



# Bank Millennium S.A. Updated Strategy: 2015-2017

Warsaw, 2<sup>nd</sup> February 2015

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## Current strategy

for years 2013-2015, announced October 2012.

## Main targets already achieved

with improved structure of the business.

## Macroeconomic and competitive changes

justify an update of the strategy for the next three years.

## Main strategy guidelines kept

but bigger focus on changing distribution landscape and clients' habits/expectations.

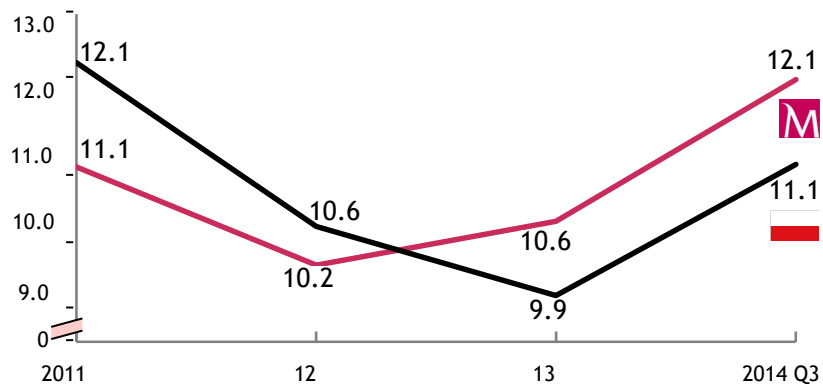
# Bank Millennium ready for next challenges with strong competitive position

## Main financial parameters improved

2011- Q3 2014

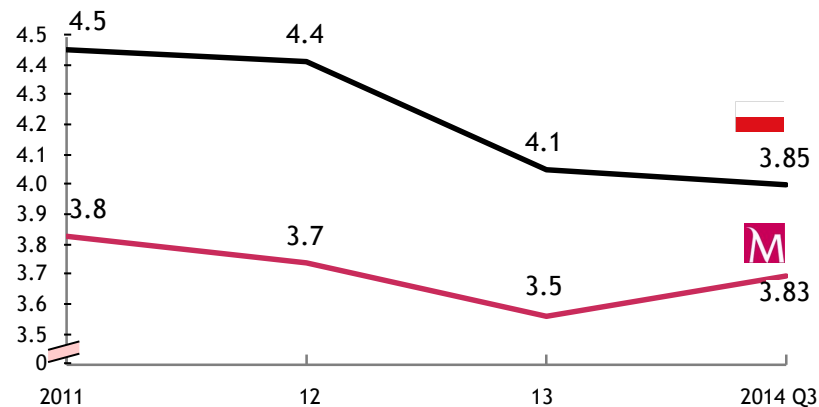
### Overall profitability increased...

ROE, Percent



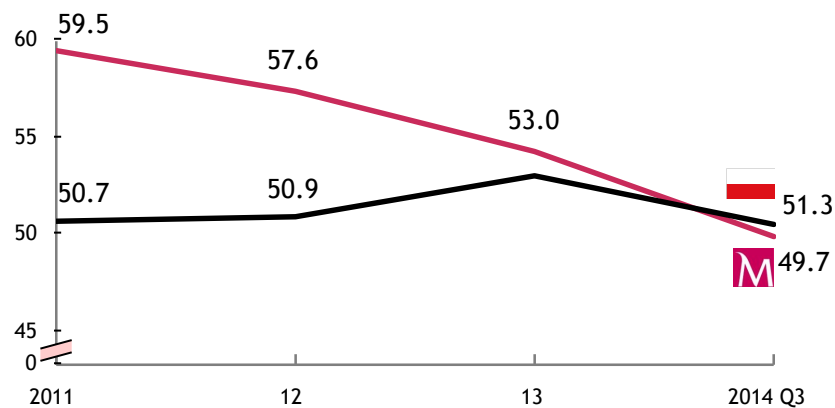
### ... driven by improved margins...

Net banking revenue, % of total assets



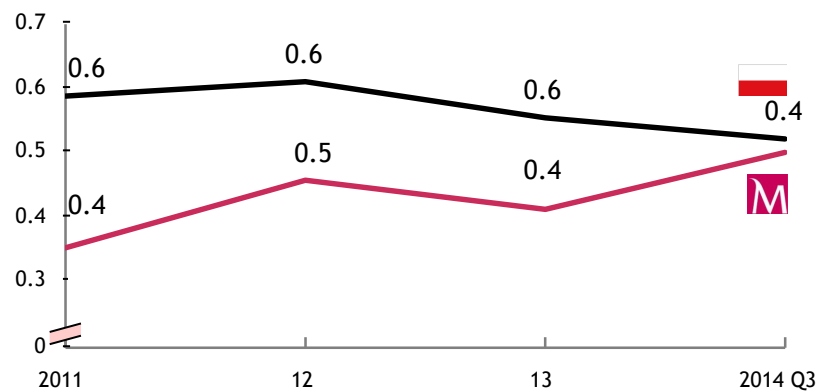
### ...further improved efficiency...

C/I ratio, Percent



### ...and controlled risk costs.

Provision, % of total assets



# Strategy update framed by mid-term growth perspectives for banking sector

## macro, regulatory and competitive environment, changing consumer trends

### MACRO ENVIRONMENT

- ✦ Overall macro-environment expected to be stable, but last year geopolitical developments increasing downside risk
- ✦ Interest rates are on a historically low level challenging banks to be efficient and search for different revenue streams, optimized costs, etc.

### REGULATION

Recent regulations bring additional challenges to banks' profitability either directly curbing certain fees (e.g., interchange) or indirectly affecting costs/volumes (e.g., increased contribution to BGF, recommendation "U", customer protection)

### COMPETITIVE ENVIRONMENT

Gradual increase of concentration in the Polish banking system

### DIGITAL TRANSFORMATION

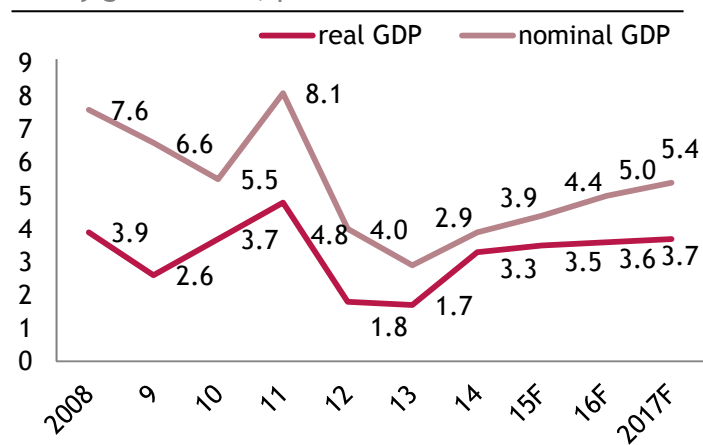
- ✦ Poles fast at adopting new technologies: sustained high pace of digitization with recent rapid acceleration in mobile
- ✦ Online and Mobile not yet driving significant customer acquisition but digital being leveraged to explore new distribution partnerships (telcos)
- ✦ Desintermediation - non banks payments / consumer finance. High potential for electronic payments growth.
- ✦ Technology/Data - Real time/Big data/mass volumes and the ability to extract the most from data

# Domestic macro-environment stable...

...but historically low interest rates are a challenge for banks

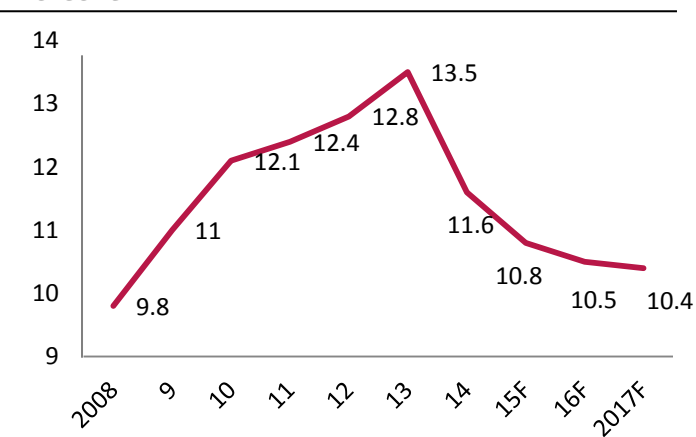
## Nominal and real GDP growth

Yearly growth rate, percent



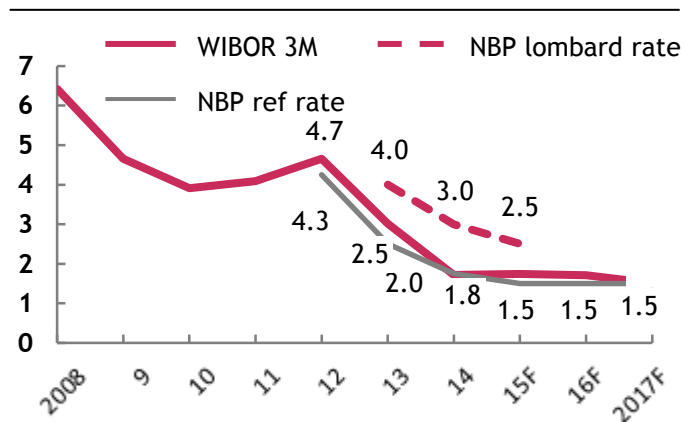
## Unemployment rate

Percent



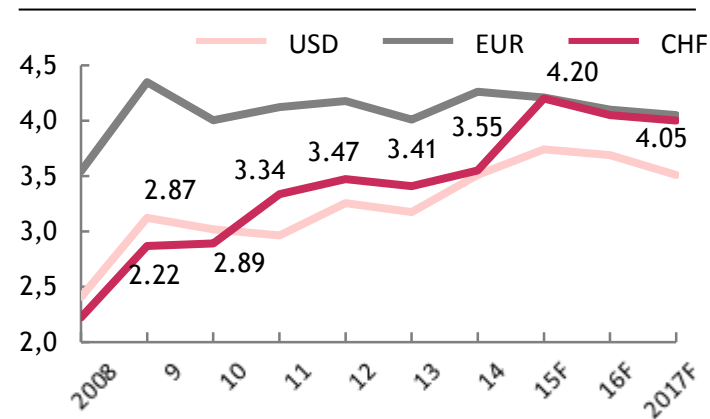
## Money market and Central Bank base rates

Percent



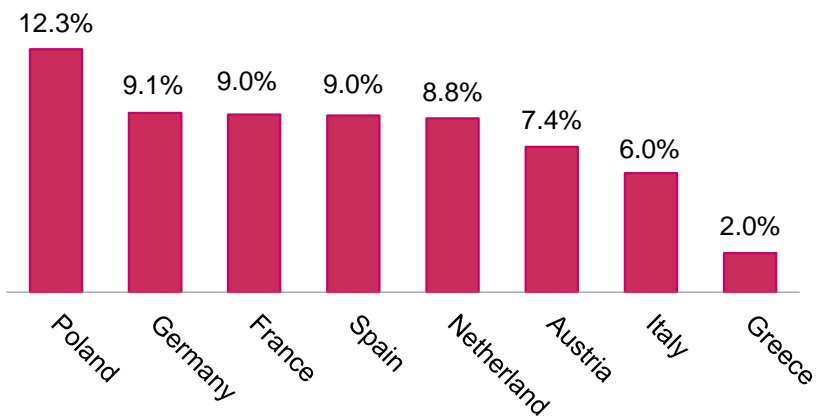
## Exchange rate

Versus PLN

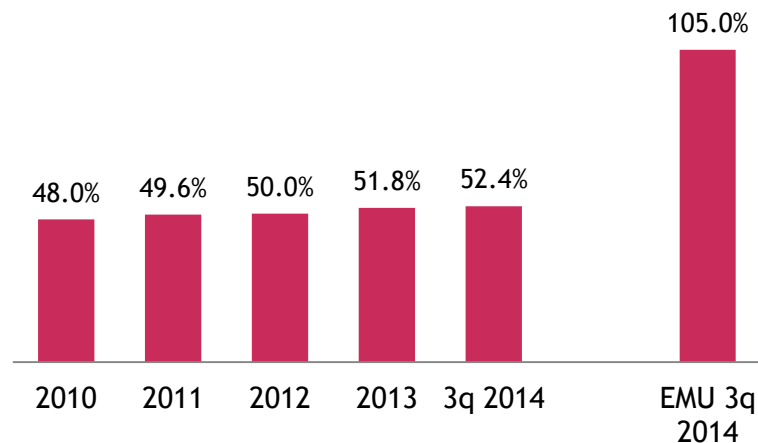


# Polish banking system healthy and competitive with room for growth

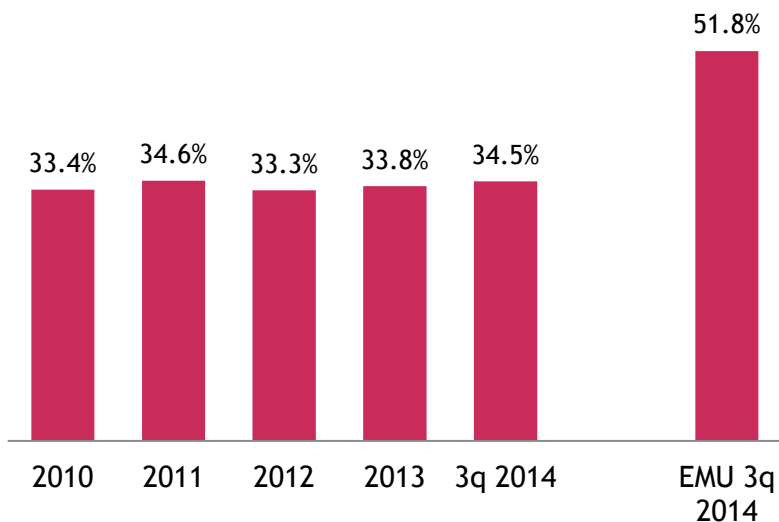
Average CET1\* in adverse scenario - in selected countries



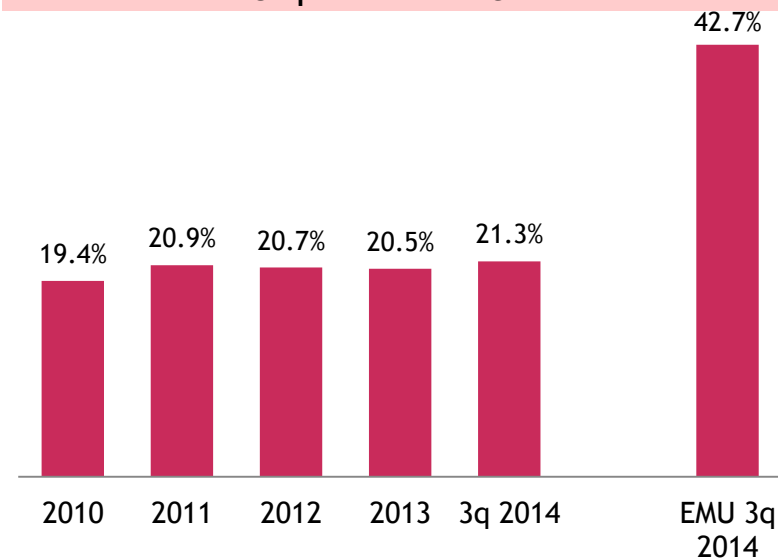
Deposits/GDP



Retail Loans/GDP



Corporate Loans/GDP

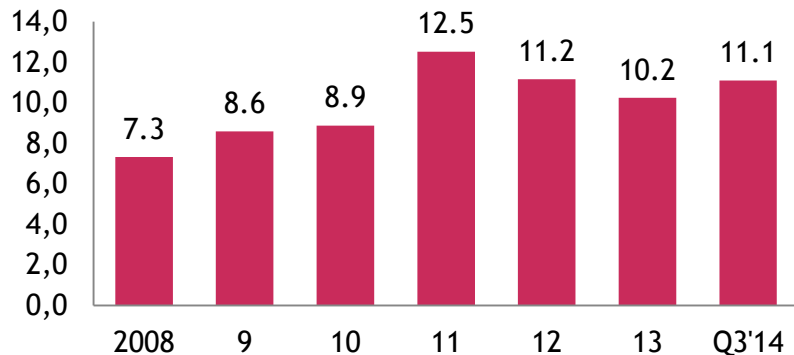


\* CET1 ratio calculated as average weighted with total risk exposure of banks tested by ECB/EBA and announced on 26.10.2014

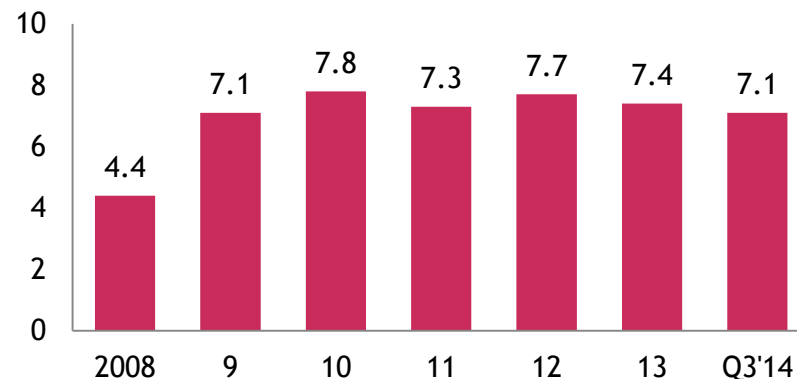
# Improved effectiveness and strong capital position of Polish banks

## Market consolidation has been taking place and is expected to continue

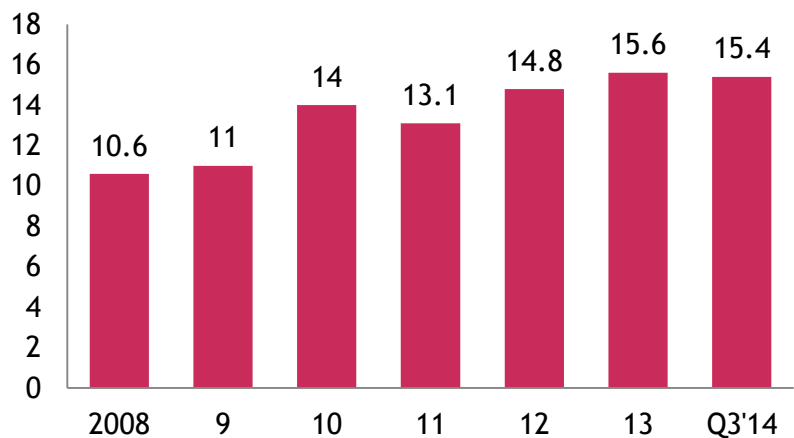
### Evolution of ROE



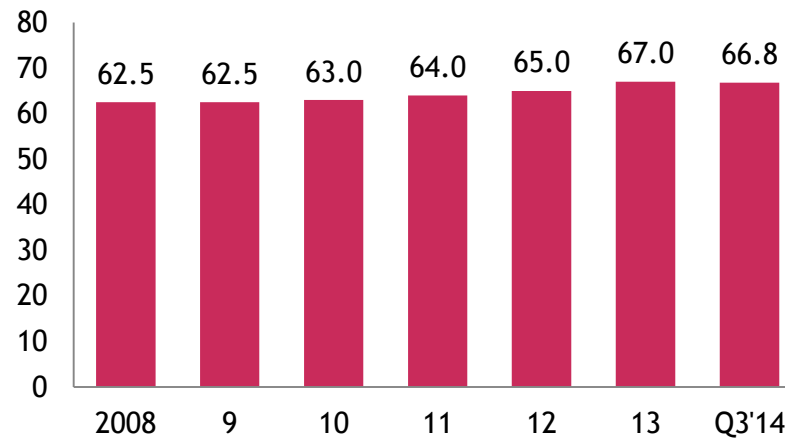
### Evolution of Impaired Loans Ratio



### Evolution of CAR



### Share of top 10 banks assets as % of total banking assets

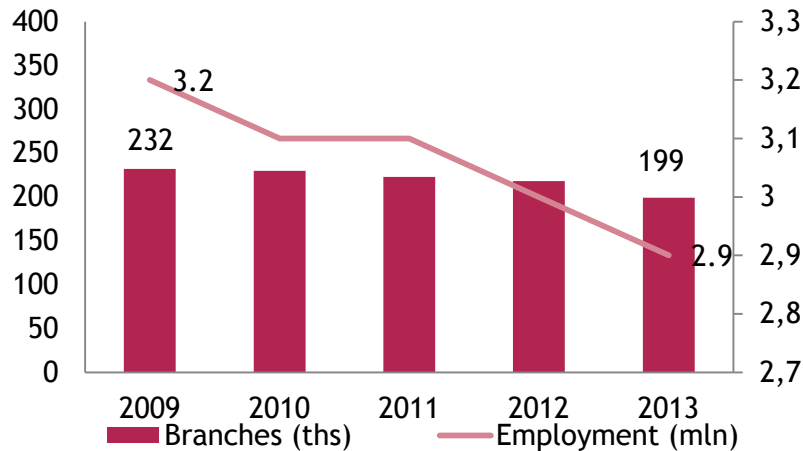




# Changing customer trends affecting banking distribution model

Poland at the forefront of digitization - one of the fastest growing mobile markets in Europe

Bank branches and employment in EU countries <sup>1</sup>



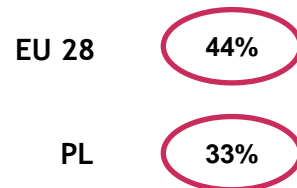
Bank branches and employment in PL <sup>1</sup>



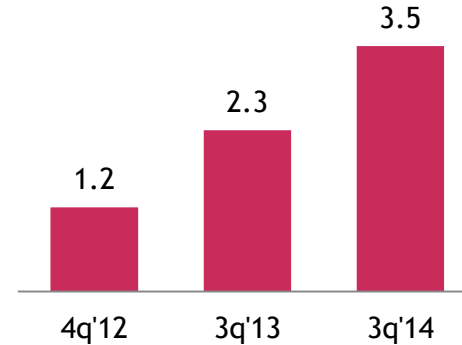
Internet banking users in PL (active, mln)



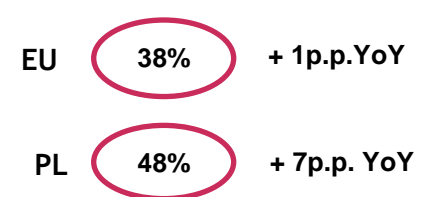
Internet banking penetration 2014<sup>2</sup>



Mobile banking users in PL (app or lite site, mln)



Mobile banking penetration 2014<sup>3</sup>



Source: ECB, prnews.pl, Eurostat, msp.gov.pl, Statista

1) Including banks and other credit institutions 2) Eurostat - within 3 months before the survey transaction in internet channel  
3) Statista - mobile users as % of internet users, survey carried in 13 countries of Western and Central Europe

# Bank Millennium strengthened sound differentiators for sustainable competitiveness while improving results

## Strong Retail Bank



### Leading Product Offer



Strong acquisition offer (CA+ SA promotion)



Unique discount program



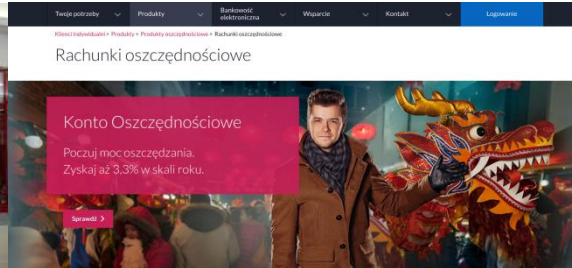
Competitive cash loan also in digital channels

Sales leader for structured products

Market leading client satisfaction & NPS<sup>1</sup>

Highly effective network, strong sales discipline; large network in attractive locations

## Leading Digital Capabilities



### Setting directions in digital solutions



Electronic banking platform awarded 1st place in 2014

6th<sup>best in Europe</sup> transactional system → 2nd<sup>best in Poland</sup> ← 5th<sup>best in Europe</sup> mobile application

Best in class sales process - significant share in sales of remote channels

First bank in Poland to launch mobile application for corporate clients.

Innovative mobile payments system BLIK to be launched Q1'15

## Growing Corporate Franchise



### Strong team of Client Advisors and Product Specialists

Solid coverage model allowing best-fitting value proposition delivery

High quality of service recognized by customers

Innovative electronic platform and payments solutions for corporate clients

Unique onboarding process

Leasing & factoring - top market position

- ✦ **Recognizable brand** - Bank Millennium top 3 in spontaneous brand awareness<sup>3</sup>
- ✦ **Leading efficiency and service** underpinned by IT systems
- ✦ Best-in-class **cost/systems/processes infrastructure**
- ✦ Revamped **customer intelligence** powered by advanced analytics

1) Net promoter score - clients willingness to recommend the firm

2) Forrester International Consultancy Benchmark, October 2014

3) ATP Millward Brown Tracking December 2014

# Online and mobile platform core competency

Transforming our online and mobile platforms into powerful customer engagement platforms ...

**Client Experience #1 priority**

- Simple processes, needs driven
- First class e-care service
- Extensive security mechanism for customers

**Relevance/Personalization**

- Analytics driven multi-channel CRM engine

**Omnichannel**

- Leveraging unique multi-channel process execution capability
- Applied to cash loans, overdraft and current account opening processes enabling to optimize conversion

**Continuous innovation**

- Innovative use of established technology (e.g. term deposit auctions and happy hours, cash loan in mobilecardless cash withdrawal at ATMs, push notifications, transfer to email and phone number)
- Innovative use of new technology (e.g. smart watch, geo location)

**Very agile platform and internal capability to deliver new and innovative changes at a fast pace**

**723k**  
Active online clients  
Very High Satisfaction levels

**145k (+65k YoY)**  
Mobile Banking Active Clients

**26%**  
Cash loans sales

**30%**  
Overdraft sales

**Distinctive Omnichannel**

**99%**  
of transfers

**70%** Time deposits

**Newsweek Ranking Leader**

ook Air

... by leveraging unique capabilities

# Bank Millennium set to continue business model rebalancing for profitability in pressured environment, while pursuing organic growth

## 2009-2011:

“Managing through the crisis”

- ✦ Conservative liquidity management, strengthening capital ratios
- ✦ Improved risk management
- ✦ Improving core profitability drivers
- ✦ Restructuring of distribution platform, improving efficiency through strict cost management

## 2012-2014:

“Rebalancing the business model for profitability”

- ✦ Rebalanced product mix (e.g., mortgage vs. cash loan, term vs. other deposits), deposits price optimization
- ✦ Setting Corporate lending on a growth track with new targeting tools and RM management models
- ✦ Focus on strengthening competitive advantage (online, mobile, quality, customer intelligence)
- ✦ Further reduced operating expenses by strict administrative cost management and lean initiatives

## 2015-2017:

“Focus on profitability preservation, while keeping organic growth target”

- ✦ Accelerating acquisition of retail customers via traditional, new and digital channels, while maintaining segment profitability
- ✦ Keeping differentiating through customer experience, further leveraging digital and customer intelligence
- ✦ Keeping the growth momentum in corporate segment while improving profitability
- ✦ Maintaining operational excellence and strict cost control

# Strategy for 2015-2017 focused on value creating growth

specific objectives and actions planned for each area



**SIGNIFICANT ACCELERATION OF NET CLIENT GROWTH** through increased network effectiveness and optimized footprint, digital channels and acquisition of mass affluent

**INCREASING MARKET SHARE OF RETAIL CUSTOMER FUNDS TO ABOVE 6%**

**PROFITABILITY PRESERVATION** due to focus on high margin products

**BRAND DIFFERENTIATION** for enhanced customer loyalty and high value relationship

**TRANSFORMING DIGITAL CHANNELS** to powerful engagement platforms: omnichannel, mobile payments. maximizing customer value through usage of advanced business analytics

**VALUE CREATING GROWTH IN CORPORATE**, loans market share of 4% while increasing profitability, reducing cost of risk, further strengthening position in specialized finance (leasing, factoring)

**DRIVING OPERATIONAL EXCELLENCE** through maintaining leading lean and digital operating model, further improving cost efficiency (C/I at 45-47%), future proofing IT platform to keep enhancing flexibility, scalability and security

# Bank Millennium to reach aspirations that represent significant improvement in certain areas



- 1 SUSTAINABLE VALUE CREATING **GROWTH IN RETAIL AND CORPORATE**
- 2 CONSOLIDATING PLATFORM IN KEY AREAS: **DIGITAL, RISK AND ANALYTICS**
- 3 CONTINUE BUILDING **OPERATIONAL EFFICIENCY**
- 4 STRONG **LIQUIDITY AND CAPITAL** ALLOWING STABLE **DIVIDEND** POLICY\*

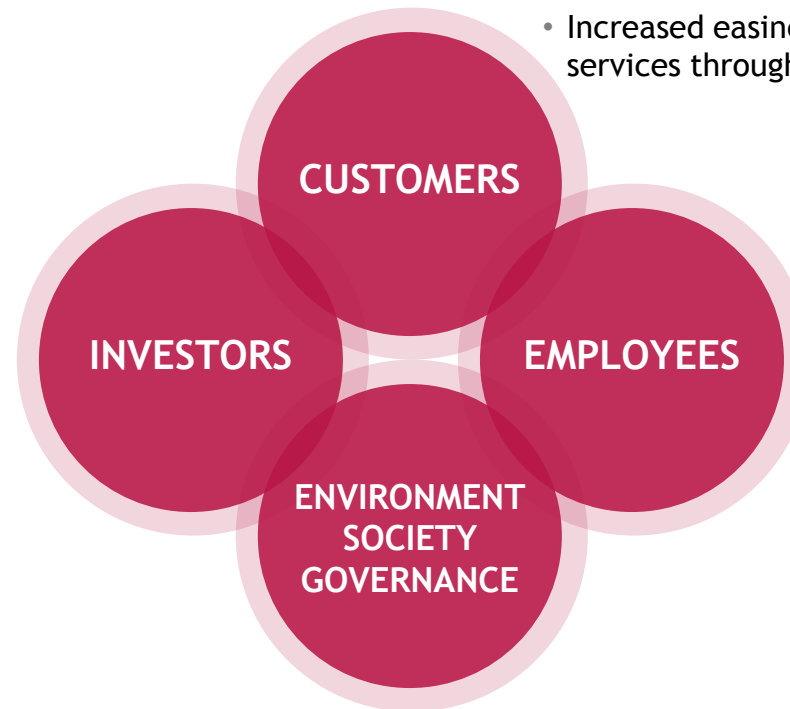
	2014	Aspiration for 2017
#of retail active customers	~1.3 mn	~1.6 mn
Retail customer funds market share	5.2%	> 6%
Corporate loans market share	3.1%	4%
ROE	11.8%	13-14%
C/I	50%	45-47%
L/D	~92%	< 100%
PAYOUT RATIO*	35-50%	35-50%

\* Subject to KNF recommendations and regulatory environment

# Strategy continues to focus on balancing needs of the main stakeholders

- **BALANCE BUSINESS GROWTH**
- **COMPLIANCE WITH GOOD PRACTISES, LEGAL AND ETHICAL RULES**
- **DIALOGUE WITH STAKEHOLDERS**

- Product and service offer tailored to customer needs, individual approach to client
- Outstanding quality of service
- Innovative products and technology
- Safety of intrusted funds
- Ethical marketing and sales
- Increased easiness of access to products and services through omnichannel approach



- Improved market position
- Growing profitability and efficiency
- Safe solvency and liquidity ratios
- Adequate risk and capital management
- Solid information policy

- Stable and solid employer
- Attractive employment conditions
- Personal accomplishment, development and job satisfaction
- Promotion of dialogue culture
- Non discriminatory policy

- Environmental friendliness
- Social engagement program
- Promoting ESG rules compliance among business partners