INTRODUCTION TO THE CONSOLIDATED FINANCIAL REPORT AND COMPARABLE CONSOLIDATED FINANCIAL DATA

1. **Name (firm) and seat: Bank Millennium S.A., Warszawa, al. Jerozolimskie 123 a**
   Register court and number: 19th Economic Section of National Court Register, Local Court for the Capital City of Warsaw, no. 0000010186
   Issuer's core business: banking operations and other financial intermediation, excluding insurance and old-age and disability pension fund,
   Core businesses of the Capital Group: operations in banking, leasing, factoring, brokerage, capital trading, investment funds management.

2. TERM OF OPERATIONS OF THE ISSUER OR THE CAPITAL GROUP, IF DETERMINED

None of the members of the Bank Millennium Group has their term of operations limited.

3. PERIODS OF TIME COVERED BY THE PRESENTED CONSOLIDATED FINANCIAL REPORT AND THE COMPARABLE CONSOLIDATED FINANCIAL DATA

The presented consolidated financial report covers the period from 1 January 2004 – 31 December 2004; the comparable data – 1 January 2003 – 31 December 2003.

4. COMPOSITION OF THE ISSUER'S MANAGEMENT AND SUPERVISORY BOARDS

Composition of the Management Board of Bank Millennium S.A. as at 31 December 2004:
1. Bogusław Kott – Chairman of the Management Board of the Bank,
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board of the Bank,
3. Fernando Bicho - Member of the Management Board of the Bank,
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board of the Bank,
5. Wojciech Haase - Member of the Management Board of the Bank,
6. Anna Rapacka - Member of the Management Board of the Bank,
7. Rui Manuel Teixeira - Member of the Management Board of the Bank,
8. Wiesław Kalinowski – Member of the Management Board of the Bank, nominated as of 1 June 2004,
9. Zbigniew Kudaś – Member of the Management Board of the Bank, nominated as of 1 June 2004,

moreover, Mr. Jerzy Zdrzałka was a Member of the Management Board till 28 January 2004.

Composition of the Supervisory Board of Bank Millennium S.A. as at 31 December 2004:
1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman of the Supervisory Board, and Supervisory Board Secretary,
3. Christopher de Beck – Member of the Supervisory Board,
4. Jorge Manuel Jardim Goncalves - Member of the Supervisory Board,
5. Andrzej Koźmiński - Member of the Supervisory Board,
6. Marek Rocki - Member of the Supervisory Board,
7. Dariusz Rosati – Member of the Supervisory Board, as of 27 May 2004 (composition completed after the resignation of Mr. M. Belka),
8. Zbigniew Sobolewski - Member of the Supervisory Board,
9. Gijsbert Johannes Swalef - Member of the Supervisory Board,
10. Francisco de Lacerda – Member of the Supervisory Board

Mr. Marek Belka had been a Member of the Supervisory board till 1 May 2004 when he filed his resignation effective as of 2 May 2004.

5. INDICATION THAT THE CONSOLIDATED FINANCIAL REPORT AND THE COMPARABLE CONSOLIDATED DATA CONTAIN AGGREGATE DATA

None of the subsidiaries of the Bank Millennium Group has in its structures any internal organizational units subject to separate financial reporting.

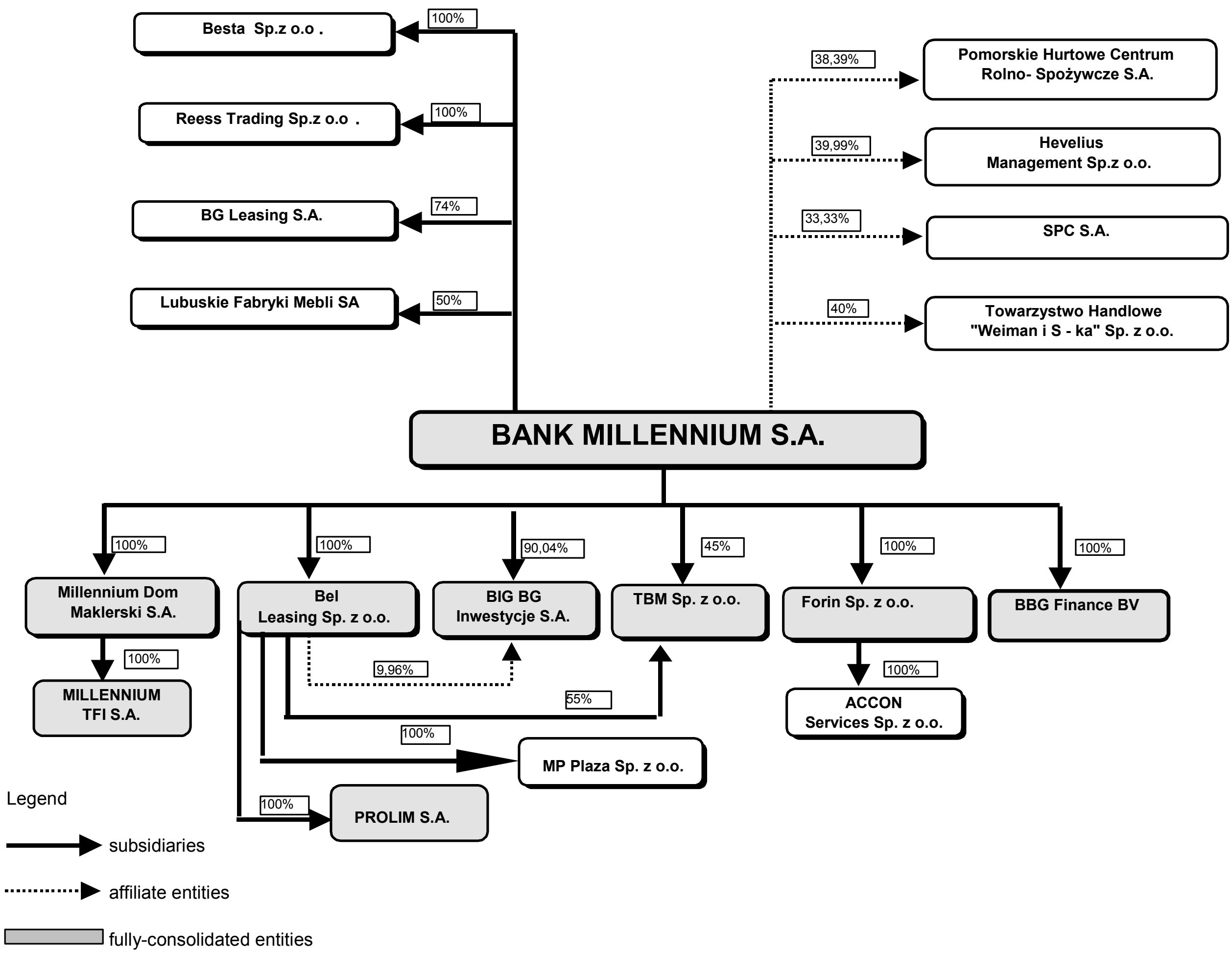
6. FOR CONSOLIDATED FINANCIAL REPORT, FOR A PERIOD WHEN A MERGER TOOK PLACE – INDICATION THAT THE CONSOLIDATED FINANCIAL REPORT WAS PREPARED AFTER THE MERGER, AND INDICATION OF THE MERGER SETTLEMENT METHOD APPLIED

The following mergers were done between 1 Jan– 31 Dec 2004: BET Trading Sp. with o.o. BEL Leasing Sp. z o.o., and Forinwest Sp. z o.o. with Forin Sp. z o.o. The proceedings and the impact on data presented in the report have been discussed in pt. 9 herein.

7. ASSUMPTION OF BUSINESS CONTINUATION BY THE ISSUER AND THE CAPITAL GROUP MEMBERS

The consolidated financial report was prepared with the assumption that the business activity of the issuer and of the Bank Millennium Group shall be continued; there are no circumstances indicating any threat to the continuation of any type of activities conducted by the Group at the moment.

8. GRAPHIC PRESENTATION OF THE ORGANISATIONAL STRUCTURE OF THE GROUP OF THE ISSUER'S LINKED COMPANIES, AND INFORMATION ON RELATIONSHIPS WITHIN THE GROUP (as at 31 December 2004).



9. LISTINGS OF MEMBERS OF THE CAPITAL GROUP UNDER CONSOLIDATION AND EQUITY METHOD VALUATION, AS WELL AS THOSE NON-CONSOLIDATED, OR APPRAISED WITH THE EQUITY METHOD

Dominant entity of the Group is Bank Millennium SA. The other companies – members of the Group, covered by the consolidated financial report were, as at 31 December 2004:

Entity	Business	Body of registration
BEL Leasing Sp. z o.o.	leasing	Register Court for the Capital Cit of Warsaw, 19th Economic Division of the National Court Register
Millennium Dom Maklerski S.A.	brokerage	as above
Forin Sp. z o.o.	other entities management	as above
BIG BG INWESTYCJE S.A.	capital market financial operations, and consulting	as above
TBM Sp. z o.o.	capital market financial operations, and consulting	as above
Millennium TFI S.A.	investment funds launch and management	as above
Prolim S.A.	leasing	Local Court in Gdańsk, 16th Economic Division of the National Court Register
BBG FINANCE B.V.	financing members of the Group	Kamer Van Koophandel Rotterdam

Information regarding shares held by Bank Millennium SA, as well as shares held by other entities in the Bank Millennium Group members have been presented in the Group's organizational structure chart in pt. 8 of the Introduction, and in the financial notes on shares held by the Group in its subordinated units.

Pursuant to criteria listed in art. 58 item 1 section 1 of the Accounting Act, the following members of the Group have been excluded from consolidation (shares and interest in such companies have been recognized at purchase price minus impairment write-offs):

data in PLN '000

Company name	*Total assets*	*%(*)*	*Remarks*	*Data as at*
Bank Millennium S.A. – dominant entity	20 914 236 (**)	-		31 Dec 2004
Lubuskie Fabryki Mebli S.A.	24 358	0,12%		31 Oct 2004
Reess Trading Sp. z o.o.	115	0,00%		30 Nov 2004
BG Leasing S.A.		0,00%	in bankruptcy	
ACCON Services Sp. z o.o.	1 148	0,00%		30 Nov 2004
MP Plaza Sp. z o.o.			not operational	

(*) Percentage of a member's contribution to the total assets of Bank Millennium S.A.

(**) Total assets net of the shares valuation with the equity method

Additionally, the consolidated financial report of the Group of Bank Millennium, as at 31 December 2004, included the equity method appraisal of Besta Sp. z o.o. (as of January 2003 the company is not operating).

As to affiliated entities whose scale of operations is minimum as compared to that of the Group, the interest in such entities has been shown in the consolidated report at purchase price minus impairment write-offs.
As at 31 December 2004, the following companies were affiliated and not covered by equity method appraisal:

Bank Millennium S.A. SAB-RS2004 in PLN thousands

Company	*Balance sheet total*	*%(*)*	*Comments*	*Data as at*
Bank Millennium S.A.- dominant company	20 914 236 (**)	-		31.12.2004
Pomorskie Hurtowe Centrum Rolno Spożywcze S.A.	85 198	0,4%		30.06.2004
Hevelius Management Sp. z o.o.			Company in liquidation	
SPC S.A.			Is not conducting operational activity	
Towarzystwo Handlowe Weiman i S-ka Sp. z o.o.			Is not conducting operational activity	

(*) % of the share of the company in the balance sheet total of Bank Millennium S.A.

(**) Balance sheet total without impact of equity valuation of shares

The 2004 changes in the Capital Group structure:

1. As part of the conducted Group restructuring project, two mergers have been completed using the uniting of interests method: between BEL Leasing Sp. z o.o and BET Service Sp. z o.o., and between Forin Sp. z o.o. and Forinwest Sp. z o.o. Since all the above entities had been subject to consolidation, the merger transactions were of no impact on the overall consolidated report.

2. On September 6, 2004, Bel Leasing Sp. z o.o. purchased from two natural persons and the Bank a joint number of 2,175 shares of Prolim SA, with the nominal value of PLN 7,450 each, constituting 100% of the company's initial capital, for the total price of PLN 3,936,349.69. Before the transaction the Millennium Group (the Bank) had held 25% of the shares of Prolim SA. In consequence of the increase in exposure on Prolim SA, as of 1 October 2004 the company has been subject to consolidation (previously, shares of Prolim SA had been valued by the equity method).

The 2003 changes in the Capital Group structure:

1. Before March 31 2003 consolidated financial reports of the Bank recognized the investment in PZU SA appraised by the equity method, pursuant to art. 3 sec. 1 pt. 36, 38 and 47 of the Accounting Act (analogous guidelines are given in IAS 28). On April 15 the Management Board of the Bank, upon approval of the Supervisory Board, made a decision to discontinue, as of March 31, 2003, to use the equity method to appraise the investment in PZU SA, recognizing the appraisal on that date as a cost.
Such accounting change results from art. 62 sec. 5 of the Accounting Act (identical provision has been contained in IAS 28, sec. 11), providing that an investor shall discontinue using the equity method to appraise an affiliated entity as soon as its material impact ceases, even though the investor maintains the entire investment or its part.
On 31 March 2003 the main shareholder of the Bank, BCP, completed a transaction of selling 20.86% of shares of EUREKO B.V. to EUREKO B.V.; hence its exposure on EUREKO B.V. was limited to 5% of new share capital. EUREKO B.V. and the Bank create a consortium holding a share of 30% in the share capital of PZU SA. In result of the transaction the BCP Group lost the control of Eureko BV, that it had had together with Achmea Association. This indirectly limited the power of material impact of the BCP Group and the Bank on a Eureko-held 20% block of PZU shares.

   The limitation of capital links between Eureko B.V. and the BCP Group was also a factor indirectly reducing the Bank's power of material impact on the financial and operating policies of PZU, despite representatives in the PZU Supervisory and Management Boards. Pursuant to art. 62 sec. 5 of the Accounting Act, as the posting of the investment in PZU SA was changed on 31 March 2003, the depreciation of the company's goodwill, generated at the purchase date, has been terminated.

In result, shares of PZU SA have been posted under the balance sheet item "shares or interest in other entities" at a value of PLN 1,212,114 thousand. The amount contained: PZU shares value, as at 31 March 2003 by the equity method – PLN 457,434 thousand, and non-depreciated value of subordinated companies (at the same date) of PLN 754,680 thousand. Due to the 2002 dividend distribution, the balance sheet value of the PZU shares was reduced by the dividend amount to total on 31 December 2003 PLN 1,199,161 thousand.

2. As part of the conducted project of Group restructuring, a merger has been completed between BEL Leasing Sp. z o.o. and DEBT Services Sp. z o.o., using the uniting of interests method. As both entities had not been subject to consolidation, the effect of their merger has been of no impact on the consolidated report.

3. The same patter as above was applied to the merger of BEL Leasing Sp. z o.o. with Wilga Las Woda Sp. z o.o. The latter had not been subject to consolidation (due to a minimal scale of operations). Therefore the merger's impact on the consolidated data was non-material.

10. INDICATION, WHETHER THE CONSOLIDATED FINANCIAL REPORT WAS SUBJECT TO TRANSFORMATION TO ENSURE DATA COMPARABILITY

In 2004 the Bank and the Millennium Group changed the accounting approach, and in effect the way of presenting the Sell-Buy-Back (SBB) and Buy-Sell-Back (BSB) transactions in the balance sheet. In consequence of these changes the consolidated financial report prepared as at 31 December 2003 was subject to transformation to ensure comparability of data, which was described in detail in item 30 of Additional Explanatory Notes.

11. INDICATION WHETHER IN THE PRESENTED CONSOLIDATED FINANCIAL REPORT OR COMPARABLE CONSOLIDATED FINANCIAL DATA CORRECTIONS WERE MADE AS A RESULT OF THE QUALIFICATIONS IN THE OPINIONS PREPARED BY COMPANIES AUTHORISED TO CARRY OUT THE AUDIT

No qualifications in consideration existed.

12. DESCRIPTION OF THE ACCEPTED ACCOUNTING STANDARDS (POLICY)

1) Consolidation methodology

The subsidiaries, making part of the Capital Group, were covered by consolidation with the full method, except those entities, which are immaterial due to the scale of the business and those which were acquired for re-sale in the course of the financial year.
The consolidation of the balance with the full method contained all the items of the assets and liabilities of the subsidiaries and of the dominant company in full amount, notwithstanding the extent to which the dominant company is the owner of the subsidiary.
Adjustments and consolidation exclusions were made after summing up. The net result from the summing up was increased by the loss and decreased by the profit of the minority shareholders in the subsidiaries.

Excluded from the consolidated financial report were:

- mutual receivables and liabilities of companies covered by consolidation, income and costs regarding operations between the companies covered by consolidation,
- share capitals of the consolidated subsidiaries and additional payments made to the capitals,
- the costs of purchasing the shares of the consolidated subsidiaries,
- profit or loss on operations between the consolidated companies, not realized from the point of view of the Capital Group, and included in the values subject to the consolidation of assets and liabilities, including dividends paid out within the Capital Group.

If the Bank Millennium Group plays the role of the major investor in other economic entities, or exerts material impact on these entities, the shares and interests in such companies are estimated in the consolidated report with the equity rights method. The present valuation is performed on the basis of the following assumptions:

Bank Millennium S.A. SAB-RS2004 in PLN thousands

- as at the date of acquiring control or exerting material impact the purchase price of the shares/interests in the appraised company shall be adjusted by the „company's goodwill" or the negative value of the company (the way for calculating and depreciating these values is presented in the further part of the report),
- the purchase price adjusted in that way shall be further adjusted by the increase or decrease of the equity capital of the appraised company allocated to the Group, as of the date on which it was covered by assessment,
- any and all profits/losses realized on transactions between the companies of the Group and the appraised company shall be eliminated from the consolidated report pro rata to the Group's exposure in the appraised company.

2) The principles of presenting the financial report

The consolidated financial report was prepared on the basis of the consolidation documentation in observance of the following principles:

- the principle of continuity,
- the principle of action continuity,
- the principle of commensurability,
- the principle of conservative evaluation,
- the accrual principle.

Financial report was prepared on the basis of:

- the Law on accounting dated 29 September 1994, as later amended,
- Act dated 29 August 1997 called the Banking law, as later amended,
- Ordinance issued by the Council of Ministers on 11 August 2004 in the matter of detailed conditions which should be satisfied by the prospectus and the abridged prospectus,
- Ordinance issued by the Council of Ministers on 16 October 2001 in the matter of current and periodical information provided by the issuers of securities, as later amended,
- Ordinance issued by the Finance Minister on 10 December 2001 in the matter of detailed rules of accounting of the banks, as later amended,
- Ordinance issued by the Finance Minister on 10 December 2003 in the matter of the rules for establishing provisions for the bank operational risks,
- Ordinance issued by the Finance Minister on 12 December 2001 in the matter of detailed rules for recognizing, methods for assessing, scope of disclosure and manner of presenting financial instruments, as later amended.

3) The accounting standards used for the preparation of the consolidated financial report

In 2004 the Bank and the Millennium Group introduced changes in the area of calculating, classifying and presenting the provisions, which resulted from the regulations of the Ordinance issued by the Finance Minister on 10 December 2003 in the matter of establishing provisions to cover the risk connected with the bank's operations.
The main aspects of the new principles:

- Retail loans and credits (except mortgage):
  a. exposure in the case of which the delays in the repayment do not exceed 6 months are classified normal,
  b. interest accrued calculated on the above mentioned loans/credits (normal category) are posted in the profit and loss account,
  c. exposure in the case of which the delays in the repayment exceed 6 months are classified lost.

- Other credit exposures (economic entities and mortgage loans):

Classification according to the criterion of delay expressed in days

category	current rules	previous rules
under watch	0-90	0-30
sub-standard	91-180	31-90
doubtful	181-360	91-180
lost	>360	>180

In consequence of the entry into life on 14 January 2004 of the Ordinance issued by the Minister of Finance amending the ordinance in the matter of detailed rules of bank accounting, the Bank includes in the net interest income (with effect as of 1 January 2004) also interest due, as well as the discount and capitalized interest on receivables classified as „under watch".

The Bank and the Millennium Group changed the accounting approach, and in effect the posting of the Sell-Buy-Back (SBB) and Buy-Sell-Back (BSB) transactions in the balance sheet, adjusting itself to the amendment (dated 23 February 2004) of the Ordinance issued by the Finance Minister in the matter of specific rules for recognizing, methods of assessing, scope of disclosure and presentation of the financial instruments. Pursuant to the new wording of paragraph 11 Sec. 2 pt 2: the issue or sale of financial assets is not the loss of control by the company if the issuing company is unconditionally obliged to repurchase these assets in the future and the accepting company is unconditionally obliged to resell these assets, and the conditions are satisfied in case of the SBB transaction. Moreover, it must be stressed that the risk of the changing value of the asset, which is the subject of the SBB transaction, is borne all the time by the party to the transaction obliged to repurchase the assets at the pre-defined prices. At the same time, the formula of the SBB transaction guarantees to the company accepting the assets the compensation, which such company could have obtained by granting the loan secured by the accepted assets, which reflects the subsequent criterion of the a/m provision. The above amendments to the ordinance result from the new IAS 39 standards published in December 2003 and from accompanying interpretation regarding the elimination of financial instruments from the balance sheet. The paragraphs regarding the criteria for eliminating financial assets/liabilities from the balance sheet contained in the said regulation were materially re-worded, which allowed for the easier and a more unequivocal interpretation of the provisions regarding the SBB/BSB agreements. The new IAS 39 standard maintained the „control approach" and the „risk and rewards approach", though the requirements regarding the elimination (recognition) of financial instruments from the balance sheet were streamlined in detail, by introducing the decision-making tree ("step by step" analysis) and the definition of the hierarchy of different criteria. In effect the risk and reward approach was unequivocally positioned before the control approach. At the same time, it was described in detail how to perform the analysis, whether after the transaction was concluded the entity maintained all the rewards and risks from the transferred asset. Pursuant to the provisions the entity keeps the risks and rewards resulting from the given asset, if its exposure to volatility of present value of future flow from the given asset does not change materially after the transfer.

Based on the above regulations the Bank records financial assets in the balance sheet (at present debt securities) sold with the buy back commitment clause (SBB) recording at the same time at the liable side the liabilities resulting from the buy back commitment. In case of BSB type transactions the financial assets held (also debt securities) are recorded as the receivables resulting from the buy back clause.

Receivables and liabilities

- receivables and liabilities are recorded at the price requiring the payment including the accrued interest,
- in the precisely specified cases the Bank shall write off credit exposures against the established specific provisions in keeping with provisions of the Ordinance of the Minister of Finance dated 2 December 2003 amending the Ordinance in the matter of specific principles of accounting in banks. The borderline conditions adopted in the Bank to define receivables to be written off against created specific provisions are as follows:
  subject to writing off receivables against specific provisions are those cases where it is possible to write off the entire loan. This concerns groups of loans considered lost, especially cases, the irrecoverability of which has been shown to be highly probable.
  This means that subject to writing off against the specific provisions are in particular loans, which:
  - have been qualified to the lost category as per criteria defined by the Minister of Finance in the Ordinance of 10 December 2001 in the matter of principles for creating provisions for risk connected with activity of banks (Journal of Laws 01.149. item 1672 as amended),
  - have no real collateral, the process of execution of collateral has been concluded and the created specific provision is 100% of due and payable principal,
  - regarding which probability of loss has been confirmed, in particular when: the Bank has forwarded the receivables to execution proceedings, the debtor died or the company was deleted from the business register or the company was put in liquidation, its bankruptcy was

announced or, when the whereabouts of the debtor are unknown and his property has not been recovered,

the process of writing off is preceded by an individual assessment of recoverability of the receivables.

The receivables are deemed irrecoverable when after 12 months from the date of its classification in the lost receivables group there is practically no possibility of recovering the receivables and when the financial standing of the borrower has deteriorated irreversibly and at the same time the fair value of collateral taken over is close to zero.

Subject to writing off are also loans, which have been deemed irrecoverable and the value of which is so low that carrying them further in the bank's loan portfolio cannot be justified.

Subject to writing off receivables against specific provisions are all cases, where it is not practical or desirable to defer the moment of writing off a basically valueless asset even if in the future it will be possible to partly recover the loan amount, in connection with the bank's right to claim payment from the debtor,

- in the financial reports the receivables are recorded in the net amount, i.e. decreased by the established specific provisions in conformity to the binding regulations,
- specific provisions are established in keeping with the binding regulations for irrevocable off balance liabilities, based with the risk of the client's irregular situation.

Securities

- **Debt securities**

Debt securities are classified on the day of acquisition to following categories:

❑ For trading

These are debt securities, which were purchased with a view to attaining rewards in result of short-term volatility of prices. As at the balance sheet date debt securities for trading are valued at fair value and the valuation result is included in the result on financial transactions.

❑ Held to maturity

This group includes debt securities, which were acquired with a view to holding them to maturity. Securities from this portfolio are valued at amortized cost considering impairment write-offs.

❑ Available for sale

Debt securities classified as available for sale are those, which are not included in the "for trading" or "held to maturity" categories. These securities are valued at fair value and the revaluation difference is related to revaluation capital. As at the date of excluding the entire financial asset or part of it (sale) from accounting books the former valuation is excluded from capital and is carried in the Profit and Loss Account for the relevant period.

Debt securities classified in the category, for which fair value valuation method was adopted and whose fair value cannot be reliably determined are valued at amortized cost.

Write-offs for impairment of debt securities included in the category "held to maturity" and "available for sale" are charged against the Profit and Loss Account.

Discount on debt securities is settled in time following the exponential method.

- **Stocks and shares**

Stocks and shares are classified under the following categories:

❑ held for trading,

❑ available for sale.

The classification criteria as well as valuation methodology for stocks and shares are similar to those for respective categories of debt securities, which was described above. The exception is investment in stocks and shares of subordinated entities, which are not covered by consolidation.

❑ Stocks and shares in unconsolidated subordinated entities

Stocks and shares of subordinated entities which are not consolidated were appraised with equity rights method, with exception of entities immaterial in terms of the scale of the Capital Group. The inclusion of the specific subordinated entities, appraised with equity rights method, into the consolidated financial report consisted in the replacement of the price of purchase of the share in the affiliated entity with its equity - in the part owned by the Group.

Stocks and shares in subordinated entities that are not covered by the consolidation and are not appraised with equity rights method (planned for sale or immaterial) are captured in the balance sheet at their purchase price, including the provisions established on the account of their impairment.

Derivatives and other financial instruments

Derivatives are classified as assets or liabilities held for trading and appraised at fair value. The embedded derivatives are reflected and appraised in separation from the principal agreement in case of joint occurrence of the following conditions:

- Financial instrument is not included in the assets held for trading, the results of revaluation of which are related to the profit and loss account,
- Character of the embedded instrument and the related risks are not strictly linked to the character of the principal agreement and the risks resulting therewith,
- It is possible to establish fair value of derivative in a creditworthy way.

The fair value of derivatives is presented in the balance sheet on the assets side as “other securities and other financial assets” and on the liabilities side as “other liabilities under financial instruments” if the valuation result is negative. In the profit and Loss Account the adjustment to fair value is presented in the item “result on financial transactions” or “result on FX transactions” (additionally in case of SWAP transactions accrued interest is presented in the net interest income).

In case of fair value hedges relevant gains or losses on account of valuation of the derivative offset the respective effects in the Profit and Loss Account of changes of fair value of the hedged instruments.
In case of cash flow hedges the effective part of gains or losses on account of valuation of the derivative is presented in revaluation capital, while the ineffective part directly in the result on financial transactions.

The Bank has the following derivative instruments:

1) FX forward
Base amounts of the open FX forward transactions (currencies bought and sold) are recognized in off-balance items under ‘Liabilities related to execution of buy/sell operations’. Amounts in foreign currencies are converted at average NBP rate as at the balance sheet date. Forward transactions are valued at fair value based on the future discounted cash flow method at the end of each month. The fair value is posted under ‘other assets/liabilities’ in relation to the FX gains/losses.

2) FX SWAP
Base amounts of open FX SWAP transactions (currencies bought and sold) are recognized in off-balance items under ‘Liabilities related to execution of buy/sell operations’. Amounts in foreign currencies are converted at NBP average rate as at the balance sheet date. At the end of each month FX SWAP transactions are appraised at fair value based on the method of discounted future cash flows. The adjustment to fair value is done by introducing to the profit and loss account suspended FX differences between the transaction date and the balance sheet date, and by adjusting the settled swap points posted in the net interest income. Fair value is posted under ‘other securities and financial assets’/’other liabilities on financial instruments’ in relation to the result on financial operations.

3) Interest Rate SWAP (IRS)
Base amounts of the open IRS transactions (currencies bought and sold) are recognized in off-balance items under „Other off-balance items”. At the end of each month IRS transactions are appraised at fair value based on the method of discounted future cash flows. The adjustment to fair value is done by adjusting the ‘interest to be paid or received’ position in the net interest income. This adjustment is posted under ‘other securities and financial assets’/’other liabilities on financial instruments’ in relation to the result on financial operations.

4) Cross – Currency Swap (CCS)
Base amounts of the open transactions (currencies bought and sold) are recognized in off-balance items under ‘Liabilities related to execution of buy/sell operations’. Amounts in foreign currencies are converted at NBP average rate as at the balance sheet date. At the end of each month CCS transactions are appraised at fair value based on the method of discounted future cash flows. The adjustment to fair value is done by introducing to the profit and loss account the suspended FX differences between the transaction date and the balance sheet date, after adjusting the ‘interest to be paid/received’ position of the net interest income. This adjustment is posted under ‘other securities and financial assets’/’other liabilities on financial instruments’ in relation to the result on financial operations.

5) Equity SWAP, Volatility Swap, Embedded FX Option Swap

Base amounts of the open swap transactions (currencies bought and sold) are recognized in off-balance items under „Other off-balance items”. At the end of each month the swap transactions are appraised at fair value based on the method of discounted future cash flows. The adjustment to fair value is done by adjusting the interest to be paid and to be received in the net interest income. This adjustment is posted under ‘other securities and financial assets’/’other liabilities on financial instruments’ in relation to the result on financial operations.

6) FX options
Base amounts on open option transactions (foreign currency only) converted at average NBP rate as at the balance sheet date are recognized under off-balance items and presented in the ‘other off-balance items’ position. Option transactions are appraised at the fair value at the end of each month. Fair value is adjusted by correcting the ‘premium paid/received’. Fair value is posted under ‘other securities and financial assets’/’other liabilities on financial instruments’ in relation to the result on financial operations.

7) Forward Rate Agreements (FRA)
Amounts of principal resulting from executed transactions are reported in off-balance sheet items and are presented in the item “Other off-balance sheet items”. FRA transactions are presented at fair value at the end of each month and the valuation is presented in the item “other securities and other financial assets”/”other liabilities under securities”, corresponding with the net income on financial transactions.

8) Investment certificates and participation units remaining in the Group’s portfolio, which were purchased with resale intended within a short period of time of to realize the spread are classified in the “for trading” portfolio and are valued at fair value, with the valuation result being related to the profit and Loss Account.

Fixed and intangible assets
Records of fixed and intangible assets are kept at purchase prices or costs of manufacture or (as regards fixed assets) at the value determined through revaluation, minus depreciation (amortization) write-offs and impairment write-offs.

The adopted depreciation rates are established based on the expected period of economic usefulness of fixed assets. Depreciation is linear.

Depreciation rates used by Bank Millennium S.A.:

Selected groups of fixed assets:	
Bank buildings	2,5%
Investments in third-party facilities	10,0%
Computer assemblies	30,0%
networking devices	30,0%
vehicles	20,0%
telecom devices:	
- fixed line	10,0%
- wireless	20,0%
Intangible assets (software):	
Main applications (systems)	10,0%

Regarding other computer software the rate of not more than 50% is assumed, depending on the planned period of use.

Fixed assets under construction are reported at the value of purchase price or cost of manufacture and are not subject to depreciation.
Adaptation and upgrade of acquired or rented fixed assets is included in fixed assets under construction and has been reflected in the balance sheet.

“Goodwill” and “Negative Goodwill”
Goodwill occurs when:

- the difference between the price of acquisition of new shares in a company and the part of net assets of the consolidated company corresponding to these shares is positive i.e. the purchase cost is greater than the net value of the acquired assets.

Negative Goodwill occurs when:

- the difference between the price of acquisition of new shares in a company and the part of net assets of the consolidated company corresponding to these shares is negative i.e. the purchase cost is lower than the net value of the acquired assets.

"Goodwill" and "Negative Goodwill" is written off pursuant to the provisions of Accounting Law.

Assets taken over for sale
Assets taken over for debt are presented at a price constituting the amount of the debt, for which the assets were taken over, minus provisions created up to the amount of the difference between the debt amount and the attainable net sale price of the assets taken over.

Equity stock and result on sale of equity stock
Equity stock is presented in the balance sheet at average purchase price as reduction of consolidated equity. The result on sale of equity stock is reflected directly in equity.

Equity of the Group
The Group's equity arises in result of adding-up equity of individual companies, which are fully consolidated. The value of funds thus arises is adjusted with the Group's shares in equity of subsidiaries as at the date of acquisition of the shares as well as with the part of equity of subsidiaries, which are not part of the Group, which part is reported under the separate item "minority shareholders' capital". Additionally subtracted from the Group's equity is the value of stock of the dominant company held by the Group.
All components of equity of subsidiaries, arisen after the date of consolidation, are included in the Group's equity. In particular this concerns changes of equity resulting from generated profit or incurred loss and revaluation. The losses allocated to minority shareholders and exceeding the value of own capital of the minority are charged against equity of Bank Millennium Group.
The occurrence of differences between individual items of consolidated equity and the Bank's individual equity, despite the same sum total, results from difference of methodologies of consolidated versus individual reporting, considering equity method valuation of subordinated companies.

Assets and liabilities in foreign currencies
Assets and liabilities constituting balance sheet and off-balance FX positions are presented converted into PLN at the average rate for individual currencies as determined by the Chairman of NBP as at the balance sheet date. FX gains/losses resulting from conversion of balances of assets and liabilities are reflected in the Profit and Loss Account.

Description of selected items from the Profit and Loss Account

- **Interest income**

Interest receivables are accrued on a ytd basis until the last day of the accounting period.
Not included in the Profit and Loss Account is interest due payable and not payable as well as capitalized interest on irregular receivables. This interest is considered as interest income upon receipt, until then the interest is presented in the balance sheet as suspended income.
Discount interest on purchased receivables is posted to settlement accounts as income received in advance and settled over time on an accrual to the Profit and Loss Account.

- **Cost of interest**

Interest liabilities are accrued on a ytd basis until the last day of the reporting period. Accrued liabilities of the current reporting period are included in costs and reflected in the Profit and Loss Account.

- **Bank fees and commissions received/paid**

Fee and commissions income/expenses is included in the Profit and Loss Account on a cash basis i.e. upon payment. The accrual principle for settlement of commission income/expenses is applied when required by the nature of the transaction (criterion of materiality).

- **Lease income/expenses**

Financial lease – in financial lease income is settled using the method of fixed internal rate of return, not considering however part of the incurred expenses.

Payment of principle under a lease contract as well as security deposits and advance payments from lessees, securing the contract do not constitute the Company's income.
Proceeds from the sale of fixed assets are the sale price determined after end of the lease contract, while the value of unpaid committed capital is an accounting cost.
Operating lease – in operating lease income are invoiced payments (first payment and subsequent monthly payments under the lease contract payment schedule – including interest and principal) as well as fees for lease services, minus Value Added Tax. Income does not include security deposits and pledges received from lessees to secure the contract. On the other hand depreciation of the lease objects is a cost.

- **Other operating income and expenses**

Other operating income and expenses include expenses and income not directly connected with the Group's banking and brokerage activity. These are in particular expenses (net value as at the date of sale) and income (sale price) from sale and liquidation of fixed assets, proceeds from sale of other services, indemnities, penalties and fines received and paid as well as proceeds on account of recovery of receivables previously written off against provisions.

4) NPL and general risk provisions

Subject to classification and creation of specific provisions are credit exposures based on an individual assessment of the transaction pursuant to rules stipulated in the Ordinance of the Minister of Finance of 10 December 2003 in the matter of rules for creation of provisions for risk connected with activity of banks.
The general risk provision is created charging the costs of the current period in order to cover risks connected with banking activity.
The lease company of the Group also creates general risk provisions.
Transfer of general risk provisions to specific provisions is presented as a change of balance sheet items.

5) Provision for retirement benefits and employee leave

- **Retirement benefits**

Pursuant to the Bylaws for Compensation of Employees of the Bank and to the Labour Code employees who have worked for a specified number of years and have reached eligible age are entitled to a retirement benefit. The provision for retirement benefits is calculated as the present value of future liabilities of the Bank to employees as per current headcount and salaries as at revaluation date.

- **Unused employee leave**

The balance of the provision for leave unused by the Bank's employees has been calculated as the total of unused days of leave due to individual employees of the Bank.

6) Income tax and reserve and assets on the account of deferred income tax

Bank Millennium Capital Group does not constitute a tax group and in therefore group's companies are subject to separate taxation. Income tax for specific Group's companies is calculated on grounds of the gross result adjusted with income, which pursuant to tax regulations are not included in taxable income and with the costs, which in light of tax regulations are not considered as tax deductible. Furthermore, in order to calculate current level of tax obligations, the gross accounting result is adjusted with income and costs from previous years realized for tax purposes in a given reporting year and income deductions on the account of donations, and with tax losses from previous years settled against income of the current year.

At the end of every month a reserve is created on the account of the suspended income tax difference, which will be payable in the next reporting period. This gap is caused by the difference in the moment of finding income as obtained or cost as incurred according to the Accounting Law and tax regulations. The positive difference debits the net financial income as reserve for income tax. The negative difference is captured under deferred charges and accruals, if this gap is likely to be settled within the next reporting period.

Bank Millennium S.A. SAB-RS2004 in PLN thousands

The suspended differences include among others the following:
- Interest accrued, settled discount on the securities, which on the day of accrual create gross result, however pursuant to the Income tax law they are cost or income as at the day of their realization,
- Changes in the fair value of securities and financial instruments,
- Provisions set up for the receivables on the account of the loans granted and provisions for the depreciation of securities, which are likely to become tax deductible cost,
- Differences between depreciation of fixed assets and intangible assets for accounting and tax purposes,
- Provisions for costs to be incurred,
- Losses from previous years, for which there is a probability of settlement in future periods.

In the process of determining the value of assets on the account of deferred tax, the Bank performs an individual assessment of the probability whether a given specific provision (and in what amount) shall become tax income in the future.
The provision and assets on the account of deferred income tax are presented in the balance sheet separately.
The tax loss is captured as asset on the account of deferred tax if there is a probability that the loss will be settled in the future reporting periods.
Pursuant to the Law dated April 16 2004 on the EU Guarantee Fund, Bank Millennium captures in its books the discounted receivables from the Tax Office in the amount of 8% of the total value of the specific provisions - set up and not included as at December 31 2002 in the tax deductible costs – for risk on the account of receivables and credits (loans) classified by the Bank as doubtful and lost. Following release of these reserves the Bank updates the value of receivables from the Tax Office capturing the effect of this revaluation in the Profit and loss account.

7) VAT

Pursuant to the law in force banking operations are released from value added tax. Bank Millennium Capital Group is a VAT payer on other activities than banking operations, whereas Bank Millennium S.A. does not deduct the input VAT from the output tax, except for the purchases related to sales taxed with input VAT.

8) Capital Group's net profit per share

The Capital Group's net profit per share was calculated through division of the net profit for the period of 01.01.04 – 31.12.04 by the average weighted number of shares of the Bank reduced by average weighted number of equity stocks held by the Group in a given period.

9) Differences in the accounting principles applied

For the purpose of this consolidation all units of the Group prepare reports on the basis of consistent accounting principles in force in the Bank Millennium Group.

13. AVERAGE PLN EXCHANGE RATES, IN THE PERIODS COVERED BY THE CONSOLIDATED FINANCIAL REPORT AND COMPARABLE CONSOLIDATED FINANCIAL DATA, VERSUS EURO, ESTABLISHED BY THE NATIONAL BANK OF POLAND

	1.01.04 – 31.12.04	1.01.03 – 31.12.03
The rate in force as at the last day of the period	4,0790	4,7170
Average rate in the period (arithmetic average of the rates in force on the last day of every month in a given period)	4,5182	4,4474
The rate in the period (as per the end-of-month levels):		
- the highest	4,8746	4,7170
- the lowest	4,0790	4,1286

14. BASIS ITEMS OF THE CONSOLIDATED BALANCE SHEET, PROFIT AND LOSS ACCOUNT AND CASHFLOW STATEMENT, FROM THE CONSOLIDATED FINANCIAL REPORT AND COMPARABLE CONSOLIDATED FINANCIAL DATA, CONVERTED INTO EURO

BASIC FINANCIAL DATA (in thousand EURO)	1.01.04 – 31.12.04	1.01.03 – 31.12.03
Interest income	397 908	327 124
Commission income	61 942	59 249
Net banking income	324 021	214 182
Net operating income	78 090	-9 217
Gross profit (loss)	77 895	-11 750
Net profit (loss)	53 230	9 195
Balance sheet total	5 011 146	4 416 492
Receivables from the financial sector	780 294	264 721
Receivables from the non-financial sector and state-budget sector	1 766 323	2 168 060
Liabilities to the Central Bank	0	0
Liabilities to the financial sector	387 415	585 662
Liabilities to the non-financial sector and state-budget sector	3 262 453	2 492 213
Equity, including:	489 067	367 799
- tier one	208 184	180 026
Net operating activity cashflow	236 632	-218 781
Net investment activity cashflow	-190 832	320 310
Net financial activity cashflow	-32 291	16 986

The balance sheet data were calculated at average NBP rate as at the day closing the period under review. The data from the profit and loss account and cashflow statement were converted at the average rate for a given period, set as arithmetic average of average NBP's rates of the day closing every month covered by the report.

15. INDICATION AND CLARIFICATION OF DIFFERENCES BETWEEN THE CONSOLIDATED FINANCIAL REPORT AND CONSOLIDATED COMPARABLE DATA ACCORDING TO PAS AND CONSOLIDATED FINANCIAL REPORT AND CONSOLIDATED COMPARABLE DATA, WHICH WOULD BE PREPARED ACCORDING TO IFRS or US GAAP

The Bank has been conducting works aimed at development of consolidated financial reports according to the International Financial Reporting Standards (IFRS) since 2005. At the current stage these works have been focusing on the final verification of the methodological assumptions and testing IT solutions which specifically concerns issues of identification and measurement of credit impairment and introduction of the effective interest rate method for valuation of financial instruments. These efforts were additionally inhibited due to the late completion of the process of consultations and changes of IAS 39 in the context of adoption of this standard by the European Union. As a result, the currently held quantitative data cannot be recognised as complete and credible and require further verification – therefore, by the virtue of the Ordinance of the Council of Ministers dated 11 August 2004 in the matter of detailed conditions for issue prospectus and abridged prospectus (par. 18 section 2 item 5), below only major areas of qualitative gaps were disclosed without their quantification:

- The principles for creation of impairment provisions in the report according to the Polish Accounting Standards (PAS) base on the legal regulations stipulated in the Ordinance of the Minister of Finance of dated December 10 2001, in the matter of the principles for creation of provisions for the risk related to the banks' activity (with subsequent amendments), whereas the IFRS provisions imply that there is obligation to determine the value of revaluation charge as the difference between the balance sheet value of the receivable and the value, discounted with effective interest rate, of future cashflow resulting from this receivable. One of the consequences of such approach is the need to eliminate suspended interest from the balance sheet with simultaneous recognition of some of them as interest income,
- At the moment, the Group applies the effective interest rate method only in some of the areas of its activity (discount / premium on debt securities), whereas pursuant to IFRS the valuation of financial assets and liabilities at depreciated cost should include effective profitability,
- PAS contain detailed regulations concerning principles for establishing provisions for general risk,

- In some of the areas the way and scope of data presentation in the financial report according to IFRS and IAS are different.