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3Q24/9M24 results of Bank Millennium Group

Q&A

[Dariusz Górski:]
We start with questions from the room. If you have any questions and you want to ask, please raise your hand.
If anybody wants to ask a question in Polish, we'll naturally have them interpreted. So you may ask in Polish too.

[Speaker 4]

First question. Did you book any impact in the flood in the third quarter?

Or do you see any of such events in the future?

[Fernando Bicho]
From the floods, yes. We performed an analysis of our loan portfolio, both on the retail and corporate side. And we have not detected any material impact in our customer base coming from this unfortunate event.

Of course, there are always specific situations that may be addressed. But for the time being, the impact is not material. So there was no impact in terms of level of provision in the third quarter.

[Speaker 4]
And another question on your capital position. The quarter over quarter improvement, was it driven only by profit inclusion? Or was it something else happening in the quarter as well?

[Fernando Bicho]
The main driver was the incorporation of the first half results in the own funds. But by increasing the own funds, also we had some side positive effects. Namely, the fact that the DTA excess over 10% of own funds became smaller.

And as a consequence, this also triggered some additional benefit. Not just directly from the inclusion of the own funds, but also indirectly through this fact. The variation of risk weighted assets. It was mixed because we had some areas where there was an increase against others that had a decrease. And so overall, really the major driver was the incorporation of the net profit.

[Dariusz Górski]
Any further questions from the room? We have a few online. Marta? Thank you.

[Speaker 3]
Good afternoon. I may have a question about the NPL ratio in the corporate segment. Because it spiked in the third quarter.

Was that a very isolated situation? Or we are fearing that it may sort of continue towards 2025?

[Fernando Bicho]
It was a very isolated situation. It was one or two cases, actually. Which did not happen in the previous quarter. So we were living already for quite a long period of time without any situations. Two of them happened now in the third quarter. But completely isolated, completely unrelated. And so we don't see these, we don't treat these as a trend of the duration. It just happened.

[Speaker 3]
And maybe a traditional question. Hopefully one of the last times. And let's keep it to the third quarter results rather than the strategy. So a classic FX mortgage saga. How do you see, and okay, maybe let me ask this way: What is the level of model assumptions that you have placed against your active and repaid portfolio and provided for in the current provision balance?

That's the first question. And I'll have one follow up. Just so we stop discussing the active gross portfolio coverage, etc. But to see for how much of more challenges to come you already are prepared.

[Fernando Bicho]
So we have a page.

[Fernando Bicho]
Page 15. So the assumptions, as I said, they were not materially changed versus the previous quarter. So we are assuming that 86% of currently active loan agreements are already or will be in the future in the court. So this is the first point. We have currently alive around 23,700 loans at the end of September. So actually we are living outside a quite small number of active loans.

So this is the first thing. And the second, we are assuming that 24% of already closed loans, closed means repaid but excluding amicably settled loans, are already or will be in the future in the court. Of course, in the recent months, the inflow of court cases slightly dropped. Of course, the share of repaid has increased. But still in absolute terms, it's still relatively low. So that's why when we look at the recent history of inflow and we project for the future years, we are reaching these estimations regarding the percentage of the customers.

At the same time, as I said, of course, we are continuing the effort of settling with the clients both out of the court and during the court proceedings. So these are the assumptions that we are using right now.

[Speaker 3]
And as much as you have created already provisions for those percentages of clients from different groups already, you also seem to be booking legal costs separately as an ongoing cost. My question is of a different nature because one thing is a provision to be put forward and we know that a lot has already been provisioned. But those court cases will probably last for another five to... let's not put an upper limit.

Will you create provisions for those legal costs at some point to end the saga? Or should we assume that those legal costs will be with you for at least another five years until the active court cases will just... phase out?

[Fernando Bicho]
We have different types of legal costs. We have the services of the legal offices that support us in each court case, which, of course, will depend on further inflow, essentially. We have the court-related costs connected with appeals, connected with counterclaims.

And these numbers can change also depending on how the settlements will be done through time. So for the time being, we are not planning to create an upfront provision for such costs because also it's difficult to forecast which part of them will be actually incurred. As I said, we are achieving a relevant number of settlements during the court proceedings.

If this trend will continue, this contributes to the decrease of the future legal costs, just as an example. So there are different actions that we are taking that will potentially make these costs starting to go down in one or two years' time. But for the time being, we are not planning to make any upfront.

Of course, out of the question is the point that we will submit counterclaims in order to protect our rights to the original capital that was disbursed whenever it is necessary to submit such counterclaims. And those counterclaims have a court cost.

[Speaker 5]
I have one question about NII in the fifth quarter. Could you please comment what was the source of the improvement quarter on quarter? It was quite visible.

And do you see some room for further improvement of net interest margin in the short term?

[Fernando Bicho]
So in the third quarter, first of all, of course, interest rates were stable. So this helped to maintain for longer a relatively high level of NII. In our case, it was a record level, actually, even if we take out the impact of the credit holidays.

The driver of the improvement, excluding the credit holidays, was a combination of the average yield on loans was quite stable. And so with some increase of the loan portfolio, we have more contribution coming from the loan, from the loan portfolio. This average drop of cost of the deposits just implied that the cost of the deposits actually remained quite stable.

This was beneficial because it shows that we have capacity to gradually reduce the average cost of the deposits. But essentially, this came from, on one side, some reduction of time deposits in corporate, but also some adjustments of pricing in retail. And then we have the continuation of the contribution coming from the bond portfolio, which is also relevant because we are sitting on a huge excess of liquidity.

This excess of liquidity is redeployed between bonds and NBP bills. And as long as interest rates have stayed quite high, of course, this is also supporting our NII. But basically, on a quarterly basis, just looking at the quarter, the contribution from the remuneration from the loans plays the main role.

[Dariusz Górski]
Any more questions from the room? I take it as a no. Thank you very much.

We have questions from the online participants. And as a reminder, if you want to ask a question, please use the webcast page on the website that you're watching us at and ask your question. We have a very specific question, which goes “what is your long-term funding ratio at the end of 3Q?”

[Fernando Bicho]
So, we disclosed this in our third quarter report. It was slightly above 27%, already including the senior non-preferred bonds that we have done in September. In October, we completed the next issue of covered bonds, so 500 million zlotys for five years. This will add another 1.5 percentage point to the long-term funding ratio, so we'll be somewhere between 28 and 29% during the fourth quarter. The target to be achieved is 40% on 31 December 2026. So, we still have a lot of time to fulfill that ratio, and I think that the steps that we have taken recently show the capacity of the bank to fulfill that ratio in a normal way.

So, we have our plan, and the ratio is going to be achieved, but at the same time, of course, as you could see, there is some, let's say, lower origination of mortgage, so we also will not have so much pressure from the denominator to achieve this target.

[Dariusz Górski]
Thank you. Let's get the FX-related questions out of the way. Especially as there are not that many of them.

What do you expect in terms of FX provisions in the remainder of the year in 2025, and do you see them lingering beyond 2026? It's a bit of a strategic planning horizon, but as I said, let’s get it out of the way.

[Fernando Bicho]
So, I think we have the expectation that sooner or later the level of provisions will start to go down. Actually, it's already going down, because if we see the slides where we show the evolution of the provisioning quarter by quarter, after the peak that we had last year for specific reasons that all of us know, actually, for the first time since the fourth quarter of 2022, we had a quarterly charge of provisions of less than 500 million zlotys. Also, when we look on a year-to-date basis, the level of provisioning is, of course, already clearly lower than last year.

Although, on the other side, we have some increase of other costs related to FX mortgage, but still the picture looks favorable in terms of overall costs this year are lower than in the previous year. So, we have some expectations that overall costs will trend down, but still will remain relevant in the nearest quarters. So, for now, what we are anticipating is that next year should continue to show improvement, but still impacts may be relevant together with the related costs.

From 2026, if nothing else extraordinary will happen, then, of course, we would expect the provisions to clearly decrease versus the recent years.

[Dariusz Górski]
We're doing very well in terms of time, so maybe three more questions. One is about the cost of risk. What do you expect on a steady state until the rest of the year, in 2025?

[Fernando Bicho]
So, for this year, this, let's say, expectation of having a cost of risk around 50, 50-something basis points is still achievable, I would say. Going forward, the evolution of the cost of risk in the future will also reflect the gradual change of the structure of the balance sheet and structure of the loan portfolio of the bank. So, as you will see from the strategy, and as we will materialize this strategy in concrete numbers, this will mean a higher share of corporate lending, and, of course, it’s natural that with a lower share of mortgage and a higher share of corporate and related exposures, there will be some increase in the average cost of risk, which probably will be around 60 or 60s, in the area of 60 basis points level, but, of course, it will not be, let’s say, a jump from one moment to the other because the portfolio will be gradually built. So, looking at the four-year cycle that we have in front of us, it’s natural that the cost of the risk will tend to gradually increase, but reflecting the change of the structure of the portfolio.

[Dariusz Górski]
There is also a question about cost of deposit. Do you see room to decrease the cost of deposits closer to the sector average? What will be the time horizon for that?

[Fernando Bicho]
Of course, when we are at levels where we are currently, of course, there is always space to decrease, but for us it’s not a matter of just looking at the price. We look at everything, right? We look at the

volumes, we look at relationships with customers, we look at the possibilities to redeploy this liquidity in assets that will provide positive results to the bank.

So, taking into consideration that we expect interest rates to go down next year, obviously, we also expect that our average cost of the deposits will trend down. If it will converge to the average of the sector or not, this is not exactly our objective. I think we need to take into consideration that our structure of the deposits is different than the average of the system.

We have much more retail deposits, we have much less current accounts from companies, and this makes a difference when we compare the average cost of the deposits between the different banks. When we forget about the structure, we are not so far from several other competitors in terms of average cost of the deposits. But the answer is, it will trend down also in line with the decrease of market rates.

[Dariusz Górski]
Two more questions, I promise. As I said, there will be three and there is already a fourth. Could you guide us through interest rate sensitivity of your NII in 2025 and in the longer term?

Could loan growth offset lower NIM already in 2025?

[Fernando Bicho]
First, I think we already explained in previous meetings that in the short term we have relatively high protection against the cuts of the interest rates due to the structure of the loan portfolio that we have today and the structure of the bond portfolio that also we have created through time. We expect that the first cuts of interest rates will have a relatively mild impact in terms of the NII. If you look at our financial reports, we are disclosing the sensitivity of NII to changes of 100 basis points in the yield curve and it was never so low.

It's somehow around 1% more or less. So it's really low. So I think that in the short term means in the next 12 to 24 months we have a relatively high level of protection because even when interest rates will go down there will be at the same time some low yielding assets or hedges from the past that will expire and that when disappearing or renewed will provide a compensation for some compression for example in the margin of the current account, which will inevitably take place.

So in the next year we are quite optimistic about the evolution of NII. I think that the only thing that could jeopardize this would be a much faster than expected cuts of interest rates during the next year. But if we will keep the scenario that we are betting in which is a cut of 100 to 125 basis points of interest rates until the end of the next year – this should be achievable.

[Dariusz Górski]
And the final question as promised what is the scale of claims against your bank questioning WIBOR and the interest free loan and how many claims have you received and what are the outcomes or the verdicts so far? We are not avoiding difficult questions as you see.

[Fernando Bicho]
We are also disclosing in the chapter 9 of our financial report that we issued today the statistics about both situations. In terms of PLN WIBOR cases, the numbers are quite small. Only one final verdict that was won by the bank.

So we don't see for the time being any relevant inflow of claims and of court cases. Regarding the free credit sanction, the numbers have increased in recent months. The large majority of the cases has been still won by the bank but of course it's something that the concrete numbers are in the report.

I don't have them here in front of me. It’s almost 1,000 court cases as far as I remember. It’s of course a topic that we are paying special attention but as I said the large majority of the court decisions until now have been in favour of the bank.

[Dariusz Górski]
Thank you very much Fernando for your as usual very insightful answers.