INTRODUCTION TO THE CONSOLIDATED FINANCIAL REPORT AND COMPARABLE CONSOLIDATED FINANCIAL DATA

1. **Name and seat: Bank Millennium S.A., Warsaw, Al. Jerozolimskie 123 a**
   Court of Registration and Register Number: IX Business Department of the National Court Register, District Court for the Capital City of Warsaw, No. 0000010186
   Core business of the issuer: banking and other financial intermediation services, except insurance and pension fund,
   Key segments of activity of the Group: banking, leasing, factoring, brokerage, capital market, investment fund management.

2. DURATION OF ACTIVITY OF THE ISSUER AND COMPANIES FROM THE GROUP IF DEFINED

In the Bank Millennium Group there are no companies with a defined duration of activity.

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

The consolidated financial report is presented for the period 1.01.04 – 30.06.04 and comparable data for 1.01.03 – 30.06.03

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

Bank Millennium S.A. Management Board composition as at 30.06.04:
1. Bogusław Kott – Chairman of the Management Board,
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board,
3. Fernando Bicho - Management Board Member,
4. Julianna Boniuk – Management Board Member,
5. Wojciech Haase - Management Board Member,
6. Anna Rapacka - Management Board Member,
7. Rui Manuel Teixeira - Management Board Member,
8. Wiesław Kalinowski – Management Board Member, assumed the function on 1 June 2004,
9. Zbigniew Kudaś – Management Board Member, assumed the function on 1 June 2004,

moreover until 28 January 2004 Mr Jerzy Zdrzałka was a Management Board Member

Bank Millennium S.A. Supervisory Board composition as at 30.06.04:
1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman and Secretary of the Supervisory Board,
3. Christopher de Beck – Supervisory Board Member,
4. Jorge Manuel Jardim Goncalves - Supervisory Board Member,
5. Andrzej Koźmiński - Supervisory Board Member,
6. Marek Rocki - Supervisory Board Member,
7. Dariusz Rosati – Supervisory Board Member as of 27 May 2004
8. Zbigniew Sobolewski - Supervisory Board Member,
9. Gijsbert Johannes Swalef - Supervisory Board Member,
10. Francisco de Lacerda – Supervisory Board Member

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

Companies of Bank Millennium Group do not include internal organisational units preparing independent financial reports.

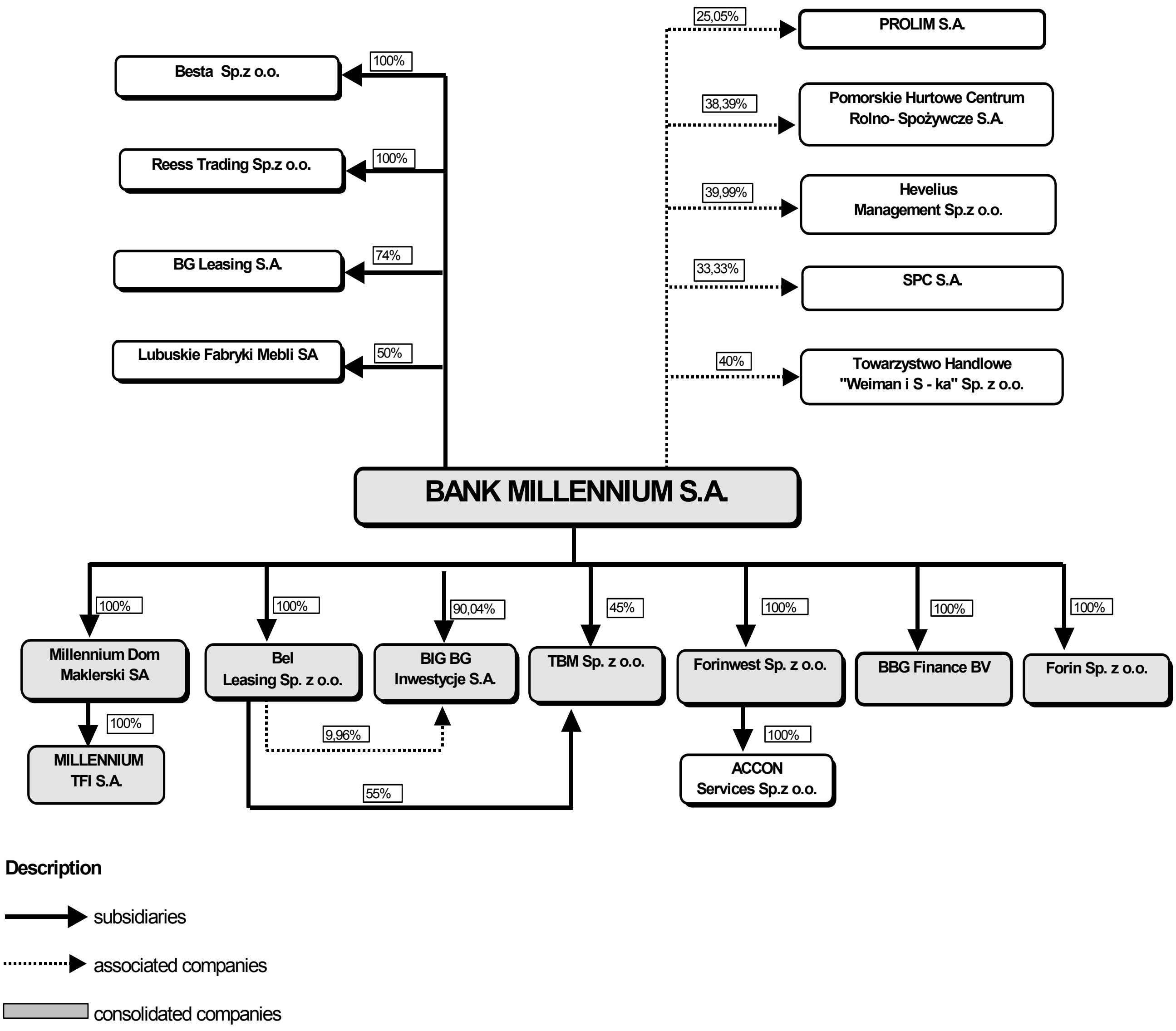
6. IN CASE OF A CONSOLIDATED FINANCIAL REPORT PREPARED FOR A PERIOD, IN WHICH A MERGER TOOK PLACE – INDICATION THAT IT IS A CONSOLIDATED FINANCIAL REPORT MADE AFTER THE MERGER AND INDICATION OF THE APPLIED METHOD OF SETTLEMENT OF THE MERGER

In the period from 1.01.04 – 30.06.04 the company BET Trading Sp. z o.o. was merged with BEL Leasing Sp. z o.o. The method of this operation and its impact upon data presented herein have been disclosed in item 9.

7. ASSUMPTION OF CONTINUATION OF BUSINESS ACTIVITY BY THE ISSUER AND COMPANIES OF THE GROUP

This consolidated financial report was prepared with the assumption of continuation of activity of the issuer and companies of the Bank Millennium Group, there are no circumstances indicating a threat to continuation of any of the types of activity currently pursued by the Group.

8. GRAPHIC PRESENTATION OF THE ORGANISATIONAL STRUCTURE OF THE GROUP'S RELATED COMPANIES AND INFORMATION ABOUT THE TYPE OF RELATIONS WITHIN THE GROUP (as at 30.06.2004).



9. LIST OF GROUP'S ENTITIES COVERED BY CONSOLIDATION OR EQUITY METHOD VALUATION AND LIST OF COMPANIES NOT CONSOLIDATED OR VALUED WITH THE EQUITY METHOD

The dominant company in the Group is Bank Millennium S.A. The remaining companies comprising the Group, covered by the consolidated financial report as at 30.06.04 are:

Company	Business	Registration authority
BEL Leasing Sp. z o.o.	Leasing services	Court of Registration for the Capital City of Warsaw, XIX Business Department of the National Court Register
Millennium Dom Maklerski S.A.	Brokerage services	As above
Forin Sp. z o.o.	Management of other companies	As above
Forinwest Sp. z o.o.	Investor representation	As above
BIG BG INWESTYCJE S.A.	Financial transactions on the equity market and advisory services	As above
TBM Sp. z o.o.	Financial transactions on the equity market and advisory services	As above
Millennium TFI S.A.	Creation and management of investment funds	As above
BBG FINANCE B.V.	Financing companies of the Group	Kamer Van Koophandel Rotterdam

Information about shares held by Bank Millennium S.A., as well as shares held by remaining companies in units of the Bank Millennium Group is presented in the organisational chart of the Group put in item 8 of this Introduction aa well as in the financial notes about shares/interests held by the Group in subordinated units.

Pursuant to criteria indicated in Par. 57 and 58 of the Accounting Law, the following companies of the Group were excluded from consolidation (shares and interests held in these companies are reported at purchase price considering provisions due to permanent loss of value):

Data in PLN '000

Company	*B-S total*	*%(*)*	*Comments*	*Data as at*
Bank Millennium S.A.- dominant company	20 165 716 ***(**)***	-		30.06.2004
Lubuskie Fabryki Mebli S.A.	25 227	0,13%		31.05.2004
Reess Trading Sp. z o.o.	112	0,00%		31.12.2003
BG Leasing S.A.		0,00%	In bankruptcy	
ACCON Services Sp. z o.o.	1 211	0,00%		31.05.2004

(*) Percentage share of the company's data in the balance sheet total of Bank Millennium S.A.
(**) Balance Sheet total without impact of equity method valuation of shares

Additionally, in the consolidated financial report of Bank Millennium Group made as at 30 June 2004 equity method valuation was applied to the following companies:

1. PROLIM S.A.
2. BESTA Sp. z o.o.

As regards affiliated companies, which are designated for sale or the volume of their business is marginal for the Group – such companies are presented in the consolidated report at purchase price considering provisions due to permanent loss of value.

As at 30 June 2004 the affiliated companies not covered by equity method valuations were:
- Pomorskie Hurtowe Centrum Rolno Spożywcze S.A.
- Hevelius Management Sp. z o.o. – company in liquidation,
- SPC S.A. – not operating,
- Towarzystwo Handlowe Weiman i S-ka Sp. z o.o. – not operating.

In 1st semester 2004 the following changes occurred in the Group's structure:

Within the framework of the ongoing Group restructuring project, the merger of BEL Leasing Sp. z o.o. and BET Services Sp. z o.o. was done with pooling-of-interest method. Because both companies had hitherto been consolidated thus the effect of their merger had no impact upon the consolidated report.

In 1st semester 2003 the following changes occurred in the Group's structure:

Until March 31, 2003, the Bank's investment in PZU S.A. was valued under the equity method and included in the consolidated financial statements pursuant to Art. 3, par. 1, items 36, 38 and 47 of the Accounting Law (equivalent guidelines are specified in IAS 28). On April 15, 2003, the Management Board of the Bank, in consultation with the Supervisory Board, decided to discontinue the valuation of its investment in PZU S.A. under equity method with effect from March 31, 2003, treating the value as of that date as cost.
This change in the accounting policy results from Art. 62, par. 5 of the Accounting Law (similar provisions are included in IAS 28, section 11) under which the investor discontinues the valuation of shares in its affiliate under the equity method from the date when the investor lost significant influence over such affiliate, despite the fact that the investor continues to hold the entire or part of the investment.
On March 31, 2003, the major shareholder of the Bank, i.e. BCP, closed the sale of 20.86% of shares in EUREKO B.V. to EUREKO B.V. and, consequently, limited its capital commitment to EUREKO B.V. to 5% of its new share capital. EUREKO with the Bank are members of the consortium holding 30% of shares in PZU S.A. As a result of this transaction, the BCP Group lost control over EUREKO B.V. (previously exercised jointly with Achmea Association). Indirectly, this limited the ability to influence significantly on 20% shares held by EUREKO in PZU.
Limitation of capital relations between EUREKO B.V. and the BCP Group indirectly also limits possibilities of the Bank to influence on the financial and operational policy of PZU S.A., despite its representatives in the Supervisory Board and the Management Board of PZU.
Pursuant to Art. 62, par. 5 of the Accounting Law, in line with the change in the accounting treatment of the investment in PZU S.A., on March 31, 2003 the goodwill arising on the purchase ceased to be amortized.
In consequence, shares in PZU S.A. are included under the item "shares in other entities" on the balance sheet, in the amount of PLN 1,212,114 thousand. This amount comprises: the value of shares in PZU under the equity method as of March 31, 2003 r. equal to PLN 457,434 thousand and unamortized goodwill of subordinated companies (as of that date) amounting to PLN 754,680 thousand. As a result of the payment of dividend for 2002 by PZU, the book value of shares in PZU was reduced by the dividend and amounts to PLN 1,199,161 thousand as of December 31, 2003.

10. INDICATION IF THE CONSOLIDATED FINANCIAL REPORT WAS SUBJECT TO RESTATEMENT TO PERMIT COMPARABILITY OF DATA

The consolidated financial report was restated to permit comparability of data; explanation of these differences is presented in item 30 in additional explanatory notes.

11. INDICATION IF IN THE PRESENTED CONSOLIDATED FINANCIAL REPORT OR COMPARABLE CONSOLIDATED FINANCIAL DATA ADJUSTMENTS WERE MADE RESULTING FROM QUALIFICATIONS IN OPINIONS OF COMPANIES AUTHORISED TO PERFORM EXAMINATION

There were no such qualifications.

12. DESCRIPTION OF ACCOUNTING RULES (POLICIES) ADOPTED

1) Consolidation methodology

Subsidiaries in the Group were covered by full consolidation, with the exception of those companies, which are immaterial due to volume and nature of their business as well as those, which are acquired to be resold during the accounting year.
With full consolidation of Balance Sheets all asset and liability items of the subsidiaries and the dominant company were added-up in full amounts, regardless of the part, in which the dominant company is the owner of the subsidiary.
After the adding-up adjustments and consolidation exclusions were made. The net result coming from the adding-up was increased with the loss and reduced with the profit of minority shareholders of the subsidiaries.

The following were excluded from the consolidated financial report:

- Mutual receivables and liabilities of consolidated companies, revenues and costs concerning operations done between the consolidated companies,
- Equity of the consolidated subsidiaries and contributed additional payments to equity,
- Cost of purchase of shares of consolidated subsidiaries,
- Gains or losses on operations made between consolidated companies, not realised from the Group’s point of view and contained in the value of assets and liabilities subjected to consolidation, including dividends paid within the Group.

If the Bank Millennium Group is playing the role of a significant investor in other companies or is exercising significant influence upon these companies then in the consolidated report the shares/interests in such companies are valued with the equity method. This valuation is done based on following assumptions:

- As at the day of assumption of control or exercising of significant influence the purchase price of the shares/interests in the valued company is adjusted with the “goodwill of the company” or “negative goodwill” (the method of calculation and depreciation of these values is presented further in the report),
- The purchase price thus adjusted is further adjusted with the increases or reductions of equity of the valued company attributable to the Group, which occurred since the day of valuation eligibility,
- All and any gains/losses on transactions between companies of the Group and the valued company are eliminated from the consolidated report in proportion to the exposure of the Group in the valued company.

2) Principles of presentation of the financial report

The consolidated financial report was made on the basis of consolidation documents with observance of following principles:

- Going concern,
- Continuity of operation,
- Commensurability,
- Prudent valuation,
- Accrual.

The consolidated financial report was made on the basis of:

- The Accounting Law of 29 September 1994 as amended,
- Banking Law of 29 August 1997 as amended,
- Ordinance of the Council of Ministers of 16 October 2001 in the matter of specific requirements, which should be met by a prospectus and short prospectus, as amended,
- Ordinance of the Council of Ministers of 16 October 2001 in the matter of current and regular information provided by issuers of securities, as amended,
- Ordinance of the Minister of Finance of 10 December 2001 in the matter of specific accounting rules for banks, as amended,
- Ordinance of the Minister of Finance of 10 December 2001 in the matter of rules of creating provisions for risk connected with activity of banks, as amended,

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- Ordinance of the Minister of Finance of 12 December 2001 in the matter of specific rules for recognition, methods of valuation, extent of disclosure and method of presentation of financial instruments, as amended.

3) Accounting rules applied in preparing the consolidated financial report

In 2004 the Bank and Millennium Group performed in the area of provision calculation, classification and presentation some changes as to the accounting principles, which resulted from the provisions of the Ordinance of the Minister of Finance dated December 10, 2003 in the matter of rules of creating provisions for risk connected with activity of banks
The main aspects of the new principles are as follows:

- Civil-law loans and retail loans (except for mortgages):
  a. Exposures where delays in repayment do not exceed 6 months are classified as standard,
  b. Interest accrued on the above loans / civil-law loans (standard category) are captured in the Profit and Loss Account,
  c. Exposures with default above 6 months are classified as lost.

- The other credit exposures (business entities and mortgages):

Classification by default duration in days

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

Following the entering into force as of January 14 2004 of the Ordinance of the Minister of Finance amending the ordinance in the matter of specific accounting principles of banks, the Bank includes in its net interest income (since January 1, 2004) also the interest due, including the discount and capitalised interest, on the receivables classified as ‘Under watch”.

The Bank and Millennium Group changed their accounting approach and, consequently, the way in which Sell-Buy-Back (SBB) and Buy-Sell-Back (BSB) transactions are presented in the balance sheet, thus adjusting itself to the amendment (of February 23, 2004) of the Ordinance issued by the Minister of Finance in the matter of specific principles for recognition, valuation methods, scope of disclosure and presentation method of financial instruments. According to the new wording of paragraph 11 section 2 item 2: issuance of or sale of the financial assets does not constitute loss of control by the entity if the issuing entity has the unconditional obligation to buyback these assets in the future and the receiving entity has the unconditional obligation to resell these assets, and these conditions are satisfied in case of the SBB transaction. Furthermore, it should be stressed that the risk of the change in the value of the asset that is the object of the SBB transaction is all the time carried by the transaction party under the obligation to buyback assets under the price determined in advance. At the same time the formula for the SBB transaction ensures for the unit receiving the assets the fee this unit could obtain by granting civil-law loan secured with the received assets, which reflects another criterion of the a/m provision. Aforementioned changes to the Ordinance results from new IAS 39 standard published in December 2003 and its accompanying interpretations on the removal of financial instruments from the balance sheet. In this regulation the paragraphs concerning the criteria for removal of financial assets / liabilities from the balance sheet have been considerably rewritten, which allowed easier and more unequivocal interpretation of the provisions on the SBB/BSB agreements. The new IAS 39 standard maintained the control approach and risk and rewards approach, however, the requirements as to the removal (recognition) of financial instruments from the balance sheet were put in order through introduction of a decision tree (step by step analysis) and definition of a hierarchy of various criteria. Consequently, the risk and rewards approach was given unequivocal priority before the control approach. Also, a detailed description was given of the way to conduct analysis as to whether the unit after conclusion of the transaction maintained all the risks and rewards from the asset transferred. According to the provisions the unit maintains risk and rewards resulting from a given asset, if its exposure to the variability of the present value of the future cashflows from the specific asset does not change significantly after the transfer.

On the grounds of the above regulations the Bank starting with the report prepared as at June 30 2004, presents in the balance sheet the financial assets (currently debt securities) resold to with the Sell-Buy-Back clause (SBB) at the same time capturing on the side of liabilities the obligations resulting from the promise to buyback. In case of buy-sell-back transactions (BSB) the financial assets held (also debt securities) are presented as receivables resulting from the buyback clause.
The transformations of the comparable data are presented in item 30 of the Additional explanatory notes.

Receivables and Liabilities

- Receivables and liabilities are recognised at the payable price including accrued interest,
- the Bank writes off credit exposures to specific provisions in clearly defined cases, pursuant to binding regulations
- In financial reports receivables are presented net of specific provisions created pursuant to binding regulations,
- Pursuant to binding regulations specific provisions are created for irrevocable off-balance sheet liabilities, exposed to the risk of the customer’s irregular situation.

Securities

- **Debt securities**

Debt securities are classified in following categories on the day of purchase:
- For trading

These are debt securities, which were acquired with a view to gaining on short-term price fluctuations. As at the balance sheet day debt securities for trading are valued at fair value and the result of the valuation is included in the result on financial operations.
- Held until maturity

This group includes debt securities, which were acquired with the intention of holding them until maturity. Securities from this portfolio are valued at depreciated cost with consideration of impairment provisions.
- Available for sale

Debt securities not included in the “for trading” or “held until maturity” categories are classified as “available for sale”. These securities are marked to fair value and the revaluation difference is recorded in the “asset revaluation reserve”. As at the day of taking part or all of a financial asset off books (sale) the hitherto value is taken out of capital and put in the Profit and Loss Account for the period.
Debt securities classified in the category, where fair value is used however it is not possible to determine their fair value, will be valued at depreciated cost.
Provisions due to impairment of debt securities in the “held until maturity” and “available for sale” categories are charged against the Profit and Loss Account.
Discount on debt securities is settled in time with use of the exponential method.

- **Shares and interests**

Shares and interests are classified in following categories:
- For trading,
- Available for sale,

The criteria used for classification as well as the methodology for valuating shares and interests are the same as for respective categories of debt securities, which is described above. The exception are investments in shares and interests in non-consolidated subsidiaries.
- Shares and interests in non-consolidated subsidiaries

Shares and interests in non-consolidated subsidiaries have been valued with use of the equity method, with the exception of units assigned for sale or immaterial from the point of view of the Group. Including specific subsidiaries, valued with the equity method, in the consolidated financial report consisted in replacing the purchase price of shares held in specific subsidiaries with their equity – in the part belonging to the Group.
Shares and interests in non-consolidated subsidiaries and not valued with the equity method (assigned for sale or immaterial) are recognised in the Balance Sheet at purchase price, with consideration of provisions for impairment.

Derivatives and other financial instruments
Derivatives are classified as assets or liabilities for trading and are captured at fair value. Embedded derivatives are recognised and valued separately from the host contract if following conditions arise jointly:

- The financial instrument is not included in assets for trading, effects of revaluation of which are carried in the Profit and Loss Account,
- The nature of the embedded derivative and the risks associated with it are not connected strictly with the nature of the host contract and the risks resulting from it,
- Credible establishment of the derivative's fair value is possible.

The positive effect of derivatives' valuation is presented on the assets side of the Balance Sheet as "other securities and other financial assets" and on the liabilities side under "other liabilities on account of financial instruments". In the Profit and Loss Account the valuation result is accounted under "result of financial operations".

In case of transactions with the nature of fair value hedges the gains or losses on account of valuation of the derivative compensate changes of the fair value of the hedged instruments in the Profit and Loss Account respectively.
In case of cash flow hedges the effective part of gains or losses on account of valuation of the derivative is captured in revaluation reserve while the ineffective part directly in the result on financial operations.

The Bank has following types of derivatives:

1) FX forward transactions
The base amounts of open FX forwards (currencies bought and currencies sold) are recognised in Balance Sheet items and presented in "Liabilities connected with execution of buy/sell options". The amounts in foreign currencies are converted at the average NBP rate of the Balance Sheet day. Forwards are valued at fair value as at the end of each month and the valuation is presented in other assets/liabilities, corresponding to F/X gains/losses.

2) FX SWAP transactions
The base amounts of open FX SWAPs (currencies bought and currencies sold) are recognised in off-Balance Sheet items and presented in "Liabilities connected with execution of buy/sell options". The amounts in foreign currencies are converted at the average NBP rate of the Balance Sheet day. At the end of each month FX SWAPs are valued at fair value based on the discounted cash flow method. Adjustment of the fair value consists in introducing in the Profit and Loss Account of suspended F/X gains/losses accrued between the date of entering the transaction and the Balance Sheet day and correcting settled swap points, accounted in net interest income. The fair value adjustment is accounted in the item "other securities and other financial assets"/"liabilities on account of financial instruments", corresponding to the result on financial operations.

3) IRS transactions
The base amounts of open IRSs (currencies bought and currencies sold) are recognised in off-Balance Sheet items and presented in "other off-balance sheet items". At the end of each month IRS transactions are valued at fair value based on the discounted cash flow method. Adjustment of the fair value consists in correcting interest payable and interest due, accrued in net interest income. The fair value adjustment is accounted in the item "other securities and other financial assets", corresponding to the result on financial operations.

4) CCS transactions
The base amounts of open CCSs (currencies bought and currencies sold) are recognised in off-Balance Sheet items and presented in "liabilities connected with execution of buy/sell transactions". The amounts in foreign currencies are converted at the average NBP rate of the Balance Sheet day. At the end of each month CCSs are valued at fair value based on the discounted cash flow method. Adjustment of the fair value consists in introducing in the Profit and Loss Account of suspended F/X gains/losses accrued between the date of entering the transaction and the Balance Sheet day and correcting interest payable and interest due, accrued in net interest income. The fair value adjustment is accounted in the item "other securities and other financial assets"/"other liabilities on account of financial instruments", corresponding to the result on financial operations.

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5) Equity SWAP, Volatility Swap, Swap with embedded FX Option transactions
The base amounts of open swaps (currencies bought and currencies sold) are recognised in off-Balance Sheet items and presented in "other off-balance sheet items". At the end of each month swap transactions are valued at fair value based on the discounted cash flow method. Adjustment of the fair value consists in correcting interest payable and interest due, accrued in net interest income. The fair value adjustment is accounted in the item "other securities and other financial assets"/"other liabilities on account of financial instruments", corresponding to the result on financial operations.

6) FX Options
The base amounts of open options (only foreign currency) converted at the average NBP rate of the Balance Sheet day are recognised in off-Balance Sheet items and presented in "other off-balance sheet items". Options are valued at fair value at the end of each month. Adjustment of the fair value consists in correcting the premium paid/received. The fair value adjustment is accounted in the item "other securities and other financial assets"/"other liabilities on account of financial instruments", corresponding to the result on financial operations.

7) FRA transactions
Capital amounts resulting from opened transactions are recognised in off-Balance Sheet items and presented in "other off-balance sheet items". FRA transactions are valued at fair value at the end of each month, and the valuation is presented in the item "other securities and other financial assets"/"other liabilities on account of financial instruments", corresponding to the result on financial operations.

8) Investment certificates and participation units held in the Group's portfolio, which were acquired with the intention to resell them shortly or to realise the margin, are classified in the "for trading" portfolio and valued at fair value, with the valuation result being captured in the Profit and Loss Account.

Fixed assets and intangible assets
Fixed assets and intangible assets are carried at purchase prices or cost of production or (regarding fixed assets) at a value established in revaluation, less depreciation and impairment provisions.

The applied depreciation rates are established on the basis of expected economic usability of fixed assets. In justified cases permitted indexes are used in the Group, increasing the base rate. Depreciation is linear.

Depreciation rates applied by Bank Millennium S.A.:
Selected groups of fixed assets:

Buildings	2,5%
Investments in third-party buildings	10,0%
Computer sets	30,0%
Networking devices	30,0%
Cars	20,0%
Communications hardware:	
- wired	10,0%
- wireless	20,0%
Intangible assets (software):	
Main applications (systems)	10,0%

A rate of not more than 50% is applied to other computer software, depending on planned period of use.

Fixed assets under construction are carried at purchase price or cost of production and are not depreciated.
Refurbishment and upgrade of purchased or leased fixed assets are included in fixed assets under construction and has been recognised in the Balance Sheet.
The value of Millennium know-how was calculated as the net present value of the future liability amount of PLN 530 800 000 (using a discount rate of 13.9743%). As at the day of entry of the value into the books, the zloty equivalent (at the spot rate from the day of method change) of bridge loans

granted in EURO was deducted from the value of the future liability. The value of Millennium know-how is depreciated over 20 years.

“Goodwill from consolidation” and “Negative goodwill”
Consolidated goodwill occurs if:

- The difference between the purchase price of the new shares in the company and the part of net assets of the consolidated company corresponding to these shares is positive i.e. if the cost of purchase is higher than the net value of purchased assets.

Negative goodwill occurs if:

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

“Goodwill” and “Negative goodwill” are written off according to provisions of the Accounting Law.

Assets taken over for sale
Assets taken over for debts are recognised at a price, constituting the amount of the debt, for which the assets were taken over less provisions created up to the amount of the difference between the debt amount and the feasible net sale price of the assets.

Own shares and income from sale of own shares
Own shares are presented in the Balance Sheet at the average purchase price as the reduction of consolidated equity. The income from sale of own shares is accounted directly in equity.

Group’s equity
The Group’s equity is created by adding equity of individual fully consolidated companies. The value of equity thus created is adjusted with the Group’s share in equity of subsidiaries as at the day of acquisition of the shares as well as with the part of equity of subsidiaries not in the Group, which equity part is recognised in a separate item as “minority shareholders’ equity”. Additionally deducted from the Group’s equity is the value of shares of the dominant entity held by the Group.
All components of equity of subsidiaries arisen after the day of consolidation are included in the Group’s equity. In particular this applies to changes of equity due to generated profit or loss and revaluation. Losses attributable to minority shareholders, which outweigh equity of the minority, are charged against equity of the Bank Millennium Group.
The presence of differences between individual items of consolidated equity and the Bank’s non-consolidated equity, despite the same total value, results from different methodologies for preparing the consolidated report and unit report considering valuation of subordinated companies with use of the equity method.

FX assets and liabilities
Assets and liabilities constituting Balance Sheet and off-balance sheet FX items are recognised after conversion to zloty at the average exchange rate for individual currencies as established by the President of NBP as at the Balance Sheet day. FX gains/losses resulting from conversion of the Balance Sheet assets and liabilities are recognized in the Profit and Loss Account.

Characteristics of selected items of the Profit and Loss Account

- **Interest income**

Interest receivables are calculated on a cumulative basis until the last day of the accounting period. Interest due matured and not matured as well as capitalised interest on irregular receivables are not included in Profuit and Loss Account. This interest is recognised as interest income when received; before that they are presented in the Balance Sheet as suspended income.
Discount interest on purchased debts is recorded on settlement accounts as income received in advance and accrued over time through the Profit and Loss Account.
Interest on receivables is now accrued linearly. The Bank is working on adapting systems and procedures to apply the effective interest rate method to settle interest. This approach will be in force as of 1 January 2005.

- **Interest expenses**

Interest liabilities are accrued until the last day of the accounting period. Accrued liabilities due for the accounting period are carried as cost and recognised in the Profit and Loss Account.

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

Income/cost on account of fees and commissions is taken through the Profit and Loss Account on a cash basis i.e. upon payment. The accrual method of settling fee and commission income and cost is used when this is required by the nature of the transaction (materiality criterion).

- **Lease income/cost**

Financial lease – in financial lease the income are interest payments invoiced as per the contractual schedule, net of VAT. Repayment of principal under the lease contract as well as deposits and lessees' downpayments securing the contract do not constitute the Company's income.
The income from sale of fixed assets is the sale price established after end of the lease contract, while the non-depreciated value, resulting from tax depreciation is the cost of sales.

Operating lease – in operating lease the income are invoiced payments (the first payment and subsequent monthly payments under the lease contract repayment schedule) and fees for lease services net of VAT. Deposits and pledges securing the contract and received from the lessees are not included in income.

- **Other operating income and expenses**

Other operating income and expenses include costs and income not connected directly with the Group's banking and brokerage activity. These are especially the income and expenses on account of sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines.

4) Provisions for non-performing receivables and for generic risk

Subject to classification and establishment of specific provisions are credit exposures on the basis of individual transaction assessment pursuant to rules defined in the Ordinance of the Minister of Finance dated 10 December 2001 in the matter of rules of creating provisions for risk connected with activity of banks.
The generic risk provision is created charging current period costs to cover risks connected with banking activity.
The company in the Group dealing with lease activity also creates generic provisions of 0.9%.
Transfer of generic provisions to specific provisions is accounted as a change of Balance Sheet items.

5) Provision for retirement benefits and employees' leave

- **Retirement benefits**

According to the Regulations for Remuneration of the Bank's Employees and under the Labour Law employees, having worked a specific number of years and having reached the required age are eligible for a retirement benefit. The provision for retirement benefits is calculated as the present value of future liabilities of the Bank to employees as per the headcount and salaries as at the revaluation day.

- **Unused leave**

The balance of the provision on account of leave unused by the Bank's employees has been calculated as the total of unused leave, to which individual employees of the Bank are entitled.

6) Income tax and provision and assets on account of deferred income tax

The Bank Millennium Group does not form a tax group, therefore each company in the group has individual tax obligations. Income tax for individual companies in the Group is calculated on the basis of the gross accounting result, adjusted with this income, which according to tax regulations is not included in taxable income as well as with costs that are not tax deductible under the tax regulations. Moreover for the purpose of calculating the current tax liability the gross accounted result is adjusted with income and costs from previous years, realised for tax purposes in the reporting period as well as with tax-deductible donations and with tax losses from previous years covered with the current year’s income.

As at the end of each month a provision is created for the transitory difference of income tax, which will be due and payable in the next reporting period. This difference is caused by different timing of recognition of income as generated or cost as incurred under the Accounting Act and tax regulations. A positive difference is included in charges on the net financial result as provision for income tax. A negative difference is included in prepayments, if there is certainty as to its settlement during the next reporting period.

Temporary differences include i.a.:

- Accrued interest, settled discount on securities, which as at the accrual date generate a gross result, while under the Corporate Income Tax Act they are a cost or income as at the date of their realisation,
- Changes of fair value of securities and financial instruments,
- Provisions created for loan receivables and provisions for impairment of securities, as to which there is certainty that they will become tax deductible,
- Provisions for costs to be incurred,
- Losses from previous years, which are likely to be settled in future periods.

In the process of establishing the value of assets on account of deferred tax the Bank makes an individual analysis of the probability of a specific provision becoming a tax cost in the future and in what amount.
The deferred income tax provision and asset are presented separately in the Balance Sheet.
A tax loss is carried as a deferred income tax asset if it is likely to be settled in future reporting periods.
According to the Law of 16 April 2004 on the Union Guarantee Fund the Bank is booking discounted receivables from Tax Authority in the amount of 8% of the total value of created and not charged into costs as on 31.12.2002 specific provisions covering risk of loans and receivables classified as “doubtful” and “lost” categories. In case of dissolving these provisions the Bank is revaluing the receivables from Tax Authority with impact on Profit and Loss Account.

7) Value Added Tax

According to binding regulations bank transactions are exempt from VAT. The Bank Millennium Group pays VAT on activities other than banking transactions, however Bank Millennium S.A. does not deduct VAT accrued from VAT due, with the exception of purchases connected with sales taxed with VAT due.

8) Group Earnings Per Share

Group Earnings Per Share were calculated by dividing net profit in the period 01.01.04 – 30.06.04 by the average weighted number of the Bank’s shares, less average weighted number of own shares held by the Group in the period.

9) Differences in applied accounting policies

For consolidation purposes all companies of the Group prepare reports based on uniform accounting policies binding in Bank Millennium Group.

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13. AVERAGE ZLOTY/EURO FX RATES IN PERIODS COVERED BY THE CONSOLIDATED FINANCIAL REPORT AND RESTATED FINANCIAL DATA, AS ESTABLISHED BY THE NATIONAL BANK OF POLAND

	1.01.04 – 30.06.04	1.01.03 – 30.06.03
The FX rate of the last day of the period	4,5422	4,4570
Average rate in the period (arithmetic average of the FX rates as at the last day of each month in the period)	4,7311	4,3110
FX rate in the period (as per end-of-month rates):		
- highest	4,8746	4,4570
- lowest	4,5422	4,1286

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

KEY FINANCIALS (in EURO thous.)	1.01.04 – 30.06.04	1.01.03 – 30.06.03
Interest income	174 265	167 833
Commission income	28 807	29 121
Result on Banking Activity	129 056	115 793
Operating Profit	30 476	-3 922
Gross profit (loss)	30 476	-6 535
Net profit (loss)	23 673	7 852
Balance Sheet Total	4 503 127	4 585 027
Receivables from financial sector	479 039	190 423
Receivables from non-financial sector and state budget sector	1 657 681	2 377 501
Liabilities to the Central Bank	0	0
Liabilities to the financial sector	471 249	595 667
Liabilities to the non-financial sector and state budget sector	2 664 299	2 425 179
Equity, including:	405 919	389 273
- Initial capital	186 954	190 528
Net cash flow from operations	168 036	-171 640
Net cash flow from investment activity	-191 254	157 774
Net cash flow from financial activity	-10 804	4 566

The Balance Sheet data were converted at the average NBP exchange rate from the day ending the period. Data from Profit and Loss Account and Cash Flow Statement were converted at the average rate in the period, calculated as the arithmetic average of average NBP rates from the day of close of each month covered by the report

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

The Bank is working to prepare for drafting consolidated financial reports in accordance with International Financial Reporting Standards (IFRS) beginning with 2005. Currently the work is focused on final verification of the methodology assumptions and on building comprehensive IT solutions, especially as regards identification and impairment of the credit portfolio and implementation of a method for valuation of financial instruments with use of effective interest rate.
In consequence, the quantitative data cannot be deemed to be complete and credible and need to be further verified – this is why by virtue of the provisions of the Ordinance issued by the Council of Ministers on 11 August 2004 on detailed conditions which should be satisfied by the prospectus and the abbreviated prospectus (§18 Sec. 2 pt. 5), specified herein below are only the main areas of the qualitative differences without quantification:

- The principles regarding creation of provisions for impairment of credit exposures in the report according to Polish Accounting Standards (PAS) are based on legal regulations stipulated in the Ordinance of the Minister of Finance of 10 December 2001 in the matter of rules for creation of provisions for risk connected with activity of Banks (as amended) while IFRS requires that the value of a writedown be measured as the difference between the carrying amount of the receivables and the value of future cash flows resulting from this receivable, discounted with use of the effective rate. One of the implications of this approach is the need to eliminate suspended interest from the Balance Sheet, with simultaneous recognition of their part as interest income,
- Currently the Group is applying the effective interest rate method only in some areas of activity (discount/premium on debt securities), while according to IFRS the depreciated cost valuation of financial assets and liabilities should consider effective profitability,
- PAS contain detailed regulations concerning creation of the generic risk provision,
- The way and scope of data presentation in the financial report according to IFRS and PAS differ in some areas.