

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

**OPINION AND REPORT  
OF INDEPENDENT AUDITOR  
AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR PERIOD  
FROM 1 JANUARY 2003 TO 31 DECEMBER 2003**

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## **1 General**

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

#### **1.1.1 Parent entity name**

Bank Handlowy w Warszawie SA (hereafter 'Bank', 'Parent Entity')

#### **1.1.2 Registered office**

ul. Senatorska 16  
00-923 Warszawa

#### **1.1.3 Commercial registration**

Seat of the court: Warszawa  
Date: 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 within the Capital Group of Bank Handlowy w Warszawie SA ("Capital Group") were subject to full consolidation:

Parent entity:

- Bank Handlowy w Warszawie SA

Subsidiary undertaking:

- Dom Maklerski Banku Handlowego SA

Other subsidiaries and associates in the Capital Group were excluded from the consolidation using full method based on art. 57 par. 2 and art. 58 par.1 of the Accounting Act (Official Journal from 2002 No 76, item 694 with subsequent amendments) and the ordinance of Ministry of Finance dated 12 December 2001 regarding principles of preparing the consolidated financial statements for banks and financial holdings (Official Journal from 2001, No 152, item 1728).

### **1.3 Auditor information**

KPMG Audyt Sp. z o.o.  
ul. Chłodna 51, XVI p.  
00-867 Warszawa

KPMG Audyt Sp. z o.o. (until 9 May 2004 registered name of KPMG Polska Audyt Sp. z o.o.) is registered as an authorised company 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 2003 amounted to PLN 522,638,400 divided into 130,659,600 ordinary shares with a nominal value per share of PLN 4.

#### **1.4.2 Management Board of the parent entity**

At 31 December 2003, the Management Board of the parent entity was comprised of the following members:

President of the Management Board	Sławomir Sikora
Vice-president of the Management Board	Wiesław Kalinowski
Vice-president of the Management Board	Philip Vincent King
Vice-president of the Management Board	David J. Smith
Vice-president of the Management Board	Sunil Sreenivasan
Member of the Management Board	Lidia Jabłonowska - Luba

In 2003 and 2004 the following changes occurred in composition of the Management Board:

- On 15 April 2003, at the General Shareholders' Meeting David J. Smith was appointed as a Vice-president of the Management Board;
- On 30 May 2003 the President of the Management Board Cezary Stypułkowski resigned from his position;
- On 24 June 2003 Vice-president of the Management Board Shirish Apte resigned from his position;

- On 26 June 2003 Sławomir Sikora was appointed for the Vice-president of the Management Board, and on 2 July 2003 for the President of the Management Board;
- On 26 June Sunil Sreenivasan was appointed for the Vice-president of the Management Board;
- On 28 August 2003 the Vice-president of the Management Board Witold Walkowiak resigned from his position;
- On 3 November 2003 Lidia Jabłonowska – Luba was appointed as the Member of the Management Board.
- On 30 March 2004 Wiesław Kalinowski resigned from his position.

## **1.5 Prior period consolidated financial statements**

The consolidated financial statements of the Capital Group for the period from 1 January 2002 to 31 December 2002 were audited by KPMG Polska Audyt Sp. z o.o. and received an unqualified opinion.

The closing balances as at 31 December 2002 have been properly recorded as the opening balances of the reporting period.

The consolidated financial statements of the Capital Group for the year ended 31 December 2002 were approved at the Shareholders Meeting on 25 June 2003, submitted to the Regional Court on 26 June 2003 and published in the "Monitor Polski B" No. 131 on 2 February 2004.

## **1.6 Audit scope and responsibilities**

This report of the independent auditor was prepared for the Shareholders of Bank Handlowy w Warszawie SA, seated in Warszawa, ul. Senatorska 16, and relates to the consolidated financial statements consisting of:

- introduction to the consolidated financial statements;
- consolidated balance sheet as at 31 December 2003 with total assets and liabilities of PLN 33,275,348 thousand;
- capital adequacy ratio;
- consolidated statement of contingencies and commitments granted as at 31 December 2003 amounting to PLN 15,058,891 thousand;
- consolidated profit and loss account for the year ended 31 December 2003 with a net profit of PLN 250,576 thousand;
- consolidated statement of changes in equity for the year then ended with a decrease in equity of PLN 14,336 thousand;
- consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 203,212 thousand.

- supplementary information and explanations.

We have audited the financial statements in accordance with the contract dated 19 November 2003.

We conducted the audit in accordance with International Accounting 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 with subsequent amendments) and the professional standards established by the Polish National Council of Certified Auditors.

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 Shareholders.

On 25 May 2004, the Parent entity's Management Board 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 Audyt Sp. z o.o. is independent of the entities included 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 Audyt Sp. z o.o.

## **1.7 Audits of financial statements of the consolidated entities.**

The financial statements of the consolidated subsidiary Dom Maklerski Banku Handlowego SA for the year ended 31 December 2003 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

## 2 Financial analysis of the Capital Group

### 2.1 Summary of the consolidated financial statements

#### 2.1.1 Consolidated balance sheet

	31.12.2003	31.12.2002
	PLN'000	PLN'000
<b>ASSETS</b>		
Cash and due from NBP	1,186,514	979,308
Due from financial sector	8,017,822	4,575,967
Due from non-financial sector	13,254,962	13,543,990
Due from budget sector	3,239	5,381
Debt securities	3,441,902	4,356,265
Due from subsidiaries consolidated on equity method basis	796,069	977,245
Investments in subsidiaries consolidated on equity method basis	247,958	264,123
Investments in co-subsidiaries undertakings consolidated on equity method basis	5,323	20,072
Investments in associated undertakings consolidated on equity method basis	6,059	4,883
Investments in other undertakings	40,729	69,476
Other securities and other financial assets	3,624,452	4,527,450
Intangible assets	1,295,051	1,377,688
Tangible fixed assets	764,609	817,205
Other assets	307,600	273,989
Interperiod settlements	283,059	368,713
<b>TOTAL ASSETS</b>	<b>33,275,348</b>	<b>32,161,755</b>

	31.12.2003	31.12.2002
	PLN '000	PLN '000
<b>LIABILITIES</b>		
<b>Liabilities</b>		
Due to NBP	41,145	121,940
Due to financial sector	3,582,256	3,113,905
Due to non-financial sector	18,060,427	16,096,440
Due to budget sector	466,056	636,642
Other financial instruments	3,362,332	4,182,578
Due to subsidiaries consolidated on equity basis	224,719	280,014
Special funds and other liabilities	222,120	424,822
Accruals and deferred income	921,402	891,064
Provisions	447,331	452,454
	<b>27,327,788</b>	<b>26,199,859</b>
<b>Equity</b>		
Share capital	522,638	500,902
Equity reserves	3,068,974	3,067,344
Revaluation reserve	21,961	45,968
Other reserves	2,082,580	2,074,205
Undistributed profit (not covered loss) from prior year	831	34,034
Net profit	250,576	239,443
	<b>5,947,560</b>	<b>5,961,896</b>
<b>Total equity &amp; liabilities</b>	<b>33,275,348</b>	<b>32,161,755</b>
<b>Capital adequacy ratio</b>	<b>16.25%</b>	<b>18.76%</b>
<b>OFF BALANCE SHEET</b>		
	31.12.2003	31.12.2002
	PLN'000	PLN'000
Liabilities granted	15,058,891	9,600,258
Liabilities received	3,297,354	2,757,436
Commitments resulting from sale/purchase transactions	167,738,766	116,773,250
Other	6,264,593	4,545,861
<b>Total off balance sheet</b>	<b>192,359,604</b>	<b>133,676,805</b>



## 2.1.2 Consolidated profit and loss account

	01.01.2003 - 31.12.2003 PLN '000	01.01.2002 - 31.12.2002 PLN '000
Interest income	1,368,199	1,775,366
Interest expense	(626,361)	(1,088,136)
<b>Net interest income</b>	<b>741,838</b>	<b>687,230</b>
Fee and commission income	605,428	551,905
Fee and commission expense	(58,072)	(32,640)
<b>Net fee and commission income</b>	<b>547,356</b>	<b>519,265</b>
Income from shares, other securities and other financial instruments	64,750	7,933
Net profit on financial operations	78,432	389,967
Net profit on foreign exchange	481,361	512,981
<b>Profit on banking activity</b>	<b>1,913,737</b>	<b>2,117,376</b>
Other operating income	77,872	68,091
Other operating expenses	(114,997)	(112,356)
General expenses	(1,138,799)	(1,102,008)
Depreciation	(155,948)	(163,520)
Charges to provisions and revaluation	(1,149,337)	(1,059,217)
Release of provisions and revaluation	968,346	610,776
<b>Net releases of provisions and decrease in respect of revaluation</b>	<b>(180,991)</b>	<b>(448,441)</b>
<b>Operating profit</b>	<b>400,874</b>	<b>359,133</b>
Extraordinary gains / (losses)	-	1
<b>Profit before tax</b>	<b>400,874</b>	<b>359,134</b>
Corporate income tax	(179,628)	(127,949)
Share in (profits) losses of entities included in the consolidation on equity basis	29,330	8,258
<b>Net profit</b>	<b>250,576</b>	<b>239,443</b>

## 2.2 Selected financial ratios for the Capital Group

	2003 PLN '000	2002 PLN '000
Total assets	33,275,348	32,161,755
Profit before tax	400,874	359,134
Net profit	250,576	239,443
Shareholder's equity*	5,696,984	5,722,453
Return on equity	4.4%	4.2%
Capital adequacy ratio	16.25%	18.76%
Receivables to total assets	63.9%	56.4%
Income earning assets to total assets	74.3%	69.9%
Interest bearing liabilities to total liabilities	66.6%	62.1%

\* excluding current year net earnings

## 2.3 Interpretation of selected financial ratios

The most significant changes in the consolidated balance sheet and the profit and loss account items are analysed below.

The total balance sheet amount increased by 3.5 % in comparison with 31 December 2002. This increase resulted mainly from an increase in amounts due from financial institutions balance of PLN 3,441,855 thousand (or 75.2%), partially compensated by a decrease in debt securities balance by of PLN 914, 363 thousand (or 21.0%) and a decrease in other securities and other financial assets balance of PLN 902,998 thousand (19.9%). On the liabilities and shareholders' equity side, the most significant movement related to amounts owed to non-financial institutions, which increased by PLN 1,963,987 thousand (or 12.2%).

Profit before tax for the year ended 31 December 2003 amounted to PLN 400,874 thousand and increased by PLN 41,740 thousand (or 11.6%) in comparison for the year ended 31 December 2002.

Net profit for the year ended 31 December 2003 amounted to PLN 250,576 thousand and increased by PLN 11,133 thousand in comparison to the year ended 31 December 2002.

### **3 Detailed report**

#### **3.1 Accounting principles**

The accounting principles applied by the parent entity comply with the Accounting Act dated 29 September 1994 (Official Journal from 2002 No. 76, item 694 with subsequent amendments) and the ordinance of Minister of Finance dated 10 December 2001 regarding specific accounting rules for banks (Official Journal from 2001 No. 149, item 1673 with subsequent amendments).

The financial statements of the consolidated entity were prepared on the same balance sheet date as the financial statements of the Parent Entity.

The consolidated entities, in all material aspects, apply the same accounting principles.

#### **3.2 Basis for preparation consolidated financial statements.**

The consolidated financial statements of the Capital Group have been prepared in accordance with requirements described in Chapter 6 of the Accounting Act dated 29 September 1994 and relevant regulations issued based on it as well as requirements relating to issuers of publicly traded securities, applied consistently.

The consolidation documentation prepared by the Parent Entity, being the basis for preparation of the consolidated financial statements, complies with the ordinance of Minister of Finance dated 12 December 2001 regarding principles of preparing consolidated financial statements for banks and financial holdings (Official Journal from 2001, No. 152, item 1728).

The method of consolidation has been presented in detail in the "Introduction to the consolidated financial statements of Capital Group of Bank Handlowy w Warszawie SA".

#### **3.3 Principles of prudence applied by the Capital Group and the capital adequacy ratio**

In the context of the audit of the consolidated financial statements, no material exceptions have been noted in the principles of prudence applied by the Capital Group. The capital adequacy ratio 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 financial statements.

### **3.5 Introduction to the consolidated 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 consolidated financial statements taken as a whole. The introduction to the consolidated financial statements constitutes an integral part of the consolidated financial statements.

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

All information included in the supplementary information and explanations 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. The supplementary information and explanations to the consolidated financial statements constitutes an integral part of the consolidated financial statements.

### **3.7 Management's report on the Group's activities**

The information presented in the Management's report on the Group's activities is consistent with the consolidated financial statements and requirements specified in art. 49 par. 2 of the Accounting Act.

### 3.8 Information on independent auditor's opinion

Based on our audit of the consolidated financial statements the Capital Group as at 31 December 2003 we have issued an unqualified auditor's opinion.

*signed on the Polish original*

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

*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 Board of Directors

*signed on the Polish original*

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

Warsaw, 25 May 2004