

OPINION OF THE INDEPENDENT AUDITOR

To the Shareholders of Bank Handlowy w Warszawie SA

We have audited the accompanying financial statements of Bank Handlowy w Warszawie SA seated in Warsaw, ul. Senatorska 16, consisting of the introduction to the financial statements, the balance sheet as at 31 December 2003, with total assets and total liabilities and shareholders' equity of PLN 33,268,587 thousand, the capital adequacy ratio, the statement of contingencies and commitments granted as at 31 December 2003 amounting to PLN 15,058,891 thousand, the profit and loss account for the year ended 31 December 2003 with a net profit of PLN 242,510 thousand, the statement of changes in shareholders' equity for the year then ended with a decrease in shareholders' equity of PLN 22,142 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 203,296 thousand, and explanatory notes.

These financial statements are the responsibility of the Management Board of the Bank. Our responsibility is to audit and express an opinion on whether these financial statements and the accounting records from which they were derived present a true and fair view.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants, section 7 of the Polish Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments) and the professional standards established by the Polish National Council of Certified Auditors. These standards require that we plan and perform the audit to obtain reasonable assurance that will enable us to express an opinion on the financial statements. 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 the Management Board of the Bank, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of Bank Handlowy w Warszawie SA have been prepared from properly maintained accounting records and present fairly, in all material aspects, the financial position of the Bank as at 31 December 2003 and the results of its operations and 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, the ordinance of Minister of Finance dated 10 December 2001 regarding special accounting principles for banks (Official Journal from 2001, No. 149, item 1673 with subsequent amendments), the requirements relating to issuers of publicly traded securities and are in compliance with the respective laws, regulations and the Bank's statute, that apply to the Bank's financial statements.

As required under the Polish Accounting Act dated 29 September 1994, we also report that the Report on the Bank's activities includes the information required by Art. 49 Note 2 of the Accounting Act and the information is consistent with the financial statements.

signed on the Polish original

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Certified Auditor No. 3683/5018
Janina Skwarka

signed on the Polish original

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For KPMG Polska Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk,
Member of the Board of Directors

signed on the Polish original

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For KPMG Polska Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Robert J. Widdowson, Proxy

Warsaw, 25 March 2004

Contents

1 GENERAL	3
1.1 General information on the Bank	3
1.2 Auditor information	3
1.3 Legal status	3
1.4 Prior period financial statements	6
1.5 Audit scope and responsibilities	7
2 FINANCIAL ANALYSIS OF THE BANK	8
2.1 Summary of the financial statements	8
2.2 Selected financial ratios	11
2.3 Interpretation of selected financial ratios	11
3 DETAILED REPORT	12
3.1 Accounting records	12
3.2 Internal control	12
3.3 Principles of prudence applied by the Bank and the capital adequacy ratio	12
3.4 Materiality levels applied by the auditor	12
3.5 Introduction to the financial statements	12
3.6 Explanatory notes	13
3.7 Management's report on the Bank's activity	13
3.8 Information on the independent auditors' opinion	13

1 General

1.1 General information on the Bank

1.1.1 Bank name

Bank Handlowy w Warszawie SA (hereafter 'Bank')

1.1.2 Registered office

ul. Senatorska 16
00 – 923 Warszawa

1.1.3 Commercial registration

Seat of the court: Warszawa
Date of the registration of the Bank: 22 February 2001
Registration number: KRS 0000001538

1.1.4 Tax Office and Provincial Statistical Office registration

NIP: 526-030-02-91
REGON: 000013037

1.2 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).

1.3 Legal status

1.3.1 Share capital

Bank Handlowy w Warszawie SA was founded under the Notarial Deed dated 13 April 1870.

The share capital of the Bank as at 31 December 2003 amounted to PLN 522,638,400 divided into 130,659,600 ordinary shares with a nominal value per share of PLN 4.

1.3.2 Activities of the Bank

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

- accepting deposits payable on request or on a given date and account operation for such deposits,
- operation of other bank accounts,
- performing cash settlements in all forms accepted in domestic and international banking relations,
- extending loans and cash advances in Poland and abroad, as well as consumer loans and credits as defined in the provisions of a separate Act,
- conducting operations which involve cheques and bills of exchange,
- issuing and confirming sureties,
- issuing and confirming bank guarantees and open letters of credit,
- performing FX operations,
- provision of agency services in money transfers abroad by residents and settlements with non-residents in Poland,
- issuing of banking securities,
- commissioned operations related to issue of securities,
- safe-keeping of valuable objects and securities and safe-box services,
- issuing of payment cards and processing of operations executed with use of such cards,
- purchase and sales of receivables,
- processing of forward transactions.

The Bank may also:

- take up or purchase shares and rights attaching to shares, shares of other legal entities and investment fund units,
- organise and service financial lease projects,
- render factoring services,
- trade in securities on its own account and act as an agency in securities trading,
- operate securities accounts,
- render financial consulting and advisory services,
- undertake commitments relating to the issue of securities,
- perform the function of a representative bank within the meaning of the Bonds Act,
- purchase and sell real estate,
- perform settlements for trading in securities, property rights and derivative financial instruments,

- exchange debt for assets belonging to the debtor, on terms agreed on with such a debtor,
- purchase and sell derivative financial instruments at the Bank's own account and act as an agency in trading therein,
- accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
- render insurance agency services,
- act as a depository for pension funds,
- act as a depository for investment funds.

For the purpose of conducting its business, the Bank has the right to hold foreign exchange and trade therein.

1.3.3 Management Board

At 31 December 2003, the Management Board of the Bank was comprised of the following members:

President of the Management Board	Sławomir Sikora
Vice-president of the Management Board	Wiesław Kalinowski
Vice-president of the Management Board	Philip Vincent King
Vice-president of the Management Board	David J. Smith
Vice-president of the Management Board	Sunil Sreenivasan
Member of the Management Board	Lidia Jabłonowska - Luba

In 2003 the following changes occurred in composition of the Management Board:

- On 15 April 2003, at the General Shareholders' Meeting David J. Smith was appointed as a Vice-president of the Management Board;
- On 30 May 2003 the President of the Management Board Cezary Stypułkowski resigned from his position;
- On 24 June 2003 Vice-president of the Management Board Shirish Apte resigned from his position;
- On 26 June 2003 Sławomir Sikora was appointed for the Vice-president of the Management Board, and on 2 July 2003 for the President of the Management Board;
- On 26 June Sunil Sreenivasan was appointed for the Vice-president of the Management Board;
- On 28 August 2003 the Vice-president of the Management Board Witold Walkowiak resigned from his postion;
- On 3 November 2003 Lidia Jabłonowska – Luba was appointed as the Member of the Management Board.

1.3.4 Supervisory Board

At 31 December 2003, the Supervisory Board of the Bank was comprised of the following members:

President	Stanisław Sołtysiński
Vice President	Jean Paul Votron
Member	Shirish Apte
Member	Göran Collert
Member	Andrzej Gdula
Member	Mirosław Gryszka
Member	Allan J. Hirst
Member	Edward Kuczera
Member	Andrzej Olechowski
Member	Krzysztof Opawski
Member	Carlos Urrutia
Member	Edward T. Walsh

In 2003 the following changes occurred in composition of the Supervisory Board:

- On 24 March 2003 the Member of the Supervisory Board David J. Smith resigned from his position;
- On 1 April 2003 the Member of the Supervisory Board Krzysztof Barcikowski resigned from his position;
- On 24 June 2003 General Shareholders' Meeting of Bank Handlowy w Warszawie SA appointed new Members of the Supervisory Board: Shirish Apte and Andrzej Olechowski.

1.4 Prior period financial statements

The financial statements for the period from 1 January 2002 to 31 December 2002 were audited by KPMG Polska Audyt Sp. z o.o. and received an unqualified opinion.

The financial statements of the Bank were approved at the Shareholders Meeting on 25 June 2003, where it was resolved to distribute the profit for the prior financial year as:

	in PLN
Appropriation for payment of dividends	241,720,260.00
Appropriation for equity reserves	968,566.90
Net profit for the year ended 31 December 2003	242,688,826.90

General Shareholders' Meeting of Bank Handlowy w Warszawie SA also approved the resolution to cover the loss resulted from changes in accounting act in 2002 amounting to PLN 31,318,168.37 from the equity reserves.

The closing balances as at 31 December 2002 have been properly recorded as the opening balances of the audited period.

The financial statements for the year ended 31 December 2002 were submitted to the District Court on 26 June 2003 and were published in the "Monitor Polski B" No. 131 on 2 February 2004.

1.5 Audit scope and responsibilities

This report was prepared for the Shareholders of Bank Handlowy w Warszawie SA, seated in Warsaw, ul. Senatorska 16, and relates to the financial statements comprising:

1. introduction;
2. balance sheet as at 31 December 2003, with total assets and total liabilities and shareholders' equity of PLN 33,268,587 thousand;
3. capital adequacy ratio;
4. statement of contingencies and commitments granted as at 31 December 2003 amounting to PLN 15,058,891 thousand;
5. profit and loss account for the year ended 31 December 2003 with a net profit of PLN 242,510 thousand;
6. statement of changes in shareholders' equity for the year then ended, with a decrease in equity of PLN 22,142 thousand;
7. cash flow statement for the year then ended with an increase in cash amounting to PLN 203,296 thousand; and
8. explanatory notes.

We conducted the audit in accordance with 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. 76, item 694 with subsequent amendments) and the professional standards established by the Polish National Council of Certified Auditors.

According to paragraph No. 52 of the above-mentioned Accounting Act, these financial statements are the responsibility of the Bank's management. The purpose of an independent audit of financial statements is to express an opinion thereon and present it, together with a written report of the independent auditor to the Bank's Shareholders.

On 25 March 2004 the Bank's Management Board submitted a representation letter as to the completeness, fairness and accuracy of the financial statements presented for audit which, amongst other, confirmed that there were no undisclosed matters which would significantly influence the information presented in the financial statements for the audited year.

All requested documents and information necessary for expressing our opinion and preparing the report have been made available to us.

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 and the profit and loss are included in the Bank's financial statements.

2.1.1 Balance sheet

ASSETS	31.12.2003 PLN '000	31.12.2002 PLN '000
Cash and due from NBP	1,186,514	979,308
Amounts due from financial sector	8,732,903	5,507,619
Amounts due from non-financial sector	13,252,870	13,535,347
Amounts due from public sector	3,131	5,096
Debt securities	3,441,865	4,356,193
Investments in subsidiary undertakings	338,218	371,271
Investments in joint ventures	5,323	20,072
Investments in associated undertakings	12,388	19,942
Minority investments	23,633	23,512
Other securities and other financial assets	3,624,437	4,527,450
Intangible assets	1,295,012	1,377,477
Fixed assets	764,145	816,655
Other assets	307,600	273,989
Prepayments and deferred income	280,548	367,676
 TOTAL ASSETS	33,268,587	32,181,607

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2003	31.12.2002
	PLN '000	PLN '000
Liabilities		
Amounts due to Central Bank	41,145	121,940
Amounts due to financial sector	3,826,082	3,448,194
Amounts due to non-financial sector	18,039,260	16,062,959
Amounts due to public sector	465,145	636,294
Other liabilities arising on financial instruments	3,362,332	4,182,578
Special funds and other payables	222,120	424,822
Accrued expense and deferred income	918,205	890,316
Provisions	447,331	445,395
	27,321,620	26,212,498
Shareholders' Equity		
Share capital	522,638	500,902
Equity reserves	3,044,585	3,044,585
Revaluation reserve	21,961	45,968
Other reserves	2,115,273	2,166,283
Undistributed profit (loss) from prior years	-	(31,318)
Net profit (loss) for current year	242,510	242,689
	5,946,967	5,969,109
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>33,268,587</u>	<u>32,181,607</u>
Capital adequacy ratio	16.04%	18.53%
OFF-BALANCE SHEET ITEMS	31.12.2003	31.12.2002
	PLN '000	PLN '000
Commitments granted	15,058,891	9,600,258
Commitments received	3,297,354	2,757,436
Commitments resulting from sale/purchase	167,738,766	116,773,250
Other off-balance sheet items	6,264,593	4,545,861
TOTAL OFF-BALANCE SHEET ITEMS	<u>192,359,604</u>	<u>133,676,805</u>

2.1.2 Profit and loss account

	1.01.2003 – 31.12.2003 PLN '000	1,01,2002 - 31,12,2002 PLN '000
Interest income	1,373,643	1,780,798
Interest expense	(628,444)	(1,095,028)
Net interest income	745,199	685,770
Fee and commission income	570,945	530,357
Fee and commission expense	(48,794)	(26,550)
Net fee and commission income	522,151	503,807
Income from shares and other securities	64,750	7,933
Net profit on financial operations	77,566	388,899
Net profit on foreign exchange	481,361	512,981
Profit/(loss) on banking activity	1,891,027	2,099,390
Other operating income	77,865	68,043
Other operating expenses	(113,759)	(111,493)
General administrative expenses	(1,119,779)	(1,088,173)
Depreciation expense	(155,445)	(162,770)
Charges to provisions and revaluation	(1,148,878)	(1,054,734)
Provision release and revaluation	961,170	610,713
Net (charges to)/releases of provisions and decrease in respect of revaluation	(187,708)	(444,021)
Operating profit	392,201	360,976
Extraordinary gains/(losses)	-	1
Profit/(loss) before tax	392,201	360,977
Corporate income tax expense	(178,030)	(125,580)
Participation in net profit /(loss) of entities accounted for using equity method	28,339	7,292
Net profit/(loss)	242,510	242,689

2.2 Selected financial ratios

	31.12.2003 PLN '000	31.12.2002 PLN '000
Total assets	33,268,587	32,181,607
Profit before tax	392,201	360,977
Profit after tax	242,510	242,689
Shareholders' equity *	5,704,457	5,726,420
Return on equity	4.3%	4.2%
Capital adequacy ratio	16.04%	18.53%
Receivables to total assets	66.1%	59.2%
Income earning assets to total assets	76.4%	72.7%
Interest bearing liabilities to total liabilities	77.2%	75.6%

* excluding current year net earnings

2.3 Interpretation of selected financial ratios

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

The total balance sheet amount increased by 3.4 % in comparison with 31 December 2002. This increase resulted mainly from an increase in amounts due from financial institutions balance of PLN 3,225,284 thousand (or 58.6%), partially compensated by a decrease in debt securities balance by of PLN 914,328 thousand (or 21.0%) and a decrease in other securities and other financial assets balance of PLN 903,013 thousand (20.0%). On the liabilities and shareholders' equity side, the most significant movement related to amounts owed to non-financial institutions, which increase by PLN 1,976,301 thousand (or 12.3%).

Profit before tax for the year ended 31 December 2003 amounted to PLN 392,201 thousand and increased by PLN 31,224 thousand (or 8.6%) in comparison for the year ended 31 December 2002.

Profit after tax for the year ended 31 December 2003 amounted to PLN 242,510 thousand and decreased by PLN 179 thousand in comparison for the year ended 31 December 2002.

3 Detailed report

3.1 Accounting records

The Chart of Accounts and accounting principles adopted by the Bank have been approved by the Management Board.

The Bank's accounting records are maintained in different computer systems. At 31 December 2003, these systems were closed independently. In order to generate the Bank's financial statements, the general ledgers produced separately in the aforementioned systems were consolidated.

The financial statements of the Bank were prepared based on accounting records and supporting documentation maintained at the Bank's premises.

3.2 Internal control

Internal control includes functional controls performed in individual divisions responsible for the respective activity 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 identify any significant irregularities the internal control system.

3.3 Principles of prudence applied by the Bank and the capital adequacy ratio

In the context of the audit of the financial statements, no material exceptions have been noted in the principles of prudence applied by the Bank. The capital adequacy ratio was calculated properly.

3.4 Materiality levels applied by the auditor

In order to issue the audit opinion on the financial statements treated as a whole, the materiality levels applied by the auditor were adequate to the materiality and the risk assessment of particular items of the financial statements.

3.5 Introduction to the financial statements

All information included in the Introduction to the financial statements is presented fairly by the Bank when read in conjunction with the financial statements taken as a whole. Introduction to the financial statements constitutes an integral part of the financial statements.

3.6 Explanatory notes

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. The explanatory notes constitute an integral part of the financial statements.

3.7 Management's report on the Bank's activity

The information presented in the Management's report on the Bank's activities includes the information listed in article 49 item 2 of the Accounting Act and is consistent with the financial statements.

3.8 Information on the independent auditor's opinion

Based on our audit of the financial statements as of and for the year ended 31 December 2003 we have issued an unqualified opinion.

signed on the Polish original

.....
Certified Auditor No. 3683/5018
Janina Skwarka

signed on the Polish original

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For KPMG Polska Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk,
Member of the Board of Directors

signed on the Polish original

.....
For KPMG Polska Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Robert J. Widdowson, Proxy

Warsaw, 25 March 2004