

Warsaw, 12 March 2003

Cezary Stypulkowski
President of the Management Board

Dear Shareholders,

For Bank Handlowy w Warszawie SA 2002 represented a period of continued, intensive activities related to its integration with Citigroup, the largest financial holding in the world. As a result of these actions we have been successful at carrying out the majority of integrative aims, which were outlined after Citigroup acquired a majority interest in the Bank in the year 2000 and after merging with Citibank (Poland) in March of 2001.

Achieving full technological integration of the merged Bank was the most important event in 2002. We achieved this by implementing *FlexCube*, a commercial and investment banking IT system which substituted the *IBIS/AS* and *IBBS* systems previously used at Bank Handlowy and Citibank (Poland). The new system is among the most modern of IT systems currently used in Polish banking while its high functionality is evident by the fact Citibank has decided to implement *FlexCube* in its entities in Europe, countries of Asia and the Pacific as well as the emerging markets group.

In November, the Bank assumed a new trademark “citibank handlowy” common to commercial and investment as well as retail banking operations which until now had appeared under separate brands – Bank Handlowy and Citibank. The entire branch network both corporate and retail banking will carry a common logo supplemented by the Bank’s statutory name. The change to the branch signage will be introduced successively by the end of 2003. This decision closes a certain stage in the history of our institution on the other hand, however, it should positively influence the Bank’s ability to be identified and strengthen its identity as an element of the Citigroup structure. Moreover, the unification of the brand fully reflects the Bank’s strategy as an institution offering a range of financial products for all customer groups under one roof and will give us the opportunity to utilize marketing synergies between the corporate and retail segments of our institution.

The consistent opinion of the majority of bankers was that 2002 was among the most difficult years for the sector from the beginning of the transformation of the Polish economy at the turn of the 80’s and 90’s. Revenues were under strong pressure from decreasing interest rates and hindered business volumes growth such as credits and deposits. The main factor, which influenced the sector profit decrease, was the severe credit risk increase. In the case of corporate credits this pertained to low business feasibility, financial losses or even bankruptcies in this client group while in the case of retail credits the risk was caused by unemployment growth and a drop slow down in the average real wage growth rate. As a result, banks were forced to incur the highest costs of creating specific provisions for problem loans.

Due to the high level of equity capital and the proportionately high credit exposure to corporate sector, Bank Handlowy was particularly vulnerable to the impact of the factors mentioned above. A large share of capital funding limited the possibility of neutralizing the impact of lowered interest rates on the Bank’s net interest income, while corporate loan portfolio was characterized by a greater vulnerability and deteriorated quality than

exposure towards private individuals, which is a phenomenon that has been noted in the entire banking sector. Moreover, the very difficult financial situation of several companies from the construction services sector related, by the way, to the general economic collapse of this sector, forced us to relevantly adjust the balance sheet value of the interests held in these entities.

In response to a sustained pressure on the financial result from the revenue side and the provisioning costs, the Bank had undertaken numerous actions aimed at neutralizing or limiting these disadvantageous trends. Particular emphasis was placed on the process of cost adjustment. As a result of intense cost restructuring and rationalization as well as disciplining current expenses we were successful at maintaining operating costs under control. Among other things, we were able reinstate the principle of disciplining employment costs by limiting their level to the level of fee and commission income.

At the beginning of 2002 a separated organizational unit of the Bank responsible for managing the portfolio of problem loans to large enterprises began its activities. Early detection and taking up the appropriate remedial means on the potential sources of credit losses are among its tasks. In some cases, the execution of this mission required active limitations of credit exposures towards specific sectors and enterprises. At times, these types of decisions received unfavorable opinions from external commentators, however their introduction was always dictated by the financial security of the Bank and the deposits entrusted by its customers. It was thanks to these types of actions that we were successful at avoiding serious credit losses related to the bankruptcy of the Szczecin Shipyard whose impact was so severe for several other banks.

Aside from conducting integrative and restructuring activities we have not neglected pro-developmental ones. Among them, continuing expansion of the product offer and attracting new clients were a priority.

An area of particular pride for us is the complex and technologically advanced product offering in the cash management area. The root of this offering is a palette of sophisticated electronic and Internet banking services among which the constantly perfected *SpeedCollect* and *CitiDirect* systems play a leading role. In 2002 we were the first bank in Poland to introduce pre-paid *Visa Electron* business cards and the *Unikasa* Payment Services Network providing customers with the opportunity to realize bill payments directly at the cash registers of over 100 commercial points.

The past year was prosperous for the Retail Banking Sector which achieved good results in the credit card business. At the end of the year our institution was servicing 426 thousand active credit cards, i.e. 13% more than a year earlier – every other credit card in Poland was issued by Bank Handlowy w Warszawie S.A. In the field of retail banking, the near double rise in the number of customers using the *Citibank Online* Internet system was an important achievement. At the end of the year there were 86 thousand registered users of this system which placed us in second position in the group of banks offering Internet access as a supplemented item to the offer of traditional bank services. In April of 2002, *Citibank Online* moved to the main channel of servicing the Bank's retail customers. The quality of our Internet banking offering, including retail customers as well as corporate entities, also received recognition. Independent experts from the prestigious "Global Finance" magazine ranked our institution the "Best Internet Bank in Poland 2002".

2002 was undoubtedly a period of successes of our offering in the investment banking area. Handlowy Zarządzanie Aktywami S.A. ("HanZA") achieved excellent management results. All of the asset management strategies followed by HanZA beat their corresponding benchmarks. In the period described all assets under management or advice by HanZA doubled and by the end of 2002 amounted to PLN 2.4 billion. During this time our investment fund society Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. ("TFI BH") noted an increase in assets under management by 94% to PLN 783 million. The number of investment funds run by the company increased from 5 to 8. Achieving such good results was possible thanks to effective cooperation with the Retail Banking Sector which has become the main channel for distributing HanZA's services and participating units of the TFI BH funds. This cooperation was an excellent example of a successful utilization of cross-selling opportunities by units of the Bank's Capital Group.

In 2002, the Bank Handlowy business line range was enlarged by the CitiFinancial brand. Under this brand name we have initiated cash loan services to individuals with lower incomes. At the end of the year CitiFinancial had four locations while development plans foresee a nationwide expansion of the chain. Last year we also undertook cooperation with CitiInsurance Towarzystwo Ubezpieczeń na Życie S.A. which was a result of implementing the Citigroup bancassurance strategy for Poland. Currently the CitiInsurance products are offered through the Retail Banking Sector and CitiFinancial channels of distribution.

Today, Bank Handlowy is an entirely different institution from the one that I managed for twelve years. Looking at it from a perspective of two years from its merger with Citibank (Poland) one can see clearly the enormous changes that have occurred in the Bank during this time. Thanks to the hard work of a team of individuals we have become a well-composed part of a huge financial conglomerate. I am deeply convinced that from the phase of integrating with Citigroup we are coming out strengthened and better prepared to compete effectively on the modern financial market.

Currently we are ranked the second Bank in Poland in terms of capital and fourth with respect to the asset size. We are the first bank of choice for large enterprises and the preferred partner for medium sized companies. We are working on developing our presence on the market of servicing small businesses. We are maintaining a leading position in the treasury operations market, are leading in the commercial paper origination market, and we also settle the largest volume of foreign trade transactions and control half of credit card market. Our strategic companies rendering leasing, brokerage and investment banking services are among renowned entities in their segments of the financial market.

New challenges lay ahead of us. We want to stabilize the new structures and solutions implemented during the integration in order to improve their effectiveness and reliability while at the same time, raise the quality of our services. Economic recovery which, I believe, is slowly appearing in our country will validate the accuracy of the financial group model selected on the basis of which we transformed our institution in recent years. The main criteria of this validation will be the capacity to increase the scale of operations and increase revenues on business activities. On behalf of the Bank's management I would like to assure you that we will put all efforts forth to meet these challenges. Most surely, our potential predestines us to play a leading role in the Polish banking sector with benefit to our Shareholders and Customers.

Dear Shareholders, on behalf of the Management Board of Bank Handlowy w Warszawie SA I would like to thank you for the trust you have bestowed in our institution.

I would also like to express my gratitude and appreciation to Bank Employees and the companies of the Capital Group for their diligent and effective work. I thank our Customers for their cooperation and wish satisfaction from using our services in the future.

Sincerely,

Cezary Stypułkowski