Citi Handlowy – Sustainable Growth in Volatile Markets

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CEO

Copenhagen, 14th December 2011
Despite external shocks Poland’s economic growth holds well in 2011.

- Growth supported by relatively resilient private consumption and gradual investment recovery.
- European Commission forecasts 2012 economic growth at 2.5% in Poland (third highest growth in EU).

Sources: European Commission forecasts, GUS, NBP, Citi Handlowy forecasts.
Expected rate cuts unless Zloty weakens further

**Foreign trade**

- Weakening of global demand especially in the euro zone should result in slowdown of foreign trade turnover, output growth and weakening of labour market

- Inflation likely to fall gradually in the coming months towards the central bank target

- The zloty weakened versus euro by around 12% since June

- MPC to cut rates three time by 25 bp in 2012 unless Zloty remains under pressure and weakens further

**Central Bank Rate and Consumer Price Inflation**

**FX market**

**Sources:** Eurostat, European Commission forecasts, Bloomberg, Citi Handlowy
Fiscal tightening under way

Sovereign Debt Ratings

<table>
<thead>
<tr>
<th></th>
<th>S&amp;P</th>
<th>Fitch</th>
<th>Moody's</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LTFC</td>
<td>Outlook</td>
<td>LTFC</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>BBB</td>
<td>Stable</td>
<td>BBB-</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>AA-</td>
<td>Stable</td>
<td>A+</td>
</tr>
<tr>
<td>Hungary</td>
<td>BBB-</td>
<td>Negative</td>
<td>BBB-</td>
</tr>
<tr>
<td>Poland</td>
<td>A-</td>
<td>Stable</td>
<td>A-</td>
</tr>
<tr>
<td>Romania</td>
<td>BB+</td>
<td>Stable</td>
<td>BBB-</td>
</tr>
</tbody>
</table>

- Poland’s public debt well below euro area levels
- Government presented a plan of substantial structural reforms aiming to cut fiscal deficit towards 1% of GDP in 2015
- Poland is one of few EU countries that has a real chance to see rating outlook raised to „positive” in the coming months

Sources: Eurostat, European Commission forecasts, Bloomberg, Citi Handlowy
Polish banking sector – 2012 risks

**Liquidity**

Customer loans to deposits ratio

**External funding**

Due from/to non-resident financial institutions

**FX mortgage portfolio**

Mortgage loans portfolio structure

**Paradigm shift**

Market cap as % of parent

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>2007</th>
<th>Nov. 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pekao SA (UniCredit)</td>
<td>18%</td>
<td>59%</td>
</tr>
<tr>
<td>BRE (Commerzbank)</td>
<td>20%</td>
<td>36%</td>
</tr>
<tr>
<td>ING (ING Group)</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Citi Handlowy (Citigroup)</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Millennium (BCP)</td>
<td>21%</td>
<td>109%</td>
</tr>
<tr>
<td>Kredyt Bank (KBC)</td>
<td>4%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: ECB, Eurostat, European Banking Authority, Banks financial statements, relevant stock exchanges, PFSA, NBP, own calculations.
Promising market for investors

### Attractive returns
**ROE (2010)**
- **Poland**: 10.2%
- **Eurozone**: 3.3%
- **Denmark**: 2.4%

### Room for growth
**Banking assets/GDP (2010)**
- **Denmark**: 387%
- **Eurozone**: 324%
- **Poland**: 85%

### High stability
**Tier 1 ratio (2010)**
- **Denmark**: 14.1%
- **Poland**: 12.6%
- **Germany**: 11.4%
- **Spain**: 10.9%
- **France**: 10.9%
- **Greece**: 10.8%
- **UK**: 9.6%
- **Italy**: 8.7%
- **Portugal**: 8.3%

### Capital shortfall of European banks ($ bn)
- **Greece**: 40.2
- **Spain**: 35.1
- **Italy**: 20.6
- **Germany**: 17.6
- **France**: 9.8
- **Portugal**: 9.3
- **Belgium**: 8.5
- **Austria**: 5.3
- **Poland**: 0.0
- **Other**: 7.4

**Total**: $ 153.8 bn

*Source: ECB, Eurostat, European Banking Authority, own calculations*
Citi in Poland

- **Bank Handlowy w Warszawie S.A**
  - Leading corporate Bank
  - #1 in credit cards
  - 6 M FTEs

- **Dom Maklerski Banku Handlowego** *(Brokerage House)*
  - #1 in Polish brokerage market with 12% market share

- **Center of Excellence**
  - Services for Citi entities in 54 countries worldwide, in 24 different languages
  - 1.4 M FTEs

- **Listed on Warsaw Stock Exchange**
  - Market cap $3.1 bn

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**Shareholding structure**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>COIC</td>
<td>75%</td>
</tr>
<tr>
<td>Other</td>
<td>25%</td>
</tr>
</tbody>
</table>

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### BANK HANDLOWY ACQUISITION BROUGHT SCALE AND SYNERGY

**BANK HANDLOWY W WARSAWIE SA**

BHW had strong local relationships and well placed local network

Citi had global clients, global products and global network

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**Bank Handlowy** vs. **Citibank** vs. **Citi Handlowy**

<table>
<thead>
<tr>
<th></th>
<th>Bank Handlowy</th>
<th>Citibank</th>
<th>Citi Handlowy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2001</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>$7.2 bn</td>
<td>$3.9 bn</td>
<td>$12.9 bn</td>
</tr>
<tr>
<td><strong>Corporate Customers</strong></td>
<td>4 M</td>
<td>2 M</td>
<td>6.7 M</td>
</tr>
<tr>
<td><strong>Consumer Customers (incl. cards)</strong></td>
<td>145 M</td>
<td>174 M</td>
<td>1,000 M</td>
</tr>
<tr>
<td><strong>Branches</strong></td>
<td>156</td>
<td>8</td>
<td>154</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>4.7 M</td>
<td>0.8 M</td>
<td>6 M</td>
</tr>
</tbody>
</table>

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*Note: Constant PLN/USD rate 2.9. Data as of 3Q2011 unless otherwise stated*
Citi Handlowy – four pillars of strategy 2010-2012

**BUSINESS MODEL**

- Operating accounts of individual clients (M)
  - 2010: 129.0
  - 9M 2011: 162.8
  - Increase: +26%

- Operating accounts of corporate clients (M)
  - 2010: 2.4
  - 9M 2011: 2.6
  - Increase: +5%

- Corporate loans ($ bn)
  - 2010: 2.2
  - 9M 2011: 2.7
  - Increase: +26%

**EFFICIENCY**

- ROE
  - 2010: 13.0%
  - 9M 2011: 12.4%
  - 2012 goal: 20.0%

- C/I
  - 2010: 54%
  - 9M 2011: 60%
  - 2012 goal: 50%

- Loans / Deposits
  - 2010: 57%
  - 9M 2011: 72%
  - 2012 goal: <100%

**INNOVATION**

- Gross profit from innovations
  - 2010: 9.5%
  - 2012 goal: 10.0%

**QUALITY**

- NPS results
  - 1Q 2011: -2%
  - 3Q 2011: 10%
  - 2012 goal: 30%

- Improvement of quality perceived by customers
  - 2010: 74%
  - 2011 goal: 80%
  - 2012 goal: 80%

- High service standards
  - Speed
  - Safety
  - Transparency
  - Flexibility

- Trade - Reversed Factoring
Diversified revenue stream

**9M 2011**

**Institutional Banking**
- **$0.6 bn**
- **54%**
  - Key drivers:
    - Debt securities
    - Corporate loans
  - Treasury 23%
  - Interests 50%
  - Fees 25%
  - Other 2%

**Retail Banking**
- **$0.6 bn**
- **46%**
  - Key drivers:
    - Customer result
    - Trading
    - AFS
  - Treasury 23%
  - Interests 68%
  - Fees 31%
  - Other 1%

Key drivers:
- Cash loans
- Credit cards

**Net Interest Income**
- **59%**
- **13%**

**Net Fee Income**
- **28%**

**Institutional Banking**
- **9M 2011**
- **$0.6 bn**
- **54%**
  - Key drivers:
    - Custody
    - Brokerage
    - Cash management

**Retail Banking**
- **9M 2011**
- **$0.6 bn**
- **46%**
  - Key drivers:
    - Credit cards
    - Investment & insurance products

**Net Interest Income**
- **59%**
- **13%**

**Net Fee Income**
- **28%**
Diversified revenue stream – key drivers in Institutional Banking

$0.6 bn

Institutional Banking 54%

9M 2011

Corporates
Servicing 75 out of Top 100 companies in Poland

Global Subsidiaries
Access to Citi global network, products, relationships and expertise

Local Commercial
Focus on operating accounts and new clients acquisition

Transaction Services
• Cash
• Trade
• Custody

Markets
• FX & Derivatives
• Debt Securities
• Equities

PRODUCTS

Investment Banking
• M&A advisory
• ECM

#1 in Custody services
53% market share

#1 in Equities turnover
12% market share

#1 in Customer FX
Euromoney ranking

2010 Revenue split

Local Commercial 37%
Corporate 18%
Global Subsidiaries 45%

Debt securities
Polish government bonds and Central Bank bills

#1 IPO of JSW
Joint Global Coordinator

#1 IPO of GPW
Joint Global Coordinator

#1 Tender offer
Santander on BZ WBK shares

#1 was advising
Dalkia Polka
with acquisition of SPEC
Diversified revenue stream – key drivers in Retail Banking

$0.6 \text{bn}

9M 2011

Credit cards

#1 in transaction volume
22% market share

#1 in credit cards loans
17% market share

#1 in co-branded cards

Wealth Management

Investment and insurance products
40% of fee income

Focus on affluent customers
+23% YoY in number of customers

Retail Banking

Cash loans
60% of interest income of Retail Banking

Operating accounts
+39% YoY in number of operating accounts

Mortgage loans
+20% QoQ volumes growth

2010 Revenue split

Credit cards
35%

Wealth Management
20%

Retail Lending
43%

Other
2%

G-9 strategy
focus on 9 largest cities in Poland

Innovation and convenience as the main differentiating factors supported by the new products
Liquidity position allowing for assets growth

**Loans to deposits ratio – Bank vs. banking sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Citi Handlowy</th>
<th>Banking sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>57%</td>
<td></td>
</tr>
<tr>
<td>3Q 2011</td>
<td>72%</td>
<td></td>
</tr>
</tbody>
</table>

**Corporate loans in 2011**

<table>
<thead>
<tr>
<th>Loans</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$2.2 bn</td>
</tr>
</tbody>
</table>

**Retail loans in 2011**

<table>
<thead>
<tr>
<th>Loans</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$1.8 bn</td>
</tr>
</tbody>
</table>

**Breakdown of customer loans and liabilities by currency**

<table>
<thead>
<tr>
<th>Loans</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$1.8 bn</td>
</tr>
</tbody>
</table>

**Well-matched currency structure** of customer assets and liabilities in Citi Handlowy

*Data as of 2Q 2011
Strong capital base

Capital adequacy ratio (net of goodwill) vs. equity level

- 2007: 12.9%
- 2008: 12.1%
- 2009: 16.7%
- 2010: 18.8%
- 3Q 2011: 16.5%

Equity ($ bn) vs. CAR vs. Regulatory min. CAR

Dividend yield of Citi Handlowy

- 2001: 2001
- 2002: 2002
- 2003: 2003
- 2004: 2004
- 2005: 2005
- 2006: 2006
- 2008: 2008
- 2009: 2009
- 2010: 2010

- Dividend yield
- NBP reference rate*
- 5-year T-bond yield*

Polish FSA recommended all banks to retain 2008 earnings.

Special dividend (decrease of equity)

*End of year values
Costs of risk

Net impairment losses ($ MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>Institutional Banking</th>
<th>Retail Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>-16</td>
<td>35</td>
</tr>
<tr>
<td>2008</td>
<td>-31</td>
<td>-22</td>
</tr>
<tr>
<td>2009</td>
<td>-47</td>
<td>-87</td>
</tr>
<tr>
<td>2010</td>
<td>-55</td>
<td>-93</td>
</tr>
<tr>
<td>9M 2011</td>
<td>-188</td>
<td>-84</td>
</tr>
<tr>
<td>2011</td>
<td>9</td>
<td>-30</td>
</tr>
</tbody>
</table>

Non-performing loans ratio (NPL)

<table>
<thead>
<tr>
<th>Year</th>
<th>Citi Handlowy</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>11.8%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2008</td>
<td>12.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2009</td>
<td>11.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>2010</td>
<td>11.4%</td>
<td>8.8%</td>
</tr>
<tr>
<td>3Q 2011</td>
<td>9.8%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

Provision coverage ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Citi Handlowy</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>85%</td>
<td>70%</td>
</tr>
<tr>
<td>2008</td>
<td>76%</td>
<td>57%</td>
</tr>
<tr>
<td>2009</td>
<td>64%</td>
<td>52%</td>
</tr>
<tr>
<td>2010</td>
<td>64%</td>
<td>54%</td>
</tr>
<tr>
<td>3Q 2011</td>
<td>77%</td>
<td>56%*</td>
</tr>
</tbody>
</table>

* Data for the sector as of 1Q 2011
Consistent expense policy

General expenses and depreciation ($ MM)

Citi Handlowy CAGR : -3%
Sector CAGR: +4%

<table>
<thead>
<tr>
<th>Year</th>
<th>Institutional Banking</th>
<th>Retail Banking</th>
<th>Cost / Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>-525</td>
<td>-272</td>
<td>61% Bank</td>
</tr>
<tr>
<td>2008</td>
<td>-516</td>
<td>-288</td>
<td>62% Bank</td>
</tr>
<tr>
<td>2009</td>
<td>-477</td>
<td>-266</td>
<td>56% Bank</td>
</tr>
<tr>
<td>2010</td>
<td>-474</td>
<td>-260</td>
<td>54% Bank</td>
</tr>
<tr>
<td>9M 2011</td>
<td>-370</td>
<td>-160</td>
<td>60% Bank</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Institutional Banking</th>
<th>Retail Banking</th>
<th>Sector</th>
</tr>
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<tr>
<td>Bank</td>
<td>61%</td>
<td>62%</td>
<td>57%</td>
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<tr>
<td></td>
<td>56%</td>
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<tr>
<td></td>
<td>54%</td>
<td>52%</td>
<td>52%</td>
</tr>
<tr>
<td></td>
<td>60%</td>
<td>74%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>48%</td>
<td>74%</td>
<td></td>
</tr>
</tbody>
</table>

CAGR:
- Bank: 61% to 60%
- Institutional Banking: 53% to 48%
- Retail Banking: 70% to 74%
- Sector: 57% to 50%
Key challenges for the Polish banking sector

**Risks**

- Liquidity shortages
- FX mortgage loans
- Parent funding at risk
- Macroeconomic downturn

**Implications for the Polish banking sector**

**Liquidity**
- Competition for funding (return of negative deposit margins)
- Liquidity shortages in banks with large FCY loan portfolios

**Deleveraging**
- Corporate loans dynamics likely to slow down
- Stagnation in terms of consumer loans

**Portfolio quality**
- Consumer NPL ratio to remain at high level
- Corporate NPL improvement to stop
- Quality of mortgage loan portfolio to deteriorate

**Ownership changes**
- Further consolidation of the banking sector