



4 January 2018

## Transcript of investor chat about new Bank Millennium strategy 2020

**Moderator:** We invite you to take part in an investor chat with Bank Millennium. Questions from investors will be answered by: Iwona Jarzębska, Director of the Public Relations Department and Artur Kulesza, Director of the Investor Relations Department. The chat will take place on 4 January (Thursday) at 11:00 a.m. You can ask questions offline now!

**Moderator:** Welcome to the chat about Bank Millennium's strategy. Following a successful end of 2017 for investors especially of our bank we welcome a discussion about the future and about our new strategy till 2020. Please ask questions now.

**Oskar:** What's your opinion about implementation of the previous strategy?

**Bank Millennium:** In 2017 Bank Millennium demonstrated significant improvement of business profitability and reached the most important objectives of its medium-term strategy for 2015-2017, such as exceeding the number of 1.6 million active customers; reaching an almost 6% share in the market of retail deposits as well as cost/income ratio of 46%.

**Oskar:** What was the Bank's biggest achievement while implementing the previous strategy?

**Bank Millennium:** As we see it the biggest achievement was gaining more than 300,000 active customers over a span of 3 years. This gave the Bank a leading position on the market, especially if we measure growth with respect to the existing base (more than 10% growth per year).

**Majch:** Bank Millennium informed recently about approving the third programme of issuing banking securities. How many programmes are there to be and with what value?

**Bank Millennium:** This programme means that we can issue banking securities in many series up to 2023 in the total amount of PLN 1.5bn. Also please recall that a bonds (not banking securities) issue programme of PLN 2bn till 2020 is also active.

**Wojtek:** What does it mean that Moody's changed Bank Millennium's deposit rating to "Baa3/Prime-3" from "Ba1/Not Prime"? Does this mean that BCA rose to "ba2" from "ba3"?

**Bank Millennium:** Moody's increased our stand-alone rating from the highest non-investment grade to investment grade (the equivalent of BBB- in other agencies). Stand-alone rating is a component of base deposit rating and is not widely used

**Karol:** Will there be dividend for 2017? And if not, when will it start?

**Bank Millennium:** The Bank's dividend policy assumes distribution of 35%-50% of net profit assuming that recommendations of Polish Financial Supervision Authority regarding distribution of dividend are satisfied. After KNF published on 24 November 2017 its position regarding distribution by banks of dividend from 2017 results, Bank Millennium will rather not pay dividend. The Management Board will announce its formal position in due time. We are doing everything to be able to distribute dividend for 2018. E.g. we have issued T2 subordinated debt in the amount of PLN 700m.

**ber.mok@poczta.onet.pl:** When do you expect a hike of interest rates? How much do you think they will increase? How would this affect Bank Millennium's results?

**Bank Millennium:** our official forecast includes one increase of 0.25% in the 2<sup>nd</sup> half of this year. An increase of rates has a favourable impact on the Bank's results by raising interest margin

**PC:** How many customers do you intend to acquire in 2018?

**Bank Millennium:** In line with our strategy we intend to double the pace of customer acquisition i.e. approximately 600,000 new customers by 2020.

**taktyk:** How do the new PSD2 and Mifid2 regulations affect the Bank's activity?

**Bank Millennium:** PSD2, which introduces the principles of open banking, is of greater importance of the two. The Directive creates the possibility to compete with and between banks. We as a high-tech bank see this as an opportunity to acquire new customers. The implementation of MiFID2 is not quite clear; however we and our brokerage house are already prepared.

**Technicznie:** "Bank Millennium has a share in consumer loans below the \"natural\" level" - meaning what is the share? And to what level does Bank Millennium intend to increase this share?

**Bank Millennium:** Today the bank has an approx. 4% share in these loans (with 6% in deposits). The strategy assumes they will grow more than 40% to 2020, which should result in market share growth.

**Kai:** What part of loans currently in Millennium are Swiss franc loans?

**Bank Millennium:** as of end of September they accounted for 32% of the portfolio. At the year's end this share dropped undoubtedly (i.a. due to CHF depreciation)

**fundamentalista:** The risk that the Government will adopt an FX borrowers relief Act, which would be extremely unfavourable for banks, has fallen strongly in recent months. On the other hand you can read more and more about court ruling in favour of CHF borrowers. What is it like in your case? Are there lawsuits e.g. finding indexed loan agreements to be invalid? Are there many of them and what do the courts say?

**Bank Millennium:** Let us look at the facts: So far there have been 8 legally valid court decisions (about indexation) and all of them in our favour. Unfortunately some law firms and media usually highlight individual cases of customers winning in the 1<sup>st</sup> instance.

**PC:** Can we have some more details about the mortgage bank project?

**Bank Millennium:** The project is in its early stages so there is nothing specific to be announced yet.

**pyka:** Bank Millennium is assuming significant growth in investment products. How is this goal to be reached?

**Bank Millennium:** We intend to acquire new customers (approx. 45,000 till 2020) i.a. by leveraging new technologies such as artificial intelligence and automation. For instance we have already implemented a first generation chatbot. We are looking at robo-advisory platforms with a view to expanding the new platform for investment products.

**UkrytyInwestor:** How do you define mass and affluent customers? What is the eligibility threshold for affluent customers?

**Bank Millennium:** We had been applying the income criterion primarily (100,000 assets or 10,000 monthly income). Now we will be using behavioural segmentation based on customers' behaviours and needs in order to respond to them in a fuller and better way than before.

**IT:** Are you planning to finally change the Millennium Dom Maklerski platform user interface? Millennium online banking looks modern but the brokerage business seems to have remained in the 20<sup>th</sup> century probably?

**Bank Millennium:** We humbly accept these remarks and will strive to get this part into the 21<sup>st</sup> century as well :-)

**Pektrym:** What exactly is automation in Bank Millennium going to be about?

**Bank Millennium:** Regarding the customer contact area we gave an example in the investment products strategy. Naturally we will not be automating sales processes only (e.g. Big data analysis, artificial intelligence) but also back-office processes, which should result in even greater cost-effectiveness (decrease of cost/income ratio).

**Tyrka:** Are you planning to shed labour?

**Bank Millennium:** Due to automation of back-office the headcount in this area may drop. At the same time we intend to grow fast in new business, so the overall headcount should remain unchanged, especially as we are not expecting major changes in terms of the number of branches.

**Wik:** What caused the personnel costs growth after three quarters of 2017?

**Bank Millennium:** Banks, just as other sectors, feel salary pressure. Moreover our bank is making sure it maintains and acquires talented people who are crucial for strategy implementation. Besides our results last year were record-high.

**Zlecenik:** Impairment provisions increased strongly in the first three quarters of 2017 as compared with the same period of the previous year. Is this a lasting trend?

**Bank Millennium:** The increase resulted from record-low provisions in the corporate segment in 2016, visible across the sector. 2017 saw a return to "normal" provisions and we are not expecting further growth, especially vs. loans.

**rekin:** Cost of risk in Bank Millennium is to be in line with historic trends. Meaning what exactly?

**Bank Millennium:** In recent years our bank had an exceptionally stable cost of risk between 49 and 61 bps (on net loans). We intend to keep the cost of risk predictable and at the same level especially in particular segments. However the portfolio structure will change somewhat and this may bring gradual growth of this cost in the further future.

**kula:** CHF exchange rate going down. How does this affect the bank's results and what is your forecast of average CHF rate in 2018?

**Bank Millennium:** There is no direct impact although it does improve balance-sheet structure (e.g. liquidity) and also improves the situation of our FX borrowers. We will not attempt to make a forecast, however we are hoping the favourable trend will be sustained.

**niecekonomiczny:** The assumption is to have ROE among the top three banks in Poland. Now, irrespective of competitors, how will the value of this ratio evolve in Bank Millennium?

**Bank Millennium:** We deliberately did not offer absolute value of the ratio, just the net profit amount in 2020 (PLN 1bn) because we do not have full control over capitals. This will depend on dividend policy, which we already mentioned. Irrespective of this, ROE will be back to two-digit values.

**Kombo:** What does “An opportunistic approach to the inorganic growth option” mean in the bank’s strategy?

**Bank Millennium:** The main strategy direction is naturally organic growth, where we have been quite successful so far. This wording means that we do not rule out looking at growth opportunities through acquisitions; however they would have to generate better returns for the shareholders than the baseline strategy.

**Beata:** Are you including ESG factors in your strategy?

**Bank Millennium:** Yes, in Millennium ESG and actions for the community and the environment are part and parcel of the strategy and support attainment of business goals. In line with the 2020 strategy guidelines the bank is focusing on three groups of stakeholders: customers, employees and local communities.

**Beata:** What CSR actions will be undertaken by Bank Millennium?

**Bank Millennium:** We have been communicating our activities since 2006. We are included in WSE Respect Index; moreover in 2017 we were given a title by Euromoney for best social activity in Central and Eastern Europe. We say more about these activities in the CSR reports, which are available on the bank’s website

**inwestor2:** What technological innovations do you foresee in the nearest future?

**Bank Millennium:** Just as we wrote earlier, we want to adapt to customers’ needs by using e.g. Big Data, artificial intelligence and digital platforms. Further digitalisation is unavoidable, including personalisation, which in practice means that we will strive to offer products, which will address customers’ actual needs in the right place and time. We will also be focusing on robotics. The future in banking is also blockchain. Moreover we are planning to develop further our goodie shopping platform and mobile app.

**inwestor2:** How do you intend to face up to continuously growing demands of customers in the coming years?

**Bank Millennium:** We are prepared for challenges. We are the most customer-centric bank, which continues to develop - we will be the most personalised bank on a mass scale. We are growing fastest as regards acquiring customers with the main relationship. Moreover in the new strategy we will introduce four new growth drivers (Investments, Consumer loans, Microbusiness, SME and

Corporate). We are a digital banking leader, offering a unique combination of broad range and high quality of services. We will leverage this advantage building new platforms and consolidating our position of first-choice bank.

**Moderator:** Thank you to all who attended today's chat. We were able to answer all your questions, but do get in touch with us at any time you wish. Have a successful New Year, also as regards investments (no worse than last year :-). Iwona and Artur

Questions were answered by: *Iwona Jarzębska – Director of PR Department and Artur Kulesza – Director of Investor Relations Department*