*This transcript is a recording of the video conference of July 26, 2024 on the results of Bank Millennium for 1H24. 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.*

# 2Q24/FY2024 results of Bank Millennium Group

## Q&A

**[Fernando Bicho CFO, Deputy Chairman of the Management Board]**
We will go through the questions, so thank you very much.

**[Dariusz Górski, Director of Investor Relations Department]**
Thank you very much, Fernando. As usual, I'll try to group questions into some thematic parts. Many questions related to DTA, and I think it would be good if you could explain to our participants the dynamics of DTA, how it worked, what was covered, and what developments we expect in the second half of the year.

**[Fernando Bicho]**
Yes, I saw that there were many questions about this topic. So, going point by point, just to have the full picture.

For a long time, we have been fighting to consider the costs associated with FX mortgage, especially the losses, as considered for tax purposes. In the end of last year, as we disclosed in our annual report, the Supreme Administrative Court issued a negative verdict, but at the same time, it became clear that what could be done was the correction of the last five years, in case the loans would be invalidated. And so what we have done in the first half of this year was to make the adjustments connected with revenues and also with FX differences, connected with the FX mortgage loans that are assumed to be invalidated, and to consider those losses in the calculation of the DTA. So in the first quarter, we booked an initial amount divided between corporate income tax and DTA of 68.8 million zlotys, and in the second quarter, an amount of 192 million, of which 171 million was booked in DTA. So once again, this relates to loan agreements, which are assumed to be invalidated during a specific period of time, and based on which we will be correcting the level of the tax and considering it as a tax loss. So going forward, because there are also many questions about how this will unfold moving forward, so the value of the DTA regarding FX mortgage will fluctuate depending on the level of the FX rate, depending on the inflow of new court cases, and depending on the pace of verdicts of the courts regarding the court cases. So these are the most important, and also to a lower extent, but also depends on the settlements that will be achieved in the meantime.

So these are the parameters that will influence the evolution of the DTA going forward. Apart from the FX mortgage, also we should highlight that in the second quarter, we had some additional impacts on the DTA, namely the credit holidays. We created a provision for credit holidays of 201 million zlotys, that also generated a DTA of close to 40 million zlotys.

And obviously, for example, this part will disappear until the year end, because the credit holidays will expire in the end of this year. So if you look at one of the notes to our accounts, the note 18, where we have the breakdown of the DTA, it is visible that the DTA growth was generated not only because of the FX mortgage, but also because of some other factors, including this one connected with the credit holidays.

Then, the increase of the DTA generated two impacts at the level of capital.
One is the growth of risk-weighted assets, because of course there is a weight assigned to the DTA, and the second was that there was an excess of 10% of own funds that was directly deducted to the Tier 1 capital. This deduction would not happen if we would consider this additional net profit of the first half of the year. So actually, when we will incorporate in our own funds the net profit of the first half or of the full year, this additional impact will simply disappear. Assuming that nothing else in the meantime, of course, will be adding to the DTA.

So we expect that first part of the DTA increase of the second quarter will disappear during the third and fourth quarter as a combination of some verdicts, elimination of the DTA connected with the credit holidays. And in terms of impact on capital, I can say that maximum until March next year, this negative impact should be largely eliminated, or even earlier, if we will include in our own funds the result of the first half of the year.

**[Dariusz Górski]**
Thank you very much. I hope it's clear. We also had questions on long-term funding ratio, which is a relatively new thing.

**[Fernando Bicho]**
So it's also to put in the context to all that are seeing us. So there is a new ratio approved just two weeks ago by the regulator that will enter into force on 31 December 2026. So we are still two years and a half before that date.

Second, this ratio establishes a percentage of the mortgage loans that should be covered by, let's say, long-term funding, but in fact it's a combination of long-term funding and also excess of capital. And there are different ways assigned also to the mortgage, so I will not enter into these more technical details. So what we can say right now is that, first, we are still two years and a half before the introduction of this ratio.

The second thing that we would like to remind is that five or six years ago, we decided to set up a mortgage bank. And mortgage banks in Poland are the banks that can issue covered bonds, because in Poland universal banks cannot issue covered bonds. So the covered bonds can only be issued by mortgage banks.

So we have set up our mortgage bank, which has been up and running already for a few years. And we also, in the second quarter, made the first issue, small issue for the time being, because also it was not necessary to do a large issue, but we made the first testing issue in the local Polish market. The bonds were rated AA+.

After the issuance, even the rating of the bonds was upgraded to AAA. And so I just want to say that we have already a platform in place that will allow us, through time, to issue amounts through covered bonds that will contribute to the fulfillment of the long-term funding ratio, although the covered bonds is not the only way to fulfill the needs, because also other capital instruments such as MREL bonds or subordinated bonds will also count. And on the other side, also we cannot forget that in the next two years the net value of the Swiss franc portfolio will be zero.

And the Swiss franc mortgages are also covered by these requirements, so it means that by the time that we will reach the end of 2026, this portfolio will no longer be there to be financed by long-term funding. And also a lot will depend on what will be the evolution of our PLN mortgage portfolio. So all in all, we would like to say that these new requirements will be incorporated in our planning process.

We have the instruments that allow us to comply in the future with these requirements. It does not matter what is the level today. What matters is, because many of the instruments that we have today will not matter in two and a half years' time.

So what matters is how we will prepare the plan to fulfill in the most efficient way possible the level of the ratio that is required for the end of 2026.

**[Dariusz Górski]**
Thank you. Another question or another subject of interest is the performance of our insurance fees. Analysts have spotted a bit of an irregularity this quarter and the question is about the reasons and most importantly, if this is a new run rate for this line.

**[Fernando Bicho]**
We would say that it is better to assume this level as the run rate. We made the bancassurance transaction last year. The implementation was done in a sequential way. So this is the level that could be assumed to be the run rate for the time being.

**[Joao Bras Jorge, Chairman of the Management Board]**
And also the new recommendation U. The bancassurance business became less profitable also due to the new recommendation from the authorities.

**[Fernando Bicho]**
Which was incorporated in the meantime in all the process.

**[Joao Bras Jorge]**
It was incorporated also in the process, in the transaction, the pricing and everything, yes.

**[Dariusz Górski]**
Thank you very much. There was a number of questions related to deposit pricing. One of the analysts noted that we have above average pricing or cost of deposits and the questions were whether in the flat interest environment we will be willing to lower deposit pricing and the other analyst is asking what would trigger a cut of deposits, if at all.

**[Joao Bras Jorge]**
So the deposits profit pool is the biggest profit pool in the banking activity in Poland. And so it justifies by itself, even if there is high liquidity in the system and high liquidity in the banks, the business per se is highly profitable. Sometimes the pricing difference between the banks is also the combination of what they have in current accounts, what they have in time deposits, also what they have in corporate versus what they have in retail.

So there is a lot of reasons for that. We believe that we are still in a downtrend of the cost of total time deposits. So there is still space to work on that. However, it's a combination between growth of the volumes that we are achieving at the moment is a very good opportunity to increase the time deposits' presence because it's a period with overliquidity in the market and with high disposable income of customers. We are working mainly on deposits of retail and of course the growth in corporate was the same in percentage terms but it can be a little bit more opportunistic. In retail it's a normal activity.

As you know well, we tend to have price differentiation for the daily bankers. So it's trying to have the savings of the customers and full relations with the customers and not so much just bigger time deposits from more affluent or slash private banking customers. So we think that it still has the potential to keep growing. We grew a little bit the market share. It's very difficult to grow the market share in deposits of individuals but we grew around 30 basis points year on year. So it has been a positive experience and it's exactly the volumes with this proper price management that allow us to present this solid net interest income even with the environment of the interest rates that although it's not so low as initial forecast for this year they are in fact 1% lower than a year ago.

**[Dariusz Górski]**
While you have the microphone, so to speak, there was also a question about a very good origination level of consumer loans in the second quarter. Were there any particular reasons or drivers behind that?

**[Joao Bras Jorge]**
So I would say that the second quarter was as good as the first quarter was not so good. So mainly very strangely the market of consumer loans revamped in Poland since the beginning of the year. We didn't change anything about our process, our models, our risk assessments, our risk appetite, nothing at all.

So we have been working with the same criteria and with the same way. And we were more successful in the second quarter. It's true that we made some changes in the pricing. It looks like it was adequate, so it's increased a little bit of the interest rates, reduced the commissions. Looks like it's more attractive and simple to explain to customers and we have been more successful. But we are more or less aligned with the market share. We are a 10% market share in consumer loans in terms of the stock and also in terms of production. So I would say that it's quite balanced.

**[Dariusz Górski]**

Thank you very much. Sticking to the loan subject, there was a handful of questions relating to our growth outlook for SME and PLN mortgages in particular, our risk appetite and the demand that we see not only in the short term but also in the mid term.

**[Joao Bras Jorge]**
So first a little bit of PLN mortgage. One criterion that is less seen by the analysts is the number of active customers. Because I understand it's more difficult to see, but one thing is a fact.

Anytime that we are increasing the customer base, sooner or later we will increase the cards fees, we will increase the time deposits and savings of customers and also consumer loans. Mortgage is a little bit different because of course customers also can consult their bank, but there is a little bit of more shopping around. So there is a little bit less competitive advantage even if you have a strong customer base in terms of mortgage, so you need to be on the market through price and product.

We did a big volume versus one year ago, a little bit less market share. We would like to maintain this volume or even slow down a little bit. So it's clear that our intention is not overperforming mortgage, would be even reduce a little bit our percentage of mortgage in total portfolio.

In terms of corporate or SME, let's call it. We have been working quite hard. We are out with our capital constraints. It takes some time to change completely the approach. So we were having an approach of preserving capital, reducing the risk weighted assets so to change the network and even the customer's interactions take a little bit of time. We see a lot of more activity.

It's already very visible in terms of leasing. That is a faster product. We are quite confident that in the second half of the year, we will show already visible increase in terms of corporate portfolio and there is no doubt that the future strategy will have main importance of the SME development.

We believe that we have strong credit capabilities. This is shown when we decrease the portfolio because when we decrease the portfolio, it's usually if there is a less quality credit portfolio. It will show because, of course, when we reduce a portfolio, you reduce the best quality credit that is repaid or sold.

And this is visible with our cost of risk. So we believe that we have the credit capabilities, also the commercial interaction with the customers and sooner or later we will show it already in second quarter. And as I said, it will be an area of future development of the new strategy.

**[Dariusz Górski]**
Thank you. Fernando, maybe while you are going through the questions, I refer the question to Joao. There was a question about dividends prospects, whether dividends from 2026, so in 2026, meaning from 25 profits are realistic and what is a level, a comfortable level, of Tier 1 going forward?

**[Joao Bras Jorge]**
Dividends, I think it's clear the information that we will not plan to distribute this year dividends that are paid next year. Next year we will see. So it depends also from the recommendations from the regulator and depends also on our capacity to use this capital in a proper way.

We would like to go back to the dividend distribution. There is a lot of rules for that from the percentage of the Swiss franc portfolio as the percentage also of the year of the production, so the vintage. So I think it's too early to assess how we will be in the year of 2026 distributing the profits of 2025.

But it's clear that in the next cycle we will return to the dividend distribution.

**[Dariusz Górski]**
Thank you, very clear. A handful of questions related to our interest rate sensitivity, questions were about the share of fixed rate mortgages, about the share of assets that are the fixed rate, whether this is hedged or natural hedge. And how do we see sensitivity to interest rates evolving going forward?

**[Fernando Bicho]**
So regarding fixed rate share, so starting with mortgage, all the new mortgage loans that we have been originating since I think beginning of last year, for more than one year, all the new mortgage loans have been originated with temporary fixed rate for five years, so 100%. So currently we are originating new mortgages with a temporary fixed rate for five years, and after five years the clients have the option to continue with another five year at the rate that will then be enforced, or to switch to variable rate. So this is the first thing.

Due to this fact, due to this origination in recent periods, the share of temporary fixed rate mortgage in total mortgage has been systematically increasing, and now we should be close to 30%, I don't have the exact number, but it should be getting closer to 30%. Also the origination of consumer loans is done at a fixed rate entirely. So in terms of interest rate risk, we have a large, let's call it natural hedge between loans and deposits.

So this is the first thing. The second thing is on the top of that, of course, due to the significant excess of liquidity that has been growing, we also, of course, we have to deploy this excess of liquidity, and part of it is done in government bonds, part of them with fixed rates that also contribute to protect the NII for the future. The sensitivity we disclosed in our first half report today is very low now, but when we look at the next 12 months, it's zero to 1%, basically.

And in fact, we have even more sensitivity from the part of the balance sheet that is in foreign currency, especially in euros and US dollars, than in Polish zloty. So we can say that we tried to protect against the expected decrease of interest rates. Of course, we also need to recognize that we were already assuming that interest rates would be lower this year than what they actually are.

So this also gave more time to make this, let's say, this protection for the future. There is another question which is connected with what is the sensitivity for the second and third year. Here, it's much more difficult because then we need to enter into assumptions regarding how it's going to evolve, also the commercial activity of the bank and the management of the bond portfolio.

What I can say as a general statement is that we are trying to protect against the decrease of interest rates that we expect that will happen during the next two or three years. We are not able to, of course, anticipate the exact timing, but what we are assuming is that sooner or later, interest rates will start to go down, and we are trying to protect as much as it is possible, but also at the same time fulfilling all the regulatory ratios, which is not only about net interest income sensitivity, but it's also about other indicators, such as the economic value of equity and so on.

And even there is one question also asking if we are fulfilling one of these indicators, SOT [Supervisory Outlier Test] NII, and I can say that yes, we are fulfilling. But so the decisions about management of interest rate risk are not only about the protection of the sensitivity in terms of NII, but also at the same time complying with a number of other regulatory ratios that need to be fulfilled on an ongoing basis. So I think this is regarding NII, I think this is...

**[Dariusz Górski]**
Tier 1.

**[Fernando Bicho]**
Ah, expectations regarding Tier 1. Yes, of course, this is also when we will announce the strategy, of course, also we will somehow provide what is our assumption regarding the level of Tier 1 that we expect in the medium term. I would say that looking at where we are right now and also in order to be on the safe side, we think that at least we will not fall below 14%, but also we will take into consideration other regulatory requirements.

Basically, what we are seeing is that in two years, in one and a half year time, we will have the gradual introduction of a counter-cyclical capital buffer, which will bring two percentage points more requirements until the end of 2026 on one side. On the other side, we have the hope to bring our P2R buffer to zero or close to zero also in the future. That would significantly offset this impact.

But we will elaborate more when we will present our strategy, but I would say at least 14 to 15% Tier 1 ratio. This is the level that we are trying to ensure.

As I said, the first half results would add 1.3 percentage points that would put our Tier 1 ratio at 15.6%. Just to be clear, because there is an additional question about this, why the impact is bigger than just the pure result of the first half? It's because of the explanation that I gave about the DTA. The incorporation of the result has a direct impact and additionally eliminates part of the negative impact of the DTA that we had during the first half of the year. That's why we have an impact of 1.3 percentage points.

**[Dariusz Górski]**

Ok, thank you. Before we move to FX Mortgages, which is an inevitable part of our presentation, there was also a question about our outlook for OPEX, which is also a typical question at this time of the year.

**[Fernando Bicho]**
I think we all know that there is some cost pressure in Poland which still subsists after inflation started to come down. It's driven by a very tight labor market. Poland has the second lowest unemployment rate in the European Union.

It's driven by significant growth of minimum wages, 20% in 2023, 19% in 2024 and probably 8% next year. This brings a cascade of consequences in terms of the costs of different outsourcing agreements, in terms of staff costs and different admin costs. But we believe that gradually the pressure will start to subside.

We don't want just to take conclusions quarter after quarter. The second quarter was clearly better than the previous, but we are not just saying that it's going to be from now on like the second quarter.

We are prepared to face this cost pressure. We also need to continue to invest so this is also clear but this year the cost growth will still be double digit. We also said this already one or two quarters ago, so we are not changing our expectation regarding this. But of course with inflation stabilizing at a lower level of course this will help to anchor a lower cost growth for the future. This is I think what we can say regarding operating costs.

**[Dariusz Górski]**
Thank you very much. FX mortgages: analysts have spotted that we have changed assumptions for the percentage of closed loans that will sue us in the future. Some of them claim that there's a higher level of lawsuits against us than what we expect going forward and lastly the usual question that we get at these meetings is that a question for the comment on the future pace and level of FX mortgage provisions.

**[Joao Bras Jorge]**
So I can start and then Fernando will detail a little bit more. There is also a question about the historical number so our initial number of contracts were 104,000. That was the contracts that we initiate this process, so it's our methodology and we always explain that we have a methodology and not a model, so it's mainly we quantify what we see in the reality so it's the probability of losing were the results of the courts, first the results of the courts of the system. Later on, when we had enough number of cases our own results, the impacts – they are calculated by the cases that are already in the court or by the average cases of losses that we are having at the moment and so it's always a process that every time that there are new risks, we need to assess with new provisions and we try to disclose it as much as possible so if it is a penalty interest, if it is other criteria, we try to elaborate and to be as detailed as possible in all of these cases. The future cases, there is always a difficulty to predict the peak in terms of cases were in the summer last year with 650-700 and something 750, I think, in August last year. Now we are having 550 per month more or less cases. Some people forecasted after the decision of European Court of Justice on the remuneration, a huge increase of future cases, these end up to not be materializing, so I think we need to have some

prudent in terms of forecasts for the cases. It's obvious that as time goes by and we have less cases of contracts that are live and more cases that are repaid in these 500, 550 we will have a bigger number of repaid and a smaller number of live contracts. But it's important also to understand that if we move from 100 one year ago to 150 this year, it's 50% growth but it's just 50 cases so I think it's also important to understand these metrics and to wait to see how it goes. It's difficult to expect a big increase but also we should not expect a huge drop in terms of inflow of cases. Lessons learned from the past is to be modest and prudent to forecast this kind of things and to wait to see how it goes and to correct the methodology as it goes. Usually in our internal discussions we say that we don't have the perfect methodology but it's by far much better in assessing the risk that we have at the moment than one year ago or than two years ago, so it's obvious. But it's also important to understand that the methodology also incorporate new risks so it's not a static thing, so it was with a probability of having remuneration, remuneration was eliminated, then there is this new fact of penalty interest so that should be incorporated so also the methodology have changes because also there is a materialization of risks that are changing.

**[Fernando Bicho]**
So regarding the assumptions, so as we wrote due to this let's say relative growth of closed loans vis-a-vis active so we have increased this estimation to 24 percent of the historical number of repaid loans that were not settled and or that were already subject of past verdicts so the assumption... we were conservative in terms of let's say looking also at what was the recent inflow in the during the first half of the year. On the other side what we expected regarding active loans is materializing, so the number is per month is gradually falling but is also very much supported by the continuation of the effort that the bank is doing to settle with customers regardless of the fact if they are in the court or not in the court. So this is an effort that we continue to do whatever happens, we continue to try to find amicable settlements with the customers during the court proceedings or when they are not in the court. I think regarding FX mortgage there's of course there's the question going forward what can be expected in terms of the provisioning effort and we keep the view that we had one or two quarters ago, which is this year this burden is still going to be significant and so we also expect still to be significant during the second half of this year. Then if no other say factors will come, then of course we would expect next year that the effort would be already clearly lower. If we would have spoken one year ago of course, we were expecting that 2024 would be already lower but we were not counting with some developments that took place especially in the end of last year, especially this part connected with interest that introduced requirements to create provisions that we had not thought that would come. So if nothing else will come so, of course, we expect this year still to be significant and then gradually during the next year the effort should be clearly lower. We cannot quantify of course but should be clearly lower.

**[Dariusz Górski]**
Two remaining questions before we move to the closing part. One is could we comment on the output for the banking tax it's like saying that returns to our P&L and analysts are wondering whether they should plug in the same amount or not and then there was also a question about the risk related to PLN mortgages, I understand it's more of a legal risk than a credit risk?

**[Fernando Bicho]**
So maybe I'll start with the banking tax. So we started to pay again the banking tax in June the amount that is reflected in our accounts is 35 million, so I think that for the purpose of projections you just should use as a proxy this 35 million that we paid in June and that this will be the run rate on a monthly basis for the banking tax.

**[Joao Bras Jorge]**
It's difficult when we are in the environment that's such an important banking product for a society as a mortgage is constant and regulatory and legal risk. It's difficult because this is crucial for the development of a society, because gives you the ownership to the ones that will not get from their parents but things are what they are and we need to be calm and assess that it's true that we have here two risks. One is connected with the change of WIBOR as the reference for the mortgage calculations and this can have an impact in the long term depending the exchange of the indicator that, or the reference indicator that will be chosen and there is there was already some alignments to be WIRON . Now this is again in discussion in the national working group, so we need to wait and to see how it goes and there is a second one which is the potential litigation that can appear if this is a reason or not to have disputes in terms of contracts. We just hope that the authorities will act in due time and also that at the European level there is this understanding that if we have this kind of discussions, the discussion will not be just for WIBOR but also for WIBOR and other forms of indexing mortgage interest rates. But I think it's too early to assess how the risks can be translated. But of course we have it a quite prudent understanding for that and some regret that we are already in this situation again, but it's difficult to have a view or a forecast if this is a risk that can really materialize or if it is just a hypothetical potential risk.

**[Dariusz Górski]**
Thank you very much and any question that you think we might have not answered or omitted?

**[Fernando Bicho]**
So there is a question about CRR3, which will come into force in the beginning of the next year, so of course what I can say is that of course we are paying due attention to this with a dedicated project to assess its impacts there are of course some impacts in terms of the growth of risk-weighted assets. We are still before the exact assessment but also several mitigation actions will be taken, so it's something that for now we don't see as, say, significant impact. We may have some a marginal impact in terms of reduction of the total capital ratios but we will come back to this later in the year with some more, how to say, expected guidance regarding the impacts.

**[Dariusz Górski]**
Thank you. Joao, closing remarks if you wish.

**[Joao Bras Jorge]**
So we are although we have always kind of a neutral tone when we present the results is obvious that we are very pleased with the results that we all colleagues in the bank were able to achieve. We had this plan in our mind even when two years ago we announced that we

would have a recovery plan we said in that time that our plan to raise it was summer 2024 and we kept talking about this date, so we are very proud and happy and fulfilled that we achieved this. So it’s important milestone for the bank to exit the Recovery Plan and to be ready for the next phase and moreover we are happy that of course we did securitizations, of course we did transactions, of course we did the reduction of capital and risk-weighted assets, of course, but the main reason for the bank to be able to leave the Recovery Plan was the profitability of the business model so was the capacity to generate very high results that they would accommodate the needs of provisions and the additional costs of the Swiss franc portfolio and also generate additional capital that will allow us to incorporating and moving to the levels of capital that we have today. So this is of course a very good moment we believe that the second part of the year will be quite strong in terms of the business and also we are quite optimistic for the first rounds that we are doing our new strategy. We will present the strategy in the next meeting that we will be together. We are optimistic about what we are achieving, we believe that will be a quite ambitious plan but the plan that we have been proving with the capacity to deliver. So it will be a plan that, although ambitious, the investors and analysts will entrust us to deliver it and so we are quite – although this neutral tone of us – we are in a very optimistic mood for the delivery of this year and for the plan that we will present for the next years.

**[Dariusz Górski]**
Thank you very much, Gentlemen. Thank you very much all the participants as Mr. Joao Bras Jorge hinted our next data point is 29 October, this is also the most likely date when we will present our new midterm strategy. Otherwise I hope we have answered all the questions. If you consider otherwise, please do contact us directly. As usual we are at your service. Enjoy the rest of the summer. Thank you very much.