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

Q&A

Dariusz Górski, Director of Investor Relations Department: Now we will go through the questions. Thank you. Thank you very much indeed. It's now it's time for the Q&A session. As usual, there's one analyst, namely Noemi, who is very fast and she's already sent many questions. So we will probably start from the questions of hers because they cover a broad array of areas. The first question will be unusual - on costs. Shall we consider part of the Q4 G&A cost as non-recurrent?

Fernando Bicho, CFO, Deputy Chairman of the Management Board: There is always some seasonality in costs, usually the 4th quarter tends to reflect some higher level of costs. We of course need to recognize that the FX mortgage issues also have some impact on costs, especially legal and courts costs, which were more significant in the fourth quarter. We cannot say that this is a one-off, because we still did not finish to manage this situation. So they still can continue, but of course we are having some extraordinary impact also on the cost side due to the legal costs and court costs associated with the litigation that is still going on regarding FX mortgage loans.

Dariusz Górski: Thank you. Sticking to the cost subject, could you share with us the expected cost evolution in 2024?

Fernando Bicho: We know that costs are going to grow in 2024. In 2023, as we mentioned, the costs dropped 5% due to the fact that there was no contribution to IPS and the costs for the Banking Guarantee Fund were much lower than in the previous year. There were no contributions to the Deposit Guarantee Fund actually in 2023 in Poland. So we will not benefit from these base effects from 22 to 23 for the year 2024. And on the other side, still some spillover effects from the high inflation and high salary pressure from the recent quarters will still spill over to 2024. So, for the time being, we are still assuming that cost growth in 2024 will still be in double digits, because first, as I said, salary growth pressure is still relatively strong. We are also focused on retaining talent and retaining people. So this is inevitable. Also there was and there still is inflationary pressure coming from the growth of minimum salary in Poland, which was 20% last year and will be 19% this year. And this influences the level of costs in several outsourcing contracts where basically the costs are very closely connected with the level of minimum salaries in Poland. So we have this situation where minimum salary in Poland is growing at a faster pace than average salaries in Poland and this translates into also some growth of the administrative costs. So this year we are prepared for a situation where we will still have double-digit growth of the costs, not necessarily as high as the 14% without BFG and IPS that we show on Slide 12, but still this is our current expectation.

Dariusz Górski: I don't know if you agree, Fernando, but starting from the cost comment is a bit of a sign of a new era, right? We used to start with Swiss Francs and now we discuss costs in the 1st place. So, back to normal, maybe. NII – there's a handful of questions regarding NII. Could you please give us some colour on your NII expectations in 2024? What policy rates are

you assuming?

Fernando Bicho: Our baseline scenario is that interest rates will drop this year in Poland, to a level of around 4.5-4.75%. This is our baseline scenario. Of course, expectations have been volatile, so several months ago there were even expectations that they would fall even more. Now due to the change of rhetoric of the Monetary Policy Council, such expectations are a little bit more – how to say – prudent, but still we are assuming that there will still be some decrease in interest rates. So this is the baseline scenario. Regarding the NII, I already explained what was behind the drop in the fourth quarter versus the third quarter. On the other side, now looking at the beginning of the year, we started the year with a slightly higher level of interest rates than we had in recent months because, due to the change of expectations, the indexes slightly changed upwards. So this repricing of the loan portfolio that happened between the end of the third and during the full fourth quarter will be more stable, or even revert slightly. And this can be supportive for some stabilization of the level of the NII. While as we've already showed in the fourth quarter, we already managed to start the decrease of the average cost of the deposits, which is also made much more comfortably because of the fact that we have a huge excess of liquidity. So our view for the nearest periods is for some stabilization of the NII. Regarding the sensitivity, of course we will publish in the end of February when we will publish the audited financial statements, of course we will provide more details. Our sensitivity for the exposure in PLN is still around 2%. But on the other side, we also have some interest rate risk in euros, because we have also loans and deposits in euros and additionally we have the MREL issue that was done in euros. So here the sensitivity is a little bit higher than in PLN. So I would say that overall the sensitivity to a 100 basis points cut should be around 3% at the end of the year. But that's redirecting the question. Our expectation for the nearest period is some stabilization of the level of the NII. And also we have to say that we have not benefited from let's say growth of the loan portfolio in terms of improvements of the NII. As you saw, we even had a contraction of net loans. So the loan portfolio is not contributing, the volume is not contributing to the increase of the NII on one side, which means that all excess liquidity is invested in securities, in bonds, and so let's call it the margins that can be appropriated are smaller than in traditional loans. So this is also another factor, that has temporary influence in terms of the evolution of the NII.

Dariusz Górski: A bit of a different angle, but pretty much the same story. Do you plan to further increase your financial assets portfolio, obviously with implications on NII?

Fernando Bicho: The increase is just a consequence of the trends of growth of deposits versus loans. But of course we expect this year that we will start growing loans again at a faster pace, because we don't have capital restrictions that we had one year ago. So we have space to have a rebound in corporate. So we think that part of this growth of deposits is going to be absorbed by growth of loans. But of course it also depends on market trends, and also on demand. Lower interest rates can fuel some additional demand and also investments growth can fuel additional demand and we are counting that this will happen gradually. But at the end of the day, the remaining excess of liquidity will need to be continued to be invested in financial assets.

Joao Bras Jorge, Chairman of the Management Board: Just a note, I think it's relevant to understand that the deposit business *per se* is very profitable and healthy, especially because we do it mainly in retail, and when it is in companies – it is in SME companies. So the growth

of this business goes by itself. It is not just the need to finance the credit portfolio. Besides that, of course, we are on our path to get out of the recovery plan and when we get out of the recovery plan, also starting to pay banking tax and the government wants also are quite beneficiary for the banking tax. So this is also a combination of all the preparation that we need to do, but the deposits *per se* they grow alone without just to be the reason to finance the credit portfolio.

Dariusz Górski: Final question on NII and NIM: what is the duration of your bond portfolio, on average?

Fernando Bicho: I think I would say that on average probably around three years. So a little bit longer in PLN, a little bit shorter in euros, but I would say the average is around 3.

Dariusz Górski: Moving away to another subject, asset quality. Asset quality has been very resilient in 2023, better than guidance in cost of risk terms. What cost of risk do you expect as you move more towards corporate and away from mortgages in 2024?

Fernando Bicho: I think that we expect to normalize the cost of risk, let's say, to be in the traditional area of around 50 basis points, and this has been traditionally our guidance. In the last two years, the actual performance has been better than this guidance, but we still believe that this is the trend that we will be somewhere around 50 basis points over total loans. This is due to the combination of still very resilient quality of the loan portfolio from retail, and also very good quality of the corporate loan portfolio, because actually, as we showed in the presentation, the cost of risk in the full year for corporate was just 13 basis points. So, also even when we start to rebound the corporate loan portfolio, this does not immediately trigger a significant increase in the cost of risk. So, as long as we are able to manage properly the credit risk, as we have been showing in recent years, there should not be any jump in terms of credit risk. But in normal circumstances we would say that it tends to go to the central level of around 50 basis points. But there are also two additional things that can have impact on the quality of the portfolio, especially for retail. One is lower interest rates, right, because if interest rates continue to go down, this is positive for the credit quality, both in retail and corporate. And the second thing is whether or not there will be new credit holidays, because if it will, it will have the indirect impact that also the quality of this portfolio will be somehow more protected. Of course at a cost for the banks, but still. So I would say that these are the general terms, the way we see the evolution of the cost of risk.

Dariusz Górski: Inevitably, the subject of FX risk needs to appear. We have three questions from Noemi. How do you read the recent ECJ rulings? Does the debate around the statute of limitations worry you?

Joao Bras Jorge: All the topics connected with Swiss Francs are a concern for us, of course. Although we see it as extreme low probability, this is a topic that worries us. And the more recent because there is, I thought also another question, the more recent decisions from ECJ, they need to be somehow digested, because there is always an understanding or a view that they can have an immediate impact, and as we've already learned even with the decisions in the beginning of the year, connected with the remuneration, or the payment for the usage of capital, we understand now that, of course, the impact is not immediate, and somehow it takes time, and it's also not as dramatic as people sometimes forecasted. So the most recent

ones will have consequences more in terms of legal structures than any other impact. I think it's very important that the analysts start also to understand that there was a lot of materialization of the risk with the decisions that we had since the beginning of the year with the European Court of Justice. The materialization of that risk in terms of the flow of cases, in terms of customers' activities, legal offices' activities and everything, so what we have today is that we can assess it as the reaction of all the stakeholders of this topic to the decisions from the beginning of the year. Somehow we are quite comfortable, because it was more or less the reactions that we expected and the provision is that we did when it happened and all of that as we explained. From another side, the banks start to have also an operational problem which is how to manage all of these cases, because these cases they keep coming. So they are going to courts and we have decisions of first instance, then we have decisions of second instance, then we need to solve - each court is deciding in a certain way, each judge of that court is deciding in a different way as well. So we need to manage all of these. Sometimes even a court decision is not easy to understand by both parties of the conflict, and how to solve it and how to offset all of these decision is not easy. So there is an operational effort that needs to be done. The same way that, some years ago, we focused our attention on the settlements and on creating the systems, competence, people for the settlements, we are working very actively now to create the competencies to address this new challenge and also to be able to settle these risks, to solve these risks, to offset this debt without major operational risks and additional costs and without more confusion.

Dariusz Górski: Thank you. And the participants of this call would obviously like to know our view on the cost of FX mortgages in 2024. They either asked directly or in a more nuanced way whether the recent ECJ rulings will have an impact. Do we expect Q4 to be recurrent level of FX mortgage provisioning going forward and questions around that thing?

Fernando Bicho: First of all, of course we will provide a more detailed description of FX mortgage legal risk in our annual report. As usual, the section about this problem will be very detailed, so you will be able to see also the applied assumptions that were taken into consideration when calculating the provisions for the year-end. So I will not enter into all the details, but what we can say is that of course, for the level of the provisions that we have done in the second half of the year, the main contribution came from the recognition of this additional inflow of court cases which was above the expectations that we had in the beginning of this year. Although, as we showed, the fourth quarter was a little bit lower than the third quarter, and so we are now covering through our provisioning methodology a much larger number of court cases, existing and future, than what we had at the end of the third and at the end of the second quarter. So this is one comment. So going forward, generally speaking, we expect the year 2024 to have a lower level of provisions for legal risk compared to 2023. 2023 was the record in these provisions, which was against our expectations in the beginning of the year, because honestly we were not expecting one or two of the decisions of the European Court of Justice, which were extremely, extremely arguable, but they are what they are. And of course, the effort that we had to put in in 2023 was much bigger than what we were expecting. So we are expecting less effort for 2024, although it will remain sizeable. As I said, we are more comfortable with the assumptions regarding the inflow of court cases, because we are analyzing the trends. But this is not the only parameter - we have other parameters that are connected with the success in the negotiations with the customers, both in court and out of court, with the actual amount of the losses that result from each judgement. And so these are variables that we need to continue to permanently monitor and

if necessary to make any adjustments in the future. But our baseline scenario is to have clearly less effort of provisions in the in the year 2024 versus 2023.

Dariusz Górski: A very specific question about the targeted level of provision coverage - which we don't like to call provision coverage - and what is the level of this provision coverage that we have in mind and should be reached in 2024?

Fernando Bicho: We don't have this target. We don't. We've already said several times this is not a ratio to assess whether or not the risk is fully covered. This is not a ratio and we do not promote it, as this is just a ratio that allows to make some comparison across the industry. So we are not saying that this is a ratio. It is not by reaching 100% of provisions over total exposure that we will say that the issue is finished. Not at all. What matters are the assumptions that are underlying the calculation of the provisions and the balance sheet provisions that we have. Which means: what are the assumptions regarding the inflow of court cases and the total number of court cases; what are the assumptions regarding the actual cost of the loss for each loan; what is the structure of the loans that are coming to the court, and what is the success of the negotiations that we are having. So these are the things that influence the amount of the provision. I think that - if the trends do not change, of course - the banks will end up with more than 100% of the provisions as a percentage of the exposure. This will happen. Probably some of them will already show in the end...

Joao Bras Jorge: And they will keep making provisions.

Fernando Bicho: ... and still making provisions and still making provisions. So I think that what is important, and this is what we are focused on, is not in targeting the ratio. What we are targeting is the proper assessment of the risk and the coverage of these risk by provisions. And due to the fact that there has been deterioration through time, we had to be applied in these parameters. But I think looking from another side, we have now already 7.3 billion PLN of provisions that sit on our balance sheet for this risk. So we are much more protected against negative developments than we were one year ago, two years ago, three years ago. Can it get worse? It depends on the evolution of the parameters, but again, we just want to make clear that we do not have this type of a target.

There is also a question about... just to be clear about the statute of limitation, because there was a specific explicit question what we are doing. But what we are doing is to exercise our rights by filing counterclaims at the proper moment against the customers to protect the right for the return of our capital. So this is actually what we have been doing already since the end of 2000, since already two or three years ago. So this is what we are obliged to do in order to protect our rights for the return of the of the capital.

Dariusz Górski: Well, maybe you could comment on settlements. We reached again over 1000 in Q4 and analysts are asking for our thoughts on 2024.

Joao Bras Jorge: So, we are happy that we achieved the 1000. We were always, even when we were having 800, we were talking about a 1000. This is very good news, because this allows us to keep our mind that settlement is the best way to solve this problem, and amicable settlements with customers are... always possible, even in extreme situations. So we will keep doing it. This is the capacity that we created, a task force that communicates with customers, with specific systems, with specific proposals, with a lot of flexibility to adapt the offer to

specific customers and this is what we are doing. We believe that we will be making settlements until this problem is solved. We don't think that there will be a European Court of Justice decision that one day will make completely impossible for the bank to have a proposal to the customer. So we are happy with the results and we keep the target. Of course, as we have less contracts and more settlements done, and unfortunately, also more court cases, we will have less capacity to make settlements, although we are making also more and more settlements in court.

Also, maybe I can... because I also saw some questions about the repaid loans, settlements, loans and everything..., I think it's always important to clarify this part a little bit. We don't like to give specific numbers, because people always start to make extrapolations. But sometimes we can give some guidance just to see more or less the numbers. We have more or less the same claims in the last quarter that we had in the first quarter. Roughly 550 per month. And so we could say that in rough numbers - and I'm just talking about rough numbers - I would not be very wrong if in the first quarter we would have 500 court cases of contracts that are still alive and 50 contracts that were already repaid. And now we have the same 550 and they are 450 contracts that are alive and 100 that are repaid. So we keep more or less our view that the risk is the contracts that are alive, not only because of the impact per contract, but also because of the probability to file a court case. And we are quite comfortable about the estimations that we have at the moment.

And also there is a specific question about cases and court cases of settlements. They are still very few. We have more than twenty thousand contracts that we made settlements, and I would not be very wrong saying that it should be around twenty. And sometimes the number changes because we have court cases that are withdrawn, because sometimes there is also a mismatch between the settlement established and the court action, so it's not a driver that that we are seeing on these cases. And there is no reason – with all these decisions from the ECJ – it is a court but nothing from justice is coming from there – and we don't see any reason for more changes of behavior. It's more the timing. The consequences of new decisions can have consequences of the impacts. But we start to think that they will not have more consequences on the flow.

Dariusz Górski: Although we guided for double digit cost growth in 2024, analysts are still digging in the subject – two or three questions relate to our thoughts on wage cost and any wage restructuring that we might have in mind given that some of our competitors or peers have announced sizable workforce reductions.

Joao Bras Jorge: We don't plan any organized headcount reduction. We have around 1,500 terminations per year, 1,000 is termination by the employee, 500 termination by the bank. It means that, in terms of quality, reductions due to quality, or performance, or even reductions due to changes in the profile of the bank, they have been done in the long run without major problems and without the need to initiate any big program in mass reduction. Also, we still see the growth of the control areas, task forces connected with Swiss francs, recruitment in new areas of data science and AI. So we don't see a lot of our global headcount to change. We see the change of the type of colleagues that we have, and this goes with the time in the normal process that we are having. Also, you need to assess that the cost is not always just the salary. We are also trying to reduce the attrition, and this attrition, when it is, of course, by the employee resignation, and in areas that we are going to recruit exactly the same type

of person to do exactly the same cost, under our studies, it's between 9 months to 18 to achieve the same performance as the previous employee with the right experience, so this is also a cost for the organization. And so it's very important to keep competitive policies and to retain as much as possible the high-performance employees.

Dariusz Górski: Thank you very much. We have another question, which kind of looks like we are in a different era. Capital looks fine. Any chances for a dividend in the mid-term?

Joao Bras Jorge: So, today in the morning we had journalists and I joked about that as well. First of all, thank you for that, because it means that you are following us in a very constant way and also in a very optimistic view. But we cannot move from the recovery plan to dividend as fast as we would like. We have a lot of steps to do. First step is, of course, to exit the recovery plan, the second step is to fulfill the requirements from the regulator to be able to pay dividends, and also of course you know the effort that we did in terms of risk-weighted assets, management that we did and now we think we have the capacity, the potential to have now a proper allocation of capital as well, especially in SME, mid-corporate, that we would like. So of course, in the long run a policy of dividends must be there, but we are still far away from being able to pay dividends.

Dariusz Górski: We have just crossed one hour, which is typically the limit for the call, but Fernando doesn't like to leave questions unanswered. So maybe the last question that you liked and you would like to answer.

Fernando Bicho: There are a few questions about securitization. I just would like to say that first: of course there are costs of securitization of assets. Of course. We have a capital relief, so we have to pay something for this and part of this cost is reflected in the NII, just as a half-estimation in the fourth quarter, this let's call it "margin" that we had to pay on the securitized assets overall was around 20 million PLN against 16 million in the third quarter, so there is a cost that is being reflected also on the NII. So this is one comment.

The second one – there was a question asking why the impact of the securitization in December was lower than expected. Actually, internally, it was higher than what we expected, so I don't know exactly where this misunderstanding comes from, because we actually ended up doing a much larger securitization transaction than what we were initially planning. It was over 7 billion PLN notional of cash loans. Maybe the reason is that of course cash loans do not have a risk rate of 100 percent. They have 70 something percent, so the capital saving from a cash loan portfolio is not the same as when you securitize a corporate loan portfolio with a 100 percent risk rate, so maybe from there - maybe there is the reason for some difference in expectations. But actually the impact was very relevant, was very significant, and this was the major driver of the improvement of the capital ratios that we showed in the fourth quarter of this year.

Anything else?

Dariusz Górski: We covered most angles of most questions. Maybe not in a religious order detail but I think we covered them all, so thank you very much for answering. And João, any closing summary remarks as we're heading into 2024?

Joao Bras Jorge: No, just some of you were very kind in the analysis that you wrote during this

period and we are - of course this is a quarterly results call, but it is also a full year results call - we are quite proud of the work that all of us and colleagues here in the bank were able to deliver. We will keep maybe the story from 2023 that is the recapitalization of the bank, MREL, the RWA's management, the securitizations and all of that will change more for proper allocation of capital, but there will be always a preservation of capital in our minds. The story of the strong business results – we need to remember that our target for 2024 was doubling the business results without extraordinary impacts from 1 billion to 2, and this year we had 3. Of course there is a huge impact of the interest rates increase, but there is also, under this number, a very strong growth of the commercial activity. And we will keep this activity. We need to remember also that it takes time to materialize the gains of the growth of the business customers and everything. This is our way of working: acquiring, then cross-selling, then upselling – this is our way that you know very well. So probably these next times it will be more by the volume and less by the gains on margins due to the interest rates, but for the time being also it looks like the interest rate cuts will not be as aggressive as it was forecast some months ago, and besides that, we will also keep delivering the strategy. The strategy has very visible moments like the 3 million active customers that we achieved, or even that 90% of them are digital, so there is some very hard numbers for the people that understand banking, specifically universal banking, they understand how these are important and difficult to achieve. But at the same time also we will deliver some of the transformations that have been important to maintain the efficiency, because it's only in a very digitalized and standardized bank that it's possible to have low cost to income and to address the number of customers and transactions and business that we are having with the same structure that you used to have with a much smaller number. And also we have already been working for a while on this part of the corporate side that we are confident will deliver the first numbers that will be visible already in this year 2024. Of course the crucial thing in developing lending is to do it with the proper risk profile. These things take time. We are extremely proud that we had the book reduction without an increase of cost of risk, which is very, very difficult, because usually what you reduce is the big utilities and the big tickets that have lower risk. So I think this is also an outstanding certification of the quality of our colleagues in underwriting. But this will be visible as well. I think the story for next year is capital preservation, strong business results, and we will start to see some signals of development of the corporate business

Dariusz Górski: Gentlemen, thank you very much for the answers, obviously for your time to our audience or to our viewers. The next data point for us is obviously February 28th, when we will report audited and final results for 2023. We will probably hold our Annual General Shareholder Meeting in late March and we will report first quarter on the 10th of May.

Thank you very much for interest. Thank you very much for your time. Good luck and hope to speak to you and see you soon.

Thank you very much.