Report of the Management Board of Bank Millennium S.A. regarding the operations of the Bank Millennium in 12 months of the financial year 2004

TABLE OF CONTENT

Macroeconomic background of the activity of the Bank Millennium Group over 12 months of the financial year 2004

The year of Poland's accession to the European Union was a year of economic success. The dynamics of GDP growth increased up to 5.4%, reaching one of the highest levels among the OECD countries. After years of downfall investments upturned, and the dynamics of exports was high, despite the domestic currency growing ever stronger. The current account deficit continued downwards, while the structure of its financing improved due to intensified direct foreign investment fostered by completing new privatization projects. This time no tensions have been observed in the public finance, the deficit of which probably remained stable and unchanged since 2003. The threat of exceeding yet another threshold of public debt to GDP ratio was staved off – unfortunately not by a fiscal reform but by the strong domestic currency. The Hausner Plan failed to secure a political following, and its heavily limited version to be implemented shall traditionally leave the fiscal reform issue for the new government. The overall positive picture of the Polish economy's foundations was shadowed by growing inflation forcing the Monetary Policy Council (RPP) to elevate NBP basic interest rates by 1.25%. Despite the high dynamics of economic activity, the labor market did not improve as much as one might have expected, and the 2004 unemployment rate remained high. Nevertheless the healthy foundations combined with the political risk reduction related to change of the government created stable conditions for the Polish zloty to grow, closing the year at 2.99 vs. USD and 4.08 vs. EUR.

Reflecting the fear prices might increase after Poland joins the EU, consumer demand soared in a period directly preceding the accession date. This additionally drove growth through individual consumption – single most important component of GDP. The domestic demand dynamics, at 4.9% in 2004, was also supported by a slow reconstruction of investment demand, generating positive contribution of investment outlays towards GDP for the first time in 3 years. Similar to 2003, the exports remained one of the crucial economic growth drivers, even though its dynamics slowed down. GDP growth was 5.4% in 2004 vs. 3.8% in 2003.

At the beginning of a new term, the RPP faced unfavorable supply shocks that rocketed the CPI beyond the cup of inflation fluctuations around the inflation target (2.5%; +/-1%). The main reason behind the inflation increase was higher food prices related to the EU accession and quickly growing fuel prices on international markets. Maximum annual increase of prices was recorded in July and August, when CPI was around 4.6% y-o-y. Faced with a risk of increased inflation expectations and the resulting higher pay dynamics, the RPP elevated the NBP basic rates three times, altogether by 1.25%. The last increase of 50 bp was done in August and seems to have ended the interest rates increase series. The end of 2004 saw a slight inflation reduction – to 4.4% y-o-y.

As the NBP basic rates grew, banks kept increasing their interest rates on deposits and loans. The trends of main money aggregates have changed. Money supply M3 grew by 8% y-o-y (compared to 5.6% y-o-y in 2003) chiefly due to growing corporate deposits. At the same time the cash component in the M3 aggregate dropped. Good financial condition of companies and low investment demand fostered deposits growth dynamics to reach 24.3% y-o-y, while loans dropped by 3.6%. Companies accumulated financial means on bank accounts, with little investment in fixed assets. Ratios recorded on household aggregates indicated that loans increased at 13.5% driven to a large extent by mortgage loans (over 20%). In December 2004 deposits were back on the track of positive dynamics (0.1%), for the first time in 2.5 years.

On the contrary to concerns of RPP, higher inflation did not turn into increased pay demands. Nominal salaries in corporate sector increased in December 2004 by 3.2% y-o-y. Labor efficiency dynamics over the same period sky-rocketed over 10%. The overall employment picture for the entire economy looks better probably thanks to the self-employed, and small and mid-businesses, where remunerations grew at a higher pace. Nevertheless, under such circumstances no improvement was recorded on the labor market, even though economic activity increased. Registered unemployment rate in December 2004 dropped as little as to 19.1%, vs. 20% in the corresponding period of the previous year. Available data, using the BAEL methodology, estimated the unemployment rate in the third quarter of 2004 at 18.2%.

Public finance in 2004 improved. Central budget closed at a deficit of around PLN 41.5 bn, comparing to the budgetary act plans of PLN 45.3bn. Nevertheless the fact that budget ratios were better than expected was mainly due to a more dynamic economic growth, higher inflation, and stronger zloty, and not the necessary reform of public finance. For the same reasons, otherwise than expected, the public debt to GDP ratio did not exceed another Constitutional threshold of 55%; it still however remains above 50%. The Plan of fiscal reforms drew by the Deputy Prime Minister Jerzy Hausner failed to attract political following, and was in majority rejected by the parliament, the effect being that the challenges of reforming public spending to guarantee fiscal stability over coming years will now be down to a new government.

We are convinced that in 2005 the dynamics of economic growth shall be high, remaining at around 5%. One of the major drivers of the growth shall be the investment demand reconstruction, indicated by good financial condition of enterprises, high utilization of production capacity, and new investment projects arising from the Poland’s accession to the European Union. After a short period of uptrend caused by joining the EU, the consumer demand shall become stable. Disposable income of households will be to some extent limited by no indexation of social benefits and slowing down the growth of salaries in public sector. On the other hand however, direct subsidies for farmers, and improving financial condition of the self-employed shall be of positive impact on households’ consumption power. The economic growth shall be less dependent on the dynamics of exports.

The disappearance of supply shocks on the food and fuel markets, and a strong zloty shall be the main factors supporting the release of the inflation pressure. The CPI shall go down to around 3%, possibly opening room for the central bank to reduce its basic interest rates this year. How the macroeconomic environment will shape up in the future will depend on a fiscal policy adopted, and this is entirely down to the outcome of the coming parliamentary elections.

Realization of development strategy of the Bank Millennium Group

2004 was a good year for Bank Millennium Group - a year of growing profitability and reduced risk profile.

The enhancement of the Bank’s profitability could be achieved thanks to increased income, also net of non-recurrent operations, and at the same time reduced recurrent costs (without one-off depreciation).

The increase of revenues of the Bank Millennium Group was driven by consistent implementation of targets planned for strategic products such as mortgage loans, leasing and credit cards. The value of new mortgage loans more than doubled in 2004 as compared to 2003, providing over 5% share in the new loans market in the second half of the year. The value of new leasing contracts increased in 2004 by 12%, ensuring Bank Millennium Group’s strong share of 6% in this demanding market. The number of credit cards sold by Bank Millennium soared 44% up, accompanied by increased usage of cards by customers.

Another source of increased income of the Group in the past year was growing cross-selling between all entities of the Group working directly with Customers. A good measure of significance of cross selling may be the number of products per customer of the Bank. Last year the ratio elevated from 2.1 to 2.4, still remaining at a level promising further potential growth.

Decrease of operating cost achieved last year (by 6%, net of one-off depreciation) resulted from a process of in-depth restructuring of the Group, one of its effects being total employment reduction in the Group by 34% between 2001 and 2004. Also costs were further optimized in all sub-groups, and a system was implemented for ongoing cost control aimed at supervision of the banking structures efficiency in the future.

The Group's risk profile was lowered over 2004 due to the sale of part of assets not employed in core operations, and thanks to effective collection of non-performing loans.

In the second quarter of 2004 Bank Millennium sold its portfolio of car loans granted through an external operator (PTF). The end of the year saw the closing of the sale of PZU shares held by the Group. Both transactions not only improved equity ratios, but also positively impacted net profit.

One of the Millennium Group's most eminent successes of 2004 was an effective restructuring and recovery of its credit portfolio. In result over PLN 500 million loans have been recovered, and the total non-performing loans decreased by 1.3 bn zlotys. The Bank units that were created based on the success of these efforts shall in the future ensure a continuously high collection rate.

Considerable profit posted by Bank Millennium in 2004 combined with high capital position made it possible to propose distribution of dividend – for the first time in the last 5 years – totaling 99% of profit. Dividend yield at 8.3% of Bank's stock price (at year-end) will increase return for shareholders, which in 2004 – in terms of the growth of the company's value – totaled 32%. This reflects strong determination in the implementation of the company's key objective, which is to create value for shareholders.

Modern distribution network based on segment-oriented approach to Customers, efficient organizational structure and capital strength, all demonstrate good shape of Bank Millennium Group at the beginning of 2005, showing readiness to capture up-coming market opportunities. Fulfillment of favorable economic forecasts for the upcoming years and maintenance of the Bank's positive trends recorded in the previous year should make it possible to reach the Group's medium-term objectives.

The objectives are also crucial for the international strategy of Millennium BCP Group, of which Bank Millennium in Poland is an important pillar.

Taking into consideration responsibility resulting from article 174 of „Law on Public Trading in Securities" dated 21 August 1997, Management Board of the bank made a decission about not disclosing any detailes of bank's financial plans and projections.
The Management Board expects, that in the medium term the bank's market share in Polish financial services market will be gradualy increasing.
Further market share increase is expected with regard to mortgage lending, credit cards and investment funds.
Continuous improvement of the main financial ratios is expected, i.e. cost/ income ratio and return on assets. In the following years the improvement of return on equity is also expected.

Key economic and financial indicators, factors and events of material impact on the Issuer's activity

Net profit of Bank Millennium in 2004 was PLN 240.5 million. The Management Board proposed a PLN 237,8 million dividend, corresponding to a pay-out ratio of 99% and a dividend yield of 8,3%.

The main highlights of Bank Millennium's activity in 2004 are the following:

A. Profitability improvement and lower risk profile

- Net profit reached PLN 241 million (+ 488%) and ROE increased to 13%

- Recurrent net income increased from PLN 9 million in 2003 to PLN 75 million in 2004
- Net interest income up by 4.5% y/y
- Solid increase of net commissions by 11.8% y/y
- Significant reduction of operating costs by 7.0% y/y (before extraordinary depreciation)
- Reduction of non-performing loans by PLN 1.2 billion, which contributed to sharp improvement of both NPL and coverage ratios.

B. Positive trends in business growth

- Strong improvement in retail banking, with growth in mortgage loans, customer funds and credit cards
- New mortgage loans more than doubled vs. previous year, representing more than 4% market share

C. Disposal of non-core assets and high solvency ratio, allowing high dividend distribution

- Sale of 10% of PZU shares, with significant capital gain
- Solvency ratio at 17.4%, after sale of non-core banking assets and better asset mix
- Dividend for 2004 proposal: PLN 237.8 million (PLN 0.28 per share) corresponding to a 99% pay-out and 8.3% dividend yield

Key Factors Influencing the Financial Result:

Structure of Result on Banking Activity (PLN million)	**2004**	**2003**	**Change**
Net interest income	425.8	407.4	4.5%
Net commission income	202.9	181.5	11.8%
Other non-interest income	226.3	266.7	-15.1%
Result on Banking Activity	855.0	855.7	-0.1%

1.
Net interest income generated by the Bank Millennium in 2004 was noticeably higher than in the previous year as a result of an increase in clients' funds, consistent margin management and an increase in market interest rates.
Net interest income in 2004 was 425.8 million PLN (in 2003: 407.4 million PLN), which means an increase by 4.5% in relation to 2003. Such increase was achieved despite a reduction by 31% of the total lending portfolio.

2.

Net commission income increased significantly in 2004, reaching 202.9 million PLN (181.5 million PLN in 2003), which means 11.8% growth year-on-year. This better result was achieved thanks to an increase in fees and commissions in various areas of operations, in particular in retail banking.

3.

Other non-interest income (income from securities, results on financial operations and FX results) in 2004 was 226.3 million PLN (in 2003: 266.7 million PLN).

Total result on banking activity in 2004 was 855 million PLN reaching similar level in comparison to the previous year (855.7 million PLN in 2003).

Balance of other operating income and expenses in 2004 was 75.9 million PLN, which means an increase by 59.3% (47.7 million PLN in 2003).

Cost structure (million PLN)	**2004**	**2003**	**Change**
Personnel costs	274.0	288.7	-5.1%
Non-personnel costs	324.1	377.6	-14.2%
Depreciation	118.1	104.1	13.4%
Recurrent costs	716.2	770.4	-7.0%
Extraordinary depreciation	*221.3*	-	-
Total costs	937.5	770.4	21.7%

4.

Recurrent costs of Bank Millennium in 2004 went down by 7.0% in comparison to the last year and amounted to 716.2 million PLN (770.4 million PLN during 2003).

Personnel costs fell by 5.1% in comparison to 2003 and amounted to 274.0 million PLN (288.7 million PLN in 2003). This change is a result of the final stage of the restructuring and employment rationalization program conducted in order to improve the Bank's operational efficiency.

At the end of the year, Bank Millennium had 3919 employees (in 2003: 3977 – a reduction by 1.4%).

Non-personnel costs were lower by 14.2% than at the end of 2003 and amounted to 324.1 million PLN (377.6 million PLN in 2003) as a result of the initiatives realized in 2004 aiming at cost savings.

During the analyzed period, recurrent level of depreciation was higher by 13.4%, but the total amount was increased as a result of a one-time charge of 221.3 million PLN related to the adjustment of depreciation periods for certain assets in connection with the Bank's preparations for introducing the new International Financial Reporting Standards resulting from amended "Law on Accounting".

5.

The successful implementation of a credit recovery program, together with improved quality of credit risk management, allowed the Bank in 2004 to reduce the provisions needs. Net provisions were 68.9 million PLN (majority of which was a one-time provision for adjustment to the new International Accounting Standards), i.e. 27.5 million PLN (28.6%) less than in the previous year (96.4 million PLN).

6.

At the end of 2004 net loans granted to clients were 6 745 million PLN, decreasing by 31% in comparison to 2003 (9 833 million PLN).

The reason for such decrease is the sale by the Bank of a car loan portfolio originated by an external intermediary and a conservative corporate lending policy.

Attention needs to be drawn to the increase by 115% (to the amount of 616 mln PLN) of mortgage loans granted in 2004 as compared with previous year. As a result, the share of mortgage loans in the total loans portfolio increased from 15.3%, as at 31.12.2003 to 21.3% as at 31.12.2004. This is a result of changes in sale organizations introduced by the Bank and the launch of a new and attractive product range.

7.

Quality of Loans

In 2004, the Bank's lending portfolio quality remarkably improved. The total value of the NPL portfolio went down by 1.2 billion PLN as a result of recovery and restructuring efforts as well as coming into force as of 1 January 2004 of the new Ordinance of the Minister of Finance relaxing the principles for classification of receivables in the irregular category and the policy pursued by the Bank of writing off lost receivables covered with 100% provisions against these provisions and taking them out to off-balance sheet records.

Bank Millennium, as at 31 December 2004, had the following loan quality indicators:

Loan Quality Ratios		2004	2003
NPL/Total loans	Timely repayment criterion (90 days)	7.6%	11.8%
	According to NBP regulations	16.5%	22.4%
Provisions/NPL	Timely repayment criterion (90 days)	134.7%	91.9%
	According to NBP regulations	62.1%	48.3%

The NPL to Total loans ratio according to NBP regulations strongly improved from 22.4% (as at 31.12.2003) to 16.5% (as at 31.12.2004), whereas the NPL coverage ratio increased from 48.3% to 62.1% over the same period.

It is important to emphasize the improvement in the NPL ratio based on the timeliness of repayment (past due amounts over 90 days). The ratio improved from 11.8% (as at 31.12.2003) to 7.6% (as at 31.12.2004),

As a result of the actual improvement of the loans portfolio and a consistent provision maintenance policy, the coverage of NPL with provisions measured by timeliness of repayment significantly improved. It went up from 91.9% (at the end of 2003) to 134.7% in 2004.

8.

The gross loss of Bank Millennium in 2004 was –75.4 million PLN, and net profit was 240.5 million PLN.

Solvency ratio of Bank Millennium was 17.4% and was significantly higher than a year ago (11.1%). The reason for that change is the improved structure of assets, the sale of the car loans portfolio, the sale of PZU shares and effect of one-off depreciation.

High net profits of Bank Millennium in 2004, and increase in the solvency ratio to 17.4% enable Management Board of the Bank to submit to shareholders a proposal to pay out the dividend for 2004 in an amount of 237.8 million PLN (99% of net profit), i.e. PLN 0.28 per share representing a dividend yield of 8.3%.

Key risk factors and threats for the Issuer's activity

Risk exposure is an integral component of activity on financial markets, and is a fundamental factor shaping the behavior of market players, particularly that of financial institutions. Vast majority of financial decisions made today take into account the accompanying risk. Bearing that in mind, the Bank designed and implemented a risk management policy and a strategy for its realization.

The main areas of risk management include: credit risk, market risk, liquidity risk, and operational risk. At a strategic level, it is the Management Board of the Bank who is responsible for defining and monitoring risk management policies. At an operating level the management of individual banking risk areas, their on-going control, and setting short-term policies within the frame defined by the Management Board are the responsibility of three higher-level committees: Capital, Assets and Liabilities Committee, Credit Committee, and the Operational Risk Committee.

All types of risk are monitored and controlled in comparison to the operations' profitability, and capital levels necessary to ensure security of operations from the perspective of capital adequacy requirements. Measuring, analyzing, controlling and managing risk require a wide array of methods and advanced mathematic tools to be used. The results of risk measurements are subject to regular reporting as part of the management information system.

Credit risk

Apart from defining prudence standards to be followed, the credit risk management in the Bank has an aim of creating optimum – from the standpoint of acceptable credit risk levels – conditions to develop a wide variety of credit products (including factoring and leasing ones). This is done with attention to enhanced speed and quality of service provided to the Bank's Customers, by means of efficient employment of human resources, their specialization, and continuously perfected electronic solutions.

Following is a listing of some of numerous undertakings launched in 2004, as part of realization of the aforementioned goals:

- principles of exposure concentration risk management have been created to ensure a correct quality of assets resulting from credit risk-bearing transactions, and their satisfactory profitability,
- credit exposures classification rules have been modified, in particular by adjusting them to the amended external regulations,
- new principles have been designed for monitoring and collection of receivables on natural persons and corporations (dedicated organizational units have been created in the Bank),
- mortgage loans making principles have been modified (including changes in the corresponding competencies and authorizations of decision-making levels),
- principles of control of risk in the Bank's factoring services have been adjusted.

One of the Bank's key tools for credit risk assessment are scoring and rating models. They have been subject to regular reviews, confirming their high effectiveness in Customer segmentation according to the class of risk. In addition, the Bank prefers Customers holding assets with the Bank, in particular current accounts, as this facilitates the Bank's better understanding of the Customer (apart from the borrowers databases verification) by analyzing their account activity history.

Policies regarding collaterals accepted to secure repayment of credit risk-bearing transactions are ever important for the Bank. With each Customer the Bank negotiates collaterals separately, always favoring collateral which allow a reduction in the specific provision calculation base. Collaterals the Bank will require are adequate to the assessed credit risk level; this means that in some cases the Bank accepts various material collaterals, while in others – due to exceptionally good economic and financial condition of a Customer – the Bank may accept it as a satisfactory collateral.

Market risk

Market risk is related to the uncertainty that interest rates, FX rates, as well as prices of securities and financial derivatives held by the Bank may assume values different from the planned ones, thus leading to an uncontrolled profits or losses on open positions.

In 2004 the Bank continued to develop the market risk control system both to adjust to the requirements of the shifting profile of the Bank's financial operations, resulting, inter alia, from higher diversification and growing trade volumes of financial instruments, and respecting detailed risk control principles regulated by the law, and also adapting the measurement solutions to new methodologies and greater technical capacity at hand.

The main methods used for daily market risk management in the Bank include the Value at Risk Method (VaR), and methods recommended by NBP. The value at risk method is used for trade and banking portfolios containing all financial instruments, both balance sheet and off-balance ones. To complement the value at risk method the Bank employs the historical method to test adequacy of applied model (backtesting), and develops tools for measuring market risk of trade portfolios by scenario testing. Such methods have proven to be particularly effective for extraordinary occurrences that cannot be anticipated by the VaR method.

Along with changes in the organisation and methodology of market risk control, the Bank has continued the implementation of technological changes in IT solutions supporting risk management. Based on a new transaction system Kondor+ for handling transactions of the Treasury Department, the Bank has employed the InVaR – an IT tool developed by its Strategic Investor (BCP ALM Division) in co-operation with the Reuters agency planted in the RiskMetrics methodology (JP Morgan). In terms of risk control the new system has some crucial features: it provides access to an integrated and comprehensive transaction database, supports on-line management of all positions and limits control, and facilitates daily calculation of results on all operating platforms.

Interest rate risk
In the area of the interest rate risk, the Bank follows the principle of maximising market value of the principal, while fulfilling the planned net interest income within the accepted risk limits. On the last day of 2004 the Bank's exposure to interest rate risk (VaR) totalled approx. 12.3 m PLN with the global market risk limit in force of 56.6 m PLN. To complete the results of the value at risk (VaR) measurement, the Bank also estimates hypothetical changes in the financial result (EaR) caused by interest rates changes on the market.

FX risk
The main goal of FX risk management is to shape up the structure of FX assets and liabilities as well as off-balance items within internal and external limits provided, in case of the Bank, by the requirements of the Banking law. During 2004 the Bank maintained balanced FX position. At the end of the year the Bank's FX risk exposure (VaR) stood at the very low level of approx. 0.4 m PLN with the limit in force of 18.9 m PLN.

Derivative instruments risk
All transactions on financial derivative instruments are made either to hedge open balance sheet positions or – within defined internal limits – for trading. The main derivatives used by the Bank both to manage the interest rate and FX risks, and for trading purposes, are: *FX Forwards, Forward Rate Agreements, Interest Rate Swaps, FX Swaps, Cross Currency Swaps* and *FX options*.

Liquidity risk

The liquidity position of the bank significantly increased during 2004, due to the combined effect of the sale of the car loan portfolio, reduction of corporate loans and increase in customer funds.
The superior goal of the Bank in liquidity risk management is such funds management so that with unfavourable scenarios prospects for the environment the Bank is able to satisfy on time all contractual liabilities of the Bank towards its Customers. Liquidity risk would also appear should the Bank had any difficulties in securing funds to finance its operations, or should the Bank be unable to liquidate its trade assets in a relatively short period of time at market prices. This is why the liquidity reserves of the Bank is a portfolio of treasury securities of the highest possible liquidity on the secondary market.

The Bank manages liquidity risk on a daily basis using the net liquid assets method (liquidity gap method). To ensure adequate current liquidity level, the Bank keeps a mandatory reserve at a level required by NBP, funds on nostro accounts necessary to fulfil non-cash settlements, optimum funds levels in the Bank's treasuries, and a liquidity reserve in form of financial instruments of high liquidity.

In its investment policy the Bank follows the requirements of the Banking Law and the recommendations of NBP. The Bank uses an internal structural liquidity ratio, reflecting a relation between the total assets and total liabilities in actuarial terms. The Bank accepts the secure level of the ratio for up to three months at 100%. The liquid assets ratio is limited (at 20%); it defines the share of liquid assets in the total assets of the Bank, which at the end of 2004 exceeded 44%.

Limits for immediate liquidity (balance of receivables and liabilities on money market, plus securities available for immediate sale) and quarterly liquidity (lowest quarterly cumulated balance of receivables and liabilities on money market, plus securities available for immediate sale at the balance date) have also been defined. For current liquidity a portfolio of frozen securities is kept, in an amount ensuring satisfaction of short-term payments. Moreover, monitoring also applies to the concentration of liabilities towards largest Customers and the evolution of the structure of assets and liabilities (both balance sheet and off-balance), thus allowing early recognition of unfavourable financial liquidity trends. To complete the above, the deposit base is regularly tested for stability, deposits termination before maturity, scale of unauthorised overdrafts and utilisation of open credit lines. The Bank has appropriate procedures for situations threatening with significant increase in liquidity risk, the so-called contingency plan for the event of the Bank’s financial liquidity deterioration.

Operational risk

Operational risk is closely related to all types of risk generated under operating activity of the Bank. It is a risk of a loss caused by incorrect or faulty internal actions and processes, activities of people and systems, as well as in effect of impact of external occurrences. Particular aspects of the risk that cannot be measured include: frauds by employees or third persons, incorrect transaction authorizations, IT and telecom hardware and systems breakdowns, inadequate staff training levels, and a risk of human error. The Bank has been perfecting the system for identification, assessment, monitoring, and securing the operational risk. One of the tools for preventing potential risk occurrence, and mitigate its effects are procedures for self-assessment of risk within all processes performed in the Bank.

To manage operational risk even better, in 2004 the Bank set up an Operational Risk Committee. The Committee coordinates operational risk management in the Bank at the centralized level, inter alia by defining the risk management policies, analysis of the scale and types of the operational risk in the Bank, and by assessing the adequacy of the operational risk management system in use.

Works are presently in progress regarding development of the operational risk management system and methodology reflecting the Banking Supervision Commission’s recommendations as well as the world standards on the matter. The Bank defined tools that have already been implemented, or are planned, so that the system for identification, assessment, monitoring, and securing operational risk is as complete and uniform as possible – following the approved ‘Operational risk management strategy’. One of the most important of them is a database of operational risk events, and the reporting system, also for the Operational Risk Committee.

Financial credibility of Bank Millennium S.A.

The rating agency Moody's Investors Service Ltd. assigned the following financial credibility marks:

Category	Presently	Last change
Long-term deposit rating	A3	15 Jan 2003
Short-term deposit rating	Prime-1	15 Jan 2003
Bank's financial strength rating	D -	20 May 2003

No change was introduced in the rating of the Bank during 2004.

Description of the deposit business

Deposit policy

Bank Millennium S.A.'s policy in the area of servicing deposits of individual and corporate clients was executed through the Bank Millennium S.A.'s branch network, which in the financial year 2004 was supported by the dynamically developing Internet banking service (Millenet). The value of Internet deposits increased from 4.6 m as at the end of 2003 up to 143.3 m at the end of 2004.
The in–depth change in the individual client offer made in 2003 was Bank's response to the needs of this sector. At present the following current accounts are offered: Millekonto, Millekonto Premium, Millekonto Student, Millekonto Junior and Millekonto in USD, EUR and CHF. The simplicity of this offer combined with its innovative character and aggressive pricing strategy adds up to its efficiency, thus strengthening competitive position of the Bank in this activity segment.
The 2004 offer (with Millokata Urodzinowa and Millokata Pomarańczowa) brought in the same year high volume increases, exerting a positive impact on the development of the Bank's deposits.

Structure of deposits by entities

The deposit structure of Bank Millennium by subjects as at 31.12.2004 and 31.12.2003 is presented below:

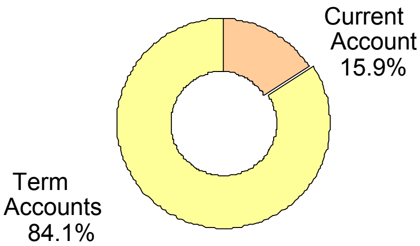
	31.12.2004		31.12.2003	
	mln PLN	%	mln PLN	%
Deposits of private individuals	8 020.7	56.4%	7 236.6	63.1%
Deposits of business entities and public sector	6 190.3	43.6%	4 234.0	36.9%
Total deposits	14 211.0	100.0%	11 470.6	100.0%

Deposits of private individuals

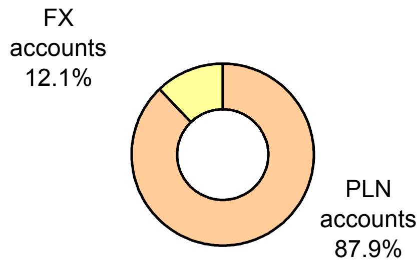
The amount of deposits received from private individuals in the Bank Millennium's network at the end of December 2004 totalled 8 021 m PLN and increased by 784 m PLN within the financial year. The increase in the value of deposits of private individuals resulted from stepping up sales activities

supported with promotions of selected deposit products combined with simultaneous optimisation of location of more than 300 branches.
As at the end of December of 2004 the current account deposits and term account deposits in Bank Millennium accounted for 15.9% and 84.1%, respectively, of the total liabilities towards retail Clients. Compared against the previous year, the structure of Customer funds was changed with 7% increase in the share of term deposits recorded in 2004.
At the end of December 2004 PLN deposits accounted for 87.9% and deposits in foreign currencies accounted for 12.1% (up 2.6% increase in the share) of the liabilities towards private individuals.

Current / term accounts as at 31.12.2004
Individual Clients



Accounts in PLN / foreign Currencies as at 31.12.2004
Individual Clients



The main assumptions underlying the 2004 deposit business strategy of the Retail Banking network were as follows:

- Increase in the deposit volumes,
- Maintenance of the margin at the planned level.

The growth of deposit volumes was supported by the enrichment of the product offer and advertising campaigns launched by the Bank in the media.
In 2004 Millennium Retail broadened its offer proposing to Clients – apart from standard deposits – new complex-structure products meeting Clients' sophisticated expectations and thus resulting in improved customer satisfaction and loyalty towards the Bank.
The goal of 2004 campaigns was to promote competitive-edge products and highlight exceptional customer benefits.

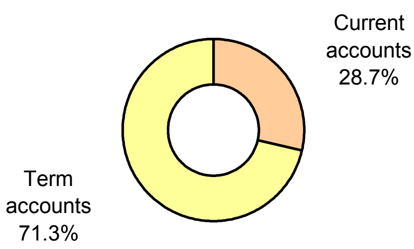
In order to ensure the planned financial deposit income the Bank continuously monitors income on these products, adjusting its effective pricing policy.
Within the new product concepts Bank Millennium proposed to individual Clients a product (Millennium Duet) combining deposit offer with other financial instruments such as investment funds, allowing the Client to define his risk profile.

For the affluent clients interested in more complex products Millennium Prestige network offers integrated bank, insurance and capital market products advised directly by Clients' Relationship Manager. During last year the offer was supplemented with new products, meeting more specific Clients' requirements (eg. progressive deposit, with increasing interest) and various range of structured deposits combining typical deposit with investments on the capital market and which are adjusted to the current situation on the financial markets.

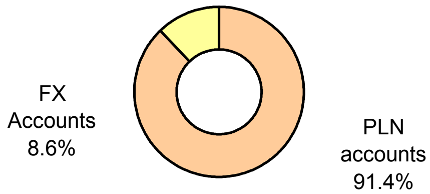
Deposits of business entities and public sector

The value of deposits received by Bank Millennium S.A. from business entities and public sector at the end of December 2004 totalled 6 190 m PLN – up 46.2% (i.e. 1 956 m PLN) against 31.12.2003. The maturity structure of the deposits from business entities and public sector in Bank Millennium SA was as follows: 28.7% - current accounts, 71,3% - term deposits. PLN deposits accounted for 91.4% and FX deposits accounted for 8.6% of the institutional Clients' deposits.

Current / term accounts as at 31.12.2004. Business and financial entities and state-public administration units



Accounts in PLN / Foreign currencies as at 31.12.2004. Business entities and public administration units



Bank Millennium S.A. provides a diversified corporate deposit offer depending on the company's size and scope of business. Within the comprehensive corporate service, companies may use current accounts and different related services. Multi-channel account access, interest rate and term negotiation capacity are of the biggest importance and allow fast adjustment of products to company's needs and standing.
Special integrated bank service offer is designed for self-government market, considering the needs of the central and local budget units. Bank Millennium S.A.'s competitive offer allows the Bank to participate in bidding proceedings organised by municipal offices and their related units.
At Bank Millennium S.A. corporate accounts are serviced by Relationship Managers, who assist companies in selecting convenient deposit products, offer current or term accounts, advise on the selection of capital and money market products, and develop customised offers for Bank's Clients.

Bank Millennium's credit policy

In 2004 the main objective of the credit policy of the Bank was to develop optimal conditions – from the point of view of acceptable credit risk level – for the development of sales of credit products in the broad meaning of this term (including factoring and lease products), with simultaneous improvement in the speed and quality of customer service at the Bank through effective utilisation of human resources, their specialisation and increasingly more efficient electronic tools.

Improvement in speed and quality of customer service in specific segments was demonstrated by perfecting Bank's systems supporting analytical and decision-making processes, which considerably improved the efficiency of the entire credit process. Additionally, customer service training for the employees was continued and knowledge of law and regulations on client economic and financial standing assessment was further developed. An important element of the credit risk assessment are scoring and rating models applied at the Bank. They are subject to periodic evaluations, which have confirmed their usefulness in Client's segmentation by risk class.

In the area of credit-risk based transactions the Bank co-operated with Clients from all segments. The basic tool of co-operation with corporate Clients was internal credit limit that had been introduced earlier. The preferred Clients are those who keep at the Bank their current account and route through it their turnover, and Clients who keep at the Bank their assets. In this way, irrespective of the meticulous checks run on Clients in the available databases containing information on Borrowers, the Bank makes efforts to get to know its Clients through the history of their accounts.

In 2004 the Bank got actively involved in the process of co-financing investment projects supported with European Union Structural Funds. Thanks to the co-operation with the Polish Agency for Enterprise Development and Bank Gospodarstwa Krajowego, the Bank offered to its Clients possibility to use loans to co-finance investment projects for small and medium-sized companies, and to acquire additional security for these loans in the form of guarantee or surety from the European Union Guarantee Fund. The Bank developed EUROMillennium offer, composed of the loan to finance own contribution in case of investment project and bridge loan, which allows entrepreneurs to maintain financial liquidity until the moment of actual disbursement of subsidies.

Last year, an important element of the Bank's credit policy was also mortgage loans and housing equity loans. In order to develop this portfolio the Bank verified the criteria and conditions for granting these products. Some solutions were introduced to increase availability of these loans and the offer was better adjusted to the needs and situation of the individual Clients. One of such solutions, with major impact on the increase in credit action, was allowing our Clients to finance up to 100% of the value of real estate with simultaneous insurance of the missing own contribution.

The new quality in the Bank's credit policy was redefinition of the restructuring and recovery processes. The effect of this exercise was setting up new organisational units for retail and corporate debt collection, which cover all the actions related to client's default on its obligations towards the Bank. The to-date results have fully confirmed the rationale underlying these changes.

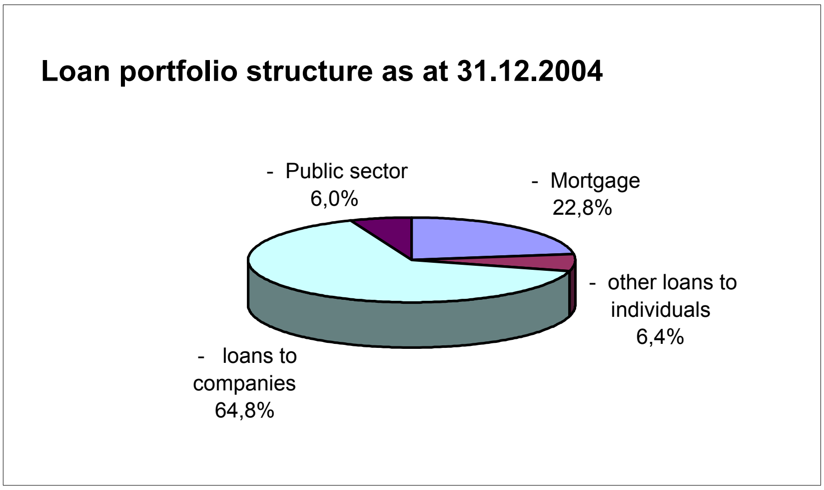
Description of lending activity of Bank Millennium Group

In the period from 1 January 2004 to 31 December 2004 the loan portfolio of the Bank Millennium Group decreased by 31.4 % to PLN 6 745.4 million. Reasons for the decline were as follows:
- Sale of the portfolio of car loans granted through intermediation of an external entity (PLN 2 billion),
- Strict control of credit risk,
- Reduction of large exposures in corporate segment,
- Decrease of demand for corporate loans in the whole banking sector,
- Significant depreciation by over 10% of foreign currencies to the zloty.

Among segments of the Bank Millennium Group's portfolio developing most dynamically was the portfolio of mortgage loans, which increased 23.0 %.

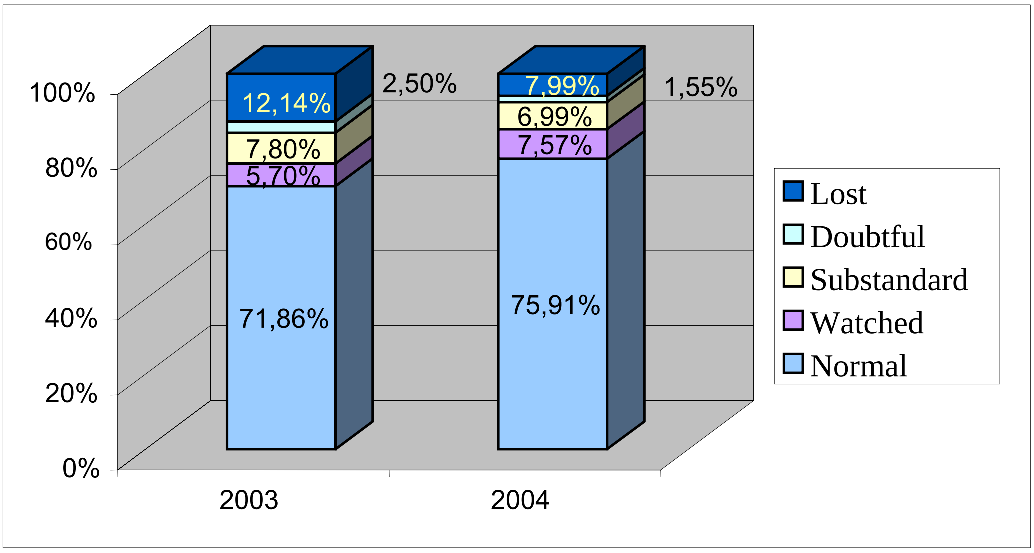
The table below presents changes and the breakdown of receivables of Bank Millennium by main types of borrowers:

Specification	31.12.2004		31.12.2003		Change 2004/2003	
	In PLN million	in %	In PLN million	in %	In PLN million	in %
Total receivables	6 745.4	100.0	9 833.7	100.0	-3 088.3	- 31.4
Breakdown:						
- mortgage loans	1 535.0	22.8	1 248.0	12.7	287.0	23.0
- other loans to private individuals	431.7	6.4	2 552.2	26.0	-2 120.5	-83.1
- other corporate Clients	4 369.7	64.8	5 529.0	56.2	- 1 159.3	-21.0
- government and public sector	409.0	6.0	504.5	5.1	- 95.5	-18.9



In 2004 the quality of the Bank Group's loan portfolio improved strongly. Non-performing loans fell in total by PLN 1.225 million and their share in the portfolio fell from 22.4% as at 31.12.2003 to 16.5% as at 31.12.2004.

The structure of non-performing loans as on 31.12.2004 is presented below:



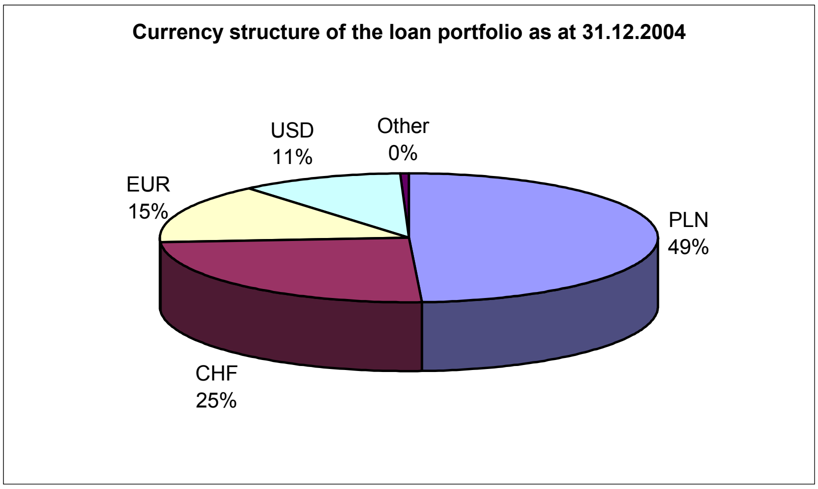
Improvement of the loans portfolio of the Bank's Group came from following events:

- The Bank's credit restructuring and recovery efforts.
- Coming into force as of 1 January 2004 of the new Ordinance of the Minister of Finance relaxing the principles for classification of receivables in the irregular category and
- Policy pursued by the Bank of writing off lost receivables covered with 100% provisions against these provisions and taking them out to off-balance sheet records.

The significant decline of non-performing loans in Bank Millennium portfolio accompanied by continous increase of the provisions for remaining non-performing receivables resulted in the increase of provision coverage ratio of non-performing loans from 48.3% as at the end of 2003 to 62.1% as at the end of 2004. The provision coverage ratio of past due loans over 90 days increased during the same period from 91.9% to 134.7%.

In 2004 the currency structure of the Group's loans portfolio changed. The share of FX receivables fell from 65 % to 51 %. This was caused by the sale of the car loans portfolio (granted largely in FX) and appreciation of the zloty.

The graph below presents the currency structure of the loans portfolio:



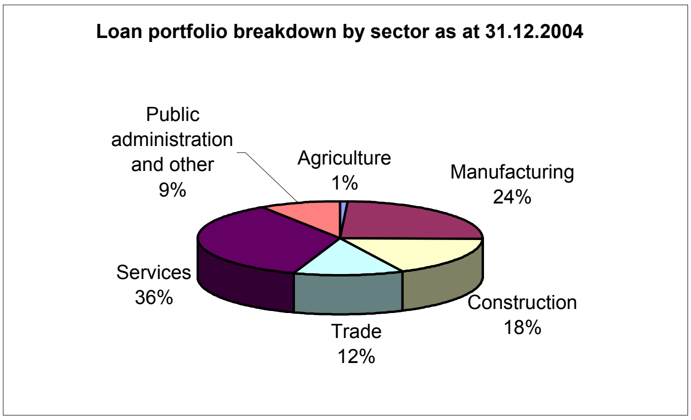
Business activity loans.

The list of loan products offered by the Group covers a dozen-or-so items, permitting flexible tailoring of the offer to individual Customer segments.
Customers are first of all using products to finance their current needs such as:
- revolving credit
- working capital loan
- current account overdraft facility

and financing development:
- investment loan

The bank is also participating in loan consortia as the arranger or participant. In total the Bank is participating in 14 consortia as at 31.12.2004 in the total amount of exposure of approx. PLN 750 million. Moreover the offer of Bank Millennium also includes preferential loans – co-financed by the Agriculture Restructuring and Modernisation Agency, as well as loans for projects eligible for state aid, co-financed by the European Union.

The portfolio of the Bank's receivables is appropriately diversified by sectors, as illustrated by the graph below:

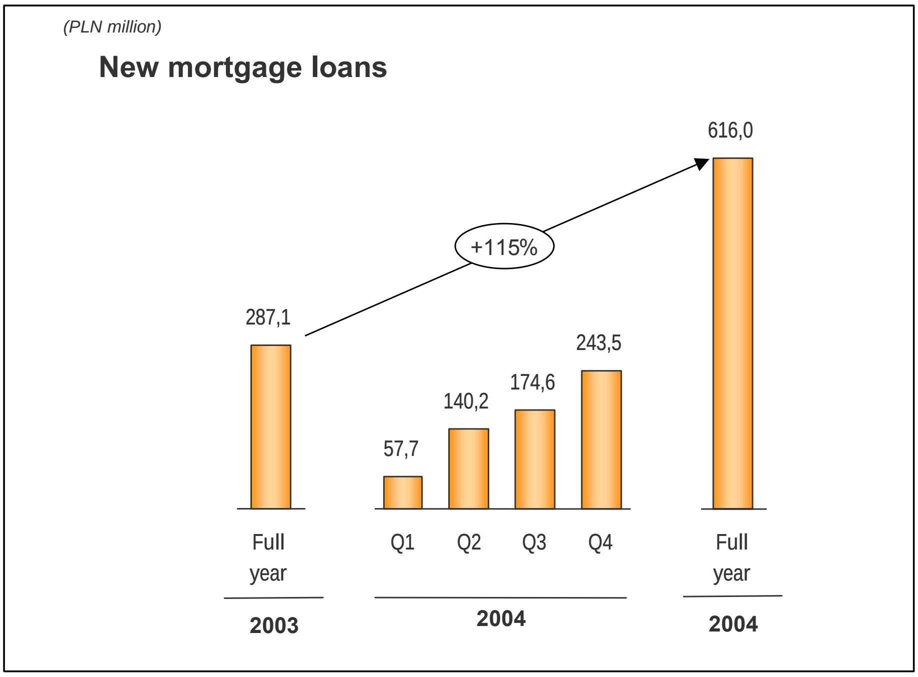


Loans to individuals

In the period from 1 January 2004 to 31 December 2004 the value of the retail credit portfolio of Bank Millennium fell by PLN 1 833.5 million i.e. by 48.2%. this decline is the result of sale of the car loans granted through the intermediation of an external intermediary ('PTF'). At the same time in 2004 the Bank kept the home loans granted via this intermediary. This event as well as the dynamic growth of home loans granted via the own distribution network (by approx. 50%) caused a reversal of proportions in the Bank's retail credit portfolio. The share of loans granted via the own network increased from 29% as at 31.12.2003 to 93% as at 31.12.2004 at the expense of loans granted through intermediaries.

Private individuals use especially following products in the Bank:
- Home loans.
- Cash loans.
- CA overdraft facilities.
- Card credit;

The growth of mortgage loans in the period 31.12.2003 – 31.12.2004 was achieved thanks to new distribution channels, such as direct sales forces, credit intermediaries and internet portals, supporting branch network's sales effort. In 2004 we could notice the significant improvement of new mortgage loans market share from 2% to over 4%



Managing the Bank's Assets and Liabilities

At Bank Millennium the process of managing assets and liabilities includes such shaping of the Bank's balance sheet as to optimise generated profits at the accepted the risk level. The process consists in particular in planning, on-going management and monitoring of accepted assumptions as to the Bank's structure of assets, as well as liabilities which fund them. The Bank's Capital, Assets and Liabilities Committee is responsible for the coordination of the process of managing the Bank's assets and liabilities.

The Committee is tasked among others with the establishment of a strategy and policy for managing the Bank's assets and liabilities, analysing the Bank's balance sheet in terms of market risk and liquidity risk and setting acceptable market risk limits and liquidity ratios.

The basic purpose of the process for managing the Bank's assets and liabilities is to assure its ability to meet its obligations on time. The Bank tries to optimise the balance sheet structure so as to meet the depositors and borrowers' funding needs in an effective and simultaneously most efficient way.

Short-term (current) liquidity management is handled by the Treasury Department based on the IT-system generated data on current cash flows. Structural (medium and long-term) liquidity is handled by the Capital, Assets and Liabilities Committee based on the information supplied among others by the Risk Management Department. For the needs of structural liquidity management the Bank adjusts client deposit maturities – among others through analysing the core and volatile part of client deposits, estimating the liquidity of the interbank market and secondary market for securities, analysing the degree of concentration of the deposit base and the expected level of realising OBS commitments. Such analyses allow to prepare forecasts of demand for liquid funds, which in turn determine the level and structure of liquid assets which need to be maintained.

The following can be e. g. warning signals in terms of maintaining liquidity by the bank: considerable mismatch of asset and liability maturities, expected decrease of money market or securities market liquidity, noticeable deterioration of credit portfolio quality or outflow of a considerable part of client deposits. In the event of the occurrence of crisis situations the Bank is prepared to immediately trigger its contingency procedures whose purpose is to assure the continuity of fulfilling financial obligations.

In 2004 the Bank showed a satisfactory liquidity ratio. At the end of 2004 the share of liquid assets in total assets was about 44%. The liquidity situation in particular currencies evolved in different ways. Surplus liquidity in the zloty balance sheet was accompanied by a shortfall of client funds in convertible currencies. This resulted from clear trends in the financial market displaying an increased demand for currency loans and insufficient growth dynamics of currency deposits, which in turn resulted from the continued relatively high real zloty interest rates.

For measuring and managing particular types of the market risk the Bank relies on the value-at-risk (VaR) concept. The Bank's risk limits expressed in absolute terms are established separately for the position of the Capital, Assets and Liabilities Committee (structural limits) and for the Treasury Department position (trading limits). The Bank took decisions to assume positions on the basis of the current market analysis and forecasts of macroeconomic parameters prepared by the Bank's Macroeconomic Analyses Bureau. At the end of 2004 in accordance with earlier forecasts assuming the stabilisation of interest rates, the Bank's balance sheet showed lack of exposure to market rate risk. The Bank's exposure to interest rate risk (VaR) stood at about 12.3 million PLN with the existing global market risk limit of PLN 56.6 million.

Due to the external limits in force and persisting considerable volatility of currency rates throughout 2004 the Bank maintained a balanced currency position. At year end 2004 the Bank's exposure to currency risk (VaR) stood at about PLN 0.4 million with the binding limit of PLN 18.9 million.

Execution titles issued by the Bank in 2004 and the value of collateral established by the Bank on assets of borrowers.

In 2004 a total of 141 bank execution titles against the Bank's debtors and sureties in the total amount of PLN 53 838 000.

The value of security established on assets of borrowers in the NPL portfolio permitted reduction of the base for provisioning pursuant to binding laws by the total amount of PLN 226 644 000.

Description of guarantees, sureties and avals (except underwriting of issues and sureties for payment of loans granted with funds from the European Fund for the Development of Polish Villages) given by the Bank in 2004

From 01.01.2004 to 31.12.2004 in the capital group of Bank Millennium S.A. almost 1600 guarantees, sureties and avals were granted in the total amount of PLN 823 757 000.
The amount of these liabilities as at 31.12.2004 was PLN 423 507 000 (1280 outstanding guarantees, sureties and avals) which means an increase of their value by PLN 36 277 000 i.e. by 9.4% over 31.12.2003.

The value of liabilities under guarantees, sureties and avals granted in PLN increased PLN 23 026 000 i.e. 9.0% from the end of last year and the value of these liabilities granted in foreign currencies increased by PLN 13 251 000 i.e. 10.0%.

The table below presents the breakdown of liabilities under guarantees, sureties and avals into PLN and foreign currencies:

	31 December 2003	**31 December 2004**
Liabilities granted in PLN ‘000:	255 008	278 034
Liabilities granted in foreign currencies (equivalent in PLN ‘000):	132 222	145 473
TOTAL:	**387 230**	**423 507**

The table below presents liabilities as at 31.12.2004 broken down by types:

Type of liability	**Number**	**Total in PLN ‘000**
Avals	1	1 050
Guarantees	1 259	407 553
Sureties	7	8 837
Re-guarantees	13	6 067
TOTAL	**1 280**	**423 507**

The table below presents liabilities as at 31.12.2004 broken down by object:

Object of the liability	**Number**	**% share**	**Amount in PLN ‘000**
Performance guarantee	726	56 .7%	139 736
Rent payment	194	15 .2%	15 004
Bid bond guarantee	128	10 .0%	16 599
Payment for delivery of goods or provision of service	99	7 .7%	49 292
Customs	40	3 .1%	20 728
Advance return	31	2 .4%	48 534
Payment of bank credit or loan	15	1 .2%	29 883
Other	47	3 .7%	103 731
Total	**1280**	**100%**	**423 507**

Description of key equity investments made by the Bank in the period from 1.01.2004 to 31.12.2004

The net value of equity investments of Bank Millennium S.A. as at 31.12.2004 was PLN 1 055 863 000 and fell by approximately PLN 4 585 000 from the beginning of the year.
In the period from 01.01.2004 to 31.12.2004 Bank Millennium S.A. made new equity investments in the amount of PLN 269 000 and reduced its holdings by approximately PLN 5 522 000 in result of sale of shares or interests in its possession.

In 2004 the Bank increased its equity holdings in following companies:

- Bel Leasing Sp.z o.o. - in result of the purchase of 1 share for the total amount of PLN 4,180
- Forinwest Sp. z o.o. – in result of the purchase of 1 share for the total amount of PLN 1,800
- Servibanca – in result of purchase of shares for the total amount of EURO 7 500, which at the EURO exchange rate of 31.12.2004 constitutes the amount of PLN 30,590.

Moreover in 2004 accounting year, in result of the acquisition of FORIN Sp. z o.o. Bank Millennium S.A. became the owner of shares/interests with the total value of PLN 232,570 in following companies:

- Reess Trading Sp.z o.o.
- SPC S.A.
- CIFCO Sp.z o.o.
- PUBLIKOM Sp.z o.o.
- Towarzystwo Kupieckie S.A.
- International Factors Group

In the period 1.01 – 31.12.2004 Bank Millennium S.A. reduced its holdings in following companies:

♦ BESTA Sp.z o.o. in result of voluntary redemption of 81 585 shares constituting 98.79% of the company's initial capital.

♦ Międzynarodowa Szkoła Bankowości i Finansów Sp.z o.o. in result of sale of 24 shares constituting 4.18% of the company's initial capital,

♦ PROLIM S.A. in result of sale of 545 shares constituting 25.05% of the company's initial capital,

♦ Toruńska Agencja Rozwoju Regionalnego S.A. in result of sale of 2 shares constituting 0.37% of the company's initial capital

♦ Warszawska Giełda Towarowa S.A. in result of sale of 1 share constituting 0.56% of the company's initial capital.

Obtaining on this account the total gross revenue of approx. PLN 6 459 000.

Description of co-operation with international financial institutions

Last year – as 2003 – was extremely important from the point of view of international activity of Bank Millennium SA.

January 2004 was the Bank's first anniversary of activity – also on the international market – under the new name, which provided an opportunity to recapitulate the efficiency of actions taken in the previous period as regards positioning of the new name among the hundreds of international banks and financial institutions co-operating with the Bank. It has to be said that that the name of Bank Millennium SA has been successfully positioned in the awareness of our partners and counterparties.

Supporting this process was also the parallel completion – within activity of the consortium mentioned below – of efforts and processes, which resulted in starting the management of transactions, executed in contractual co-operation with the Trade Bank of Iraq.

In August 2003 the tender was concluded – held by the authorities of Iraq – for organisation and support of management and handling of transactions of the newly created Trade Bank of Iraq (TBI).

Competing in the two-stage tender were close to ten consortia (representing in total approx. 60 international banks and financial institutions). The contract was awarded to the Operating Consortium consisting of following banks:

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

(supported by some renowned international partners) where the consortium leader and co-ordinator is JPMorgan Chase Bank.

The important mission entrusted to the above-mentioned group of banks to integrate the Trade Bank of Iraq in international trade transactions as well as enabling foreign exporters supplying goods and services to Iraq to have their receivables due from counterparties in this country settled safely, efficiently and without related risks, involved a number of specific actions performed by its members in the various stages. These actions included i.a. implementation of detailed transaction solutions and the start of performance by banks – members of the consortium – of specific support functions contracted by TBI as regards servicing of Iraqi foreign trade.

In early 2004 the Trade Bank of Iraq reached its assumed operational capability as regards handling of import transactions, strongly contributing to the turnaround of conditions, under which the programme of rebuilding and development of Iraq's financial system is proceeding. Acting as a participant in the Consortium until end of December 2004 Bank Millennium SA was involved in financially processing over 200 contracts for exports to Iraq, with the total worth of almost USD one half billion, done in co-operation with suppliers (and their banks – correspondents of Bank Millennium SA) coming from over 20 European countries (including Germany, Austria, Denmark, Finland, Sweden, Italy, Turkey, Belgium, Holland, France, Switzerland, Russia, Latvia, Slovenia and Croatia). During that same period the total value of import transactions accepted for processing by TBI crossed the USD 2.5 thousand million mark.

As opposed to 2003, in 2004 Bank Millennium SA did not sign new agreements and did not reappear on the international market of syndicated loans, although in even in 2003 it had raised EUR 165 million from that market (and PLN 30 million under bilateral agreements), while in the years 1998-2003 the total amount of syndicated and/or bilateral loans taken by Bank Millennium SA from correspondent banks exceeded the equivalent of PLN 2 thousand million, constituting a material source of its external medium-term financing in foreign currencies.

The absence of additional needs in this respect resulted largely from significant overliquidity, characterising the Bank's activity in all of last year. In this context the only new strictly loan-related agreement signed in this period was the agreement executed in December 2004 with the European Investment Bank (EIB), providing for a EUR 100 million credit line to be made available to Bank Millennium SA, assigned for co-financing with EIB funds of medium and long-term projects, meeting pre-defined eligibility criteria and carried out by the Bank's Customers from the SME and Local Authorities' sectors. Actual disbursement of funds of the EIB credit line will come during 2005.

Independent of above activities last year the Bank continued to perform on an ongoing basis all remaining tasks connected with the comprehensive functioning of its international business, regarding pursuit of various goals, including i.a. ongoing financing of own needs and needs of the Bank's Customers, processing of foreign trade transactions, participation in transactions on the international money and FX markets, operation on the equity market.

Their attainment was largely leveraged by the close to 15 years of the Bank's co-operation with foreign partners and counterparties. The Bank is staying in contact with almost 1000 correspondent banks and their outlets located in all countries around the world, which are important from the point of view of turnover structure of both Polish foreign trade as well as non-trade transactions. In this context particularly significant relations are maintained with banks headquartered in such countries as (in alphabetical order in the Polish language): 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

The Bank has nostro accounts in foreign currencies with a few of its main correspondents, at the same time maintaining a number of loro accounts in the domestic currency for i.a. renowned German and Scandinavian banks. Development of this area of co-operation was stimulated by the liberalisation of Polish FX legislation, continuing for several years and permitting access of non-residents to the Polish zloty as a settlement currency for current account transactions as well as by the lifting – in recent years – of most of earlier restrictions on capital transactions.

Information about agreements significant for the Bank's business activity

1. Sale of PZU SA

On 21 December 2004 the Bank, jointly with its subsidiary BIG BG Inwestycje S.A., signed an agreement with Eureko B.V. concerning the sale of 10% of PZU S.A. shares. The minimum guaranteed sale price of above shares is PLN 1.6 billion under the agreement and it shall be paid in two tranches. First tranche in the amount of 1,2 billion PLN was received by BIG BG Inwestycje S.A.,

on 30 December 2004. Moreover, taking into account the planned initial public offering by the shareholders of PZU S.A. on the Stock Exchange in Warsaw in 2005, the sale price may grow depending on the quotation of PZU S.A. after the IPO. The consolidated gross profit resulting from the realisation of the said agreement, which was recorded at the level of Bank Millennium Capital Group in 2004, amounted to 382 million PLN.
The agreement was executed under the condition that Eureko B.V. obtains the relevant permission from the Office of Competition and Consumers Protection, which was met.

2. Sale of car loans portfolio and Retention of mortgage loans portfolio originated by external intermediary

On 13 May 2004, in performance of the preliminary agreement executed on 20 February 2004 with Santander Consumer Finance S.A., the Bank executed the agreement concerning transfer by the Bank to CC-Bank S.A., a company registered in Poznań ("CC-Bank"), of receivables on account of part of the portfolio of car loans, which were granted by the Bank through intermediation of Polskie Towarzystwo Finansowe S.A., a company registered in Wrocław ("PTF"), under the co-operation agreement signed between the Bank and PTF on 4 February 2000 as well as ensuring accession by CC-Bank to the legal relationship resulting from this co-operation agreement in place of the Bank. By way of payment of the price for transfer of receivables under signed loan agreements CC-Bank paid to the Bank the amount of PLN 150 million plus the amount of principal outstanding on the day of effecting the transfer.
On 13 May 2004, in performance of the preliminary agreement executed on 20 February 2004 with Santander Consumer Finance S.A., the Bank executed the agreement concerning relieving PTF of obligations under the co-operation agreements signed between the Bank and PTF on 19 December 2000 and 23 December 2003 respectively, under which PTF was providing intermediation services to the Bank as regards granting of mortgage loans. On account of mutual settlements of the parties under the agreement the Bank paid to PTF the amount of PLN 30 million on account of resignation by PTF from the part of interest margin due to it under this agreement.

3. Sale of debt receivables of FSO SA

On 7 October 2004 the Bank executed an agreement on transfer of debt receivables from Fabryka Samochodów Osobowych Spółka Akcyjna (former Daewoo FSO Motor S.A.) transferring these debt receivables to OPEN JOINT STOCK COMPANY "UKRAINIAN CAR CORPORATION" seated in Kiev.
By way of payment of the price for transfer of debt receivables the Bank received in 4 quarter 2004 the revenue in the amount of PLN 27 million.

4. Taking over FORIN Sp z o.o.

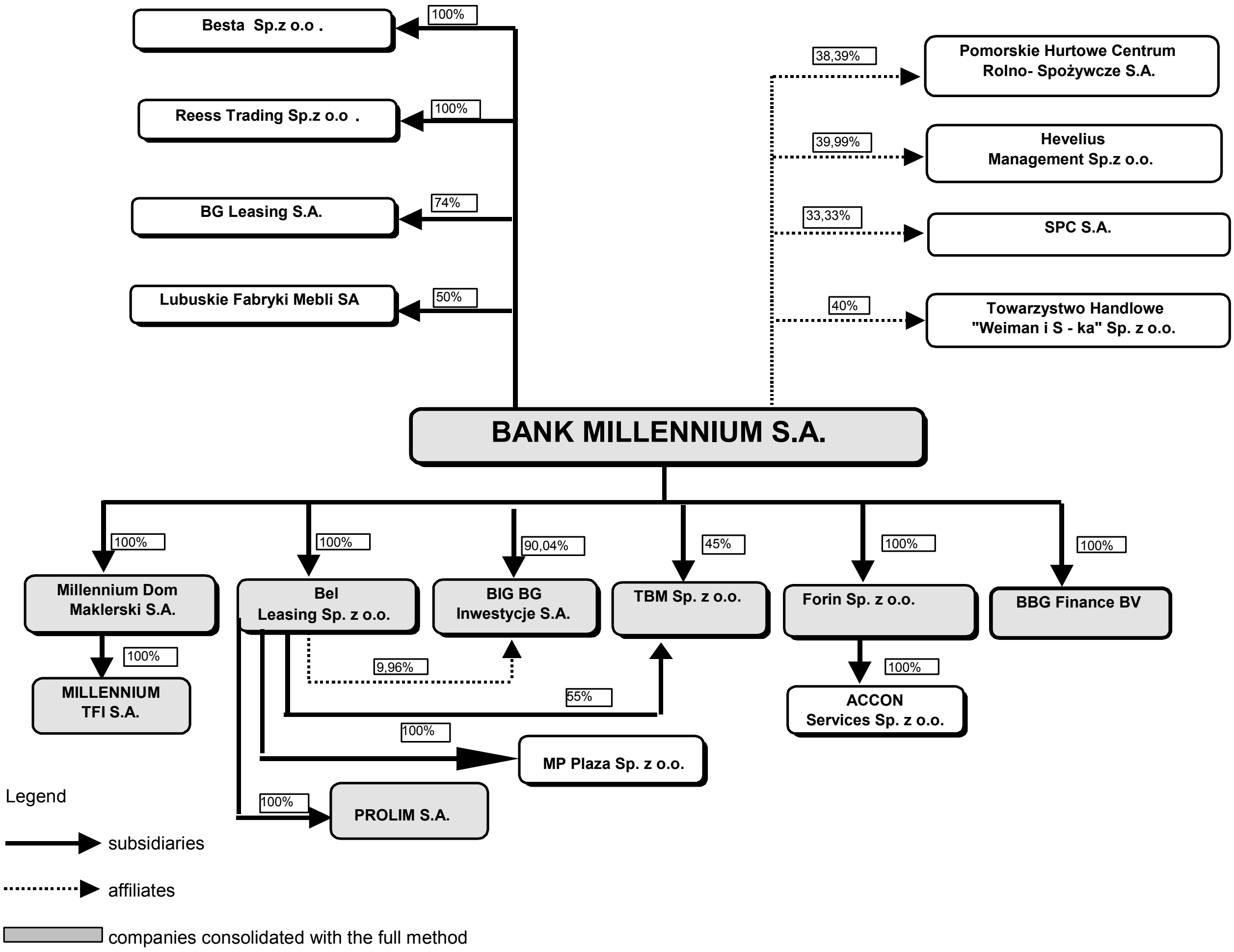
On 6 February 2004 the Bank executed an agreement on purchase of the enterprise (in the meaning of art. 55 with index 1 of the Civil Code) of the company Forin Sp. z o.o – a company linked with the Bank. The object of the enterprise of the Forin company is in particular: conducting activity in the area of receivables trading, factoring, forfaiting, acceptance of bills-of-exchange for discounting, granting loans. Under the above enterprise purchase agreement the Bank took over employees of Forin by way of transfer of the work establishment to another employer pursuant to art. 23 with index 1 of the Labour Code. The enterprise was handed over on the day of execution of the enterprise purchase agreement.

5. Lending agreement with the European Investment Bank

On 22 December 2004 the Bank executed a master lending agreement with the European Investment Bank ("EIB"). The agreement stipulates disbursement by EIB of a credit line of up to the equivalent of EUR 100 million, assigned for co-financing of medium and long-term projects executed by small and medium enterprises as well as of municipal infrastructure projects.

Description of the changes in the capital links of the Bank in the period from 1.01.2004 to 31.12.2004

Structure of links between the main entities of the Bank Millennium Group



The year 2004 was yet another year of the restructuring efforts in the Bank Millennium S.A. Capital Group, aimed mostly at increasing efficiency of managing Group's companies that are not directly linked with banking activity, but constitute its necessary supplementation and accumulation of capital exposures of the Bank. The following changes took place within this process:

1. As a result of purchasing shares in Forinwest Sp. z o.o. and Bel Leasing Sp. z o.o. Bank Millennium S.A. became 100% shareholder of the above companies.
2. Bank Millennium S.A. purchased enterprise of FORIN Sp. z o.o., which resulted in limitation of the operating costs of the Bank Millennium S.A. Capital Group.
3. Pursuant to the decision of Bank Millennium as the only shareholder of Forin Sp. z o.o. and Forinwest Sp. z o.o., approved on October 1 2004 by the Registry Court, the above companies were merged. The acquiring company was Forin Sp. z o.o.
4. Bel Leasing Sp. z o.o., Bank's subsidiary, purchased from Bank Millennium S.A., and also from other shareholders of PROLIM S.A., all the stocks issued by this Company, thus acquiring 100% vote at the General Meeting of Shareholders.

Furthermore, in December of 2004 Bank Millennium S.A., jointly with its subsidiary BIG BG Inwestycje S.A., concluded agreement to sell 10% of shares of Powszechny Zakład Ubezpieczeń PZU S.A. in favour of EUREKO BV.

Information about significant transactions between the bank and the central bank or supervisory authorities

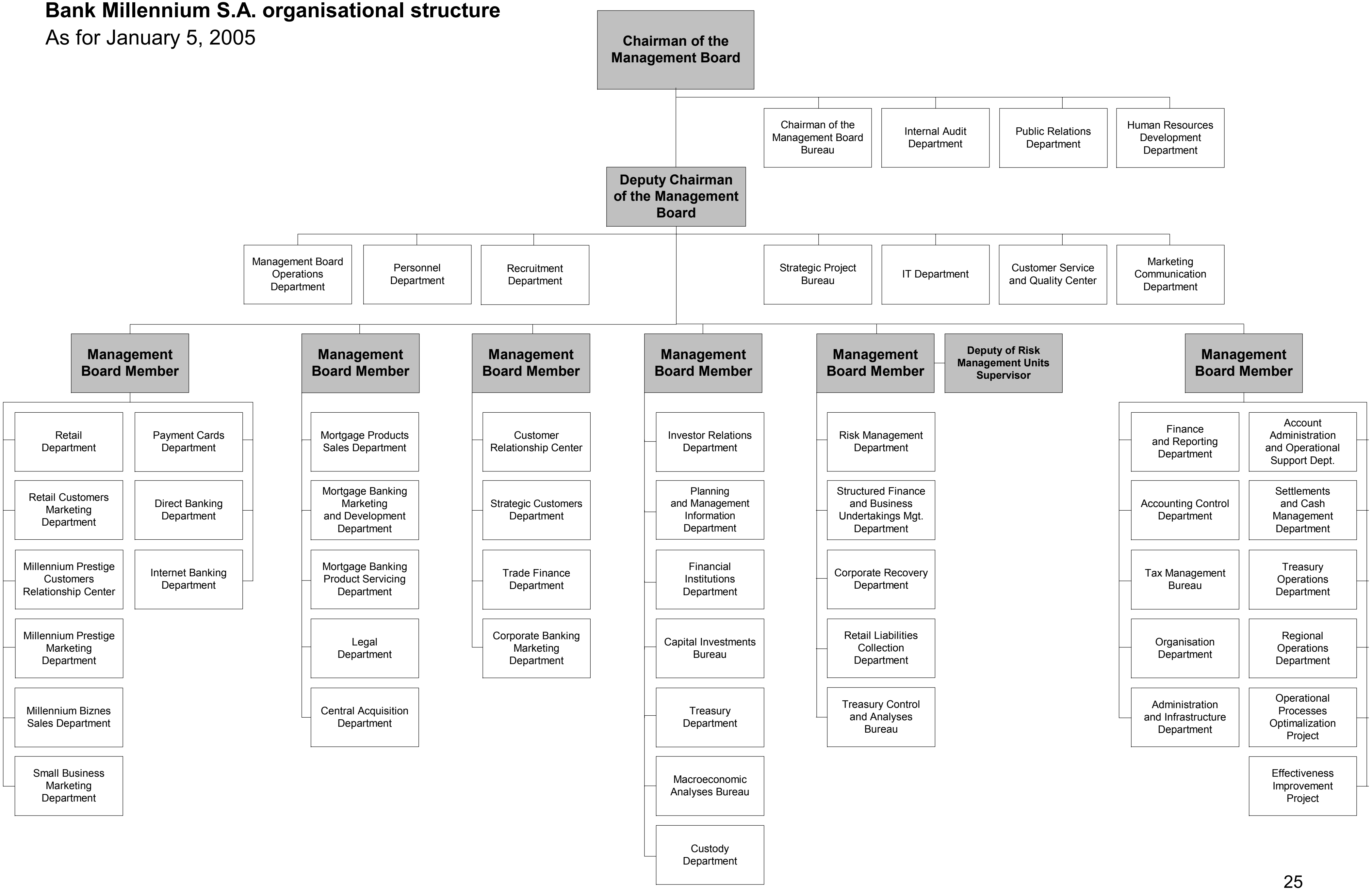
The bank did not come into any significant agreement with the Central Bank neither supervisory authorities.

Description of transactions with related companies, exceeding EURO 500 000 (if the value of one transaction or the total value of several transactions by a company exceeds this amount)

Object of the transaction	Value in PLN '000
Forwards executed by BEL Leasing with Bank Millennium (nominal value)	
- FX sale by Bank Millennium, converted to PLN '000 PLN	64 285
- FX purchase by Bank Millennium, converted to PLN '000 PLN	64 381
Additional payment to capital of FORIN made by Bank Millennium	20 025
Operating expenses incurred by BEL Leasing to Bank Millennium	2 131
Operating expenses incurred by DOM Maklerski to Bank Millennium	2 100
Interest expenses of Bank Millennium on SWAP transactions with BEL Leasing	3 851
Interest expenses of Bank Millennium on transactions with DOM Maklerski	15 041
Interest expenses of BEL Leasing on lease receivables purchased by Bank Millennium	34 858
Costs of financial intermediation incurred by BIG BG Inwestycje to Bank Millennium	32 000
Commission expenses incurred by Millennium TFI to Bank Millennium	3 148
Loans granted by Bank Millennium to BEL Leasing	37 820
Loans granted by Bank Millennium to FORIN	230 488
Loans granted by Bank Millennium to PROLIM (gross)	248 213
Receivables of Bank Millennium from BEL Leasing on account of Company Social Benefits Fund	13 307
Interest accrued on loans granted by Bank Millennium to FORIN	5 037
Interest accrued on loans granted by Bank Millennium to PROLIM	42 592
Subordinated loan granted by Bank Millennium to DOM Maklerski	22 250
Interest income of Bank Millennium on transactions with FORIN	13 493
Cash deposited in Bank Millennium by BEL Leasing	27 736
Cash deposited in Bank Millennium by BIG BG Inwestycje	1 209 128
Cash deposited in Bank Millennium by DOM Maklerski	319 119
Cash deposited in Bank Millennium by FORIN	37 589
Cash deposited in Bank Millennium by Millennium TFI	11 759
Cash deposited in Bank Millennium by TBM	5 713
Value of bonds underlying the SBB transactions between Bank Millennium and DOM Maklerski	40 714
Value of lease receivables purchased by Bank Millennium from BEL Leasing	1 030 802
Value of lease receivables purchased by Bank Millennium from PROLIM	15 415

Bank Millennium S.A. organisational structure

As for January 5, 2005



SUPERVISORY BOARD of Bank Millennium S.A.

Composition of the Supervisory Board as at 31 December 2004:
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. Jorge Manuel Jardim Goncalves - Member of the Supervisory Board,
5. Andrzej Koźmiński - Member of the Supervisory Board,
6. Marek Rocki - Member of the Supervisory Board,
7. Dariusz Rosati – Member of the Supervisory Board, as of 27 May 2004 (after the composition of the Board was supplemented following resignation of Mr M. Belka)
8. Zbigniew Sobolewski - Member of the Supervisory Board,
9. Gijsbert Johannes Swalef - Member of the Supervisory Board,
10. Francisco de Lacerda – Member of the Supervisory Board

Until 1 May 2004 Mr Marek Belka was a Member of the Supervisory Board, who submitted his resignation as of 2 May 2004.

MANAGEMENT BOARD OF BANK Millennium S.A.

Composition of the Management Board of the Bank as at 31 December 2004:
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. Anna Rapacka - Member of the Management Board,
7. Rui Manuel Teixeira - Member of the Management Board,
8. Wiesław Kalinowski – Member of the Management Board, assumed this function as of 1 June 2004,
9. Zbigniew Kudaś – Member of the Management Board, assumed this function as of 1 June 2004,

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

Information about the volume and nominal value of all shares (interests) of the Issuer and shares and interests in companies of the Issuer's Capital Group, held by persons managing and supervising the Issuer (individually for each person)

Management Board (as at 31.12.2004)

1. Bogusław Kott – Chairman of the Management Board
   - 3.023.174 shares of the Bank with nominal value of PLN 1 each,
   - holds no shares and interests in companies of the Capital Group;
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
3. Fernando Bicho – Member of the Management Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies 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,
- holds no shares and interests in companies 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,
   - holds no shares and interests in companies of the Capital Group;
6. Wiesław Kalinowski – Member of the Management Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
7. Zbigniew Kudaś – Member of the Management Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
8. Anna Rapacka – Member of the Management Board
   - 39.600 shares of the Bank with nominal value of PLN 1 each on a joint account with her husband,
   - holds no shares and interests in companies of the Capital Group;
9. Rui Manuel Teixeira – Member of the Management Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;

▪ Jerzy Andrzejewicz – Proxy
   - 6.260 shares of the Bank with nominal value of PLN 1 each,
   - holds no shares and interests in companies of the Capital Group;

Supervisory Board

1. Maciej Bednarkiewicz – Chairman
   - 94 shares of the Bank with nominal value of PLN 1 each,
   - holds no shares and interests in companies of the Capital Group;
2. Ryszard Pospieszyński – Deputy Chairman
   - 26.200 shares of the Bank with nominal value of PLN 1 each,
   - holds no shares and interests in companies of the Capital Group;
3. Andrzej Koźmiński – Member of the Supervisory Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
4. Marek Rocki – Member of the Supervisory Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
5. Dariusz Rosati – Member of the Supervisory Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
6. Zbigniew Sobolewski – Member of the Supervisory Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
7. Gijsbert Johannes Swalef – Member of the Supervisory Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
8. Christopher de Beck – Member of the Supervisory Board
   - 95.000 shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
9. Francisco de Lacerda - Member of the Supervisory Board
   - holds no shares of the Bank,
   - holds no shares and interests in companies of the Capital Group;
10. Jorge Manuel Jardim Goncalves – Member of the Supervisory Board
    - 3.000 shares of the Bank,
    - holds no shares and interests in companies of the Capital Group.

Shareholders holding at least 5% interests in equity of the Bank and in the total number of votes at the General Shareholders' Meeting:

SHAREHOLDER	SHARES		VOTES AT THE MEETING	
	number	%	number	%
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

Major events which have impact on the bank's operation

- On 29 January 2004 the Bank's Management Board informed that Mr Jerzy Zdrzałka tendered the resignation as of 28 January 2004 from the function of the Bank's Management Board, for personal reasons.

- On 29 April 2004, the Bank's Management Board announced that the Supervisory Board, which met on the previous day, increased the composition of the Bank's Management Board to 9 persons, appointing at the same time as of 1 June 2004, to the function of the members of the Bank's Management Board Messieurs Wiesław Kalinowski and Zbigniew Kudaś. Mr Wiesław Kalinowski is 52 years old. He graduated at the Warsaw University, Institute of Economic Sciences obtaining the title of the master in economy, and thereafter completed the post-graduate course on Application of Mathematics in Economy at the Faculty of Finance and Statistics in the Main School of Planning and Statistics. As of 1991 until March 2004 he was the Deputy Chairman of Bank Handlowy in Warsaw S.A. ("BHW"). In the years 1985-1991 he was the Director of the Department of Analyses and Economic Projections in the National Bank of Poland, and as of 1989 until 1991 he was also the member of the Management Board. He worked as the advisor to the Minister in the Bureau of the Government's Spokesman on the Economic Reform (1982-85), and previously as the senior advisor in the Planning Commission at the Council of Ministers (1976-82). Mr Zbigniew Kudaś is 52 years old. He graduated at the Law Faculty of the Warsaw University, and thereafter completed the Post-Graduate Course of International Economic Cooperation in the Main School of Planning and Statistics. He started his professional career in the diplomatic service in the Ministry of Foreign Affairs (1973-1992), in the Legal and Consular Departments, Department of America, in the Polish Consular Office in Chicago and in the Polish Embassy in Washington. In the years 1992-1995 he was the Director for international affairs at the HOME BUILDERS INSTITUTE in Washington, and later he was appointed to the position of the Management Board's member - Director for development in BUDBANK S.A. (1995-1996). As of 1998 he was the Deputy Chairman for Sales and Marketing in GE Bank Mieszkaniowy S.A.

- On 5 May 2004, the Bank's Management Board announced that the Bank received the declaration made by Mr Marek Belka on his resignation as of 2 May 2004 from the function of the member of the Bank's Supervisory Board.

- On 27 May 2004, the Bank's Management Board informed about resolutions adopted at the General Meeting on 27 May 2004, and the election of the new member of the Bank's Supervisory Board appointing to his position Mr. Dariusz Rosati. Mr Dariusz Rosati is 57 years old. He graduated from the Faculty of Foreign Trade at SGH, Warsaw School of Economics (formerly SGPiS) in Warsaw in 1969 and started working as the Assistant Lecturer at SGH. He earned his Ph.D. in decision-making theory in 1973 to obtain a habilitation degree in international trade policy in 1978. In the years 1978-1979 he worked as the consultant in Citibank in New York. In the years 1985-1986 and 1987-1988 – founder and director of the World Economy Research Institute at SGH. In the years 1986-1987 he was the Fulbright scholar at the University of Princeton USA. In the years 1988-1991 – Director of the Foreign Trade Research Institute. From 1989 until 1991 Partner in Ernst&Young - TKD Consultants, Ltd. in Warsaw. As of 1990 – Professor of Economics, SGH. In the years 1991-1995 he worked for the United Nations Economic Commission for Europe, Geneva as Head of Transition Economies Section. From December 1995 until October 1997 he was the Minister for Foreign Affairs of the Republic of Poland. Between 1978 and 1991 – a UNIDO consultant, participating in many missions to developing countries. In 1988-1991 he was multiple times an expert of the World Bank, the UNU (WIDER), International Labour Organisation and Commission of European Communities. He lectured at many universities and research institutes in Europe and USA. Member of the Commission for Economic Reform (1987-1989), of the Public Team of Economic Advisors to the Prime Minister (November 1988 - June 1989), of the Council for Economic and Social Strategy to the Council of Ministers (1994-1998). Since 1997 member of the Economics Committee of the Polish Academy of Sciences. In the years 1998-2004 member of the Monetary Policy Council to the National Bank of Poland. Since 2001 member of the Group of Policy Advisors to EU's President. As of 15 May 2003 Rector of the Ryszard Lazarski University of Commerce and Law in Warsaw. Author of over 200 scientific and general publications including five books on economic policy, international trade, export promotion and economic transformation in Central and Eastern Europe.

- On 25 June 2004, the Management Board of Bank Millennium S.A. announced that in the course of the „Investor's Day" held on that day in Lisbon organised by Banco Comercial Portugues ("BCP") – the Portuguese bank group with the strategic shareholding in Bank Millennium S.A. – the Management Board of BCP met with analysts and investors. In the course of that meeting Mr Bogusław Kott, Chairman of the Management Board of Bank Millennium S.A. and member of the Management Board of BCP, and Mr Luis Pereira Coutinho, Deputy Chairman of the Management Board of Bank Millennium S.A., reviewed the strategy of the Bank Millennium Group ("Group ") informing that it planned to reach in 2006 the net ROE of 12% and more than 15% in 2007 (assuming CAR = 10%), while the cost to income ratio at the level of 65% in 2006. The Group's strategy focused on increasing profitability, above all on the retail market, and also on changes of the crediting process allowing to grow the crediting action based on the effective model of risk management. The Group is currently implementing the comprehensive project of credit portfolio restructuring. The realization of the assumed plans of strategic development should allow the Group to enhance the share on the loan market from 3,7% at end 2003 to 4,6% at end 2006, and on the market of the clients' funds (including the investment funds) from 3,8% to 4,7% over the same period of time.

- On 6 September 2004, the Bank announced that BEL Leasing Sp. z o.o. with its seat in Warsaw – the Bank's subsidiary, purchased from natural persons and from the Bank, on the basis of the agreement, the total of 2.175 shares of PROLIM S.A. with its seat in Sopot. Until the conclusion of the transaction the Bank held 25% of the PROLIM S.A. shares and appraised that company with the equity rights method. The shares, which were the object of transaction, represented 100% of the share capital of PROLIM S.A. and gave right to 100% of the votes at the Shareholders Meeting. The shares were purchased from the own funds of BEL Leasing Sp. z o.o. The objective of the transaction was to intensify the restructuring of PROLIM S.A. The main subject of the activities of PROLIM S.A. is leasing. The natural persons who sold shares were not linked with BEL Leasing Sp. z o.o.

- On 8 September 2004, the Bank submitted the declaration, that it will fully observe corporate governance rules included in the document "Good Practices in Public Companies in 2002"

- On 15 December 2004, the Bank announced that Ms Anna Rapacka tendered the resignation from the function of the Bank's Management Board as of 31 December 2004 The resignation was submitted for the reasons of health.

- On 22 December 2004, the Bank announced that in preparing for the introduction of the new International Financial Reporting Standards and in pursuance to the Law on Accounting, the fixed assets and intangibles were reviewed in detail to update their economic life, and also the fair value of the real property whose sale is underway. On the basis of the tentative conclusions from the analysis, the Bank is considering the adjustment of the depreciation period of some of the assets and in consequence, a one-off depreciation in 2004 amounting to 221 million PLN, which will result in savings in the coming years.

- On 28 December 2004, the Bank announced that it received information from Carothers Trading Limited with its seat n Nicosia, Cyprus ("Carothers") that Carothers purchased 46.481.652 shares which represented 5,47% of the Bank's share capital and gave right to 46.481.652 votes representing 5,47% of the total number of votes at the General Meeting of the Shareholders of the Bank. As a result of the purchase transaction Carothers holds the total of 84.833.256 of the Bank's shares, which represents 9,99% of the Bank's share capital and give right to exercise the voting rights from 84.833.256 votes at the General Meeting of Shareholders of the Bank, which represents 9,99% of the total number of the votes at the General Meeting of the Shareholders of the Bank.

- On 28 December 2004, the Bank announced that it received information from Priory Investments Group Corp. with its seat in Tortola, British Virgin Islands ("Priory") on the purchase by Priory of 52.358.278 shares which represented 6,17% of the Bank's share capital and gave right to 52.358.278 votes which represented 6,17% of the total number of votes at the General Meeting of Shareholders of the Bank. As a result of that transaction Priory holds the total of 84.833.256 of the Bank's shares, which represent 9,99% of the Bank's share capital and give right to exercise the rights from 84.833.256 votes at the General Meeting of Shareholders of the Bank, which represent 9,99% of the total number of votes at the General Meeting of Shareholders of the Bank.

- On 28 December 2004, the Bank announced that it received information from M+P Holding S.A. with its seat in Lausanne, Swiitzerland ("M+P") that M+P purchased 61.907.117 shares, which represented 7,29% of the Bank's share capital and gave right to 61.907.117 votes, which represented 7,29% of the total number of votes at the General Meeting of Shareholders of the Bank. As a result of the purchase transaction M+P holds 84.833.256 of the Bank's shares, which represent 9,99% of the Bank's share capital and give right to exercise the rights from 84.833.256 votes at the General Meeting of Shareholders of the Bank, which represent 9,99% of the total number of votes at the General Meeting of Shareholders of the Bank.

- On 30 December 2004, the Bank announced to have received information from EUREKO B.V. with its seat in Zeist, Holland ("EUREKO"), that in 28 December 2004 it sold 160.747.047 of the Bank's shares, which represented 18,93% of the Bank's share capital and gave 160.747.047 votes, which represented 18,93% of the total number of votes at the General Meeting of Shareholders of the Bank. As a result of the concluded transactions, EUREKO is the holder of 9.174.220 of the Bank's shares, which represent 1,08% of the Bank's share capital and give right to exercise 9.174.220 of the votes at the General Meeting of Shareholders of the Bank, which represents 1,08% of the total number of votes at the general Meeting of Shareholders of the Bank.

Information on major events which occurred after 31 December 2004

- On 3 January 2005, the Bank announced that it received the decision of the Office for Protection of Competition and Consumers regarding consent for concentration involving the purchase by EUREKO B.V. with its seat in Amsterdam, Holland, from BIG BG Inwestycje S.A. – the Bank's subsidiary, 10% of the shares of the insurance company Powszechny Zakład Ubezpieczeń S.A. the issue of the a/m decision means the satisfaction of the condition provided for in the agreement of PZU SA sale, about which the Bank informed in the Communiqué No. 48/2004 dated 22 December 2004

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**	....
....	**Anna Rapacka**	**Member of the Management Board**	....
....	**Wojciech Haase**	**Member of the Management Board**	....
....	**Rui Manuel Teixeira**	**Member of the Management Board**	....
....	**Wiesław Kalinowski**	**Member of the Management Board**	....
....	**Zbigniew Kudaś**	**Member of the Management Board**	....