

TRANSLATION

AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS OF BANK HANDLOWY W WARSZAWIE SA

To the Shareholders of Bank Handlowy w Warszawie SA

We have audited the accompanying financial statements of Bank Handlowy w Warszawie SA located in Warsaw. These financial statements consist of: an introduction, the balance sheet as at 31 December 2001 with total assets and total liabilities and equity of PLN 33,150,440 thousand; the statement of contingencies and commitments granted as of this date amounting to PLN 9,764,895 thousand; the profit and loss account for the year then ended with a net profit of PLN 163,636 thousand; the statement of changes in shareholders' equity for the year then ended with a balance amounting to PLN 5,905,690 thousand; the cash flow statement for the year then ended with an increase in cash amounting to PLN 1,919,490 thousand; and notes to the financial statements.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 121, item 591 with subsequent amendments) and the professional norms established by the Polish National Council of Certified Auditors. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements have been prepared from properly maintained accounting books and present fairly, in all material aspects, the financial position of the Bank as at 31 December 2001 and the

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results of its operations and its 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 (Official Journal No. 121, item 591 with subsequent amendments), the Polish Banking Supervisory Commission Resolution No. 1/98 dated 3 June 1998 on the special rules for bank accounting and the notes to the financial statements (NBP Official Journal No.14, item 27) and Regulation of the Council of Ministers dated 16 October 2001 regarding current and periodical information filed by issuers of securities (Official Journal No. 139, item 1569), the Regulation of the Ministry Council dated 19 November 1999 concerning additional information included in the financial statements of banks and consolidated financial statements of banks acting as issuers of securities admitted for public trading or applying to be publicly traded (Official Journal No. 96, item 1128) which have been applied on a consistent basis.

As required under the Polish Accounting Act dated 29 September 1994, we also report that the information given in the Directors' Report is consistent with the 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.
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.
Richard Cysarz, Proxy

Warsaw, 25 March 2002

BANK HANDLOWY W WARSZAWIE SA

**AUDITOR'S REPORT
ON THE AUDIT OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2001**

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1 General

1.1 General information on the Bank

1.1.1 Bank name

Bank Handlowy w Warszawie SA

1.1.2 Registered office

ul. Chałubińskiego 8
00 – 613 Warsaw

1.1.3 Commercial registration

Seat of the court: Warsaw (registered by Regional Court for the city of Warsaw)
Date: 22 February 2001
Registration number: KRS 000 000 1538

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

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

The share capital of the Bank as at 31 December 2001 amounted to PLN 430,308,400 divided into 107,577,100 ordinary bearer shares with a nominal value of PLN 4 each.

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 banking relations;
- granting credits and loans in Poland and abroad;
- operations with cheques and promissory notes;
- accepting money deposits;
- granting and accepting 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 trust 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
Vice-president of the Management Board	Edward Brendan Ward

1.3.4 Supervisory Board

At 31 December 2001, the Supervisory Board of the Bank was comprised of the following members:

President	Stanisław Sołtysiński
Vice President	Jean Paul Votron
Member	Goran Collert
Member	Henrich Focke
Member	Krzysztof Grabowski
Member	Mirosław Gryszka
Member	Allan Hirst
Member	Krzysztof Opawski
Member	Ryszard Pessel
Member	Carlos Urrutia
Member	Edward Walsh
Member	Ryszard Wierzba

1.4 Prior period financial statements

The financial statements for the period from 1 January 2000 to 31 December 2000 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 25 June 2001 where it was resolved to distribute the profit from the prior financial year in the amount of PLN 204,711 thousand as follows:

	PLN '000
Dividend for shareholders	130,659
General risk fund	50,000
Equity reserves	21,052
Staff benefit fund	<u>3,000</u>
Total	204,711

The closing balances as at 31 December 2000 have been properly recorded as the opening balances as at 1 January 2001.

The financial statements of the Bank for the year ended 31 December 2000 were published in the "National Journal" No. B-408 dated 29 August 2001.

1.5 Audit scope and responsibilities

In accordance to an engagement agreement dated 27 December 2001, we have audited the financial statements of the Bank comprising of the following:

1. introduction;
2. the balance sheet as at 31 December 2001, with total assets and total liabilities and equity of PLN 33,150,440 thousand;
3. the statement of contingencies and commitments granted as at 31 December 2001 amounting to PLN 9,764,895 thousand;
4. the profit and loss account for the year then ended with a net profit of PLN 163,636 thousand;
5. the statement of changes in shareholders' equity for the year then ended, with the equity as at 31 December 2001 of PLN 5,905,690 thousand;
6. the cash flow statement for the year then ended with an increase in cash amounting to PLN 1,919,490 thousand; and
7. notes to the financial statements.

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. 121, item 591 with subsequent amendments) and the professional norms 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 auditors' report, addressed to the Bank's Shareholders.

On 25 March 2002 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 year ending 31 December 2001.

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 December 2001 PLN '000	31 December 2000 PLN '000
Cash and balances with Central Bank	2,322,443	699,315
Placements with, loans and advances to other banks	6,986,733	5,703,753
Loans and advances to customers	14,200,047	10,054,121
Debt securities	2,462,497	1,454,331
Investments in subsidiary undertakings	347,302	124,236
Investments in associated undertakings	217,185	407,568
Minority investments	57,770	87,514
Other securities and property rights	20,119	20,119
Intangible fixed assets	1,482,884	66,952
Tangible fixed assets	902,732	664,275
Other assets	3,851,119	1,547,206
Interperiod settlements	299,609	173,103
TOTAL ASSETS	33,150,440	21,002,493

LIABILITIES	31 December 2001 PLN '000	31 December 2000 PLN '000
Due to Central Bank	212,486	315,483
Deposits from other banks	4,895,223	5,356,138
Customer deposits	17,210,185	10,166,268
Securities issued	-	4
Funds for staff benefit and other liabilities	3,773,452	1,095,356
Accruals and deferred income	727,491	554,363
Provisions	425,913	275,330
Share capital	430,308	279,670
Equity reserves	3,044,585	538,000
Revaluation reserve	76,958	77,860
Other reserves	2,190,203	2,139,310
Net profit	163,636	204,711
TOTAL LIABILITIES	33,150,440	21,002,493

OFF-BALANCE SHEET ITEMS	31 December 2001 PLN '000	31 December 2000 PLN '000
Commitments granted	9,764,895	6,094,946
Commitments received	1,120,926	728,119
Commitments due to sale/purchase operations	111,356,152	23,166,816
Other off-balance sheet items	1,391,792	913,698
TOTAL OFF-BALANCE SHEET ITEMS	123,633,765	30,903,579

2.1.2 Profit and loss account

	01.01.2001 – 31.12.2001 PLN '000	01.01.2000 - 31.12.2000 PLN '000
Interest income	2,701,174	2,128,465
Interest expense	(1,961,546)	(1,403,199)
Net interest income	<u>739,628</u>	<u>725,266</u>
Fee and commission income	529,689	366,704
Fee and commission expense	(45,043)	(35,035)
Net fee and commission income	<u>484,646</u>	<u>331,669</u>
Income from shares and other securities	50,436	18,748
Net result on financial operations	16,328	(3,063)
Net profit on foreign exchange	783,468	482,658
Profit on banking activity	<u>2,074,506</u>	<u>1,555,278</u>
Other operating income	80,192	81,252
Other operating expenses	(90,682)	(59,988)
General expenses	(1,051,475)	(816,835)
Depreciation	(160,903)	(119,434)
Charges to provisions	(1,064,053)	(724,583)
Release of provisions	560,232	369,756
Net charge to provisions	(503,821)	(354,827)
Operating profit	<u>347,817</u>	<u>288,446</u>
Extraordinary gains (losses)	13	19
Profit before taxation	347,830	285,465
Corporate income tax	(184,194)	(80,754)
Net profit	<u><u>163,636</u></u>	<u><u>204,711</u></u>

2.2 Selected financial ratios

		31 Dec 2001	31 Dec 2000
		PLN '000	PLN '000
Total assets	(1)	33,150,440	21,002,493
Profit before taxation		347,830	285,465
Net profit	(2)	163,636	204,711
Net shareholders funds (excluding current year's profit)		5,742,054	3,034,840
Capital adequacy ratio		21.2%	15.6%
Net profit to average own equity		3.7%	7.1%
Net profit to average balance of assets		0.6%	1.0%
Tax to profit before taxation	(3)	53.0%	28.3%
Net shareholders funds as a proportion of total funds		17.8%	15.4%
Loans and advances to customers to total assets		42.8%	47.9%

The rate of consumer price inflation during the year ended 31 December 2001 was 3.6% based on Główny Urząd Statystyczny (Central Statistical Office), and in the same period exchange rate of USD against PLN decreased by 3.9% to 3.9863.

2.3 Interpretation of selected financial ratios

In the following analysis of selected financial ratios, the data for 2000 relates to Bank Handlowy w Warszawie SA before its merger with Citibank (Poland) S.A. in February 2001. For more details on the merger, please refer to the Introduction of the Bank's financial statements (point 4).

- (1) The Bank's assets and liabilities increased as compared to 31 December 2000 by PLN 12,147,947 thousand (i.e. 57.8%). The majority of changes resulted from the merger of Bank Handlowy w Warszawie SA with Citibank (Poland) on 28 February, 2001. Total assets of Citibank (Poland) S.A. amounted to PLN 9,641,927 thousand on the date of the merger. The most significant increases were noted in the following positions: 'cash and operations with Central Bank' by 232.1%, 'net due from non-financial sector' by 41.2% and 'other assets' by 148.9%. The increase of liabilities is mainly a result of changes in the following positions: 'other liabilities' (in this: financial instruments settlements) increase by 244.5% and 'due to non-financial and budget sector' by 69.3%.

- (2) Net profit for the 12 months ended 31 December 2001 decreased in comparison with the prior year by PLN 41,075 thousand (i.e. 20.1%). This change resulted mainly from the increase of taxation by PLN 103,440 thousand (i.e. 128.1%).
- (3) The effective tax charge increased from 28.3% in 2000 to 53.0% in 2001. The increase is due to higher permanent differences in 2001. The increase was due, in part, to application of lower future rates of tax (according to the actual tax legislation) to deferred tax amounts.

3 Detailed report

3.1 Accounting records

To the date of the merger of Bank Handlowy w Warszawie SA with Citibank (Poland) S.A. on 28 February, 2002, the Bank's Chart of Accounts was employed consistently within the whole Bank and was based on the Banking Chart of Accounts introduced by the Regulation of the President of NBP No. 4/95 dated 22 February 1995 (Official Journal of the NBP No. 6, item 11 with subsequent amendments). Currently, the Bank is in the process of updating its Chart of Accounts and implementation of a new computer system. During 2001 the Bank's financial statements records are maintained in different computer systems. These systems were closed independently at 31 December 2001. In order to generate the Bank's financial statements, the general ledgers produced separately in the aforementioned systems were consolidated.

3.2 Internal control

The internal controls in place are designed to ensure completeness of documentation and presentation of assets and liabilities, income and expense and contingent liabilities. Authorised persons approve transactions performed by the Bank. The system of internal controls provides adequate segregation of duties concerning the realisation of transactions and recording them in the accounting system.

The Bank maintains an Internal Audit Department. As at 31 December 2001 it employed 18 people. Activities of the Internal Audit Department are based on previously approved annual plans, but may also include ad hoc audits.

3.3 Notes to the financial statements

Information included in the notes to the financial statements (introduction, notes and additional notes) is presented completely and accurately. The introduction, notes and additional notes to the financial statements form an integral part of the financial statements.

3.4 Statement of cash flows

The statement of cash flows has been properly prepared and is consistent with the balance sheet and profit and loss account.

3.5 Directors' report on the Bank's activities

The information presented in the Management Report on the Bank's activities is consistent with the financial statements.

3.6 Changes in Polish Accounting Act

From 1 January 2002, a new accounting act came into force in Poland. Changes introduced are to bring existing Polish Accounting Standards further in line with the International Accounting Standards. The effect of changes to the accounting policies applied in these financial statements at 31 December 2001 has not been quantified by the Bank, however it is not anticipated that such changes will have a significant impact on the net assets of the Bank

3.7 Information on the auditors' opinion

Based on our audit of the financial statements as of and for the year ended 31 December 2001 we have issued an unqualified opinion.

signed on the Polish original

.....
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.
Richard Cysarz, Proxy

Warsaw, 25 March 2002