

AUDITOR'S OPINION ON FINANCIAL STATEMENTS OF BANK ŚLĄSKI S.A.

For the shareholders of Bank Śląski S.A.

We have audited the accompanying financial statements of Bank Śląski S.A. seated in Katowice. These financial statements consist of: an introduction, the balance sheet as at 31 December 2000 with total assets and total liabilities and equity of PLN 19,051,067 thousand the statement of contingencies and commitments granted as at 31 December 2000 amounting to PLN 3,372,257 thousand; the profit and loss account for the year then ended with a net profit of PLN 138,287 thousand the statement of changes in equity for the year then ended with equity of PLN 1,654,978 thousand the cash flows statement for the year then ended with a decrease in cash amounting to PLN 72,561 thousand; and notes to the financial statements.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with the International Standards on Auditing, as issued by the International Federation of Accountants, section 7 of the Polish Accounting Act dated 29 September 1994 (Official Journal No. 121, item 591 with subsequent amendments) and the professional norms established by the Polish National Council of Certified Auditors. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements have been prepared from properly maintained accounting books and present fairly, in all material aspects, the financial position of the Bank as at 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with the accounting standards applied in Poland as set out in the Polish Accounting Act dated 29 September 1994, and the Polish Banking Supervision Commission Resolution No. 1/98 dated 3 June 1998 on the special rules for bank accounting and the notes to the financial statements (NBP Official Journal N o. 14, item 27), which have been applied on a consistent basis.

As required under the Polish Accounting Act dated 29 September 1994 we also report that the information given in the Directors' Report is consistent with the financial statements.



Certified Auditor No. 4979/2575

Hanna Fludra



For KPMG Polska Audyt Sp. z o.o.
Certified Auditor No. 796/1670

Bogdan Dębicki,
Member of the Board of Directors



For KPMG Polska Audyt Sp. z o.o.

Richard Cysarz, Proxy

Warsaw, 20 April 2001

AUDITOR'S REPORT

ON THE AUDIT OF FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 JANUARY 2000 TO 31 DECEMBER 2000

I. General

I.1 General information on the Bank

I.1.1 Bank name

Bank Śląski S.A.

I.1.2 Registered office

ul. Sokolska 34
40-086 Katowice
Poland

On 10 November 2000 the registered office of the Bank was changed from ul. Warszawska 41 to ul. Sokolska 34 in Katowice.

I.1.3 Commercial registration

Seat of the court: Katowice
Date: 18 October 1991
Registration number: RHB 7130

I.1.4 Tax Office and Provincial Statistical Office registration

NIP: 634-013-5475
REGON: 271514909

I.2 Auditor information

KPMG Polska Audyt Sp. z o. o.
ul. Chłodna 51, XVI floor
00-867 Warsaw

KPMG Polska Audyt Sp. z o.o. is registered as a company authorised to audit financial statements (number 458).

I.3 Legal status

I.3.1 Share capital

The share capital of the Bank as at 31 December 2000 amounted to PLN 92,600.0 thousand divided into 9,260,000 ordinary shares with a nominal value of PLN 10 each.

I.3.2 Activities of the Bank

According to the Bank's Statute the main activities include:

- opening and maintaining bank accounts;
- accepting current and term placements;
- issuing own securities and performing transfers of securities;
- granting and taking loans;
- performing domestic and foreign money settlements;
- trade financing;
- placing and accepting money placements with Polish and foreign banks;
- issuing and accepting bank guarantees;
- public trading with securities;
- providing leasing, factoring, underwriting and other financial services for personal and corporate clients;
- soliciting services as defined in the Act on Organisation and Activities of Pension Funds.

Bank Śląski S.A. has a foreign-currency licence and has a right of holding and trading in foreign currencies within the legal limits.

1.3.3 Management Board

At 31 December 2000, the Management Board of the Bank was comprised of the following members:

President of the Board of Management	Mr. Marian Czakański
I Vice-President of the Management Board	Mr. Frederik van Etten
Vice-President of the Management Board	Mr. Jacek Bartkiewicz
Vice-President of the Management Board	Mr. Krzysztof Brejda
Vice-President of the Management Board	Mr. Grzegorz Cywiński
Vice-President of the Management Board	Mr. Edward Foppema

On 17 December 1999, with effect from 1 February 2000 the Supervisory Board approved Mr. Frederick van Etten for the position of I Vice-President of the Management Board. On 1 May 2000 Mr. Grzegorz Cywiński was approved for the position of Vice-President of the Board. Mr. Stan Szczurek resigned from the position of Vice-President of the Management Board on 20 March 2000.

On 27 May 2000 Mr. Brunon Bartkiewicz completed his 3-year-office on the position of the President of the Management Board. He was replaced by Mr. Marian Czakański who was appointed by the Supervisory Board on 9 June 2000. The Banking Supervision Commission appointed the new President by the resolution on 20 July 2000.

1.3.4 Supervisory Board

At 31 December 2000 the Supervisory Board of the Bank was comprised of the following members:

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

1.4 Prior period financial statements

The financial statements for the period from 1 January 1999 to 31 December 1999 have been audited by KPMG Polska Audyt Sp. z o.o. and received an unqualified opinion.

The financial statements were approved at the Shareholders' Meeting on 9 June 2000 where it was resolved to distribute the profit for the prior financial year of PLN 199,501 thousand as follows:

in PLN thousand

• equity reserves	53,220
• General Risk Fund	100,000
• dividend for shareholders	40,281
• Company Social Fund	3,000
• Donation for Bank Śląski Foundation	3,000

The closing balances as at 31 December 1999 have been properly recorded as the opening balances as at 1 January 2000.

The financial statements of the Bank for the year ended 31 December 1999 were published in the "National Journal" No. B-513 dated 15 September 2000 and submitted to the District Court in Katowice on 21 June 2000.

1.5 Audit scope and responsibilities

The audit of the financial statements was carried out on the basis of "The agreement for performing the audit of financial statements as at 31.12.1998, 31.12.1999 and 31.12.2000 and performing six month reviews of the financial statements as at 30.06.1999, 30.06.2000 and 30.06.2001" concluded on 2 November 1998. The financial statements consist of:

1. introduction;
2. the balance sheet as at 31 December 2000, with total assets and total liabilities and equity of PLN 19,051,067 thousand;
3. the statement of contingencies and commitments granted as at 31 December 2000 amounting to PLN 3,372,257 thousand;
4. the profit and loss account for the year then ended with a net profit of PLN 138,287 thousand;

5. the statement of changes in equity for the year then ended, with equity as at 31 December 2000 of PLN 1,654,978 thousand;
6. the cash flows statement for the year then ended with a decrease in cash amounting to PLN 72,561 thousand; and
7. notes to the financial statements.

We have conducted the audit in accordance with the International Standards on Auditing as issued by the International Federation of Accountants, section 7 of the Polish Accounting Act dated 29 September 1994 (Official Journal No. 121, item 591 with subsequent amendments) and the professional norms established by the Polish National Council of Certified Auditors.

In accordance with article 52 of the above mentioned Act, the Management of the Bank is responsible for preparation of the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion thereon and present this, together with a written auditors' report, to the Bank's Supervisory Board and to the Shareholders.

On 20 April 2001, the Bank's directors submitted a representation letter as to the completeness, fairness and accuracy of the financial statements presented for audit which, amongst other things, confirmed that there were no undisclosed matters significantly influencing the information presented in the financial statements for the audited year.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Polska Audyt Sp. z o.o. is independent of the Bank and the scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Polska Audyt Sp. z o.o.

2. Financial analysis of the Bank

2.1 Summary of the financial statements

Detailed information relating to the balance sheet, the profit and loss and cash flow items is included in the Bank's financial statements.

2.1.1 Balance sheet

ASSETS	31.12.2000 PLN '000	31.12.1999 PLN '000
Cash and due from NBP	918,943	951,952
Debt securities eligible for rediscounting with NBP	73,688	84,730
Due from financial sector	3,471,433	1,565,464
Due from customers and State Budget	10,849,204	9,032,012
Debt securities	2,125,132	2,225,340
Investments in subsidiary undertakings	76,000	84,701
Investments in associated undertakings	115,888	50,186
Investments in other undertakings	14,075	21,404
Other investments	355,549	15,587
Intangible fixed assets	20,536	18,530

Tangible fixed assets	629,503	607,559
Other assets	261,826	104,758
Interperiod settlements	139,290	14,355
Total assets	19,051,067	14,776,578

LIABILITIES AND EQUITY

31.12.2000
PLN '000

31.12.1999
PLN '000

Due to NPB	—	—
Due to other financial institutions	3,161,265	2,422,640
Due to customers and State Budget	13,620,461	10,252,752
Special funds and other liabilities	214,455	163,101
Interperiod settlements and deferred income	249,483	224,727
Provisions	150,425	136,996
Share capital	92,600	92,600
Capital reserve	35,985	35,858
Reserve capital	40,181	40,308
Other reserve capital	1,361,315	1,208,095
Undistributed profit/not covered losses from prior years	(13,390)	—
Net profit for the year	138,287	199,501
Total liabilities and equity	19,051,067	14,776,578

OFF-BALANCE SHEET ITEMS

31.12.2000
PLN '000

31.12.1999
PLN '000

Commitments granted	3,372,257	2,832,080
Commitments received	209,075	111,868
Commitments due to sale/purchase operations	5,681,437	1,892,620
Other off-balance sheet items	912,723	637,791
Total off-balance sheet items	10,175,492	5,474,359

2.1.2 Profit and loss account

	12 months ended 31.12.2000 PLN '000	12 months ended 31.12.1999 PLN '000
Interest income	2,259,056	1,619,161
Interest expense	(1,567,950)	(959,846)
Net interest income	691,106	659,315
Fee and commission income	400,991	337,778
Fee and commission expense	(28,206)	(16,890)
Net fee and commission income	372,785	320,888
Income on shares and other securities	1,147	12
Net profit/(loss) on financial operations	(7,094)	89,500
Net profit on foreign exchange	265,058	103,244
Profit on banking activity	1,323,002	1,172,959
Other operating income	24,666	20,438
Other operating expenses	(16,138)	(12,064)
General expenses	(671,813)	(591,398)
Depreciation	(110,331)	(117,936)
Charges to provisions	(1,326,085)	(428,631)
Release of provisions	905,878	293,084
Net charges to provisions	(420,207)	(135,547)
Profit on operations	129,179	336,452
Extraordinary gains/(losses)	493	160
Profit before taxation	129,672	336,612
Corporate income tax	12,421	(136,535)
Other gross profit charges	(3,806)	(576)
Net profit after taxation	138,287	199,501

2.1.3 Cash flow statement

	12 months ended 31.12.2000 PLN '000	12 months ended 31.12.1999 PLN '000
A. CASH FLOW FROM OPERATING ACTIVITIES (I +/- II)	(606,294)	(564,692)
I Net profit	138,287	199,501
II Total adjustments:	(744,581)	(764,193)
1 Depreciation	110,331	117,936
2 Foreign exchange gains (losses)	(69,531)	170
3 Interest and dividends	(358,654)	(272,920)
4 Loss on investment activity	15,180	(98,639)
5 Movements in other provisions	75,199	26,261
6 Corporate income tax (presented in profit and loss account)	(8,615)	137,111
7 Corporate income tax paid	(184,174)	(104,634)
8 Change in debt securities held	(68,913)	65,616
9 Change in amounts due from other financial institutions	(1,945,521)	(290,227)
10 Change in amounts due from customers and State Budget	(2,384,609)	(2,283,019)
11 Change in shares, participations and other securities	16,236	(4,513)
12 Change in amounts due to other financial institutions	806,104	767,958
13 Change in amounts due to customers and State Budget	3,367,709	1,362,013
14 Change in other liabilities	20,119	3,762
15 Change in interperiod settlements	(6,442)	(14,809)
16 Change in deferred income	13,214	(9,043)
17 Other items	(142,214)	(167,216)
B. CASH FLOW FROM INVESTMENT ACTIVITIES (I-II)	619,224	1,047,240
I Cash inflow from investment activities	13,453,087	10,673,460
1 Sale of tangible fixed assets	2,797	2,561
2 Sale of investments in subsidiary undertakings	—	12

3	Sale of investments in associated undertakings	6,501	—
4	Sale of investments in other undertakings, other securities (including those for public trade) and other property rights	13,201,513	10,456,553
5	Other items	242,276	214,334
II	Outflow from investment activities	(12,833,863)	(9,626,220)
1	Acquisition of intangible fixed assets	(10,855)	(4,499)
2	Acquisition of tangible fixed assets	(127,029)	(163,153)
3	Acquisition of investments in subsidiary undertakings	(60,500)	(30,940)
4	Acquisition of investments in associated undertakings	(15,000)	(37,200)
5	Acquisition of investments in other undertakings, other securities (including those for public trade) and other property rights	(12,619,109)	(9,382,723)
6	Other items	(1,370)	(7,705)
C.	CASH FLOW FROM FINANCIAL ACTIVITIES (I-II)		
I	Inflow from financial activities	1,500	—
1	Long-term loans taken from banks	1,500	—
II	Outflow from investment activities	(86,991)	(64,881)
1	Long-term loans repaid to banks	(973)	(14,556)
2	Payment of dividends and other payments to owners	(40,281)	(40,281)
3	Payments for social purposes	(6,210)	(5,640)
4	Other items	(39,527)	(4,404)
D.	NET CASH FLOW (A+/-B+/-C)	(72,561)	417,667
E.	BALANCE SHEET CHANGE IN CASH EQUIVALENTS	72,561	417,667
—	including change in cash equivalents arising on FX differences in foreign currencies	(8,028)	9,691
F.	CASH AT BEGINNING OF PERIOD	1,101,105	683,438
G.	CASH AT END OF PERIOD (F+/-D)	1,028,544	1,101,105

2.2 Selected financial ratios

	31.12.2000 PLN million	31.12.1999 PLN million	31.12.1998 PLN million
Total assets	19,051.1	14,776.6	12,530.4
Gross profit	129.7	336.6	308.3
Net profit	138.3	199.5	200.1
Equity (excluding current year net profit)	1,516.7	1,376.9	1,223.0
Return on equity (average value of equity)	9.1%	15.3%	17.2%
Capital adequacy ratio	10.7%	13.5%	11.9%
Receivables to total assets	75.2%	71.7%	63.2%
Income earning assets to total assets	86.7%	87.4%	88.5%
Cost bearing liabilities to total liabilities	88.1%	85.8%	84.2%

2.3 Interpretation of selected financial ratios

In interpreting these figures, it should be borne in mind that general inflation in 2000 was 8.5% (inflation in 1999 and 1998 was 9.8% and 8.6% respectively).

Changes in the most significant items of the balance sheet and the profit and loss account are described below.

The total balance sheet grew by 28.9% year on year. The most significant increase in assets was in the balance due from financial institutions which increased by 121%. On the liability side the most significant increase was in customer deposits which increased by 33% and in term financial institutions deposits which increased by 30%.

As at 31 December 2000 the gross profit amounted to PLN 129,672 thousand and decreased from the end of 1999 by PLN 206,940 thousand. The following factors mainly determined the level of gross income:

- the excess, amounting to PLN 420 million, of charges into cost for specific provisions over the releases of provisions;
- foreign exchange result for 2000 increased by 157% compared to 1999 and amounted to PLN 265 million;
- the rise of interest margin in 2000 was caused, in particular, by the increase in interest rates. Additionally the Bank recognised in the profit and loss account capitalised interests of PLN 40million;
- loss on financial operations is a result of both the loss on the sale of treasury securities amounting to PLN 27 million and profit on the sale of shares amounting to PLN 13.5million.

As at 31 December 2000 the Bank included in deferred tax loan loss provisions which will be recognised as tax deductible expenses in future periods, as negative timing differences. In the previous periods the Bank only recognised deferred tax assets on loans in the lost category which were not recognised as tax deductible previously. This all resulted in a decrease in the corporate income tax charge for the year and consequently an increase in the net profit of the Bank. As at 31 December 2000 the Bank included in deferred tax provisions amounting to PLN 471 million compared to PLN 47 million at 31 December 1999. The equivalent of specific provisions (together with permanent diminution in value for debt securities in the investment portfolio) not included in deferred tax as at 31 December 1999 amounted to PLN 199 million with a tax effect amounting to PLN 60 million as at 31 December 1999.

3. Detailed report

3.1 Accounting records

The Bank's accounting principles have been approved by the Management Board.

The financial statements are supported by accounting records which are maintained in accordance with Art. No. 13 part I of the Accounting Act.

3.2 Internal control

Internal control includes functional controls performed in individual divisions responsible for the respective activity in that area of the Bank and institutional controls subordinated directly to the President of the Management Board.

During our audit of the financial statements, we reviewed the underlying system of internal control in order to determine the extent of our audit procedures. Our review should not be relied upon to disclose all irregularities or material weaknesses in the system. Our procedures did not reveal any significant irregularities in the internal control system.

The Internal Audit Department employs 45 staff; 19 of which are employed by the Bank's Headquarters. The EDP Section is part of the Department.

On 14 February 2000 under the Resolution of the President of the Management Board approved the "Internal Audit System Regulation in Bank Śląski S.A." was approved. The regulation includes the form, rules and regulations of controls in the Bank including functional and institutional controls.

3.3 Notes to the financial statements

All information included in the notes to the financial statements is presented accurately and completely by the Bank when read in conjunction with the financial statements taken as a whole.

3.4 Statement of cash flows

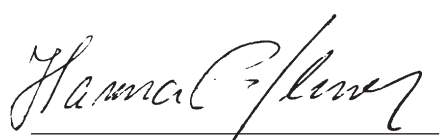
The statement of cash flows has been properly prepared and is consistent with the balance sheet and the profit and loss account.

3.5 Directors' report on the Bank's activities

The information presented in the Management report on the Bank's activities is consistent with the financial statements.

3.6 Information on the auditors' opinion

Based on our audit of the financial statements as of and for the year ended 31 December 2000 we have issued an unqualified opinion.



Certified Auditor No. 4979/2575

Hanna Fludra



For KPMG Polska Audyt Sp. z o.o.
Certified Auditor No. 796/1670

Bogdan Dębicki,
Member of the Board of Directors



For KPMG Polska Audyt Sp. z o.o.

Richard Cysarz, Proxy

Warsaw, 20 April 2001