



TRANSLATION

Bank Millennium S.A.

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2005

KPMG Audyt Sp. z o.o.
The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 12 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the financial statements
for the financial year ended
31 December 2005

OPINION OF THE INDEPENDENT AUDITOR

To the General Shareholders' Meeting of Bank Millennium S.A.

We have audited the accompanying financial statements of Bank Millennium S.A. seated in Warsaw, Al. Jerozolimskie 123a, 02-017 Warsaw, consisting of the introduction to the financial statements, the balance sheet as at 31 December 2005, with total assets of and total liabilities and equity of PLN 23,065,023 thousand, the capital adequacy ratio, the statement of contingencies and commitments granted at 31 December 2005 amounting to PLN 5,171,417 thousand, the profit and loss account for the year then ended with a net profit of PLN 542,119 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 359,477 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 350,173 thousand and the supplementary information and explanations.

The Management of the Bank is responsible for the accuracy of the accounting records and the preparation and true and fair presentation of the financial statements prepared in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and in compliance with the respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. Our responsibility is to express an opinion on these financial statements, and whether the financial statements are derived from properly maintained accounting records, based on our audit.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management of the Bank, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited financial statements of Bank Millennium S.A. have been prepared from properly maintained accounting records and present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, the results of its operations and its cash flows for the year then ended in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and in compliance with the respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market and the provisions of the Bank's Statute that apply to the Bank's financial statements.

As required under the Polish Accounting Act dated 29 September 1994 we also report that the Report on the Bank's activities includes, in all material aspects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements.

Signed on the Polish original

.....
Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

Warsaw, 9 March 2006

Bank Millennium S.A.

Report supplementing
the auditor's opinion
on the financial statements
Financial Year ended
31 December 2005

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion
contains 12 pages
Report supplementing the auditor's opinion
on the financial statements
for the financial year ended
31 December 2005

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1 General

1.1 General information about the Bank

1.1.1 Bank name

Bank Millennium S.A.

1.1.2 Registered office

Al. Jerozolimskie 123a
02-017 Warsaw

1.1.3 Registration in the National Court Register

Seat of the court: Regional Court in Warsaw, XIX Commercial Department
Date: 30 April 2001
Registration number: KRS 0000010186

1.1.4 Tax Office and Provincial Statistical Office registration

NIP: 526-021-29-31
REGON: 001379728

1.2 Auditor information

KPMG Audyt Sp. z o. o.
ul. Chłodna 51,
00-867 Warsaw

KPMG Audyt Sp. z o.o is registered as a company authorised to audit financial statements (number 458).

1.3 Legal status

1.3.1 Share capital

The Bank was established for an indefinite period under the terms of its Statute dated 7 June 1989.

The share capital of the Bank amounted to PLN 849,181,744 as at 31 December 2005 divided into 849,181,744 ordinary shares with a nominal value of PLN 1 each.

As at 31 December 2005, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (%)	Nominal value of shares of shares PLN'000	Percentage of share capital (%)
Banco Comercial Portugues S.A.	424 624 072	50,00%	424 624 072	50,00%
Carothers Trading Limited	84 833 256	9,99%	84 833 256	9,99%
Priory Investments Group Corp.	84 833 256	9,99%	84 833 256	9,99%
M+P Holding S.A.	84 833 256	9,99%	84 833 256	9,99%
Others < 5%	170 057 904	20,03%	170 057 904	20,03%
Total	849 181 744	100,0%	849 181 744	100,0%

1.3.2 Related parties

The Bank is a member of the Bank Millennium S.A. capital group.

1.3.3 Management of the Bank

The Management Board is responsible for management of the Bank.

At 31 December 2005 the Management Board of the Bank was comprised of the following members:

- Mr. Bogusław Kott President of the Board
- Mr. Luis Pereira Coutinho Vice-President of the Board
- Mr. Fernando Bicho Board Member
- Mrs. Julianna Boniuk - Gorzelańczyk Board Member
- Mr. Wojciech Haase Board Member
- Mr. Wiesław Kalinowski Board Member
- Mr. Zbigniew Kudaś Board Member
- Mr. Rui Manuel Teixeira Board Member

No changes took place in composition of the Management Board of the Bank during 2005 and until the date of this report.

1.3.4 Scope of activities

The business activities listed in the Bank's Statute include the following:

- opening and maintaining bank accounts and accepting a vista and term deposits;
- maintaining other banking accounts;
- granting credits and loans;
- granting and accepting banking guarantees and opening letters of credit;
- issuing banking securities;
- conducting money settlements;
- granting consumer credits and loans in accordance with other legal requirements;

- cheques and bill of exchange services and performing warrants operations;
- granting payment cards and performing payment cards operations;
- performing term financial operations;
- purchasing and selling receivables;
- safe-keeping of valuables and securities;
- performing purchase and sale of currencies;
- issuing and accepting guarantees;
- performing contracted operations regarding issuing securities;
- intermediary in foreign exchange operations with residents and settlements with non residents;
- issuing electronic cash instrument;
- performing banking activities for third parties in accordance with the banking law.

1.4 Prior period financial statements

The financial statements for the period ended 31 December 2004 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The financial statements were approved at the General Shareholders' Meeting on 8 March 2005 where it was resolved to allocate the profit for the prior financial year of PLN 240,503,528.28 as follows:

- the dividend payment in the amount of PLN 237,770,888.32;
- the increase of the Bank's fund for unidentified risk of banking activity in amount of PLN 2,732,639.96.

The closing balances as at 31 December 2004 have been properly recorded as the opening balances of the audited year.

The financial statements were submitted to the Registry Court on 23 March 2005 and were published in Monitor Polski B No 860 on 25 May 2005.

1.5 Audit scope and responsibilities

This report of the independent auditor was prepared for the General Shareholders' Meeting of Bank Millennium S.A., seated in Warsaw, Al. Jerozolimskie 123a, 02-017 Warsaw and relates to the financial statements comprising: the introduction to the financial statements, the balance sheet as at 31 December 2005 with total assets of and total liabilities and equity of PLN 23,065,023 thousand, the capital adequacy ratio, the statement of contingencies and commitments granted at 31 December 2005 amounting to PLN 5,171,417 thousand, the profit and loss account for the year then ended with a net profit of PLN 542,119 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 359,477 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 350,173 thousand and the supplementary information and explanations.

The financial statements have been audited on the basis of the decision of the Supervisory Board of the Bank dated 28 January 2004 on the appointment of the auditor.

The financial statements have been audited in accordance with the contract dated 14 November 2005.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, no 76, item 694 with amendments), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We have audited the financial statements in the Bank's head office during the period from 15 November 2005 to 9 March 2006.

The Management of the Bank is responsible for the accuracy of the accounting records and the preparation and true and fair presentation of the financial statements prepared in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and in compliance with the respective bylaws and regulations, the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

Our responsibility is to express an opinion, with a supplementing report, on these financial statements, and whether the financial statements have been prepared from properly maintained accounting records, based on our audit.

On 9 March 2005, the Management Board of the Bank submitted a statement as to the true and fair presentation of the financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the financial statements for the audited year.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of financial statements of the Bank fulfil independence requirements. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

2 Financial analysis of the Bank

2.1 Summary of the financial statements

2.1.1 Balance sheet

ASSETS	31.12.2005 PLN'000	31.12.2004 PLN'000
Cash, operations with the Central Bank	510 785	871 835
Debt securities eligible for rediscounting with the Central Bank	25 884	9 993
Debts of the financial sector	2 646 800	3 546 406
Debts of the non-financial sector	8 680 109	6 336 432
Debts of the State sector	372 220	409 009
Reverse repo transactions	331 155	80 651
Debt securities	8 146 067	6 915 891
Shares in subsidiary entities	850 409	1 659 836
Shares in associate entities	3 682	6 227
Shares in other entities	1 432	12 676
Other securities and other financial assets	530 472	536 928
Intangible fixed assets	30 298	40 626
Tangible fixed assets	466 578	534 386
Other assets	136 645	53 920
Prepayments and deferred expenses	332 487	514 279
TOTAL ASSETS	23 065 023	21 529 095

EQUITY AND LIABILITIES	31.12.2005	31.12.2004
	PLN'000	PLN'000
Liabilities		
Liabilities to the Central Bank	-	1
Liabilities to the financial sector	1 829 949	1 979 583
Liabilities to the non-financial sector	12 291 840	13 329 208
Liabilities to the State sector	1 030 319	874 069
Repo transactions	3 472 115	1 446 214
Liabilities due to debt securities issued	32 587	275 544
Other liabilities due to financial instruments	728 672	410 683
Special funds and other liabilities	244 439	131 974
Accruals and qualified deferred income	369 370	425 847
Provisions	409 911	342 154
Subordinated liabilities	309 504	326 978
Equity		
Share capital	849 182	849 182
Reserve capital	472 343	508 095
Revaluation reserve	58 591	52 341
Other capital reserve	383 265	380 532
Accumulated profit/ (loss) from previous years	40 817	(40 854)
Net profit/ (loss)	542 119	237 544
TOTAL EQUITY AND LIABILITIES	23 065 023	21 529 095
Capital adequacy ratio	31.12.2005 10,67%	31.12.2004 17,35%
CONTINGENCIES AND COMMITMENTS GRANTED	31.12.2005	31.12.2004
	PLN'000	PLN'000
Contingent liabilities granted and received	5 893 164	4 555 197
- Liabilities granted	5 171 417	3 422 724
- Liabilities received	721 747	1 132 473
Commitments arising out of sale and repurchase transactions	10 683 268	13 024 534
Other	38 367 967	22 775 802
TOTAL OFF BALANCE SHEET	54 944 399	40 355 533

2.1.2 Profit and loss account

	01.01.2005- 31.12.2005	01.01.2004- 31.12.2004
	PLN'000	PLN'000
Revenues from interest	1 117 880	839 254
Interest expense	(785 267)	(678 165)
Net interest	332 613	161 089
Revenue from commission	238 364	234 505
Commission payable	(23 105)	(31 620)
Net commission	215 259	202 885
Income from shares, other securities and other variable-yield financial instruments	374 434	14 584
Net financial transactions	(114 933)	405 320
Net foreign exchange	84 696	71 119
Profit on banking operations	892 069	854 997
Other operating income	78 392	107 757
Other operating expenses	(17 593)	(31 819)
General costs of bank operations	(598 672)	(601 767)
Depreciation of tangible and intangible fixed assets	(84 348)	(309 110)
Provisions and allowances	(663 132)	(909 233)
Release of provisions and allowances	806 836	810 080
Net provisions and allowances	143 704	(99 153)
Operating result	413 552	(79 095)
Result on extraordinary transactions		
Gross profit/ (loss)	413 552	(79 095)
Income tax	(11 600)	(5 212)
Share in profit/ (loss) of subordinated entities valued with equity method	140 167	321 851
Net profit (loss)	542 119	237 544

2.2 Selected financial ratios

	2005 PLN '000	2004 PLN '000
Total assets	23 065 023	21 529 095
Gross profit	413 552	(79 095)
Net profit	542 119	237 544
Shareholder's equity*	1 804 198	1 749 296
Return on equity*	30,05%	13,58%
Capital adequacy ratio	10.67%	17.35%
Receivables to total assets	52.27%	48.23%
Income generating assets to total assets	87.59%	80.35%
Expense generating liabilities to total liabilities	80.89%	83.16%

* excluding current year net profit

2.3 Interpretation of selected financial ratios

Changes in the most significant items of the balance sheet and the profit and loss account are discussed below:

- Total assets have increased by 7% as at 31 December 2005 compared to 31 December 2004. The highest increase was recorded in debts of the non-financial sector, which increased by PLN 2,343,677 thousand and in debt securities, which increased to PLN 1,230,176 thousand. The highest increase in liabilities was in repo transactions, which have increased by PLN 2,025,901 thousand.
- The significant impact on the net profit for the year 2005 had the final settlement of one – off transactions: sale of 10% of the shares of PZU S.A and settlement of swap agreement with Banco Comercial Portugues. Besides, the significant impact on the increase of net profit for the year 2005 had: growth of interest margin resulting from the increase in portfolio of loans granted to customers, growth of non interest income (commission and fees) and decrease of provision and allowances.
- Higher net profit in 2005 had impact on the increase by 16 percentage points of return on equity , estimated on basis of average level of own funds.
- Capital adequacy ratio of Bank decreased by 7 percentage points and as at 31 December 2005 reached the level of 10.67%.

3 Detailed report

3.1 Accounting records

The Bank maintains current documentation describing the applied accounting principles, approved by the Management Board and described in the introduction to the financial statements, to the extent required by the Accounting Act.

The financial statements were prepared on the basis of accounting records which are maintained in accordance with the requirements of section 2 “Maintenance of the accounting records” and section 8 “Data protection” of the Accounting Act dated 29 September 1994.

3.2 Verification of assets and liabilities

The Bank performed a verification of assets and liabilities in accordance with the requirements and time frame specified in Art. No. 26 of the Accounting Act and in compliance with the Decree of the Ministry of Finance dated 10 December 2001 regarding special accounting principles for banks (Official Journal No. 149 from 2001, item 1673 with amendments).

Differences have been recorded in the period covered by the financial statements.

3.3 Compliance with banking regulations

Based on our audit we have not identified any significant deviations in the bank’s compliance with the banking regulatory norms pertaining among others to loan concentration, obligatory reserve and capital adequacy ratio, with the exception of described in point 1 of the explanatory notes to the financial statements.

3.4 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the financial statements taken as a whole are free of material misstatements.

3.5 Introduction to the financial statements

All information included in the introduction to the financial statements is presented accurately and completely. The introduction to the financial statements should be read in conjunction with the financial statements taken as a whole.

3.6 Supplementary information and explanations

All information included in the supplementary information and explanations is presented accurately and completely. The supplementary information and explanations should be read in conjunction with the financial statements taken as a whole.

3.7 Report on the Bank's activities

The Report on the Bank's activities includes, in all material aspects, information required by Article 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements.

3.8 Information on the opinion of the independent auditor

Based on our audit of the financial statements of the Bank as at and for the year ended 31 December 2005, we have issued an unqualified independent auditor's opinion.

Signed on the Polish original

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Certified Auditor No. 9941/7390
Bożena Graczyk

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

Warsaw, 9 March 2006