

## **Report of the Bank Millennium SA Management Board on the activity of the Bank Millennium Group during 6 months of 2004**

The Management Board of Bank Millennium („Bank”) informs that in the 1<sup>st</sup> Semester of 2004 accounting year (from 1 January until 30 June 2004) consolidated net profit of the Bank Millennium Group and of Bank Millennium totalled PLN 112 million.

By comparison consolidated net profit of the Group and the Bank in 1<sup>st</sup> Semester 2003 was PLN 33.8 million.

The activity of Bank Millennium Group in the first six months of 2004 was influenced by the following factors:

- Increase of net interest income by 13.5% (as compared with 1<sup>st</sup> Semester 2003)
- Increase of net commission income by 16.0% (as compared with 1<sup>st</sup> Semester 2003)
- Reduction of operating expenses by 12.8% (as compared with 1<sup>st</sup> Semester 2003)
- Marked improvement of credit portfolio quality - value of NPL fell by PLN 1 bn in first six months of 2004
- Creation of provisions in the amount of PLN 64 million in the first half of the year
- Sale of the portfolio of car loans originated through the external intermediary (PTF)

### **Key factors influencing financial performance:**

1.

**Net interest income** generated by the Bank Millennium Group in 1<sup>st</sup> Semester 2004 totalled **PLN 300.9 mln** and was **13.5%** higher than in the analogous period of the previous year (PLN 265.1 mln) in result of increase of Customers' funds and improvement of interest margin despite a lower short-term interest rates.

2.

**Net commission income** stood at **PLN 119.6 mln** (103.1 after six months of the previous year) which signifies its growth by **16%**. This growth was driven by development of business, mainly in the retail segment and capital market transactions made by Millennium Dom Maklerski S.A.

3.

**Other net non-interest income** (income from shares, financial operations and F/X results) in the first six months of 2004 totalled **PLN 190.1 mln** as compared with PLN 131.0 mln generated in the 1<sup>st</sup> Semester of the previous year. This item was fundamentally affected by the sale by the Bank of the car loans portfolio granted through PTF, while in the 1<sup>st</sup> half 2003 it included sale of Polcard shares.

**Other operating income and expenses** in the 1<sup>st</sup> Semester of 2004 stood at **PLN 10.2 mln**, while in the 1<sup>st</sup> Semester of 2003 was PLN 4.9 mln.

Total **Net Banking Income** in the 1<sup>st</sup> Semester of 2004 totalled **PLN 610.6 mln** as compared with PLN 499.2 mln in the 1<sup>st</sup> Semester of 2003. This means its increase by **22.3%**.

<b>Breakdown of Net Banking Income (PLN mln)</b>	<b>I Semester 2004</b>	<b>I Semester 2003</b>	<b>Change</b>
Net interest income	300,9	265,1	13,5%
Net commission income	119,6	103,1	16,0%
Other non-interest income	190,1	131,0	45,1%
Net Banking Income	610.6	499.2	22,3%

4.

**Total costs** of Bank Millennium Group in 1<sup>st</sup> Semester of 2004 fell **12.8 %** as compared with the 1<sup>st</sup> Semester of the previous year, standing at **PLN 412.8 mln** (PLN 473.5 mln in the analogous period of 2003).

**Personnel costs** totalled **PLN 156.4 mln**, which means their reduction by **17.4%** as compared with the 1<sup>st</sup> Semester of 2003 (PLN 189.3 mln).

As at 30 June 2004 the headcount in Bank Millennium Group is 4291 persons i.e. 12.0 % less than as compared with end of June 2003 (4877 employed).

**Non-personnel costs** totalled **PLN 201.4 mln**, which means their reduction by **11.3%** as compared with the 1<sup>st</sup> Semester of the previous year (PLN 227.1 mln)

In the analysed period **depreciation** stood at **PLN 55.0 mln** as compared with PLN 57.1 mln in the 1<sup>st</sup> Semester of 2003.

**Cost to income ratio** as at end of 1<sup>st</sup> Semester 2004 fell to **66%**, however netting out the sale of car loans portfolio granted through PTF it stands at 86%. The Bank shall strive to improve this ratio in the future.

<b>Breakdown of costs (PLN mln)</b>	<b>1<sup>st</sup> semester 2004</b>	<b>1<sup>st</sup> semester 2003</b>	<b>Change</b>
Personnel cost	156,4	189,3	-17,4%
Non-personnel cost	201,4	227,1	-11,3%
Depreciation	55,0	57,1	-3,7%
<b>Total costs</b>	<b>412,8</b>	<b>473,5</b>	<b>-12,8%</b>

## 5.

**Net provisions** established by the Bank Millennium Group over the first 6 months of the year 2004 amounted to **63,9 million PLN**.

A significant portion of these net provisions (PLN 50 m) have a non-recurrent nature, as they were based on a preliminary loan impairment review performed by the Bank aiming at adopting fully the new International Financial Reporting Standards on 1 January 2005. On this basis the Bank expects to complete the review by the end of 2004.

## 6.

In the 1<sup>st</sup> semester of 2004 Bank Millennium Group's **gross profit** stood at **PLN 144.2 mln**, while **net profit** at **PLN 112.0 million**.

## 7.

At 30 June 2004 **total assets** stood at **PLN 20 454 mln**, i.e. they increased by **0,1%** (PLN 20 435 mln) compared to the first semester of the previous year.

At the end of the 1<sup>st</sup> semester 2004 **net loans** extended to Clients stood at **PLN 7 530 mln**, which signifies their decrease as compared to the June 2003 by **28,9%** (PLN 10 597 mln). The change is caused first of all by the Bank's selling off the car loan portfolio extended through PTF and

conservative policy in lending to the corporate segment. Not considering the sale of the portfolio of car loans, the net loans would have decreased by 10,6%.

What is worth noting is a change in the loan portfolio structure, with an increased share of mortgage loans (from 9% to 17%) and leasing (from 13% to 19%).

## 8.

**Total Client funds**, including Bank Millennium bond placements, stood as of 30.06.2004 at **PLN 13 045 mln**, which means their growth compared to the corresponding period of 2003 by **3,6%** (PLN 12 595 mln). The most vigorous growth was shown by deposits (12% growth in the period under discussion) and TFI, which went up 50% during the 1<sup>st</sup> semester of 2004

Basic values	30.06.2004	30.06.2003	Change
HTotal assets	20 454	20 435	0,1%
HTotal Client funds (1)	13.045	12.595	3,6 %
HTotal Client deposits (2)	12.102	10.816	11,9%
HTotal loans to Clients	7.530	10.597	-28,9%
HEquity (2)	2.119	2.010	5,4%

H(1) include client deposits, bonds and investment funds

H2) Equity + subordinated debt

H

## 9. Quality of loans

In the first six months of 2004 there was a significant improvement in the quality of the Bank's loan portfolio. Total value of non performing loans dropped by more than PLN 1 billion as a result of recovery efforts, write-offs and change of regulations regarding loans classification.

**NPL-to-total loans ratio**, according to NBP's regulations, was improved from **22.6%** (as at 30.06.2003) down to **20.0%** (as at 30.06.2004), whereas in the same periods the coverage ratio of NPL by provisions increased from 52.3 % to **54.9 %**.

Importantly, the **NPL ratio**, calculated on the basis of timeliness of payments was improved. The improved ratio changed from **15.3 %** (as at 30.06.2003) to **10.6%** (as at 30.06.2004), as per 30-day timeliness of payments, and for 90-day timeliness of payments the ratio decreased even to one digit level (**9.1%**).

As a result of the real improvement in the quality of the loan portfolio and also following consistent provisioning policy, **the coverage ratio of NPL by provisions** - calculated according to timeliness of payments - was considerably improved. The ratio increased from **77.2%** (as at 30.06.2003) to **103.8 %** (as at 30.06.2004), for the first time in a few years exceeding the level of 100%.

Credit quality ratios		30.06.04	31.12.03	30.06.03
NPL/total loans ratio	By timeliness of payments (30 days)	10.6 %	15.2%	15.3%
	By NBP's regulations	20.0 %	23.9%	22.6 %
Provisions/NPL ratio	By timeliness of payments (30 days)	103.8%	77.9%	77.2%
	By NBP's regulations	54.9%	49.6%	52.3 %

**Capital Adequacy Ratio** of Bank Millennium Group significantly improved, amounting to **17.8 %** and was higher than a year ago (11.9 %) following reduction in the credit portfolio and also more favourable structure of risk-weighted assets.

Ratios	30.06. 2004	30.06. 2003
Net interest margin	3.5%	3.2%
Cost to income	65.9%	89.3%
ROA	1.1%	0.3%
ROE	12.6%	3.9%
CAR	17.8 %	11.9 %

**Final comments:**

- 1. In the 1<sup>st</sup> half of 2004 the Bank Millennium Group improved its financial result thanks to the growth in the interest income (up 13.5%), commission income (up 16%) and growth in customer funds. The income obtained in this period was positively driven by sale of the car loan portfolio originated through PTF.*
- 2. In this period Bank Millennium Group consistently reduced its operating expenses, which declined by 12.8% against the same period of the previous year.*
- 3. In the last semester the Group improved significantly the quality of its credit portfolio. Non-performing loans were reduced by PLN 1 bn thus reducing NPL overdue more than 30 days*

*down to 10,6%. Simultaneously the level of coverage ratio of the above mentioned loans was improved up to 104%.*

**SIGNATURES:**

Date	Full name	Position/Function	Signature
.....	Bogusław Kott	Management Board Chairman	.....
.....	Luis Pereira Coutinho	Management Board Deputy Chairman	.....
.....	Fernando Bicho	Management Board Member	.....
.....	Julianna Boniuk-Gorzelańczyk	Management Board Member	.....
.....	Anna Rapacka	Management Board Member	.....
.....	Wojciech Haase	Management Board Member	.....
.....	Rui Manuel Teixeira	Management Board Member	.....
.....	Wiesław Kalinowski	Management Board Member	.....
.....	Zbigniew Kudaś	Management Board Member	.....