



# BANKU MILLENNIUM GROUP

Institutional presentation

September 2020







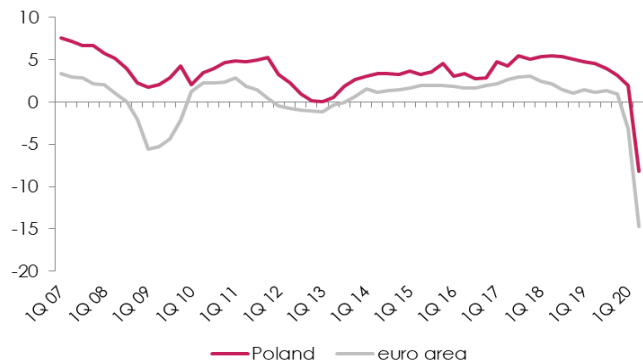
# INSTITUTIONAL PRESENTATION

- > **Macroeconomic environment in Poland**
- > Banking sector in Poland
- > Bank Millennium general overview and strategy
- > Financial performance

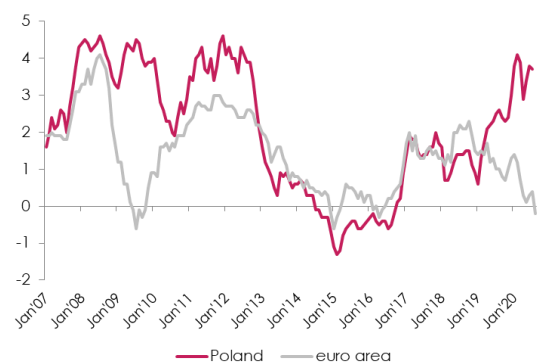
# Macroeconomic overview

Polish economy suffered much during the crisis triggered by pandemic, however to a lesser extent than most of the other EU countries. High frequency data suggest strong rebound after lifting lockdown, partially because of massive fiscal and monetary stimulus.

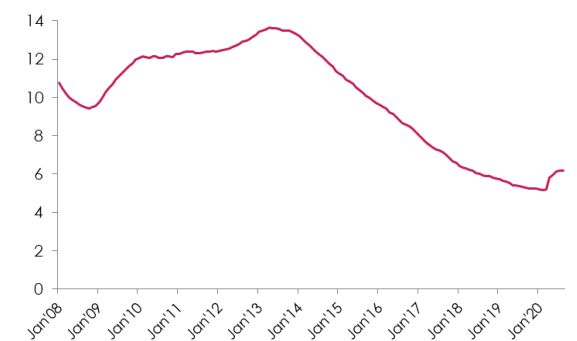
GDP growth rate (% y/y)



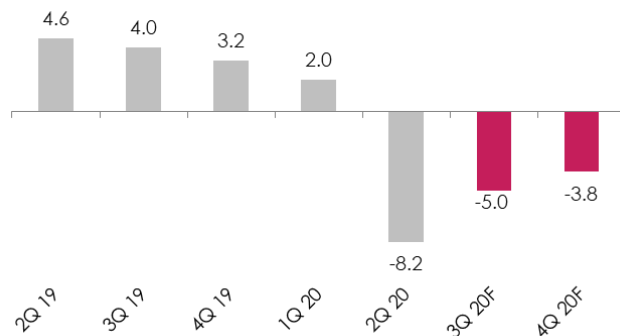
HICP inflation (% y/y)



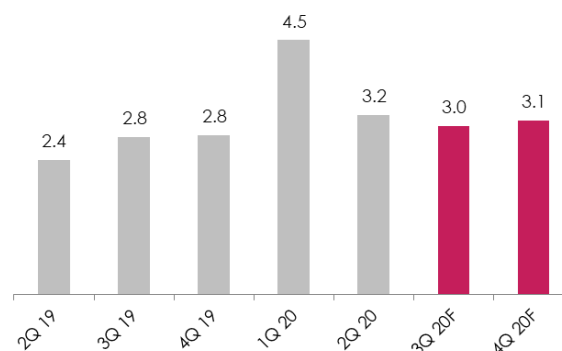
Registered unemployment rate (sa, %)



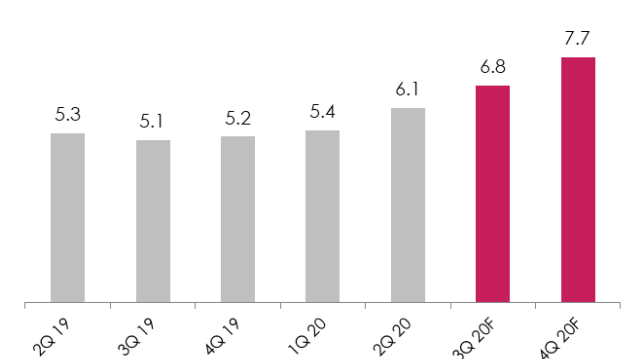
GDP growth rate (% y/y)



CPI inflation (% y/y)



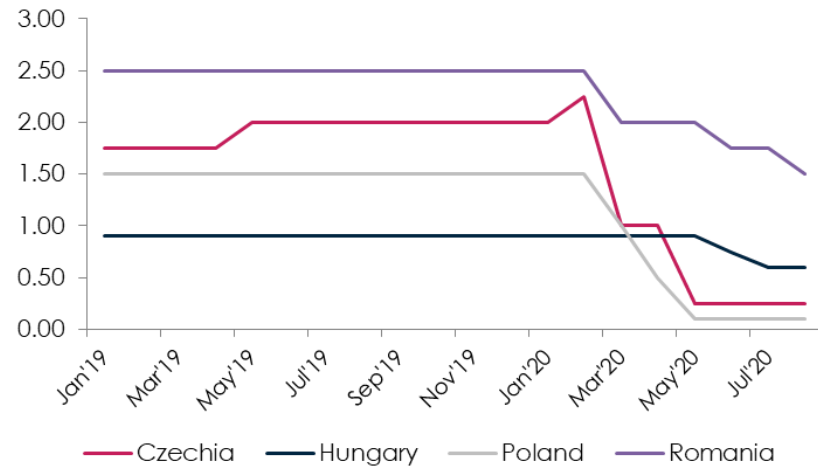
Registered unemployment rate (%)



# Macroeconomic overview

Interest rates in CEE countries (%)

(%)



EUR/PLN exchange rate



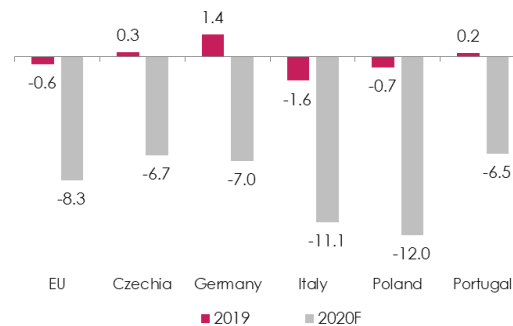
Yields of T-bonds (%)

(%)



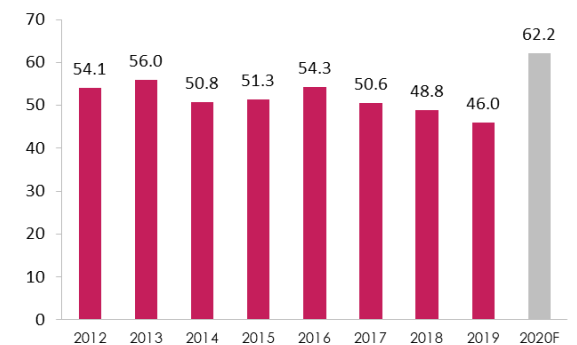
General government deficit (% GDP)

(% GDP)



General government debt (% GDP)

(% GDP)

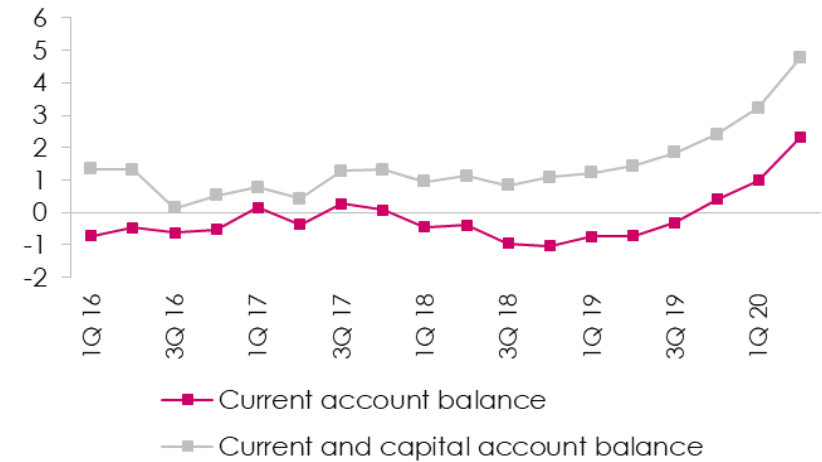


# Macroeconomic overview

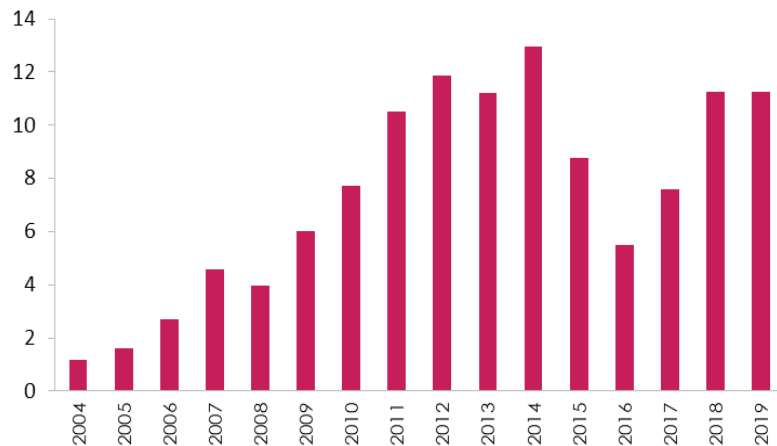
Exports and import according to national accounts (% y/y)



Current and capital account balance (% GDP)



Inflow of European Union funds to Poland (EUR bn)

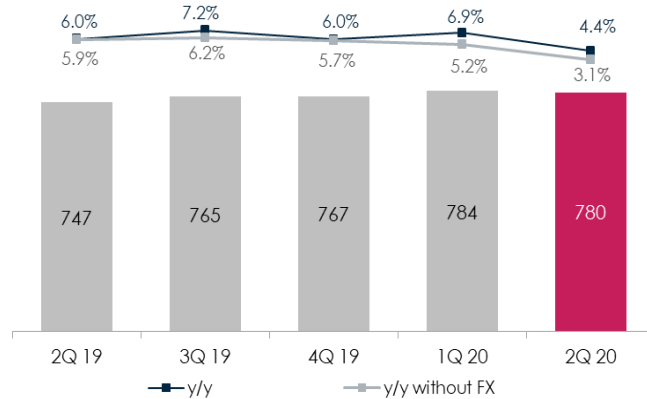


Inflow of foreign direct investments to Poland (EUR bn)

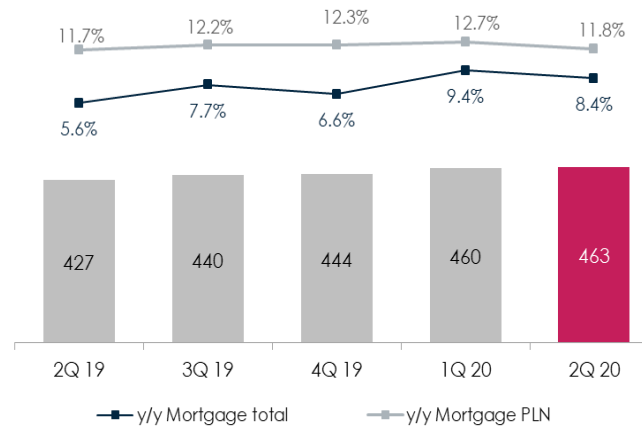


# Macroeconomic overview

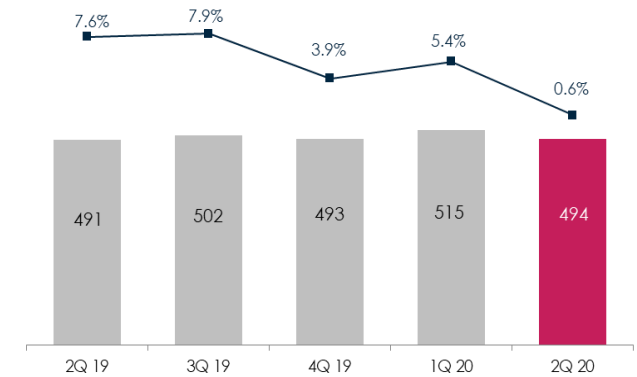
Loans to households (PLN bn, % y/y)



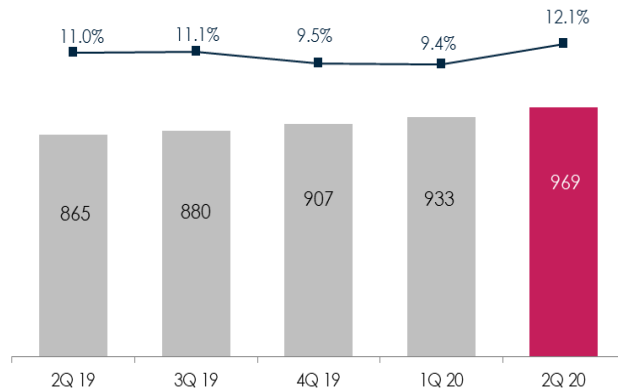
Mortgage loans (PLN bn, % y/y)



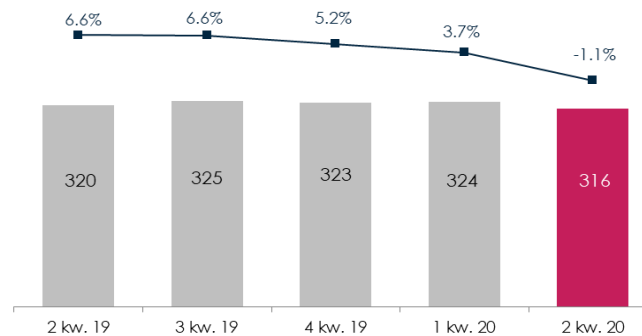
Loans to companies (PLN bn, % y/y)



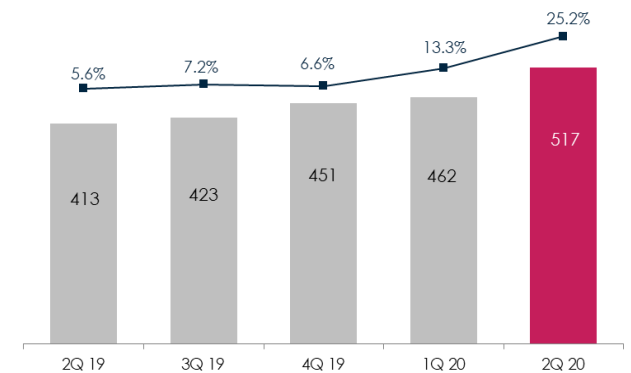
Deposits from households (PLN bn, % y/y)



Non-mortgage loans (PLN bn, % y/y)



Deposits from companies (PLN bn, % y/y)



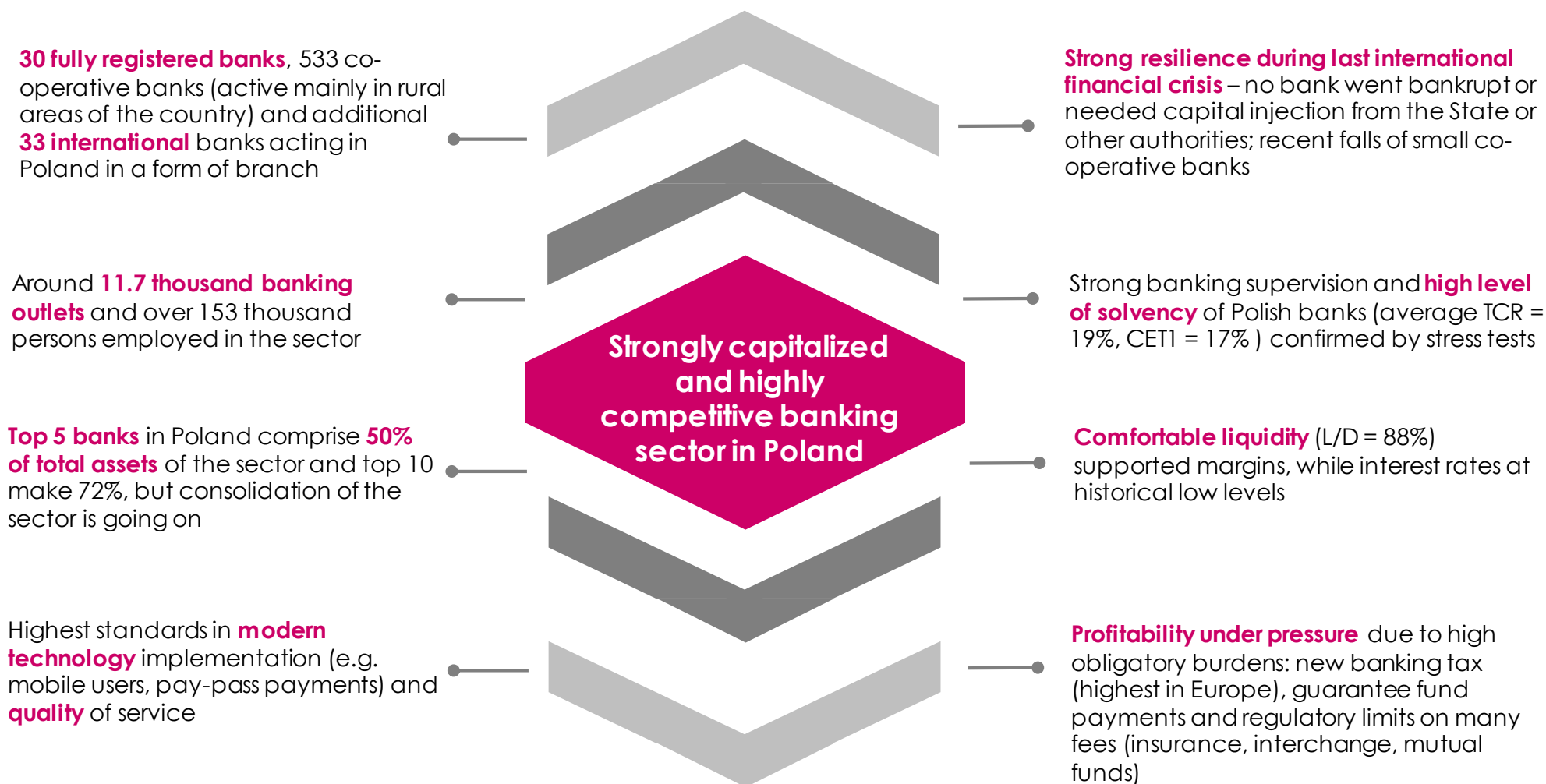




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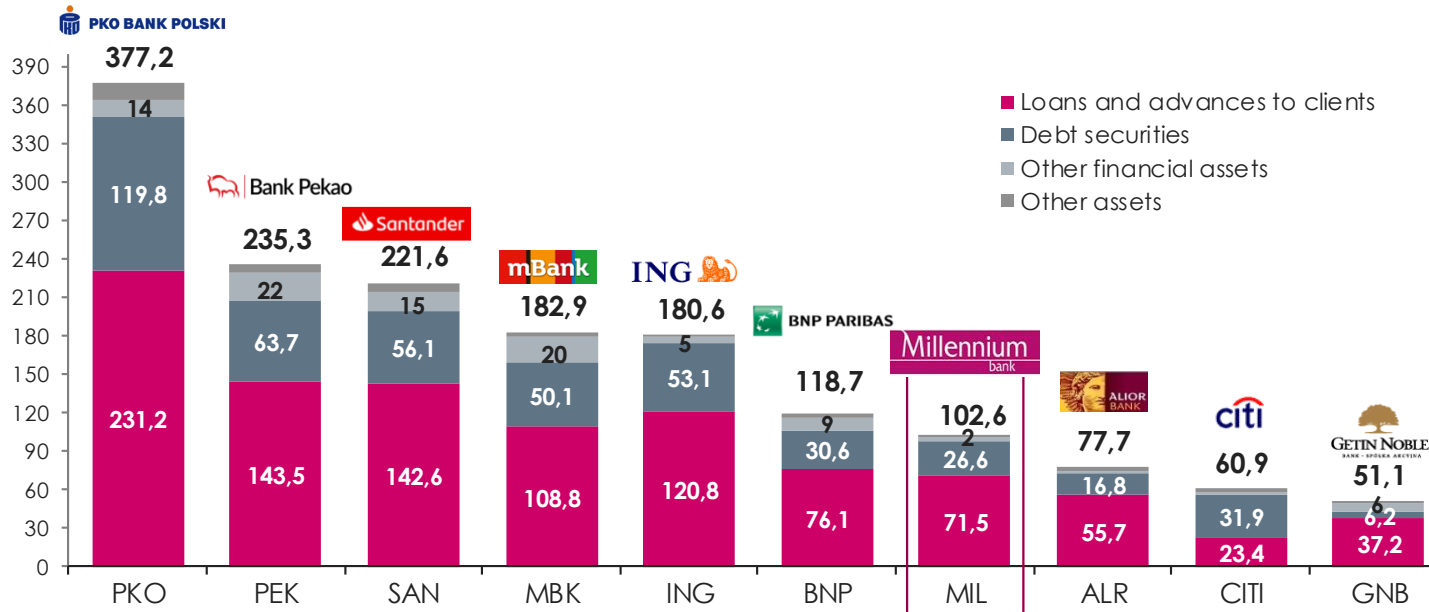
# Polish banking sector overview





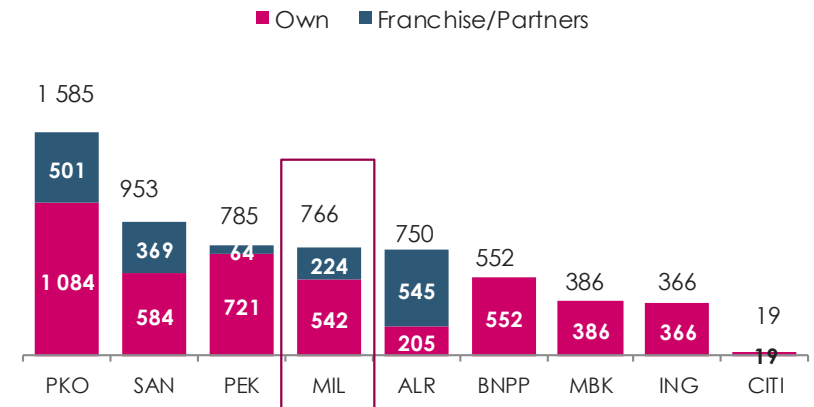
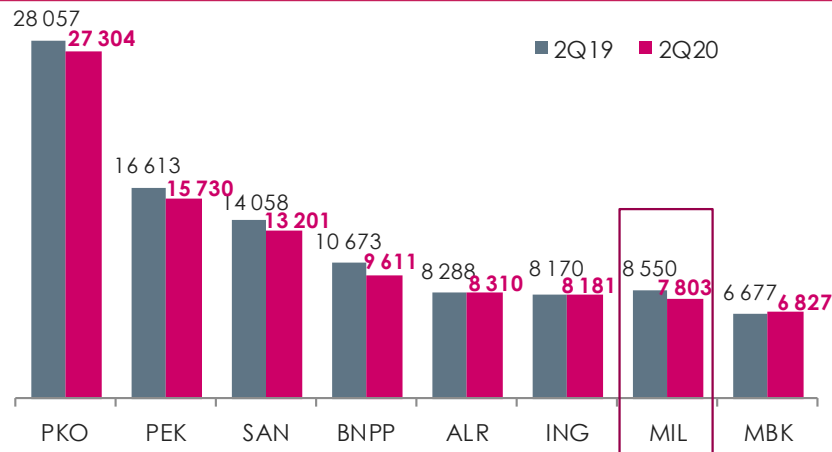
# The biggest banks in Poland

As at 30 June 2020 (PLNbn)

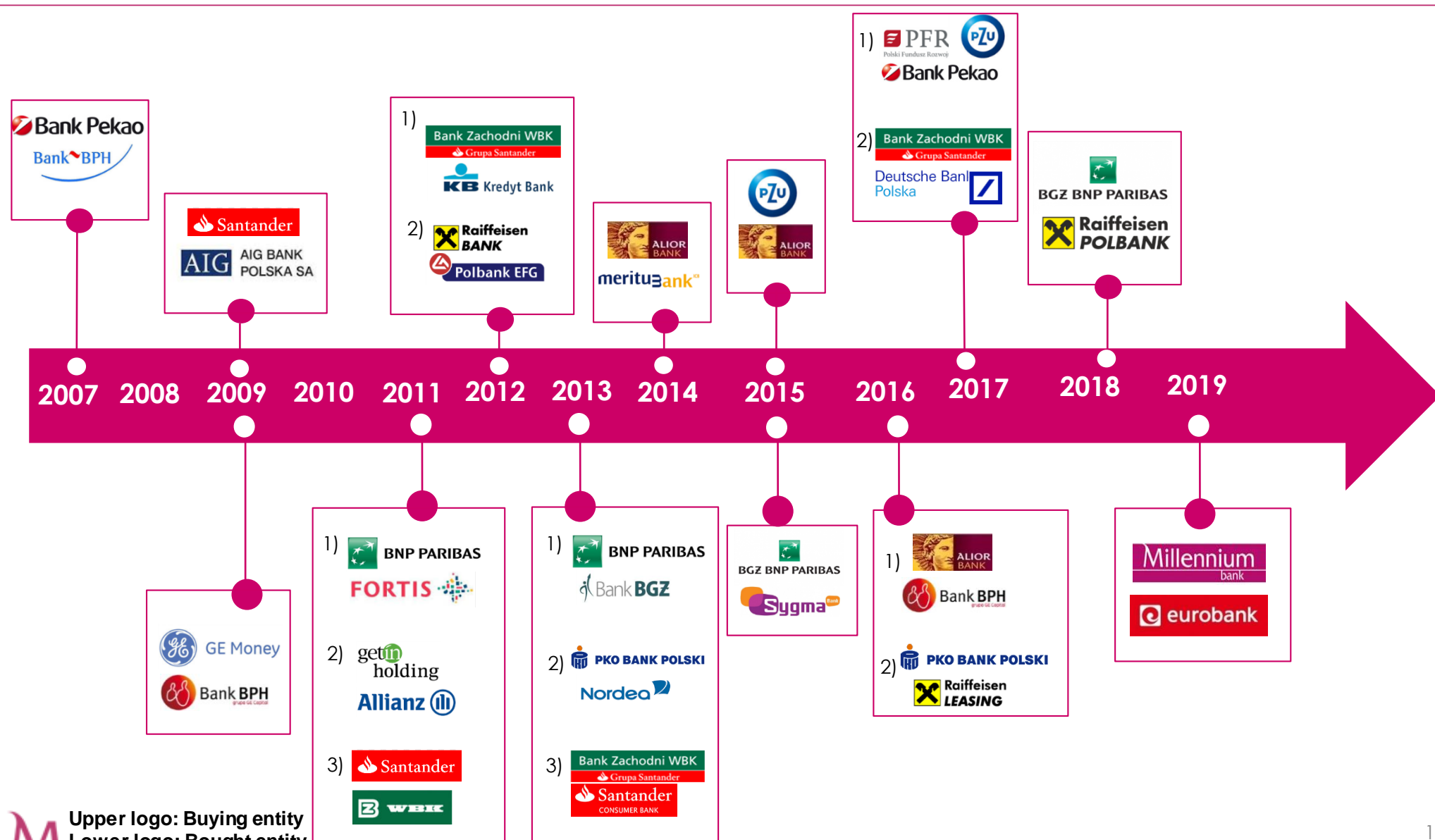


Total headcount

Total distribution network



# Recent M&A transactions in the Polish banking sector

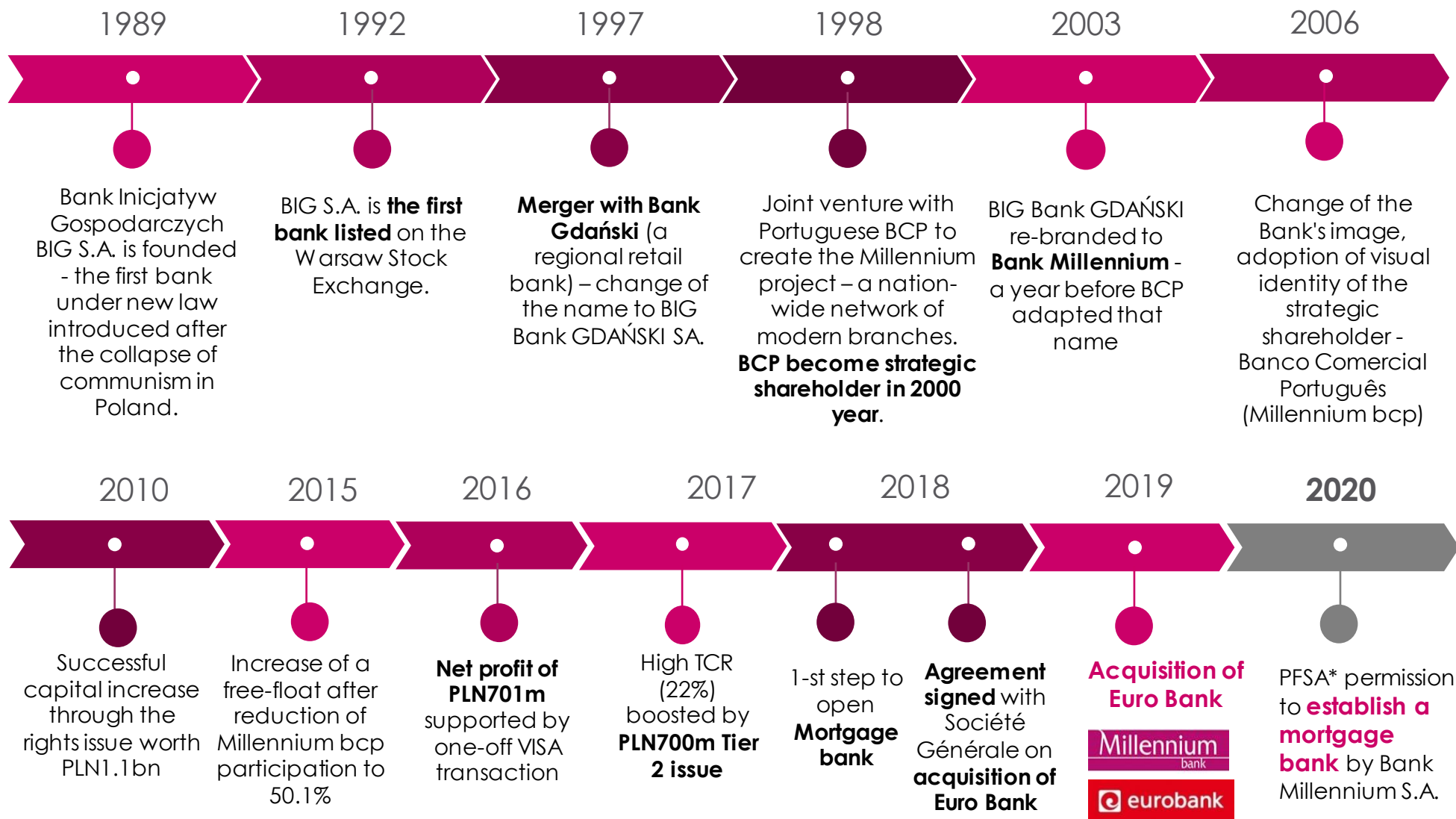




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# History of Bank Millennium at a glance



(\*) Polish Financial Supervision Authority



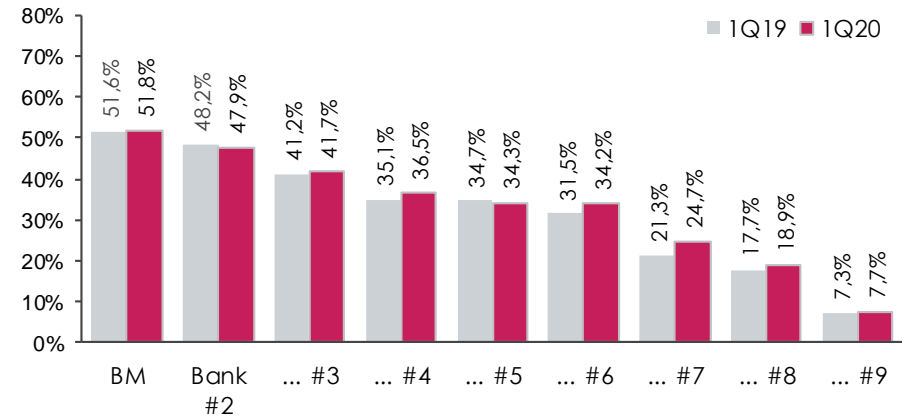
# MORTGAGES – our long-term customer acquisition product

Millennium Mortgage Bank (MBH) received a banking licence on June 16, 2020; operating licence (and a start of business) is expected in 1H21

## Rationale for establishing MBH

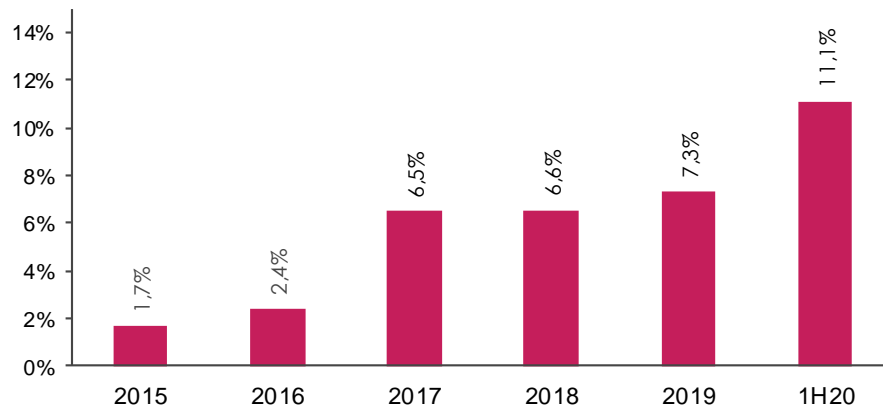
- MBH will provide opportunities for medium term sustainable development of mortgage lending business and will allow to:
  - ✓ reduce assets-liabilities maturity mismatch
  - ✓ diversify funding mix
  - ✓ provide access to large and cheaper than senior unsecured debt funding market of covered bonds
  - ✓ reduce MREL requirement

## Share of mortgage loans in total portfolio (top 9 banks) (%)



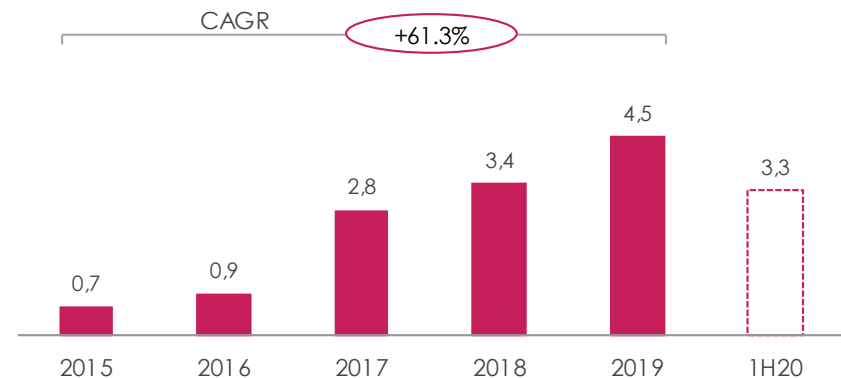
## BM's market share in origination\*

(%)



## BM's origination of mortgage loans\*

(PLNbn)



(\*) Based on commitments

# Overview of strategies since 2009

## 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 admin. cost management and lean initiatives

## 2015-2017: “Focus on profitability preservation, while keeping organic growth target”

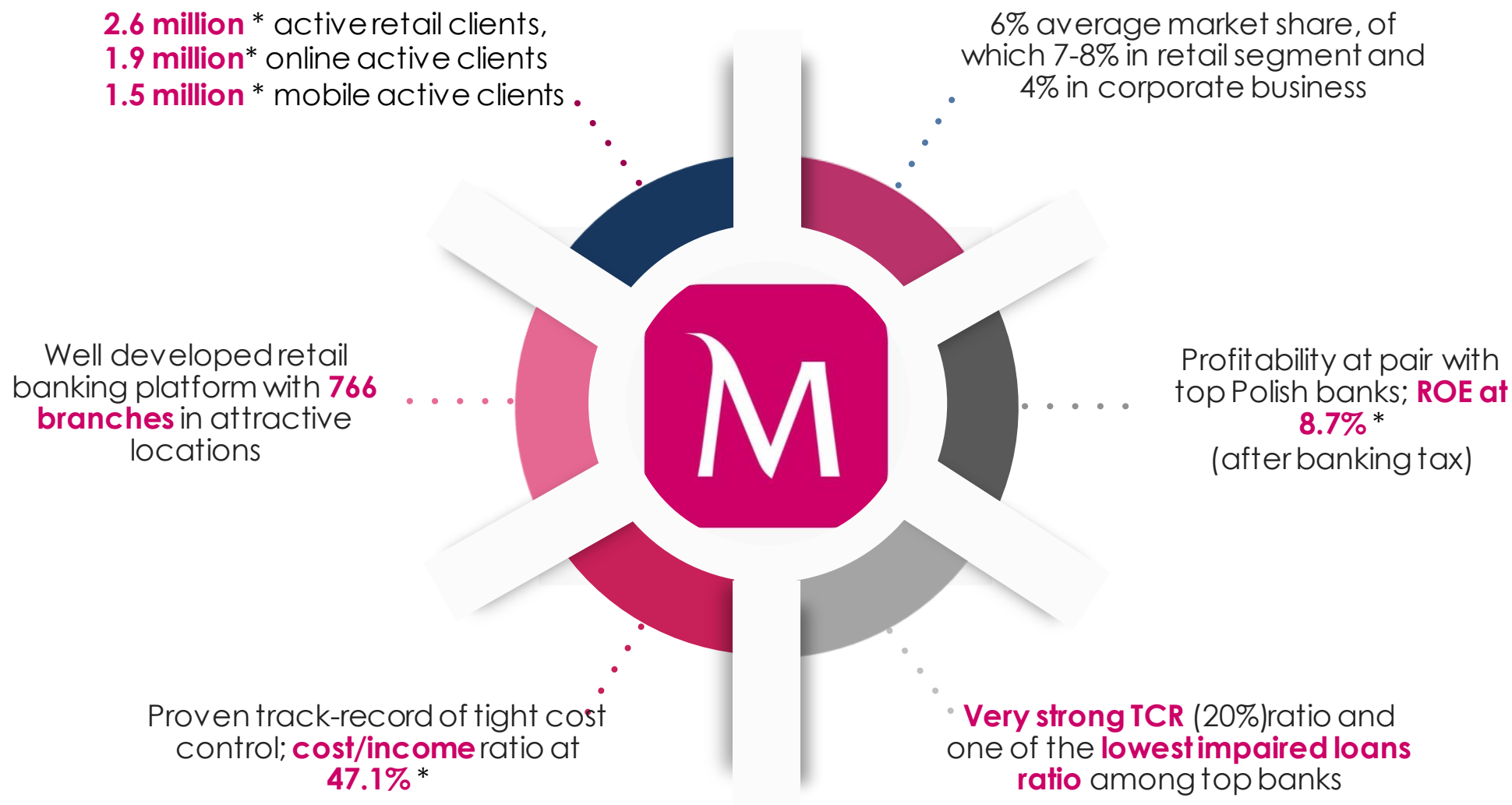
- Accelerating acquisition of retail customers via traditional, new and digital channels, while maintaining segment profitability
- Keeping differentiating through customer experience, further leveraging digital and customer intelligence
- Keeping the growth momentum in corporate segment while improving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

## 2018-2020: “Accelerated growth”

- Complementing current growth engine in **Retail** (C/A acquisition) with **new engines** (cash Loan, investments and micro business)
- Accelerate the growth in **Corporate** through **lending** and enhanced **sales force efficiency**
- Focus growth around client satisfaction, in retail **mass personalization** and in business with **sectorial knowledge approach**
- Strong leverage of **digital in banking** and beyond as competitive edge
- **Opportunistic** approach to **inorganic growth** options
- Win the **war for talent** thanks to engaging and inspiring work environment

# Bank Millennium today

Leadership in digital innovations and the best quality of service



(\*) data as at 30.06.2020 adjusted for one-offs

# Market shares in main products

%	2015	2016	2017	2018	2019	1H20
<b>Total loans</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>	<b>4.6</b>	<b>5.7</b>	<b>5.8</b>
<b>Loans to individuals</b>	<b>5.9</b>	<b>5.7</b>	<b>5.5</b>	<b>5.6</b>	<b>7.7</b>	<b>7.8</b>
- mortgage	7.5	7.0	7.0	7.0	8.3	8.4
• nowa sprzedaż kredytów hipotecznych	1.7	2.4	6.5	6.6	7.3	11.2
- in credit cards	5.7	5.4	5.7	5.6	6.4	6.5
- other consumer	3.9	3.9	3.7	3.9	8.2	8.4
<b>Loans to companies</b>	<b>3.7</b>	<b>3.6</b>	<b>3.6</b>	<b>3.9</b>	<b>4.0</b>	<b>4.0</b>
- leasing sales	6.5	6.0	5.4	4.9	5.1	4.5
- factoring sales *	10.0	9.2	8.6	8.1	7.5	7.6
<b>Total deposits</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>	<b>5.3</b>	<b>6.0</b>	<b>5.8</b>
<b>Deposits of individuals</b>	<b>5.7</b>	<b>5.8</b>	<b>5.7</b>	<b>6.2</b>	<b>7.2</b>	<b>7.1</b>
- demand deposits **	5.5	6.3	6.1	6.9	8.0	7.8
<b>Deposits of companies</b>	<b>4.4</b>	<b>3.8</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>	<b>3.8</b>
- demand deposits	2.4	2.5	2.6	2.9	3.0	3.3
<b>Mutual funds (incl. third party)</b>	<b>4.4</b>	<b>4.6</b>	<b>5.0</b>	<b>4.6</b>	<b>4.5</b>	<b>4.4</b>

(\*) among members of Polish Factors Association; (\*\*) Including savings accounts  
Source: National Bank of Poland, Bank Millennium



# EURO BANK INTEGRATION

Euro Bank integration starts to yield significant and recurrent synergies

(PLNmn)

## Integration costs and synergies

	1Q19	2Q19	3Q19	4Q19	FY19	1Q20	2Q20
Integration costs*	-2.0	-17.8	-44.3	-52.2	-116.3	-30.1	-5.2
- o/w depreciation	-	-	-	-0.8	-0.8	-0.4	-0.5
Additional provisions on Euro Bank portfolio**	-	-80.6	-8.0	-	-88.6	-	-
<b>Total negative impact (pre-tax)</b>	<b>-1.9</b>	<b>-98.4</b>	<b>-52.3</b>	<b>-52.2</b>	<b>-204.9</b>	<b>-30.1</b>	<b>-5.2</b>
Synergies	-	-	-	23.4	23.4	25.0	37.1
<b>Net impact (pre-tax)</b>	<b>-1.5</b>	<b>-79.7</b>	<b>-42.4</b>	<b>-23.2</b>	<b>-146.9</b>	<b>-5.1</b>	<b>31.9</b>

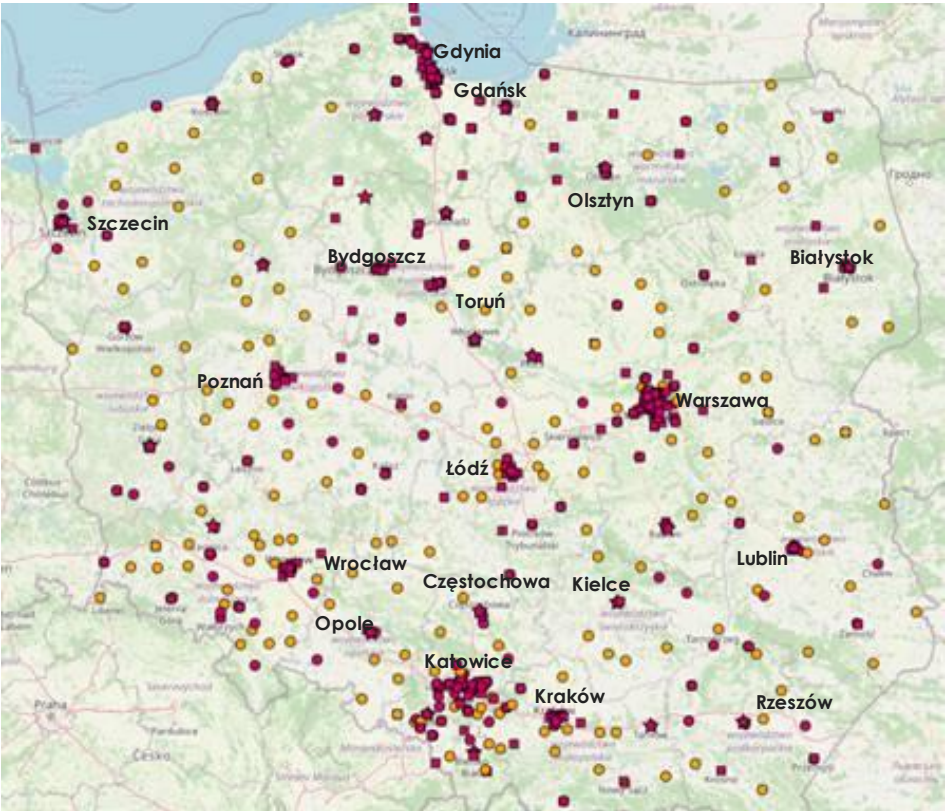
- **Integration costs and capex** incurred to date represent 42% of the new plan. In 1HQ20, the bulk of opex was HR related (i.a. PLN13.5mn provision for group redundancies, PLN10.5mn retention bonus). **Overall 2020 integration opex target is PLN71mn.**
- **First positive net synergies in 2Q20 (PLN31.9mn).** Gross synergies are expected to increase in subsequent quarters with PLN150mn+ targeted in 2020 overall and cPLN220mn in 2022.

(\*) Costs: P&L OPEX directly related to Euro Bank acquisition, merger and integration. Expenses: additionally there was a PLN37mn PPA adjustment, while capex totalled PLN33mn in 2019; \*\*) 12-month expected credit loss (ECL) estimated on fair value of loan portfolio in accordance with IFRS 9 (on D1 in 2Q19) plus extra provisions on normal loans being subsequently reclassified after D1.

# BANK MILLENNIUM BRANCHES (as at 30 June 2020)

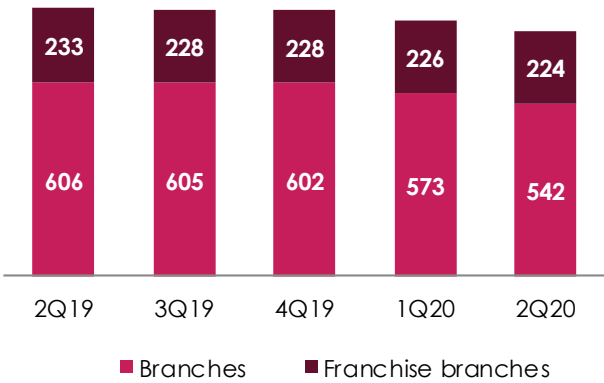
FTE and branch reduction to accelerate in the remainder of the year

## Network of 766 branches



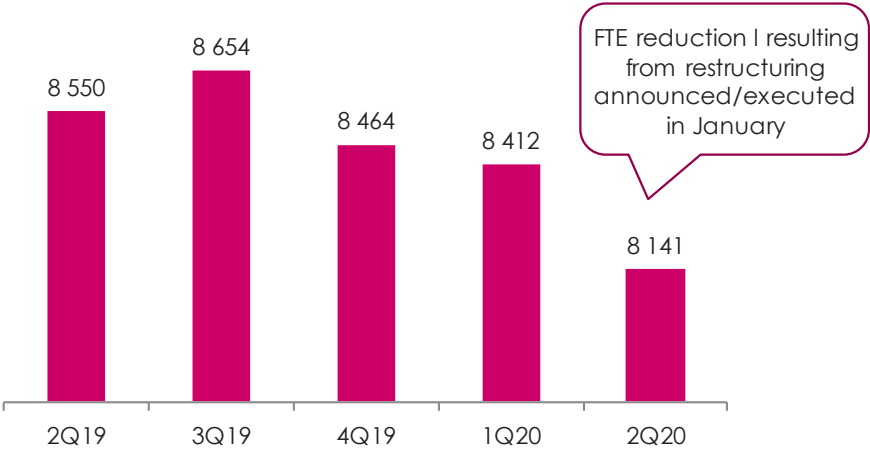
- own branches
- franchise branches

## Branches and franchise branches




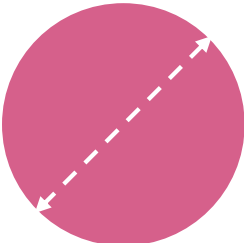
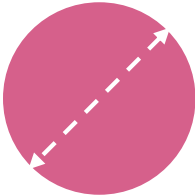
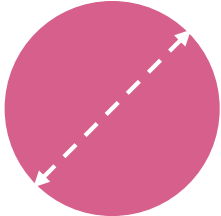
## Employment

(FTE)



(\*) does not include the full outcome of 260 FTE reduction announced/executed in January

# Growth engines of the current organic strategy

	Accelerated by Euro Bank			
	Investments	Consumer Loans	Micro Business	SME & Corporate
Why selected	Poland still far behind EU markets while forecasts very promising (>10% volume growth CAGR)	Bank Millennium has lower penetration in consumer loans than its fair-share	Significant part of business banking where we can leverage our winning Retail capabilities	Very solid growth machine already in place with 28% revenue growth in the last three years
Our growth model	We will be introducing break-through cyborg- and robo-advisory models to fully leverage potential of digital and physical channels among our core target segments	We will drive penetration among own base but also will venture into consumer loan for new-to-banks especially through digital offering enabled by the PSD2 regime	We will introduce a strong offer to the market leveraging digital sales & servicing model and value added services	We will deploy light industrial specialization model - already proven approach as in the current priority sectors we reach twice higher share of wallet
Revenue potential				

...and we will launch the project of mortgage bank to support business growth

# 2020 strategic targets

## AMBITION by YE20

We want to gain scale by being a  
**growth leader in  
Polish banking sector...**

- Core business Income growth by **~30%** (vs. 2017)
- **Double-digit** volume growth in core selected areas
- **Double** the pace of active client acquisition
- Maintain **Top 3** in customers **NPS** among banks

**...at the best-in-class efficiency & risk  
level...**

- Cost-to-income ratio of **40%**
- Cost of risk in line with historical trends

...and as a result generate **appealing  
return**  
to our shareholders

- **PLN1bn** PLN Net Profit<sup>1</sup>
- **Top 3 ROE** in Polish banking industry<sup>1</sup>

<sup>1</sup>. Excluding extraordinary legal, regulatory and tax events



# Project 'Millennium through Covid-19'

**We aim to cut the earlier planned 2020 opex by 10%\* (capex by 17%), recover revenues and increase share of digital sales**

- **Results in 2020 will be negatively impacted by the significant interest rate cuts and additional provisions for FX mortgage loans legal risk**
- **In this context, the Bank adopted mitigation measures that are already providing relief, namely through:**

**Reduction of the cost of deposits**  
following the 140bp interest rate cut

**Cost reduction**  
by accelerating the plan of capturing the cost synergies from the Euro Bank acquisition and further delivering cost savings of 10%\* in 2020 alone

**Careful management of credit risk, with more conservative provisioning in 1H20** and tight monitoring which may help to mitigate the potential negative impacts from the crisis on asset quality, although more clear picture will only come after the end of credit holidays period used by part of clients



**Millennium**  
bank

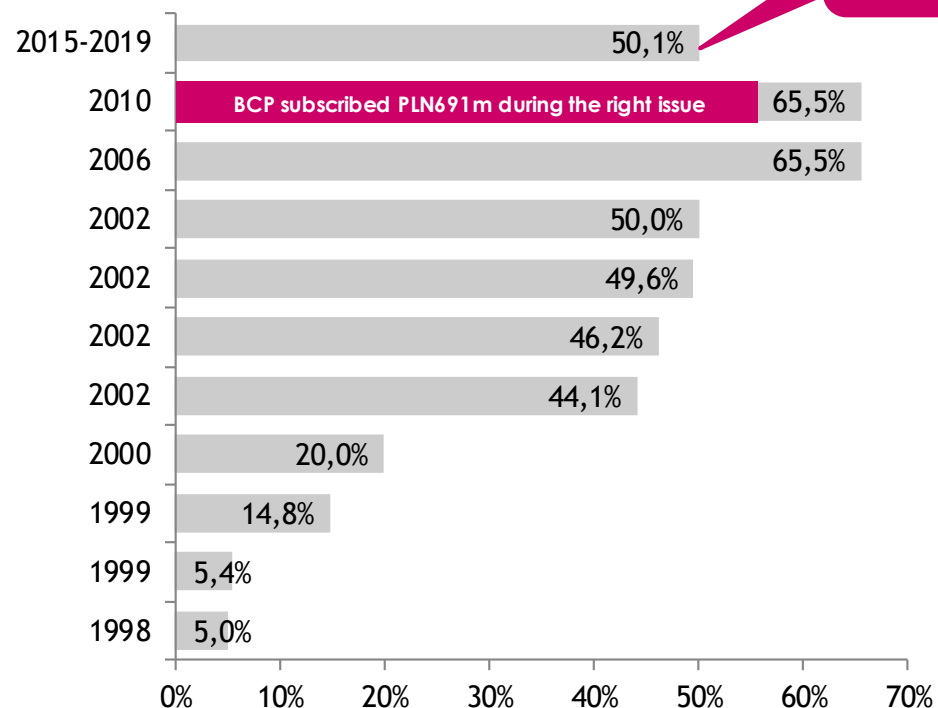
**Accelerating digitalisation of sales & service and internal processes.** Maintaining the focus on **business development**, especially on mortgage loans

(\*) excluding Euro Bank related integration costs and BFG costs

# Relations with BCP and management composition

- BCP demonstrated in the past strong support to Bank Millennium in Poland; commitment in equity was shown during the capital increase concluded in February 2010. BCP also supported liquidity, especially in 2009-2010 years (EUR 200 million bilateral loan matured in April 2011, and money market line – until July 2010)
- Currently, no dependence on BCP funding and no exposure to BCP or Portuguese public debt
- 8 managers from Portugal employed on permanent basis, including 3 Management Board members

BCP stake evolution since 1998



**Joao Bras Jorge**  
CEO



**Fernando Bicho**  
Deputy CEO,  
CFO



**Wojciech Haase**  
CRO



**Andrzej Gliński**  
Corporate  
Business



**Wojciech Rybak**  
Retail Business

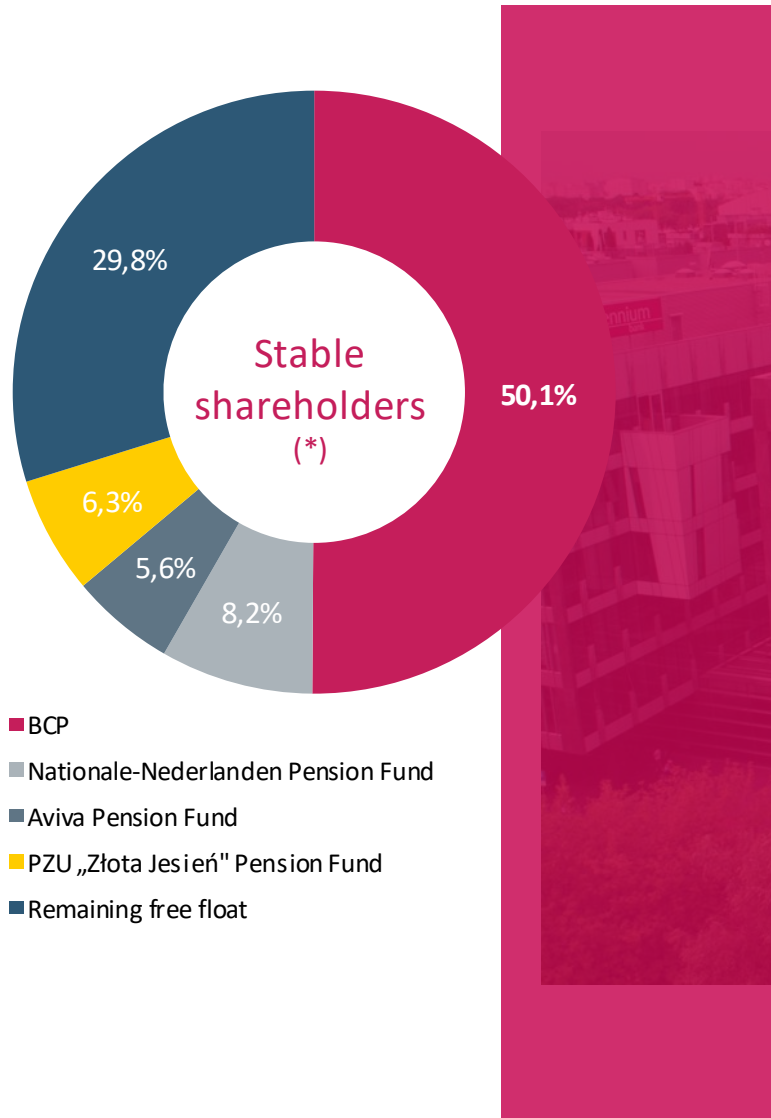


**Antonio Pinto**  
Digital & Marketing



**Jaroslaw Hermann**  
IT & Operations

# Solid foundations appreciated by investors



## Participation in domestic stock market indices



WIG



WIG  
30



mWIG  
40



WIG  
30TR



WIG ESG



WIG  
BANKI



WIG  
POLAND

## Bank's current ratings

**Moody's**

**Baa1 / P2/ baa3** / stable outlook

**Fitch**

**BBB- / F3/ bbb-** / stable outlook



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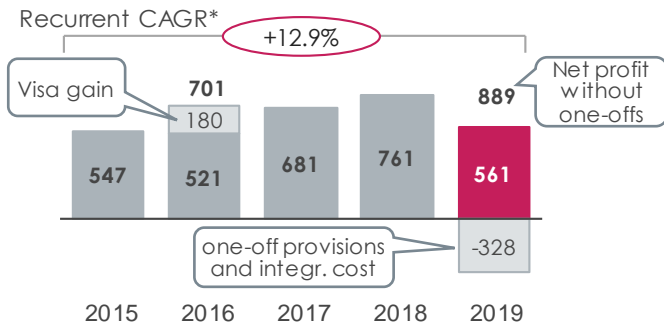
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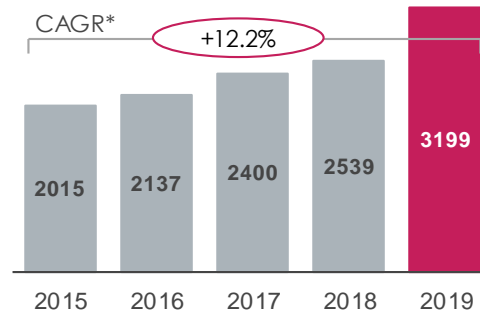
# Summary of 2015-2019 achievements (1)

Profitability under regulatory burden, integration costs and legal risks;  
Low NPL levels and solid capital position

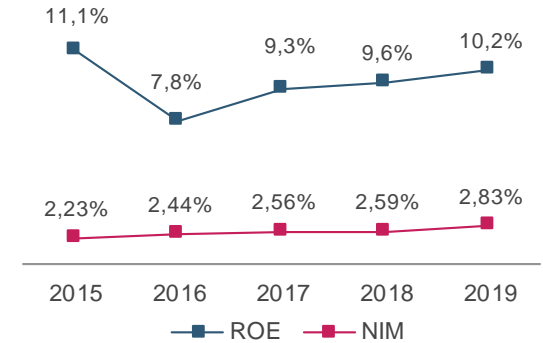
## Net income (PLNm)



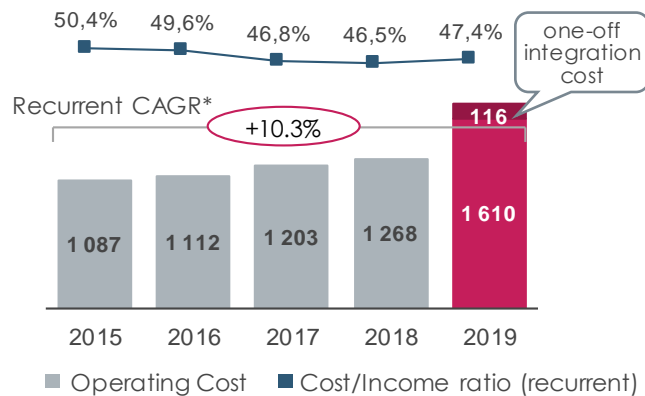
## Core income (PLNm)



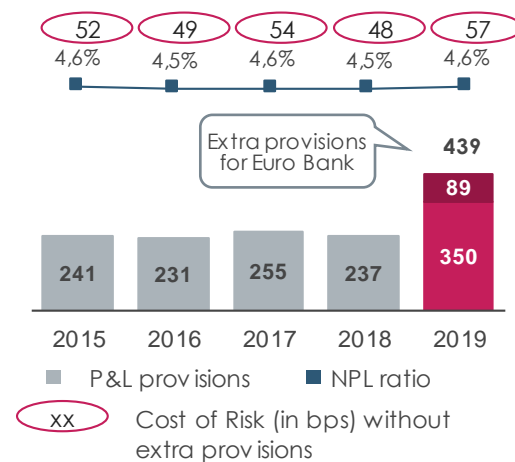
## ROE\*\* & NIM (PLNm)



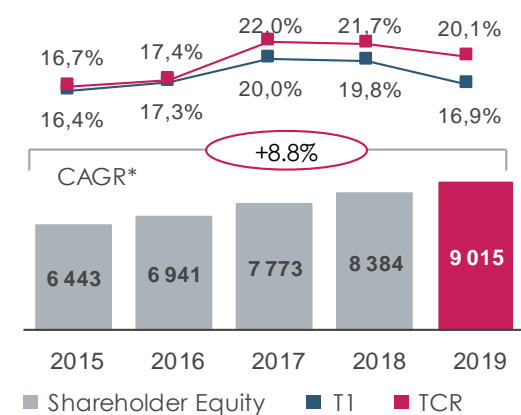
## Costs & cost/income ratio (PLNm)



## Provisions and NPL ratio (PLNm)



## Capital adequacy (PLNm)

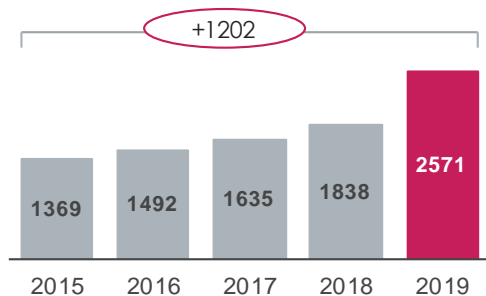


(\*) Compound annual growth rate (\*\*) adjusted for one-off items

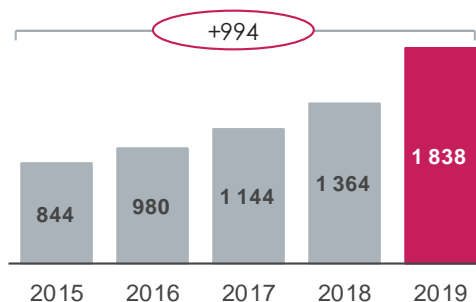
# Summary of 2015-2019 achievements (2)

Solid organic growth accelerated by the merger of Euro Bank in 2019

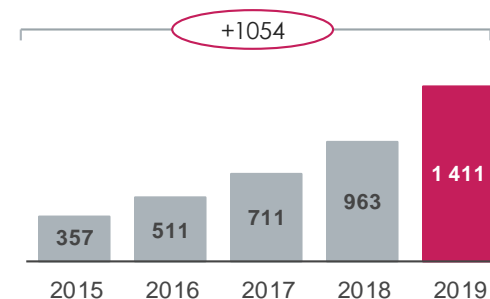
Active retail customers (th)



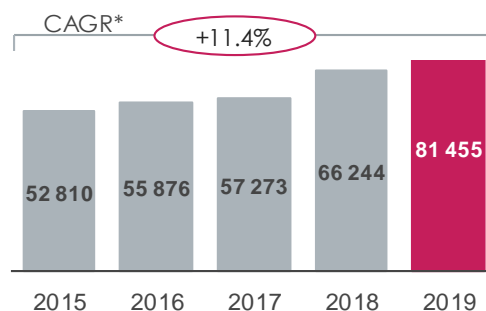
On-line active customers (th)



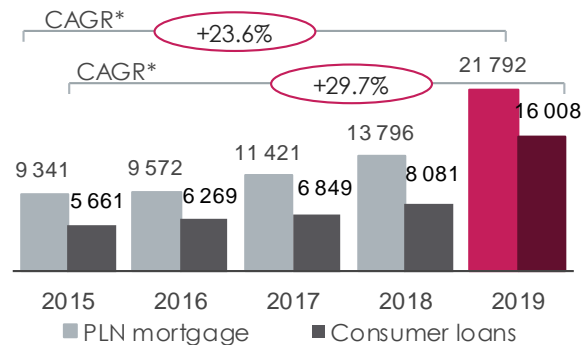
Mobile active customers (th)



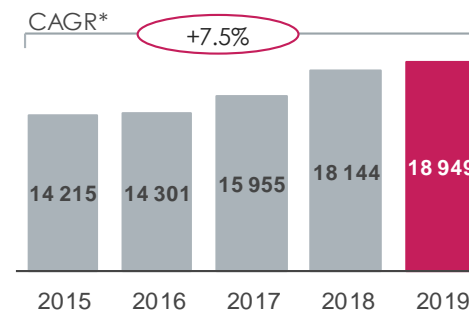
Customer deposits (PLNm)



Retail PLN loans (PLNm)



Companies loans (PLNm)



(\*) Compound annual growth rate

# Financial highlights of 1H20

Lower interest rates and extraordinary items taking a toll on the results but adjusted ROE at 8.7%.

## Profit affected by integration and extra provisions

- Reported 1H20 net profit at **PLN72mn** (2Q20: PLN54mn) or **PLN394mn** (2Q20: PLN204mn) once adjusted for extraordinary items\*
- Merger synergies of **PLN62mn** well exceeding integration costs (PLN35mn)
- Extraordinary provisions: **PLN168mn** for FX mortgage legal risk; **PLN69mn** for Covid-19 risk and **PLN60mn** for fee refunds on early repaid consumer loans
- Adjusted\* ROE at **8.7%** and cost/income at **47.1%**

## Higher income and cost after the merger

- Operating income grew **14%** y/y
- Net interest income grew **23%** y/y
- Net commission income grew **10%** y/y
- 2Q20 operating costs without BFG and integration costs fell **8.0%** vs the previous quarter

## High asset quality and liquidity kept

- Impaired loans ratio at **4.9%**
- Cost of risk\*\* at **98bp** (79bp ex-Covid-19 provision)
- Loans to deposits ratio at low level of **83%**

## Solid capital and lower regulatory buffers

- Group's Total Capital Ratio (TCR) at **20.0%** and CET1 ratio at **17.0%** more than 400bp above statutory minimum requirement
- Systemic risk buffer cut to **0%** from 3% in Mar'20

(\*) Extraordinary items: in 1H20: 1. integration costs (PLN35.3m gross), 2. PLN168mn provisions for FX mortgage legal risk (gross), 3. PLN69.3mn (gross) for Covid-19 risk, 4. PLN60.5mn (gross) provisions for the return of commissions from loans repaid earlier by clients, 5. linear distribution of BFG resolution fund fee of PLN58.2mn

in 1H19: 1. integration costs (PLN19.8mn gross), 2. PLN26.9mn (gross) release of tax asset provision, 3. acquisition related extra provisions for Euro Bank of PLN 80.6mn, 4. linear distribution of BFG resolution fund fee of PLN73.3mn

(\*\*) over gross loans

# Business highlights of 1H20

Fulfilment of most of organic growth targets  
Growth returning after a dent in April

## Retail business

- **2.62mn** active clients (34% y/y); 45,600 new clients ytd
- **10%** yearly growth of deposits
- **8%** yearly growth of loans (12% y/y w/o FX mortgages)
- **Record PLN1.5bn** origination of mortgages in 2Q20 and solid PLN1.1bn sales of cash loans translating into y/y loanbook growth of **+10%** and **+2%** respectively
- **Over 100k** active microbusiness clients, y/y net growth accelerating to 22k
- Market share in mortgage origination at **11.1%** in 1H20
- Significant rebound of sales of investment products

## Companies business

- **13%** q/q growth of corporate deposits (up 19% y/y) with current account deposits up **25%** q/q and up 77% y/y.
- Loans to companies: **-4%** q/q and stable y/y
- Stable level of factoring turnover ytd vs 1H19

## Quality and innovations

- The highest **NPS ratio (52)** among banks in Poland
- **#1 Fin-Tech Innovation and #2 Mortgage Loan** in Golden Banker 2020
- **1.8mn** apps downloads by **goodie**

# Most important awards and achievements

## Bank Millennium is Growth Star and other awards



The Bank was among the top three no less than four times in the Stars of Banking 2020 competition organised by DGP and PwC: The Bank was:

- **1st** in the “Growth Star” category
- **2nd** in the “Customer Relationship” category
- **3rd** for overall achievement in the competition’s main category and also in the “Star of Innovation” category

## Golden Banker Ranking



In this year's Golden Banker ranking Millennium received:

- **main award in the category** “Fin-Tech Innovation” for implementing the Autopay service (in cooperation with Blue Media)
- **2nd place** in the “Mortgage Loan” category (an all-rounder performing well in diverse conditions).

## Bank Millennium is best bank in Poland in terms of building positive customer experience



In the latest edition of a survey on Customer Experience, carried out for KPMG in Poland, for another consecutive year Bank Millennium was seen by consumers to be **the leader in Customer Experience among banks**. Millennium was also again in the first ten among the top one hundred best brands on the Polish market, moving up two places to No. 7.



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