

OPINION OF THE INDEPENDENT AUDITOR

To the Shareholders of Bank Handlowy w Warszawie SA

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie SA Capital Group seated in Warsaw, consisting of the introduction to the financial statements, the consolidated balance sheet as at 31 December 2002, with total assets and total liabilities and equity of PLN 32,161,755 thousand, the capital adequacy ratio, the consolidated statement of contingencies and commitments granted as at 31 December 2002 amounting to PLN 9,600,258 thousand, the consolidated profit and loss account for the year then ended with net earnings of PLN 239,443 thousands, the consolidated statement of changes in equity for the period from 1 January 2002 to 31 December 2002 with an increase in equity of PLN 125,386 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 1,717,757 thousand, and the supplementary information and explanations.

These consolidated financial statements are the responsibility of the Management Board of the Bank. Our responsibility is to audit and express an opinion on whether these consolidated 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 consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie SA present fairly, in all material aspects, the financial position of the Capital Group 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 ordinance of Minister of Finance dated 12 December 2001 regarding principles of preparing consolidated financial statements for banks and financial holdings (Official Journal no 152, item 1728) and the requirements relating to issuers of publicly traded securities and are in compliance with the respective laws and regulations that apply to the financial statements of the Capital Group.

As required under the Polish Accounting Act dated 29 September 1994, we also report that the Report on the activities of the Capital Group includes the information required by Art. 49 Note 2 of the Accounting Act and the information is consistent with the consolidated 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. 796/1670
Bogdan Dębicki, 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, 27 May 2003

**CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE SA**

**INDEPENDENT AUDITOR'S REPORT OF
THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

Contents

1	General	2
1.1	General information on the Bank	2
1.2	Consolidated entities	2
1.3	Auditor information	3
1.4	Legal status	3
1.5	Prior period financial statements	4
1.6	Audit scope and responsibilities	4
1.7	Audits of financial statements of consolidated entities	5
2	Financial analysis of the Capital Group	6
2.1	Summary of the financial statements	6
2.2	Selected financial ratios	9
2.3	Interpretation of selected financial ratios	9
3	Detailed report	10
3.1	Accounting records	10
3.2	Principles of preparing consolidated financial statements	10
3.3	Principles of prudence applied by the Capital Group and the capital adequacy ratio	10
3.4	Materiality levels applied by the auditor	10
3.5	Introduction to the financial statements	10
3.6	Supplementary information and explanations	11
3.7	Management's report on the activity of the Capital Group	11
3.8	Information on the independent auditor's opinion	11

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 Consolidated entities

In the audited period the following entities constituted the Capital Group of Bank Handlowy w Warszawie SA ("Capital Group"):

1.2.1 Entities fully consolidated

Parent entity:

- Bank Handlowy w Warszawie SA

Subsidiaries:

- Dom Maklerski Banku Handlowego SA

1.2.2 Other subsidiaries

Subsidiaries:

- Handlowy Inwestycje Sp. z o.o.
- Handlowy Inwestycje II Sp. z o.o.
- Handlowy Investments S.A.
- Handlowy Investments II S.a.r.l.
- Citileasing Sp. z o.o.

- Handlowy Leasing S.A.
- Handlowy Zarządzanie Aktywami S.A.
- Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A.
- Towarzystwo Funduszy Inwestycyjnych BH S.A.
- Bank Rozwoju Cukrownictwa S.A.
- Budowa Centrum Plac Teatralny Sp. z o.o.
- PPH Spomasz Sp. z o.o.
- Bytom Collection Sp. z o.o.

Co-subsidiaries:

- PKO/Handlowy PTE S.A.
- Handlowy Heller S.A.

Associates:

- KP Konsorcjum Sp. z o.o.
- Polimex – Cekop S.A.
- Elektromontaż Poznań S.A.
- Mostostal Zabrze Holdings S.A.
- NIF Fund Holdings PCC Ltd.
- Pia Piasecki S.A.
- Creditreform PL Sp. z o.o.
- IPC JV Sp. z o.o.
- Zakłady Odzieżowe Bytom

The subsidiaries above from the Capital Group were excluded from the consolidation using full method. Those entities together with co-subsidiaries and associates (except for the following subsidiaries: Budowa Centrum Plac Teatralny Sp. z o.o., PPH Spomasz Sp. z o.o., Bytom Collection Sp. z o.o., and associates: Elektromontaż Poznań S.A., Mostostal Zabrze Holding S.A., NIF Fund Holdings PCC Ltd., Pia Piasecki S.A., Creditreform PL Sp. z o.o., IPC JV Sp. z o.o., Zakłady Odzieżowe Bytom S.A.) were included in the consolidated financial statements using equity accounting.

1.3 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).

1.4 Legal status

1.4.1 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.

1.4.2 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

As at 15 April 2003 David J. Smith was appointed as the Vice-president of the Management Board.

1.5 Prior period financial statements

The consolidated financial statements of the Capital Group 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 closing balances as at 31 December 2001 have been properly disclosed 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 consolidated financial statements for the year ended 31 December 2001 were submitted to the District Court on 5 July 2002 and were published in the "National Journal B" No 654 dated 5 December 2002.

1.6 Audit scope and responsibilities

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

1. the introduction to the consolidated financial statements;
2. the consolidated balance sheet as at 31 December 2002, with total assets and total liabilities and equity of PLN 32,161,755 thousand;
3. the capital adequacy ratio;
4. the consolidated statement of contingencies and commitments granted as at 31 December 2002 amounting to PLN 9,600,258 thousand;
5. the consolidated profit and loss account for the year then ended with net earnings of PLN 239,443 thousand;
6. the consolidated statement of changes in equity for the period from 1 January 2002 to 31 December 2002, with an increase in equity of PLN 125,386 thousand;
7. the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 1,717,757 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 unified version) and the professional standards established by the Polish National Council of Certified Auditors.

According to paragraph No. 52 of the Accounting Act, these consolidated financial statements are the responsibility of the Bank's management. We have conducted an independent audit of these consolidated 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 27 May 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 consolidated 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 entities included in the Capital Group 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.

1.7 Audits of financial statements of consolidated entities

At the date of signing the audit opinion on the consolidated financial statements, the audit opinion of Dom Maklerski Banku Handlowego SA has not been signed.

2 Financial analysis of the Capital Group

2.1 Summary of the financial statements

Detailed information relating to balance sheet, profit and loss and cash flow items are included in the consolidated financial statements of the Capital Group.

2.1.1 Consolidated balance sheet

ASSETS	31.12.2002	31.12.2001
	PLN '000	PLN '000
Cash and due from NBP	979,308	2,322,443
Due from financial sector	4,575,967	7,022,503
Due from non-financial sector	13,543,990	14,204,392
Due from State Budget sector	5,381	31,750
Debt securities	4,356,265	2,462,497
Due from equity accounted subordinated entities	977,245	176,258
Investments in subsidiaries accounted subsidiary undertakings	264,123	51,435
Investments in co-subsiaries accounted subsidiary undertakings	20,072	25,077
Investments in equity accounted associated undertakings	4,883	-
Investments in other undertakings	69,476	425,995
Other securities and financial assets	4,527,450	3,400,742
Intangible fixed assets	1,377,688	1,454,530
Tangible fixed assets	817,205	915,392
Other assets	273,989	271,403
Interperiod settlements	368,713	316,700
TOTAL ASSETS	32,161,755	33,081,117

LIABILITIES AND EQUITY	31.12.2002	31.12.2001
	PLN '000	PLN '000
Liabilities		
Due to NBP	121,940	212,486
Due to financial sector	3,113,905	4,849,003
Due to non-financial sector	16,096,440	16,455,339
Due to State Budget	636,642	883,219
Due to equity accounted subordinated entities	4,182,578	3,221,513
Other liabilities arising from financial instruments	280,014	79,272
Special funds and other liabilities	424,822	381,778
Interperiod settlements and deferred income	891,064	729,025
Provisions	452,454	432,972
	26,199,859	27,244,607
Equity		
Share capital	500,902	430,308
Capital reserve	3,067,344	3,059,638
Revaluation reserve	45,968	76,958
Other reserve capital	2,074,205	2,098,089
FX differences arising on subsidiaries	-	8,231
Undistributed earnings from prior years	34,034	-
Net earnings for the year	239,443	163,286
	5,961,896	5,836,510
TOTAL LIABILITIES AND EQUITY	32,161,755	33,081,117
Capital adequacy ratio	18.76%	21.22%
OFF-BALANCE SHEET ITEMS		
	31.12.2002	31.12.2001
	PLN '000	PLN '000
Commitments granted	9,600,258	10,479,963
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
TOTAL OFF-BALANCE	133,676,805	123,633,965

2.1.2 Profit and loss account

	1.01.2002 – 31.12.2002 PLN '000	1,01,2001 - 31,12,2001 PLN '000
Interest income	1,775,366	2,680,851
Interest expense	(1,088,136)	(1,952,914)
Net interest income	687,230	727,937
Fee and commission income	551,905	551,630
Fee and commission expense	(32,640)	(52,980)
Net fee and commission income	519,265	498,650
Income from shares and other securities	7,933	25,406
Net earnings on financial operations	389,967	17,305
Net earnings on foreign exchange	512,981	783,468
Earnings on banking activity	2,117,376	2,052,766
Other operating income	68,091	81,368
Other operating expenses	(112,365)	(90,880)
General expenses	(1,102,008)	(1,064,945)
Depreciation expense	(163,520)	(161,588)
Charges to provisions	(1,059,217)	(1,001,364)
Release of provisions	610,776	571,082
Net charges to provisions	(448,441)	(430,282)
Result on operating activity	359,133	386,439
Extraordinary gains	1	13
Earnings before taxation	359,134	386,452
Corporate income tax expense	(127,949)	(187,646)
Result of equity accounting	8,258	(35,520)
Net earnings after taxation	239,443	163,286

2.2 Selected financial ratios

	31.12.2002	31.12.2001
	PLN '000	PLN '000
Total assets	32,161,755	33,081,117
Earnings before taxation	359,134	386,452
Earnings after taxation	239,443	163,286
Equity *	5,722,453	5,673,224
Return on equity	4.2%	2.9%
Capital adequacy ratio	18.76%	21.2%
Receivables to total assets	56.4%	64.3%
Income earning assets to total assets	69.9%	71.7%
Interest bearing liabilities to total liabilities	62.1%	67.7%

* *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 2.8% 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 2,447 million (34,8%). On the liability side the most significant decrease was in due to financial sector and amounted to PLN 1,735 million (35.8%).

Earnings before tax for the year ended 31 December 2002 totalled PLN 359,134 thousand and was lower than gross earnings for 2001 by PLN 27,318 thousand.

Earnings after tax for the year ended 31 December 2002 amounted to PLN 239,443 thousand and was higher than net earnings for 2001 by PLN 76,157 thousand.

3 Detailed report

3.1 Accounting records

The accounting principles adopted by the parent entity are in compliance with the Accounting Act dated 29 September 1994 (Official Journal 2002, No 76, item 694, revised text) and Ministry of Finance Regulation dated 10 December 2001 concerning specific accounting principles for banks (Official Journal No 149, item 1673 with subsequent amendments).

The financial statements of the entity that was fully consolidated were prepared as at the same reporting date as financial statements of the parent entity.

The fully consolidated entity applies, in all material respects, the same accounting policies as the Bank.

3.2 Principles of preparing consolidated financial statements

The consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie SA have been prepared in accordance with requirements described in Chapter 6 of the Accounting Act and relevant regulations issued based on it as well as the requirements relating to issuers of publicly traded securities, applied consistently.

The consolidated documentation prepared by the parent entity, being the basis for preparation of the consolidated financial statements, comply with the requirements of the Minister of Finance Regulation dated 12 December 2001 concerning principles of preparing consolidated financial statements of banks and financial holdings (Official Journal No 152, item 1728).

The consolidation principles adopted by the Capital Group have been presented in detail in the introduction to the consolidated financial statements of the Capital Group.

3.3 Principles of prudence applied by the Capital Group 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 Capital Group. Capital adequacy ratio for the Capital Group was calculated properly.

3.4 Materiality levels applied by the auditor

In order to issue the audit opinion on the consolidated 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 consolidated financial statements.

3.5 Introduction to the financial statements

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

3.6 Supplementary information and explanations

All information included in the notes to the consolidated financial statements is presented accurately and completely by the Parent entity when read in conjunction with the consolidated financial statements taken as a whole. Notes constitute an integral part of the consolidated financial statements.

3.7 Management's report on the activity of the Capital Group

The information presented in the Management's report on the Capital Group's activities take account of the information presented in article 49 item 2 of Accounting act and is consistent with the consolidated financial statements.

3.8 Information on the independent auditor's opinion

Based on our audit of the consolidated financial statements as of and for the year ended 31 December 2002 we have issued an unqualified opinion.

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.
Certified Auditor No. 796/1670
Bogdan Dębicki.
Member of the Board of Directors

signed on the Polish original

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

Warsaw, 27 May 2003