



Bank Millennium acquisition of eurobank

5 November 2018

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Transaction highlights

Transaction description	<ul style="list-style-type: none">Bank Millennium S.A. ("the Bank") will acquire c.a. 99.79% stake in Euro Bank S.A. ("eurobank") from SG Financial Services Holding, subsidiary of Société Générale S.A.
Purchase price	<ul style="list-style-type: none">Agreed reference price of 1 833 mln PLN adjusted by variation of net asset value of eurobank, implying ca. 1.2x P/BV
Transaction structure	<ul style="list-style-type: none">Acquisition price will be paid in cash and will be financed from internal sources of the BankAs a part of the transaction Bank Millennium will repay 4.4 bn PLN intra-group funding which Société Générale Group provides to eurobank as at June 30, 2018¹
CHF portfolio indemnity & guarantee	<p>Société Générale S.A. to provide upon the Closing of the Transaction:</p> <ul style="list-style-type: none">10 year guarantee covering 80% of credit risk (regarding initially performing loans) and of cost of risk (regarding initially non-performing loans) of FX mortgage loans, allowing for reduction of effective risk weight of acquired FX mortgage portfolio20 year indemnity covering losses resulting from litigation, proceedings or changes in law related to the FX mortgage loans
Approval and timetable	<ul style="list-style-type: none">The transaction is expected to close in 2Q 2019Completion of the transaction is subject to the relevant regulatory approvals from KNF and competition authorities and requires notification to the ECB
Synergies and integration costs	<ul style="list-style-type: none">Highly synergetic transaction with expected cumulative synergies over next 5 years in the amount of c.a. 650 mln PLNIntegration costs of c.a. 350 mln PLN, incurred predominantly in 2019-2020
EPS, ROI, ROE impact	<ul style="list-style-type: none">Transaction represents profitable deployment of the Bank's excess capital: 26% EPS accretion and 17% ROI once synergies are fully realisedExpected 2020 ROE of the Bank should position it among top 3 Polish banks - in line with the announced strategic target
Capital and liquidity impact	<ul style="list-style-type: none">Comfortable pro forma CET1 ratio of 15.9% (17.2% incl. 9M'18 net profit of Bank Millennium) and loan to deposit ratio of 93%
Advisors	<ul style="list-style-type: none">J.P. Morgan and Clifford Chance acted as Bank Millennium financial and legal advisers, respectively

eurobank at a glance

Overview

(all numbers as at 30 Jun-18)

- eurobank was established in 2003 by Mariusz Łukasiewicz as a result of acquisitions and a subsequent merger of Bank Spotem and Bank Wschodni
- eurobank combines unique strengths in the Polish retail banking market, bringing together historic leadership in cash loan market with a simple and efficient retail banking offering tailored for the needs of its mass-market client base
- eurobank relies on an extensive network of 250 own and 251 franchised branches covering all Polish regions with focus on smaller cities
- eurobank has a client base of 1.4¹ mln retail customers, including 165k active internet and 154k mobile banking users, 317k active debit cards and 68k active credit cards
- eurobank is one of the leaders in service quality and customer satisfaction (3rd highest NPS of 46 by ARC Rynek i Opinia)

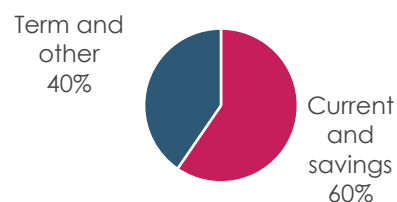
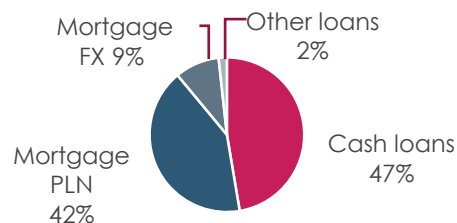
Key financials

PLN mln	2015	2016	2017	1H 18	'15-1H 18 CAGR
Net loans	10 540	11 398	11 731	11 905	5.0%
Total assets	12 290	13 709	13 798	13 919	5.1%
Customer deposits	5 770	6 850	6 817	6 952	7.7%
Parent funding ²	4 690	4 692	4 437	4 431	-2.2%
Shareholders' equity	1 356	1 475	1 565	1 520	4.7%
Net interest income	576	640	662	328	4.5%
Net F&C income	64	55	51	23	-10.7%
Net revenues	707	794	746	383	2.7%
OPEX	-466	-462	-456	-232	-0.1%
Loan loss provisions	-73	-127	-122	-68	23.0%
Bank levy	0	-25	-29	-15	n.m.
Income tax	-33	-38	-36	-25	15.2%
Net income	134	142	103	42	-14.5%
CET1 ratio	12.4%	13.1%	13.6%	15.1%	
NPL ratio	8.7%	8.0%	8.7%	8.2%	
Coverage ratio ³	63.9%	64.0%	60.9%	72.3%	
Net interest margin⁴	4.82%	4.93%	4.81%	4.74%	
Cost / income	66.7%	63.7%	61.9%	60.7%	
Cost of risk ⁵	0.74%	1.16%	1.05%	1.15%	
RoE	10.6%	10.0%	6.8%	5.4%	

Gross loans: 12.7bn PLN

Customer deposits: 7.0bn PLN

(as at 30 Jun-18)



Source: eurobank, pnews

¹ Estimated number of clients not overlapping with Bank Millennium clients; ² Including funding from Societe Generale Paris, SOGECAP and SOGESSUR; ³ Including IBNR/stage 1-2 (for 1H18) provisions; ⁴ NIM calculated over average assets; ⁵ Cost of risk calculated over average net loans

Strategic rationale

-
- 1 Increased scale on the market**
 - As a result of the acquisition, Bank Millennium will achieve clear #7 position in the Polish banking system
 - Acquisition will add 1.4 mln new clients and allow Bank Millennium to reach Top-6 banks by number of retail clients in Poland

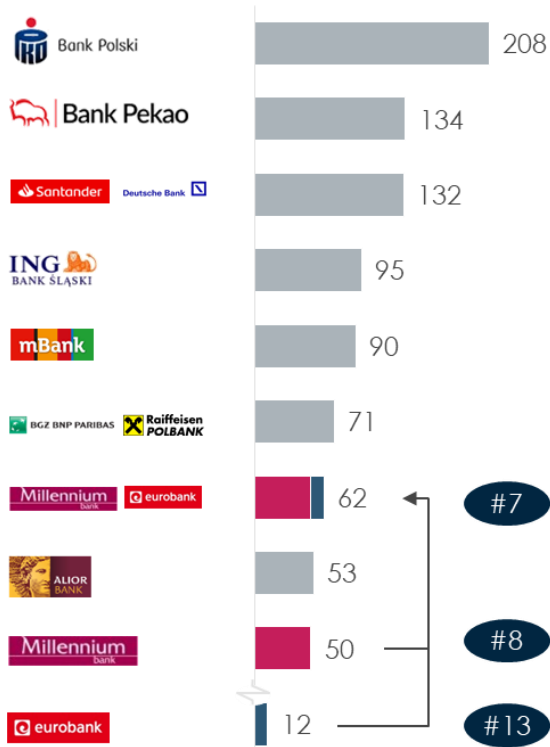
 - 2 Strengthened position in consumer lending**
 - In line with Strategy 2020, the acquisition of eurobank will allow Bank Millennium to increase the size of its consumer lending segment as well as the overall importance of this business within the Group
 - eurobank's new-to-bank lending capabilities will strengthen Bank Millennium's client acquisition engine

 - 3 Complementary geographical presence**
 - eurobank offers Bank Millennium the ability to jump into franchise distribution model
 - eurobank will boost Bank Millennium's presence in smaller cities

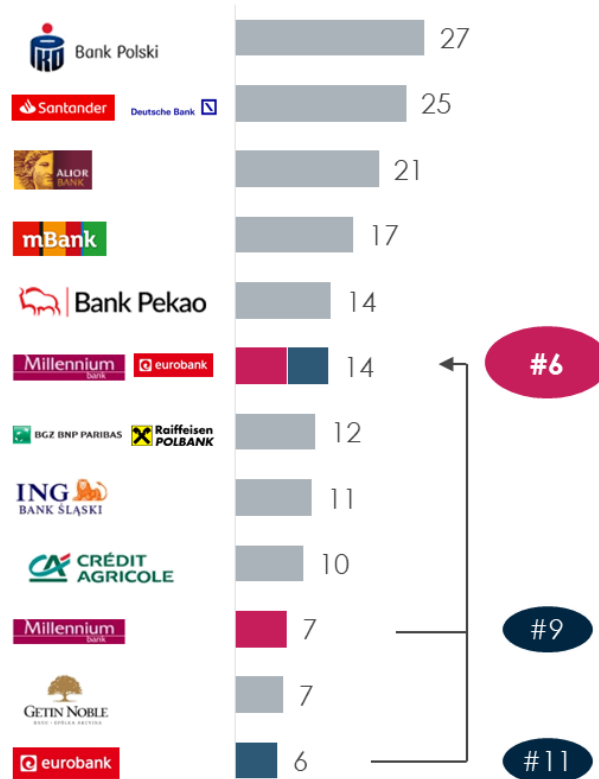
 - 4 Strong value to be created**
 - Profitable deployment of Bank Millennium existing capital with +26% EPS growth once synergies are fully realised
 - Transaction will also allow Bank Millennium to utilise its excess liquidity, resulting in pro forma loan to deposit ratio of 93%, in line with average for peers
-

Transaction will allow Bank Millennium to consolidate its position in the Polish banking sector ...

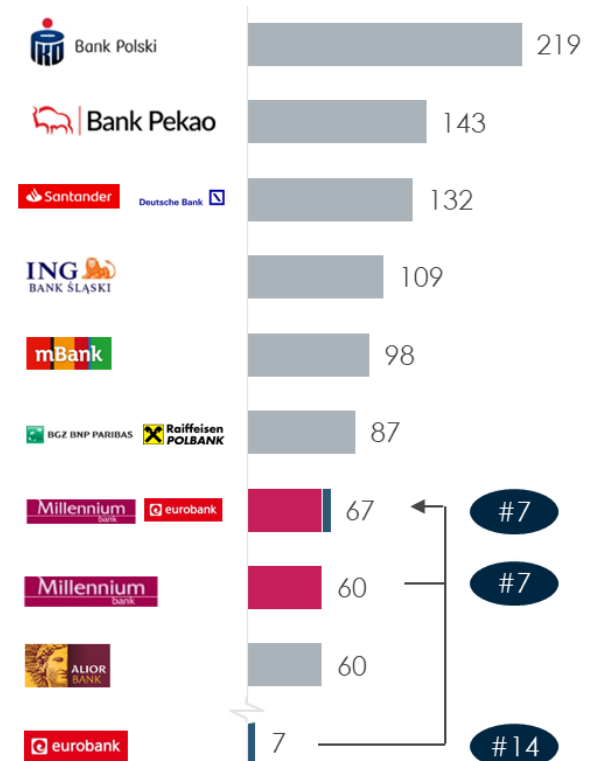
Net loans (PLN bn)¹



Non-mortgage gross retail loans (PLN bn)¹



Customer deposits (PLN bn)¹



... boosting presence in the consumer loan segment

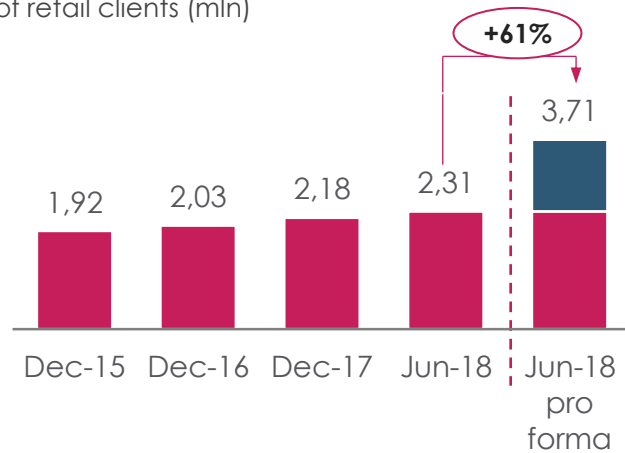
Source: financial statements and presentations of Polish banks

¹ Based on June 2018 financials except for Core Raiffeisen Bank Polska, Credit Agricole (31 December 2017), Core Deutsche Bank Polska (30 June 2017)

... and will significantly expand Bank's customer base and further strengthen its powerful client acquisition engine

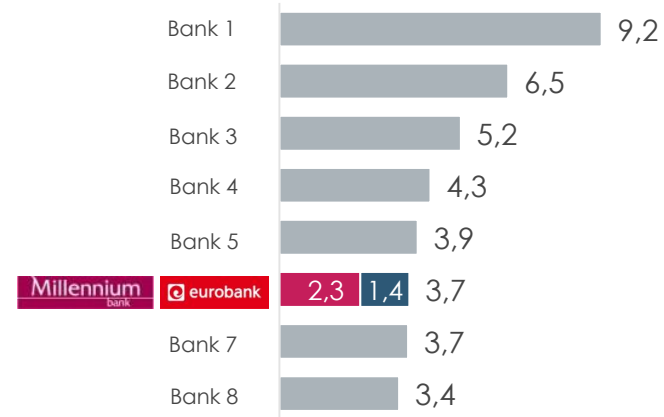
Acquisition will increase Bank Millennium's client base ...

of retail clients (mln)



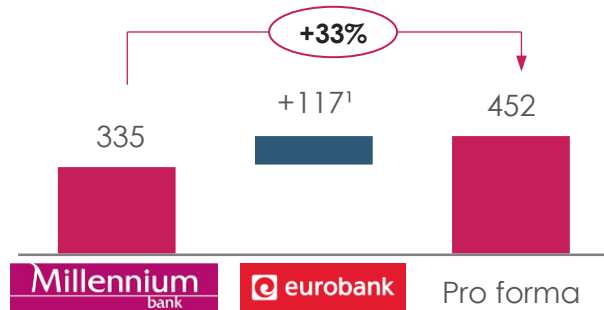
... allowing it to reach top 6 position by # of retail clients

of retail clients as at Jun-18 (mln, pnews)



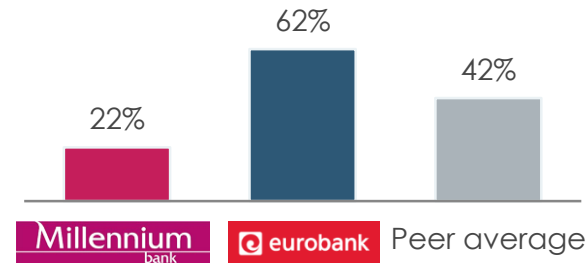
eurobank will bring client acquisition...

New clients acquired in 2017 (ths)



... as well as complementary lending capabilities

Loans sales to new-to-bank clients (2017)

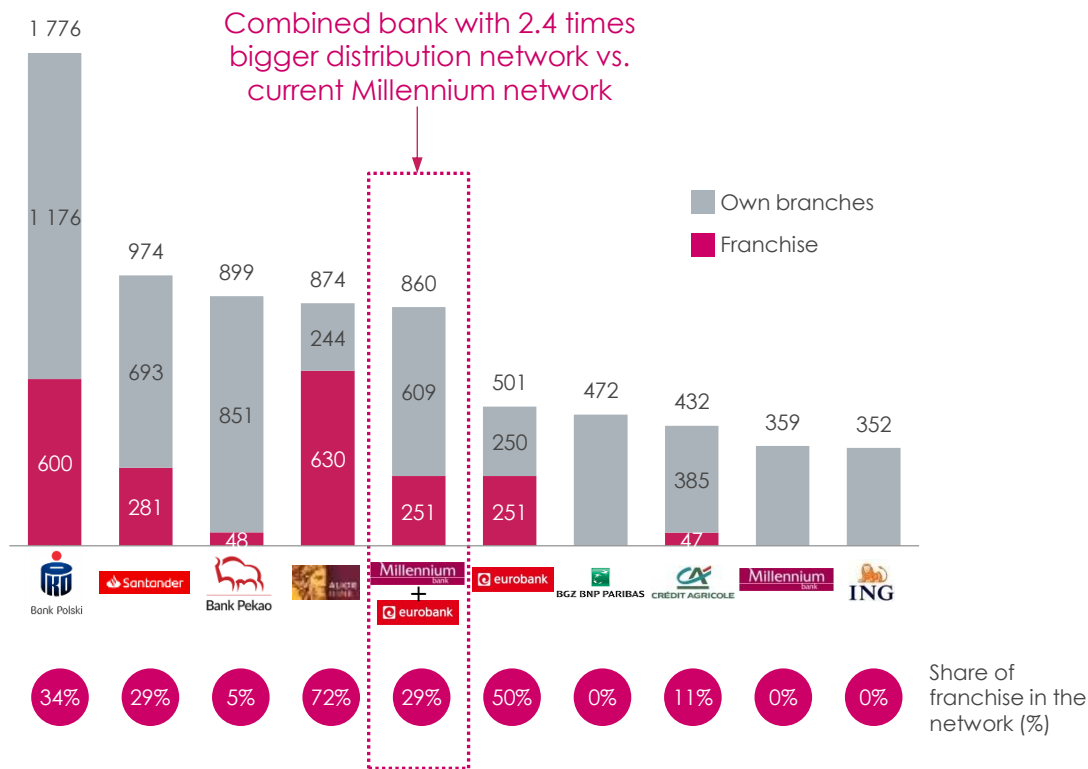


Source: eurobank, BCG, financial statements and presentations of Polish banks, pnews

¹ Excluding 95k PoS clients

eurobank offers Bank Millennium the ability to jump into franchise distribution model...

No of own & franchise branches at Polish market (1H 2018)



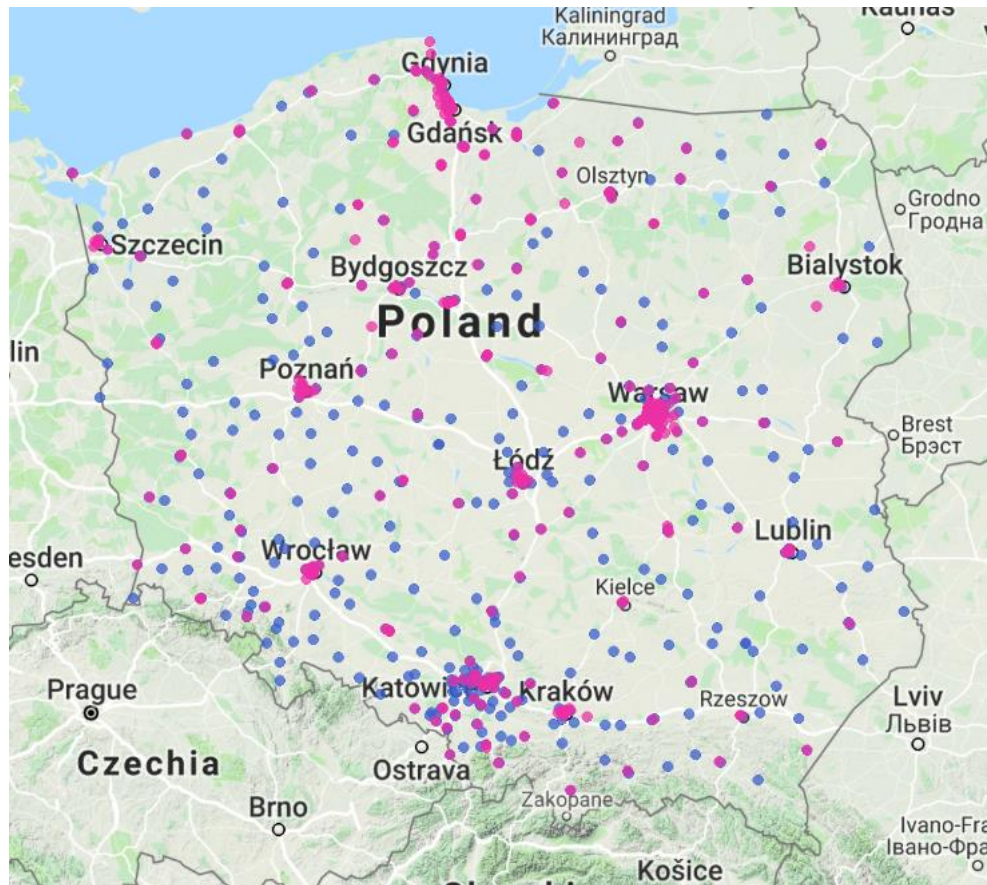
- ① eurobank will add **more than 200 new cities** with 4.5 mln inhabitants to Bank Millennium's coverage
- ② **Strengthen Bank's branch coverage in smaller cities** with c.55% of combined branches to be located in small cities¹ vs. 38% currently
- ③ Acquisition will allow knowledge transfer regarding **franchise model** to Bank Millennium
- ④ Long term, **stable relationships with franchisees** due to close partnerships

Source: BCG, financial statements and presentations of Polish banks, prnews

¹ Small city is defined as < 100k inhabitants

... and will boost Bank's geographic presence across Poland

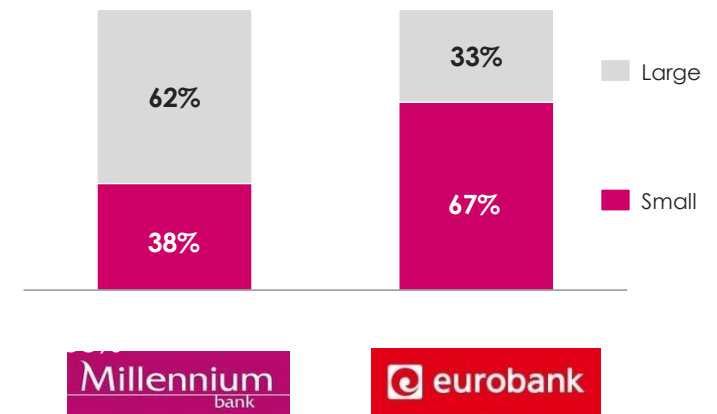
Bank Millennium and eurobank distribution networks



■ Millennium network current coverage
 ■ Additional coverage by eurobank

Eurobank network focused on small cities ¹

Network distribution by size of the city

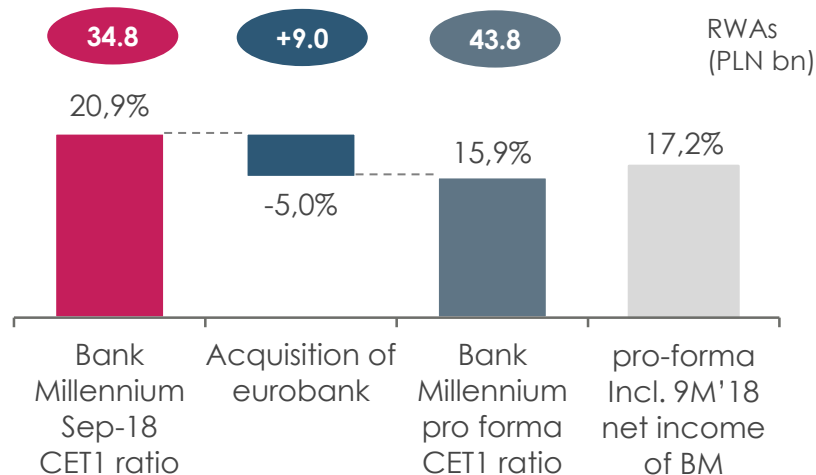


Source: SMG/KRC 2017, BCG Analysis
¹ Small city is defined as < 100k inhabitants

Positive deployment of capital and liquidity without need of external financing

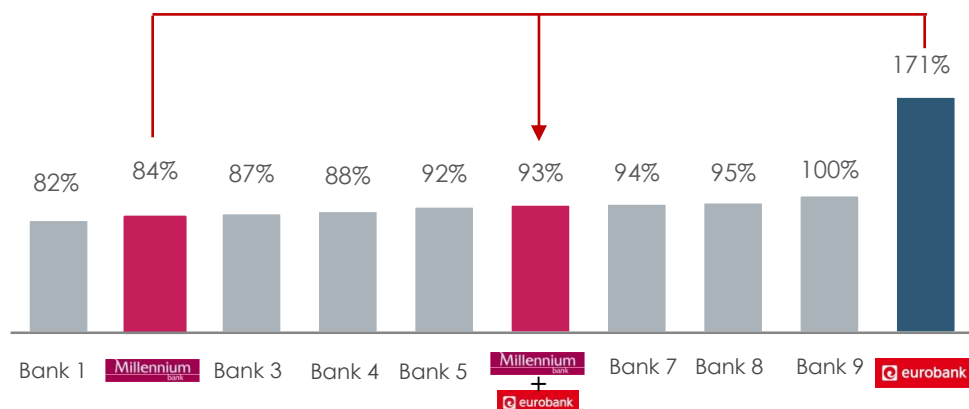
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Capital impact on Bank Millennium Group

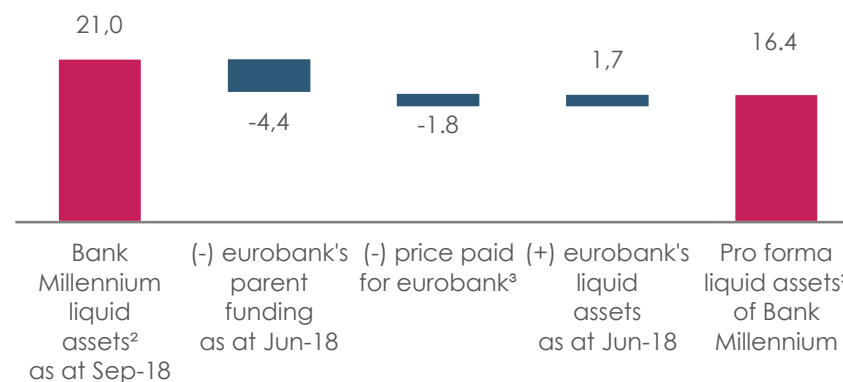


- Assumed increase of RWA reflects the guarantee from Société Générale S.A., reducing effective risk weight of acquired FX mortgages
- Capital position will be further strengthened by retention of full 2018 net profit and planned issuance of subordinated bonds
- Following acquisition of eurobank, Bank Millennium will dilute its **share of FX mortgages by 4 p.p. to below 25%**

Loan to deposit ratio of major Polish banks (Jun-18)¹



Transaction will be financed using existing liquidity (PLN bn)



Source: eurobank, financial statements and presentations of Polish banks,

¹ Based on June 2018 financials (with few exceptions for 2017); including loans and deposits to financial sector (ex. banks); ² Including cash and cash equivalents, due from banks and securities; ³ Agreed reference purchase price (subject to adjustment related to equity at closing)

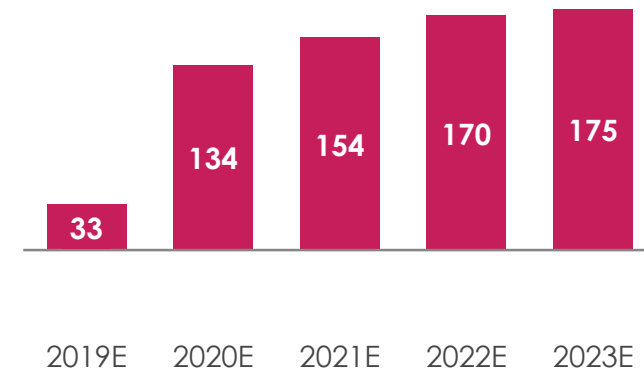
Overview of synergies

- Total pre-tax integration costs of c.a. **350 mln PLN**¹ spread over 2019 – 2022 but predominantly incurred in first two years, while expected 5 year synergies to be c.a. **650 mln PLN**
- Targeted fully-loaded yearly cost synergies make **13%** of combined 2017 cost base
- Combined bank would have pro forma 2017 C/I of 42.9%² compared to 45.8% for Bank Millennium, so transaction would move the Bank closer to its cost to income target of 40% set in 2020 Strategy
- Relatively low operational dependence on Société Générale Group should facilitate seamless integration of eurobank into Bank Millennium

Sources of synergies

- Optimisation of branch network and related costs, partially offset by revenue dis-synergies primarily driven by potential client churn
- Consolidation of back office and support functions, core IT systems and marketing efforts
- Higher bank levy cost due to elimination of eurobank tax-exemption amount after merger

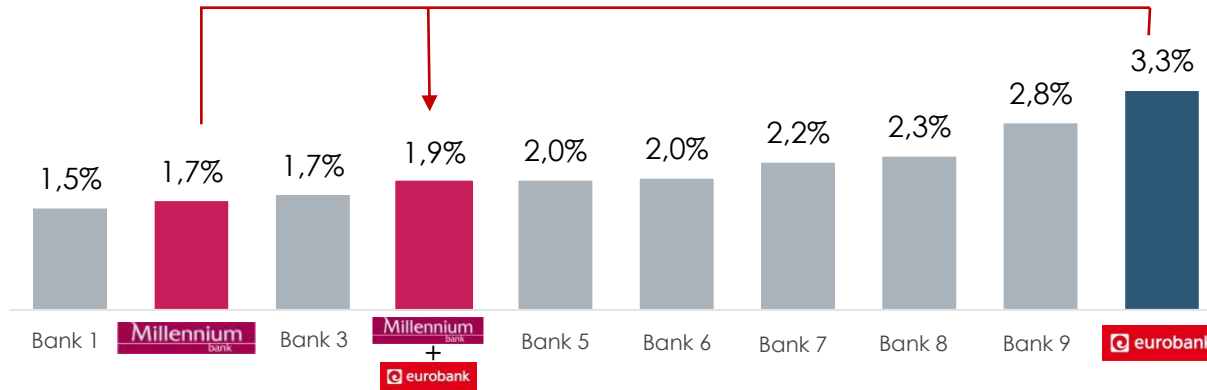
Business synergies³ (pre-tax, PLN mln)



... if delivered, should bring high EPS accretion of the transaction

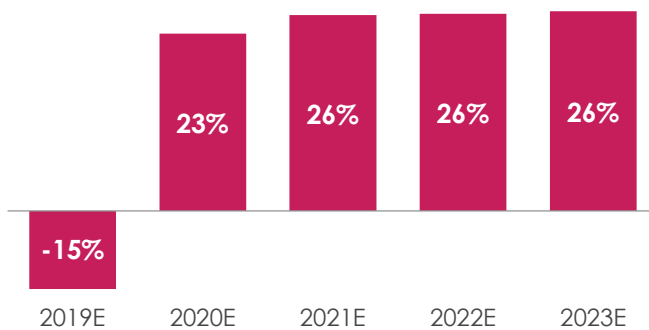
Market leading cost efficiency of Bank Millennium should facilitate achievement of cost synergy targets

Operating expenses over average assets (2017)

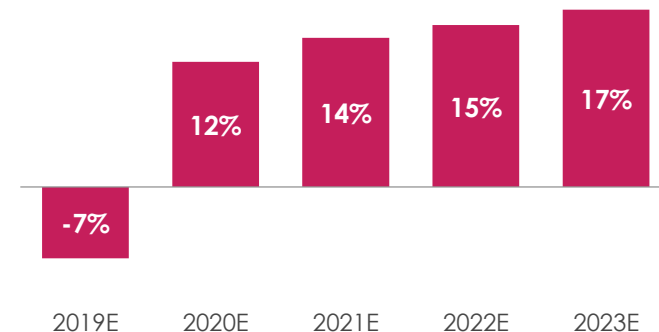


- 4% OPEX increase for 27% growth in retail customer base from 2014 to 2017 exemplifies Bank Millennium's ability to increase scale at negligible costs

EPS accretion (incl. integration costs)



Return on Investment (incl. integration costs)



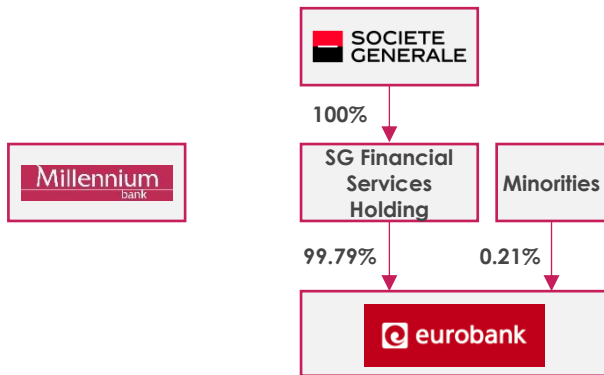
Source: BCG

Note: All forward-looking statements subject to numerous assumptions and uncertainties. EPS and ROI data should not be construed as financial projections or forecasts. Bank Millennium's net income based on Bloomberg consensus as at October 18th, 2018 (for 2021, 2022 and 2023 assuming 8% annual growth rate, for illustrative purposes only). These data may not prove to be accurate and may differ from actual future results

Simple transaction structure

1

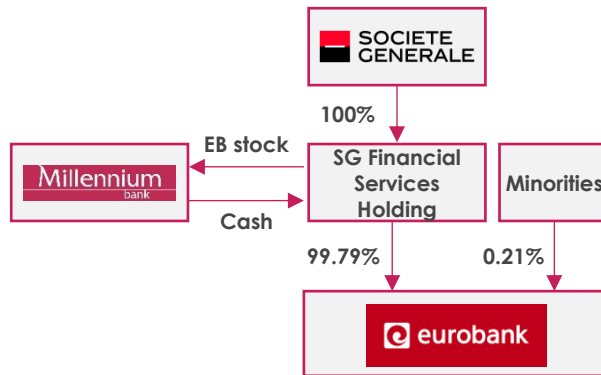
Current structure



- SG Financial Services Holding to sell ca. 99.79% of the share capital of eurobank

2

Transaction



- Bank Millennium will buy SG Financial Services Holding's stake with cash

3

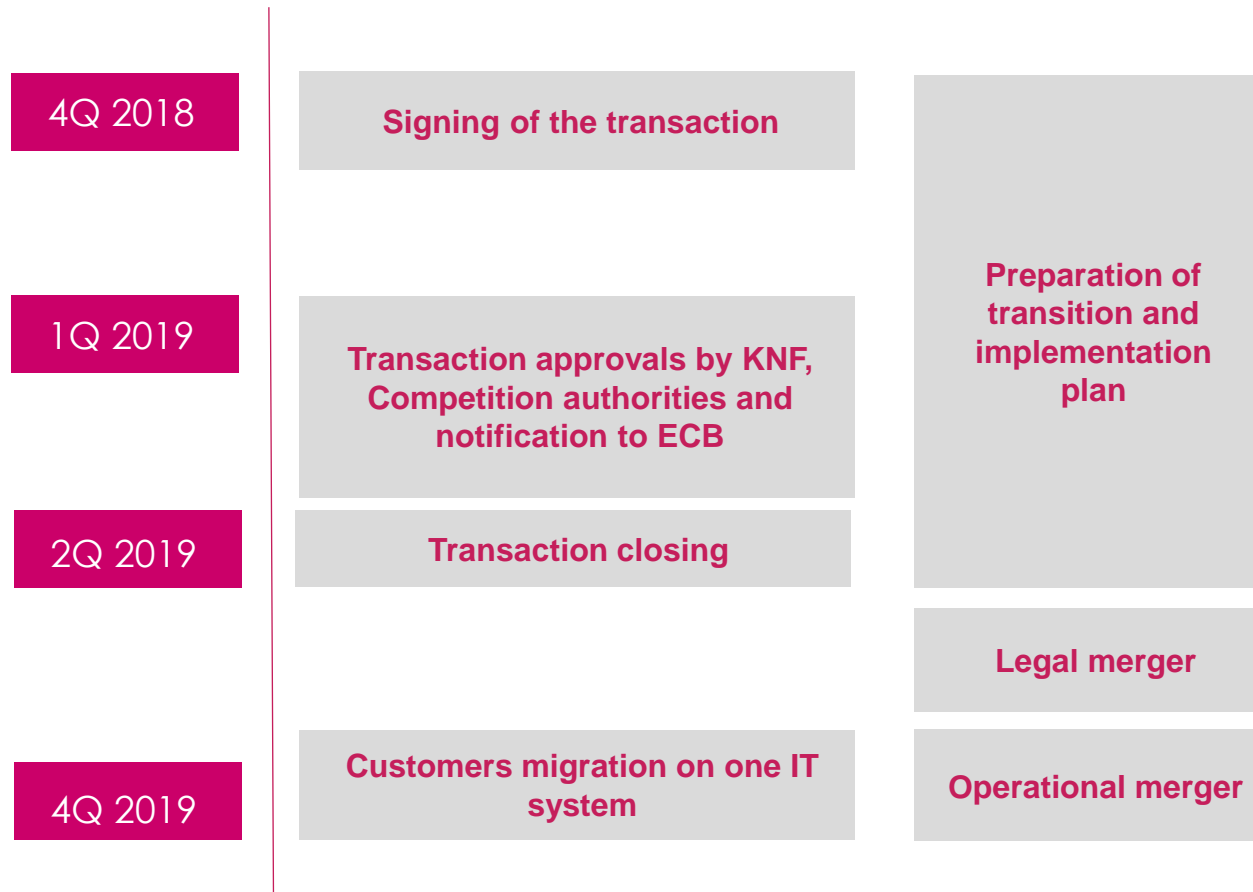
Post-transaction structure



- eurobank will be merged into Bank Millennium

- Société Générale S.A. will provide:
 - ✓ 10 year guarantee covering 80% of credit risk (regarding initially performing loans) and of cost of risk (regarding initially non-performing loans) of FX mortgage loans,
 - ✓ 20 year indemnity covering losses resulting from litigation, proceedings or changes in law related to the FX mortgage loans

Expected timeline



Key takeaways

- 1 Acquisition will allow Bank Millennium to become a Top-6 player in attractive non-mortgage retail segment**
- 2 1.4 mln new clients will help Bank Millennium to reach Top-6 by number of retail clients in Poland**
- 3 Complementary branch network with focus on smaller cities**
- 4 Risks related to CHF mortgage portfolio of eurobank covered by guarantee and indemnity that will be provided by Société Générale S.A.**
- 5 Significant efficiencies achieved by benefits of scale and sharing of best practices with fully phased synergies pre-tax of 175 mln PLN yearly**
- 6 26% EPS accretion and 17% ROI once synergies are fully realised**
- 7 Top 3 position by ROE among Polish listed banks in 2020E**