

*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**

### **Q&A**

[Dariusz Górski]

We are now approaching the final part which is the strategic Q&A session. Fernando, I'd like to invite you to the stage. Gentlemen, thank you very much. As previously, questions from the room will be somewhat privileged or will come first, please.

And as we said earlier, you can ask questions in English, these will be interpreted.

[Mówca 4]

A question on your ROE target. So you aim for 18% ROE in the environment of 3.5% interest rates. What would be your goal if interest rates in Poland went lower, let's say to 2.5%?

[João Brás Jorge]

We never model like that, I must confess. It of course depends also, we had a big discussion about this, about what would be an adverse scenario. And of course, it also depends when it will be. So if it is going to be exactly the same track, if it will be at the end or not.

[Fernando Bicho]

I think I would say for sure double digit. ROE, for sure. Of course, probably not 18%. But still also clearly above the cost of capital, right? So still quite decent level. And still allowing the generation of capital most likely that would allow us to achieve this target of coming back to dividend distribution from 2027. So this is just a rough estimation. Of course, if interest rates will go down, there will be different implications at the level of lending growth, savings, and so on. So that also would have to be taken into consideration. So it's much more complex. But clearly, even in a more adverse scenario, we would still generate a double digit ROE.

[Mówca 4]

So maybe a follow up on capital generation. What kind of payments did you put in into your target for Tier 1? And maybe also on dividend, is an earlier dividend out of the question, like from 2025 profits, for example?

And maybe what other inorganic impact on your capital did you include in the 15% target? Because it doesn't seem to be that high, given the fact that you are already exceeding it as of 3Q 2024.

[João Brás Jorge]

The policy of dividend has been clear. So we want to go back. We used to explain that it was between 30% to 50%.

[Fernando Bicho] 35% to 50%.

[João Brás Jorge] 35% to 50%. So we want to go back.

It's not realistic to be much earlier than this. So to believe that in 2026, on the results of 2025, we don't believe that it is realistic. Even so, we need to see how it is going to be... the regulatory environment.

So we are confident about what we are writing at the moment. And of course, it will be subject still on the regulatory environment. But we don't think that is realistic to expect it to anticipate this target.

And of course, we can consider other instruments.

[Fernando Bicho]

Yes. So on one side, we are also anticipating the increase in the regulatory requirements, for example, the introduction of the countercyclical capital buffer of 2% that will come during the next two years, partially offset by the further decrease of our P2R buffer. So in our case, the impact should be lower than for some other competitors.

But still, we are anticipating some trend of increase of the regulatory requirements. And then we have also the option to use or not further securitizations in the future to continue to manage the level of the risk-weighted assets. So we have different instruments at our disposal that will allow us to manage to achieve that level.

[João Brás Jorge]

And depend the cost level of each instrument as well.

[Fernando Bicho]

Yes. And at the same time, we also have still before us the implementation of CRR3 that also will have some impacts. So we are also anticipating that we need to have some caution against some regulatory developments that will protect us. But this 15% creates, let's say, the perception of staying very much above the minimum capital requirements.

[Mówca 4]

Last question on capital from me. 81, is it an option for you? I mean, some of your competitors suggest that they could consider issuing.

[João Brás Jorge]

That's why I said depend on the cost. So sometimes if the instruments appear, if it is a reasonable cost, if it starts to be used, why not?

[Dariusz Górski]

Thank you for your questions. There's one.

[Mówca 5]

Thank you very much for the presentation. One question from my side on volumes. Looking at the dynamics you show, it seems that in the future you will shift more towards corporate lending. So it will balance your current asset structure. But it seems that your competitors will do actually the same. So they will also focus more on corporate side.

So you are actually already commented on several initiatives in the corporate business. But I still wonder, what do you think will be the key to succeed in this race for the corporate clients, to gain market share, to onboard clients?

[João Brás Jorge]

So each bank, although sometimes we talk about corporate and not always the corporate is the same corporate. So some banks are very focused in very large companies with very large tickets. As you know well, we are more a mid-size corporate SME.

So this is we have a network of relationship managers across all Poland. This is where we feel more comfortable, where we believe that we have competencies. It's also where the NPS of our relationship managers make the difference.

So in our case, we have still good relations and we have still, even during this period, that due to capital constraints, we had the corporate portfolio reduction. We didn't reduce so much the profitability of the segment. And also we didn't reduce the relationships that we had and the business relationships that we had with the clients.

What we had is the intentional reduction of the portfolio. Now with more capital, we can go particular to some transactions that are long-term. So we are going to use our capacities that we have today.

We are going to use the know-how that we have been developing in terms of the usage of European funds and the usage also, or the investments that are needed to energy transition. So we are going to use the capabilities that we have. We are going to reinforce it.

But we will not have a magic word now. I think that all the banks are in the sector understanding that we are going to have an investment cycle in terms of companies in the Polish economy, and everybody wants to take an advantage of that. Because the recent drivers have been in the Polish economy have been consumption.

And even the investment part have been, I would say, almost everything in real estate. So it was not an entrepreneurial, normal investment cycle.

[Dariusz Górski]

Any more questions from the room? Marta? Okay. In this case, I'd like to move to the questions that we had received from online participants. Shall we do the, let's do the straightforward and let's say the quant ones.

There's a very direct question. How do you see your profits evolving over the next years? What kind of profits should we expect in 2028 given the 80% ROE?

[Fernando Bicho]

So we are not, yes, we cannot enter into such level of detail. Of course, I would like to say that it should start with the two. But still, we cannot enter into this level of detail.

I think it's relatively easy to derive what, more or less, what levels of results, especially, I would say, in a different way. If you look at our recurrent results, excluding extraordinary, you see where we are today, right? If you will assume that the extraordinary costs will go down, but also at the same time, there will be some impacts from lower interest rates, you may end up guessing which type of net profit would be implied in a lower interest rate environment on one side, but also with much lower extraordinary costs on the other.

[Dariusz Górski]

Okay. I see you managed to answer very intelligently. It was a difficult question. There's no growth without costs. So we also have a cost-related question. Could you please update on cost dynamics? How do you see wage inflation evolving in the coming years?

Do you see net cost-cutting potential in GNAs, or would they be offset by investments?

[João Brás Jorge]

It's very difficult to have a cost management in a country that has inflation plus a strong salary dynamics, especially in the banking activity that 50% of the costs are personal costs. However, we are trying to combine these with some reduction of presence and some relocations. From our experience, the most important is to keep investing in terms of process management, because it's the only way that we are not obliged to increase the costs when we do more business.

If we have strong processes and if we have efficiency on that part, then it's okay. Otherwise, if you make more mortgage, you need to have more people. If you have more cash loans, you need to have more underwriters. And then it's a very difficult game. So we will keep investing in digitalization, but also in process management. And that's all. And what we need to make sure is that the costs will grow lower than the revenues.

[Dariusz Górski]

Okay, thank you. There's a bit of a follow-up. Can you provide more color on the cost management, which we just answered, branch network targets and FTEs?

[João Brás Jorge]

We are not disclosing any target at the moment. We always said that we will do these not so much by the cost bias, but by a change of the behavior of the consumers. We are seeing this change of the behaviors of the consumers.

We have already our ideas, so we are going to execute it. But we would not like to disclose the number that will excite people, even because the cost dynamics is, we need to remember that every time that we cut a plain vanilla sales function, but we hire an IT person, sometimes the costs increase instead of decrease.

[Dariusz Górski]

Thank you. There are many questions and we have to pick the ones that repeat most often. There's a very specific question.

Does retail loan growth outlook of 2% per annum include the rundown of the CHF loan book?

[Fernando Bicho]

Yes, yes, of course. So that's why it seems relatively low, but of course it's depressed by the almost disappearance of the FX mortgage portfolio on a net basis.

[Dariusz Górski]

There's another tricky question. Why don't you show revenue KPIs for the bank, but you do for the sector for 2028? What is the assumption behind the expected falling, flattish sector revenues until 2028, despite quite a bullish loan growth going forward?

Can you partly address that?

[João Brás Jorge]

So it's the dynamic of the interest rate is very relevant. So when you put in combination in the model, so you need to have two parts. First of all, you have current accounts that are not remunerated.

Then you have a lot of consumer credits and then credit card credits, overdraft credits that have a dynamic of pricing, especially these last two that I said, more connected with the maximum interest rates than the normal market rate. Cash loans, it's more a market rate. So when you decrease the interest rates, we are also decreasing some of the ceilings, let's call it like that.

That's why the impact in terms of lending of retail is bigger. In terms of corporate, of course, you have a commercial spread that is on the top of WIBOR. So you don't have this impact.

In terms of deposits, it's also the combination of current accounts in corporate. Some banks remunerate or not. In retail, nobody remunerates.

So all of these dynamics together make these changes. Listen, we didn't say that the revenue pool of deposits disappeared. We're not even there to say that they will not stay as the main revenue pool of

banking. We didn't say that. We just said that it reduces somehow the importance. But I think the only thing that somehow confuses people is the slowdown of increase of credits in retail.

But we need to understand also that this is the impact of the mortgage, because the mortgage, the production is very high and the amortization is very low. But this does not mean that the activity in terms of consumer lending, for example, somehow would slow down. Not at all. Not at all.

[Dariusz Górski]

A little bit on the same subject. How do you see trade-off between a significant loan growth aimed at gaining market and margins? Do you expect to retain the deposits gathered thus far and redeploy them into loans once bonds expire?

Are you assuming you should be paying deposits more than peers?

[João Brás Jorge]

Each one has their own strategy. I think Fernando was very clear when he explained that the average price per bank, it's also the mix that each bank has. So, if I have a mix of current accounts in corporate, for example, this mix is completely different than ours.

Also, if you have more affluent time deposits and it's also a different mix. So, for us, the model has been very successful because it allows us to grow. And, for example, this year we were almost offsetting, not almost, no, we offset the decrease of interest rates with the growth of the deposits volumes.

So, what is important is what is your value proposition and your capability to grow. And we should not limit the deposit growth to the credit growth. The only thing that you need to do is invest in bonds.

[Dariusz Górski]

Questions also are coming with regards to a 15% Tier target. How much to be generated by earnings and how much by absorbed organic growth, dividends and other extraordinary effects, at least roughly if possible. There's also a question about CRR and CRD impact which ties into this subject.

[Fernando Bicho]

So, what we can say is that the growth of risk-weighted assets will accelerate through time. So, it's not a straight line from today until the end of 2028. So, especially driven by the growth of the corporate loan portfolio, that also is going to accelerate through time. It's not going to jump necessarily from one quarter to the other. It's not that it cannot be possible, but it's just not our plan. It's going to accelerate through time.

So, in terms of generation of capital, the base scenario is that it will be organic generation of capital through retention of the net profit of 2024 and 2025, and then the possibility of distributing from the results to be generated in 2026. This is the base plan. It can be adjusted with more or less needs of securitization of assets, because in the meantime, the transactions that we have done will start to expire.

We can renew them or not, depending on the way we want to manage Tier 1. We have these alternatives also in the market, in terms of other solutions also for Tier 1, which also can be contemplated, although we have currently no concrete plans regarding this. So, this is what we can say for now.

We cannot be now very precise in saying what is exactly the growth of RWA that we are going to on a yearly basis. Regarding CRR3, something that is still being prepared, there are still some doubts about concrete aspects of the implementation of CRR3, so the regulatory environment is still not fully clear. There will be some downward impact.

This is what we can say now in the first quarter of next year, but which again will be gradually offset by the organic generation of capital that we will have and by the management of the RWAs. This is what we can say for now.

[Dariusz Górski]

I think we are slowly running to the end of the list, but we have two more interesting questions. How does Bank Millennium plan to balance growth in corporate loans while maintaining risk-cost discipline?

[João Brás Jorge]

Good underwriting and good collateralization and effective recovery.

We had a very good experience in recent years when we had to reduce our portfolio. When you reduce a portfolio, usually, of course, you sell the good credits, the clients that are in the good situation, early repay, and you stay with the more risky portfolio. And this didn't happen with us, so we are quite confident that we have strong risk underwriting capabilities.

So we pretend to execute exactly this. It's obvious that is a challenge, and a strategy is not, especially in our bank, something that we will just do when the results will come in 2028. So we will execute the results and we will execute the strategy at the same time that we are achieving results. This also will help us to manage if the situation of the 2% interest rates will appear.

[Dariusz Górski]

This is an interesting question, totally different. What is Millennium's take on inorganic growth?

[João Brás Jorge]

We are not planning anything, so if there is an opportunity, we are obliged to analyze it. But also, we know that every time, even in a transaction, as we did in Eurobank, that we were able to condense the legal merger and the operational merger in just one year, at the end of the day, you have two years that you block innovation. So during two years, you are blocked in innovation and new ideas and growth and everything.

So the opportunity needs to be big enough to have two years of non-organic growth. So if there is a bank that is big enough, cheap enough, and it's a good opportunity, we are obliged to see it. But I'm not foreseeing anything.

[Dariusz Górski]

I think the final question would be, you have provided a list of main challenges, but which three you consider as key challenges for the successful execution of your strategy?

[João Brás Jorge]

We don't have a major. I think it's our presentation, maybe it looks a little bit strange, why we have so many slides in the enablers instead of targets. Because this is what really makes the success of execution.

So it's difficult to say what is going to be more difficult. But it's obvious that this shift in corporate, it will require a big involvement of all the organization. And that's why we explained that we will ringfence some IT resources, that we will have a special HR attention to attract talent.

That's probably the biggest challenge that we have as an organization. Even because we know that keep doing something that we are already doing, for example in retail growth, it's easier than to have a rebound in terms of portfolio growth that just one year ago we were decreasing. So maybe this is the biggest challenge.

But there is also another challenge that all of us that are living in Poland we have, which is also the legal regulatory environment that is challenging.

[Dariusz Górski]

Full stop.

[João Brás Jorge]

Yes.

[Dariusz Górski]

Thank you very much. Fernando, any question you think we omitted? No, I think we covered.

In case the audience or the participants feel that we omitted or neglected some of the questions, we're obviously happy to answer them after the event. I'll diligently go through these. And if we missed any, I will try to contact you directly.

Otherwise, thank you, gentlemen. And maybe it's time for closing. Another set of closing remarks. Final this time.

[João Brás Jorge]

No, I will not abuse your patience. Just to say that we are very happy to present this strategy. This strategy has been the work of a large group, as I explained, more than 100 people of top managers of the bank.

We had a lot of time to mature about the strategy, to discuss about the strategy, to see the alternatives of the strategy. And this is our ambition. And we are quite confident about the execution that we are going to provide during the next four years.

[Dariusz Górski]

Thank you very much, gentlemen. Thank you very much all for participating, especially for coming. Some are not in super shape or health. Yes, Kamil, thank you very much. Special thanks and kudos for Kamil. Otherwise, as I said, we, meaning I, are at your service.

And if you have any questions, doubts or desire to speak, obviously do contact us. Thank you very much, gentlemen.

[Fernando Bicho]

Thank you.

[Dariusz Górski]

Thank you.