

## **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, consisting of the introduction to the financial statements, the balance sheet as at 31 December 2002, with total assets and total liabilities and equity of PLN 32,181,607 thousand, the capital adequacy ratio, the statement of contingencies and commitments granted as at 31 December 2002 amounting to PLN 9,600,258 thousand, the profit and loss account for the year then ended with net earnings of PLN 242,689 thousands, the statement of changes in equity for the period from 1 January 2002 to 31 December 2002 with an increase in equity of PLN 63,419 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 1,717,735 thousand, and the supplementary information and explanations.

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, revised text) 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 statement 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 2002 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 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*

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

*signed on the Polish original*

.....  
For KPMG Polska Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Certified Auditor No. 796/1670  
Bogdan Dębicki, 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 2003

**BANK HANDLOWY W WARSZAWIE SA**  
**INDEPENDENT AUDITOR'S REPORT OF**  
**THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002**

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## **1 General**

### **1.1 General information on the Bank**

#### **1.1.1 Bank name**

Bank Handlowy w Warszawie SA ('the 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 2002 amounted to PLN 500,902,400 divided into 125,225,600 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:

- opening and maintaining bank accounts both domestically and abroad;
- accepting savings deposits and term deposits;
- performing settlements in all forms accepted in international and domestic banking relations;
- granting credits and loans in Poland and abroad;
- operations with cheques and promissory notes;
- accepting money deposits;
- granting guarantees;
- dealing with foreign exchange values for its own account or for the account of third parties and facilitating transactions abroad;
- issuing banking securities;
- activities in respect of issue of securities in favour of third parties;
- performing safe-keeping of valuables and securities;
- offering cards and effecting operations with cards;
- purchasing and selling of receivables;
- performing term financial operations;
- performing banking activities ordered by other banks.

Additionally, the Bank may:

- take over and purchase shares, share rights and stakes in banks and shares in companies providing services for banks
- serve the State Budget borrowings;
- act as custodian, among other as a depository bank for pension and investment funds;
- arrange and serve financial lease-agreements;
- provide factoring services;
- purchase and sell securities in favour of its own and third parties;
- provide brokerage services and maintain securities accounts by own brokerage house;
- provide consulting and advisory services in respect of financial issues;
- take up commitments connected with security issues;
- take over and purchase shares, share rights and stakes in non-banks, as well as keep participation units;
- operate as a representative bank as defined in the Act on Bonds;
- purchase and sell real estate and mortgages receivable;

- account for trading on securities, property rights and derivatives;
- convert debts, under conditions agreed with a debtor, into debtor's assets;
- purchase and sell derivatives in favour of its own and third parties;
- provide financial services in a form of soliciting as defined in Act on Organisation and Activities of Pension Funds;
- co-operate with other domestic and foreign bank and other institutions;
- accept orders to purchase, sell or subscribe for participation units and investment certificates of investment fund;
- render insurance agency services.

### **1.3.3 Board of Directors**

At 31 December 2001, the Management Board of the Bank was comprised of the following members:

President of the Management Board	Cezary Stypułkowski
Vice-president of the Management Board	Shirish Apte
Vice-president of the Management Board	Wiesław Kalinowski
Vice-president of the Management Board	Philip King
Vice-president of the Management Board	Witold Walkowiak

### **1.3.4 Supervisory Board**

At 31 December 2002, the Supervisory Board of the Bank was comprised of the following members:

President	Stanisław Sołtysiński
Vice President	Jean Paul Votron
Member	Krzysztof Barcikowski
Member	Goran Collert
Member	Andrzej Gdula
Member	Mirosław Gryszka
Member	Allan Hirst
Member	Edward Kuczera
Member	Krzysztof Opawski
Member	David J. Smith
Member	Carlos Urrutia
Member	Edward Walsh

## **1.4 Prior period financial statements**

The financial statements for the period from 1 January 2001 to 31 December 2001 were audited by KPMG Polska Audyt Sp. z o.o. and received an unqualified opinion.

The financial statements were approved at the Shareholders Meeting on 27 June 2002 where it was resolved to distribute the net earnings from the prior financial year in the amount of PLN 163,363 thousand as follows:

	<b>PLN '000</b>
Dividend for shareholders	163,324.5
Other reserve capital	<u>311.5</u>
<b>Total</b>	<b>163,636.0</b>

The closing balances as at 31 December 2001 have been properly recorded as the opening balances of the audited period taking into consideration the adjustments resulting from the changes in accounting rules, which were presented in detail in notes 32 and 33 of the 'Additional notes'.

The financial statements for the year ended 31 December 2001 were submitted to the District Court on 5<sup>th</sup> July 2002 and were published in the "National Journal B" No. 654 on 5<sup>th</sup> December 2002.

## **1.5 Audit scope and responsibilities**

We have audited the financial statements in accordance with the audit contract dated 14 February 2003. The financial statements include:

1. the introduction to the financial statements;
2. the balance sheet as at 31 December 2002, with total assets and total liabilities and equity of PLN 32,181,607 thousand;
3. the capital adequacy ratio;
4. the statement of contingencies and commitments granted as at 31 December 2002 amounting to PLN 9,600,258 thousand;
5. the profit and loss account for the year then ended with net earnings of PLN 242,689 thousand;
6. the statement of changes in equity for the period from 1 January 2002 to 31 December 2002, with an increase in equity of PLN 63,419 thousand;
7. the cash flow statement for the year then ended with a decrease in cash amounting to PLN 1,717,735 thousand; and
8. the supplementary information and explanations.

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 revised text) 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. We have conducted an independent audit of these financial statements in order to express an opinion thereon and present this, together with a written report of the independent auditor, to the Bank's Shareholders.

On 25 March 2003 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 balance sheet, profit and loss and cash flow items are included in the Bank's financial statements.

#### **2.1.1 Balance sheet**

<b>ASSETS</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
	<b>PLN '000</b>	<b>PLN '000</b>
Cash and due from NBP	979,308	2,322,443
Due from financial sector	5,507,619	7,126,678
Due from non-financial sector	13,535,347	14,168,464
Due from State Budget sector	5,096	31,583
Debt securities	4,356,193	2,462,497
Investments in subsidiary undertakings	371,271	404,916
Investments in joint ventures	20,072	101,829
Investments in associated undertakings	19,942	116,890
Investments in other undertakings	23,512	57,770
Other securities and financial assets	4,527,450	3,400,742
Intangible fixed assets	1,377,477	1,453,876
Tangible fixed assets	816,655	914,676
Other assets	273,989	271,403
Interperiod settlements	367,676	316,673
<b>TOTAL ASSETS</b>	<b>32,181,607</b>	<b>33,150,440</b>

**TRANSLATION of a document originally issued in Polish**

<b>LIABILITIES AND EQUITY</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
	<b>PLN '000</b>	<b>PLN '000</b>
<b>Liabilities</b>		
Due to NBP	121,940	212,486
Due to financial sector	3,448,194	4,905,451
Due to non-financial sector	16,062,959	16,487,181
Due to State Budget	636,294	882,937
Other liabilities arising from financial instruments	4,182,578	3,221,513
Special funds and other liabilities	424,822	381,778
Interperiod settlements and deferred income	890,316	727,491
Provisions	445,395	425,913
	<b>26,212,498</b>	<b>27,244,750</b>
<b>Equity</b>		
Share capital	500,902	430,308
Capital reserve	3,044,585	3,044,585
Revaluation reserve	45,968	76,958
Other reserve capital	2,166,283	2,190,203
Undistributed earnings from prior years	(31,318)	-
Net earnings for the year	242,689	163,636
	<b>5,969,109</b>	<b>5,905,690</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>32,181,607</b>	<b>33,150,440</b>
<b>Capital adequacy ratio</b>	<b>18.53%</b>	<b>21.22%</b>
<b>OFF-BALANCE SHEET ITEMS</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
	<b>PLN '000</b>	<b>PLN '000</b>
Commitments granted	9,600,258	10,479,763
Commitments received	2,757,436	1,472,926
Commitments due to sale/purchase operations	116,773,250	110,289,284
Other off-balance sheet items	4,545,861	1,391,792
<b>TOTAL OFF-BALANCE</b>	<b>133,676,805</b>	<b>123,633,765</b>

## 2.1.2 Profit and loss account

	<b>1.01.2002 – 31.12.2002 PLN '000</b>	<b>1,01,2001 - 31,12,2001 PLN '000</b>
Interest income	1,780,798	2,701,174
Interest expense	(1,095,028)	(1,961,540)
<b>Net interest income</b>	<b>685,770</b>	<b>739,634</b>
Fee and commission income	530,357	529,689
Fee and commission expense	(26,550)	(45,043)
<b>Net fee and commission income</b>	<b>503,807</b>	<b>484,646</b>
Income from shares and other securities	7,933	50,436
Net earnings on financial operations	388,899	16,322
Net earnings on foreign exchange	512,981	783,468
<b>Earnings on banking activity</b>	<b>2,099,390</b>	<b>2,074,506</b>
Other operating income	68,043	80,192
Other operating expenses	(111,493)	(90,692)
General expenses	(1,088,173)	(1,051,475)
Depreciation expense	(162,770)	(160,903)
Charges to provisions	(1,054,734)	(1,064,043)
Release of provisions	610,713	560,232
<b>Net charges to provisions</b>	<b>(444,021)</b>	<b>(503,811)</b>
<b>Result on operating activity</b>	<b>360,976</b>	<b>347,817</b>
Extraordinary gains	1	13
<b>Earnings before taxation</b>	<b>360,977</b>	<b>347,830</b>
Corporate income tax expense	(125,580)	(184,194)
Result of equity method accounting	7,292	-
<b>Net earnings after taxation</b>	<b>242,689</b>	<b>163,636</b>

## 2.2 Selected financial ratios

	<b>31.12.2002</b>	<b>31.12.2001</b>
	<b>PLN '000</b>	<b>PLN '000</b>
Total assets	<b>32,181,607</b>	<b>33,150,440</b>
Earnings before taxation	<b>360,977</b>	<b>347,830</b>
Earnings after taxation	<b>242,689</b>	<b>163,636</b>
Equity *	<b>5,726,420</b>	<b>5,742,054</b>
Return on equity	4.2%	2.8%
Capital adequacy ratio	<b>18.53%</b>	<b>21.22%</b>
Receivables to total assets	59.2%	64.3%
Income earning assets to total assets	72.7%	71.8%
Interest bearing liabilities to total liabilities	63.0%	67.8%

\* *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 decreased by 2,9% as compared to prior year. The most significant decrease in total assets was noted in the balance of amounts due from financial sector amounting to PLN 1,619 million (22,7%). On the liability side the most significant decrease was in due to financial sector and amounted to PLN 1,457 million (29.7%).

Earnings before tax for the year ended 31 December 2002 totaled PLN 360,977 thousand and was higher than gross earnings for 2001 by PLN 13,147 thousand.

Earnings after tax for the year ended 31 December 2002 amounted to PLN 242,689 thousand and was higher than net earnings for 2001 by PLN 79,053 thousand.

### **3 Detailed report**

#### **3.1 Accounting records**

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

The Bank's accounting records are maintained in different computer systems. At 31 December 2002, 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 in 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, 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**

The introduction to the financial statements constitutes an integral part of 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.

### **3.6 Supplementary information and explanations**

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.

### **3.7 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 2002 we have issued an unqualified opinion.

*signed on the Polish original*

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

*signed on the Polish original*

.....  
For KPMG Polska Audyt Sp. z o.o.  
Certified Auditor No. 796/1670  
Bogdan Dębicki.  
Member of the Board of Directors

*signed on the Polish original*

.....  
For KPMG Polska Audyt Sp. z o.o.  
Robert J. Widdowson, Proxy

Warsaw, 25 March 2003