# INTRODUCTION TO THE FINANCIAL REPORT AND COMPARABLE FINANCIAL DATA

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

## 2. TERM OF OPERATIONS OF THE ISSUER, IF DETERMINED

Bank Millennium SA does not have its term of operations limited.

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

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

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

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

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

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

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

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

Bank Millennium S.A. does not have internal organizational units subject to separate financial reporting.

**6. INDICATION IF THE ISSUER IS A DOMINANT ENTITY OR A SIGNIFICANT INVESTOR AND IF IT MAKES OUT A CONSOLIDATED FINANCIAL REPORT**

Bank Millennium S.A. is the dominant entity of the Bank Millennium Capital Group and makes out a consolidated financial report.

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

In the period from 1 January to 31 December 2004 there was no merger in which Bank Millennium would participate.

**8. INDICATION IF THE FINANCIAL REPORT WAS MADE UNDER THE ASSUMPTION OF BUSINESS CONTINUATION BY THE ISSUER**

The financial report was prepared with the assumption of business continuation by the issuer and there are no circumstances indicating any threat to the continuation of the activity.

**9. INDICATION WHETHER THE FINANCIAL REPORT WAS SUBJECT TO TRANSFORMATION TO ENSURE DATA COMPARABILITY**

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

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

No qualifications in consideration existed.

**11. DESCRIPTION OF THE ACCEPTED ACCOUNTING STANDARDS (POLICY)**

**1) Principles of presenting the financial report**

The financial report was prepared with the observance of the following principles:
- the principle of continuity,
- the principle of action continuity,
- the principle of commensurability,
- the principle of conservative evaluation,
- the accrual principle.

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

**2) The accounting standards used for the preparation of the financial report**

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

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

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

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

Classification according to the criterion of delay expressed in days

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

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

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

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

**Receivables and liabilities**

- receivables and liabilities are recorded at the price requiring the payment including the accrued interest,
- in the precisely specified cases the Bank shall write off credit exposures against the established specific provisions in keeping with the Ordinance of the Minister of Finance dated 2 December 2003 amending the Ordinance in the matter of specific principles of accounting in banks. The borderline conditions adopted in the Bank to define receivables to be written off against created specific provisions are as follows:
  Subject to writing off receivables against specific provisions are those cases where it is possible to write off the entire loan. This concerns groups of loans considered lost, especially cases the irrecoverability of which has been shown to be highly probable.
  This means that subject to writing off against the specific provisions are in particular loans which:
  - have been qualified to the lost category as per criteria defined by the Minister of Finance in the Ordinance of 10 December 2001 in the matter of principles for creating provisions for risk connected with activity of banks (Journal of Laws 01.149. item 1672 as amended),
  - have no real collateral, the process of execution of collateral has been concluded and the created specific provision is 100% of due and payable principal,
  - regarding which probability of loss has been confirmed, in particular when: the Bank has forwarded the receivables to execution proceedings, the debtor died or the company was deleted from the business register or the company was put into liquidation, its bankruptcy was announced or, when the whereabouts of the debtor are unknown and his property has not been recovered,

  the process of writing off is preceded by an individual assessment of recoverability of the receivables.
  The receivables are deemed irrecoverable when after 12 months from the date of its classification in the lost receivables group there is practically no possibility of recovering the receivables and when the financial standing of the borrower has deteriorated irreversibly and at the same time the fair value of collateral taken over is close to zero.
  Subject to writing off are also loans, which have been deemed irrecoverable and the value of which is so low that carrying them further in the bank's loan portfolio cannot be justified.
  Subject to writing off receivables against specific provisions are all cases, where it is not practical or desirable to defer the moment of writing off a basically valueless asset even if in the future it will be possible to partly recover the loan amount, in connection with the bank's right to claim payment from the debtor,
- in the financial reports the receivables are recorded in the net amount, i.e. decreased by the established specific provisions in conformity to the binding regulations,
- specific provisions are established in keeping with the binding regulations for irrevocable off balance liabilities, based with the risk of the client's irregular situation.

**Securities**

- **Debt securities**

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

❑ For trading

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

❑ Held to maturity

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

❑ Available for sale

Debt securities classified as available for sale are those which are not included in the "for trading" or "held to maturity" categories. These securities are valued at fair value and the revaluation difference is related to revaluation capital. As at the date of excluding the entire financial asset or part of it (sale) from accounting books the former valuation is excluded from capital and is carried in the Profit and Loss Account for the relevant period.
Debt securities classified in the category for which fair value valuation method was adopted and whose fair value cannot be reliably determined are valued at amortized cost.
Write-offs for impairment of debt securities included in the category "held to maturity" and "available for sale" are charged against the Profit and Loss Account.
Discount on debt securities is settled in time following the exponential method.

- **Stocks and shares**

Stocks and shares are classified under the following categories:
- held for trading,
- available for sale.

The classification criteria as well as valuation methodology for stocks and shares are similar to those for the respective categories of debt securities (the exception being shares and stocks in subordinated entities) which were described above.

Investments in stocks and shares of subordinated entities in the Bank's solo report are appraised by the equity method. In accordance with the Bank's accounting policies the employment of this methodology of appraising shares and stocks in subordinated entities makes the value of the Bank's net assets equal to the value of net assets in the Bank's Capital Group.

In order to attain the above consistency Bank Millennium SA calculates the value of shares and stocks in subordinated entities using the equity method based on the guidelines of Art. 63 of the Accounting Act and the following assumptions:

- any profits and losses realised on group internal transactions are eliminated in proportion to the Bank's (Group's) exposure to a certain entity. Irrespective of whether such profits/losses are realised "from above" (by the dominant entity) or "from bottom up" (by the subordinated entity) adjustments for such reason in the profit and loss account are disclosed in the item "sharing in profits/losses of subordinated entities" and in the balance sheet as change of the value of stocks and shares in subordinated entities,
- in the case when the value of stocks and shares in a subordinated entity due to the inclusion of the appraisal effect will assume a negative value the report captures the total value of the adjustments (i.e. also the part of the adjustment in excess of the purchasing price) in correlation with the Bank's profit and loss account. In the balance sheet part of the adjustment in excess of the purchasing price is presented on the liabilities side as provision for the valuation of subordinated units by the equity method,
- in order to perform the valuation of stocks and shares in entities which are not directly in the Bank's portfolio and which are part of Bank Millennium's Capital Group (i.e. entities over which the Bank exercises control through other entities) a two-step procedure is carried out: entities directly subordinated to the Bank perform a valuation by the equity method of stocks and shares which they hold in Capital Group entities and only thereafter thus adjusted net assets of such entities are used to calculate the value of stocks and shares in the Bank,
- for the purpose of appraising shares by the equity method the Bank's own shares held by a subsidiary entity in which the Bank does not directly hold shares decrease such entity's equity. In this connection the Bank's financial report captures the Bank's own shares as a share in net assets of the subordinated entities (in the Bank's net retained earnings); they are not disclosed in a separate item as a decrease of the Bank's equity,

It ought to be emphasised that the differences between the values of particular unit categories of the Bank's equity and the Group's consolidated equity (despite identical values of net assets) result from the fact that the consolidated report reflects the distribution of the result and the remaining changes in the state of net assets which were performed in the Group's particular units, while the Bank's report captures the state of net assets of the dominant entity which performs the distribution of the current result including the effect of valuation by the equity method, thus including the profits worked out by subordinated entities.

Stocks and shares in subordinated entities not appraised by the equity method (with negligible scale of operations) are captured in the balance sheet at their purchasing price, including the provisions established on account of their impairment.

**Derivatives and other financial instruments**

Derivatives are classified as assets or liabilities held for trading and appraised at fair value. The embedded derivatives are reflected and appraised in separation from the principal agreement in case of joint occurrence of the following conditions:
- The financial instrument is not included in the assets held for trading, the results of revaluation of which are related to the profit and loss account,
- Character of the embedded instrument and the related risks are not strictly linked to the character of the principal agreement and the risks resulting therewith,

- It is possible to establish fair value of derivative in a creditworthy way.

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

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

The Bank has the following derivative instruments:

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

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

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

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

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

6) FX options

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

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

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

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

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

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

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

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

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

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

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

**Description of selected items from the Profit and Loss Account**

- **Interest income**

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

- **Cost of interest**

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

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

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

- **Other operating income and expenses**

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

**4) NPL and general risk provisions**

Subject to classification and creation of specific provisions are credit exposures based on an individual assessment of the transaction pursuant to rules stipulated in the Ordinance of the Minister of Finance of 10 December 2003 in the matter of rules for creation of provisions for risk connected with activity of banks.

The general risk provision is created charging the costs of the current period in order to cover risks connected with banking activity.
Transfer of general risk provisions to specific provisions is presented as a change of balance sheet items.

**5) Provision for retirement benefits and employee leave**

- **Retirement benefits**

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

- **Unused employee leave**

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

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

Income tax is calculated on the basis of the gross result adjusted with income, which pursuant to tax regulations is not included in taxable income and with the costs which in the light of tax regulations are not considered as tax deductible. Furthermore, in order to calculate the current level of tax obligations, the gross accounting result is adjusted with income and costs from previous years realized for tax purposes in a given reporting year and income deductions on the account of donations, and with tax losses from previous years settled against income of the current year.

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

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

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

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

**7) VAT**

Pursuant to the law in force banking operations are VAT exempt. Bank Millennium S.A. does not deduct the input VAT from the output tax, except for the purchases related to sales taxed with input VAT.

**8) Net profit per share**

The Bank's net profit per share was calculated through division of the net profit for the period of 01.01.04 – 31.12.04 by the average weighted number of shares of the Bank in the period.

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

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

**13. INDICATION OF AT LEAST THE BASIC ITEMS OF THE BALANCE SHEET, PROFIT AND LOSS ACCOUNT AND CASH FLOW STATEMENT, FROM THE FINANCIAL REPORT AND COMPARABLE FINANCIAL DATA, CONVERTED INTO EURO**

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

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

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

The Bank has been conducting works aimed at development of consolidated financial reports according to the International Financial Reporting Standards (IFRS) since 2005. At the current stage these works have been focusing on the final verification of the methodological assumptions and testing IT solutions which specifically concerns issues of identification and measurement of credit portfolio impairment and introduction of the effective interest rate method for the valuation of financial instruments. These efforts were additionally inhibited due to the late completion of the process of consultations and changes of IAS 39 in the context of adoption of this standard by the European Union.

Below, major areas of qualitative gaps are disclosed:

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