Miguel Maya
Chief Executive Officer
Vice-Chairman of the Board of Directors

Nuno Amado
Chairman of the Board of Directors

Joint Message of the Chairman of the Board of Directors and of the CEO

The performance of the global economy in 2020 was unexpectedly affected by the new coronavirus which profoundly impacted activity all over the world.

Because of the severe restrictions on the normal conduct of economic activity, this pandemic will have caused the world economy to contract by 3.5%, according to the International Monetary Fund. However, the IMF also forecasts a scenario of strong recovery, starting in 2021 – a view which is, of course, subject to confirmation that the pandemic is receding.

The extraordinarily negative impact of the pandemic on the global economy has given rise to a widespread and unprecedented economic policy response, in both the monetary and budgetary aspects. In the euro area, the ECB launched an emergency program to purchase public debt and reinforced other programs for injecting liquidity into the banking system, which caused Euribor rates to remain negative along the entire length of the yield curve as well as prompting a fall in long-term euro interest rates, while also reducing yields on government bonds from peripheral member states, including Portugal.

The Portuguese economy recorded an unprecedented 7.6% contraction because of the pandemic’s effects on activity, which proved particularly harmful to tourism, private consumption and, to a lesser extent, investment. Despite the adverse context and the high level of uncertainty, economic recovery is expected to proceed in 2021, sustained by the highly expansionary monetary and budgetary policies and by the very significant increase in the savings of Portuguese families in recent quarters, even though the lockdown imposed in January 2021 may temper this recovery. According to the Bank of Portugal’s forecasts, GDP growth in 2021 is expected to be 3.9%. The government's effort to support the income of families and companies has resulted in a substantial worsening of budgetary performance and, consequently, of public debt ratios, a trend that should see gradual improvement in the coming years, in line with economic recovery.

In Poland, GDP fell 2.8% in 2020%, reflecting the adverse effects of the pandemic-related restrictive measures on economic activity, especially consumption and investment. In 2021, external demand and the expectation of a progressive normalization of restrictive measures are expected to support the resumption of activity, with the European Commission projecting a GDP growth rate of 3.1%. In the exchange rate, the uncertainty that prevailed in 2020 in the international financial markets conditioned the evolution of the zloty, which for the year depreciated around 7% against the euro.

In Mozambique the global economic recession, as well as military instability in the northern and central regions of the country and the occurrence of natural disasters, strongly affected the evolution of economic activity in 2020, translating into a 1.3% drop in GDP.

In Angola, the challenges facing the national economy intensified because of the effects of the international oil price, resulting in the persistence of a challenging macroeconomic environment which, despite the significant structural reforms implemented by the government, has persisted since 2016. In 2021, these structural reforms and the prospect of rising raw material prices, in a context of a recovery in the world economy, are expected to translate into a 0.4% rise in GDP, according to the IMF.

In this challenging context, Millennium bcp stood out for its agility and adaptability as it faced a tremendously uncertain and volatile environment. At the very beginning of the pandemic the bank swiftly established a set of priorities, shifting immediately from the previous focus on growth to defending the quality of the balance sheet, protecting customers and employees, supporting the economy, preserving business continuity, and reinforcing the social support component to the communities we serve.

The combination of these priorities with the investment made in recent years in digital transformation, strengthening skills in innovation, and operational optimization proved fundamental for the Bank to distinguish itself for the support we were able to provide to families and companies.

Seeking to overcome challenges by transforming them into opportunities, Millennium bcp changed many procedures and routines, preserving the high standards of quality we're renowned for in our face-to-face service while simultaneously increasing convenient, digital interaction with customers, intensifying relationships and reinforcing confidence. These efforts were reflected in the recognition of Millennium bcp as the Best Digital Bank in Portugal by our customers, who also named us the Consumer Choice for 2021.

At a time when many companies, affected by the severe economic downturn, faced complex situations, Millennium bcp also stood out for the support it provided, as the leading bank for companies in Portugal, in all business segments, thanks to our superior performance in the granting of State-guaranteed loans, with market share of more than 30%, without compromising our absolute rigour and prudence in lending and the monitoring of credit risk.

This leadership proved particularly important to achieving the overall performance in terms of business volume, particularly the 2.6 billion euro increase in performing credit in Portugal, which underpinned a 4.6% increase in performing credit in consolidated terms, which rose by 2.3 billion euros.

Our capacity to control operating costs was also decisive for Millennium bcp to continue to assert itself as a benchmark in terms of efficiency, both in Portugal and in the Eurozone, with a cost-to-core income ratio below 50%.

The quality and resilience of the bank's business model remains evident in the evolution and robustness of the results before impairment and provisions, which increased 1.5% in 2020, reaching 1.19 billion euros on a consolidated basis.

Faced with an adverse global macroeconomic scenario where the outlook remains conditioned by the evolution of the pandemic, the bank significantly reinforced impairments as a result of the permanent assessment of the credit portfolio risk in different geographies, increasing the cost of risk to an anticipated level of 91 basis points.

The need for public support measures to mitigate the impacts of this cyclical economic crisis, without affecting the State's accounts to the point of causing a structural rupture, has meant that in the configuration of support measures in Portugal moratoria, as an indirect instrument to support liquidity needs, take on greater relevance than in other countries, which are able to deploy public support measures based more on direct injections of liquidity into the economy.

The proportion of loans under moratoria in the bank's loan portfolio in Portugal is therefore the result of the configuration of the country's public support measures and is in line with the proportion seen in the national financial system.

As moratoria require particular attention and preparation in adapting models and procedures that allow the bank to detect early warning signs and anticipate possible degradation of the risk profile, it is important to note that a large proportion of the moratoria for individuals, around 90%, correspond to mortgage loans, with a risk profile that tends to be more stable, and that 68% of all corporate and household loans subject to moratoria in Portugal are covered by residential or commercial mortgages.

Meanwhile, in Poland we have seen an intensification of the legal risks associated with loans in Swiss francs that were granted until 2008, leading to a significant increase in the provisions associated with this loan portfolio.

For 2020, Millennium bcp's net profit reached 183 million euros, a decrease of 39.4% compared to the previous year, strongly influenced by the significant 55.3% increase in impairments and provisions compared to the previous year, to 841.2 million euros.

Activity in Portugal contributed with 134.5 million euros to the consolidated net profit, while international activity contributed 48.5 million euros.

In Poland, Bank Millennium's net income totalled 5.1 million euros, a drop of 95.9%, determined mainly by the reinforcement of specific provisions (including those previously mentioned for legal risks associated with the Swiss franc loan portfolio; excluding the Swiss franc loan provision the net profit would be 142.9 million euros), but also, to a lesser extent, by the increase in mandatory contributions.

Despite these adverse effects, Bank Millennium remained focused on its intense commercial activity, reflected in the 6.7% increase in loans to customers, proceeding without hesitation with the Euro Bank integration process, where the synergies already obtained surpass the integration costs, translating into a net impact of 18.3 million euros in 2020, and implementing additional measures to rationalize the bank's structure.

In Mozambique, Millennium bim's net income was 66.8 million euros, a decrease of 23.8% compared to the result achieved in 2019, reflecting the adverse effects of the pandemic and of the natural disasters on economic activity as well as a significant devaluation of the metical against the euro.

In Angola, Banco Millennium Atlântico's contribution to the consolidated results was also lower than the previous year, penalized by the constitution of impairments and provisions in the total amount of 16.6 million euros, for risks inherent to the investment made by the Group in this company.

In 2020, Millennium bcp maintained a stable capital position, appropriate for the risks expected for the activity in the different geographies, with a total capital ratio of 15.6% and a CET1 ratio of 12.2%, both above the regulatory requirements of 12.31% and 8.3%, respectively. It should be noted that the continuing uncertainty about the impact of the economic crisis on the balance sheets of the banks across Europe, was a decisive factor for the exceptional and temporary measures of the European Central Bank, in force until September 30, 2021, recommending extreme prudence in the management of capital and restraint in the distribution of results.

Millennium bcp continues to maintain high levels of liquidity, well above regulatory requirements, with a loan-to-deposit ratio of 85% and 22.5 billion euros in assets eligible for financing from the European Central Bank.

In 2020 Millennium bcp also deepened its strategy for sustainability and responsible business practices, providing the governance model with its own structures and defining a sustainability master plan that ensures the alignment of the value proposal, processes and activities, and supports operations with the environmental, social and governance (ESG) requirements.

Also noteworthy is the 27.2% decrease in the amount of NPE in Portugal in 2020, a reduction of 883 million euros which puts Millennium bcp's NPE ratio at 4.2% (according to EBA criteria), confirming the skills developed by the bank along the successful and consistent course of improving the quality of the balance sheet since 2013, during which it achieved an accumulated NPE reduction of 10.4 billion euros, carried out in a balanced manner and without destroying capital.

The distinctive competences of Millennium bcp in improving the quality of the balance sheet proved essential in this particularly difficult year. The bank managed to extend the NPE reduction trend, a further sign of confidence in the ability to deal with the period of greatest complexity and pressure on the quality of the balance sheet, following a pronounced global economic contraction.

Despite the deep economic recession in 2020, caused by successive retractions in consumption resulting from the restrictive measures determined by the authorities to control the pandemic that triggered the economic crisis, there are positive signs that must be considered.

The massive mobilization of resources, public and private, to mitigate the impact of the crisis and the global joint efforts to successfully conceive, produce and distribute multiple vaccines on a massive scale, so that less than a year after the start of the pandemic several countries already have broad vaccination plans underway, allows us to glimpse a return to normality and the economic recovery that will appear once the health crisis is resolved.

The temporary periods of easing of restrictive measures in 2020 were, moreover, accompanied by significant increases in consumption, which translated into strong economic growth, revealing confidence in the potential demand for goods and services that has remained pent up during the pandemic.

On the other hand, in the European Union, governments and the European Commission are implementing important economic stimulus programs which, thanks to their size and breadth of intervention, will constitute a strong catalyst for robust and sustained economic growth.

We therefore have reasons to look to the future with hope, and we remain steadfast in our determination to pursue the growth and profitability strategy we set out to achieve, grateful for the support and confidence of our customers, shareholders, employees and other stakeholders.

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