Cezary Stypułkowski
President

Warsaw, 25 March 2002

Dear Shareholders

2001 was without doubt a historic year for Bank Handlowy w Warszawie S.A. After more than six months of preparations, on 28 February, Bank Handlowy merged its operations with those of Citibank (Poland) S.A. The merger placed the combined bank at the top of the league table in terms of capital base and places us amongst Poland's largest banking institutions in terms of asset base.

The merger has strengthened Bank Handlowy's market position in some of the key business areas. For example, in the corporate banking business, Bank Handlowy now enjoys a dominant position in Poland in servicing large multinational corporations and is one of the largest provider of custody services. The merger results in an expanded range of products that we are able to offer large local corporations – in particular in the areas of account management and trade finance. We have further strengthened our position as Poland's largest debt originator. In the consumer banking business the merger has doubled our number of customers giving economies that will benefit customers and shareholders.

In a relatively short period of time we have been able to unify the product ranges of the two banks, both in the areas of consumer and corporate banking. Our successes are borne out by several prestigious awards. In September "The Banker" named us "Bank of the Year 2001 for Poland". Another international magazine – "Euromoney" – named us "The Best Debt House in Poland".

The merger and further increase in the shareholding of the Bank's strategic investor increased the pace of integration and adjustment to the requirements and standards set within Citigroup.

We have adopted an aggressive schedule for the implementation of new unified IT systems. The migration of Handlobank to a new system was completed in April. At the end of September we commenced a move of our corporate business to a new platform. The completion of this process, planned for the year 2002, will make us the largest Polish bank using a modern, fully integrated, on-line IT system to meet the demands of the 3rd millennium. These IT solutions will undoubtedly be a source of significant competitive advantage for the Bank, and will enable us to provide our customers with state of the art, modern, world class banking products.

One of our greatest achievements in 2001 was the centralisation of settlement operations in the new Olsztyn Settlements Centre. The process, initially expected to take two years, was greatly accelerated due to the planned implementation of Flexcube – the Bank's new integrated and centralised IT platform. It is mainly the establishment of the Olsztyn Centre that allowed us to cut costs of operations and personnel, primarily through the reduction of our staff level by nearly 800.

Immediately after the merger we have implemented a new organisational structure. Within the new structure we have created teams responsible for serving different customer segments and teams responsible for development and sales of different product families. The structure will enable us to closely tailor our products to the needs of different customer segments. I am strongly convinced that through this structure we will strengthen existing customer relationships and acquire new customers in a more cost-effective manner.

In addition to lowering our product development and customer service costs the merger should allow us to significantly boost sales volumes. Further cost and revenue synergies should be anticipated as full integration of the consumer and corporate businesses progresses in 2002. Our aim is to significantly increase cross sales of products offered by corporate and consumer business and the products offered by our affiliated and subsidiary operations.

Overall, despite the temporary difficulties experienced by some of our customers, for which I would like to apologise most sincerely, the formal integration of Bank Handlowy and Citibank (Poland) S.A. was a fast and efficient process. In ten months we have achieved more than some of the other institutions going through a similar process have been able to achieve in several years. Having in mind the satisfaction of our customers we want to concentrate our efforts in 2002 on improving further our internal procedures, customer service levels, staff competencies and our products.

In 2001 the Bank has operated in economic conditions significantly tougher than those experienced in recent years. The backdrop to these conditions included a rapid fall in GDP in most industrialised countries, adverse economic impact of the 11 September attack and a significant drop in capital inflows to developing countries.

The negative effects of these developments, albeit to a limited extent, were also experienced by Poland. They manifested themselves in a drop of internal demand and a deterioration of price terms for Polish exports, rapid fluctuations of the zloty exchange rates during the summer, a nearly 30% drop in foreign direct investments and a drop in turnover and prices on the Warsaw Stock Exchange.

The effects of the negative external factors were further compounded by a general deterioration in the Polish economy. Economic slowdown, drop in the industrial production growth rate and growing unemployment combined with a significant drop in the inflation rate forced the central bank to change its monetary policy and make several significant cuts in the base interest rates. However further reductions were not encouraged by the gradually rising budget deficit, which in the closing months of the year presented a major threat to the stability of the Polish economy.

Adverse economic conditions exerted a major influence on the Bank's financial results. Demand for credit from customers in the corporate sector was weaker than originally anticipated. Additionally, it was necessary for the Bank to tighten credit controls given the poor corporate financial performance reported in a number of sectors. Overall this resulted in slower growth of interest-earning assets than of interest-bearing liabilities, which were mainly driven by the fast inflow of customer deposits. The cost of safeguarding the Bank's assets in these tough economic conditions was inevitably a general reduction in the profitability of operations.

Our ability to freely shape prices for the Bank's services, in particular those linked to interest rates, was severely restricted. The drop in market interest rates, combined with the changes in the Bank's balance sheet structure resulted in net interest income growing by only 2% and resulted in a fall in the net interest margin – from 4.4% in the previous year to 3.3%.

On the other hand, the rapid growth of the non-interest income and the rise of its share in total revenues was a very positive development for the Bank. Despite the difficult macro and microeconomic situation the Bank was able to further diversify its revenue stream and in part substitute reductions in interest income with more stable fee income and FX gains on customer transactions.

Despite a 35 % fall in revenue in 2001, the Bank's net profit of 164 million zloty, fell at a lesser rate of 21% (or 41 million zloty). This decline in performance is accentuated in our reported profitability ratios due to the significant increase in capital and total assets that results from the merger with Citibank (Poland) S.A.

The level of net profit was significantly influenced by two factors: charges to provisions and taxation. Due to the deterioration in the financial condition of some of our major customers it was necessary to create further specific provisions to cover the increase in credit risk on loans extended to those customers. The second factor was an additional charge made for taxation by anticipating the lower legislated rate of taxation on loan losses that we assume will be tax deductible in the future. This added approximately 60 million zloty to the tax charged against our result for the year.

Against this we should evaluate very positively the synergies achieved through restructuring and rationalising our operating expenses, which do not differ markedly from amounts planned and which have shown only moderate growth. Furthermore, it is noteworthy that benefits from certain expenses incurred in 2001, including general expenditure cuts and staff downsizing, will not begin to flow or be visible before 2002.

It is the ambition of the both the Bank’s management and all of its employees to build not only the most modern, but also one of the most efficient and profitable banking institutions in Poland. I am deeply convinced that our achievements of 2001 and the realisation of our plans for 2002 will help us lay a solid foundation for stable and long-term growth of our institution and to strengthen its leadership role in the Polish financial services sector.