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3Q24/9M24 results of Bank Millennium Group

Dariusz Górski: As you can see, at Bank Millennium, anyone can have a small moment of fame. So this is mine, probably. Good afternoon and thank you very much for joining.

This is a very important day or event for us because not only we are presenting our 3Q results, which, as usual, continue to show the resilience of a franchise, but also today we are presenting details, unveiling details of our new four-year strategy, which I'm sure you will find very interesting, challenging, and I think we will be totally in a different space in four years' time. Today's agenda begins with Mr. Fernando Bicho, Deputy Chairman of the Board and CFO. He will guide you through the details of our financial results and our business achievements in 3Q.

Then, a Q&A session will follow. We intend to focus on relatively short-term issues. Afterwards, we will have a presentation of strategy by Chairman of the Board and our CEO, Mr. João Brás Jorge. He will guide you through our strategic vision and the key enablers and challenges that we think we will face over the next four years. After that, another Q&A session will follow, and then we intend to focus on strategic issues. Without further ado, I would like to invite Mr. Fernando Bicho to the stage. The floor is yours, literally speaking.

Fernando Bicho: Good morning, good afternoon, dzień dobry. Thank you very much for attending this presentation of our 3Q results. As usual, I will guide you through the main aspects of our performance during the third quarter and during the first nine months of this year.

I will go directly to page number 7, where we can see the main financial achievements of the quarter and of the first nine months. So we had the eighth consecutive quarter with a positive net result. The year-to-date net profit in the first nine months of this year reached 547 million zlotys, which represents an improvement of 19% versus one year ago.

If we look at the net profit excluding extraordinary items, it reached almost 2.3 billion zlotys, an improvement of 3% vs. last year. The results of the bank continue to be supported on strong performance of the net interest income that, excluding the impacts of credit holidays, grew by 5% year-on-year and by 5% vs. the second quarter of 2024. As a consequence, the core income also grew by 5% year-on-year, and the cost to income, excluding extraordinary items, stood close to 31%.

The cost of credit risk was at 53 basis points during the first nine months of this year over total loans, and the NPL ratio was stable at 4.6%. This quarter was important, first of all, in terms of capital ratios. We had another improvement of the capital ratios already after the inclusion of the first half of 2024 net profit into own funds. The Tier 1 ratio improved to 15.3%, and the total capital ratio to 17.9%, which gives a very significant and comfortable surplus over the minimum regulatory requirements.

On the other side, we have done another senior non-preferred bond issue of 500 million euros, our first green bond issue in September, which allowed us to increase substantially the surplus over the minimum required MREL level. On this page, we just summarize where we are versus the main objectives that were set in the previous strategic cycle that is now reaching an end. I will not elaborate on this as we will have more details during the next presentation about the new strategy, but as you can see, we have achieved most of the targets that we have announced almost three years ago.

When we look now at the evolution of the net results of the bank, so in the third quarter of 2024, we had a net profit of 190 million zlotys, bringing the year-to-date net profit to 547 million, and this represents a reported ROE of 10.1%, or on an adjusted basis, an ROE of 18.1%. The solid operating performance of the bank has allowed us to cover comfortably the still relatively high provisions for FX mortgage legal risk, and also we see that the operating income, excluding extraordinary items, continues to show a stronger resilience.

When we look into more detail about the drivers of the results of the bank, of course, first of all, the very solid and resilient performance in terms of net interest income. In the third quarter, we had an adjustment, a downward adjustment in the assessment of the cost related with the credit holidays, so we released a provision of 44 million, but excluding the impacts of the credit holidays in the second and third quarter, we show a very strong increase of NII by 5%, quarter-on-quarter, and by 5% in the first nine months of the year against last year.

The recent performance has been supported by relatively stable average yield on the loan portfolio, while during the third quarter, we had a decrease of nine basis points in the average cost of deposits. Also, it should be mentioned that the performance of NII would be even stronger if not for the additional costs that we have incurred during the last 12 months, first with the issue of senior non-preferred bonds in September last year, and second with the several securitization transactions that supported the improvement of the capital ratios. So if we exclude these additional costs during the last 12 months, actually the NII would have grown by 9%.

Regarding net fee and commission income, it was relatively stable on a yearly basis, just 1% down, but growing 4% vs. the previous quarter. On the cost side, the trends are basically the same from previous quarters, so total operating costs still growing double digit, 13% year-on-year. The cost to income on an adjusted basis at 31%, which is a relatively stable low level for the last two years, and we have minor changes in terms of the number of staff, a number of branches in recent periods.

In terms of credit quality, it continues to be resilient. The NPL ratio stood at 4.6%, with some pickup in the NPL ratio of companies, but at the same time a decrease in the NPL ratio of consumer loans. So the cost of risk year-to-date at 53 basis points over total loans, so of course a little bit higher than one year ago, as we had already expected when we announced the full year results of 2023, but still within the expected levels.

Also to add, in the third quarter we did not have any contribution to the level of provisions from the sale of NPLs. In terms of capital ratios, we continue to show improvement. So after the inclusion of the first half results in the own funds, the Tier 1 ratio is now again above 15%, at 15.3%, and the total capital ratio at 17.9%, and this means a significant surplus of 5.5 percentage points over the minimum regulatory requirement for Tier 1, and 5.7 percentage points over the minimum requirement for the total capital ratio.

MREL, I already mentioned, the significant surplus that we have achieved as a consequence of the new issue in September, but also of the inclusion of the net profit of the first half in the own funds. On the liquidity side, very strong liquidity indicators along to deposit ratio at 66%, which also creates a strong liquidity indication that puts us in a very comfortable situation for the new strategy cycle in terms of the lending growth. Very strong ratios in terms of LCR and the NFSR, and also the liquidity profile translated into a share of liquid assets of 34% over total assets.

Regarding the FX mortgage legal risk, the provisions in the third quarter were slightly below previous quarters at 470 million zlotys for the portfolio originated by Bank Millennium, bringing the total outstanding amount of provisions to 7.7 billion, and this represents 111% of the total gross loan outstanding. The portfolio continues to shrink at a quite fast pace, so when we compare with one year ago and excluding FX in parts, we have a decrease of the portfolio by 22% to 1.5 billion Swiss francs.

And if we deduct the legal risk provisions, actually the share of FX mortgage is now very low, already at 2.5%.

We continue the effort to reach amicable settlements with the clients. Another successful quarter with more than 1,000, specifically 1,081 amicable settlements signed with clients, both out of the court and during court proceedings. The inflow of court cases was a little bit lower than previous quarters at 1,487, and in terms of main assumptions regarding the provisioning, there were no material changes versus the picture that we have shown after the first half of the year.

Moving now to the second part of the presentation regarding business development. So, first of all, we will highlight the high growth of the deposits on a yearly basis, the solid pace of customer acquisition, and also of the growth of the retail lending and of leasing origination. So, in the end of September, we reached 3,120,000 active customers in retail, of which 91% digitally active. In terms of sales, strong sales of cash loans which have grown by 12% year-on-year, and mortgage loans that grew by 50% year-on-year, and leasing origination that grew 26% vs. one year ago.

This translated into overall growth of the total deposits by 7% year-on-year, consumer loans by 9%, mortgage in PLN by 5%, and last but not least, a significant growth of investment funds portfolio by 41%. Looking now in more details to the components of loans and deposits growth. So, on a net basis, the loan portfolio of the group grew by 2% year-on-year, but if we would exclude the FX mortgage portfolio, actually the growth was 5%.

Main drivers, consumer lending and PLN mortgage, but also already the continuation of the first signs of revival in terms of corporate lending, already growing by 1% year-on-year. The structure of the loan portfolio with no major changes, still with a bigger share of PLN mortgage at 49% and consumer loans almost at 22%. On the customer deposits, an overall growth of 7%, driven by a 14% growth of retail deposits, while at the same time, we had some drop in corporate deposits by 8% year-on-year due to tighter price management, and also, as you may understand, also driven by the huge excess of liquidity that we have now.

Investment products, a very solid growth by 41% year-on-year, also benefiting from positive market environment, and of which our Millennium TFI grew by 50%. In terms of origination, the main focus goes, of course, for the origination of cash loans that during the last two quarters was especially strong, above 1.9 billion zlotys, bringing an overall year-to-date growth of 12% and a market share of around 10.5% in new origination. In mortgage, the growth year-to-date is still significant, 50%, although with some downward trend in origination in the third quarter.

In retail customer funds, also, again, the growth overall by 16%, so also fueled by the growth of investment funds. The solid pace of business development continues to be proven by the solid pace of customer acquisition. We have a net growth of active customers in retail by 139,000 during the last 12 months, of which 38,000 net growth just in the third quarter, also followed by solid pace of growth in microbusiness segment with 18,000 new customers net growth during the last 12 months.

And this is followed, of course, by the significant growth in the number of current accounts by more than 100,000 during the last 12 months. Our competences in digital banking continue to be extremely appreciated by our customer base with the redesigned mobile app really appreciated, and we see this translating into a solid pace of growth with 2.86 million active digital users, 2.6 million active mobile app users, translating into a 7% growth year-on-year, and 1.98 million BLIK users in the third quarter, a growth of 15% year-on-year. The share of digital channels is getting more and more relevant in the overall sales, responsible for 84% of cash loan sales, 43% in terms of current account acquisition, 95% of time deposits, and 52% of junior accounts, and also it should be highlighted the high double-digit pace of growth of BLIK transactions.

The convenience of our digital solutions is translating into a high number of applications done by our customers in different government programs, including the benefit for parents, and also a number of simple functionalities that are also, like recently, the charity transfers in the mobile app after the recent floods, and mobile signature continue to be showing, continue to show the capacity of the bank to stay in the leadership in terms of digital solutions. And in terms of goodie, the continuation of a high double-digit growth in terms of number of transactions, and in terms of purchases by cashback.

Moving now to the corporate side, as I mentioned, we already show signs of some rebound after a period of almost two years, where we had to apply some temporary restrictions due to the active management of the risk-weighted assets, so we had a growth of 1% year-on-year of total loans to companies, including leasing and factoring, and 1% just in the third quarter.

On the corporate deposits, we had a decrease in the third quarter due to what I mentioned, this tighter management of time deposits, because as you can see in terms of current accounts, the growth year-on-year is still high at 7%. We maintained the growth of transactionality with our corporate customers, which translated into a significant growth of treasury transactions, FX transactions, by 35% year-on-year, and the growth of domestic transfers by 4% year-on-year, and as I already mentioned, a strong growth of the origination of new leasing contracts by 26% year-on-year. We continue to expand the offer to our corporate banking customers, namely through development of the cooperation with KUKA and BGK, also interesting to say that 75% of our FX transactions are already done through our Millennium Forex Trader platform.

The developments in digital, of course, also cover the developments in corporate banking, with further developments in the mobile app for companies, especially in the third quarter with new functionalities connected with the card management conversion. So, this concludes the third quarter results presentation, and now we will go through the Q&A of the results. Thank you.

Dariusz Górski: Thank you very much, Fernando.