Consolidated Financial Statement

of Bank Millennium S.A.

prepared in accordance with the International Financial Reporting Standards for the year 2005

MAIN FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2005 - 31.12.2005	period from 1.01.2004 - 31.12.2004	period from 1.01.2005 - 31.12.2005	period from 1.01.2004 - 31.12.2004
I. Interest income	1 196 583	997 951	297 416	220 875
II. Fee and commission income	293 503	279 863	72 952	61 942
III. Operating income	1 481 037	1 491 997	368 119	330 222
IV. Operating profit / (loss)	709 743	349 575	176 410	77 371
V. Gross profit /(loss)	709 743	349 575	176 410	77 371
VI. Net profit (loss)	567 054	237 544	140 944	52 575
VII. Net cash flows from operating activities	357 983	3 467 089	88 978	767 366
VIII. Net cash flows from investing activities	-140 661	-831 886	-34 962	-184 120
IX. Net cash flows from financing activities	-1 197 680	-29 612	-297 689	-6 554
X. Net cash flows, total	-980 358	2 605 591	-243 673	576 692
XI. Total assets	22 151 139	20 148 555	5 738 934	4 939 582
XII. Deposits from banks	1 067 345	1 492 164	276 529	365 816
XIII. Deposits from customers	13 994 416	13 388 144	3 625 684	3 282 212
XIV. Total equity	2 390 823	1 986 840	619 416	487 090
XV. Share capital	849 182	849 182	220 007	208 184
XVI. Number of shares	849 181 744	849 181 744	849 181 744	849 181 744
XVII. Book value per share (in PLN/EUR)	2.82	2.34	0.73	0.57
XVIII. Diluted book value per share (in PLN/EUR)	2.82	2.34	0.73	0.57
XIX. Capital adequacy ratio	19.07%	22.41%	19.07%	22.41%
XX. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.67	0.28	0.17	0.06
XXI. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.67	0.28	0.17	0.06
XXII. Pledged or paid dividend per share (in PLN/EUR)	0.28	-	0.06	-

ANNUAL REPORT 2005 – CHAIRMAN'S LETTER

Dear Sirs,

As regards the year 2005 I have only good news to bring to you. Our net profit of PLN 567.1 million was the highest in the 16-year history of Bank Millennium. Hardly surprising therefore that the price of the Bank's shares quoted on the Warsaw Stock Exchange grew 56% in the course of the year, markedly surpassing the Banks' index as well as WIG 20.

Our good performance is attributable first of all to the consistent implementation of the development strategy. It assumes systematic growth of the bank's share in the market of banking services in Poland thanks to growth of the network and distribution channels, improvement of the quality of Customer service, development of services and products characteristic of a universal bank, at the same time particularly focusing on selected markets. It is on them that the Bank wants to reach and is in fact reaching a share, which puts it in leading positions of national rankings of best financial institutions.

The main pillar of the Bank's activity in 2005 was retail transactions done on the basis of its branch network as well as alternative distribution channels. Increasingly significant among them are transactions done online and the co-operation with specialised external operators.

Having improved the sales system and introduced new products, which Customers were very much looking forward to, we had excellent performance in sales of mortgage loans – in 2005 we granted PLN 2.4 billion mortgages reaching a market share of over 10% in new production. 82% was the volume increase of credit cards issued by the Bank, exceeding 124,000, and the value of consumer loans granted to Customers increased 39%. Our share in the market of leasing services was also growing steadily, approaching 7% thanks to a 17% increase of the value of signed contracts.

We recorded a significant growth of Customer funds, i.a. thanks to the attractive offer of mutual funds, which had the annual rate of return in excess of 250% and managed to double their market share. Also the number of Online Banking Customers doubled – from 115 000 to 275 000. It was the growth of sales that significantly increased last year's net commission income – by 17.9% - and net interest income – up by 3.7% - with the cross-selling ratio per Customer growing to 2.75 products.

At the same time last year the Bank continued to focus great attention on appropriate risk management, thanks to which the NPL ratio in the Bank's loan portfolio fell last year to the lowest level in many years of below 10%

Despite strong expenditure on upgrading sales channels and developing new products the Bank had close control over costs of activity, which did not grow in 2005 over the preceding year.

In 2005 the Bank also concluded the two-stage sale of the 10% block of PZU shares purchased in 1999. Final settlement of this transaction ended with net profit of PLN 337 million.

The good results of recurrent business supported by one-off gains resulting from the PZU shares sale as well as the high solvency ratio of 19.1% permitted the Management Board to propose to the General Shareholders Meeting the payment of dividend in the amount of PLN 458.6 million, which constitutes 81% of 2005 consolidated net profit and gives PLN 0.54 per share.

The Bank is starting another year of operation with a good financial standing and new plans. Desiring to increase availability of its offer Bank Millennium intends to open 160 new branches in the coming three years and to modernise its offer targeted at the segment of Small and Medium Enterprises as well as affluent individual Customers. Qualitative changes as regards services and products shall be accompanied by the introduction of a new set of graphic standards, new corporate colours, a new logo of the Bank and their accompanying motto, which is the motto of our activity. "Life Inspires Us") – is a universal message underscoring the relationship between the Bank and its Customers, their life and needs; it will stay with us in this and future years of our activity.

Regards,
Bogusław Kott

Chairman of the Management Board

CONTENTS

I. CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	**01.01.2005 - 31.12.2005** **Total**	**01.01.2004 - 31.12.2004** **Total**
Interest income	1	1 196 583	997 951
Interest expense	2	-716 506	-661 093
Net interest income		**480 077**	**336 858**
Fee and commission income		293 503	279 863
Fee and commission expense		-28 657	-38 004
Net fee and commission income	3	**264 846**	**241 859**
Dividend income	4	2 192	1 728
Result on investment activity	5	495 301	395 662
Result on trading activity	5	135 648	267 083
Result from other financial instruments	5	-6 264	176 733
Foreign exchange profit		93 481	87 276
Other operating income	6	74 625	48 507
Other operating expenses	6	-58 869	-63 709
Operating income		**1 481 037**	**1 491 997**
General and administrative expenses	7	-670 030	-731 516
Impairment losses on financial assets	8	4 955	-65 659
Impairment losses on non financial assets	9	-20 381	-36 470
Depreciation and amortization	10	-85 838	-308 777
Operating expenses		**-771 294**	**-1 142 422**
Operating profit		**709 743**	**349 575**
Share of profit of associates		0	0
Gross profit /(loss)		**709 743**	**349 575**
Corporate income tax	11	-142 689	-112 031
Net profit /(loss)		**567 054**	**237 544**
Attributable to:			
Equity holders of the parent		567 054	237 544
Minority interests		0	0
Basic earnings per ordinary share (in PLN)	12	0.67	0.28
Diluted earnings (losses) per ordinary share (in PLN)	12	0.67	0.28

II. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2005	31.12.2004
Cash, balances with the Central Bank	13	510 805	872 630
Loans and advances to banks	14	2 602 815	3 164 034
Financial assets held for trading	15	3 304 175	2 924 024
Hedging derivatives	16	14 826	20 014
Other financial assets valued at fair value through profit and loss		0	0
Loans and advances to customers	17	9 591 642	7 608 669
Investments securities	18	4 910 529	4 407 537
- available for sale		4 831 893	4 205 285
- held to maturity		78 636	202 252
Investments in associates	18	1 926	4 800
Receivables from securities bought with sell-back clause	19	311 127	80 650
Property, plant and equipment	20	232 123	395 059
Intangible assets	21	26 998	35 414
Non – current assets held for sale	22	239 512	0
Deferred income tax assets	23	157 485	141 773
Other assets	24	247 176	493 951
Total Assets		**22 151 139**	**20 148 555**

LIABILITIES

Amount '000 PLN	Note	31.12.2005	31.12.2004
Deposits from banks	25	1 067 345	1 492 164
Financial liabilities held for trading	27	503 660	249 540
Hedging derivatives	28	22 273	39 999
Deposits from customers	29	13 994 416	13 388 144
Liabilities from securities sold with buy-back clause	30	3 061 037	1 405 500
Debt securities	31	69 436	355 249
Provisions	32	16 468	218 082
Deferred income tax liabilities	33	0	0
Current tax liabilities		132 186	88 695
Other liabilities	34	583 991	597 365
Subordinated debt	35	309 504	326 977
Total Liabilities		**19 760 316**	**18 161 715**

EQUITY

Amount '000 PLN	Note	31.12.2005	31.12.2004
Share capital	36	849 182	849 182
Share premium	36	471 709	507 460
Revaluation reserve	36	27 612	21 367
Retained earnings	36	1 042 320	608 831
Total equity attributable to equity holders of the parent company		2 390 823	1 986 840
Minority interests		0	0
Total Equity		**2 390 823**	**1 986 840**
Total Liabilities and Equity		**22 151 139**	**20 148 555**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (for the period from 01.01.2005 – 31.12.2005)

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period (opening balance) 01.01.2005	1 986 840	849 182	507 460	21 367	608 831
Changes in adopted accounting policies	68 455	0	0	0	68 455
Equity at the beginning of the period (opening balance) as restated to comparable data	2 055 295	849 182	507 460	21 367	677 286
- purchase/sale and valuation of available for sale financial assets	6 245	0	0	6 245	0
Net profit(loss) not recognized in income statement	6 245	0	0	6 245	0
- net income (loss) of the period	567 054	0	0	0	567 054
Total net income (loss) of 2005	573 299	0	0	6 245	567 054
- dividend payments	-237 771	0	0	0	-237 771
- loss covered from share premium	0	0	-35 751	0	35 751
Equity at the end of the period (closing balance) 31.12.2005	2 390 823	849 182	471 709	27 612	1 042 320

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (for the period from 01.01.2004 – 31.12.2004)

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period (opening balance) 01.01.2004	1 734 906	849 182	542 970	1 874	340 880
Changes in adopted accounting policies	-5 103	0	0	0	-5 103
Equity at the beginning of the period (opening balance) as restated to comparable data	1 729 803	849 182	542 970	1 874	335 777
- purchase/sale and valuation of available for sale financial assets	19 493	0	0	19 493	0
Net profit(loss) not recognized in income statement	19 493	0	0	19 493	0
- net income (loss) of the period	237 544	0	0	0	237 544
Total net profit (loss) of 2004	257 037	0	0	19 493	237 544
- loss covered from share premium	0	0	-35 510	0	35 510
Equity at the end of the period (closing balance) 31.12.2004	1 986 840	849 182	507 460	21 367	608 831

IV. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**1.01.2005 - 31.12.2005**	**1.01.2004 - 31.12.2004**
I. Net profit (loss)	**567 054**	**237 544**
II. Adjustments for:	**-209 071**	**3 229 545**
1. Minority profit (loss)	0	0
2. Interests in net income (loss) of associated companies	0	0
3. Depreciation and amortization	85 838	308 777
4. Foreign exchange (gains)/ losses	-21 464	-202 505
5. Dividends	-2 192	-19 505
6. Changes in provisions	-17 927	-9 565
7. Result on sale and liquidation and investing activity assets	-454 728	-354 499
8. Change in financial assets held for trading	55 009	634 299
9. Change in other financial assets valued at fair value through profit and loss	0	0
10. Change in loans and advances to banks	-296 108	-43 775
11. Change in loans and advances to customers	-2 484 080	3 169 379
12. Change in receivables from securities bought with sell-back clause	-230 477	19 708
13. Change in financial liabilities held for trading	236 394	74 103
14. Change in deposits from banks	672 668	-318 721
15. Change in deposits from customers	606 272	750 232
16. Change in liabilities from securities sold with buy-back clause	1 655 537	-129 978
17. Change in debt securities	-128 354	-599 445
18. Change in income tax settlements	161 446	88 067
19. Income tax paid	-134 078	-24 875
20. Change in other assets and liabilities	88 051	-124 858
21. Other	-878	706
III. Net cash flows from operating activities	**357 983**	**3 467 089**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**1.01.2005 - 31.12.2005**	**1.01.2004 - 31.12.2004**
I. Inflows:	**7 260 258**	**7 717 952**
1. Proceeds from the sale of property, plant and equipment and intangible assets	48 071	32 428
2. Proceeds from sale of shares in associates	175	0
3. Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
4. Proceeds from sale of investments	7 161 283	7 653 740
5. Other	50 729	31 784
II. Outflows:	**- 7 400 919**	**-8 549 838**
1. Acquisition of property, plant and equipment and intangible assets	-17 506	-29 222
2. Acquisition of shares in associates	0	-56
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investments	-7 099 913	-8 520 560
5. Other	-283 500	0
III. Net cash flows from investing activities	**-140 661**	**-831 886**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**1.01.2005 - 31.12.2005**	**1.01.2004 - 31.12.2004**
I. Inflows:	**22 836**	**45 687**
1. Long-term bank loans	0	0
2. Issue of debt securities	22 836	45 687
3. Increase in subordinated debt	0	0
4. Net proceeds from issues of shares and additional capital paid-in	0	0
5. Other	0	0
II. Outflows:	**-1 220 516**	**-75 299**
1. Repayment of long-term bank loans	-803 985	0
2. Redemption of debt securities	-178 760	-75 299
3. Decrease in subordinated debt	0	0
4. Issue of shares expenses	0	0
5. Redemption of shares	0	0
6. Dividends paid and other payments to owners	-237 771	0
7. Other	0	0
III. Net cash flows from financing activities	**-1 197 680**	**-29 612**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**-980 358**	**2 605 591**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**4 536 011**	**1 930 420**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**3 555 653**	**4 536 011**

V. GENERAL INFORMATION ABOUT ISSUER AND THE ISSUER'S CAPITAL GROUP

Commercial name and seat: Bank Millennium S.A., Poland, Warsaw, Al. Jerozolimskie 123 a

Registration court and register number: 19th Business Registration Division of the National Judicial Register, Registration Court for the Capital City of Warsaw, no 0000010186

Issuer's Core Business: banking and other financial intermediation, except insurance and pension funds,

The business of the Capital Group comprises: banking, leasing, factoring, brokerage, capital operations, investment fund management.

The financial statement contains the data of Bank Millennium S.A. (the Bank) and its subsidiaries (hereinafter referred to as "the Group").

Composition of the Management Board of Bank Millennium (parent entity of the Group) as at 31 December 2005:

1. Bogusław Kott – Chairman of the Management Board
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board
3. Fernando Bicho - Member of the Management Board
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board
5. Wojciech Haase - Member of the Management Board
6. Wiesław Kalinowski – Member of the Management Board
7. Zbigniew Kudaś - Member of the Management Board
8. Rui Manuel Teixeira - Member of the Management Board

Composition of the Supervisory Board of Bank Millennium (parent entity of the Group) as at 31.12.05:

1. Maciej Bednarkiewicz – Chairman of the Supervisory Board
2. Ryszard Pospieszyński – Deputy Chairman and Secretary of the Supervisory Board
3. Christopher de Beck – Member of the Supervisory Board
4. Dimitrios Contominas - Member of the Supervisory Board – appointed on 8 March 2005
5. Jorge Manuel Jardim Goncalves - Member of the Supervisory Board
6. Andrzej Koźmiński - Member of the Supervisory Board
7. Francisco de Lacerda - Member of the Supervisory Board

8 Vasco Maria Guimaraes Jose de Mello - Member of the Supervisory Board

9. Paulo Teixeira Pinto - Member of the Supervisory Board
10. Marek Rocki - Member of the Supervisory Board
11. Dariusz Rosati - Member of the Supervisory Board
12. Zbigniew Sobolewski - Member of the Supervisory Board

On 8 March 2005 Mr Gijsbert Johannes Swalef submitted a resignation from a Member of the Supervisory Board.

The General Shareholders' Meeting held on 8 March 2005 passed the resolution on increasing the number of members of the Bank's Supervisory Board from 10 to 12 appointing simultaneously new members to the Supervisory Board:

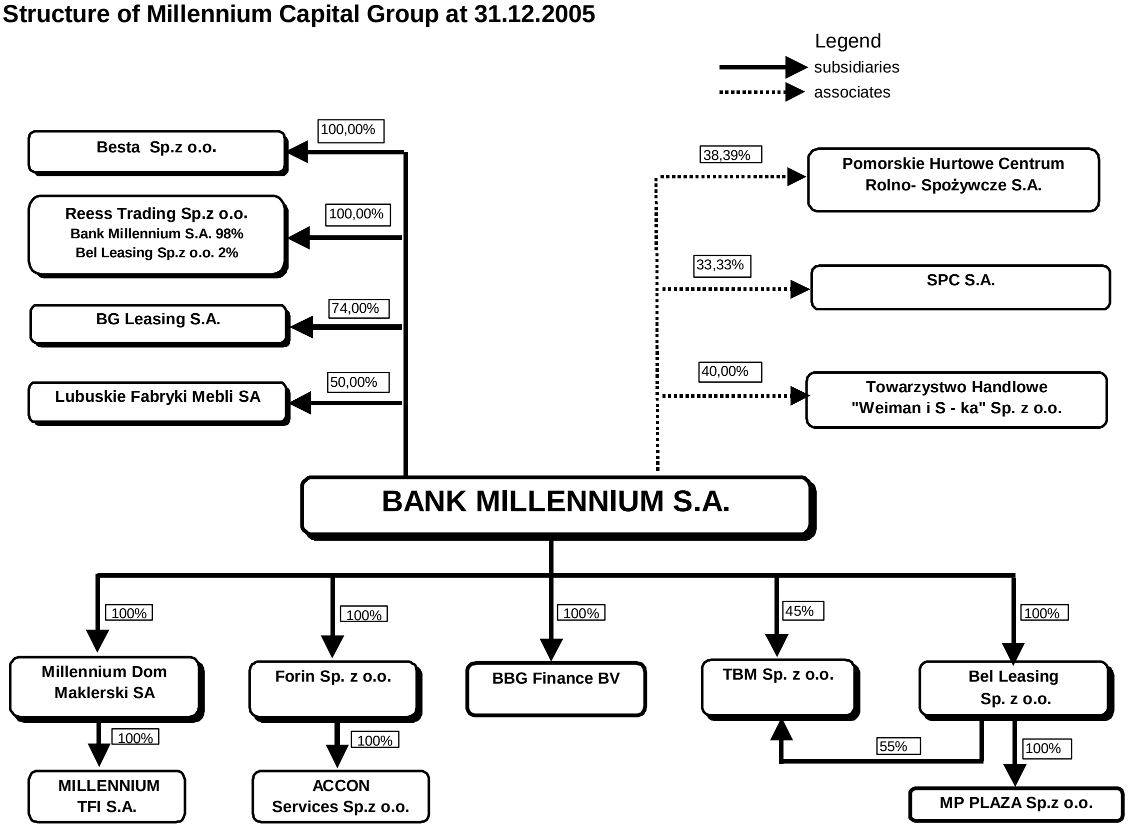
Mr. Dimitrios Contominas

Mr. Vasco Maria Guimaraes Jose de Mello

Mr. Paulo Teixeira Pinto

The Group's Parent entity is Bank Millennium S.A. The other entities of the Group covered by the consolidated financial statement dated 31 December 2005 are presented by the diagramme below:

Structure of Millennium Capital Group at 31.12.2005



The Group applied provisions of IAS 8 (”Accounting principles (policies), changes in value estimates and error adjustment”) par. 8, whereby IFRS constitute a complete set of accounting principles, which do not have to be applied if the result of their application is immaterial. By the virtue of the above, provisions of IAS 27 (“Consolidated and solo-basis financial statements”) and provisions of IAS 28 (“Investment in associated companies”) were not applied in relation to the financial statements of the following entities – members of the Capital Group as at December 31 2004 and December 31 2005:

- Lubuskie Fabryki Mebli S.A.
- Ress Trading Sp. z o.o.
- Accon Services Sp. z o.o.
- MP Plaza Sp. z o.o. - the unit does not conduct business operations
- BG Leasing S.A. - unit in bankruptcy
- Pomorkie Hurtowe Centrum Rolno – Spożywcze S.A.
- Towarzystwo Handlowe „Weiman i S-ka” Sp. z o.o. - the unit does not conduct business operations
- SPC S.A. - the unit does not conduct business operations

CHANGE IN THE STRUCTURE OF THE BANK'S CAPITAL GROUP

As a result of the process of restructuring the Bank's Capital Group in 2005 the company BEL Leasing Sp. z o.o. merged with BIG BG Inwestycje S.A. and Prolim S.A. (in 2004 the same project led to the mergers of BEL Leasing Sp. z o.o. with BET Services Sp. z o.o., on the one hand, and Forin Sp. z o.o. and Forinwest Sp. z o.o., on the other).

Merger of BEL Leasing Sp. z o.o. („BEL") and BIG BG Inwestycje S.A.(„BBGI")

The company BBGI (established as the Bank's subsidiary) held from 1999 a 10% portfolio of PZU S.A. shares. Those were sold to EUREKO B.V. in December 2004 (the purchase and share of PZU S.A. shares is presented as a separate topic under Chapter VIII). Apart from investing in PZU S.A. shares BBGI had practically no operating activities.
On 18.05.2005 the Regional Court for Warsaw, 19th Business Registration Division of the National Judicial Register registered the reduction of the BBGI share capital by the amount of PLN 1 053 473 000 through decreasing the par value of all 10 540 000 shares from PLN 100 per share to PLN 0.05 per share, in accordance with the resolution of the Extraordinary Shareholder Meeting of BBGI dated 31 January 2005. After the capital reduction resolution has been registered the share capital of BBGI stood at PLN 527.000 divided into 10 540 000 shares with PLN 0.05 of par value each. The total number of votes resulting from the issued shares did not change and stood at 17 375 880.
On 29.07 2005 the Regional Court for the City of Warsaw, 19th Business Registration Division of the National Judicial Register registered the merger of BBGI - Merged Company, with BEL – Merging Company – the Bank's Subsidiaries, in accordance with the resolution of the GSM dated 11.07.2005. As a result of the merger the share capital of the Merging Company is PLN 43 400 000 divided into 86 800 equal and indivisible shares of PLN 500 par value each. The number of votes at the General Shareholder Meeting after the merger stands at 86 800. Until the merger the level of the share capital of BEL stood at PLN 20 000 000. Following the merger the Bank is BEL's sole shareholder.

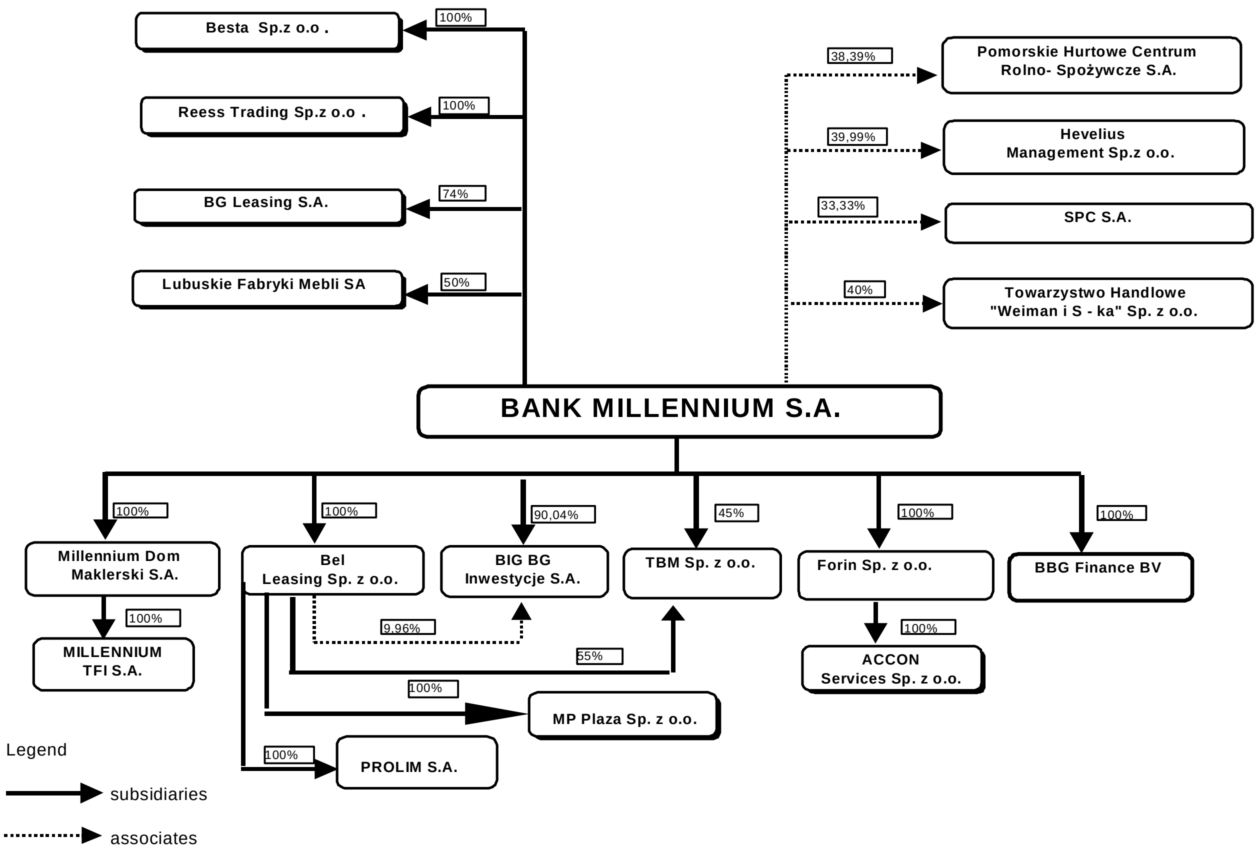
Merger of BEL Leasing Sp. z o.o. („BEL") and Prolim S.A.(„Prolim")

On 6 September 2004 BEL purchased from two private persons and from the Bank the total of 2,175 shares of Prolim with the nominal value of PLN 7,450 each, constituting 100% of initial capital of this company, for the total price of PLN 3,936,000. Until this transaction the Bank had 25% shares of Prolim. In result of the increase of exposure to Prolim this company was covered by consolidation beginning with 1 October 2004 (previously the Group had been valuing the investment in Prolim with the equity method). This transaction was settled for the purposes of this report with the purchase method (according to IFRS 3) as regards those assets and liabilities of Prolim, which until purchase of the Prolim shares were not controlled by the Group (on account of extended financing). In result of settlement with the purchase method goodwill stood at PLN 874,000, for which on 31 December 2004 the Group created an impairment charge of the same value, against other operating expenses.

With a view to consolidating business activities under the Bank's Capital Group in August 2005 the merger was effected between the Group's two companies offering leasing services – BEL and Prolim. Formally this process was completed by 18.08.2005, when the Regional Court for the City of Warsaw, 19th Business Registration Division of the National Judicial Register registered the merger of BEL – Merging Company with Prolim - Merged Company – the Bank's Subsidiaries, in accordance with the resolutions taken by the Extraordinary Shareholder Meeting of BEL dated 8 August 2005 and Extraordinary Shareholder Meeting of Prolim dated 5.08.2005. As a result of the merger the share capital the Merging Company is PLN 43 400 000, divided into 86 800 equal and indivisible shares of PLN 500 par value each. The number of votes at the General Shareholder Meeting after the merger is 86 800. Following the merger the Bank is BEL's sole shareholder.

Objects of the above-mentioned combinations (as in the case of mergers in 2004) were businesses under common control of the Group.

Structure of the Millennium Capital Group at 31.12.2004



VI. ACCOUNTING POLICY

1) STATEMENT ON COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These are the first IFRS annual consolidated financial statements of the Group and IFRS 1 has been applied .

This financial statement complies with the EU-adopted IFRS in force as of the balance sheet day (i.e. 31 December 2005) and satisfies the reporting requirements specified in the Council of Ministers Ordinance dated 19 October 2005 concerning current and periodic information reported by issuers of securities (Dz. U. of 2005, item 209).

Until 31 December 2004 consolidated financial statements of the Group were prepared in accordance with the Accounting Act of 29 September 1994. In some areas the Act differs from the IFRS as adopted for application by the European Community. The comparative data relating to 31 December 2004 were converted in order to reflect corrections/adjustments to the IFRS adopted for application by the European Community. The explanation of the impact which the adoption of the IFRS had on individual items of the Group's financial statements is presented in item **(3)** First-time Adoption of the IFRS.

Moreover, the standalone financial statements of the parent company for the year ended 31 December 2005 were prepared in accordance with the Accounting Act of 29 September 1994 and and respective bylaws and regulations.

The stand alone financial statements of the parent company were also authorized for issue on 9 March 2006.

2) EARLIER ADOPTION OF STANDARDS WHICH ARE NOT BINDING AT THE BALANCE SHEET DATE

The Group did not use the possibility of an earlier application of new Standards and Interpretations which had already been published by the Economic Community and which would come into force after the balance sheet date. Moreover, as of the balance sheet date the Group did not end the process of estimating the impact of new Standards and Interpretations, which will come into force after the balance sheet date, on the Group's financial statement for the period in which they will be applied for the first time.

Standards and Interpretations approved or pending approval	Date of entry into force
Later amendment to IAS 1 Disclosure of information about capital	1 January 2007
IFRS 7 Financial Instruments: Disclosure of information	1 January 2007
IAS 39 and IFRS 4	1 January 2006
• Later amendments to IAS 39 and to IFRS 4: Insurance Contract	
• Financial instruments: recognition and valuation – Accounting of Collateral for Cash Flows for Anticipated Group Internal Transactions	
• Later amendments to IAS 39 Financial Instruments: recognition and valuation – Possibility of fair value valuation (including resulting amendments to IAS 32 and to IFRS 1)	
IFRS 6	1 January 2006
• IFRS 6 Exploration and Evaluation of Mineral Deposits (including resulting amendments to IFRS 1, IAS 16 and to IAS 38) and	
• Later amendment to IFRS 6 Exploration and Evaluation of Mineral Deposits and to IFRS 1 First-Time Adoption of IFRS	
Later amendments to IAS 19 Employee benefits – Actuarial Profits and Losses, Group Plan and Disclosures of Information (including resulting amendments to IAS 1, IAS 24 and to IFRS 1)	1 January 2006
IFRIC 4 Establishing if the agreement contains elements of leasing (including resulting amendments to IFRS 1)	1 January 2006
IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (including resulting amendments to IAS 39)	1 January 2006
IFRIC 6 Liabilities resulting from participation in a specific market – decommissioned electronic and electric equipment	1 December 2005

The Group has not early adopted IFRS 7 because the Bank is not expecting significant differences in disclosures between IFRS 7 and those currently required under IAS 32 and IAS 30.

The Management Board of the Bank is currently estimating the impact of amendments to IAS 39 and IFRS 4 as well as IFRIC 4 upon activity of the Bank and the Group. In particular the Group has not early adopted IAS 39 regarding the possibility of classifying and measuring financial instruments in the category “Measured at fair value through profit and loss”.

Other standards, changes in the existing standards or IFRIC interpretations recently endorsed or awaiting endorsement by the European Commission, have either no relevance to the Group’s financial statement or they would not have a materal impact on these financial statements.

3) *FIRST-TIME ADOPTION OF THE IFRS*

The presented consolidated financial statement is the first full annual statement for the preparation of which the principles described in IFRS 1 have been applied. In accordance with the provisions of IFRS 1 governing the IFRS adaptation process, the accounting principles in force on the reporting day must be applied with respect to the opening balance and presented comparable data.

The transition date to FRS is the opening balance day for the earliest of the presented periods, i.e. 1st January 2004. The consolidated balance sheet and profit and loss account as at 31 December 2005 and for year than ended, together with comparable financial data, was prepared in accordance with the same accounting principles for each of the periods. The accounting policies employed are in line with the provisions of every IFRS in force as at 31 December 2005, i.e. as at the reporting day apart from the exemptions admitted by IFRS. All and any amendments to the accounting policies were implemented retrospectively with the exception of the below-listed exemptions admitted by IFRS 1:

Exemptions from full retrospective application of IFRS:

1 Business combinations – the Group has applied the business combinations exemption in accordance with IFRS 1. The Group has not restated business combinations which took place prior to 1 January 2004.

2 Fair value or revaluation as deemed cost – the Group has elected to measure certain items of property at historic cost being the cost of purchase adjusted by depreciation charges and revaluations resulting from inflation in accordance with the Polish Accounting Standards as of 1 January 2004.

3 Comparative data to financial instruments – the Group opted for the exemption concerning the obligation to present comparative data in the field of accounting policies regulated by IAS 39. This pertains to valuation at amortized cost with the use of the effective interest rate and the impairment of financial assets measured at amortized cost with the use of the effective interest rate. Adjustments relating to these issues are presented in the balance sheet as of 1 January 2005.

Exemptions from retrospective implementation of IFRS regulations:

1 Estimates – Estimates in accordance with the IFRS as of 1 January 2004 should comply with the estimates as of the same date in accordance with PAS, unless there is proof that the estimates were wrong. Estimates adopted by the Group were at the moment of IFRS implementation in accordance with the estimates existing as of the same date on the basis of the accounting principles previously used by the Group (in view of adjustments illustrating the difference in accounting standards). With respect to estimates concerning impairment of financial instruments as well as measurement of financial instruments at amortised cost and effective interest rate,

exemption was made from the need to fully and retrospectively apply IAS 39, as described in the preceding point.

2 Assets held for sale and discontinued operations – the Group employs IFRS 5 prospectively from 1 January 2005. Assets held for sale and discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005.

4) CHANGES IN ACCOUNTING PRINCIPLES RESULTING FROM IFRS IMPLEMENTATION – SUMMARY OF THE ADJUSTMENTS HAVING AN IMPACT ON EQUITY

1. IAS 39 - Valuation of financial instruments at amortized cost with the application of the Effective Interest Rate (EIR)

IAS 39 mandates for some financial assets and liabilities to be valued at amortized cost with the use of the effective interest rate. The principles of the measurement of financial instruments at amortized costs and effective interest rate are presented in ***item (6)***. As of 1 January 2005 the Group made adjustments connected with the valuation of certain assets at amortized cost with the use of the effective interest rate in the following areas:

1. Settlement of loans related commissions

By the end of 2004 commissions had been recognised in the Group's profit and loss account on the cash basis when collected (except for specific commissions settled over time by linear method).

Since 1 January 2005 commissions with certain features have been recognised in the Income Statement throughout the entire life of the agreement. Depending on the nature of the instrument and type of commission, commissions are presented in interest or commission income. Additionally, in accordance with the standard certain incremental directly atributable costs connected with the conclusion of the loan agreement incurred by the Group shall be settled over time and are recognised in the interest margin.

2. Valuation of an one-off agreement

In previous years the Bank concluded a structured long-term agreement with one business counterparty. In effect of the aforementioned agreement the Bank took the loan and at the same time purchased zero coupon securities issued by the counterparty, and made the pre-payment of the (discounted) loan interest for the 10 last years on the loan upfront. Until December 31 2004 the prepayment, according to the conditions of the agreement, was not included in the profit and loss account, current interest on the loan was accrued with the use of the straight-line method, whereas the discount on securities was accrued with the exponential method.

From 1 January 2005 onwards the valuation was applied at amortized cost and effective interest rate by using, inter alia, a single effective interest rate for the entire structure and settlement over time of the previously prepaid expenses.

3 *Implementation of the methodology of valuation at amortized cost and effective interest rate in a subsidiary.*

Since 1st January 2005 the valuation of a leasing subsidiary at amortized cost and effective interest rate has covered an increased scope of costs constituting a component of calculating the effective interest rate and taken into account the fees for concluding the leasing agreement collected from the clients.

The table below presents the impact of these issues on the Group's equity as of 1 January 2005.

Data in PLN thous.	Valuation of financial instruments at amortized cost with the use of EIR			TOTAL
	Credit related commissions	Valuation of one-off agreement	Subsidiary	
Gross adjustment value	-39 671	+101 881	- 1 866	60 344
Net adjustment value (including the deferred tax effect)	-32 133	+82 524	- 1 511	48 880

2. IAS 39 - Impairment of credit exposures and other financial assets priced at amortized cost

Detailed principles of creating provisions for impairment of financial assets are presented in ***item (6)***, Pursuant to IAS 39, a financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss trigger event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Once impairment has occurred, the amount of allowance charge equals to the difference between the carrying value in the Balance sheet of a respective asset and the present value of estimated future cash flows discounted at the original effective interest rate (economic value). In order to calculate the amount of provision for balance sheet exposures subject to analysis on a collective basis a modified probability of default (PD) is used, among others. This approach allows in particular: 1) to detect the already existing losses and 2) losses which have occurred by the day of impairment assessment, but have not yet been documented (incurred but not reported reserve – IBNR).

As a result of introducing the IFRS the Bank has identified the following adjustments in this area as of 1 January 2005:

- adjustment in the level of impairment provisions between loan provisions in accordance with IFRS principles and provisions calculated in accordance with PAS,
- a provision was created for credit exposures assessed collectively for impairment, including a provision for loan losses, which occurred but were not reported - IBNR), which reduces the value of the loan exposure on the balance sheet,
- general risk provisions created in accordance with the Polish Accounting Standards was released,
- the adjustment was calculated for the deferred tax effect on the difference between the value of general risk provisions and IBNR provisions created at the time of IFRS implementation. This adjustment applies to banks preparing financial statements according to IFRS and results from the fact that under binding tax regulations taxable income does not include the surplus of the amount of dissolved or reduced general risk provision above the IFRS provision for Incurred But Not Reported credit risk (IBNR). Due to the nature of the described adjustment, the impact on the Group's capital is shown in the gross amount.
- interest on NPLs accrued according to the Polish standards on the amount of gross exposure and taken in the balance sheet as suspended interest (in the case of repayment - in the profit and loss account) has been removed from the balance sheet (in accordance with IAS 39 interest on irregular exposures accrued by the Group on net exposure values is recognised in the profit and loss account),
- unamortized discount on receivables, as well as on unamortized part of credit commissions reduce the carrying value in the balance sheet value of credit exposures.

The table below presents the impact of these issues on the Group's equity as of 1 January 2005.

Data in PLN thous.	Effect of deferred tax resulting from the elimination of provisions for general risk and creating provisions for IBNR	Change of the manner of calculating loan impairment	TOTAL
Gross adjustment value	+ 10 947	+10 652	+21 599
Net adjustment value (including the deferred tax effect)	+10 947	+8 628	+19 575

3. IAS 19 – Short-term employee benefits – provision for bonus

In connection with the adopting of the International Financial Reporting Standards in the Bank's Capital Group the Bank as of 1 January 2005 revised its accounting policies pertaining to the manner of recognising costs for short-term employee benefits resulting from the bonus for the Bank's key management personnel, based on the provisions of IAS 19.

Pursuant to existing accounting policies these costs were recognised in the year in which employee benefits were incurred by the Bank on the basis of the decision of the Bank's Supervisory Board after the Bank's annual financial statement has been approved by the General Shareholder Meeting.

According to IAS 19 costs concerning short-term employee benefits on account of bonus should be recognised in the period, in which the employees have rendered service to an entity and an entity has a constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

The result of this change has been incorporated retrospectively in the financial statement by transforming comparable data.

The quantification of the above adjustments captured by the Bank on the retrospective basis and their impact on the Group's equity as of 1 January 2004 and 31 December 2004 is presented in the following table:

Data in PLN thous.	Adjustment of the opening balance of the Group's equity as of 1 January 2004	Financial result of the year 2004	Adjustment of the Group's equity as of 31 December 2004
Gross adjustment value	- 6 300	- 3 654	- 9 954
Net adjustment value (including the deferred tax effect)	- 5 103	- 2 960	- 8 063

5) RECONCILIATION OF THE BALANCE OF EQUITY AS AT 1 JANUARY 2004, CONVERSION OF COMPARABLE DATA AS AT 31 DECEMBER 2004, RESTATEMENT OF BALANCE-SHEET DATA AS AT THE DAY OF IMPLEMENTATION OF IFRS (1 JANUARY 2005)

I. Reconciliation of the balance of equity according to IFRS as at 1 January 2004

Adjustments of the balance of own funds done upon implementation of IFRS, i.e. as at 1 January 2004 – the beginning of the earliest of the periods presented in this report is shown in the table below. Preparing comparable data the Group used the possibility of implementing some standards prospectively (i.e. without the need to adjust comparable data, as described in ***point (3).***

EQUITY

In PLN '000	31.12.2003 PAS	No. of adjustment (adjustments)	Value of adjustment (adjustments)	01.01.2004 IFRS
Share capital	849 182			849 182
Share premium	542 970			542 970
Revaluation reserve	32 882	(2)	-31 008	1 874
Retained earnings	309 872	(1) (2)	25 905	335 777
Total equity attributable to equity holders of the parent company	1 734 906		-5 103	1 729 803
Minority interest	0			0
Total equity	**1 734 906**			**1 729 803**

(1) Change of accounting principles concerning the method of recognising costs of short-term employee benefits on account of Bank senior management bonus, based on provisions of IAS 19 (as described in ***point (4)*** sub-point 3 of this Chapter)

Quantification:

BALANCE-SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Retained earnings	(1)	-5,103

(2) Settlement of fixed assets revaluation reserve against retained earnings. Due to use of IFRS 1 as regards acceptance of balance-sheet value of real estate as cost assumed for the day of transition to IFRS (1 January 2004), fixed assets revaluation reserve was settled against retained earnings.

Quantification:

BALANCE-SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Revaluation reserve	(2)	-31,008
Retained earnings	(2)	+31,008

II Balance sheet as at 31 December 2004 – PAS-IFRS conversion

The table below illustrates changes made in the last published report of the Group made out according to PAS as of 31 December 2004 to assure data comparability for the needs of this report A description of exemptions from the need to fully and retrospectively apply IFRS as well as a description of exemptions from retrospective introduction of provisions of IFRS applied by the Group on the basis of IFRS 1 is presented in ***point (3).***

ASSETS

Amount '000 PLN	31.12.2004 PAS	Number of adjustment(s)	Value of adjustment(s)	31.12.2004 IFRS
Cash, balances with Central Bank	872 630			872 630
Loans and advances to banks	3 164 034			3 164 034
Financial assets held for trading	3 055 090	(2) (3)	-131 066	2 924 024
Hedging derivatives	20 014			20 014
Other financial assets valued at fair value through profit and loss	0			0
Loans and advances to customers	7 233 610	(6)	375 059	7 608 669
Investments securities:	4 407 537			4 407 537
- available for sale	4 205 285			4 205 285
- held to maturity	202 252			202 252
Receivables from securities bought with sell-back clause	80 650			80 650
Investments in associates	4 800			4 800
Property, plant and equipment	570 827	(8)	-175 768	395 059
Intangible assets	39 239	(5)	-3 825	35 414
Non – current assets held for sale	0			0
Deferred income tax assets	273 852	(1) (2) (9)	-132 079	141 773
Other assets	718 183	(6) (8)	-224 232	493 951
Total Assets	**20 440 466**		**-291 911**	**20 148 555**

LIABILITIES

Amount '000 PLN	31.12.2004 PAS	Number of adjustment(s)	Value of adjustment(s)	31.12.2004 IFRS
Deposits from banks	1 492 164			1 492 164
Financial liabilities held for trading	350 637	(2) (3) (4)	-101 097	249 540
Hedging derivatives	39 999			39 999
Deposits from customers	13 395 850	(3)	-7 706	13 388 144
Liabilities from securities sold with buy-back clause	1 405 500			1 405 500
Debt securities	355 249			355 249
Provisions	221 907	(5)	-3 825	218 082
Deferred income tax liabilities	133 970	(2) (9)	-133 970	0
Current tax liabilities	88 695			88 695
Other liabilities	634 615	(1) (4) (6)	-37 250	597 365
Subordinated debt	326 977			326 977
Total Liabilities	**18 445 563**		**-283 848**	**18 161 715**

EQUITY

Share capital	849 182			849 182
Share premium	507 460			507 460
Revaluation reserve	52 375	(7)	-31 008	21 367
Retained earnings	585 886	(1) (7)	22 945	608 831
Total equity attributable to equity holders of the parent	1 994 903		-8 063	1 986 840
Minority interest	0			0
Total Equity	**1 994 903**			**1 986 840**
Total Liabilities and Equity	**20 440 466**		**-291 911**	**20 148 555**

Description of adjustments with quantification (data in PLN thous.):

Adjustments presented below concern both changes in the accounting principles resulting from application of IFRS (these are adjustments number (1) (5) (7) (8) (9)) and adjustments of presentational nature (these are adjustments number (2) (3) (4) (6)). Adjustments of presentational nature were made to ensure comparability of the financial data in the presented periods.

(1) Change of accounting policies relating to the manner of recognising costs of short-term employee benefits resulting from the bonuses for the Bank's senior management, based on the provisions of IAS 19 (as described ***in item (4)*** subitem 3 of this chapter)

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Deferred income tax assets	(1)	1.891
Other liabilities	(1)	9.954
Retained earnings	(1)	-8.063

(2) Presentation of derivative instruments in the balance sheet broken down into particular instruments (instruments with positive fair value are recognised in assets and with negative fair value in liabilities of the balance sheet). Previously the analogous breakdown relied on a valuation performed on the basis of derivative portfolios (types).

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Financial assets held for trading	(2)	-121.144
Deferred income tax assets	(2)	-23.018
Financial liabilities held for trading	(2)	-121.144
Deferred income tax liabilities	(2)	-23.018

(3) Change in the manner of presentation of interest on structured deposits. Starting from 1 January 2004 additional unsettled interest resulting from the separation of embedded instruments from structured deposits are presented in the „Deposits from customers" balance sheet item,

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Financial assets held for trading	(3)	-9.922
Financial liabilities held for trading	(3)	-2.216
Deposits from customers	(3)	-7.706

(4) Changing of the manner of presentation of the short position on debt securities. Starting from 1 January 2004 liabilities resulting from the so-called short sale are recognised in the balance sheet as „Financial liabilities held for trading" (previously „Other liabilities"),

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Financial liabilities held for trading	(4)	22.263
Other liabilities	(4)	-22.263

(5) The use of full consolidation method with respect to a subsidiary previously valued with the equity method

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Intangible assets	(5)	-3.825
Provisions	(5)	-3.825

(6) Reclassification from other assets to receivables from customers, of deferred payment to be received, at a value discounted by the Group as at the day of origination of the receivables, resulting from the concluded agreement on sale of PZU S.A. shares.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(6)	375.059
Other assets	(6)	-400.000
Other liabilities	(6)	-24.941

(7) Settlement of the revaluation reserve on fixed assets with retained earnings. In connection with the first-time adoption of IFRS 1 in the field of adopting the on-balance value of real estate as the cost assumed as of the day of switching to IFRS (1 January 2004) the revaluation reserve on fixed assets was settled with retained earnings.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Revaluation reserve	(7)	-31.008
Retained earnings	(7)	+31.008

(8) Pursuant to IAS 17 the rights of land perpetual usufruct held by the Group were classified as operating leasing and captured in the balance sheet as other assets (previously presented as tangible fixed assets).

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Tangible fixed assets	(8)	-175 768
Other assets	(8)	175 768

(9) Pursuant to IAS 12 the Group set off deferred income tax assets with provisions for deferred income tax. Given that the Group in the light of binding regulations does not make up a tax group such setting off has been made at the level of particular entities subject to consolidation.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Deferred income tax assets	(9)	-110 952
Deferred income tax liabilities	(9)	-110 952

III Income Statement for the year ended 31 December 2004 – PAS- IFRS conversion

The table below illustrates changes made in the Group's last published consolidated profit and loss account made out in accordance with the Polish Accounting Standards for the year ending 31 December 2004 in order to assure data comparability for the need of this report. A description of exemptions from the need to fully and retrospectively apply IFRS as well as a description of exemptions from retrospective introduction of provisions of IFRS applied by the Group on the basis of IFRS 1 is presented in ***point (3).***

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	**01.01.2004 - 31.12.2004 PAS**	**Number of adjustment(s)**	**Value of adjustment(s)**	**01.01.2004- 31.12.2004 IFRS**
Interest income	1 797 813	(2) (3) (4)	-799 862	997 951
Interest expense	-1 209 499	(2) (3)	548 406	-661 093
Net interest income	**588 314**		**-251 456**	**336 858**
Fee and commission income	279 863			279 863
Fee and commission expense	-36 712	(7)	-1 292	-38 004
Net commission income	**243 151**		**-1 292**	**241 859**
Dividend income	1 728			1 728
Result on investment activity	395 662			395 662
Result on trading activity	9 407	(2) (3) (4)	257 676	267 083
Income from other financial instruments	138 443	(5)	38 290	176 733
Foreign exchange profit	87 276			87 276
Other operating income	257 850	(6) (8)	-209 343	48 507
Other operating expenses	-220 532	(7) (8)	156 823	-63 709
Operating income	**1 501 299**		**-9 302**	**1 491 997**
General and administrative expenses	-721 642	(1) (3)	-9 874	-731 516
Impairment losses on financial assets	-81 181	(5) (6)	15 522	-65 659
Impairment losses on non financial assets	-6 205	(10)	-30 265	-36 470
Depreciation and amortization	-340 329	(9) (10)	31 552	-308 777
Operating expenses	**- 1 149 357**		**6 935**	**-1 142 422**
Operating profit	**351 942**		**- 2367**	**349 575**
Share of profit of associates	1 287	(9)	-1 287	0
Gross profit / (loss)	**353 229**		**-3 654**	**349 575**
Corporate income tax	-112 725	(1)	694	-112 031
Net profit / (loss)	**240 504**		**-2 960**	**237 544**
Attributable to:				0
Equity holders of the Parent	**240 504**		**-2 960**	**237 544**
Minority interests	0			0

Description of adjustments with quantification (data in PLN thous.):

Adjustments presented below concern both changes in the accounting principles resulting from application of IFRS (these are adjustments number (1) (9)) and adjustments of presentational nature (these are adjustments number (2) (3) (4) (5) (6) (7) (8) (10)). Adjustments of presentational nature were made to ensure comparability of the financial data in the presented periods.

(1) Referring adjustment to balance sheet no (1) to the profit and loss account

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
General and administrative expenses	(1)	-3 654
Corporate income tax	(1)	694

(2) Moving of the interest margin component resulting from derivatives for trading to result on trading activities. Since 1 January 2004 the Group has been recognising interest on FX SWAP and CIRS operations in result on trading activity for transactions made for non-speculative purposes, i.e. to ensure liquidity in foreign currencies for FX loans made by the Bank. For these transactions the Group does not apply hedge accounting. According to IAS 39 all derivatives for which the Group does not apply hedge accounting regardless of the purpose of their conclusion should be qualified as financial instruments held for trading and change in their fair value should be presented together in the same line of profit and loss account (in this case in result on trading activities).

It is the Group's opinion that net interest income on FX SWAP and CIRS transactions made to ensure liquidity in foreign currencies (i.e. accrued swap points on FX swap transactions plus interest accrued on CIRS transactions) is a component of the economic interest margin, as it allows adjusting interest income on FX loans (based on EURIBOR, LIBOR) to the position financing costs (interest on PLN deposits based on WIBOR).

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Interest income	(2)	-805 208
Interest expense	(2)	540 516
Result on trading activity	(2)	264 692

(3) Moving the effect of the hedging transactions valuation from interest margin to general administrative costs. Starting from 1 January 2004 net interest income from swap transactions

concluded in order to hedge an FX-denominated transaction of renting office space presented previously in interest margin is included in general administrative costs.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Interest income	(3)	-2 026
Interest expense	(3)	7 890
Result on trading activities	(3)	356
General and administrative expenses	(3)	-6 220

(4) Moving the settlement of the discount/premium on debt securities with interest coupon, classified as trading portfolio, from interest margin to result on trading activities.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Interest income	(4)	7 372
Result on trading activities	(4)	-7 372

(5) Moving the elimination of the provisions for the car loan portfolio sold in the first half-year 2004 to result from other financial instruments in order to better reflect the economic nature of the transaction (presentation of the result on selling the portfolio/net exposure).

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Result on other financial instruments	(5)	38 290
Impairment losses on financial assets	(5)	-38 290

(6) Moving the amounts of recovered loan receivables captured under PAS from other operating income (earlier written off against provisions) to impairment write-offs.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Other operating income	(6)	-53 812
Impairment losses on financial assets	(6)	53 812

(7) Reclassification of costs paid on financial services.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Fee and commission expense	(7)	-1 292
Other operating expenses	(7)	1 292

(8) Change of the manner of presentation of result from sale and liquidation of fixed assets and intangibles. Starting from 1 January 2004 other costs and income comprise profits and losses, respectively, realised on such transactions (previously other operating costs included total income from such operations, while other operating expense included the balance sheet value of an asset)

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Other operating income	(8)	-155 531
Other operating expenses	(8)	- 155 531

(9) Referring the adjustment to balance sheet no (5) to P&L

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Depreciation and amortization	(9)	1 287
Share of profit of associates	(9)	-1 287

(10) Separation from the depreciation expense charges for the impairment of fixed assets for sale.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Impairment losses on non financial assets	(10)	-30 265
Depreciation and amortization	(10)	30 265

IV Balance sheet as of 1 January 2005 – conversion of the balance sheet according to IFRS as of 31 December 2004

The tables below present the conversion of the balance sheet as of the day of IFRS implementation (opening balance), at 1 January 2005. The departure point are the data for 31 December 2004 converted for comparability with IFRS in the above-presented manner.

ASSETS

Amount ‘000 PLN	**31.12.2004 IFRS – comparable data**	**Number of adjustment(s)**	**Value of adjustment(s)**	**01.01.2005 complete IFRS**
Cash, balances with Central Bank	872 630			872 630
Loans, advances to banks	3 164 034	(2)	198 104	3 362 138
Financial assets held for trading	2 924 024	(5)	-8 148	2 915 876
Hedging derivatives	20 014			20 014
Other financial assets valued at fair value through profit and loss	0			0
Loans, advances to customers	7 608 669	(1) (3) (4) (6)	-505 917	7 102 752
Investments securities:	4 407 537	(2)	-128 245	4 279 292
- available for sale	4 205 285			4 205 285
- held to maturity	202 252	(2)	-128 245	74 007
Receivables from securities bought with sell-back clause	80 650			80 650
Investments in associates	4 800			4 800
Property, plant and equipment	395 059	(7)	-100 897	294 162
Intangible assets	35 414		0	35 414
Non current assets held for sale	0	(7)	271 510	271 510
Deferred income tax assets	141 773	(1) (2) (3) (4)	-2 000	139 773
Other assets	493 951	(2) (5) (7)	-409 634	84 317
Total Assets	**20 148 555**		**-685 227**	**19 463 328**

LIABILITIES

Amount '000 PLN	31.12.2004 IFRS – comparable data	Number of adjustment(s)	Value of adjustment(s)	01.01.2005 complete IFRS
Deposits from banks	1 492 164	(2)	-291 144	1 201 020
Financial liabilities held for trading	249 540			249 540
Hedging derivatives	39 999			39 999
Deposits from customers	13 388 144			13 388 144
Liabilities from securities sold with buy-back clause	1 405 500			1 405 500
Debt securities	355 249			355 249
Provisions	218 082	(3)	-183 687	34 395
Deferred income tax liabilities	0			0
Current tax liabilities	88 695			88 695
Other liabilities	597 365	(1) (3) (4) (5) (6)	-278 851	318 514
Subordinated debt	326 977			326 977
Total Liabilities	**18 161 715**		**-753 682**	**17 408 033**

EQUITY

Share capital	849 182			849 182
Share premium	507 460			507 460
Revaluation reserve	21 367			21 367
Retained earnings	608 831	(1) (2) (3) (4)	68 455	677 286
Total equity attributable to equity holders of the parent	1 986 840	(1) (2) (3) (4)	68 455	2 055 295
Minority interests	0			0
Total Equity	**1 986 840**		**68 455**	**2 055 295**
Total Liabilities and Equity	**20 148 555**		**-685 227**	**19 463 328**

Description of adjustments with quantification (data in thous PLN):

(1) Adjustments resulting from the implementation of valuation of financial instruments at amortized cost and effective interest rate in the area of loan commissions. This issue is presented ***in item (4)*** subitem 1 of this chapter.

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(1)	-30 785
Deferred income tax assets	(1)	7 538
Other liabilities	(1)	8 886
Retained earnings	(1)	-32 133

(2) Adjustments resulting from the implementation of valuation of financial instruments at amortized cost and effective interest rate in the area of settlement of a long-term agreement concluded with a single partner. This issue is presented **in item *(4)*** subitem 1 of this chapter.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to banks	(2)	198 104
Investments held to maturity	(2)	-128 245
Other assets	(2)	-259 122
Deposits from banks	(2)	-291 144
Deferred income tax assets	(2)	-19 357
Retained earnings	(2)	82 524

(3) Adjustment resulting from the Group's implementation of the credit exposure impairment calculation methodology – this issue has been presented ***in item (4)*** subitem 2 of this chapter.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(3)	-231 655
Deferred income tax assets	(3)	8 923
Provisions	(3)	-183 687
Other liabilities	(3)	-58 621
Retained earnings	(3)	19 575

(4) Adjustments resulting from the implementation of valuation of financial instruments at amortized cost and effective interest rate in the area of supplementing the EIR calculation performed by a subsidiary running leasing activity with additional variables: commission income and expense, as well as insurance and tax on means of transport. This issue is presented ***in item (4)*** subitem 1 of this chapter.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(4)	-4 715
Deferred income tax assets	(4)	896
Other liabilities	(4)	-2 308
Retained earnings	(4)	-1 511

(5) Implementation of the method of accounting for financial instruments on the day of concluding the transaction in place of the previously adopted method based on the transaction settlement date. In order to unify the accounting policies with the capital group of the parent entity of Bank Millennium SA starting from 1 January 2005 the Group used the accounting method on the day of concluding the transaction instead of the previously used method based on the transaction settlement date. Both methods are acceptable under IFRS.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Financial assets held for trading	(5)	-8 148
Other assets	(5)	20 101
Other liabilities	(5)	11 953

(6) Elimination from the Balance Sheet of suspended interest accrued under PAS, reducing the receivables balance by the discount to be settled due to the application of IAS 39 for calculating and recognition of loan impairment. The issue is presented ***in item (4)*** subitem 2 of this chapter.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(6)	-238 763
Other liabilities	(6)	-238 763

(7) Separation of the balance sheet category „Non current assets for sale" as of 1 January 2005.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Property, plant and equipment	(7)	-100 897
Non current assets held for sale	(7)	271 510
Other assets	(7)	-170 613

6) ADOPTED ACCOUNTING PRINCIPLES

1. Basis of preparation

The financial report was generated in Polish zlotys, rounded to one thousand.

The report uses the concept of fair value for financial assets and liabilities valued at profit and loss account at fair value, including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items in financial assets and liabilities (including loans and borrowings) are presented at the value of amortized cost minus impairment write-offs, or at their purchase price minus impairment write-offs. To prepare the financial report in line with the IFRS, the management needs to make subjective assessment, estimations, and assumptions that impact the accounting principles and the presented amounts of assets and liabilities and income and expenses. The responsible for selection, application, development, and verification of adopted estimations is the substantive unit of the Group; the assumptions are then subject to approval by the Group management. Estimations and assumptions are made basing on available historical data and an array of other factors that are considered true under given circumstances. The results form the grounds for making assumptions regarding balance sheet value of assets and liabilities that cannot be unequivocally determined basing on any other sources. Real results can be different from the estimates.

The consistence between real results and adopted estimations and assumptions is verified immediately. Adjustments to estimates are recognized in the period when the estimation was changed, provided that the adjustment applies to this period alone, or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

The below-presented accounting principles have been applied to all reporting periods presented in the consolidated financial report (including the methodology described in **item (3)** of this chapter), as well as in the adjustments to the opening balance sheet under the IFRS, as at 1 January 2004, for the purpose of the IFRS adoption.

All the units subject to consolidation shall prepare the financial report under the uniform IFRS for the entire Group, as at the same balance sheet date.

2. Basis of Consolidation

Purchase method

Takeover of subsidiaries by the Group is settled with the purchase method. The takeover cost is defined as the fair value of transferred assets, issued equity instruments and liabilities incurred or taken over as at the exchange day, plus costs directly connected with the takeover. Identifiable assets acquired and liabilities and conditional obligations taken over in result of the combination of business units are initially measured at their fair value as at the takeover day, regardless of the volume of possible minority interests. The surplus of the takeover cost over fair value of the Group's share in identifiable assets taken over is reported as goodwill. If the takeover cost is lower than fair value of net assets of the taken over subsidiary, the difference is reflected directly in the profit and loss account.

Associates

Subsidiaries are any entities (including special purpose vehicles) controlled by the Bank (the parent entity of the Group), meaning that the Bank has direct or indirect influence on their financial and operating policy of the given entity to gain economic benefits. When assessing whether the Group controls a given unit or not, one shall take into account, inter alia, the existence and impact of potential voting rights that in any given moment can be exercised or changed. Subsidiaries are subject to full consolidation as of the day the control over them is taken over by the Group. They shall not be consolidated any longer as soon as the group's control is released.

Transactions, settlements, and unrealised profits on transactions between members of the Group are eliminated. The unrealised losses are also subject to elimination, as long as the transaction does not provide evidence that the transferred asset impaired.

Affiliates

Affiliates are any units under significant influence of the Group, however not controlled by it – usually entities where the Group holds 20% - 50% of total number of votes in corporate bodies. Investments in affiliates are valued at equity method, and recorded initially at their cost. Group's investment in affiliates comprises the value of the company (minus any possible cumulated impairment write-offs), calculated as at the date of purchase. As of the purchase day, the share of the Group in the affiliates' financial results is recorded in profit and loss account, while its share in changes to the other capitals balance as of the purchase date – under Other capitals. The balance sheet value of the investment is adjusted by total changes to balance of every capital component, as of the purchase date. When the share of the Group in losses of an affiliate becomes equal or greater than the share of the Group in the given affiliate, including any possible receivables other than the secured ones, the Group shall discontinue recognizing further losses, as long as it has not assumed responsibilities or made payment in the name of the given affiliate.

Any unrealised profits on transactions between the Group and its affiliated units shall be eliminated in proportion to the Group's shareholding in the affiliates. Also unrealised losses are subject to elimination, as long as the transaction does not deliver evidence that the transferred asset impaired.

3. Functional currency and presentation currency

Functional currency and presentation currency

Items contained in financial reports of the Group units are valued in the currency of their main economic environment, in which the given unit runs its activity (the functional currency). The consolidated financial report is presented in Polish zlotys, being the functional currency and the presentation currency for the Group.

Transactions and balances

Transactions expressed in foreign currencies are calculated into the functional currency at the FX rate as at the transaction date. FX gains or losses on the transactions settlement and on the balance sheet valuation of cash assets and liabilities in foreign currencies are recognized in the profit and loss account.

FX differences on non-cash items, such as financial assets valued at fair value through the profit and loss account are presented under gains and losses on fair value changes. FX differences on non-cash items like capital instruments classified to financial assets available for sale are presented at fair value in the revaluation reserve.

4. Hedge accounting and financial derivatives

Derivative financial instruments are recorded at fair value, starting on the transaction date. The fair value is determined based on the instruments' quotation on active markets, also based on pricing of recent transactions, and valuation methods, including models based on discounted cash flows, and option valuation models, depending on which of the methods shall be appropriate for the given case. All derivative instruments of positive fair value are recognized in the balance sheet as assets, while those of negative fair value – as liabilities.

Best indicator of the fair value of a derivative at the stage of initial recording is the transaction price (i.e. fair value of the made or received payment), as long as the fair value of the given instrument cannot be determined by comparison with other up-to-date market transactions on the same instrument (not modified), or based on valuation methods based exclusively on observable market data.

Embedded derivative instruments that meet the below conditions are treated as stand-alone derivatives. These instruments are valued at fair value, and their fair value changes are presented in the profit and loss account. Embedded derivatives are recognized and valued separately from the underlying agreement, should the following conditions occur jointly:

§ Economic features of the embedded derivative instrument and the related risk are not closely linked to the economic features of the underlying agreement and its related risks,

§ An individual instrument of the same contractual agreements as an embedded derivative would satisfy the definition of a derivative, and

§ A hybrid (combined) financial instrument is not considered a financial instrument valued at fair value through the profit and loss account.

The method of recognizing changes in the fair value of a derivative instrument depends on whether the given instrument is meant as a hedging instrument, and on the type of hedging, as well as on the type of hedged position.

The Group employs derivative instruments to hedge interest rate risk resulting from its operating, financial, and investment activity. The Group sets selected derivative instruments as hedge of fair value of posted asset or liability, or of a binding agreement (fair value hedge). The Group applies hedge accounting, under the condition of satisfying criteria defined in IAS 39.

When instituting the hedge, the Group formally sets and documents the hedging link, as well as the risk management goal, and the strategy for making hedge transactions. The documents shall cover identification of the hedged item or transaction, hedging item, nature of the hedged risk. When hedge is instituted, and throughout its life, the Group also documents the assessment of the hedge instrument's effectiveness in compensating changes in fair value of the hedged position.

Fair value hedge

Changes in fair value of derivative instruments set and qualifying as fair value hedge are posted to the profit and loss account along with the corresponding changes in fair value of the hedged asset or liability linked to the risk hedged by the Group. Any gains or losses from the revaluation of fair value of a hedge instrument (for a derivative hedging instrument) shall be recognized in the profit and loss account, while gains and losses related to the hedge position, resulting from the hedged risk, shall adjust the balance sheet value of the hedged position, and are posted in the profit and loss account. This rule is applicable to hedged positions that would otherwise be valued at amortized cost. In case of a hedged position included in the financial assets available for sale, gains or losses on the hedged risk shall be posted in the profit or loss account.

Should the hedge no longer meet the criteria for applying hedge accounting, the balance sheet value adjustment of the hedged instrument valued at effective interest rate, shall be settled over time through profit and loss account over the period ending on the maturity date. The balance sheet value adjustment of securities collateralised with capital shall be recognized under the revaluation capital for as long as the securities are not sold.

Derivative instruments not satisfying the hedge accounting criteria

Derivative instruments that are not subject to valuation rules under the hedge accounting principles shall be classified as instruments for trading, and valued at fair value. Changes in fair value of derivative instruments classified as dedicated for trading are reported in the Profit and Loss Account in item „Result on trade activities" or „Result on foreign exchange", which was described below.

The Bank has the following derivative instruments:

1) *FX forward*

   Forward transactions are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of FX forward transactions are recorded in *FX gains/loss* of the Profit and Loss Account.

2) *FX SWAP*

   FX SWAP transactions are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of FX SWAP transactions are recorded in *Result on trading activity* and in *FX gains/loss* of the Profit and Loss Account.

3) *Interest Rate SWAP (IRS)*

   IRS transactions are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of IRS transactions are recorded in *Result on trading activity* of the Profit and Loss Account.

4) *Cross – Currency Swap (CCS)*

CCS transactions are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of CCS transactions are recorded in *Result on trading activity* of the Profit and Loss Account.

5) *Equity SWAP, Volatility Swap, Swap with embedded FX option*

   The swap transactions are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of the above transactions are recorded in *Result on trading activity* of the Profit and Loss Account.

6) *FX options*

   Transactions on options are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of option transactions are recorded in *Result on trading activity* of the Profit and Loss Account.

7) *Forward Rate Agreement (FRA)*

   FRA transactions are valued at fair value, based on the method of discounting future cash flows. Any changes in fair value of FRA transactions are recorded in *Result on trading activity* of the Profit and Loss Account.

5. Financial assets and liabilities

The Group accounts for financial instruments under the following categories: financial assets valued at fair value through Profit and loss account, investments held to maturity, loans and receivables, financial assets available for sale, other financial liabilities.

- *Financial instruments valued at fair value through the financial result*

  This category contains financial assets or liabilities that are qualified as intended for trading (i.e. those that were purchased or taken with the intention to sell them shortly, are part of the portfolio of certain financial instruments that the Group manages jointly to generate short-term profits, or are derivative instruments, as long as they have not been set, and do not act as an effective hedging instrument) or were set as valued at fair value through the financial result.

  The Group does not reclassify financial instruments to or from categories valued at fair value through the financial result until they are subscribed or issued.

- *Investment held to maturity*

  These are financial assets, other than derivatives with set cash flows and maturity, that the Group intends and is in position held to their maturity, other than 1) set when initially posted by the Group as valued at fair value through the financial result, 2) designated as available for sale, 3) meeting the definition of loans and receivables.

  Investments kept till maturity cannot be sold or reclassified to any other financial instruments category. The Group cannot classify any financial assets as kept till maturity for a period extending 2 years (any existing ones have to be moved to the *available for sale* group) if there was a sale or reclassification of a component of the portfolio of financial assets kept till maturity, as long as the event involved more than just an insignificant share of the portfolio. The above does not apply to a situation where the event of sale or reclassification took place so close to the maturity date that changes in interest rates were of insignificant influence on the fair value of the financial asset, the event took place after the unit have recovered major part of the nominal value, or the event took place in result of an one-off, non-recurrent occurrence that the Group could not foresee or control.

- *Loans and receivables*

  This category comprises financial assets other than derivative instruments of determined or determinable payments, that are not quoted on any active market, other than 1) financial assets that have been classified as intended for trading, or have been set as valued at fair value through the financial result, 2) financial assets designated by the entity as available for sale, 3) financial assets whose owner might not recover the entire amount of the initial investment for reasons other than deterioration of credit servicing.

- *Financial assets available for sale*

  This category is composed of financial assets other than derivative instruments designated as available for sale, or have not been classified as: loans and receivables, investments kept till maturity, financial assets valued at fair value through the financial result.

- *Other financial liabilities*

  Other liabilities shall include every financial liability not contained in the category financial instruments valued at fair value through the financial result.

The Group shall record a financial asset or liability in the balance sheet when it becomes a party to the given instrument's agreement. Transactions of purchase or sale of financial assets valued at fair value through the profit and loss account, kept till maturity, and available for sale, shall be recorded adequately to the accounting method adopted for all operations of this type, on the transaction day – the day when the Group undertakes the liability to purchase or sell the given asset. Loans are recognized when the cash is disbursed to the borrower.

All financial instruments at the initial posting are valued at fair value adjusted – in case of financial instruments other than those classified as valued at fair value through the financial result – by transaction costs that can be assigned directly to the purchase or issue of a financial asset or liability.

A financial asset is taken out of the balance sheet of the Group at the moment of expiry of contractual rights to the linked cash flows, or when the Group moves the financial asset onto a third entity. The transfer takes place when the Group 1) transfers contractual rights to reception of cash flows on the financial asset, or 2) keeps contractual rights to receiving cash flows on the financial asset, assuming however the contractual liability to transfer the cash flows to an entity from outside the Group. While transferring a financial asset, the Group assesses the extent to which to keep the risk and benefits related to holding the financial asset. In such case:

- if the Group transfers principally the entire risk and all the benefits related to owning the financial asset, the financial asset is taken out of the balance sheet,
- if the Group principally keeps the entire risk and all the benefits related to owning the financial asset, the asset shall remain in the balance sheet of the Group,
- if the Group does not transfer and does not keep principally the entire risk and all the benefits related to owning the financial asset, the Group shall determine if it kept control over the given financial asset. If the control is kept, the financial asset is still recorded in the balance sheet of the Group; respectively, if the control is lost, the asset is taken out of the balance sheet.

The Group shall take a financial asset (or part of it) out of the balance sheet, when the obligation defined in the agreement has been fulfilled, forgiven, or expired.

After the initial recording, financial instruments are valued as follows:

- *Financial instruments valued at fair value through the profit and loss account*

  The instruments are valued at fair value, with changes recorded directly in the profit and loss account of the Group.

- *Investment held to maturity and loans and receivables*

  This financial assets category is in line with the methodology of amortized cost with effective interest rate and impairment.

- *Financial asset available for sale*

Any financial asset available for sale is appraised at fair value. Any gains and losses resulting from the change in fair value of financial assets available for sale are posted directly in the equity for as long as the financial asset is not taken out of the balance sheet (when the cumulated gain/loss is recognized in the profit or loss account).

Any interest accrued at effective interest rate on financial assets available for sale is posted in interest income.

In case of objective premises of impairment of an asset, the Group shall recognize the depreciation write-off as follows: 1) cumulated losses previously posted in equity are transferred to the profit and loss account, 2) if the depreciation write-off is higher than the value of cumulated losses incurred previously against equities, the surplus is posted directly in the profit and loss account. Should the fair value of the asset classified as available for sale increase in the following period, the amount of reversed write-off shall be posted in the profit and loss account, except for non-quoted capital instruments – in such case the write-off reversion is recorded directly in the equities.

- *Other financial liabilities*

Financial instruments considered other liabilities are valued at amortized cost applying the effective interest rate.
The valuation at fair value is based first on current purchase pricing of the given instrument on the active market. Should the given instrument be not quoted on the active market, the Group shall determine the fair value using valuation methods. They shall include basing on any recent transactions conducted at standard market conditions, comparison to other instruments, analysis of discounted cash flows, as well as option valuation models and other valuation methods widely used by market players.

6. Impairment of financial assets

Assets presented at their amortized cost

At every balance sheet day, the Group shall assess if there is any objective evidence of impairment of a given financial asset or a group of financial assets. The impairment of an asset or a group of assets (resulting in a loss) takes place exclusively when there are objective premises of impairment driven by en event or events that happened after the initial posting of the given asset (the loss generating event), and if the event (or events) impacts the expected future cash flows related to this asset or asset group, and the cash flows can be reliably estimated.
The objective premises of financial assets impairment shall include information on the following loss-generating events:

- significant financial trouble of the issuer or debtor,

- contractual default, e.g. non-payment or late payment of interest or part of the principal,
- the Group's concession or relief in favour of the debtor for economic and legal reasons resulting from their financial difficulties, that under other circumstances would not be taken as an option;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of the active market for the given financial asset, caused by financial difficulties;
- real data indicating a measurable drop in estimated future cash flows related to the financial assets group vs. the moment of their initial posting, despite the fact that no reduction can be determined for any single asset, including:
- negative changes in payment status of debtors held by the Group, or
- economic environment in the country, or on the domestic market, driving impairment of assets of a given group.

First the Group shall assess if there are any objective premises of impairment of significant financial assets, and if the evidence applies to assets that are individually insignificant. The grounds for this process shall be formed by the division of the Group's credit portfolio into significant credit exposures (by the criterion of exposure amount) and other homogenous loan groups. If in result of the assessment a conclusion is made that for the given financial asset assessed individually there are no objective impairment indicators, the asset is added to the set of financial assets of similar credit risk profile; the set is later collectively checked for impairment. Financial assets, for which impairment loss has been found based on the individual analysis, shall not be included in the collective impairment assessment.

Should there be objective premises of impairment of loans and receivables or other financial assets valued at amortized cost, the loss amount is determined as a difference between the balance sheet value of the given asset and the current value of estimated future cash flows (minus future losses on unpaid loans that have not been incurred yet), discounted at the initial effective interest rate for the given financial asset. The current calculation of future cash flows related to the secured financial asset shall cover cash flows on the ability to collect the collateral or other external resources, whether be takeover is probable or not.

For the purpose of collective impairment assessment, credit exposures are grouped to ensure uniformity of credit risk within a given portfolio. The future cash flows on the financial assets group assessed collectively for impairment are estimated based on cash flows under agreements and historic parameters of losses incurred on assets of similar risk profile. The historical parameters of losses are adjusted based on data from current observations in order to take into account the impact of up-to-date market factors that were not there in the period of historical observations, as well as to exclude the effects of the circumstances that were present in the historical period but do not apply any longer. To calculate the amount of the provision for balance sheet exposures under group analysis, one uses, inter alia, the loss probability (modified PD parameter). Modifications of the PD parameter facilitate recognition of specific features of every product and period in which losses were reported on given products. This approach in particular allows the following: 1) discovery of losses have been already incurred, and 2) losses that were incurred at the impairment assessment date but have not been proved yet (so-called provision for credit losses that incurred but are not reported – IBNR).

The impairment is reported as reduction of the balance sheet value of an asset through the revaluation write-offs account, while the loss amount (created in the period of the revaluation write-off) shall be charged to the profit and loss account.

Any uncollectible credit exposures are written off against provisions for loans impairment. Prior to writing a loan off, the required procedures are ran and the loss amount is determined. Should any amounts be recovered after writing them off, the write-offs on the value of loans in the profit and loss account shall be decreased adequately.

Should in the following period the value of loss on impairment decrease in result of an event that occurred after the impairment (e.g. debtor's creditworthiness assessment was raised), any previously recorded impairment write-off is reversed by an adequate adjustment in the revaluation write-offs account. The amount of the reversal is recorded in the profit and loss account.

Financial assets available for sale

At every balance sheet day, the Group assesses if there are any objective premises of impairment of a given financial asset or group of assets. What is taken into equation when assessing impairment of capital instruments classified as investments available for sale is any significant or long-term impairment in fair value of the security below its purchase price. Should there be any indicators regarding financial assets available for sale, the total loss – determined as the difference between the purchase price and the current fair value – shall be taken out of the equity and recorded in the profit and loss account. Losses on account of impairment of an investment in an equity instrument in the available for sale category are not reversed through profit and loss but through capital.

If at a later date the fair value of the given debt instrument classified as available for sale increases, and the increase will be objectively linked to an event that took place after the impairment was recognized in the profit and loss account, the impairment write-off is then reversed through the profit and loss account.

7. Financial instruments compensation

A financial asset or liability is compensated only when the Group holds a valid legal title to conduct the compensation, and the settlement is to be made at net amounts, or the asset and liability item are realized simultaneously.

8. Transactions with the sell/buy-back clauses

Repo and sell-buy back transactions, as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities with the promise of buy-back or sell-back at a contractual date and price. The Group reports financial assets sold with a buy-back clause (repo, sell buy-back) in the balance sheet, posting at the same time in liabilities any liability resulting from the given buy-back promise.

A condition of applying such a solution is that the Group would retain any risks and benefits under the given asset, despite its transfer. In case of reverse repo, buy-sell backs, the financial assets held are reported as receivables under the sell-back clause.

Transactions with sell-back/buy-back clause are subject to valuation at the amortized cost, while securities under SBB transactions are not taken out of the balance sheet and are valued using rules set for individual securities portfolios. The difference between the sale and buy-back prices is recognized as interest cost or income, respectively, and settled over term of the agreement, with effective interest rate applied.

9. Receivables under leasing contracts

The Group is a party to leasing contracts, under which it entrusts fixed assets or intangible assets for a contracted period of use or benefits against payment.

In case of leasing contracts under which essentially the entire credit risk and benefits resulting from the ownership title to the assets under the contract is transferred (financial leasing), the leased item is no longer reported in the balance sheet of the Group. What remains in the books however are the receivables, in an amount equal to the current value of minimum leasing fees. The leasing fees is settled (divided into financial income and receivables balance reduction) in a way facilitating a fixed return rate on the outstanding receivables.

Leasing fees under any agreements not satisfying the conditions of the financial leasing contract, shall be posted in the profit and loss account as income, using the straight-line method, throughout the lease term.

The Group is also a party to leasing contracts under which it accepts external fixed assets for a contracted period of time, for use or benefits, against payment. These are agreements (mainly rent or lease for profit), that do not meet the conditions of the financial leasing contract (operating leasing). Any leasing fees under such agreements are posted in the profit and loss account as costs, using the straight-line method, throughout the lease term.

10. Property, plant and equipment and Intangible Assets

Own components of property, plant and equipment

Property, plant and equipment include fixed assets and outlays for their construction. Fixed assets include fixed assets whose anticipated useful life is longer than one year which are maintained due to their use for own needs or in order to let them for use by other entities.

Property, plant and equipment are accounted for at purchasing prices or production costs less depreciation (amortisation) and impairment charges. The purchasing price or production cost is the amount of paid cash or its equivalents resulting from the purchase or production of the fixed asset.

The Group posts on-balance under tangible fixed assets the replacement costs for part of these items at the moment of their incurring, if there is likelihood of obtaining future economic benefits connected with the asset and the purchasing price and production cost can be credibly appraised. Other costs are taken in the profit and loss account at the moment of their incurring.

The costs of repairing and maintaining tangible fixed assets are charged to the profit and loss account in the reporting period in which they were incurred.

Fixed assets under construction are disclosed at purchasing price or production cost and are not subject to depreciation

Intangible assets

Intangibles include assets which can be detached or separated from an economic entity and sold, transferred, licensed or let for gratuitous use to third parties both individually or jointly with agreements, assets and liabilities linked to them. Moreover, intangibles include assets which result from contractual titles or other legal titles, irrespective of whether they are subject to transfer or detachment from the economic entity or other rights or duties.

Goodwill

Goodwill is value created as a result of purchasing subsidiaries, associates and joint ventures. Goodwill is initially captured at the surplus of costs of combination of business units over the share of the acquiring unit in net fair value of identifiable assets, liabilities and contingent liabilities. Goodwill is disclosed at purchasing price less total impairment revaluation charges. Goodwill is not depreciated, only tested every year for impairment. As of the takeover date the purchased goodwill is allocated to each cash generating centres which can benefit from merger synergy. Impairment is established through estimating the recoverable value of the cash generating centre covered by particular goodwill. If the recoverable value of a cash generating centre is lower than the on-balance value an impairment charge is made. In case of associates the company's goodwill is contained in the on-balance value of the investment in the associate. Negative goodwill arisen from a purchase is captured directly in the profit and loss account.

Computer Software

Purchased licenses for computer software are activated in the amount of incurred costs of purchasing or preparation for use with impairment charges taken into account. Outlays connected directly with the production of identifiable and unique computer software controlled by the Group likely to generate economic benefits within a time frame in excess of one year are disclosed as intangibles.

Other Intangibles

Other intangibles purchased by the Group are disclosed at purchasing price or production cost less amortisation and total amount of impairment revaluation charges.

Later Outlays

Outlays made after the initial capture of the purchased intangible asset are activated only in the case when the outlays increase future economic benefits of the given asset. In the remaining cases the outlays are captured in the profit and loss account as costs at the time of their incurring.

Depreciation charges

Depreciation charges on depreciable value of tangible and intangible fixed assets are performed by the straight-line method in accordance with the established depreciation rates and anticipated period of their useful life. Depreciable value shall be the purchasing price or production cost of a given asset less the residual value of such asset. The useful life, depreciation rates and also the final value of depreciable tangible and intangible fixed assets are verified every year. The conclusions from such verification are grounds for a potential change of depreciation periods prospectively recognised from the adjustment date (the effect of such change in accordance with IAS 8 is posted to the profit and loss account).

Land, outlays for tangible assets, outlays for intangible assets shall not be depreciated. Neither shall be made any depreciation charges of an intangible asset with an unspecified useful life.

The following on-balance depreciation rates shall be employed to basic groups of tangible and intangible assets and for investment real estate:

Selected groups of property, plant and equipment:

Bank buildings	2.5%
Investments in external premises	for the duration of the lease agreement
Computer hardware	30.0%
Network devices	30.0%
Vehicles	20.0%
Telecommunication equipment:	
- wired	10.0%
- wireless	20.0%

Intangibles (software):

Main applications (systems)	10.0%

For other computer software a rate no lower than 50% is adopted, depending on the planned useful life.

Depreciation shall be charged to operational expenses of the profit and loss account.

11. Non current assets held for sale

Non current assets held for sale contain fixed assets whose balance sheet value will be recovered mainly through sale transactions rather than further utilisation. This is the case when an asset (or a group) is available for immediate sale in its present condition, given only standard, typical terms and conditions for a sale of this type of assets and its sale is very likely, i.e. it has been decided to carry out the selling plan for a given asset, an active programme of finding a buyer or completing the selling plan has been started. Moreover, such an asset is intended for sale at a price which is reasonable compared to its current fair value and the expectation is that the sale will be treated as sale completed within one year from the day classifying the asset in this category.

Fixed assets for sale are priced at the lower of the two: balance sheet value or fair value less cost of sale of such assets. Assets classified in this category do not include depreciation.
When criteria for classification in the group of fixed assets for sale are not met the Group ceases to reflect them in this category and reclassifies to the appropriate category of assets. In this case the Group measures the asset, which is no longer classified as being for sale (or is not anymore in a group for sale) in the lower amount of the following:
(a) its balance-sheet value from the day preceding classification of the asset (or group for sale) as being for sale, adjusted for depreciation or revaluation, which would be captured if the asset (or group for sale) was not classified as being for sale, and
(b) its recoverable value from the day of the decision not to sell it.

12. Impairment of non financial assets

At each balance sheet day the Group performs a verification of the values of on-balance nonfinancial assets for impairment triggers. If the result of the analysis is positive the Group estimates the recoverable value of the asset and recognises in the profit and loss account the revaluation charge, when the recoverable value is lower than the balance sheet value.

The revaluation charge is recognised in the amount of the difference between the asset's balance sheet value and the recoverable value. The recoverable value corresponds to the net selling price of the asset or its utility value, whichever is the higher. Utility value is established for particular assets, if a given asset generates cash flows substantially independent of those generated by other assets or groups of assets. If there arise impairment triggers for common assets, i.e. assets which do not generate cash flows in isolation from other assets or groups of assets and one cannot establish the recovered value of an individual asset included in common assets, the Group establishes the recovered value at the level of the cash generating centre which includes the given asset.

If pursuant to IAS 36, paragraph 21 there are no reasons to conclude that the utility value of a given asset is significantly above its fair value reduced by the costs of sale, the recovered value shall be the fair value reduced by the cost of sale. This shall hold particularly for fixed assets intended for sale.

An impairment revaluation charge can be reversed through the profit and loss account to the level at which the book value of the asset does not exceed the book value of a given asset component on the assumption that no revaluation charge was made and depreciation was continued. The impairment revaluation charge with respect to goodwill shall not be reversed.

13. Accruals and Deferred Income

Accruals pertain to expenses which will be settled against the profit and loss account as being timed with the future reporting periods. Costs settled over time (assets) are captured in the „Other Assets" balance sheet item. This item is also used to settle over time the surpluses of the annual fee on land perpetual usufruct.

Cost components settled over time (liabilities) are provisions for costs resulting from services provided to the Group which will be settled over future periods. Such provisions are captured under the „Other Liabilities" balance sheet item. Deferred income comprise among others received amounts of future services and other types of income collected in advance which will be settled against the profit and loss account in future reporting periods. They are captured in the „Other Liabilities" balance sheet item.

14. Provisions

Provisions are created whenever 1) the Group has an obligation (legal or customarily expected) resulting from past events and 2) the fulfilment of such obligation is likely to necessitate an outflow of funds reflecting the economic benefits and 3) the amount of such obligation can be credibly estimated. If the impact of the monetary value over time is substantial, the level of provision is established by discounting future cash flows to the present value with the use of the discount rate before tax which reflects current market estimations as to the value of money over time and potential risk connected with a given liability. Restructuring cost provision is created if there have been met the general provisioning criteria as well as specific criteria for triggering the obligation to create a restructuring cost provision, such criteria being specified in IAS 37. In particular the commonly expected obligation to carry out restructuring arises only when the Group has a detailed formal restructuring plan and has evoked the reasonable expectation from parties concerned that it will perform the restructuring actions by beginning to implement the plan or by announcing the key components of the plan to these parties.

A detailed restructuring plan defines at least the operation or the part of it concerned, key locations, which will be covered by the plan, place of employment, functions and estimated number of employees who are to receive compensation in exchange for termination of employment, the amount of expenditure to be incurred and the time of implementation of the plan.
The restructuring reserve covers only such direct expenditure arising in result of restructuring, which simultaneously a) inevitably result from the restructuring and b) are not connected with the day-to-day operation of the business unit. The restructuring reserve also does not cover future operating expenses.

15. Employee Benefits

Short-Term Employee Benefits

Short-term employee benefits of the Group (other than benefits on terminating the labour contract fully due within 12 months from carrying out the work) cover salaries, bonuses, paid leaves and social insurance contributions.
The Group recognises the anticipated, not discounted value of short-term employee benefits as costs in the time in which employees provided work connected with them in correspondence with other on-balance liabilities.
The amount of short-term employee benefits on the unused holidays to which Group employees are entitled is calculated as the sum of unused holidays to which particular Group employees are entitled.

Long-term employee benefits

The Group's liabilities on long-term employee benefits are equal to the amount of future benefits which the employee will receive in return for providing his services in the current and earlier periods which are not fully due within 12 months from carrying out the work. In accordance with the Bank Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age exercise the right to receive a pension severance payment. The provision for pension severance payments is calculated by the actuary as the present value of the Group's future liabilities to employees according to the headcount and wages as of the date of revaluation. The provision for pension severance payments shall be revalued on an annual basis.

Provisions for short-term and long-term employee benefits are captured in the "Other Liabilities" balance sheet item in correspondence with the Salary Costs in the profit and loss account.

The Group implements a programme of employee benefits after the period of employment. This programme is called defined contribution programme. On the basis of the programme the Group is legally committed to pay a specified amount of contributions to the state pension fund. The proceeds of the fund including the return on the invested contributions are also used to pay out to the employee a benefit after the period of employment. Consequently, the Group does not have a legal or customarily expected obligation to pay additional contributions, if the pension fund does not have sufficient assets to pay due benefits.

16. Group's Equity

Equity is made up of capital and funds created in keeping with binding law, relevant statutes and Articles of Association.

Equity comprises: share capital, share premium – surplus of issue price over the nominal price of shares, revaluation reserve and retained earnings. All amounts of capital and funds are presented at nominal value.

Share Capital

Share capital is presented at nominal value, according to the Articles of Association and the entry in the Business Register.

If a unit buys own capital instruments, then the paid amount together with the costs directly attributed to such purchase shall be treated as change in own capital. The purchased own shares are posted as own shares and disclosed as reduction to own capital until their cancellation.

Dividends for the financial year which have been approved by the General Shareholder Meeting, but not approved as of the balance sheet day are disclosed in the „Other Liabilities" balance sheet item.

Share Premium

Share premium (surplus of issue price over nominal price) is created from the premium generated from the issue of shares less direct costs of issue.

Revaluation Reserve

Differences from the valuation of financial assets available for sale reduced by deferred income tax provisions are charged against revaluation reserve. Revaluation reserve is not subject to distribution.

Retained Earnings

Retained earnings are created with charges against profit and are allocated for purposes specified in the Articles of Association or other legal regulations (the remaining part of reserve capital, additional reserve capital, including general banking risk fund) or constitute previous years' profit/loss or year-to-date net financial result.

The General Banking Risk Fund at Bank Millennium SA is created in accordance with the Banking Act dated 29 August 1997, as later amended, from profit after tax.

Net profit of the current period is the P&L result in a current year adjusted with the corporate income tax charge. Losses attributed to minority shareholders and exceeding the value of minority interests are charged to the Group's equity.

17. Interest income

Any interest receivables and payables for all financial instruments are recognised by Group units in the profit and loss account at valuations by depreciated cost with the use of the method of the effective interest rate and financial assets for sale.

Interest income/costs on derivatives classified in the category for trading are reflected in the P&L item Result on trading activity. Interest income on debt financial instruments classified in this category are recognised in Interest Income in the P&L Account.

The effective interest rate methodology is used to accrue depreciated cost of a financial asset or liability and to allocate the income or expenses on interest or certain commissions (those constituting an integral part of the interest rate) to adequate periods. The effective interest rate is a rate that precisely discounts the estimated future cash flows (in the period to financial instrument expiry) to the net balance sheet value of the asset or financial liability. When calculating the effective interest rate the Group estimates cash flows, taking into the equation any provisions of the financial instrument agreement, however not taking into account potential future losses on loans that have been unpaid. The calculation covers any commissions paid or received by the parties to the agreement and which are integral part of the effective interest rate, as well as transaction costs, and all other premiums and discounts.

Interest income comprises interest and commissions (received or due) included in the calculation of the effective interest rate on: scheduled loans, interbank deposits and securities held to maturity and available for sale, intended for trading. Additionally, interest income includes the Bank's own costs in connection with the conclusion of a loan agreement (mainly commissions paid to external and own agents for concluding mortgage loan agreements, and property appraisal costs connected with this type of agreements) which are a component of the EIR calculation and are settled over time.

When recognising the impairment of a financial instrument priced at depreciated cost and financial assets for sale, interest income is recognised in the profit and loss account but calculated on the newly established balance sheet value of the financial instruments (this is the value reduced by the revaluation charge). In this case interest income is calculated with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

18. Fee and commission income/ Fee and Commission Costs

Income and costs on fees for bank account maintenance, card service operations, factoring are included in the P&L at the moment of carrying out the service, while other fees and commissions are settled over time.

The basic types of lending commissions in the Group include among others origination fees/commissions and commitment fees. Origination fees and commissions on adequate features are a component of calculating the effective interest rate and constitute part of interest income. Commitment fees are settled on the straight line basis throughout the period of funds availability and constitute commission income.

In the case of loans and advances with undetermined instalment payments and changes in interest, e.g. overdraft facilities and credit cards commissions are settled over the duration of the card or overdraft limit by the straight-line method and included in commission income.

19. Dividend Income

Dividend income is reflected in the Group's Profit and Loss Account on the day of determination of rights of shareholders to receive it.

20. The Result on Investment Activities

The result on investment activities contains profits and losses generated in result of selling financial instruments classified to the 'available for sale' portfolio, and other profits and losses on investment activities.

21. Result on Trading Activities

The result on trading activities comprises profits and losses generated as a result of selling financial instruments allocated to the trading portfolio and the effect of fair value pricing of the financial instruments (debt securities and derivatives held for trading).

22. Foreign exchange profit

Net FX gains are established on the basis of FX gains and losses, both realised and unrealised ones, resulting from day to day valuation of FX assets and liabilities at the average rate established for a given balance sheet data by the Chairman of the NBP impacting the FX income and expenses. Net FX gains and valuation of the FX Forward transactions are disclosed in the Net FX Gains.

23. Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not directly connected with the Group's banking and brokerage activity. In particular, this is net income resulting from the selling and liquidation of fixed assets, revenues from selling other services, received/paid damages, penalties and fines.

24. Income Tax

Corporate income tax comprises current and deferred tax.

Current income tax is calculated at the binding tax rate on profit before tax established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses. Moreover, for tax purposes, the net book income is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and charges from income resulting from e.g. donations.

The Group creates a provision for deferred income tax or tax asset due to timing differences on income tax. These differences are caused by different dates of recognising the income as earned or expense as incurred between accounting regulations and corporate tax regulations. The key timing differences arise due to provisions created for impairment of loans and loan repayment guarantees, depreciation of intangible and tangible fixed assets, revaluation of some financial assets and liabilities, including derivatives, provisions for retirement benefits and other post-employment benefits as well as tax losses eligible for charging off.

Provision for deferred income tax is disclosed in liabilities as „Provision for Deferred Income Tax". An asset on deferred income tax is disclosed in assets as „Deferred Income Tax Asset". The Group performs a netting of assets on deferred income tax with provisions on deferred income tax when it has a legal title to do so and the asset/provision on deferred income tax (applied by the same tax authority) pertain to the same tax-payer.

The provision for deferred tax is created by using the balance sheet method, by computing timing differences as of the balance sheet date between balance sheet value of assets and liabilities and their balance sheet value disclosed in the financial report.

A provision for deferred income tax is recognised with respect to all positive timing differences except when it arises from the depreciation of goodwill or initial recognition of an asset or liability with a transaction which does not constitute a merger of economic entities and which on its origination has no impact on the net financial profit or taxable income or loss.

Deferred income tax assets are recognised with respect to all negative timing differences as of the balance sheet date between the tax value of assets and liabilities and their balance sheet value disclosed in the financial statement. Deferred income tax assets are also recognised with respect to unused tax losses transferred to later years. Deferred income tax assets are recognised in such amount in which taxable income is likely to be achieved allowing to set off negative timing differences and activated tax losses.

Deferred income tax assets are not recognised if they pertain to negative timing differences arising from the initial recognition of an asset or liability with a transaction which does not constitute a merger of economic entities and on its origination have no impact on the net financial profit or taxable income or loss.

The balance sheet value of a deferred income tax asset shall be verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or full realisation of the deferred income tax component.

The Group does not include in the calculation of deferred tax a liability or asset on timing differences resulting in connection with an investment in subsidiaries and affiliates, unless the possessed evidence shows that the realisation of timing differences is controlled by the Group and it is likely that in the foreseeable future the differences may be reversed.

Deferred income tax assets and provisions for deferred tax are estimated with the use of the tax rates which are expected to be in force when the asset is realised or provision eliminated, assuming the tax rates (and tax provisions) legally or factually in force as of the balance sheet date.

Income tax pertaining to items directly presented in equity is presented in equity.
The amount of calculated deferred tax is based on expected degree of realisation of balance-sheet values of assets and liabilities with use of tax rates effective as at the balance-sheet day.

25. Application of Estimates in connection with Accounting Policies

In order to prepare an IAS based financial report certain estimates as well as assumptions must be made impacting the amounts disclosed in the financial report. The estimates and assumptions continually revised by Group management are based on historic experience and other factors, including the expectations as to future events which seem reasonable in a given situation. Despite such estimates being based on the best knowledge concerning current conditions and activates undertaken by the Group, the actual results may differ from the estimates. The most important areas for which the Group makes estimates are presented below.

- *Impairment of loans and advances*

For each balance sheet date the Group estimates if there are objective impairment triggers for a given financial asset or group of financial asset. The group estimates of there are data/symptoms indicating a credibly measurable reduction of future cash flows on a given loan portfolio, before such reduction can be allocated to a specific loan in order to estimate impairment. Estimates can take into account observable data pointing to the occurrence of an adverse change in the payment situation of borrowers belonging to a specific group or economic situation in a given country of its part, in connection with problems occurring in a such group of assets. Historical loss parameters are adjusted based on data coming from current observations in order to incorporate the impact of current market factors which did not exist in the period covered by historic observations and exclude the effects of the circumstances which existed in the historic period, but persist no longer. The methodology and assumptions to asses the estimate cash flows and periods in which they arise will be subject to regular reviews in order to decrease the differences between the estimate and actual level of losses.

- *Fair value of financial instruments*

The fair value of financial instruments not listed on active markets is established on the basis of valuation techniques. For non-option derivatives and debt securities cash-flow discounting models are employed. For option-based mechanisms option valuation models are used. All models are approved before use and also calibrated in order to make sure that the results obtained reflect the actual data and comparable market prices. When possible, only observable data coming from an active market are used in the model.

- *Impairment of other non current assets*

As of each balance sheet day the Group assesses the existence of impairment triggers for fixed assets. Should such trigger be identified the Group assesses the recoverable value. The assessment of the utility value of a fixed asset (or cash generation centre) is connected among others with the adoption of assumptions concerning estimates as to amounts, dates for future cash flows obtainable by the Group on a given fixed asset (or cash generation centre), other factors. When estimating the fair value less costs of sale the Group relies on market data on this subject or valuations prepared by independent experts which in principle are also based on estimates.

- *Other Estimate Values*

Pension severance provision is calculated by the actuarial method by an independent actuary as the present value of the Group's future liabilities to employees according to the headcount and wages as of the revaluation date. The calculation of provisions is based on a number of assumptions, both as to the macroeconomic conditions and assumptions on employee turnover, death risk and others.
With respect to certain short-term employee benefits (senior management bonuses) the Group's Management Board assesses the value of benefits as of the balance-sheet date. The final amount of the employee benefits is settled by the decision of the Bank's Supervisory Board.

VII. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Business Segments

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

a) Retail Segment

This segment includes the following business areas: Millennium Retail (mass market customers), Millennium Prestige (affluent individuals) and Millennium Biznes (small businesses). Figures for 2004 also included a car loan portfolio granted through an external intermediary, which was sold in May 2004.The activity of the above mentioned networks is developed through the disposal of a complete offer of banking products, complemented by specialized products developed by the Group's subsidiary companies. In the area of credit, mortgage loans, consumer loans, credit cards and leasing for small business constitute the major drives of volumes increase. As far as savings products are concerned, the main products are: current accounts, term deposits, mutual funds and structured products. Insurance products are also offered in this segment, especially in connection with loans and credit cards.

b) Corporate Segment

The corporate segment includes the commercial activity managed by the Medium Corporate network (corporate Clients with annual turnover between PLN 10 million and PLN 300 million) and the Large Corporate network (corporate Clients with annual turnover above 300 million PLN). Both networks also establish banking relationships with local governments and other public entities. The commercial activity in the corporate segment is driven by a high quality base offer of typical banking products (working capital loans, investments loans, current accounts, term deposits) complemented by a modern and easy set of cash management products, treasury product and more sophisticated derivative products. Cross selling of leasing and trade finance products is very active for Corporate Clients.

c) Investment and treasury activities

The segment of investment activities consists of the Group activities in investment banking and brokerage, capital investment for the bank own account, including as well interbank and debt securities market operations that are not allocated to other segments.

d) Unallocated incomes and costs (Other)

Both years' results of the Group are impacted by:

1) result on sale of car loans that were granted through PTF (an intermediary) in 2004 in the amount of PLN 150 million as described in chapter VIII of the report.

2) Additional income resulting from the sale of the stake in PZU both in 2004 and 2005. In 2004 this value includes minimal guaranteed sales price (PLN 1600 million) less book value of investment (PLN 1 193 million) In 2005 it includes share of Bank Millennium Group in dividend paid by PZU for 2004 (PLN 46 million) and adjustment to PZU minimal sales price in amount of PLN 700 million with interest income of PLN 25 million regarding deferred minimal guaranteed amount reduced by swap costs paid to BCP. Transaction with BCP is in detail described in chapter VIII of the report.

3) Additional impairment and depreciation in 2004 and 2005 of non financial assets, mainly tangible and intangible assets, resulting from Management Board decision to reassess their economic and useful life and the fair value of own real estates that are under selling process, based on adoption of IFRS.

Income tax charge for the period is presented only at a Group level.

Geographical segments

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

Accounting polices

Accounting policies applied in segment reporting are in accordance with the IAS 14.

For each segment there is determined gross result, including:

- Interest result calculated on the basis of external interest from working assets and liabilities of the segment and internal interest income or cost from allocated assets / liabilities, measured using internal transfer interest rates based on market interest rates.
- Net commissions income
- Other non-interest income (mostly affecting Investment and Treasury operations) like dividend income, result on investment and trading activity, income from FX transactions and result from other financial instruments.
- Costs of impairment
- Share of the segment in operating costs including personnel and administrative costs

The segment's assets and liabilities are operational assets and liabilities used by that segment in its operating activities, allocated to a particular business segment based on rational assumptions. Gap between assets and liabilities in each business segment is covered by money market assets/liabilities, debt securities and the Group's equity allocated to particular segments. Assets /liabilities of Treasury and Investment banking include money market assets /liabilities, securities and other assets/liabilities not allocated to commercial segments. Allocation of capital is based on risk weighted assets of each segment.

Tangible assets for resale in amount of PLN 239,5 million are presented by the Group according to IFRS 5 . Major item (land in Wilanów) of PLN 170,6 million is presented as asset of investment banking and treasury area. Other buildings and lands, that according to the current optimisation process will not be used in the future by the Bank are presented in Retail banking. Tangible assets for sale – fixed assets coming from terminated leasing agreements are presented as Corporate Banking assets

Income statement 31.12.2005

PLN thousand	**Retail Banking**	**Corporate Banking**	**Treasury and Investment Banking**	**Other**	**Total consolidated**
Net interest income	361 487	135 443	-41 794	24 941	480 077
- external income	*272 976*	*289 700*	*608 965*	*24 941*	*1 196 583*
- external cost	*-341 802*	*-116 418*	*-258 286*	*0*	*-716 506*
External income less cost	-68 825	173 282	350 679	24 941	480 077
- Internal income	*585 596*	*172 558*	*-758 154*	*0*	*0*
- Internal cost	*-155 284*	*-210 397*	*365 681*	*0*	*0*
Internal income less cost allocated	430 313	-37 839	-392 473	0	0
Commissions (net)	172 654	62 458	29 734	0	264 846
Other income	54 429	30 860	170 032	465 037	720 359
Operating income	**588 570**	**228 761**	**157 972**	**489 978**	**1 465 281**
Staff costs	-206 287	-88 077	-31 902	0	-326 266
Administrative costs and other operating costs (net)	-236 469	-66 781	-24 758	0	-328 008
Impairment of financial assets	-39 492	43 584	863	0	4 955
Impairment of fixed assets			2 211	-22 592	-20 381
Depreciation	-47 395	-22 485	-5 016	-10 942	-85 838
Operating costs	**-529 642**	**-133 760**	**-58 603**	**-33 534**	**-755 538**
Operating profit	**58 928**	**95 002**	**99 369**	**456 444**	**709 743**
Profit before taxes	**58 928**	**95 002**	**99 369**	**456 444**	**709 743**
Income taxes					-142 689
Net profit					**567 054**

Balance sheet 31.12.2005

	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
ASSETS					
Segment assets	5 307 006	4 657 362	12 186 772	0	22 151 139
Assets allocated to segment	4 945 039	2 087 732	-7 032 771	0	0
Total	**10 252 045**	**6 745 094**	**5 154 001**	**0**	**22 151 139**
LIABILITIES					
Segment liabilities	9 819 324	5 316 445	4 624 548	0	19 760 316
Other liabilities allocated to segment	113 547	1 014 082	-1 127 629	0	0
Equity allocated to segment	319 173	414 567	1 657 082	0	2 390 823
Total	**10 252 045**	**6 745 094**	**5 154 001**	**0**	**22 151 139**

Income statement 31.12.2004

PLN thousand	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
Net interest income	390 998	136 269	-190 409	0	336 858
- external income	*282 661*	*289 400*	*425 889*	*0*	*997 951*
- external cost	*-283 167*	*-107 629*	*-270 296*	*0*	*-661 093*
External income less cost	-506	181 771	155 593	0	336 858
- Internal income	*551 965*	*178 368*	*-730 332*	*0*	*0*
- Internal cost	*-160 461*	*-223 870*	*384 332*	*0*	*0*
Internal income less cost allocated	391 503	-45 502	-346 001	0	0
Commissions (net)	147 792	68 819	25 248	0	241 859
Other income	13 397	27 308	355 478	532 300	928 483
Operating income	**552 186**	**232 396**	**190 318**	**532 300**	**1 507 200**
Staff costs	-168 104	-104 432	-40 029	0	-312 864
Administrative costs and other operating costs (net)	-257 568	-127 644	-48 642	0	-433 854
Impairment of financial assets	-8 500	-64 268	7 109	0	-65 659
Impairment of fixed assets			-12 205	-24 265	-36 470
Depreciation	-68 960	-30 129	-12 687	-197 000	-308 777
Operating costs	**-503 132**	**-326 473**	**-106 753**	**-221 265**	**-1 157 624**
Operating profit	**49 054**	**-94 078**	**83 564**	**311 034**	**349 575**
Profit before taxes	**49 054**	**-94 078**	**83 564**	**311 034**	**349 575**
Income taxes					-112 031
Net profit					**237 544**

Balance sheet 31.12.2004

	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
ASSETS					
Segment assets	3 220 935	4 501 156	12 026 464	400 000	20 148 555
Assets allocated to segment	7 195 266	1 862 931	-9 058 197	0	0
Total	**10 416 202**	**6 364 087**	**2 968 266**	**400 000**	**20 148 555**

LIABILITIES					
Segment liabilities	10 073 631	3 702 633	4 360 510	24 941	18 161 715
Other liabilities allocated to segment	102 977	2 335 636	-2 813 672	375 059	0
Equity allocated to segment	239 594	325 818	1 421 428	0	1 986 840
Total	**10 416 202**	**6 364 087**	**2 968 266**	**400 000**	**20 148 555**

VIII. ADDITIONAL EXPLANATIONS TO THE FINANCIAL DATA

On December 21 2004 the Bank together with its subsidiary, BIG BG Inwestycje S.A., signed with Eureko B.V. agreement to sell 10% of PZU S.A. stocks (hereinafter referred to as the Agreement) purchased by the Group in November 1999. Pursuant to the Agreement, the minimum guaranteed selling price of the a/m stocks totalled 1.6 billion PLN, payable in two instalments. BIG BG Inwestycje S.A. received the first tranche in the amount of 1.2 billion PLN on December 30 2004, whereas the second tranche (400 million PLN) was paid in December 2005 (the transaction was secured with a pledge of the stocks sold). The table below illustrates the settlement of the sale transaction of PZU S.A. stocks on the basis of the minimum guaranteed selling price and its impact on the Group's 2004 gross result:

Data in thousand PLN

Minimum guaranteed selling price for PZU S.A. shares	1 600 000
Book value of the PZU S.A. stocks as at the day of sale	1 192 759
Discount effect of the second instalment payable by December 31 2005 (400 million PLN)	-24 941
GROSS RESULT REALISED ON THE SALE OF PZU S.A. SHARES	382 300

According to the provisions of the Agreement the minimum guaranteed selling price of the PZU S.A. stocks totalling 1.6 billion PLN would be increased by:

- 80% of the surplus of the average price of PZU S.A. stocks above the minimum guaranteed selling price. The average price will be calculated (the formula assumes weighing with daily turnover volume) for the period of 4 weeks starting in the second week of the quotations, in case PZU S.A. stocks are floated on the Warsaw Stock Exchange,
- 100% of the surplus of selling price obtained by EUREKO B.V. above the minimum guaranteed selling price, unless the PZU S.A. stocks are sold by EUREKO B.V. to a third party by the end of 2005,
- 100% of the surplus of the valuation performed by independent investment banks above the minimum selling price, when the PZU S.A. stocks are not floated by June 30 2005.

On December 7 2005 Memorandum on the Stock Sale Agreement dated December 21 2004 was signed with Eureko B.V. The Memorandum concerned settlement of the final selling price of 10% of PZU S.A. stocks specified as 2.3 billion PLN, which constituted average valuation of the PZU Group prepared by two independent international investment banks. Following this settlement, the Group reflected gross profit in the amount of 700 million PLN in the 2005 profit and loss account.
In consequence of the sale of PZU S.A. stocks, on December 21 2004, also the swap transaction concluded between Banco Comercial Portugues (BCP) and the Bank expired. BCP maintained its right to participate in sales proceeds (according to the formula stipulated in the Annex dated December 21 2004) in case the final selling price of PZU S.A. stocks exceeds 1.6 billion PLN. In

agreement with the above, in December 2005 the Bank paid BCP 283.5 million PLN. After this payment BCP confirmed that the Bank finally had realised all its obligations resulting from the swap agreement in question.

The sale agreement of PZU S.A. stocks dated December 21 2004 established also a formula for the settlement of the parties, if between the date of the sale agreement and the date of the final settlement of the transaction, PZU S.A. pays a dividend in excess of the average dividend for the last three financial years. This surplus (in proportion to the number of stocks in the agreement) was to constitute Group's income. In consequence of the payout of dividend for 2004 by PZU S.A., the Group booked as income in its 2005 profit and loss account the respective payment received from EUREKO B.V. in the gross amount of 48.537 thousand PLN.

The impact of the above-described events, reflected in the Group's 2005 result, is presented in the table below:

Data in thousand PLN

Settlement of the dividend paid out by PZU S.A. for 2004 – Group's share	48 537
Adjustment of the minimum guaranteed selling price	700 000
Costs resulting from the swap transaction concluded with BCP	-283 500
Reflection of the interest income from the deferred payment of the second instalment of the minimum guaranteed selling price (400 million PLN)	24 941
GROSS RESULT REALISED ON THE SALE OF PZU S.A. STOCKS IN 2005	489 978

SALE OF THE CAR LOAN PORTFOLIO AND MAINTENANCE OF THE PORTFOLIO OF MORTGAGES GRANTED BY EXTERNAL OPERATOR

In the implementation of the preliminary agreement signed on February 20 2004 with Santander Consumer Finance S.A., on May 13 2004 the Bank concluded agreement on the transfer by the Bank onto CC-Bank S.A., company with seat in Poznań ("CC-Bank"), of the receivables from the part of the car loan portfolio, which the Bank had granted through Polskie Towarzystwo Finansowe S.A., company with seat in Wrocław ("PTF") within the co-operation agreement concluded between the Bank and PTF on February 4 2000, thus ensuring entering of the CC-Bank into the legal relationship resulting from this co-operation agreement in lieu of the Bank. As payment of the price for the transfer of the receivables from the concluded loan agreements CC-Bank paid the Bank the amount of 150 million PLN plus the outstanding principal as at the day of the transfer.

In the implementation of the preliminary agreement signed on February 20 2004 with Santander Consumer Finance S.A., on May 13 2004 the Bank concluded agreement concerning release of PTF from the obligations stemming from the co-operation agreements concluded between the Bank and PTF, on December 19 2000 and August 28 2003, respectively, whereby PTF provided in favour of the Bank agency services in the area of granting mortgages. Under this agreement, within mutual settlements between the parties, the Bank paid to PTF the amount of 30 million PLN for PTF's resignation from part of the interest margin, to which it was entitled under the agreement.

IX. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

The values presented in the notes to the consolidated financial statement are presented in thousand PLN.

(1) INTEREST INCOME

1. Interest and similar income

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Interest income and other of similar nature, including:		
Balances with Central Bank	10 109	4 220
Deposits in other banks, loans and advances to banks	76 042	59 212
Loans and advances to customers	564 531	609 995
Hedging derivatives	15 769	24 463
Financial assets held for trading (debt securities)	174 599	138 837
Investment securities	355 533	160 300
Other	0	924
Total:	**1 196 583**	**997 951**

Interest income for the period between January 1 and December 31 2005 contains the accrued interest on the impaired loans in the amount of 25,044 thousand PLN. In keeping with IFRS 1 the Grupa has taken advantage of an exemption from the need to fully retroactively apply IFRS as regards measurement of some financial instruments at amortised cost and effective interest rate.

Interest income for the period between January 1 and December 31 2005 (item ”investment securities”) covers 24,941 thousand PLN as settlement of the discounting effect for the second instalment payable for 10% of the PZU S.A. stocks (this event was described in Chapter VIII).

As a result of adjustment of the presentation of interest on transactions in derivatives from the trading portfolio (concluded for non-speculative purposes, but which do not meet the requirements of collateral accounting) to the IFRS’s requirements, the Group reclassified the interest in question from the interest margin to the result on trading activities. The issue is described in Chapter VI.

(2) INTEREST EXPENSES

2. Interest expenses and similar charges

	01.01.2005 - 31.12.2005	**01.01.2004 - 31.12.2004**
Interest expense and other of similar nature, including:		
Banking deposits	-23 899	-17 494
Loans	-71 388	-102 385
Hedging derivatives	-17 239	-18 078
Deposits from customers	-574 850	-476 022
Subordinated debt	-12 150	-13 600
Debt securities	-16 143	-33 414
Other	-837	-91
Total:	**-716 506**	**-661 093**

(3) FEE AND COMMISSION INCOME COST

3a. Fee and commission income

	01.01.2005 - 31.12.2005	**01.01.2004 - 31.12.2004**
Banking commissions	227 689	229 772
- resulting from loan activity	40 665	58 233
- resulting from other accounts service	105 493	109 575
- resulting from debit cards	69 583	53 763
- other	11 948	8 201
Brokerage commissions	36 753	35 599
Investment funds management commissions	29 061	14 492
Total:	**293 503**	**279 863**

Decrease in both commission income and fee and commission costs related to the credit activity in 2005 results mostly from the implementation of the effective interest rate valuation methodology (this issue is presented in Chapter VI).

3b. Fee and commission expense

	01.01.2005 - 31.12.2005	**01.01.2004 - 31.12.2004**
Banking commissions	**-21 626**	**-31 046**
- resulting from loan activities	-43	-12 630
- resulting from other accounts service	-687	-2 106
- resulting from debit cards	-9 762	-6 053
- other	-11 134	-10 257
Brokerage commissions	-7 024	-6 952
Other commissions	-7	-6
Total:	**-28 657**	**-38 004**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Financial instruments held for trading	0	27
Investments available for sale	2 192	1 701
Total:	**2 192**	**1 728**

(5A) RESULT ON INVESTMENT ACTIVITY

Result on investing activity

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Operations on debt securities	29 622	13 362
Operations on equity securities	465 679	382 300
- of which: sale of PZU S.A. shares settlement	465 037	382 300
Total:	**495 301**	**395 662**

For detailed description of the settlement of the sale transaction of 10% stocks of PZU S.A. and calculation of the impact of this operation on the 2005 and 2004 result of the Group see Chapter VIII.

(5B) RESULT ON TRADING ACTIVITY

The result on trading activity captures operations on securities for trading and derivatives, which do not constitute collateral. These items assumed the following values (data in thousand PLN)

Result on trading activity

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Transactions on securities	19 501	6 560
Transactions on derivatives	116 147	260 523
Total:	**135 648**	**267 083**

As a result of the adjustment of the presentation of the interest on the transactions on derivatives classified into trading portfolio (concluded for non-speculative purposes, but not meeting the requirements of the security accounting) to the requirements of the IFRS, the Group reclassified the interest in question from the interest margin to the result on trading activity. The issue is described in Chapter VI.

(5C) RESULT ON OTHER FINANCIAL INSTRUMENTS

Result on other financial instruments

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Sale of car loans portfolio / purchase of mortgage portfolio	0	180 792
Other operations	-6 264	-4 059
Total:	**-6 264**	**176 733**

The balance of the other financial operations for the period between January 1 and December 31 2004 comprises income in the amount of 188.3 million PLN in respect of the sale by the Group of the car loan portfolio granted through the intermediary company PTF S.A. This income constitutes the gap between the net value of the sold car portfolio and (including impairment charges totalling 38 million PLN) and the value of the future discounted cash flow related to this portfolio.

Additionally, under item other financial operations for the period between January 1 and December 31 2004 the costs in the amount of 7.5 million PLN related to the purchase of the mortgage loan portfolio granted through the intermediary company PTF S.A., for which the Group took over full credit risk, were captured. These costs constitute the difference between the net value of the portfolio and the future discounted cash flow connected to the purchase of the mortgages from the valuation date until the date of settlement of the portfolio purchase transaction.

The above transactions are described separately in Chapter VIII.

(6) OTHER OPERATING INCOME AND COSTS

6a. Other operating income

	01.01.2005 - 31.12.2005	**01.01.2004 - 31.12.2004**
Gain on disposal of property, plant and equipment, intangible assets	192	9 765
Gain on disposal of non current assets held for sale	19 675	0
Indemnifications, penalties and fines received	24 254	17 321
Sale of other services	5 905	6 813
Non-core income	3 510	4 025
Sale of receivables	2 050	0
Costs incurred in previous years	1 631	677
Income from collection services	890	888
Income from leasing business	8 093	2 412
Other	8 425	6 606
Total:	**74 625**	**48 507**

6b. Other operating expenses

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Loss on disposal of property, plant and equipment, and intangible assets	-15 891	-18 006
Loss on sale of non current assets held for sale	-1 850	0
Indemnifications, penalties and fines paid	-5 984	-4 518
Costs of leasing business	-13 428	-8 795
Non-core costs	-4 806	-4 068
Sale of receivables	-2 312	0
Donations made	-502	-583
Costs of collection services	-1 442	-3 940
Costs of payments to compensation system	-1 584	-1 257
Other	-11 070	-22 542
Total:	**-58 869**	**-63 709**

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Staff costs:	-326 266	-312 864
Short-term employee benefits	-325 141	-312 494
Long-term employee benefits	-1 125	-370
General administrative costs	-343 764	-418 652
Renting	-82 952	-91 095
Advertising, promotion and representation	-35 697	-31 060
Software maintenance and IT services	-37 191	-37 808
Buildings maintenance, equipment and materials	-34 713	-36 520
ATM and cash	-21 890	-24 556
Communications and IT	-20 595	-23 873
Consultancy, audit and legal advisory and translation	-21 074	-18 149
Taxes and fees	-21 463	-39 957
KIR clearing charges, PFRON costs	-5 300	-5 538
BFG costs	-2 306	-5 113
Other	-60 583	-104 982
Total:	**-670 030**	**-731 516**

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Impairment charges on loans and advances to customers	-451 993	-843 933
Reversal of impairment charges on loans and advances to customers	414 617	727 646
Amounts recovered from loans written off	38 580	53 812
Impairment write-offs for investment securities	-674	-1 586
Reversal of impairment write-offs for investment securities	4 411	1 500
Impairment write-offs for associates	-2 874	0
Reversal of impairment write-offs for associates	0	0
Impairment write-offs for off-balance sheet liabilities	-45 118	-25 954

Reversal of impairment write-offs for off-balance sheet liabilities	48 006	22 856
Total:	**4 955**	**-65 659**

(9) COSTS OF IMPAIRMENT OF NON-FINANCIAL ASSETS

9. Impairment losses on non financial assets	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Fixed assets	-22 592	-30 265
Other assets	2 211	-6 205
Total:	**-20 381**	**-36 470**

(10) DEPRECIATION AND AMORTISATION

10. Depreciation and amortization

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Property, plant and equipment	-72 460	-108 521
Intangilble assets	-13 378	-200 256
Total:	**-85 838**	**-308 777**

Pursuant to IAS 38 and IAS 16, at the end of 2004 and 2005 the Group verified the duration of the useful life of intangibles and physical fixed assets. Following the review, in 2004 the costs of amortisation and deprecation increased by 197 million PLN (at the same time impairment charge in the amount of 24 million PLN was booked). In 2005 the depreciation amount was increased by 11 million PLN, which resulted mostly from the decision to implement a new business model at the Bank, including also a visual transformation of the Bank's branches.

(11) INCOME TAX

11. Income tax

Amount '000 PLN	01.01.2005 – 31.12.2005	01.01.2004 - 31.12.2004
Income tax reported in income statement		
Current tax	164 410	131 417
Current year	164 410	131 417
Deferred tax	-23 517	-24 734
Creating and reversal of transitional differences	-19 178	-24 734
including utilisation of tax loss	-1 654	-77 071
Change of transitional differences of previous period – final tax declaration	-4 339	0
Other		
Receivables resulting from the article 38c of the CIT Act	1 796	5 348
Total income tax reported in income statement	**142 689**	**112 031**

Effective tax rate

Profit before taxes	709 743	349 575
Income tax according to statutory income tax rate of 19%	134 851	66 419
Effective tax rate	20,10%	32,05%
Impact of permanent differences on tax charges:	6 042	40 264
Loss on sale of loan receivables	1 403	7 976
PFRON fee	626	578
Permanent difference – depreciation of rights to Millennium	0	2 660
Elimination of negative transitional differences (specific provisions covered by funds) from deferred tax assets	0	8 021
Other costs presented as permanent differences	4 546	23 903
Dividend income	-533	-2 874
Receivables resulting from the article 38c of the CIT Act	1 796	5 348
Total income tax reported in income statement	**142 689**	**112 031**

Deferred tax reported directly in equity

Valuation of available for sale securities	6 478	5 012
Deferred tax reported directly in equity	**6 478**	**5 012**

(12) EARNINGS PER SHARE

12. Earnings per share (PLN)

	01.01.2005 - 31.12.2005	**01.01.2004 - 31.12.2004**
Net earnings	567 054	237 544
Weighted average number of shares in period	849 181 744	849 181 744
Earnings per share	0,67	0,28

Earnings per share were calculated through division of the net profit for the period by the weighed average number of stocks in the period, which in both presented years was unchanged.

As in the nearest future the Bank does not plan to carry out a new issue of stocks (there are no diluting instruments), the diluted EPS is equal to the basic EPS (the calculation approach is the same) and for 2005 it amounts to 0.67 PLN.

(13) CASH, BALANCES WITH THE CENTRAL BANK

13. Cash, balances with Central Bank

	31.12.2005	**31.12.2004**
Cash	297 662	241 005
Cash in Central Bank	212 212	630 933
Other funds	931	692
Total:	**510 805**	**872 630**

Between November 30 2005 and January 1 2006 the Bank maintained on the current account at NBP average balance of 468 464 thousand PLN (the average balance on the current account at NBP calculated for all the days of the mandatory reseve period).

Interest rate on the mandatory deposit account is equal to 0.9 of the discount rate and as at 31.12.2005 it stood at 4.28%, whereas 60% of the interest proceeds from the mandatory deposit in 2005 was transferred to the European Union Guarantee Fund.

13b Cash, balances with Central Bank – by currency

	31.12.2005	31.12.2004
a. in Polish currency	399 660	819 972
b. in foreign currencies (by currencies and after conversion to PLN)	111 145	52 658
b1. unit/currency 1000/USD	6 580	6 904
PLN '000	21 459	20 646
b2. unit/currency 1000/EURO	15 379	6 636
PLN '000	59 360	27 073
b1. unit/currency 1000/GBP	3 031	95
PLN '000	17 048	546
other currencies (PLN ‘000)	13 278	4 393
Total	**510 805**	**872 630**

(14) LOANS AND ADVANCES TO BANKS

14a. Loans and advances to banks

	31.12.2005	31.12.2004
Current accounts	21 059	10 182
Deposits in other banks	2 256 001	3 074 496
Loans	318 647	70 033
Other	349	432
Interest	6 759	8 891
Total (gross) loans and advances to banks	**2 602 815**	**3 164 034**
Impairment write-offs	0	0
Net amounts loans and advances to banks	**2 602 815**	**3 164 034**

14b. Loans and advances to banks by maturity date

	31.12.2005	31.12.2004
Current accounts	21 059	10 182
- to 1 month	1 688 532	2 635 766
- above 1 month to 3 months	105 333	265 654
- above 3 months to 1 year	462 262	173 076
- above 1 year to 5 years	70 236	70 465
- above 5 years	248 634	0
- past due	0	0
Interest	6 759	8 891
Total (gross) loans and advances to banks	**2 602 815**	**3 164 034**

14c. Loans and advances to banks by currency

	31.12.2005	31.12.2004
in Polish currency	1 411 253	1 983 493
in foreign currencies (by currencies and after conversion to PLN)	1 191 562	1 180 541
- unit/currency 1000/USD	263 488	358 753

PLN '000	859 315	1 072 814
- unit/currency 1000/EURO	78 230	24 572
PLN '000	301 952	100 229
- unit/currency 1000/CHF	286	116
PLN '000	708	307
- unit/currency 1000/GBP	3 065	423
PLN '000	17 239	2 439
other currencies (PLN '000)	12 348	4 752
Total	**2 602 815**	**3 164 034**

14d. Change of impairment write-offs for loans and advances to banks

	31.12.2005	31.12.2004
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	**0**	**0**

(15) FINANCIAL ASSETS FOR TRADING

	31.12.2005	31.12.2004
15a. Debt securities	**2 992 560**	**2 527 207**
Issued by State Treasury	1 775 975	1 850 488
a) bills	0	127 793
b) bonds	1 775 975	1 722 695
Issued by Central Bank	1 216 585	676 719
a) bills	1 216 585	676 719
b) bonds	0	0
Other securities	0	0
a) listed	0	0
b) not listed	0	0
Equity instruments	**1 136**	**4 544**
Quoted on the active market	1 136	295
a) financial institutions	35	16
b) non-financial institutions	1 101	279
Not quoted on the active market	0	4 249
a) financial institutions	0	4 249
b) non-financial institutions	0	0
Positive valuation of derivatives	**310 479**	**392 273**
Total	**3 304 175**	**2 924 024**

Information on the financial assets securing these commitments can be found in Chapter XII.

Trading debt securities at balance sheet value as at 31.12.2005:

- fixed interest rate	2 298 053
- floating interest rate	694 507

15b. Debt securities held for trading by maturity

	31.12.2005	31.12.2004
- to 1 month	1 216 701	692 468
- above 1 month to 3 months	8 634	94 624
- above 3 months to 1 year	250 144	171 770

- above 1 year to 5 years	1 123 231	1 125 075
- above 5 years	393 850	443 271
Total	**2 992 560**	**2 527 207**

15c. Change of debt securities and equity instruments held for trading

	01.01.2005 - 31.12.2005	**01.01.2004 - 31.12.2004**
Balance at the beginning of the period	2 531 751	2 856 483
Increases (purchase and accrual of interest and discount)	114 548 068	55 461 091
Reductions (sale and redemption)	-114 075 083	-55 795 558
Differences from pricing at fair value	-11 041	9 735
Impairment write-offs	0	0
Other	0	0
Balance at the end of the period	**2 993 696**	**2 531 751**

15d. Financial instruments held for trading 31.12.2005

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values		
	below 3 months	**from 3 months to 1 year**	**above 1 year**	**Total**	**Assets**	**Liabilities**
1. Interest rate derivatives						
Forward Rate Agreements (FRA)	0	3 600 000	0	502	1 168	667
Interest rate swaps (IRS)	0	0	18 443 144	-39 870	68 352	108 223
Other interest rate contracts: volatility swap, swap with FX option	0	0	705 134	2 380	12 745	10 365
Total interest rate derivatives	**0**	**3 600 000**	**19 148 278**	**-36 989**	**82 266**	**119 254**
2. FX derivatives						
FX contracts	1 116 907	1 617 071	192 855	-11 359	26 433	37 792
FX swaps	4 153 185	1 559 486	0	57 413	63 302	5 889
Other FX contracts (CIRS)	0	0	7 560 447	87 026	89 329	2 303
FX options	4 233 665	2 873 689	93 214	-352	28 760	29 113
Total FX derivatives	**9 503 757**	**6 050 246**	**7 846 516**	**132 727**	**207 824**	**75 097**
3. Commodity derivatives						
Commodity forwards	203 183	0	0	140	140	0
Commodity options	64 432	0	0	0	0	0
Total commodity derivatives	**267 615**	**0**	**0**	**140**	**140**	**0**
4. Options embedded in deposits	**0**	**0**	**0**	**-9 254**	**0**	**9 254**
5. Valuation of future FX payments	**0**	**0**	**0**	**20 249**	**20 249**	**0**
6. Total derivatives	**9 771 372**	**9 650 246**	**26 994 794**	**106 874**	**310 479**	**203 605**

15e. Financial instruments held for trading 31.12.2004

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives						
Forward Rate Agreements (FRA)	0	900 000	0	-1 370	360	1 730
Interest rate swaps (IRS)	0	0	17 688 466	17 776	155 102	137 326
Other interest rate contracts: volatility swap, swap with FX option	0	0	612 184	1 828	4 489	2 661
Total interest rate derivatives	**0**	**900 000**	**18 300 650**	**18 234**	**159 951**	**141 717**
2. FX derivatives						
FX contracts	4 399 820	1 202 826	927 028	-7 329	43 939	51 268
FX swaps	3 531 564	2 289 525	2 461 820	138 805	149 609	10 804
FX options	60 734	331 320	122 455	-8	5 739	5 747
Total FX derivatives	**7 992 118**	**3 823 671**	**3 511 303**	**131 468**	**199 287**	**67 819**
3. Options embedded in deposits	**0**	**0**	**0**	**-13 355**	**4 386**	**17 741**
4. Valuation of future currency payments	**0**	**0**	**0**	**28 649**	**28 649**	**0**
5. Total derivatives	**7 992 118**	**4 723 671**	**21 811 953**	**164 996**	**392 273**	**227 277**

The Bank has in its offer deposits with embedded derivatives presented in the above table. The in-built derivatives are captured in the Bank's books at fair value, whereas changes in the fair value are reflected in the profit and loss account.

(16) HEDGING DERIVATIVES

16a. Hedge accounting 31.12.2005

Amount in '000 PLN	**Nominal value of instruments with future maturity**			**Fair values**		
	below 3 months	**from 3 months to 1 year**	**above 1 year**	**from 3 months to 1 year**	**below 3 months**	**from 3 months to 1 year**
1. Derivatives hedging fair value connected with interest rate						
IRS contracts	97 933	0	378 106	-7 447	14 826	22 273
2. Total hedging derivatives	**97 933**	**0**	**378 106**	**-7 447**	**14 826**	**22 273**

16b. Hedge accounting 31.12.2004

Amount in '000 PLN	**Nominal value of instruments with future maturity**			**Fair values**		
	below 3 months	**from 3 months to 1 year**	**above 1 year**	**from 3 months to 1 year**	**below 3 months**	**from 3 months to 1 year**
1. Derivatives hedging fair value connected with interest rate						
IRS contracts	0	0	810 300	-19 985	20 014	39 999
2. Total hedging derivatives	**0**	**0**	**810 300**	**-19 985**	**20 014**	**39 999**

The Bank hedges the FX and interest rate risk and impact of these risks on the fair value of the securities denominated in EURO and USD held by the Bank. Furthermore, the Bank hedges the FX risk and its impact on the liabilities denominated in foreign currencies (CHF, SEK, GBP, USD, EURO) regarding own economy of the Bank (space lease agreement). In order to hedge the risk of changes in the fair value, the Bank applies Cross Currency Swaps as instruments designed to hedge changes in the fair value exposed to the FX risk and/or interest rate risk. At the end of each month, the Bank evaluates the efficiency of the hedging instrument applied by analysing changes in the fair value of the hedged and hedging instruments.

As at December 31 2005 the balance of the fair value in the amount of -7.447 thousand PLN was composed of the fair value of the CIRS contracts hedging lease agreements in the amount of -17 565 thousand PLN, and fair value of the asset swaps hedging securities in the amount of 10 118 thousand PLN.

(17) LOANS AND ADVANCES TO CUSTOMERS

17a. Loans and advances to customers

	31.12.2005	31.12.2004
Loans and advances to companies	3 774 662	3 394 346
Loans and advances to individuals	3 971 664	1 831 976
Loans and advances to public sector	358 250	404 347
Receivables on account of debit cards due from companies	4 404	1 396
Receivables on account of debit cards due from private individuals	205 406	147 816
Purchased receivables from companies	126 926	146 534
Purchased receivables from individuals	2 022	3 595
Purchased receivables from public sector	7 738	298
Guarantees	24 951	11 779
Debt securities eligible for rediscount at Central Bank	25 884	9 993
Financial leasing receivables	1 701 459	1 631 906
Receivables on account of deferred payment concerning sale of PZU S.A. shares	0	375 059
Other	18 288	13 897
Interest	35 451	145 103
Total gross	**10 257 105**	**8 118 045**
Impairment write - offs	-665 463	-509 376
Total net	**9 591 642**	**7 608 669**

”Receivables from the deferred payment for sale of PZU S.A. stocks” presents discounted receivables of the Group resulting from the agreement concluded (on December 21 2004) by the Bank, jointly with its subsidiary BIG BG Inwestycje S.A., with Eureko B.V. and regarding sale of 10% of PZU S.A. stocks (this event is described in Chapter VIII).

As at December 31 2005 the value of the impaired receivables from the Group’s clients totalled 1,022,626 thousand PLN, whereas the impairment charges looked as follows:

Write-offs for impaired exposures	535 977
Write-offs for incurred but not reported losses (IBNR)	129 486
Total	**665 463**
Write-offs on individual analyses basis	515 490
Write-offs on collective analyses basis	149 973
Total	**665 463**
Write-offs for receivables from corporate customers	573 757
- including leasing business	98 742
Write-offs for receivables from private individuals	91 706
Total	**665 463**

It should be underlined that the value of the provisions presented in both periods is incomparable since the 2004 data were not transformed as regards calculation of credit exposure pursuant to IFRS 1 (which is described in Chapter VI).

The decline in the balance of accrued interest results mostly from the elimination of suspended interest from the balance sheet (PAS) due to the implementation of IFRS (this issue is described in Chapter VI).

17b. Loans and advances to customers by maturity

	31.12.2005	31.12.2004
Current accounts	1 031 794	867 424
- to 1 month	406 474	333 809
- above 1 month to 3 months	150 283	211 310
- above 3 months to 1 year	800 020	1 375 112
- above 1 year to 5 years	2 625 610	1 975 033
- above 5 years	5 003 016	2 957 325
- past due	204 457	252 929
Interest	35 451	145 103
Total (gross) loans and advances to customers	**10 257 105**	**8 118 045**

17c. Loans and advances to customers by currency

	31.12.2005	31.12.2004
in Polish currency	4 582 772	4 251 362
in foreign currencies (by currencies and after conversion to PLN)	5 674 333	3 866 683
- unit/currency 1000/USD	235 758	274 757
PLN '000	768 873	821 704
- unit/currency 1000/EURO	287 418	274 467
PLN '000	1 109 375	1 119 560
- unit/currency 1000/CHF	1 510 985	713 861
PLN '000	3 745 429	1 886 092
other currencies (PLN '000)	50 656	39 327
Total	**10 257 105**	**8 118 045**

17d Change of impairment write-offs loans and advances to customers

	31.12.2005	31.12.2004
Balance at the beginning of the period	509 376	927 742
Adjustments on account of IFRS implementation	231 655	0
Balance at the beginning of the period after adjustments	741 031	927 742
Change in value of provisions:	-82 427	-405 592
Charge for the period	451 993	843 933
Amounts written off	-95 943	-535 641
Reversal of write-offs in the period	-414 617	-727 646
Amounts recovered from loans written off	-38 580	-53 812
Other:	14 720	67 574
- transfer from provisions for off-balance sheet liabilities	13 198	3 265
- consolidation of Prolim S.A.	0	48 787
- other	1 522	15 522
Changes resulting from FX rates differences	6 859	-12 774
Balance at the end of the period	**665 463**	**509 376**

17e. Financial leasing receivables

	31.12.2005	31.12.2004
Financial leasing receivables (gross)	1 930 828	1 859 396
Unrealised financial income	229 369	227 490
Financial leasing receivables (net)	**1 701 459**	**1 631 906**

Financial leasing receivables (gross)		
Under 1 year	203 592	703 931
From 1 year to 5 years	1 517 092	1 105 534
Above 5 years	210 144	49 931
Total	**1 930 828**	**1 859 396**

Financial leasing receivables (net)		
Under 1 year	195 052	640 711
From 1 year to 5 years	1 324 766	952 284
Above 5 years	181 641	38 911
Total	**1 701 459**	**1 631 906**

(18) INVESTMENT SECURITIES

18a. Investments securities available for sale

	31.12.2005	31.12.2004
Debt securities	**4 818 265**	**4 186 433**
Issued by State Treasury	4 399 296	3 546 637
a) bills	78 094	593 736
b) bonds	4 321 202	2 952 901
Issued by Central Bank	167 867	167 142
a) bills	0	0
b) bonds	167 867	167 142
Other securities	251 102	472 654
a) listed	0	0
b) not listed	251 102	472 654
Shares and equities in other entities	**10 298**	**18 852**
Other financial instruments	**3 330**	**0**
Total investment securities available for sale	**4 831 893**	**4 205 285**
- quoted on the stock exchange	4 322 913	2 954 622
- not quoted on the stock exchange	508 980	1 250 663

Debt securities available for sale at balance sheet value as at 31.12.2005:

- with fixed interest rate 3 020 106
- with variable interest rate 1 798 159

18b. Debt securities available for sale by maturity

	31.12.2005	31.12.2004
- to 1 month	100	0
- above 1 month to 3 months	55 710	17 748
- above 3 months to 1 year	1 409 903	697 688
- above 1 year to 5 years	2 725 611	2 616 953
- above 5 years	626 941	854 044
Total	**4 818 265**	**4 186 433**

18c. Change of investment securities available for sale

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Balance at the beginning of the period	4 205 285	3 373 952
Increases (purchase and accrual of interest and discount)	7 099 611	8 463 325
Decreases (sale and redemption)	-6 478 295	-7 640 058
Difference from measurement at fair value	1 555	14 537
Impairment write-offs	3 737	-53
Other	0	-6 417
Balance at the end of the period	**4 831 893**	**4 205 285**

18d. Investment securities held to maturity

	31.12.2005	31.12.2004
Debt securities	**78 636**	**202 252**
Issued by State Treasury	78 636	74 007
a) bills	0	0
b) bonds	78 636	74 007
Issued by Central Bank	0	0
a) bills	0	0
b) bonds	0	0
Other securities	0	128 245
a) listed	0	0
b) not listed	0	128 245
Total investment securities held to maturity	**78 636**	**202 252**
- quoted on the stock exchange	78 636	74 007
- not quoted on the stock exchange	0	128 245

Debt securities held to maturity at balance sheet value as at 31.12.2005:

- with fixed interest rate	78 636
- with variable interest rate	0

18e Investment securities held to maturity by maturity

	31.12.2005	31.12.2004
- to 1 month	0	0
- above 1 month to 3 months	0	0
- above 3 months to 1 year	78 636	0
- above 1 year to 5 years	0	74 007
- above 5 years	0	128 245
Total	**78 636**	**202 252**

18f. Change of held to maturity instruments

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Balance at the beginning of the period	202 252	112 232
IFRS implementation adjustments	-128 245	0
Balance at the beginning of the period after adjustments	74 007	112 232
Increases (purchase and accrual of interest and discount)	4 629	90 020
Decreases (sale and redemption)	0	0
Difference from measurement at fair value	0	0

Impairment write-offs	0	0
Balance at the end of the period	**78 636**	**202 252**

IFRS adjustment of debt securities held to maturity results from the implementation of the effective interest rate valuation approach for a structured long-term agreement described in Chapter VI ***item (3).***

18g. Investments in associates

	31.12.2005	**31.12.2004**
Investments in associates	1 926	4 800

18h. Associates

Name	Business	Balance sheet value of shares / interests	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
Pomorskie Hurtowe Centrum Rolno - Spożywcze S.A.	Wholesale market management	1 926	78 529	54 744	20 633	2 501	736	associated/Bank Millennium S.A.
Towarzystwo Handlowe "Weiman i S-ka"	Production of ceramic sanitary ware and trade	0	The company is not conducting business activity, is not preparing financial reports					associated /Bank Millennium S.A.
SPC S.A.	Investing activity	0	The company is not conducting business activity, is not preparing financial reports					associated /Bank Millennium S.A.

Total investments in associates **1 926**

18i. Change of investments in associates	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Balance at the beginning of the period	4 800	4 800
Impairment write-offs	-2 874	0
Balance at the end of the period	**1 926**	**4 800**

(19) RECEIVABLES FROM SECURITIES BOUGHT WITH SELL-BACK CLAUSE

19. Receivables from securities bought with sell-back clause

	31.12.2005	31.12.2004
a) from financial sector	310 997	80 333
b) from non-financial and public sector	0	0
c) interest	130	317
Total	**311 127**	**80 650**

(20) PROPERTY, PLANT AND EQUIPMENT

20a. Property, plant and equipment

	31.12.2005	31.12.2004
Fixed assets:		
- land	415	26 847
- buildings, premises, civil and hydro-engineering structures	151 410	242 594
- machines and equipment	38 930	56 646
- vehicles	8 944	10 768
- other fixed assets	14 646	24 062
Fixed assets under construction	17 586	34 142
Advances for fixed assets under construction	192	0
Total tangible fixed assets (including assets for sale)	**232 123**	**395 059**

NEW BUSINESS MODEL OF THE BANK

The Management Board of the Bank decided to implement new business model in the Bank.

This decision is related to a considerable extension of multi-segment branches, with concurrent closing of selected branches that do not match the new concept of the Bank's business model.

After in-depth analyses, the Management Board of the Bank, pursuant to the mandatory IAS 37, IAS 16 and IAS 36 decided to capture in the 2005 result the impairment costs in the amount of 9,9 million PLN and related to the branches planned for closing as the Group will not obtain from them economic benefits in the future. These costs were booked under "Impairment of non-financial assets" of the consolidated profit and loss account. At the same time the Group estimated provisions for the costs related to the premature termination of the lease agreements regarding the above-mentioned branches being closed at 2 million PLN. They were captured under "Other operating expenses" in the consolidated profit and loss account.

The new business model of the Bank assumes also implementation of the new visual identification of Millennium, which implies change in the visual identity of the Bank's branches.

This means the need to identify these elements of the fixed assets of the branches, which were subject to depreciation and will be replaced with new items. In this connection, pursuant to the IFRS in force, the Group changed its estimate of the useful life of the fixed assets to be replaced at the branches and booked respective depreciation charge in the amount of 10.9 million PLN

VERIFICATION OF THE DEPRECIATION AND AMORTISATION PERIODS IN 2004

Pursuant to IAS 38 and IAS 16 at the end of 2004 and 2005 the Group verified the useful life of intangibles and physical fixed assets. Following a review, in 2004 the depreciation and amortisation costs were increased by 197 million PLN (concurrently, an impairment charge was booked in the amount of 24 million PLN).

20b. Change of balance of property, plant and equipment (by type) in the period 01.01.2005 - 31.12.2005

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) cost of property, plant and equipment at the beginning of the period	**29 325**	**557 208**	**464 862**	**25 203**	**103 971**	**34 142**	**1 214 711**
Reclassification **as a result of prospective** implementation of IFRS 5	-28 795	-271 524	-73 924	-86	-2 964	-16 526	-393 819
a) cost of property, plant and equipment at the beginning of the period	**530**	**285 684**	**390 938**	**25 117**	**101 007**	**17 616**	**820 892**
b) increases (on account of)	**81**	**12 833**	**8 855**	**2 920**	**17 103**	**31 632**	**73 424**
- purchase	81	0	715	872	130	19 076	20 874
- transfer from fixed assets under construction	0	12 494	7 913	1 942	4 298	0	26 647
- transfer from financial leasing	0	0	193	106	10 782	0	11 081
- other	0	339	34	0	1 893	12 556	14 822
c) decreases (on account of)	**148**	**27 277**	**65 053**	**3 319**	**21 036**	**31 470**	**148 303**
- sale	148	15 862	3 519	2 703	14 232	0	36 464
- liquidation	0	7 833	57 518	0	5 380		70 731
- settlement of investment	0	0	0	0	0	27 358	27 358
- reclassification to fixed assets for sale	0	3 582	2 535	0	537	0	6 654
- other	0	0	1 481	616	887	4 112	7 096
d) cost of property, plant and equipment at the end of the period	**463**	**271 240**	**334 740**	**24 718**	**97 074**	**17 778**	**746 013**
e) accumulated depreciation at the beginning of the period	**59**	**133 966**	**344 440**	**14 435**	**79 095**	**0**	**571 995**
Reclassification of **depreciation of property, plant and equipment as a result of prospective** implementation IFRS 5	-22	-43 229	-9 921	-42	-499	0	-53 713
e) accumulated depreciation at the beginning of the period	**37**	**90 737**	**334 519**	**14 393**	**78 596**	**0**	**518 282**
f) depreciation for the period (on account of)	**11**	**17 855**	**-40 422**	**1 381**	**1 832**	**0**	**-19 343**
- charge for the period (P&L)	14	29 807	22 999	4 145	15 495	0	72 460
- reductions on account of sale and liquidation	0	-11 826	-60 634	-2 362	-12 529		-87 351
- reclassification to fixed assets for sale	0	-126	-1 859	0	-528	0	-2 513
- other (including transfer from leasing)	-3	0	-928	-402	-606		-1 939
g) acumulated depreciation at the end of the period	**48**	**108 592**	**294 097**	**15 774**	**80 428**	**0**	**498 939**
h) impairment write-offs at the beginning of the period	**2 422**	**180 648**	**63 776**	**0**	**814**	**0**	**247 660**
Reclassification of impairment write-offs as a result of prospective implementation of IFRS 5	-2 422	-172 197	-63 776	0	-814	0	-239 209

h) impairment write-offs at the beginning of the period	**0**	**8 451**	**0**	**0**	**0**	**0**	**8 451**
- increase	0	12 264	1 713	0	2 278	0	16 255
- decreases	0	9 477	0	0	278	0	9 755
i) impairment write-offs at the end of the period	**0**	**11 238**	**1 713**	**0**	**2 000**	**0**	**14 951**
j) net value of property, plant and equipment at the end of the period	**415**	**151 410**	**38 930**	**8 944**	**14 646**	**17 778**	**232 123**

The adjustments captured in the above table refer to reclassification of fixed assets (meeting the criteria described in Chapter VI) to the category of fixed assets for sale.

20c. Change of balance of property, plant and equipment (by type) in the period 01.01.2004 - 31.12.2004

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) cost of property, plant and equipment at the beginning of the period	**30 571**	**570 124**	**461 697**	**28 414**	**101 405**	**80 227**	**1 272 438**
b) increases (on account of)	**94**	**27 415**	**25 158**	**3 825**	**7 116**	**25 726**	**89 334**
- purchase	0	0	873	577	585	16 742	18 777
- transfer from fixed assets under construction	0	20 839	23 573	2 488	5 955	0	52 855
- transfer from financial leasing	42	6 379	473	760	0	0	7 654
- other	52	197	239	0	576	8 984	10 048
c) decreases (on account of)	**1 340**	**40 331**	**21 993**	**7 036**	**4 550**	**71 811**	**147 061**
- sale	1 340	30 906	8 667	6 599	2 932	8 556	59 000
- liquidation	0	9 186	13 202	61	575	0	23 024
- settlement of investment	0	0	0	0	0	60 826	60 826
- other	0	239	124	376	1 043	2 429	4 211
d) cost of property, plant and equipment at the end of the period	**29 325**	**557 208**	**464 862**	**25 203**	**103 971**	**34 142**	**1 214 711**
e) accumulated depreciation at the beginning of the period	**178**	**122 869**	**296 669**	**15 633**	**67 135**	**0**	**502 484**
f) depreciation for the period (on account of)	**-119**	**11 097**	**47 771**	**-1 198**	**11 960**	**0**	**69 511**
- charge for the period (P&L)	47	23 226	65 608	4 614	15 026	0	108 521
- reductions on account of sale and liquidation	-170	-14 031	-17 762	-5 985	-3 039	0	-40 987
- transfer from financial leasing	0	1 878	9	321	0	0	2 208
- other	4	24	-84	-148	-27	0	-231
g) accumulated depreciation at the end of the period	**59**	**133 966**	**344 440**	**14 435**	**79 095**	**0**	**571 995**
h) impairment write-offs at the beginning of the period	**2 419**	**146 875**	**63 790**	**0**	**814**	**0**	**213 898**
- increase	0	40 847	0	0	0	0	40 847
- decreases	0	7 074	14	0	0	0	7 088
i) impairment write-offs at the end of the period	**2 419**	**180 648**	**63 776**	**0**	**814**	**0**	**247 657**
j) net value of property, plant and equipment at the end of the period	**26 847**	**242 594**	**56 646**	**10 768**	**24 062**	**34 142**	**395 059**

(21) *INTANGIBLE ASSETS*

21a. Intangible assets

	31.12.2005	31.12.2004
- costs of completed development work	0	0
- concessions, patents, licenses, know how and similar assets, including:	26 872	35 333
- computer software	26 872	35 333
- other intangible assets	62	81
- advances for intangible assets	64	0
Total intangible assets	**26 998**	**35 414**

Pursuant to IAS 38 and IAS 16, at the end of 2004 the Group verified the duration of the useful life of intangibles and physical fixed assets. Following the review, in 2004 the costs of amortisation and deprecation increased by 197 million PLN (at the same time impairment charge in the amount of 24 million PLN was booked).

21b. Change of balance of intangible assets (by type) in the period 01.01.2005 - 31.12.2005

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) cost of intangible assets at the beginning of the period	**25**	**389 925**	**179 805**	**119**	**0**	**390 069**
b) increases (on account of)	**0**	**5 444**	**5 444**	**0**	**64**	**5 508**
- purchase	0	346	346	0	64	410
- transfer from investments	0	712	712	0	0	712
- expenditures on **intangible assets**	0	4 303	4 303	0	0	4 303
- other	0	83	83	0	0	83
c) decreases (on account of)	**0**	**508**	**508**	**37**	**0**	**545**
- provision for expenditures released	0	441	441	0	0	441
- other	0	67	67	37	0	104
d) cost of intangible assets at the end of the period	**25**	**394 861**	**184 741**	**82**	**64**	**395 032**
e) accumulated amortization at the beginning of the period	**25**	**354 592**	**144 472**	**38**	**0**	**354 655**

f) charge for the period (on account of)	**0**	**13 397**	**13 397**	**-18**	**0**	**13 379**
- charge for the period (P&L)	0	13 370	13 370	8	0	13 378
- other	0	27	27	-26	0	1
g) accumulated amortization at the end of the period	**25**	**367 989**	**157 869**	**20**	**0**	**368 034**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
- increase	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**26 872**	**26 872**	**62**	**64**	**26 998**

21c. Change of balance of intangible assets (by type) in the period 01.01.2004 - 31.12.2004

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:		other intangible assets	advances for intangible assets	TOTAL
			computer software			
a) cost of intangible assets at the beginning of the period	**25**	**374 896**	**164 775**	**96**	**0**	**375 017**
b) increases (on account of)	**0**	**15 042**	**15 042**	**23**	**0**	**15 065**
- purchase	0	412	412	0	0	412
- transfer from investments	0	7 971	7 971	0	0	7 971
- expenditures on **intangible assets**	0	6 655	6 655	0	0	6 655
- other	0	4	4	23	0	27
c) decreases (on account of)	**0**	**13**	**12**	**0**	**0**	**13**
- sale	0	0	0	0	0	0
- liquidation	0	13	12	0	0	13
d) cost of intangible assets at the end of the period	**25**	**389 925**	**179 805**	**119**	**0**	**390 069**
e) accumulated amortization at the beginning of the period	**25**	**154 326**	**122 720**	**24**	**0**	**154 375**
f) charge for the period (on account of)	**0**	**200 266**	**21 752**	**14**	**0**	**200 280**
- charge for the period (P&L)	0	28 785	18 293	0	0	28 785
- non-recurrent write-off/impairment as a result of change in usefulness period	0	171 471	3 471	0	0	171 471
- reductions on account of sale and liquidation	0	-13	-11	0	0	-13
- other	0	23	-1	14	0	37
g) accumulated amortization at the end of the period	**25**	**354 592**	**144 472**	**38**	**0**	**354 655**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
- increase	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**35 333**	**35 333**	**81**	**0**	**35 414**

(22) CHANGE OF BALANCE OF NON CURRENT ASSETS HELD FOR SALE

22. Change of balance of non current assets held for sale in the period 01.01.2005 - 31.12.2005

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) cost of non current assets held for sale at the beginning of the period	201 408	288 050	73 924	86	2 964	**566 432**
b) accumulated depreciation at the beginning of the period	22	43 229	9 921	42	499	**53 713**
c) impairment write-offs at the beginning of the period	4 422	172 197	63 776	0	814	**241 209**
d) net value at the beginning of the period	**196 964**	**72 624**	**227**	**44**	**1 651**	**271 510**
e) change of net value in the period	-17 340	-13 667	261	206	693	**-29 847**
f) change of impairment write-offs in the period	7 418	-1 120	-3 827	108	-428	**2 151**
g) impairment write-offs at the end of the period	**11 840**	**171 077**	**59 949**	**108**	**386**	**243 360**
h) net value of non current assets held for sale at the end of the period	**172 206**	**60 077**	**4 315**	**142**	**2 772**	**239 512**

In the non current assets held for sale category the Group classifies real estate and land, which is not used for own purposes and is assigned for sale in the short term i.e. within 1 year.

The most important part of this category (as at 31 December 2005) is the right of perpetual usufruct of the land in Wilanów, worth PLN 170,613 thous net. In the beginning of 2006 the final agreement on sale of this asset was signed.

Additionally the Group reflected as fixed assets for sale other real estate and land, which will not be used in further activity of the Bank under ongoing optimisation of operational activity, and the net value of which is PLN 51,736 thous. The remaining component is fixed assets coming from ended leasing agreements, with the net value of PLN 17,163 thous.

(23) DEFERRED INCOME TAX ASSETS

23a. Deferred income tax assets

	31.12.2005	**31.12.2004**
Unrealised costs on account of interest on securities	204	695
Unrealised costs on account of interest on deposits	14 091	18 767
Unrealised liabilities on account of derivatives	9 347	15 304
Provisions for loans	40 454	60 332
Other provisions, being non taxable cost	35 170	29 863
Tax-realised income, which is not balance sheet income	29 554	32 078
Commissions received, settled at effective interest rate	11 422	-
Differences in depreciation	54 091	28 817

Balance sheet valuation	22 496	16 108
Tax loss	85 602	37 195
Recognized to equity	-	-
Other	19 866	13 566
TOTAL	**322 297**	**252 724**

23b. Change of transitional differences in deferred income tax assets

	31.12.2004	IFRS/IAS ADJUST.	01.01.2005	Changes to financial result	Changes to equity	31.12.2005
Unrealised costs on account of interest on securities	695		695	- 491		204
Unrealised costs on account of interest on deposits	18 767		18 767	- 4 675		14 091
Unrealised liabilities on account of derivatives	15 304		15 304	- 5 957		9 347
Provisions for loans	60 332	8 923	69 255	- 28 801		40 454
Other provisions, being non taxable cost	29 863		29 863	5 307		35 170
Tax-realised income, which is not balance sheet income	32 078		32 078	- 2 524		29 554
Commissions received, settled at effective interest rate	-	8 434	8 434	2 988		11 422
Differences in depreciation	28 817		28 817	25 274		54 091
Balance sheet valuation	16 108		16 108	6 388		22 496
Tax loss	37 195		37 195	48 407		85 602
Recognized to equity	-		-	-		-
Other	13 566		13 566	6 300		19 866
Total	**252 725**	**17 357**	**270 082**	**52 216**	**-**	**322 297**

23c. Change of deferred income tax assets

	31.12.2005	31.12.2004
Unrealised costs on account of interest on securities	- 491	215
Unrealised costs on account of interest on deposits	- 4 675	8 087
Unrealised liabilities on account of derivatives	- 5 957	1 468
Provisions for loans	- 19 878	- 15 028
Other provisions, being non taxable cost	5 307	7 922
Tax-realised income, which is not balance sheet income	- 2 524	26 020
Commissions received, settled at effective interest rate	11422	-
Differences in depreciation	25 274	28 817
Balance sheet valuation	6 388	- 7 783
Tax loss	48 407	- 76 817
Recognized equity	-	-
Other	6 300	- 6 542
TOTAL	**69 573**	**- 33 642**

23d. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2005	31.12.2004
Unlimited	42 453	46 050
Total	42 453	46 050

23e. Deferred income tax provision

	31.12.2005	31.12.2004
Unrealised income on account of interest on securities and interbank deposits	45 925	57 751
Commissions on loans paid, settled at effective interest rate	13 395	0
Unrealised income on account of interest on loans	10 630	9 558
Unrealised receivables from derivatives	36 359	16 313
Provision on account of application of investment relief	256	477
Differences in depreciation	11 626	12 365
Balance sheet valuation	33 940	3 690
Valuation of assets (equity)	6 478	5 012
Other	6 205	5 787
Total	**164 812**	**110 952**

23f. Change of temporary differences in deferred income tax liabilities

	31.12.2004	IFRS/IAS ADJUST.	01.01.2005	Changes to financial result	Changes to equity	31.12.2005
Deferred income tax provision						
Unrealised income on interest on securities and interbank deposits	57 751	19 357	77 108	- 31 182		45 925
Commissions on loans paid, settled at effective interest rate	-		-	13 395		13 395
Unrealised income on interest on loans	9 558		9 558	1 072		10 630
Unrealised receivables from derivatives	16 313		16 313	20 045		36 359
Provision for application of investment relief	477		477	- 221		256
Differences in depreciation	12 365		12 365	- 739		11 626
Balance sheet valuation	3 690		3 690	30 250		33 940

Valuation of assets (equity)	5 012		5 012	-	1 466	6 478
Other	5 786		5 786	419		6 205
Effective interest rate adjustment						
Total	**110 952**	**19 357**	**130 309**	**33 038**	**1 466**	**164 812**

23g. Change of deferred income tax provision

	31.12.2005	31.12.2004
Unrealised income on account of interest on securities and interbank deposits	- 11 825	- 4 052
Commissions on loans paid, settled at effective interest rate	13 395	-
Unrealised income on account of interest on loans	1 072	- 4 744
Unrealised receivables from derivatives	20 045	- 19 718
Provision on account of application of investment relief	- 221	- 307
Differences in depreciation	- 739	- 9 269
Balance sheet valuation	30 250	- 26 477
Valuation of assets (equity)	1 466	4 573
Other	419	4 442
Total	**53 861**	**- 55 553**

Based on IAS 12 the Group compensated the deferred income tax asset against deferred tax provisions. Because the Group is not a tax group under current legal regulations, this offsetting was done on the level of individual companies covered by consolidation.

	31.12.2005	31.12.2004
Net deferred income tax assets	157 485	141 773
Net provision for deferred income tax assets	-	-

(24) OTHER ASSETS

24. Other assets

	31.12.2005	31.12.2004
Prepayment	60 630	283 214
Income to be received	1 117	62
Settlement accounts	53 383	9 562
Receivables from sundry debtors	15 580	6 438
Settlements with the State Treasury	108 651	15 848
Perpetual usufruct right	5 155	175 768
Valuation of embedded instruments	0	0
Other	2 660	3 059
Total other assets	**247 176**	**493 951**

The decline in the balance of the costs to be settled in time (regarding interest paid up-front in the amount of 255.912 thousand PLN) results from application of the effective rate approach in relation to a material loan agreement. This issue was presented in Chapter VI of this report.

Pursuant to the provision of IFRS 5 implemented prospectively, the Group established a separate balance sheet category “assets for sale”. Consequently, on the day of IFRS implementation (January 1

2005) the perpetual usufruct of the land was reclassified to this category – previously it had been booked under balance-sheet item ”other assets” – as presented in Chapter VI to this report.

On the grounds of IAS 17, the perpetual usufructs held by the Group were classified as operational lease and were captured in the balance sheet as other assets (previously as physical fixed assets).

The Group does not hold a fiscal capital group status as construed in the CIT Act and every consolidated company operates as a separate taxpayer. In effect of this, tax losses, relieves and regulatory tax deductions of all and any type, found (generated) in one company cannot reduce tax liabilities of another consolidated company.

(25) *DEPOSITS FROM BANKS*

25a. Deposits from banks

	31.12.2005	31.12.2004
Amounts due to the Central Bank	0	1
In current account	46 996	9 074
Term deposits	768 229	126 425
Loans and advances received	248 627	1 345 405
Other	59	0
Interest	3 434	11 259
Total deposits from banks	**1 067 345**	**1 492 164**

Reduction in the liabilities towards banks under loans and advances by 301 million PLN (in the note presenting maturities this event concerned the bracket above 5 years) results from the implementation of the effective rate approach in relation to a material loan agreement described in a greater detail in Chapter VI of this report.
In addition, between January 1 and December 31 2005 the Group repaid the loans taken at other banks, in the amount of 793 million PLN.

25b. Deposits from banks by maturity

	31.12.2005	31.12.2004
Current accounts	46 996	9 074
- to 1 month	446 513	55 400
- above 1 month to 3 months	190 105	40 884
- above 3 months to 1 year	131 670	30 142
- above 1 year to 5 years	0	795 405
- above 5 years	248 627	550 000
Interest	3 434	11 259
Total deposits from banks	**1 067 345**	**1 492 164**

25c. Deposits from banks by currency

	31.12.2005	31.12.2004
in Polish currency	943 949	636 485
in foreign currencies (by currencies and after conversion to PLN)	123 396	855 679
- unit/currency 1000/USD	20 966	2

PLN '000	68 375	7
- unit/currency 1000/EURO	5 842	205 999
PLN '000	22 548	840 270
- unit/currency 1000/CHF	13 100	4 300
PLN '000	32 473	11 362
- unit/currency 1000/GBP	0	700
tys. zł	0	4 040
other currencies (PLN '000)	0	0
Total	**1 067 345**	**1 492 164**

(27) FINANCIAL LIABILITIES HELD FOR TRADING

27. Financial liabilities held for trading		
	31.12.2005	**31.12.2004**
Negative valuation of derivatives	203 605	227 277
Short sale of securities	300 055	22 263
Financial liabilities held for trading	**503 660**	**249 540**

The division of the negative valuation of derivatives into specific types of instruments is presented in note 15.

(28) HEDGING DERIVATIVES

Respective information can be found in note ***(16) HEDGING DERIVATIVES***

(29) DEPOSITS FROM CUSTOMERS

29a. Deposits from customers by type

	31.12.2005	**31.12.2004**
Amounts due to companies	**4 806 991**	**4 188 992**
Current accounts	1 650 919	1 329 145
Term deposits	3 000 350	2 704 862
Other	146 684	147 018
Accrued interest	9 038	7 967
Amounts due to public sector	**1 030 321**	**874 071**
Current accounts	656 360	510 812
Term deposits	372 696	358 777
Other	602	3 559
Accrued interest	663	923
Amounts due to private individuals	**8 157 104**	**8 325 081**
Current accounts	2 038 650	1 572 120
Term deposits	5 943 618	6 581 583
Other	116 843	103 236
Accrued interest	57 993	68 142
Total deposits from customers	**13 994 416**	**13 388 144**

29b. Deposits from customers by maturity

	31.12.2005	31.12.2004
Current accounts	4 345 929	3 412 077
- to 1 month	4 653 020	4 522 574
- above 1 month to 3 months	1 644 043	1 532 935
- above 3 months to 1 year	2 354 289	3 260 358
- above 1 year to 5 years	872 305	506 363
- above 5 years	57 136	76 805
Interest	67 694	77 032
Total	**13 994 416**	**13 388 144**

29c. Deposits from customers by currency

	31.12.2005	31.12.2004
in Polish currency	12 332 295	11 890 793
in foreign currencies (by currencies and after conversion to PLN)	1 662 121	1 497 351
- unit/currency 1000/USD	278 429	286 088
PLN '000	908 043	855 515
- unit/currency 1000/EURO	186 273	154 558
PLN '000	718 723	630 441
- unit/currency 1000/CHF	2 776	1 184
PLN '000	6 882	3 129
other currencies (PLN '000)	28 473	8 266
Total	**13 994 416**	**13 388 144**

(30) LIABILITIES FROM SECURITIES BOUGHT WITH BUY-BACK

Liabilities from securities bought with buy-back clause

	31.12.2005	31.12.2004
a) from financial sector	1 617 580	1 206 807
b) from non-financial and public sector	1 441 738	191 049
c) interest	1 719	7 644
Total	**3 061 037**	**1 405 500**

(31) DEBT SECURITIES

31a. Liabilities from debt securities

	31.12.2005	31.12.2004
Bonds and bills issued	45 758	304 929
Bills of exchange	22 836	45 687
Other term liabilities	0	0
Interest	842	4 633
Total	**69 436**	**355 249**

- to 1 month	36 849	59 854
- above 1 month to 3 months	0	19 851
- above 3 months to 1 year	31 745	127 397
- above 1 year to 5 years	0	143 514

- above 5 years	0	0
Interest	842	4 633
Total	**69 436**	**355 249**

31b. Change of debt securities	**31.12.2005**	**31.12.2004**
Balance at the beginning of the period	355 249	1 005 361
Increases, on account of:	1 080 686	536 549
- issue of bond	1 051 960	464 207
- purchase of bill of exchange by the NBP	22 836	45 687
- discount/ interest accrual	5 890	26 655
Decreases, on account of:	-1 366 498	-1 186 661
- repurchase of bonds	-1 309 802	-1 074 136
- repurchase of bill of exchange from NBP	-45 687	-65 299
- FX rates differences	-1 545	-21 055
- settlement of discount/ interest payment	-9 464	-26 171
Balance at the end of the period	**69 436**	**355 249**

31c. Debt securities by type

As at 31.12.2005	Par value	Interest rate	Maturity	Market
Bank Millennium S.A. - restructuring bill of exchange	22 836	1,0%	04.11.2006	not listed
Bank Millennium S.A. - II Issue Programme	7 527	4,5%	10.11.2006	CeTO
Bank Millennium S.A. - II Issue Programme	2 224	4,5%	08.12.2006	CeTO
Bel Leasing Sp. z o.o. - A48 series	18 488	5,1%	06.01.2006	not listed
Bel Leasing Sp. z o.o. - A50 series	18 361	5,1%	16.01.2006	not listed

BANK'S FX BONDS

On December 12 2001 BBG Finance B.V., a limited liability company established in the Netherlands – Group's subsidiary, issued variable rate bonds with maturity in three equal instalments: December 2005, December 2006 and December 2007 totalling par value of 33.000.000 EUR. The bonds were issued on the grounds of a custody agreement concluded on the same day by BBG Finance with the Bank and the Bank of New York as custodian, acting on behalf of the investors – bond buyers.

The Group issued and sold bonds in order to increase its credit capacity, also through increase in supplementary funds.

In June 2005 a transaction was concluded to purchase 33 variable rate bonds issued on 10.12.2001 by BBG Finance B.V., worth 33.000.000 EUR, with maturity in 2007, for cancellation, which was realised.

As at 31.12.2004	Par value	Interest rate	Maturity	Market
Bank Millennium S.A. - restructuring bill of exchange	45 687	1,000%	04.11.2005	not listed
Bank Millennium S.A. - II Issue Programme	30 849	4,460%	10.11.2005	CeTO
Bank Millennium S.A. - II Issue Programme	50 861	4,460%	08.12.2005	CeTO
Bank Millennium S.A. - II Issue Programme	6 877	4,460%	10.11.2006	CeTO
Bank Millennium S.A. - II Issue Programme	2 029	4,460%	08.12.2006	CeTO
BBG Finance B.V.	44 869	2,622%	12.12.2007	Luxembourg Stock Exchange
BBG Finance B.V.	44 869	2,622%	12.12.2006	
BBG Finance B.V.	44 869	2,622%	12.12.2005	
Accrued interest	4 633			
Bel Leasing Sp. z o.o. - A19 series	19 980	7,140%	06.01.2005	not listed
Bel Leasing Sp. z o.o. - A20 series	39 873	7,200%	17.01.2005	not listed
Bel Leasing Sp. z o.o. - A21 series	19 851	7,130%	08.02.2005	not listed

(32) PROVISIONS

32. Provisions	31.12.2005	31.12.2004
Provision for off-balance sheet commitments	16 468	32 537
General risk provision	0	184 639
Other	0	906
Total	**16 468**	**218 082**

Change of provisions	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Provision for off-balance sheet commitments		
Balance at the beginning of the period	32 537	29 439
Charge of provision	45 118	25 954
Use of provision over the period	-13 198	0
Release of provision	-48 006	-22 856
FX rates differences	17	0
Balance at the end of the period	**16 468**	**32 537**
General risk provision		
Balance at the beginning of the period	184 639	184 220
Adjustments on account of IFRS implementation	-183 688	0
Balance at the beginning of the period after adjustments	951	184 220
Charge of provision	0	57 085
Utilisation of provision over the period	0	-740
Release of provision	0	-61 120
Consolidation of Prolim S.A.	0	6 096
Other	-951	-902
Balance at the end of the period	**0**	**184 639**

Other		
Balance at the beginning of the period	906	3 285
Charge of provision	33	379
Utilisation of provision over the period	0	-2 758
Other	-939	0
Balance at the end of the period	**0**	**906**

Total provisions	**16 468**	**218 082**

It must be underscored that the value of reserves values presented in both periods is not comparable, because 2004 data in the area of provisions were not restated under IFRS 1 (as described in Chapter VI) as regards calculation of provisions in the area of calculation of provisions (dissolution of provisions for general risk, creation of IBNR provisions).

(33) PROVISION FOR DEFERRED INCOME TAX

	31.12.2005	31.12.2004
33. Provision for deferred income tax	**0**	**0**

(34) OTHER LIABILITIES

34. Other liabilities

	31.12.2005	31.12.2004
Short-term	**516 493**	**347 863**
Accrued costs - bonuses, salaries	19 994	32 509
Accrued costs - other	72 085	54 189
Settlement accounts	187 588	20 588
Other creditors	73 806	83 434
Liabilities to public sector	55 212	14 352
Deferred income	16 170	113 431
Provisions for unused employee holiday	10 875	10 974
Other	80 763	18 386
Long-term	**67 498**	**249 502**
Provisions for retirement benefits	5 896	4 771
Deferred income	0	1 277
Suspended income	0	191 352
Accrued costs - other	22 766	12 696
Other	38 836	39 406
Total	**583 991**	**597 365**

The absence of suspended income balance in the year 2005 results from implementation of IFRS, which do not stipulate such balance sheet category (this issue is presented in Chapter VI).

(35) *SUBORDINATED DEBT*

35a. Subordinated debt	31.12.2005	31.12.2004
Name of entity	-	-
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	80 000	80 000
Value of the liability in PLN	308 784	326 320
Interest rate	3,999%	3,622%
Maturity	12.12.2011	12.12.2011
Interest	720	657
Balance sheet value of subordinated debt	**309 504**	**326 977**

BANK'S FX BONDS

On December 12 2001 BBG Finance B.V., a limited liability company established in the Netherlands – Group's subsidiary, issued junior variable rate bonds with maturity in 2011 totalling par value of 80,000,000 EUR. The bonds were issued on the grounds of a custody agreement concluded on the same day by BBG Finance with the Bank and the Bank of New York as custodian, acting on behalf of the investors – bond buyers.

The Group issued and sold bonds in order to increase its credit capacity, also through increase in supplementary funds.

In February 2002 the Group received decision of the Banking Supervision Commission approving inclusion of the cash in the amount of 275,000,000 PLN, obtained through issue and sale of BBG Finance B.V.'s ten year junior bonds in the amount of 80,000,000 EUR, in the Group's supplementary funds until 12.12.2011.

35b. Change of subordinated debt	01.01.2005-31.12.2005	01.01.2004-31.12.2004
Balance at the beginning of the period	326 977	378 162
Increases, on account of:	12 150	13 491
- interest accrual	12 150	13 491
Reductions, on account of:	-29 625	-64 675
- interest payment	-12 053	-13 635
- FX rates differences	-17 572	-51 041
Balance at the end of the period	**309 504**	**326 977**

(36) SHAREHOLDERS' EQUITY

36a. SHARE CAPITAL

The share capital of the Bank Millennium S.A. (equal to the Group's share capital) is PLN 849.181.744 divided into 849.181.744 shares of PLN 1 par value each, as presented by the table below.

SHARE CAPITAL Par value of one share = 1 PLN

Series / issue	Share type	Type of preference	Number of shares	Value of series/issue	Manner of capital coverage	Registration date	Right to dividend
A	registered founder *	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary*		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary*		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			5.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Banku Gdańskiego S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
Total number of shares			849 181 744				
Total share capital				849 181 744			

* following conversion the number of registered shares went down and at 31.12.2005 stood at 113 596, of which 66 200 founding shares

In the period reported in the financial statement the Group's share capital did not change. The biggest shareholders of the Group's parent entity – the Bank (over 5% of GSM votes) as of 31 December 2005 were as follows:

Shareholder	**Number of shares**	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
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

In accordance with IFRS 1 requirements (Fist-time adoption of the International Financial Reporting Standards) the Capital Group is obligated to use IAS 29 (Financial Reporting under Hyperinflation) retrospectively.

On the basis of section 24 of IAS 29 „Financial Reporting under Hyperinflation" particular equity components (except retained earnings and any revaluation reserves) ought to be converted with the use of the general price index, starting from the date on which such capitals were contributed or otherwise created for the period in which a given business's economy was a hyperinflationary economy within the meaning of IAS 29.

The effect of adjusting appropriate equity components with inflation indicators ought to be captured on the other side of the balance sheet in previous years' retained earnings. The employment of section 24 IAS 29 would inflate share capital and share premium (surplus of the issue value of the shares over their par value) by the amount PLN 222 907 thous (in accordance with the table below) and simultaneous charge in the same amount on previous years' retained earnings.

Captal:	Change in '000 PLN
- share capital	110 487
- supplementary capital	112 420
Total	**222 907**

The full implementation of IAS 29 would give rise to legal consequences in connection with the need to revise share capital on the basis of the Commercial Companies Code and the Banking Act. At the same time due to the fact that the above-discussed revaluation effects have no impact on the change of net assets of the Capital Group, the Bank's Management Board is of the opinion that the incorporation of such amendment would have no major impact on the true and fair presentation of the financial situation in this statement.

36b. REVALUATION RESERVE

Revaluation reserve comes from the recognition of the valuation effects of financial assets for sale (at fair value) in the net amount, i.e. reduced by deferred income tax.

These values are taken off revaluation reserve at the moment of taking off the books, in full or in part, of the appraised assets (the valuation effect is then referred to the profit and loss account). In periods subject to this presentation revaluation reserve consisted of the effects of pricing debt securities classified for sale.

	31.12.2005	**31.12.2004**
Effect of valuation (gross)	34 091	26 379
Deferred tax	-6 479	-5 012
Net effect of valuation	27 612	21 367

The sources of revaluation reserve are as follows (data in PLN thous, net of deferred tax)

Debt securities available for sale	1.01.2005 - 31.12.2005	1.01.2004 - 31.12.2004
Effect of valuation at fair value – balance at the beginning of the period	26 379	2 313
Transfer to P&L as a result of sale	-37 654	-4 603
Change in equity as a result of redemption of securities	-430	-76
Change in fair value of securities held in portfolio at the end of the period	45 796	28 745
Effect of valuation at fair value – balance at the end of the period	**34 091**	**26 379**

36c. Other reserves		
	31.12.2005	**31.12.2004**
Other supplementary capital	110 507	284 264
Other reserve capital	243 700	120 471
General banking risk fund	88 366	85 633
Total	**442 573**	**490 368**
Reserve capital		
Balance at the beginning of the period	120 471	100 939
- distribution of retained earnings	129	19 532
- transfer from supplementary capital	123 100	0
Balance at the end of the period	**243 700**	**120 471**

On 30 November the General Shareholder Meeting of Bel Leasing Sp. z o.o. took the resolution to move PLN 123 million from share premium to revaluation reserve and to allocate the amount of PLN 66 million from share premium for the coverage of previous years' losses.

General banking risk fund		
Balance at the beginning of the period	85 633	44 738
- appropriation of retained earnings	2 733	40 895
Balance at the end of the period	**88 366**	**85 633**

Retained earnings and the current net profit for the period		
Balance at the beginning of the period	**118 463**	**-74 183**
- changes in adopted accounting policies	68 455	-5 103
Balance at the beginning of the period after adjustments	**186 918**	**-79 286**
- net income of the period	567 054	237 544
- distribution of profit, including:	-256 064	-75 305
- write-off to supplementary capital	-15 431	-14 878
- write-off to reserve capital	-129	-19 532
- write-off to General risk fund	-2 733	-40 895
- dividend	-237 771	0
- coverage of losses from previous years from supplementary capital, including share premium	101 839	35 510
Balance at the end of the period	**599 747**	**118 463**
Total retained earnings	**1 042 320**	**608 831**

X. DIVIDENDS FOR 2004 AND 2005

Pursuant to Resolution no 5 of the Bank's General Shareholder Meeting dated 8 March 2005 concerning profit distribution for 2004 the General Shareholder Meeting decided to allocate the amount of PLN 237.770.888,32 from 2004 net profit for a dividend. The amount of the Bank's share capital being PLN 849.181.744 divided into 849.181.744, this gives a dividend payment of PLN 0,28 per share. The dividend was paid out on 22 April 2005.

In connection with the Bank's very good results in 2005 the Bank's Management Board with the consent of the Supervisory Board shall submit to the General Shareholder Meeting a motion to pay out a dividend in the amount of PLN 458,6 mln, which is 81% of the annual consolidated net profit and gives PLN 0,54 per share and dividend yield of 10.3% (according to the share price of 31 December 2005).

XI. FAIR VALUE

The Group has financial instruments, which in accordance with the adopted IFRS standards are not priced to fair value. These include: receivables from banks, loans and advances to clients, investments for sale, investments held to maturity and, respectively, liabilities to banks and clients, and liabilities from debt security issues (including subordinated liabilities). The Group estimated the fair value of the above instruments based on valuation models as of 31 December 2005. The table below presents the result of such analyses:

data in PLN million

Financial instrument	On balance value	Fair value	Difference
Loans and advances to banks – structurized agreement*	248.63	310.52	61.89
Loans and advances to customers – structurized agreement*	248.63	310.52	61.89
Total net*			0
Other loans and advances to banks	2 602.82	2 601.19	-1.63
Loans and advances to customers	9 591.64	9 598.10	+6.46
Investments securities held to maturity	78.64	79.04	+ 0.40
Deposits from banks	1 067.35	1 067.21	-0.14
Deposits from customers	13 994.42	14 003.82	+ 9.40
Debt securities	69.44	69.59	+0.15
Subordinated debt	309.50	309.67	0.17

* Differences between fair value and balance-sheet value with respect to receivables from banks and liabilities to banks concern one structure, which comprises the simultaneous purchase of a long-term zero-coupon bond and incurring a long-term fixed-rate loan from the same counterparty (as described in Chapter VI ***point (4)*** sub-point 2).

Due to the low portfolio share of fixed loans, short revaluation term of floating loans and, additionally, the use of a methodology for credit exposure impairment measurement (as described in chapter 6 on accounting policies) the Group does not expect a difference between the fair value and balance sheet value for such financial instruments. The difference between the balance sheet value and fair value presented in the table above in the item " Loans and advances to Customers" pertains to fixed leasing contracts.

XII. DATA ON ASSETS USED TO SECURE LIABILITIES (COLLATERAL)

As of 31.12.2005 the Bank's following assets secured liabilities:

In thous PLN

	Type of assets	Portfolio	Secured liability	Nominal value of assets	On balance value of assets
1.	Treasury bonds DZ0109	for sale	pledge to the NBP – securing assistance received by the Bank from the NBP	54 825	60 412
2.	Treasury bonds DZ0109	for sale	lombard credit granted to the Bank by the NBP	17 572	19 363
3.	Treasury bonds DZ0109	for trading	lombard credit granted to the Bank by the NBP	57 428	63 280
4.	Treasury bonds DZ0110	for sale	lombard credit granted to the Bank by the NBP	120 000	133 188
5.	Treasury bonds DZ1006	for trading	security deposit for bond futures	420	427
6.	Treasury bills	for sale	security of Guaranteed	35 000	34 575

			Monies Protection Fund under the Bank Guarantee Fund		
7.	Cash	-	Payment to the Futures Settlement Guarantee Fund	70	70

As of 31.12.04 the Bank's following assets secured liabilities

	Type of assets	Portfolio	Secured liability	Nominal value of assets	On balance value of assets
1.	Treasury bonds DZ0109	for sale	Pledge securing the receivables of Credit Suisse First Boston International	163 480	180 722
2.	Treasury bonds DZ0109	for sale	pledge to the NBP – securing assistance received by the Bank from the NBP	97 315	107 579
3.	Treasury bonds DZ0109	for sale	lombard credit granted to the Bank by the NBP	75 000	82 910
4.	Treasury bonds DZ0811	for sale	lombard credit granted to the Bank by the NBP	230 000	236 707
5.	Treasury bills	for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	40 000	38 853

XIII. SECURITIES COVERED BY TRANSACTIONS WITH A BUY-BACK CLAUSE (SBB)

As of 31.12.05 r. the following securities (presented in the Group's balance sheet) were covered by transactions with a buyback clause (SBB):

Type of security	Portfolio	Secured liability	Nominal value of assets
Treasury bonds	for sale	2 425 392	2 497 967
Treasury bonds	for trading	514 354	528 151
Treasury bills	for sale	31 390	30 144

As of 31.12.04 the following securities (presented in the Group's balance sheet) were covered by transactions with a buyback clause (SBB):

Type of security	Portfolio	Secured liability	Nominal value of assets
Treasury bonds	for sale	569 004	580 857
Treasury bonds	for trading	488 116	476 633
Treasury bills	for sale	298 440	289 833
Treasury bills	for trading	63 590	62 462

XIV. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

For the needs of the cash flow statement the following assets are classified by the Group as cash or its equivalents:

Data in PLN thous.

	31.12.2005	31.12.2004
Cash and balances with Central the Bank	510 805	872 630
Receivables from interbank deposits (*)	1 819 636	2 859 176
Debt securities issued by the State Treasury (*)	1 225 212	804 205
of which for sale	0	17 113
of which for trading	1 225 212	787 092
TOTAL	**3 555 653**	**4 536 011**

(*) Financial assets with maturity below three months

For the needs of the cash flow statement the following classification of activity types was adopted:

1. operating activities – cover the basic scope of operations connected with services provided by the Group's units covering events whose purpose is to earn profit and not being investment or financial activity,
2. investment activities cover operations connected with the purchasing and selling of fixed assets, in particular financial assets not included in the „for trading" category, shares and stocks in subsidiaries and tangible as well as intangible fixed assets. Other income for 2005 includes the income from EUREKO B.V from the dividend payment by PZU S.A. (PLN 48.5 million), while other expenses include the costs of the swap transaction concluded between the BCP and the Bank (PLN 283.5 million) – for closer discussion of both issues see Chapter VIII.
3. financial activities cover activities connected with the raising of funds in the form of capitals or liabilities, as well servicing sources of funding.

XV. INFORMATION ON CUSTODY SERVICES

As of 31.12.2005 the Custody Department ran 2 119 securities accounts with client assets totalling PLN 21,9 billion. The Custody Department has the function of a depositary bank and transfer agent for 16 investment funds from the Millennium TFI S.A. group. In the period of 2005 the Departament acquired 33 new corporate clients and in total PLN 3,372 billion in assets. Net income on custody operations as of 31.12.2005 stood at PLN 3,2 million.

XVI. TRANSACTIONS WITH RELATED ENTITIES

(1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

Any transactions made between the Group's entities in 2005 were concluded on market terms and resulted from current operations. Below please find the most important elements of group-internal transactions eliminated in the process of data consolidation

MOST IMPORTANT ELIMINATIONS OF GROUP-INTERNAL TRANSACTIONS AND CONSOLIDATION ADJUSTMENTS (PLN thous.)

ASSETS	31.12.2005	31.12.2004
Accounts and deposits kept in the Bank, of which a.o.:	**345 891**	**1 615 788**
by Millennium DOM Maklerski S.A.	261 774	319 516
by BEL Leasing Sp. Z o.o.	30 601	27 832
by FORIN Sp. z o.o.	26 421	37 593
by former BIG BG Inwestycje S.A.	0	1 209 575
Loans, advances, purchased receivables between entities subject to consolidation, including a.o.:	**1 419 462**	**1 826 234**
Leasing receivables purchased by the Bank from BEL Leasing Sp. z o.o.	752 113	1 030 802
Loans granted by the Bank to FORIN Sp. z o.o.	224 818	235 526
Loans granted by the Bank to BEL Leasing Sp. z o.o.	44 597	37 870
Subordinated loan granted by the Bank to Millennium DOM Maklerski S.A.	22 275	22 287
Loan granted by FORIN Sp. z o.o. to BEL Leasing Sp. z o.o.	220 000	220 000
Leasing receivables purchased by FORIN from BEL Leasing Sp. z o.o.	36 053	48 738
Receivables from purchased securities with a buy-back clause, of which:	**358 842**	**0**
The Bank's receivable from BEL Leasing Sp. z o.o.	20 028	0
Receivable of BEL Leasing Sp. z o.o. from the Bank	338 814	0
Shares in subsidiaries subject to consolidation	**98 741**	**1 156 441**
Debt securities	**60 328**	**40 714**
Object of transaction with a buy-back clause between Millennium Dom Maklerski and the Bank	52 237	40 714
Bonds of BEL Leasing Sp. z o.o. embraced by the Bank	8 091	-
Other Assets	**32 677**	**61 989**
the Bank's additional payment to capital of FORIN Sp. z o.o.	20 025	20 025
Receivable of former PROLIM S.A. from BEL Leasing Sp. z o.o. resulting from the sale of real estate	0	26 126
+		

LIABILITIES	31.12.2005	31.12.2004
Liabilities from accepted deposits, loans, advances, sold receivables between entities subject to consolidation	**1 786 573**	**3 599 926**
Liability of BEL Leasing Sp. z o.o. to the Bank resulting from leasing receivables	752 113	1 030 802
Liability of BEL Leasing Sp. z o.o. to the Bank resulting from loans	44 597	37 870
Liability of BEL Leasing Sp. z o.o. to FORIN Sp. z o.o. resulting from leasing receivables	36 053	48 738
Liability of BEL Leasing Sp. z o.o. to FORIN Sp. z o.o. resulting from loans	220 000	220 000
Liability of FORIN Sp. z o.o. to the Bank resulting from loans	224 818	235 526
Liability of the Bank resulting from accounts and deposits to Millennium DOM Maklerski S.A.	261 774	319 516
Liability of the Bank resulting from accounts and deposits to BEL Leasing Sp. z o.o.	30 601	27 832
Liability of the Bank resulting from accounts and deposits to FORIN Sp. z o.o.	26 421	37 593
Liability of the Bank resulting from accounts and deposits to d. BIG BG Inwestycje	0	1 209 575

S.A.		
Liabilities from sold securities with a buy-back clause	**411 078**	**40 714**
Liability of the Bank to BEL Leasing Sp. z o.o.	358 841	0
Liability of the Bank to Millennium DOM Maklerski S.A.	52 237	40 714
Subordinated debt of Millennium DOM Maklerski S.A. to the Bank	**22 275**	**22 287**
Special funds and other liabilities	**1 756**	**32 511**
Liability of BEL Leasing Sp. z o.o. to former PROLIM S.A. resulting from purchase of real estate	0	26 126

PROFIT AND LOSS ACCOUNT	**1.01.05 – 31.12.2005**	**1.01.04 – 31.12.2004**
Income from:		
Interest on accounts, deposits and receivables from loans, advances, purchased receivables	**216 508**	**101 602**
received by the Bank from BEL Leasing Sp. z o.o. resulting from purchased leasing receivables	30 616	34 858
interest received by the Bank from loans of former Prolim S.A.	62 761	182
interest received by the Bank on loans of FORIN Sp. z o.o.	12 918	13 493
interest received by BEL Leasing Sp. z o.o. from the Bank resulting from SBB and BSB transactions	54 539	0
interest received by Millennium DOM Maklerski S.A. from the Bank	19 994	15 366
interest received by FORIN Sp. z o.o. from BEL Leasing Sp. z o.o.	13 518	14 580
interest received by the Bank from BEL Leasing Sp. z o.o. resulting from BSB transactions	3 928	-
bank and brokerage commissions	**12 732**	**9 594**
received by the Bank from BEL Leasing Sp. z o.o.	2 149	947
received by the Bank from TFI Millennium S.A.	7 706	3 148
Paid-out group internal dividends	**371 600**	**11 601**
Other operating income	**14 726**	**82 832**
Remuneration for advisory services received from a subsidiary relating to the running of negotiations and other operations in connection with the sale of PZU S.A. shares.	14 000	32 000
Adjustment in the P&L resulting from the buying (2004) and selling (2005) of real estate by BEL Leasing Sp. z o.o.	-17 257	21 415
Income received by FORIN sp. z o.o. from the Bank	11 180	21 343
received by the Bank from BEL Leasing Sp. z o.o.	2 195	2 136
received by the Bank from Millennium DOM Maklerski S.A.	2 051	2 100
Expense from:		
Interest on accounts, deposits and receivables on loans, advances, sold receivables	**212 770**	**91 395**
incurred by the Bank for BEL Leasing Sp. z o.o. resulting from SBB transactions	58 467	0
incurred by the Bank for Millennium DOM Maklerski S.A.	19 650	15 041
Paid by BEL Leasing Sp. z o.o. to the Bank on loans of former Prolim S.A.	62 761	0
Paid by BEL Leasing Sp. z o.o. to the Bank resulting from purchased leasing receivables	30 616	34 858
incurred by FORIN Sp. z o.o. for the Bank resulting from loans	12 918	13 493
incurred by BEL Leasing Sp. z o.o. for FORIN Sp. z o.o.	13 518	14 580
Bank and brokerage commissions	**14 409**	**9 991**
incurred by TFI Millennium S.A. for the Bank	9 730	3 498
incurred by the Bank for Millennium DOM Maklerski S.A.	1 201	26
Other operating expense	**24 736**	**56 111**
Remuneration for advisory services incurred by subsidiaries relating to the running of negotiations and other operations in connection with the sale of PZU S.A. shares.	14 000	32 000
incurred by FORIN sp. z o.o. for the Bank	10 709	18 379
Operations of entities subject to consolidation	**6 766**	**6 542**

(2) DESCRIPTION OF TRANSACTIONS WITH RELATED PARTIES – THE BANK SHAREHOLDERS

Transactions with related parties - the Bank Shareholders (as of 31.12.2005, data in PLN thous):

Bank's assets

Entity	Receivables from the financial sector	Short-term financial assets (valuation of derivative instruments)	Total
BCP	12 954	2 226	15 180

Bank's liabilities

Entity	Liabilities to the financial sector	Short-term financial liabilities (valuation of derivative instruments)	Total
BCP	12 432	17 566	29 998

Bank's profit and loss account

Entity	Interest income	Interest costs	income from financial operations	Costs of financial operations	Other income	Total profit/loss
BCP	26 852	-34 993	31 213	-283 500	272	-260 156

Off balance sheet items

Entity	Interest rate swaps	Currency swaps	Total
BCP	1 192 990	219 846	1 412 836

Transactions with related parties - the Bank Shareholders (as of 31.12.2004, data in thous. PLN):

The Bank's assets

Entity	Receivables from the financial sector	Short-term financial assets (valuation of derivative instruments)	Total
BCP	58 762	0	58 762

The Bank's liabilities

Entity	Liabilities to the financial sector	Short-term financial liabilities (valuation of derivative instruments)	Total
BCP	0	54 352	54 352

The Bank's profit and loss account

Entity	Interest income	Interest costs	Income from financial operations	Cost of financial operations	Total profit / loss
BCP	92 749	-62 872	13 358	-28 477	14 758

OBS items

Entity	Interest rate swaps	Currency swaps	Equity swap	TOTAL
BCP	1 163 160	297 849	12 000	1 473 009

(3) INFORMATION ON THE VALUE OF OUTSTANDING LOANS, ADVANCES AND GUARANTEES

1. Managing persons have a total debt limit of PLN 401.5 thousand including unutilised credit card limit of PLN 159.1 thousand

2. As at 31.12.2005 there were no outstanding guarantees given to managing persons
3. Supervising persons have a debt limit of PLN 155.0 thousand including unutilised credit card limit of PLN 148.8 thousand.
4. As at 31.12.2005 the Bank was reporting exposure to an entity personally linked to a Supervisory Board Member in the total amount of PLN 16 306 thousand.

The outstanding balance of loans granted to the Bank's employees from the Company Social Benefits Fund was PLN 4,465.9 thous as at 31.12.2005.
The Bank is not keeping a record of credit and loans granted to employees as part of its day-to-day business i.e. under terms and subject to conditions defined for the Bank's Customers.
Information about remuneration paid to persons supervising and managing the parent entity has been presented in the Management Board Report on the Activity.

(4) INFORMATION ABOUT KEY MANAGEMENT COMPENSATIONS

1. Compensations of the Members of the Management Board of the Bank (data in thousand PLN):

Year	Remuneration and bonuses	Benefits	TOTAL
2004	17 437.9	9 660.7	27 098.6
2005	18 028.4	877.6	18 906.0

As the total of the paid or due remuneration and bonuses for 2005 a gross value of the remuneration paid or due in the period I-XII/2005 and bonus for 2004 paid in 2005 in the amount of 8 600 thousand PLN were given.
The benefits are mostly the costs of accommodation of the foreign Members of the Management Board and severance pay and indemnities for termination of employment contract.
As at 31.12.2005 the amount of provisions for unutilised holidays of the Members of the Management Board totalled 2 673 thousand PLN reaching a level close to that as at the end of 2004.
Furthermore, in 2005 a provision was set up for a bonus due for this year in the amount of 13 539 thousand PLN.
The Members of the Management Board have signed no-competition agreements regarding the period after discontinuation of performance of their functions in the Management Board of the Bank.
In case the Members of the Management Board are not appointed for a new term or are recalled, they shall be entitled to severance pay.

2. Remuneration and bonuses of the Members of the Supervisory Board of the Bank (data in thousand PLN):

Year	Compensation	Benefits	TOTAL
2004	1 513.8	0.0	1 513.8
2005	1 777.7	124,8	1 902.5

XVII. RISK MANAGEMENT

Exposure to risk is intrinsically connected with financial market activities and constitutes an underlying factor impacting the behaviour of market participants, in particular financial institutions. A lion's share of financial decisions is now made in view of their risk. Risk measurement, analysis, control and management call for the application of a broad spectrum of methods and advanced mathematical tools. With this in mind the Bank developed and implemented a risk management policy and also strategy of such policy's implementation. The policy of managing particular risks has as its purpose a comprehensive quantification and parametrisation of various risks in terms of the optimisation of the structure of the balance sheet and off-balance sheet items of the Group, in view of the assumed level of business profitability. The main risks to the banking business (simultaneously constituting risk management areas) include: credit risk, market risk, liquidity risk and operational risk.

The Bank’s Management Board is responsible for establishing and monitoring risk management policy at strategic level. At operating level three high-level committees are responsible for managing individual bank risk areas and selecting current policy directions within the framework specified by the Management Board. These are the ALCO Committee, Credit Committee and Operating Risk Committee.

All risk types are monitored and controlled against the profitability of the conducted business and level of capital necessary to ensure the security of the operations in terms of capital requirements.

The results of risk measurements are regularly reported as part of the management information system.

At the end of December 2005 the level of own capitals of the Capital Group stood at 2391 million PLN (of which for the Bank itself 2346 million PLN) and the solvency ratio stood at 19.07% (for the Bank 10.67%).

Credit Risk

Credit risk denotes uncertainty as to the Client’s compliance with agreements concluded with the Group in the field of its funding, i.e. repayment of principal and interest within specified time.

As part of credit risk management the Group continued the previously started work mainly with a view to strengthening the market position in order to create optimum conditions for credit activity, including the selling of factoring and leasing products with a satisfactory level of credit risk and high quality of the portfolio. Another purpose of conducting credit policy was also to improve the speed and quality of serving the clients of the Group through effective use of human resources, their specialisation and increasingly better electronic tools.

As part of implementing the above assumptions the work started in 2004 continued, among others, with respect to:

- managing of concentration risk in order to assure appropriate quality resulting from risk bearing transactions and their satisfactory profitability.
- monitoring and working out receivables of natural persons and businesses,
- further development of services targeted on individuals and (in the case of business people) factoring services provided by the Group.

In particular, the Bank's new projects taken up in 2005 include:

- modification of the Bank's collateral management system whose task will among others include the improvement of collateral monitoring steps,
- new system in support of decision-making and signing loan agreements in the case of individuals,
- introducing new solutions with respect to assessing the borrowing capacity of individuals,
- Introducing modified principles for assessing the borrowing capacity in the case of mortgage banking products

An important event in credit risk management was the estimation of credit portfolio impairment in accordance with the International Financial Reporting Standards. In accordance with the IFRS requirements impairment was calculated for:

- Important exposures for the Bank – case by case analysis
- Other exposures – collective analysis

Case by case analysis consisted in a detailed assessment of a selected group of clients for occurrence of specific impairment triggers for receivables. Once they are detected the probability of capital and interest flows are estimated in connection with a given exposure, following which such flows are discounted and compared with the current exposure disclosed under the IFRS (adjusted exposure).

Collective analysis consisted in turn in splitting up other loan exposures into portfolios uniform in terms of risk (so called homogenous portfolios) and determining their impairment on the basis of two parameters calculated over historic data: probability of default (PD) and loss given default (LGD).

An important element of credit risk assessment is provided by scoring and rating models employed at the Bank in support of the analytic process with respect to individuals and corporates. Such models are cyclically assessed for correct client segmentation according to risk classes. 2005 saw the modification, as part of this work, of the risk assessment models with respect to individuals – both the model used for assessing the existing cooperation with the client and the model used for processing an application of a new client for a given product.

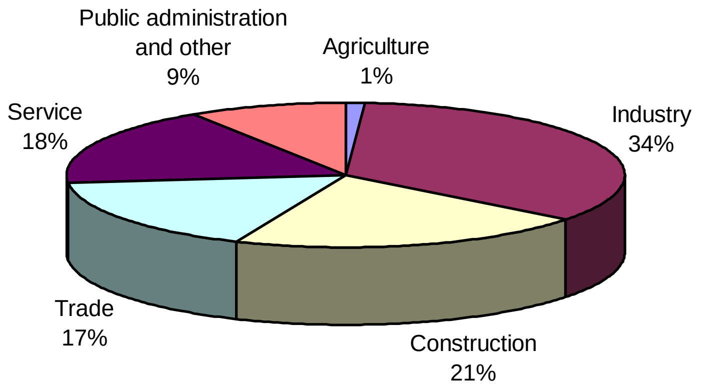
The above models, as well as the already mentioned decision assisting system and signing agreements have considerably contributed to quality improvement and speed of servicing individual clients. In the case of corporate clients certain modifications and improvements were introduced in the earlier-adopted system supporting the sending of credit proposals and decision-making, which also translated to a more effective overall credit process. Moreover, in accordance with the existing practice a training session was conducted for employees – primarily internal training – in customer service and deepening the understanding of legal provisions and in the assessment of client legal and financial standing.

In terms of credit risk-bearing transactions the Bank has cooperated with clients from all segments. The basic tool for cooperating with corporate client was the internal credit limit (introduced earlier). Its assumptions have been modified in 2005 to make such instrument (with the observance of an appropriate risk level) more flexible and fully responsive to client needs.

Preference is given to clients who have a current account at the bank with an active turnover, as well as clients who keep their assets at the Bank. Thus, in addition to thoroughly checking clients in available borrower databases the Bank tries to learn its client through their account histories.

The Bank puts much emphasis on its collateral policy with respect to the repayment of risk-bearing transactions. Each time the Bank negotiates collateral with the client giving preference to collateral which is real and increases the chance for the Bank to satisfy its claims, if the client has problems with satisfying his obligations. At the same time the collateral required by the bank is adequate to the level of the estimated credit risk. This means that in some cases due to the needs of risk diversification the Bank takes diversified collateral items, in other cases, due a client’s exceptionally good economic-financial standing the Bank recognises it as satisfactory collateral.

Loan quality structure by sector



Restructuring and recovery of large corporate receivables

Restructuring and recovery of corporate receivables conducted by Bank Millennium aims at effective actions against non-performing Clients, respective receivables and security, in order to obtain maximal and as-fast-as-possible mitigation of the risks incurred by the Bank, including the risk of losses, among others through setting up new conditions for receivables acceptable by the Bank (including the principles of their repayment and security), establishing valuable and liquid security, facilitation of repayment within amicable procedures, recovery from security through non-execution procedure, forced recovery using all the legally available vehicles, also court and execution actions, induction of bankruptcy).

In case of successful restructuring of Client's enterprise and thus permanent recovery of credit capacity it is possible, on the grounds of proper decision, to exclude the Client's case from the restructuring portfolio and to return the case to the Bank's business units for further management.

Restructuring and recovery of corporate non-performing receivables is combined into a single process, for the implementation of which a dedicated Bank's unit is held fully responsible. This process, requires inter alia immediate development and approval of a Bank's comprehensive and economically optimal restructuring and recovery strategy for the Client, which sets Bank's key actions and objectives. Thus defined strategy is implemented promptly.

Efficiency of the restructuring and recovery process is maximised through application of all the required and adequate solutions. Bank's actions are adjusted on an ongoing basis to the changes occurring in the a/m process without the need to change the persons managing the Client's case or the Bank's organisational units. The Bank decided to link in an unequivocal manner the effects expected by the Bank in form of repayment and elimination of provisions with the incentive system for the employees involved in the process.

The decision-making system for corporate restructuring and recovery cases stems from the Decision-making principles for the Bank's corporate restructuring and recovery, and is based on the decisions regarding approval of complete Bank's action strategies for a given case, accompanied by setting up key actions and respective deadlines. Lower decision-making levels take executive decisions and implement the adopted strategy. Implementation of the strategy and key actions are monitored on an ongoing basis and in case of finding a change in the situation, comprehensive solutions regarding necessary actions are developed.

In 2005 the Bank issued 28 banking execution titles for corporate receivables totalling PLN 31.0 million (converted at average NBP's rate of 31.12.2005)

As at 31.12.2005, pursuant to the legal principles in force, the value of the security established on the assets of the borrowers from the restructuring portfolio allowed to reduce the basis for specific provisions by the total of PLN 106.4 million.

Restructuring and recovery of retail receivables and small corporate exposures

In the process of collecting retail receivables and receivables resulting from small corporate exposures of the Bank to the Clients serviced by such business lines as Millennium, Millennium Prestige and Millennium Biznes, any due and payable receivable results in automatic inclusion of the a/m transaction in the collection process. This process is managed and conducted by a dedicated and specialised central unit of the Bank, through a system developed for this purpose – IT application that supports the process through identification, verification and management of specific retail receivables and small corporate receivables of the Bank covered by the collection process.

<u>The process of collecting Bank's receivables is divided into 2 major stages:</u>

Stage I –	induction of amicable repayment as a result of reminding-monitoring and restructuring actions through specialised teams.
Stage II –	is implemented in case of exhaustion of the amicable means and lack of repayment, following previous actions and this stage results in transfer of the case for further management to the recovery function.

Bank's receivables from the Client under a given transaction are qualified for the receivables collection process starting not later than on the 4th day from the day on which the receivable or part of the receivable becomes due and payable. Collection spans from the date, when the due and payable receivable together with all other receivables from a given Client are included in the process, up to the completion of the proceedings under amicable or recovery procedures, i.e. restitution of timeliness of repayments, regularity of the debt service and thus restitution of all the business privileges or complete repayment of the receivable.

Amicable actions are composed of the following elements:

- contacting and registering the contact made with Client, clarification of the causes of the receivables and establishment of the repayment mode under the conditions and principles stipulated in the Bank's internal regulations;
- monitoring the collection process for due and payable receivables throughout the collection stages and monitoring the effects of the process in question;
- co-operation with outlets and monitoring timeliness of submission of restructuring applications by the Clients qualified for the restructuring process;
- up-to-date analysis of Client's financial standing and asset position in terms of debt restructuring possibilities;
- conclusion of restructuring agreements with Clients qualified for the restructuring process;
- conclusion of agreements in the form of compositions under the Civil Code with the Clients for whom positive decisions will be taken about the Bank's desisting from application of the execution coercion;
- outsourced monitoring / reminding and restructuring actions.

Recovery actions comprise actual and legal actions, including procedural actions taken in connection with the collection of the Bank's receivables, such as in particular:

- termination of the account agreements, loan agreements, payment card agreements, including issuance of stop payment instructions following contract termination;
- collection of Bank's receivables within court execution proceedings on the grounds of the provisions of the Civil procedure code and Banking law;
- outsourced recovery actions;
- sale of receivables;
- notifications about crimes committed to the detriment of the Bank.

As part of the above actions, in 2005 204 banking execution titles for retail and small business receivables were issued totalling PLN 8.6 million (converted at average NBP's rate of 31.12.2005).

As at 31.12.2005, pursuant to the legal principles in force, the value of the security established on the assets of the borrowers from the restructuring portfolio allowed to reduce the basis for specific provisions by the total of PLN 5.4 million.

2. Market risk

Market risk is connected with the uncertainty that interest rates, FX rates and prices of securities as well as derivative financial instruments held by the Group will take values deviating from originally assumed levels, which will lead to arisal of uncontrolled gains or losses on the kept positions.

In 2005 the Bank continued to develop the market risk control system with a view to both adapting to requirements of the changing financial business profile of the Bank, resulting i.a. from greater differentiation and growing trade in financial instruments, reflecting legally required detailed risk control rules as well as adjusting measurement tools to new methodological achievements and greater technical capacity.

The basic methods used for purposes of daily management of market risk in the Bank are the Value at Risk (VaR) method and methods recommended by NBP. The Value at Risk method is used with respect to the trading and banking portfolios covering all financial instruments both of balance-sheet as well as off-balance nature

To supplement the VaR method the Bank is backtesting the used model and developing tools for measurement of market risk of trading portfolios with use of scenario methods. These methods are especially useful from the point of view of extraordinary events, which the VaR method is unable to anticipate. In parallel with changes concerning organisation and methodology of controlling market risk the Bank continued to introduce technological changes concerning IT solutions, supporting risk management. The Bank, on the basis of the Kondor+ transaction system, supporting transactions entered into in the Treasury Department, is using the InVaR IT tool built by the Strategic Investor (BCP ALM Division) jointly with Reuters on the basis of the RiskMetrics methodology (JP Morgan). From the point of view of risk control the new transaction system has very important features: it provides access to an integrated and complete transaction database, permits management of all positions and control, of limits utilisation in real time as well as permitting daily calculation of the result on all operational levels.

<u>Interest Rate Risk</u>

As regards Interest Rate Risk the Bank adopts the principle of maximising market value of capital when realising assumed net interest income within accepted risk limits.

The expectation of a decrease of interest rates as well as the political risk connected with the autumn elections have lead to a balanced exposure to risk. On the last day of December 2005 the Bank's Value at Risk owing to Interest Rate Risk was ca PLN 15.1 million (ca PLN 27.6 million average during the year) with a valid global limit on market risk of PLN 48,2 million.

Apart from Value at Risk the Bank is also estimating hypothetical changes of financial result (EaR) caused by changes of market interest rates.

On the last day of December 2005 the structure of balance-sheet and off-balance items, considered in exposure to Interest Rate Risk, was as follows:

ASSETS (PLN million)

	to 1 m	1-3 m	3-6 m	6-12 m	1-3 yrs	3-5 yrs	ab. 5 yrs	Total
Placed interbank deposits	880.5	65.4	866.5	209.7	98.3	180.4	0.0	**2 300.7**
Loans to financial and non-financial institutions	9 025.7	0.0	0.0	607.8	0.0	0.0	0.0	**9 633.5**
Securities (in purchase and sale transactions)	1 233.1	1 291.0	211.5	943.9	473.2	139.8	116.7	**4 409.1**
IR Swaps	1 600.9	3 791.0	3 732.4	4 299.7	2 823.5	299.4	0.0	**16 546.9**
FRA	0.0	1 937.6	742.1	880.4	0.0	0.0	0.0	**3 560.0**
Other assets exposed to Interest Rate Risk	10 980.1	5 655.9	1 947.0	3 011.1	928.0	1 746.7	20.5	**24 289.5**
Other assets	198.3	0.0	0.0	2 644.7	0.0	0.0	0.0	**2 843.0**
Total assets	**23 918.6**	**12 740.9**	**7 499.4**	**12 597.3**	**4 323.0**	**2 366.4**	**137.2**	**63 582.8**

LIABILITIES (PLN million)

	to 1 m	1-3 m	3-6 m	6-12 m	1-3 yrs	3-5 yrs	ab. 5 yrs	Total
Accepted interbank deposits	479.5	191.7	0.0	132.6	0.0	0.0	0.0	**803.8**
Deposits accepted from customers	7 756.7	3 796.0	849.9	1 406.1	202.9	0.0	0.0	**14 011.6**
Issued debt securities	0.0	0.0	313.0	9.0	0.0	0.0	0.0	**322.0**
IR Swaps	2 094.7	5 097.4	2 831.2	3 048.2	2 250.1	1 251.8	25.1	**16 598.5**
FRA	0.0	644.9	2 229.1	685.3	0.0	0.0	0.0	**3 559.3**
Other liabilities exposed to interest rate risk	12 401.1	7 133.1	1 795.5	1 569.6	419.1	987.8	105.2	**24 411.4**
Other liabilities	0.0	238.0	0.0	3 638.2	0.0	0.0	0.0	**3 876.2**
Total liabilities	**22 731.9**	**17 101.1**	**8 018.8**	**10 489.0**	**2 872.1**	**2 239.6**	**130.3**	**63 582.8**

Mismatch in revaluation periods	**1 186.7**	**-4 360.2**	**-519.3**	**2 108.4**	**1 450.9**	**126.8**	**6.9**	**0.0**

In the Bank's balance sheet there are assets and liabilities:

a) Encumbered with fair value risk connected with interest rate risk:
- Debt securities with fixed interest rate,
- Discount debt securities,
- Fixed rate loans and deposits,
- Commitments on account of issue of fixed interest rate securities.

b) Encumbered with risk of cash flows connected with interest rate:
- Variable rate debt securities,
- Variable rate loans and deposits.

c) Not encumbered directly by interest rate risk:
- Fixed assets,
- Equity investments,
- Own funds

The table below presents effective interest rates of selected balance-sheet items:

Balance-sheet item	TOTAL - AVERAGE %	PLN	USD	EUR	CHF	GBP	JPY
Receivables from Banks	4.17%	4.40%	4.49%	2.36%	-	4.45%	-
Debt instruments							
Available for sale	4.11%	4.14%	3.86%	2.43%	-	-	-
Held to maturity	4.16%	4.16%	-	-	-	-	-
For trading	4.41%	4.37%	5.02%	3.70%	-	-	-
Receivables from customers	5.55%	7.92%	6.11%	4.18%	3.25%	-	2.95%
Receivables on account of reverse-repo	3.98%	4.01%	-	2.27%	-	-	-
Liabilities to Banks	4.21%	4.42%	4.55%	2.32%	0.77%	-	-
Liabilities to customers							
Term	3.90%	4.07%	3.15%	1.82%	0.75%	3.67%	-
Current accounts	1.11%	1.18%	0.50%	0.71%	0.50%	1.02%	0,50%
Savings accounts	4.38%	4.39%	0.50%	1.50%	-	-	-
Liabilities on account of repo	4.18%	4.18%	-	-	-	-	-
Issued debt securities	4.62%	4.62%	-	-	-	-	-
Subordinated liabilities	2.54%	-	-	2.54%	-	-	-

FX risk

The main aim of managing FX risk is shaping the structure of FX assets and liabilities as well as off-balance items within internal limits as well as external limits defined in the Bank's case by requirements of Banking Law.

In 2005 the Bank maintained a balanced FX position. As at the end of December the Bank's Value at Risk on account of FX risk was approx. PLN 0.3 million (average in the year of ca PLN 0.49 million) with a valid limit of PLN 16.1 million.

Risk connected with derivatives

All transactions, the object of which are financial derivative instruments, are concluded either to hedge open balance-sheet positions or, within defined internal limits, for trading purposes. The key derivatives, which the Bank is using both for the purpose of managing interest rate risk and FX risk as well as for trading purposes, are the following: *FX Forward, Forward Rate Agreement, Interest Rate Swap, FX Swap, Cross Currency Swap* and *FX options*.

The capital requirement for the Group regarding the trading portfolio, calculated for purposes of the solvency ratio as at 31 December 2005 was as follows (data in PLN thous.):

Market risk not covered by model, including:	
- risk of prices of equity securities	456
- general interest rate risk	13 083
- delivery settlement and counterparty risk	2 739
TOTAL	**16 278**

3. Liquidity risk

For the Bank the overriding aim of liquidity risk management is such management of funds that considering negative scenarios of changes in the environment it is possible to punctually satisfy all contractual liabilities of the Bank to customers. Liquidity risk would also arise when the Bank would have difficulty with raising funds to finance its operational activity or would be unable to liquidate its tradable assets in a relatively short period of time, observing market price levels. This is why a portfolio of treasury securities with highest secondary market liquidity is the liquidity reserve.

The Bank is managing liquidity risk on a daily basis using the net liquid assets method (liquidity gap). To ensure the proper level of current liquidity the Bank maintains a mandatory deposit at a level compliant with NBP requirements, funds on nostro accounts essential to effect non-cash settlements, optimum funds in the Bank's treasuries, a liquidity reserve in the form of highly liquid financial instruments.

In its investment policy the Bank is guided by requirements of Banking Law and recommendations of NBP. The Bank applies an internal structural liquidity ratio defining the ratio of real terms maturing total assets to real terms total liabilities. The safe level of this ratio in the bracket up to 3 months, as applied by the Bank, is 100%. Limited at 20% is the ratio of liquid assets, defining the share of liquid assets in the Bank's balance-sheet, which share reached 42.3% at the end of 2005. Limited spot liquidity ratios (balance of money market receivables and liabilities, plus securities available for immediate sale) as well as quarterly (the lowest, accumulated in the course of a quarter< balance of money market receivables and liabilities, plus securities available for immediate sale on the date of occurrence of this balance) were well above the adopted minimum values. For purposes of current liquidity a portfolio is kept of blocked treasury securities in an amount ensuring meeting of short-term payments. Moreover subject to monitoring is the concentration of liabilities to the largest customers as well as the evolution of the structure of assets and liabilities (balance-sheet and off-balance) of the Bank, which permits early identification of trends that are negative as regards financial liquidity. Supplementing the above, regular examination is done of stability of the deposits base, of premature termination of deposits as well as the scale of unauthorised overdrafts and utilisation of opened credit lines. By way of covering liquidity risk connected with the most unstable part of sources of funding an additional limit was introduced for the minimum value of the portfolio of liquid securities and short-term interbank deposits.

The Bank has procedures to be followed in case of a situation threatening with significant increase of liquidity risk, i.e. a contingency plan in case of deterioration of the Bank's financial liquidity.

On the last day of December 2005 the liquidity measures applied by the Bank were as follows:

1. Structural liquidity:

Real Terms Liquidity Gap (PLN million)	**to 3 m**	**ab. 3m**
PLN balance-sheet gap	3 040.81	-8 028.70
FX balance-sheet gap	1 170.45	3 817.44
Balance-sheet gap total	4 211.26	-4 211.26

Accumulated balance-sheet gap	**4 211.26**	**0**
Off-balance gap	-331.71	172.04
Total gap	3 879.55	-4 039.22
Total accumulated gap	**3 879.55**	**-159.67**

Liquid assets ratio	**PLN million**
Liquid assets	9 763.62
Total assets	23 081.80
Share of liquid assets in total assets %	**42.30%**

2. Current liquidity:

Current liquidity ratios	Highly liquid assets	Spot liquidity ratio	Quarterly liquidity ratio	Deposits volatility hedging ratio
Level in PLN million	4 433,52	4 553,54	4 516,79	9 211,05
Limit in PLN million	-	321,09	1 284,34	2 000,00

4. Operational risk

The group defines operational risk as risk of a loss arisen in effect of inappropriate or unreliable internal actions and processes, human action, systems and in result of the impact of external events. Operational risk is immanently connected with every type of business taken up, with its occurrence not being limited only to specifically described areas of activity of the institution. This is why many events, which contain components of other types of risk (such as credit or market risk) also contain the operational risk component. The above-mentioned definition does not cover system, strategic and reputation risk, but it does contain legal risk. Such operational risk factors as: internal actions and processes, people, systems and external events may negative impact both productivity and effectiveness of the Bank’s activity as well as the quality of financial and management information being prepared as well as upon compliance of the institution’s activity with binding external rules and regulations.

In 2005 the Bank continued efforts connected with improvement of the system of identification, assessment, monitoring and hedging of operational risk, in order for this process to be as complete and uniform as possible. The Bank fully co-ordinates work taken-up in the Millennium BCP Group and draws on the experience of the strategic shareholder. Currently work continues under the Basel II project – implementation of provisions of the New Capital Accord. Additionally, operating within the Millennium BCP Group, the plan was developed for implementing tools consistent with assumptions of the New Capital Accord. These include self-assessment or key risk ratios, which are to be based on a common IT platform on Group level. Moreover the Bank registers and analyses occurring operational risk events.

The Bank's operational risk initiatives are co-ordinated on the Operational Risk Committee level. The Committee identified areas of particular importance from the point of view of operational risk. These areas are obliged to report regularly to the Committee following defined standards. Moreover initiatives are taken in the Committee, which are connected with the best possible management of operational risk, such as preparing operational risk maps or business continuity plans.

XVIII. CONTINGENT LIABILITIES AND COMMITMENTS

The total value of the objects at issue of all court litigations, where Bank Millennium S.A. appeared as the defendant or plaintiff before the court, competent arbitration authority or public administration body as at 31 December 2005 was PLN 452 million. The value of the object at issue in court litigations where the Bank appeared as the defendant was PLN 358.2 million and the value of the object at issue in court litigations where the Bank appeared as the plaintiff was PLN 93.9 million.

The biggest proceedings pending with participation of the Group are:

- Proceeding where the Bank is the defendant

1. **Plaintiff:** individuals

Value of the object of the dispute: PLN 299 833 300. 00

Object at issue: adjudication to the plaintiff of damages for BIG BANK Spółka Akcyjna (former ŁBR S.A.).

Status: On 26.10.2004 the Court suspended the proceedings until legally binding conclusion of the proceedings on case XX GC 774/00; no complaint was filed against the decision to suspend the proceedings.

Expectations: the result of the trial largely depends on the decision in case XX GC 774/00, the probability of winning by the Bank which is high in the Bank's opinion.

2. **Plaintiff:** joint stock company.

Value of the object at issue: PLN 14 000 000.00 including interest from 1.09.2005

Object at issue: compensation for leading by the Bank to bankruptcy of the Plaintiff's "daughter company"

Status: An attorney has replied to the action. No date for the trial.

Expectations: high probability of the Bank winning the case.

3. **Plaintiff:** individuals

Value of the object at issue: PLN 14 537 257.53

Object at issue: payment – the Plaintiff's claim is based on the allegation that the Brokerage Office, in result of mistakes made, led to his losing 20,000 shares of BIG S.A. and 12,500 shares of Swarzędz S.A.

Status: On 7.03.2005 the district Court in Warsaw dismissed the action and adjudicated in the Bank's favour the amount of PLN 18,000 on account of legal representation costs. The Plaintiff appealed against this decision. No day was assigned for the appeal hearing.

Expectations: in the Bank's opinion the probability of losing the case is low.

4. **Plaintiff:** individuals

Value of the object at issue: PLN 12 041 000.00

Object at issue: payment to BIG Bank GDAŃSKI S.A. of damages for the loss, which the Bank had allegedly incurred in connection with the issue of F-series shares (acting to the detriment of the Company)

Status: the Bank petitioned for dismissal of the action. On 1.04.2005 the Adjudicating Court gave a decision dismissing the action. The Plaintiff filed an appeal on 18.05.2005. Proceedings are pending between instances.

Expectations: high probability of the Bank winning the case

5. **Plaintiff:** individuals

Value of the object at issue: PLN 8 000 000.00

Object at issue: damages for illegal (according to the plaintiffs) execution with respect to assets of a civil partnership

Status: Proceedings suspended. The plaintiffs are claiming that execution actions taken by the Bank in connection with lack of repayment of a loan were done with gross understatement of the value of assets being sold. In the Bank's opinion these actions were done by appropriate bodies (bailiffs) and following the procedure stipulated for execution proceedings. The plaintiffs made a composition offer to the Bank, the offer was rejected, Proceedings reopened upon petition of the plaintiffs. The plaintiffs claim that the Bank could have sold their property for a higher price – they indicated an alleged buyer.

Expectations: high probability of the Bank winning the case

OFF-BALANCE ITEMS

	31.12.2005	31.12.2004
Off-balance conditional commitments granted and received	5 744 551	4 249 345
1. Commitments granted:	5 092 292	3 196 044
a) financial	4 357 093	2 827 709
b) guarantee	735 199	368 335
2. Commitments received:	652 259	1 053 301
a) financial	0	0
b) guarantee	652 259	1 053 301

The granted conditional commitments presented in the table above comprise commitments to grant credit (such as: unutilised credit card limits, unutilised current account overdraft facilities, unutilised tranches of investment loans) and issued guarantees and Letters of Credit (securing performance by customers of the Group of their obligations to third parties). The value of above-presented guarantee commitments presents the maximum value of a loss, which may be incurred by the Group, should the customers default on their obligations. The Group creates provisions for impaired irrevocable conditional commitments, reported in the "provisions" item of the liabilities side of the balance-sheet. The provision value is determined as the difference between the estimated amount of utilised conditional exposure and the present value of expected future cash flows under this credit exposure.

Guarantees, sureties and avals granted to Customers

In the period from 01.01.2005 to 31.12.2005 the Capital Group of Bank Millennium S.A. granted 1,872 guarantees, sureties and avals in the total amount of PLN 1,499,731,000. The amount of these commitments (excluding guarantees under sureties of repayment of loans from the European Fund for the Development of Polish Villages) as at 31.12.2005 was PLN 752,259,000 (1614 active guarantees), which signifies a growth of their value by PLN 328,752,000 i.e. by 77.63% over 31.12.2004.

The value of guarantees, sureties and avals granted in PLN increased by PLN 284,147,000 i.e. by 102.20% over the end of the previous year with the value of these commitments granted in FX increasing by PLN 44,605,000 i.e. by 30.66%.

The structure of commitments under guarantees, sureties and avals divided into commitments granted in PLN and in FX is presented in the table below:

Type of commitment	**31.12.2005 in PLN million**	**31.12.2004 in PLN million**
Commitments granted in PLN	562.2	278.0
Commitments granted in FX	190.1	145.5
TOTAL:	**752.3**	**423.5**

The structure of commitments by type as at 31.12.2005 is presented in the table below:

Type of commitment	**Number**	**Amount in PLN million**
Avals	1	1.1
Guarantees	1566	712.7
Sureties	3	7.2
Re-guarantees	44	31.3
TOTAL	**1614**	**752.3**

The structure of commitments by object as at 31.12.2005 is presented in the table below:

Object of the commitment	**Number**	**% share**	**Amount in PLN million**
Contract performance	848	52,54%	248,4
Rent payment	231	14,31%	22,0
Bid bond	226	14,00%	50,2
Payment for delivery of goods or performance of a service	150	9,29%	115,0
Other	76	4,71%	69,4
Advance return	40	2,48%	78,0
Customs	27	1,67%	149,7

Payment of bank loan	16	0,99%	19,6
TOTAL	**1614**	**100%**	**752,3**

The structure of guarantee commitments by customer type as at 31.12.2005 is presented in the table below:

Customer - sector	Amount in PLN million
- financial sector	87.2
- non-financial sector (companies)	641.2
- public sector	6.0
- individuals	17.8
TOTAL	**752.3**

In 2005 Bank Millennium as a parent entity did not extend any guarantees, sureties or avals to other companies of the Capital Group, however it did extend upon request of these companies to external entities. The value of guarantees, sureties and avals extended by the Bank upon request of companies from the Group is presented in the table below:

Subsidiary	Amount in PLN million
BEL Leasing Sp. z o.o.	36.9
TBM Sp. z o.o.	0.2
TOTAL	**37.1**

Liabilities under the swap contract

In September 2003 the Bank concluded with BCP a swap contract to offset the cost of carry of the investment in shares of PZU S.A. and the impact of dividends received from PZU S.A. upon the Group's financial result. It was decided that the swap contract would expire on 30 June 2008 with the possibility of its earlier dissolution in case of loss of control exercised by BCP over the Bank or in result of sale of the PZU S.A. shares before the date of the swap contract expiry (participation of BCP was envisaged then in proceeds of the sale, should the transaction value exceed PLN 1.6 billion). The swap contract was not priced at fair value due to the inability to have it priced reliably during its life. The contract was dissolved on 21 December 2004. BCP retained the right to participation in the sale proceeds (according to the formula specified in the annex dated 21 December 2004) should the final sale price of the PZU S.A. shares exceed PLN 1.6 billion. Final settlement under this transaction was done in December 2005, as described in Chapter VIII.

Settlement of sale of PZU S.A. shares

The agreement of 21 December 2004 concerning the sale of 10% shares of PZU S.A., held by the Group, stipulated the minimum guaranteed sale price of above shares at PLN 1.6 billion, this price at the same time being the basis for calculation of the Group's 2004 profit on sale of these shares. Additionally the agreement provided for the possibility of increasing the minimum guaranteed sale price of PLN 1.6 billion in the final settlement of the sale (which occurred in 2005). These events have been described in detail in Chapter VIII.

XIX. OPERATING LEASE

The Group has agreements for rental of office space, which under IAS 17 are reported as operating lease. The biggest lessee of office space is the Bank. Standard agreements on lease of commercial premises are signed by the Bank as a rule for a specified term of 5 to 10 years. A major part of these agreements is signed for 5 years with a clause stipulating the lessee's right to extend the term of rent for another 5 years pursuant to a relevant statement. Remaining agreements are entered into for an unspecified term and may be terminated with notice of usually 3 to 6 months.

Total liabilities on account of irrevocable operating lease as at 31 December 2005 were as follows (data in PLN '000):

- up to 1 year	58 800
- from 1 to 5 years	97 130
- above 5 years	5 770

XX. IMPORTANT EVENTS BETWEEN THE DATE OF PREPARATION OF THE REPORT AND THE DATE OF ITS PUBLICATION

Such events did not occur.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
....	Bogusław Kott	Chairman of the Management Board	....
....	Luis Pereira Coutinho	Deputy Chairman of the Management Board	....
....	Fernando Bicho	Member of the Management Board	....
....	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
....	Wojciech Haase	Member of the Management Board	....
....	Wiesław Kalinowski	Member of the Management Board	....
....	Zbigniew Kudaś	Member of the Management Board	....
....	Rui Manuel Teixeira	Member of the Management Board	....