



**Bank Handlowy w Warszawie S.A.**

Opinion and Report  
of the Independent Auditor  
Financial Year ended  
31 December 2007

KPMG Audyt Sp. z o.o.  
The opinion contains 2 pages  
The report supplementing the auditor's opinion  
contains 12 pages  
Opinion of the independent auditor  
and report supplementing the auditor's opinion  
on the unconsolidated financial statements  
for the financial year ended  
31 December 2007

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## **OPINION OF THE INDEPENDENT AUDITOR**

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

We have audited the accompanying unconsolidated financial statements of Bank Handlowy w Warszawie S.A. seated in Warsaw, 16 Senatorska Street (“the Bank”), which comprise the balance sheet as at 31 December 2007, with total assets of and total liabilities and equity of PLN 38 008 361 thousand, the profit and loss account for the year then ended with a net profit of PLN 808 168 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 171 514 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 2 436 826 thousand, and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.

### *Management’s Responsibility for the Financial Statements*

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of these unconsolidated 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 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.

### *Auditor’s Responsibility*

Our responsibility, based on our audit, is to express an opinion on these unconsolidated financial statements, and whether the financial statements are derived from properly maintained accounting records. 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 about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

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.

### *Opinion*

In our opinion, the accompanying unconsolidated financial statements of Bank Handlowy w Warszawie S.A. have been prepared and present fairly in all material respects the financial position of the Bank as at 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Bank's Statute that apply to the Bank's unconsolidated financial statements and have been prepared from accounting records that in all material respects have been properly maintained.

### *Other Matters*

As required under the Accounting Act we also report that the Report on the Bank'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 unconsolidated 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  
 Richard Cysarz,  
 Member of the Management Board

Warsaw, 13 March 2008



**Bank Handlowy w Warszawie S.A.**

Report supplementing  
the auditor's opinion  
on the unconsolidated  
financial statements  
Financial Year ended  
31 December 2007

KPMG Audyt Sp. z o.o.  
The report supplementing the auditor's opinion  
contains 12 pages  
Report supplementing the auditor's opinion  
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for the financial year ended  
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## **1 General**

### **1.1 General information about the Bank**

#### **1.1.1 Company name**

Bank Handlowy w Warszawie S.A.

#### **1.1.2 Registered office**

16 Senatorska Street  
00-923 Warszawa  
Poland

#### **1.1.3 Registration in the National Court Register**

Registration court: District Court in Warszawa, XII Commercial Department of the National Court Register  
Date: 22 February 2001  
Registration number: KRS 0000001538

#### **1.1.4 Tax Office and Provincial Statistical Office registration**

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

### **1.2 Auditor information**

Name: KPMG Audyt Sp. z o.o.  
Registered office: Warsaw,  
Address: ul. Chłodna 51, 00-867 Warsaw  
Registration number.: KRS 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.

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## 1.3 Legal status

### 1.3.1 Share capital

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

The share capital of the Bank amounted to PLN 522 638 400 as at 31 December 2007 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2007, 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
<b>Total</b>	<b>130 659 600</b>	<b>100.0</b>	<b>522 638</b>	<b>100.0</b>

### 1.3.2 Related parties

The Bank is a member of the Citigroup Inc.

### 1.3.3 Management of the Company

The Management Board is responsible for management of the Bank.

At 31 December 2007, the Management Board of the Bank comprised the following members:

- Sławomir Sikora – President of the Management Board,
- Michał Mrożek – Vice-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.

On 23 May 2007 Michał Mrożek was appointed a Vice-President of the Management Board.

There were no changes in the composition of the Bank's Management Board during 2008, up to the date of the audit opinion and report on the Bank's financial statements for the year ended 31 December 2007.

### 1.3.4 Scope of activities

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

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- accepting call and term deposits as well as maintaining deposit accounts,
- maintaining other bank accounts,
- performing 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,
- acting as an intermediary in money transfers and foreign exchange settlements,
- issuing bank's securities,
- rendering services relating to securities issue,
- safe-keeping of valuables and securities and providing bank safes,
- issuing credit cards and performing the related operations,
- acquiring and selling receivables,
- performing term financial operations and other.

## **1.4 Prior period financial statements**

The unconsolidated financial statements for the period ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The unconsolidated financial statements were approved at the General Meeting on 21 June 2007 where it was resolved to allocate the profit for the prior financial year of PLN 620 391 649.83 as follows:

- |                      |                     |
|----------------------|---------------------|
| • dividends          | PLN 535 704 360.00, |
| • reserve capital    | PLN 83 787 289.83,  |
| • Bank's Social Fund | PLN 900 000.00.     |

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year.

The unconsolidated financial statements were submitted to the Registry Court on 28 June 2007 and were published in Monitor Polski B No. 229 on 20 February 2008.

## **1.5 Audit scope and responsibilities**

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warsaw, 16 Senatorska Street and relates to the unconsolidated financial statements comprising: the balance sheet as at 31 December 2007 with total assets and total liabilities and equity of PLN 38 008 361 thousand, the profit and loss account for the year then ended with a net profit of PLN 808 168 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 171 514 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 2 436 826 thousand and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.





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The audited Bank prepares its unconsolidated 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 unconsolidated financial statements have been audited in accordance with the contract dated 24 October 2007, concluded on the basis of the resolution of Supervisory Board dated 20 March 2007 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 unconsolidated financial statements in the Bank's head office and branches during the period from 7 November 2007 to 11 March 2008.

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of the unconsolidated 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 unconsolidated financial statements, and whether the unconsolidated financial statements are derived from properly maintained accounting records, based on our audit.

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

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

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the unconsolidated financial statements of the Bank fulfill independence requirements. 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 Audyt Sp. z o.o.

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## 2 Financial analysis of the Bank

### 2.1 Summary of the unconsolidated financial statements

#### 2.1.1 Balance sheet

ASSETS	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Cash and balances with central bank	3 321 503	8.74%	535 623	1.53%
Financial assets held for trading	5 132 265	13.50%	4 551 094	12.96%
Debt securities available-for-sale	6 467 638	17.02%	8 247 313	23.50%
Equity investments	302 321	0.80%	300 534	0.86%
Loans and advances	20 309 005	53.43%	19 030 974	54.23%
<i>To financial sector</i>	8 910 556	23.44%	9 562 908	27.25%
<i>To non-financial sector</i>	11 398 449	29.99%	9 468 066	26.98%
Property and equipment	601 088	1.58%	626 481	1.79%
<i>land, buildings and equipment</i>	576 060	1.51%	617 095	1.76%
<i>investment property</i>	25 028	0.07%	9 386	0.03%
Intangible assets	1 282 811	3.38%	1 284 883	3.65%
Deferred income tax assets	368 497	0.97%	273 216	0.78%
Other assets	210 588	0.55%	233 237	0.66%
Non-current assets held-for-sale	12 645	0.03%	12 539	0.04%
<b>TOTAL ASSETS</b>	<b>38 008 361</b>	<b>100.00%</b>	<b>35 095 894</b>	<b>100.00%</b>

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<b>LIABILITIES</b>	<b>31.12.2007 PLN '000</b>	<b>% of total</b>	<b>31.12.2006 PLN '000</b>	<b>% of total</b>
Due to central bank	-	-	250 113	0.72%
Financial liabilities held for trading	4 373 146	11.51%	3 316 847	9.45%
Financial liabilities valued at amortized cost	27 443 267	72.20%	25 529 437	72.74%
<i>deposits from</i>	27 001 251	71.04%	24 843 591	70.79%
<i>financial sector</i>	7 243 219	19.06%	6 481 772	18.47%
<i>non-financial sector</i>	19 758 032	51.98%	18 361 819	52.32%
<i>other liabilities</i>	442 016	1.16%	685 846	1.95%
Provisions	35 331	0.09%	47 023	0.13%
Income tax liabilities	93 351	0.25%	-	-
Other liabilities	587 188	1.54%	647 910	1.85%
Liabilities held-for-sale	-	-	-	-
<b>Total liabilities</b>	<b>32 532 283</b>	<b>85.59%</b>	<b>29 791 330</b>	<b>84.89%</b>
<b>EQUITY</b>				
Issued capital	522 638	1.38%	522 638	1.49%
Share premium	2 944 585	7.74%	2 944 585	8.38%
Revaluation reserve	(182 451)	-0.48%	(81 501)	-0.23%
Other reserves	1 382 238	3.64%	1 297 175	3.70%
Retained earnings	809 068	2.13%	621 667	1.77%
<b>Total equity</b>	<b>5 476 078</b>	<b>14.41%</b>	<b>5 304 564</b>	<b>15.11%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>38 008 361</b>	<b>100.00%</b>	<b>35 095 894</b>	<b>100.00%</b>

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## 2.1.2 Profit and loss account

	<b>01.01.2007 - 31.12.2007 PLN '000</b>	<b>1.01.2006 - 31.12.2006 PLN '000</b>
Interest and similar income	1 936 192	1 609 874
Interest expense and similar charges	(766 153)	(605 640)
<b>Net interest income</b>	<b>1 170 039</b>	<b>1 004 234</b>
Fee and commission income	794 956	651 227
Fee and commission expense	(100 707)	(79 129)
<b>Net fee and commission income</b>	<b>694 249</b>	<b>572 098</b>
Dividend income	27 222	34 202
Net trading income and revaluation	416 834	313 351
Net gain on investment (deposit) securities	30 086	36 571
Net gain on investment (capital) instruments	10 454	44
Other operating income	97 115	122 837
Other operating expenses	(34 583)	(33 650)
<b>Net other operating income</b>	<b>62 532</b>	<b>89 187</b>
General administrative expenses	(1 377 561)	(1 333 863)
Depreciation expense	(107 542)	(129 167)
Profit / (loss) on sale of tangible fixed assets	598	116 064
Net impairment losses	83 113	98 097
<b>Profit before tax</b>	<b>1 010 024</b>	<b>800 818</b>
Income tax expense	(201 856)	(180 426)
<b>Net profit</b>	<b>808 168</b>	<b>620 392</b>
Weighted average number of ordinary shares	130 659 600	130 659 600
Net profit per ordinary share (in PLN)	6,19	4,75
Diluted net profit per ordinary share (in PLN)	6,19	4,75

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## 2.2 Selected financial ratios

	<b>31.12.2007</b>	<b>31.12.2006</b>
Total assets (PLN '000)	38 008 361	35 095 894
Gross profit (PLN '000)	1 010 024	800 818
Net profit (PLN '000)	808 168	620 392
Shareholders' equity (PLN '000)*	4 667 910	4 684 172
Return on equity	17.31%	13.24%
Capital adequacy ratio	12.06%	13.40%
Receivables to total assets	53.43%	54.23%
Income generating assets to total assets	93.49%	93.08%
Interest bearing liabilities to total liabilities	83.71%	82.91%

\* *excluding current-year net profit*

## 2.3 Interpretation of selected financial ratios

Changes of the most significant items of balance sheet and income statement are presented below:

Total assets as of 31.12.2007 have increased by PLN 2 912 467 thousand (8.3%) compared to 31.12.2006 and accounted for PLN 38 008 361 thousand. On the assets side the increase was mainly connected with an increase in cash and balances with central bank by PLN 2 785 880 thousand (520.1%) and loans and advances by PLN 1 278 031 thousand (6.7%). Both increases were partially off-set by a decrease of debt securities available-for-sale by PLN 1 779 675 thousand (21.6%).

On the equity and liabilities side the most significant influence on the increase of total position balance had the increase of financial liabilities valued at amortized cost by PLN 1 913 830 thousand (7.5%) and the increase in financial liabilities held for trading by PLN 1 056 299 thousand (31.9%). The increase in equity was mainly attributable to the growth of retained earnings by PLN 187 401 thousand (30.1%).

Profit before tax for the year ended 31 December 2007 accounted for PLN 1 010 024 thousand and increased by PLN 209 206 thousand (26.1%), comparing to the year ended 31 December 2006. The increase in the gross profit resulted mainly from the increase in net interest income by PLN 165 805 thousand (16.5%), increase in net fee and commission income by PLN 122 151 thousand (21.4%) and the increase in net trading income and revaluation by 103 483 thousand (33.0%). Those increases were partially off-set by the decrease in profit on sale of tangible fixed assets by PLN 115 466 thousand (99.5%).

Net profit for the year ended 31 December 2007 amounted to PLN 808 168 thousand and increased by PLN 187 776 thousand (30.3%), compared to the year ended 31 December 2006.

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### **3 Detailed report**

#### **3.1 Proper operation of the accounting system**

The Bank maintains current documentation describing the applied accounting principles, adopted by the Management Board, to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system. Our assessment covered in particular:

- appropriateness and consistency of the accounting principles used,
- correctness of the documentation of business transactions,
- fairness, accuracy and verifiability of the books of account, including the matching of accounting entries with supporting documentation and the financial statements,
- compliance of the adopted policies relating to safeguarding of accounting records, books of account and the financial statements with the Accounting Act.

On the basis of the work performed we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

#### **3.2 Verification of assets and liabilities**

The Bank performed a verification of assets and liabilities and in accordance with the requirements and time frame specified in Art. No. 26 of the Accounting Act.

Count differences have been recorded in the period covered by the unconsolidated financial statements.

#### **3.3 Compliance with banking regulations**

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

#### **3.4 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 unconsolidated financial statements taken as a whole are free of material misstatements.

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### **3.5 Notes to the financial statements**

All information included in the notes to the unconsolidated 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 financial statements taken as a whole.

### **3.6 Report on the Bank's activities**

The Report on the Bank's activities includes, in all material respects, 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 unconsolidated financial statements.

### **3.7 Information on the opinion of the independent auditor**

Based on our audit of the unconsolidated financial statements as at and for the year ended 31 December 2007, 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  
Richard Cysarz,  
Member of the Management Board

Warsaw, 13 March 2008