

This transcript is a recording of the video conference of October 29, 2024 on the presentation of the new Bank Millennium Group strategy for 2025-2028. The transcript may contain some shortcomings that may have resulted from disruptions during the conference. Each recipient is recommended to self-verify with the recording of the video conference, which is also always published on the Bank's website.

Presentation of new Bank Millennium Group strategy for 2025-2028

[Dariusz Górski]

So now the time has come for the strategy. So I'd like to welcome and invite Mr. João Brás Jorge, Chairman of the Board and our CEO, to the stage to share with us the strategic vision.

[João Brás Jorge]

Thank you very much for coming. It's a pleasure to be here today talking about strategy. It looks like we exited the recovery plan a long, long time ago, but truly it was just before the summer.

And now after the summer, we are here talking about the future. In the middle of April, we start working the new strategy. We involve more than 100 top managers of the bank.

And it's a privilege to be in an organization and to serve in an organization that we are from one side handling the legacy and solving the problems, at the same time addressing the customer needs and with that producing results, but also thinking about the future and planning what we are going to do in the next cycle of four years. Avoiding, by the way, this photo, I think it was in the two strategic cycles ago. If we would put in one slide our strategy, this would be the slide.

So we are committing ourselves to keep embracing innovation and with digitally delivering top quality of services to be the primary bank to individuals and companies. We are committing ourselves in these key strategic targets to maintain leadership in terms of quality of service performed by top three NPS, to keep a very strong growth, organic growth in terms of customer acquisition. Please remember that we track these as net active customers and we aim to achieve 3.7 million active customers. We have the goal to achieve 70% of primacy of customers, which means customers that are considering and operating with Bank Millennium as the main bank. Maintain our digital roadmap with more than 95% digital active customers to double the corporate lending volumes. At the same time, to have a very ambitious target in terms of quality of assets, being below 4% of the NPL ratio.

To maintain a very high capitalized bank with around 15% Tier 1, high level of efficiency with around 37% of cost to income, highly profitable with around 18% return on equity. Going back to the dividends, of course constrained with the regulatory environment, but it's our intention to go back to dividends in 2027 and to maintain the top employer status. In terms of individuals, mass individual, we will keep our activity of customer acquisition based on daily banking services with high quality of services and achieving the primacy.

We will keep upselling from the mass market to the affluent business with the digital offer and with the remote advisories. And we will also maintain one activity that has been very successful in the recent two years, to acquiring more customers and developing higher relations in terms of solo business, so self-employed, solo traders, not full accounting, micro-business. Today, we are already producing very significant credits and with a very high coverage, around 93% of guarantees. So it means a very interesting success that we want to keep in this segment.

In terms of corporate, we want to launch a new initiative in terms of small business to acquiring and building primary relationship with smaller companies, based also in a digital offer and improving the value proposition and also supported by remote channels. And in terms of mid-corporate, we want to

leverage our already good relationships and good performance in terms of NPS to increase significantly our credit portfolio.

In terms of enablers, it's the people and the people development, technology and resilience, the digital and efficiency, the compliance and risk management and sustainability. Taking a moment to look back in terms of our bank and the perspective of five years, so the bank is known by the strong quality of services. This is seen not only by the number of the awards that the bank won, but also in terms of net performing score, in terms of retail and in terms of corporate.

These differentiation and quality of services in the last five years, the bank have the capacity to put it in terms of organic growth and in terms of development of the business. 10% the compound, the average ratio and growth of number of customers moving from 1.8 to 3 million active customers. And in terms of total assets, 9% moving from 80 to 126.

Also, it's extremely important is that this growth was also visible in terms of profitability and this is extremely visible in terms of net banking income that we move from 2.7 billion zlotys to 7 billion zlotys. And also improvement in terms of cost-to-income, of course, and adjusted return on equity. The position of the bank: of course the slides are very important because only when we know where we are, we understand to where we want to go.

It's very important to analyse that in terms of retail, the bank is already a very strong position in terms of lending, 9% in terms of mortgage P&L and 9% in terms of consumer lending and 9% in terms of corporate and already 7% in terms of total deposits of individuals. In terms of corporate, the bank presented 4% in terms of total deposits of companies, 2% in terms of corporate lending and 5% in leasing and 6% in factoring. So it's visible already a very interesting position in terms of asset financing and a lot of the potential in terms of pure lending in corporate.

When we go back and see our previous cycles, it's also very important to understand the capacity and the track record that the bank has presented in terms of growth. So it's in all of these cycles and particularly when we look for 2015 to 2023, so this is only eight years and in these eight years the bank doubled the size. So we moved from 66 billion zlotys to 126 billion zlotys and we moved from 1.4 million active customers to 3 million active customers at the end of 2023. Moreover, if we have a screenshot of the last strategy, we can see that despite all the headwinds that we had this time, the Swiss franc saga, the turbulence in terms of EU funds and in terms of some challenging legal and regulatory environments, the credit holidays for example, and even the war in Ukraine, we can see that the bank had the capacity to deliver all of the long-term strategic targets that propose itself for the year of 2022 to 2024.

In terms of growth of customers, in terms of digital roadmap, but also in terms of the profitability of the business model and in terms of the unwinding of the FX position. It's very important to understand also that during this cycle of three years, two years was passed in a recovery plan. The bank had the capacity to present this performance mainly due to the capabilities that the bank has today.

We have a proven model of customer acquisition that is a differentiation done by the bank through a quality of service and this obsession of the client service with a very strong digitalization, with the industry-leading governance not only in the transparency but also in regulatory compliance. The bank have a DNA in terms of technology, is very well known the capabilities, so our bank have truly a very talented and skilled software house inside of our bank and the bank is known by attracting and developing good talent people. Our view for the market, it's probably the main basis for the strategy that we are proposing and that we are presenting today.

We forecast for Poland a very stable and a very profitable or interesting for banking business economy environment. From one side, a very strong GDP, so always around 3%, low unemployment, increase

of disposable income and although decrease of interest rates, a stabilization at the level that is still very interesting for the bank activity. The banking sector, as you are very well known, have a very good financial shape, strong capital ratios, good portfolio quality and also high liquidity and our view for the market is very positive in terms of the volumes development.

However, when we put together the scenario of interest rates, we can see that we have some movement from the deposit pool or deposit revenue pools for the assets revenue pools, particularly the corporate lending.

We go for this strategy and this is very important because although the banking activity is interesting and profitable in Poland, it is also an activity with some risk environment and turbulence. So we go to this strategy also with our competencies to manage and to navigate under this environment.

In terms of legal and compliance risk, we can say that this is a challenging environment in the banking sector in Poland. As already we were talking during the period of the results presentation, the risks from remaining FX portfolio disputes exist, but it's seen as a moment that they will be, or at least the cost of this saga will decrease. There is still the challenges in terms of WIBOR and in terms of the WIBOR reform. Not only can be challenges in terms of cost, but also legal risks and there is still an environment of increased consumer protections, not only driven by the local authorities, but also by the European environment. And in terms of capital, Fernando already addressed the topic of the long-term funding, but in terms of capital also there is an environment of increasing of capital requirements that is also challenging for the bank.

So our strategy is from one side in retail to be very ambitious in terms of customer acquisition, but in terms also of the share of primary retail customers. So not only we want to grow from the 3.1 million customers that we had in the first semester to 3.7, this means 150,000 net active customers per year, which is extremely high in the banking activity. But besides that, we want to move from the 60% level of primary relations to 70% of primary relations. Of course, the primary relations for the ones that are in the industries, this means a lot of additional business and a lot of not only cross-selling, but also upselling opportunities for the bank.

In terms of corporate, we want to move from 30 billion zlotys to more than 25 and also in terms of customers for 30,000 customers in corporate to 50,000. In this environment also, we want to have a 37% cost to income level and an 18% return on equity with a very solid and risk position maintaining or to achieve below 4% in NPLs and to have around 50% in terms of Tier 1. Two slides on corporate and then two slides in retail.

So in corporate, we want to reach 17,000 mid-size corporate clients, leveraging the high NPS that we have in the segment. We want to double the corporate loans, as I said, so the total portfolio and to increase the market share over 5%. We want to increase the investment loans to over 25% and we want to accelerate the growth of leasing to have a growth on the portfolio for more than 70% to 12 million zlotys in 2028.

In terms of the small business, we want to have 7% of market share in terms of credit production. This, of course, produces very high annual increases in terms of the deposits and in terms of corporate, in terms of lending. In terms of lending, it's 14% per annual growth.

In terms of deposits, it's 10% per annual growth. Of course, in terms of deposits, a lot of here is also the additional business and the transactionality that comes with the credits.

For corporate, we have five strategic initiatives. So one, the concrete initiatives connected with the target customer base that we want to grow and that we want to deep our relationships. We have also

a target, a strategic initiative connected with the growth of the portfolio. These initiatives have two major investments.

One is in terms of infrastructure, so it's a new digital credit process, a new workflow of credit, a new CRM tool, so a big investment in terms of IT competence and digital competencies, but also a big reinforcement of the team in terms of relationship managers and business analysts that will use the relationships that we have and the ones that we will acquire to be able to have this growth of the portfolio. In terms of investment loans, we want to have specific guidance and fast track to specific loans in terms of target some industries and also some opportunities of the usage of EU funds and support the energy transition.

In terms of leasing, we want to leverage the capability that we already have and not only through cross-selling, but also by direct sales to have the growth of the portfolio. And in terms of small business, we think that there is a big opportunity now that small business is less physical relationship based, but more digitally value proposition based. We have a big opportunity here and we want to have a differentiated digital first service model that can make us to have a 7% of the small business credit production.

Two slides on retail. So in terms of retail, we want to increase the customer base to 3.7 million active customers with the primacy to increase to 70%. We want to grow in terms of saving and investment products to have 1% more in terms of total customer funds.

We want to grow in terms of affluent. We have an opportunity in terms of affluent and we want to grow this customer database in 50%. We want to double the credit that we are doing in SOHO and we want to maintain our position in terms of customer experience and in terms of quality of service.

It's obvious that when we look for the retail loan volumes, there is here a 2% per annum growth. And here there is a clear decision of having some slowdown in terms of mortgage. So we believe that we need to give time to time to see clarifications in terms of WIBOR of risks and in terms of more clarification what is going to be the final conclusions in terms of potential legal disputes.

But we have still very ambitious targets in terms of consumer credit and in terms of credit cards. And in terms of deposits, we have 6% per annum.

In terms of strategic initiatives, we have six strategic initiatives for retail.

Keep the leadership in terms of customer acquisition, build the primacy on existing customer base and of course with here having a lot of impact in terms of volume of products and services provided to customers. Growth on the customer funds, this big increase in terms of affluent customers that we want to have in our database and our customer base. Become the first bank for SOHO, strengthen the leadership in customer experience and orchestration of the distribution model.

The orchestration of the distribution model, of course, not only provide us to keep offering a good digital service to customers but also, sorry, I was in this slide. I have in iPad the same slides but I need to go with both. With a 95% digital service for the retail but also can be an opportunity to have some consolidation of our physical presences.

We identify the key success enablers in terms of people, technology, digital, compliance and risk and sustainability. And I will go fast per enablers. So, in terms of HR, of course, the main core is to acquire the talent and develop the talent that allow us to make the new strategy. Namely, this new investment in corporate areas. We want to maintain the top employer certification and also maintain the high level of satisfaction of employees because this combined with the point number three that is maintain the competitiveness and the compliance in terms of remuneration policy is the two main conditions to have a low attrition rate and only with the high capacity to attract talent. Also, competence in

developing talent but also to have capacity to retain this talent is what is crucial for allow us to have this capacity to deliver the strategy.

In terms of... evaluate also the culture, I think the most important point is this last point, continuous to build lifelong learning culture. This is also all the need of re-skilling that the bank needs to do to these people, especially in front of the changes that we will have in the future. And, of course, improving the HR services and the experience that we provide to our employees.

In terms of digital, some highlights. The first point is ringfencing the corporate team. It means that if we want to commit to have this special attention to corporate, we need to commit also our IT resources for that, namely with the introduction of the new credit workflow and the corporate CRM.

In terms of cognitive banking, promote the democratization of the usage AI and also start to integrate it or continue to integrate AI components in our front-end and back-end processes. In terms of resilient and cyber security, this is, of course, a core concern of all the financial entities at the moment. A constant reinforcing of our capabilities and not only by the technical capabilities but also the governance of these areas.

We will keep also our cloud migration and we will take a look and analyze the legacy systems that we have to ensure that never mature or legacy technologies will be a blockage of our development. Keep being a data-driven organization and keep introducing new solutions and new innovations that define us so well. We will keep also our digital roadmap.

I'm still on the time that the digital tool was used to find ATMs and branches. Then it was the time that was to check balances. Then was the time to make some transfers. Then starting to buy some products and looks like the time today is to do all the life there. We had a lot of awards that is known but it's more important than that is these numbers in terms of digital customers but also digital sales.

To have a strategy without operational efficiency is a nonsense. So we will keep ensuring business digitalization. Business digitalization not only provide a better customer service but allow us to serve much more customers, much more interactions, much more transactions and with the same infrastructure. Of course, as already said, with the digitalization, with deployment of remote experts and with the usage of voice and chat bots, also we can go through some optimization of the physical network.

And in terms of operationally, I would say that we will keep our analysis of processes, always looking for simplification, standardization and automatization. And this can be seen as processes that we interact with the customers but also in terms of optimizations of the central functions. Almost at the end.

And in terms of risk, we will keep mitigation and analysis in terms of the legal risks in the Polish banking system. All of us, we know that the major risk of the Polish banking activity, unfortunately, is not the credit risk but it is legal risk. And also, we will mitigate, analyze to be able to change as soon as possible or any potential changes in terms of consumer protection.

State-of-the-art and full compliance in terms of regulatory compliance, know your customer and anti-money laundering, strong credit risk management. We will keep the discipline on underwriting and we continue to have a robust recovery process. Mitigations and high priority for cybersecurity but also digital frauds.

And mitigation in terms of capital management risks, particularly the implementation of CRR3. In terms of ESG, so carbon footprint, carbon neutrality, one and two in 2030 and net zero in 2050. Also, we commit 5 billion zlotys for new sustainable finance projects.

The social, the top employer I already spoke, so maybe the inclusivity and the effort that in a constant way we do to have accessible banking, particularly some corporations that we do for external institutions, and associations of handicaps that also help us how to build solutions that have particular attention to these type of clients. And of course, supporting the local communities where we are, centrally or even by branches and corporate centers.

In terms of governance, a big attention in terms of ESG governance and the contribution for the transition plan, but also to have a corporate governance that is state of the art and that is fully in the new standards. In the second page, I would only like to highlight, first of all, because this is well known at least for the colleagues from the press, we have a very strong dedication on financial education projects with the bank and the foundation. Also, we have a lot of initiatives from our colleagues in terms of volunteering, that they have interaction in the local communities, improving the conditions of these communities.

And maybe two additional points, our role in terms of the family business that we go through across Poland, particularly on these family business, so mid-sized companies, helping them to understand what is going to be the ESG targets and is going to be the migration or the transition challenges, and also our contribution for the Eco Innovation Index in terms of the regions and in terms of the needs that we need to do for to adapt to have Poland fulfilling all of the targets in terms of climate environment.

Just a couple of closing remarks, so from one side, the bank have a long-standing track record of growth. The last cycle with the strong headwinds was a very good example on that. We have outperformed competitors, mainly by these capabilities of the customer experience and the technology innovation.

We have a very positive view for the Polish economy, and that's why we are proposing this strategy, because we have the competencies and we have the opportunity to take this advantage.

In terms of the corporate, the big message is of course doubling the scale of our business, but also this new value proposition that we are going to do for the small business.

In terms of retail banking, it's to maintain this very fast and solid growth that we have been presenting in the recent years.

We present not only very strong business volumes, but also profitability volumes or profitability targets with 37% cost-to-income, below 4% NPL, 15% Tier 1, and of course 18% return on equity. And I think I already went through this slide, more or less. Thank you very much.

[Dariusz Górski]

No, you stay, you stay, you stay.

[João Brás Jorge]

I'm going to get that. Okay, the questions.

[Dariusz Górski]

Thank you very much for impactful and concise presentation, also for sharing with the audience how we're going to drive sustainable growth by either seizing new opportunities or leveraging...