

# Bank Millennium Medium Term Strategy for 2013-2015

Warsaw, October 29, 2012

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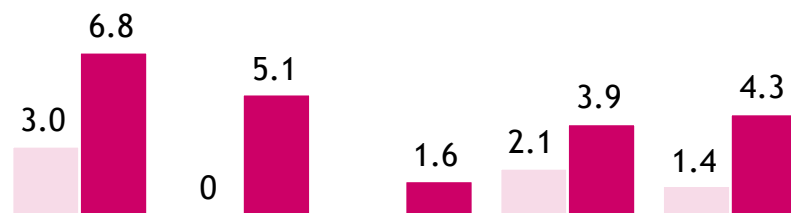
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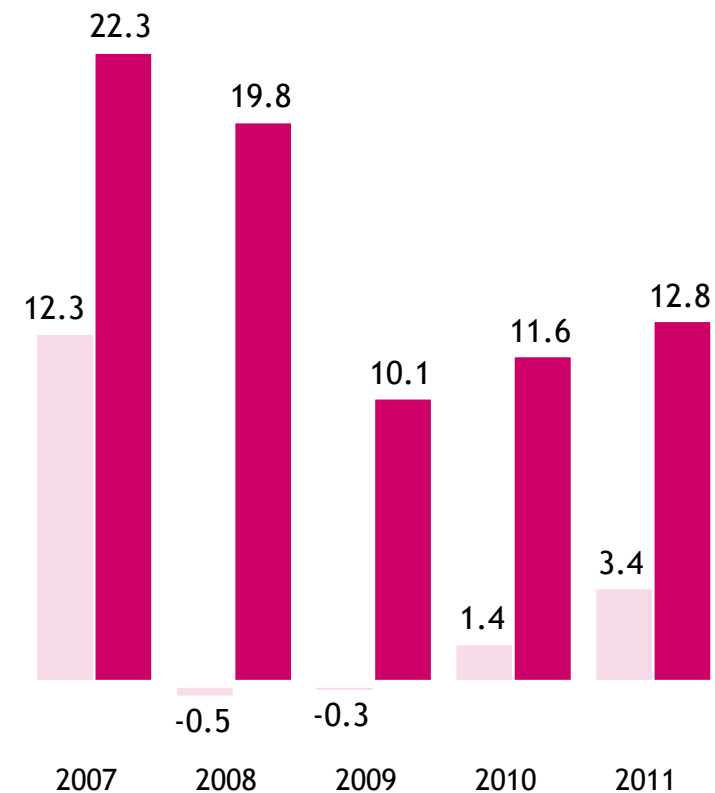
# Banking sector in Poland has shown strong resilience due to healthy economic growth and low reliance on external financing

EU15  
Poland

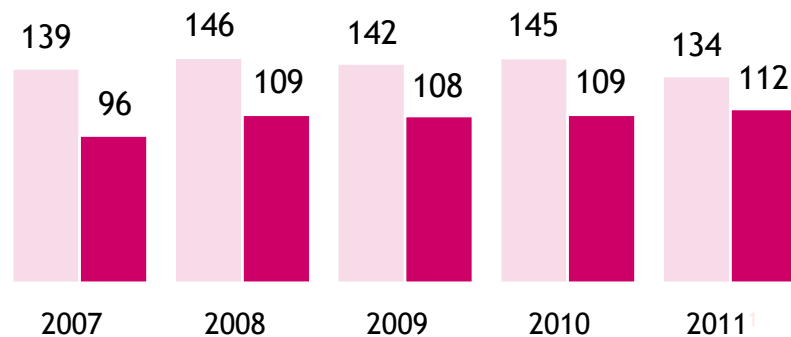
Real GDP growth rate  
Percent



Banking system ROAE \*  
Percent



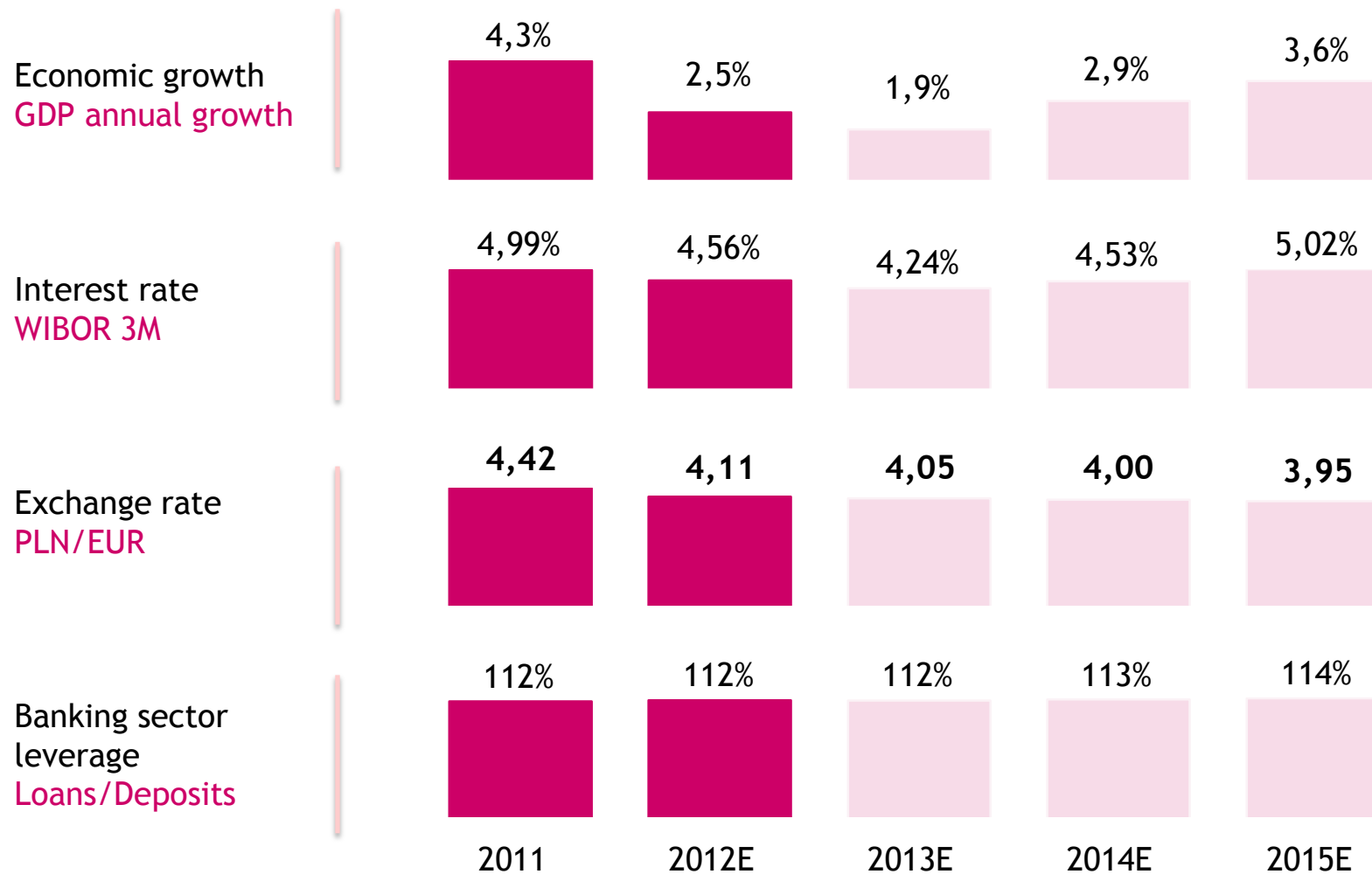
L/D Ratio  
Percent



Source: World Banking Intelligence and Eurostat

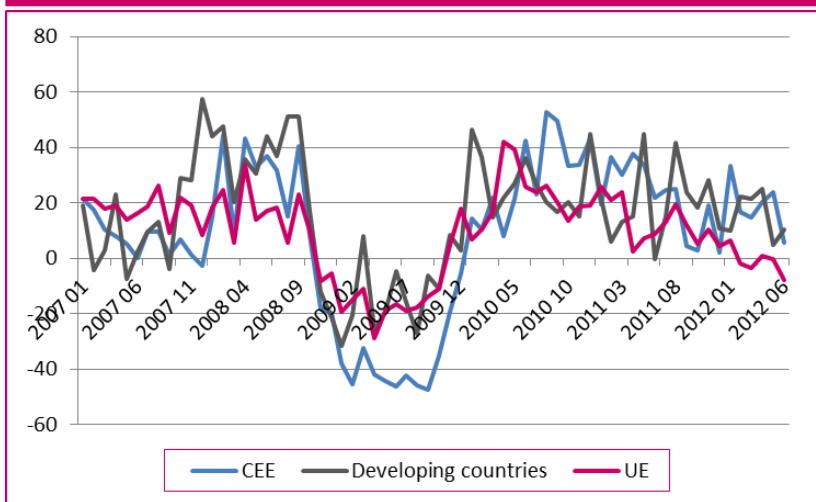
\* Limited sample: Germany, France, UK, Italy, Spain, Portugal, Netherlands, Sweden

## Macroeconomic outlook for 2012-2015 reveals moderately optimistic perspective with slowdown in 2012-2013 and gradual recovery

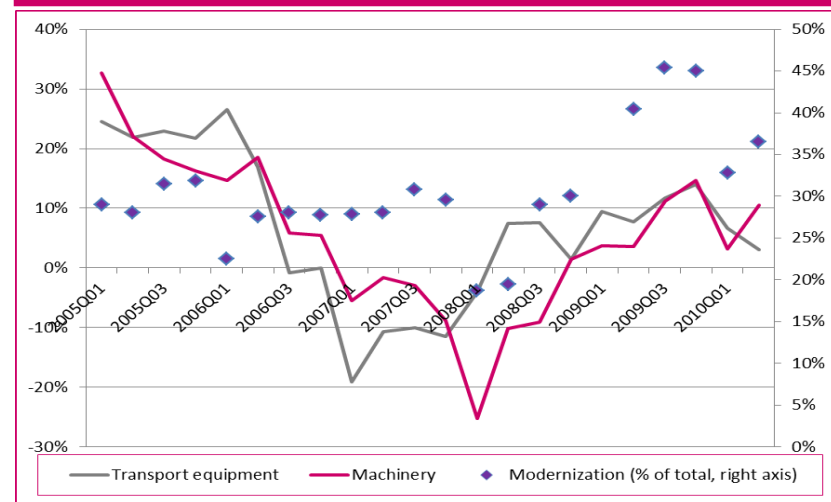


## Exports seems to be less vulnerable to the recession in the EMU, while good financial result of companies helps to invest in fixed assets

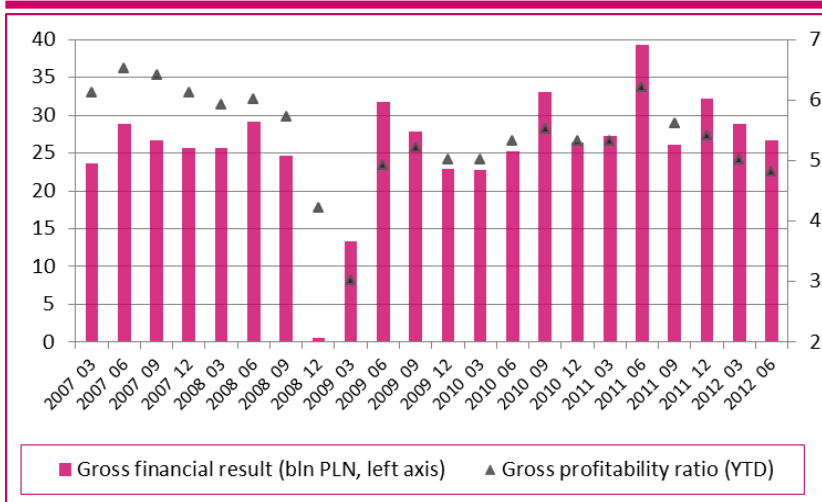
### Export dynamics to EU and non-EU markets [% yoy]



### Companies investments in fixed assets [% yoy]



### Financial results of Polish companies

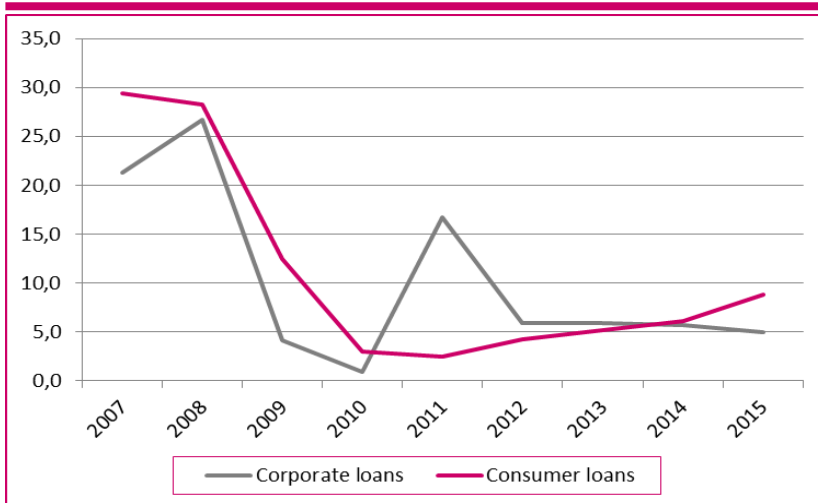


### Comments

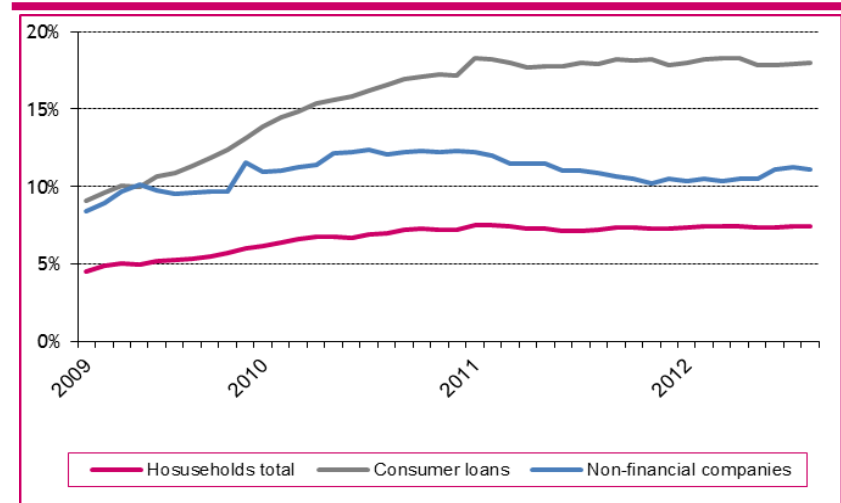
- Polish companies increase sales to the non-UE markets to be less vulnerable to a recession in the Eurozone
- Corporate sector continues investments in fixed assets to improve and modernize its capacity
- Financial results of companies are resilient to economic slowdown in the Eurozone

## Gradual PLN appreciation, decrease in inflation & interest rates in 2013 should support consumption and households' loans

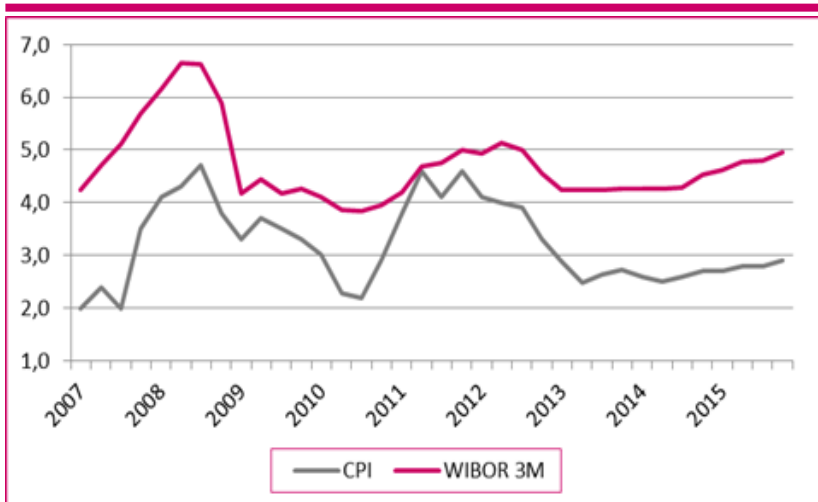
### Growth rate of loans [%]



### NPL ratios for the Polish banking sector [%]



### Interest rates and inflation in Poland [%]



### Comments

- Consumer loans are expected to accelerate slightly, while growth of corporate loans should remain moderate
- Quality of credit portfolio is expected to remain stable
- Lower inflation and lower interest rates in coming quarters should support consumption and consumer loans but might put downward pressure on deposit margin

# For the last 10 years Bank Millennium has been improving its structure and potential for further business growth

## Strategic path of Bank Millennium

### 2003-2008

#### Delivering a Successful Growth Strategy

- Network expansion
- Setting up solid infrastructure
- Rebranding
- Retail Industrialization
- Client acquisition boosted by key products
- Different distribution channels



### 2009-2012

#### Managing through the crisis

- Increasing core income
- Improving efficiency through strict administrative cost management and lean initiatives
- Conservative liquidity management
- Strengthening capital ratios
- Improved risk management
- Developing competitive advantages (quality, prize winning internet and customer intelligence, foundations for a client-centric delivery model)



### 2013-2015

#### Leveraging on solid foundations to deliver a sustainable growth path

- Higher profitability and further efficiency improvement
- Sound risk management and strong solvency & liquidity
- Rebuilt Balance Sheet structure
- Client-centric delivery model
- Safe and trustworthy partner
- Utmost quality and customer experience
- Optimised distribution channels mix
- Leadership in digital/mobile banking



# New strategy of Bank Millennium aims at balancing needs of the main stakeholders in order to bring outstanding results

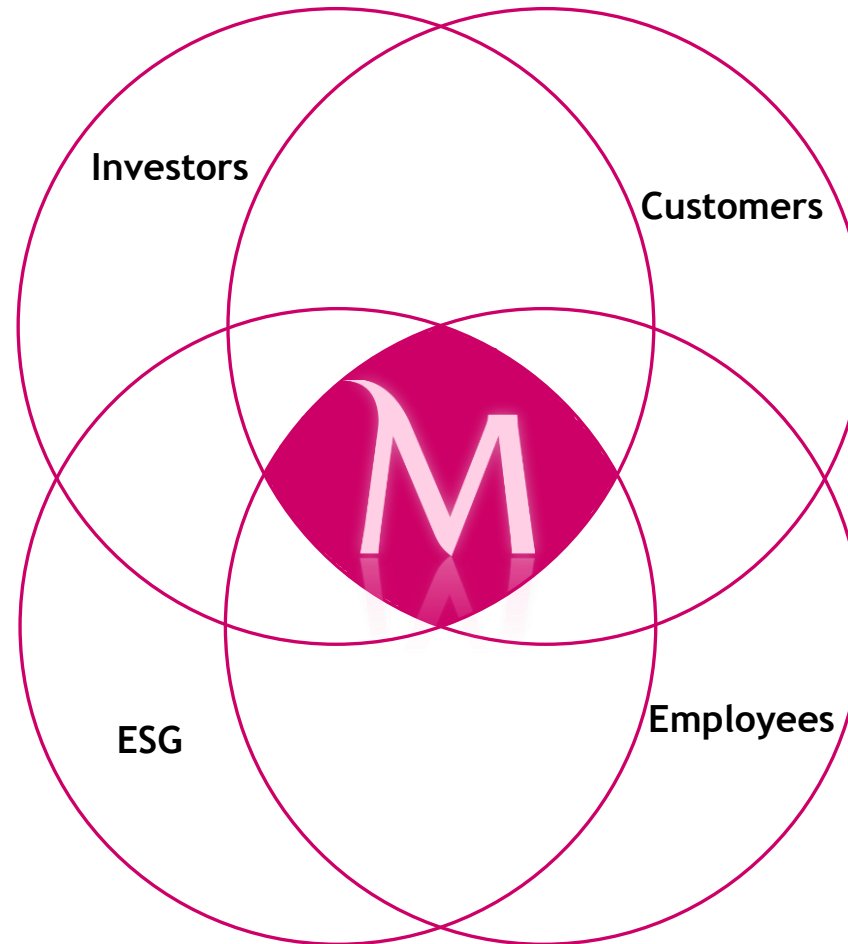
## Our commitment towards four main stakeholder groups

### Investors

- Business development
- Improved profitability
- High efficiency
- Safe solvency ratios
- Strict liquidity and capital control
- Proper risk management
- Strong market position
- More balanced share of retail and corporate in total portfolio

### Environment, Society and Governance

- Environmental friendliness
- Openness to local societies
- Compliance with legal rules and The Good Practices
- Ethics and social responsibility
- Member of WSE Respect Index



### Customers

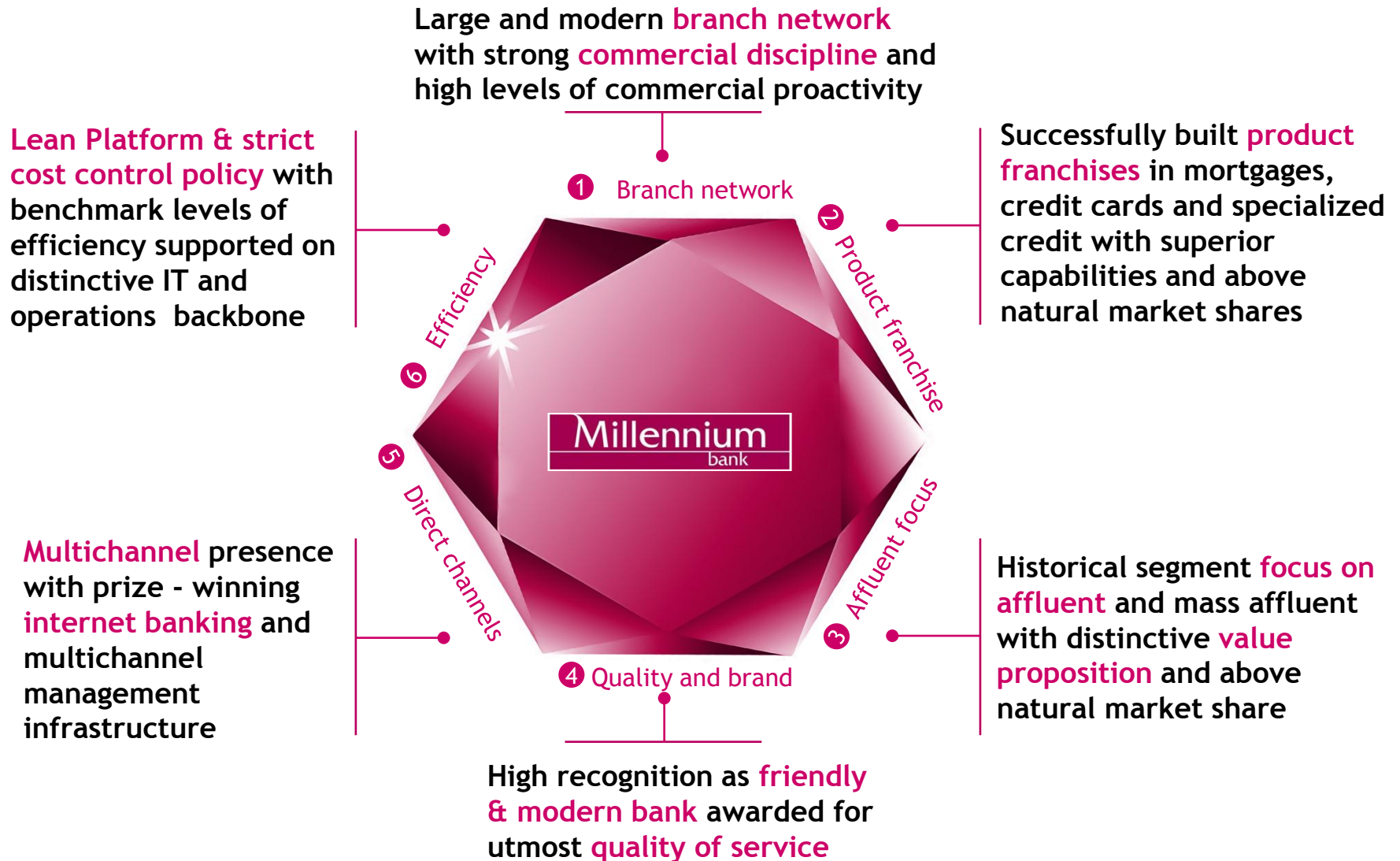
- Stable, safe and trustworthy partner
- Outstanding quality
- Convenience of use in all sales channels
- Innovative solutions
- Help, advisory and personalised approach

### Employees

- Stable and challenging employer
- Socially responsible company with good reputation and solid market position
- Personal accomplishment, development and job satisfaction



## Key strengths of Millennium built throughout the past years will be leveraged thus contributing to improved results



## Five key areas that will be the focal point of Bank Millennium's strategy for 2013-2015

### A Sustain focus on **valuable areas** while redirecting product mix to **higher margin products**

- *Seize opportunities in the affluent segment using distinctive proposition and above natural market share*
- *Prioritize cash loans*
- *Broaden saving products offer*

### B Further enhance **sales effectiveness** of the network; taking it to the next level

- *Use competitive advantage in terms of the branch network - size and format*
- *Further leverage commercial discipline and sales effectiveness of the network and direct channels*



### C Improve balance sheet structure and profitability of the **corporate franchise**

- *Increase weight of corporate in portfolio and consolidate market position in specialized finance*
- *Balance market shares of deposits and credit in corporate segment*

### E Sustain **efficiency** advantage through strict platform management and cost savings discipline

- *Sustain strict cost control*
- *Continuously work on leaner internal platforms, processes and structures*

### D Prepare the Bank for the future by investing in **business analytics & multichannel platform**

- *Offer distinctive digital solutions to Polish consumers being in the fast-lane regarding adoption of innovative technologies*
- *Use customer centric approach to improve sales efficiency and customer experience*

# To ensure sustainable growth, all strategic initiatives need to fit within the framework ensuring Bank's stability

## + Positive factors

Natural growth of the Polish banking market

Low market saturation in several products

High openness of customers to innovation & technology

Impact of implemented strategic initiatives

Existing strengths of the Bank

Moderately positive macroeconomic forecasts

## Framework for sustainable growth

- High capital base
- Comfortable liquidity position
- Compliance monitoring and assurance
- Sound credit risk management
- Constant cost control & optimisation
- Lean solutions in processes, operations and IT platform



## - Potential negative factors

Lowering interest rates

Volatile exchange rates

Lowering interchange fees

Higher BFG\* charges / new banking tax

Growing unemployment

Higher costs of risk

In order to fully seize opportunities, apart from leveraging on above mentioned key strengths, the Bank will focus on specific key initiatives

Retail Banking

Innovation  
&  
Technology

Corporate Banking

### Key strategic initiatives

- Increasing **consumer lending** and its share in total retail loans
- Becoming a reference bank for **savings and transactions**, developing broad range of saving opportunities for customers balancing their needs of liquidity and investment
- Consistently developing **innovative star products** outpacing competition and supporting **customer acquisition**
- Optimising use of **multiple channels and business analytics** for pre-eminent convenience, increased sales productivity and efficient product distribution
- Catching the next wave of **digital banking** and striving for **leadership in mobile banking**
- Exploring **broader target market** opportunities in **corporate** lending combining the focus in SMEs with addressing **mid-large companies**
- Establishing **strategic partnership relations** with key corporate customers

## Medium term targets for Bank Millennium Group



1. Sustainably improve **profitability and efficiency**
2. Maintain current balance sheet strategy - **conservative liquidity management & solid capital base**
3. Maintain competitive advantage of **exceptional convenience and quality**
4. Evolve to become a more **balanced commercial bank**; increasing presence in **corporate sector**

|                        | 2012<br>September | 2015<br>Target |
|------------------------|-------------------|----------------|
| ROE                    | 10.1%             | 14-15%         |
| Cost to Income         | 58.2%             | ~50%           |
| L/D                    | 96%               | <100%          |
| CT1                    | 11.4%             | >10%           |
| Customer satisfaction* | 89%               | >90%           |
| % of loans             | 25%               | 30-35%         |

\* % of retail customers being satisfied and very satisfied