



TRANSLATION

Bank Handlowy w Warszawie S.A. Group

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2006

KPMG Audyt Sp. z o.o.
The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 14 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2006

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Handlowy w Warszawie S.A.

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group seated in Warszawa, 16 Senatorska Street (“Group”), which comprise the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 35 990 735 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 657 056 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 169 204 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 315 822 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

Management of the parent bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) (“the Accounting Act”), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

As required under the Accounting Act we also report that the Report of the Management Board on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

.....
Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

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

Signed on the Polish original

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

Warsaw, 16 March 2007



Bank Handlowy w Warszawie S.A. Group

Report supplementing
the auditor's opinion
on the consolidated financial statements
Financial Year ended
31 December 2006

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion
contains 14 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
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Contents

1	General	3
1.1	Identification of the Group	3
1.2	Information about entities comprising the Group	3
1.3	Auditor information	4
1.4	Legal status	4
1.5	Prior period consolidated financial statements	6
1.6	Audit scope and responsibilities	6
1.7	Information on audits of the financial statements of the consolidated entities	7
2	Financial analysis of the Group	8
2.1	Summary of the consolidated financial statements	8
2.2	Selected financial ratios	11
2.3	Interpretation of selected financial ratio	11
3	Detailed report	12
3.1	Accounting principles	12
3.2	Basis of preparation of the consolidated financial statements	12
3.3	Method of consolidation	12
3.4	Consolidation of equity	12
3.5	Consolidation eliminations	13
3.6	Compliance with banking regulations	13
3.7	Audit materiality	13
3.8	Notes to the consolidated financial statements	13
3.9	Report of the Management Board of the Parent Bank on the Group's activities	13
3.10	Information on the opinion of the independent auditor	14

1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Handlowy w Warszawie S.A. Group

1.1.2 Registered office of the Parent Bank of the Group

16 Senatorska Street
00-923 Warszawa
Poland

1.1.3 Registration of the Parent Bank in the National Court Register

Seat of the court: District Court in Warszawa, XII Commercial Department of the
National Court Register

Date: 22 February 2001

Registration number: KRS 0000001538

1.1.4 Registration of the Parent Bank in the Tax Office and Statistical Office

NIP: 526-030-02-91

REGON: 000013037

1.2 Information about entities comprising the Group

1.2.1 Entities included in the consolidated financial statements

As at 31 December 2006, the following entities were consolidated by the Group:

Parent Bank:

- Bank Handlowy w Warszawie S.A.

Subsidiaries consolidated on the full consolidation basis:

- Dom Maklerski Banku Handlowego S.A.
- Handlowy - Leasing Sp. z o.o.
- Handlowy Investments S.A.
- PPH Spomasz Sp. z o.o. in liquidation

Handlowy Investments S.A., the Bank's subsidiary, was subject to consolidation for the first time in the financial year ended on 31 December 2006.

1.2.2 Entities excluded from consolidation

As at 31 December 2006, the following subsidiaries of the Group were not consolidated:

- Bank Rozwoju Cukrownictwa S.A.
- Handlowy Investments II S.a.r.l.
- Handlowy Inwestycje Sp. z o.o.

The entities are immaterial in relation to the consolidated financial statement taken as a whole and represent 0.3% of the Group's total assets and 0.5% of the Group's net income without elimination of intercompany transactions.

1.3 Auditor information

Name: KPMG Audyt Sp. z o.o.
Registered office: Warsaw,
Address: ul. Chłodna 51, 00-867 Warsaw
KRS number.: 0000104753
Registration court: District Court for the Capital City Warsaw in Warsaw, XII
Commercial Department of the National Court Register;
Share capital: PLN 125,000
NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

The Parent Bank was established under the Notarial Deed dated 13 April 1870.

The share capital of the Parent Bank amounted to PLN 522 638 400 as at 31 December 2006 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2006, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
Citibank Overseas Investment Corporation, USA	97 994 700	75.0	391 979	75.0
Other shareholders	32 664 900	25.0	130 659	25.0
Total	130 659 600	100.0	522 638	100.0

During 2006 the subsidiary of COIC - International Finance Associates B.V., decreased its investment in the Bank's shares below 5%.

1.4.2 Management of the Parent Bank

The Management Board is responsible for management of the Parent Bank.

At 31 December 2006, the Management Board of the Parent Bank was comprised of the following members:

- Sławomir S. Sikora – President of the Management Board
- Edward Wess – Vice-president of the Management Board
- Sonia Wędrychowicz –Horbatowska – Vice-president of the Management Board
- Witold Zieliński – Vice-president of the Management Board
- Lidia Jabłonowska-Luba – Member of the Management Board
- Michał H. Mrozek – Member of the Management Board

During 2006 the following changes in composition of the Bank's Management Board took place:

- on 1 January 2006 Witold Zieliński was appointed a Vice-president of the Bank's Management Board;
- on 22 February 2006 Reza Ghaffari, Vice-president of the Bank's Management Board resigned from his position;
- on 28 March 2006 Edward Wess was appointed a Vice-president of the Bank's Management Board;
- on 21 September 2006 Sanjeeb Chaudhuri resigned from the position of Vice-president of the Bank's Management Board;
- on 1 October 2006 Sonia Wędrychowicz-Horbatowska was appointed a Vice-president of the Bank's Management Board.

There were no changes in the composition of the Bank's Management Board during 2007 up to the date of the audit opinion on the Bank's financial statements for the year ended 31 December 2006

1.4.3 Scope of activities

The business activities listed in the Parent Bank's Statute include the following:

- accepting call and term deposits as well as maintaining deposit accounts,
- maintaining other bank accounts,
- domestic and international cash settlements,
- granting credits and cash loans,
- accepting cheques, bills of exchange and warrants,
- granting and confirming sureties,
- issuing and confirming bank guarantees and letters of credit,
- purchasing and selling foreign currencies,
- intermediation in money transfers and foreign exchange settlements,
- issuing bank's securities,
- providing services relating to securities issue,
- safe-keeping of valuables and securities and providing bank safes,
- issuing and processing credit cards and performing the related operations,

- acquiring and selling receivables,
- performing term financial operations and other.

The business activities of subsidiaries include the following:

- Dom Maklerski Banku Handlowego SA – brokerage activities
- Handlowy - Leasing Sp. z o.o. – leasing activities
- Handlowy Investments S.A. – investment activities
- PPH Spomasz Sp. z o.o. in liquidation – production of machinery and equipment

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2005 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 22 June 2006.

The closing balances as at 31 December 2005 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 7 July 2006 and were submitted for publishing in Monitor Polski B on 28 June 2006.

1.6 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warszawa, 16 Senatorska Street and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 35 990 735 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 657 056 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 169 204 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 315 822 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The Group prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting dated 7 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 16 November 2006, concluded on the basis of the resolution of Supervisory Board dated 28 March 2006 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Bank's head office and branches during the period from 16 November 2006 to 12 March 2007.

Management of the Parent Bank is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Bank submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

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

KPMG Audyty Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. 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 Audyty Sp. z o.o.

1.7 Information on audits of the financial statements of the consolidated entities

1.7.1 Parent Bank

The financial statements of the Parent Bank for the year ended 31 December 2006 were audited by KPMG Audyty Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski Banku Handlowego S.A.	KPMG Audyty Sp. z o.o.	31.12.2006	audit in progress
Handlowy - Leasing Sp. z o.o.	KPMG Audyty Sp. z o.o.	31.12.2006	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	28.02.2006	audit not started yet
PPH Spomasz Sp. z o.o. in liquidation	Was not a subject to audit for the year ended 31 December 2006		

The financial statements of Handlowy Investments S.A. are audited by certified auditors other than KPMG Audyty Sp. z o.o. The total assets presented in the financial statements of this entity as at 31 December 2006 amount to 0.1 % of the total consolidated assets of the Group before consolidation eliminations and the revenues of this entity for the financial year ended 31 December 2006 amount to 3.7 % of the consolidated revenues of the Group, before eliminations of intercompany transactions.

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2006		31.12.2005	
	PLN '000	% of total	PLN '000	% of total
Cash and balances with central bank	535 623	1.49%	922 649	2.81%
Financial assets held for trading	4 556 471	12.66%	5 883 358	17.89%
Debt securities available for sale	8 247 313	22.92%	7 171 157	21.81%
Equity investments accounted for under the equity method	67 910	0.19%	61 884	0.19%
Other equity investments	54 618	0.15%	66 419	0.20%
Loans and advances	19 516 218	54.23%	16 006 146	48.68%
<i>to financial sektor</i>	<i>9 319 272</i>	<i>25.89%</i>	<i>6 399 053</i>	<i>19.46%</i>
<i>to non-financial sektor</i>	<i>10 196 946</i>	<i>28.34%</i>	<i>9 607 093</i>	<i>29.22%</i>
Property and equipment	638 246	1.77%	700 212	2.13%
<i>land, buildings and equipment</i>	<i>628 860</i>	<i>1.74%</i>	<i>659 264</i>	<i>2.01%</i>
<i>investment property</i>	<i>9 386</i>	<i>0.03%</i>	<i>40 948</i>	<i>0.12%</i>
Intangible assets	1 285 753	3.57%	1 313 799	4.00%
Deferred tax assets	274 124	0.76%	283 044	0.86%
Other assets	801 920	2.23%	431 182	1.32%
Non-current assets held for sale	12 539	0.03%	37 714	0.11%
TOTAL ASSETS	35 990 735	100.00%	32 877 564	100.00%

EQUITY AND LIABILITIES	31.12.2006 PLN '000	% of total	31.12.2005 PLN '000	% of total
Liabilities				
Due to central bank	250 113	0.69%	-	-
Financial liabilities held for trading	3 316 847	9.22%	3 420 219	10.40%
Financial liabilities valued at amortized cost	25 991 136	72.22%	23 062 763	70.15%
<i>Deposits from</i>	25 036 782	69.57%	22 463 330	68.32%
<i>financial sektor</i>	6 156 605	17.11%	5 201 677	15.82%
<i>non-financial sektor</i>	18 880 177	52.46%	17 261 653	52.50%
<i>Other liabilities</i>	954 354	2.65%	599 433	1.83%
Provisions	44 378	0.12%	56 251	0.17%
Income tax liabilities	5 687	0.02%	163 311	0.50%
Other liabilities	964 771	2.68%	919 092	2.80%
Liabilities held for sale	-	-	7 329	0.02%
Total Liabilities	30 572 932	84.95%	27 628 965	84.04%
Equity				
Share capital	522 638	1.45%	522 638	1.59%
Share Premium	3 027 470	8.41%	3 010 452	9.16%
Revaluation reserve	(81 501)	-0.23%	(64 554)	-0.20%
Other reserves	1 407 081	3.91%	1 196 052	3.64%
Retained earnings	542 115	1.51%	584 011	1.77%
Total equity	5 417 803	15.05%	5 248 599	15.96%
TOTAL EQUITY AND LIABILITIES	35 990 735	100.00%	32 877 564	100.00%

2.1.2 Consolidated profit and loss account

	01.01.2006 - 31.12.2006 PLN '000	01.01.2005 - 31.12.2005 PLN '000
Interest and similar income	1 632 218	1 676 797
Interest expense and similar charges	(605 817)	(648 503)
Net interest income	1 026 401	1 028 294
Fee and commission income	782 735	714 996
Fee and commission expense	(164 833)	(118 675)
Net fee and commission income	617 902	596 321
Dividend income	3 659	2 095
Net trading income and revaluation	315 906	474 896
Net gain on investment debt securities	36 571	121 841
Net gain on investment equity instruments	95 846	15 544
Other operating income	128 373	136 336
Other operating expenses	(39 617)	(61 246)
Net other operating income	88 756	75 090
General administrative expenses	(1 371 372)	(1 405 330)
Depreciation expense	(130 186)	(140 296)
Profit / (loss) on sale of assets	118 316	3 324
Net impairment charge	22 535	30 185
Net operating profit	824 334	801 964
Share in profits / (losses) of undertakings accounted for under the equity method	7 780	(5 686)
Profit before tax	832 114	796 278
Income tax expense	(175 058)	(178 177)
Net profit	657 056	618 101
Weighted average number of ordinary shares	130 659 600	130 659 600
Earnings per ordinary share (in PLN)	5.03	4.73
Diluted earnings per ordinary share (in PLN)	5.03	4.73

2.2 Selected financial ratios

	31.12.2006	31.12.2005
	PLN '000	PLN '000
Total assets	35 990 735	32 877 564
Gross profit	832 114	796 278
Net profit	657 056	618 101
Shareholders' equity *	4 760 747	4 630 498
Return on equity *	13.80%	13.35%
Capital adequacy ratio	14.10%	14.78%
Receivables to total assets	54.23%	48.68%
Income generating assets to total assets	90.14%	88.78%
Interest bearing liabilities to total liabilities	82.13%	80.55%

*excluding current year net profit

2.3 Interpretation of selected financial ratio

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

The total assets of the Group increased by PLN 3 113 171 thousand (or 9.5%). The increase in assets resulted mainly from increase in loans and advances of PLN 3 510 072 thousand (or 21.9%) and in debt securities available for sale of PLN 1 076 156 thousand (or 15.0%), partially off-set by a decrease in financial assets held for trading of PLN 1 326 887 thousand (or 22.6%).

The increase in liabilities results mainly from an increase in financial liabilities valued at amortized cost which increased by PLN 2 928 373 thousand (or 12.7%).

The Group profit before tax for the year ended 31 December 2006 amounted to PLN 832 114 thousand and increased by PLN 35 836 thousand (or 4.5%) compared to the year ended 31 December 2005. The increase in gross profit results mainly from gain on disposal of assets which increased by PLN 114 992 thousand (or 3459.4%), net gain on investment equity instruments of PLN 80 302 thousand (or 516.6%), net fee and commission income of PLN 21 581 thousand (or 3.6%), an increase of net other operating income of PLN 13 666 thousand (or 18.2%) and decrease in general administrative expenses of PLN 33 958 thousand (or 2.4%) partially off-set by decrease in net trading income and revaluation of PLN 158 990 thousand (or 33.5%) and decrease in net gain of investments debt securities of PLN 85 270 thousand (or 70.0%).

The Group's net profit for the year ended 31 December 2006 amounted to PLN 657 056 thousand and increased by PLN 38 955 thousand (or 6.3%) compared to the year ended 31 December 2005.

3 Detailed report

3.1 Accounting principles

The Parent Bank maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Bank.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Bank.

Except for Handlowy Investments S.A., the financial statements of the entities included in the consolidated financial statements were prepared at the same balance sheet date as the financial statements of the Parent Bank. With respect to Handlowy Investments S.A., the requirements of International Financial Reporting Standards as adopted by the European Union were followed.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of The Bank Handlowy w Warszawie S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No. 152, item 1728).

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Consolidation of equity

The share capital of the Group is equal to the share capital of the Parent Bank.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Bank's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Bank.

Only equity of subsidiaries arising after the Parent Bank obtained control of the subsidiary is included in the equity of the Group.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Transactions between entities and other intercompany operating incomes and expenses and financial incomes and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Handlowy w Warszawie S.A. and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Based on our audit we have not identified any significant deviations in the Parent Bank's compliance with the banking regulatory norm pertaining among others to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

3.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

3.9 Report of the Management Board of the Parent Bank on the Group's activities

The Report of the Management Board of the Parent Bank on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the consolidated financial statements.

3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2006, we have issued an unqualified opinion.

Signed on the Polish original

.....
Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

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

Signed on the Polish original

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

Warsaw, 16 March 2007