

# Citi Handlowy – Sustainable Growth in Volatile Markets

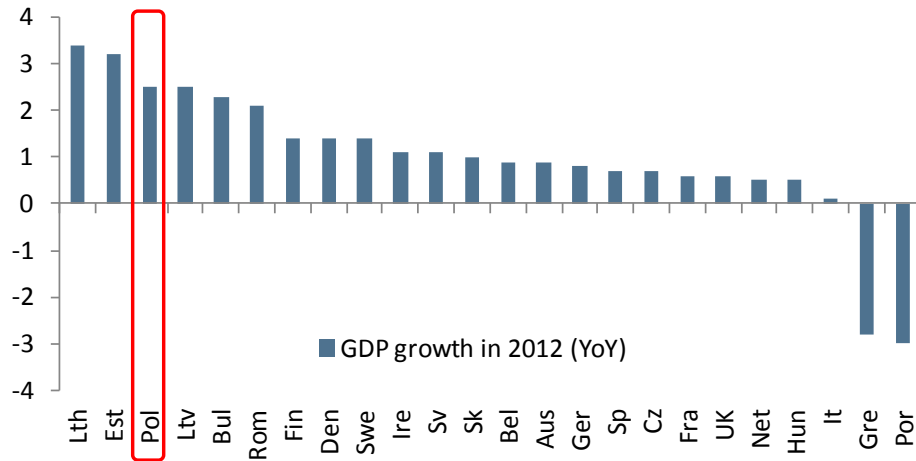
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Sławomir S. Sikora  
CEO

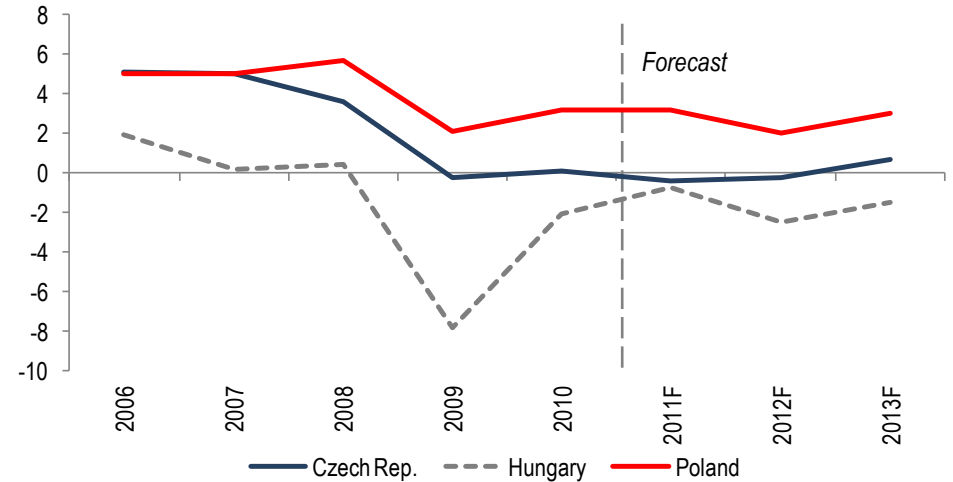
*Copenhagen, 14th December 2011*

# Poland – economic growth despite global headwinds

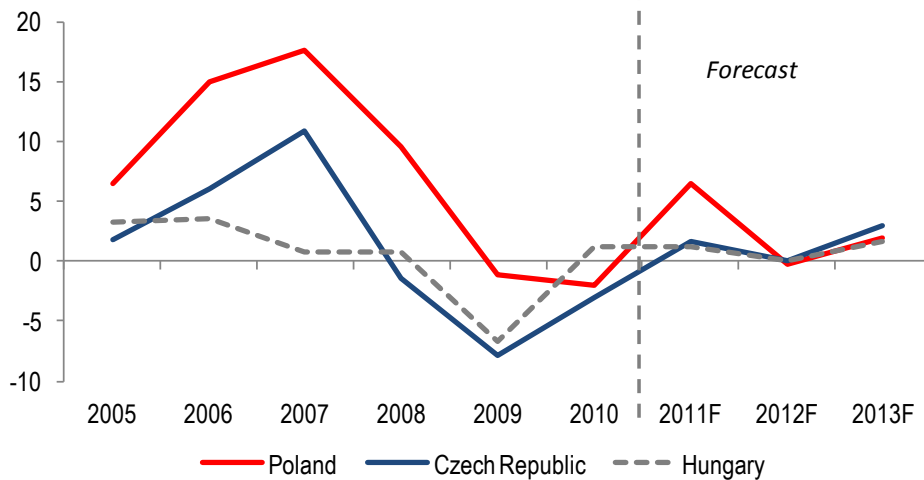
European Commission Growth Forecasts for EU (2012, YoY)



Private Consumption in Central Europe (YoY)



Investments in Central Europe (YoY)



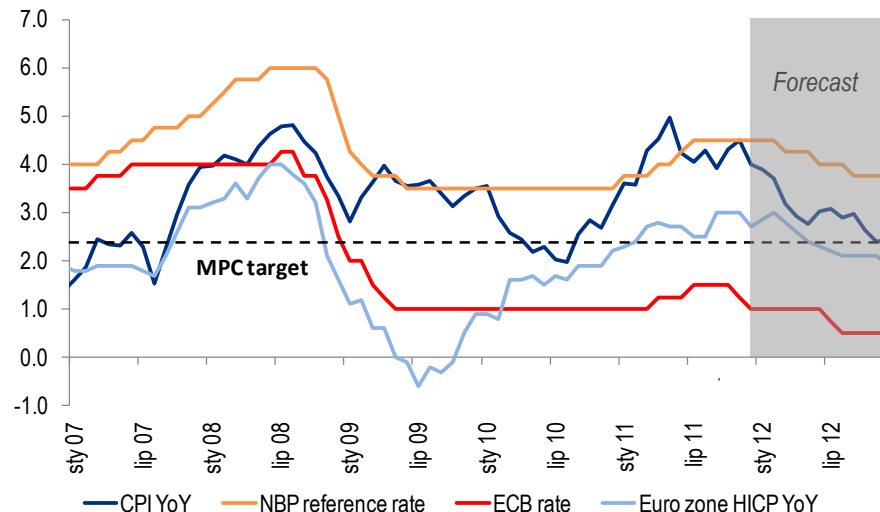
- Despite external shocks Poland's economic growth holds well in 2011
- Growth supported by relatively resilient private consumption and gradual investment recovery
- European Commission forecasts 2012 economic growth at 2.5% in Poland (third highest growth in EU)

# Expected rate cuts unless Zloty weakens further

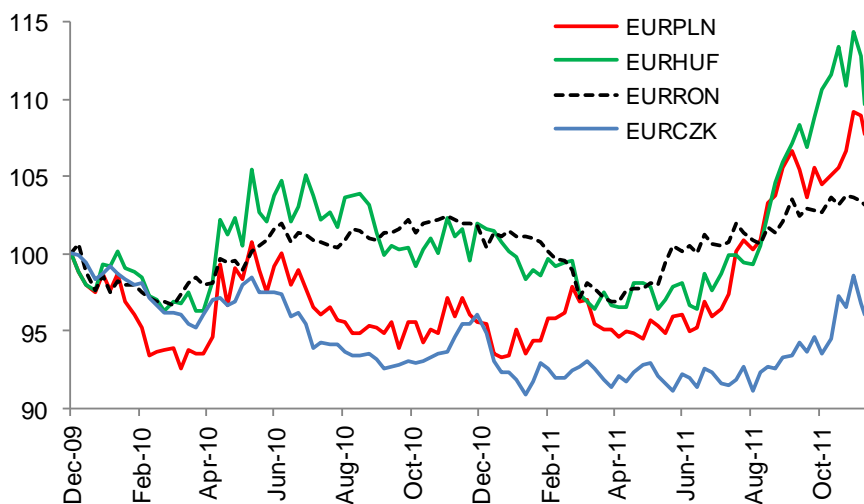
## Foreign trade



## Central Bank Rate and Consumer Price Inflation



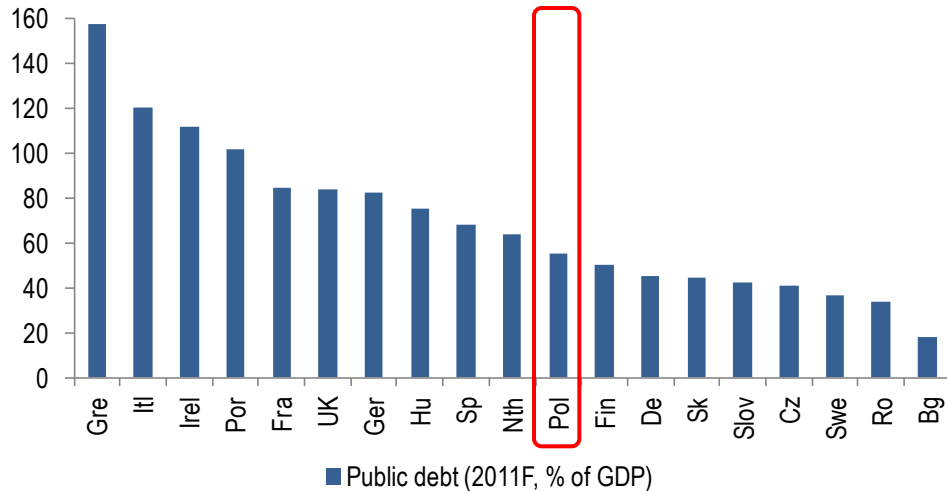
## FX market



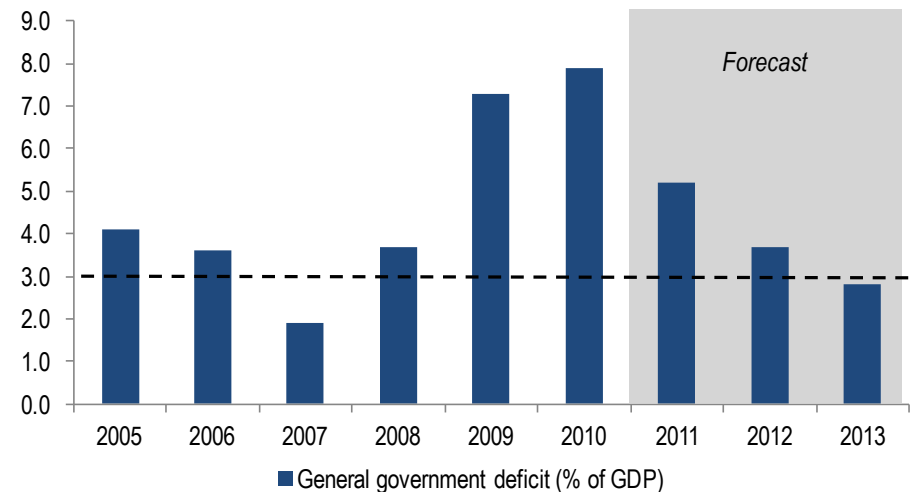
- Weakening of global demand especially in the euro zone should result in slowdown of foreign trade turnover, output growth and weakening of labour market
- Inflation likely to fall gradually in the coming months towards the central bank target
- The zloty weakened versus euro by around 12% since June
- MPC to cut rates three time by 25 bp in 2012 unless Zloty remains under pressure and weakens further

# Fiscal tightening under way

## Public Debt in European Union



## Fiscal Deficit in Poland



## Sovereign Debt Ratings

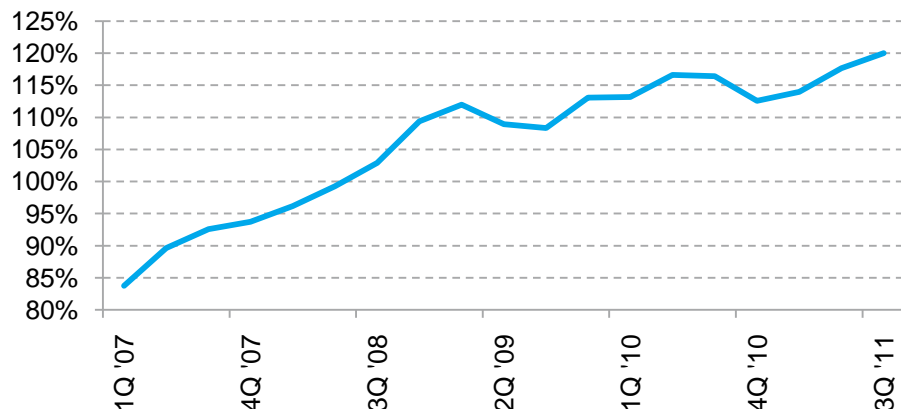
	S&P		Fitch		Moody's	
	LTFC	Outlook	LTFC	Outlook	LTFC	Outlook
<b>Bulgaria</b>	BBB	Stable	BBB-	Positive	Baa2	Stable
<b>Czech Republic</b>	AA-	Stable	A+	Positive	A1	Stable
<b>Hungary</b>	BBB-	Negative	BBB-	Negative	Ba1	Negative
<b>Poland</b>	A-	Stable	A-	Stable	A2	Stable
<b>Romania</b>	BB+	Stable	BBB-	Stable	Baa3	Stable

- 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

# Polish banking sector – 2012 risks

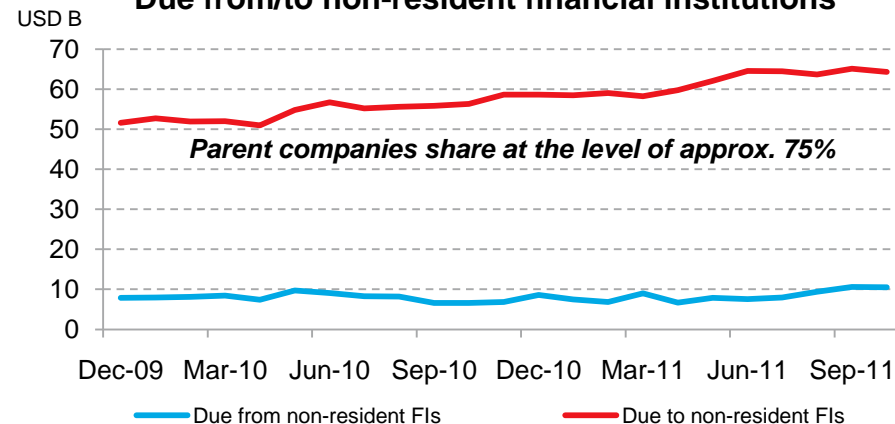
## Liquidity

### Customer loans to deposits ratio



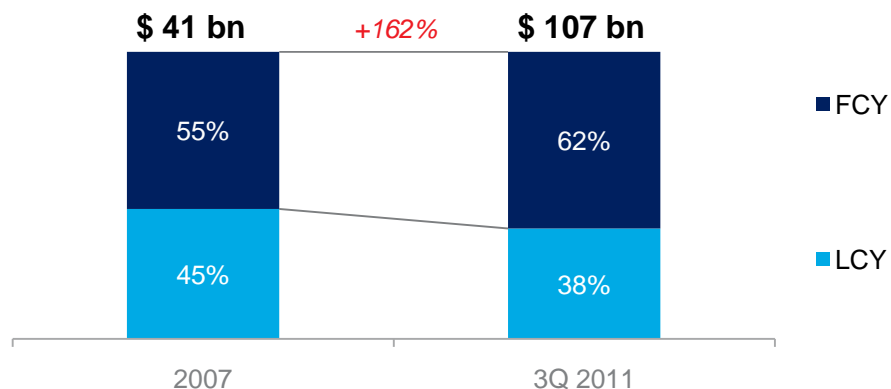
## External funding

### Due from/to non-resident financial institutions



## FX mortgage portfolio

### Mortgage loans portfolio structure



## Paradigm shift

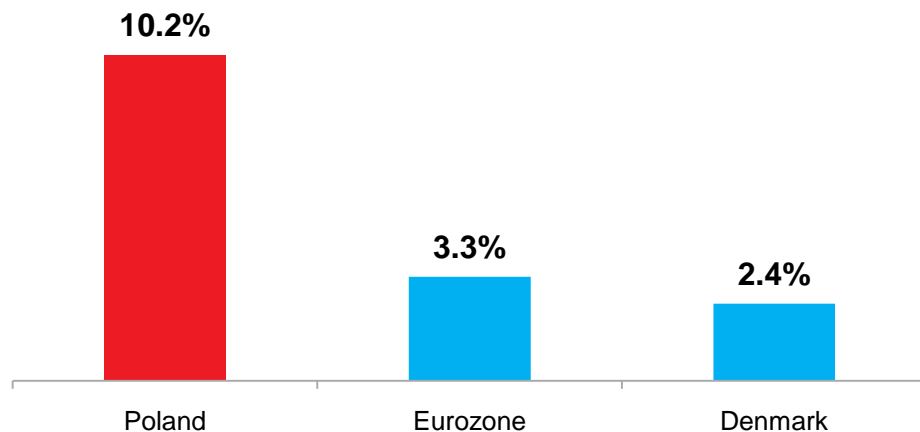
### Market cap as % of parent

	2007	Nov. 2011
Pekao SA (UniCredit)	18%	59%
BRE (Commerzbank)	20%	36%
ING (ING Group)	4%	8%
Citi Handlowy (Citigroup)	1%	4%
Millennium (BCP)	21%	109%
Kredyt Bank (KBC)	4%	21%

# Promising market for investors

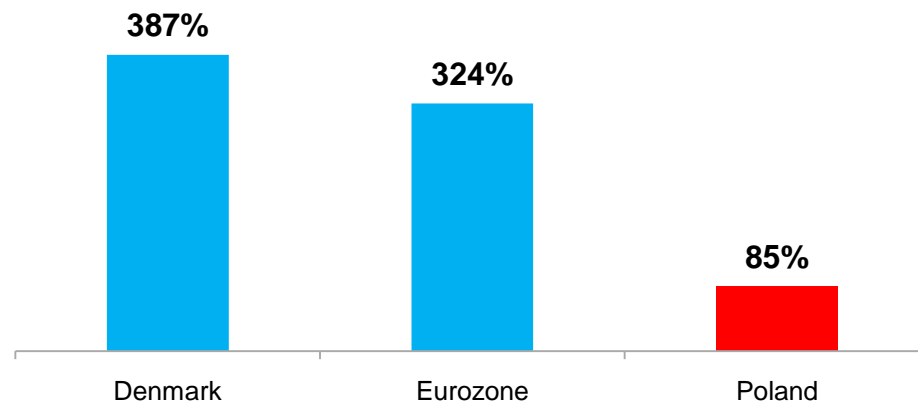
## Attractive returns

ROE (2010)



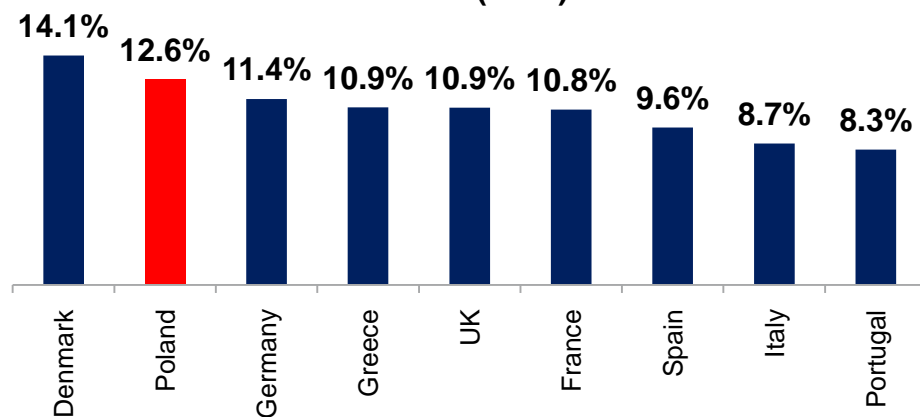
## Room for growth

Banking assets/GDP (2010)

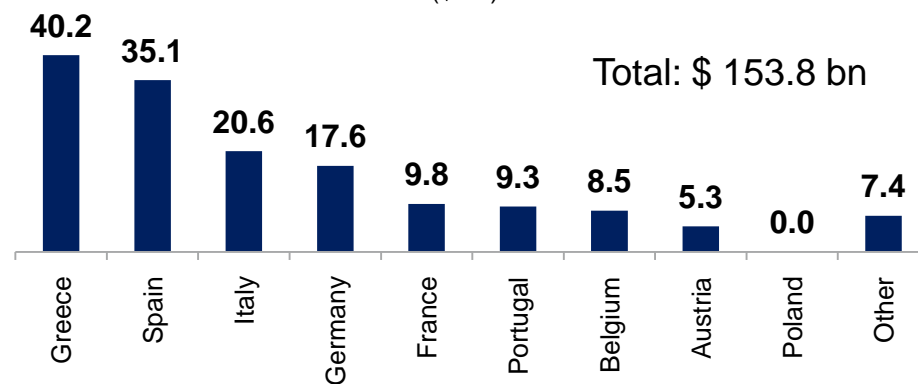


## High stability

Tier 1 ratio (2010)



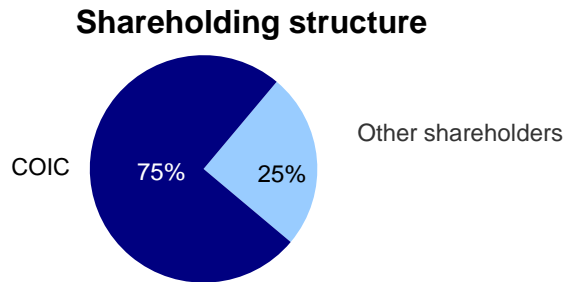
Capital shortfall of European banks  
(\$ bn)



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



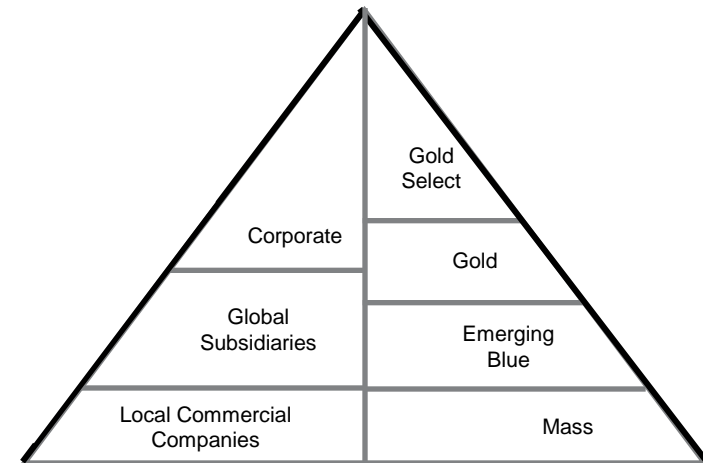
BANK HANDLOWY ACQUISITION BROUGHT SCALE AND SYNERGY

## BANK HANDLOWY W WARSZAWIE SA



BHW had strong local relationships and well placed local network

Citi had global clients, global products and global network



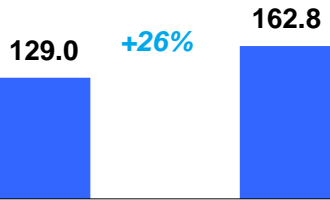
	Bank Handlowy	Citibank	Citi Handlowy
	2001		2010
<b>Assets</b>	\$ 7.2 bn	\$ 3.9 bn	\$ 12.9 bn
<b>Corporate Customers</b>	4 M	2 M	6.7 M
<b>Consumer Customers (incl. cards)</b>	145 M	174 M	1,000 M
<b>Branches</b>	156	8	154
<b>Employees</b>	4,7 M	0.8 M	6 M



# Citi Handlowy – four pillars of strategy 2010-2012

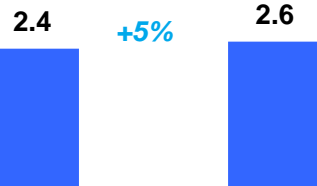
## BUSINESS MODEL

Operating accounts of individual clients (M)



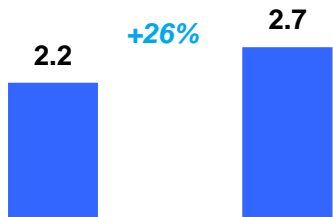
2010 9M 2011

Operating accounts of corporate clients (M)



2010 9M 2011

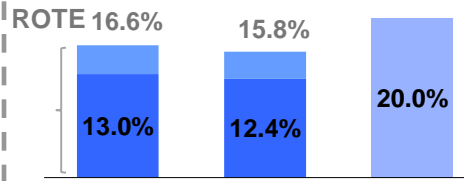
Corporate loans (\$ bn)



2010 9M 2011

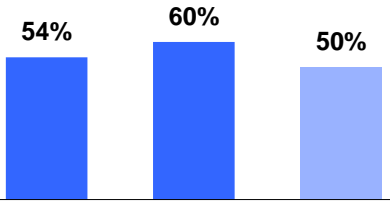
## EFFICIENCY

ROE



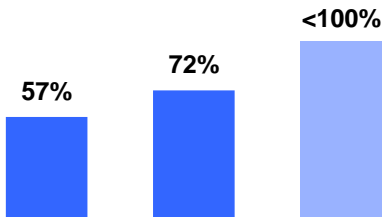
2010 9M 2011 2012 goal

C/I



2010 9M 2011 2012 goal

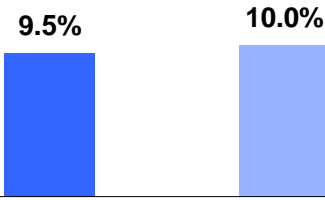
Loans / Deposits



2010 9M 2011 2012 goal

## INNOVATION

Gross profit from innovations



2010 2012 goal

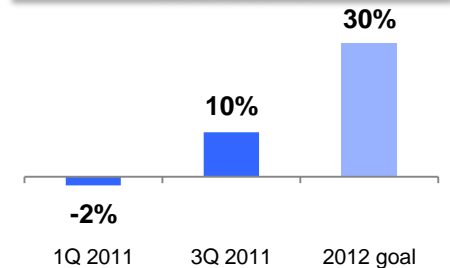
R&D Center  
citi handlowy

CitiFX Pulse

- Trade - Reversed Factoring

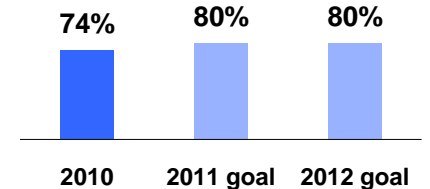
## QUALITY

NPS results



80% survey

Improvement of quality perceived by customers

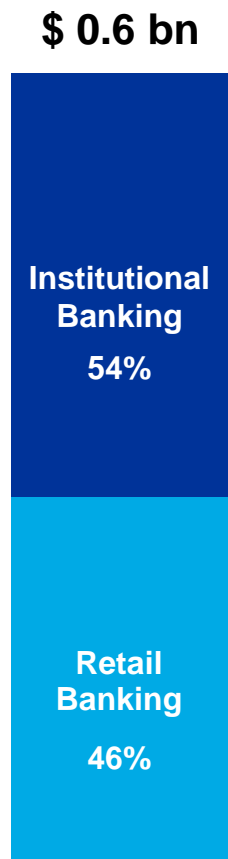


High service standards

- Speed
- Safety
- Transparency
- Flexibility



# Diversified revenue stream



9M 2011

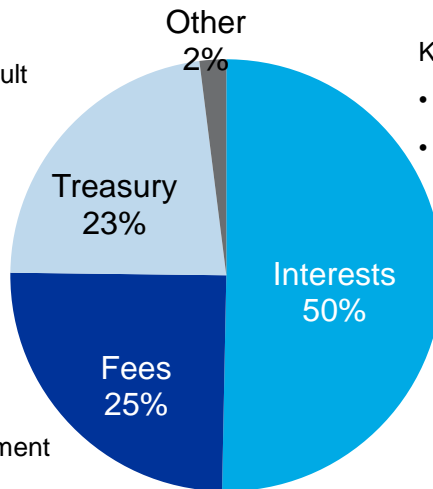
## Institutional Banking

Key drivers:

- Customer result
- Trading
- AFS

Key drivers:

- Custody
- Brokerage
- Cash management



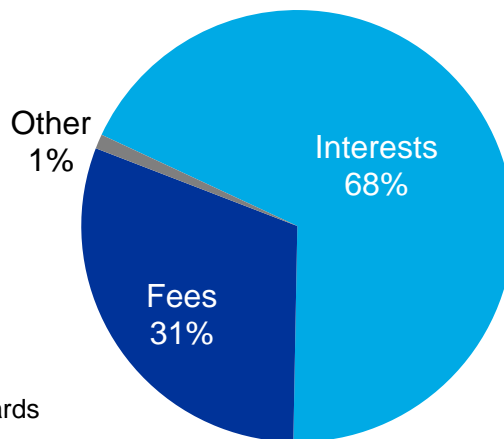
Key drivers:

- Debt securities
- Corporate loans

## Retail Banking

Key drivers:

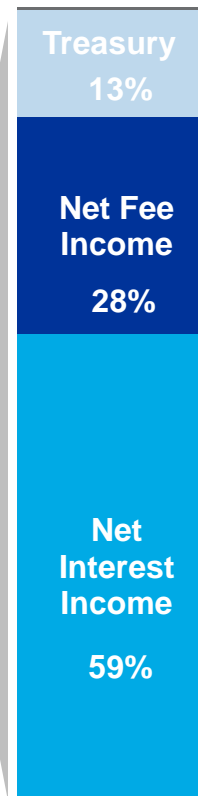
- Credit cards
- Investment & insurance products



Key drivers:

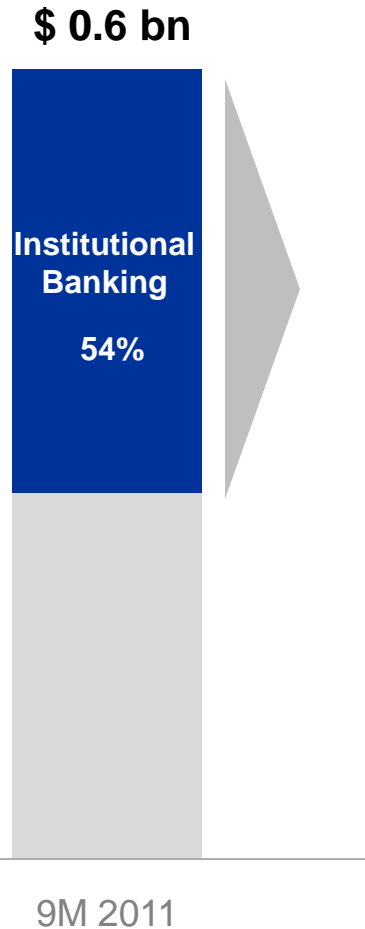
- Cash loans
- Credit cards

**\$ 0.6 bn**



9M 2011

# Diversified revenue stream – key drivers in Institutional Banking



Corporates	Global Subsidiaries	Local Commercial
<i>Servicing 75 out of Top 100 companies in Poland</i>	<i>Access to Citi global network, products, relationships and expertise</i>	<i>Focus on operating accounts and new clients acquisition</i>
PRODUCTS		
<b>Transaction Services</b> <ul style="list-style-type: none"> <li>• Cash</li> <li>• Trade</li> <li>• Custody</li> </ul>	<b>Markets</b> <ul style="list-style-type: none"> <li>• FX &amp; Derivatives</li> <li>• Debt Securities</li> <li>• Equities</li> </ul>	<b>Investment Banking</b> <ul style="list-style-type: none"> <li>• M&amp;A advisory</li> <li>• ECM</li> </ul>

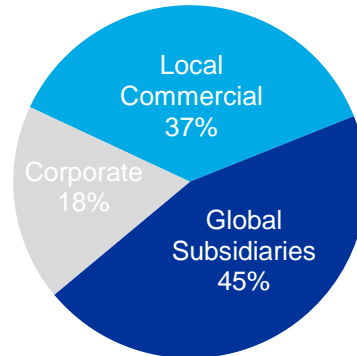
**#1 in Custody services**  
*53% market share*

**#1 in Equities turnover**  
*12% market share*

**citi handlowy**  
IPO of JSW  
  
Joint Global Coordinator

**citi handlowy**  
IPO of GPW 2010  
  
Joint Global Coordinator

**2010 Revenue split**



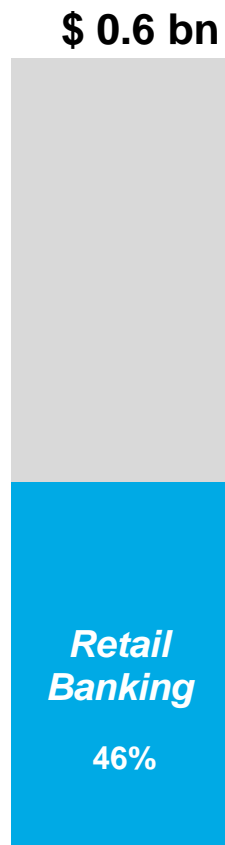
**#1 in Customer FX**  
*Euromoney ranking*

**Debt securities**  
*Polish government bonds and Central Bank bills*

**citi handlowy**  
Tender offer  
  
on BZ WBK shares

**citi handlowy**  
was advising  
  
with acquisition of SPEC

# Diversified revenue stream – key drivers in Retail Banking



9M 2011



**#1** in transaction volume  
*22% market share*

**#1** in credit cards loans  
*17% market share*

**#1** in co-branded cards

Investment and insurance products  
*40% of fee income*

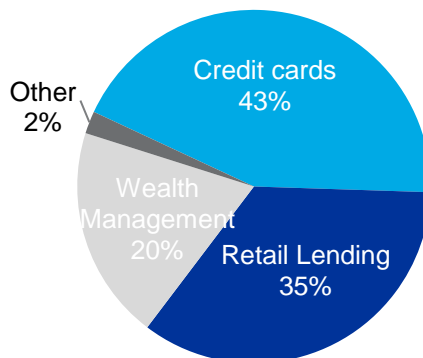
Focus on affluent customers  
*+23% YoY in number of customers*

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**

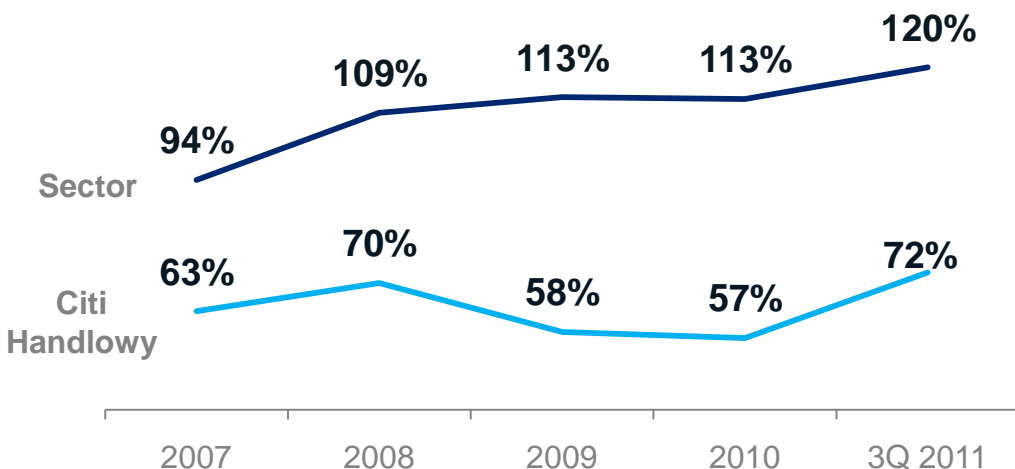


**G-9 strategy**  
*focus on 9 largest cities in Poland*

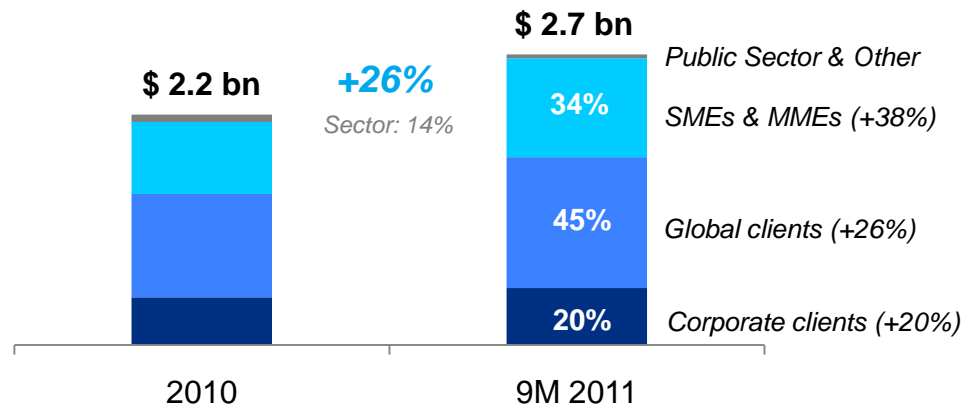
**Innovation and convenience as the main differentiating factors supported by the new products**

# Liquidity position allowing for assets growth

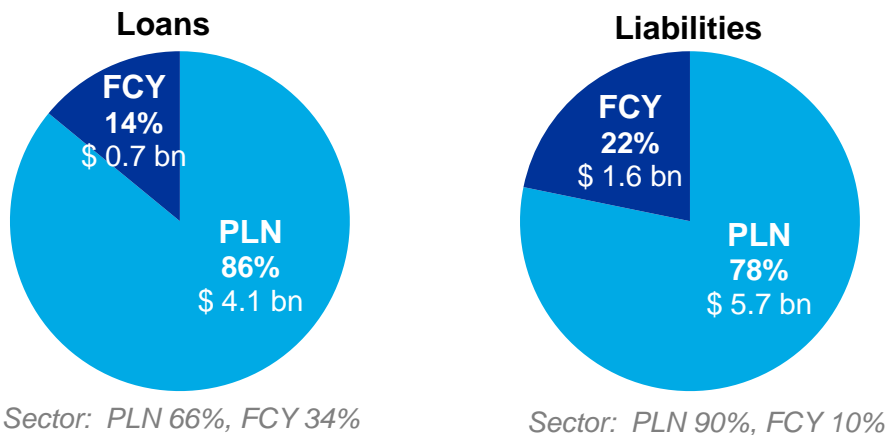
Loans to deposits ratio – Bank vs. banking sector



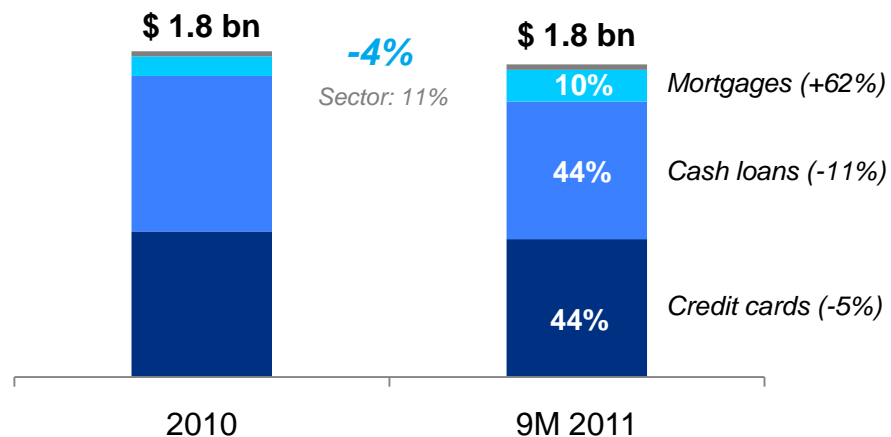
Corporate loans in 2011



Breakdown of customer loans and liabilities by currency\*



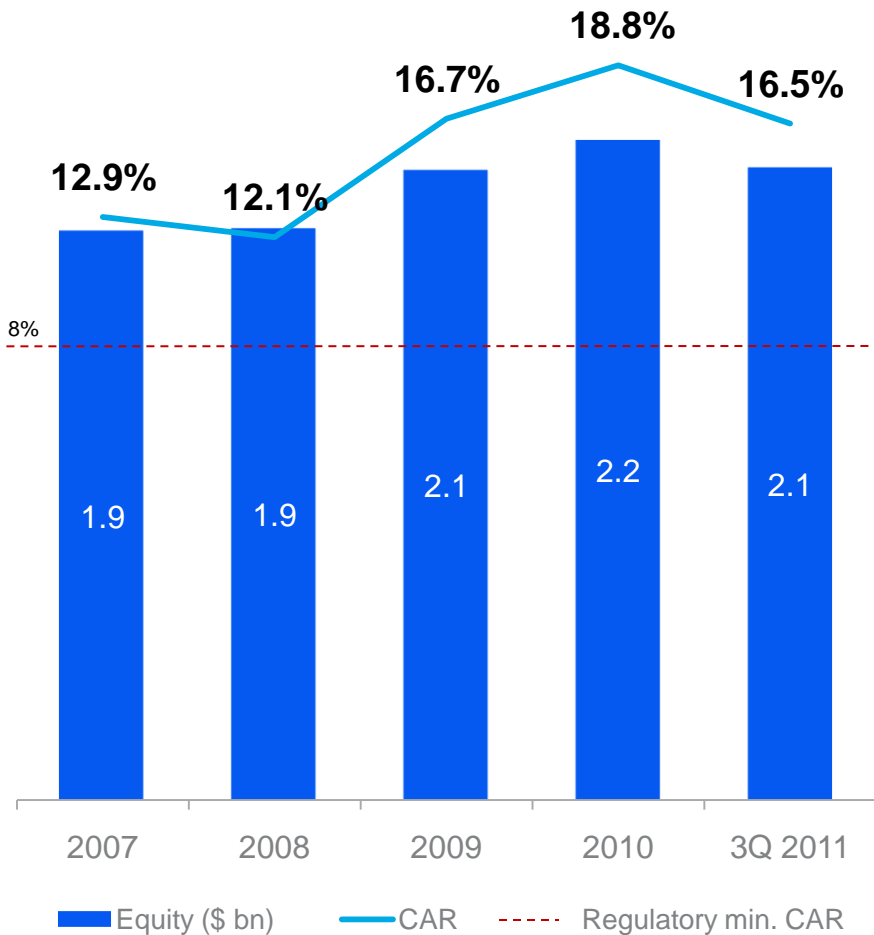
Retail loans in 2011



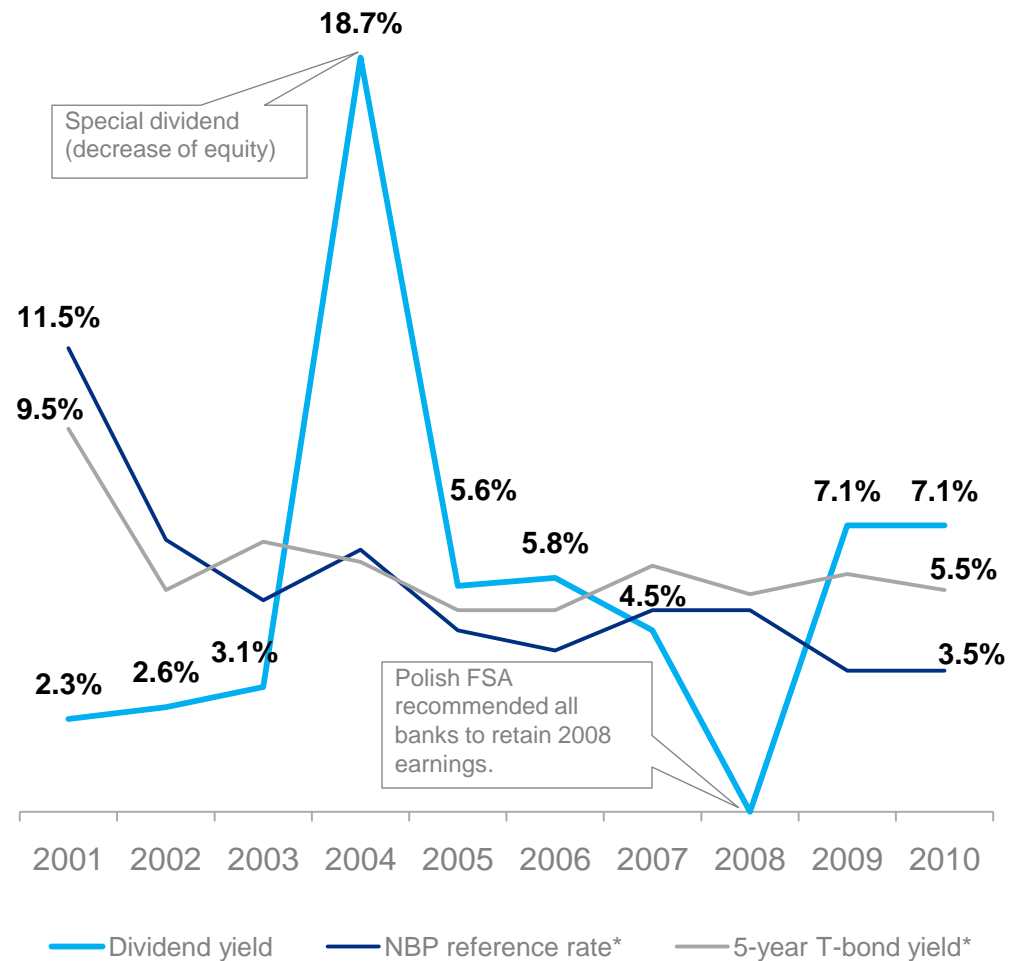
**Well-matched currency structure of customer assets and liabilities in Citi Handlowy**

# Strong capital base

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

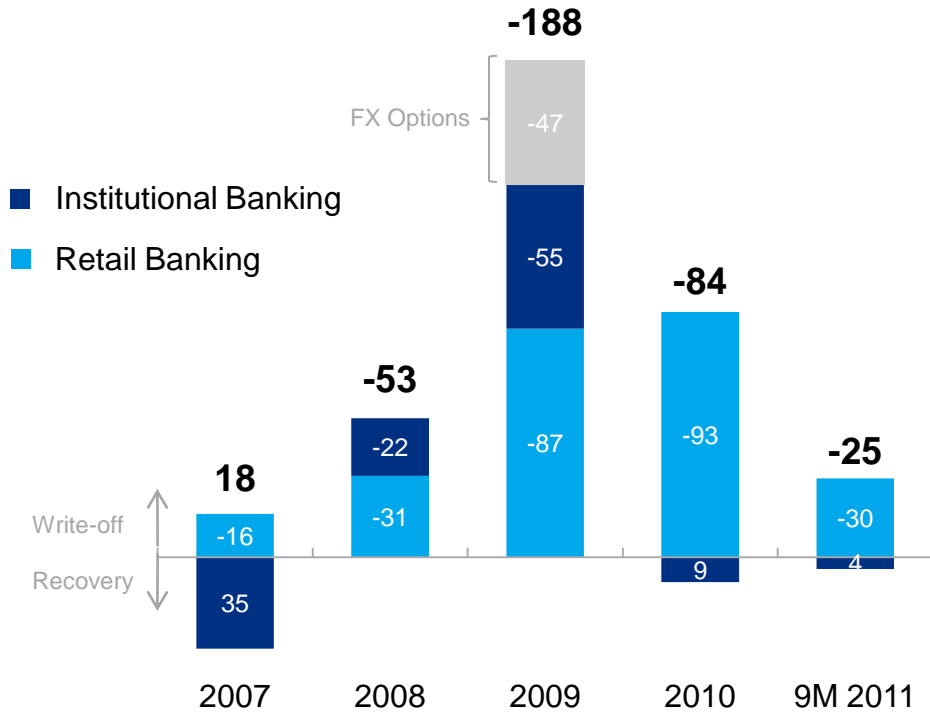


Dividend yield of Citi Handlowy



# Costs of risk

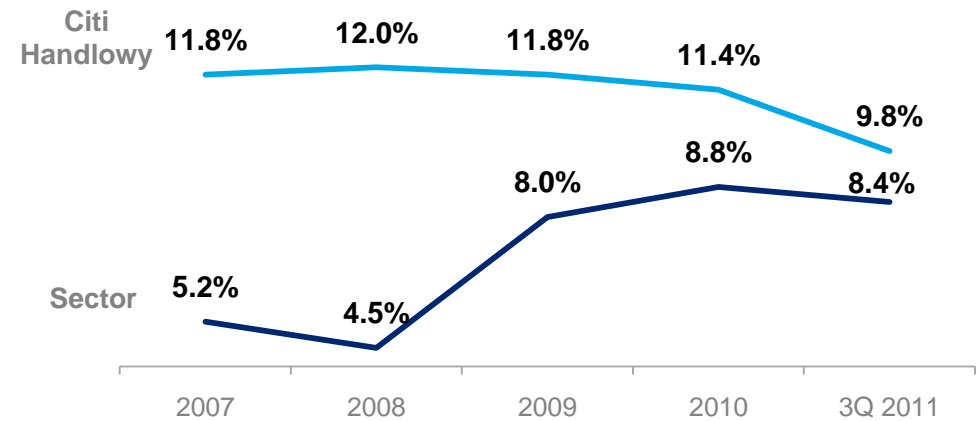
### Net impairment losses (\$ MM)



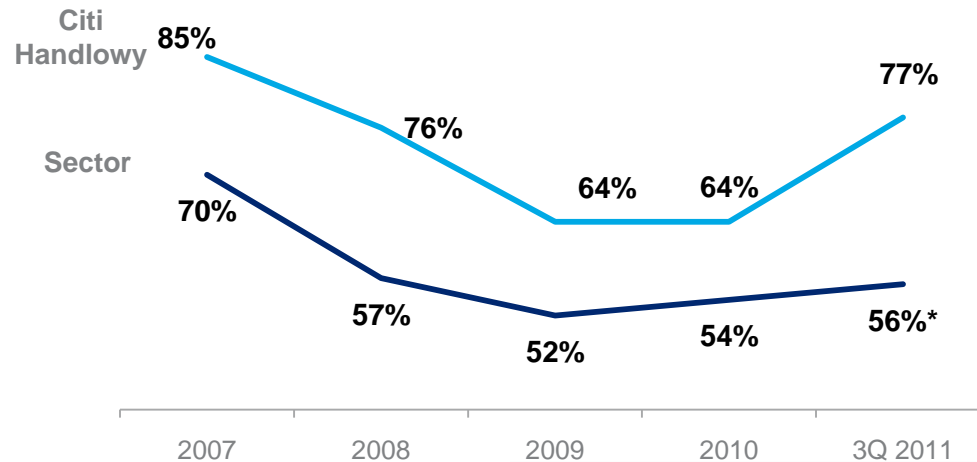
### Cost of risk

Bank	2007	2008	2009	2010	9M 2011
Bank	-0.5%	1.1%	4.1%	2.1%	0.7%
Sector	0.4%	1.0%	2.0%	1.7%	1.2%

### Non-performing loans ratio (NPL)



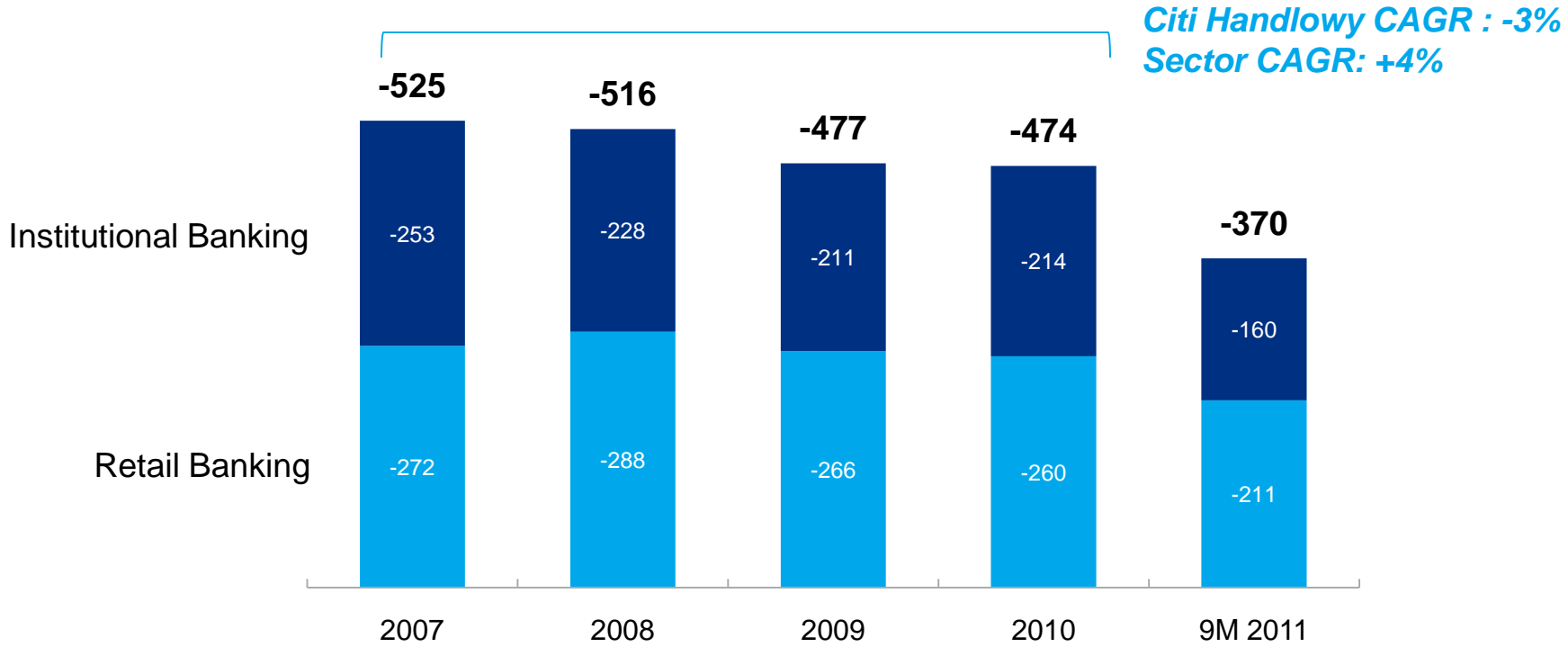
### Provision coverage ratio



\* Data for the sector as of 1Q 2011

# Consistent expense policy

General expenses and depreciation (\$ MM)



**Cost / Income**

Bank	2007	2008	2009	2010	9M 2011
<b>Bank</b>	<b>61%</b>	<b>62%</b>	<b>56%</b>	<b>54%</b>	<b>60%</b>
<i>Institutional Banking</i>	53%	56%	45%	44%	48%
<i>Retail Banking</i>	70%	69%	71%	66%	74%
<b>Sector</b>	<b>57%</b>	<b>55%</b>	<b>54%</b>	<b>52%</b>	<b>50%</b>

# 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