

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	5
1.5	Audit scope and responsibilities	6
2	Financial analysis of the Bank	7
2.1	Summary of the financial statements	7
2.2	Selected financial ratios	10
2.3	Interpretation of selected financial ratios	10
3	Detailed report	11
3.1	Accounting records	11
3.2	Internal control	11
3.3	Principles of prudence applied by the Bank and the capital adequacy ratio	11
3.4	Materiality levels applied by the auditor	11
3.5	Introduction to the financial statements	11
3.6	Supplementary information and explanations	12
3.7	Management's report on the Bank's activity	12
3.8	Information on the independent auditor's opinion	12

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:

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

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 5th July 2002 and were published in the "National Journal B" No. 654 on 5th 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

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	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
TOTAL ASSETS	32,181,607	33,150,440

LIABILITIES AND EQUITY	31.12.2002 PLN '000	31.12.2001 PLN '000
Liabilities		
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
	26,212,498	27,244,750
Equity		
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
	5,969,109	5,905,690
TOTAL LIABILITIES AND EQUITY	32,181,607	33,150,440
 Capital adequacy ratio	 18.53%	 21.22%
 OFF-BALANCE SHEET ITEMS	 31.12.2002 PLN '000	 31.12.2001 PLN '000
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
TOTAL OFF-BALANCE	133,676,805	123,633,765

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	1,780,798	2,701,174
Interest expense	(1,095,028)	(1,961,540)
Net interest income	685,770	739,634
Fee and commission income	530,357	529,689
Fee and commission expense	(26,550)	(45,043)
Net fee and commission income	503,807	484,646
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
Earnings on banking activity	2,099,390	2,074,506
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
Net charges to provisions	(444,021)	(503,811)
Result on operating activity	360,976	347,817
Extraordinary gains	1	13
Earnings before taxation	360,977	347,830
Corporate income tax expense	(125,580)	(184,194)
Result of equity method accounting	7,292	-
Net earnings after taxation	242,689	163,636

2.2 Selected financial ratios

	31.12.2002 PLN '000	31.12.2001 PLN '000
Total assets	32,181,607	33,150,440
Earnings before taxation	360,977	347,830
Earnings after taxation	242,689	163,636
Equity *	5,726,420	5,742,054
Return on equity	4.2%	2.8%
Capital adequacy ratio	18.53%	21.22%
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

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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, 25 March 2003