

Letter from the President of the Management Board to the Annual Report of Bank Handlowy w Warszawie S.A.

Dear Shareholders and Clients,

I am honored to present to you the annual report summarizing the financial results for 2016 of Bank Handlowy w Warszawie S.A., operating under the Citi Handlowy brand. Another year has passed by, a year full of market challenges, many of which we managed to turn into accomplishments. As a financial institution deriving from the tradition of the oldest commercial bank in Poland, we have uninterruptedly supported the Polish economy, remaining a trustworthy partner for our customers, offering financial services facilitating their expansion. The credit for our achievements last year is largely due to the qualified and talented staff with whom I have the pleasure to work.

The macroeconomic environment was difficult. Poland witnessed a slow-down of economic growth, reaching just 2.8 percent, down from 3.9 percent in 2015, mainly attributable to a decline in investments. Weaker investment activity was, to a certain extent, connected with a lower inflow of EU funds and growing uncertainty related to the future conditions of conducting business. At the same time, thanks to a good situation on the labor market, as well as payouts under the Polish government's 500+ child benefit scheme, private consumption rose by 3.6 percent. The introduction of the tax on assets of certain financial institutions resulted in higher costs of banks' operations in Poland.

An important event of 2016 was the S&P agency downgrading the long-term rating for Poland from A- to BBB+ in January. This decision led to a visible increase in bond yields and the weakening of the Polish zloty, increasing volatility on financial markets. What is more, in the domestic interest rate market, after several years of cuts and reaching record low levels, the trend reversed. The increase in bond yields was due to an inflation rebound in Poland and other European countries, as well as the outflow of portfolio investments from emerging markets, which took place, among other things, in response to the expectations of interest rate hikes by the US Federal Reserve (the Fed). The market situation and companies' eagerness to invest were significantly determined by a considerable increase in uncertainty as to the situation in the world's biggest economies after the referendum on Brexit and the presidential elections in the US.

In such a demanding market context, Citi Handlowy reported a consolidated net profit of PLN 604 million: ROTE at 12.3 percent and ROA at 133 bps vs. 7.9 percent and 83 bps respectively in the banking sector overall). We remain one of the most stable and strongest banks in Poland.

The Tier 1 ratio for Citi Handlowy amounted to 17.2 percent (vs. 15.9 percent for the entire sector). Thus, we meet the general criteria announced by the Polish Financial Supervision Authority (KNF) at the beginning of December 2016, allowing us to pay a dividend, in line with our strategy. That makes us a reliable partner for our shareholders, customers and employees.

Our customer business has developed favorably. Citi Handlowy remains the first choice bank for international companies operating in Poland. In the Corporate Banking segment, we owe our growth to both a larger number of clients and a broader scope of cooperation. In accordance with the declaration announced a year ago, our loan activity for companies grew faster than in the banking sector overall, by more than 9 percent. We financially supported our clients with more than PLN 7 billion, by originating over 400 new loans. In this area we see the source of our further growth.

The Bank has been consistently promoting Poland's market and actively contributing to the implementation of the national debt issuance policy. The Bank's special achievement in terms of financing customers from the Corporate Banking segment was the role of co-provider in two benchmark issues of EBI bonds: 5-year bonds with a face value of PLN 1.75 billion were successfully issued in April 2016, while 10-year bonds with a face value of PLN 1.1 billion were issued in September 2016. In January 2016, the Bank took the first place in a competition organized by the Ministry of Finance to select Treasury Securities Dealers (DSPW) for 2016. This distinction, presented to us for the fourth time, is a confirmation of our position of best bank in this market segment.

In May 2016, Citi Handlowy received two prizes granted by BondSpot S.A. For another year in a row, the Bank was distinguished for having the biggest turnover in the Treasury BondSpot Poland market, and for gaining the position of market making leader at Treasury BondSpot Poland in 2015. Citi Handlowy also maintained its position as the best bank on the custodian institutions market in Poland, with a 40 percent market share.

Citi Handlowy is continuously focused on innovation and safety. CitiFX Pulse is still the No. 1 FX online platform, and in 2016 it was enriched with a new feature – Citi Handlowy integrated the SEPA direct debit with the platform. This solution allows companies carrying out cyclical settlements with contractors from the euro zone associated with imports, logistics and transport, administrative charges, local taxes and others, to entirely automate payments and limit the risk of delays. Another noteworthy innovation on the corporate side is the CitiMobilePass application, which is an easy, quick and safe manner to authorize operations executed in the CitiDirect transaction service. After less than two months since its launch, over 40 percent of customers with MobilePass are actively using it.

With regard to the area of retail banking, Citi Handlowy has been developing its Smart Banking Ecosystem, which it started to implement as the first bank on the market in response to the ever-changing needs of its customers and the evolution of technology. In November 2016, Citi Handlowy launched mobile sale and service outlets, called Mini Smarts. It is a format that literally “follows” customers, taking advantage of the short-term sales potential of various locations. Having only 12 square meters, MiniSmart branches offer all functionalities. MiniSmart branches are fully mobile, while their functionalities and construction make it possible to relocate a branch to any other place in Poland within just two or three days.

In 2016, the role of online sales increased: credit card sales grew by 47 percent compared to 2015, while online sales of loans and installment products jumped by 147 percent year-on-year.

The results of Citi Handlowy's Universal Bankers (currently more than 100) look equally good, where credit card sales recorded a 121 percent increase year-on-year. Credit cards acquisition also grew in all distribution channels – by as much as 36 percent over 2015. Such a considerable increase was an effect of the Bank's intense activities in the scope of acquisition, by making the credit card offer more attractive. Citi Handlowy also took second place in the black credit card ranking prepared by the Forbes magazine.

At the end of 2016, Citi Handlowy was at the final stage of implementing a new release of the Citibank® Online transaction service platform for retail customers. The project was developed in close co-operation with the Bank's customers (including through focus groups and testing). The platform features a modern and intuitional design, the RWD (Responsive Web Design) technology, allowing customers to use it on mobile devices, and a number of other innovative functionalities that were made available to customers in the first quarter of 2017.

Forbes also once again recognized Citi Handlowy's private banking, which obtained the highest score in a prestigious ranking prepared by the magazine. Given the growth rate of the private banking segment, in December 2015 Citi Handlowy as the first bank in the market, introduced a Citigold Private Client offering for clients with portfolios of PLN 3 million. As compared to 2015, the Bank recorded an increase in the number of customers in the Citigold Private Client segment by 38 percent and in the Citigold segment by 17 percent.

The very positive opinions of Citi Handlowy's customers are confirmed in NPS (Net Promoter Score) surveys, where the score of the Bank's online banking system (Citibank® Online) is at 30 percent, and the score of Citiphone is at 56 percent. Both indices increased by 10 pp year-on-year.

What constitutes our strength is our qualified and talented employees. It is them who—thanks to their engagement, experience and talents—make this a unique organization. That is why we take into account their opinion, which we ask them for every year in an internal survey called “Głos Pracownika” (Voice of the Employee). Last year, as many as 88 percent of respondents positively assessed the ethical culture of our organization, while 81 percent believed that it supported diversity. We take care of our employees by creating the best working conditions for them, by noticing talent and nurturing their development at all levels of the organization, and by offering possibilities of professional development within the global Citi structures. Because of all of this, we can boast the opinion of the employer most eagerly chosen by potential employees (Employer of Choice).

We are a socially responsible company. For the tenth time, since the first edition, we have been uninterruptedly included in the prestigious RESPECT Index. The list includes companies listed on the WSE that operate in line with the highest management standards in the scope of corporate governance, information governance and relations with investors, also taking into account environmental, social and economic factors. Since 2014, Citi Handlowy has also been a member of the prestigious MSCI Global Sustainability Index, which is an index of companies with high standards in the areas of corporate governance, environmental protection and corporate social responsibility.

Our social responsibility commitment is manifested through Poland's largest nation-wide and local educational programs and social projects, which we carry out through the Kronenberg Foundation at Citi Handlowy, which in 2016 celebrated its 20th anniversary, and with the support of the Citi Foundation. These activities develop local entrepreneurship and support the

financial education of young people in a real manner. Under the Employee Volunteering Program, coordinated by the Kronenberg Foundation, our volunteers managed to help more than 33,000 people in need, executing a record-breaking number of 256 projects. This is one of the largest and best perceived volunteering programs in Poland. As a leader and innovator, not only in the field of banking, but also in the area of CSR, we take into account the dynamics of changes in social and technological conditions, promoting the initiatives of the start-up environment, as well as young people developing their own business ideas and women who intend to pursue their own businesses.

While presenting to you the annual report for 2016, I would like to again emphasize the special contribution of our employees to the results and achievements of Citi Handlowy, as well as to offer thanks for the engagement and trust with which we are favored by our customers and shareholders. I would also like to express my acknowledgement to the members of the Supervisory Board for supporting the strategy carried out by Citi Handlowy – on my behalf and on behalf of the entire Management Board.

Sławomir S. Sikora
President of the Management Board