



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

Dear Shareholders and Clients,

It is with great pleasure that I present the annual report of Bank Handlowy w Warszawie S.A. for 2014. In that reporting period the stand-alone net profit generated by the Bank increased by 4% versus prior year to PLN 971.4 million. The result provided a basis for the Management Board's decision to recommend an increased dividend payment for 2014 in the amount of PLN 7.43 per share. From the perspective of the Consumer Bank the year 2014 was a time of dynamic transformation towards the Smart Banking Ecosystem, with the number of our outlets operating in this new format rising more than fourfold. Our strong position was confirmed by the stress test results announced by the Polish Financial Supervision Authority at the end of October. The high ratios demonstrated by the Bank in that test prove our reliability and stability. I believe that the achievements of the past year demonstrate that we had prepared the Bank well to withstand rough financial markets and the year 2014 was a good year for our Clients, investors as well as employees.

The year 2014 saw accelerated growth in Poland's economy, thanks to both recovery in investments and continued upsurge in consumption. It was also a time of a gradual improvement in the labor market, manifesting itself in declining unemployment and rising wages. It should be emphasized that Poland's economy proved resistant to unfavorable developments in its external environment. The conflict in Ukraine, sanctions affecting trade with Russia and the temporary slowdown in Germany did not prevent Poland from achieving a growth rate over 3%. Simultaneously, inflation was on the wane, leading to interest rate cuts by the Monetary Policy Council to all-time low levels: 2% for the reference rate and 3% for the lombard rate. This is a serious challenge for the banking sector as interest income accounts for the vast majority of banks' profits.

In 2014, the Bank reported a net profit of PLN 971.4 million. As a result of the Management Board's consistent policy operating expenses as well as general administrative expenses and depreciation dropped by PLN 82.0 million, i.e. 6% y/y. In turn, the key financial ratios achieved by the Bank are significantly above the sector levels: ROA was 2.0%, and ROE – 15.3%. Citi Handlowy also retained a strong and safe capital base, with its capital adequacy ratio at 17.2% and loan to deposit ratio equal to 59%. The Non-performing Loan (NPL) ratio also decreased by 2.3 percentage points to 4.5% as of year-end.

The year 2014 was a landmark in the development of the Smart Banking Ecosystem. Over the last 12 months, 10 new Smart outlets were opened in the six major cities in Poland. The Smart network has now 13 outlets, with new openings planned in 2015. These advanced outlets demonstrate significant efficiency. The number of clients who visited our Smart outlets in 2014

was 2.5 times higher and those clients bought 7 to 10 times more products as compared to traditional branches. The transformed distribution network also contributed to an increase in volumes in the asset product group. Year on year, the balances of mortgages and cash loans rose 16% and 15%, respectively, while the sales of unsecured loans increased by 54%. Following the market needs, we launched an innovative credit card for travelers, Citibank PremierMiles, which was already named the best card in the “Card for Poland in 2015” contest.

At the same time, the Bank was also expanding its proposal for the segments of *affluent* and *emerging affluent* clients. These initiatives translated into a 10% increase in the Citigold client base, who were more and more interested in investment products. In 2014, their sales rose 18% y/y and the balance of funds accumulated in investment products increased by 15% y/y. Over the last 12 months, the Bank also introduced the first comprehensive service for VIP clients, i.e. CitiPriority, which covers individualized investor, credit and business packages, with access to benefits connected with global banking. Today, CitiPriority is opted for by 80% of new deposit clients.

The past year was a very successful period for the Bank, both in treasury operations and in transactional banking and trade finance. For the third time in a row, Citi Handlowy was ranked first in the competition for the function of Treasury Securities Dealer (TSD) organized by the Ministry of Finance. The online transactional platform, CitiFX Pulse, gained popularity with our clients. In 2014, it processed 74% of foreign exchange transactions. In the transactional banking and trade finance segment, we saw a double-digit increase in the volume of international payments and trade receivables. Citi Handlowy gained recognition of the companies taking part in the 2014 Euromoney Cash Management Survey, which voted Citi Handlowy as No. 1 Cash Manager in Poland.

In 2014, Citi Handlowy consistently supported companies that were striving to expand their operations internationally and to implement a global approach to business. Citi Handlowy took part in some key transactions executed in the market last year: it was one of the banks cofinancing investment projects of KGHM Polska Miedź, it was a member of international consortium of banks which ensured financing to PKN Orlen and, in cooperation with Citi, it was in charge of providing a fairness opinion for the purposes of acquisition by Polskie Górnictwo Naftowe i Gazownictwo of shares in deposits of oil and gas in Norway. Under the strategic Emerging Markets Champions program, the Bank supports today 47 Polish companies developing their business in global markets. The Bank also cooperates with 300 global corporations investing in Poland. Citi Handlowy organized, jointly with the Kronenberg Foundation, the first edition of the Emerging Market Champions contest, the aim of which is to award Polish companies running successful operations outside Poland. The winner of the 2014 edition was KGHM Polska Miedź.

The year 2014 was also a time of intensified acquisition efforts. In the Commercial Banking segment, the Bank attracted 455 new clients and, at the same time, it consolidated its position of the leader in the segment of services for public sector entities. Over the last 12 months, the Bank signed agreements, for example, with the Polish Radio, Polish Television, City of Jaworzno and the Medical University of Gdansk. The Bank also became involved in providing funds for eco-investments. In 2014, within the framework of cooperation with KfW (Kreditanstalt für Wiederaufbau), Citi Handlowy signed 90 agreements, for over PLN 100 million, to finance investments of small and medium-sized companies and local governments.

Dom Maklerski Banku Handlowego (Brokerage House of Bank Handlowy) was once again No.1 as regards equity trading volumes in the secondary market in 2014 and for the six year in a row, it received the Award of the Warsaw Stock Exchange. Those equity trading volumes totaled PLN 56.18 billion. And our Brokerage House increased its share in that market to 13.2%. (i.e. by 0.6 pp), outdistancing the second brokerage house in the ranking, whose market share was 8.9%. In 2014, our Brokerage House also executed the largest call on the Warsaw Stock Exchange since 2011. It was launched by BNP Paribas S.A. to repurchase the shares of Bank Gospodarki Żywnościowej, and totaled PLN 4.1 billion.

As a socially responsible company, Citi Handlowy was for the eighth time in a row included in the prestigious RESPECT Index, published by the Warsaw Stock Exchange. We have been ranked in this index since the first edition, which we take as an external confirmation of the fact that our socially responsible policy and high corporate governance and investor relation standards are well perceived by market participants and reinforce their confidence in our company. Since 2014, Citi Handlowy has also been covered by the prestigious MSCI Global Sustainability Index – which gathers companies adhering to high standards in the areas of corporate governance, eco-friendliness and corporate social responsibility.

For more than ten years now, via the Kronenberg Foundation at Citi Handlowy, we have been implementing numerous programs related to financial education, national heritage and employee volunteering. In the field of financial education, we run the “My Finance” program, which is the largest financial education initiative in Poland, in terms of participants. We also support efforts aimed at strengthening the financial independence of women who are victims or potential victims of economic abuse. We promote the idea of entrepreneurship also among micro-business, for example through the “Microentrepreneur of the Year” contest which we have been running for 10 years. As a bank with over 140 years history we also actively support initiatives to protect Poland’s national heritage. In cooperation with the Ministry of Culture and National Heritage we carry out a program to recover cultural property lost by Poland during World War II. Every year, we also bestow the Professor Aleksander Gieysztor Award for outstanding contribution to the protection of national cultural heritage. The Employee Volunteering Program of Citi Handlowy is one of the largest and best perceived volunteering initiatives in Poland, from which other companies and institutions draw inspiration for their own volunteering projects.

As I am handing over our annual report for 2014 to you, I would like to thank you for your trust and confidence. It is you – our Clients and Shareholders – to whom we owe our successes in 2014. We would not have achieved them without the commitment and professionalism of all our employees, to whom I also offer my sincere thanks. On behalf of the whole Management Board, I also would like to express our appreciation to the Members of the Supervisory Board for their expert support and contribution that boost the continuous development of the Bank and the successful implementation of our strategy.

Sławomir S. Sikora
President of the Management Board
Bank Handlowy w Warszawie S.A.