

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

**REPORT SUPPLEMENTING THE OPINION
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2004**

Contents

1	General information	3
1.1	Identification of the Capital Group	3
1.2	Information about entities included in the Capital Group	3
1.3	Auditor information	4
1.4	Legal status	4
1.5	Prior period consolidated financial statements of the Capital Group	7
1.6	Audit scope and responsibilities	7
1.7	Information about audits of the financial statements of entities included in consolidated financial statements.	8
2	Financial analysis of the Capital Group	9
2.1	Summary of the consolidated financial statements	9
2.2	Selected financial ratios	12
2.3	Interpretation of selected financial ratios	13
3	Detailed report	14
3.1	Accounting principles	14
3.2	Basis for preparation of the consolidated financial statements	14
3.3	Method of consolidation	14
3.4	Consolidation of equity	15
3.5	Consolidation eliminations	15
3.6	Principles of prudence applied by the Capital Group and the capital adequacy ratio	15
3.7	Materiality levels applied by the auditor to consolidated financial statements	15
3.8	Supplementary information and explanations on consolidated financial statements	15
3.9	Report of the Management Board of parent entity on the Capital Group activities	16
3.10	Information on independent auditor's opinion	16

1 General information

1.1 Identification of the Capital Group

1.1.1 Name of the Capital Group

Bank Handlowy w Warszawie SA Capital Group

1.1.2 Registered office of the parent entity of the Capital Group

ul. Senatorska 16
00-923 Warszawa
Poland

1.1.3 Registration of the parent entity in the National Court Register

Seat of the court:	Warszawa
Date of the registration:	22 February 2001
Registration number:	KRS 0000001538

1.1.4 Registration of the parent entity in the Tax Office and Statistical Office

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

1.2 Information about entities included in the Capital Group

1.2.1 Entities included in the consolidated financial statements

At 31 December 2004 the following entities belonging to the Capital Group were consolidated:

Parent entity:

- Bank Handlowy w Warszawie SA

Subsidiary consolidated under full consolidation method:

- Dom Maklerski Banku Handlowego S.A.

1.2.2 Entities not included in the consolidated financial statements

The remaining entities of the Capital Group, which are described in note 9 of the introduction to the consolidated financial statements, have not been consolidated on the basis of Art. 58 Note 1 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments).

1.3 Auditor information

KPMG Audyt Sp. z o.o.
ul. Chłodna 51
00-867 Warszawa
Poland

KPMG Audyt Sp. z o.o. (prior to 9 May 2004, registered as 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 of the parent entity

The parent entity was established under the Notarial Deed dated 13 April 1870.

The share capital of the parent entity amounted to PLN 522,638,400 as at 31 December 2004 and was divided into 130,659,600 ordinary shares with a nominal value per share of PLN 4.

As at 31 December 2004, the shareholder structure of the parent entity was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (in %)	Book value of shares (PLN ths)	Percentage of share capital (in %)
Citibank Overseas Investment Corporation, USA	97,994,700	75.0	391,979	75.0
International Finance Associates, USA	18,722,874	14.3	74,891	14.3
Other shareholders	13,942,026	10.7	55,768	10.7
Total	130,659,600	100.00	522,638	100.00

1.4.2. Management Board of the parent entity

The Management Board is responsible for management of the parent entity.

At 31 December 2004, the Management Board of the parent entity comprised of the following members

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

In 2004 the following changes in composition of parent entity Management Board took place:

- on 30 March 2004, Wiesław Kalinowski, Vice-president of the Bank's Management Board resigned from his position;
- on 25 May 2004 Michał H. Mrozek was appointed as a Member of the Bank's Management Board;
- on 7 December 2004 the Bank's Supervisory Board appointed Reza Ghaffari as a Vice-president of the Bank's Management Board. The resolution came into power on 3 February 2005 after Reza Ghaffari had received a work permit.

In 2005 up to the date of issuing the opinion and report on the audit of the consolidated financial statements for the year ended 31 December 2004 the following changes in composition of the parent entity Management Board took place:

- on 7 February 2005 David J. Smith resigned from the position of Vice-president of the Management Board,
- on 31 March 2005 Sunil Sreenivasan resigned from the position of Vice-president of the Management Board.

1.4.3. Scope of activities

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

- accepting deposits payable on request or on a given date and account operation for such deposits,
- operation of other bank accounts,

*Report supplementing the opinion on the consolidated financial statements
for the year ended 31 December 2004*

Translation of document originally issued in Polish

- performing cash settlements in all forms accepted in domestic and international banking relation,
 - extending credits and cash loans,
 - conducting operations which involve checks, bills of exchange and warrants,
 - issuing and confirming sureties,
 - issuing and confirming bank guarantees and open letters of credit,
 - performing FX operations,
 - provision of agency services in money transfers abroad by residents and settlements with non-residents in Poland,
 - issuing of banking securities,
 - commissioned operations related to issue of securities,
 - safe-keeping of valuable objects and securities and safe-box services,
 - issuing of payment cards and processing of operations executed with use of such cards,
 - purchase and sale of receivables,
 - processing of forward transactions,
- and other.

The business activities of the subsidiary consolidated under full consolidation method – Dom Maklerski Banku Handlowego S.A., listed in the Company's Statute and permission granted on 6 March 2001 by the Polish Securities and Exchange Commission include the following:

- offering securities for primary distribution or in initial public offerings,
- buying and selling securities on another person's account in accordance with the principles prescribed in under article 34 of The Law on the Public Trading of Securities dated 21 August 1997 (Official Journal from 2002, No. 49, item 447 with subsequent amendments),
- buying and selling securities on their own account in order to perform the tasks associated with organising a regulated market,
- running securities accounts and monetary accounts to serve the securities accounts,
- intermediation services in the acquisition or sale of securities traded in regulated foreign markets,
- real and legal actions involving the servicing of investment fund corporations, investment funds, pension funds corporations and pension funds,
- actions connected with trading in proprietary rights specified in the article 97 of The Law on the Public Trading of Securities dated 21 August 1997.

Based on the decision of the Polish Securities and Exchange Commission dated 4 July 1996, the Company obtained temporary permission to participate in the secondary interbank market of

*Report supplementing the opinion on the consolidated financial statements
for the year ended 31 December 2004*

Translation of document originally issued in Polish

treasury bonds, with nominal value over PLN 1,000,000. This permission is valid until 31 December 2006.

Under the decision of the Polish Securities and Exchange Commission dated 2 April 1998, the Company obtained permission to participate in treasury bond trading in the over the counter market, with nominal value over PLN 1,000,000. This permission is valid until 31 December 2008.

Under the decision of the Polish Securities and Exchange Commission dated 31 March 2000, the Company obtained permission to purchase securities not admitted to public trading on the customers' behalf.

1.5 Prior period consolidated financial statements of the Capital Group

The consolidated financial statements of the Bank Handlowy w Warszawie SA Capital Group for the year ended at 31 December 2003 were audited by KPMG Polska Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements of the Capital Group for the year ended 31 December 2003 were approved at the General Shareholders Meeting of the parent entity on 24 June 2004. The consolidated financial statements were submitted to the Regional Court for Warsaw on 6 July 2004 and published in the "National Journal B" No. 1328 dated 30 November 2004.

The consolidated closing balances as at 31 December 2003 have been properly recorded as the consolidated opening balances of the reporting period.

1.6 Audit scope and responsibilities

This report of the independent auditor was prepared for the Shareholders of the Bank Handlowy w Warszawie SA, seated in Warszawa, ul. Senatorska 16, and relates to the consolidated financial statements, comprising of the introduction to the consolidated financial statements, the consolidated balance sheet as at 31 December 2004, with total assets and total liabilities and equity of PLN 33,948,087 thousand, the capital adequacy ratio, the statement of consolidated contingencies and commitments granted as at 31 December 2004 amounting to PLN 11,762,863 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 416,132 thousand, the statement of changes in consolidated equity for the year then ended, with an increase in equity of PLN 208,030 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 239,725 thousand, and the supplementary information and explanations.

The consolidated financial statements have been audited on the basis of the resolution of the parent entity Supervisory Board dated 25 May 2004 on the appointment of the entity authorized to audit financial statements of the parent entity.

The consolidated financial statements have been audited in accordance with the contract dated 10 November 2004.

*Report supplementing the opinion on the consolidated financial statements
for the year ended 31 December 2004*

Translation of document originally issued in Polish

We conducted the audit of the consolidated financial statements in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants, section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments) and the professional standards established by the National Council of Certified Auditors.

According to paragraph No. 52 of the above mentioned Accounting Act, these consolidated financial statements are responsibility of the Management Board of Bank Handlowy w Warszawie SA.

We have conducted an independent audit of the consolidated financial statements in order to express a written opinion together with a report of the independent auditor on the consolidated financial statements to the Shareholders of Bank Handlowy w Warszawie SA.

On 24 May 2005 the Management Board of the parent entity submitted a representation letter as to the completeness, reliability, fairness and accuracy of the consolidated financial statements presented for audit, which also confirmed that as of the completion of the audit date there were no undisclosed matters, which could significantly influence the information presented in the consolidated financial statements for the audited year.

The Management Board of Bank Handlowy w Warszawie SA provided us with all documents and information necessary for expressing our opinion and preparation of the report of the independent auditor.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons related to the audit of the consolidated financial statements of the Capital Group meet the requirement for independence from the entities comprising the Capital 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 Audyt Sp. z o.o.

1.7 Information about audits of the financial statements of entities included in consolidated financial statements.

The financial statements of Bank Handlowy w Warszawie SA for the year ended 31 December 2004 were audited by KPMG Audyt Sp. z o.o., the company authorized to audit financial statements (number 458) and received an unqualified opinion.

The financial statements of Dom Maklerski Banku Handlowego w Warszawie S.A. for the year ended 31 December 2004 were audited by KPMG Audyt Sp. z o.o., the company authorized to audit financial statements (number 458) 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

ASSETS	31.12.2004 PLN'000	31.12.2003 PLN'000
Cash and due from NBP	841,114	1,186,514
Due from financial sector	7,955,458	8,009,705
Due from non-financial sector	9,715,147	13,254,962
Due from public sector	1,650	3,239
Receivables subject to securities sale and repurchase agreements	293,209	288,601
Debt securities	7,303,284	3,912,464
Due from subordinated undertakings accounted for under the equity method	748,491	796,069
Investments in subsidiary undertakings accounted for under the equity method	284,510	247,958
Investments in joint ventures accounted for under the equity method	6,671	5,323
Investments in associated undertakings subject to equity method	11,500	6,059
Other investments	37,682	40,729
Other securities and other financial assets	4,105,153	3,624,910
Intangible assets	1,237,294	1,295,051
Tangible fixed assets	713,024	764,609
Other assets	388,347	315,717
Prepayments	305,553	283,067
TOTAL ASSETS	33,948,087	34,034,977

Report supplementing the opinion on the consolidated financial statements
for the year ended 31 December 2004

Translation of document originally issued in Polish

LIABILITIES	31.12.2004 PLN'000	31.12.2003 PLN'000
Liabilities		
Due to NBP	718	41,145
Due to financial sector	3,959,909	3,582,256
Due to non-financial sector	16,791,566	18,060,427
Due to public sector	533,050	466,056
Liabilities in respect of securities subject to sale and repurchase agreements	408,559	470,803
Other liabilities arising from financial instruments	4,194,290	3,651,195
Due to subordinated undertakings accounted for under the equity method	397,757	224,719
Special funds and other payables	277,585	222,120
Accruals and deferred income	1,012,062	921,402
Provisions	217,038	447,331
	27,792,534	28,087,454
Equity		
Share capital	522,638	522,638
Equity reserves	3,047,807	3,068,974
Revaluation reserve	19,651	(13,212)
Other reserves	2,113,356	2,082,580
Retained earnings (loss brought forward)	35,969	(10,016)
Net profit (loss)	416,132	296,559
	6,155,553	5,947,523
TOTAL LIABILITIES	33,948,087	34,034,977
Capital adequacy ratio	19.56%	16.25%
OFF-BALANCE SHEET ITEMS	31.12.2004 PLN'000	31.12.2003 PLN'000
Contingent liabilities granted and received:	14,715,204	18,356,245
- contingent liabilities granted	11,762,863	15,058,891
- commitments received	2,952,341	3,297,354
Commitments resulting from sale/purchase transactions	191,926,365	167,002,522
Other	5,267,673	6,264,593
Total off-balance sheet items	211,909,242	191,623,360

Report supplementing the opinion on the consolidated financial statements
for the year ended 31 December 2004

Translation of document originally issued in Polish

2.1.2 Consolidated profit and loss account

	1.01.2004 – 31.12.2004 PLN'000	1.01.2003 – 31.12.2003 PLN'000
Interest income	1,653,161	1,380,857
Interest expense	(748,842)	(635,391)
Net interest income	904,319	745,466
Fee and commission income	710,265	605,428
Fee and commission expense	(78,148)	(58,072)
Net fee and commission income	632,117	547,356
Income from shares and other securities	16,526	64,750
Net profit on financial operations	52,554	133,041
Net profit on foreign currency exchange	360,349	481,361
Profit / (loss) on banking operations	1,965,865	1,971,974
Other operating income	91,925	77,872
Other operating expense	(120,685)	(114,997)
General administrative expenses	(1,286,179)	(1,138,799)
Depreciation	(142,834)	(155,948)
Charges to provisions and revaluation	(1,090,799)	(1,149,337)
Provision release and revaluation	(1,082,123)	968,346
Net (charges to)/release of provisions and revaluation	(8,676)	(180,991)
Operating profit / (loss)	499,416	459,111
Profit / (loss) before tax	499,416	459,111
Corporate income tax	(126,102)	(191,882)
Participation in net profit (loss) of entities accounted for using equity method	42,818	29,330
Net profit (loss) after tax	416,132	296,559

Report supplementing the opinion on the consolidated financial statements
for the year ended 31 December 2004

Translation of document originally issued in Polish

2.2 Selected financial ratios

	2004	2003
Total assets (PLN '000)	33,948,087	34,034,977
Profit before tax (PLN '000)	499,416	459,111
Net profit after tax (PLN '000)	416,132	296,559
Shareholders' equity* (PLN '000)	5,739,421	5,650,964
Return on equity*	7.25%	5.25%
Capital adequacy ratio	19.56%	16.25%
Receivables to total assets	52.06%	62.49%
Income earning assets to total assets	74.43%	74.83%
Interest bearing liabilities to total liabilities	76.26%	77.07%

* excluding current year net earnings

2.3 Interpretation of selected financial ratios

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

The total balance sheet of the Capital Group decreased by PLN 86,890 thousand (or 0.3%) in comparison with 31 December 2003. The decrease in assets resulted mainly from a decrease in due from non-financial sector of PLN 3,539,815 thousand (or 26.7%), partially compensated by an increase in debt securities of PLN 3,390,820 thousand (or 86.7%). The decrease in liabilities relates to due to non-financial sector, which decreased by PLN 1,268,861 thousand (or 7.0%) partially compensated by an increase in other liabilities arising from financial instruments of PLN 543,095 thousand (or 14.9%) and an increase in due to financial sector of PLN 377,653 thousand (or 10.5%).

Profit before tax of the Capital Group for the year ended 31 December 2004 amounted to PLN 499,416 thousand and increased by PLN 40,305 thousand (or 8.8%) in comparison with the year ended 31 December 2003.

Net profit of the Capital Group for the year ended 31 December 2004 amounted to PLN 416,132 thousand and increased by PLN 119,573 thousand (or 40.3%) in comparison with the year ended 31 December 2003.

3 Detailed report

3.1 Accounting principles

The parent entity maintains current documentation describing the accounting principles applied to the Capital Group, approved by the Management Board of the parent entity.

The accounting principles are described in the introduction to the consolidated financial statements to the extent required by the Accounting Act and regulations issued on the basis of the Act as well as regulations concerning entities issuing publicly traded securities.

Entities included in the Capital Group apply common accounting principles, in all material aspects, consistent with accounting principles applied by the parent entity.

The financial statements of the consolidated entity were prepared at the same balance sheet date as the financial statements of the parent entity.

3.2 Basis for preparation of the consolidated financial statements

The consolidated financial statements of the Bank Handlowy w Warszawie SA Capital Group have been prepared in accordance with the Accounting Act dated 29 September 1994, regulations issued on the basis of the Act as well as regulations concerning entities issuing publicly traded securities.

The basis for preparation of the consolidated financial statements was the consolidation documentation, compliant with the Resolution of Minister of Finance dated 12 December 2001 regarding the preparation of the consolidated financial statements of banks and financial holdings (Official Journal from 2001, No. 152, item 1728).

The method of consolidation applied by the Capital Group has been presented in detail in the "Introduction to the consolidated financial statements".

3.3 Method of consolidation

When preparing the consolidated financial statements the consolidation of the subsidiary was made based on "full consolidation" method. Other significant entities were valued using the "equity method".

3.4 Consolidation of equity

The share capital of the Capital Group is equal to the share capital of the parent entity. Other equity items of the Capital Group were calculated by adding positions of the equity of the subsidiary included in the consolidated financial statements, in the proportion reflecting the percentage share of the parent entity in the subsidiary's equity as at the balance sheet date to the corresponding positions of the equity of the parent entity. Only the portion of equity of the subsidiary, created after the establishment of the control of the parent entity, was included in the equity of the Capital Group.

3.5 Consolidation eliminations

The consolidation eliminations are based on the accounting records of Bank Handlowy w Warszawie SA and agreed with information received from the subsidiary.

Settlements within the Capital Group were eliminated on consolidation. Consolidation eliminations included also: current accounts, deposits, interest income and expenses between companies included in the consolidated financial statements.

3.6 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.

3.7 Materiality levels applied by the auditor to consolidated financial statements

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.

3.8 Supplementary information and explanations on consolidated financial statements

All information included in the supplementary information and explanations to the consolidated financial statements is presented by the parent entity completely and correctly. Supplementary information to the consolidated financial statements comprising introduction to the consolidated financial statements and additional explanatory notes is an integral part of the consolidated financial statements.

3.9 Report of the Management Board of parent entity on the Capital Group activities

The report of the Management Board on the Capital Group's activities includes information specified in Article 49 Note 2 of the Accounting Act and requirements of the Resolution of Council of Ministers dated 16 October 2001 on current and periodic information provided by issuers of publicly traded securities (Official Journal from 2001, No. 139, item 1569 with subsequent amendments).

The financial data included in the report of the Management Board on Capital Group's activities is consistent with the consolidated financial statements.

3.10 Information on independent auditor's opinion

Based on our audit of the consolidated financial statements of the Bank Handlowy w Warszawie SA Capital Group as at 31 December 2004, we issued unqualified auditor's opinion.

signed on the Polish original

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

signed on the Polish original

.....
On behalf of 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

.....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Robert J. Widdowson, Partner

Warsaw, 24 May 2005