



**Semi-annual Management Board Report on the Activity
of Bank Millennium Capital Group
in the 1st Half of 2005**

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I. MACROECONOMIC SITUATION IN THE 1ST HY 2005

The first half of 2005 brought a slowdown in the economic growth rate. The growth rate of the Gross Domestic Product (GDP) fell to 2,5% from 5,4% achieved in the entire 2004. The drop of the growth rate largely follows from poor domestic demand, as a consequence of a drop of individual consumption, which stood at 1,6%, down from 4,1% in the corresponding period of the previous year. The lower rate of consumption results, on the one hand, from the lower growth rate of households' disposable income, but on the other hand, results from a high statistical base of the previous year, when in the months in the run-up to Poland's EU accession the rate of consumption temporarily gathered pace.

Nevertheless, Poland's economy continues to be one of the fastest growing economies in Europe. The main growth driver were dynamically expanding exports. The high growth rate of exports coupled with an inflow of EU funds eased the external imbalance of Poland's economy, considerably narrowing the current account deficit. Regrettably, investment dynamics went down, because despite earlier expectations, enterprise delayed new investment decisions, perhaps influenced by an uncertain future outlook and future economic policy, as well as delays in obtaining co-financing from the EU funds

After a temporary resurge in the 2nd half of the previous year inflation returned to a falling trend sliding in June 2005 below the lower threshold of the acceptable inflation fluctuation band around the NBP target (2,5%+/-1%). Improved inflation prospects coupled with lower than expected economic growth prompted the Monetary Policy Council to relax its monetary policy and cut interest rates by (the total of) 150 basis points. The drop in the NBP's basic rates was accompanied by reductions in deposit and loan interest rates at commercial banks, the stronger drop having being noted in the case of interest rates on loans, in particular corporate loans. Reduced deposit rates induced households to reallocate savings towards more profitable forms of investments. Investment funds and Treasury savings bonds were the most popular of the available investment vehicles. Declining interest rates generated more household debt. Like in previous months the biggest growth rate came from housing loans. Falling investment demand kept the growth rate of corporate loans at a low level.

The situation in the public finance sector stabilised. Better than expected collection of tax revenues helped to complete this year's budget. But the advent of the elections was not conducive to carrying out any radical of fiscal reforms, as a result of which medium-term fiscal perspectives improved only slightly. But the trend towards growing public debt was averted and currently there is no risk of exceeding the next prudential threshold laid down in the Public Finances Act. Public debt was also reduced by a strong zloty, which translated into a drop of the zloty value of the public debt.

Low inflation and continued high unemployment kept wage demands in check. The average nominal salary in the economy went up 3.8% y/y in the 1st half 2005. There were more favourable trends in the case of the self-employed and SMEs, where salaries grew faster than in other sectors. Nevertheless, inflation pressures on wages were at a low level, given in particular a high productivity of the Polish workers. The situation in the labour market gradually improved, but the unemployment rate continues to be at a very high level compared to other European countries. In June the registered unemployment rate stood at 18.0%, i.e. 1.1 p.p lower than in December 2004.

We think that in the next quarters Poland's economy will stay on a growth path. In addition to continued high export dynamics a gradual investment increase is expected. Growth in investment demand will be supported by among others: a good financial situation of enterprises, high utilisation of productive capacities and inflow of EU funds. Importantly, Poland remains the EU budget's net beneficiary, which means that in the settlements with the European Union Poland gained in the 1st half of 2005 the net of 14. billion euros, most of which come from the structural funds intended for investment co-financing.

The abatement of adverse supply shocks in the food market, low inflation pressure on the demand side and strong zloty will be factors keeping inflation low. In our estimation CPI inflation will remain until year-end 1.5% y/y. The recent growth in oil prices will remain a risk factor. But the strong zloty and weak domestic demand will limit inflationary effects of fuel prices appreciating in international markets. The economic situation in the next quarters will largely be determined by the type of fiscal policy. The government's conducting the necessary structural reforms, including among others cutting

fixed budgetary expenses, will go some way towards creating good conditions for balanced economic growth.

II. FINANCIAL STANDING OF THE BANK MILLENNIUM GROUP

II.1 Executive summary of the results

In the first half of 2005 the consolidated net profit of the Capital Group of the Bank calculated according to the International Accounting Standards (IAS) totalled 129 m PLN and was by 9% higher compared to the net profit for the first half of 2004 (118.4 m PLN).

In the first half of 2005 the Bank Millennium Group obtained a considerable improvement in profitability on core business operations with the simultaneous decline in risk profile. Summing up the results of the Group, first of all, the following should be highlighted:

- Increase in ROE up to 13.2%,
- Increase in net interest income by 4.6% (compared to the first half of the year 2004),
- Increase in net commission income by 6.5%,
- Decline in the operating costs by 2.9%,
- Decline in the non-performing loans (by 350 m PLN compared to June 2004) and provisioning as a result of credit recovery actions and improvement in the credit risk management,
- High level of the solvency ratio (20.9%) reflecting stable balance sheet structure and strong capital base.

In the period under review the growth of business was driven mostly by strategic areas of operations in the retail segment, such as mortgage loans, customer funds and credit cards. The key achievements of the Bank in the first half are as follows:

- Four-fold increase in the mortgage loans compared to the first half of the year 2004, allowed to reach the third position on the market of the newly granted mortgages (10.5% market share)
- Strong increase in investment funds from December 2004 (by 76%),
- Increase in the number of clients' credit cards by 81% y-o-y,
- Impressive increase in the number of the internet banking users (more than 220 thousand of the registered users) and increase in the utilisation of this channel,
- Stable, high share in the lease market with 9% increase in sales y-o-y

The financial data for 2004 stated in this report of the Management Board was calculated on a pro-forma basis, i.e. with full retrospective application of IFRS, including IAS 39 (conversion of comparative data is described in chapter VI item 2 of the Interim Financial Report). Such approach allows correct analysis thanks to full comparability of the results of the current half of the year with the same period of the previous year.

Moreover, for this report purpose, net interest income for 1st half 2005 (as in comparable period of 2004) includes interest from derivatives. In Group's opinion interest income on FX Swap and CIRS transactions concluded to ensure liquidity in foreign currencies (i.e. accrued swap points on FX Swaps and accrued interest from CIRS) is part of economic interest margin because it allows to match interest income on FX loans (based on EURIBOR, LIBOR) with cost of financing position (PLN deposits interest based on WIBOR). This way of presenting applied to the previously published financial reports. In the current Interim Financial Report this interest for 1st half 2005 are recognized in P&L account as "result on trading activity", according to IFRS requirements (this change is described in chapter VI item 3 subitem 3 of the Interim Financial Report).

The Group is developing a MIS methodology which involves identifying and properly allocating costs between different business lines, including internal invoicing of services provided by one network to another (example: services provided in Millennium Retail branches to Corporate clients). As a consequence of the implementation of this methodology, segment results in 2006 may show significant differences to the currently disclosed (see chapter VII "Financial information broken down into operational segments" of the Interim Financial Report)

II.2 Description of the main elements of the Profit and Loss Account

The main items of the result on banking activity of the Bank Millennium Group for the first half of 2005 and 2004 are presented in the table below:

Operating Income (PLN million)	I half of 2005	I half of 2004 pro-forma	Change
Net interest income	318.4*	304.4*	+4.6%
Net commission income	121.4	114.0	+6.5%
Other non-interest income	104.2	222.8	-53.2%
<i>including non-recurrent events</i>	26.1	142.5	
Operating income	544.0	641.2	-15.2%
Operating income (without non-recurrent events)	517.9	498.7	+3.9%

*) net interest income includes interest from derivative transactions in the amount of PLN 76.4 m in 2005 and PLN 131.1 m in 2004.

Net interest income obtained by the Group in the first half of 2005 totalled 318.4 m PLN and was by 4.6% higher than in the comparable period of the previous year (304.4 m PLN), in spite of selling the car loan portfolio in May 2004. Increase in the net interest income was possible mostly thanks to the higher customer funds, improvement in the quality of assets and consistent pricing policy.

Net commission income totalled 121.4 m PLN (114.0 m in the first half of the previous year), which means an increase by 6.5%, and results from the business development, mostly in the strategic areas of the Bank's operations such as credit cards and investment funds.

Other non-interest income in the first six months of 2005, totalled 104.2 m PLN compared to 222.8 m PLN in the first half of the previous year. The scale of the decline was shaped by non-recurrent events in the first half of 2004, when the Bank obtained capital income from the sale of car loan portfolio. After deduction of the above additional income from the previous year and additional income in the current half of the year (related to the settlement of the dividend from PZU), the **operating income** in the first half of 2005 increased by 3.9%.

The changes to the main cost items of the Group are as follows:

Operating costs (PLN million)	I half of 2005	I half of 2004 pro-forma	Change
Personnel costs	161.4	156.4	+3.2%
Non-personnel costs	171.8	176.0	-2.4%
Depreciation	42.4	54.3	-22.0%
Total costs	375.6	386.7	-2.9%

The total costs of the Group in the first half of 2005 declined 2.9% compared to the first half of the previous year and totalled 376.2 m PLN (387.3 m PLN in the comparable period of 2004). This was thanks to the decline in both administrative costs (mostly owing to the reduction of the maintenance costs of the fixed assets and telecommunication and IT costs) and depreciation. **The non-personnel costs** totalled 171.8 m PLN (176 m PLN in the first half of 2004), down 2.4%, whereas **depreciation** declined by 22% down to 42.4 m PLN (compared to 54.3 m PLN in the first half of 2004).

In the **personnel costs** there was a slight increase compared to the first half of 2004 to the level of 161.4 m PLN, driven mostly by the increase in the number of the employees in the sales force of the Bank, which is in line with the current business development policy of the Bank following a period of employment restructuring conducted in the previous years. As at June 30 2005 Bank Millennium Group employed 4333 persons compared to 4291 at the end of June 2004.

At the end of June 2005 **the cost to income ratio** totalled 69%, thus confirming the favourable trend of the Group's efficiency.

The successful implementation of the loan restructuring programmes and improvement in the credit risk management allowed the Group to reduce its **provisioning**. In the first half of 2005 the Group established 5 m PLN in net provisions, i.e. 97.2 m PLN less than in the first half of 2004 (102.2 m). Putting aside the recovered receivables, which previously had been written off against provisions, the net provisions established for the credit risk in the amount of 34 m PLN were 69% lower than in the comparable period of the previous year.

In the first half of 2005 the **pre-tax profit** of the Group totalled 163.5 m PLN, **whereas the net profit stood at** 129 m PLN and was 10.6 m PLN higher compared to the pro-forma result for the first half of 2004.

Earnings per share for the first half of 2005 calculated on the basis of the annualised consolidated profit on the grounds of the pro-forma data (with full application of the IFRS in 2004) totalled 0.33 PLN per share. Part of this profit was result for the period July 1 – December 31 2004 in the amount of 153 m PLN.

II.3 Key items of the balance sheet of the Group

At June 30, 2005, total assets were PLN 20,326 m, i.e. they grew since the end of June 2004 by 1.9% (PLN 19,950 m).

Key balance sheet items (PLN million)	30 June 2005	30 June 2004 pro-forma	Change
Total assets	20,326	19,950	1.9%
Total Customer funds (1)	14,375	13,213	8.8%
<i>of which Customer deposits</i>	13,519	12,267	10.2%
<i>of which investment funds</i>	765	460	66%
Total loans (2)	7,800	7,144	9.2%
<i>of which mortgage loans</i>	2,313	1,358	70%
<i>of which leasing</i>	1,515	1,448	4.7%
Equity	1,981	1,877	5.5%

(1) Including Customer Deposits, retail bonds, and investment funds

(2) Not including receivables from Eureko of PLN 390.4 million (as at 30 June 2005) resulting from sale of PZU shares

As at 30 June 2005 the value of net **loans** to Customers increased 10% as compared with 1st half last year and stood at PLN 7,800 million. This was the second Quarter in a row to see growth of the loans

portfolio. The increase of loans is attributable first of all to dynamic growth of the mortgage portfolio. In 1st half 2005 new mortgage production was PLN 914 million i.e. over 4.5-times more than in the 1st half of 2004 (PLN 198 million), which allowed the Bank to rank 3rd on the market with a 10.5% share in the 1st half. Largely conducive to this was the development of sales methods using diversified distribution channels, such as direct sales, agents and web portals. Also sales through the Bank's retail branches soared (more than two times) as compared with the previous year.

At the same time the Group's **leasing** portfolio increased 5% thanks to maintenance of high level of activity of BEL Leasing on the market: the sales of new leasing contracts increased in 1st half by 9% as compared with last year.

Total deposits increased 10.2% year-on-year. Total Customers' funds, including bonds and investment funds held by them as at 30.06.2005 stood at PLN 14,375 million, which means they increased 8.8% as compared with the same period of 2004 (PLN 13,213 million). Highest dynamics in the last semester were demonstrated by **investment funds**, increasing 76% as compared with the end of the year to the amount of PLN 765 million, which gives the Bank a market share gain of 40 bp in the semester.

In June 2005 the number of Customers using the Bank's services via the **Internet** was 223,500, including 215,600 individual customers, whose number increased 140% as compared with the end of June 2004. With respect to individual Customers of Internet banking for the first time in Poland the possibility was introduced of taking part in auctions of term deposits and using the MilleSMS system – automated SMS alerts to Customers about transactions done on their accounts.

In the first Semester of 2005 the number of **credit cards** used by the Bank's Customers increased strongly – by as much as 81% over the 1st half of 2004, reaching 86,900 as at 30.06.2005. It is worth noting that the Millennium VISA Economic credit card was considered by the "Rzeczpospolita" daily newspaper to be the best credit card in Poland. Together with the growth of the number of cards also their usage increased: the credit balance was up 109%, while POS transactions increased almost 60% in June 2005 as compared with June 2004.

The quality of the Group's NPL portfolio (calculated using the methodology of the National Bank of Poland) as at 30 June 2005 improved significantly. **The value of irregular loans** as compared with last year was lower by PLN 350 million i.e. by 21%. This was attained thanks to a prudential credit policy and very effective restructuring and recovery efforts.

Loan quality indicators	30.06.2005	30.06.2004
Total NPL* (PLN million)	1 288	1 638
NPL over Total Loans	14.7%	20.0%
Total Provisions over NPL	66,6%	54,9%

* According to Polish Accounting Standards

The NPL ratio according to NBP regulations improved significantly from 20.0% (as at 30.06.2004) to 14.7% (as at 30.06.2005), while the NPL coverage ratio grew from 54.9% to 66.6% in the same periods as result of a real credit portfolio improvement and a consistent policy of creating provisions

In the period from 1 January to 30 June 2005 the Bank Group wrote off PLN 68 million non-recoverable receivables against provisions.

Solvency ratio of the Group stood at 20.9% and was higher than the year before (17.8%) in result of selling some assets and due to a better structure of risk-weighted assets. Such a high level of the ratio

largely guarantees a safe level of own funds from the point of view of the planned further dynamic growth of business.

According to the Resolution of the Bank's Shareholders' Meeting of 8 March 2005 in the matter of distribution of 2004 accounting year profit, the Bank's Shareholders' Meeting decided to allocate the amount of PLN 237,770,888.32 from 2004 net profit to payment of dividend. The Bank's initial capital is PLN 849,181,744 and is divided into 849,181,744 shares, thus giving a dividend payout of PLN 0.28 per share. Payment of dividend was done on 22 April 2005.

II.4 Assessment of financial standing

The Bank was awarded the following financial standing rating by Moody's Investors Service Ltd.:

Rating type	Current	Last change	Previous
Long-term deposit rating	A2	7 April 2005	A3
Short-term deposit rating	Prime-1	14 January 2003	Prime-2
Financial strength rating	D-	20 May 2003	D

The short and long-term deposit rating outlook has been deemed stable, while the financial strength rating outlook was upgraded to positive on 7 April 2005.

In their 7 April 2005 report Moody's said that the rating upgrade reflects continuing operational integration of the Bank with its Portuguese strategic investor, the ongoing support and know-how transfer from BCP to the Bank and the strong commitment of the Portuguese bank to implementation of its European expansion strategy.

Moreover Moody's said that upgrading the Bank's financial strength rating outlook reflects the progress made by the Bank in result of an in-depth restructuring process. The agency also noted that in 2004 the Bank became well poised for organic growth, backed by a strong capital base, innovative products, aggressive market strategy, enhanced sales potential, improved risk management as well as a favourable economic climate.

III. DEVELOPMENT OF BUSINESS

The business activity of Bank Millennium Group is run mainly by Bank Millennium S.A., but also by its three subsidiaries: Millennium Dom Maklerski S.A., Bel Leasing Sp. z o.o. and Millennium Towarzystwo Funduszy Inwestycyjnych S.A.

The Bank's business comprises various business lines offering specific products and services addressed to the two primary market segments, i.e. retail clients and corporate clients. Subsidiaries run operations in specialised financial services markets with an offer addressed both to retail and corporate clients.

III.1. Retail business of the Bank

The Bank's retail activities comprise the operations of the Millennium Retail line (retail market), Millennium Prestige (wealthy individuals market) and Millennium Biznes (small businesses market).

Millennium Retail

Millennium Retail is Bank Millennium's business line offering financial services intended for all individual clients.

Millennium offers to its Clients a rich offer of diverse financial products: personal accounts, payment cards (debit and credit), savings accounts, time deposits, investment funds, consumer and mortgage loans, broker services and insurance products.

The principal personal account of the Millennium network (the so-called **Millekonto®**) is attractive price wise and user-friendly. It does all standard settlements (including standing orders and bill payments – also with the use of ATMs), enables free access by telephone (**TeleMillennium®**) and Internet (**Millenet®**), and also no-charge withdrawals from Millennium ATMs. The client will receive the Millennium VISA Electron debit card to the account, as well as access to the renewable credit line equal to four times the net income and to the remaining products from the Millennium network. The Bank offers also other versions of the personal account adjusted to the specificity of diverse Client groups, such as Millekonto Premium, Millekonto Junior, Millekonto Student, and Millekonto USD, EUR, CHF or GBP

The Bank's retail deposit offer comprises both classical deposit products intended for persons who like traditional forms of savings, as well as a number of innovative products with good market perception.

Classical deposit products offered to retail clients covered term deposits, available in PLN, USD and EUR, including in particular:

- Millokata – established for a standard period: 15 days, 1 month or 2, 3, 6 and 12 months,
- Millokata 365 – non-renewable deposit with a possibility of choosing the date established for any period from 1 to 366 days,
- Lokata rentierska - 12 months term deposit with regularly paid interest,
- Lokata Millenet – deposit with a very attractive interest established by the Internet, with a possibility of choosing the number of days of deposit.

In order to meet the expectations of increasingly demanding groups of Clients and enable them to achieve satisfactory profits, the Bank proposed among others the following investment products:

- Millennium SuperDuet – structural product combining a high interest term deposit and investment fund;
- Millokata Progresywna – 12-month automatically renewable term deposit with interest growing every three months;

- Aukcje Lokat Terminowych – term deposit auctions - an innovative offer for users of the Millenet system, allows the Clients to decide about the level of interest on their time deposits;
- MilleInwestycja – modern investment product combining the advantages of a time deposit and life insurance which guarantees the achievement of a specified profit and insurance cover throughout the duration of the investment;
- Investment outlays from a broad array of products offered by Millennium TFI.

Bank Millennium's offer of consumer products addressed to the retail segment has a comprehensive nature and covered the following products in the 1st HY 1995:

- A personal account renewable credit line
- MilleKredyt / MilleKredyt Sezonowy – consumer loan with debt repayment by instalments for any purpose chosen by the Client
- MillePożyczka – money advance for against a time deposit security
- MilleKredyt Auto – car loan
- MilleKredyt Akcje – loan for purchasing securities

In addition to consumer loans Millennium network Clients are offered mortgage loans and VISA and American Express credit cards (more on these products further in the report in separate subchapters).

The sale of products and services in the Millennium Retail network was in the 1st HY supported by a number of advertising campaigns addressed both to the mass client and thoroughly customised with selected groups of Clients in mind. At the beginning of the year an innovative sales programme was implemented whose purpose is to increase sales among the existing Client group. The main programme assumption is a multitrack and systematic initiative addressed to the Client, after having conducted a profound analysis of his needs.

The total value of deposits at Millennium Retail network (including investment funds and bonds) reached as of 30 June 2005 the value of 7.7 billion PLN, and of loans 2.6 billion PLN.

Millennium Prestige

Millennium PRESTIGE is Bank Millennium's business line focusing on affluent individuals who expect higher quality of customised services and products.

The first HY of 2005 was for Bank Millennium PRESTIGE yet another period of strengthening the market position and building partnership relations with the Clients. In this period the product offer was adjusted to client needs and changing market conditions.

In the environment of falling interest rates the deposit offer focused on products which offer a bigger profit potential, in particular on investment funds. Within 6 months a 133% growth of assets was noted in funds with a simultaneous increase of the share of funds from 7% to 14% in the client portfolio. For clients with a conservative profiles Superduet was available – a product diversifying the risk of investing in funds.

Millennium PRESTIGE investment offer has been enriched by a novel product - Millennium SFIO Funduszy Zagranicznych in EUR. It opened up new possibilities for the clients who had EUR assets in and who sought more profitable forms of investments than time deposits. This is Poland's first fund of funds. Its construction enables the conversion of units between subfunds representing various investment strategies. From March to June to 2005 71% of all sales of SFIO Foreign Funds in Eur was realised in the PRESTIGE line.

The Bank Millennium Prestige offer continued to be enriched by interesting investment deposits – structured deposits whose rate of return depended on the evolution of various financial instruments (e.g. Stock Exchange indices, currencies, etc.) creating the possibility of achieving more-than average profitability, much more attractive than earned from bank deposits. The Bank also offered to its clients a new deposit product in the form of life insurance.

Millennium PRESTIGE Clients also have the possibility of using prestigious VISA and American Express credit cards. Operations on accounts are available through the PRESTIGE telephone line and Millenet electronic banking system.

In connection with the growing number of public share offerings at the Warsaw Stock Exchange and individual investors' interest in buying on credit – the Bank supplemented its standard offer (including the line for the purchase of securities intended mainly for investors interested in the buying of shares in the secondary market offer) with special purpose loans for the purchase of shares on the primary market and in the first public offer. In the first half of 2005 clients were offered loans for the purchase of shares in the public offering of Polmos S.A., Lotos S.A., and Police S.A. companies.

In March, in the Rzeczpospolita daily's ranking of accounts for wealthy and demanding Clients Bank Millennium PRESTIGE was highly rated by experts taking 2nd place out of 12 peer offers of private banking.

Millennium Biznes

Millennium Biznes is Bank Millennium's specialised line for small enterprises created in the 2nd half of 2001 on the basis of the modern Millennium retail network. The creation of a separate network for small and medium-sized enterprises (SME) stems from the special importance of this segment to Bank Millennium Group.

Millennium Biznes is a combination of comfort and modernity of Millennium's extensive network with the experience of Bank Millennium's long time cooperation with enterprises. The cutting edge of the network is the post of the MB Relationship Manager – a specialised Bank employee helping the client to use bank products and services.

Millennium Biznes's target segment are companies which have an annual turnover from 3 to 10 million PLN. In order to increase offer availability – in addition to branches the Client has the possibility of using alternative channels, such as Millenet internet banking, BiznesLinia telephone service, ESOBIG [Electronic System of Banking Services] or TransBank floppy disk application. In addition to which the Clients have a broad network of multifeature ATMs.

In terms of lending the Bank adjusts its offer to changing market conditions and Client needs. As a result a more flexible credit policy can be observed. Among others, the period of funding the current operations of first time borrowers has been extended. Now the bank does grant – also to startups – a limit for a period up to 12 months with a possibility of extending for the next periods. Other modifications relating to credit products introduced in the 1st HY 2005, include among others:

- Period of lending for investment loans extended from 10 to 15 years, and for construction loans for housing purposes from 3 to 4 years.
- Possibility of refinancing the Client's investment outlays (up to 1 year back), repayment of the investment loan granted by another bank or financing working capital necessary for launching the first production cycle from the funded investment,
- possibility of funding VAT expenses connected with the funded project – under a separate loan (working capital loan),

Moreover, Millennium Biznes clients have access to guarantee funds cooperating with the Bank, and also – when granting loans supported by UE funds – through the Bank they can make use of consultant companies' services, which help entrepreneurs in the preparation of the business plan and the remaining documentation necessary when applying for co-funding from public assistance funds.

The remaining Millennium Biznes offer was enriched in the first HY 2005 by the following products and services:

- Pakiet EuroMillennium – a combination of an account and bridge-commercial loan intended for Clients applying for public funds support, on-line statements on the Millenet,
- Car collection – service enabling payments and withdrawals in the place indicated by the Client (e. g. the company's office),

- Millennium SFIO Funduszy Zagranicznych („fund of funds”) – possibility of investing into the world’s best foreign investment funds,
- International Business Platform – new form of supporting Bank Clients in foreign markets is realised by unique assistance and advice covering the understanding of special features of such markets.

Millennium Biznes continuously tries to take steps in order to increase the level of services rendered by it and to better adjust its offer to the needs of its Clients which is reflected both in the results of market research which shows the Client’s very high satisfaction with the network. The Bank’s offer for small and medium-sized companies was recognised as one of the market’s best and came third in the prestigious ranking „Best Bank for Companies” prepared every year by „Forbes” monthly.

Additionally, in recognition of the high quality of Client service and products offered by Millennium Biznes was given the honorary badge of an „**Enterprise-Friendly Bank**” in the sixth competition organised by the National Chamber of Commerce, Warsaw Institute of Banking and Polish-American Enterprise Development Fund.

The activity of retail sales networks is supported and supplemented by specialised Bank units in charge of specific problems (such as payment cards and mortgage loans) or distribution channels (e. g. direct banking: telephone, ATM and electronic banking; access by Internet or „home banking”).

Mortgage loans

One of the strategic directions for development of Bank Millennium has been to increase the portfolio of mortgage loans. The present policy of the Bank as regards this aspect is focused on consistent continuation of efforts aimed at improving access to the value offer (through development and diversification of distribution channels, perfecting the features of the product as well as the underwriting process itself), and at maintaining high quality of the portfolio.

In the first half of 2005 the Bank was highly successful in selling mortgage loans, joining the group of top housing creditors, and taking 3rd place with its 10.5% in the new loans market (at 30 June 2005).

Such results were driven by systematic adjustment of the offer and development of the sales network. MilleKredyt Dom is one of the market’s favourite housing loans: easily available and with low interest rates, and attractive margins in both PLN and other currencies. Over the first half of the year the offer of Bank Millennium gradually has won wide recognition not only from Customers but also from financial brokers. Yet again, the consultants of Expander and Open Finance¹ ranked the Bank very highly among other housing loan banks. Bank Millennium was ranked among top players in numerous categories, e.g. best loan in PLN, cheapest loan in CHF, best consolidation loan, best loan for house construction managed by the owner.

Bank Millennium has been regularly improving Customer access to its mortgage offer, by opening branches, and launching cooperation with credit brokers across the country. Housing loans of the Bank have been offered not only in branches. As the first universal bank, Millennium opened specialized outlets – Millennium Mortgage Loan Centers – 20 operational now, in 19 cities in Poland. At the same time, the Bank has been dynamically developing alternative distribution channels, i.e. financial brokers (our loans are on the offer of 21 intermediaries, both chains and local ones), and internet portals (Millennium offer can be found in 15 portals). Polish customers have been growing to appreciate it more and more, as in search of the best offer on the market they opt for professional consulting, or Internet research. Seeing the potential offered by the new distribution channels, the Bank has been promoting their expansion, and the sales dynamic they represent.

The Bank has also been active in improving loan underwriting processes. To achieve this Workflow application was implemented in February 2005 – an innovative tool supporting the credit application analysis process. The tool provides full control over the decision-making process, and a smooth flow of all stages, from application acceptance from a Customer, to loan disbursement. In result, it provides

¹ Ranking were published in April 2005 in newspapers and on Brokers’ internet websites

more security for the Bank, higher work efficiency, shorter loan-making process, and more Customer satisfaction.

It is important to stress that the Bank has been applying all effort to develop best possible long-term relationship with mortgage banking Customers, ensuring high Customer service standards after the loan has been made, and offering other retail products under preferential terms and conditions.

Credit cards

Credit cards are another area of growth in Bank Millennium SA. The Bank recorded a dynamic increase in number of credit cards: by end of June 2005 the Bank's Clients used 87 thousand cards, i.e. 81% growth in one year, mainly due to the following actions:

- activation of additional sales channels – direct sales agents, and external partners (internet portals, brokers),
- maintaining competitive pricing policy,
- strong media campaigns, supporting the sales,
- simplification of the card issuance process.

The past 6 months marked an increase not only in number of credit cards, but also their utilization: card accounts credit balances increased by 79%, while the total value of credit card transactions grew by 53%, as compared to the corresponding period of the previous year.

The advantages of Bank Millennium credit cards have been confirmed by the award of *Rzeczpospolita* daily (May 2005) for the Millennium VISA Economic card for the *best card for those who like to finance their shopping with several months' credit*.

Development of distribution channels

Retail branches

The nationwide network of retail Millennium branches is based on a state-of-the-art operating platform, facilitating the Customers with equal access to products and services of the Bank in any of 288 standardized branches, located across the entire country, regardless of the location they chose to open their account.

Call Center

Millennium Customers are able to manage their finance also over the phone, using the Telephone Customer Service Center, now operating after the last year's modernization. Telephone Customer service is now fully automatic, with new functionalities added. Another crucial step in the improvement process was to provide a new number for individual Customers, that would combine the functionalities of previous information and operating lines under one common name of "TeleMillennium". 1.2 million calls were answered by TeleMillennium during 1H 2005, with an impressive ratio of 86% of calls answered by the automatic system (IVR).

ATMs

Remembering about the importance and comfort provided to Customers by ATMs, the Bank introduced their new image and enhanced functionality, adding a new innovative service. Customers are now free to automatically activate their individual code – a password to using remote channels (like the Internet), the benefit being that customers no longer need to visit a branch, all it takes is to go to the nearest ATM.

At the end of June 2005, Customers could enjoy 928 multi-functional ATMs, 403 of which were Millennium's own network, while the other 525 – operated by Euronet. In 1H 2005 15 million transactions were performed through ATMs – 10% more than in the corresponding period of 2004.

Millenet® - internet banking

First half of the year 2005 was the period of continued development of Millenet®, internet banking system.

Number of registered individual clients exceeded 215 thousands, as at end of June 2005. In the month of June, Millenet transfers of individual customers constituted over 65% of all individual customers' transfers. The balance of term deposits made over the Internet exceeded 0.5 billion PLN.

In January a new service was introduced: MilleSMS – SMS notification about any transactions made. In the month of June, for the first time in Poland, Millenet users could participate in Internet Auctions of Term Deposits. Customers could post their bids for term deposits, selecting preferred interest rate and amount. Then, term deposits were accounted into a winning pool, according to the lowest interest rate offered.

In May and June a big promotion of Millenet took place, with the goal to promote domestic transfers, internet term deposits, as well as the MilleSMS and online statement activation.

This year, Bank Millennium was awarded the “Best consumer Internet Bank in Poland” title by respected Global Finance Magazine. January saw the internet site of the Bank ranked 2nd by the Home & Market monthly, in the category of Polish non-virtual banks.

III. 2. Corporate business of the Bank

The corporate client business is serviced by the Millennium Corporate Banking network, which targets companies with annual turnover in excess of 10 million PLN and also Clients from the budget sector and public entities.

Corporate banking

The value proposition of the Millennium Corporate Banking business line covers a very wide range of financial products and services: from the classical account, settlements, deposits, cash management, working capital loans, investment loans, guarantees and sureties, to more sophisticated solutions such as, among others:

- International trade financing,
- Corporate finance services executed in co-operation Millennium Dom Maklerski, i.e. **issue of stock and debt securities**. (Within this service strategies are developed to finance corporate development, to optimise capital structure on the basis of direct access to capital markets as well as funds supplied by specialised financial institutions, such as private equity funds or venture capital funds)
- Structured deposits that combine traditional deposit instrument with a derivative, or a group of derivatives from one or more markets, in order to obtain a required yield profile. The rate of return on deposit is not specified up front, however the so-called minimum rate may be guaranteed (the principal is guaranteed).
- **Buy-Sell-Back transactions**, where the Client purchases specific debt securities from the Bank, with simultaneous definition of the future buy back date and price. Buy-Sell-Back transactions may be performed on T-bills, T-bonds and corporate and local authority debt securities, which are traded in by Bank Millennium.
- **Automatic Incoming Payment Identification Service** is targeted at Clients who, given the specificity of their market offer, receive regularly a high number of payments (e.g. telecommunication and insurance companies, cable TV operators, power companies, educational providers etc.). This service is based on the use of bank account number to identify the debtor, whose payments are automatically registered on the Client's account.

Last year within the Corporate Banking line a new organisational unit was set up to finance trade. One of its tasks is among others to fine tune factoring product offer. In the first half of 2005 a new product was introduced – factoring with no recourse, which will allow our Clients to conduct fluently financial settlements. Within this product the Bank purchases receivables of and takes over the risk related to possible insolvency of business partners. In practice this means that irrespective of this whether the partner pays its liabilities, our Client shall receive their invoice payments. Also, the Bank ensures the Clients funds to refinance trade credits granted to their business partners.

Bank Millennium SA is one of the financial institutions, which have actively joined the process of co-financing investment projects executed with assistance of the European Union Structural Funds. The Bank is partner of the Polish Enterprise Development Agency and Bank Gospodarstwa Krajowego. Continuing its mission to support Clients in their development in the increasingly competitive European Union market, the Bank maintained its co-operation with EFRWP and ARiMR signing a new agreement for another credit line.

In a joint effort with Millennium bcp, Bank Millennium introduced a new service, functioning under a global name of International Business Platform (IBP). Within IBP Bank Millennium, on the one hand, supports activity of the Clients of Millennium bcp (and other banks of the Group) in Poland, and on the other hand, offers to its Clients, interested in the development of international operations, unique assistance and advisory o selected markets, demonstrating strong development prospects in the area of mutual investment and trade co-operation, where Polish companies have a relatively weak expertise.

The markets mentioned are mostly Portugal and Greece (treated by the Bank as priority, as “union” markets), but not only. Within the International Business Platform services, Polish companies receive also access to various banking and financial services and professional advisory in the network of 1700 branches of the Group, located in 18 countries on 4 continents. The network covers outlets – beyond Portugal and Greece – among others in France, Turkey, USA, China (Macao), Angola or Mozambique.

Clients of the Millennium Corporate Banking line are serviced by 81 dedicated Relationship Managers located at Business Centres. For every day banking transactions, every Client has one of the 28 specialised Operational Centres, designed for corporate Clients or one of the branches from the nation-wide Millennium retail network, available across the territory of Poland and capable of supporting various types of transactions.

In addition, corporate Clients of the Bank may perform transactions over the Internet, which is increasingly more popular. Between January 1st and June 30th of number of registered Millenet for corporate customers has increased from 3,838 to 7,862 what gives 104.8 % growth. Another account service modality is a “Home Banking” system, ESOBIG. Share of electronic transfers (Millenet for Companies and ESOBIG system) in total number of transfers executed by companies at the end of June 2005 was at the level of 89 %.

Within the corporate services over the Internet (Millenet) some new functionalities regarding online statements and reports on the mass transfers (Automatic Incoming Payment Identification) were introduced. The Online statements offer a quick and convenient access to information – the information is available immediately, without the need to visit the branch. It is possible to provide electronic archiving. The service is free of charge – which limited the Clients' costs related to reception of statements in their traditional form. Automatic Incoming Payment Identification is supplemented with quick access to electronic reports with tables of all the transactions covered with this service and containing detailed information about the payments received.

Considering, improvement in the sale of banking products and continuity of the customer relationship, the marketing tools used by Relationship Managers were verified and improved. In addition, in order to increase the number of the newly acquired Clients, a special sales team was set up.

In the first half of 2005 the Corporate Banking increased the volume of customer funds from 2.8 billion PLN up to 3.3 billion PLN, i.e. up 17%. If regards the loan market, the volume in the first half of 2005 was maintained at the stable level of approximately 3.3 billion PLN.

Custody services

As at 30.06.2005 the Custody Department of Bank Millennium conducted 1.940 securities accounts (up 16,5% against December 2004), with customer assets of total 17,3 billion PLN. Bank Millennium performed the function of the bank depositary and transfer agent for eleven investment funds from the Millennium TFI S.A. group. Early this year, Bank Millennium extended the range of its services added transaction settlement services and safekeeping of the participation units of foreign investment funds.

In the 2004 international ranking of the best custody services bank, published in February this year by "Global Custodian Magazine" quarterly, Bank Millennium ranked highest in Poland, thus winning the prestigious status of "Top Rated Bank" both in the category of foreign and domestic customer service.

Treasury Department Products

For corporate Clients the Treasury Department of Bank Millennium offers, apart from the traditional FX spot, swap, forward, repo, buy-sell-back transactions, also state-of-the-art risk management products and structured investment products.

The risk management product offer covers:

- FX rate risk (FX forward and Cross Currency Interest Rate Swap transactions, basic and complex options)
- Interest rate risk (Forward Rate Agreement, Interest Rate Swap and Cross Currency Interest Rate Swap)
- Commodity and raw materials price risk (commodity futures and options).

The Bank's offer of structured investment products for corporate Clients include:

- Deposits and debt securities
- Double currency deposits
- Structured deposits and bonds linked to various classes of assets such as stocks, raw materials, FX rates, interest rates and financial market indices.

III. 3. International operations of the Bank

January 2005 saw another year of life of the international banking consortium, founded for cooperation and support of the Trade Bank of Iraq. The body is composed of the following members: JP Morgan Chase Bank (as its leader and coordinator); Australia & New Zealand Banking Group; Bank Millennium SA; National Bank of Kuwait, and Standard Chartered Bank, backed up by a dozen or so of other recognized international partners. The responsible mission entrusted to the above-listed group is to activate the Trade Bank of Iraq in international trading, and also to facilitate international exporters, delivering goods and services to Iraq, to settle their receivables from the country's contractors in a secure, efficient, and risk-free manner. Inter alia, the mission shall include consortium member banks performing (regardless of an array of strong efforts of the members at earlier stages) certain support functions for the Trade Bank of Iraq, upon order from TBI.

Acting as one of the consortium members, Bank Millennium S.A. participated, in the period ending June 2005, in financial servicing of over 300 export contracts for Iraq, totalling the value of close to USD 750m, performed jointly with suppliers (and their banks – correspondents of Bank Millennium S.A.) seated in 27 countries (including, inter alia, Germany, Austria, Denmark, Finland, Sweden, Italy, Turkey, Belgium, Holland, France, Switzerland, Russia, Latvia, Slovenia, Slovakia, Czech Republic, Romania, Bulgaria, and Croatia).

Regardless of the above-listed efforts, the Bank continued to perform all the other tasks related to its general international activity, to reach various goals, including, inter alia, day-to-day financing of own

needs, as well as those of the Bank's Customers, handling international trade transactions, participation in operations of the international money and FX markets, and activity on capital markets.

The success in reaching the objectives was largely driven by the 15 years of development of the Bank's relationship with its international partners and contractors. On regular basis, the Bank cooperates with nearly 1,000 banks-correspondents and their outlets, located in all countries of the World, that are significant from the standpoint of either the structure of turnover of the Polish foreign trade, or non-trade transactions. Under this light, particularly important are relationships with banks seated in countries like (listed in alphabetic order): Australia, Austria, Belarus, Belgium, Bosnia-Herzegovina, Brazil, Bulgaria, Croatia, China, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Greece, Spain, Holland, Hong Kong, India, Ireland, Japan, Jordan, Canada, South Korea, Kuwait, Lithuania, Luxembourg, Latvia, Mexico, Germany, New Zealand, Norway, Portugal, Republic of South Africa, Russia, Romania, Singapore, Slovakia, Slovenia, USA, Switzerland, Sweden, Turkey, Ukraine, Great Britain, Hungary, Italy.

In a minor part of the main correspondents, the Bank has its *nostro* accounts in foreign currencies, while on the other end the Bank keeps a number of *loro* accounts in domestic currency for, inter alia, recognized German and Scandinavian banks. The development in this line of relationship has been strongly supported by the last few years of liberalization in the Polish FX laws, allowing non-residents to use Polish zloty as the settlement currency for their current account transactions, as well as the fact that majority of earlier capital trading restrictions have been lately released.

III. 4. Activity of subsidiaries of Bank Millennium Group

In the 1st Semester of 2005 no changes took place in the group's structure. The dominant company of the Group is Bank Millennium S.A. Remaining companies comprising the Group, covered by the consolidated financial report as at 30 June 2005, are:

Company	Business	Consolidation method
BEL Leasing Sp. z o.o.	Leasing services	Full
Millennium Dom Maklerski S.A.	Brokerage services	Full
Millennium TFI S.A.	Creation and management of investment funds	Full
Forin Sp. z o.o.	Management of other companies	Full
Prolim S.A. *	Leasing services	Full
BBG FINANCE B.V.	Financing companies of the Group	Full
BIG BG INWESTYCJE S.A. **	Financial transactions on the equity market and advisory services	Full
TBM Sp. z o.o.	Financial transactions on the equity market and advisory services	Full

* The company was merged with BEL Leasing on 18 August 2005

** The company was merged with BEL Leasing on 29 July 2005

Additionally the consolidated report included Besta Sp. z o.o., valued using the equity rights method. In case of linked companies, whose scale of business is marginal from the Group's point of view, exposure to such companies is presented in the consolidated report at purchase price, considering impairment write-offs.

Only the following three companies had material significance for the Group's operation: BEL Leasing Sp. z o.o., Millennium Dom Maklerski S.A and Millennium TFI S.A.

BEL Leasing Sp. z o.o.

Leasing activity in the Bank Millennium Group is pursued by BEL Leasing Sp. z o.o., a renowned company with a leading position on the leasing services market in Poland. The company provides professional financing of investments with operating or financial leasing or lease contracts, offering its products to a broad range of Customers. The Customers of BEL Leasing include both small sole proprietor companies, Civil Law partnerships, general partnerships as well as large companies representing most industries. The company finances and leases practically all types of fixed assets' especially: road vehicles, machines and equipment, railway rolling stock, boat and aircraft fleets, computer and office hardware and real estate.

BEL Leasing strives to offer competitive leasing terms and conditions, an attractive insurance package, flexibility of contract conclusion, proven and safe processes and procedures for entering into and implementing contracts and experience of its staff. In order to better satisfy the expectations of Customers, BEL Leasing introduced a product range based on a variable interest rate to complement fixed-rate products.

In the 1st half of 2005 the leasing industry recorded a strong growth of sales value of as much as 16% over the figure in the same period of the previous year.² It may be estimated that the value of leased assets reached PLN 7.5 billion. In the period under discussion the real estate market grew 92%, with the movables market being up 10%.

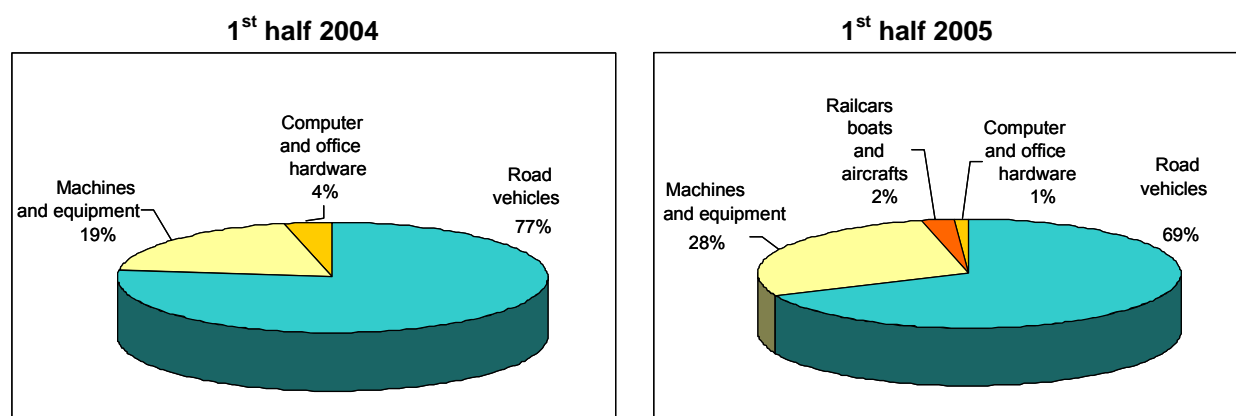
In the January – June 2005 period the Company initiated 3,588 contracts, leasing-out objects worth PLN 410 million. In the same period of the previous year 3,386 contracts had been disbursed, worth PLN 375 million. This means an increase over the same period of 2004 by 9.4% in value terms.

The company ranked 6th in value of leased objects among the largest leasing companies, with its share in the Polish leasing market in 1st half 2005 standing at 5.4% (6.2% in the non-real estate market).³

As at 30.06.2005 the number of leasing contracts handled by the Company was 21,587 while the value of capital committed to active contracts was PLN 1,529,100,000. In the 1st half of 2005 there was especially strong growth of the share of machines and equipment in BEL's sales.

The graphs below present the breakdown by type of contracts disbursed in the 1st half of 2004 and 2005, according to initial value of leased objects:

Sales breakdown by leasing objects



² According to data published by ZPL (Leasing Companies Association) in July 2005.

³ Assuming that the Polish leasing market in 1st half 2005 had the value of PLN 7.5 billion.

Customers of Bank Millennium Group can access the offer of BEL Leasing through the extensive commercial network of Millennium Corporate Banking as well as own branches of the Company located in following cities: Białystok, Gdańsk, Katowice, Kraków, Lublin, Olsztyn, Poznań, Toruń, Warszawa, Wrocław and Zielona Góra.

Additionally the network of Bank Millennium Group is supported by an external network, which as at 30.06.2005 comprised 18 Representative Offices and 13 Agencies.

Millennium Dom Maklerski S.A.

Brokerage business of the Bank Millennium Group is performed through the Millennium Dom Maklerski S.A.. The company offers a full spectrum of brokerage services, including:

- Offering securities in primary trading or IPO,
- Acquiring or selling financial instruments for third parties,
- Acquiring or selling financial instruments on own account to perform tasks connected with market making,
- Advice about securities,
- Maintenance of financial instruments accounts and money accounts to support them,
- Taking actions connected with service of investment and pension funds,
- Intermediation in acquiring and divesting financial instruments quoted on foreign markets

In the first half of 2005, like in previous year, MDM was an active member of the Polish IPO's market. Millennium DM acted as financial adviser, organiser as well as manager for CIECH S.A. IPO. It was one of the biggest public offer on the Polish market in 1st half this year. Also in the current year Millennium DM introduced on to the stock market ŚRUBEX S.A. equities. Value of these two IPO's realised by Millennium DM totalled more than PLN 328 million. In first half of 2005 Millennium DM prepared also public offer for GROUP POLSKIE SKŁADY BUDOWLANE S.A. bonds, which are quoted on the CeTO now.

In 2005, Millennium DM took part in 5th consortia organized on the IPO market in connection with public offers of the following companies: ZELMER S.A., EUROCASH S.A., POLMOS BIAŁYSTOK S.A., LOTOS S.A. and OPOCZNO S.A..

Meeting customers' requirements Millennium DM started close cooperation with Bank Millennium network on the field of granting credits on purchase of equities in the first offer.

In the first half of 2005 the volume of trading on WSE was far higher than in the same period of 2004. It reached PLN 74 billion on the stock market (as compared with PLN 50.3 billion in 2004) and PLN 88.4 billion on the futures market (compared with PLN 71 billion in 2004). Despite quite widespread expectations of a correction the stock market was following a growth trend for over two years. The key reason for increases was the influx of foreign capital (43% of turnover in 1st Semester 2005), which is traditionally centred on the stock of largest companies. The share of individual investors in stock trading fell in the 1st Semester 2005 to the lowest level in the WSE history and stood at merely 24 % as compared with 38% in the 1st half of 2004. At the session closing on 30 June 2005 the WIG index reached 28 332, while the year before it was 15.5% lower at 23 949. On 30 June 2005 market cap of companies listed on WSE was PLN 337.6 billion as compared with PLN 193.5 billion the year before. Of that as much as PLN 105.5 billion was the capitalisation of foreign companies

The Millennium Dom Maklerski conducted 58 545 investment accounts as of 30th July 2005.

After six months of 2005, Millennium Dom Maklerski market share in Warsaw Stock Exchange equities trading reached 2,43% with value of turnover accounted for PLN 1 800 mil. Its share on the Treasury Bonds market achieved 4,3%, on the futures contracts market 3,1% and on the index options market 2,7%.

Professional brokerage services rendered by Millennium Dom Maklerski S.A. are available through a conventional network of 12 Customer Service Outlets located throughout Poland, within Millennium

and Millennium Prestige network, as well as through the Internet. Millennium DM Internet services system, offering rapid access both to brokerage services and information database about the capital market, becomes more and more popular among Millennium Dom Maklerski customers. It is confirmed by the number of internet investment accounts increasing from 2 040 as of 30th July 2004 to 4 649 as of 30th July 2005. So considerable development of above mentioned distribution channel numbered Millennium DM among the leaders of internet brokerage services and gives good perspectives on future.

Customer Service Outlets of Millennium Dom Maklerski also offer the sale of participation units in Millennium TFI investment funds and participation in transactions executed on the CeTO non-stock exchange market.

Millennium Towarzystwo Funduszy Inwestycyjnych S. A.

Creation and management of investment funds and contracted management of a third-party portfolio of shares is performed in the Bank Millennium Group by Millennium Towarzystwo Funduszy Inwestycyjnych S. A. (Millennium TFI)

Investment funds remain highly popular with customers, leading to rapid growth of assets and a growing share of funds in the breakdown of savings. In the 1st Semester of 2005 Polish investment funds acquired a total of PLN 7.4 billion (as compared with PLN 5 billion acquired in the entire 2004), exceeding the level of PLN 45 billion.

The offer of Millennium TFI is targeted at individual and institutional Customers. In the 1st Semester of 2005 it comprised seven open-ended investment funds: Millennium FIO Monetary, Millennium FIO Debt Securities, Millennium FIO Dollar Deposit, Millennium FIO Stable Growth, Millennium FIO Balanced, Millennium FIO Stocks, Millennium SFIO Foreign Funds, portfolios in four basic strategies: stocks, bonds, mixed and variable exposure as well as portfolios under individual strategies, built depending on instructions from customers. Additionally Millennium TFI was offering long-term savings products – Individual Retirement Accounts, Regular Savings Plans and Employee Pension Schemes.

The first half of the year saw further development of the product offer. In February 2005 Millennium TFI launched another fund - Millennium SFIO Foreign Funds, which provides our Customers with the opportunity to invest in the world's best funds. It is Poland's first *fund of funds* giving access to the best funds in the world. Millennium SFIO Foreign Funds comprises 5 Sub-Funds: Conservative, Stable, Growth, Dynamic and Aggressive, differing in the share of stock funds. The fund has the form of an "umbrella fund", which means that within the fund various sub-funds are created whose assets are entirely invested in foreign funds.

In the 1st half of 2005 over 9,000 new participants were acquired for Millennium funds. The assets of Millennium funds increased by PLN 326.8 million, reaching PLN 765.3 million. The most popular were funds giving the opportunity for above-average rates of return with mitigated risk i.e. Millennium FIO Stable Growth, whose assets grew PLN 73.4 million and Millennium FIO Debt Securities with assets up PLN 74.4 million. The dynamic growth of assets permitted Millennium TFI S.A. to increase its share in a strongly growing market from 1.2% to 1.7% during the 1st Semester of 2005.

IV. RISK MANAGEMENT AND MAIN RISKS

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. Majority of financial decisions is now made in view of their risk. With this in mind the Bank developed a risk management policy together with a strategy of its implementation.

The main risks to the banking business (simultaneously constituting risk management areas for the Bank) 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 the strategic level. At the operating level, three high-level committees are responsible for managing each of the risk areas and selecting current policy directions within the framework specified by the Management Board. These are the Capital, Assets and Liabilities Committee, Credit Committee and Operating Risk Committee.

Risk in subsidiaries is measured and managed at the Head Office level. 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 June 2005 the level of own capitals cushioning the risks taken by the Bank's Capital Group stood at 1 981,1 million PLN (of which the Bank itself 1 975,7 million PLN). This allowed to achieve a very high level of solvency ratios: 20,9% for the Group and 18,0% for the Bank.

IV.1 Credit Risk

Credit risk arises in connection with lending activity conducted by the Bank's Capital Group with respect to the clients from all segments. This also includes operations in the interbank market. The Bank manages this risk under its current credit policy, as well as by constructing appropriate organisational structures taking part in the credit process and by improving the Bank's rating and scoring models which support the credit decision process.

Credit Policy

Bank Millennium's credit policy is guided by the principle of creating optimum conditions for the development of selling credit products (broadly conceived) in the entire Capital Group, while simultaneously retaining a satisfactory level of credit risk and high portfolio quality. The Bank's policy is contained in a number of procedures issued by the Bank's Management Board or its Members. The most important elements of the Bank's credit process, including the competencies of particular decision-makers with respect to concluding credit risk-bearing transactions, are defined in the "General Lending Principles". The Bank's policy towards funding particular client segments is reflected in detailed regulations ("Principles of Lending to Particular Client Segments")

For corporate clients the basic relationship tool is the internal credit limit, assumptions of which were modified in the 1st HY 2005 in order to further streamline client service. These assumptions are contained in the "Instruction on the Operational Principles of the Internal Credit Limit". Additionally for businesses obliged to full accounting the Bank verified the assumptions relating to the borrowing capacity assessment.

Also, in the 1st half of 2005 the Bank amended its approach towards assessing loan applications of individual clients by redefining specific modes of assessing borrowing capacity. Depending on the situation (among others on the collateral presented by the client, history of his cooperation with the Bank) an appropriate mode is applicable, the most appropriate for the client. The above assumptions are reflected in the "Instruction on Performing Individual Clients' Borrowing Capacity Assessment", which defines the scoring models applied by the Bank to individual clients.

Additionally, the Bank runs an active policy in terms of acceptable collateral for credit-risk bearing transactions, in particular in terms of assessing collateral value at the stage of granting a loan and monitoring the collateral until the time of total loan repayment. The principles regarding this policy are included in the "Instruction of Collateral Monitoring and Appraisal".

Credit Process Organisation

The organisation of credit risk management at the Bank consists first of all in the demarcation, as to the principle, of the organisational units responsible for the sale of banking products from persons responsible for risk assessment. What has additionally been defined are decision-making levels consisting of two persons. Such persons in view of the posts occupied by them have competencies for taking decisions to conclude credit risk-bearing transactions. The competencies of particular decision-making levels differ between themselves and depend first of all on the level of the Bank's exposure to a given client and his rating. These competencies are also diversified in terms of the client segment, the Bank's Credit Committee being generally the highest decision-making level. The Credit Committee consists among others of Management Board Members responsible for particular business lines, as well as for risk assessment. In addition to taking credit decisions with respect to individual clients the Credit Committee has also competencies to lay down guidelines on the Bank's credit policy.

Tools supporting the Credit Process

The Bank also continues its work connected with the improvement of electronic tools in support of the credit process. Risk models are tested periodically. They include the behavioural scoring model employed with respect to individuals, which is based on the analysis of the existing client relationship, i.e. accounts run by the client, period of cooperation, servicing of payment cards and other credit products. Rating models are a tool which supports a credit risk analysis process in connection with financing of corporate client. The improvement of systems in support of the Bank's analytical and decision-making process improves the speed and quality of client service, which goes a long way towards improving the effectiveness of the whole lending process.

In addition to improving the Bank's risk analysis tools training sessions were conducted for employees in assessing the economic and financial situation of the clients and understanding of legal regulations

Principles of Credit Risk Provisioning

The beginning of 2005 also saw change in provisioning rules at the level of the Bank's Capital Group in connection with the implementation of the International Accounting Standards. In accordance with these principles provisions now reflect the real impairment of credit risk bearing transactions using the discounted cash-flow methodology. The impairment of the Bank's assets is estimated on the basis of an individual analysis of particular clients and their exposure or on the basis of a portfolio analysis which takes into account a group of assets with similar risk features. The purpose of an individual analysis is to check on the basis on the assessment of the client's economic-financial situation (including information from external environment) if there are no symptoms indicative of an impairment of an individual loan, and if there are – to calculate the impairment amount.

IV.2. Market Risk

Market risk is connected with the uncertainty if interest rates, exchange rates and prices of securities and derivatives held by the Capital Group assume values departing from initially assumed levels, which would result in the emergence of uncontrolled profits or losses on the positions taken.

In the 1st HY 2005 the Bank continued to develop a system of market risk control in order to adjust to the requirements of the Bank's financial operations profile, resulting from among others higher diversification and growing trading in financial instruments (including mandatory legal controls) as well as to adjust the measurement tools to state-of-the-art methodology and increased technical possibilities.

The basic methods used for the purposes of day-to-day management of market risk at the Bank are value-at-risk (VaR) and NBP-recommended methods. The value at risk method is used for trading

portfolios and bank portfolio covering all the financial instruments, both on- and off-balance. Additionally to VaR the Bank tests the historic adequacy of the employed model (backtesting) and develops tools for measuring the market risk of trading portfolios with the use of the scenario methods. These methods are particularly useful for unusual events which cannot be anticipated by VaR.

In parallel to changes regarding the organisation and methodology of market risk control the Bank continued the implementation of technological changes regarding IT-aided risk management solutions. Under the new Kondor+ transaction system (for handling transitions concluded at the Treasury Department) the Bank uses an InVaR IT tool built by the Strategic Investor (BCP ALM Division) jointly with Reuters on the basis of RiskMetrics (JP Morgan) methodology. The new transaction system has very important risk control features: it provides access to an integrated and complete transaction data base, enables the management of all positions and controlling limit utilisation in real time and allows to daily calculate the result at all operational levels

Interest Rate Risk

In terms of interest rate risk the Bank is guided by the principle of maximising the market value of the capital when realising its planned net interest income under the adopted risk limits

On the last day of June 2005 the Bank's exposure on interest rate risk (VaR) stood at about 25.3 million PLN (on average in the first HY 16.0 million PLN) with the binding global market risk limit of 48.2 million PLN.

In addition to measuring VaR the Bank also estimates the putative changes of earnings (EaR) as a result of changes in market interest rates.

Currency risk

The basic purpose of managing currency risk is to shape the structure of FX assets and liabilities and off-balance sheet items in keeping with the internal limits and external limits specified for the Bank by banking law requirements

In the 1st HY 2005 the Bank maintained a squared currency position. At the end of June the Bank's currency risk exposure (VaR) stood at about 0.3 million PLN (on average in the first HY about 0.4 million PLN) with the binding limit of 16.1 million PLN.

Derivative risk

All derivative transactions are concluded either to hedge an open on-balance positions, or for trading purposes under the established trading limits. The basic derivatives used by the Bank both for interest/exchange rate management and for commercial purposes are the following contracts: *FX Forward, Forward Rate Agreement, Interest Rate Swap, FX Swap, Cross Currency Swap* and *currency options*.

IV.3. Liquidity Risk

The Bank's overarching objective is to manage its funds in such way that after taking into account all the adverse scenarios of changes in the environment it is still possible to satisfy in due course all the contractual agreements of the Capital Group vis a vis the clients. There would also be liquidity risk if the Bank had problems with acquiring funds for its operations or would be unable to liquidate its commercial assets in a relatively short time with the observance of market prices. Therefore the liquidity reserve is constituted by a portfolio of Treasury securities with the highest secondary market liquidity.

The Bank manages liquidity risk on a daily basis by using the net liquid assets method (liquidity gap). In order to secure the appropriate level of current liquidity the Bank maintains an obligatory reserve at a level in accordance with the NBP requirements, funds on nostro accounts necessary for carrying out non-cash settlements, optimum funds in the Bank's vaults, liquidity reserves in the form of very liquid financial instruments.

The Bank's investment policy is guided by the requirements of the Banking Act and NBP recommendations. The Bank uses the internal structural liquidity ratio specifying the relationship of adjusted total matured assets to adjusted total liabilities. The safe level of this relation adopted at the Bank for the period up to 3 months is 100%. There is also a limit for the liquid assets ratio: the Bank's liquid assets to total assets. Such ratio achieved in 2005 the value of 41.7%. The (subject to limits) quick liquidity ratios (balance on receivables and liabilities in the money market plus securities available for immediate sale) and quarterly liquidity (lowest cumulated balance of money market receivables and liabilities cumulated over a quarter plus securities available for immediate sale at the date of occurrence of such balance) were considerably below the adopted minimum values.

For current liquidity requirements a portfolio of blocked Treasury securities is kept in the amount ensuring the implementation of short-term payments. Subject to monitoring is moreover the concentration of liabilities to the Bank's biggest clients and evolution of the structure of the Bank's assets and liabilities (on and off balance), which allows to early detect unfavourable liquidity trends. Moreover, regular studies are conducted about core deposits, premature withdrawal of deposits and the scale unauthorised overdrafts and use of open credit lines.

The Bank has procedures for liquidity crunches, i.e. an emergency plan for situations of the Bank's deteriorating liquidity.

IV.4. Operational Risk

Operational risk is connected, as it must be, with all the types of risk generated under the Bank's operational activity. This is a risk of loss created due to inappropriate or faulty internal operations and processes, human activities, systems and due to the impact of external events. Special, non-measurable effects of such risk are the risk of employee (or external person) embezzlements, inappropriate authorisation transactions, equipment and teleinformation equipment failures, inadequate personnel training, as well as human error risk.

In the 1st HY 2005 the Bank continued works connected with the improvement of the system of identification, assessment, monitoring and hedging of operational risk. One of the tools of preventing potential risk events and mitigating their consequences are risk self-assessment procedures under all the processes realised at the Bank. An operational risk system and methodology are being developed in accordance with the Committee for Banking Supervision recommendations and world standards. The Bank has defined the tools which it is implementing or plans to implement so that its system of identification, assessment, monitoring and hedging of operational risk be as complete and uniform as possible – in accordance with the adopted Operational Risk Management Strategy. Its important elements include the base of operating risk events, and also the reporting system, including for the needs of the Operating Risk Committee.

V. HUMAN RESOURCES, OWNERSHIP STRUCTURE AND THE MANAGEMENT

V.1. Human Resources Management

Total number of employees in Bank Millennium Group as at 30 June 2005 was 4333 (in full time equivalent), which means merely 1% growth compared with 30 June 2004 (4291 employees). The employment in Bank Millennium itself was 3938 persons and the remaining 395 persons are located in the Group subsidiaries. Of the total Bank employment, 127 persons refer to managerial positions (including Board Members, senior and medium level managers). 2173 employees were working in Bank's branches whereas 1765 employees in the Head Office.

Managing People Development

The responsibility for the management of people belongs to Managers. Human Resources Units support Managers in the management of their staff. The management of people is supervised by Personnel Committees composed of high rank Directors, who review the overall assessment and development plans of our Employees. A special focus is put to the management of talents – key Employees for the organization thanks to their contribution and potential.

The Bank uses an integrated IT system available through intranet that allows all line superiors to manage their staff, and each Employee to follow his/her performance and development. Our work bylaws were reviewed and improved in order not only to specify rights and duties of both Employee and Employer, but also to include rules of conduct with high ethical standards .

People grow and develop in Bank Millennium Group through the daily feedback and on-the-job coaching received from their managers. Once per year all Employees attend a development meeting with their line superior with the purpose of comparing the Employee' skills against the competencies profile defined for his function and drawing up an individual development plan to correct any shortcomings or to prepare the Employee to a new position within the company.

The Bank uses a competencies' system based on two groups of skills: the core competencies that reflect the expected conduct of Millennium people aligned with Bank's strategic objectives, culture and values; and the specific skills that differ from job to job.

The development meeting with each Employee is a genuine boost for development: it provides guidance for Employee's development and allows to identify training needs.

In the first half of 2005 a comprehensive Employee satisfaction survey was carried out and various initiatives were launched aiming at continuously improving Employees' motivation .

Trainings

Training programs are defined for each function and step of career development. In the first semester 2005, 2855 participants took part in trainings with more than 31 hours of training per training participant on average.

One of the most important training programs that took place in this period was "Millemaster II" – a training program for all Employees in Millennium Retail branch network. The main objectives of "Millemaster II" were:

- To improve customer satisfaction, by moving from product-focused structure to client-focused culture
- To increase the skills of addressing the customers needs
- To increase coaching skills of Managers

Until now 58% of all Millennium Retail branch Employees have gone through "Millemaster II" and the remaining will be trained by the end of the year.

Recruitment Policy

Recruitment in Bank Millennium S.A. is supported by the job mobility policy, which is based on the conviction that exposure to challenge posed by a new job is a very powerful stimulus to learning and development processes. Additionally, mobility between jobs and units contributes to disseminating good practices and improves interdepartmental communication

Each employee can apply for a vacant job post. The selection process takes into account the overall assessment of an Employee, time spent already in the current function and competencies required for the new post.

Externally Bank recruits young and talented people that fit our organizational culture and who want to develop and grow with us. The Bank focus mainly on students and young graduates who are already familiar with the Bank thanks to "Come and Grow with Us" events organized by Bank Millennium at universities. In the first 6 months of 2005 as many as 3265 students applied for internships grouped in 7 internship programs, out of whom approximately 80 were invited to gain experience within our Bank. Apart from that 250 students participated in 3 competitions:

- MilleInkubator for new business initiatives,
- S-Mille for students interested in issues connected with corporate social responsibility,
- MilleInnovation for new technologies.

In order to build a pool of high talented future managers, Bank Millennium addresses a specific offer to the best students in Poland: "People Grow Program". This two-year program aims at developing middle managers' skills, includes a rotation plan through key areas of the Bank, participation in projects and mentorship from a Board Member. In the first semester of 2005 about 800 students applied to become one of the 10 participants of "People Grow Program" 4th edition.

V.2. Ownership structure

List of shareholders who hold at least 5% of the total number of votes at the GSM of Bank Millennium S.A. as of 30 June 2005:

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at the General Meeting of Shareholders
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

V.3. Management and Supervisory Board of the Bank

Management Board of the Bank is as follows:

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

There have not been any changes in the composition of the Management Board in the first half of 2005 year.

Supervisory Board of the Bank is as follows:

1. Maciej Bednarkiewicz - Chairman Rady Nadzorczej
2. Ryszard Pospieszyński – Deputy Chairman and Secretary of the Supervisory Board
3. Christopher de Beck - Supervisory Board Member
4. Dimitrios Contominas - Supervisory Board Member
5. Jorge Manuel Jardim Goncalves - Supervisory Board Member
6. Andrzej Koźmiński - Supervisory Board Member
7. Francisco de Lacerda - Supervisory Board Member
8. Vasco de Mello - Supervisory Board Member
9. Paulo Teixeira Pinto - Supervisory Board Member
10. Marek Rocki - Supervisory Board Member
11. Dariusz Rosati - Supervisory Board Member
12. Zbigniew Sobolewski - Supervisory Board Member

The composition of the Supervisory Board has been changed through:

Resignation of Mr. Gijsbert Johannes Swalef,

Appointment of Mr Dimitrios Contominas, Mr. Vasco de Mello and Mr. Paulo Teixeira Pinto to the Supervisory Board.

V.4. Statements of the Management Board of the Dominant Entity

Presentation of the Bank Millennium Capital Group asset and financial standing in the financial report

To the best of knowledge the semi-annual consolidated financial report of Bank Millennium S.A. Capital Group, prepared as at 30 June 2005 and the comparable data, have been prepared in keeping with binding accounting principles and provide a true, fair and clear picture of the asset and financial standing of the Capital Group and its financial result. This Management Board Report contain a true picture of the development and achievements as well as standing of the Capital Group (including a description of key risks and threats).

Selection of a company authorised to examine financial reports

The company authorised to examine financial reports, performing a review of this semi-annual consolidated financial report of Bank Millennium S.A. Capital Group, prepared as at 30 June 2005, was selected according to legal regulations. This company as well as the chartered accountants performing this review have met the conditions necessary to provide an impartial and independent review report, in keeping with relevant regulations of national law.

SIGNATURES:

Date	Full name	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