

Annual Report 2000

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Bank Śląski Results in 1998 – 2000 – Highlights

in PLN million

| | 31.12.2000 | 31.12.1999 | 31.12.1998 | rate of growth (2000/1999) |
|---|------------|------------|------------|-------------------------------|
| Balance sheet total | 19 051.1 | 14 776.6 | 12 530.4 | 128.9 |
| Amounts due to public and non-financial sectors | 13 620.5 | 10 252.8 | 8 890.7 | 132.8 |
| Fixed profit securities | 2 125.1 | 2 225.3 | 3 092.2 | 95.5 |
| Amounts due from public and non-financial sectors | 10 849.2 | 9 032.0 | 6 761.0 | 120.1 |
| Off-balance sheet liabilities | 10 175.5 | 5 474.4 | 4 328.9 | 185.9 |
| Provisions for non-performing loans and off-balance sheet liabilities | 699.4 | 394.6 | 305.1 | 177.2 |
| Bank's own capital | 1 516.7 | 1 376.9 | 1 223.2 | 110.2 |
| Total income | 2 951.5 | 2 170.5 | 2 226.1 | 136.0 |
| Net interest income | 691.1 | 659.3 | 684.1 | 104.8 |
| Total costs | 2 821.8 | 1 833.9 | 1 917.8 | 153.9 |
| Total costs (without risk costs) | 2 401.6 | 1 698.4 | 1 811.2 | 141.4 |
| Gross profit | 129.7 | 336.6 | 308.3 | 38.5 |
| Income tax | -12.4 | 136.5 | 107.5 | x |
| Net profit | 138.3 | 199.5 | 200.1 | 69.3 |
| Solvency ratio | 10.7 | 13.5 | 11.9 | |
| Gross profit/total costs (without risk costs) | 5.4 | 19.8 | 17.0 | |
| Net profit/balance sheet total | 0.7 | 1.4 | 1.6 | |
| Net profit/total costs | 4.9 | 10.9 | 10.4 | |
| Earnings per 1 share in PLN | 14.9 | 21.5 | 21.6 | 69.3 |
| Number of employees | 7 265 | 6 964 | 6 939 | 104.3 |
| Number of branches | 320 | 280 | 212 | 114.3 |

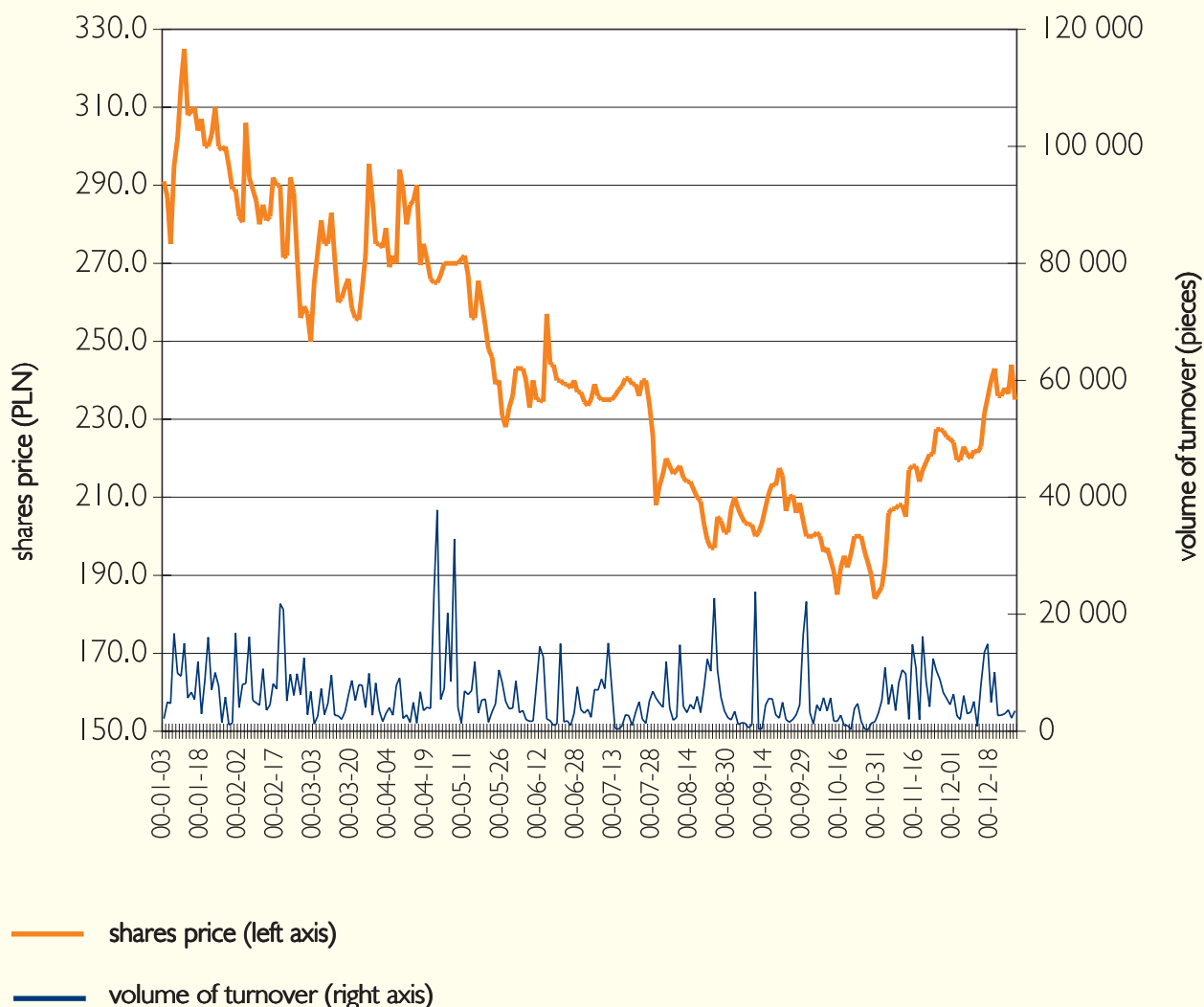
Information on the Price of Shares in 2000

The prices of shares were showing declining tendency at the Warsaw Stock Exchange in 2000. The value of shares was systematically decreasing from the beginning of 2000, after the dynamic growth of prices in 1999. WIG, which is the main barometer of the market, lost approx. 6% of its value in 2000. This tendency was characteristic of the whole banking sector represented by the WIG-Banki index. The situation at the stock exchange improved at the year-end, resulting in a price growth.

In 2000, the prices of the Bank Śląski shares were changing in accordance with the situation at the stock exchange. The growing trend of Bank Śląski shares that took place in 1999 remained unchanged until the first ten days of January 2000. The Bank Śląski shares noted its price maximum on January 11, 2000 (PLN 325). A falling trend began in mid-January 2000, lasting several months. The minimum was noted on October 30, 2000 (PLN 184). There has been seen a stable growth since that moment. The price amounted to PLN 235 at the end of the year.

The market value estimation of the Bank's equity expressed by the P/BV ratio indicated a falling tendency, the ratio being 1.31 at the end of December 2000. Despite the drop of the price, the P/E ratio grew significantly in 2000 – by 21.1%, i.e. to the level of 15.7 at the end of 2000.

Bank Śląski S.A.



Management Board of Bank Śląski

| | |
|----------------------|---------------------------|
| President | Marian Czakański |
| First Vice-President | Frederik van Etten |
| Vice-President | Jacek Bartkiewicz |
| Vice-President | Krzysztof Brejda |
| Vice-President | Grzegorz Cywiński |
| Vice-President | Edward Foppema |

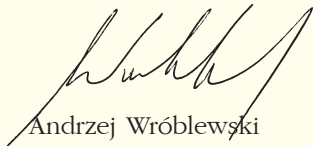
Supervisory Board of Bank Śląski

| | |
|---------------|----------------------------------|
| Chairman | Andrzej Wróblewski |
| Vice-Chairman | Johannes Antonius Nijssen |
| Secretary | Jerzy Rokita |
| Member | Brunon Bartkiewicz |
| Member | Ralf-Hartmut Fiedler |
| Member | Piotr Kukurba |
| Member | Tomasz Szapiro |
| Member | Maciej Urmanowski |
| Member | Piet van Zanten |
| Member | Kazimierz Zarzycki |

REPORT OF THE SUPERVISORY BOARD

The report of the Supervisory Board on the results of the audit for the year 2000: the financial statements of Bank Śląski S.A., the report of the Management Board of the Bank on the operation of Bank Śląski S.A. and the motion of the Bank Management Board regarding profit and loss distribution.

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), having familiarised itself with the financial statements of Bank Śląski S.A., the report of the Management Board of the Bank from the operation in the year 2000, as well as the Financial Audit Report 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 FROM THE CHAIRMAN OF THE SUPERVISORY BOARD TO SHAREHOLDERS



Ladies and Gentlemen,

Last year Bank Śląski achieved a growth of the market position and results on banking activity. However, the Bank profits were negatively affected by a number of unfavourable macroeconomic factors.

The Bank's prudent policy, meeting the international standards in the field of risk evaluation, especially the credit risk, increased substantially the level of provisions and decreased the financial result. However, it improved the Bank's security.

In spite of unfavourable economic situation the Bank intensively enlarged the Customer database, increasing its shares in the retail and corporate markets. Good commercial results were possible thanks to a consistent policy of enriching the product offer to fulfil the needs of various market segments and expanding the distribution channels. Apart from the network of small branches located closely to the customer, modern electronic services were developed as in the whole sector. The sale of bank products via the Nationale-Nederlanden insurance agents is becoming more and more important.

The consistent policy of the Management Board being implemented in the field of development of IT brings more and more spectacular results. The fully centralised and convenient for the customers the Bank IT system reduced the time of banking operations and made it possible to offer other electronic services at relatively low costs. The implemented system also allowed to automate mass operations and optimise costs.

In consideration of the continuing process of consolidation of banks, the Supervisory Board regards the integration of Bank Śląski with the corporate branch of ING Bank as proper. Consolidation of both institutions, which are complementary in terms of services offered and the market segments serviced, will strengthen the position of Bank Śląski.

Summing up the last year, the Supervisory Board would like to thank the Management Board and all employees for their contribution to building the Bank position. We would also like to thank the Shareholders for their trust and assure them that we persistently aim at multiplying the Bank's value.

Yours sincerely,

A stylized, handwritten signature in black ink, appearing to read 'Wróblewski'.

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

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS



Ladies and Gentlemen,

The year 2000 was not easy for Bank Śląski. The rate of economic growth was declining. The condition of enterprises was deteriorating. Increased unemployment adversely affected the Customers' revenues. High inflation and policy of high interest rates were conducive for an increase of the Bank interest revenues but simultaneously contributed to the Customers' problems with loan repayment. The Bank was forced to establish significant amount of additional provisions, as a result of which the net result for the year 2000 was by 30.7% lower than in the previous year and equalled PLN 138.3 million.

In 2000 Bank Śląski strengthened its position on the market. An increase of share was recorded in the sectors of corporate entities and private individuals. 42 retail outlets were opened and 70 ATMs were installed. Apart from the traditional distribution channels the Bank was selling selected products via a network of the Nationale-Nederlanden insurance agents.

In 2000 the product offer of the Bank was expanded, its development being consistent with the concept of integrated financial services. The Bank expanded functionality of its electronic banking systems.

Bank Śląski implemented the expansion program, accompanied by a more stringent cost discipline. As a result, in spite of the significant increase of the activity scale, the costs of the Bank operation with depreciation increased only by the inflation ratio. The Management Board is grateful to the Bank employees for the high attitudes in performing their work in this uneasy period of time.

In 2001 the Bank will proceed with the main development trends. It is expected to continue the expansion of distribution channels as well as improvement of the product offer. New branches will be opened in compliance with the strategy of building of a nation-wide Bank. The planned merger with the ING Branch in Warsaw will be of essential importance for the development of the Bank position on the financial services market.

All the actions undertaken by the Management Board are aimed at developing a modern, efficient and secure institution, rendering services of high standard. The improved market position of the Bank proves the customers' trust and support for the implemented commercial strategy. The Management Board of Bank Śląski would like to thank for the trust and ensure that for the benefit of Customers and Shareholders they will continue development of the Bank and strive after strengthening of its market position.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Marian Czakański'.

Marian Czakański

**The President of the Management Board
of Bank Śląski**

Supervisory Board of Bank Śląski S.A.



Andrzej Wróblewski
Chairman



Johannes Antonius Nijssen
Vice-Chairman



Jerzy Rokita
Secretary

Members of the Supervisory Board



Brunon Bartkiewicz



Ralf-Hartmut Fiedler



Piotr Kukurba



Tomasz Szapiro



Maciej Michał Urmanowski



Piet van Zanten



Kazimierz Zarzycki

At the Annual Shareholders' Meeting on June 9, 2000 the following persons were appointed to the Supervisory Board: Mr. Johannes Antonius Nijssen, Mr. Brunon Bartkiewicz and Mr. Ralf-Hartmut Fiedler.

Management Board of Bank Śląski S.A.



Frederik van Etten
First Vice-President



Marian Czakański
President



Jacek Bartkiewicz
Vice-President



Krzysztof Brejda
Vice-President



Grzegorz Cywiński
Vice-President



Edward Foppema
Vice-President

Mr. Marian Czakański was appointed President of the Management Board as of July 20, 2000 by the Resolution of the Supervisory Board.

Mr. Frederik van Etten was appointed 1st Vice-President of the Management Board and Mr. Grzegorz Cywiński was appointed Vice-President of the Management Board as of May 1, 2000 by the Resolution of the Supervisory Board.

Polish Economy in 1996 – 2000

| Specification | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|-------|-------|-------|-------|--------|
| GDP growth (%) | 6.0% | 6.9% | 4.8% | 4.1% | 4.0% |
| Budget deficit (GDP%) | -2.5% | -1.4% | -2.4% | -2.2% | -2.2% |
| Money supply (PLN billion) | 134.9 | 176.4 | 220.7 | 263.8 | 294.4 |
| Growth of industrial production sold (%) | 8.3% | 10.8% | 4.8% | 4.4% | 7.1% |
| Inflation (CPI) XII/XII (%) | 18.5% | 13.2% | 8.6% | 9.8% | 8.5% |
| Unemployment rate | 13.2% | 10.5% | 10.4% | 13.0% | 15.0% |
| Foreign trade* (USD billion) | | | | | |
| exports | 24.4 | 24.7 | 24.1 | 27.41 | 31.61 |
| imports | 37.2 | 41.3 | 43.5 | 45.91 | 48.73 |
| balance | -12.8 | -16.6 | -19.4 | -18.5 | -17.12 |

* The data provided by GUS (according to the statistical data on goods exported and imported into Poland).

COMMENTARY OF THE BANK MANAGEMENT BOARD

regarding the activity in the year 2000

Bank external environment

The year 2000 was for the Polish economy a period of the very clear worsening of the economic situation, resulting first of all from the restrictive monetary and fiscal policy. The factors of macroeconomic character in 2000 on the one hand stimulated the increase of banks' interest result, however, on the other hand weakened the economic situation of the majority of Polish companies, thus deteriorating the quality of bank credit portfolio and increasing the costs of establishing provisions.

The economic growth in 2000 remained at the level of the previous year (4.1%), however its pace was declining every quarter. Particularly in the last months of the year we observed a very clear slowdown of activity of the national economy. The main reason for a reduced pace of growth was a sharp decline of the domestic demand, both in the scope of consumption and investments. The decline derived from low rate of remuneration growth, growing unemployment, and first of all restrictive monetary policy – the basic interest rates of NBP were raised twice in the year 2000 (in February and in August).

After a relatively strong inflation pressure observed till July, in the following months the inflation growth was stopped and the inflation stabilized at the level of 8.5% at the end of the year. The decline of inflation, apart from the restrictive monetary policy, also derived to a large extent from a decreasing rate of growth of the world food prices as well as reduced prices of oil and ready liquid fuels.

The market value of PLN was subject to considerable fluctuations in 2000, while since November we have observed a rapid strengthening of the exchange rate of PLN in relation to dollar. The conducive situation was created by high interest rates, drop of inflation and the drop in the negative balance of foreign trade.

The policy of high interest rates had a major impact on the behaviour of customers – we observed a decreased demand for loans and an increasing

tendency of private persons to save. The deposits of corporate entities in 2000 demonstrated weak rate of growth. In the previous year the deterioration of companies financial standing was observed, which was proved by a decline of production sold in the most sectors of industry.

To the subsequent decisions of the Monetary Policy Council on the increase of basic rates the financial market responded with a raise of nominal and real interest rates, which contributed to a slowdown of interest margin decline and allowed banks to generate higher results on interest. The effects of the bankruptcy of Bank Staropolski constituted an unexpected blow, having an essential impact on the banks' financial results in 2000. Moreover, in view of difficulties in timely service of receivables and loans incurred by customers it became necessary to establish a high level of provisions to secure the credit risk.

Bank financial results for the year 2000

Profit and loss account

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.

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 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.

Commercial values

The strategy of developing distribution channels, that has been 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 that 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 the budgetary 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 sector 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 total credit exposure, was PLN 11,901.5 million¹ 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. 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%).

Bank rating in 2000

In 2000 the financial standing and reliability of Bank Śląski were appraised by Fitch Ratings agency. Fitch Ratings sustained the ratings – granted to Bank Śląski before – of long-term liabilities BBB+ as well as short-term F2. In view of the high level of established provisions and deteriorating economic

¹ The presented value includes the loans granted to business entities, the budgetary and financial sectors units as well as private individuals. The value comprises discount loans and a subordinated loan; it does not cover accepted inter-bank deposits, suspense receivables and unpaid due interest and charged interest before due date.

situation the Bank individual assessment was lowered to the mark C/D, whereas the assessment of support was maintained at the level of 3. It should be noted that due to the deteriorating economic situation in Poland and the necessity to establish provisions for securing credit risk the lowering of rating referred to a large group of banks. The prognosis for rating of long-term liabilities of Bank Śląski was determined as stable. At the end of 2000 Fitch Ratings took over the rating agency Thomson BankWatch. Due to this the marks assigned to Bank Śląski by the taken-over agency were included in the appraisals of Fitch Ratings. These were the following: LC-1 – an assessment of short-term liabilities in domestic currency as well as IC-A/B – an assessment of domestic issuer.

Moody's Investors Service is another rating agency that appraised Bank Śląski in 2000. The agency sustained the ratings granted beforehand, i.e. P-2 for short-term deposits of the Bank, Baa 1 for long-term deposits as well as D+ as an assessment of the Bank's financial strength. The prognosis for ratings of deposits was assessed as stable, whereas the prognosis for rating of the Bank financial strength was assessed as negative, due to the high level of established provisions.

In 2000 Bank Śląski was also appraised by the rating agency Capital Intelligence. The agency raised two ratings of BSK SA: for short-term liabilities to A2 and for long-term liabilities to BBB. The assessment of domestic strength was sustained at the level of BBB- and the assessment of support at the level of 2. The prognosis of ratings was determined as stable.

Development trends of Bank Śląski S.A. in 2000

Main elements of the Bank 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 the 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 establish 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 ones – was continued. The actions brought tangible effects in the form of strengthened market position of Bank Śląski. The share in the market of receivables² 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 personal accounts – a basic product offered to retail customers.

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

² 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.

accepted and risk migration was analysed. Bank Śląski, discerning the increase of general economic risk, accepted more conservative approach to the collateral by 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 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, due 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 measuring 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 on 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.

Presentation of the financial results in 2000

Profit and loss account

As at the end of December 2000 the total income³ of Bank Śląski was PLN 2,951.5 million, an increase by 36.0% in comparison with the previous year. The interest income amounting to PLN 2,259.1 million was the largest income item. It grew by PLN 639.9 million i.e. 39.5% when compared to the end of 1999. The share of interest income in the total income was 76.5%. It grew by 1.9 percentage points in relation to the previous year.

The overhead costs (including provisions) increased by 53.9% in comparison to the end of 1999, while the increase of income was 36.0% in 2000. As a result, the income/cost ratio decreased: it was 1.05 in 2000 as compared to 1.18 in 1999. The interest income to interest costs ratio was 1.44 at the end of 2000, to compare with 1.69 as at the end of the previous year.

The non-interest income increased from PLN 551.3 million at the end of 1999 to PLN 692.4 million at the end of 2000. It constitutes a decrease of its share in the total income by 1.9 percentage points. The largest item of non-interest income was income on fees and commissions, the share of which fell from 61.3% as at the end of December 1999 to 57.9% as at the end of December 2000. Income on F/X position was the second largest item of non-interest income. Its share increased from 18.7% (as at the end of 1999) to 38.3%. It amounted to PLN 265.1 million, an increase by PLN 161.8 million in comparison to the previous year.

The overhead costs⁴ of Bank Śląski were PLN 2,821.8 million as at the end of 2000, an increase by PLN 988.1 million or 53.9% when compared to the same period of the previous year. The significant costs increase resulted from higher interest costs and the high level of established provisions. The largest cost item was interest costs which amounted to PLN 1,567.9 million. In comparison to the end of 1999 they increased by PLN 608.1 million, i.e. by 63.4%. The share of interest costs in the overhead costs increased in comparison to the previous year by 3.2 percentage points and amounted to 55.6%. In 2000 the difference of the provisions and revaluation was PLN 420.2 million and increased in comparison to 1999 by PLN 284.7 million. Establishing of high specific provisions resulted from the Bank's strict execution of the risk norms and the revision of the legal regulations. On 1st January 2000 the new regulations in the scope of specific provisions became binding, which were valid for the first time for calculation of provisions at the end of March 2000. The changes referred in particular to:

- increasing the level of specific provisions securing "regular" receivables from private persons as well as "special mention" receivables from corporate entities from 0.5% to 1% of the basis (binding from 31.03.2000 to 31.12.2000)
- legal collateral decreasing the basis for establishing provisions.

The depreciation dropped by PLN 7.6 million i.e. by 6.4%. It was the consequence of the change in the applied accounting principles based on separating two types of depreciation: balance-sheet and tax. Other cost items revealed an increase in comparison to the previous year: the Bank's operation costs – an increase by PLN 80.4 million, i.e. by 13.6%, costs due to commission – an increase by PLN 11.3 million, i.e. by 67.0%, other operating costs – an increase by PLN 4.1 million, i.e. by 33.8%.

The overhead costs of the Bank (costs of the Bank's operation along with depreciation of fixed assets as well as legal and intangible assets) increased by 10.3% in comparison to the end of 1999, to the level of PLN 782.1 million. The costs of the Bank's operation increased by 13.6% and the depreciation dropped by 6.4%. The sum total of remuneration and fringe benefits as at the end of 2000 was higher by 7.6% when compared to the same period of the previous year. It amounted to PLN 340.1 million, constituting 50.6% of the Bank's operation costs.

The gross profit of Bank Śląski amounted to PLN 129.7 million as at the end of 2000 and was lower by PLN

³ The total income includes the balance of the result on F/X position.

⁴ The overhead costs include the balance of the difference of provisions and updating.

206.9 million or 61.5% in relation to the end of 1999. Due to the change in the methodology of calculation of provisions for deferred tax the burden on the profit due to the income tax as at the end of 2000 was negative and amounted to minus PLN 8.6 million.

The net profit achieved as at the end of 2000 was PLN 138.3 million. It was lower by PLN 61.2 million or 30.7% than in the previous year. The net profit per one share for twelve months decreased from PLN 21.5 at the end of the previous year to PLN 14.9.

Basic ratios

The profitability ratio (gross profit to overhead costs) was 4.6% as at the end of December 2000 (18.4% in 1999). The ratio of the share of overhead costs (the costs of the Bank's operation along with depreciation of fixed assets as well as legal and intangible assets) in the result on banking activity was 59.1% in 2000 (60.5% in the previous year). The net profit to assets ratio was 0.7% (1.3% as at the end of 1999). The ROE ratio (net profit to own capital and funds) was 9.1% in 2000 (14.5% as at the end of December 1999). The interest margin ratio – net interest income to average income assets⁵ (covering amounts due from financial and non-financial entities, fixed and variable rate securities, shares) was 4.55% in 2000, to compare with 5.53% in the previous year.

The basic security ratios were kept at the appropriate level in 2000. The solvency ratio (net capital and own funds to risk weighted assets and off-balance liabilities) was 10.7% as at December 31, 2000, while the standard required by the Central Bank for security reasons is 8%.

Balance sheet of Bank Śląski S.A. as at December 31, 2000

The net balance sheet total of Bank Śląski was PLN 19,051.1 million as at December 31, 2000, an increase by PLN 4,274.5 million or 28.9% when compared to the previous year. In real terms (after elimination of the effects of rises of consumer goods and services prices amounting to 8.5% as at 31.12.1999), it means the increase of the balance sheet total by 20.4%.

In 2000, a significant increase of the share of amounts due from the financial sector and of the item of other securities and proprietary rights was noted in

the structure of assets. At the same time the share of amounts due from the non-financial and budgetary sectors and of the item of debt papers decreased.

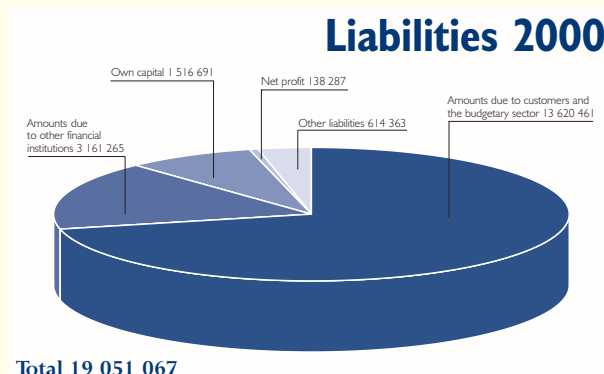
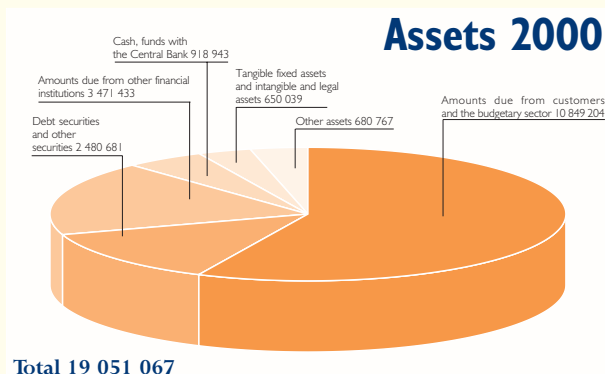
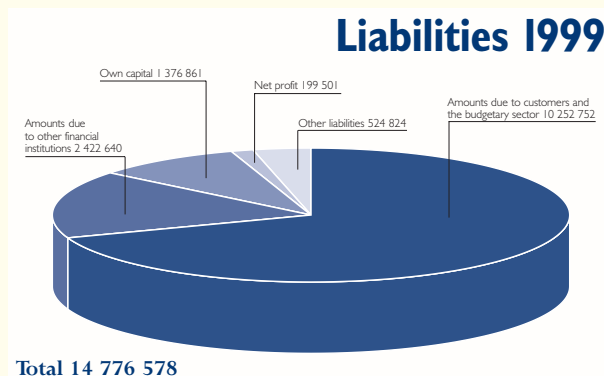
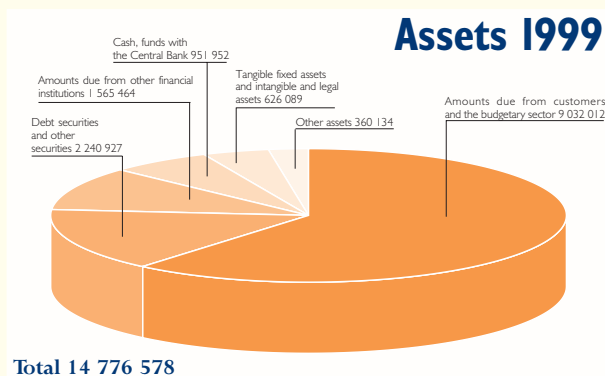
Like in the previous years, the amounts due from customers and the budgetary sector were the basic item of the assets structure. Their share decreased to 56.9% at the end of 2000, while it was 61.1% as at 31.12.1999. The net amounts due from customers and the budgetary sector were PLN 10,849.2 million, an increase by PLN 1,817.2 million or 20.1% when compared to 31.12.1999. The increase of specific provisions by PLN 296.8 million or 77.8% in relation to the end of 1999 caused that the pace of growth of the gross receivables was 22.5%, close to that of the net exposure.

The second largest item in the assets structure was the amounts due from the financial sector. Their value increased by 121.8% i.e. from PLN 1,565.5 million to PLN 3,471.4 million in comparison with 31.12.1999 and their share in total assets increased by 7.6 percentage points. The next major items of assets were: debt securities – their share in the balance sheet total was 11.2%, a decrease by 3.9 percentage points in relation to 31.12.1999, and cash and funds with the Central Bank – their share in the balance sheet total was 4.8%, a decrease by 1.6 percentage points when compared to the previous year. The net value of tangible as well as legal and intangible assets of Bank Śląski increased from PLN 626.1 million as at 31.12.1999 to PLN 650.0 million in 2000, i.e. by 3.8%. The growth of the Bank's property was combined, like in the previous years, with a growing IT and technological infrastructure and a growing number of outlets.

The source of coverage for the Bank's assets was, as at December 31, 2000, liabilities towards customers, financial institutions and other entities (90.5%) and own funds of the Bank (9.5%). This structure changed in relation to the previous year: the share of own funds in financing the Bank's assets dropped by 2.1 percentage points in relation to 31.12.1999.

Amounts due to customers and the budgetary sector were the dominating liabilities item. They increased from PLN 10,252.8 million as at 31.12.1999 to PLN 13,620.5 million as at the end of December 2000 (by 32.8%). Their share in the total sum of liabilities was 71.5% as at the end of December 2000, an increase by 2.1 percentage points in comparison with the previous year.

⁵ The average assets are calculated based on the data as at 31.12.1999, 30.06.2000 and 31.12.2000.



The value of provisions in the Bank's liabilities was PLN 150.4 million as at December 31, 2000, an increase by PLN 13.4 million when compared to 31.12.1999. The general risk reserve as at the end of 2000 was PLN 135.8 million (an increase by PLN 73.8 million when compared to 1999).

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 Bank Śląski's share in the corporate loans market⁶ was 5.85% (5.62% as at 31.12.1999) and the share in corporate PLN deposits was 5.57% (4.52% as at the end of 1999), while the share in F/X deposits of corporate customers as at 31.12.2000 was 3.42% (2.19% as at the end of December 1999).

The developed models of rendering services to business entities, based on market segmentation, contributed to the positive image of the Bank addressing its offer to specifically defined target groups. Corporate banking products were

structured in such a way as to enable Bank Śląski to serve three market segments: small companies (yearly turnover up to PLN 3 million), mid-sized companies (PLN 3 to 30 million) and large corporates (over PLN 30 million).

Depending on the classification to a particular segment the service is provided by: branch network (small and medium companies), specialised units – Corporate Banking Centres (large corporates) or the Bank Head Office Departments (strategic clients).

Corporate Banking Centres are units providing individualised services to corporate customers. In 2000 the main stress was put on introducing active forms of acquiring new customers, raising Account Managers' qualifications and enhancing customer service quality.

The actions taken by Bank Śląski with regard to improving the service of mid-sized entities were crowned with the promotional emblem and title "Bank Przyjazny dla Przedsiębiorców" [*Entrepreneur-Friendly Bank*] in the contest organised by the National Economic Chamber, Polsko-Amerykańska Fundacja Doradztwa dla Małych Przedsiębiorstw [*Polish and American Foundation of Consultancy for Small Companies*] and Warsaw Banking Institute.

⁶ The share in the corporate deposit and credit market is calculated based on the balance sheet of the consolidated banking system.

Product offer

In 2000 the credit offer for corporates and the budgetary sector included: discount loans (expanded with the discount of foreign bills of exchange), lombard, indexed, F/X, working capital and investment loans, credits in current account, loans for the purchase of securities on the primary market and the Stock Exchange, loans for financing of export amounts receivable insured in KUKA S.A., investment and working capital loans for farmers, investment and working capital "natural calamity" loans, or loans for developers.

Depending on customer needs the loans were offered in PLN, F/X or PLN indexed with a convertible currency exchange rate. Moreover, the Bank offered services in the scope of domestic and foreign factoring, forfeiting, nostro and loro guarantees, and for SME – the products provided in co-operation with the Guarantee Fund of the Polish Agency for Regional Development (PARR) and the National Fund of Credit Sureties of Bank Gospodarstwa Krajowego. On the grounds of the contracts concluded with EBRD Bank Śląski was granting loans to SME and offered credits to dairies.

In 2000 Bank Śląski developed its corporate product offer, especially in the area of modern banking services such as mass payments, offers for capital groups, commercial chains and electronic services. The Bank concentrated on modern products in the scope of financing international trading transactions where the Bank's offer was expanded with the discount of foreign bills of exchange and foreign factoring.

Customers with an expanded organisational structure were offered consolidated accounts ensuring high effectiveness of financial funds management. The Bank also intensively developed cash services for supermarket chains, petrol stations, wholesalers and fast food restaurants. In June 2000 Bank Śląski started co-operation with the Power Exchange, thus becoming its clearing bank. In 2000 the process of developing an attractive offer for BSK SA and ING's strategic customers in the scope of cash inflow services was completed.

The currently functioning products were subject to modifications aimed at adjusting to particular customer peculiarities and requirements. In the effect the Bank developed for municipalities a form of financing commercial debts incurred due to investment projects, a special credit offer for brokerage houses enabling short-term financing in the

contractual period. In 2000 we also implemented modifications aimed at acquiring greater functionality of products. The new module of MultiCash system for corporate customers was expanded with new functions of the direct debit module.

We introduced interface for export clearing in the scope of international transactions service and prepared solutions for the Euro Navigator project for international transactions. The Euro Navigator is a set of services that facilitate effective management from abroad of funds deposited on bank accounts at Bank Śląski. The customer can for example make balance inquiries, payments, transfers of funds to his or her own (central) account on an international scale, that is in all countries where the ING Group banks are located. The Euro Navigator system offers the above mentioned services without the need to install a separate electronic banking package for each account outside the Customer's home country. The Euro Navigator can be offered to all entities using the international cash management.

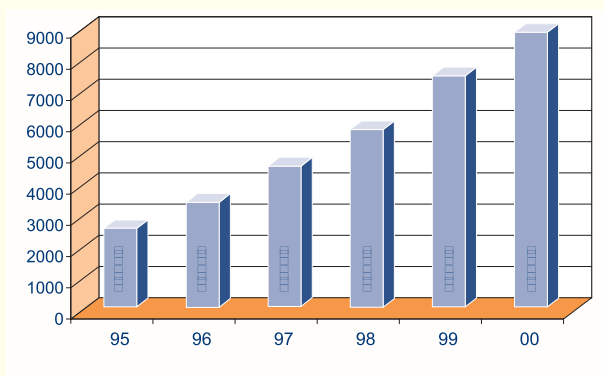
In order to make the offer for SME more attractive the Bank started co-operation with the European Bank for Reconstruction and Development (EBRD). In January 2000 Bank Śląski concluded the contract pursuant to which it acquired the access to a credit line for financing investment projects realised by the companies within the SME segment. In September 2000 another contract was signed with EBRD under which the Bank realised the programme titled "*The Joint Dairy Fund of Phare and EBRD*". The programme, addressed solely to dairy companies, was aimed at enhancing the quality of produced goods so that they meet the EU requirements. Bank Śląski also concluded the contract with Polska Fundacja Rozwoju Małych i Średnich Przedsiębiorstw [*The Polish Foundation for SME Development*] on realisation of *The Initiative Programme* aimed at alleviating the consequences of the coal mining and metallurgical sectors reform. These loans contributed to the competitiveness and attractiveness of the Bank's offer addressed to mid-sized companies.

Credit services⁷

As at the end of December 2000 the value of loans granted to business entities, the 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%.

⁷ The figures cover the loans granted to business entities, the budgetary and financial sectors units, inclusive of discount loans and a subordinated loan. The value does not include accepted inter-bank deposits, suspense receivables and unpaid due interest and charged interest before due date.

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.



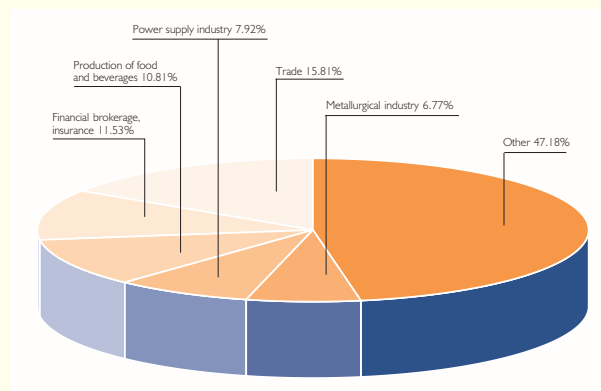
Credit exposure of Bank Śląski due to the loans granted to business entities (in PLN million)

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).



Sector exposure (inclusive of the credit exposure exceeding PLN 500 thousand)

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, the budgetary sector and the financial sector (the calculation 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 rating customers to higher risk groups.

Overall Bank credit portfolio and corporate portfolio – performing and classified loans⁸

| 31.12.1999 | | | | in PLN thousand | | |
|-----------------------|-------------------------------|----------------|---------------------|---------------------|----------------|---------------------|
| Items | Overall Bank credit portfolio | | | Business entities | | |
| | Exposure* | % structure | specific provisions | Exposure | % structure | specific provisions |
| Total | 9 457 267.85 | 100.00% | 383 372.39 | 8 112 357.55 | 100.00% | 279 518.54 |
| including: | | | | | | |
| a) performing | 8 224 626.20 | 86.97% | 23 566.40 | 7 028 707.31 | 86.64% | |
| – regular | 7 192 312.70 | | | 6 000 535.07 | | |
| – special mention | 1 032 313.50 | | | 1 028 172.24 | | 18 467.30 |
| b) classified* | 1 232 641.65 | 13.03% | 359 805.99 | 1 083 650.24 | 13.36% | 261 051.24 |
| – sub-standard | 292 505.84 | 3.09% | 39 660.93 | 245 693.70 | 3.03% | 32 610.09 |
| – doubtful | 705 710.91 | 7.46% | 117 395.35 | 684 760.19 | 8.44% | 106 919.99 |
| – lost | 234 424.90 | 2.48% | 202 749.71 | 153 196.35 | 1.89% | 121 521.16 |

* According to the "BIS" report not complying with the financial report format

| 31.12.2000 | | | | in PLN thousand | | |
|----------------------|-------------------------------|----------------|---------------------|---------------------|----------------|---------------------|
| Items | Overall Bank credit portfolio | | | Business entities | | |
| | Exposure* | % structure | specific provisions | Exposure | % structure | specific provisions |
| Total | 11 841 451.86 | 100.00% | 684 764.76 | 9 551 891.09 | 100.00% | 530 315.75 |
| including: | | | | | | |
| a) performing | 10 015 787.58 | 84.58% | 8 237.17 | 7 989 600.50 | 83.64% | 8 221.37 |
| – regular | 9 036 092.01 | | | 7 015 083.09 | | |
| – special mention | 979 695.57 | | 8 237.17 | 974 517.41 | | 8 221.37 |
| b) classified | 1 825 664.28 | 15.42% | 676 527.59 | 1 562 290.59 | 16.36% | 522 094.38 |
| – sub-standard | 406 050.44 | 3.43% | 45 863.00 | 293 933.50 | 3.08% | 27 586.25 |
| – doubtful | 851 107.46 | 7.19% | 236 514.14 | 820 906.88 | 8.59% | 221 413.85 |
| – lost | 568 506.38 | 4.80% | 394 150.45 | 447 450.21 | 4.68% | 273 094.28 |

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 SA and from the National Environmental Protection Fund as well as other guarantees given to domestic and foreign beneficiaries, civil guarantees and bill of exchange bank guarantees.

In 2000 the advisory functions of the Bank were expanded by rendering opinion on international transactions and contracts.

Deposit services⁹

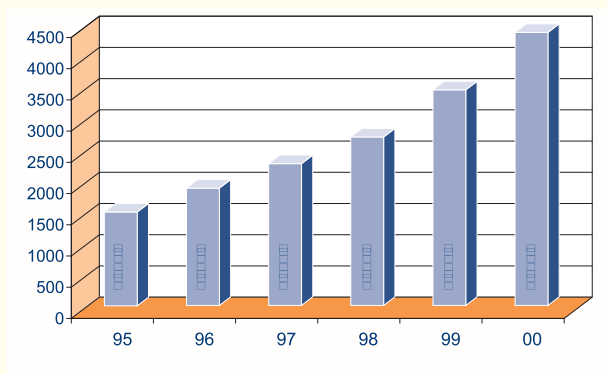
As at December 31, 2000 the value of deposits of corporate entities, the budgetary sector and the financial sector amounted to PLN 6,590.1 million and constituted 42.4% of the total value of deposits. Deposits of corporate entities amounted to PLN 3,485.4 million (22.4% of the total deposits) and increased in comparison to December 1999 by PLN 800.2 million (29.8%).

Current deposits constituted 39.5% of the total deposits of corporate entities while term and

⁸ The total exposure and corporate credit portfolio do not include PLN 60,000 thousand worth of subordinated loan.

⁹ The figures cover deposits of business entities, the budgetary and the financial sector without suspense liabilities and interest.

blocked deposits – 60.5%. The share of PLN deposits in the 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%).



Deposits of business entities and the budgetary sector (in PLN million)

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 1999 inter-bank settlements with the EURO zone countries have been made 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 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 nationwide 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 loans¹⁰ 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 personal accounts. Their number increased from 696.3 thousand at the end of 1999 to 841.8 thousand as at 31.12.2000.

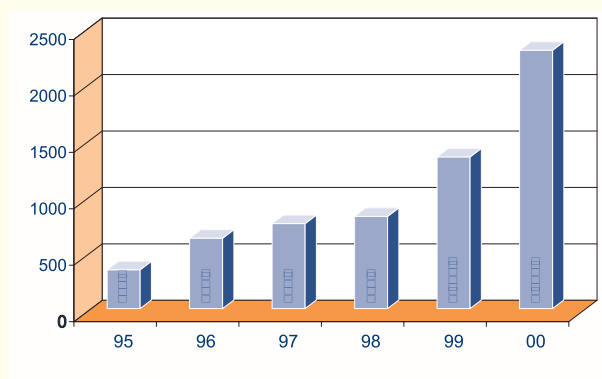
Product offer

Groups of individual customers are provided by Bank Śląski with a differentiated offer covering: deposit products, including the basic product which is the personal account, payment cards, participation units in the ING BSK Investment Funds, insurance, including the pension insurance by *Powszechna Towarzystwo Emerytalne Nationale-Nederlanden Polska S.A.* The credit offer for private individuals includes cash advances, lombard, secured and revolving loans, overdraft limits in current accounts, housing and mortgage loans, loans for instalment purchase of goods and services, and car loans.

In 2000 we added to the Bank's offer the *Personal Account for Students – "Konto Student"* and life insurance for the borrowers of Bank Śląski. In the year 2000 the Bank started issuing the Europay-MasterCard organisation cards: the Maestro card (the second debit card after VISA Electron for personal account holders), the VISA Electron credit cards for the BSK customers, the VISA Electron credit card for the NNP customers and the Maestro Student card.

Lending¹¹

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).



Bank Śląski's retail credit exposure (in PLN million)

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.

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

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

Overall Bank credit portfolio and retail portfolio – performing and classified loans¹²

| 31.12.1999 | | | | in PLN thousand | | |
|-----------------------|-------------------------------|----------------|---------------------|---------------------|----------------|---------------------|
| Items | Overall Bank credit portfolio | | | Retail loans | | |
| | Exposure* | % structure | specific provisions | Exposure | % structure | specific provisions |
| Total | 9 457 267.85 | 100.00% | 383 372.39 | 1 344 910.30 | 100.00% | 103 853.85 |
| including: | | | | | | |
| a) performing: | 8 224 626.20 | 86.97% | 23 566.40 | 1 195 918.89 | 88.92% | 5 099.10 |
| – regular | 7 192 312.70 | | | 1 191 777.63 | | |
| – special mention | 1 032 313.50 | | | 4 141.26 | | |
| b) classified* | 1 232 641.65 | 13.03% | 359 805.99 | 148 991.41 | 11.08% | 98 754.75 |
| – sub-standard | 292 505.84 | 3.09% | 39 660.93 | 46 812.14 | 3.48% | 7 050.84 |
| – doubtful | 705 710.91 | 7.46% | 117 395.35 | 20 950.72 | 1.56% | 10 475.36 |
| – lost | 234 424.90 | 2.48% | 202 749.71 | 81 228.55 | 6.04% | 81 228.55 |

* According to the "BIS" report not complying with the financial report format

| 31.12.2000 | | | | in PLN thousand | | |
|-----------------------|-------------------------------|----------------|---------------------|---------------------|----------------|---------------------|
| Items | Overall Bank credit portfolio | | | Retail loans | | |
| | Exposure* | % structure | specific provisions | Exposure | % structure | specific provisions |
| Total | 11 841 451.86 | 100.00% | 684 764.76 | 2 289 560.77 | 100.00% | 154 449.01 |
| including: | | | | | | |
| a) performing: | 10 015 787.58 | 84.58% | 8 237.17 | 2 026 187.08 | 88.50% | 15.80 |
| – regular | 9 036 092.01 | | 8 237.17 | 2 021 008.92 | | |
| – special mention | 979 695.57 | | | 5 178.16 | | 15.80 |
| b) classified | 1 825 664.28 | 15.42% | 676 527.59 | 263 373.69 | 11.50% | 154 433.21 |
| – sub-standard | 406 050.44 | 3.43% | 45 863.00 | 112 116.94 | 4.90% | 18 276.75 |
| – doubtful | 851 107.46 | 7.19% | 236 514.14 | 30 200.58 | 1.32% | 15 100.29 |
| – lost | 568 506.38 | 4.80% | 394 150.45 | 121 056.17 | 5.29% | 121 056.17 |

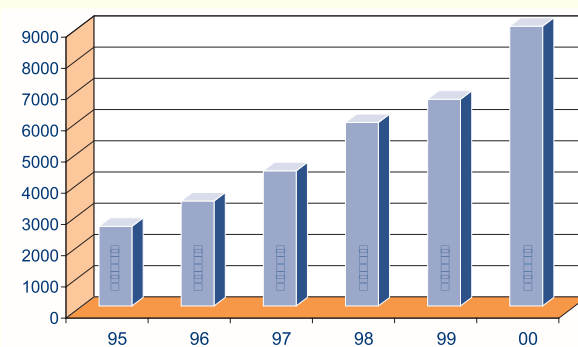
Deposit activity¹³

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.

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 FX 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 1999 – 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 of individual persons (in PLN million)

¹² The total exposure does not include PLN 60,000 thousand worth of subordinated loan.

¹³ The figures cover the deposits of private individuals without suspense liabilities and interest.

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 at the end of December 1999), and 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., BISE 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 rates, financial advisory services, the EuroCard/MasterCard Gold charge card with an attractive insurance package, the VIP BSK SA 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 HomeCash systems, orders submitted via the Transdysk floppy 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, 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.

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. The activities undertaken in 2000 made potential customers aware of the Bank's offer addressed to people investing in housing real estates.

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 of 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 a 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 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 design and implementation of 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 the 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 the "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 the circulation of 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.

Organisational structure of Bank Śląski S.A.

As at December 31, 2000 the branch network of the Bank consisted of 320 branches, of which there were 137 STAREO branches. In the year 2000, 42 STAREO branches were started, of which 27 were located outside the traditional area of the Bank's activity. This is an example of the realisation of the Bank's policy aimed at transforming Bank Śląski into a nation-wide bank.

Till the end of September 2000, the business units of the Bank's Head Office had been grouped in 9 business Divisions under the direct supervision of the Bank Directors. As of October 1, 2000 a reorganisation was carried out in order to adjust better the structure of the Head Office to the current needs of the Bank. At present, the business units of the Bank's Head Office are grouped in 6 Divisions, i.e.: Corporate Division, Retail Division, Network Management and Administration Division, Division of Finances and Risk Management, Ops and IT Division and Staff Division. The new organisational structure is to meet the following targets:

- concentration of the activity of the distribution channels on the realisation of sales and maintaining the high standard of the customer service exclusively.
- subordination of the activities of all business units of the Bank to the realisation of the commercial targets;
- clear split of responsibilities of particular business units for the level of generated profits and costs by way of assigning the function of custodians, introduction of clear responsibility for the functioning of all commercial products and processes most critical for the proper functioning of the Bank.

In 2000 the Bank owned 14 Corporate Banking Centres located in: Katowice, Warszawa, Poznań, Częstochowa, Rybnik, Sosnowiec, Gliwice, Kraków,

Chorzów, Bielsko-Biala, Opole, Gdynia, Szczecin and Wrocław. Further units are to be opened in 2001.

Within the centralisation processes aimed at decreasing the workload of the branches that are being realised in Bank Śląski, the network operational area that consists at present of 14 Regional Operational Centres was separated in the organisational structure of the Bank. The said units are targeted at achieving a high quality of the services provided and ensuring the continuity of processing and serving of transactions. The Regional Operational Centres – realising the functions that are supportive for the sale of bank products and services carried out by the branches – constitute a unit supportive in the process of serving the customers, circulation of bookkeeping documents and payment processing. In the context of the growing competition in the bank market, the separation of the commercial and operational areas in the Branch Network results in the optimisation of the data processing and more efficient customer service.

Employees

As at December 31, 2000, Bank Śląski employed 7,265 employees (7,170 FTEs). The headcount increased by 301 people (4.14%) as compared to December 31, 1999.

Women constituted 74% of the total headcount. Graduates from secondary and higher education schools constituted about 92% of the total headcount, of which graduates from universities – 53%. The majority of people from this group graduated from economic universities. There was a 13% share of the management staff in the total headcount, and the average age in this group was 39. In terms of the age structure, the employees up to the age of 35 constituted 55% of the headcount, and the employees above the age of 55 – 2.72%.

As of October 1, 2000 new "General Conditions of the Internal Social Benefits Fund" were introduced in the Bank. The main assumption of the General Conditions is to give the financial aid to the employees being in a difficult financial and life situation. The scope of aid provided was broadened by – among others – the following: reimbursement of the costs of purchase of textbooks, lowering the housing expenses or the loan for the furnishings connected permanently with the house or apartment.

In the year 2000, the total of 3,958 employees participated in various forms of training organised or financed by Bank Śląski. Moreover, 95 students of higher education schools and 4 high school pupils had a training in the Head Office of Bank Śląski.

Co-operation with ING

The product offer of Bank Śląski is being developed based on the concept of integrated financial services, provided in synergy with other units of the ING Group.

In the year 2000 the co-operation in the field of distribution was concentrated on the sale of the life insurance policies of NN, investment funds in the Bank branches and the successful action of offering the pension funds to the Bank's customers. The outcome of co-operation with other units within the ING Group was expanding the Bank's offer with new products.

Within the programme of Bank Śląski's starting alternative distribution channels, the agents of NNP carried out the sale of chosen products. In the year 2000, the co-operation of the business units of ING Warsaw and the Head Office of Bank Śląski was developing in the field of cash service for the ING strategic customers. The co-operation in this respect took the form of common business undertakings.

In July 2000, Bank Śląski and ING Bank N.V. Warsaw Branch disclosed to the public that they consider the possibility of integrating their operations in order to use their potentials fully.

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 launched the Internet banking system. 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.