

Name of the recording: 3Q23 results of Bank Millennium Group – Q&A

Duration of the recording: 00:32:52

(ia) – inaudible section

italics – incomprehensible word, phonetic transcription

... – incomplete sentence, interrupted utterance

☺ – laughter

Dariusz Górski – Director of Investor Relations Department

As usual, the first questions that came, came from Noemi from Mediobanca and they are quite wide and touching many areas. I suggest that we go through them one by one and then we will complement with questions from the other participants. I will read these questions out so that the participants will have the benefit of knowing what the question actually is. So, the first question is: Your bond portfolio increased meaningfully during the quarter. Could you please share with us overall duration and your strategy? Is there room to increase or it will depend on the deposit growth?

Fernando Bicho – CFO

Yes, as I mentioned during the presentation, we have been facing a stronger growth of deposits over loans and on the top of that in September, the issuance of the €500 million of bonds further added up to the excess of the liquidity. Just to be clear, we have an excess of liquidity both in Polish zloty and in foreign currency. So, regarding the overall duration, we can say that the overall duration of the PLN bond portfolio, which is made up of Polish government bonds actually, is around 3 years, 3 point something years. But of course this is the average which means that it is scheduled through time. So, there is not a significant concentration. And also the excess of liquidity in foreign currency is deployed also in eurozone government bonds from a few sovereigns, but with a shorter duration, which tends to be between one and two years. So, as I said, we are facing a situation of excess of liquidity. There will be a moment in the future where we expect that the loan portfolio will start to grow again at a faster pace and that also will consume some liquidity. But it is still possible that in the next periods the excess of liquidity will continue to grow, which means that obviously we will be deploying these in bonds and NBP bills, at least temporarily.

Dariusz Górski – Director of Investor Relations Department

Thank you very much. The next question from Noemi is: Can you please share your updated rate sensitivity for 100 basis points in three month LIBOR, and specifically the assumed pass-through to deposits.

Fernando Bicho - CFO

So, in our financial report that was released today in the morning, we are actually providing these numbers on page 67. So, in a scenario of decrease of interest rates by 100 basis points, we would have a negative impact on NII of around 118 million or 2.26% of the Group's NII reference level, being the level of the third quarter 2023 annualized. Of course, this impact is excluding the additional interest cost that comes now from the issuance of the MREL bonds that was completed in September, so we did not have this cost before and also we will have it... but the answer to your question is the sensitivity is 2.26%. This relatively low sensitivity is helped by the current structure of the balance sheet of the Bank where we have, let's say the bond portfolio and also part of our loan portfolio, at fixed rate, that helps to a large extent to immunize the Bank against the cuts of interest rates that already started to happen.

Dariusz Górski – Director of Investor Relations Department

Thank you very much. Next question is: what moving parts do you see for NII in Q4? Do you expect the contribution from government bonds (*Govis*) to increase in quarter on quarter?

Fernando Bicho - CFO

I think in the fourth quarter and first quarter what we will face is a gradual re-pricing of the assets that are directly linked to market rates, so for example all the mortgage portfolio that is indexed to WIBOR three months or WIBOR six months will gradually re-price down. And also the other parts of the business that are at floating rate like part of the corporate portfolio, part of the leasing portfolio. So this is a normal repricing process and also the part of the excess of liquidity that is invested in NBP bills is also of course remunerated at a lower level, and also of course the additional cost coming from the MREL issue. But once again we continue, as I already said, to invest excess of liquidity, essentially in bonds and bills. So to a large extent

we don't think that there's going to be a substantial difference. We probably already reached the top of the NII in the third quarter, of course we also need to expect that these cuts of interest rates and the cost of the MREL issue will have a visible impact in the fourth quarter. But as I said, limited due to the fact that we have tried to protect in advance a scenario of decreasing interest rates. Another part is also uncertain to which extent there will be or not further cuts of interest rates. They still have some uncertainty whether or not there will be further cuts of interest rates during the current year. So this is something that we will need to observe during the next months.

Dariusz Górski – Director of Investor Relations Department

Thank you. Next question: have you swapped to variable the senior non preferred bonds you have recently issued?

Fernando Bicho - CFO

Yes.

Dariusz Górski – Director of Investor Relations Department

Thank you. The next question is probably more directed at Joao. How should we think about loan growth in 2024? Do you expect a recovery in demand and would you be more active in mortgage market?

Joao Bras Jorge - Chairman of the Management Board

So, it's our expectation and also our will to increase the lending activity, particularly in corporate not so much in mortgage. In mortgage we will have our market share but without special effort here. On corporate, I think it's important to highlight that when you go through our corporate portfolio, you can see that the risk-weighted assets decreased much more than the decrease of the portfolio and then also the impact of the decrease of the portfolio was much higher than the decrease of profitability. And this is important also to see that the colleagues in corporate did very good work not only in terms of collaterals, but also in terms

of choosing the positions that they should have, versus the business that they were receiving, but it's obvious that now that we are in a more normalized situation in terms of capital, we will deploy the capacities that we have. It's known that we are quite good in terms of SME and mid corporate. This is our area of activity and this is what we are going to do and the effort that we can or we hope that we will show in 2024 is growth in this area of lending, probably also with some lending in green energy also in all the industry transformation that Poland needs, probably combine also already with some investments of European funds. So these have been capabilities people that are more around here in Poland, now the seminars that we are doing across all Poland with these themes, also the teams of experts to take this possibility. So how to use European funds, also how to make investment loans for energy transformation and how to take advantage of that. So this is now what we would like to focus on and it is our will to have relevant evidence of growth of corporate lending especially in these SME and mid-corporate in the next quarters to come.

Dariusz Górski – Director of Investor Relations Department

Thank you very much. Next question is on cost of risk and cost in general. Could you please share with us your cost of risk and cost guidance for 2024?

Fernando Bicho - CFO

As we said before, we have been benefiting from quite low cost of risk during this year – below our expectations that we had said in the beginning of this year. We see that what is happening to us is happening in fact to most of the other market participants. We see also low cost of risk overall in the Polish banking system and also below expectations that existed in the beginning of this year. Having said that, for the next year we are expecting a return to let's call it more normal or normalized levels of cost of risk, which in our case should be between this range of 50 to 60 basis points over total loans that we used to guide in the past. So we think that gradually we will come to those levels, although of course we need to say that the decrease of interest rates that already started will be partially supportive for the quality of the loan portfolios, right? So not everything is negative, but anyway we are assuming that the cost will be more normalized. Regarding the cost guidance for 2024, so we come from 2023 with lower year on year costs due to the extraordinary costs that we faced last year. For 2024, we are assuming still a double digit growth of costs due to the, let's say still impacts coming from the high inflation that we have faced in the recent quarters that translate into additional inflationary

pressure in terms of staff costs and also in other admin costs. And so for the time being our assumption is that the cost growth excluding regulatory items is still going to grow double digit in 2024.

Dariusz Górski – Director of Investor Relations Department

Thank you. We're remaining in the area of risk. Could you please elaborate on the increasing NPE stock in Q3? What were the main drivers? The denominator?

Fernando Bicho - CFO

So, I think the question is not about the ratio, but about the stock, right? So first of all, the NPE stock in specific quarters is affected by the execution or not of sales of NPLs. And also by the level of write-offs that is done in each quarter, which is not regular quarter after quarter. So, for example, in the third quarter we did not have sales of NPLs which in the previous quarter helped to improve this ratio and helped also to keep the stock of NPLs, to decrease the stock of the NPLs. So, this is one thing. We will be regularly trying to do further sales of NPLs, which from time to time will also help the reduction of the stock on one side and the reduction of the ratio on another. So, as I said we have been benefiting from lower cost of risk and the ratio has been stable between 4.5% and 4.7%. But of course we are anticipating that can be still some increase in the cost of risk for the next year. But we will manage the NPL ratio in such a way, always to keep it below 4.7% let's say. So we will be managing these and this number is going to be achieved as a combination of recovery activities, set of NPLs write-offs and so on.

Dariusz Górski – Director of Investor Relations Department

Thank you. Next question relates to capital, great evolution of T1 or Tier 1 capital in Q3. Are you working on further efficiency measures? When do you see the Bank leaving the recovery plan?

Fernando Bicho - CFO

So maybe I will start.

Dariusz Górski – Director of Investor Relations Department

Thank you, first of all. Thank you, congratulations.

Fernando Bicho - CFO

Yes, yes, we also think that this was probably a very significant achievement during this quarter and during these last 12 months. Because sometimes we understand that, not everybody believed that we would improve so well and so quickly our capital position. So we reached now this Tier 1 and quarter one of 13.5%. We are still continuing some additional effort in order to further increase the Tier 1 ratio and total capital ratio. And so it is possible that still another loan securitization transaction will be then in the near future maybe still this year, which would contribute to further improvement of the capital ratios. And additionally, of course we expect to continue to generate positive results in the future periods that, sooner or later, will also be counted for our own funds. Regarding the recovery plan, we also wrote in our financial report, that the possible exit of the recovery plan will happen probably until the middle of the next year. So there will be several steps to take. We still want to see, whether or not there are going to be more extraordinary factors affecting the profitability of the Polish banks and our Bank, namely the potential prolongation of the credit holidays, in which conditions this will be done or not, so we still need to wait for this developments, but now that we have a comfortable capital position and that we achieved the MREL requirements obviously, we expected that somewhere until the end of the first half of the next year we would be in conditions to exit the recovery plan.

Dariusz Górski – Director of Investor Relations Department

Thank you very much. Now we're entering into sometimes very granular questions, but let's take them as they come. Could you provide more colour on 39 lawsuits by borrowers of mortgage loans in PLN for reimbursements of benefits provided under the loan agreement, page 87 of Q3 report and general update on FX mortgage loans losses, please.

Joao Bras Jorge - Chairman of the Management Board

So, these 39 cases that we have in PLN: one is in second instance, 38 in first instance. So the case that is in second instance, the claim was rejected by the court already, so there is not a lot of information to provide yet. We are just putting the information that also we see in media and also, we listen about. And because they are a small number at the moment, but of course in the country that it's possible to have the situation that we have with Swiss Francs is obvious that we put all the reservations and our effort here is to provide as much information as it's possible. The steps that they have been done, we think that they are positive in terms of the authorities, KNF, certifying WIBOR as a reference index to be used, but our intention here is... from one side it's too small, taking in consideration stock of this, the zloty is a portfolio that we have, to be an alarming situation. But we wanted just to highlight, and we don't have a lot of information that we can say about these. In terms of the Swiss Francs mortgage portfolio and litigation, we think that information that we brought in terms of settlements is quite positive. I would like to highlight that we have 13% of the Swiss Franc mortgage issued in the country or disbursed in the country, 13%, but we have 30% of the settlements achievement. So, it looks like we are in a good position. Of course, there's more settlements we achieve, more difficult and there is a small potential database to settle further. We were very open and clear about our initial targets. In that time we explained that our target was 2000 settlements – achieved and signed by quarter. For a while we were even achieving more than these 2000. At the moment we are at this level of 800-900 contracts. Our goal is to put ourselves at the 1000 level. This is what we think it's feasible at the moment. We are not there yet, but this is our intention. We are working hard here. I think it's important to see and in page 16 you can see that also we are settling more and more in court. So, we always were very open, we always said: from one side we have the legal strategy and we defend the right of the Bank and to demand capital and to demand even some compensation. From another side, and I will talk a little bit about it as well, about the provisions and making the process that would be as clear as possible in terms of provisioning that we will do, but we always said, and we were always very clear that in our view, the solution for these problems are amicable settlements. Because in our view, there is no legal ground to all of these decisions that are being taken. So, what we are talking really is a social settlement that needs to be taken. And so in our view, this is what we should do. And this is what we are going to keep doing. So, until the moment that still exists one contract of Swiss Francs, we will be always able to talk with the client with the proposal for an amicable settlement. And I think this is the caller that I could give at the moment. Maybe, I don't know if there is a question about model of provisions or something.

Dariusz Górski – Director of Investor Relations Department

There is actually.

Joao Bras Jorge - Chairman of the Management Board

There is? Can you read it?

Dariusz Górski – Director of Investor Relations Department

Question from RBI – no. 3. Have you changed your internal model assumptions regarding the share of clients who we paid CHF mortgage loans?

Joao Bras Jorge - Chairman of the Management Board

So just initial clarification because I think we tried to explain this at the beginning, but it's not always very difficult. So more than the model, we don't have a model, we have a methodology. When we have a model, you are able to predict the future of a situation. When you have a methodology you have a scientific, let's call it, and professional assessment and process how to manage the situation as it appears. And we always explain that and that in our methodology we were looking for the court decisions to take the probability of losing. We were taking the flow of the cases to predict and to manage the expectations and the provisions for the present and future cases and we were managing like that. We did not make a radical change, but we have been of course changing these positions. So, we detect the probability of capital, also sometimes we make adjustments in terms of the potential costs of settlements, and so there is a lot of information that... and mainly it's information as it happens. So, today a settlement is more expensive than it used to be in the past. So, it means that the cost for a Bank of a settlement is bigger. So, we have been also processing like that. I don't know how clear we were about the different tranches.

Fernando Bicho - CFO

So, I can just tell that regarding the inflow of the court cases, obviously the inflow that we are estimating for the future is divided between active loans and also a smaller part connected with repaid loans. In our report that we released today, we provide a lot of details. I think that the most important is that, in the current methodology, we are already covering 77% of the current number of active loan agreements. So, this is important and we might hear an adjustment, more conservative adjustment already also again during the third quarter. Regarding the repaid loans, we also have an estimation for the future, which did not change much versus the previous quarter, because we still also do not observe, let's say a trend of increased flow of the number of repaid loans going to the court. For us what matters is not the percentage, it's the absolute number that is coming in each period. And this is what we are tracking.

Dariusz Górski – Director of Investor Relations Department

Thank you. Well, there's also a handful of other questions relating to the Swiss portfolio and provisioning and so on. One is about... It's a question from Max: Could you tell us the vintages of repaid loans? And how many of the 45,000 were repaid pre-2015?

Fernando Bicho - CFO

It was above 60% of the total.

Dariusz Górski – Director of Investor Relations Department

Do you see any increase in activity of clients, legal firms in terms of questioning PLN cash loans?

Joao Bras Jorge - Chairman of the Management Board

Slightly, but we are more trying to understand why the rest of the market. So, we don't see a *signal* on us yet, but we are trying to assess. This is a very unfortunately a very new recent

trend and that was even learned by or alerted by the presentation to investors or to analysts from one of the companies that dedicates to this business. It's a little bit harder to assess, but we just hope that this will not be another problem for the Polish banking system. But it's too early for us to assess our own case. So, we are more learning this from the press and from the comments of the colleagues from another banks.

Dariusz Górski – Director of Investor Relations Department

Thank you. Slowly moving towards an end... Will you join the subsidized Mortgage Lending scheme? This is the usual or repetitive question.

Joao Bras Jorge - Chairman of the Management Board

But we will see now. So, it's a... it's also a lot about capacity, looks like a very complex product in the beginning. I think we will wait also to see if there are changes in the policies due to new, potentially new government, because sometimes with new people, new subsidies, or new projects will come. And I remember that there was a parallel proposal, it was not 2% but 0%, but with different criteria. So, I think with this we will wait and see, but if there is a continuity, we will consider.

Dariusz Górski – Director of Investor Relations Department

To finish off the Swiss Franc portfolio-related questions: Do you observe any pickup in questioning of already signed settlements?

Joao Bras Jorge - Chairman of the Management Board

No.

Dariusz Górski – Director of Investor Relations Department

For Swiss Francs?

Joao Bras Jorge - Chairman of the Management Board

No.

Dariusz Górski – Director of Investor Relations Department

All right. Moving away from Swiss's, the last two questions that we have, one is: What is the outlook for insurance fees going forward? It's a question from RBI.

Fernando Bicho - CFO

I think here the answer is that, on one side, we have, of course the impact of the fact that we sold 80% of our subsidiary where agency services are provided. And of course we have a long-term agreement also with the different characteristics with TU Europa. On the other side, we also have business plans for the future to continue to grow in the insurance business. So, I think that for the time being, it is better to look at the third quarter as a basis for what can be regular income from insurance, because we will need a little bit more time to see the progress in terms of further development and further sales.

Dariusz Górski – Director of Investor Relations Department

It's probably worth to highlight also the Recommendation U which governs this subject and enters into force in 2024. So you will see impact of this regulation on other banks as well.

Fernando Bicho - CFO

Exactly.

Dariusz Górski – Director of Investor Relations Department

Final question. This is a question asked by Stefan, but I will translate it to you. Was the lost case against real estate or actually a construction company, and the payment of the penalty of fine booked in the results?

Yes, it was. You can find the details of this in 21, I believe. Alright, so looks like we have answered all the questions that we have received. Thank you very much for the questions.

Joao Bras Jorge - Chairman of the Management Board

So yes, now I would like to say thank you for all the analysts that were covering us during this recent year. Of course, some were more skeptical but some were very confident about our capability to make these change of the situation and sometimes even having the capacity to predict more what we would be achieving than we were believing ourselves. But there are always the people that don't see the picture – it's the people that are too far away or the people that sometimes are too close. And sometimes the ones that are outside but close enough are the ones that have this capacity. And so it was very encouraging reading a lot of your notes and a lot of your views for the Bank. So it's just to thank this confidence that the majority of the analysts had in the Bank.

Dariusz Górski – Director of Investor Relations Department

Thank you very much Joao. Thank you very much the viewers and the participants. As usual, you might expect from us to report our fourth quarter at the turn of January and February. We are still due to report or provide the reporting dates, but expect this from us shortly. Otherwise, thank you very much. And see you in three months. Thank you.