



TRANSLATION

Bank Handlowy w Warszawie SA

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2005

KPMG Audyt Sp. z o.o.
The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 13 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the financial statements
for the financial year ended
31 December 2005



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OPINION OF THE INDEPENDENT AUDITOR

To the Shareholders of Bank Handlowy w Warszawie SA

We have audited the accompanying financial statements of Bank Handlowy w Warszawie SA seated in Warsaw, Senatorska Street 16, consisting of the balance sheet as at 31 December 2005, with total assets of and total liabilities and equity of PLN 32 669 425 thousand, the profit and loss account for the year then ended with a net profit of PLN 589 245 thousand, the statement of changes in equity for the year then ended with a decrease in equity of PLN 1 032 412 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 33 250 thousand, and supplementary notes, comprising of significant accounting policies and other explanatory notes.

The Management of the Bank is responsible for the accuracy of the accounting records and the preparation and true and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with subsequent amendments) and respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. Our responsibility is to express an opinion on these financial statements, and whether the financial statements are derived from properly maintained accounting records and supporting documentation, based on our audit.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence and accounting records supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management of the Bank, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements of Bank Handlowy w Warszawie SA present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 and respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market, the provisions of the Bank's Statute that apply to the Bank's financial statements and have been prepared from accounting records, that in all material respects have been properly maintained, together with supporting documentation.

As required under the Polish Accounting Act dated 29 September 1994 we also report that the Report on the Bank's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements.

Signed on the Polish original

.....
Certified Auditor No 9941/7390
Bożena Graczyk

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 Management Board

Signed on the Polish original

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

Warsaw, 27 March 2006



Bank Handlowy w Warszawie SA

Report supplementing
the auditor's opinion
on the financial statements
Financial Year ended
31 December 2005

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion
contains 13 pages
Report supplementing the auditor's opinion
on the financial statements
for the financial year ended
31 December 2005

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1 General

1.1 General information about the Bank

1.1.1 Bank name

Bank Handlowy w Warszawie SA (hereafter 'Bank').

1.1.2 Registered office

Senatorska Street 16
00 – 923 Warszawa
Poland

1.1.3 Registration in the National Court Register

Seat of the court: Regional Court in Warszawa, XII Commercial Department
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 Auditor information

KPMG Audyt Sp. z o. o.
ul. Chłodna 51,
00-867 Warsaw

KPMG 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 amounted to PLN 522 638 400 as at 31 December 2005 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

As at 31 December 2005, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (in %)	Nominal value of shares (in PLN '000)	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	100.0	522 638	100.0

1.3.2 Related parties

The Bank is a member of the Citigroup Inc. Capital Group.

1.3.3 Management of the Bank

The Management Board is responsible for management of the Bank.

At 31 December 2005, the Management Board of the Bank was comprised of the following members:

- Sławomir Sikora - President of the Management Board
- Reza Ghaffari - Vice-president of the Management Board
- Sanjeeb Chaudhuri - Vice-president of the Management Board
- Lidia Jabłonowska – Luba - Member of the Management Board
- Michał H. Mrozek - Member of the Management Board

In 2005 the following changes in composition of the Bank's Management Board took place:

- on 3 February 2005 David J. Smith, Vice-president of the Bank's Management Board resigned from his position;
- on 4 February 2005 Reza Ghaffari was appointed as a Vice-president of the Bank's Management Board;
- on 31 March 2005 Sunil Sreenivasan, Vice-president of the Bank's Management Board resigned from his position;
- on 26 October 2005 Philip King resigned from the position of Vice-president of the Bank's Management Board;
- on 28 October 2005 Sanjeeb Chaudhuri was appointed as a Vice-president of the Bank's Management Board;

In 2006 up to the date of issuing the opinion and report on the audit of the financial statements for the year ended 31 December 2005 the following changes in composition of the Bank's Management Board took place:

- on 1 January 2006 Witold Zieliński was appointed as a Vice-president of the Bank's Management Board;

- on 22 February 2006 Vice-president of the Bank's Management Board Reza Ghaffari resigned from his position.

1.3.4 Scope of activities

The business activities listed in the Bank'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,
 - performing cash settlements,
 - 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.

1.4 Prior period financial statements

The financial statements for the period ended 31 December 2004 were audited by KPMG Audyt Sp. z o.o and received an unqualified opinion.

The financial statements were approved at the General Meeting on 21 June 2005 where it was resolved to allocate the profit for the prior financial year of PLN 414 214 162.25 as follows:

- appropriation for payment of dividend:	414 190 932.00 PLN
- appropriation for equity reserves:	23 230.25 PLN

In addition, in 2005 the Bank paid dividend from prior year profits in the amount of PLN 1 149 804 480,00.

The closing balances as at 31 December 2004 have been properly recorded as the opening balances of the audited year prior to International Financial Reporting Standards adjustments.

Due to the changes in the applied accounting policies, resulting from the adoption of the accounting policies that are in compliance with International Financial Reporting Standards as adopted by the European Union the related corresponding figures for 31 December 2004 have been restated by the Bank together with the opening balances of the audited year. Furthermore, in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Bank has elected not to restate the corresponding figures in order to comply with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurements'. The adjustments resulting from changes in accounting policies, in order to comply with IAS 32 and IAS 39, have been made to the opening balance of equity as at 1 January 2005.

The financial statements were submitted to the Registry Court on 1 July 2005 and were published in Monitor Polski B No 1707 dated 31 October 2005.

1.5 Audit scope and responsibilities

This report of the independent auditor was prepared for the Shareholders of Bank Handlowy w Warszawie SA seated in Warsaw, Senatorska 16 Street, and relates to the financial statements comprising of: the balance sheet as at 31 December 2005 with total assets of and total liabilities and equity of PLN 32 669 425 thousand, the profit and loss account for the year then ended with a net profit of PLN 589 245 thousand, the statement of changes in equity for the year then ended with a decrease in equity of PLN 1 032 412 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 33 250 thousand and supplementary notes, comprising of significant accounting policies and other explanatory notes.

The Bank prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary Shareholders Meeting dated 7 December 2004.

The financial statements have been audited on the basis of the decision of Supervisory Board of Bank Handlowy w Warszawie SA dated 24 May 2005 on the appointment of the auditor.

The financial statements have been audited in accordance with the contract dated 22 November 2005.

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

We have conducted the audit in the Bank's head office and branches during the period from 28 November 2005 to 24 March 2006.

The Management of the Bank is responsible for the accuracy of the accounting records and the preparation and true and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 and respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.



Our responsibility is to express an opinion, with a supplementing report, on these financial statements, and whether the financial statements are derived from properly maintained accounting records and supporting documentation, based on our audit.

On 27 March 2006 the Management Board of the Bank submitted a statement as to the true and fair presentation of the financial statements presented for audit which confirmed that there were no undisclosed matters which could significantly influence 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 Audyty Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of financial statements of the Bank fulfil independence requirements. 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 Audyty Sp. z o.o.

2 Financial analysis of the Bank

2.1 Summary of the financial statements

2.1.1 Balance sheet

ASSETS	31.12.2005 PLN '000	% of total	31.12.2004 PLN '000	% of total
Cash and balances with central bank	922 649	2.82%	841 114	2.49%
Financial assets held for trading	5 878 624	17.99%	5 316 962	15.73%
Debt securities available-for-sale	7 171 157	21.95%	6 091 194	18.01%
Equity investments	284 304	0.87%	332 511	0.98%
Loans and advances	15 839 648	48.49%	18 498 769	54.72%
<i>to financial sector</i>	6 898 665	21.12%	8 790 190	26.00%
<i>to non-financial sector</i>	8 940 983	27.37%	9 708 579	28.72%
Property and equipment	687 894	2.11%	711 710	2.11%
<i>land, buildings and equipment</i>	646 946	1.98%	711 710	2.11%
<i>investment property</i>	40 948	0.13%	-	-
Intangible assets	1 313 418	4.02%	1 309 578	3.87%
Deferred income tax assets	300 162	0.92%	237 205	0.70%
Other assets	199 221	0.61%	470 088	1.39%
Non-current assets held-for-sale	72 348	0.22%	-	-
TOTAL ASSETS	32 669 425	100.00%	33 809 131	100.00%

EQUITY AND LIABILITIES	31.12.2005	% of total	31.12.2004	% of total
	PLN '000		PLN '000	
Liabilities				
Due to central bank	-	-	718	0.00%
Financial liabilities held for trading	3 420 219	10.47%	4 194 290	12.41%
Financial liabilities valued at amortized cost	23 223 955	71.09%	21 974 328	65.00%
<i>deposits from</i>	22 768 006	69.69%	20 708 902	61.25%
<i>financial sector</i>	5 808 791	17.78%	3 819 676	11.30%
<i>non-financial sector</i>	16 959 215	51.91%	16 889 226	49.95%
<i>other liabilities</i>	455 949	1.40%	1 265 426	3.75%
Provisions	57 245	0.18%	216 717	0.64%
Income tax liabilities	162 788	0.50%	23 509	0.07%
Other liabilities	629 354	1.93%	1 257 585	3.72%
Liabilities held-for-sale	4 370	0.01%	-	-
Total liabilities	27 497 931	84.17%	27 667 147	81.83%
Equity				
Issued capital	522 638	1.60%	522 638	1.55%
Share premium	2 944 585	9.01%	3 044 585	9.01%
Revaluation reserve	(64 554)	-0.20%	(9 371)	-0.03%
Other reserves	1 101 418	3.38%	2 116 063	6.26%
Retained earnings	667 407	2.04%	468 069	1.38%
Total equity	5 171 494	15.83%	6 141 984	18.17%
TOTAL LIABILITIES AND EQUITY	32 669 425	100.00%	33 809 131	100.00%

2.1.1 Profit and loss account

	01.01.2005 - 31.12.2005 PLN '000	01.01.2004 - 31.12.2004 PLN '000
Interest and similar income	1 641 364	1 686 319
Interest expense and similar charges	(655 216)	(753 892)
Net interest income	986 148	932 427
Fee and commission income	587 658	556 996
Fee and commission expense	(75 692)	(65 390)
Net fee and commission income	511 966	491 606
Dividend income	21 094	13 241
Net income on financial instruments valued at fair value through profit and loss account	120 998	43 782
Net gain on investment (deposit) securities	137 385	36 596
Net profit on foreign exchange	342 891	360 352
Other operating income	126 741	128 828
Other operating expenses	(51 996)	(41 937)
Net other operating income	74 745	86 891
General administrative expenses	(1 349 073)	(1 265 457)
Depreciation expense	(139 312)	(142 179)
Profit / (loss) on sale of tangible fixed assets	6 589	4 214
Net impairment losses	35 214	1 771
Profit before tax	748 645	563 244
Income tax expenses	(159 400)	(114 722)
Net profit	589 245	448 522
Weighted average number of ordinary shares	130 659 600	130 659 600
Net profit per ordinary share (in PLN)	4.51	3.43
Diluted net profit per ordinary share (in PLN)	4.51	3.43

2.2 Selected financial ratios

	31.12.2005	31.12.2004
Total assets (PLN'000)	32 669 425	33 809 131
Gross profit (PLN'000)	748 645	563 244
Net profit (PLN'000)	589 245	448 522
Total equity * (PLN'000)	4 582 249	5 693 462
Return on equity *	12.86%	7.88%
Capital adequacy ratio	13.37%	18.49%
Receivables to total assets	48.48%	54.72%
Income generating assets to total assets	89.52%	89.44%
Interest bearing liabilities to total liabilities	81.57%	77.40%

**excluding current year net profit*

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 assets decreased by PLN 1 139 706 thousand (or 3.4%) in comparison with 31 December 2004. The decrease in assets resulted mainly from a decrease in loans and advances of PLN 2 659 121 thousand (or 14.4%), partially compensated by an increase in debt securities available-for-sale of PLN 1 079 963 thousand (or 17.7%) and increase in financial assets held for trading of PLN 561 662 thousand (or 10.6%).

The decrease in liabilities mainly relates to financial liabilities valued at amortized cost which decreased by PLN 1 249 627 thousand (or 5.7%) and total equity, which decreased by PLN 970 490 thousand (or 15.8%). The decrease in total equity relates to dividend paid by the Bank from prior year earnings in the amount of PLN 1 563 995 thousand.

Profit before tax for the year ended 31 December 2005 amounted to PLN 748 645 thousand and increased by PLN 185 401 thousand (or 32.9%) in comparison with the year ended 31 December 2004. The increase in gross profit results mainly from net gain on investment (deposit) securities of PLN 100 789 thousand (or 275.4%) and net income on financial instruments valued at fair value through profit and loss account of PLN 77 216 thousand (or 176.4%).

Net profit for the year ended 31 December 2005 amounted to PLN 589 245 thousand and increased by PLN 140 723 thousand (or 31.4%) in comparison with the year ended 31 December 2004.

3 Detailed report

3.1 Accounting records and data protection

The Bank maintains current documentation describing the applied accounting principles, approved by the Management Board and described in the supplementary notes and other explanatory notes to the financial statements, to the extent required by International Financial Reporting Standards as adopted by the European Union.

The financial statements were prepared from accounting records that in all material respects have been maintained in accordance with the requirements of section 2 'Maintenance of the accounting records' and section 8 'Data protection' of the Accounting Act dated 29 September 1994, together with supporting documentation.

3.2 Verification of assets and liabilities

The Bank performed a verification of assets and liabilities in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act and in compliance with the Decree of the Ministry of Finance dated 10 December 2001 regarding special accounting principles for banks (Official Journal No. 149 from 2001, item 1673 with subsequent amendments).

Differences have been recorded in the period covered by the financial statements.

3.3 Compliance with banking regulations

Based on our audit we have not identified any significant deviations in the bank's compliance with the banking regulatory norms pertaining among others to loan concentration, obligatory reserve and capital adequacy ratio.

3.4 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the financial statements taken as a whole are free of material misstatements.

3.5 Supplementary notes, comprising of significant accounting policies and other explanatory notes

All information included in the supplementary notes, comprising of significant accounting policies and other explanatory notes is presented accurately and completely in all material respects. The significant accounting policies and other explanatory notes should be read in conjunction with the financial statements taken as a whole.

3.6 Report on the Bank's activities

The Report on the Bank's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act dated 29 September 1994 and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements.

3.7 Information on the opinion of the independent auditor

Based on our audit of the financial statements as at and for the year ended 31 December 2005, we have issued an unqualified opinion.

Signed on the Polish original

.....
Certified Auditor No 9941/7390
Bożena Graczyk

Signed on the Polish original

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For 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

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

Warsaw, 27 March 2006