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Preliminary non-audited 4Q23/FY2023 results of Bank Millennium Group

Presentation

Dariusz Górski, Director of Investor Relations Department: Good afternoon everyone, welcome to Bank Millennium 4Q 23/2023 results call. We are very pleased to have started the earnings season for Polish banks at a high note – we have surprised the market positively. Share price is also responding quite nicely. With us today, we have Mr. Joao Bras Jorge, our Chairman of the Board and CEO, and Mr. Fernando Bicho, Deputy Chairman of the Board and our CFO. As usual, Mr. Bicho will provide a synopsis or presentation of the results and then both gentlemen will be available for questions. Fernando, the floor is yours.

Fernando Bicho, CFO, Deputy Chairman of the Management Board: Thank you. Good afternoon. Thank you very much for attending this presentation. Once more, one quarter is gone and today we do the summary of the fourth quarter and the full year 2023 results, still on a preliminary basis.

So we would start with page 4 of the presentation, which summarizes the main achievements during the year 2023. First of all, we improved significantly the capital ratios of the bank during the year 2023. And at the end of December, we have a core Tier 1 ratio of 14.7% and the total capital ratio of 18.1% on a consolidated level, which means a significant improvement of more than five percentage points over the level that we showed at the end of September 2022. And this allowed us to fulfill, in a very comfortable way, all the minimum capital requirements including P2G. Also important was the fulfilment of the interim and then final MREL requirements as of the end of December following the improvement in the capital position of the bank and also the issuance of €500 million of senior non-preferred bonds that we made in September. And also for the improvement both on capital ratios and in the MREL fulfilment also contributed the loan securitizations that we have done during the year 2023, namely the leasing securitization that we completed in July and the cash loan securitization that we concluded in December.

Regarding profitability, the fourth quarter of 2023 was the 5th consecutive quarter with net profit, which allowed us to close the year with total net profit of PLN 576 million, or 3 PLN billion if we exclude extraordinary events. The results were supported by a strong NII growth by 13% year on year excluding the impact of credit holidays and which also supported the growth of core income by 10% year on year. The full year 2023 cost to income ratio was exceptionally low, lower than 30% at 29.6%. We had during the year the exceptional contribution of the gains from the insurance transaction that we announced in the first quarter and also we showed solid management of credit risk with a relatively low cost of credit risk at 39 basis points over total loans. The focus that the bank had in the improvement of the capital ratios and on the fulfilment of the MREL requirements did not prevent us from continuing solid business development, although temporarily affected in the area of corporate lending by the effort of improving the risk credit assets. And so first of all, our total deposits grew by 9%

year on year and cash loans grew by almost 8% year on year, while PLN mortgages grew 3.6% year on year. We also had a substantial growth of the funds under management of 26% due to the significant growth of deposits at a faster pace than loans, which actually slightly contracted during the year, the commercial liquidity surplus crossed PLN 33 billion and the loan to deposit ratio dropped to 69%. Also on the commercial side, we would highlight the growth of overall cash loan sales by 16% year on year and also the growth of micro business loans by 56% year on year, 90% of which are collateralized by BGK guarantees.

Moving now to more details. So pages 6 and 7 have a summary of the main key profit and loss items and key balance items, to which I will be referring throughout the next slides of the presentation. So I'm going directly to page 8. As I already mentioned, the net profit of PLN 576 million in the full year 2023 is a very positive development, after 2 years of net losses, and it corresponds to reported ROE of 9.1%. If we excluded extraordinary events, both positive and negative, our ROE would reach 21.7% as a consequence of the growth of the adjusted net profit by 34% year on year. Apart from the other items that I already mentioned, namely the growth of NII and a very low cost to income ratio, we also highlight that the NPL ratio stood at a comfortable level of 4.6% - also supported by the sales of NPLs that took place in the 2nd and 4th quarter.

On page 9, we summarize the status of several key indicators that we presented when disclosing the strategy for the years 2022-2024 and, as we can see, in several of them we already reached the targets one year in advance. This is particularly the case for the number of active customers in retail, which during Q4 2023 crossed the 3,000,000 threshold. Also, the share of digital active clients in the total active client base that reached already 90%. The share of digital in sales is growing towards the target and was already at 75% by year end. On the financial side, the net profit excluding extraordinary events reached PLN 3 billion when we actually had foreseen PLN 2 billion to be reached in 2024. Of course, at that time, this result also benefited from a higher interest rate environment. The cost to income ratio was exceptionally low, below 30%, and the return on equity excluding extraordinary events at 21.7%. On the risk side, the NPL ratio stayed below the target of 4.7% and the share of FX mortgage in total gross loans continued to decrease, staying at around 11% at year-end before deduction of the provisions for FX mortgage legal risk. Apart from these quantitative targets, we should also highlight the continuation of the recognition from the market of the top quality of the services provided by the bank to its customers that we already mentioned in previous presentations. But once again reminding that the bank received awards for top quality both in terms of the friendly retail banking in terms of the branch network and in digital.

On page 10, going now through more details of the of the results, we already mentioned the 5th consecutive quarter with a positive net result. The result of the fourth quarter was PLN 115 million positive, or PLN 741 million excluding extraordinary events. And the ROE on reported basis, as we mentioned, 9.1%, despite the fact that the year continued to be significantly affected by sizable provisions for FX mortgage legal risk.

On page 11, looking at the evolution of net interest income, the growth year on year was 13% excluding the impact of credit holidays. In the fourth quarter, we had already some decrease of the average yield on loans as a consequence of the cuts of the interest rates and also due to the substantial fall of around 80 basis points in the level of the market indexes in Q4 vs. Q3. At the same time, we've also already shown a reduction in the average cost of the deposits,

but of course this translated into a reduction of the NIM during the fourth quarter. And in terms of NII, we had a drop of 6% versus the previous quarter, which may seem large, but we need to remember that out of this 6% drop, more than half is connected with the cost of the senior non-preferred bond issue that we concluded in September. Plus the final adjustment was the cost of credit holidays which was around PLN 9 million in the fourth quarter plus also some costs from the securitization transactions that flow through NII. So actually if we deduct these separate extraordinary impacts, the drop of the NII was clearly below 3% versus the previous quarter. Regarding net fee and commission income, it was rather flat, just 1% growth versus the previous quarter, while the full year amount was just 3% below one year ago, very much in line with the expectations that that we had in the beginning of 2023.

Moving to the cost side, overall year on year we had a drop of operating costs by 5%. This was supported by the much lower contributions to the Banking Guarantee Fund and also to the IPS. If we excluded these regulatory costs, we would show an increase of total operating costs by 14% year on year, with very similar growth between growth of staff cost, by 13%, and growth of admin and depreciation by 15%. Still, this is in line with the trends from previous quarters. The bank continued the gradual process of optimization of the branch network. During the full year we had the reduction of 22 branches, while the number of employees remained flat.

Regarding asset quality on page 13, the bank continued to benefit from strong credit quality, which translated into low cost of credit risk and higher coverage of NPLs by total provisions. So the NPL ratio, as I mentioned, was at 4.6% at year-end, and the cost of risk at 39 basis points over total loans, in which we would highlight the very low cost of risk for the corporate loan portfolio. And also, as we already mentioned, the result in the fourth quarter was supported by another sale of NPLs, which had a positive gross impact of PLN 42 million.

Page 14 summarizes the picture of the capital ratios, MREL requirements and liquidity. It's a very strong improvement of the capital ratios during the second-half of the year, including in the fourth quarter as well, supported by the impact of the securitization transaction and also reduced losses on the available for sale bond portfolio. So we finished the year with a substantial surplus of the capital ratios over the minimum regulatory requirements, which were also adjusted downwards in December 2023, as announced through a current report. So we are now enjoying a quite large surplus over the minimum regulatory requirements including P2G, and, on the other side, we also fulfilled the MREL requirements at the year end, supported by this combination of capital improvement and issuance of senior non-preferred bonds. The liquidity indicators continue to further improve, with LCR already above 300% due to the continuation of the growth of the surplus of liquidity due to the different trends of deposit growth versus contraction of loans.

Regarding FX mortgage, on page 15, we still have continuation of the inflow of the court cases. But before going to that, the portfolio continues to be reduced. Year on year, we had a reduction of 15% in Swiss franc terms of the of the exposure and, at the same time, we continued to build up the provisions against legal risk. In the fourth quarter, we created PLN 620 million for the Bank Millennium originated portfolio, bringing the total balance sheet value of provisions to close to PLN 7.3 billion. This means that the net outstanding of FX mortgage loans over total net loans dropped to around 4%.

On page 16, we show also the evolution of the inflow of court cases, which was lower in the fourth quarter than in the third quarter, while at the same time we had an increase in the number of settlements, which came back above 1,000. And actually the fourth quarter was the best quarter of the year in terms of amicable settlements with FX mortgage borrowers. So overall, we have more than 21,000 settlements which is equivalent to 35% of the active loan agreements that existed at year-end 2019. The total amount of balance sheet provisions for FX mortgage legal risk as a percentage of gross outstanding of FX mortgage loan book was close to 83% at the end of December.

Moving now to the second part of the presentation regarding business results.

Apart from the numbers that I already mentioned, we would highlight the overall growth of retail customer funds by 13% year on year. Together with three million active customers in retail, 2.7 million out of them are active digital customers, which means that active digital customers are growing at a faster pace than the overall number of active retail customers. We also had a significant increase of payment cards by 140,000, following the growth in the number of customers.

On page 19, we see the picture of the growth of loans and deposits. So we had a contraction of net loans year on year by 4%, but if we exclude the FX mortgage portfolio, actually we had the growth of 1%. This growth was depressed by the fact that the loans to companies leasing and factoring decreased year on year due to the focus on the management of risk-weighted assets. On the other side, the deposits continue to grow at a solid pace 9% year on year and this growth came both from retail and from corporate deposits. And in investment products, also following the better market conditions, we had the growth of assets under management by 26% year on year to over PLN 8 billion.

Page 20 – some more detail about retail loans. Retail loans dropped on a gross basis by 2% year on year, but they would grow by 5% year on year if we excluded FX mortgage loans. The main driver of this growth were consumer loans, which grew by 7% year on year, while PLN mortgage by 4% year on year. Sales of cash loans increased by 6% year on year, while sales of mortgage loans fell by 70% year on year, although the fourth quarter was already the strongest quarter of the year in terms of new origination. Retail customer funds grew solidly by double digits - 13% growth, of course with stronger growth in investment products and term deposits due to the higher interest loan environment. But at the same time, with a growth of 2% in current and savings accounts.

Page 21 - apart from the figures that we already mentioned regarding the growth of clients, we would also like to stress the significant progress on the micro business clients segment, reaching 141,000 customers active at the end of December. The growth of current accounts by more than 100,000 also is worth mentioning. The number of digital users continues to grow at the fast pace, including also in the second-half of 2023, 1.9 million BLIK users, a growth of 22% year on year. In addition to another impressive number, which is almost 2.5 million mobile users.

On page 23, digital channels with growing importance in terms of sales, illustrated by shares of 81% in cash loans and 41% in current accounts acquisition and 90% in investments.

On page 24, we continue to invest and to work permanently in terms of improvement of

quality and innovation, especially in daily banking. And we are evaluated by our customers essentially through the mobile app, its design and its ease of use and availability, and we can observe the appreciation of our efforts by the clients, by the increase in the usage of our mobile app. The goodie platform continues its growth path with a 70% increase year on year of all main parameters connected with users and transactions in the fourth quarter of 2023.

And moving now to the corporate business. Of course as it is known, due to the focus on the strict risk credit assets management, there was some contraction in the corporate loan portfolio, both in loans to companies but also in leasing and in factoring. But on the other side, in terms of other activities with the corporate customer buys, the numbers were positive. We continue to have solid growth of companies deposits. And also our efforts to improve the risk weighted assets or capital consumption of this segment was successful in terms of utilization, high utilization of BGK guarantees targeting mostly SME customers. And at the end of the year, we had a current stock of BGK guarantees at the level of PLN 4 billion. Other numbers that are also important are the growth of transactional activity with the corporate clients, which is illustrated on page 27 by the growth of the volume of FX transactions by 21% year on year, while domestic transfers grew 1%. Still some decline in leasing sales by 12% year on year, but a clear rebound already in the fourth quarter. The same is true for factoring, in which the turnover was 5% lower year on year, but also with a rebound in the fourth quarter.

On page 28, the digital effort and investment of the bank also applies to corporate banking clients. The biggest achievement of 2023 was the launch of the new mobile app for companies, which has been classified as the best-rated banking app for corporate clients in Poland. On the other side, we continue to introduce additional functionalities, including in Q4 the introduction of the Millennium Forex Trader in the mobile app.

So these are the most important highlights of our 2023 results.