

**ADDITIONAL EXPLANATORY NOTES****1. CONCENTRATION OF LENDING EXPOSURE TO ENTITIES AND GROUPS FROM FINANCIAL AND NON-FINANCIAL SECTORS BY INDUSTRY AND BY TERRITORY (INCLUDING RISK ASSESSMENT)**

The structure of the Bank's exposure as of June 30, 2004 (after elimination of intragroup transactions) was as follows:

- by entity (on-balance sheet exposure)

| No. | Name          | June 30, 2004      |  | June 30, 2003      |  |
|-----|---------------|--------------------|--|--------------------|--|
|     |               | Amount in PLN '000 | Share in gross amounts due from clients and public sector entities | Amount in PLN '000 | Share in gross amounts due from clients and public sector entities |
| 1   | Entity No. 1  | 382,807            | 5.78%  | 286,741            | 2.88%  |
| 2   | Entity No. 2  | 281,207            | 4.25%  | 258,987            | 2.60%  |
| 3   | Entity No. 3  | 231,441            | 3.49%  | 257,932            | 2.59%  |
| 4   | Entity No. 4  | 174,524            | 2.64%  | 215,354            | 2.16%  |
| 5   | Entity No. 5  | 145,547            | 2.20%  | 203,108            | 2.04%  |
| 6   | Entity No. 6  | 128,705            | 1.94%  | 185,350            | 1.86%  |
| 7   | Entity No. 7  | 124,432            | 1.88%  | 137,617            | 1.38%  |
| 8   | Entity No. 8  | 100,704            | 1.52%  | 130,682            | 1.31%  |
| 9   | Entity No. 9  | 96,823             | 1.46%  | 129,526            | 1.30%  |
| 10  | Entity No. 10 | 94,513             | 1.43%  | 120,311            | 1.21%  |
| 11  | Entity No. 11 | 91,476             | 1.38%  | 104,953            | 1.05%  |
| 12  | Entity No. 12 | 72,896             | 1.10%  | 99,769             | 1.00%  |
| 13  | Entity No. 13 | 70,224             | 1.06%  | 95,691             | 0.96%  |
| 14  | Entity No. 14 | 64,558             | 0.97%  | 94,740             | 0.95%  |
| 15  | Entity No. 15 | 62,701             | 0.95%  | 92,951             | 0.93%  |
| 16  | Entity No. 16 | 56,125             | 0.85%  | 92,016             | 0.92%  |
| 17  | Entity No. 17 | 56,051             | 0.85%  | 76,527             | 0.77%  |
| 18  | Entity No. 18 | 50,506             | 0.76%  | 63,497             | 0.64%  |
| 19  | Entity No. 19 | 44,241             | 0.67%  | 59,457             | 0.60%  |
| 20  | Entity No. 20 | 39,918             | 0.60%  | 49,000             | 0.49%  |

Exposure to the largest clients credited by Bank MILLENNIUM does not exceed 5.8% of gross amounts due from clients, financial institutions (excluding banks) and public sector entities. There is no excessive exposure to any particular client. Comparable data is presented by exposure amount, i.e. by largest client as of June 30, 2003 and, therefore, exposure in individual reporting periods may refer to a different entity.

- by group (on-balance sheet exposure)

| No. | Name         | June 30, 2004      |  | June 30, 2003      |  |
|-----|--------------|--------------------|--|--------------------|--|
|     |              | Amount in PLN '000 | Share in gross amounts due from clients and public sector entities | Amount in PLN '000 | Share in gross amounts due from clients and public sector entities |
| 1   | Group No. 1  | 382,807            | 5.78%  | 286,741            | 2.88%  |
| 2   | Group No. 2  | 281,207            | 4.25%  | 258,987            | 2.60%  |
| 3   | Group No. 3  | 231,441            | 3.49%  | 257,932            | 2.59%  |
| 4   | Group No. 4  | 190,828            | 2.88%  | 246,170            | 2.47%  |
| 5   | Group No. 5  | 174,524            | 2.64%  | 244,012            | 2.45%  |
| 6   | Group No. 6  | 145,547            | 2.20%  | 215,354            | 2.16%  |
| 7   | Group No. 7  | 128,705            | 1.94%  | 185,350            | 1.86%  |
| 8   | Group No. 8  | 124,432            | 1.88%  | 137,617            | 1.38%  |
| 9   | Group No. 9  | 109,556            | 1.65%  | 129,526            | 1.30%  |
| 10  | Group No. 10 | 102,367            | 1.55%  | 123,595            | 1.24%  |

Exposure to the largest group credited by the Bank does not exceed 5.8% of gross amounts due from clients, financial institutions (excluding banks) and public sector entities. There is no excessive exposure to groups. Comparable data is presented by exposure amount, i.e. by largest client - group as of June 30, 2003 and, therefore, exposure in individual reporting periods may refer to a different group.

- by industry (on-balance sheet exposure)

| No.                 | Industry                            | Amount in PLN '000 | Share in gross amounts due from clients and public sector entities |
|---------------------|-------------------------------------|--------------------|--|
| As of June 30, 2004 |                                     |                    |  |
| 1.                  | Households                          | 1,840,111          | 27.79%   |
| 2.                  | Construction                        | 1,123,207          | 16.96%   |
| 3.                  | Electricity, water and gas supplies | 493,151            | 7.45%  |
| 4.                  | Public administration               | 465,656            | 7.03%  |
| 5.                  | Wholesale trade                     | 459,185            | 6.93%  |
| 6.                  | Property management                 | 330,888            | 5.00%  |
| 7.                  | Financial intermediation            | 309,107            | 4.67%  |
| As of June 30, 2003 |                                     |                    |  |
| 1.                  | Households                          | 3,618,147          | 36.37%   |
| 2.                  | Construction                        | 1,201,769          | 12.08%   |
| 3.                  | Wholesale trade                     | 547,393            | 5.50%  |
| 4.                  | Public administration               | 493,640            | 4.96%  |
| 5.                  | Electricity, water and gas supplies | 488,661            | 4.91%  |
| 6.                  | Financial intermediation            | 450,089            | 4.52%  |
| 7.                  | Chemical and rubber industry        | 391,510            | 3.94%  |

There is no excessive concentration to any particular industry since exposure to households (consumer loans) is spread over hundreds of thousands of individuals.

- on- and off-balance sheet exposure to clients and groups

#### Entities

| No. | Name         | June 30, 2004      |                    | June 30, 2003      |                    |
|-----|--------------|--------------------|--------------------|--------------------|--------------------|
|     |              | Amount in PLN '000 | Exposure to equity | Amount in PLN '000 | Exposure to equity |
| 1   | Entity No. 1 | 316,356            | 20.41%             | 378 829            | 22,65 %            |
| 2   | Entity No. 2 | 314,123            | 20.27%             | 335 554            | 20,16 %            |
| 3   | Entity No. 3 | 232,742            | 15.01%             | 308 260            | 18,43 %            |

#### Groups

| No. | Name        | June 30, 2004      |                    | June 30, 2003      |                    |
|-----|-------------|--------------------|--------------------|--------------------|--------------------|
|     |             | Amount in PLN '000 | Exposure to equity | Amount in PLN '000 | Exposure to equity |
| 1   | Group No. 1 | 316,356            | 20.41%             | 378,856            | 22.65%             |
| 2   | Group No. 2 | 314,123            | 20.27%             | 378,829            | 22.65%             |
| 3   | Group No. 3 | 232,742            | 15.01%             | 308,260            | 18.43%             |

As of June 30, 2004, exposure to the largest client credited by the Bank did not exceed the statutory limit of liabilities contracted on demand of a customer in relations with an individual entity, i.e. 25% of equity of the Bank pursuant to Art. 71, par. 1 of the Banking Law.

As of June 30, 2004, exposure to the largest group of entities related by capital or organization also did not exceed the statutory limit of liabilities contracted on demand of a customer in relations with a group of entities related by capital or organization that take business risk together, i.e. 25% of equity of the Bank pursuant to Art. 71, par. 1 of the Banking Law.

- on-balance sheet exposure by territory (financial institutions excluding banks, non-financial entities and public sector entities, after elimination of intragroup transactions)

| <b>PROVINCE<br/>(WOJEWÓDZTWO)</b> | <b>RECEIVABLES EXCLUDING<br/>ACCRUED INTEREST (GROSS)</b> |
|-----------------------------------|---|
| Dolnośląskie                      | 575,939   |
| Kujawsko-pomorskie                | 503,032   |
| Lubelskie                         | 114,756   |
| Lubuskie                          | 83,006  |
| Łódzkie                           | 49,815  |
| Małopolskie                       | 140,017   |
| Mazowieckie                       | 2,873,221   |
| Opolskie                          | 52,927  |
| Podkarpackie                      | 40,125  |
| Podlaskie                         | 13,616  |
| Pomorskie                         | 960,856   |
| Śląskie                           | 503,728   |
| Świętokrzyskie                    | 28,305  |
| Warmińsko-mazurskie               | 195,651   |
| Wielkopolskie                     | 294,917   |
| Zachodnio-pomorskie               | 193,606   |
| <b>TOTAL</b>                      | <b>6,623,518</b>  |

**2. SOURCES OF DEPOSITS ATTRACTED BY BANK MILLENNIUM S.A. BY SECTOR AND BY TERRITORY (PLN '000; financial institutions excluding banks, non-financial entities and public sector entities after elimination of intragroup transactions)**

| <b>SECTOR</b>                                  | <b>CURRENT<br/>ACCOUNTS AND<br/>TERM DEPOSITS</b> |
|--|---|
| Supportive financial institutions              | 21,533  |
| Insurance companies and pension funds          | 57,366  |
| Other financial intermediaries                 | 69,933  |
| State-owned enterprises and companies          | 579,764   |
| Private enterprises and companies              | 2,115,085   |
| Individual farmers                             | 9,221   |
| Individual entrepreneurs                       | 267,231   |
| Individuals                                    | 7,206,648   |
| Non-commercial institutions for households     | 430,004   |
| Governmental institutions at the central level | 286,235   |
| Self-government institutions                   | 556,714   |
| Social insurance funds                         | 389,656   |
| <b>TOTAL</b>                                   | <b>11,989,390</b>                                 |

| <b>PROVINCE<br/>(WOJEWÓDZTWO)</b> | <b>CURRENT ACCOUNTS AND<br/>TERM DEPOSITS</b> |
|-----------------------------------|---|
| Dolnośląskie                      | 530,754                                       |
| Kujawsko-pomorskie                | 1,273,593                                     |
| Lubelskie                         | 406,501                                       |
| Lubuskie                          | 110,012                                       |
| Łódzkie                           | 268,385                                       |
| Małopolskie                       | 289,978                                       |
| Mazowieckie                       | 3,070,233                                     |
| Opolskie                          | 127,425                                       |
| Podkarpackie                      | 79,184  |
| Podlaskie                         | 370,974                                       |
| Pomorskie                         | 3,076,191                                     |
| Śląskie                           | 631,152                                       |
| Świętokrzyskie                    | 45,749  |
| Warmińsko-mazurskie               | 862,902                                       |
| Wielkopolskie                     | 519,461                                       |
| Zachodnio-pomorskie               | 326,896                                       |
| <b>TOTAL</b>                      | <b>12,689,863</b>                             |

### 3. CHANGES IN FINANCIAL SUPPORT TO FOREIGN BRANCHES

Companies from the Bank Millennium Group do not have any foreign branches.

#### 4. FINANCIAL INSTRUMENTS

##### 4.1. Financial assets and liabilities

Information on debt securities, shares, participation units, derivatives, loans and borrowings granted is presented in notes to the balance sheet (notes 1 to 13). Data on financial liabilities is included in notes 21 to 25 to the balance sheet. Supplementary information to the above notes is presented in the tables below:

##### Debt securities (the Group, PLN '000):

|                                      | Depreciated purchase price | Fair value increases | Fair value decreases | Accrued interest | Book value |
|--------------------------------------|----------------------------|----------------------|----------------------|------------------|------------|
| Tradable as of 30.06.2004            | 3,458,097                  | 1,468                | 3,225                | 50,060           | 3,506,401  |
| Tradable as of 31.12.2003            | 2,783,195                  | 4,933                | 671                  | 68,816           | 2 856 272  |
| Available for sale as of 30.06.2004  | 2,918,353                  | 9,505                | 3,369                | 65,173           | 2,989,663  |
| Available for sale as of 31.12.2003  | 1,795,168                  | 13,745               | 1,216                | 58,106           | 1,865,803  |
| Held until maturity as of 30.06.2004 | 191,767                    | 0                    | 0                    | 0                | 191,767    |
| Held until maturity as of 31.12.2003 | 112,232                    | 0                    | 0                    | 0                | 112,232    |

As at 30.06.2004 and 31.12.2003 debt securities amounted to PLN 1 682 459 000 and PLN 1 435 800 000 respectively result from sell –buy back (SBB) transactions.

##### Debt securities (the Group, PLN '000):

|   | Up to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | TOTAL     |
|---|----------------|--------------------|--------------|--------------|-----------|
| Fair value – tradable                         | 955,826        | 1,091,073          | 886,942      | 572,561      | 3,506,401 |
| Fair value – available for sale               | 34,494         | 354,537            | 1,952,457    | 648,175      | 2,989,663 |
| Value at amortized cost – held until maturity | 0              | 0                  | 71,795       | 119,972      | 191,767   |

##### Participation units and investment certificates (the Bank, PLN '000);

|                                     | Purchase price | Fair value |
|-------------------------------------|----------------|------------|
| Tradable as of 30.06.2004           | 4,000          | 4,068      |
| Tradable as of 31.12.2003           | 0              | 0          |
| Available for sale as of 30.06.2004 | 0              | 0          |
| Available for sale as of 31.12.2003 | 288,849        | 289,357    |

**Liabilities of the Bank net of accrued interest (the Bank, after elimination of intragroup transactions, PLN '000):**

|                               | <b>Payable on demand</b> | <b>Up to 3 months</b> | <b>3 moths to 1 year</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>TOTAL</b> |
|-------------------------------|--------------------------|-----------------------|--------------------------|---------------------|---------------------|--------------|
| <b>Financial institutions</b> | 447,419                  | 180,732               | 38,106                   | 885,737             | 560,932             | 2,112,926    |
| Banks                         | 322,782                  | 167,799               | 37,784                   | 885,729             | 550,000             | 1,964,094    |
| Insurance companies           | 54,472                   | 2,894                 | 0                        | 0                   | 0                   | 57,366       |
| Other financial institutions  | 70,165                   | 10,039                | 322                      | 8                   | 10,932              | 91,466       |
| <b>Non-financial sector</b>   | 3,515,451                | 5,401,480             | 2,590,964                | 250,846             | 81,817              | 11,840,558   |
| Enterprises and other         | 1,583,165                | 1,662,559             | 149,219                  | 3,468               | 2,894               | 3,401,305    |
| Individuals                   | 1,385,248                | 3,066,578             | 2,428,566                | 247,333             | 78,923              | 7,206,648    |
| Public sector entities        | 547,038                  | 672,343               | 13,179                   | 45                  |                     | 1,232,605    |
| <b>TOTAL</b>                  | 3,962,870                | 5,582,212             | 2,629,070                | 1,136,583           | 642,749             | 13,953,484   |

**Receivables due from non-financial sector and public sector entities (gross), net of interest (the Bank, after elimination of intragroup transactions, PLN '000):**

|   | <b>Payable on demand</b> | <b>Up to 3 months</b> | <b>3 moths to 1 year</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>TOTAL</b> |
|---|--------------------------|-----------------------|--------------------------|---------------------|---------------------|--------------|
| Enterprises, state-owned companies  | 63,755                   | 31,718                | 10,944                   | 16,945              | 231,441             | 354,803      |
| Enterprises, private companies, cooperatives, individual entrepreneurs, farmers | 1,169,883                | 360,665               | 386,742                  | 548,718             | 1,107,069           | 3,573,077    |
| Non-commercial institutions   | 57,178                   | 34                    | 2,069                    | 4,106               | 4,550               | 67,937       |
| Retail (mortgage loans and credit cards excluded)                               | 140,746                  | 85,231                | 28,630                   | 18,339              | 805                 | 273,751      |
| Retail – mortgage loans   | 0                        | 25,668                | 28,318                   | 53,611              | 1,336,222           | 1,443,819    |
| Retail – credit cards   | 0                        | 18,860                | 71,166                   | 33,381              | 0                   | 123,407      |
| Public sector entities  | 6,979                    | 17,471                | 9,434                    | 137,916             | 293,856             | 465,656      |
| <b>Total gross</b>  | 1,438,541                | 539,647               | 537,303                  | 813,016             | 2,973,943           | 6,302,450    |

**Tradable derivatives – off-balance sheet assets (the Bank, after elimination of intragroup transactions, PLN '000):**

|                                 | Notional value as of<br>30.06.2004 | Security deposit | Notional value as of<br>31.12.2003 | Security deposit | Trade from 01.01 to 30.06.2004 |            |
|---------------------------------|------------------------------------|------------------|------------------------------------|------------------|--------------------------------|------------|
|                                 |                                    |                  |                                    |                  | Increase                       | Decrease   |
| Interest rate contracts:        | 9,313,244                          | 0                | 5,050,660                          | 0                | 4,262,584                      | 0          |
| - FRAs                          | 900,000                            |                  | 440,000                            |                  | 460,000                        |            |
| - swaps                         | 8,413,244                          |                  | 4,610,660                          |                  | 3,802,584                      |            |
| - put options                   |                                    |                  |                                    |                  |                                |            |
| - call options                  |                                    |                  |                                    |                  |                                |            |
| FX contracts                    | 8,446,570                          | 64,315           | 11,498,613                         | 45,413           | 4,450                          | -3,037,591 |
| - spot                          | 1,191,229                          |                  | 1,659,790                          |                  |                                | -468,561   |
| - forward                       | 705,953                            |                  | 848,457                            |                  |                                | -142,504   |
| - swaps                         | 6,526,491                          | 64,315           | 8,897,028                          | 45,413           |                                | -2,351,634 |
| - put options                   | 4,450                              |                  | 0                                  |                  | 4,450                          |            |
| - call options                  | 18,446                             |                  | 93,338                             |                  |                                | -74,892    |
| Other derivatives               | 1,389,553                          | 0                | 1,398,148                          | 0                | 0                              | -8,595     |
| - swaps with embedded FX option | 17,909                             |                  | 21,926                             |                  |                                | -4,017     |
| - equity swaps                  | 1,326,222                          |                  | 1,326,222                          |                  | 0                              |            |
| - volatility swaps              | 45,422                             |                  | 50,000                             |                  |                                | -4,578     |
| TOTAL                           | 19,149,367                         | 64,315           | 17,947,421                         | 45,413           | 4,267,034                      | -3,046,186 |

**Tradable derivatives – off-balance sheet liabilities (the Bank, after elimination of intragroup transactions, PLN '000):**

|                                 | Notional value as of<br>30.06.2004 | Security deposit | Notional value as of<br>31.12.2003 | Security deposit | Trade from 01.01 to 30.06.2004 |                   |
|---------------------------------|------------------------------------|------------------|------------------------------------|------------------|--------------------------------|-------------------|
|                                 |                                    |                  |                                    |                  | Increase                       | Decrease          |
| Interest rate contracts:        | 9,513,244                          | 0                | 4,810,660                          | 0                | 4,702,584                      | 0                 |
| - FRAs                          | 1,100,000                          |                  | 200,000                            |                  | 900,000                        |                   |
| - swaps                         | 8,413,244                          |                  | 4,610,660                          |                  | 3,802,584                      |                   |
| - put options                   |                                    |                  |                                    |                  |                                |                   |
| - call options                  |                                    |                  |                                    |                  |                                |                   |
| FX contracts                    | 8,323,882                          | 0                | 11,502,307                         | 0                | 4,450                          | -3,182,875        |
| - spot                          | 1,190,275                          |                  | 1,659,118                          |                  |                                | -468,843          |
| - forward                       | 710,373                            |                  | 837,989                            |                  |                                | -127,616          |
| - swaps                         | 6,400,338                          |                  | 8,911,862                          |                  |                                | -2,511,524        |
| - put options                   | 4,450                              |                  | 0                                  |                  | 4,450                          |                   |
| - call options                  | 18,446                             |                  | 93,338                             |                  |                                | -74,892           |
| Other derivatives               | 1,389,553                          | 0                | 1,398,148                          | 0                | 0                              | -8,595            |
| - swaps with embedded FX option | 17,909                             |                  | 21,926                             |                  |                                | -4,017            |
| - equity swaps                  | 1,326,222                          |                  | 1,326,222                          |                  | 0                              |                   |
| - volatility swaps              | 45,422                             |                  | 50,000                             |                  |                                | -4,578            |
| <b>TOTAL</b>                    | <b>19,226,679</b>                  | <b>0</b>         | <b>17,711,115</b>                  | <b>0</b>         | <b>4,707,034</b>               | <b>-3,191,470</b> |

**Derivatives as of June 30, 2004 – nominal value (total assets and liabilities), the Bank, after elimination of intragroup transactions, PLN '000:**

| FORWARDS             | Up to 3 months | 3 months to 1 year | Over 1 year    | TOTAL            |
|----------------------|----------------|--------------------|----------------|------------------|
| <b>TRADABLE</b>      | 375,072        | 2,102,781          | 938,474        | 3,416,326        |
| - interest rate risk |                | 1,200,000          | 800,000        | 2,000,000        |
| - fx risk            | 375,072        | 902,781            | 138,474        | 1,416,326        |
| - other risks        |                |                    |                | 0                |
| <b>HEDGING</b>       | 0              | 0                  | 0              | 0                |
| - interest rate risk |                |                    |                | 0                |
| - fx risk            |                |                    |                | 0                |
| - other risks        |                |                    |                | 0                |
| <b>TOTAL</b>         | <b>375,072</b> | <b>2,102,781</b>   | <b>938,474</b> | <b>3,416,326</b> |



| SWAPS  | Up to 3 months | 3 moths to 1 year | Over 1 year | TOTAL      |
|--|----------------|-------------------|-------------|------------|
| <b>TRADABLE</b>                                | 5,323,186      | 4,401,427         | 22,807,812  | 32,532,426 |
| - swaps (irs, equity, volatility, with option) | 0              | 19,819            | 19,585,776  | 19,605,595 |
| - fixed leg                                    |                | 9,909             | 8,547,466   | 8,557,375  |
| - floating leg                                 |                | 9,909             | 11,038,311  | 11,048,220 |
| - cross currency swaps                         |                |                   | 3,068,854   | 3,068,854  |
| - fx swaps                                     | 5,323,186      | 4,381,609         | 153,182     | 9,857,976  |
|  |                |                   |             |            |
| <b>HEDGING</b>                                 | 0              | 0                 | 946,018     | 946,018    |
| - interest rate swaps                          | 0              | 0                 | 181,688     | 181,688    |
| - fixed leg                                    |                |                   | 90,844      | 90,844     |
| - floating leg                                 |                |                   | 90,844      | 90,844     |
| - cross currency swaps                         |                |                   | 764,330     | 764,330    |
|  |                |                   |             |            |
| <b>TOTAL</b>                                   | 5,323,186      | 4,401,427         | 23,753,830  | 33,478,443 |

| OPTIONS              | Up to 3 months | 3 moths to 1 year | Over 1 year | TOTAL  |
|----------------------|----------------|-------------------|-------------|--------|
| <b>TRADABLE</b>      | 39,887         | 908               | 4,996       | 45,792 |
| - interest rate risk |                |                   |             | 0      |
| - fx risk            | 39,887         | 908               | 4,996       | 45,792 |
| - other risks        |                |                   |             | 0      |
| <b>HEDGING</b>       | 0              | 0                 | 0           | 0      |
| - interest rate risk |                |                   |             | 0      |
| - fx risk            |                |                   |             | 0      |
| - other risks        |                |                   |             | 0      |
| <b>TOTAL</b>         | 39,887         | 908               | 4,996       | 45,792 |

**Sell-buy-back (SBB) transactions (book value) by maturity (PLN '000):**

| Up to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | TOTAL     |
|----------------|--------------------|--------------|--------------|-----------|
| 1,808,003      | 106,364            | 0            | 0            | 1,914,367 |

**Buy-sell-back (BSB) transactions (book value) by maturity (PLN '000):**

| Up to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | TOTAL   |
|----------------|--------------------|--------------|--------------|---------|
| 260,124        | 0                  | 0            | 0            | 260,124 |

**4.2. Additional information on financial assets and liabilities****4.2.1.****a) Basic description, amount and value of financial instruments, important terms and conditions that could have influence on the amount, timing and certainty of future cash flows, in particular as regards derivatives**

The Bank concludes transactions involving derivatives for speculative purposes and to manage foreign currency risk, interest rate risk, liquidity risk and market risk.

Settlements in respect of open positions depend on the nature of an instrument and are made on a monthly, quarterly or annual basis or at maturity.

A variable interest rate is based on an interest rate prevailing in the interbank market at the beginning of an interest period. A fixed interest rate depends on the nature of an instrument and the purpose of the transaction.

The Bank concludes the following transactions:

- FX FORWARD,
- FX SWAP,
- CCIRS,
- IRS,
- FRA,
- FX Option,
- Equity Swap,
- IRS with FX option
- volatility swap.

Cross currency interest rate swaps (CCIRS) consist in swapping flows of interest accrued on notional values denominated in different currencies. The Bank concludes transactions involving CCIRS in the interbank market and with clients.

Interest rate swaps (IRS) consist in swapping flows of interest accrued on notional values denominated in the same currency. The Bank concludes transactions involving IRS in the interbank market and with clients.

Parties to FRA (forward rate agreement) exchange the difference between the interest rate specified in FRA and a variable reference rate calculated on the agreed principal amount. The Bank concludes FRAs in the interbank market and with customers.

The buyer of an option acquires the right to purchase (call option) or sell (put option) a specified foreign currency denominated amount at the foreign exchange rate agreed in advance on a future date. The Bank concludes transactions involving foreign currency options in the interbank market and with clients.

Equity swaps consist in swapping flows of interest accrued on notional values. These flows of interest depend on a stock exchange index or dividends and stock prices. The Bank concludes equity swaps in the interbank market.

IRS with FX option consist in swapping flows of interest accrued on notional values. Interest flows depend on FX rate. The Bank concludes these transactions in the interbank market.

Volatility swaps consist in swapping flows of interest accrued on notional values. These flows of interest depend on the volatility of a given currency. The Bank concludes these transactions in the interbank market.

**Data presented in the tables below is for the Bank, after elimination of intragroup transactions (in PLN):**

| As of June 30, 2004                             |  |                      |                                |                                 |                          |                      |
|---|--|----------------------|--------------------------------|---------------------------------|--------------------------|----------------------|
| Kind of instrument                              | Swaps (IRS, equity, volatility, with option) | FX swaps             | FX options                     | CCSs                            | Asset swaps              | FX forwards          |
| Number of transaction                           | 125  | 98                   | 78                             | 15                              | 8                        | 237                  |
| Fair value                                      | -27,333,304                                  | 81,393,901           | 242,204                        | 26,307,224                      | -9,997,051               | -2,377,284           |
| Purpose   | tradable/hedge                               | tradable             | tradable                       | tradable/hedge                  | hedge                    | tradable             |
| Notional value                                  | 9,893,641,280                                | 4,977,689,719        | 45,792,326                     | 1,707,355,767                   | 217,294,670              | 691,682,845          |
| Future revenues/payments                        | variable                                     | variable             | variable                       | variable                        | variable                 | variable             |
| Maturity  | 06-07-04 to 22-10-10                         | 01-07-04 to 31-08-05 | 05-07-04 to 13-01-05           | 05-10-04 to 01-04-09            | 14-02-06 to 10-12-08     | 05-07-04 to 22-03-06 |
| Possible premature settlement                   | none   | none                 | none                           | none                            | none                     | none                 |
| Price/price bracket                             | margin from -181 bps to +238 bps             | none                 | premium from PLN 936 to 34,688 | margin from -62 bps to +100 bps | margin from 0 to 440 bps | none                 |
| Possible swap for other asset/liability         | none   | none                 | none                           | none                            | none                     | none                 |
| Agreed rates/amounts of interest, payment dates | variable                                     | fixed                | variable                       | variable                        | variable                 | fixed                |
| Additional collateral                           | none   | none                 | none                           | none                            | none                     | none                 |
| Other conditions                                | none   | none                 | none                           | none                            | none                     | none                 |
| Kind of risk                                    | interest rate/FX/equity                      | interest rate/FX     | FX                             | interest rate/FX                | interest rate/FX         | FX                   |

| As of December 31, 2003                         |  |                      |                                 |                                 |                          |                      |
|---|--|----------------------|---------------------------------|---------------------------------|--------------------------|----------------------|
| Kind of instrument                              | Swaps (IRS, equity, volatility, with option) | FX swaps             | FX options                      | CCSs                            | Asset swaps              | FX forwards          |
| Number of transaction                           | 76   | 134                  | 49                              | 23                              | 8                        | 288                  |
| Fair value                                      | 6,269,914.34                                 | 5,462,694.66         | 65,455.80                       | -32,757,864                     | -25,268,192.00           | 10,385,711           |
| Purpose   | tradable/hedge                               | tradable             | tradable                        | tradable                        | hedge                    | tradable             |
| Notional value                                  | 6,008,809,342.39                             | 6,634,745,534.46     | 186,676,613.78                  | 2,768,340,498                   | 224,072,450.00           | 982,206,692          |
| Future revenues/payments                        | variable                                     | variable             | variable                        | variable                        | variable                 | variable             |
| Maturity  | 13-04-04 to 22-10-10                         | 02-01-04 to 20-12-04 | 02-01-04 to 07-12-04            | 26-01-04 to 03-09-12            | 14-02-06 to 10-12-08     | 02-01-04 to 28-02-05 |
| Possible premature settlement                   | none   | none                 | none                            | none                            | none                     | none                 |
| Price/price bracket                             | margin from -181 bps to +238 bps             | none                 | premium from PLN 750 to 353,000 | margin from -62 bps to +260 bps | margin from 0 to 440 bps | none                 |
| Possible swap for other asset/liability         | none   | none                 | none                            | none                            | none                     | none                 |
| Agreed rates/amounts of interest, payment dates | variable                                     | fixed                | variable                        | variable                        | variable                 | fixed                |
| Additional collateral                           | none   | none                 | none                            | none                            | none                     | none                 |
| Other conditions                                | none   | none                 | none                            | none                            | none                     | none                 |
| Kind of risk                                    | interest rate/FX/equity                      | interest rate/FX     | FX                              | interest rate/FX                | interest rate/FX         | FX                   |

**Valuation of embedded instruments (the Bank, PLN '000)**

|                                       | January 01, 2004 | Gains/Losses in the Income Statement | June 30, 2004 |
|---------------------------------------|------------------|--------------------------------------|---------------|
| Options embedded in customer deposits | -10,060          | -2,875                               | -12,935       |

**b) methods and material assumptions used to establish fair value of financial assets and liabilities valued at that value**
**Debt securities**

Valuation of the portfolio of 'tradable' and 'available for sale' debt securities is made at the end of each month in accordance with the following assumptions:

Treasury bonds:

1. Variable interest bonds: accordingly valuation model based on market prices for fixed rate bonds and value of WIBOR (Nelson-Siegl-Svensson curve)
2. Fixed interest and zero coupon bonds: at best market BID price established by active market participants at 4:00 p.m. as published by Reuters;
3. Bonds for which the market price is not available are valued at amortized cost, in particular, the valuation covers purchase price adjusted for accrued interest, discount, premium.

Bonds issued by entities other than State Treasury:

Bonds for which market price is not available are valued at amortized cost, in particular, the valuation covers purchase price adjusted for accrued interest, discount, premium.

Treasury bills:

Market price is calculated based on the best yield offered by buyers and the best yield offered by sellers as established by active market participants. Yields are published by Reuters.

Foreign currency denominated securities:

Valuation is based on the price established in the active regulated market in which these securities are publicly traded and information on prices is readily available. In the absence of quotations in the regulated market, the price established by active market participants is deemed to be a market price. Prices are published by Reuters and Bloomberg. Bonds for which the market price is not available are valued at amortized cost, in particular, the valuation covers purchase price adjusted for accrued interest, discount, premium.

**Derivatives are valued using the following models:**

- *FX Forwards*

Forward rates used to value forwards are calculated based on the NBP's current fixing for all currencies in the table and interest rates on deposits in individual currencies with reference to their maturity (taken from Reuters screens).

In case of interest rates on deposits placed for 1 week to 9 months, LIBOR rates are used for most currencies. Interest rates on deposits denominated in DKK, NOK, SEK, and CZK are taken from Reuters screens. All interest rates on PLN deposits (from 1W to 9M) are from the WIBO screen.

For maturities over 1 year to 24 months rates from a spot curve are used (for all currencies included in the table). As a starting point, actively traded swap curves are used to calculate the spot curve. These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Rate calculations are based on a 30-day month.

- *Forward Rate Agreement*

To value FRAs the Bank uses an application running in the IBIS system. In order to calculate a discounting factor, the Bank applies rates from a spot curve. As a starting point, actively traded swap curves are used to calculate the spot curve (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modeled mathematically to obtain discounting factors. The valuation consists in calculation of the difference between the agreed interest rate and the relevant market rate for FRA from REUTERS screens applied to the underlying principal. The value so calculated is discounted using discounting factors.

- *FX SWAP*

To value FX swaps the Bank has its own application developed on the model of Bloomberg's application.

Actively traded swap curves are used as a starting point of the model (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modeled mathematically to obtain discounting factors.

In market valuation, an fx swap is treated as taking a long position in one currency and a short position in another currency. Finally, the market value of the fx swap is calculated as the summation (taking into consideration signs for long and short positions) of current values of all payments. Payments in foreign currencies are translated at the current fixing rate for discounted cash flows. For points outside the spot curve, the model applies the linear interpolation method.

- *Interest rate swap*

To value PLN interest rate swaps the Bank has its own application developed on the model of Bloomberg's application. Actively traded swap curves are used as a starting point of the model (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modeled mathematically to obtain discounting factors. Spot curves also enable to calculate variable coupons as implied forward rates, which represent a current forecast.

In market valuation, a swap is treated as taking a long position in a fixed interest bond and a short position in a variable interest security (or vice versa). Each cash flow generated by this combination (fixed coupon from the underlying contract, variable coupon based on implied forward rates) is calculated at the valuation date using appropriate discounting rates. Finally, the market value of the swap is calculated as the summation (taking into consideration signs for long and short positions) of current values of all payments. For points outside the spot curve, the model applies the linear interpolation method. Terms of cash flows are established in accordance with the contract.

- *Cross currency swap*

To value cross currency swaps the Bank uses its own application developed on the model of Bloomberg's application. Actively traded swap curves are used as a starting point of the model (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modeled mathematically to obtain discounting factors. Spot curves also enable to calculate variable coupons as implied forward rates, which represent a current forecast. In market valuation, a swap is treated as taking a long position in a fixed/variable interest bond in one currency and a short position in a fixed/variable interest bond in another currency. Each cash flow generated by this combination is discounted (fixed coupons from the underlying contract are discounted using discounting factors, variable coupons are discounted using relevant discounting factors and converted into PLN in accordance with the fixing rate of the NBP valid on the valuation date). Finally, the market value of the cross currency swap is calculated as the summation (taking into consideration signs for long and short positions) of current values of all payments.

For points outside the spot curve, the model applies the linear interpolation method for all currencies. Terms of cash flows are established in accordance with the contract.

- *Options*

Options are valued using the Garman-Kohlhagen model. A starting point of the Garman-Kohlhagen method is the option valuation model developed by Black and Scholes for shares that pay dividends on a continuous basis. One of basic assumptions of this model is that the normal distribution applies to fluctuations of price of the underlying instrument. Inferences from statistical tests do not support this assumption since tested empirical distributions are characterized by non-zero skewness and "fat tails" and, therefore, the probability of significant deviations from an expected value is higher than in case of the normal distribution. In option valuations, the market takes into account this fact on a par with a liquidity premium. The implied variation resulting from quotations is several times higher than the variation based on historical data. Hence, as the source of information on the implied variation parameter we use daily quotations of brokerage houses such as: Prebon – Marshall London, Tullet – Tokyo London, Garban Intercapital London, JP Morgan London. We also take an

opportunity to obtain data on the value of this parameter from active participants in the option market, i.e.: BRE Bank Warszawa, Bank Handlowy Warszawa, Deutsche Bank London, Royal Bank of Scotland. Interest rates for the original transaction and a reverse hedging transaction are established as follows: for PLN – mid rate (arithmetic mean of WIBID/WIBOR prevailing on the trade date), for foreign currencies – relevant LIBOR rate prevailing on the trade date. The Bank adopted the linear interpolation method to establish market transaction parameters for unusual delivery terms.

Sell Buy Back (SBB) transactions are valued at amortized cost, whereas securities being subject of those transactions are recognized in balance sheet and valued in line with rules devoted to particular securities portfolios.

Buy – sell back (BSB) transactions are valued at amortized cost whereas securities being subject of those transactions are eliminated from balance sheet.

### c) accounting principles adopted for financial instruments purchased in a regulated market

The Bank purchases financial instruments also in a regulated market; those financial instruments are booked using settlement date method.

### d) information on interest rate risk

Analysis of revaluation periods of on- and off-balance sheet items subject to interest rate risk (PLN '000,000)

| ASSETS  | revalued         |                      |                      |                       |                     |                     |              | Total            |
|---|------------------|----------------------|----------------------|-----------------------|---------------------|---------------------|--------------|------------------|
|   | up to 1 month    | within 1 to 3 months | within 3 to 6 months | within 6 to 12 months | within 1 to 3 years | within 3 to 5 years | over 5 years |                  |
| Interbank deposits placed                             | 1,223.07         | 552.12               | 149.87               | 135.23                | 0.00                | 0.00                | 0.00         | <b>2,060.28</b>  |
| Loans granted to financial and non-financial entities | 7,033.75         | 222.40               | 28.04                | 808.76                | 0.00                | 0.00                | 0.00         | <b>8,092.95</b>  |
| Securities (with buy and sell transactions)           | 709.55           | 871.44               | 350.85               | 1,798.03              | 1,182.05            | 125.67              | 14.67        | <b>5,052.27</b>  |
| Interest rate swaps                                   | 445.54           | 2,612.65             | 1,707.52             | 2,605.42              | 612.95              | 784.33              | 0.00         | <b>8,768.41</b>  |
| FRAs  | 199.32           | 445.57               | 788.85               | 534.36                | 0.00                | 0.00                | 0.00         | <b>1,968.11</b>  |
| Other assets at interest rate risk                    | 5,436.03         | 3,402.69             | 1,440.89             | 943.68                | 370.13              | 58.31               | 0.00         | <b>11,651.73</b> |
| Other assets  | 425.43           | 0.00                 | 0.00                 | 3,190.39              | 0.00                | 0.00                | 0.00         | <b>3,615.82</b>  |
| <b>Total assets</b>                                   | <b>15,472.69</b> | <b>8,106.88</b>      | <b>4,466.01</b>      | <b>10,015.87</b>      | <b>2,165.14</b>     | <b>968.31</b>       | <b>14.67</b> | <b>41,209.57</b> |

| LIABILITIES                             | revalued         |                      |                      |                       |                     |                     |              | Total            |
|---|------------------|----------------------|----------------------|-----------------------|---------------------|---------------------|--------------|------------------|
|   | up to 1 month    | within 1 to 3 months | within 3 to 6 months | within 6 to 12 months | within 1 to 3 years | within 3 to 5 years | over 5 years |                  |
| Interbank deposits taken                | 1,205.68         | 173.13               | 76.07                | 37.09                 | 35.95               | 0.00                | 0.00         | <b>1,527.92</b>  |
| Deposits taken from clients             | 7,517.03         | 2,382.76             | 1,028.75             | 1,352.99              | 37.37               | 0.03                | 0.00         | <b>12,318.93</b> |
| Debt securities issued                  | 0.00             | 0.00                 | 925.13               | 0.00                  | 90.51               | 65.30               | 0.00         | <b>1,080.94</b>  |
| Interest rate swaps                     | 1,739.16         | 2,092.55             | 1,320.12             | 1,349.96              | 1,309.34            | 988.45              | 0.00         | <b>8,799.58</b>  |
| FRAs                                    | 199.32           | 395.98               | 1,083.16             | 289.59                | 0.00                | 0.00                | 0.00         | <b>1,968.05</b>  |
| Other liabilities at interest rate risk | 6,679.41         | 3,088.78             | 1,123.90             | 450.61                | 144.99              | 133.90              | 0.00         | <b>11,621.60</b> |
| Other liabilities                       | 0.00             | 515.84               | 0.00                 | 3,376.70              | 0.00                | 0.00                | 0.00         | <b>3,892.54</b>  |
| <b>Total liabilities</b>                | <b>17,340.60</b> | <b>8,649.04</b>      | <b>5,557.13</b>      | <b>6,856.95</b>       | <b>1,618.16</b>     | <b>1,187.68</b>     | <b>0.00</b>  | <b>41,209.57</b> |
| <b>Mismatch in revaluation periods</b>  | <b>-1,867.91</b> | <b>-542.16</b>       | <b>-1,091.12</b>     | <b>3,158.93</b>       | <b>546.97</b>       | <b>-219.37</b>      | <b>14.67</b> | <b>0.00</b>      |

**e) information on credit risk (the Bank, PLN '000):**

| Classes of financial assets and liabilities   | Amount    |
|---|-----------|
| <b>I. ASSETS WITH 0% RISK WEIGHT</b>  |           |
| - Cash and cash equivalents   | 222,385   |
| - Accrued interest disclosed in restricted income   | 179,571   |
| - Amounts due from class I entities   | 664,137   |
| - Amounts due from class II and class III entities, collateralized part                                     | 425,488   |
| - Debt securities issued by class I entities  | 2,545,268 |
| - Debt securities issued by class II and class III entities, part underwritten by class I entities          | 0         |
| - Assets on valuation of off-balance sheet liabilities  | 389,968   |
| Equity decreasing assets (including assets of brokerage houses from the Bank organizational structures)     | 525,543   |
| <b>II. ASSETS WITH 20% RISK WEIGHT</b>  |           |
| - Amounts due from class II entities, part not subject to 0% risk weight                                    | 2,546,690 |
| - Amounts due from class III entities, collateralized part  | 198,362   |
| - Debt securities issued by class II entities   | 215,939   |
| <b>III. ASSETS WITH 50% RISK WEIGHT</b>   |           |
| - Amounts due from class III entities, part collateralized with mortgage on inhabited or leased real estate | 947,079   |
| - Other on-balance sheet settlement accounts  | 353,541   |



|  |            |
|--|------------|
| IV. ASSETS WITH 100% RISK WEIGHT   |            |
| - Amounts due not subject to lower risk weights  | 5,623,576  |
| - Securities, shares and other equity of other entities not subject to lower risk weights                  | 1,578,462  |
| - Fixed assets   | 621,633    |
| - Intangible assets not decreasing equity of the Bank  | 0          |
| - Other assets not decreasing equity of the Bank   | 3,071      |
| Contractor risk 20%  |            |
| 1. Product risk weight 0% (low risk)   |            |
| - unused loan commitments with original maturity up to 1 year or with the unconditional termination clause | 61,377     |
| 2. Product risk weight 50% (medium risk)   |            |
| - unused loan commitments with original maturity up to 1 year  | 9,800      |
| 3. Product risk weight 100% (full risk)  |            |
| - guarantees granted regarded as loan substitute   | 50,411     |
| - forwards and options   | 15,276,494 |
| Contractor risk 50%  |            |
| - forwards and options   | 932,312    |
| Contractor risk 100%   |            |
| 1. Product risk weight 0% (low risk)   |            |
| - unused loan commitments with original maturity up to 1 year or with the unconditional termination clause | 2,320,050  |
| 2. Product risk weight 50% (medium risk)   |            |
| - unused loan commitments with original maturity up to 1 year  | 5,000      |
| 3. Product risk weight 100% (full risk)  |            |
| - guarantees granted regarded as loan substitute   | 426,105    |
| Assets included in the trading portfolio of the Bank   | 3,510,463  |
| Off-balance sheet liabilities included in the trading portfolio  | 2,909,669  |

#### 4.2.2. Tradable or available for sale financial assets valued at amortized cost if their fair value could not be reasonably obtained

Securities not valued at fair value are issued by non-financial entities. These securities are traded neither in a regulated market nor in the interbank marked and, therefore, the Bank could not reasonably establish their fair value including prevailing margin for credit risk.

In addition, the Bank does not value at fair value NBP bonds issued in connection with the reduction of a mandatory reserve (lack of reliable quotations).

#### 4.2.3. Financial assets and liabilities not valued at fair value

The Bank values all tradable and available for sale portfolio assets as well as tradable portfolio financial liabilities at fair value, with the exception of assets presented in item 4.2.2. and the equity swap (announced by the Bank in its communication of October 1, 2003) linked with a capital instrument not listed in the market. In this case, it is impossible to obtain a reliable valuation at fair value.

**4.2.4. Agreements under which financial assets are converted into securities or repurchase agreements**

As of June 30, 2004, no such item was recorded. However Bank is involved in transactions with buy back clause (SBB) which are presented in point 4.1.

**4.2.5, 6. Effects of valuation of financial assets available for sale at fair value**

**Available for sale financial assets at fair value (data for the Bank, tax effect not accounted for):**

| Debt securities in PLN '000 | Fair value at the beginning of the period (equity) | Change in fair value of portfolio securities held at the beginning and at the end of the period* | Transfer from revaluation reserve to the Income Statement (result on sale) | Charge-offs of valuation from equity due to securities maturity | Period-end fair value of debt securities purchased during the period | Fair value of debt securities at the end of the period ** |
|-----------------------------|--|--|--|---|--|---|
| available for sale          | 13,062   | -3 621   | 947  | 110   | -2,247   | 6,137   |

\*the amount includes the change in the value of available for sale securities subject to fair value hedge that was accounted for in the income statement

\*\*the amount of PLN 6,137 thousand includes the value of securities available for sale amounting to PLN –2,247 thousand accounted for in equity and PLN 8,383 thousand in respect of the value of securities available for sale and pledged as collateral. Additionally revaluation reserve (opening balance) covers valuation of available for sale securities pledged as collateral amounted to PLN 686 thousand.

**4.2.7. Information on revenues and expenses in respect of those financial assets sold that could not be previously valued at fair value, including the on-balance sheet value of assets as of the date of sale**

As of June 30, 2004, no such item was recorded.

**4.2.8. In case of financial assets valued at fair value reclassified to assets valued at adjusted purchase price, the reasons of adopting the new valuation method should be stated**

As of June 30, 2004, no such item was recorded.

**4.2.9. Information on revaluation charges in respect of permanent diminution in value of financial assets**

As of June 30, 2004, the Bank did not maintain any provision for permanent diminution in value of debt securities.

**4.2.10. Information on interest accrued on debt securities**

| PLN '000                      | up to 3 months | 3 to 12 months | over 12 months |
|-------------------------------|----------------|----------------|----------------|
| securities available for sale | 0              | 276            | 64,898         |
| tradable securities           | 1,742          | 13,587         | 34,732         |
| securities held to maturity   | 0              | 0              | 0              |

**4.2.11. Information on suspended interest**

Information on suspended interest is disclosed in Note 27 to the Balance Sheet ("Other deferred income and restricted income").

**4.2.12. Information on interest accrued on own debt financial instruments issued (data for the Bank)**

| Liability category                               | up to 3 months | 3 to 12 months | over 12 months |
|--|----------------|----------------|----------------|
| Liabilities in respect of debt securities issued | 0              | 10,747         | 2,399          |

**4.2.13. Information on nominal value of underlying instruments subject to derivative contracts**

Information is disclosed in Section 4.1.

**4.2.14. Information on risk management goals and procedures****Risk management function at Bank Millennium S.A.**

The main objective of a policy adopted to manage banking risks is to quantify and to parameterize comprehensively various types of risk in order to optimize the structure of the Bank's on- and off-balance sheet items in view of profitability levels assumed for its business operations. An important element of the risk management at the Bank is on-going risk monitoring and reporting of any changes to relevant organizational units as part of management information.

The key areas of risk analysis include credit, market, liquidity and operational risks.

At the strategic level, the Management Board of the Bank is in charge of formulating and monitoring risk management policies. At the operational level, the Risk Management Department, the Equity, Asset and Liability Committee and the Credit Committee are responsible for managing particular banking risk areas, their on-going control, as well as for defining current policies within the framework set out by the Management Board.

All the risks are monitored and controlled against the profitability of the Bank's operations and capital levels necessary to ensure that the Bank's operations are secure in light of capital requirements.

**Credit risk management**

Within the framework of its credit policy, the Bank continued projects to build an optimized environment for lending operations, i.e. through maximization of effectiveness of the lending process in parallel with improvement of credit risk management tools, and also implementation of other solutions to increase the safety level of the Bank's lending operations. To achieve the above goals, the Bank adopted or updated several internal regulations as follows:

- principles to manage credit exposure concentrations were laid down to ensure the appropriate quality of assets from transactions subject to credit risk and their satisfactory profitability;
- credit exposure classification rules were modified in line with updated internal regulations;
- new rules for monitoring and recovery of amounts due from individuals (a separate organizational unit of the Bank was established to this end);
- rules for granting mortgage loans were modified (including competences and authorizations of decision-making levels in the area of these loans);
- risk control procedures for factoring services provided by the Bank were amended.

The major aim for the Bank in the area of credit policy was to improve the promptness and quality of customer service. Therefore, the Bank enhanced the utilization of a system that supports analyses of the financial and market situation of customers, as well as the formal decision-making process for credit decisions, which increased the effectiveness of the entire credit process. Furthermore, the Bank continued employee training programs (based primarily on internal training courses) in the area of customer care and in-depth knowledge of applicable laws and regulations, as well as financial analysis of customers. The Bank cooperated with customers from all the segments in the area of credit-risk transactions. The key cooperation tool in the corporate customers segment was the internal credit limit (introduced previously). The Bank prefers those customers that have an account with the Bank and realize transactions on it, as well as customers that keep their assets at the Bank. Due to such an approach, in addition to scrupulous verifications of customers in the available borrower databases, the Bank tries to know its customers by the history of their accounts.

The Bank believes that the collateral policy in respect of transactions associated with credit risk is of particular importance. Such policy is tailored to, among other things, changes in laws and regulations (e.g. Bankruptcy and Restructuring Law) and current internal regulations, always with due regard to forms of collateral valid in law. The Bank negotiates collateral individually with each customer and prefers such forms of collateral that enable to decrease the base used to calculate a specific provision.

The Bank requires collateral in proportion to the assessed credit risk, which means that in some circumstances the Bank can accept different collateral to meet the requirement of diversification of the credit risk while in case of first-rate customers the Bank can put aside its collateral requirements, regarding their good financial standing and market position as a sufficient collateral.

**Market risk management**

Market risk is the uncertainty that interest rates, foreign exchange rates and prices of securities and derivative instruments held by the Bank will depart from originally assumed levels and lead to uncontrolled gains and losses on positions maintained by the Bank.

In 2004, the Bank was still improving its market risk control system in order to both adapt it to requirements resulting from the evolution of the Bank's financial operations, e.g. increasing trade in financial instruments and their diversification, and to implement specific risk control procedures in compliance with laws and regulations in force.

All the introduced changes observed the principle of separation of control and operating functions and covered areas connected with the organization and the methods of risk control. The Bank, following the best banking practices, refines risk measurement tools and develops risk assessment methods to confine, as a result, market risk.

The key tool used by the Bank for the purposes of day-to-day management of its market risk is the Value at Risk ('VaR') method, in addition to methods recommended by the NBP (Poland's central bank). The VaR method is the estimation of possible gains or losses (based on historical data and at 0.99 confidence level) that can arise as a result of market fluctuations based on the assumption that a given position is held unchanged till its closing. The Value

at Risk method is applied to trading and banking portfolios that include all on-balance sheet and off-balance sheet financial instruments (for interest rates in Polish zlotys and foreign currencies and for fx risk of open O/N position in foreign currencies).

As a supplement to the Value at Risk method, the Bank tests the historical adequacy of the adopted model ('backtesting') and develops scenario analysis tools for measuring risks connected with trade portfolios. Such methods are very useful in case of extraordinary events, which cannot be anticipated by the Value at Risk method. Scenarios assume sudden and significant changes of risk factors that lead to extreme conditions (so-called stress testing).

In the first three months of 2004, as part of unification of the market risk evaluation method at all banking units associated with BCP, the new market risk limits were introduced:

- general market risk limit approved for Bank Millennium (also by Treasury and CALCO);
- loss limit for fx risk;
- limit for price risk of shares held;
- interest rate risk has to fall within the upper market risk limit;
- current and quarterly liquidity limits;
- limit for liquid asset ratio.

In addition, internal stop loss limits for open fx positions were maintained and the current limit for a global open fx position in relation to the equity of the Bank wasn't changed.

It should be mentioned that any limit in force in the first half of 2004 was not exceeded since the Bank has pursued a prudent policy in the area of market risk.

#### *Interest rate risk*

In the area of interest risk management, the Bank intended to maximize the market value of capital, to generate assumed net interest income within adopted limits and to ensure positive cash flows.

The Bank's exposure to fluctuating interest rates is limited and monitored with such tools as value at risk measurement (including empirical distribution of probability of 10-day fluctuations of interest rates), gap analysis on the revaluation date, duration analysis, scenario forecasting, simulations based on macroeconomic forecasts and stress testing.

In addition to the value at risk method (VaR), the Bank also estimates hypothetical changes of the financial result (earnings at risk – EaR) resulting from fluctuations in market interest rates.

#### *Foreign exchange risk*

The main goal of the fx risk management function is to shape the structure of assets and liabilities in foreign currencies as well as off-balance sheet items within the framework of external and internal limits as specified in the Banking Law.

For open positions, fx risk was monitored with statistical tools such as VaR that include empirical distribution of probability of 10-day fluctuations of interest rates.

#### *Risk connected with derivatives*

Transactions on financial derivative instruments are made to secure open balance sheet positions (hedging), as well as for trading purposes (within the internal limits). Basic derivatives used by the Bank to manage interest rate risk and fx risk are fx forwards, forward rate agreements, interest rate swaps, currency swaps, and currency options.

Since its derivatives trade business is continuously increasing, the Bank has amended organizational and methodological rules regarding the control and management of the related risks. The process used to manage risks associated with derivative instruments is now evolving toward the recommendations issued by the Basle Committee for that business area.

Financial derivative instruments are regularly valued (on a daily basis) at current market prices (mark-to-market) or, if no market quotations are available, by valuation models that are – as the Bank believes – the most appropriate appraisal vehicles to determine their fair value. At the time of valuation, any changes in the value of derivatives are reflected in the income statement of the Bank.

### **Liquidity risk**

The most important objective of the liquidity risk management function is to manage assets held by the Bank so as to ensure that all the contractual liabilities of the Bank to its customers are met when due, taking into accounts unfavorable scenarios of changes in its environment. Liquidity risk could also arise when the Bank faced difficulties to obtain funds necessary to cover financial needs connected with its operations or when it was unable to cash its trading assets in a relatively short period and at market prices. Therefore, the liquidity reserve is composed of the portfolio of treasury securities characterized by the highest liquidity in the secondary market.

The Bank controls its liquidity risk on a daily basis using the net liquid asset method (liquidity gap). In order to ensure necessary current liquidity, the Bank keeps the mandatory reserve at levels required by the central bank, assets on nostro accounts necessary to carry out non-cash settlements, cash at the Bank's vaults, and a liquidity reserve consisting of highly marketable financial instruments.

The Bank invests its assets mostly in debt securities issued by the Government of Poland, as well as in financial instruments issued by other banks and corporations with the highest ratings. Such investments ensure high liquidity and desired yields – they are readily marketable and, thus, make up the main body of the Bank's liquidity reserve.

The Bank's investment policy is in compliance with requirements set forth in the Banking Law and recommendations issued by the central bank. The ratio of liquid assets is limited (at the level of 20%), representing the share of liquid assets in the balance sheet total of the Bank. In addition, the Bank monitors concentration of liabilities due to major clients and changes in the structure of assets and liabilities (both on- and off-balance sheet) and, therefore, is able to detect unfavorable tendencies regarding liquidity at an early stage. The Bank also performs regular analyses of the deposit base stability, premature deposit withdrawals and the scale of unauthorized overdrafts.

The Bank has implemented procedures to be followed in situations that can lead to a significant increase in liquidity risk, so-called contingency plan to be activated in case of deterioration of the Bank's liquidity.

### **Operational risk**

Operational risk is inevitably linked with all types of risk generated in the course of the Bank's operations. This is the risk of losses incurred as a result of inappropriate or deficient internal actions or processes, acts of humans, systems, and the impact of external events. Special immeasurable aspects of that risk include the risk of fraud by an employee or a third party, inappropriate authorizations of transactions, defects of hardware and teleinformation systems, insufficient training of employees, as well as the risk of human error.

The Bank is now introducing a transparent identification, monitoring and reporting system for operational risk. One of the tools used to neutralize possible risks and to eliminate their results are risk self-assessment procedures, which take into account all the processes used by the Bank.

In addition, the Bank is currently implementing a system and methodology for managing operational risk in conformity with recommendations of Poland's Banking Supervisory Commission and international standards. One of the key components of the system will be a database of operational risk events. The Bank also intends to build in self-control devices in individual processes, in particular IT ones, as well as in banking products.

#### 4.2.15. Information on hedging instruments, including breakdown into fair value hedging, cash flows hedging, and hedging of investment in a foreign entity

##### Hedging instruments (the Bank, PLN '000):

|                                | Hedging of fair value as of Jun. 30, 2004 | Hedging of fair value as of Dec. 31, 2003 | Hedging of cash flows as of Jun. 30, 2004 | Hedging of cash flows as of Dec. 31, 2003 | Hedging of shares in net assets of foreign entities as of Jun. 30, 2004 | Hedging of shares in net assets of foreign entities as of Dec. 31, 2003 | TOTAL as of Jun. 30, 2004 | TOTAL as of Dec. 31, 2003 |
|--------------------------------|---|---|---|---|---|---|---------------------------|---------------------------|
| FX risk and interest rate risk | 437,548                                   | 437,868                                   | -   | -   | -   | -   | 437,548                   | 437,868                   |
| Interest rate risk             | 181,688                                   | 296,298                                   | -   | -   | -   | -   | 181,688                   | 296,298                   |
| FX risk                        | 326,782                                   | 0   |   |   |   |   | 326,782                   | 0                         |
| <b>TOTAL</b>                   | <b>946,018</b>                            | <b>734,166</b>                            | <b>0</b>                                  | <b>0</b>                                  | <b>0</b>  | <b>0</b>  | <b>946,018</b>            | <b>734,166</b>            |

As of June 30, 2004, the Bank had the following hedging transactions:

- CCIRS and IRS which are deemed as the hedging of fair value of fixed-rate eurobonds. For CCIRS transactions, the hedging consists in converting a fixed interest rate into a floating interest rate, and a nominal value in a foreign currency into PLN, while for IRS transactions, the hedging consists in converting a fixed interest rate into a floating interest rate. The valuation of hedging CCIRS and IRS transactions and their supported eurobonds is disclosed in the income statement,
- CCIRS transactions which are deemed as the hedging of fair value of future payments denominated in foreign currency. These transactions hedge changes in fair value of fx payments in respect of fx risk (revaluation of items to the NBP's fixing rate). The valuation of hedging CCIRS transactions and changes in fair value of fx payments on account of fx risk are presented in the income statement.

##### Adjustment to fair value of hedging instruments (PLN '000):

|                                     | January 01, 2004 | Gains/losses on the Income Statement | June 30, 2004  |
|-------------------------------------|------------------|--------------------------------------|----------------|
| - interest rate transactions        | -3,207           | 480                                  | -2,727         |
| - FX and interest rate transactions | -11,510          | 4,240                                | -7,270         |
| - FX transactions                   | 0                | -9,953                               | -9,953         |
| <b>TOTAL</b>                        | <b>-14,716</b>   | <b>-5,234</b>                        | <b>-19,950</b> |

#### 4.2.16. Information on hedging of planned transactions or probable future liabilities

As of June 30, 2004, the Bank hedged future fx payments resulting from concluded contracts. This hedging is discussed in item 4.2.15.

#### 4.2.17. Information on hedging of cash flows

As of June 30, 2004, the Bank had no hedging instruments for cash flows.

## 5. OPTIONS FOR SUBSCRIPTION OR SALE OF ORDINARY SHARES

From January 1, 2004 to June 30, 2004, entities of the Bank Millennium Group signed no contract for options for subscription or sale of ordinary shares.

## 6. DETAILED INFORMATION ON ASSETS USED AS SECURITY OF LIABILITIES

As of June 30, 2004, the following assets of Bank Millennium S.A. were used as security of liabilities:

- 10-year variable-rate Treasury bonds (DZ0109), total nominal value of PLN 163,480 thousand, were pledged to secure liabilities to Credit Suisse First Boston International.
- 10-year variable-rate Treasury bonds (DZ0109), total nominal value of PLN 97,315 thousand were pledged on behalf of the NBP (Poland's central bank) as security of the aid granted to the Bank by the NBP.
- Treasury bonds of 10-year State loan with variable interest rate (DZ0109) and nominal value PLN 75,000 thousand were blocked for purposes of a lombard loan extended by NBP to the Bank.
- Treasury bonds of 10-year State loan with variable interest rate (DZ0811) and nominal value of PLN 230,000 thousand were blocked for purposes of a lombard loan extended by NBP to the Bank.
- Treasury bills with nominal value of PLN 100,000 thousand were blocked for a technical loan extended by the NBP to the Bank.
- Treasury bills with nominal value of PLN 35,000 thousand constitute a collateral of the Fund for Protecting Guaranteed Funds within the Bank Guarantee Fund.

## 7. INFORMATION ON SELL-BUY-BACK TRANSACTIONS NOT INCLUDED IN THE BALANCE SHEET

Data on sell-buy-Back and buy-sell-back transactions concluded by the entities of the Bank Millennium Group is presented in the balance sheet of the Group.

## 8. INFORMATION ON FINANCIAL OBLIGATIONS EXTENDED, INCLUDING IRREVOCABLE OBLIGATIONS EXTENDED

Data on unused credit lines have been presented in Additional Notes to these financial statements.

## 9. DATA ON THE OFF-BALANCE SHEET ITEMS, IN PARTICULAR ON CONTINGENT LIABILITIES (PLN '000)

|  | June 30, 2004 | June 30, 2003 |
|--|---------------|---------------|
| Total contingent liabilities granted   | 2,872,743     | 2,713,677     |
| Contingent liabilities granted to consolidated companies                           | 225,538       | 359,700       |
|  |               |               |
| Total liabilities related to financing granted                                     | 2,381,427     | 2,290,605     |
| Liabilities related to financing granted to subsidiaries and associated companies: |               |               |
| - consolidated   | 170,347       | 359,503       |
| - subject to the equity method   | 6,147         | 14,834        |
| - neither consolidated nor subject to the equity method                            | -             | -             |
|  |               |               |
| Total guarantees and sureties granted  | 491,316       | 423,072       |
| Guarantees and sureties granted to subsidiaries and associated companies:          |               |               |
| - consolidated   | 55,191        | 197           |
| - subject to the equity method   | 84            | 90            |
| - neither consolidated nor subject to the equity method                            | -             | -             |



As of June 30, 2004, the total number of guarantees and sureties issued (including bills of exchange and other guarantee type liabilities, excluding guarantees and sureties from the European Fund for Polish Country Development) was 1,384. With guarantees and warranties regarding the European Fund for Polish Country Development (Europejski Fundusz Rozwoju Wsi Polskiej) their value was as follows (after elimination of intragroup transactions):

| Customer - sector  | Expiration     |                    |                |                  | TOTAL          |
|--------------------|----------------|--------------------|----------------|------------------|----------------|
|                    | Up to 3 months | 3 months to 1 year | 1 to 5 years   | Over 5 years     |                |
| - Financial        | 2,632          | 6,625              | 761            | 469              | <b>10,488</b>  |
| - Non-financial    | 24,789         | 110,277            | 196,001        | 37,616           | <b>368,682</b> |
| - Public           | 284            | 4,227              | 45,590         | 4,800            | <b>54,901</b>  |
| - Individuals      | 12             | 1,992              | 7,572          | 0                | <b>9,576</b>   |
| <b>GROSS TOTAL</b> | <b>27,717</b>  | <b>123,121</b>     | <b>249,924</b> | <b>42,885</b>    | <b>443,647</b> |
|                    |                |                    |                | <b>PROVISION</b> | <b>-22,322</b> |
|                    |                |                    |                | <b>NET TOTAL</b> | <b>421,325</b> |

Total value of contingent liabilities in respect of underwriting arrangements for issues of securities, pending as of June 30, 2004, was PLN 14,800 thousand (as shown in the table below):

| Entity       | Type of security - bonds | Expiration* | Liability as of June 30, 2004 (PLN '000) | Affiliation to the Bank | Marketability / presence on regulated market** |
|--------------|--------------------------|-------------|--|-------------------------|--|
| Entity No. 1 | zero-coupon              | 31-12-2006  | 5,000                                    | -                       | Secondary market                               |
| Entity No. 2 | coupon                   | 20-09-2005  | 6,800                                    | -                       | Secondary market                               |
| Entity No. 3 | coupon                   | 31-12-2009  | 1,000                                    | -                       | Secondary market                               |
| Entity No. 4 | coupon                   | 31-12-2008  | 800                                      | -                       | Secondary market                               |
| Entity No. 5 | coupon                   | 31-12-2008  | 1,200                                    | -                       | Secondary market                               |
| <b>TOTAL</b> | <b>X</b>                 | <b>X</b>    | <b>14,800</b>                            | <b>X</b>                | <b>X</b>                                       |

\* Final date of program agreement

\*\* None of these guarantees applies to securities to be traded publicly

#### 10. DATA ON LIABILITIES TO STATE BUDGET OR LOCAL SELF-GOVERNMENT AUTHORITIES IN RESPECT OF RECEIVING AN OWNERSHIP TITLE TO BUILDINGS AND OBJECTS

As of June 30, 2004, the Group had no such liabilities.

#### 11. INFORMATION ON REVENUE, COSTS AND RESULTS ON DISCONTINUED BUSINESS IN THE GIVEN PERIOD

From January 1 to June 30, 2004, the Group did not discontinue any business.

#### 12. COST OF FIXED ASSETS UNDER CONSTRUCTION AND FIXED ASSETS FOR OWN USE

Fixed assets under construction of Bank Millennium S.A. increased by PLN 3,888 thousand from January 1 to June 30, 2004.

### 13. CAPITAL EXPENDITURE INCURRED AND PLANNED FOR THE NEXT 12 MONTHS FROM THE BALANCE SHEET DATE

#### As of June 30, 2004:

Bank Millennium S.A.

- incurred PLN 5,634 thousand (including purchases of fixed assets and intangible assets from FORIN Sp. z o.o. for PLN 1,705 thousand)
- planned capital expenditures of Bank MILLENNIUM for July 1, 2004 to June 30, 2005 amount to PLN 45,865 thousand

BEL Leasing Sp. z o.o.

- incurred PLN 1,556 thousand
- planned PLN 1,950 thousand

FORINWEST Sp. z o.o.

- incurred PLN 0 thousand
- planned for 2004 PLN 24 thousand

Millennium DOM Maklerski S.A.

- incurred PLN 101 thousand
- planned for 2004 PLN 1,354 thousand

MILLENNIUM TFI

- incurred PLN 42 thousand
- planned for 2004 PLN 240 thousand

#### As of June 30, 2003:

Bank Millennium S.A.

- incurred PLN 115,083 thousand (including purchases of fixed assets from TBM Sp. z o.o. for PLN 85,933 thousand)
- planned for 2003 PLN 162,700 thousand

BEL Leasing Sp. z o.o.

- incurred PLN 759 thousand
- planned PLN 3,600 thousand

FORINWEST Sp. z o.o.

- incurred PLN 20 thousand
- planned for the second half of 2003 PLN 20 thousand

FORIN Sp. z o.o.

- incurred PLN 1,795 thousand
- planned for the second half of 2003 PLN 1,512 thousand

Millennium DOM Maklerski S.A.

- incurred PLN 116 thousand

TBM Sp. z o.o.

- incurred PLN 2,881 thousand

MILLENNIUM TFI

- incurred PLN 568 thousand
- planned for the second half of 2003 PLN 1,298 thousand

**14. ISSUER'S TRANSACTIONS WITH RELATED PARTIES**

The table below presents material intragroup transactions and balances eliminated from the respective items of the consolidated financial statements (PLN '000).

|   | June 30, 2004    | June 30, 2003    |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| <b>Cash and balances with Central Bank, of which:</b>   | <b>330,743</b>   | <b>372,532</b>   |
| - cash deposited with the Bank by:  |                  |                  |
| Millennium DOM Maklerski S.A.   | 218,840          | 237,604          |
| BEL Leasing Sp. z o.o.  | 30,024           | 26,057           |
| TFI Millennium S.A.   | 10,777           | 43,007           |
| TBM Sp. z o.o.  | 5,651            | 6,370            |
| BIG BG Inwestycje S.A.  | 19,393           | 20,812           |
| FORINWEST Sp. z o.o.  | 44,168           | 34,097           |
| <b>Amounts due, of which:</b>   | <b>1,696,503</b> | <b>1,777,314</b> |
| amounts due to the Bank from BEL Leasing Sp. z o.o.   | 10,656           | 86,290           |
| amounts due to the Bank from FORIN Sp. z o.o.   | 0                | 175,528          |
| amounts due to the Bank from FORINWEST Sp. z o.o.   | 246,114          | 64,117           |
| amounts due to the Bank from Millennium DOM Maklerski S.A.  | 22,250           | 20,250           |
| amounts due to FORINWEST Sp. z o.o. in respect of receivables purchased from BEL Leasing Sp. z o.o. | 60,196           | 73,565           |
| amounts due to FORINWEST Sp. z o.o. in respect of the borrowing from BEL Leasing Sp. z o.o.         | 220,000          | 0                |
| amounts due to the Bank in respect of receivables purchased from BEL Leasing Sp. z o.o.             | 1,136,811        | 1,352,418        |
| <b>Shares in consolidated subsidiaries</b>  | <b>1,154,587</b> | <b>1,215,814</b> |
| Elimination of shares upon consolidation within the Group:  |                  |                  |
| BEL Leasing Sp. z o.o.  | 20,694           | 20,694           |
| FORIN Sp. z o.o.  | 22,833           | 44,569           |
| FORINWEST Sp. z o.o.  | 15,745           | 15,745           |
| Millennium DOM Maklerski S.A.   | 16,500           | 16,500           |
| DEBT Services Sp. z o.o.  | -                | 10,819           |
| BET Trading Sp. z o.o.  | -                | 30,550           |
| BIG BG Inwestycje S.A.  | 1,058,218        | 1,058,218        |
| TBM Sp. z o.o.  | 4,614            | 3,840            |
| BBG FINANCE B.V.  | 5,533            | 5,429            |
| TFI Millennium S.A.   | 10,450           | 9,450            |
| <b>Debt securities, of which:</b>   | <b>29,308</b>    | <b>0</b>         |
| value of debt securities in SBB transaction concluded by DOM Maklerski and Bank MILLENNIUM          | 29,308           | 0                |
| <b>Other debt securities and financial assets:</b>  | <b>1,762</b>     | <b>73,951</b>    |
| assets on SWAP valuation at the Bank  | 154              | 20,115           |
| assets on SWAP valuation at BEL Leasing Sp. z o.o.  | 1,608            | 53,836           |
| <b>Other assets, of which:</b>  | <b>34,518</b>    | <b>8,634</b>     |
| additional capital paid in to subsidiaries:   |                  |                  |
| - FORIN Sp. z o.o.  | 20,025           | -                |
| - DEBT Services Sp. z o.o.  | -                | 5,889            |

**LIABILITIES AND EQUITY****Amounts due, of which:**

|   | <b>June 30, 2004</b> | <b>June 30, 2003</b> |
|---|----------------------|----------------------|
| <b>Amounts due, of which:</b>   | <b>2,023,131</b>     | <b>2,134,883</b>     |
| amounts due from the Bank to BEL Leasing Sp. z o.o.                                     | 30,100               | 26,183               |
| amounts due from the Bank to Millennium DOM Maklerski S.A.                              | 219,855              | 240,438              |
| amounts due from the Bank to TBM Sp. z o.o.   | 5,651                | 6,452                |
| amounts due from the Bank to BET Trading Sp. z o.o.                                     | 0                    | 1,215                |
| amounts due from the Bank to FORINWEST Sp. z o.o.                                       | 44,168               | 34,097               |
| amounts due from the Bank to TFI Millennium S.A.  | 10,777               | 43,007               |
| amounts due from the Bank to BIG BG Inwestycje S.A.                                     | 19,393               | 20,812               |
| amounts due from BEL Leasing Sp. z o.o. to FORINWEST Sp. z o.o.                         | 280,196              | 73,565               |
| amounts due from BEL Leasing Sp. z o.o. to the Bank                                     | 1,147,363            | 1,424,791            |
| amounts due from FORIN Sp. z o.o. to the Bank   | 0                    | 175,528              |
| amounts due from FORINWEST Sp. z o.o. to the Bank                                       | 246,114              | 64,117               |
| <b>Amounts due in respect of issues of own securities, of which:</b>                    | <b>0</b>             | <b>0</b>             |
| commercial paper and bonds issued by the companies from the Group and held by the Group | 0                    | 0                    |
| <b>Other liabilities in respect of financial instruments:</b>                           | <b>1,762</b>         | <b>73,951</b>        |
| liabilities of BEL Leasing Sp. z o.o. on SWAP valuation                                 | 154                  | 20,115               |
| liabilities of the Bank on SWAP valuation   | 1,608                | 53,836               |
| <b>Special funds and other liabilities, of which:</b>                                   | <b>3,128</b>         | <b>8,567</b>         |
| amounts due from BEL Leasing Sp. z o.o. to the Bank                                     | 105                  | 1,261                |
| amounts due from the Bank to BEL Leasing Sp. z o.o.                                     | 166                  | 0                    |
| amounts due from TFI Millennium S.A. to Millennium DOM Maklerski S.A.                   | 266                  | 0                    |
| amounts due from Millennium DOM Maklerski S.A. to the Bank                              | 251                  | 0                    |
| amounts due from the Bank to FORINWEST Sp. z o.o.                                       | 234                  | 3,918                |
| amounts due from the Bank to BET Trading Sp. z o.o.                                     | 0                    | 158                  |
| amounts due from FORINWEST Sp. z o.o. to the Bank                                       | 517                  | 0                    |
| <b>Subordinated debt:</b>   | <b>22,250</b>        | <b>20,250</b>        |
| loan granted by the Bank to Millennium DOM Maklerski S.A.                               | 22,250               | 20,250               |

**INCOME STATEMENT**

|  | <b>Jan. 01 to Jun. 30, 2004</b> | <b>Jan. 01 to Jun. 30, 2003</b> |
|--|---------------------------------|---------------------------------|
| <b>Income</b>  |                                 |                                 |
| <b>interest income, of which:</b>                                  | <b>43,301</b>                   | <b>68,899</b>                   |
| received by the Bank from BEL Leasing Sp. z o.o.                   | 19,454                          | 34,736                          |
| received by BEL Leasing Sp. z o.o. from the Bank                   | 1,822                           | 11,442                          |
| received by the Bank from FORIN Sp. z o.o.                         | 507                             | 6,028                           |
| received by the Bank from FORINWEST Sp. z o.o.                     | 6,358                           | 919                             |
| received by Millennium DOM Maklerski S.A. from the Bank            | 5,901                           | 7,783                           |
| received by FORINWEST Sp. z o.o. from BEL Leasing Sp. z o.o.       | 7,493                           | 1,469                           |
| <b>commission income, of which:</b>                                | <b>4,491</b>                    | <b>3,484</b>                    |
| received by Millennium DOM Maklerski S.A. from Bank                | 1,189                           | 1,559                           |
| received by Millennium DOM Maklerski S.A. from TFI Millennium S.A. | 1,261                           | 876                             |
| received by the Bank from TFI Millennium S.A.                      | 1,199                           | 162                             |
| received by the Bank from BEL Leasing Sp. z o.o.                   | 497                             | 463                             |
| <b>other operating income, of which:</b>                           | <b>14,921</b>                   | <b>26,183</b>                   |
| received by FORINWEST Sp. z o.o. from the Bank                     | 12,618                          | 10,684                          |
| received by TBM Sp. z o.o. from the Bank                           | 0                               | 9,916                           |
| received by BEL Leasing Sp. z o.o. from the Bank                   | 840                             | 0                               |
| received by the Bank from Millennium DOM Maklerski S.A.            | 978                             | 545                             |
| received by the Bank from FORINWEST Sp. z o.o.                     | 272                             | 310                             |

**Expenses**

|  |               |               |
|--|---------------|---------------|
| <b>interest expense, of which:</b>                           | <b>43,430</b> | <b>66,972</b> |
| paid by BEL Leasing Sp. z o.o. to the Bank                   | 19,454        | 34,736        |
| paid by the Bank to BEL Leasing Sp. z o.o.                   | 1,822         | 11,442        |
| paid by the Bank to Millennium DOM Maklerski S.A.            | 5,760         | 7,783         |
| paid by FORIN Sp. z o.o. to the Bank                         | 507           | 6,028         |
| paid by FORINWEST Sp. z o.o. to the Bank                     | 6,358         | 919           |
| paid by BEL Leasing Sp. z o.o. to FORINWEST Sp. z o.o.       | 7,493         | 1,517         |
| <b>commission expense, of which:</b>                         | <b>4,715</b>  | <b>2,805</b>  |
| paid by the Bank to Millennium DOM Maklerski S.A.            | 8             | 29            |
| paid by the Bank to FORINWEST Sp. z o.o.                     | 927           | 342           |
| paid by BEL Leasing Sp. z o.o. to the Bank                   | 497           | 463           |
| paid by TFI Millennium S.A. to the Bank                      | 1,199         | 516           |
| paid by TFI Millennium S.A. to Millennium DOM Maklerski S.A. | 1,258         | 853           |
| paid by Millennium DOM Maklerski S.A. to the Bank            | 252           | 276           |
| <b>other operating expenses, of which:</b>                   | <b>11,832</b> | <b>10,388</b> |
| paid by FORINWEST Sp. z o.o. to the Bank                     | 11,212        | 9,923         |
| <b>general and administrative expenses, of which:</b>        | <b>1,823</b>  | <b>11,847</b> |
| paid by the Bank to BEL Leasing Sp. z o.o.                   | 840           | 0             |
| paid by the Bank to TBM Sp. z o.o.                           | 0             | 9,916         |
| paid by the Bank to Millennium DOM Maklerski S.A.            | 2             | 244           |
| paid by Millennium DOM Maklerski S.A. to TBM Sp. z o.o.      | 0             | 230           |
| paid by Millennium DOM Maklerski S.A. to the Bank            | 978           | 0             |
| paid by the Bank to BET Trading Sp. z o.o.                   | 0             | 559           |

**Subordinated loan granted to MILLENNIUM DOM MAKLESKI S.A.**

The Bank continues to service the subordinated loan taken over on April 21, 1998 and granted by the former Bank Gdański S.A. to MILLENNIUM DOM MAKLESKI S.A. on April 29, 1997 for PLN 20,250 thousand until May 1, 2007 (extended on the expiration date of the previous agreement, i.e. May 1, 2002). In addition, on September 18, 2003, the Bank granted MILLENNIUM DOM MAKLESKI S.A. a further subordinated loan of PLN 2,000 thousand until September 18, 2008.

**Transactions with related companies holding shares in the Bank (as of December 31, 2003):****Bank Assets**

| Entity    | Amounts due from financial sector | Other securities and financial assets (valuation of derivatives) | Total  |
|-----------|-----------------------------------|--|--------|
| BCP       | 92,156                            | 0  | 92,156 |
| Eureko BV | 0                                 | 0  | 0      |

**Liabilities and Equity of the Bank**

| Entity    | Amounts due to financial sector | Other liabilities in respect of financial instruments (valuation of derivatives) | Total  |
|-----------|---------------------------------|--|--------|
| BCP       | 0                               | 54,758   | 54,758 |
| Eureko BV | 722                             | 0  | 722    |

**Income Statement of the Bank**

| Entity    | Interest income | Interest expense | Profit on financial operations | Loss on financial operations | Total profit/loss |
|-----------|-----------------|------------------|--------------------------------|------------------------------|-------------------|
| BCP       | 11,699          | -17,677          | 0                              | -29,407                      | -35,385           |
| Eureko BV | 0               | -14              | 0                              | 0                            | -14               |

Loss on financial operations is attributed mainly to the valuation of a derivative linked with other transactions concluded with external entities.

Part of interest income is generated by the instrument announced by the Bank in its communication dated October 1, 2003, which is presented in section 25 of this document ("Significant prior years events ...").

#### Off-balance sheet items

| Entity    | Interest rate swaps | FX swaps | Equity swaps | Total     |
|-----------|---------------------|----------|--------------|-----------|
| BCP       | 1,181,688           | 326,783  | 12,000       | 1,520,471 |
| Eureko BV | -                   | -        | -            | -         |

### 15. INFORMATION ABOUT JOINT VENTURES THAT ARE NOT SUBJECT TO CONSOLIDATION

The Bank Millennium Group is not engaged in any joint ventures.

### 16. INFORMATION ABOUT INCOME AND COST OF THE BANK'S BROKERAGE OPERATIONS

Bank Millennium S.A. does not carry out brokerage activities. One of the members of the Bank Millennium Group is Millennium DOM Maklerski S.A., a brokerage house which operations in this area are characterized by the following data (after elimination of intragroup transactions) for the period from January 1 to June 30, 2004 (PLN '000):

1. Income on the core operational activity 19,210
  2. Costs related to the core operational activity 3,263
- Income on brokerage activity includes income of TFI MILLENNIUM S.A. amounting to PLN 6,600 thousand (for the period from January 1 to June 30, 2004).

### 17. INFORMATION ABOUT WRITE-OFFS OF UNCOLLECTIBLE RECEIVABLES

Bank Millennium S.A.

|   | Jan. 1 to Jun. 30, 2004 | Jan. 1 to Jun. 30, 2003 |
|---|-------------------------|-------------------------|
| Write-offs of uncollectible receivables | 473,576                 | 148,661                 |
| - charged to the provisions established | 473,576                 | 148,660                 |
| - charged to other operational costs    | 0                       | 1                       |

### 18. INFORMATION ABOUT THE COSTS RELATED TO PROVISIONING AGAINST FUTURE OBLIGATIONS TOWARDS EMPLOYEES

As of June 30, 2004, costs related to provisioning against future obligations toward employees was as follows:

#### 1) Bank Millennium S.A.

As of June 30, 2004, the total amount of provisions charged to costs was PLN 14,856.88 thousand.

The provisions were established in respect of (PLN '000):

- Bonus 14,856,88

#### 2) Other consolidated companies (PLN '000)

| Provision for       | BEL Leasing | DOM Maklerski | TFI | Total |
|---------------------|-------------|---------------|-----|-------|
| Rewards and bonuses | 1,550       | 1,800         | 376 | 3,726 |
| Other               | 247         |               |     | 247   |
| Total               | 1,797       | 1,800         | 376 | 3,973 |

### 19. INFORMATION ABOUT THE COSTS INCURRED TO FINANCE EMPLOYEE PENSION PROGRAMS

The Bank Millennium Group does not finance any employee pension programs.

## 20. INFORMATION ABOUT THE CUSTODY OPERATIONS

As of June 30, 2004, the Custody Department maintained 1,258 investment accounts, on which customers deposited securities for the total value of PLN 14,916,460,291.60 and securities traded abroad for the total value as follows:

- USD 51,648,000;
- EUR 8,579,000;
- GBP 75,000.

The Custody Department serves as a depositary bank and a transfer agent for six investment funds from the Millennium TFI Group. In the first half of 2004, the Custody Department attracted three foreign customers with total assets (securities) of PLN 1.5 billion. From 1 January to 30 June 2004, net profit on custody operations amounted to PLN 1,234 thousand.

## 20. INFORMATION ABOUT SECURITIZATION OF ASSETS

In the reporting period the Group did not acquire any securities as a result of securitization of assets.

## 22. INFORMATION ABOUT AVERAGE EMPLOYMENT BROKEN DOWN BY PROFESSIONAL GROUP

From January 1 to June 30, 2004, average employment in the Group was as follows (full-time equivalents):

### BANK MILLENNIUM S.A.

Total average employment 3,927

of which:

- Management 121
- Other 3,806

Other consolidated companies:

|                       | BEL<br>Leasing | Forin     | Forinwest | DOM<br>Maklerski | TFI       | TBM      | Total      |
|-----------------------|----------------|-----------|-----------|------------------|-----------|----------|------------|
| Employment, of which: | <b>179</b>     | <b>13</b> | <b>27</b> | <b>132</b>       | <b>34</b> | <b>1</b> | <b>387</b> |
| Management Board      | 3              | 2         | 2         | 2                | 2         | 1        | 12         |
| Directors             | 3              | 0         | 1         | 10               | 1         | 0        | 14         |
| Other                 | 174            | 11        | 24        | 121              | 31        | 0        | 360        |

## 23. INFORMATION ON TOTAL VALUE OF SALARIES AND REWARDS (IN CASH AND IN KIND) PAID OR DUE TO MANAGERS AND SUPERVISORS

Data for January 1 to June 30, 2004 (PLN '000):

### BANK MILLENNIUM S.A.

Remuneration of Members of the Management Board of the Bank 11,213.0

Remuneration of Members of the Supervisory Board of the Bank 770.6

Remuneration of Members of the Management Board of the Bank received from subsidiaries 14.9

Remuneration of Members of the Supervisory Board of the Bank received from subsidiaries 14.9

### OTHER CONSOLIDATED COMPANIES

Remuneration of Members of Management Boards of the companies 2,001.6

Remuneration of Members of Supervisory Boards of the companies 0.0

**Data for January 1 to June 30, 2003 (PLN '000):****BANK MILLENNIUM S.A.**

|  |          |
|--|----------|
| Remuneration of Members of the Management Board of the Bank  | 23,768.4 |
| Remuneration of Members of the Supervisory Board of the Bank   | 879.9    |
| Remuneration of Members of the Management Board of the Bank received from subsidiaries   | 17.6     |
| Remuneration of Members of the Supervisory Board of the Bank received from subsidiaries  | 14.2     |
| 76% of the remuneration for the Management Board represent the bonus for achievements in 2002 while 1.6% is the compensation for resigning Member of the Management Board. |          |

**OTHER CONSOLIDATED COMPANIES**

|  |         |
|--|---------|
| Remuneration of Members of Management Boards of the companies  | 3,306.4 |
| Remuneration of Members of Supervisory Boards of the companies | 0.0     |

**24. INFORMATION ABOUT THE VALUE OF UNREPAID ADVANCES, CREDIT, LOANS, GUARANTEES, SURETIES OR OTHER AGREEMENTS BINDING MANAGEMENT AND SUPERVISORY PERSONNEL AS WELL AS EMPLOYEES TO MAKE PAYMENTS TO THE ISSUER AND RELATED ENTITIES**

1. Members of the Management Board have a liability in respect of unpaid amounts due for PLN 50.5 thousand in total.
2. Guarantees granted to Members of the Management Board amounted to PLN 31.0 thousand in total.

As of June 30, 2004, outstanding balance of loans granted to employees of the Bank from the Company Social Benefits Fund (ZFSS) amounted to PLN 6,486.1 thousand.

The Bank does not maintain records of loans and borrowings granted to employees as part of on-going business, i.e. on commercial terms as for Clients of the Bank.

The item does not appear in other consolidated companies as of June 30, 2004.

**25. SIGNIFICANT PRIOR YEARS EVENTS DISCLOSED IN THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE CURRENT PERIOD**

- On November 5, 1999, a PZU S.A. share purchase agreement was entered into by the State Treasury, Eureko B.V. and BIG Bank GDAŃSKI S.A., based on which the Bank undertook to purchase, on its own behalf or on behalf of its subsidiary, 863,523 series A shares of PZU S.A. (Company) representing 10% of the share capital of PZU S.A. for a total price of PLN 1,006,004,295 from the State Treasury. The Bank and EUREKO B.V. has assumed a number of long-term obligations in respect of the development of PZU S.A. Pursuant to the agreement, the investors have been committed, *inter alia*, to refrain from selling PZU S.A. shares for at least five years. The investors have been also obliged to retain earnings for 1999 and 2000 and to designate them for investment and development purposes and to carry out the development program. The investors have also taken a number of obligations towards the Company's employees and its major subsidiaries, i.e. PZU Życie S.A. and PTE PZU S.A., regarding the maintenance of the Company's headcount at the level as of the agreement date, salary increases and provision of training to develop professional skills of employees. In addition, the investors have been committed to co-operate with the Minister of the State Treasury to introduce PZU S.A.'s shares to public trading by the end of 2001.
- On November 9, 1999, the Bank transferred to BIG-BG INWESTYCJE S.A., a subsidiary of the Bank, ownership of all the PZU S.A. shares acquired under the agreement. The transfer of these shares was in accordance with the provisions of the agreement entered into by the Bank and the State Treasury. The shares subject to the agreement represent 10% of PZU S.A.'s share capital and 863,523 votes at a General Meeting of Shareholders of PZU S.A., i.e. 10% of the total number of votes at this meeting. The PZU S.A. shares purchased by BIG-BG INWESTYCJE S.A. are a



long-term equity investment. The purchase of PZU S.A. shares was financed by the Bank out of the funds provided by BIG-BG INWESTYCJE S.A. in the amount of PLN 1,006,004,295. The amount provided by BIG-BG INWESTYCJE S.A. represented own funds of this entity. Upon the acquisition of the PZU S.A. shares, BIG-BG INWESTYCJE S.A. assumed all the rights and duties set forth in the agreement entered into by the State Treasury and the Bank without prejudice to the liability of the Bank under the agreement.

- On December 13, 2001, the Bank's Management Board announced that on December 12, 2001, BBG Finance BV ("BBG Finance", "Company"), a limited liability company established in the Netherlands and the Bank's subsidiary, had purchased 33 A-series variable interest bonds maturing in three equal installments: in December 2005, December 2006 and December 2007, of the total nominal value of EUR 33,000,000, and 80 A-series variable interest subordinated bonds maturing in 2011, of the total nominal value of EUR 80,000,000, issued by the Bank on the same day. The nominal value of each bond is EUR 1,000,000; the purchase price is equal to the nominal value.

The Bank issued and sold the bonds to increase its creditworthiness, also by raising supplementary capital.

On the same day, BBG Finance issued variable interest bonds maturing in three equal installments in December 2005, December 2006 and December 2007, of the total nominal value of EUR 33,000,000, and variable interest subordinate bonds maturing in 2011, of the total nominal value of EUR 80,000,000. The bonds were issued pursuant to the custody agreement concluded on the same day by BBG Finance with the Bank and Bank of New York as the custodian acting on behalf of investors purchasing the bonds.

At the same time, BBG Finance, the Bank and Bank of New York concluded an agency agreement, under which Bank of New York is to provide agency services to handle payments, determine interest due, maintain the bondholders' register and act as bondholders' custodian.

To secure its obligations under the custody agreement, on December 12, 2001, BBG Finance concluded an ownership transfer agreement for bonds issued by Bank Millennium S.A. with Bank of New York.

In order to enable BBG Finance to issue bonds, on December 12, 2001, the Bank transferred EUR 1,200,000 as a premium to the Company's share capital, pursuant to a separate agreement concluded between the Bank and the Company. After the increase, the Company's equity accounts for 1.08% of the bond issue value.

- On February 6, 2002, the Management Board communicated that the Bank had received Decision No. 13/02 issued by the Banking Supervisory Commission on January 29, 2002 in which the Banking Supervisory Commission gave its consent to record as supplementary funds of the Bank, till December 12, 2011, PLN 275,000,000 from the issue of 10-year subordinated bonds of EUR 80,000,000 carried out by the Bank. The bonds were sold to BBG Finance B.V., the Bank's subsidiary headquartered in the Netherlands.
- On October 15, 2002, the Management Board of the Bank informed that the Bank had adopted a resolution on the issue of unsecured bearer bonds. The intention is to issue not more than 20,000,000 (twenty million) units of par value PLN 100 (a hundred) each, of the total par value not higher than PLN 2,000,000,000 (two billion). The bonds will bear no interest and shall be offered for purchase with discount on their par value. Non-cash considerations stemming from bond issued are not envisaged. In the case of bond issue in the highest assumed value of PLN 2,000,000,000, the relation between the bond issue to the equity of the issuer is 116.63% while the relation of the bond issue and all previously issued and outstanding bonds of the issuer to its equity is 143.5%. As of September 30, 2002, the Bank's equity amounted to PLN 1,714,876 thousand. The Bank intends to introduce the bonds into public trading and secondary trading in the regulated market run by Centralna Tabela Ofert S.A. On November 26, 2002, the Management Board announced that the Securities and Exchange Commission had decided to admit the Bank's bonds offered under the bond issue program to public trading. Detailed terms and conditions of the issue will be published as a current report of the Bank.
- On October 1, 2003 Management Board of the Bank informed that the Bank had executed a swap transaction with Banco Comercial Portugues ("BCP") to neutralize the effect of payment of dividends received from PZU S.A. and costs of financing investments into shares of PZU S.A. upon financial result of the Bank. According to the contract executed, the Bank will annually

receive an amount being the equivalent of the economic cost of financing the investment into shares of PZU S.A. based on three month WIBOR (paid quarterly) in exchange for an amount being the equivalent of dividend received from PZU S.A. This contract also provides for the conditions under which it shall be prematurely terminated as a result of selling PZU S.A., with a specific formula providing for the participation of BCP in sales revenue when value of the transaction exceeds PLN 1,600,000,000.00. The Bank retains full control over shares of PZU S.A. The Contract has been concluded for 5 years.

- On October 1, 2003, the Bank informed, referring to the Memorandum of Understanding signed on September 22, 2003 by the Bank, Bank Handlowy S.A. w Warszawie, Bank Polska Kasa Opieki S.A., Bank Przemysłowo-Handlowy PBK S.A., ING Bank Śląski S.A., and Kredyt Bank S.A. and on the next days by Export Import Bank of Korea, Korea Export Insurance Corporation, Daewoo Motor Company Ltd. and Daewoo-FSO Motor S.A. ("Daewoo-FSO"), that on September 30, 2003, the Memorandum of Understanding had been signed by the last party and, in consequence, had been deemed to be duly concluded. The subject matter of the Memorandum of Understanding is debt restructuring of Daewoo-FSO through the amendment of the terms and conditions of the repayment and reduction of Daewoo-FSO's debts towards the Bank and other creditors by way of: (i) direct or indirect swap of debt to equity of Daewoo-FSO under a contractual set-off, (ii) debt reduction in composition proceedings or agreements concluded by Daewoo-FSO with its creditors. The restructuring aims at reaching an optimum recovery of receivables due from Daewoo-FSO to its creditors while ensuring that business activities of Daewoo-FSO will be continued essentially in their scope to date.

## **26. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS**

- On July 16, 2004 the Bank submitted information on operations of the Bank Millennium Group and Bank Millennium S.A. in the first half of 2004.
- Performing the decision of the Polish Securities and Exchange Commission dated January 3, 2001, as amended by decisions dated May 22, 2001 and January 13, 2004, on granting authorization to transfer 87,594 ordinary bearer shares of Bank Millennium S.A. (the "Bank") outside a regulated market that obligates the Bank to announce publicly twice a year, i.e. by January 31 and by July 31, in the form of current reports, terms and conditions of conversion of shares of former BIG BANK S.A. (previously: Łódzki Bank Rozwoju S.A.) into shares of the Bank (previously: BIG Bank GDAŃSKI S.A.), connected with the merger of both banks on January 5, 2001 as completed in the six months preceding such announcement. The Management Board of the Bank informs that in the period from January 1 to June 30, the ownership title to 1,366 ordinary bearer shares of the Bank was transferred outside a regulated market on behalf of 6 shareholders of former BIG BANK S.A. in exchange for 683 shares of former BIG BANK S.A. In the first half of 2004, the value of shares of the Bank so transferred amounted to PLN 8,605.80, including their purchase price paid by the Bank, i.e. PLN 6.30 per share. In total, from January 1, 2001 to June 30, 2004, 29,546 ordinary bearer shares of the Bank were transferred to 116 shareholders of former BIG BANK S.A. in exchange for 14,773 shares of former BIG BANK S.A. valued at PLN 186,139.80, including their purchase price paid by the Bank, i.e. PLN 6.30 per share.

## **27. SIGNIFICANT EVENTS IN THE FINANCIAL YEAR**

- Current report – January, 2004: On January 16, 2004, the Bank's Management Board announced that on January 16, 2004, the Bank had received the information that on December 29, 2003, the District Court for the Capital City of Warsaw, XX Commercial Division of the National Court Register, had registered the decrease in share capital of BESTA Sp. z o.o. ("BESTA"), a subsidiary of the Bank, to the amount of PLN 50,000.00 divided into 100 shares with the nominal value of PLN 500.00 each. The Bank holds 100 shares in BESTA, representing 100% of its share capital and 100% of voting rights.

- Current report – January, 2004: On January 29, 2004, the Bank's Management Board announced that Mr. Jerzy Zdrzałka had stepped down from the Management Board because of personal reasons on January 28, 2004.
- Current report – February, 2004: On February 6, 2004, the Bank's Management Board informed that Bank had concluded the enterprise purchase agreement (as defined in art. 55 bullet 1 of the Civil Code) with Forin Sp. z o.o. („Forin”), an associated company of the Bank, for the total price of PLN 1,389,000.00. The business of Forin's enterprise includes in particular: running operations such as trading in receivables, factoring, forfeiting, accepting bills for discounting, granting loans. Pursuant to the above enterprise purchase agreement, the Bank took over employees of Forin following the procedure of transferring a work establishment to another employer as defined in art. 23 bullet 1 of the Labor Code. The enterprise was handed over on the date of the enterprise purchase agreement.
- Current report – February, 2004: On February 20, 2004, the Management Board of the Bank announced that it had entered into a preliminary agreement with Santander Consumer Finance S.A., a company headquartered in Madrid, Spain, ("SCF"). The agreement was concluded under a suspending condition that SCF purchases all shares in the share capital of Polskie Towarzystwo Finansowe S.A., a company with its registered seat in Wrocław ("PTF"). Under the preliminary agreement, SCF has undertaken, in particular, that when this condition is met SCF will ensure that PTF and CC-Bank S.A., companies based in Poznań ("CC-Bank"), will accede to the following agreements:
  - 1) agreements on the transfer by the Bank on behalf of CC-Bank amounts due in respect of part of the portfolio of car loans granted by the Bank via PTF under the cooperation agreement signed by the Bank and PTF on February 4, 2000, and ensuring that CC-Bank will enter into the legal relationship resulting from this cooperation agreement instead of the Bank;
  - 2) the agreement to absolve PTF from obligations under cooperation agreements concluded by and between the Bank and PTF on December 19, 2000 and December 23, 2003, respectively, under which PTF provides the Bank with intermediary services regarding the extension of mortgage loans.

The preliminary agreement provides that:

- 1) in respect of the price for the transfer of amounts due under loan agreements, as carried out pursuant to the agreement specified in item 1) above, CC-Bank will pay the Bank PLN 150 million increased by the amount of outstanding principal as of the transfer date that currently is equal to approx. PLN 2,120 million;
- 2) in respect of mutual settlements of the parties under the agreement specified in item 2) above, the Bank will pay PTF PLN 30 million for PTF's relinquishment of part of interest margin granted to PTF under this agreement.

The agreement is considered as significant since its value exceeds 10% of the Bank's equity.

- Current report – February, 2004: On February 27, 2004, with reference to Communication No. 63/2002 dated October 18, 2002, the Bank's Management Board informed that BEL Leasing Sp. z o.o. ("BEL"), a subsidiary of the Bank, had received the decision of the District Court for the Capital City of Warsaw, XIX Commercial Division of the National Court Register of February 27, 2004 on the merger of BEL with Bond and Equity Trading - BET Trading Sp. z o.o. The merger was effected in accordance with the manner and principles specified in art. 516 of the Commercial Companies Code, i.e. without an increase in share capital of BEL, without the resolution of a general meeting of BEL's shareholders and without the need to amend the Articles of Association of BEL.
- Current report – March, 2004: On March 22, 2004, the Management Board of the Bank announced that it had received the notice of Santander Consumer Finance S.A. ("SCF") that SCF had met the suspending condition specified in art. 1.4 of the preliminary agreement mentioned in the Bank's Communication of February 20, 2004. In consequence, since March 12, 2004, SCF has held 100% of shares in Polskie Towarzystwo Finansowe S.A.

- Current report – March, 2004: On March 25, 2004, the Management Board of the Bank announced that it intended to provide on a regular basis extended quarterly consolidated financial statements (SAB-QSR) and extended semiannual consolidated financial statements (SAB-PSR), starting from the extended consolidated quarterly report for Q1 2004.
- Current report – April, 2004: On April 28, 2004, the Management Board of the Bank presented the current statement of the Bank on compliance with corporate governance principles.
- Current report – April, 2004: On April 29, 2004, the Management Board of the Bank informed that the Supervisory Board of the Bank on its meeting on the previous day had increased the number of members of the Management Board to 9 persons and had appointed Mr. Wiesław Kalinowski and Mr. Zbigniew Kudaś as members of the Management Board of the Bank with effect from June 1, 2004. Mr. Wiesław Kalinowski, 52, is a graduate of Warsaw University, the Institute of Economics, with MA in economics. Then he completed post-graduate studies on application of mathematics in economy at the Finance and Statistics Faculty of the Warsaw School of Economics (SGH). From 1991 to March 2004 he served as vice-president of Bank Handlowy w Warszawie S.A. ("BHW"). In 1985 to 1991 he was a director of the economic analysis and forecast department of the National Bank of Poland (Poland's central bank), and from 1989 to 1991 he was also a member of its Management Board. He worked as an advisor to the minister at the Government Representative Office for Economic Reform (1982 to 1985), and prior to that as a senior advisor at the Planning Commission of the Council of Ministers (1976 to 1982). Mr. Zbigniew Kudaś, 52, is a graduate of Warsaw University, the Law Faculty. He also completed post-graduate studies on international economic cooperation at the Warsaw School of Economics (SGH). He entered the diplomatic service in the Ministry of Foreign Affairs (1973 to 1992), in turn, at the Legal and Consular Department, the Department of America, the Consulate of Poland in Chicago and the Embassy of Poland in Washington. In 1992 to 1995 he served as an international affairs director at HOME BUILDERS INSTITUTE in Washington and then was appointed as member of the Management Board and development director of BUDBANK S.A. (1995 to 1996). Since 1998 he has been the sales and marketing vice-president at GE Bank Mieszkaniowy S.A.
- Current report – May, 2004: On May 5, 2004, the Bank's Management Board announced that Mr. Marek Belka had stepped down from the Management Board on May 2, 2004.
- Current report – May, 2004: On May 13, 2004, with reference to Communications No. 13/2004 of 20.02.2004 and No. 15/2004 of 22.03.2004 and fulfillment of the condition specified in Communication No. 15/2004 dated March 22, 2004, the Management Board of Bank Millennium S.A. ("Bank") announced that on May 13, 2004 the Bank had concluded, in performance of the preliminary agreement, the following promised agreements: 1) on transfer by the Bank on behalf of CC-Bank S.A., a company with its registered office in Poznań ("CC-Bank") receivables in respect of the portfolio of car loans granted through Polskie Towarzystwo Finansowe S.A., a company with its registered office in Wrocław ("PTF"), and entering of CC-Bank into the legal relationship in lieu of the Bank, pursuant to financial conditions specified in the preliminary agreement and described in the aforementioned Communication No. 13/2004, 2) on absolving PTF from obligations under cooperation agreements concluded by the Bank and PTF, pursuant to which PTF provided the Bank with intermediary services in the area of granting mortgage loans. The agreements specified in item 1 are considered as significant since their value exceed 10% of the Bank's equity.
- Current report – May, 2004: On May 27, 2004, the Management Board of the Bank informed that on May 27, 2004, the General Meeting of Shareholders had adopted resolutions and appointed Mr. Dariusz Rosati as a new member of the Supervisory Board of the Bank. Mr. Dariusz Rosati, 57, graduated from the Warsaw School of Economics (SGH), the foreign trade faculty, in 1969 and was employed as an assistant at SGH. In 1973, he obtained PhD presenting dissertation on decision-making theories and in 1978 he completed postdoctoral studies in foreign trade policy. In 1978 to 1979 he worked as a consultant at Citibank, New York. In 1985 to 1986 and 1987 to 1988 he founded and headed the Global Economy Institute at SGH. In 1986 to 1987 he received the Fulbright scholarship at Princeton University in the United States. In 1988 to 1991 he was a director of the Institute of Business Cycle and Prices in Foreign Trade. From 1989 to 1991 he was a partner at Ernst&Young - TKD Consultants, Ltd. in Warsaw. Since 1990 he has been a professor

of economics at SGH. In 1991 to 1995 he was the head of the Central and Eastern European Countries Section of the UN European Economic Commission. From December 1995 to October 1997 he served as the Minister of Foreign Affairs of the Republic of Poland. From 1978 to 1991 he was a consultant of UNIDO and participated in many missions in developing countries. In 1988 to 1991 he was an expert on behalf of the World Bank, UN WIDER, the International Labor Organization and the Commission of the European Communities. He was a lecturer at many universities and scientific institutes in Europe and the USA. He was a member of the Economic Reform Commission (1987 to 1989), a team of economic advisors to the Prime Minister (November 1988 to June 1989), the Social and Economic Strategy Board at the Council of Ministers (1994 to 1998). Since 1997, he has been a member of the Committee of Economic Sciences of the Polish Academy of Sciences. In 1998 to 2004 he was a member of the Monetary Policy Council at the NBP. Since 2001, he has been a member of the Economic Advisors Team of the President of European Commission. Since May 15, 2003, he has been the President of the Ryszard Łazarski Higher School of Law and Commerce in Warsaw. Mr. Dariusz Rosati is an author of over 200 scientific works and publications, including five books on economic policy, foreign trade, export promotion and economic transformation in Central and Eastern Europe.

- Current report – June, 2004: On June 25, 2004, the Management Board of Bank Millennium S.A. informed that in the course of the Investor Day organized on that day by Banco Comercial Portugues (“BCP”), a Portuguese banking group holding a strategic stake in Bank Millennium S.A., the Management Board of BCP met with analysts and investors. During these meetings Mr. Bogusław Kott, the President of the Management Board of Bank Millennium S.A. and Member of the Management Board of BCP, and Mr. Luis Pereira Coutinho, Vice-President of the Management Board of Bank Millennium S.A., review the strategy of the Bank Millennium Group (the “Group”) informing that it assumes the return on equity (ROE) of 12% and over 15% in 2006 and 2007, respectively, and the ratio of costs to revenues at the level of 65% in 2006. The Group’s strategy focuses on profitability growth, in particular in the retail market, and on changes of the lending process enabling to develop lending activities based on an effective risk management model. Now, the Group implements a comprehensive loan portfolio restructuring project in order to reduce credit risk provisioning requirements by PLN 100 million by the end of 2005. The implementation of strategic development plans should allow the Group to increase its share in the loan market from 3.7% at the end of 2003 to 4.6% at the end of 2006, and in the customer deposit market (including investment funds) from 3.8% to 4.7% over the same period.

## **28. INFORMATION ABOUT RELATIONS BETWEEN THE LEGAL PREDECESSOR AND THE ISSUER AND ABOUT THE METHOD AND SCOPE OF TAKEOVER OF ASSETS AND LIABILITIES**

In the period from January 1 to June 30, 2004, the Bank did not take over any assets and liabilities.

## **29. CONSOLIDATED FINANCIAL STATEMENT AND COMPARABLE CONSOLIDATED FINANCIAL DATA, RESTATED TO ACCOUNT FOR INFLATION RATE – IF THE ACCUMULATED ANNUAL AVERAGE RATE OF INFLATION FROM THE PERIOD OF LAST THREE YEARS OF THE ISSUER’S OPERATIONS REACHED OR EXCEEDED THE VALUE OF 100%**

The annual average rate of inflation from last three years did not exceed 100%.

## **30. SPECIFICATION AND COMMENTS ON THE DIFFERENCES BETWEEN THE DATA DISCLOSED IN THE CONSOLIDATED FINANCIAL STATEMENT AND COMPARABLE CONSOLIDATED FINANCIAL DATA, AND THE FINANCIAL STATEMENTS PREVIOUSLY PREPARED AND PUBLISHED**

Due to changes in presentation of selected financial data, for the purposes of these financial statements the following adjustments of comparable data (published in the semiannual financial statements as of June 30, 2003 and the annual financial statements as of December 31, 2003) were made:

Balance sheet and off-balance sheet items as of June 30, 2003:

- 1) In effect of the change in accounting principles adopted on January 1, 2003 and regarding the recognition and valuation of embedded derivatives related to lease agreements, "other securities and other financial assets" decreased by PLN 23,287 thousand, deferred tax provision was reduced by PLN 6,288 thousand, and uncovered loss from prior years increased by PLN 16,999 thousand;
- 2) On account of the change in presentation of sell-buy-back and buy-sell-back transactions (as discussed in section I of the Additional Information), "debt securities" increased by PLN 835,011 thousand (2a), receivables in respect of securities bought with sell-back clause increased by PLN 363,667 thousand (2b), "other securities and other financial assets" decreased by PLN 6,023 thousand (2c), liabilities from financial instruments decreased by PLN 1,066 thousand (2d), "liabilities from securities sold with buy-back clause" increased by PLN 1,193,721 thousand (2e), and, in off-balance sheet items, "liabilities in respect of purchase/sale operations" decreased by PLN 1,783,292 thousand (2f);
- 3) In respect of reclassification of bi-currency swaps "liabilities in respect of purchase/sale operations" in off-balance sheet items decreased and "other off-balance sheet liabilities – interest rate swaps" increased by PLN 7,004,288 thousand, respectively.

Income statement, cumulatively for the first half of 2003:

- 4) Due to the change in presentation of commission income on investment fund management (activities of a subsidiary of the Group), income of PLN 4,572 thousand was transferred from "other operating income" to "commission income".

Balance sheet and off-balance sheet items as of December 31, 2003:

- 5) On account of the change in presentation of sell-buy-back and buy-sell-back transactions, "debt securities" increased by PLN 1,435,800 thousand (5a), receivables in respect of securities bought with sell-back clause increased by PLN 100,358 thousand (5b), "other securities and other financial assets" decreased by PLN 809 thousand (5c), liabilities from financial instruments decreased by PLN 129 thousand (5d), "liabilities from securities sold with buy-back clause" increased by PLN 1,535,478 thousand (5e), and, in off-balance sheet items, "liabilities in respect of purchase/sale operations" decreased by PLN 1,616,511 thousand (5f).

In the tables below the column "Change" includes the numbers of adjustments in accordance with the above description:

| Adjusted items         | As of 30.06.2003 in the financial statements as of 30.06.2003 | Change    | As of 30.06.2003 in the financial statements as of 30.06.2004 |
|------------------------|---|-----------|---|
| Commission income      | 120,969   | 4) +4,572 | 125,541   |
| Other operating income | 59,356  | 4) -4,572 | 54,784  |

| Adjusted items  | As of 30.06.2003 in the financial statements as of 30.06.2003 | Change                          | As of 30.06.2003 in the financial statements as of 30.06.2004 |
|---|---|---------------------------------|---|
| Receivables in respect of securities bought with sell-back clause | 0   | 2b) 363,667                     | 363,667   |
| Debt securities   | 3,779,651   | 2a) 835,011                     | 4,614,662   |
| Other securities and other financial assets                       | 479,742   | 1) -23,287<br>2c) -6,023        | 450,432   |
| Liabilities from securities sold with buy-back clause             | 0   | 2e) 1,193,721                   | 1,193,721   |
| Other liabilities from financial instruments                      | 610,602   | 2d) -1,066                      | 609,536   |
| Deferred tax provision  | 378,140   | 1) -6,288                       | 371,852   |
| Uncovered loss from prior years                                   | -97,830   | 1) -16,999                      | -114,829  |
| Liabilities in respect of purchase/sale operations                | 23,559,338  | 2f) -1,783,292<br>3) -7,004,288 | 14,771,758  |
| Other off-balance sheet liabilities – interest rate swaps         | 4,004,394   | 3) 7,004,288                    | 11,008,682  |

| Adjusted items  | As of 31.12.2003 in the financial statements as of 31.12.2003 | Change         | As of 31.12.2003 in the financial statements as of 30.06.2004 |
|---|---|----------------|---|
| Receivables in respect of securities bought with sell-back clause | 0   | 5b) 100,358    | 100,358   |
| Debt securities   | 3,398,503   | 5a) 1,435,800  | 4,834,303   |
| Other securities and other financial assets                       | 677,728   | 5c) -809       | 676,919   |
| Liabilities from securities sold with buy-back clause             | 0   | 5e) 1,535,478  | 1,535,478   |
| Other liabilities from financial instruments                      | 444,333   | 5d) -129       | 444,204   |
| Liabilities in respect of purchase/sale operations                | 19,205,238  | 5f) -1,616,511 | 17,588,727  |

### 31. CHANGES IN THE ADOPTED ACCOUNTING POLICIES AND THE PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS AS COMPARED TO THE PREVIOUS FINANCIAL YEAR

Information on changes in the adopted accounting policies has been contained in section 12.3) of the Introduction to these financial statements.

### 32. FINANCIAL INFORMATION BY BUSINESS SEGMENT

#### Business Segments

The activity of Group Bank Millennium is conducted through different business lines offering specific products and services targeted to approach the following market segments:

#### a) Retail Segment

In this segment are considered the business areas of Millennium Retail (mass market), Millennium Prestige (affluent market) and Millennium Biznes (small business market, approaching Clients with annual turnover between 3 and 10 mln PLN) who's activity is developed through the disposal of complete panoply of banking products and services and cross selling of Group's subsidiary companies offer. In the area of credit the main products are personal accounts overdrafts, installment loans, mortgage loans and credit card loans. On the side of customer funds the main products are current accounts, term deposits, saving accounts, Bank Millennium bonds, asset management and mutual funds. PZU insurance products are also commercialized in this segment. Retail segment also includes the portfolio of loans granted to individuals originated by Polskie Towarzystwo Finansowe (PTF). In May 2004, the majority of this portfolio was sold to CC-Bank, subsidiary of Spanish Banco Santander. The results of this transaction, due to its non-recurrent or strategic character are included in Financial Markets area.

#### b) Corporate Segment

The corporate segment includes the commercial activity managed by the Mid Corporate network (corporate Clients with annual turnover above 10 mln PLN and below 300 mln PLN) and the Large Corporate network (corporate Clients with annual turnover above 300 mln PLN, and Institutional Clients). Both networks also manage business with Local Government and other public entities Clients, according to the segmentation above referred.

This segment also includes the specialized credit activity developed by Group units dedicated to leasing (BEL Leasing) and factoring (bank's factoring department, created in 2004, incorporated the activity formerly developed by Forin).

The commercial activity in the corporate segment is driven by a high quality base offer of typical banking products (working capital loans, investments loans, current accounts, term deposits) complemented by a strong emphasis in the servicing offer with the disposal of modern and easy treasury management products, home-banking and more sophisticated derivative products. Cross selling of leasing and factoring products is very active in this segment.

**c) Financial markets**

The Bank also develops its business through the area of Financial Markets, which include operations for the bank own account on money and capital markets. Securities portfolio (State Treasury papers, shares, bonds), FX products, money and derivatives market operations are included in this segment. Strategic operations conducted under control of CALCO are also considered in Financial markets.

**d) Investment activities**

In general, this segment covers activities of Millennium Dom Maklerski S.A., a brokerage house that is active in the area of investment banking, brokerage operations and asset management, and TFI Millennium S.A., a company that manages investment funds.

Shares in PZU S.A. represent a significant element of investment activities.

**Geographical segments**

Group Bank Millennium operates exclusively on the territory of the Republic of Poland and no significant differences in risk were identified as regard the geographical location of its outlets. Therefore, the Group does not present financial statements with a breakdown into geographical areas.

**Accounting policies**

Accounting principles applied to the presentation of figures for individual segments are in compliance with the Accounting Laws and other relevant regulations.

Income generated by individual segments is arrived at using the transfer price system accepted by the Capital, Asset and Liability Committee.

The total of income and expenses in respect of transactions between the Bank's segments (based on transfer prices) equals zero. Elimination of this income (and costs) is made in the eliminations column, similarly amounts on transactions between companies of the Group are eliminated.

Gross profit or loss is calculated for each segment and covers:

- net interest income calculated on the basis of attributed performing assets and liabilities, including internal interest income or expense based on internal transfer interest rates;
- net commission income;
- other non-interest income (mainly in the area of operations of the Treasury Department) such as income from shares and interests, result on financial operations, foreign exchange gains or losses;
- net provision expense;
- share of the segment in total general and administrative expenses.

Expenses unallocated to segments cover tax liabilities and unallocated general expenses connected with administration and the Bank's Head Office.

Segment assets and liabilities cover assets used by the segment in its operating activities.

Taking into consideration the segments activity in the first halves of 2004 and 2003, it is visible the improvement of all the segments capacity to generate more income core from activity (net interest margin, net commissions income and other income), reflecting the constant effort of Bank Millennium Group to a sustainable development of the sales capacity and commercial effectiveness.

On the costs side, is also noticeable the significant reduction of the costs base, also in all segments of activity, as a consequence of the different actions taken in order to rationalize the Group's commercial and support structures and the commitment of the management to maintain a low cost platform in the domestic market.



As of June 30, 2004, PLN '000

|  | RETAIL<br>BANK | CORPORATES<br>BANK<br>and leasing and<br>factoring<br>activities | FINANCIAL<br>MARKETS<br>BANK | Investment<br>activities | Eliminations    | Consolidated<br>value |
|--|----------------|--|------------------------------|--------------------------|-----------------|-----------------------|
| Interest income                              | 90 480         | 204 114  | 492 502                      | 806                      | 0               | 787 902               |
| Net commission income                        | 61 971         | 35 540   | 0                            | 22 087                   | 0               | 119 598               |
| Other external income                        | 5 728          | 19 249   | 145 392                      | 19 715                   | 0               | 190 084               |
| Internal income                              | 211 998        | 96 683   | 160 450                      | 20 225                   | -489 356        | 0                     |
| <b>Total income</b>                          | <b>370 177</b> | <b>355 586</b>   | <b>798 344</b>               | <b>62 833</b>            | <b>-489 356</b> | <b>1 097 584</b>      |
| Interest expense                             | 126 629        | 50 561   | 306 124                      | 3 686                    | 0               | 487 000               |
| General and administrative<br>expenses       | 193 073        | 122 106  | 19 365                       | 14 111                   | 0               | 348 655               |
| - of which: depreciation<br>and amortization | 31 944         | 19 031   | 3 204                        | 794                      | 0               | 54 973                |
| Difference in provisions                     | 1 454          | 79 945   | -17 526                      | -19                      | 0               | 63 854                |
| Internal expenses                            | 28 261         | 129 508  | 306 048                      | 8 051                    | -471 868        | 0                     |
| <b>Total expense</b>                         | <b>349 417</b> | <b>382 120</b>   | <b>614 011</b>               | <b>25 829</b>            | <b>-471 868</b> | <b>899 509</b>        |
| Share in equity valuation                    | 0              | 0  | 632                          | 0                        | 0               | 632                   |
| <b>Segment net income (loss)</b>             | <b>20 760</b>  | <b>-26 534</b>   | <b>184 965</b>               | <b>37 004</b>            | <b>-17 488</b>  | <b>198 707</b>        |
| Unallocated income                           | 0              | 0  | 0                            | 0                        | 0               | 0                     |
| Unallocated costs                            | 0              | 0  | 0                            | 0                        | 0               | 86 707                |
| <b>Net income (loss)</b>                     |                |  |                              |                          |                 | <b>112 000</b>        |

|  | RETAIL<br>BANK   | CORPORATES<br>BANK<br>and leasing and<br>factoring<br>activities | FINANCIAL<br>MARKETS<br>BANK | Investment<br>activities |                  | Consolidated<br>value |
|--|------------------|--|------------------------------|--------------------------|------------------|-----------------------|
| I. Segment assets  | 2 207 303        | 5 853 862  | 8 247 871                    | 1 251 420                | 0                | 17 560 455            |
| II. Investment in entities<br>subject to the equity method | 0                | 0  | 0                            | 0                        | 0                | 0                     |
| III. Assets unallocated to<br>segments                     | 0                | 0  | 0                            | 0                        | 2 893 649        | 2 893 649             |
| <b>IV. TOTAL ASSETS</b>                                    | <b>2 207 303</b> | <b>5 853 862</b>   | <b>8 247 871</b>             | <b>1 251 420</b>         | <b>2 893 649</b> | <b>20 454 104</b>     |

|   | RETAIL<br>BANK   | CORPORATES<br>BANK<br>and leasing and<br>factoring<br>activities | FINANCIAL<br>MARKETS<br>BANK | Investment<br>activities |                  | Consolidated<br>value |
|---|------------------|--|------------------------------|--------------------------|------------------|-----------------------|
| I. Segment liabilities and<br>equity                  | 9 052 087        | 3 562 883  | 4 220 592                    | 240 776                  | 0                | 17 076 338            |
| II. Liabilities and equity<br>unallocated to segments | 0                | 0  | 0                            | 0                        | 1 533 999        | 1 533 999             |
| <b>III. TOTAL LIABILITIES<br/>AND EQUITY</b>          | <b>9 052 087</b> | <b>3 562 883</b>   | <b>4 220 592</b>             | <b>240 776</b>           | <b>1 533 999</b> | <b>18 610 337</b>     |

As of June 30, 2003, PLN '000

|  | RETAIL<br>BANK | CORPORATES<br>BANK<br>and leasing and<br>factoring<br>activities | FINANCIAL<br>MARKETS<br>BANK | Investment<br>activities | Eliminations    | Consolidated<br>value |
|--|----------------|--|------------------------------|--------------------------|-----------------|-----------------------|
| Interest income                              | 105 283        | 241 569  | 342 499                      | 656                      | 0               | 690 007               |
| Net commission income                        | 57 427         | 34 567   | 0                            | 11 075                   | 0               | 103 069               |
| Other external income                        | 441            | 15 964   | 115 046                      | -448                     | 0               | 131 003               |
| Internal income                              | 227 345        | 144 194  | 278 152                      | 27 974                   | -677 665        | 0                     |
| <b>Total income</b>                          | <b>390 496</b> | <b>436 294</b>   | <b>735 697</b>               | <b>39 257</b>            | <b>-677 665</b> | <b>924 079</b>        |
| Interest expense                             | 147 164        | 56 534   | 217 408                      | 3 791                    | 0               | 424 897               |
| General and administrative<br>expenses       | 208 761        | 139 643  | 30 399                       | 28 195                   | 0               | 406 998               |
| - of which: depreciation<br>and amortization | 19 919         | 19 779   | 8 824                        | 8 557                    | 0               | 57 079                |
| Difference in provisions                     | 3 917          | 43 708   | 0                            | -92                      | 0               | 47 533                |
| Internal expense                             | 39 735         | 208 114  | 346 889                      | -11 444                  | -583 294        | 0                     |
| <b>Total expense</b>                         | <b>399 577</b> | <b>447 999</b>   | <b>594 696</b>               | <b>20 450</b>            | <b>-583 294</b> | <b>879 428</b>        |
| Share in equity valuation                    | 0              | 0  | 249                          | 25 150                   | 0               | 25 399                |
| <b>Segment net income (loss)</b>             | <b>-9 081</b>  | <b>-11 705</b>   | <b>141 250</b>               | <b>43 957</b>            | <b>-94 371</b>  | <b>70 050</b>         |
| Unallocated income                           | 0              | 0  | 0                            | 0                        | 0               | 0                     |
| Unallocated costs                            | 0              | 0  | 0                            | 0                        | 0               | 36 202                |
| <b>Net income (loss)</b>                     |                |  |                              |                          |                 | <b>33 848</b>         |

|  | RETAIL<br>BANK   | CORPORATES<br>BANK<br>and leasing and<br>factoring<br>activities | FINANCIAL<br>MARKETS<br>BANK | Investment<br>activities |                  | Consolidated<br>value |
|--|------------------|--|------------------------------|--------------------------|------------------|-----------------------|
| I. Segment assets  | 4 195 425        | 6 958 520  | 5 021 945                    | 1 261 962                | 0                | 17 437 852            |
| II. Investment in entities<br>subject to the equity method | 0                | 0  | 1 985                        | 0                        | 0                | 1 985                 |
| III. Assets unallocated to<br>segments                     | 0                | 0  | 0                            | 0                        | 2 995 627        | 2 995 627             |
| <b>IV. TOTAL ASSETS</b>                                    | <b>4 195 425</b> | <b>6 958 520</b>   | <b>5 023 930</b>             | <b>1 261 962</b>         | <b>2 995 627</b> | <b>20 435 464</b>     |

|   | RETAIL<br>BANK   | CORPORATES<br>BANK<br>and leasing and<br>factoring<br>activities | FINANCIAL<br>MARKETS<br>BANK | Investment<br>activities |                  | Consolidated<br>value |
|---|------------------|--|------------------------------|--------------------------|------------------|-----------------------|
| I. Segment liabilities and<br>equity                  | 8 677 541        | 3 473 846  | 4 209 820                    | 282 926                  | 0                | 16 644 133            |
| II. Liabilities and equity<br>unallocated to segments | 0                | 0  | 0                            | 0                        | 2 056 342        | 2 056 342             |
| <b>III. TOTAL LIABILITIES<br/>AND EQUITY</b>          | <b>8 677 541</b> | <b>3 473 846</b>   | <b>4 209 820</b>             | <b>282 926</b>           | <b>2 056 342</b> | <b>18 700 475</b>     |

**33. CORRECTIONS OF FUNDAMENTAL ERRORS**

No fundamental errors were made.

**34. IN CASE OF UNCERTAINTY REGARDING CONTINUATION OF OPERATIONS, THE DESCRIPTION OF SUCH CONCERNS AND THE DECLARATION OF THE EXISTENCE OF SUCH UNCERTAINTY**

There is no uncertainty regarding continuation of operations.

**35. IN CASE OF THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED FOR THE PERIOD, IN WHICH THE MERGER WAS MADE, AN INDICATION THAT THESE FINANCIAL STATEMENTS WERE PREPARED AFTER THE MERGER OF THE COMPANIES, AND INDICATION OF THE CONSOLIDATION DATE, AND THE APPLIED METHOD OF SETTLING THE CONSOLIDATION**

Information on mergers carried out from January 1 to June 30, 2004 is presented in section 9 of the Introduction to these financial statements.

**36. DIFFERENCE BETWEEN THE BALANCE SHEET DATE, ON WHICH THE CONSOLIDATED FINANCIAL STATEMENTS WERE PREPARED, AND THE BALANCE SHEET DATE OF A SUBORDINATED COMPANY**

All companies of the Bank Millennium Group subject to consolidation prepare their financial statements on the same balance sheet date.

**37. INFORMATION ON ADJUSTMENTS AND VALUE OF EACH ITEM OF THE FINANCIAL STATEMENTS FOR WHICH DIFFERENT VALUATION METHODS AND PRINCIPLES WERE ADOPTED**

Within the Bank Millennium Group, no different valuation methods and principles were adopted as regards individual items of the financial statements.

**38. IF THE ISSUER DOES NOT PREPARE CONSOLIDATED FINANCIAL STATEMENTS, THE LEGAL GROUNDS FOR NOT PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS SHOULD BE PRESENTED IN AN ADDITIONAL EXPLANATORY NOTE TO THE FINANCIAL STATEMENTS**

Bank Millennium S.A. prepares the consolidated financial statements.

**39. IF THE ISSUER PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS EXCLUDES, PURSUANT TO SEPARATE PROVISIONS, A SUBORDINATED COMPANY FROM THE CONSOLIDATION OR THE EQUITY METHOD, AN ADDITIONAL EXPLANATORY NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS SHOULD PRESENT THE LEGAL BASIS AND DATA JUSTIFYING THE EXCLUSION**

The Bank Millennium Group have consolidated all entities subject to such obligation. The grounds for exclusion from consolidation due to the following criteria: sale intention and insignificance (defined in the Accounting Law of 29 September 1994, Art. 57 and 58) with the justification, were described in section 9 of the Introduction to these financial statements.

**SIGNATURES:**

| <b>Date</b> | <b>Full name</b>             | <b>Position/ Function</b>                     | <b>Signature</b> |
|-------------|------------------------------|---|------------------|
| .....       | <b>Bogusław Kott</b>         | <b>President of the Management Board</b>      | .....            |
| .....       | <b>Luis Pereira Coutinho</b> | <b>Vice-President of the Management Board</b> | .....            |
| .....       | <b>Fernando Bicho</b>        | <b>Member of the Management Board</b>         | .....            |
| .....       | <b>Julianna Boniuk</b>       | <b>Member of the Management Board</b>         | .....            |
| .....       | <b>Anna Rapacka</b>          | <b>Member of the Management Board</b>         | .....            |
| .....       | <b>Wojciech Haase</b>        | <b>Member of the Management Board</b>         | .....            |
| .....       | <b>Rui Manuel Teixeira</b>   | <b>Member of the Management Board</b>         | .....            |
| .....       | <b>Wiesław Kalinowski</b>    | <b>Member of the Management Board</b>         | .....            |
| .....       | <b>Zbigniew Kudaś</b>        | <b>Member of the Management Board</b>         | .....            |