999 by PLN 184.4 million, i.e. 39.5%. In 2000 the Bank offered tender guarantees, contract guarantees (guarantee of advance return, performance bond, warranty), guarantees for payment, guarantees for customs debt, guarantees for repayment of loans and cash advances from Bank Ochrony Środowiska S.A. and from the National Environmental Protection Fund as well as other guarantees rendered to domestic and foreign beneficiaries, civil guarantees and bill of exchange bank guarantees.

In 2000 the advisory functions of the Bank were developed in the scope of rendering opinion on international transactions and contracts.

### *Deposit services<sup>9</sup>*

As at December 31, 2000 the value of deposits of corporate entities, the budgetary sector and the financial sector amounted to PLN 6,590.1 million and constituted

42.4% of the total value of deposits. Deposits of corporate entities amounted to PLN 3,485.4 million (22.4% of the total deposits) and increased in comparison to December 1999 by PLN 800.2 million (29.8%). Current deposits constituted 39.5% of total deposits of corporate entities while term and blocked deposits – 60.5%. The share of PLN deposits in total corporate deposits was 89.9% (96.3% as at the end of December 1999). Deposits of the budgetary sector amounted to PLN 888.4 million (5.7% of the total deposits) and increased in comparison to December 1999 by PLN 119.9 million (15.6%). Deposits of the financial sector amounted to PLN 2,216.3 million and increased in comparison to December 1999 by PLN 737.4 million (49.9%).

At the end of December 2000 the number of corporate PLN current accounts was 157.8 thousand and increased in comparison to December 1999 by 1.4 thousand (0.9%). The value of funds deposited on those accounts was PLN 1,269.0 million. The number of F/X current accounts as at 31.12.2000 amounted to 3,211 and the value of funds deposited on those accounts was PLN 107.1 million (PLN 77.1 million as at the end of December 1999).

The number of PLN term accounts of corporate entities was 15.2 thousand and the value of funds deposited on term and blocked deposit accounts as at 31.12.2000 amounted to PLN 1,860.1 million (PLN 1,297.4 million as at the end of December 1999) being 45.8% increase.

### *International settlements*

In the year 2000 the number of corresponding banks of Bank Śląski, understood as banks with which the SWIFT keys were exchanged, was 880. The number of such banks is dynamically increasing to fulfil the customers' requirements and allow fast service of customer and inter-bank transactions.

The Bank has 25 nostro accounts opened at foreign banks, including 13 accounts beyond the EURO zone. Those accounts allow fast and efficient international settlements all over the world. Since inter-bank settlements with the EURO zone countries have been made 1999 only in that currency. Bank Śląski runs loro accounts in PLN for foreign banks.

The year 2000 confirmed a steady increase in the volume of international transactions at Bank Śląski. In this period we observed a growth of foreign transactions by 26% as compared with 1999. This

<sup>9</sup> The figures cover deposits of business entities, budgetary and financial sector without suspense liabilities and interest.

resulted to a great extent from the increase in the value of electronic payments via the MultiCash INT system.

In an effort to fulfil the needs of our customers being exporters, we implemented technological solutions that make it possible to transfer funds to the customer's account on the day the payment has been received from the foreign bank. In the year 2000 we also substantially developed the offer for discount of export receivables which resulted in implementation of international factoring, forfeiting and discount of foreign bills of exchange. In the year 2000 we also noticed a great interest of our customers in bank guarantees in international trading. The most commonly used guarantees were the contractual payment bond, advance return bond, performance bond and warranty.

In order to make it possible for the customers to co-operate with counterparties from higher risk countries, Bank Śląski joined the programme of the European Bank for Reconstruction and Development to support trade in the region of Central Europe and the former USSR. In order to create better conditions for realisation of international contracts Bank Śląski provided the customers with the programme managed by the American Agricultural Department concerning the import of American farm products.

In 2000 Bank Śląski was granted by the Chase Manhattan Bank the 1999 *Quality Recognition Award* for high quality of international transactions service provided by Bank Śląski.

The award is granted to banks ensuring the highest standard of co-operation with foreign correspondents.

## ***Operation on the retail market***

Within the framework of the retail strategy Bank Śląski persistently aims at achieving the leading position on the market of integrated financial services. The main directions of actions include modification of the basic Bank's offer in order to fulfil the market requirements and develop a multichannel distribution approach in the nation-wide network. The optimal tailoring of the product offer to individual needs is supported by segmentation of retail customers.

Having in mind the expectations of various groups of customers, Bank Śląski develops both traditional distribution channels – branches, including STAREOs, and electronic channels – ATMs, electronic banking, telephone banking.

In the year 2000 Bank Śląski strengthened its position on the retail banking market.

The share of Bank Śląski on the market of retail loans<sup>10</sup> increased from 3.75% in 1999 to 4.85% at the end of 2000. The Bank achieved also a better position on the PLN deposit market – the share grew from 4.45% in December 1999 to 5.05% at the end of 2000).

Bank Śląski maintained 8% share in the market of ROR accounts. The number of personal accounts increased from 696.3 thousand at the end of 1999 to 841.8 thousand as at 31.12.2000.

## ***Lending<sup>11</sup>***

As at the end of December 2000 the exposure of Bank Śląski due to the loans granted to individual customers was PLN 2,289.6 million and increased as compared with December 1999 by PLN 944.7 million, i.e. 70.2%. The amounts owed by individual customers represented 19.2% of the overall Bank credit portfolio (14.1% as at 31.12.1999).

The structure of retail receivables was as follows: 58.7% – cash advances and instalment loans, 22.7% – credits in current accounts and 11.7% – mortgage and housing loans.

Classified retail receivables grew from PLN 149.0 million in December 1999 to PLN 263.4 million in December 2000, i.e. by 76.8%. The share of classified retail receivables in the total retail credit portfolio increased from 11.1% (31.12.1999) to 11.5% (31.12.2000). Sub-standard loans constituted 4.90% of the retail loans (3.48% at the end of December 1999), doubtful loans – 1.32% (1.56%), and lost loans – 5.29% (6.04%).

The provisions for classified retail receivables grew from PLN 98.8 million at the end of December 1999 to PLN 154.4 million as at 31.12.2000, i.e. by 56.4%. The share of specific provisions for classified receivables in the total retail credit portfolio dropped from 7.3% at the end of December 1999 to 6.7% at the end of December 2000.

## ***Deposit activity<sup>12</sup>***

As at the end of December 2000 the number of personal accounts served by Bank Śląski was 841.8 thousand and increased by 145.5 thousand, i.e. by 20.9% in comparison to 1999.

<sup>10</sup> The share in the market of retail loans and deposits has been calculated based on the balance sheet of the consolidated banking system.

<sup>11</sup> The figures cover the loans granted to private individuals without suspense receivables and unpaid due interest and charged interest before due date.

<sup>12</sup> The figures cover the deposits of private individuals without suspense liabilities and interest.

The above success was possible thanks to the consistently realised retail banking development strategy, automation of processes and simplification of procedures.

As at the end of December 2000, deposits from individual persons amounted to PLN 8,961 million and – as compared to December 1999 – they increased by PLN 2,340 million, i.e. by 35.3%. Deposits from individual persons constituted 57.6% of the total deposits (57.3% in December 1999).

As of December 31, 2000 current PLN and F/X deposits of individual persons (in the deposit structure according to the forms of savings) amounted to PLN 1,647.8 million and they increased – as compared to the end of December 1998 – by PLN 62.8 million, i.e. by 4.0%. Current deposits constituted 18.4% of the total deposits (23.9% in December 1999). The value of the collected term PLN and F/X deposits amounted to PLN 7,313.2 million and it grew – as compared to December 1999 – by PLN 2,364.8 million, i.e. by 47.8%. Term deposits constituted 81.6% of the total deposits (81.6% in December 1999). PLN deposits constituted 87.8% of the total deposits (84.4% as of the end of December 1999), and the F/X deposits: 12.2% (15.6% in June 1999).

### *Bank cards*

In the year 2000, the number of the issued VISA Electron debit cards increased (from 788 thousand to 1,039 thousand) which gives Bank Śląski the second place among the banks that issue the VISA Electron debit card in Poland. Taking into account all types of card products issued by the Polish banks, Bank Śląski is on the third place, with more than 11% market share in the payment cards market.

In the year 2000, the sale of the first credit cards of Bank Śląski, i.e. VISA Electron Credit, was started in the entire branch network. At the same time, the agents of Nationale-Nederlanden Polska started the sale of the co-branded VISA Electron Credit cards for their customers. In the year 2000, Bank Śląski broadened its offer with the Europay-MasterCard organisation cards: the Maestro debit card and the Maestro Student card.

The growing number of the Bank's customers makes it necessary to give the card users a wide access to ATMs. To do this, Bank Śląski is still increasing the number of ATMs. Up to the end of the year 2000, the ATM network of Bank Śląski consisted of 450 machines functioning on-line (in December 1999 there were 380 ATMs).

Bank Śląski issues also payment cards within the VISA system for other banks that are based in Poland, i.e. ING Bank Polska, FORTIS BANK S.A., WBC S.A., BIŚE S.A. and BP S.A.

### *Personal Banking*

Trying to meet the expectations of the customers, Bank Śląski covered a group of up-scale individual persons, businessmen, top management, representatives of independent professions with the so called individualised service of Personal Banking. The offer for this group of customers includes keeping the accounts in PLN and convertible currencies, deposits for any terms and on negotiated interest rate, financial advisory services, the Eurocard/MasterCard Gold Charge card with an attractive insurance package, the VIP BSK S.A. identification card. Within the services provided, the Bank offers also account management – a complex service and aid in the customer's assets management that is tailored to the customer's individual needs, wishes, preferences, and accepted risk level.

The year 2000 proved that the accepted solutions were attractive. There were 2.5 times more VIP accounts kept with the Bank than in the year 1999.

### *Electronic banking*

Bank Śląski was one of the first banks who offered electronic banking products.

From the moment the first system of submitting electronic payment orders was launched in 1997 the number of electronic banking transactions was dynamically growing. In the second half of 2000 the average number of transactions realised via electronic banking systems amounted to over 950 thousand per month and in December it exceeded 1 million.

The number of transactions realised electronically grew by 190% as compared to December 1999. The Bank's share in the electronic banking services market for retail and corporate customers was approximately 20% and 25% respectively.

In 2000 Bank Śląski offered products and services in the area of electronic banking: payment orders via the MultiCash and the HomeCash systems, orders submitted via the floppy Transdysk disc application and the "HaloŚląski" automatic telephone system.

The HomeCash system (simplified version of MultiCash) and "HaloŚląski" were rendered both to business entities and private individuals.

In 2000 the sale of electronic banking services was growing dynamically and the results gained by Bank Śląski made it one of the market leaders. As at the end of December 2000 the following services were offered by the

Bank: MultiCash – 4,248 customers, HomeCash – 6,685 corporate customers and 15,550 private individuals, Transdysk – 1,690 customers, "HaloŚląski" – 9,710 corporate customers and 95,752 private individuals. The sale of international clearing – realised electronically through the MultiCash INT module – was also dynamically growing. In comparison to December 1999 the number of international electronic transactions grew by over 220%.

One of the main tasks realised in 2000 in the area of electronic banking was the development of the Internet distribution channel. "BSKOnLine" – the Internet activity of Bank Śląski started its operation in March 2001. Internet banking will strengthen the position of Bank Śląski as a modern financial services provider.

In the year 2000 Bank Śląski enhanced the functionality of the telephone service "HaloŚląski". The customers were provided with new functions such as: account balance enquiry, transaction enquiry, transfers and payment cards blocking.

The HomeCash functionality was substantially broadened in 2000 by providing all kind of transactions between the basic products addressed to individual customers – the personal account, the three-year Term Savings Programme (TPO3) and the revolving loan account. Providing new access numbers substantially reduced the cost of telephone connections and reduced the time of transactional data transfer. The implementation of the new sub-system of electronic banking improved the time of processing the customers' orders and made it possible to provide the customers with access to the current account balance in a similar mode to on-line.

## ***Insurance, investment funds, pension funds***

Bank Śląski in co-operation with Towarzystwo Ubezpieczeń na Życie Nationale-Nederlanden Polska S.A. sells life insurance policies. On May 30, 2000 Bank Śląski in co-operation with NNP and a brokerage company called AON Polska Sp. z o.o. added a new product to its offer, i.e. life insurance for the borrower of Bank Śląski. First, the pilot programme was started in 6 chosen Bank branches, and since September 18, 2000 the product has been offered by all branches.

Moreover, the Bank sells units of the investment funds of ING BSK Towarzystwo Funduszy Inwestycyjnych (the following funds: the balanced one, the shares, bonds and cash funds) and sells participation contracts in Otwarty Fundusz Emerytalny Nationale-Nederlanden Polska S.A. This fund – that is a common undertaking of Bank Śląski and ING – has a very good position among the pension funds.

## ***Funding the housing building industry***

### ***Housing Savings and Loan Unit***

The Housing Savings and Loan Unit of Bank Śląski, that was established in August 1997, had 5,157 customers as at the end of December 2000, and the value of the funds collected there was closed at the level of PLN 120.2 million (in the year 1999, the said values were respectively: 5,800 customers and PLN 76.8 million).

### ***Mortgage loans***

Bank Śląski has also mortgage loans in its offer. These loans are sold by 62 designated and specially prepared branches. Great attention is paid to establishing and developing the sale of the mortgage loans through the external distribution channels, such as – for example – the network of the agents of Nationale-Nederlanden Polska. In the period from May to October 2000, a lot of training courses were carried out to prepare the agents to the co-operation with the Bank. The activities undertaken in the year 2000 made potential customers aware of the Bank's offer addressed to people investing in housing real estate.

As at the end of the year 2000, the volume of mortgage loans exceeded the amount of PLN 203 million. The loans extended in PLN constituted 14.79% of the total portfolio; the share of credits in EURO amounted to 81.48%, and credits in USD – 3.73%.

The total value of the credit agreements concluded in the year 2000 amounted to PLN 201 million. The majority of signed credit agreements (60.24%) refers to individual building mortgage credits. In October 2000, the Banking Supervision gave their consent for establishing Śląski Bank Hipoteczny S.A. The new Bank was entered into the register of companies on December 20, 2000, whereas its operational activity will be started after obtaining a permit from the Banking Supervision.

## ***Money and capital markets***

For a few years, Bank Śląski has been an active participant on the F/X and money markets.

As compared to the year 1999, the transactions on basic market instruments increased significantly: F/X transactions increased by 23%, transactions based on the money market instruments increased by 32%, and transactions in T-bills/ T-bonds by 10%. In the year 2000, Bank Śląski increased significantly its share in F/X swaps, becoming one of the most active banks in this field.

High and still growing transactions in T-bills/ T-bonds ensure the maintenance of the leader position in the money market. As at the end of December 2000, the share of the Bank in the primary market of T-bills amounted to 3.1%.

As at the end of the year 2000, the value of the PLN assets managed by the Treasury Department amounted to PLN 5.4 billion. This means an increase by PLN 2.1 billion as compared to December 1999, which results from a significant increase of the deposit action carried out by the Bank.

In the year 2000, there was a growth of the sale of the Treasury products for the customers. The F/X transactions (both the standard and negotiated ones) as well as the derivative transactions had a significant share in the sales. Income on the sale of non-delivery forward transactions (ZRK) increased by 57% in the year 2000. Negotiated deposit products were sold satisfactorily because of the high actual interest rates.

## *Sales support*

Bank products sales realised by the commercial part of the Bank is actively supported by the operational, IT and marketing forces.

## *Operation support*

The increase of the number of customers and volume of transactions results in the growth of income and strengthening the position of Bank Śląski in the market. However, on the other hand it results in a significant increase of the workload in case of applying traditional methods of serving transactions. One of the key projects in the Bank, i.e. the Automated Payments Project, was continued in the year 2000 in order to create the infrastructure for the automation of standard paper documents processing. Full implementation of the worked out solutions will result in the drop of the costs of single documents processing and will improve the efficiency of the centralisation process and the quality of documents given to the customers.

In the mid 2000, the pilot implementation of the Mass Payments System in the Clearing Centre started. The present applications make it possible to process out-going cashless transactions based on standard and non-standard documents. At present there are works in progress in the field of implementing the solutions referring to processing incoming transactions, as well as in the field of designing and implementation of a centralised system of producing bank statements. Moreover, the project deals with developing

procedures and training the users in connection with the technological changes being introduced.

Under the operational support the works on the expansion of MultiCash system and direct debit functionality were started in 2000, as a significant increase in the volume of electronic transactions was noted in the area of payment orders. Presently, over 30% of all payment transactions are realised in Bank Śląski via electronic banking systems.

## *IT support*

Bank Śląski operates on the basis of the centralised IT system owing to which the customers can manage their funds from any Bank Śląski branch. Being first in the ranking organised by "Teleinfo" magazine for the best IT bank solutions proves that Bank Śląski has a high level of IT.

In 2000 within the realised process of IT support we modified ICBS, the main banking application. It allowed to expand the possibility of automatic calculation of transactional fees and commissions as well as specific provisions for receivables.

In 2000 we started activities which resulted in the implementation of a new module for the appraisal of credit capacity of retail customers and improvement of the account opening process. A modification that makes payment cards serving (Maestro, VISA Electron) and personal accounts more efficient was introduced as well. In the year 2000, some indispensable activities aimed at the preparation of the Bank to the co-operation with the Credit Information Bureau were started, this way it will be possible to make use of the nation-wide database on the borrowers and credits taken by them.

The implementation of the Intranet bank system was a great success achieved in the year 2000. Thanks to this system the internal bank communication system was improved significantly. The system that consists of information services and a uniform mail system gives the possibility to limit substantially of the circulation of the information on paper.

In the year 2000, Bank Śląski took part in the realisation of the projects in co-operation with other companies within the ING Group. Among the key projects, there were the following: Internet Vortal, Call Centre, credit cards for the customers of Towarzystwo Ubezpieczeń na Życie Nationale-Nederlanden.

In the year 2000, Bank Śląski continued the construction of the new IT Centre. The aim of the

investment is to ensure an appropriate technical environment and a good level of the IT system security and centralised IT infrastructure of the Bank.

### *Marketing*

In the year 2000, the main stress was put on the promotion of a personal account. Two nation-wide campaigns were organised for that purpose, i.e. the summer holidays campaign of the VISA Electron card under the slogan: "Waterproof money", and the Christmas campaign under the slogan "Maestro card for the Christmas gift".

In October 2000, there was a nation-wide TV campaign: "In 30 seconds around the world" which aim was to create the image of Bank Śląski as a member of the international ING Group.

Throughout the entire year, intensive activities were carried out in the field of direct marketing. Promotion that introduced a new product, i.e. the VISA Electron card may be an example thereof.

Traditionally, Bank Śląski was engaged financially in important cultural and social undertakings:

- the Bank together with the units of the ING Group sponsored the special award in the Chopin Contest;
- it helped in the organisation of a cycle of seminars called "Europe for the Youth" organised by the European Association of University Youth;
- the Bank participated in the charity campaign called "Pink Ribbon";
- the co-operation – that started in the year 1997 – with the National Symphonic Orchestra of the Polish Radio in Katowice was continued. Three concerts for the Bank's customers were the effect of this co-operation.

### *Directions of development in the year 2001*

Integration with the ING Branch in Warsaw will be one of the main projects realised by Bank Śląski in the year 2001. It will be of significance for the strengthening of the Bank's position in the financial services market. Furthermore, starting the operations of Śląski Bank Hipoteczny will be an important event in the year 2001. Moreover, the year 2001 will be a continuation of the realisation of the strategy of the Bank's development that assumes offering the full scope of services for corporate and retail customers through various distribution channels.

In the year 2001, the Bank will continue the development of the branch network. It is planned to start 28 new branches in the areas of great potential. To ensure appropriate service of large business entities, the Bank

intends to start 5 new Corporate Banking Centres. Also the number of products offered by the insurance agents of Nationale-Nederlanden will grow.

Simultaneously with the development of the network, some other electronic distribution channels of bank services will be started. In March 2001, the Bank is going to launch the Internet banking system that will ensure the full functionality within the offer of Bank Śląski.

In the year 2001, also a modern Call Centre will be started that will support the electronic distribution channels and fulfil the sales function.

In the year 2001, in the retail area, the Bank will improve the current product and distribution policies. Especially the work aimed at the following will be realised: a market and customer-oriented offer, a deeper market segmentation, a new concept of the personal account offer, making use of new technologies and the NN agents network, simplifying the product structure and the existing service procedures. The said activities will include the realisation of the policy of the ING Group synergy and the change of the presentation of the Bank's offer in context of the ING Group.

In the year 2001, in the field of corporate banking, the Bank will introduce a product package ZYSK for small and medium-sized entities and broaden its offer for exporters in the field of discounting the export receivables. A new product will be made available to the customers who make use of electronic banking systems, i.e. e-call electronic corporate deposit.

In the year 2001, Bank Śląski intends to introduce new services: *Euro Navigator MT 101/MT 940* that will make it possible for the customers being abroad to manage their bank account kept in the Bank, and *cash pool* that ensures a complex service.

### **Dom Maklerski Banku Śląskiego S.A. (Brokerage House)**

#### *Securities market in 2000*

Comparing December to January of 2000, the main indexes of the stock exchange market did not change significantly, however this year will not be remembered well by many investors.

The centre of attention last year were the companies of innovative technologies. In the first three months their value was growing dynamically. They were the growth leaders, however later on they set a downturn pattern.

The IT companies' situation (described by the TechWIG index) was characterised by volatility of stock exchange indexes. Investors were buying the so-called "new economy" and the future of the Internet was being compared to the invention of the radio.

On March 27th 2000 WIG (the Warsaw Stock Exchange Index) beat its maxim from March 1994 reaching 22,868.4 points. The adjustment that started later lasted as long as 7 months. Only the last two and a half months of the last year brought index growths so long awaited by investors. In the year 2000 in all stock markets, prices of 79 companies rose, 132 dropped and one company reported the same price as in the previous year. An over 150% price increase was achieved by: Novita, Szeptel, Chemiskór and 7bulls.com (earlier AS Motors), a loss of over 70% of the initial price was suffered by shareholders of: Beton Stal, Ocean, Euro Bud Invest and Centrozap.

The year 2000 will become part of the stock exchange history – the value of transactions in the cash market totalled PLN 106 billion, i.e. over 43% more than in 1999. The turnover in stock market totalled PLN 102.3 billion, i.e. 46% more than in 1999. This means that the last year was one of the best in terms of turnover in the 10-year history of the Stock Exchange. Compared to 1998 when transactions in the cash market (stocks and bonds) totalled PLN 59 billion, the increase reported in the year 2000 was really exceptional. Increased activity in the stock market caused an 11% drop of turnover in the bonds market.

The capitalisation of the stock exchange increased by 5.88% and totalled at the end of 2000 PLN 130.7 billion. The last year was not abundant in the stock exchange debuts – only 13 new companies appeared (in 1999 there were 28). 9 companies disappeared from quotations, some due to mergers with other listed companies, others withdrawn by majority shareholders (Brok and Zasada), and one bankruptcy (Polisa). The significance of the debutantes was not such as before. This was due to the fact that none of the large privatised state-owned companies appeared, and small entities not encompassed by the main Warsaw indexes prevailed.

In the year 2000 the derivatives market continued to develop very dynamically. The average daily volume in the first half of the year reached the level of over 6000 contracts and in the second half increased to app. 9000 contracts. In total in the year 2000 over 3 million contracts were concluded. Number of open positions doubled and reached app. 13 thousand at the end of the year. The value of derivative transactions exceeded PLN 57 billion and was almost 10 times higher than in 1999 (PLN 6.23 billion).

In August 2000, a new instrument was introduced – contracts in TechWIG. However interest shown in them has been significantly lower than in contracts in WIG20. In 2000 a new system of SE quotations was installed – WARSET. Transactions blocks were eliminated for stocks listed in continuous system and a new division into the companies listed all day during a session and those of one or two fixings was introduced.

## ***Activity of the Brokerage House of BSK SA***

### *Activity in the secondary market*

The Brokerage House of BSK SA gives its customers access to every market and listing method in real time. A high standard of service and competitive commissions for future contracts allowed to achieve in 2000 high volumes and the fourth position in the market.

A special group of the customers of the Brokerage House are individuals with high revenues and financial resources, businesses, banks and investment fund companies. The Brokerage House provides to its customers individual service through licensed brokers, monitoring of investment accounts and assistance in clarification of any doubts concerning functioning of capital market.

The Brokerage House provides broker services to other financial institutions. In 2000 new agreements were signed: broker services agreements for Pekao/Alliance TFI SA and OFE Zurich Solidarni as well as a distribution contract with TFI CAIB and TFI Kapital Handlowy.

The Brokerage House intermediates in trading in T-notes. In 2000 the weighted average of the Brokerage House sales was 4.3% of the total sales in the whole network of the issuing agent.

The Brokerage House intermediates in offering securities management services of ING BSK Asset Management S.A. The co-operation between the Brokerage House and the managing company consists mainly in mutual active acquisition of customers, servicing investment accounts and carrying out in the Warsaw Stock Exchange transactions ordered by advisors.

In 2000, the Brokerage House participated in public subscription of the stock of Polski Koncern Naftowy SA. Customers were sent a common offer of the Brokerage House and Bank Śląski S.A. for crediting purchase of stock. 330 customers took the offer and the total amount

of loans extended by the Bank exceeded PLN 206 million. Additionally the Brokerage House participated in subscription for new stock of CASPOL SA and AQUA SA.

### *Special services for issuers*

The Brokerage House of BSK SA in 2000 (by 16.11.2000) held, in the Warsaw Stock Exchange, the position of SE specialist member for ten companies. As of 17.11.2000, i.e. the moment of new Regulations of WSE (Warsaw Stock Exchange) became effective, the function of specialist was abolished, and a new function of issuer's animator was introduced. The Brokerage House concluded in total 6 agreements to act as an issuer's animator (Famot-Pleszew, Fabryka Butli Technicznych MILMET, Stalprofil, Bank Ochrony Środowiska, Caspol, Sokołów). In the regulated over-the-counter market (CeTO) the Brokerage House was organising the market (market maker function) for Rafamet (the agreement was binding by until 04.10.2000) and AQUA.

In 2000 the Brokerage House was a sponsor for issues of eight companies: Bank Śląski S.A., Śląska Fabryka Kabli SA, Zakłady Przemysłu Odzieżowego VISTULA SA, Mostostal Warszawa SA, AQUA SA, FAMOT SA, CASPOL SA, Sokołów SA.

The Brokerage House offers for non-public companies maintaining depository of stock and register of shareholders. In 2000 the Brokerage House provided such services for: INSTAL Katowice SA, FRIGOOPOL SA, Huta Zabrze SA, Ryfama SA, Huta Silesia, LIWOCZ SA, Zielonogórskie Kopalnie Surowców Mineralnych SA, Zakłady Wyrobów Metalowych w Sławkowie, Przedsiębiorstwo Robót Inżynierskich w Katowicach, TYMBARK SA.

### *Services for other brokerage houses*

In 2000 the Brokerage House held the function of a representative of the indirect participant – KDPW (National Depository of Securities) in concluding and clearing transactions in the Warsaw Stock Exchange for one affiliate entity – Krakowski Dom Maklerski.

Since the beginning of the derivatives market in the Warsaw Stock Exchange, the Brokerage House has played the role of Clearing Participant in clearing transactions concluded in the derivatives market. In 2000 it held this function for four brokerage houses: DM Banku Ochrony Środowiska, GLOBAL CAPITAL Partners Poland SA, KDM SA Kraków, SUR5.NET SA.

## ***Year 2000 results of the Brokerage House***

### *Financial results*

The result due to interest as at the end of December 2000 was PLN 11.9 million and it was higher by PLN 4.4 million, i.e. 58.6% than the 1999 result. The result on commission at PLN 19.1 million increased by PLN 3.1 million (19.5%) as compared with the end of 1999.

The overhead costs of Dom Maklerski (the costs of operation plus depreciation of fixed assets and intangible and legal assets) as compared with the end of 1999 increased by PLN 2.9 million, i.e. by 16.4% to the level of PLN 20.2 million.

The gross profit of the Brokerage House as at 31.12.2000 totalled PLN 12.7 million. The charges due to income tax totalled PLN 3.9 million. The net profit at 31.12.2000 totalled PLN 8.8 million.

### *Market shares*

At the end of 2000 the Brokerage House maintained 55,006 customer investment accounts. The customers of the Brokerage House constitute 4.5% of total number of customers of all brokerage houses in Poland.

The share of the Brokerage House in the total turnover of the Warsaw Stock Exchange (in the cash market) amounted to 3.0%, which gives it 12th position among 37 SE members.

The share of the Brokerage House in trading in particular instruments were 2.8% in stock and 10.4% bonds.

Additionally the Brokerage House acted as an agent in 6.8% of the total number of futures contracts concluded in SE. Its share in CeTO transactions totalled 21.1%.

## ***Organisation and technology***

As at 31st December 2000, the Brokerage House employed 216 people, inclusive of 43 brokers. In Customer Service Points (POK), Customer Service Departments (WOK) and Customer Service Centres (COK) 112 people in total were employed.

The Brokerage House provides customer service in 33 Customer Service Points (POK, WOK, COK). 19 outlets are located in the Bank Śląski Branches on the basis of a co-operation agreement with Bank

Śląski S.A., 14 operates independently, out of which 5 are located outside the Bank Branches. In 2000 a POK was opened in Łódź, where accounts for the customers were previously serviced by Bank Staropolski Brokerage House. The POK in Czechowice-Dziedzice was closed. The total number of POK's in 2000 did not change.

In 2000, the Brokerage House utilised the SIDOMA system, which was thoroughly modified in order to ensure smooth co-operation with the new SE system WARSET. In the second half of 2000, construction of modern IT links for POK's working off-line so far was started. By the end of 2000, 9 POKs were connected to the system.

The National Depository of Securities awarded the Brokerage House with the "Galeon 2000" prize for the most timely, correct and mistake-free transactions.

## ***Development trends of the Brokerage House***

In 2000 the implementation of the 3-year development plan for the brokerage activity was continued, which assumes two basic trends of business: reorganisation and development of traditional brokerage services as well as development of the investment banking services addressed mainly to retail customers, including issuers of securities.

In the area of traditional brokerage services the most important tasks to be implemented are: rendering brokerage and banking services available via the Internet, improvement of banking products supporting the service of the Brokerage House customers, implementation of new products (new types of orders, short sale, order for foreign markets, term contracts for exchange rate of USD, intermediation in granting credits for purchase of securities), increase of share and scope of services rendered by phone. In the I quarter of 2001 it is planned to complete the process of including the Customer Service Points still operating off-line into the wide network of the Brokerage House, which undoubtedly will improve the availability and quality of offered services.

The most recent plans concerning the investment banking services cover the following tasks: development of services from the scope of comprehensive financial consulting for corporate customers as well as mediation on purchasing significant parcels of shares, development of service connected with temporary purchase of values of specific companies on the account of the Brokerage

House upon call of their final purchaser, the so-called "shares parking".

## **BSK Leasing S.A.**

BSK Leasing Spółka Akcyjna was established by a notary act of 11th April 1996. The authorised capital of the Company was increased on 29.12.2000 by an amount of PLN 10.5 million. Presently the authorised capital is PLN 15 million and is divided into 1 500 thousand shares of a nominal value of PLN 10 each. Bank Śląski S.A. owns the shares in 100%.

The most essential elements of the strategy of BSK Leasing S.A. are:

- ensuring service for the Bank Customer,
- supporting the network of the Bank Śląski outlets,
- synergy with ING Lease Polska Sp. z o.o.

The organisation of the BSK Leasing S.A. sale is based on two product distribution channels, that is: organisational units of Bank Śląski, i.e. Branches and Corporate Banking centres as well as own commission sale and marketing activities.

In 2000, 337 leasing agreements were concluded to the total amount of PLN 369.3 million. The structure of the agreement value according to the subject of leasing agreements indicates a considerable share of purchased and handed over for leasing machines, equipment as well as real estate. The structure of the agreements value according to sectors is: industry – 46%, services – 44%. The average value of an agreement in 2000 was PLN 1.1 million.

As per 31.12.2000 the balance sheet footing of BSK Leasing S.A. was PLN 595.4 million. The worsening economic situation had an impact also on the customers of BSK Leasing S.A.; therefore it was necessary to establish provisions for receivables and F/X risk.

The accounting year was closed with a negative financial result of PLN 12.2 million.

BSK Leasing S.A. in 2000 concluded the sale of leasing agreements of a value not exceeding PLN 100 million to ING Lease Sp. z o.o.

## **Śląski Bank Hipoteczny S.A.**

On 8th November 2000 the Banking Supervision Commission issued a permission to establish a mortgage bank under the name of "Śląski Bank Hipoteczny Spółka

Akcyną" with its seat in Warsaw. On 20th December 2000 the company was registered by the District Court for the Capital City of Warsaw. Bank Śląski S.A. as the founder is in the possession of 100% of the equity of Śląski Bank Hipoteczny S.A., which gives 100% of shares and votes at the General Shareholders' Meeting of the Company. The Bank will commence its business upon receiving a relevant permission from the Banking Supervision Commission.

## **Powszechne Towarzystwo Emerytalne Nationale-Nederlanden Polska S.A.**

In August 1998 the representatives of ING Continental Europe Holdings B.V. as well as Bank Śląski signed the Act of Founding the Company Powszechne Towarzystwo Emerytalne Nationale-Nederlanden Polska S.A. and covered the authorised capital in the following proportion: ING – 80%, Bank Śląski – 20%. An increase of the authorised capital to the amount of PLN 33 million was resolved in September 1999 and registered on 16th May 2000.

The main target of the Company in 2000 was maintaining the advantageous position on the pension fund market by developing a positive image of OFE NNP, both among the current customers as well as potential ones. The target was fully achieved due to:

- investment results – the annual rate of return was 15.7% at the weighted average for all the funds at the level of 13.0% (the rate of return for the largest funds – as far as assets are concerned – was: OFE CU – 12.9%, OFE PZU – 10.2%, OFE AIG – 10.5%),
- continuous increase of the customer service quality (development and improving the functioning of info-line 0-800, introducing since 28th April 2000 the service of accounts via the Internet, the WAP service as well as rendering the account balance available by ATMs of BSK SA, timely mass dispatch of the first annual statements for their customers),
- efficient publicity and sales support.

As a result of these activities the following was achieved: the highest – among all the funds – increase of members number (by over 90 thousand) as well as the lowest number of withdrawals from OFE NNP (0.5%). At the end of December 2000 the number of all the accounts exceeded 1.7 million. The quality of the customer portfolio measures with the number of active accounts (90%) as well as the value of an average premium (PLN 121) is the highest among all the funds on the market.

## **IV. Affiliated and associated entities of the Capital Group exempt from consolidation**

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### **ING BSK Asset Management S.A.**

ING BSK Asset Management S.A. is a joint venture of Bank Śląski S.A. and ING Bank N.V. The Company was established by virtue of the notary act of 12th January 1996. Then both entities covered 50% of shares each. After the increase of the Company capital in July 2000 the share of Bank Śląski is 47.4%.

The object of the Company business is running advisory service in the scope of public trading in securities, consisting in rendering – against payment – financial advice in the scope of public trading in securities as well as management – upon commission – of a security parcel placed in the Bank's custody.

The year 2000 was another year of a dynamic growth of managed assets, which from PLN 843.6 million as per 31.12.1999 increased to PLN 1,463 million at the end of 2000. The target group of the Company is corporate customers, investment trust and large individual customers. The value of managed assets ranks the Company among top leaders of entities offering services of portfolio management upon commission in Poland.

ING BSK Towarzystwo Funduszy Inwestycyjnych S.A. is a company dependent in 100% on ING BSK Asset Management S.A. In order to maintain the top position on the market the Company continuously develops its product offer. In 2000 the Investment Fund Company established two new investment funds. In October 2000 the sale of units of the ING Specialist Open Investment Fund of Current Income was effected, and in December 2000 within supplementing the offer of funds with shares, the distribution of units of the ING Emerytura Plus fund was commenced aimed at III pillar of the pension system in Poland.

The dynamic development of ING Towarzystwo Funduszy Inwestycyjnych S.A. in 2000 caused a necessity of increasing twice the authorised capital. In May 2000 the General Shareholders Meeting of ING BSK Towarzystwo Funduszy Inwestycyjnych S.A. passed a resolution on increasing the Company authorised capital by an amount of PLN 1.25 million. The subsequent increase of the capital by PLN 1.25 million took place in October 2000.

All the shares of the new issue were acquired by the so-far shareholder of the Company – ING BSK Asset Management S.A. At the end of 2000 the authorised capital of ING BSK Towarzystwo Funduszy Inwestycyjnych S.A. was PLN 12.75 million.

ING BSK Asset Management S.A. concluded with the Brokerage House of BSK SA an agreement on co-operation in winning and servicing customers. The Company also wins customers in co-operation with the ING Barings Private Banking and the Nationale-Nederlanden Employee Benefits. Bank Śląski S.A. acts as a custodian bank and a distributor for the investment funds. The co-operation within the capital group in 2000 contributed to an increase of the managed assets by 73%. Excellent results were achieved in Investment Funds assets management. In 2000 the value of participation units of the Shares Fund increased by 20.4%, in the Balanced Fund – by 13.7%, and in the Cash Fund – by 16.2%. Taking into consideration the rate of return on investment the achieved results ranked the ING funds among top leaders of investment funds in Poland.

The net profit of ING BSK Asset Management S.A. for the year 2000 was PLN 54 thousand (at the end of 1999 a loss was recorded in the amount of PLN 844 thousand). ING BSK Towarzystwo Funduszy Inwestycyjnych S.A. showed a loss in the amount of PLN 2,150 thousand, whereas the consolidated loss of the Group ING BSK Asset Management S.A. equalled PLN 1,962.7 thousand.

At the end of December 2000 ING BSK Asset Management S.A. employed 16 people. Both companies – ING BSK Asset Management S.A. and ING BSK Towarzystwo Funduszy Inwestycyjnych S.A. as per the end of December 2000 employed a total number of 26 people.

## Centrum Banku Śląskiego Sp. z o.o.

Centrum Banku Śląskiego Spółka z o.o. was established by Bank Śląski S.A. in December 1997 with the equity capital in the amount of PLN 50 million. As per 31.12.2000 the equity capital was PLN 91.8 million. On 4th December 2000 the company BESIX SA sold their shares to BUILDCO SA. The present shareholders of the Company are: Bank Śląski S.A. (60% of shares) and N.V. BUILDCO SA (40% of shares). By 31.12.2000 the change had not been registered in court.

In 2000 the so-far classification of Centrum Banku Śląskiego Sp. z o.o. was changed from a subsidiary to an entity affiliated with the Bank. In 2000 the investment run

by BSK Centrum Sp. z o.o. and concerning the building of the Bank Śląski Head Office was handed over for operation. Both Bank Śląski and the other entity holding shares in the Company have 50% of votes each in the Shareholders' Meeting of BSK Centrum Sp. z o.o.

The Company was established for implementation of an investment task under the name "Centrum Banku Śląskiego", and then management of the constructed facilities.

The construction was begun in July 1998. The investment is implemented on the site owned by the Company of surface area of 2.2 ha located at the crossing of Sokolska and Chorzowska streets in Katowice. The investment comprises a facility assigned for the needs of the Bank Śląski Head Office and the so-called commercial building assigned for lease by external entities.

The building of the Bank Śląski Head Office was completed and handed over for operation on 1st October 2000. The commercial building "Chorzowska 50" will be completed in 2001.

The Company achieved in 2000 the net profit in the amount of PLN 3,102 thousand. As per 31.12.2000 the company employed 6 people.

## Centrum Elektronicznych Usług Płatniczych "eService" S.A.

The Company was registered on 6th October 1999 in the District Court in Warsaw as a joint stock company of Bank Śląski S.A. and Powszechna Kasa Oszczędności BP S.A., in which each bank covered 50% of shares. The authorised capital of the Company in the amount of PLN 16 million was paid as a whole.

The target of the Company operation is to win a significant position on the market of commission sale of transactions concluded with the use of payment cards in Poland. "eService" S.A. offers to customers as well as commercial-service outlets services concerning authorisation, processing and clearing electronic payment transactions made with the use of cards in modern POS terminals.

Within 2000 the Company ran the preparations to commence operational activity, which was effected in November 2000. Then the first POS terminals were installed in the commercial-service outlets. As per 31st December 2000 the Company serviced 432 terminals installed in 274 locations.

Due to the fact that as per 30th November 2000 the accumulated loss amounting to PLN 6,259 thousand exceeded 1/3 of the authorised capital, on 31st January 2001 the Extraordinary Meeting of Shareholders was held.

According to the preliminary financial statements the total assets of the Company at the end of 2000 was PLN 12,556 thousand. The Company closed the year 2000 with a net loss of PLN 10,377 thousand.

As per 31st December 2000 the Company employed 67 full time employees.

## **FINPLUS Sp. z o.o.**

Finplus – a Limited Liability Company – was established by the notary public of 22nd October 1998 and was registered in the Commercial Register on 16th April 1999 r.

The initial capital of the Company in 2000 was increased twice: on 20th March and 21st July.

As a result of that on 31st December 2000 the capital was PLN 14.8 million. The initial capital of the Company is divided into 74,000 shares of a nominal value of PLN 100 and was covered in 50% by Bank Śląski S.A. and Cofinoga Société Anonyme.

The Company initiated the market activity on 16.04.2000. The subject of the Company business is rendering service of financial intermediation, in particular intermediation in rendering services connected with granting credits, loans, intermediation in issuing payment cards or making operations with their use. By 31.12.2000 the production of 1,560 cards had been commissioned.

The Company closed the year 2000 with a loss in the amount of PLN 14,941 thousand. As per 31.12.2000 the Company employed 37 people.

In 2000 the company achieved productive capacity and in 2001 will develop its activity in order to increase shares in the market.