



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

Dear Shareholders and Clients,

I present to you the annual report which summarizes the financial results of the Capital Group of Bank Handlowy w Warszawie S.A. in 2017. Yet again, we confirmed that we remain a trustworthy partner for our clients, supporting their development and market expansion.

It was a good year for the Group. In terms of volumes, we reported growth: we achieved higher revenues in client operations (increased by 8% YOY), supported by an increasing volume of consumer loans (6% YOY) and corporate loans (5% YOY). We also reported positive results in strategic areas: we remain the leader in wealth management, increasing the sales of investment products by 44% YOY. We achieved a consolidated net profit at the level of PLN 536 million. We have the best International Banking in Poland: the assets of the global clients of Citi Handlowy increased by 37% YOY. Thus, we remain the bank of first choice for the international companies operating in Poland.

This success has been supported by our motivated and future-focused Citi Handlowy team, which I have a pleasure to lead. Thanks to its diversity supported by our corporate culture, we can successfully face the challenges of dynamic changes on the market.

2017 was marked by the improving global economic perspectives and was the first one in 4 years when the forecasts of global GDP growth were revised upwards. It was beneficial also for the Polish economy, which grew at the rate of 4.6 percent YOY last year as compared with 2.9 percent a year before. Such growth was driven by a strong consumption growth and signs of growth in investments, including infrastructure investments. A growing demand for workforce led to a stronger decrease of the unemployment rate to record low levels, and resulted in a gradual materialization of pay pressure. However, due to the limited impact of increase in remunerations on inflation so far, the Monetary Policy Council (RPC) upheld interest rates and they remained flat throughout 2017.

The improving macro-economic situation, both in Poland and worldwide, as well as positive sentiment on financial markets provided an additional support for the key projects carried out by the Group in strategic areas and for its financial performance. Citi Handlowy maintained the capital security of the Bank and expense discipline at a high level, despite investments in high technology and expenses for marketing activities, which raise brand awareness. Thus, we remain one of the most stable and strongest banks in Poland. The key effectiveness ratios achieved by the Group are significantly above the banking sector levels: ROTE reached 10.6 percent, ROA – 1.2 percent (vs. the sector's average at 7.2 and 0.8 percent, respectively). The solvency ratio for Citi Handlowy was 17.9 percent, i.e. above the Polish Financial Supervision Authority's (KNF) requirements to pay out dividend for 2017, which makes it justified for us to maintain the Group's existing dividend policy. Thus, we are consistently building our value as a reliable institution for our shareholders, clients and employees.

In consumer banking, Citi Handlowy continued to develop and promote electronic channels. In March 2017, we put into use a new system of online transaction services Citibank Online. The project implemented with the use of the agile methodology, has successfully addressed the needs of our clients and made our services even more available. Based on a responsive web - design (RWD) technology, the platform adapts to the device used by the client. Citibank Online offers more than 300 new functions, including the management of the credit card and installment products. It also includes an investment panel, which enables monitoring of the current condition of client's investment portfolio and its history. The new, "more on-line" banking has been appreciated by our clients – as at the end of the year, the number of them logging into the system via smartphones increased by 44%.

Our modern platform is also proving effective in acquiring new users. Today, remote channels are already a prevailing tool in this area. The number of credit cards acquired through on-line campaigns rose by 20% compared to 2016, and constituted 40% of the total number of new cards issued by the Bank. Digital users represent currently almost 73% of all clients executing transactions, which means an increase by nearly 1 p.p. against 2016.

At the end of January 2018, we introduced Google Pay (formerly Android Pay) for mobile payments, used within the first three weeks from their implementation by 4 thousand clients, who executed over 30 thousand transactions.

A consistently implemented strategy of digitization of banking services by Citi Handlowy was supplemented with the application "SPEED" for relationship managers, which makes it possible to completely eliminate paper documents by relying on electronic signatures and communication via SMS and e-mail.

Citi Handlowy was the first bank in Poland to launch a new offer for institutional clients in e-commerce segment. In cooperation with Polish startups, we developed a solution for companies operating on-line, which supports their dynamic development and helps them conquer new foreign markets. Citi Handlowy offers on-line retailers an automated process for reconciliation of receivables, which enables quick and secure settlement of many forms of payment (transfer, card, and cash) in different currencies.

2017 was beneficial for our client business in the Institutional Banking segment. The group of key clients covered by the Emerging Market Champions program expanded and reached 425 as at the end of December 2017. Relationship banking remains a strong pillar also in that area of our activity – its effectiveness is reflected in a 16% increase of the average balances on institutional client's operating accounts. Trade finance also recorded a growth in assets (18% YOY) due to such solutions as letters of credit, guarantees and trade finance program. As a result, Citi Handlowy won a prestigious Euromoney Cash Management award for the best transaction services for the fourth consecutive year.

In financial markets, the Group still continues to be the leader in the area of treasury operations. For the seventh time in a row, Citi Handlowy won the competition organized by the Ministry of Finance for the Treasury Securities Dealer (DSPW) 2017, which confirmed the Group's consistency in promoting the Polish market and its active contribution to the implementation of the national debt issuance policy.

While always focusing on innovativeness and security, the Group maintained a strong position in the FX transaction volume. 80% of all FX transactions are executed via the e-platform CitiFX Pulse.

The Brokerage House of Citi Handlowy (DM Citi Handlowy) was the second best brokerage house in the capital market in terms of its share in equity trading on secondary market at 9.5% and regained the leader's position at the beginning of 2018. Last year, DM Citi Handlowy acted

as intermediary in the call for Uniwheels AG shares (the transaction value reached PLN 2.7 billion), was a global coordinator and offeror in the process of an accelerated sale of newly issued common shares of CCC S.A. (the transaction value reached PLN 530 million), and was a demand bookrunner in the process of sale of own shares of Cyfrowy Polsat by EBRD (the transaction value reached PLN 384 million).

As a financial institution enjoying public trust we have a high sense of social responsibility. Our mission in this area is fulfilled through programs coordinated by the Kronenberg Foundation at Citi Handlowy. The activities in the area of financial education are of the highest priority. We believe that the best client from a bank's perspective is a client who is educated in finances and understands the mechanism of the world of banks and of the services they offer; a client who also has knowledge on public finance, monetary policy and social insurance system. "My Finances" (Moje Finanse) financial education program addressed to the youth carried out in cooperation with the Junior Achievement Foundation is the largest program in Poland in terms of the number of its beneficiaries – every year, we provide more than 100,000 young people with practical competencies in personal finance management. A one-year, intense preparatory course of navigating efficiently in the market economy has already been attended by over 1.5 million students from over 1,500 upper secondary schools. Our efforts in the field of social responsibility were acknowledged in the 11th edition of the prestigious RESPECT Index ranking. We are one of two banks in Poland which have been present in every edition of the ranking since it was launched.

This year is the first time that we have presented our social responsibility activities in Citi Handlowy's non-financial data report (*Non-Financial Statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2017*), which forms an integral part of the annual report. You are most welcome to read it.

While presenting to you the annual report for 2017, on my own behalf and on behalf of the entire Management Board, I would like to express my acknowledgement and appreciation for the Members of the Supervisory Board for their support in implementing the Group's strategy. I would also like to thank our clients and shareholders for their loyalty and trust. Further, I would like to address our employees and thank them for their commitment, respect for our shared values and contribution to the results and the success of the Capital Group of Bank Handlowy w Warszawie S.A.

Sławomir S. Sikora
President of the Management Board