



**Management Board Report on the Activity
of Bank Millennium Capital Group
in the 2005 Financial Year**

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I. MARKET CONDITIONS IN 2005 AND PERSPECTIVES FOR THE GROUP ACTIVITY

I. 1. Macroeconomic situation and market conditions

Polish economy resumed its recovery path following the period of economic slowdown, inter alia related to dying out of the pre-accession boom effect. Growth tendencies became visible in the second half of the year 2005, however due to the slowdown observed in the first half of the year the dynamics of the Growth Domestic Product (GDP) was reduced to 3.2% per annum from 5.3% in 2004. In spite of the decline of the economic growth rate, Poland is one of the most dynamically developing economies from among the European Union states, although Poland's growth rate is clearly below the respective rates of the leading economies of the Central and Eastern European countries.

Export continued to be the main economic growth driver. Please note that Polish companies increased their export sales in spite of less favourable FX rates. High export dynamics resulted from high competitiveness of Polish enterprises and their market expansion into the Central and Eastern Europe and Asia. Growing exports, coupled with slight increase in imports, translated into reduction of the trade deficit. Limitation of the external imbalance of the Polish economy, combined with the inflow of funds from the European Union, was reflected in lower deficit on the current account. Last year, especially its second half, saw also revival on the investment side of the market with 6.2% growth rate. Nonetheless, the scale of the recovery recorded in the investment demand is still not sufficiently high and does not warrant that Polish economy shall continue to follow the long-term path of stable growth. Slower-than-expected rebound of the corporate investment was the effect of uncertainty as to the future prospects and shape of the future economic policy as well as delays in financing from the European Union. Private consumption deteriorated slightly and its growth rate dropped down to 2.3% from 3.9% a year ago. Decline in the consumption growth may be attributed to the high baseline statistics of the previous year, when in the months preceding Poland's accession to the European Union a transitory acceleration in the consumption growth as well as in moderate growth of the disposable income were observed.

Continued economic rebound was accompanied by the decline in the inflationary pressure. At the end of 2005 inflation stood at 0.7% y/y (Consumer Price Index), much below the bottom limit of the inflation target set by the National Bank of Poland (2.5%+/-1%). Decline in inflation was enhanced by low demand pressure, stronger zloty and more favourable-than-expected market trends in the food and fuel sectors.

The situation in the labour market gradually improved, but unemployment was still very high compared to other European countries. In December last year the registered unemployment rate stood at 17.6%, i.e. 1.4 percentage point less than in December 2004 and employment was growing. In the entire 2005 the number of the employees of the corporate sector increased by 1.9%. The improvement on the labour market was also confirmed by the data based on the BAEL approach, according to which in the third quarter of 2005 the unemployment rate declined to 17.4% against 18.0% at the end of 2004. Low inflation and continuously high unemployment curbed the wage increase pressure. In 2005, in nominal terms, average wage in the corporate sector increased 3.2% y/y. More favourable trends were observed in the population of the self-employed and small and medium sized companies, where pay grew faster than in other sectors. Towards the end of 2005 a short-lived acceleration in the growth rate of wages was observed, i.e. 6.2-6.9% y/y in the period between October and November, however it was related to one-off factors and changes in the timing of bonus payments in the mining and telecom industry. In the scale of the entire economy the wage growth pressure was at a low level.

Also the last year's situation in the public finance sector was favourable. The deficit in the central budget stood for the entire year at 28.6 billion zlotys against 35 billion zlotys recorded in the Budget Act (3% against 4.5% of GDP in 2004). This result, better than the original assumptions, came in the wake of the economic revival, which was translated into increased proceeds from personal income tax, corporate income tax and value added tax. Also, income from dividends and profit distribution from state-owned enterprises and companies of the State Treasury were materially higher than the

original assumptions. Having said that, the year of parliamentary and presidential elections was not conducive to the reforms on the expense side, which would improve medium-term fiscal prospects. The last year contributed to further increase in the public debt, although its growth rate was slowed down. In 2005 the public debt-to-GDP ratio went up to 49.5% from 48.2% recorded in 2004, thus falling below the first prudential threshold stipulated in the Act on Public Finances. The public debt control was supported by economic revival and stronger zloty, which translated into decrease in value of the foreign debt denominated in zloty.

Improved inflation prospects combined with the economic growth below the expected level made the Monetary Policy Council soften their monetary policy and cut interest rates in total by 200 basis points. After the August decision of the Monetary Policy Council the reference rate was at a record low level of 4.50%. Along with the decrease in the base rates of the National Bank of Poland, commercial banks reduced their interest rates on deposits and loans. The largest cuts in interest rates were recorded in case of the money market rates-linked loans, i.e. corporate loans and mortgages for households. In case of these loans the average interest rate was reduced in a scale similar to that of the cuts in the Central Bank interest rates, i.e. by 200 basis points. However, a smaller scale of cuts was applied for consumer loans rates. Moreover, falling interest rates combined with strong competition in the banking sector added to the pressure to push down bank margins.

Lower interest rates for bank deposits induced households to reallocate savings to more profitable forms of investment. From among the available instruments, participation units in investment funds and State Treasury saving bonds were the most popular. Also bank deposits grew, although compared to other investment modalities their growth rate was moderate. Despite progressive diversification of saving vehicles, the banking sector has still remained the main place, where household savings are invested. Considering growing trends in bank deposits, investment fund assets and sale of retail State Treasury bonds, one may estimate that the last year closed with further increase in household savings. Decrease in interest rates combined with slow improvement on the income side supported growing household debt (22.0% y/y). Following the pattern of the previous years housing loans demonstrated the highest dynamics (40.8% y/y). Good financial standing of companies and slow growth in investments resulted in the increased deposits of non-financial corporations reaching their record high (100.5 billion zlotys). Corporations accumulated their funds on bank accounts, thus making relatively small investments in fixed assets. However, on the other hand, due to a slow recovery of the investment demand, the corporate lending remained low (0.5% y/y). Importantly, lease operations – alternative source of financing – recorded a dynamic growth (14.6%).

According to the Bank's assessment, in the following quarters Polish economy shall follow the growth path. Along with the progressive rebound, the growth structure shall change. Although continuously growing export will exert a positive impact on business activity, its positive contribution to the GDP's growth will gradually disappear. However, the role of the domestic demand, in particular investment demand, will grow. Good financial standing of corporations, high utilisation of production capacities and inflow of European Union funds will support investment growth. This year inflow of funds is estimated at 2.99 billion Euro (in gross terms) and 4.82 billion Euros in 2007. Slight acceleration is also expected in private consumption. Consumption growth will be facilitated by gradual increase in household disposable income through, inter alia, indexation of disability pensions and old age pensions, direct subsidies for farmers and increase in employment. The moderate inflationary pressure exerted by the demand, strong zloty and more favourable trends on the food market will be conducive to keeping low inflation. Although in subsequent months of 2006 CPI is expected to grow, it should not exceed the NBP's inflation target, i.e. 2.5% y/y. Oil price hikes remain an inflation risk factor, although strong zloty will curb inflationary effects of the increasing fuel prices on the international markets. The shape of fiscal policy will have a strong impact on the economic environment and growth of the economy. The present structure of the Polish political scene, gives rise to some concerns as to the shape of the economic policy. Meanwhile, structural reforms, which include among others limitation of the rigid expenses of the budget, will be conducive to the development of favourable conditions for sustainable economic growth. Implementation of fiscal reforms is also a must in order to fulfil Maastricht convergence criteria, required for Poland's accession to the European Economic and Monetary Union.

Continued economic recovery and increased employment in the economy will have a positive impact on the banking sector. Along with the increase of affluence of the households growth of their savings may be expected. Attention must also be drawn to the fact that due to reduction of interest rates

savings will be further reallocated. Funds will continue to be invested mainly in the banking sector, nonetheless interest will grow in alternative forms of investments. Out of the available instruments, the most dynamic growth may be projected in the investment funds. Increase of the credit action may also be expected. The upswing trend of mortgage loans should continue in the segment of households. Due to the material reduction of interest rates in Poland and strengthening of the zloty growth of interest may be expected in the PLN denominated loans. Increase may also be expected in the segment of payment cards which will be promoted by the income growing in the households and accompanying increase of popularity in cashless forms of payments. The large potential of these market segments are indicated by experiences of other European Union countries. Increase of the credit action is also projected in the corporate segment, in consequence of the anticipated animation in investments. These projections are supported by the expected inflow of funds from the European Union, which will be largely allocated for the co-financing of investment projects.

I.2. Strategy and development perspective of Bank Millennium Group

During 2005, Bank Millennium's activity was driven by the 3 pillars that support its medium term strategy:

- i) gaining scale and profitability in the retail business through organic growth,
- ii) improving sales and capabilities in the corporate area to increase business results
- iii) exploring synergies with Millennium BCP in different areas in order to take advantage of integrating an international Group.

After a previous period that was mainly devoted to the commercial and operational reorganization, as well as to strengthen the balance sheet, the bank was prepared to grow and the performance of 2005 confirmed the bank's capability to deliver in core priorities.

Bank Millennium improved significantly both profitability and efficiency indicators which progress is in line with the financial targets set for the end of 2007. The maintenance of a strict cost control and the improvement of assets quality also contributed to the very positive overall performance in the year. Key activity indicators improved substantially in 2005, especially in core areas, allowing the bank to reinforce its position in the polish-banking sector. Millennium brand awareness also increased significantly due to systematic and articulated communication actions.

Bank Millennium activity in retail business was focused on increasing commercial effectiveness through "industrialization" of sales, continuing to build market power in mortgage loans, launching a similar business model approach to credit cards and developing the affluent business. The growth in mutual funds was also selected as a main target in order to converge the bank's market share to its natural value. In the corporate area, the bank's activities were aimed at increasing revenues from the current customer base through the sale of added value products and at accelerating customer acquisition. Important efforts were also made to maintain a strong market position in leasing, particularly in the non-real estate segment.

2005 was characterized by the successful implementation of the concept of sales industrialization in retail, which major objective is to increase the number of products per customer. During the year several campaigns/offers were conducted aimed at selling specific products to targeted customers, using the sales power of branches, complemented by actions taken by telesales. As a result of these efforts, cross-selling ratio increased from 2,4 to more than 2,7 products per customer during 2005. Consequently, the bank reinforced customer loyalty while simultaneously increased non-interest income which importance is becoming critical due to the progressive reduction of margins. It must be stressed that this significant improvement was achieved in a period where the number of customers increased substantially due to the fine-tuning of the bank's offer, the development of highly competitive products in selected areas and the increased awareness of the Millennium brand.

In 2005, the Bank continued to dedicate particular attention to the mortgage lending area. The increased productivity of retail branches, the expansion of the complementary sales channels, including specialized mortgage centres and a network of brokers, the competitiveness of the solutions offered to the market and some dedicated marketing actions contributed to a remarkable increase of the new loans which led Bank Millennium to the 3rd position in the ranking of polish banks, with 11% market share, clearly above the bank's natural share. At the same time, important improvements were

made in order to automate the mortgage back-office processes, enabling the bank to increase operational efficiency while improving significantly the quality of service.

In what regards the cards business, the year was dedicated to review product offer and introducing features designed to stimulate usage, while increasing significantly the penetration of credit cards in the current client base. Taking advantage of the sales industrialization program, the bank increased by 82% the number of credit cards in a 12 months period. It must be stressed that Visa Economic card from Bank Millennium was ranked 1st among credit cards in Poland according to "Rzeczpospolita" daily and "Forbes" magazine. At the same time, a specific business model was developed to sell intensively credit cards to non-bank customers based on complementary channels, including co-branded cards. The first result of this strategy was the launch of the co-branded card with Sephora, which took place in the 4th quarter.

Given its potential in terms of revenues per client, the bank also paid particular attention to the development of the business model for the affluent segment. Main changes consist in the introduction of innovative high-margin products, the shift from traditional deposits to mutual funds and a renovated incentive system. In what regards the results in 2005, we must stress the strong participation of the group in the most important IPO's that took place in the Warsaw Stock Exchange, which contribution was quite expressive in terms of revenues. In order to overcome the negative impact resulting from the drop of market rates, the bank selected mutual funds as the main weapon to capture individual customer funds. The strong commercial efforts, including intensive training to the sales force, the introduction of new funds in the portfolio, namely the fund of foreign funds, as well as the improvement of the funds performance, contributed to the impressive increase of the mutual funds balance which already represents 16% of total individuals liabilities. Even though the mutual funds market grew at a fast pace, Bank Millennium grew significantly above the market more than duplicating its market share.

The development of electronic channels continued to be a priority in 2005. In what regards Internet, significant efforts were made to upgrade both the stability of the platform as well as the services available. In what regards new features, the launch of auctions of term deposits and the SMS notification service should be highlighted. As at the end of the year, the number of registered retail users overcame 295 thousand and the number of transfers made through Internet already represented more than 70% of the total of the bank. This year Bank Millennium was awarded "Best Consumer Internet Bank in Poland" by "Global Finance", an independent international finance magazine.

In the corporate segment, Bank Millennium's activity was oriented to meet two main objectives. On one hand, a significant effort was made to boost revenues from the existing customer base through the sale of added value products like risk hedging instruments, cash management solutions and trade finance products. On the other hand, a customer acquisition team was created aimed at increasing significantly the capacity of customer acquisition. Leasing continued to be a strategic priority in the corporate area. Taking in consideration the decrease of volumes in the segment of means of transportation, the leasing activity was focused in areas with higher growth perspectives. As a result of the improved co-operation between BEL Leasing and the bank's networks, the percentage of the production that was originated through the bank increased to nearly 40% of the total, enabling the Group to maintain a strong position in the sector.

According to economic forecasts, GDP growth in 2006 will be higher than in 2005, however the level of unemployment will remain high although gradually decreasing. The level of competition in the sector is likely to continue as well as the trend of converging margins towards European levels. Growth opportunities still exist in several areas due to the low penetration of banking products in Poland when compared with other European countries. In this framework, Bank Millennium will continue to pursue its medium term strategy in order to meet the defined ambitious strategic objectives.

For the coming years, Bank Millennium will remain focused on key priorities to gain scale and profitability through organic growth strategy.

This strategy will be supported by an ambitious expansion plan aimed at opening 160 new retail branches until 2008. At the same time, the bank will continue to build market power in selected products like mortgage loans, credit cards and consumer loans. The objective is to increase the

market share in these products based on a very competitive offer using the sales power of the branch network complemented by other channels.

In parallel with the efforts to accelerate customer acquisition, the bank will dedicate particular attention to the improvement of commercial effectiveness. To achieve this goal the Bank developed and implemented a sales industrialization program which, together with the adoption of sophisticated CRM models, will contribute to increase significantly cross-selling.

The development of the affluent and small business segments, given its potential of growth and profitability will also constitute main objectives of Bank Millennium in the retail area. Gaining market share in customer funds continues being a priority for the bank, namely through the increase of mutual funds.

In corporate banking the main objective for the next periods will be improvement of sales and capabilities to increase business results.

The Bank will be focused on increasing significantly the number of clients while reinforcing customer loyalty through increasing the penetration of added-value products like cash management instruments, treasury products and trade finance solutions. The development of the SME segment and the maintenance of a strong position in leasing will also be of capital importance in the strategy of Bank Millennium for the corporate business in the next years.

Together with the announced plan of rapid expansion of the retail network (160 new outlets in the next three years) and introduction of innovations with respect to products and methods of distribution, Bank decided to have the implementation of the announced changes supported by a revamped visual identity of the Bank based on a new logo, a new set of corporate colours and a new motto to describe its market mission – “Life inspires us”.



The new set of graphics and colour standards is consistent with the values, which accompany the Bank's activity. This is about being modern, convenient, of high quality and open to the needs of our Customers. The motto “Life inspires us” emphasises the Bank's commitment to relations with people, linking-up with their life, needs and aspirations.

The Bank decided to launch a single brand for all Customer groups and to steadily build up its market position as a symbol of a modern and universal financial institution. The new Bank Millennium logo is almost identical with that of the Millennium bcp Group that the bank is part of. This underscores the close co-operation within this international group, generating cost synergies and providing opportunities as regards providing customer service worldwide.

I.3. Capital expenditure

In 2005 the Bank Millennium Group incurred capital expenditure in the total amount of PLN 35.2 million. The main item in the capital expenditure was expansion of the branch network (PLN 15.4 million), first of all transformation of some retail branches and expansion of the network of outlets supporting direct sales of mortgage loans. The second-most important capital expenditure item was IT expenditure, both on infrastructure as well as software and improvement of security systems.

For 2006 the Group is planning expenditure in the total amount of PLN 127 million. Naturally the main expenditure item will be the expansion of the branch network planned for the coming three years. Together with expenditure on promotion of the Bank's new visual identity the planned capital expenditure on branch network expansion in 2006 will be around PLN 84 million. Remaining 2006 capital expenditure areas include IT and other spending connected with improvements in the branch network, Head Office and the three key subsidiaries.

II. FINANCIAL STANDING OF BANK MILLENNIUM GROUP

In the year 2005 Bank Millennium Group achieved record financial results and significant improvement of core business profitability:

- Net profit reached PLN 567 million, the highest in the 16-year history of Bank Millennium
- Net interest income increased by 3.7% y-o-y despite lower market interest rates and pressure on margins
- Impressive net commissions growth by 17.9%, driven by loans, credit cards and mutual funds
- Final settlement of PZU transaction in December 2005, originating a net capital gain of PLN 337 million
- Operating costs (excluding depreciation) where flat y-o-y. In accounting terms, total costs in 2005 were lower by PLN 230 million
- The recovery of PLN 39 million of written-off loans and the improvement of loan portfolio quality led to net release of PLN 7.2 million of impairment provisions in the whole year
- NPL ratio (IFRS) decreased to 9.97%, the lowest level in the last 6 years
- Very strong solvency (19.1%), without considering the 2005 result
- Very strong share price performance, with total increase of 56% in 2005 (65% including paid dividend) outperforming the banking index and the WIG 20

Excellent business performance in 2005 should be noted, in particular:

Retail:	cross-selling ratio increased from 2.4 to 2.75 products per customer
Mortgage loans:	11% market share; PLN 2.4 billion new loans, 3 rd position in the market
Consumer loans :	39% growth
Credit cards:	82% growth, more 56 thousand cards sold; total number 124 thousand
Mutual funds:	266% growth, more PLN 1,2 billion under management, market share increased from 1.2% to 2.6%
Customer Funds:	12% growth
Bancassurance:	PLN 323 million of gross written premium, PLN 286 million of customer funds collected
Leasing:	17% growth in new contracts, movables market share of 6.7 %
Internet:	115 thousand new individual customers registered, total 275 thousand Customers

Financial results for 2004 presented in this part of the report was calculated on the pro-forma basis, to guarantee full compliance of comparable data with IFRS (and hence full comparability in both analysed periods). The question of the change of accounting standards and adjustment of comparable data is described in Chapter VI of the Financial Statements, which is devoted to accounting policy. And also for the needs of the present chapter the net interest income on some of derivative transactions both in 2005 and in 2004 was presented in the interest margin (the question is described in Chapter VI of the Financial Statements). In the opinion of the Group the interest result on FX SWAP and CIRS transactions concluded to secure liquidity in foreign currencies (i.e. swap points on FX swap transactions and accrued interest on CIRS transactions) is the element of the economic interest margin since it renders possible the matching of interest income from FX loans (based on EURIBOR, LIBOR) and costs of financing the position (interest rate of PLN deposits based on WIBOR).

The Bank's Management Board is convinced that the above mentioned adjustments introduced for the sake of presentation make it possible to better compare and understand results presented in the present chapter.

II.1. Profit and Loss Account

INCOME

Net Operating Income (PLN million)	2005 pro-forma	2004 pro-forma	Change
Net Interest Income (*)	620.1	598.2	3.7%
Net Commissions Income	264.8	224.7	17.9%
Other non-interest income	596.1	638.0	-6.6%
<i>of which one-off events</i>	<i>465.0</i>	<i>524.8</i>	
Net Operating Income	1 481.0	1 460.9	1.4%
Net Operating Income excluding One-off events	1 016.0	936.1	8.5%

(*) includes margin on fx swaps and cross currency swaps

Net Interest Income (including margin from fx and cross currency swaps) generated by Bank Millennium Group in 2005 totaled PLN 620.1 million and was 3.7% higher than in 2004 (PLN 598.2 million). This improvement was generated in a lower market interest rate environment, especially during the 2nd half of the year, with increased competition and margin pressure for deposits. On the other hand, the Group started to benefit from the volumes growth and from the overall improvement in asset quality.

Net Commission Income increased 17.9% (from PLN 224.7 million to PLN 264.8 million), underpinned by strong improvement in cross selling. The main contributors to the commission growth were loans (+58%), credit cards (+29%) and mutual funds (+100%).

Other non-interest income totaled PLN 596.1 million against PLN 638.0 million attained in the previous year. This item contains the result on the final settlement of the PZU transaction (PLN 416.5 million net of related swap transaction) as well as an amount of PLN 48.5 million related to PZU dividend, while in 2004 it included the result of the sale of a car loans portfolio and the initial capital gain booked on the sale of PZU shares (these events were presented in detail in the chapter VIII of the Financial Statement)

Net Operating Income reached PLN 1,481 million. If the above mentioned non-recurrent income is excluded, its value was PLN 1,016 million, which means an increase of 8.5% compared with the previous year (PLN 936.1 million, also with exclusion of one-off events).

COSTS

Operating Costs (PLN million)	2005 pro-forma	2004 pro-forma	Change
Personnel Costs	326.3	309.2	5.5%
Other Administrative Costs	343.8	360.4	-4.6%
Total Costs without depreciation	670.0	669.6	0.1%
Depreciation & impairment of tangibles and intangibles	108.4	339.0	-68%
<i>- of which extraordinary items</i>	<i>22.1</i>	<i>221.3</i>	
Total Costs	778.5	1 008.6	-22.8%

Total Costs of Bank Millennium Group in 2005 dropped by 22.8% compared with the previous year (PLN 778.5 million versus PLN 1,008.6 million).

Total Personnel and Other Administrative Costs were flat (PLN 670 million vs. 669.6 million in 2004). The decrease of PLN 16.6 million in Other Administrative Costs (-4.6% year-on-year) compensated for the PLN +17.1 million increase in Personnel Costs (+5.5% y-o-y). This result is especially relevant in a year during which the business volumes strongly grew, new distribution channels started to be developed, the number of employees grew 4.1% to support the business growth and higher bonuses were paid as a consequence of better sales performance.

As at 31 December 2005, Bank Millennium Group employed 4484 persons, compared to 4306 as at end of December 2004

Depreciation (including impairment of fixed assets) decreased by 68% (from PLN 339 million to 108.4 million), as the level of extraordinary depreciation in 2005 (PLN 22.1 million) was significantly lower than in 2004 (PLN 221.3 million, which also contributed for a lower level of on-going depreciation charges in 2005).

Cost to Income ratio in 2005 was 52.6% (or 74.4% if extraordinary items are excluded) , substantially improving when compared to 2004.

The continuation of the successful implementation of loans recovery programs and adequate risk management allowed the Group to release PLN 7.2 million of Provisions in 2005. Not considering the positive impact of recovered receivables previously written-off (presented in consolidated Profit and Loss statement as a release of provisions), the value of provisions created in 2005 would stand at PLN 31.4 million, which would represent a decrease by 73% as compared with last year (PLN 115 million created provisions according to the same method, i.e. excluding recovery of written-off loans).

PROFIT

Pre-tax profit of Bank Millennium Group in 2005 stood at PLN 709.7 million, with net profit at PLN 567.1 million which more than doubled the pro-forma result of 2004 (PLN 271.3 million). This was the highest profit in the 16-year history of Bank Millennium. Profit per share for 2005, calculated on the basis of consolidated net profit, amounted to PLN 0.67.

Taking into consideration the record net profit of Bank Millennium in 2005, and the maintenance of a very high solvency ratio, the Management Board of the Bank will submit to shareholders a proposal to pay out as dividend from 2005 results an amount of 458.6 million PLN (81% of consolidated net profit), i.e. PLN 0.54 per share representing a dividend yield of 10.3% (based on 31.12.05 share price). This proposal is in line with the dividend policy of the Bank and with the publicly announced objective of retaining the amount of capital that can support the very ambitious growth strategy of the Bank during the next 3 years.

II.2. Balance-sheet and off-balance items

ASSETS

The table below presents the structure of the Group's assets:

ASSETS (PLN million)	31.12.2005		31.12.2004 pro-forma		Change 2005/2004
	Value	Structure	Value	Structure	
Cash, transactions with the Central Bank	510.8	2.3%	872.6	4.5%	-41.5%
Receivables from other banks	2 602.8	11.8%	3 362.1	17.3%	-22.6%
Receivables from Customers	9 591.6	43.3%	7 102.8	36.5%	35.0%
Receivables on account of purchased SBB securities	311.1	1.4%	80.7	0.4%	285.8%
Financial assets for trading	3 319.0	15.0%	2 935.9	15.1%	13.0%
Investment financial assets	4 910.5	22.2%	4 279.3	22.0%	14.8%
Intangible and tangible fixed assets	486.2	2.2%	601.1	3.1%	-19.1%
Other assets	419.0	1.9%	228.9	1.2%	83.1%
Total assets	22 151.1	100.0%	19 463.3	100.0%	13.8%

As at 31.12.2005 the total Assets was PLN 22,151 million, which signified their increase by 13.8% over the year.

Dominating in the structure of assets were receivables from Customers (43.3%). In 2005 the net value of these Clients' receivables was up 35% as compared with the previous year and stood at PLN 9,592 million.

The table below presents changes and structure of Bank Millennium Group Clients' receivables by type:

Specification	31. 12.2005		31. 12.2004		Change in 2005/2004	
	in PLN m	in %	in PLN m	in %	in PLN m	in %
Total receivables	9 591.6	100	7 102.8	100	2 488.9	35.0
Including:						
- Corporate loans	3 884.9	40.5	3 775.2	53.2	109.7	2.9
- Lease transactions	1 584.9	16.5	1 390.0	19.6	195.0	14.0
- Mortgage loans	3 494.9	36.4	1 512.5	21.3	1 982.3	131.1
- Other retail loans	627.0	6.5	425.1	6.0	201.9	47.5

As regards loan portfolio structure, the dominating role play loans for businesses (40,5% as at the end of 2005), however their share in total loans decreased compared with the end of 2004 (53,2%). From the other hand we can notice the significant increase of mortgage loans share, from 21.3% to 36.4% in the same period.

The volume of corporate loans recorded slight increase, by 2.9% during 2005. From the other hand the rise in leasing volumes was visible, by 14% during the same period, and this group of products was dedicated predominantly to the corporate sector as well.

Between January 1, 2005 and December 31, 2005 the net retail portfolio of the Millennium Group increased by 2,184 m PLN, i.e. up 112.7 %. This growth was first of all driven by mortgage loans (mostly housing loans), where during the year the portfolio recorded an increase by 1.982 m PLN, i.e. 131,1%. In new mortgage loan production, in 2005 Bank Millennium maintained its third position in the

domestic market with 11-percent market share. These very good results are attributable to higher sales performance of the branch network and, also, to successful utilisation of diversified distribution channels (direct sales, brokers, internet portals).

Apart from mortgages, considerable increase was recorded in cash loan portfolio. Within 12 months of 2005 net growth in this portfolio totalled 137 m PLN, i.e. up 177%, of which 112 m PLN was recorded only in the 4th quarter. Such high sales at the end of the year were driven by the Bank Millennium's launch of loans offer targeted at the Clients who keep their account at the Bank.

Also, Clients' interest in credit card limits has been continuously increasing. At present, in the Bank's offer there are about 10 types of cards issued in Visa, American Express and Mastercard system. The largest number of Clients use Visa Economic card. Limit utilisation for this type of card accounts for more than half of the credit portfolio generated by use of Bank's credit cards. In 2005 the number of credit cards sold by the Bank increased by 82% against 2004 and at the end of 31.12.2005 totalled 123,7 thousand PLN. This growth resulted from more efficient cross-selling.

In 2005 the quality of the credit portfolio of Bank Millennium Group improved greatly. Non-performing loans were down, according to Polish Accounting Standards, by a total PLN 75.1 million and their share in the portfolio was reduced from 14.8% as at 31.12.2004 to the lowest level in 6 years i.e. 10.2% as at 31.12.2005. Coverage of non-performing loans with provisions remained ca 62% during all of 2005. According to International Accounting Standards the ratio of impaired loans broke through 10% and reached 9.97% as compared with 13.06% as at end of June 2005.

Loan quality ratios	31.12.2005	31.12.2004
Total NPL* (PLN million)	1 023	n.a.
NPL to total loans *	9,97%	n.a.
NPL to total loans **	10,18%	16,89%
Total provisions to NPL **	61,5%	62,2%

* according to International Accounting Standards

** according to Polish Accounting Standards

Following events led to improvement of quality of the credit portfolio of Millennium Group:

- Restructuring and recovery efforts ,
- The policy pursued by the Bank of writing off lost receivables (covered in 100%) against provisions and moving them to off-balance records. Total amount of receivables written-off against provisions in 2005 was PLN 91.3 million.

The second-largest assets item (22.2%) as at end of December 2005 were investment financial assets – mainly bonds issued by the State Treasury. Their value reached PLN 4,911 million, which signifies an increase by 14.8%. An important assets item were also financial assets for trading (15%) as well as receivables from banks (11.8%). During 2005 the value of the first of the above items (mainly debt securities) increased 13% while the second one fell 22.6%, which results both from applying requirements regarding day-to-day management of the bank's liquidity as well as striving to invest financial resources in most profitable assets.

In the portfolio of financial assets for trading 90% were debt securities issued by the central bank and the State Treasury, while the rest was valuation of derivatives. The portfolio of investment financial assets was almost entirely (99.7%) composed of debt securities, largely issued by the State Treasury. Equity investments in shares of other companies of total amount PLN 13.4 million constituted insignificant part of total Group's financial assets.

Fixed assets, both tangible as well as intangible, as at end of 2005 jointly constituted 2.2% of assets, reaching the value of PLN 486.2 million. Almost half of this amount i.e. PLN 239.5 million were assets for sale, the majority of which (PLN 170.6 million) is the value of a single piece of real estate located in Warsaw and belonging to the Bank. The value of fixed assets fell 19,1% during 2005, which was mainly attributable to depreciation charges and to a smaller extent to impairment revaluation charges, with a simultaneous insignificant level of investments in fixed assets.

LIABILITIES

The table below presents the structure of the Group's liabilities in 2005 and in the previous year:

LIABILITIES (PLN million)	31.12.2005		31.12.2004 pro-forma		change
	Structure		Structure		2005/2004
Liabilities to banks	1 067.3	5.4%	1 201.0	6.9%	-11.1%
Liabilities to Customers	13 994.4	70.8%	13 388.1	76.9%	4.5%
Liabilities on securities under SBB transactions	3 061.0	15.5%	1 405.5	8.1%	117.8%
Liabilities for trading	525.9	2.7%	289.5	1.7%	81.6%
Own debt issued	69.4	0.4%	355.2	2.0%	-80.5%
Reserves	16.5	0.1%	34.4	0.2%	-52.1%
Subordinated debt	309.5	1.6%	327.0	1.9%	-5.3%
Other liabilities	716.2	3.6%	407.2	2.3%	75.9%
Total liabilities	19 760.3	100.0%	17 408.0	100.0%	13.5%
Total equity	2 390.8		2 055.3		16.3%
Total liabilities and equity	22 151.1		19 463.3		13.8%

In the structure of the passive side of the balance-sheet as at end of December 2005 liabilities constituted 89% of the total while the remaining part i.e. 11% was the Group's equity.

In the structure of liabilities the dominant item (70.8%) were deposits of customers, which at the end of 2005 reached PLN 13,994 million, thus signifying an increase of 4.5% over the end of 2004. The moderate growth of deposits resulted from the Bank's policy targeted at protecting the margin as well as transfer of Clients' funds to products, which are not reflected in the Balance Sheet (eg. mutual funds)

The scale of deposits' growth does not fully reflect changes of total savings of the Group's customers, which also comprise mutual funds not reflected in the consolidated balance-sheet. In 2005 a clear market trend could be observed concerning a shift of Customers' saving propensity more towards mutual funds, less in the direction of bank deposits.

Bearing in mind above-mentioned trends, given the rapid drop of interest rates and margins, the Bank shifted its offer from traditional term deposits to more sophisticated products, especially mutual funds, due to its higher attractiveness for the Customer and increased profitability for the Bank. The market feedback on these products was very positive leading to a significant transfer of funds to off-balance sheet products.

When we take into consideration the total funds of the Group's Customers, including bonds and mutual funds, then in 2005 they increased by 12.1% over 2004 from PLN 13,917 million to PLN 15,606 million. The biggest increase of 266% was recorded by Mutual Funds – to the level of PLN 1,603 million, which gave the Group an increase of market share from 1.2% to 2.6%. In 2005 the Bank, in co-operation with the PZU Group, added insurance savings products to its offer. As at the end of the year the total value of these products reached PLN 286 million. Total Customers' Funds invested in the Group's products are presented in the table below:

Customers' Funds: (PLN million)	31.12.2005	31.12.2004 pro forma	Change
Total Customers' Funds (*)	15 606	13 917	12,1%
- deposits	13 994	13 388	4,5%
- mutual funds	1 603	438	266%

(*) this item comprises customers' deposits, retail bonds, insurance savings products and mutual funds

As far as deposits are concerned, the Bank dedicated particular attention to the increase of the volume of current accounts. In what regards deposits from individuals, the strategy was based both on increasing significantly the number of Customers and on a strong effort to increase the percentage of Clients receiving their salary through the current account in Bank Millennium. In the corporate area, the strategy was based on increasing the penetration of treasury, cash management and trade finance products which indirectly lead to the increase of deposit balances.

The structure of deposits by type of client as of Dec 31, 2004 and 2005, respectively, is presented in the table below:

CUSTOMERS DEPOSITS (In PLN million)	31.12. 2005	%	31.12. 2004	%
Deposits of individuals	8 157.1	58.3	8 325.1	62.2
Deposits of business and public entities	5 837.3	41.7	5 063.1	37.8
Total	13 994.4	100.0	13 388.1	100.0

Deposits of individual clients of the Group amounted to PLN 8,157 million as of December 31, 2005, i.e. they were PLN 168 million lower as compared with the beginning of the year. However, if we look to the breakdown we can conclude that there was a decrease in term deposits (due to the transfer of funds to mutual funds), whereas the balance of current accounts increased. Positive performance in terms of current account balances was due not only to the higher number of Customers but also to the increased customer loyalty as a consequence of the cross-selling strategy.

Deposits from businesses and public entities as of December 31, 2005, totalled PLN 5,837 million, i.e. they were 15% or PLN 774 million higher as compared with December 31, 2004. In 2005, Bank Millennium continued improvement of its offer for the corporate sector to ensure the best match to Client's requirements. Significant efforts were made in order to increase volumes of risk hedging, cash management and trade finance products.

Concerning term products, one of the key elements of the bank's offer continued to be the option to negotiate interest rates and maturity, so each product can be easily adapted to the current situation and requirements of corporate clients. For medium-size companies and large corporations Bank Millennium prepares a tailored offer to meet the client's requirements containing not only negotiated interest rates but also individual service level agreements and other products in conformity with the specification of the client's business.

A special integrated banking offer is addressed to municipalities. It was prepared on the basis of the analysis of needs of both central and local government. Thanks to its competitive offer, Bank Millennium participated in several tender procedures arranged by municipal authorities and their related entities.

Following deposits, the second important item in the Group's liabilities (15.5%) were Liabilities on account of sold securities with buy-back clause (sell-buy-back), which as at end of 2005 reached PLN 3,061 million. This item also reflects funds acquired from Customers, in this case mainly corporate,

although some of them reflect transactions with financial institutions. As at end of 2005 the value of funds raised in result of Sell-Buy-Back transactions increased by 117.8%, largely owing to transactions concluded with the Bank's Customers

The next in the rank of the structure of the Group financing were „Liabilities to other banks” (5.4% as of the end 2005). When compared to the end of 2004 deposits of banks decreased by 11,1% as a result of repayment of several credit lines.

Liabilities from own debt issued constituted small portion of Group's liabilities (0.4%) and dropped during the year from PLN 355 million to 69 million. Lower level of Issued debt resulted mainly from repurchased Bank Millennium and BEL Leasing bonds throughout the year.

Off-balance sheet items

The table below presents the breakdown of the Group's off-balance items:

OFF-BALANCE ITEMS (in PLN million)	31.12.2005	31.12.2004
I. Off-balance conditional commitments granted and received	5 744,6	4 249,3
1. Commitments granted:	5 092,3	3 196,0
2. Commitments received:	652,3	1 053,3
II. Commitments connected with execution of buy/sell transactions	10 456,7	12 855,2
III. Derivatives and other items	38 368,1	22 776,0
Total off-balance items	54 569,4	39 880,5

The total value of off-balance items at end of 2005 was PLN 54.6 bn. The biggest item are “derivatives and other items”, which reached the value of PLN 38.4 bn, which signifies growth by 68.5% over the end of 2004. Dominating in this item are currency and interest rate swaps (PLN 27.2 bn at end of 2005). Other derivatives, also significant in terms of value are FX options (PLN 7.2 bn) and FRA contracts (PLN 3.6 bn). The second-largest off-balance item are commitments connected with execution of buy/sell transactions, which as at end of 2005 stood at PLN 10.5 bn. They are short-term items connected mainly with FX transactions. The third-largest item were conditional commitments, the value of which reached PLN 5.7 bn at end of 2005 (up 35.2% as compared with end of 2004). This item comprises commitments granted in the amount of PLN 5.1 bn and commitments received in the amount of PLN 0.7 bn – mainly connected with credit risk security. In commitments granted PLN 735 million were guarantee commitments granted to customers – (double the amount at end of 2004).

II.3 Stock market listings and rating

Improvement of financial performance and the business achievements of the Group in 2005 were reflected in a strong improvement of listings of Bank Millennium shares on the Warsaw Stock Exchange. The Bank's shares were up 56% (65% considering the dividend paid in the course of 2005) exceeding annual increases of the WIG-20 and WIG-Banks and growth of shares of remaining top 10 banks (as regards assets) quoted on the stock exchange.

KEY RATIOS ON BANK MILLENNIUM SHARES

	31.12.2005	31.12.2004	Change	Change (%)
Price of Bank Millennium share (PLN)	5.25	3.36	1.89	+56.3%
WIG Banks	46 787.80	35 454.37	11 333.43	+32.0%
WIG 20	2 654.95	1 960.57	694.38	+35.4%
Earnings per share (PLN)	0,67	0,28	0,39	+139%
Book value per share (PLN)	2,82	2,35	0,47	+20%

On 7 April 2005 Moody's Investors Service Ltd. Rating agency increased the long-term deposit rating of Bank Millennium from A3 to A2. The deposit rating outlook (both short-term and long-term rating) has been defined as stable. Together with the change of long-term rating the outlook for the Bank's financial strength rating was increased to positive.

MOODY'S RATING FOR BANK MILLENNIUM

Type of rating	Current	Last change	Previous rating
Long-term deposit rating	A2	7 April 2005	A3
Short-term deposit rating	Prime-1	14 January 2003	Prime-2
Bank financial strength rating	D-	20 May 2003	D

In their report dated 7 April 2005 Moody's said that the improvement of the rating reflects progressing operational integration of the Bank with its Portuguese strategic shareholder, ongoing support and transfer of know-how from BCP to the Bank as well as strong commitment of the Portuguese bank to implementation of its strategy of expansion in Europe.

Moreover Moody's confirmed that increasing the financial strength rating outlook reflects progress made by the Bank in result of the in-depth restructuring programme. The agency also noted that in 2004 the Bank had created foundations for organic growth supported 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

Business activity of the Bank Millennium Capital Group is conducted chiefly within the structure of Bank Millennium S.A. – the dominant company of the Group. Additionally, business operations are carried out also in three subsidiaries: BEL Leasing, Millennium Dom Maklerski and Millennium TFI.

The other subsidiaries of the Group have no material importance for the business operations and provide services mainly in favour of the other members of the Group, thus constituting necessary supplementation of the core activity.

The Bank's operations are composed of different business lines offering specific products and services targeted at two basic market segments, i.e. retail and corporate Clients. The subsidiaries conduct their business on the specialised financial markets, providing services for both retail and corporate Clients.

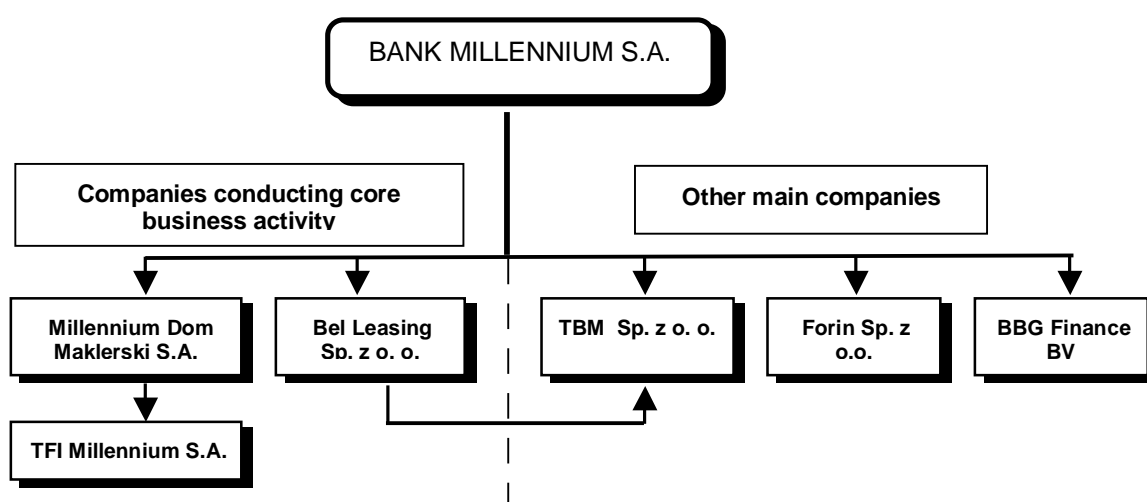
The retail Clients of the Bank are serviced by Millennium Retail (individual Client market), Millennium Prestige (affluent individual Client market) and Millennium Biznes (small business market). The corporate area is serviced by the Millennium Corporate Banking network, which targets companies with annual turnover above 10 million PLN and also state budget sector and public entities.

In 2005, in order to enhance the management efficiency of the Group, the subsidiary consolidation effort was continued. In particular, two companies were merged with BEL Leasing:

1. Following the decision of BEL Leasing Sp. z o.o. – as the only shareholder of Prolim S.A., approved on 18 August 2005 by the Registration Court – the a/m companies were merged. The acquiring company was BEL Leasing Sp. z o.o.
2. Pursuant to the decision of BEL Leasing Sp. z o.o. - as the only shareholder of BIG BG Inwestycje S.A., approved on 29 July 2005 by the Registration Court - the a/m companies were merged. The acquiring company was BEL Leasing Sp. z o.o.

As a result of these mergers the present structure of the Bank Millennium Capital Group is very simple and transparent – with clear division into the core business entities and support companies.

Links between the main companies – members of the Bank Millennium S.A. Capital Group



The other subordinated companies do not play any material role in the Group's operation.

The full list of the companies from the Bank Millennium Group with their respective consolidation principles is presented in chapter V of the Financial Statements.

III.1. Millennium Retail

Millennium is a Bank Millennium's business line offering the highest quality of financial services to individuals.

Millennium offers to its Clients a vast array of financial products – starting from personal accounts, cards (credit and debit) through savings accounts, term deposits to investment funds, consumer and mortgage loans, brokerage services, structured products and insurance.

Offer Development

In 2005 the Bank's retail deposit offer was enriched by a few innovative products well received by the market. In addition to term deposits (Millokata) – classic deposit products for those who value traditional forms of savings - the Bank offered investment funds and structured products. In accordance with its strategy the Bank particularly values active Clients who make use of different products and financial services. Last year the Bank offered to its Clients deposit products with an interest rate higher for Clients who also used other products offered by the Bank and transferred their salaries to personal accounts at Millennium.

In order to meet the expectations of the increasingly demanding groups of Clients and allow them to achieve more than average profits the Bank enriched its offer by adding among others the following investment products:

- Millennium SuperDuet – a combination of a high-yield term deposit and investment fund;
- Millokata Progresywna – 12-month automatically renewable term deposit with an interest rate growing every 3 month;
- Aukcje Lokat Terminowych (term deposit auctions) – innovative offer for Millenet Internet service users enabling the Clients to decide for themselves about the level of interest on their term deposits;
- MillePremia – high-yield savings account; an important feature of this product is the possibility of a premium in the form of higher interest for loyal Clients making use of other Bank products;
- MilleInwestycja – a modern investment product combining the advantages of a term deposit and life insurance also guaranteeing the achievement of a specific profit and insurance cover within the investment's duration;
- Millennium SFIO Funduszy Zagranicznych, which opens to our Clients the possibility of investing in the best foreign funds in the world,
- Millokata SuperZysk – term deposit guaranteeing a very high interest to Clients who transfer their salaries to a Millennium personal account,
- MilleGwarancja – fund with a 100% guarantee of the invested capital enabling the achievement of more than average results
- Millokata Max 30% - innovative deposit with guaranteed 6% profit whose final interest depends on the prices of five selected raw materials
- Millokata in British pounds.

The loan offer in Millennium's retail network covers the whole range of products from loans and mortgage to different consumer loans. Mortgage loans are described in the separate section. The consumer loan offer includes:

- Renewable credit line (renewable facility linked to the ROR current account),
- MilleKredyt (cash loan for any purpose),
- MilleKredyt Akcje (purpose of funding – purchase of shares in the primary market or initial public offering),
- MilleKredyt Auto (car loan), and
- MillePożyczka (loan secured by a deposit).

New cards products were introduced in 2005:

- Millennium VISA Electron Euro<26 – co-branded card issued in association with the Polish Youth Card Association,
- Manager Magazine Millennium American Express Gold Card – co-branded card launched by the Bank in association with the opinion-making magazine addressed to company managers,

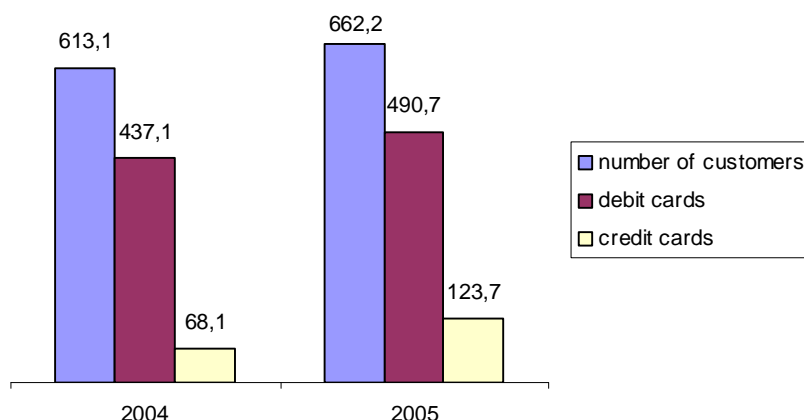
- Millennium VISA Sephora Credit Card – co-branded card issued in cooperation with Sephora Polska Sp. z o.o.

In the first half of 2005 the Bank amended some fees and commissions in the Price List of Services for Personal Account Holders. First of all, markedly down went fees for carrying out standing order transfers and bill payments and one-off transfers performed by the TeleMillennium Call Centre.

Business Results

The retail banking network now serves 662.2 thous. individuals who make active use of banking products and services. Retail deposits (including investment funds and bonds) totalled PLN 8.34 billion. At the end of 2005 the number of debit cards issued to Millennium Clients stood at PLN 490 636 thous (437 141 at the end of 2004) and the number of issued credit cards went up to 123 700 compared to 68 100 in 2004.

Number of individuals, debit cards and credit cards in the Millennium network (retail) in thous.:



The main targets of Bank Millennium for the year 2005 in the area of cards were to increase the share in the credit and debit market, make card products more attractive and streamline application procedures and card granting processes.

In order to achieve its stated targets the Bank adjusted its offer in order to increase its competitiveness in the card market. The changes introduced and steps taken brought measurable results. The number of credit cards increased over 82% compared to 2004. Cross-selling campaigns directed to existing Clients allowed to open cards constituting 12% of our Client base. Interest income from credit cards went up almost 85%, and fee and commission income from credit cards went up almost 88%, despite running an aggressive pricing policy. In 2005 there was an almost 98% growth of Client card spending.

The quality of Bank Millennium cards was appreciated by independent market experts, which was also reflected in awards and special mentions bestowed on Bank Millennium credit cards in 2005:

Millennium VISA Economic Credit Card won in two ranking: published by the „Rzeczpospolita” daily (May 2005) and by “Forbes” magazine (November 2005). Bank Millennium was also awarded GRAND PRIX for the Manager Magazine Millennium American Express Gold Card on the 5th International Exhibition of Card Producers and Systems „KARTA 2005” in Warsaw (December 2005).

As regards Millennium credit cards the following merits were noted: attractive interest on card credit, low costs of issuing and annual fee. What was also highly appreciated was their functionality – especially the MilleSMS service – and expanded package of extra services, including the attractive insurance package.

The year 2005 showed a major growth of selling consumer loans. In 2005 Bank Millennium granted consumer loans (MilleKredyt) totalling almost PLN 210 million.

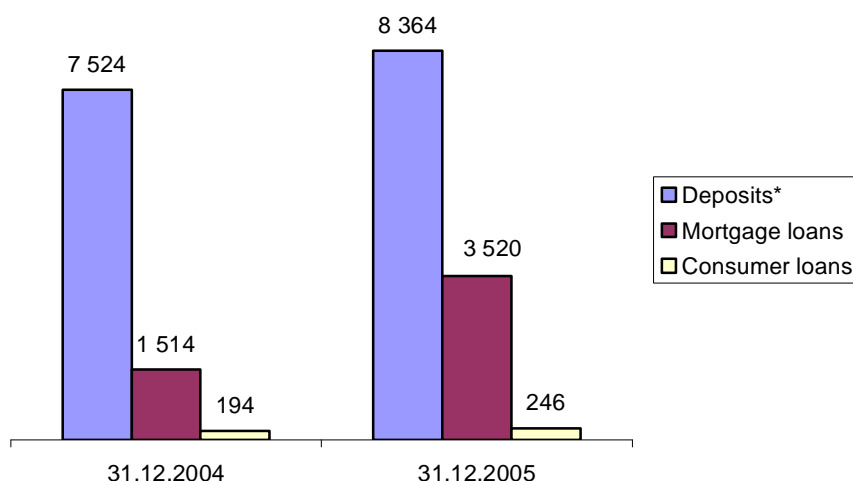
The fourth quarter of 2005 was the best yet in the Bank's history in this regard. In the three months Bank Millennium granted to its Clients 18 thousand MilleKredyt loans totalling PLN 135 million. There were also major changes in the structure of this popular product. The maximum period of lending for MilleKredyt was extended from 3 to 5 years. The interest rate was reduced from 16.25% to 9.90% (12-month period of lending). Thanks to the favourable pricing terms of MilleKredyt Zima "BusinessWeek" magazine (December 2005) recognised this loan as the best in the market.

Among 2005 successes one should note the market success of MilleKredyt Akcje. During 2005 this loan was offered by the Bank for 5 share issues on the primary market. The loan offered for the purchase of PGNiG S.A. shares was ranked as the best by „Bankier.pl” (September 2005). In 2005 Bank Millennium granted PLN 2 658 000 million in MilleKredyt Akcje.

During 2005, the bank continued to fine-tuning the deposit offer, both in terms of product features and pricing, in order to maintain a highly competitive offer, while keeping margins at an adequate level.

The Bank continued to promote successfully term deposits through the internet based on a modern and efficient technological platform. Moreover, in 2005 Bank Millennium introduced for the 1st time in the polish market term deposit auctions through the internet. At as the end of 2005, term deposits captured through the internet amounted to PLN 565 million.

Volumes of loans and Individuals' deposits (including investment funds and bonds) in PLN million:



*Including bonds and mutual funds

Cross Selling

In accordance with the Bank's strategy to promote our Client's activity and loyalty, cross-selling remains an important part of the Bank's operations. The Bank is systematic in implementing initiatives to increase the number of products used by Millennium both in the basic package (personal accounts coupled with the debit card and access to electronic service channels) and term deposits and credit products. In 2005 the Bank prepared special offers for clients who are particularly important to

implementing its strategic objectives. Mortgage borrowers and Bank depositaries are offered by the Bank (free of charge) among others debit and credit cards and free maintenance of a personal account. The Bank's work in this regard has largely pushed up the cross-selling ratio.

At the end of 2005 an active Millennium Client had on average 2.75 bank products compared to 2.44 at the beginning of the year and the number of products held by Millennium Clients increased in total over 23%.

The key phase of the process of intensifying cross-selling in 2005 was the implementation of the innovative sales programme whose purpose is to increase sales in the existing group of clients. The programme's main assumption is a multitrack and systematic approaching of the Client with the offer. The effective utilisation of each contact with the Client in order to offer products, services and solutions which will meet his expectations is based on an in-depth prior analysis of his needs.

In order to implement the assumptions of the programme specially designed tools were implemented, such as an intranet CRS application, thoroughly prepared product and services campaigns zeroing in on well-targeted groups of Clients. In-depth training was also conducted in order to improve the sales skills and Client service quality.

In 2005 the Bank attained strong growth of the bancassurance business, resulting mainly from insurance linked with deposits, insurance linked with mortgages and payment card insurance. The value of collected premiums stood at PLN 323 million, which constitutes an estimate 8-10% market share.

Service Quality

A steady improvement of services remained in 2005 one of the Bank's priority targets. Many initiatives were launched whose purpose was to improve the Client's comfort. Among others, service in branches and through banking electronic channels was improved, as was (yet again) information sent to the Clients in monthly statements. Moreover, a number of initiatives were launched whose purpose is to further improve the Bank's operational processes, such as automation of the process of investment fund servicing.

The Bank runs a steady monitoring of client service by regularly carrying out the Client satisfaction and loyalty survey and Mystery (i.e. undercover) Shopper surveys. According to the surveys carried out last year, the Client's level of satisfaction and loyalty, as well as declared readiness to buy additional products and services remained at a stable high level.

Expansion of distribution channels

Retail branches

The Poland-wide network of Millennium retail branches operates on the basis of a modern operational platform thanks to which the Clients can use the Bank's products and services in each of 287 standardised branches distributed all over the country irrespective of the place in which they opened their account.

Call Centre

Millennium Clients may also manage their finances by telephone using the Call Centre. This year is the first year of the upgraded call centre. The telephone service for the Clients has now been fully automated and augmented by new functionalities. The next important breakthrough was the introduction of a new number for individual clients combining the functions of the existing information and operational lines, under the joint name of TeleMillennium. At the end of 2005 3.6 million calls were received in the TeleMillennium system, a considerable share of which (90%) were made by means of the automatic system (IVR).

Bank Millennium has the best offer in the market in terms of the scope of services available to individual clients by means of IVR. It also has the broadest scope of services offered to individual clients and companies available through a telephone bank consultant.

ATMs

Bearing in mind their importance and Client convenience the Bank introduced a new layout and improved functionality of ATMs by adding a new innovative service of automatically activating an individual code in an ATM. This code is the password for using remote channels (e.g. the Internet). Thanks to it the Client need not visit the branch, the nearest ATM will do.

At the end of January 2005 our Clients could use over 1000 multifunctional ATMs, 401 of which were Millennium's own ATMs, while 606 belonged to the Euronet network. In 2005 30 million transactions were performed through ATMs, 10% more than in 2004.

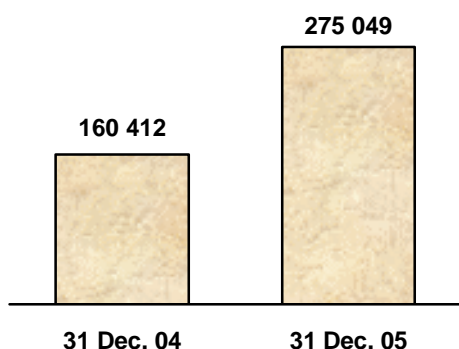
Millenet® - internet banking

The year 2005 was consecutive year of development of Internet banking system Millenet®. In January Internet site of the Bank was ranked on 2nd place by Home & Market magazine monthly among all major Polish non-virtual banks. The website of Bank Millennium – together with four other sites – was identified as a financial institution's website role model. Bank Millennium was also awarded with "Best consumer Internet Bank in Poland in 2005" by Global Finance Magazine, the independent international finance magazine.

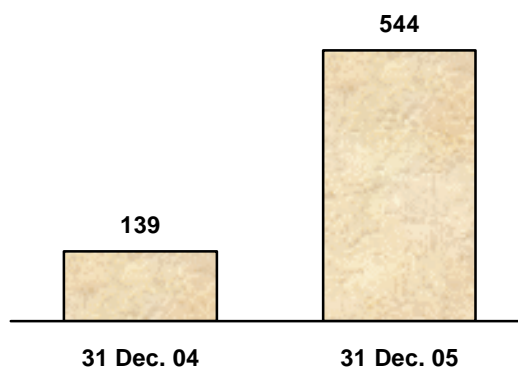


By the end of 2005 the number of registered individual clients reached 275,000 reaching 275,049. In the month of December Millenet transfers of individual customers constituted almost 70% of all individual customers' transfers. The balance of term deposits constituted through Internet exceeded 500 million PLN.

Number of registered retail customers:



Volume of Lokata Millenet and Lokata Aukcje PLN



In January MilleSMS service – notifications about transactions via SMS – was introduced. The service was recognized as being one of the best and the most flexible on the market. MilleService has been

highly rated by the independent Internet site pnews.pl recommending it with 5 stars note (the top one).

Internet Auctions of Term Deposits were launched by the end of June. Up to the end of the year the total amount of auctioned term deposits amounted to PLN 735.4 million. The service was mentioned by numerous journalists and market analysts as very innovative on the Polish market.

III.2. Bank Millennium PRESTIGE

Bank Millennium PRESTIGE is Bank Millennium's business line for wealthy clients requiring the highest quality of services and financial products tailor-made to their individual needs. 2005 was for Bank Millennium PRESTIGE yet another year of affirming its market position and building partnership Client relationships. Based on its four years of experience in the wealth segment the Bank paid much attention to improving the service.

In 2005 the product offer was methodically adjusted to client needs and evolving market conditions. In addition to traditional term deposits available both in the Polish zloty and foreign currencies the Bank regularly expanded its product portfolio by deposits with a variable or so-called progressive interest rate. For Clients new to investment funds a product was launched combining an attractive guaranteed interest rate with an investment into three funds guided by a different investment approach.

The offer of Bank Millennium PRESTIGE continued to be enriched with interesting investment deposits, structured deposits whose rate of return depended on the underlying instrument (e.g. stock indices, currencies or raw materials such as oil, natural gas, copper, etc.) thus creating the possibility of more-than-average profitability, much more attractive than on bank deposits. Structured deposits are now a standard offer of the Millennium PRESTIGE business line.

As far as credit products are concerned the Bank introduced a readily available deposit-secured loan with an attractive interest rate which allows to cover liquidity needs without the need to terminate the already existing investments. All the time the Bank offers a special purpose credit product for buying shares in initially offered public companies. The introduction of this attractive credit product allowed the Bank to achieve an almost 15% share in the market for such loans.

Changes were made to optimise Client service. For instance, Client relationship documentation was streamlined. By opening a PRESTIGE account the Client can access not only bank services but also the capital market, asset management, investment funds. The Client's personal advisor helps him to select the most effective ways of investing his money. New solutions were introduced adjusting the Bank's product offer to Client needs. Individual Financial Strategies allow an informed selection of investment funds and portfolios offered as part of asset management in view of the risk profile, investment objectives and time horizon preferred by the Clients.

Moreover, our Clients have the possibility of using prestigious VISA and American Express credit cards. Operations on accounts are available through the PRESTIGE line and Millenet internet banking system.

With a view to improving client relations Bank Millennium created Planet PRESTIGE, a programme which supplements the services offered by the Bank. Financial services secure our Clients' future and the Bank made the assumption that in addition to caring for the future of its Clients it also wishes to cater for their lifestyle by providing access to carefully chosen cultural events, such as first night performances, haut couture shows, dramatic sport events, concerts and many others. Moreover, the Programme allows attractive discounts on purchases with Millennium PRESTIGE cards.

The steps taken in 2005 allowed to attract new Clients with more assets, as well as increase assets of the clients served since Bank Millennium PRESTIGE started. The share of clients with assets above PLN 500 thous. increased. At the end of 2005 Bank Millennium PRESTIGE managed assets of over 6 thous. Clients valued at PLN 3.3 billion.

Assets under management of Bank Millennium Prestige (mIn PLN)



III.3. Mortgage Loans

Retail mortgage banking is one of Bank Millennium's strategic targets. In accordance with its stated policy the Bank took in 2005 steps in order to expand the mortgage loan portfolio (attractive offer, diversification of distribution channels, high standards, perfecting service quality) and maintain its high quality.

In 2005 the Bank scored a major success becoming one of the leaders of the fast growing housing loan market.

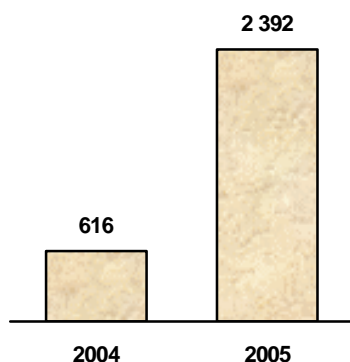
Currently the Bank is the third biggest mortgage lender with its new production market share of **11%** compared to 4.6% at the end of 2004. Moreover, the Bank has the fifth biggest portfolio by value in the Polish mortgage market.

The Bank has achieved its position thanks to the consistent implementation of its strategy and record-breaking sales results:

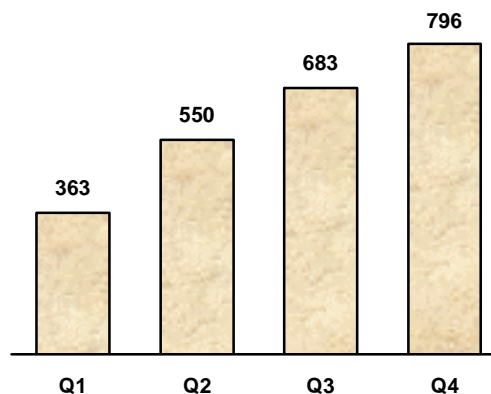
- number of mortgage applications went up by 221% to **30 287**
- value of outstanding loans went up 280% to PLN **2.6** billion (the whole market went up by 61%)
- disbursement value went up 288% to PLN **2.4** billion
- portfolio value went up 131% to PLN **3.5** billion
- the share of the Bank's portfolio in the retail mortgage debt on the Polish market went up from 4.3% in the previous year to **7,12%** as of 31 December 2005.

The fast pace of mortgage lending increased the Bank's client base by over 16 thous. The average amount of a mortgage granted by the Bank in 2005 stood at PLN 134 thous. – much more than in other big universal banks.

Mortgage disbursements by value in 2005 (PLN mln)



Quarterly dynamics of mortgage sales in 2005 (PLN mln)



The Bank has a comprehensive credit offer addressed to a broad segment of Clients who plan to satisfy their housing needs. It includes the following products:

- MilleKredyt DOM – for housing purposes: buying, construction, finishing, refurbishment of the property and repayment of housing loans
- MilleKredyt Konsolidacyjny – for the repayment of financial obligations (housing or consumer ones) taken at other banks
- MillePożyczka Hipoteczna – for any purpose

MilleKredyt Dom is one of the best products in the market, regularly topping the rankings published by the media and independent financial brokers („Expander”, „Open Finance”). It is very popular among clients due to its attractive pricing, flexibility and highly rated standard of service and dedication of Bank outlet employees.

In Q4 2005 the Bank introduced a new, innovative MilleHipoteka Biznes loan intended for financing the purchase, construction or refurbishment of selected commercial real estate. It responds to a growing interest in investments for letting in the commercial real estate market, especially small shopping premises and service outlets in attractive locations of major towns. The target group are potential investors and liberal professions.

Bank Millennium spares no effort in facilitating its Clients' access to its mortgage offer by opening new outlets and establishing cooperation with credit brokerage companies all over the country. The Bank's housing loans are offered not only from Millennium retail branches, but also in a steadily growing number of specialised outlets – Millennium Mortgage Centres (24 of them at the end of 2005). The Bank is also very dynamic in developing alternative distribution channels, which include financial brokers (our loans are sold through 30 intermediaries, both networked and local ones) and internal portals (Millennium offer is available on 15 portals). The Bank sees the potential of new distribution channels as high and focuses on their development and increasing the pace of sales through them.

The Bank puts a very strong emphasis on building the best possible long-term relations with its mortgage Clients, by offering other retail products on preferential terms. In 2005 a special product package was introduced for Clients applying for a mortgage, including among others an automatic decision to award a credit card limit, free maintenance of the Premium account, no charge for issuing a credit card, free transfers and withdrawals from an ATM.

III.4. Millennium Biznes

Millennium Biznes is a specialised line of Bank Millennium for small enterprises created in the 2nd half of 2001 based on the modern Millennium retail network.

Millennium Biznes is a combination of the comfort and modernity of the ramified Millennium retail network with the experience of Bank Millennium's multiyear cooperation with enterprises. The main asset of Millennium Biznes is Doradca Bankowy® - specialised relationship manager supporting the Client in the use of products and bank services.

The SME sector is under special care of Bank Millennium. The target segment of Millennium Biznes are companies with an annual turnover from PLN 3 to 10 million. In order to increase the offer's availability – in addition to the traditional branch service the Client may use alternative channels, such as Millenet® internet banking, BiznesLinia® telephone service, ESOBIG Electronic Banking Service System or TransBank® floppy disk application. In addition to which the Clients may use a broad network of multifunctional ATMs.

Particular importance at Millennium Biznes is attached to such credit problems which have for long been critical to SME operations. The Bank adjusts its offer both to changing Client needs and to market conditions. This has improved loan policy flexibility. For instance in the case of first time applicants for current need loans the borrowing period has been extended. Now the Bank grants, also to startups, a limit for a period up to 12 months with a possibility of its extending for the next periods. Other credit product modifications introduced in 2005 include among others:

- extending of the period of lending for investment loans from 10 to 15 years,
- in special circumstances – possibility of obtaining funding for a project without own participation (the standard is 20% of the investment value),
- the investment loan may be allocated for refunding the Client's spending on an investment, maximum up to 1 year back, repayment of an investment loan granted by another bank, funding of the working capital necessary to launch the first production cycle from the funded investment,
- possibility of funding VAT expenses connected with the funded project – under a separate (working capital) loan,
- in the case of a specific type of an investment loan, i.e. "construction loan for housing purposes" the period of lending was extended from 3 to 4 years.

Moreover, Millennium Biznes Clients have access to guarantee funds cooperating with the Bank and – on origination of loans with EU fund support – they may (through Bank mediation) benefit from advisory fund services which help entrepreneurs in the preparation of a business plan and the remaining documentation required when applying for public assistance co-financing.

Total loans for Millennium Biznes customers (PLN million)*



* without leasing and factoring

In 2005 the Millennium Biznes offer was enriched by the following products and services:

- EuroMillennium package – combination of an account and a bridging commercial loan intended for Clients applying for public funds support,
- Millenet® on-line statements,

- Automatic Identification of Incoming Payments Report allowing fast access to electronic statements and detailed information about (mass) payments received in electronic form through Millenet[®],
- ZUS 3 in 1 – Possibility of entering and ordering transfers on : Social Insurance, Health Insurance and Labour Fund and Guaranteed Employee Benefit Fund to ZUS on a single form – through Millenet[®] system,
- SORBNET on demand – Enabling the ordering of an immediate transfer of funds with the use of the SORBNET interbank settlement system also for amounts lower than PLN 1 million through the Millenet[®] system,
- Car Collection – service enabling the making of payments and withdrawals in the place indicated by the Client (e.g. at company office). Modification consisting in the lowering of cash transport costs by specialised companies in selected zones,
- Millennium SFIO Funduszy Zagranicznych („Fund of Funds”) – possibility of investing in the best foreign investment funds world-wide,
- International Business Platform – new form of supporting the Bank’s Clients on foreign markets through unique assistance and advice covering the knowledge of the specifics of such markets.

In recognition of the high quality of business services, a broad array of products available in the offer and services adjusted to the specificity SME needs, as well as for professional Relationship Manager support Millennium Biznes was honoured with:

- The „Enterprise Friendly Bank” promotional badge in the sixth annual competition organised by the National Chamber of Commerce, Warsaw Banking Institute and the Polish-American Enterprise Development Fund,
- „FORBES” monthly diploma for taking third place in the „Best Bank for Businesses” ranking.

The activity of Millennium Biznes in terms of enterprise animation in Poland has spawned many projects addressed to the SME segment. The most important 2005 events in which Millennium Biznes took an active part include:

- Enterprise Academy – programme initiated by TP S.A., whose purpose is to implement in enterprises comprehensive innovative solutions in particular with respect to IT, communication and attracting funds for development (mainly from the UE), sponsored by Millennium Biznes,
- Joint advisory programmes carried out with „Gazeta Prawna” and „Rzeczpospolita”, which consisted of a number of papers whose subjects were germane to SMEs – in particular EU funds, but also loans, bank accounts, cards, electronic banking, etc. – additionally supported by on-call telephone service and reports from such on-call duties, internet chats, radio programmes and participation of our experts in TV programmes.

At the same time Millennium Biznes is vigorous in taking steps with a view to an increasingly better adjustment of the offer to the needs of its Clients, which is reflected among others in increasing the quality of services and flexible adjustment of offered products to variable market conditions. The rationality of the adopted policy is confirmed by market research results, which show a very high satisfaction of the Clients who cooperated with Millennium Biznes.

III.5. Corporate Banking

Corporate Banking network is specialized business line of Bank Millennium serving medium and large businesses (i.e. companies with annual sales exceeding PLN 10 million).

The nationwide distribution comprises Business Centres, where Banking Advisors (84) operate. Each of them services 72 customers on average. Every customer has the use of one of 27 specialised Operations Centres for their daily banking transactions. The Operations Centres were designed for corporate customers. Alternatively the customers may go to any Millennium retail branch, the network of which covers whole Poland. The branches are capable of satisfying transaction needs. In

December 2005 Corporate Banking was serving 6071 Customers, with 185 out of them being in the large corporate segment.

On 31 December 2005 the total volume of loans to corporate customers was PLN 3267 million, out of which PLN 1622 million were loans to medium companies, while PLN 1646 million were loans to large corporates. The total loan volume increased over 31 December 2004 by PLN 222 million (7.3%), mainly in the sector of large companies (by PLN 198 million).

Loans to corporate customers (PLN mln)*



* without leasing and factoring

The Bank recorded a growth of loans volume despite significant payments of investment loans as well as a decrease of funding the public sector, where price competition is very strong. The Bank maintained its focus on diversifying the financial offer, providing sources of financing other than traditional loans. This was particularly visible in the almost doubling of the volume of factoring exposure from PLN 55 to 98 million and in the growth of the volume of leasing to the Bank's Customers from PLN 536 to 634 million. The restrictive credit policy, launched back in 2004, led to an improvement of the credit portfolio quality.

As regards the deposit market, Corporate Banking closed the year with the volume of Customers' Funds standing at PLN 3811 million, increasing it by 345 million as compared with the end of 2004 (by 10%). Particularly notable is the growth in Sell Buy and Back treasury products, complementary to deposits, from PLN 750 million to PLN 1620 million.

With respect to cash management, customers of Corporate Banking now have the availability of the comprehensive Consolidation of Accounts solution as well as a broad array of electronic solutions, which permit automated identification of incoming transfers with a simultaneous link to the customer's

accounting system, permitting its posting to appropriate accounts in Bank Millennium. In 2005 Corporate Banking was developing an Internet Banking solution, specially designed to meet the needs of businesses as regards flexibility of the transactions authorisation process, security and reporting.

Between 1st of January and 31st of December number of registered Millenet for companies customers has increased from 3, 838 to 12, 648 - 229 % of growth.

During 1st half of the 2005 in Millenet for companies two new functionalities were launched: Automatic Identification of Incoming Payments and Online statements.

During last year number customers using Online statements has grown up to 2,574.

In December another 2 new transactions have been introduced: 3 in 1 ZUS transfer (possibility to sent tree different transfers to ZUS at the same time) and SORBNET transfer on demand (immediate fund transfer via SORBNET also for amount below 1 million PLN).

Share of electronic transfers (Millenet for Companies and ESOBIG - Home Banking system) in total number of transfers executed by companies at the end of December 2005 was at the level of 90%

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

The risk management products offer covers:

- FX rate risk
- Interest rate risk
- Commodity and raw materials price risk (commodity 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.6. Custody services

Bank Millennium started to run custody services as early in 1990, one of the first banks in Poland to do so. The Bank's offer has since been regularly perfected to match the pace of Poland's capital market development and requirements of the ever-growing group of our Clients.

Custody services are rendered based on an individual SEC permit for „safekeeping of securities on order and registration of a security holding and changes in such holding”. The Bank is a direct participant of the deposit-settlement system, among others of the National Depository of Securities, Register of Securities and Euroclear international clearing house in Brussels. Bank Millennium actively participates (as a founding member) in the works of the Depository Bank Council at the Polish Banks' Association set up to represent the community before capital market institutions and regulatory and supervisory organs.

Custody services are offered by a specialised organisational unit under the Bank Millennium head office. This is the Custody Department, which offers a complex scope of services connected with the safe-keeping of securities, settlement of transactions on securities and handling Corporate Actions on the domestic capital market as well as on foreign markets.

The Clients of the Custody Department include recognised financial institutions, Polish and foreign alike (global trust banks, depositary banks of global depositary receipts, investment banks, asset management institutions, insurance companies, collective investment institutions, investment funds) and other legal persons taking an active part in capital and money market operations requiring an efficient, comprehensive and individual service.

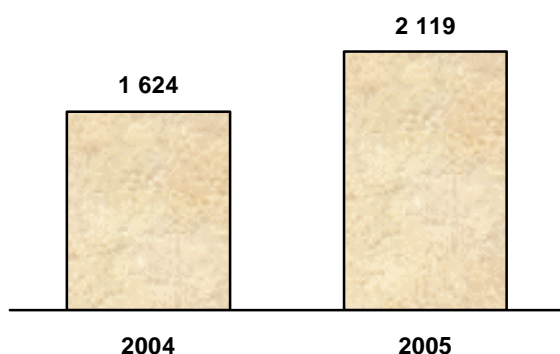
The basic package of custody services includes an offer of running a securities account and a linked PLN or foreign currency bank account. The book-keeping of securities and other financial instruments (both physical and dematerialised) is conducted on Client accounts

Our offer is augmented by additional custody services whose scope covers a comprehensive service of the depositary bank and transfer agent for investment and pension funds, service of rights in securities (dividends, interest on bonds, rights, splits/ assimilations, calls for sale), comprehensive reporting (statements can be sent by a SWIFT communiqué, fax or e-mail), as well as establishment and maintenance of escrow accounts.

Value of assets on client securities accounts: (million PLN)



Number of securities accounts kept for Clients



In 2005 Bank Millennium reaffirmed its „Top Rated” status – best Bank offering custody services in Poland. This title was given by „Global Custodian Magazine” quarterly. The Bank thus repeated its 2004 success. The above awards result from consistent product development policy and world level standard of service.

This award is particularly important, as those were our Clients who decided about Bank Millennium's success. According to their opinion expressed in surveys the Bank succeeded among others thanks to the flexibility of its offer, efficient and professional service and high quality of service for money. Bank Millennium was given the highest ratings among the Polish banks providing custody services.

III.7. International Activities of Bank Millennium SA

Last year was extremely important for the international activity of Bank Millennium S.A.

January 2005 started yet another year of the practical operation of an international bank syndication created in order to cooperate with and support the Trade Bank of Iraq. The following banks are its founders and original members:

JPMorgan Chase Bank (coordinator)
Australia & New Zealand Banking Group
Bank Millennium SA
National Bank of Kuwait
Standard Chartered Bank

This group of banks was given a responsible mission of incorporating the Trade Bank of Iraq in international trade, as well as enabling foreign exporters (suppliers of goods and services to Iraq) to

perform a safe, efficient and risk-free settlement of receivables due them from counterparties in that country.

In its capacity of a syndication member Bank Millennium in 2005 participated in the financial service of over 400 export contracts to Iraq, totalling about USD 1 billion in cooperation with the suppliers (and their banks - Bank Millennium correspondents) incorporated in over 30 states, including among others in Germany, Austria, Denmark, Finland, Sweden, Norway, United Kingdom, Italy, Turkey, Belgium, Holland, France, Spain, Switzerland, Russia, Ukraine, Latvia, Slovenia, Slovakia, Czech Republic, Romania, Bulgaria and Croatia.

In 2005 Bank Millennium did not conclude any new agreements and did not reappear on the market for international syndicated loans.

Lack of additional needs in this regard resulted first of all from a considerable surplus liquidity of the Bank in the reported period, which allowed it prepay EUR 195 million of loans taken in 2003 (the repayments were made in March and June 2005, respectively).

Irrespective of the above-mentioned activities in the reported period the Bank regularly performed all the remaining tasks connected with the overall functioning of its international activities. And thus the Bank realised various objectives covering among others current funding of the Bank's own and Client needs, servicing of foreign trade transactions, participation in foreign money market and FX operations and activity on the capital market.

What has contributed to the achievement of such objectives is a 15 year long process of developing the Bank's cooperation with its foreign partners and counterparties. The Bank maintains its current contacts with over 1 000 correspondent banks and their outlets located in all major countries in terms of the structure of Polish foreign trade and non-trade transactions. In this context particularly important relations are maintained with banks which are incorporated in such countries as (in the alphabetic order of their Polish names): 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, United States, Switzerland, Sweden, Turkey, Ukraine, Great Britain, Hungary, Italy.

With a small part of its main correspondents the Bank has nostro accounts in foreign currencies, running at the same time a number of loro accounts in domestic currency for, among others, reputable German and Scandinavian banks. The development of cooperation in this regard was largely influenced by the liberalisation (pursued for many years) of the Polish FX legislation enabling access of non-residents to the zloty, which is a settlement currency for current account transactions, as well as abolition – in recent years – of most of the earlier restrictions on capital transactions.

In 2005 there was extended the list of currencies in which the Bank carries out its transactions, both for own account and the Client's account – by the Hungarian forint (HUF) and Slovak crown (SKK).

III.8. Bel Leasing

Within Bank Millennium Group leasing is done by BEL Leasing Sp. z o.o., acknowledged leader in leasing services in Poland. The Company guarantees safe and professional funding of an investment, its products being offered to a broad group of Clients.

BEL Leasing offers a broad scope of leasing services:

- operating leasing,
- financial leasing,
- lease.

BEL Leasing sales in 2004 and 2005 are presented in the table below

	Balance as of 31.12.2004	Balance as of 31.12.2005	Dynamics 05/04 (%)
Number of newly concluded contracts (new production)	7 829	7 030	+11,4
Value of newly concluded contracts (mln PLN)	920.2	785.3	+17,2

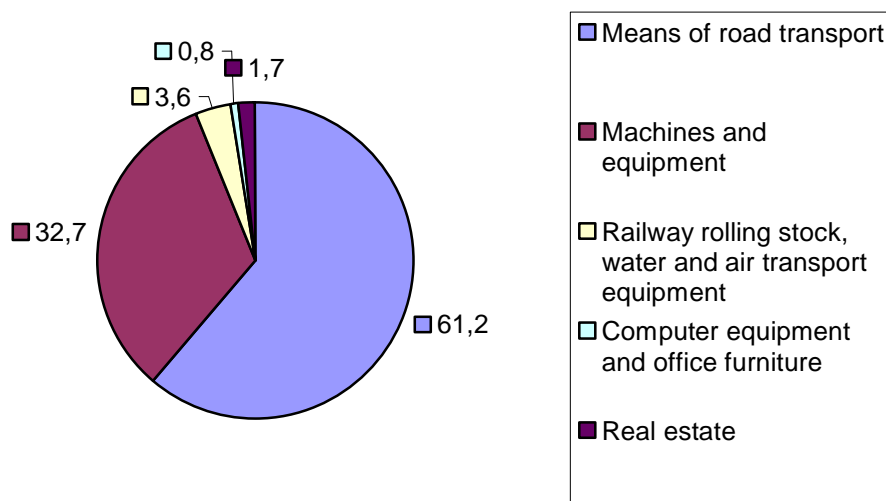
The development of the Company's leasing portfolio in 2005 is presented by the below table.

	Balance as of 31.12.2004	Balance as of 31.12.2005	Dynamics 05/04 (%)
Number of active Clients	8 942	8 936	+0.1
Number of active contracts	22 331	20 394	+9.5
Value of leasing receivables (mln PLN)	1 701.5	1 631.9	+4.3

The Company finances and leases practically all types of fixed assets, comprising: means of road transport, machines and equipment, railway rolling stock, water and air transport equipment, computer equipment & office furniture and real estate.

The structure of disbursed contracts by the initial value of the object of leasing in 2004 and 2005 is presented by the graph below.

Structure of sales by groups of equipment (%)



2005 witnessed a vigorous growth of sale realised through the company in the machines and equipment segment. In order to better meet Client expectations BEL Leasing introduced (in addition to the existing fixed products) a floating rate offer.

Competitive terms of leasing, favourable insurance package, flexibility of contract completion, tested and safe processes and procedures of concluding and implementing contracts and experience of BEL Leasing staff are key factors in the Company's commercial success.

BEL Leasing Clients include both small sole businesses, civil partnerships, as well as large enterprises which represent the majority of economic activity sectors: transport, construction, services and industry.

BEL Leasing clients may benefit from the leasing offer through a broad commercial network which at the end of 2005 comprised:

a/ Own entities:

- Strategic Client Team at the Company's Head Office;
- 11 branches: at Białystok, Gdańsk, Katowice, Kraków, Lublin, Olsztyn, Poznań, Toruń, Warsaw, Wrocław and Zielona Góra;
- 2 field Points of Service in Łódź and Warsaw;

b/ external network which as of 31.12.2005 comprised 18 Representative Offices and 10 Agencies.

The Company conducted an active campaign for the expansion of cross-selling under Bank Millennium Group. Together with the Corporate Banking Division and Millennium Biznes it conducted the sale of leasing products for Bank Clients as well as banking products for BEL Clients.

In consequence of these activities the value of leasing contracts concluded with joint clients of BEL Leasing and Bank Millennium constituted 40.1% of leased assets.

III.9. Millennium Dom Maklerski

Within the Millennium Group brokerage services are provided by Millennium Dom Maklerski S.A. It offers a full array of brokerage services, including:

- offering securities on the primary market or under an IPO
- buying and selling financial instruments for client's account,
- buying and selling financial instruments for own account,
- advice concerning trading in securities,
- running accounts of financial instruments and money accounts used for their servicing,
- performing factual and legal operations for investment fund companies, investment funds, pension fund companies and pension funds,
- intermediation in purchasing and selling financial instruments listed on foreign markets.

In 2005 Millennium Dom Maklerski expanded its investment banking into such fields as: fixed income, structured finance, corporate finance and project finance. The above segments were developed in close partnership with Millennium BCP benefiting from the partner's knowledge and many years of experience. A specimen project in this field in 2005 was the support given to the consortium submitting a bid for motorway construction.

The year 2005 was the third consecutive bull market year on the Warsaw Stock Exchange, best in all of its 15-year history.

This was the year of the highest turnover both on the equities and futures contract market. The turnover in the equities market was PLN 175.4 billion (compared to PLN 109.8 billion in 2004) and in the futures market PLN 238 billion (compared to PLN 125 billion of 2004).

Despite rather common correction expectations, the share market has been going north for over two years. The basic reason for growth is an influx of foreign capital (43% of the turnover in the first half-year 2005), which traditionally focuses on blue chips. The share of individual investors in share trading

fell in the first half-year 2005 to the lowest level in the history of the Stock Exchange and stood at merely 24% in comparison to 38% in the first half of 2004.

2005 was also a record-breaking year for Stock Exchange indices; indeed, their records have been broken a dozen times. At the closure of 2005's last session (30 December 2005) the WIG index reached 35 600,79, over 34% higher than at the end of 2004 when it stood at 26 636.19.




The capitalisation of companies listed on the Warsaw Stock Exchange at the end of year stood at PLN 308.4 billion and was 43.9% higher than in 2004. The growing capitalisation is the result of a growing number of companies listed on the Warsaw Stock Exchange and their growing value.

Last year was also successful on the primary market. 35 new companies were floated on the Warsaw Stock Exchange and the value of IPOs exceeded 6.9 billion zloties. To compare, 2004 witnessed 36 IPOs and their value exceeded PLN 13 billion (8 billion PLN of which accounted for PKO BP's IPO)

In 2005 Millennium Dom Maklerski was an active participant of IPOs in Poland.

Millennium DM as the financial advisor, arranger and offeror conducted one of the biggest IPOs this year, namely the floating of CIECH S.A. shares. Also this year the Warsaw Stock Exchange saw the IPO of ŚRUBEX S.A., which entrusted to Millennium DM its preparation and conducting. Both IPOs totalled over PLN 328 million.

Moreover, Millennium DM was the Offeror of the IPO for Grupa Polskie Składy Budowlane S.A., which is now listed on CeTO.

Ciech S.A.	Śrubex S.A.	Grupa PSB S.A.
		
Public offering of A, B and C shares Value of offer 277,3 mln PLN Offerer Issue arranger	Public offering of A and B shares Value of offer 51,0 mln PLN Offerer Issue arranger	Public offering of the bonds programme 1st series value 16,0 mln PLN Offerer

Millennium Dom Maklerski was also the arranger and offeror for successive public share issues of Getin Holding S.A..

In 2005 the house participated in syndications arranged in the primary market in connection with the offerings of the following companies: Zelmer S.A., Eurocash S.A., Polmos Białystok S.A., Lotos S.A., Opoczno S.A., Police S.A., PGN i G S.A. and Puławy S.A..

In connection with the growing Client interest in IPOs Millennium Dom Maklerski started to more closely cooperate with Bank Millennium branches on the market of loans granted for the purchase of shares offered under IPO.

The share of Millennium DM in trading WSE stocks stood in 2005 at 2.84%, the turnover being at the level of PLN 5 2121 million compared to PLN 3 432 million in 2004. Millennium DM was also an active participant of the Treasury bond market, taking fifth spot among brokerage houses and in the futures market with a 2.71% share at the end of 2005. In 2005 Millennium DM offered to its Clients a possibility of trading on the WSE with new instruments, namely bonds futures and share options.

Professional brokerage services from Millennium DM are available through a traditional network of 12 Points of Sale distributed all over the country, bank distribution channels, namely Millennium branches and Millennium PRESTIGE of Bank Millennium SA and through the INTERNET. Increasingly popular is especially the last distribution channel, which not only enables investors easier access to a broad information base pertaining to the capital market but first of all direct on-line access to a vast array of brokerage services. This is confirmed by the number of internet investment accounts run by Millennium DM, which went up from 3 855 at the end of December 2004 to 5 718 at the end of 2005, which means almost a 50% growth of new accounts in the network. So dynamic development of the new distribution channels puts Millennium DM among the top internet brokerage houses and creates good prospects for the future.

The number of internet investment accounts at Millennium Dom Maklerski:



In view of the importance of internet services Millennium DM embarked upon cooperation with Bank Millennium in order to enable clients who use internet services at Bank Millennium to obtain information about the balance and operations performed on the investment account kept by Millennium DM.

As of 31.12.2005 Millennium DM serviced 58 977 investment accounts, a slight growth from 2004 (58 126 accounts).

Also, the POS network of Millennium DM runs the sale of investment fund participation units of Millennium TFI and intermediates in the closing by Millennium TFI of agreements for managing securities portfolios on client order.

DM also participates in transactions concluded in the OTC market and CTO market.

On the basis of the agreements signed as of 31 December 2005 Millennium Dom Maklerski was a market maker for 15 companies listed on Warsaw Stock Exchange.

III.10. Millennium TFI

In Bank Millennium Group investment funds and security portfolios on the client's order are set up and managed by Millennium Towarzystwo Funduszy Inwestycyjnych S. A.

In 2005 investment funds were very popular among clients. Polish investment funds attracted in total PLN 23.5 billion in assets and exceeded the level of PLN 61 billion, i.e. they went up 63.3% compared to 2004.

Millennium TFI addresses its offer to individual and institutional Clients. In 2005 it covered six open investment funds: Millennium FIO Pieniężny (money market), Millennium FIO Papierów Dłużnych (debt securities), Millennium FIO Dolarowa Lokata (USD investment), Millennium FIO Stabilnego Wzrostu (stable growth), Millennium FIO Zrównoważony (mixed), Millennium FIO Akcji (equity) and 10 subfunds under Millennium SFIO Funduszy Zagranicznych (foreign investment funds).

The offer of managing a securities portfolio on client's order covered six standard portfolios (including share, bond, mixed and variable exposure portfolios) and portfolios created under individual strategies, depending on the clients' instructions.

Additionally, the Company offered long-term savings products – Individual Retirement Accounts, Regular Savings Plans and Employee Savings Plans.

Expanding its offer to managing a securities portfolio on client's order allowed Millennium TFI to better adjust its asset management offer to individual preferences of particular clients in view of accepted risk, required liquidity and investment horizon.

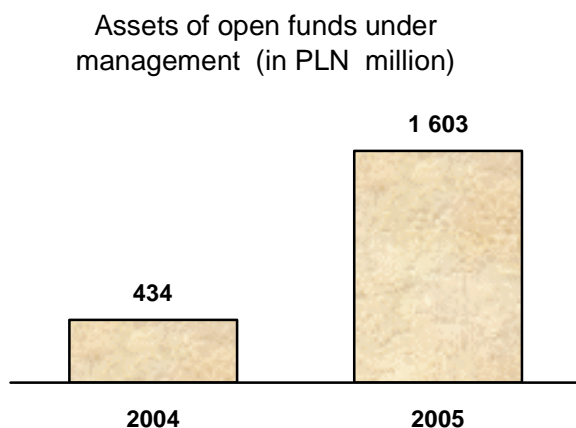
In February 2005 Millennium TFI started to sell participation units in Millennium SFIO Funduszy Zagranicznych, which augmented the Company's basic offer by foreign funds. This is a Fund of Funds which has 10 subfunds denominated in EURO and USD: Conservative EUR or USD, Stable EUR or USD, Growth EUR or USD, Dynamic EUR or USD, Aggressive EUR or USD. The Fund invests 100% of its assets in units of the world's best investment funds. The portfolio of each subfund is diversified in terms of risk and reward potential. The fund simultaneously uses two new legal constructions, the so-called fund of funds and umbrella fund which gives the clients new possibilities of investing in foreign markets and possibility of revising the investment profile (conversion between subfunds) without paying capital gains tax.

The public sale of units in EUR-denominated subfunds started on 28 February 2005 and in USD-denominated subfunds on 22 August 2005.

Millennium SFIO Funduszy Zagranicznych was created in cooperation with Millenniumbcp Wealth Management Central Unit from London.

2005 witnessed a big popularity of structured products, i.e. Plan Millennium Super Duet, a combination of a deposit and investment fund and Mille Gwarancja, i.e. life insurance with PZU capital funds investing in Millennium funds.

In 2005 investment funds attracted over 28.5 thous of new Clients. Assets of Millennium funds went up PLN 1 164 million climbing to the level of PLN 1 602.9 million and pushing up the market share from the level of 1.16% at the end of 2004 to 2.62% at the end of 2005, thus generating net profit at the level of PLN 9.4 million.



So significant asset growth was achieved thanks to an attractive and innovative investment fund offer and improvement of management results.

Most popular were funds which gave the possibility of achieving more than average return rates under limited risk, i.e. Millennium FIO Zrównoważony (mixed), which achieved a growth of assets by PLN 297.7 million and Millennium FIO Stabilnego Wzrostu (stable growth) by PLN 275,9 million.

In its effort to steadily improve the quality of services of Company Clients in July 2005 Bank Millennium implemented software for servicing the clients of Millennium funds. This solution allows the

Client at any Bank outlet not only to place an order, but also obtain detailed information on the balance of his holding in investment funds.

A continuous improvement of service quality and investment results achieved by Millennium funds remains the main priority of Millennium TFI for the year 2006.

IV. RISK MANAGEMENT AND CREDIT POLICY

Risk exposure is inalienably connected with activity on financial markets and constitutes a fundamental factor affecting behaviour of market participants, in particular financial institutions. A huge part of financial decisions is now being taken with consideration of risk generated on this occasion. Measurement, analysis, control and management of risk require the use of a broad spectrum of methods and advanced mathematical tools. This considered, the Bank formulated and implemented a risk management policy and a strategy of pursuing it.

Banking risk management policy aims at comprehensive quantification and definition of parameters of various types of risk from the point of view of optimising the structure of the Bank's balance-sheet and off-balance items given an assumed level of profitability of the business. The main areas of analysis being at the same time main threats for banking activity cover: credit risk, market risk, liquidity risk and operational risk.

On the strategic level it is the Bank's Management Board that is responsible for defining and monitoring risk management policy. On the operational level management of individual banking risk areas and their ongoing control within the framework set by the Management Board are the responsibility of three senior committees: the Capital, Assets and Liabilities Committee, Credit Committee and the Operational Risk Committee.

All types of risk are monitored and controlled with respect to profitability of the pursued business and to the level of capital essential to ensure security of operations from the vantage point of capital requirements.

Results of risk measurement are regularly reported in management information.

As at end of December 2005 the Bank's capital resources stood at PLN 2,346 million, with PLN 2,391 million for the entire Capital group. Solvency ratio was 10.67% (Bank) while for the Capital group it came up at 19.07%, maintaining a high level (without 2005 net profit) despite a decrease as compared with the previous year (22.4%). The decrease of the solvency ratio was caused by the increase of capital requirement, mainly for credit risk, which was connected with a strong growth of loans

IV.1. Credit policy

In 2005 the main goal of the Bank's policy was to improve Bank's market position through development of optimal conditions – from the point of view of acceptable credit risk – for credit operations, including sale of factoring and lease products. One of the objectives of the policy was also to improve the speed and quality of the Bank's customer service through effective utilisation of human resources, their specialisation and increasingly more efficient tools supporting this process.

Credit policy of the Bank is contained in a number of procedures issued by the Management Board of the Bank or its Members. The above-mentioned procedures are stipulated in the following regulations:

- Regulations on the credit process and decision-making competencies,
- Regulations on financing specific client segments,
- Regulations on specific areas and issues related to the Bank's credit operations, which in particular comprise the following:
 - Instructions for securing Bank's receivables,
 - Risk management principles for exposure concentration,
 - Instructions for client monitoring,
 - Bank's sectoral policy.

Customer service policy

There are five business lines from the risk standpoint operating at the Bank and offering comprehensive offer to Clients from their respective target segments. For proper customer service level the following client segments were identified:

Retail – providing credit risk-based transactions granted to individuals, liberal professionals, small enterprises (entrepreneurs operating as individuals).

Mortgage – covering housing loans and other transactions secured with mortgage, to finance individuals, serviced by a dedicated organisational unit of the Bank.

Prestige – offering credit risk-based transactions granted to individuals with monthly income to their account in the amount not lower than 12 thousand PLN or assets held on the accounts in the Bank Millennium Group totalling at least 100 thousand PLN.

Small Business – which covers small businesses and companies or groups of companies with annual revenues above 3 m PLN and below 10 m PLN.

Corporate Clients (medium and strategic) – which covers institutions (local self-governmental authorities and the like), companies, large companies and groups of companies with annual turnover above 10 m PLN.

Particular client segments are serviced by specialised employees from relevant sales networks that target a given segment.

Additionally, the Bank prefers Clients who hold a current account at the Bank and route their turnover through such account, and Clients, who hold their assets at the Bank, and – apart from credit risk-based transactions – use other services offered by the Bank.

Credit capacity assessment policy

An important element of the Bank's strategy is continuous improvement and development of credit capacity analysis and assessment methodologies. In order to ensure objective approach – apart from setting up proper organisational structure in the Bank – also state-of-the-art assessment methods are applied. These are rating (scoring) model-based methods, which define the risk level connected with client financing. There are different rating (scoring) models applied at the Bank in relation to a given client segment. They are based on mixed methods that use both quantitative and qualitative information.

Sectoral policy

In the Bank there is a specialised organisational unit – Macroeconomic Analyses Bureau, which monitors domestic economic situation on an ongoing basis. Macroeconomic analyses provide regular reviews of, among others, particular sectors of economy, i.e. their current condition and future prospects. These analyses are applied in particular to identify the risk related to financing Clients that operate in a given sector. Sectors of economy are rated in terms of their intrinsic risk level.

In order to manage the sectoral structure of the loan portfolio in the Bank, also principles for setting sectoral limits were introduced. In execution of these principles in 2005 exposure limits per sectors were approved.

Additionally, there are maximum exposure limits set up in the Bank for companies (and economic groups) operating in specific sectors (depending on sector rating).

Internal credit limit policy

In order to improve the quality of customer service provided in the Bank, credit risk-based transactions may be granted within a pre-approved internal credit limit. Such pre-approval by competent decision-making level renders it possible to take transaction decisions within the pre-approved limit by lower decision-making levels than those imposed by the respective general principle. This approach speeds up the decision process cutting short the traditional path.

Security evaluation policy

The need to accept security and its type (physical or personal), value and legal form of security, stem from the client and transaction risk assessment. The securing is assessed in terms of its actual existence, value, liquidity and possible legal limitations in the administration of the object. As regards selection of the legal form of security, effectiveness of claims and specificity of a given transaction are considered.

In order to minimise the risk regarding the security accepted for credit risk-based transactions, among other measures, a catalogue of security types that cannot be accepted (due to their type) was introduced in the Bank and value adjustment ratios are applied to adjust documentary value of collateral.

Security required by the Bank is adequate to the evaluated credit risk level, which means that in some cases – due to the required risk diversification – the Bank accepts collateral of different nature, whereas in other cases – as Client's economic and financial standing is exceptionally good – the Bank deems this standing as sufficient security.

IV.2. Credit risk

Credit risk means the uncertainty of a customer performing the agreements concluded with the Bank concerning financing him, i.e. punctual payment of principal and interest.

Credit risk management process results from the described above credit policy of the Bank Millennium Group, which in detail is defined in a packet of internal regulations and procedures.

The Group took up a number of new projects in the area of credit risk management launched in 2005 , which especially include work on:

- Modifying the system of managing collaterals created in the Bank's favour, the task of which system will i.a. be improving efficiency of actions connected with monitoring collateral,
- A new system supporting decision-making and signing of loan agreements with private individual customers,
- Introduction of new solutions regarding assessment of credit capacity of private individuals,
- Introduction of modified rules for assessment of credit capacity as regards products granted in the mortgage business.

An important credit risk management event was estimation of losses on the credit portfolio in keeping with International Accounting Standards (IAS). According to IAS requirements impairment was calculated for:

- Exposures important from the bank's point of view – individual analysis
- Other exposures – collective analysis

The individual analysis consisted in a detailed assessment of a selected group of customers from the point of view of appearance of specific impairment triggers. When they were found to be present, assessment was made of the probability of principal and interest flows connected with the exposure and then these flows were discounted and compared with current exposure reported in the IAS approach (adjusted exposure).

In turn collective analysis consisted in dividing the remaining credit exposures into portfolios uniform as regards risk i.e. so called homogenous portfolios and defining their impairment relying on two parameters calculated on the basis of historical data: PD – Probability of Default and LGD – Loss Given Default.

An important component of credit risk assessment are scoring and rating models used in the Bank to support the analysis process both as regards private individuals as well as businesses. These models are subject to regular evaluation from the point of view of correct customer segmentation by risk class. In 2005 these efforts included modification of risk assessment models used with private individuals – both the model used for assessment of the relationship to-date with the customer as well as the model used for processing of an application from a new customer for a specific product.

The above models as well as the aforementioned decision-making and agreement signing support system have greatly contributed to improvement of the quality and speed of individual customer service. As regards corporate customers modifications and improvements were made to the existing system supporting the delivery of credit proposals and taking decisions, which also led to increased efficiency of the whole credit process. Additionally in keeping with the existing practice employee training was done – in customer service and legal regulations as well as assessment of the economic and financial standing of customers.

IV.3. Market risk

Market risk is connected with the uncertainty as to interest rates, FX rates and prices of securities and derivatives held by the Bank reaching values deviating from originally assumed levels, which in consequence will cause the appearance of uncontrollable gains or losses on the held positions.

In 2005 the Bank continued to develop its market risk control system both to adapt it to the requirements of the changing profile of the Bank's financial activity, resulting i.a. from greater diversification and growing volume of trading in financial instruments, to reflect detailed risk control rules required by the Law as well as adapting measurement tools to new methodological achievements and greater technical capacity.

The key method used for day-to-day management of market risk in the Bank are the Value at Risk methodology. The VaR methodology is applied with respect to the trading portfolio and the bank's proprietary portfolio, covering all financial instruments, both balance-sheet as well as off-balance

To supplement the VaR methodology the Bank is backtesting the adequacy of the used model as well as developing tools for measurement of market risk of trading portfolios with use of scenario methodologies. These methodologies are particularly useful from the point of view of non-recurrent events, which the VaR methodology is unable to predict. In parallel with changes concerning the organisation and methodology of market risk control, the Bank continued introduction of technological changes concerning IT solutions supporting risk management. The Bank, on the basis of the new Kondor+ transaction system, used for processing of transactions entered into in the Treasury Department, is using the InVaR IT tool, developed by the Strategic Investor (BCP Risk office) together with Reuters on the basis of the RiskMetrics (JP Morgan) methodology. From the point of view of risk control the new transaction system has very important features: it ensures access to an integrated and complete transaction database, permits management of all positions and control of utilisation of limits in real time as well as permitting daily calculation of the result on all operational levels.

Interest rate risk

As regards interest rate risk the Bank applies the principle of maximising market value of capital in realisation of the assumed net interest income within the framework of accepted risk limits.

The expectation of a fall of interest rates and the political risk involved with the autumn elections determined a balanced exposure to risk. On the last day of December 2005 the Bank's Value at Risk on account of interest rate risk was approx. PLN 15.1 million (average during the year approx. PLN 27.6 million) with a valid global limit for market risk of PLN 48.2 million.

Complementing measurement of Value at Risk the Bank is also estimating the hypothetical Earnings at Risk, caused by changes of market interest rates.

Detailed structure of balance and off-balance items according to interest risk characteristics is showed in the Consolidated financial report.

FX risk

The key aim of managing FX risk is to shape the structure of FX assets and liabilities as well as off-balance items within internal limits as well as external limits determined – in case of the Bank – by requirements of Banking Law.

In 2005 the Bank was maintaining a balanced FX position. At the end of December the Bank's Value at Risk on account of FX risk was approx. PLN 0.3 million (average during the year approx. PLN 0.49 million) with a binding limit of PLN 16.1 million.

Risk connected with derivatives

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

In particular Bank uses *FX Swap* and *Cross Currency Swap* as a source of funding of FX denominated loans.

IV.4. Liquidity risk

The Bank assumed as its superior liquidity risk management objective such management of funds so that, considering negative scenarios of changes in the environment it is possible to punctually meet all the Bank's contractual obligations to customers. Liquidity risk would also arise if the Bank were to have difficulty with raising funds to finance its operational activity or if it were unable to liquidate its tradable assets at sufficiently short notice at market price level. Therefore a liquidity reserve is the portfolio of treasury securities, which have the highest secondary market liquidity level.

The Bank manages liquidity risk on a daily basis, applying the net liquid assets methodology (liquidity gap). To ensure the proper level of current liquidity the Bank maintains a mandatory deposit on a level consistent with NBP requirements, funds on nostro accounts essential for non-cash settlements, optimum funds in the Bank's treasuries, 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, which defines the relationship between total maturing assets adjusted for real terms and total liabilities adjusted for real terms. The safe level of this ratio adopted in the Bank for the bracket of up to 3 months is 100%. Limited (at 20%) is the ratio of liquid assets, defining the share of liquid assets in the Bank's balance-sheet total, standing at 42.3% as at end of 2005. Limited ratios of spot liquidity (balance of receivables and liabilities on the money market, plus securities available for immediate sale) and quarterly liquidity (lowest balance of receivables and liabilities on the money market, accumulated in the course of the quarter plus securities available for immediate sale on the date of this balance) were well above the adopted minimum levels. For purposes of current liquidity a portfolio is maintained of blocked treasury securities in an amount ensuring execution of payments due in the short term. Moreover the concentration of liabilities to largest customers and the evolution of the structure of assets and liabilities (both balance-sheet as well as off-balance) of the Bank are monitored, which permits early recognition of trends detrimental to financial liquidity. Additionally regular examination is made of stability of the deposit base, of premature termination of deposits and the scale of unauthorised overdrafts and utilisation of opened credit lines. In order to cover liquidity risk connected with the least stable part of sources of financing an additional limit was introduced as regards the minimum amount of the total value of the liquid securities portfolio and the short-term interbank deposits portfolio.

IV.5. Operational risk

Bank Millennium S.A. defines operational risk as the risk of a loss arisen in result of inappropriate or unreliable internal actions and processes, human activity, systems and in result of the influence of external events. Operational risk is immanently connected with every type of activity pursued and its arisal is not limited only to certain defined areas of the institution's activity. Therefore many events containing elements of other risk types (such as credit risk or market risk) also contain elements of operational risk. The above-mentioned definition does not cover system risk, strategic risk and reputation risk but it does encompass legal risk. Such operational risk factors as: internal actions and processes, people, systems and external events may negatively impact both productivity and effectiveness of the Bank as well as the quality of financial and management information being prepared and on compliance of the institution's activity with valid external provisions and regulations.

In 2005 the Bank continued activity connected with improving the system of identification, assessment, monitoring and securing operational risk in order to make the process complete and uniform to the maximum extent. The Bank fully co-ordinates work taken within the Millennium BCP Group and draws on the experience of the strategic shareholder. Current activity is being conducted under the Basel II project – implementation of provisions of the New Capital Accord. Additionally operating within the Millennium BCP Group a plan was devised for implementation of tools in keeping with the assumptions of the New Capital Accord. These include such matters as self-assessment or key risk

indicators, which are to be based on a common IT platform on Group level. Moreover the Bank is registering and analysing arisen operational risk events.

The Bank's initiatives with respect to operational risk are co-ordinated on the level of the Operational Risk Committee. In the course of performance of the Committee's work areas were identified, which are important from the point of view of operational risk. These areas are required to report regularly to the Committee in keeping with defined standards. Moreover initiatives are taken within the Committee, which are connected with the best possible management of operational risk such as preparation of operational risk maps or business continuity plans.

V. HUMAN RESOURCES MANAGEMENT AND SOCIAL MISSION OF THE BANK

V.1. Human resources management

Recruitment

The Bank recruits young and talented people, who aspire to develop and pursue their professional career at the Bank. Bank Millennium carries out recruitment campaigns at Polish universities offering students "Come and Grow with us" internship programme adjusted specifically to their needs:

"Come and Grow with us" programme is an offer addressed to students and composed of the following elements:

- Internships in various areas and departments of the Bank
- "People Grow", a Two-year Management Competence Development Programme targeting the best students in Poland.

In 2005 year 6871 students applied for the internship programmes organised by Bank Millennium. 197 persons were invited to co-operate and develop their professional experience in our Bank and we proposed a full time employment to eighty of them. Last year we also received approx. 800 entries for the 4th issue of the "People Grow" programme.

Development

In 2005 human resource development was a priority. Compared to the year 2004 the number of training hours per a single employee increased by 33%.

In 2005 the Bank set up "Millennium Academy" in an effort for even better adjustment of the Bank's training offer to the employees' needs. "Millennium Academy" contains a wide range of training programmes divided into four topical groups:

- Becoming one voice – induction programme for the new employees of the Bank;
- Specialised Programmes – technical programmes for specific competence areas;
- Management programmes – training programmes for the management;
- Development programmes – training programmes with the objective to speed up development and career of the most talented employees.

One of the most important training projects conducted in 2005 was Millemaster II addressed to all employees of the Millennium Retail network. The main assumptions underlying the programme were as follows:

1. To increase customer satisfaction through higher quality of customer service.
2. To better identify client's needs and adjust the offer accordingly.
3. To develop motivational and training skills of the outlet managers.

Incentive system

In 2005 the works to develop a new incentive system for the employees of Millennium Prestige and Treasury Department were completed. The new systems became more consistent and transparent in order to further develop employees' sales-performance focus.

Social fund and MilleClubs

For the last two years Bank Millennium's employees have had an opportunity to practise their hobbies within Mille-Clubs. At present, there are 12 sections such as Mille-Basket, Mille-Trek or Mille-Water,

totalling 1200 members (compared against 712 in 2004). Mille-Clubs provide the employees with an opportunity to practise their favourite sports and pursue their interests. Furthermore, twice a year the employees are invited to take part in trips and travels. In 2005 this opportunity was used by 483 employees. Additionally, in the last year the offer was enriched by adding participation in music events. More than 550 employees selected this leisure activity.

Within a quarterly sports and leisure activity programme, every employee of the Bank may also use a free swimming, fitness or cinema tickets package.

In 2005 all the employees were invited to participate in the Milleart Picnic in Firleje near Warsaw. This was an informal, cultural event staged to motivate and integrate employees. Also, during the Picnic Members of the Management Board handed out awards for the best employees.

Employment structure

EMPLOYMENT IN THE BANK MILLENNIUM GROUP (full time equivalents)

	31.12.2005	31.12.2004
Number of the Group's employees	4 484	4 306
Number of the Bank's employees	4 084	3 919
- including managerial positions *	134	123

* (Position: Management Board, Director, Key Manager, Key Expert)

BANK MILLENNIUM'S EMPLOYMENT STRUCTURE (full time equivalents)

	31.12.2005	31.12.2004
Branches and direct sales**	2 355	2 255
Head Office	1 729	1 664
Total	4 084	3 919

** Millennium (Retail), Millennium Prestige, Millennium Biznes, Customer Relationship Centre, Strategic Client Department, Regional Operational Centres and Mortgage Product Sale Department.

V.2. Bank's corporate social responsibility

Bank Millennium has been implementing its development strategy in a sustainable way, with due regard to economic and social factors. The Bank intends to develop sustainable and positive relations with all the stakeholders, both internal and external, involved in the process. In the course of pursuing its market mission the Bank spares no effort to conduct a dialogue with these parties in order to continuously perfect its operations, improve quality and standards, to motivate its employees and, consequently, to achieve its economic objectives and improve Bank's efficiency.

The mission of Bank Millennium is to consistently implement its development programme and strengthen Bank's market position.

Also, the Bank puts a special emphasis on implementation of the programmes going beyond its fundamental business objectives. They are related to the special mission of the Bank pursued in co-operation with these circles, whose activity is socially important, however it does not find sufficient sources of financing in the state budget.

In 2005 the most important of the above-mentioned programmes was:

In the area of cultural sponsorship and spreading national heritage

"Millennium Pearls" programme

"Millennium Pearls" is a joint programme of Bank Millennium and Polish Television (TVP) aiming at production, promotion and presentation of artistic events from the world of high culture in the Polish Television. The programme started in 2004, when the Bank and television prepared four high-class artistic programmes.

For Bank Millennium participation in the programme is a continuation of the Bank's many years of supporting Polish top-quality artists and artistic events within the Bank's social mission.

In a joint effort, the partners look for viable artistic projects (original, high-class premier artistic programmes from all areas of art, which may be presented in the Polish Television). Both partners share the burden of programme promotion.

In 2005, within the "Millennium Pearls" cycle, three shows were produced: musical show featuring the lyrics of one of the most eminent Polish authors - Jeremi Przybora, "Cafe Sułtan" performed by Grzegorz Turnau, classic theatrical performance "Oedipus the King" by Sophocles, directed by Gustaw Holoubek and television performance "South of the Border, West of the Sun" on the basis of the world best-seller by Haruki Murakami, staged under the same title and directed by Łukasz Barczyk.

"Golden Sceptre" programme

For the last seven years Bank Millennium has been the founder of one of the most important artistic awards in Poland - "Golden sceptre". The prize is awarded to the most important artistic contributors who enrich our national culture. In this programme the Bank partners with "Fundacja Kultury Polskiej" foundation, independent non-governmental organisation composed of art theoreticians, critics and artists. The prize is awarded by the Chapter of eminent personalities of the Polish culture. In 2005 the "Golden Sceptre" went to Janusz Gajos, one of the most outstanding Polish theatrical, television and film actors. In the justification of their verdict, the Chapter chaired by Beata Tyszkiewicz, concluded that the award was conferred *for virtuosous theatrical and film creations, deepening the truth about the man of our times.*

The filmography of Janusz Gajos, spanning over the period of 1964-2005, includes 67 items. This number includes such outstanding film as "Man of iron", "Interrogation", "Shilly-Shally" or "Yellow scarf". The actor is also known from his daring roles in popular TV-series: "Czterej pancerni i pies" or "Czterdziestolatek" and excellent theatrical creations in Powszechny Theatre in Warsaw and spectacles of the Television Theatre. "Small prize" - conferred by the winner of "Golden Sceptre" to an outstanding artist of young generation – was received by a theatrical and film actor, Piotr Adamczyk. The prize was awarded on September 5 2005 at Stanisławowski's Theatre in Łazienki Królewskie, Warsaw.

Co-operation programme with the National Museum in Gdańsk

The year 2005 was yet another year of the Bank and **National Museum in Gdańsk** co-operation programme. The purpose of this effort was promotion of artists from the multicultural Gdańsk, one of the most important culture and economic centres in Poland and animation of cultural life in this city. In the previous years this programme was related with promotion of contemporary arts. After Poland's accession to the European Union, in an effort to comeback to the multinational roots of the city, a presentational programme was commenced featuring the artists connected to the "golden age" of Gdańsk. In 2005, under this programme, a large monographic exhibition was staged presenting 17th century painter from Gdańsk, Jakob Wessel – "Portret ponad wszystko. Jakob Wessel i jego wiek" (Portrait first, Jakob Wessel and his century). The exhibition was accompanied by presentation

of artistic handicraft from the painter's epoch. This presentation and accompanying publication were found one of the most important artistic and educational events that took place in Gdańsk in 2005.

Co-operation programme with Nadwiślańskie Museum in Kazimierz Dolny over the Vistula River

The program, conducted by the Nadwiślańskie Museum and Bank Millennium, is devoted to the work of one of the most prominent artist colonies in Europe, which existed in Kazimierz Dolny on the Vistula River. The programme comprises scientific studies, publishing activity and exhibitions of the artists living and creating in the last hundred years in Kazimierz. In 2005 a monographic exhibition was organised featuring the works of one of the most important painters from this milieu, Antoni Michałak – "Mistyczny świat Antoniego Michałaka" (the Mystic world of Antoni Michałak) and the 4th Summer Saloon (Salon Letni "Wokół prowincji").

• 3x Kieślowski programme

In 2005 Bank Millennium accepted the role of sponsoring three cultural events marking the "Kieślowski Memorial Year" in connection with the tenth anniversary of the Artist's death.

Krzysztof Kieślowski (1941-1996), director of documentaries and feature films and a scriptwriter, is one of the best-known Polish filmmakers in the world. Ten years after the premature death of the Artist, his films are not only shown on all the continents, also in special festivals devoted to the author, but they have become the subject of critical and scientific studies. The cinema of Kieślowski, both documentaries and films, are experiencing a great renaissance. The intellectual message of his work is associated with the recurring question about the human condition, the world of human values, choices, efforts and search. Kieślowski's movies are universal and each generation analyses their artistic message searching for its own answer to the most important questions.

The tenth anniversary of Krzysztof Kieślowski's death was the reason for creating a project that would remind the Artist and his work. In Poland, the project was executed through:

- a multi-media exhibition in the Cinematography Museum in Łódź: "Kieślowski – traces and memory" where materials on the Artist's life and work were presented. The Bank's partner in this undertaking is the Cinematography Museum in Łódź
- publishing the director's biography authored by Stanisław Zawiśliński: "Kieślowski – to go is what's important". The bank's partner in the book promotion program was the "Polityka" weekly.
- organisation of an international symposium "Kieślowski's cinema, cinema after Kieślowski" in Katowice. In this case, the bank was partnered by the Film Appreciation Department of the Silesian University in Katowice.

Education and support for you talents

Scholarships for talented children from poor families

Within the framework of the Bank's co-operation with the "Porozumienie bez barier" foundation scholarships are awarded annually for especially talented children from poor families, living and studying in small towns and villages. The scholarships are for purchase of books and teaching aids and are awarded by a group of teachers and scholars of unquestionable achievement and authority. Every year the "Porozumienie bez barier" foundation awards approximately 50 scholarships.

Best student and best science circle on the Coast competition

For over forty years in Gdańsk the Best student and best science circle on the Coast competition is being held for the "Red Rose" award. Its winners are selected from among candidates nominated by all higher education institutions operating on the Gdańsk Coast, the criteria being the grades, independent research programmes and community work. The jurors are all rectors of the universities and academies, which nominated their candidates. Since 2002 Bank Millennium has been a partner of the Red Rose Association, the independent organiser of the competition. The 2005 winner was

Adrian Kossowski, a student of the Gdańsk Polytechnic, the best science circle being the Students' Science Circle of the Physiology Chair and Department of the Medical Academy in Gdańsk.

Best arts university diploma competition

Bank Millennium and the National Museum in Warsaw, under the patronage of the President of the Republic of Poland have organised the Competition for the Best Graduation Diploma in Fines Arts and Design. In 2005 its fourth edition was held. Taking part in the competition are degree works of graduates, submitted by the universities and divided into works of art (all fine arts) and design work. The winners are selected by a jury composed of eminent art critics, artists and representatives of museums. In 2005 the fine arts Grand Prix went to Izyda Szrednicka – Sulowska from the Fine Arts Academy in Gdańsk (sculpture) and in design work the winner was Agnieszka Kucharska from the Fines Arts Academy in Warsaw (poster). The prize is an individual exhibition in a selected gallery and acceptance of the winning work to the Young Art Gallery kept by the National Museum in Warsaw.

Young managers

Supporting the development of its own staff Bank Millennium is one of the five key sponsors every year of the Polish edition of the "Euromanager" competition. Taking part in this competition the Bank supports participation of both teams made-up of the Bank's employees as well as sponsoring teams composed of students of Economic universities.

In 2005 Bank Millennium also collaborated with the newspaper "Parkiet" in the Traineeship Exchange Programme, where it sponsored a traineeship in the Marketing Department for the author of the best essay in the newspaper's competition.

Charity

Supporting institutions of public benefit the Bank implemented a programme of equipping schools, orphanages, social welfare outlets and educational institutions co-operating with Towarzystwo Przyjaciół Dzieci society in Gdynia with computer hardware, permitting acquisition of computer literacy and implementation of educational programmes in poor communities. For this purpose the Bank donated 231 computer sets.

The bank donated funds to support the upgrade and extension of the Orphanage in Szczytno, thus becoming a partner of local business organisations, companies and local authorities in this local community-funded project.

The bank donated funds to support the Fundacja Ex Amino foundation programme, focusing on prophylaxis, treatment and care over children suffering from cancer.

Intellectual programmes

In 2005 as in previous years Bank Millennium was a partner in a series of discussions, exhibitions and concerts of the **Forum Dialogu "Gdański Areopag"** organised by the Dialogue Forum of the Journalists Pastoral Office and the Ministry of Creative Communities. The topic of the 2005 discussions was "Nature-Science-Art" and the aim was to reflect on the position of creative man in the contemporary world. Taking part in the discussion were eminent intellectuals, scientists and artists, who attempted to demonstrate the factors bridging their lives and works with the community they live in and create for.

In 2005 the bank began co-operation with the Fundacja Archiwum Filmowe **"Drogi do niepodległości"** foundation. The aim of the co-operation is to preserve and make available to scholars and journalists collections of documents, recordings and film footage connected with activity of the Polish democratic opposition, the "Solidarity" trade union and the social movement supporting Polish transformation. The first joint initiative carried out last year was the conference in Gdynia "Save the Video Studio Gdańsk archive" presenting the collections of this independent information and film agency, which had operated for many years underground.

VI. OWNERSHIP STRUCTURE AND AUTHORITIES OF THE BANK

VI.1. Ownership structure

According to data in the Bank's possession, shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders of Bank Millennium S.A. as at 31 December 2005 are:

<i>Shareholder</i>	<i>Number of shares</i>	<i>% share in equity</i>	<i>Number of votes</i>	<i>% share in votes at GMS</i>
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

The Bank is not aware of any agreements concluded between shareholders concerning mutual co-operation; also the Bank has no knowledge of any agreements, which in the future may cause changes in the proportions of shares held by current shareholders.

None of the holders of securities issued by the Bank has any special control rights with respect to the Bank.

Each share of the bank gives the right to one vote, however registered founding shares in the current number of 66,200 are privileged in that one share gives the right to two votes at the General Meeting of Shareholders [GMS]. Bearer founder shares in total constitute 0.0078% of initial capital of the Bank and 0.0156% of the total number of votes at GMS.

Founder shares are subject to restrictions on disposal of the shares in that disposing of them upon consent of at least three fourths of founders to other founders does not result in loss of their privileged status. Disposal of registered founder shares in remaining cases results in loss of their privileged status. There are no restrictions with respect to exercising voting rights under the Bank's shares

VI.2. Authorities of the Bank

The Bank's Authorities are: General Meeting of Shareholders, Supervisory Board and Management Board.

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme authority of the Bank. The powers of the General Meeting of Shareholders, apart from considering and approving financial statements, adopting resolutions on distribution of profit or coverage of losses, discharging members of the Bank's authorities from performance of their duties, also include: change of Articles of Association including increase or decrease of initial capital, issue of convertible bonds and bonds with pre-emptive right, creation and elimination of capital and funds as well as adopting resolutions on their use, the election and recalling of members of the Supervisory Board and defining their remuneration, dissolution of the Bank or its sale or merger, selection of liquidators, all decisions concerning claims to redress damage inflicted when establishing the Bank or exercising management or supervision as well as redemption of shares and defining the detailed rules for depreciation.

On 8 March 2005 the General Meeting of Shareholders adopted new Bylaws of the General Meeting of Shareholders, which is available on the Bank's website.

On 8 March 2005 the Bank's General Meeting of Shareholders also adopted amendments to the Bank's Articles of Association, which comprise:

- Extension of the powers of the Supervisory Board to include taking decisions in matters of "consent for payment by the Management Board to shareholders of an advance towards expected dividend at the end of the financial year." (§ 17 sect. 2 item 7 of the Articles of Association)
- Authorisation for the Management Board to pay to shareholders an advance towards expected dividend at the end of the financial year if the Bank has funds sufficient for the payment (§ 38 item 2 and 3 of the Articles of Association). The text of the Articles of Association is available on the Bank's website.

Supervisory Board

The Bank's Supervisory Board is composed of 12 members elected by the General Meeting of Shareholders, half of whom, including the Chairman, are of Polish nationality. The Supervisory Board exercises permanent supervision over the Bank's activity. The Supervisory Board acts on the basis of legal provisions, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders as well as the Bylaws adopted by itself and available on the Bank's website. The Supervisory Board has tenure of 3 years. The tenure of the present Supervisory Board ends on the day of holding the General Meeting of Shareholders, approving the Bank's financial statements on 2005 financial year.

The composition of the current tenure Supervisory Board is as follows:

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 de Mello - Member of the Supervisory Board - appointed on 8 March 2005
9. Paulo Teixeira Pinto - Member of the Supervisory Board - appointed on 8 March 2005
10. Marek Rocki - Member of the Supervisory Board
11. Dariusz Rosati - Member of the Supervisory Board
12. Zbigniew Sobolewski - Member of the Supervisory Board

Until 8 March 2005 Mr Gijsbert Johannes Swalef was a Member of the Supervisory Board.

The Supervisory Board established permanent and ad hoc committees for collective performance of specific activities of the Supervisory Board. Permanent committees of the Supervisory Board are: the Audit Committee and the Personal Committee.

The Audit Committee is responsible in particular for exercising control over the operation of internal audit of the Bank on behalf of the Supervisory Board. Moreover the Audit Committee gives guidelines and recommends to the Supervisory Board the choice of a company to act as external auditor.

The Personal Committee is responsible in particular for: assessment of candidates for Members of the Management Board and for determining the terms and conditions of employment of the Management Board Members.

An ad hoc committee of the Bank's Supervisory Board, convened when necessary is the Strategy Committee.

Management Board

The Management Board is the executive authority of the Bank and heads the whole operation of the Bank. The Management Board operates on the basis of the Code of Commercial Companies as well as other Acts and legal provisions, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders and the Supervisory Board as well as the provisions of the Management Board Operational Bylaws adopted by the Supervisory Board and available on the Bank's website. The powers of the Management Board cover all matters not restricted for other authorities of the Bank.

The Management Board is presently composed of 8 Members, including 5 with Polish nationality. The Management Board is appointed by the Supervisory Board. The Management Board's tenure is 3 years. The tenure of the present Management Board ends on the day of holding the General Meeting of Shareholders, approving the Bank's financial statements on 2005 financial year. A Management Board Member may be recalled by the Supervisory Board at any time.

Authorised to submit declarations of will regarding the Bank's financial rights and obligations as well as to signing of documents on behalf of the Bank are: the Chairman of the Management Board – individually and jointly two other Members of the Management Board, or a Member of the Management Board with a proxy, or two proxies. The proxy holding joint powers of attorney is Mr Jerzy Andrzejewicz. Proxies, acting independently within the limits of their authorisation, may be appointed for performance of specific type of actions.

The composition of the Management Board is as follows:

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

In 2005 there were no changes in the composition of the Management Board.

The Management Board performs its activities with help of committees appointed by the Management Board under resolutions, which specify the composition of the committees and their powers. These are following committees: Investment Banking Committee, Commercial Committee, Investment Committee, Quality Committee, Capital, Assets and Liabilities Committee, Credit Committee, NPL Committee, Personal Committee, Operational Risk Committee and IT Steering Committee.

Information on remuneration of persons managing and supervising the Bank

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

No	Name and surname	Compensation and bonuses	Benefits	TOTAL
1.	Mr Bogusław Kott	1 125.0	1.5	1 126.5
2.	Mr Luis Coutinho	2 373.4	435.3	2 808.7
3.	Mr Fernando Bicho	2 155.0	88.4	2 243.4
4.	Mrs Julianna Boniuk-Gorzelańczyk	3 255.0	0.8	3 255.8
5.	Mr Wojciech Haase	3 255.0	0.9	3 255.9
6.	Mr Zbigniew Kudaś	2 055.0	3.5	2 058.5
7.	Mr Wiesław Kalinowski	1 655.0	0.9	1 655.9
8.	Mr Rui Manuel Teixeira	2 155.0	346.3	2 501.3
TOTAL		18 028.4	877.6	18 906.0

As the total of the paid or due compensation and bonuses for 2005 a gross value of the compensation paid or due in the period Jan.-Dec. 2005 and bonus for 2004 paid in 2005 in the amount of 8,600 thousand PLN were given.

The benefits are 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.

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. Compensations and benefits of the Members of the Supervisory Board of the Bank (data in thousand PLN):

No	Name and surname	Compensation	Benefits	TOTAL	Comments
1.	Mr Maciej Bednarkiewicz	485.1	124.8	609.9	
2.	Mr Andrzej Koźmiński	83.2	-	83.2	
3.	Mr Ryszard Pospieszyński	281.0	-	281.0	
4.	Mr Dariusz Rosati	138.4	-	138.4	
5.	Mr Marek Rocki	83.3	-	83.3	
6.	Mr Zbigniew Sobolewski	83.3	-	83.3	
7.	Mr Christopher De Beck	111.4	-	111.4	
8.	Mr Francisco De Lacerda	138.4	-	138.4	
9.	Mr Jorge Manuel Goncalves	166.5	-	166.5	
10.	Mr Dimitri Contominas	61.9	-	61.9	<i>from Apr./2005</i>
11.	Mr Paulo Teixeira Pinto	61.9	-	61.9	<i>from Apr./2005</i>
12.	Mr Vasco Maria Guimares Jose de Mello	61.9	-	61.9	<i>from Apr./2005</i>
13.	Mr Gijsbert Johannes Swalef	21.4	-	21.4	<i>to Mar./2005</i>
TOTAL		1 777.7	124.8	1 902.5	

Remuneration for persons managing companies covered by consolidation for the year 2005 (data in 000's PLN):

Company	Value
BEL Leasing	1 481.3
Millennium DOM Maklerski	1 172.0
FORIN	318.0
Millennium TFI	1 090.2
Total	4 061.5

Persons supervising companies covered by consolidation did not receive remuneration on this account in 2005.

Information about shares of the Bank and units of the Capital Group held by persons managing and supervising the Bank

Management Board of the Bank (as at 31.12.2005)

1. Bogusław Kott – Chairman of the Management Board
 - 3.023.174 shares of the Bank with nominal value of PLN 1 each,
 - no shares and interests in units of the Capital Group;
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board
 - No shares of the Bank,
 - no shares and interests in units of the Capital Group;
3. Fernando Bicho – Member of the Management Board
 - No shares of the Bank,
 - no shares and interests in units of the Capital Group;
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board
 - 490.000 shares of the Bank with nominal value of PLN 1 each,
 - no shares and interests in units of the Capital Group;
5. Wojciech Haase – Member of the Management Board
 - 5.246 shares of the Bank with nominal value of PLN 1 each,
 - no shares and interests in units of the Capital Group;
6. Wiesław Kalinowski – Member of the Management Board
 - No shares of the Bank,
 - no shares and interests in units of the Capital Group;
7. Zbigniew Kudaś – Member of the Management Board
 - No shares of the Bank,
 - no shares and interests in units of the Capital Group;
8. Rui Manuel Teixeira – Member of the Management Board
 - No shares of the Bank,
 - no shares and interests in units of the Capital Group;
9. Jerzy Andrzejewicz – Proxy
 - 6.260 shares of the Bank with nominal value of PLN 1 each,
 - no shares and interests in units of the Capital Group;

Supervisory Board

1. Maciej Bednarkiewicz – Chairman
 - 94 shares of the Bank with nominal value of PLN 1 each,
 - no shares and interests in units of the Capital Group;
2. Ryszard Pospieszyński – Deputy Chairman
 - 26.200 shares of the Bank with nominal value of PLN 1 each,
 - no shares and interests in units of the Capital Group;
3. Christopher de Beck – Member of the Supervisory Board
 - 95.000 shares of the Bank,
 - no shares and interests in units of the Capital Group;
4. Dimitri Contominas – Member of the Supervisory Board
 - no shares of the Bank,

- no shares and interests in units of the Capital Group;
5. Jorge Manuel Jardim Goncalves – Member of the Supervisory Board
 - 10.000 shares of the Bank,
 - no shares and interests in units of the Capital Group;
 6. Andrzej Koźmiński – Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group;
 7. Francisco de Lacerda - Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group;
 8. Vasco de Mello – Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group.
 9. Paulo Teixeira Pinto – Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group;
 10. Marek Rocki – Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group;
 11. Dariusz Rosati – Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group;
 12. Zbigniew Sobolewski – Member of the Supervisory Board
 - no shares of the Bank,
 - no shares and interests in units of the Capital Group;

VI.3. Rules of Corporate Governance

The Management Board makes an annual statement with respect to observance of the rules of corporate governance. Bank Millennium fully observes all rules of corporate governance, adopted by the Bank for application and contained in the “Good Practice in Public Companies in 2005”, according to the statement filed on 9 March 2005 and available on the Bank’s website.

Operating within the Supervisory Board are two committees required in the rules of corporate governance, i.e. the Audit Committee and the Personal Committee. Sitting in the Audit Committee are Members of the Supervisory Board who meet independence criteria.

In order to formal implementation of corporate governance in the Bank's internal regulations the Management Board will propose to the nearest General Shareholders' Meeting changes to the Bank's Article of the Association on the settlement the number of independent members of the Supervisory Board and independence criteria.

VII. ADDITIONAL INFORMATION

VII.1. Information about agreements with significance for the Bank's activity.

- On 26 August 2005 the Bank acceded to the syndicated loan agreement ("Agreement") concluded by banks with one of the Bank's Customers ("Borrower"). The object of the Agreement is the granting to the Borrower by the consortium of banks of a term loan ("Term Loan") and a renewable loan ("Renewable Loan"), with possibility of drawdown in EUR, USD or PLN. The Bank's share in the Term Loan is EUR 33,333,333.33 and in the Renewable Loan it is EUR 16,666,666.67. The loan period for the Term Loan is 5 years and for the Renewable Loan it is 3 years. Interest rate on the Term Loan is based on the EURIBOR rate, plus the Bank's margin, and for the Renewable Loan it is EURIBOR, LIBOR or WIBOR, plus the Bank's margin.
- On 19 October 2005 the Bank concluded with one of its corporate Customers an annex to the agreement on a stand-by technical loan to secure cheques issued by the Customer to customs authorities, establishing the loan amount at PLN 250,000,000. The Agreement is entered into for the period until 19.07.2006. The Agreement is on market terms and conditions.
- On 7 December 2005 the Bank – together with its subsidiary BEL Leasing Sp. z o.o. (the legal successor to BIG BG Inwestycje S.A.) – concluded an Understanding concerning the Shares Sale Agreement concluded on 21 December 2004 with Eureko B.V. the Understanding concerns settlement of the final price for sale of 10 % of shares of PZU S.A. The Understanding defines the final price at PLN 2.3 billion, which is the average of valuations of the PZU Group, prepared by two independent international investment banks. Thus BEL Leasing Sp. z o.o. received from Eureko on 7 December 2005 the amount of PLN 1.1 billion, which comprises PLN 700 million adjustment of minimum guaranteed price and the amount of PLN 400 million, constituting the second tranche of the initial sale price, which was agreed on 21 December 2004. The PZU valuation prepared for BEL Leasing Sp. z o.o. and Bank Millennium S.A., was done by JP Morgan plc, while the valuation for Eureko was prepared by UBS Investment Bank. Final settlement was accepted by Management Boards and Supervisory Boards of BEL Leasing Sp. z o.o. and Bank Millennium S.A. Under the swap agreement with Banco Comercial Portugues („Millennium bcp”), signed in September 2003 and dissolved in December 2004, Millennium bcp kept the right of participation (according to the formula contained in this agreement) in proceeds from the sale of PZU S.A. shares, if the final sale price exceeds the amount of PLN 1.6 billion. Thus the Bank paid to Millennium bcp the amount of PLN 283.5 million, which had the same respective impact upon the consolidated P&L Account of Bank Millennium.
The impact on consolidated gross result, which was reflected in the 2005 result, totalled PLN 416.5 million.

The Bank informed about the aforementioned agreements in current reports of: 26 August 2005, 20 October 2005 and 7 December 2005.

In 2005 neither the Bank nor any company from the Group entered into any material agreements with NBP or any other supervisory body.

VII.2. Information about agreements with the company authorised to examine financial statements

Presented below is remuneration received by KPMG Audyt Sp. z o.o. for the examination/review of financial statements of the Bank Millennium S.A Capital group based on signed agreements:

Data in PLN '000	Financial year ending 31 December 2005	Financial year ending 31 December 2004
Remuneration for examination with respect to the dominant entity (1)	1.794	1.288
Remuneration for examination with respect to subsidiaries (2)	808	640
Remuneration for related services (3)	359	-

(1) Remunerations for examination comprise amounts constituting the total amount of remuneration to KPMG Audyt Sp. z o.o. for professional services connected with examination of the consolidated and solo financial statements of Bank Millennium S.A. (resulting from the agreement of 14.11.2005 on examination of 2005 financial year) and the semi-annual solo review as well as consolidated financial statement of Bank Millennium S.A. (resulting from the agreement of 21.07.2005 on review of the semi-annual financial statement for the half-year ending on 30.06.2005).

(2) The remuneration for examination covers amounts constituting the total amount of remuneration to KPMG Audyt Sp. z o.o. for professional services connected with examination of financial statements of subsidiaries under signed agreements.

(3) The remuneration for related services covers remaining amounts constituting the total amount of remuneration to KPMG Audyt Sp. z o.o. on the basis of signed agreements. They cover certification services connected with examination and review of financial statements of the dominant entity and subsidiaries, however not included in (1) above.

VII.3. Other information

Other information concerning:

- Loan concentration in sectors
- Number and value of execution titles issued by the Bank
- Granted guarantees and sureties
- Transactions with affiliated companies

Is in the "Consolidated 2005 financial report of the Bank Millennium Group"

VIII. REPRESENTATIONS OF THE MANAGEMENT BOARD

Rules of corporate governance

Bank Millennium fully observes all rules of corporate governance, adopted by the Bank for application and contained in the "Good Practice in Public Companies in 2005", according to the statement filed on 9 March 2005.

Presentation of the property and financial standing of Bank Millennium Capital Group in the financial statement

According to the best knowledge the annual consolidated financial report of Bank Millennium S.A. Capital Group prepared as at balance-sheet day of 31 December 2005 and comparable data were prepared in keeping with valid accounting standards and provide a true, fair and clear reflection of the property and financial standing of the Capital group and its financial result. This Management Board Report contains 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 company authorised to examine financial statements

The company authorised to examine financial statements, performing a audit of this consolidated financial report of the Bank Millennium S.A. Capital Group, prepared as at balance-sheet day 31 December 2005, was selected in keeping with legal provisions. This company as well as the chartered accountants performing this audit met the conditions necessary to provide an unbiased and independent audit report, according to relevant provisions of national law.

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