Name of the recording: 3Q23 results of Bank Millennium Group **Duration of the recording: 00:28:22**
(ia) – inaudible section
italics – incomprehensible word, phonetic transcription
... – incomplete sentence, interrupted utterance
☺ – laughter

Dariusz Górski – Director of Investor Relations Department

Good afternoon, everyone. Welcome to the Bank Millennium 3Q results call. With us we have Mr. Joao Bras Jorge, our Chairman of the Board and CEO and Mr. Fernando Bicho, Deputy Chairman of the Board and our CFO. We will do slightly different agenda, I mean the agenda is slightly different from what we used to do in the past. First, Mr. Bras Jorge will share with us his highlights and he will share with us his views on what he regards as key points, key achievements of the bank in the quarter. Mr. Bicho will share with you or present more details of the results. And after that we will be available for the Q&A. Thank you very much.

Joao Bras Jorge - Chairman of the Management Board

Good morning and welcome. So I will use mainly page no. 4 or slide no. 4 as a guidance. It's a good opportunity to go through the achievements of the bank in the last nine months. It's very important also to highlight that it was in the third quarter of the last year that we presented the situation of the bank, namely the situation that we raised the capital ratios and we launched the capital protection plan and the recovery plan. Now it's very visible the significant improvement of the capital ratios. At the end of September we have total capital ratio 16.6. This gives a surplus with the regulatory minimum of 4% and we have Tier 1 at 13.5, which is a surplus of 3.3% above the regulatory minimum. Also it's of course relevant the fulfillment of the MREL interim requirement and also our expectations to meet the year end requirements due to the successful placement of €500 million in bonds and that our EMTN programme that can fulfill the MREL requirement. Also, we had already in the beginning of this year the execution of the leasing securitization transaction in this process. So mainly what we explained one year ago was that we would go with the internal programme that would comprise cost reduction and management of the risk weighted assets, some transactions as we have the securitizations, and of course also the natural profitability quarter by quarter of the bank, that would allow us to have the recovery of the capital. And things went much better than we forecast initially. So if you remember well one year ago, we point as a target to achieve these in this summer of this year. We ended up to be more successful than initial forecasts and we were able to achieve the minimum requirement of the capital already at the end of 2022. And as we informed in beginning of this year, 2023 would be dedicated to the fulfillment of the MREL and this is what we achieved already. If we go to the right. So in terms of profitability, we have the fourth quarter in the row with the profitability presented by the banks. So we have a year to date PLN 461 million and to allow us to see also how wealthy and healthy is the business model, we have PLN 2.2 billion when we exclude the non-recurring events. With a very strong net interest income year on year and already positioning well the bank for offside, of course partially, but somehow minimizing the impact of the decrease of the interest rates that are now foreseen in the market. As you know well, we had also the transaction in terms of bancassurance that was very important, also to allow the bank to accumulate higher provisions of Swiss Francs, and also, we have been showing very good credit risk management year to date. In the left down you can see also in business terms we are very happy that, although the bank is focused on managing its recovery plan and is solving the issues in terms of capital and in terms of MREL requirements, the bank was also able to manage and to keep very high intensity in terms of business. So, year on year, we have 2% mortgage portfolio growth, 5% growth of the cash loans portfolio, 9% year on year in terms of total deposits portfolio. So showing a quite good dynamic. But besides the numbers, it's also relevant that just two nights ago, the bank was awarded as the best bank in Poland through the Newsweek report, for the services and the quality of service of the branch, but also the best bank in Poland in terms of digital banking. For the first time also, the bank was considered in the top ranking as in this case as number two, as the best bank for small business in the ranking that is provided and sponsored by Forbes Magazine. In terms of the digital roadmap, it's mainly with two areas, one is customer acquisition because the digitalization allows us to have a much lower marginal cost of serving per customer and because of that, also the capacity to have profitable customers. It's completely different. And as you well know, we had a target to achieve: 3 million active customers at the end of the year 2024 – this is in our strategy – and probably we have already 2,981,000. So we are quite confident that we will achieve the 3 million already this year. Also in terms of digitalization of the customers, we are already demonstrating 89% of digital customers. As you know, our target is 90% of the digital customers. So it's digitalization of our customer base at the level of 90% and we are quite confident that we are going to achieve it. We already are at the level of 72% of loans finished in digital and even in the corporate side, that is always a little bit lagging in terms of digitalization, but we already see some signs with 61% of the corporate credit agreements being signed by digital. So we are quite happy and positive with the results that we are presenting up to now and this is already putting us in the conclusion moments of this recovery phase that we were predicting and explaining to you over the last one year, quarter by quarter. So I would pass now to Fernando.

Fernando Bicho - CFO

Thank you. So I will continue with the details of the results of the group. On pages 6 and 7, we present key profit and loss and key balance sheet and business items. So before going to details, we would like to highlight the still solid growth of net interest income that grew 3% quarter on quarter and 16% year on year, excluding the effect of the credit holidays. The fact that we have accumulated the net profit of PLN 461 million during the first nine months of this year. That the net profit without extraordinary items, we reached PLN 2.25 billion and also, we have an extraordinarily low cost to income at 29% and ROE on a reported basis of 10% and on adjusted basis that's 22.6%. And on the page 7, we would highlight the significant improvement in the capital ratios, especially visible in the third quarter and we will explain in more detail later on in this presentation. So on page 8, we have this… We are presenting the financial highlights, with a solid performance of the bank during the first nine months of the year, with the growth of the adjusted net profit, so excluding extraordinary events, of 44% year on year. The solid growth of NII which is supporting the overall growth of revenues and the NIM that grew 36 basis points year on year. And apart from the ROE and the cost to income that I already mentioned, also keeping strict control over the asset quality with an NPL ratio at 4.7%. On page 9, we present the status of the main indicators that were part of our strategic objectives on the strategy of 2020-2024, where it is visible that several of them are already being achieved during the current year, while others are on the right track to be achieved very soon or before the end of 2024. Moving to page 10. In the third quarter of this year, we had the net profit of PLN 103 million. So this was the 4th consecutive quarter with a positive net result for the Bank and Group after the period of losses that that we have suffered. And this brought to the accumulated net profit of the Group to PLN 461 million during the first nine months of this year, despite the fact that we still have to face the significant costs connected with effects mortgage portfolio. The operating income, excluding extraordinary items, grew 4% quarter on quarter and 14% year on year. On page 11 and looking at the evolution of the net interest income, it was still a good quarter in terms of NII, despite the fact that we faced in September these 75 basis points cut of interest rates delivered by the Monetary Policy Council, followed by another 25 basis points cut in October. But despite that, we had a solid growth of NII still in the third quarter by 3% quarter on quarter and 16% year on year. This was achieved through a combination of still small increase in the average yield from the loans, a steady or very slightly lower average cost of the deposits and also the fact that due to the deposits growth also we had a growth in interest earning assets which, especially the excess of liquidity, were deployed in bonds and NBP bills that, although depressing slightly the NIM, were supportive for the further growth of the net interest income. On the net fee and commission income we have in the first 9 months of the year a small drop of 2% year on year. In the quarter, we had a drop of 7%. Moving now to page 12. On the cost side, year on year we have a drop of operating costs by 10%. If we exclude the regulatory costs, namely contributions to the banking guarantee fund and resolution funds and also the extraordinary contribution last year to IPS, the overall cost growth was at 14% year on year. But the fact that we had a significant improvement of operating revenues contributed to bringing down the cost to income ratio to a record low of 29%. The number of employees was stable, while the number of branches continues to be going slightly down as a part of the ongoing process of optimization of the branch network. The asset quality remained solid, as you can see on the page 13, the NPR ratio at 4.7%. Please note that this ratio is not helped by the denominator because actually the loan portfolio of the bank has been shrinking in recent periods. So we do not have any support of the denominator effect for this ratio. But we still are able to keep the NPL ratio somewhere between 4.5 and 4.7% and at the same time continuing to benefit from relatively low cost of risk. On yearly basis and during the first nine months of this year, the total cost of risk was at 40 basis points over total loans and this cost of this cost essentially driven by retail portfolio, because in the corporate segment the cost of risk is still very low. And also let me add that, in the third quarter, we did not benefit from any sale of NPLs. The two most important achievements of the quarter are shown on page 14. The first one was another significant improvement in the capital ratios of the bank and the Group, bringing the core Tier 1 ratio and Tier 1 ratio to 13.5% which is already very comfortably above the minimum regulatory requirements by 330 basis points. And second, the total capital ratio at 16.6% also with the significant surplus of almost 4 percentage points over the minimum capital requirements. So, this basically was the result of the incorporation in own funds of the net profit of the first half of 2023, after getting the proper consent from the Polish Financial Supervision Authority. The second, the execution of another securitization transaction this time of the leasing portfolio that was concluded in July. Third, further reduction of the negative valuation of the bond portfolio in available for sale. So, the combination of these three elements together with some further optimization of risk-weighted assets allowed us to achieve this significant improvement. The improvement in the capital position of the bank was also beneficial for the fulfillment of the MREL requirements together with the issuance of €500 million of senior non preferred bonds that we have completed in September. And as a consequence of that, the bank fulfilled the interim MREL requirements but also is well positioned to fulfill the higher requirements that will enter into force at the end of this year. And so the bank expects to meet also the year-end 2023 MREL requirements. The liquidity indicators are very strong and further improved during the quarter. We continue to have a higher pace of growth of deposits than loans, and additionally we have this issuance of bonds. So the loan to deposit ratio fell to 70%, while the LCR increased to 299%. In terms of FX mortgage portfolio, we continue the efforts to reduce the absolute and relative size of the FX mortgage portfolio, which in currency reduced by 4% quarter on quarter and 15% year on year. And we brought down the number of active loan agreements to 34.1 thousand. At the same time we still had a relatively high inflow of court cases in the third quarter, of 1864, but with the peak in August, with the number of new cases slowing down considerably already in September. We continue to adapt the provisions for legal risk. As we announced previously in a current report a few weeks ago, we created PLN 673 million of provisions for legal risk for the portfolio originated by Bank Millennium, bringing the total balance sheet amount of provisions to close to PLN 7 billion. The effort of reduction of this long-term portfolio continues to be supported on the negotiation of amicable settlements within FX mortgage borrowers. In the third quarter, this number reached 869, bringing the total accumulated number of settlements to more than 20,000 since the beginning of this process. Which represents more than 1/3 of the number of active loan agreements that we have at the year-end 2019. The increase of the provisioning effort translates also into an increase of the ratio of total provisions over total outstanding amount that, at the end of September, was at 73.5%. Moving now to the second part of the presentation and starting with the business highlights on page 18, we benefited from good dynamics of deposits growth and customer acquisition. Customer deposits grew 9% year on year, supported by a growth of 11% of retail deposits. Strong sales of cash loans in the first nine months of this year growing 19% year on year, a growth of 143,000 payment cards and again this solid growth of the number of active customers in retail, at 2.98 million, and active digital customers – 2.66 million. On page 19, regarding the evolution of the loan portfolio, it contracted on a net basis by 6% year on year or 1% if we exclude the effects mortgage loan portfolio which, as you know, is not only reducing but also most of the provisions are allocated to the portfolio and so accelerates let's say the reduction of the net loan portfolio. Having said that, it is worth noticing that the portfolio that continues to grow at a good pace is the consumer lending portfolio and is contributing also to the continuation of the change of the structure of the loan portfolio, with more than 20% allocated to cash loans, PLN mortgage 47.3, while FX mortgage of Bank Millennium already below 5%. On the customer deposit site, a growth of 9% year on year, mainly driven by retail deposits, and also worth highlighting is the growth of 16% of investment products year on year. More details about retail on page 20. Gross loan portfolio contracted by 4% year on year, but excluding FX mortgage grew actually 4% year on year. Retail customer funds with a growth of investment products by 16% and the current and savings accounts by 4% and term deposits by 30%, which is normal, taking into consideration that during the last 12 months we had an increase in market interest rates. In terms of sales, of course the best performance is coming from consumer loans sales – growth of 19% year on year – and an origination of PLN 1.65 billion of new cash loans in the third quarter. While in mortgage there was already a recovery from previous quarters, with a total origination of PLN 1.25 billion. Page 21, the growth of active retail customers is also done on the back of significant growth of the number of current accounts, that grew 120,000 in the last 12 months and also worth noticing is the solid growth of active microbusiness customers to 137,000. Next pages illustrate the continuous growth of the importance of digital channels. Again, the main numbers: 2.66 million active digital users, a growth of 7% year on year, 2.43 active mobile banking users – a growth of 11% year on year – and 1.72 million BLIK users, a growth of 24% year on year. Page 23, cash loans with 82% digital share in cash loan sales in the third quarter and the digital channels also responsible for 37% of current account acquisition, 96% of term deposits and also important the growth of 26% in insurance online sales in the third quarter. On page 25, the continuation of the development and growth of our Goodie smart shopping platform with steady growth in terms of sales of goodie gift cards and in number of transactions made in refund for purchases and already with PLN 3 million of refunds paid to the users of the platform. Moving now to corporate business. On one side, the lending activity was of course conditioned by the capital optimization and risk-weighted assets management that we have been doing during the last 12 months. But in fact, the contribution of the corporate area to the improvement of the capital ratios of the bank has been significant, because apart from some contraction in the loan portfolio, actually these securitizations that were done so far have been done with exposure to companies and corporates, namely in the beginning securitization of SME loans and more recently, in July, the securitization of PLN 4 billion of leasing receivables. At the same time, we have been managing to continue to have a healthy growth in deposits from companies that grew 11% quarter on quarter and 3% year on year, with a balanced mix between current accounts and time deposits. And also, despite this contraction in the loan portfolio, we continue to see a gradual improvement in the transaction activity of our customers. Page 27 shows the evolution of the styles of leasing that were also partially affected by this tight RWA management and contracted 16% year on year, while factoring turnover in the first nine months of the year was lower by 6% year on year. Despite this temporary reduction in the loan portfolio, we continue to invest in the offer for corporate clients, as can be seen on page 28, with supporting them in the green transformation and digital solutions. Especially visible this investment that we continue to do on page 29 with the launch of a new mobile app for companies in May and also with the significant progress in the digitalization of the processes in the corporate area. So these are the main highlights of the third quarter and nine months results of Bank Millennium. And now we will be answering your questions. Thank you very much.

Dariusz Górski – Director of Investor Relations Department

Thank you very much, Fernando.