



Bank Handlowy w Warszawie S.A. Group

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2007

KPMG Audyt Sp. z o.o.
The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 15 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2007

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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Handlowy w Warszawie S.A.

We have audited the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group seated in Warsaw, 16 Senatorska Street (“Group”), which comprise the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 38 907 984 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 824 215 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 185 281 thousand, the consolidated cash flow statement for the year then ended an increase in cash amounting to PLN 2 425 161 thousand and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) (“the Accounting Act”), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2007 and 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 are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act we also report that the Report of the Management Board on the Group'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 consolidated 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

.....
 For KPMG Audyt Sp. z o.o.
 ul. Chłodna 51; 00-867 Warsaw
 Richard Cysarz,
 Member of the Management Board

Warsaw, 13 March 2008



Bank Handlowy w Warszawie S.A. Group

Report supplementing
the auditor's opinion
on the consolidated financial
statements

Financial Year ended
31 December 2007

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion
contains 15 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
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1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Handlowy w Warszawie S.A. Group

1.1.2 Registered office of the Parent Company of the Group

16 Senatorska Street
00-923 Warszawa
Poland

1.1.3 Registration of the Parent Company in the National Court Register

Registration court: District Court in Warszawa, XII Commercial Department of the National Court Register
Date: 22 February 2001
Registration number: KRS 0000001538

1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

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

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2007, the following companies were consolidated by the Group:

Parent Company:

- Bank Handlowy w Warszawie S.A.

Subsidiaries consolidated on the full consolidation basis:

- Dom Maklerski Banku Handlowego S.A.,
- Handlowy - Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. in liquidation.

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1.2.2 Entities excluded from consolidation

As at 31 December 2007, the following subsidiaries of the Group were not consolidated:

- Bank Rozwoju Cukrownictwa S.A.,
- Handlowy Investments II S.a.r.l.,
- Handlowy Inwestycje Sp. z o.o.

The entities are immaterial in relation to the consolidated financial statement taken as a whole and represent 0.17% of the Group's total assets and 0.06% of the Group's net income without elimination of intercompany transactions.

1.3 Auditor information

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw,
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number.:	KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register;
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

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

The share capital of the Parent Company amounted to PLN 522 638 400 as at 31 December 2007 divided into 130 659 600 ordinary shares with a nominal value of PLN 4 each.

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As at 31 December 2007, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
Citibank Overseas Investment Corporation, USA	97 994 700	75.0	391 979	75.0
Other shareholders	32 664 900	25.0	130 659	25.0
Total	130 659 600	100.0	522 638	100.0

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2007, the Management Board of the Parent Company was comprised of the following members:

- Sławomir Sikora – President of the Management Board,
- Michał Mrozek – Vice-President of the Management Board,
- Edward Wess – Vice-President of the Management Board,
- Sonia Wędrychowicz – Horbatowska – Vice-President of the Management Board,
- Witold Zieliński – Vice-President of the Management Board,
- Lidia Jabłonowska-Luba – Member of the Management Board.

On 23 May 2007 Michał Mrozek was appointed a Vice-President of the Management Board.

There were no changes in the composition of the Bank's Management Board during 2008, up to the date of the audit opinion and report on the Bank's financial statements for the year ended 31 December 2007.

1.4.3 Scope of activities

The business activities listed in the Parent Company's Statute include the following:

- accepting call and term deposits as well as maintaining deposit accounts,
- maintaining other bank accounts,
- performing domestic and international cash settlements,
- granting credits and cash loans,
- accepting cheques, bills of exchange and warrants,
- granting and confirming sureties,
- issuing and confirming bank guarantees and letters of credit,
- purchasing and selling foreign currencies,
- acting as an intermediary in money transfers and foreign exchange settlements,
- issuing bank's securities,
- rendering services relating to securities issue,
- safe-keeping of valuables and securities and providing bank safes,
- issuing credit cards and performing the related operations,

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- acquiring and selling receivables,
- performing term financial operations and other.

The business activities of subsidiaries of the Group include the following:

- Dom Maklerski Banku Handlowego SA – brokerage activities,
- Handlowy - Leasing Sp. z o.o. – leasing activities,
- Handlowy Investments S.A. – investment activities,
- PPH Spomasz Sp. z o.o. in liquidation – production of machinery and equipment.

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 21 June 2007.

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 28 June 2007 and were published in Monitor Polski B No. 229 on 20 February 2008.

1.6 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Handlowy w Warszawie S.A. seated in Warsaw, 16 Sentaorska Street and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 38 907 984 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 824 215 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 185 281 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 2 425 161 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Company 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 General Meeting dated 7 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 24 October 2007, concluded on the basis of the resolution of Supervisory Board dated 20 March 2007 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office and branches during the period from 7 November 2007 to 11 March 2008.

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Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

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 the consolidated financial statements fulfil independence requirements from the companies included in the 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 Audyty Sp. z o.o.

1.7 Information on audits of the financial statements of the consolidated companies

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2007 were audited by KPMG Audyty Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski Banku Handlowego S.A.	KPMG Audyty Sp. z o.o.	31.12.2007	audit in progress
Handlowy - Leasing Sp. z o.o.	KPMG Audyty Sp. z o.o.	31.12.2007	audit in progress
Handlowy Investments S.A.	KPMG Audit S.a.r.l.	29.02.2008	audit not started yet
PPH Spomasz Sp. z o.o. in liquidation	Was not a subject to audit for the year ended 31 December 2006		

The financial statements of Handlowy Investments S.A. are audited by certified auditors other than KPMG Audyty Sp. z o.o. The total assets presented in the financial statements of this entity as at 31 December 2007 amount to 0.11 % of the total consolidated assets of the Group before consolidation eliminations and the revenues of this entity for the financial year ended 31



*Bank Handlowy w Warszawie S.A. Group
Report supplementing the opinion on the consolidated financial statements
for the financial year ended 31 December 2007*

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December 2006 amount to 1.02 % of the consolidated revenues of the Group, before eliminations of intercompany transactions.

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2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
ASSETS				
Cash and balances with central bank	3 321 503	8.54%	535 623	1.49%
Financial assets held-for-trading	5 135 708	13.20%	4 556 471	12.66%
Debt securities available-for-sale	6 467 638	16.62%	8 247 313	22.92%
Equity investments accounted for under the equity method	58 388	0.15%	67 910	0.19%
Other equity investments	21 909	0.06%	54 618	0.15%
Loans and advances	21 205 373	54.50%	19 516 218	54.23%
<i>to financial sector</i>	8 718 832	22.41%	9 319 272	25.89%
<i>to non-financial sector</i>	12 486 541	32.09%	10 196 946	28.34%
Property and equipment	612 797	1.57%	638 246	1.77%
<i>land, buildings and equipment</i>	587 769	1.51%	628 860	1.74%
<i>investment property</i>	25 028	0.06%	9 386	0.03%
Intangible assets	1 284 078	3.30%	1 285 753	3.57%
Income tax assets	374 468	0.97%	274 124	0.76%
Other assets	413 477	1.06%	801 920	2.23%
Non-current assets held-for-sale	12 645	0.03%	12 539	0.03%
TOTAL ASSETS	38 907 984	100.00%	35 990 735	100.00%

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	31.12.2007	% of total	31.12.2006	% of total
	PLN '000		PLN '000	
LIABILITIES				
Liabilities due to central bank	-	-	250 113	0.69%
Financial liabilities held-for-trading	4 373 146	11.24%	3 316 847	9.22%
Financial liabilities valued at amortized cost	28 000 003	71.96%	25 991 136	72.22%
<i>deposits from</i>	<i>26 896 411</i>	<i>69.13%</i>	<i>25 036 782</i>	<i>69.57%</i>
<i>financial sector</i>	<i>7 085 042</i>	<i>18.21%</i>	<i>6 156 605</i>	<i>17.11%</i>
<i>non-financial sector</i>	<i>19 811 369</i>	<i>50.92%</i>	<i>18 880 177</i>	<i>52.46%</i>
<i>other liabilities</i>	<i>1 103 592</i>	<i>2.83%</i>	<i>954 354</i>	<i>2.65%</i>
Provisions	37 548	0.10%	44 378	0.12%
Income tax liabilities	101 889	0.26%	5 687	0.02%
Other liabilities	792 314	2.04%	964 771	2.68%
Total liabilities	33 304 900	85.60%	30 572 932	84.95%
EQUITY				
Share capital	522 638	1.34%	522 638	1.45%
Share premium	3 028 809	7.79%	3 027 470	8.41%
Revaluation reserve	(182 450)	-0.47%	(81 501)	-0.23%
Other reserves	1 454 355	3.74%	1 407 081	3.91%
Retained earnings	779 732	2.00%	542 115	1.51%
Total equity	5 603 084	14.40%	5 417 803	15.05%
TOTAL LIABILITIES AND EQUITY	38 907 984	100.00%	35 990 735	100.00%

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2.1.2 Consolidated profit and loss account

	01.01.2007- 31.12.2007 PLN '000	01.01.2006- 31.12.2006 PLN '000
Interest and similar income	1 976 851	1 632 218
Interest expense and similar charges	(772 431)	(605 817)
Net interest income	1 204 420	1 026 401
Fee and commission income	871 142	721 612
Fee and commission expense	(134 459)	(103 710)
Net fee and commission income	736 683	617 902
Dividend income	5 940	3 659
Net income on financial instruments and revaluation	422 520	315 906
Net gain on investment (deposit) securities	30 086	36 571
Net profit on investment (capital) instruments	47 489	95 846
Other operating income	107 724	128 373
Other operating expenses	(42 659)	(39 617)
Net other operating income	65 065	88 756
General administrative expenses	(1 413 707)	(1 371 372)
Depreciation expense	(108 837)	(130 186)
Profit / (loss) on sale of tangible fixed assets	596	118 316
Net impairment charges	52 556	22 535
Operating income	1 042 811	824 334
Share in profits / (losses) of undertakings accounted for under the equity method	(8 586)	7 780
Profit before tax	1 034 225	832 114
Income tax expenses	(210 010)	(175 058)
Net profit	824 215	657 056
Weighted average number of ordinary shares	130 659 600	130 659 600
Net profit per ordinary share (in PLN)	6.31	5.03
Diluted net profit per ordinary share (in PLN)	6.31	5.03

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2.2 Selected financial ratios

	31.12.2007	31.12.2006
	PLN '000	PLN '000
Total assets	38 907 984	35 990 735
Gross profit	1 034 225	832 114
Net profit	824 215	657 056
Shareholders' equity *	4 778 869	4 760 747
Return on equity*	17.25%	13.80%
Capital adequacy ratio	12.86%	14.10%
Receivables to total assets	54.50%	54.23%
Income generating assets to total assets	93.07%	91.63%
Interest bearing liabilities to total liabilities	83.20%	82.13%

* *excluding current-year net profit*

2.3 Interpretation of selected financial ratios

Changes of the most significant items of balance sheet and income statement of the Group are presented below:

Total assets of the Group as of 31.12.2007 have increased by PLN 2 917 249 thousand (8.1%) compared to 31.12.2006 and accounted for PLN 38 907 984 thousand. On the assets side the increase was mainly connected with an increase in cash and balances with central bank by PLN 2 785 880 thousand (520.1%) and loans and advances by PLN 1 689 155 thousand (8.7%). Both increases were partially off-set by a decrease of debt securities available-for-sale by PLN 1 779 675 thousand (21.6%).

On the equity and liabilities side the most significant influence on the increase of total position balance had the increase of financial liabilities valued at amortized cost by PLN 2 008 867 thousand (7.7%) and the increase in financial liabilities held for trading by PLN 1 056 299 thousand (31.8%). The increase in equity was mainly attributable to the growth of retained earnings by PLN 237 617 thousand (43.8%).

Profit before tax for the year ended 31 December 2007 accounted for PLN 1 034 225 thousand and increased by PLN 202 111 thousand (24.3%), comparing to the year ended 31 December 2006. The increase in the gross profit resulted mainly from the increase in net interest income by PLN 178 019 thousand (17.3%), increase in net fee and commission income by PLN 118 781 thousand (19.2%) and the increase in net trading income and revaluation by 106 614 thousand (33.7%). Those increases were partially off-set by the decrease in profit on sale of tangible fixed assets by PLN 117 720 thousand (99.5%).

Net profit for the year ended 31 December 2007 amounted to PLN 824 215 thousand and increased by PLN 167 159 thousand (25.4%), compared to the year ended 31 December 2006.

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3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

Except for Handlowy Investments S.A., the financial statements of the entities included in the consolidated financial statements were prepared as of the same balance sheet date as the financial statements of the Parent Company. With respect to Handlowy Investments S.A., the requirements of International Financial Reporting Standards as adopted by the European Union were followed.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Handlowy w Warszawie S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No.152, item 1728).

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Consolidation of equity

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent

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Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Handlowy w Warszawie S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Base on our audit we have not identified any significant deviations in the Parent Company's compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 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 consolidated financial statements taken as a whole are free of material misstatements.

3.8 Notes to the consolidated financial statements

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

3.9 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group'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 consolidated financial statements.



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3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2007, we have issued an unqualified opinion.

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

.....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Richard Cysarz,
Member of the Management Board

Warsaw, 13 March 2008