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2Q24/FY2024 results of Bank Millennium Group

Presentation

[Dariusz Górski, Director of Investor Relations Department]
Good afternoon, welcome to Bank Millennium's second quarter 24 results call. With us we have Mr. Joao Bras Jorge, Chairman of the Board and CEO, and Mr. Fernando Bicho, Deputy Chairman of the Board and CFO. Over to you, Fernando.

[Fernando Bicho CFO, Deputy Chairman of the Management Board]
Good afternoon, once more thank you very much for joining our quarterly results presentation. Today we are covering the second quarter and first half results. So let me start by page number 5 of our presentation with the main achievements in the first half of 2024.

We can say that the first half of the year was marked by further improvement in core profitability and high efficiency, still very strong asset quality and liquidity, and also material net profit despite the cost of the credit holidays and the costs related with FX-mortgage portfolio that were also partially offset by some positive tax impact. We would like to stress that of course the second quarter was very important for us because of the formal conclusion of the Capital Protection Plan in May and also for the exit of the Recovery Plan in June. So we closed a chapter that was started exactly two years ago and we are showing now very solid level of capital ratios with a consolidated Tier 1 ratio at 14.3% and the Total Capital Ratio at 17.1%, with a significant surplus over the minimum regulatory requirements and also fulfilling the MREL requirements also with the surplus. And as we had already expected and communicated before from formal point of view the MREL requirements were reduced in June this year. Important is also to say that if we would include the first half net profit in own funds this would add close to 1.3 percentage points to our capital ratios. We had the seventh consecutive quarter with a positive net result.

We closed the first half of the year with a net profit of 357 million zlotys, which is exactly at the same level as the first half of 2023 and excluding extraordinary events. The underlying net profit was at 1.5 billion zlotys, a growth of 6% year on year. The result was driven by strong NII excluding the impact of the credit holidays growing by 5% year on year and 2% quarter on quarter, with the NIM at 4.32%. Core income was up 4% excluding the credit holidays.

The cost-to-income ratio adjusted at 31% and the cost of credit risk at 50 basis points during the first half of the year, supported by a sale of NPLs in the second quarter. We returned to the payment of the banking tax after exiting the Recovery Plan already in June and finally the reported ROE was 10% and 19% on an adjusted basis.

Pages 6 and 7 present the key profit and loss items and key balance sheet and business items that we will go through in more detail throughout this presentation and especially we would highlight not only the fact that we kept the same level of net profit despite having benefited

in the first half of last year of the extraordinary gain from the bancassurance transaction but also that the costs in the second quarter clearly decelerated versus previous periods and the cost of risk is within the guidance that we have given in the beginning of this year. And on the business side, a very strong quarter especially in terms of deposits growth, investment funds and also consumer loan growth.
Page 8: regarding the status of the strategy cycle 2022-2024, so which is reaching its end, basically we are already in line with most of the targets that we have set almost three years ago. So we can say that basically the most important targets have already been achieved.

When we move to page 9, looking now at the evolution of the results so, as I mentioned, a total net profit of 357 million zlotys in the first half of this year if we exclude extraordinary events in the second quarter, we have a net result of 834 million, which is 3% above the second quarter of 2023. So from this perspective we are able to show a very resilient and high level of profitability before extraordinary items. Looking now in more detail to the evolution of revenues and starting with net interest income, we had another very good quarter. Net interest income excluding the impact of credit holidays grew 2% quarter on quarter and in the first half of the year 5% versus last year.

It should be noted that looking also at the second quarter of this year versus the second quarter of last year, the growth was 3.5%, excluding the impact of the credit holidays and we need to remember that in the meantime interest rates are lower by one percentage point versus the level where they were one year ago. We also would like to add that we cannot forget that we are also facing some additional costs that are going through the NII from the MREL bond issue that we have done in September last year and also the securitization transactions that also were done last year and so when we look for a like comparison of NII underlying, excluding these additional costs actually the NII grew by 10% year on year.

In this quarter we had a small drop of the average combination on loans but also a small drop in the average cost of the deposits and so there was a marginal decline of NIM to 4.28%. In terms of net fee and commission income in the first half of the year the amount of 390 million zlotys slightly below one year ago by 3%, where the lower fees and commissions coming from the insurance business were largely offset by the growth of commissions coming from cards and investment products. On the cost side, the second quarter was clearly better not only because we did not have contribution to the resolution fund, which was booked in the first quarter of this year, but also because there was a deceleration in some other items. So all in all, in the first half of the year, we had the overall growth of 14% of total operating costs with a stronger growth of staff costs by 16% and the other admin costs by 12% in a context where we had relatively stable employment base and also a very minor reduction in the number of branches.

On page 12, looking at the asset quality, so first of all the cost of risk in the second quarter was clearly lower than in the first quarter, with 71 million zlotys of total provisions bringing the average cost of risk during the first half of the year to 50 basis points which is exactly in line with our past guidance. The second quarter was supported by a sale of NPLs with a positive impact of 45 million zlotys pre-tax and this supported the reduction of the NPL ratio to 4.5% and still an improvement of the coverage ratio of NPLs by total provisions to 74%.

Moving to capital on page 13. So we had some drop in the capital ratios in the second quarter but still finishing the quarter with a very strong ratio, so as I mentioned, Tier 1 ratio or core Tier 1 ratio for 14.3% and total capital ratio at 17.1%. The first of all also anticipating already some of the questions I need to remind that the capital ratios that we are presenting do not include the first half net profit both on solo and consolidated level.

So this is the level of regulatory capital ratios because we in Poland, in order to recognize the results in the middle of the year in own funds, it is necessary to obtain the specific approval of the regulator and so that's why we are putting here exactly the ratios from regulatory point of view but of course we are also adding this information that if we would consider the net profit of the semester in total own funds, our capital ratios would increase by around 1.3 percentage points. So very solid levels of capital ratios significantly above the minimum requirements and also the same applies to the fulfillment of the MREL requirements. The stronger growth of deposits versus loans continue to drive down the loan to deposit ratio which finished the first half of the year at 64%.

Moving to the FX-mortgage, in the second quarter the inflow of court cases was similar to the inflow of the previous quarters, so slightly above 1600 cases and at the same time we achieved more than 1000 amicable settlements with clients. The number of active agreements continues to be reduced at a fast pace at the end of June. The number of active loan agreements was already below 29,000, a reduction of 19% year on year. At the same time, the combination of reduction of the portfolio negotiations and verdicts and additional provisions makes the share of net FX-mortgage (i.e. total gross FX-mortgage after provisions as a percentage of total gross book) already below 3%.

On page 15, the level of provisions for legal risk in the second quarter was similar to the first quarter at 518 million zlotys, bringing the balance sheet value of provisions for the Bank Millennium originated portfolio to slightly more than 7.5 billion zlotys. The total provisions over outstanding mortgage loan value crossed 100% in the end of the second quarter and stood at 101%.

Moving now to the second part of the presentation regarding main business achievements in the page 17, we had a very strong quarter and first half of the year in terms of deposits growth. Total deposits portfolio grew 16% year on year, including also the retail deposits. Also very strong growth of consumer loans – the portfolio grew 8% year on year while origination grew 10% year on year.

In terms of PLN mortgage, also a rebound in origination translating into a growth of portfolio by 6% year on year. Also very strong growth of investment funds, a growth of 32% year on year and the first signs of clear change in terms of corporate lending are coming mainly from the leasing business where the origination in the first half of the year was higher by 20% versus one year ago. Finally, the number of active customers continue to grow at a solid pace. We have now 3,083,000 active customers in retail, with 92% actively digital.

On page 18, going in more details so total loan growth, net loan growth was 1% year on year or 4%, if we exclude FX mortgage loans and this growth was mainly driven by consumer loans and PLN mortgage while corporate still slightly down as a consequence of the temporary restrictions that we have applied during last year for the purpose of management of the risk-weighted assets. Structure of the loan portfolio not much changed with a share of cash loans above 21% and the share of PLN mortgage below 49%.

Customer deposits, as we mentioned, very strong growth especially during this first half of the year, both in retail and in corporate, and at the same time followed by a significant growth of investment products with a total outstanding value above 9.5 billion zlotys at the end of June.

On page 19, we can see that the growth of retail loans excluding FX mortgage on a gross basis was 7% year on year, driven by the growth of consumer loans and PLN mortgage, with a significant growth in the consumer lending production in the second quarter higher by 33% versus the previous quarter and in the first half of this year growing by 10% versus the first half of last year and allowing us to achieve a market share above 10% in terms of new sales. At the same time, also there was a rebound in the sales of new mortgage loans from a relatively low level from last year. In retail customer funds, the growth was across the different products so from current accounts and savings accounts to time deposits and investment products.

The number of active customers continues to grow at a solid and regular pace. We added up 38,000 net, a number of active retail clients during the second quarter and also the same – although of course it's at a proper scale – growth we are seeing in the segment of micro-business. And the number of cards grew by 120,000 versus one year ago.

Page 21: we continue our mobile first approach, placing the app in the center of our actions. At the end of June, we had 2.6 million active mobile users, a growth of 10% year on year, 2.8 million active digital users, a growth of 8% year on year and 1.9 million BLIK users in the second quarter, a growth of 16% year on year.

Page 22: updates also the share of digital in the sale of different products, 83% in cash loans, 45% in current account acquisition in the second quarter, 95% in term deposits and also significant role of digital in terms of receiving applications for different governmental programs such as this Dobry Start 300+ or the benefit of 800 Plus. Last but not least, significant growth in BLIK payments, a growth of 35% in BLIK transactions in e-commerce, P2P, contactless, Buy Now Pay Later.

Other digital developments to highlight in this quarter, on page 23, we launched a currency exchange for our retail customers in the mobile app and also we were the first bank in the market to get involved in the project of Buy Now Pay Later that in which the bank's customers can now use the BLIK pay later service.

Page 24: continuation of the significant increase of the goodie smart shopping platform, an increase of 54% year on year in the number of active cashback users and a growth of 66% in the number of transactions made via goodie cashback. Moving to the corporate side, we see for the second consecutive quarter signs of rebound in the corporate business, more visible for the time being in leasing. Overall year on year the portfolio on a gross basis is still down 2% because of the temporary restrictions that I already mentioned but as I said already two quarters of signs of rebound at the same time we are benefiting from a significant growth of deposits – 15% year on year and 3% quarter on quarter with the growth divided between current accounts and while time deposits actually stabilized in the second in the second quarter and also we see a gradual increase in the transactional activity especially visible in the volume of FX transactions, which were up by 43% year on year and domestic transfers by 5% year on year. On page 26, we see that the growth of origination of leasing is very strong. Total origination in the first half of the year reached almost 1.9 billion zlotys. A growth of 20% year on year and also as I already mentioned the growth of in the volume of FX transactions by 43% year on year.

Page 27: we continue to adjust our offer for corporate banking clients needs. We are introducing new guarantee programs based on BGK guarantees and also developing our internal competences in terms of ESG. So these are the most important points from our results in the second quarter and first half of the year and now we will go through the questions, so thank you very much.