ADDITIONAL EXPLANATORY NOTES

TABLE OF CONTENTS

1. INFORMATION ON THE CONCENTRATION STRUCTURE OF THE BANK'S EXPOSURE TO ENTITIES AND GROUPS FROM FINANCIAL AND NON-FINANCIAL SECTORS, BY INDUSTRY AND BY TERRITORY, INCLUDING THE RELATED RISK ASSESSMENT

The structure of the Bank's exposure as of December 31, 2005, and December 31, 2004 was as follows:

- by entity (balance sheet gross exposure):

No.	Name	31.12.2005		31.12.2004	
		Amount in PLN '000	Share in gross amounts due from clients and public sector entities	Amount in PLN '000	Share in gross amounts due from clients and public sector entities
1	Entity no. 1	346 811	3.60%	307 689	4.07%
2	Entity no. 2	219 797	2.28%	281 738	3.73%
3	Entity no. 3	207 101	2.15%	263 628	3.49%
4	Entity no. 4	196 000	2.04%	230 488	3.05%
5	Entity no. 5	191 205	1.99%	218 830	2.90%
6	Entity no. 6	152 270	1.58%	196 000	2.60%
7	Entity no. 7	128 660	1.34%	148 754	1.97%
8	Entity no. 8	116 937	1.22%	116 042	1.54%
9	Entity no. 9	108 393	1.13%	107 382	1.42%
10	Entity no. 10	87 165	0.91%	93 770	1.24%
11	Entity no. 11	86 765	0.90%	88 312	1.17%
12	Entity no. 12	81 342	0.85%	72 894	0.97%
13	Entity no. 13	79 523	0.83%	64 147	0.85%
14	Entity no. 14	79 497	0.83%	59 168	0.78%
15	Entity no. 15	56 051	0.58%	56 051	0.74%
16	Entity no. 16	51 008	0.53%	51 673	0.68%
17	Entity no. 17	50 030	0.52%	51 332	0.68%
18	Entity no. 18	49 174	0.51%	40 819	0.54%
19	Entity no. 19	46 863	0.49%	40 633	0.54%
20	Entity no. 20	44 596	0.46%	39 729	0.53%

Exposure to the largest client credited by the Bank does not exceed 3.6% of gross amounts due from clients, financial institutions (excluding banks) and public sector entities. There is no excessive exposure to any particular client. Comparable data is presented by exposure amount, i.e. by largest client as at Dec 31, 2004 and, therefore, exposure in individual reporting periods may refer to a different entity when taking into account the number of a client.

- by group (balance sheet gross exposure):

No.	Name	31.12.2005		31.12.2004	
		Amount in PLN '000	Share in gross amounts due	Amount in PLN '000	Share in gross amounts due
1	Group no. 1	346 811	3.60%	307 689	4.07%
2	Group no. 2	219 797	2.28%	281 738	3.73%
3	Group no. 3	207 101	2.15%	263 628	3.49%
4	Group no. 4	196 000	2.04%	230 488	3.05%
5	Group no. 5	191 205	1.99%	218 830	2.90%
6	Group no. 6	152 270	1.58%	196 000	2.60%
7	Group no. 7	132 957	1.38%	164 146	2.17%
8	Group no. 8	128 660	1.34%	148 754	1.97%
9	Group no. 9	116 937	1.22%	116 042	1.54%
10	Group no. 10	108 393	1.13%	109 494	1.45%

Exposure to other groups does not exceed 1% of gross amounts due from clients and public sector entities.
Exposure to the largest capital group credited by the Bank does not exceed 3.6% of gross amounts due from clients, financial institutions (excluding banks) and public sector entities. There is no excessive exposure to capital groups. Comparable data is presented by exposure amount, i.e. by largest client of the group as of Dec 31, 2004 and, therefore, exposure in individual reporting periods may refer to a different group when taking into account the number of a client.

- by industry (balance sheet exposure):

No. Industry	Amount in PLN '000	Share in gross amounts due from clients and public sector entities
As at 31 Dec 2005:		
1. Households (private individuals)	4 194 532	43.59%
2. Construction	949 838	9.87%
3. Wholesale trade	535 722	5.57%
4. Electricity suppliers	477 884	4.97%
5. Public administration	367 477	3.82%
Data as at 31 Dec 2004:		
1. Households	1 957 152	25.91%
2. Construction	983 502	13.02%
3. Transportation and communication	702 644	9.30%
4. Wholesale trade	569 803	7.54%
5. Financial intermediation	569 473	7.54%
6. Electricity, water, and gas supplies	467 693	6.19%
7. Public administration	404 648	5.36%
8. Real estate management	258 493	3.42%

There is no excessive concentration to any particular industry since exposure to households (consumer loans) is spread over hundreds of thousands of individuals.

- balance sheet and off-balance exposure to clients and groups (concentration amounts calculated in accordance with applicable provisions of the Banking Law)

Clients

No. Name	Amount in PLN '000	Exposure to equity ratio
Data as at 31 Dec 2005:		
1. Entity no. 1	330 000	28.91%
2. Entity no. 2	242 862	21.27%
3. Entity no. 3	233 463	20.45%
4. Entity no. 4	224 817	19.69%
5. Entity no. 5	196 027	17.17%
Data as at 31 Dec 2004:		
1. Entity no. 1	257 402	15.65%
2. Entity no. 2	243 456	14.80%
3. Entity no. 3	220 193	13.39%
4. Entity no. 4	196 000	11.92%
5. Entity no. 5	119 946	7.29%

Capital Groups (including individual clients)

No. Name	Amount in PLN '000	Exposure to equity ratio
Data as at 31 Dec 2005:		
1. Group no. 1	330 000	28.91 %
2. Group no. 2	242 862	21.27%
3. Group no. 3	233 463	20.45%
4. Group no. 4	224 817	19.69%
5. Group no. 5	196 027	17.17%
Data as at 31 Dec 2004:		
1. Group no. 1	257 402	15.65%
2. Group no. 2	243 456	14.80%
3. Group no. 3	220 193	13.39%
4. Group no. 4	196 000	11.92%
5. Group no. 5	190 435	11.58%

As of December 31, 2005, exposure to the largest client credited by the Bank did not exceed the statutory limit of liabilities contracted on demand of a customer in relations with a single entity, i.e. 25% of equity of the Bank pursuant to Art. 71, par. 1 of the Banking Law.

As at December 31, 2005, also the exposure to the largest group of entities related by capital or organization did not exceed the statutory limit of liabilities contracted on demand of a customer in relations with a group of entities related by capital or organization that take business risk together, i.e. 25% of equity of the Bank pursuant to Art. 71, par. 1 of the Banking Law.

It should be stressed that the transaction, when conducted, did not entail breaking the concentration limits. The direct reason behind crossing the 25% threshold was the final settlement of the transaction of selling the PZU SA shares. In effect of the above, combined with application of the equity method to shares and stock in subordinated entities held in the Bank's portfolio, the value of the Bank's equity calculated for prudential standards was reduced. Following the regulations, current profit of the Company cannot be included in the equity of the Bank, while the profit increases the balance sheet value of the company (at equity method valuation) by which the Bank's equity is reduced, calculated in line with guidelines regarding prudential standards). The Bank is planning to start implementation of the International Financial Reporting Standards starting 2006, and to discontinue applying the equity method valuation to shares and stock in subordinated entities. In addition, in order to increase the equity, which is the basis for calculation of the prudential standards, the Bank has been considering payment of a dividend from the subsidiary. The above actions that shall eliminate the infringement of the exposure limit is expected to be concluded in Q2 2006.

Comparable data is presented by exposure amount, i.e. by largest client as of Dec 31, 2004 and, therefore, exposure in individual reporting periods may refer to a different entity or group when taking into account the number of an entity or group.

- balance sheet and off-balance sheet exposure to subsidiaries

Entity No. Name	Amount in PLN '000	Exposure to equity
Data as at 31 Dec 2005:		
1. Entity no. 1	224 817	19.69%
2. Entity no. 2	132 803	11.63%
3. Entity no. 3	38 775	3.40%
Data as at 31 Dec 2004:		
1. Entity no. 1	294 152	17.89%
2. Entity no. 2	181 735	11.05%
3. Entity no. 3	43 956	2.67%

As at December 31, 2005, exposure to the largest subsidiary credited by the Bank did not exceed the statutory limit of liabilities contracted on demand of a customer in relations with a subsidiary, i.e. 20% of equity of the Bank pursuant to Art. 71, par. 1 of the Banking Law. Comparable data is presented by exposure amount, i.e. by largest client as at December 31, 2004 and, therefore, exposure in individual reporting periods may refer to a different entity or group when taking into account the number of a customer.

- balance sheet exposure by territory (exposure to financial institutions excluding banks, to non-financial entities and public sector entities)

VOIVODSHIP	RECEIVABLES NET OF ACCRUED INTEREST (GROSS)
dolnośląskie	535 286
kujawsko-pomorskie	591 085
lubelskie	196 136
lubuskie	124 555

łódzkie	133 319
małopolskie	221 592
mazowieckie	4 995 204
opolskie	52 739
podkarpackie	85 642
podlaskie	33 855
pomorskie	914 550
śląskie	650 309
świętokrzyskie	29 575
warmińsko-mazurskie	295 209
wielkopolskie	499 419
zachodnio-pomorskie	188 675
TOTAL	**9 547 150**

2. INFORMATION ON SOURCES OF DEPOSITS ATTRACTED, BY SECTOR AND BY TERRITORY

(In PLN '000; accrued interest excluded, financial institutions excluding banks, non-financial entities and public sector entities)

SECTOR	CURRENT ACCOUNT FUNDS AND DEPOSITS
Supportive financial institutions	6 010
Insurance companies and pension funds	342 311
Other financial intermediaries	410 907
State-owned enterprises and companies	708 840
Private enterprises and companies	2 847 278
Individual farmers	13 424
Individual entrepreneurs	340 253
Individuals	7 829 524
Non-commercial institutions for households	488 747
Governmental institutions at the central level	304 851
Self-government institutions	669 669
Social insurance funds	55 136
TOTAL	**14 016 950**

VOIVODSHIP	C/A FUNDS AND DEPOSITS
dolnośląskie	409 196
kujawsko-pomorskie	1 334 017
lubelskie	196 682
lubuskie	128 286
łódzkie	355 221
małopolskie	412 836
mazowieckie	4 258 218
opolskie	125 131
podkarpackie	92 819
podlaskie	425 339
pomorskie	3 443 461
śląskie	755 990
świętokrzyskie	43 148
warmińsko-mazurskie	984 121
wielkopolskie	685 103
zachodnio-pomorskie	367 382
TOTAL	**14 016 950**

In addition to the above, the Bank concluded severe transactions of sale of securities with repurchase clause (repo) resulting in total liabilities of PLN 3 469 633 thousand (the amount does not include accrued interest).

3. CHANGES IN FINANCIAL SUPPORT TO FOREIGN BRANCHES

Bank Millennium S.A. does not have any foreign branches.

4. INFORMATION ON FINANCIAL INSTRUMENTS

4.1. Financial assets and liabilities

Information on debt securities, shares, fund units, derivatives, loans and borrowings granted is presented in the explanatory notes to the balance sheet (financial notes from 1 through 13). Data on financial liabilities is contained in notes 20 to 24 to the balance sheet.
Supplementary information to the above notes is presented in the tables below:

Debt securities (PLN ‘000):

	Depreciated purchase price	Fair value increases	Fair value decreases	Accrued interest	Book value
For trading, as at 31.12.2004	2 457 292	15 393	412	54 933	2 527 206
For trading, as at 31.12.2005	2 943 125	5 888	1 944	45 375	2 992 444
Available for sale, as at 31.12.2004	4 051 136	33 729	0	101 569	4 186 434
Available for sale, as at 31.12.2005	4 656 109	42 888	7 673	135 029	4 826 353
Held till maturity at 31.12.2004	202 252	0	0	0	202 252
Held till maturity at 31.12.2005	327 270	0	0	0	327 270

As at December 31, 2005 and December 31, 2004 debt securities with book value of PLN 3,467,340 thousand and PLN 1,450,499 thousand, respectively, were subject to sell –buy back (SBB) transactions.

Debt securities (in PLN '000):

As at December 31, 2005	Up to 3 months	3 moths to 1 year	1 to 5 years	Over 5 years	TOTAL
Fair value – for trading	1 225 219	250 144	1 123 231	393 850	2 992 444
Fair value – available for sale	63 901	1 409 899	2 725 612	626 941	4 826 353
Value at amortized cost – held until maturity	0	78 636	0	248 634	327 270

Fund units and investment certificates (PLN '000):

	Purchase price	Fair value
For trading, as at 31.12.2004	4 000	4 249
For trading, as at 31.12.2005	0	0
Available for sale, as at 31.12.2004	0	0
Available for sale, as at 31.12.2005	3 261	3 330

Liabilities, net of accrued interest (in PLN '000):

As at 31 Dec 2005	Payable on demand	Up to 3 months	3 moths to 1 year	1 to 5 years	Over 5 years	TOTAL
Financial institutions	**421 136**	**870 445**	**282 931**	**0**	**248 627**	**1 823 139**
Banks	46 996	636 618	131 670	0	248 627	**1 063 911**
Insurance companies	36 333	154 768	151 210	0	0	**342 311**
Other financial institutions	337 807	79 059	51	0	0	**416 917**
Non-financial sector	**3 990 186**	**6 129 467**	**2 203 028**	**877 905**	**57 136**	**13 257 722**
Enterprises and other	1 548 463	2 760 234	78 930	10 719	196	**4 398 542**
Individuals	1 785 365	3 009 327	2 110 712	867 180	56 940	**7 829 524**
Public sector entities	656 358	359 906	13 386	6	0	**1 029 656**
TOTAL	**4 411 322**	**6 999 912**	**2 485 959**	**877 905**	**305 763**	**15 080 861**

Receivables from non-financial sector and public sector entities, gross, net of interest (in PLN '000):

As at 31 Dec 2005	Payable on demand	Up to 3 months	3 moths to 1 year	1 to 5 years	Over 5 years	TOTAL
State-owned companies	14 049	24 093	6 415	160 294	175 225	**380 076**
Enterprises, private companies, cooperatives, individual entrepreneurs, farmers	856 820	274 990	464 039	1 486 137	1 263 760	**4 345 746**
Non-commercial institutions	649	218	2887	2 901	3 269	**9 924**
Retail (mortgage loans and credit cards excluded)	153 255	27 019	23 223	201 485	254 356	**659 338**
Retail – mortgage loans	0	7 449	496	29 528	3 255 174	**3 292 647**
Retail – credit cards	0	12 364	89 851	103 183	0	**205 398**
Public sector entities	6 415	17 729	19 930	125 871	196 043	**365 988**
Total gross	**1 031 188**	**363 862**	**606 841**	**2 109 399**	**5 147 827**	**9 259 117**

Derivatives for trading – off-balance assets (in PLN '000):

					Traded 1 Jan – 31 Dec 2005	
	Nominal value as at 31 Dec 2005	**Security deposit**	**Nominal value as at 31 Dec 2004**	**Security deposit**	**Increase**	**Decrease**
Interest rate contracts:	**11 521 572**	**0**	**9 594 233**	**0**	**1 927 339**	**0**
- FRAs	2 300 000		750 000		1 550 000	
- swaps	9 221 572		8 844 233		377 339	
- put options						
- call options						
FX contracts	**12 564 520**	**7 720**	**7 786 372**	**52 236**	**5 925 746**	**1 147 598**
- spot	878 487		2 026 085			1 147 598
- forward	1 507 177		1 301 286		205 891	
- swaps	6 578 572	7 720	4 201 746	52 236	2 376 826	
- put options	1 264 671		140 845		1 123 826	
- call options	2 335 613		116 410		2 219 203	
Other derivatives	**352 567**	**0**	**306 092**	**0**	**113 667**	**67 192**
- swaps with embedded FX option	0		65 000			65 000
- equity swaps	313 969		200 302		113 667	
- volatility swaps	38 598		40 790			2 192

TOTAL	**24 438 659**	**7 720**	**17 686 698**	**52 236**	**7 966 751**	**1 214 790**

Derivatives for trading – off-balance liabilities (in PLN ‘000):

					Traded 1 Jan – 31 Dec 2005	
	Nominal value as at 31 Dec 2005	**Security deposit**	**Nominal value as at 31 Dec 2004**	**Security deposit**	**Increase**	**Decrease**
Interest rate contracts:	**10 521 572**	**0**	**8 994 233**	**0**	**1 527 339**	**0**
- FRAs	1 300 000		150 000		1 150 000	
- swaps	9 221 572		8 844 233		377 339	
- put options						
- call options						
FX contracts	**12 711 842**	**0**	**7 669 386**	**0**	**6 191 512**	**1 149 056**
- spot	876 916		2 025 972			1 149 056
- forward	1 500 106		1 304 997		195 109	
- swaps	6 734 536		4 081 163		2 653 373	
- put options	1 201 492		140 845		1 060 647	
- call options	2 398 792		116 409		2 282 383	
Other derivatives	**352 567**	**0**	**306 092**	**0**	**113 667**	**67 192**
- swaps with embedded FX option	0		65 000			65 000
- equity swaps	313 969		200 302		113 667	
- volatility swaps	38 598		40 790			2 192
TOTAL	**23 585 981**	**0**	**16 969 711**	**0**	**7 832 518**	**1 216 248**

Derivatives for trading **–** off-balance liabilities (in PLN ‘000):

Commodity transactions	**Nominal value as at 31.12.2005**
forward	**203 183**
Options	**64 432**

Derivatives – nominal value (total assets and liabilities), in PLN ‘000:

	Up to 3 months	3 moths to 1 year	Over 1 year	TOTAL
FORWARDS as at 31 December 2005				
TRADABLE	**1 400 540**	**5 217 071**	**192 855**	**6 810 466**
- interest rate risk		3 600 000		3 600 000
- FX risk	1 197 357	1 617 071	192 855	3 007 283
- other risks	203 183			203 183
HEDGING	**0**	**0**	**0**	**0**
- interest rate risk				
- FX risk				
- other risks				
TOTAL	**1 400 540**	**5 217 071**	**192 855**	**6 810 466**
SWAPS as at 31 December 2005				
TRADABLE	**4 193 175**	**1 559 486**	**26 708 725**	**32 461 386**
- swaps (irs, equity, volatility, with option)	**0**	**0**	**19 148 278**	**19 148 278**
- fixed leg	0	0	9 588 737	9 588 737
- floating leg	0	0	9 559 541	9 559 541
- cross currency swaps	0	0	**7 560 447**	**7 560 447**
- fx swaps	**4 193 175**	**1 559 486**	**0**	**5 752 661**
HEDGING	**97 933**	**0**	**378 106**	**476 039**
- interest rate swaps	**0**	**0**	**0**	**0**
- fixed leg				0
- floating leg				0
- cross currency swaps	**97 933**		**378 106**	**476 039**
TOTAL	**4 291 108**	**1 559 486**	**27 086 831**	**32 937 425**

OPTIONS as at 31 December 2005

TRADABLE	**4 298 097**	**2 873 689**	**93 214**	**7 265 000**
- interest rate risk				
- fx risk	4 233 665	2 873 689	93 214	7 200 568
- other risks	64 432			64 432
HEDGING	**0**	**0**	**0**	**0**
- interest rate risk				
- fx risk				
- other risks				
TOTAL	**4 298 097**	**2 873 689**	**93 214**	**7 265 000**

Sell-buy-back (SBB) transactions, book value, by maturity as at 31 Dec 2005:

Up to 3 months	3 moths to 1 year	1 to 5 years	Over 5 years	TOTAL
3 324 408	147 707	0	0	3 472 115

Buy-sell-back (BSB) transactions, book value, by maturity as at 31 Dec 2005:

Up to 3 months	3 moths to 1 year	1 to 5 years	Over 5 years	TOTAL
331 155	0	0	0	331 155

4.2. Additional information on financial assets and liabilities

4.2.1.

a) Basic description, amount and value of financial instruments, important terms and conditions that could have influence on the amount, timing and certainty of future cash flows

The Bank concludes transactions involving derivatives for speculative purposes and to manage foreign currency risk, interest rate risk, liquidity risk and market risk.
Settlement dates for open positions depend on the nature of an instrument and are made on a monthly, quarterly or annual basis, or at maturity.
A variable interest rate is based on an interest rate used by the interbank market at the beginning of the interest period. A fixed interest rate depends on the nature of an instrument and the purpose of the transaction.
The Bank concludes the following transactions on financial instruments:
- FX FORWARD,
- FX SWAP,
- CCIRS,
- IRS,
- FRA,
- FX Option,
- Equity Swap,
- IRS with FX option
- Volatility Swap.

Cross currency interest rate swaps (CCIRS) consist in swapping flows of interest accrued on nominal values denominated in different currencies. The Bank concludes transactions involving CCIRS on the interbank market and with Clients.
Interest rate swaps (IRS) consist in swapping flows of interest accrued on nominal values denominated in the same currency. The Bank concludes transactions involving IRS on the interbank market and with Clients.
Parties to FRA (forward rate agreement) exchange the difference between the interest rate specified in FRA and a variable reference rate calculated on the agreed principal amount. The Bank concludes FRAs on the interbank market and with Customers.
The buyer of an option acquires the right to purchase (call option) or sell (put option) a specified foreign currency denominated amount at the foreign exchange rate agreed in advance on a future date. The Bank concludes transactions involving foreign currency options on the interbank market and with Clients.
Equity swaps consist in swapping flows of interest accrued on nominal values. These flows of interest depend on a stock exchange index or dividends and stock prices. The Bank concludes equity swaps on the interbank market.
IRS with FX option consist in swapping flows of interest accrued on nominal values. Interest flows depend on FX rate. The Bank concludes these transactions on the interbank market.
Volatility Swaps consist in swapping flows of interest accrued on nominal values. These flows of interest depend on the volatility of a given currency. The Bank concludes these transactions on the interbank market.

As at 31 Dec 2004

Instrument features	IRS	FX swaps	FX options	CCSs	Asset SWAPs	FX Forwards
Number of transaction	137	110	222	13	8	386
Fair value	19,630,785	86,110,662	704,857*	19,672,178	11,607,108	-5,363,312
Purpose	tradable/hedge	tradable	tradable	tradable/hedge	hedge	tradable
Nominal value	9,231,905,692	4,269,756,996	257,254,841	1,260,696,252	204,124,070	1,176,667,581
Future revenues/payments	variable	variable	variable	variable	variable	variable
Maturity	07-02-05 to 22-10-10	03-01-05 to 22-03-06	05-01-05 to 29-03-06	05-10-04 to 01-04-09	14-02-06 to 10-12-08	03-01-05 to 05-09-06
Possible premature settlement	none	none	none	none	none	none
Price/price bracket	margin from -181 bps to +238 bps	none	premium from PLN 3,200 to 243,095	margin from -62 bps to +100 bps	margin from 0 to 440 bps	none
Possible swap for other asset/liability	none	none	none	none	none	none
Agreed rates/amounts of interest, payment dates	variable	fixed	variable	variable	variable	fixed
Additional collateral	none	none	none	none	none	none
Other conditions	none	none	none	none	none	none
Kind of risk	interest rate/FX/equity	interest rate/FX	FX	interest rate/FX	interest rate/FX	FX

* - adjustment to fair value for options

As at 31 Dec 2005

Instrument features	SWAP (IRS, Equity, Volatility, with option)	FX swaps	FX options	CCSs	Asset SWAPs	FX Forwards
Number of transaction	144	59	652	17	7	656
Fair value	-37 490 213	57 106 738	-352 417*	69 460 234	10 118 652	-11 578 651
Purpose	tradable/hedge	tradable	tradable	tradable/hedge	hedge	tradable
Nominal value	9 574 139 513	3 315 843 685	3 600 284 000	3 447 942 747	150 951 570	1 507 177 038
Future revenues/payments	variable	variable	variable	variable	variable	variable
Maturity	16-01-06 to 17-08-15	02-01-06 to 01-12-06	04-07-05 to 27-12-06	30-11-05 to 15-04-20	01-03-06 to 10-12-08	02-01-06 to 11-07-08
Possible premature settlement	none	none	none	none	none	none
Price/price bracket	margin from -181 bps to +238 bps	none	premium from PLN 3,200 to 243,095	margin from -62 bps to +100 bps	margin from 0 to 440 bps	none
Possible swap for other asset/liability	none	none	none	none	none	none
Agreed rates/amounts of interest, payment dates	variable	fixed	variable	variable	variable	fixed
Additional collateral	none	none	none	none	none	none
Other conditions	none	none	none	none	none	none
Kind of risk	interest rate/FX/equity	interest rate/FX	FX	interest rate/FX	interest rate/FX	FX

* - adjustment to fair value for options

Fair value adjustment for embedded instruments, in PLN '000:

	01.01.2005	Gains/Losses in the Profit and Loss Account	31.12.2005
Options embedded in customer deposits	-3 128	-1 162	-4 290

b) methods and material assumptions used to establish fair value of financial assets and liabilities valued at that value

Debt securities

Valuation of the portfolio of 'tradable' and 'available for sale' debt securities is made at the end of each month in accordance with the following assumptions:

Treasury bonds:
1. Variable interest bonds: accordingly valuation model based on market quotations for fixed rate bonds and value of WIBOR as at the valuation date (Nelson-Siegl-Svensson curve)
2. Fixed interest and zero coupon bonds: at best market BID price established by active market participants at 4:00 p.m. as published by Reuters;
3. Bonds for which the market price is not available are valued at amortized cost, in particular, the valuation covers purchase price adjusted for accrued interest, discount, premium.

Bonds issued by entities other than State Treasury:
Bonds for which market price is not available are valued at amortized cost, in particular, the valuation covers purchase price adjusted for accrued interest, discount, premium.
Treasury bills:
Market price is calculated based on the best yield offered by buyers and the best yield offered by sellers as established by active market participants. Yields are published by Reuters.
Foreign currency denominated securities:
Valuation is based on the price established in the active regulated market in which these securities are publicly traded and information on prices is readily available. In the absence of quotations in the regulated market, the price established by active market participants is deemed to be a market price. Prices are published by Reuters and Bloomberg. Bonds for which the market price is not available are valued at amortized cost, in particular, the valuation covers purchase price adjusted for accrued interest, discount, premium.

Derivatives are valued using the following models:

- *FX Forwards*

Forward rates used to value forwards are calculated based on the NBP's current fixing for all currencies in the table and interest rates on deposits in individual currencies with reference to their maturity (taken from Reuters screens).
As regards interest rates on deposits placed for 1 week to 9 months, LIBOR rates are used for most currencies. Interest rates on deposits denominated in DKK, NOK, SEK, and CZK are taken from Reuters screens. All interest rates on PLN deposits (from 1W to 9M) are from the WIBO screen.
For maturities over 1 year to 24 months rates from the spot curve are used (for all currencies included in the table). As a starting point, actively traded swap curves are used to calculate the spot curve. These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Rate calculations are based on a 30-day month.

- *Forward Rate Agreement*

To value FRAs the Bank uses an application running in the IBIS system. In order to calculate a discounting factor, the Bank applies rates from a spot curve. As a starting point, actively traded swap curves are used to calculate the spot curve (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modelled mathematically to obtain discounting factors. The valuation consists in calculation of the difference between the agreed interest rate and the relevant market rate for FRA from REUTERS screens applied to the underlying principal. The value so calculated is discounted using discounting factors.

- *FX SWAP*

To value FX swaps the Bank has its own application developed on the model of Bloomberg's application.
Actively traded swap curves are used as a starting point of the model (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modelled mathematically to obtain discounting factors.
In market valuation, an fx swap is treated as taking a long position in one currency and a short position in another currency. Finally, the market value of the fx swap is calculated as the summation (taking into consideration signs for long and short positions) of current values of all payments. Payments in foreign currencies are translated at the current fixing rate for discounted cash flows. For points outside the spot curve, the model applies the linear interpolation method.

- *Interest rate swap*

To value PLN interest rate swaps the Bank has its own application developed on the model of Bloomberg's application. Actively traded swap curves are used as a starting point of the model (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modelled mathematically to obtain discounting factors. Spot curves also enable to calculate variable coupons as implied forward rates, which represent a current forecast.
In market valuation, a swap is treated as taking a long position in a fixed interest bond and a short position in a variable interest security (or vice versa). Each cash flow generated by this combination (fixed coupon from the underlying contract, variable coupon based on implied forward rates) is calculated at the valuation date using appropriate discounting rates. Finally, the market value of the swap is calculated as the summation (taking into consideration signs for long and short positions) of current values of all payments. For points outside the spot curve, the model applies the linear interpolation method. Terms of cash flows are established in accordance with the contract.

- *Cross currency swap*

To value cross currency swaps the Bank uses its own application developed on the model of Bloomberg's application. Actively traded swap curves are used as a starting point of the model (for maturity below 1 year rates prevailing in the interbank market are applied). These swap curves show a fixed coupon rate for each currency in a specified period (for PLN, EUR and USD they are taken from REUTERS screens: <PLNIRS>, <EURIRS>, <USDIRS> respectively) at 11.00 a.m. Warsaw time. Based on these curves, implied spot curves are modelled mathematically to obtain discounting factors. Spot curves also enable to calculate variable coupons as implied forward rates, which represent a current forecast. In market valuation, a swap is treated as taking a long position in a fixed/variable interest bond in one currency and a short position in a fixed/variable interest bond in another currency. Each cash flow generated by this combination is discounted (fixed coupons from the underlying contract are discounted using discounting factors, variable coupons are discounted using relevant discounting factors and converted into PLN in accordance with the fixing rate of the NBP valid on the valuation date). Finally, the market value of the cross currency swap is calculated as the summation (taking into consideration signs for long and short positions) of current values of all payments.
For points outside the spot curve, the model applies the linear interpolation method for all currencies. Terms of cash flows are established in accordance with the contract.

- *Options*

Options are valued using the Garman-Kohlhagen model. A starting point of the Garman-Kohlhagen method is the option valuation model developed by Black and Scholes for shares that pay dividends on a continuous basis. One of basic assumptions of this model is that the normal distribution applies to fluctuations of price of the underlying instrument. Inferences from statistical tests do not support this assumption since tested empirical distributions are characterized by non-zero skewness and "fat tails" and, therefore, the probability of significant deviations from an expected value is higher than in case of the normal distribution. In option valuations, the market takes into account this fact on a par with a liquidity premium. The implied variation resulting from quotations is several times higher that the variation based on historical data. Hence, as the source of information on the implied variation parameter we use daily quotations of brokerage houses such as: Prebon – Marshall London, Tullet –

Tokyo London, Garban Intercapital London, JP Morgan London. We also take an opportunity to obtain data on the value of this parameter from active participants in the option market, i.e.: BRE Bank Warszawa, Bank Handlowy Warszawa, Deutsche Bank London, Royal Bank of Scotland. Interest rates for the original transaction and a reverse hedging transaction are established as follows: for PLN – mid rate (arithmetic mean of WIBID/WIBOR prevailing on the trade date), for foreign currencies – relevant LIBOR rate prevailing on the trade date. The Bank adopted the linear interpolation method to establish market transaction parameters for unusual delivery terms.

Sell Buy Back (SBB) transactions are valued at amortized cost, whereas securities being subject of those transactions are recognized in balance sheet and valued in line with rules applicable to particular securities portfolios.
Buy – sell back (BSB) transactions are valued at amortized cost whereas securities being subject of those transactions are eliminated from balance sheet.

c) value of financial instruments listed in the balance sheet and valued at fair value, as well as effects of the revaluation accounted for in the revaluation capital in the reporting period, or recognized as financial cost or income of the reporting period

Pursuant to the adopted accounting principles, the Bank values to fair value the following categories of financial instruments: financial instruments for trading, derivative hedging instruments, investments classified as available for sale (except for the part in the portfolio of municipal and corporate bonds for which there is no active market, as well as shares and stock not subject to valuation by equity method; the value of these exposures is insignificant). In consequence of the above, the value of financial instruments shown in the balance sheet is the same as the value of the above-mentioned balance sheet items (financial assets categories).

The result of the revaluation to fair value of financial assets:

- classified as *for trading* (except for derivatives) kept in the portfolio of the Bank as at December 31, 2005, has been presented above, under item 4.1
- classified as *available for sale* – has been presented above, under item 4.2.5,6

d) accounting principles adopted for financial instruments purchased in a regulated market

The Bank purchases treasury bonds also in the regulated market. Financial instruments purchased by the Bank in a regulated market are recorded using settlement date method.

e) information on interest rate risk weight

Analysis of revaluation periods of balance sheet and off-balance sheet items subject to interest rate risk.

A S S E T S (PLN '000,000)

	revaluated within							**Total**
	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	
Interbank deposits placed	880.50	65.37	866.45	209.72	98.26	180.44	0.00	**2 300.75**
Loans granted to financial and non-financial entities	9 025.72	0.00	0.00	607.76	0.00	0.00	0.00	**9 633.48**
Securities (from buy and sell transactions)	1 233.10	1 291.00	211.45	943.90	473.21	139.78	116.68	**4 409.11**
Interest rate swaps	1 600.90	3 790.99	3 732.40	4 299.73	2 823.48	299.44	0.00	**16 546.93**
FRAs	0.00	1 937.59	742.08	880.37	0.00	0.00	0.00	**3 560.04**
Other assets at interest rate risk	10 980.08	5 655.93	1 947.04	3 011.15	928.01	1 746.73	20.53	**24 289.47**
Other assets	198.31	0.00	0.00	2 644.69	0.00	0.00	0.00	**2 842.99**
Total assets	**23 918.61**	**12 740.87**	**7 499.42**	**12 597.31**	**4 322.96**	**2 366.40**	**137.21**	**63 582.77**

L I A B I L I T I E S (PLN '000,000)

	revaluated within							**Total**
	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	
Interbank deposits accepted	479.51	191.71	0.00	132.57	0.00	0.00	0.00	**803.80**
Deposits accepted from clients	7 756.68	3 796.02	849.89	1 406.09	202.86	0.00	0.00	**14 011.55**
Debt securities issued	0.00	0.00	313.04	8.97	0.00	0.00	0.00	**322.00**
Interest rate swaps	2 094.65	5 097.43	2 831.23	3 048.18	2 250.09	1 251.81	25.13	**16 598.52**
FRAs	0.00	644.90	2 229.09	685.31	0.00	0.00	0.00	**3 559.31**
Other liabilities at interest rate risk	12 401.10	7 133.09	1 795.51	1 569.64	419.11	987.79	105.21	**24 411.44**
Other liabilities	0.00	237.96	0.00	3 638.20	0.00	0.00	0.00	**3 876.15**
Total liabilities	22 731.95	17 101.11	8 018.76	10 488.95	2 872.06	2 239.61	130.34	**63 582.77**

Mismatch in revaluation periods	**1 186.66**	**-4 360.24**	**-519.35**	**2 108.36**	**1 450.90**	**126.79**	**6.87**	**0.00**

f) information on credit risk weight

Classes of financial assets and liabilities	Amount
I. ASSETS WITH 0% RISK WEIGHT	
Cash and cash equivalents	297 842
Accrued interest disclosed in restricted income	123 920
Amounts due from class I entities	588 521
Amounts due from class II and class III entities, collateralized part	572 177
Debt securities issued by class I entities	4 645 800
Debt securities issued by class II and class III entities, part underwritten by class I entities	0
Assets on valuation of off-balance sheet liabilities	529 296
Assets decreasing assets (including assets of brokerage houses from the Bank organizational structures)	917 941
II. ASSETS WITH 20% RISK WEIGHT	
Amounts due from class II entities, part not subject to 0% risk weight	2 712 829
Amounts due from class III entities, collateralized part	273 590
Debt securities issued by class II entities	225 298
III. ASSETS WITH 50% RISK WEIGHT	
Amounts due from class III entities, part collateralized with mortgage on inhabited or leased real estate	1 677 834
Other on-balance sheet settlement accounts	187 987
IV. ASSETS WITH 100% RISK WEIGHT	
Amounts due not subject to lower risk weights	6 660 444
Securities, shares and other equity of other entities not subject to lower risk weights	193 921
Fixed assets	481 198
Intangible assets not decreasing equity of the Bank	0
Other assets not decreasing equity of the Bank	759
Contractor risk 0%	
1. Product risk weight 0% (low risk)	
unused loan commitments with original maturity up to 1 year or with the unconditional termination clause	857
2. Product risk weight 100% (full risk)	
guarantees granted regarded as loan substitute	987
Contractor risk 20%	
1. Product risk weight 0% (low risk)	
unused loan commitments with original maturity up to 1 year or with the unconditional termination clause	295 776
2. Product risk weight 50% (medium risk)	
documentary letters of credit opened and confirmed	1 042 736
unused loan commitments with original maturity over 1 year	1 000
3. Product risk weight 100% (full risk)	
guarantees granted regarded as loan substitute	69 155
4. Forwards and options	16 355 876
Contractor risk 50%	
1. Forwards and options	1 747 270

Contractor risk 100%	
1. Product risk weight 0% (low risk)	
unused loan commitments with original maturity up to 1 year or with the unconditional termination clause	2 993 835
2. Product risk weight 50% (medium risk)	
documentary letters of credit opened and confirmed	32 967
unused loan commitments with original maturity over 1 year	100 000
3. Product risk weight 100% (full risk)	
guarantees granted regarded as loan substitute	701 123

Assets included in the tradable portfolio of the Bank	2 992 440
Off-balance sheet liabilities included in the tradable portfolio	8 181 822

4.2.2. Tradable or available for sale financial assets valued at amortized cost if their fair value could not be reliably obtained

Securities not valued at fair value are issued by non-financial entities. These securities are traded neither in a regulated market nor in the interbank marked and, therefore, the Bank could not reasonably establish their fair value including prevailing margin for credit risk.
In addition, the Bank does not value at fair value NBP bonds issued in connection with the reduction of a mandatory reserve (lack of reliable quotations).

4.2.3. Financial assets and liabilities not valued at fair value

The Bank values all tradable and available for sale portfolio assets as well as the tradable portfolio financial liabilities at their fair value, with the exception of assets presented in item 4.2.2.

4.2.4. Agreements under which financial assets are converted into securities or repurchase agreements

As at December 31, 2005, the Bank did not record any agreements under which financial assets are converted into securities or repo agreements. However, the Bank is involved in transactions of selling securities with buy back clause (SBB) which are presented in point 4.1.

4.2.5, 6. Effects of valuation of financial assets available for sale at fair value, and on cost and income related to these assets that were removed from the balance sheet

Valuation of financial assets available for sale to the fair value (data for the Bank, without tax effect):

Debt securities in PLN '000	Fair value at the beginning of the period *	Change in fair value of portfolio of securities held at the beginning and at the end of the period**	Transfer from revaluation reserve to the Income Statement due to sale of securities purchased within the period	Transfer from revaluation reserve to the Income Statement due to sale	Charge-offs of valuation from equity due to securities maturity	Period-end fair value of debt securities purchased during the period	Fair value of debt securities at the end of the period ***
available for sale	33 728	11 955	28 159	9 495	2 323	1 757	35 622

* - the amount of PLN 33,728 thousand is composed of valuation of securities available for sale at PLN 25,806 thousand accounted for in the capital, and the amount of PLN 7,922 thousand from the valuation of securities available for sale, subject to hedge,
** - the amount includes the change in the value of available for sale securities subject to fair value hedge that was accounted for in the income statement,
*** - the amount of PLN 35,622 thousand includes the value of securities available for sale amounting to PLN 28,281 thousand, accounted for in equity, and the amount of PLN 5,477 thousand from the valuation of securities constituting a pledge, accounted for in equity, and also the amount of PLN 1,527 thousand in respect of the valueation of securities available for sale constituting a pledge that was accounted for in the income statement. Additionally, revaluation reserve (opening balance) covers valuation of securities available for sale constituting a pledge, amounting to PLN 338 thousand.

4.2.7. Information on revenues and expenses in respect of those financial assets sold that could not be previously valued at fair value, including the balance sheet value of assets as of the date of sale

As at December 31, 2005, no such item was recorded.

4.2.8. In case of financial assets valued at fair value reclassified to assets valued at adjusted purchase price, provide the reasons of adopting the new valuation method

As at December 31, 2005, no such item was recorded.

4.2.9. Information on revaluation charges in respect of permanent diminution in value of financial assets

As at December 31, 2005, the Bank did not maintain any provision for permanent diminution in value of debt securities.

4.2.10. Interest accrued on debt securities

in PLN '000

	up to 3 months	3 to 12 months	over 12 months
securities available for sale	2 761	1 327	130 942
tradable securities	600	5 378	39 398
securities held to maturity	0	0	0

4.2.11. Suspended interest

Information on suspended interest is disclosed in Note 26 to the Balance Sheet ("Other deferred income and restricted income)").

4.2.12. Interest accrued on own debt financial instruments issued (PLN '000)

Liability category	up to 3 months	3 to 12 months	over 12 months
Liabilities on debt securities issued	0	842	0

4.2.13. Nominal value of underlying instruments subject to derivative contracts

Information is disclosed in Section 4.1.

4.2.14. Risk management goals and principles

Exposure to risk is inalienably connected with activity on financial markets and constitutes a fundamental factor affecting behaviour of market players, especially financial institutions. Major part of financial decisions is taken with consideration of the risk thus generated. Measuring, analyzing, controlling, and managing risk requires application of a vast array of methods and advanced mathematic tools. With this in mind the Bank formulated and implemented a risk management policy as well as a strategy to support its implementation.

The banking risks management policies are aimed at comprehensive quantification and parameterization of various types of risk in order to optimize the structure of the balance sheet and off-

balance items at the Bank, taking into account the planned profitability level of the conducted business. Main areas of the analyses include: credit risk, market risk, liquidity risk, and operating risk.
The Management Board of the Bank is responsible for defining and monitoring risk management policy on the strategic level. On the operational level management of individual banking risk areas, their ongoing control and setting of current policy directions within the framework defined by the Management Board, is the responsibility of three high-level committees: Capital, Assets and Liabilities Committee, Credit Committee and Operational Risk Committee.
All types of risk are monitored and controlled with respect to profitability of the pursued activity and to the level of capital essential to ensure security of operations from the point of view of capital requirements.
Risk measurement results are regularly reported in management information.

As at the end of December 2005 the level of own capitals of the Bank were PLN 2,346 million, with the solvency ratio at 10.67%

CREDIT RISK

Credit risk represent the uncertainty that a client would perform for their agreements with the Bank regarding the financing provided, i.e. repayment of the principal and interest within the defined time schedule.

As part of its credit risk management efforts, the Bank continued its works aimed at strengthening its market position through creation of optimum environment for credit activity, including sale of factoring and leasing products, while maintaining a satisfactory credit risk level and portfolio quality. Another goal of the Bank's credit policy was to improve the pace and quality of customer service through efficient application of human resources, their specialization, and ever more advanced e-tools.

In execution of the above assumptions, the Bank continued its works initiated in 2004, inter alia in the following areas:

- management of the exposure concentration risk, designed to ensure appropriate quality of assets resulting from credit risk-bearing transactions, and their satisfying profitability,
- monitoring and recovering receivables on natural persons and business entities,
- further development of services for individuals, or – in case of entrepreneurs – factoring services delivered by the Bank.

The new undertakings of the Bank, launched in 2005, include in particular the following:

- modification of the system for managing collaterals given in favour of the Bank; its main task will be to streamline the collateral monitoring activity,
- new system supporting making decisions and signing loan agreements for customers – natural persons,
- introduction of new solutions in creditworthiness assessment for individuals,

- introduction of modified rules for creditworthiness assessment for products granted under mortgage banking.

An important component of credit risk assessment in the Bank are scoring and rating models supporting the analysis processes both for individual and economic customers. The models have been subject to regular revision as to their customer risk class segmentation capacity. Therefore 2005 saw modification of risk assessment models applied to natural persons – both the model used for customer's history and the one used while considering new customers' applications.

The above models, as well as the aforementioned system supporting making decisions and signing loan agreements, have made a strong contribution to improvement the quality and pace of individual customers service. Also for corporate customers the existing system has been modified and improved, thus boosting the efficiency of the entire credit process. Additionally, in line with the practice in place, training has been provided for employees – mainly internally – in the areas of customers service, understanding legal regulations, and assessing economic and financial standing of customers.

As regards credit risk-bearing transactions, the Bank cooperated with customers of all segments. The key tool in cooperation with corporate customers was the internal credit limit. In 2005 its assumptions were modified so that the instrument could become even more flexible and more satisfying for customers' needs, maintaining at the same time appropriate risk levels. Preferred customers are those with a current account with the Bank through which they channel their cash flows, and those with assets at the Bank. By this, independently to thorough checking in defaulters databases, the Bank intends to get to know its customers through learning their accounts history.
For the Bank the policy regarding collaterals accepted for repayment of credit risk-bearing transactions is a matter of a major weight. On every instance the Bank negotiates collaterals with customers, always preferring the collaterals that are material and offer better changes for the Bank to satisfy its claims should the customer face problems in servicing their liabilities. The collaterals the Bank shall require are adequate to the assessed credit risk level, meaning that in some cases, seeing the need to diversify the risk, the Bank would accept collaterals of various nature, while in others, where the economic and financial standing of a certain customer is exceptionally good, the Bank finds it to be a satisfactory collateral in itself.

MARKET RISK

Market risk is connected with the uncertainty that interest rates, FX rates and prices of securities as well as derivative financial instruments held by the Bank will take values deviating from the ones originally assumed, which will consequently result in appearance of uncontrolled gains or losses on kept positions.

In 2005 the Bank continued to develop its market risk control system to both adjust it to requirements of the changing profile of the Bank's financial activity, resulting i.a. from greater diversification and growing trading of financial instruments, take on board detailed risk control rules required by legal regulations as well as adjusting measurement tools to new methodological achievements and greater power of technology.

The main methods used for daily management of market risk in the Bank include the Value at Risk method (VaR) and methods recommended by NBP. The Value at Risk method is applied to the trading and banking portfolios, comprising all financial instruments both in the balance sheet as well as off-balance.

To complement the Value at Risk method the Bank is doing backtesting and develops tools for measurement of market risk of trading portfolios with use of scenario methods. These methods are particularly useful from the point of view of extraordinary events, which the VaR method is unable to anticipate.

Parallel to changes concerning organization and methodology of controlling market risk the Bank continued to introduce technological changes concerning IT solutions supporting risk management. The Bank on the basis of the new Kondor+ transaction system used to handle transactions concluded in the Treasury department, uses the InVaR IT tool built by the strategic investor (BCP ALM Division) together with the Reuters agency on the basis of RiskMetrics methodology (JP Morgan). From the point of view of risk control the new transaction system has very important features: it ensures access to an integrated and complete transactional database, it permits management of all positions and control of utilization of limits in real time as well as enabling daily calculation of the result on all operational levels.

Interest rate risk

In the area of interest arte risk the Bank applies the principle of maximizing market value of capital when generating the assumed net interest income within adopted risk limits.

The expectation of interest rates reduction, and the political risk related to the autumn elections were the reasons behind a prudential exposure to the risk. On the last day of December 2005, the Bank's exposure on account of interest rate risk (VaR) was approx. PLN 15.1 million (approx. PLN 27.6 million on average in the year) with a valid global limit for market risk of PLN 48.2 million.

Supplementing measurement of Value at Risk (VaR) the Bank also estimates hypothetical changes of financial result (EaR) caused by changes of market interest rates.

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 and external limits, defined in the Bank's case by Banking Law requirements.

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

Risk connected with derivative instruments

All transactions, the object of which are financial derivative instruments, are concluded either to hedge open balance sheet positions, or for trading purposes within defined internal limits. The key derivative instruments, which the Bank uses management of both interest rate risk and FX risk as well as for trading purposes are contracts such as FX Forward, Forward Rate Agreement, Interest Rate Swap, FX Swap, Cross Currency Swap and FX options.

LIQUIDITY RISK

As an overriding aim of liquidity risk management the Bank adopted such management of funds so that considering negative scenarios of change of the environment it remains possible to satisfy on time all contractual obligations of the Bank to customers. Liquidity risk would also arise if the Bank were to have problems with raising funds to finance its operational activity or was unable to liquidate its trading assets in a relatively short period of time, maintaining market prices. This is why the liquidity reserve is the portfolio of Treasury securities with highest secondary market liquidity.

The Bank manages liquidity risk on a daily basis, applying then method of net liquid assets (liquidity gap). To ensure the proper level of current liquidity the Bank maintains mandatory deposits on the level consistent with NBP requirements, funds on nostro accounts essential to execute non-cash settlements, optimum cash in the Bank's treasuries, liquidity margin 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 ratio of structural liquidity, presenting total real mature assets to total real liabilities. The safe level of this ratio adopted by the Bank in the bracket of up to 3 months is 100%. The level of liquid assets is also limited (at 20%), defining the share liquid assets have in the Bank's balance sheet total; at the end of 2005 it stood at 42.3%. Limited spot liquidity ratios (balance of receivables and liabilities on the money market plus securities available for immediate sale) and quarterly (lowest balance of receivables and liabilities on the money market accumulated during the quarter plus securities available for immediate sale on the date of this balance) were well above the adopted minimum values.

For purposes of current liquidity a portfolio is maintained of blocked securities in an amount ensuring execution of short-term payables. Moreover the concentration is monitored of liabilities to the largest customers as well as the evolution of the structure of assets and liabilities (both in the balance sheet as well as off-balance) of the Bank, which permits early identification of trends that are bad for liquidity. To supplement the above regular examination is made of stability of the deposits base, of premature termination of deposits and the scale of unauthorized overdrafts and use of open credit lines. In order to mitigate the liquidity risk on the most unstable part of financing sources, an additional limit was introduced for the minimum value of the combined portfolios of liquid securities and short-term interbank deposits.

The Bank has procedures for action in case of a situation threatening with material increase of liquidity risk – a so-called contingency plan in case of deterioration of the Bank's financial liquidity.

OPERATING RISK

Bank Millennium S.A. defines operating risk as a risk of a loss arising in result of inadequate or unreliable internal actions and processes, human activities, systems, or in effect of impact of external factors. The operating risk is immanently related with every type of undertaken activity, and its existence is not limited to just certain areas of an institution's operations. Therefore numerous events bearing features of other risks (like credit or market risk) contain also features of the operating risk. The above definition does not cover system risk, strategic risk, and reputation risk; it however contains the legal risk. Operating risk components, like internal actions and processes, human factor, external systems and events, can be of influence onto the efficiency and effectiveness of the Bank's efforts, the quality of generated financial and managerial information, and the compliance of the institution's actions with binding provisions external regulations.

In 2005 the Bank continued work connected with improving the system of identification, assessment, monitoring and securing operational risk, so that the process could be as complete and homogenous as possible. The Bank fully coordinates any efforts undertaken within the Millennium BCP Group, and uses the experience of its strategic shareholder. Present actions are conducted under the Basel II project – implementation of the New Capital Accord. Also, acting as part of the Millennium BCP Group, the plan has been developed to implement tools as scheduled by the New Capital Accord. The tools include self-assessment or key risk factors, that shall be based on the common IT platform of the Group. More, the Bank registers and analyzes any operating risk events that occur.

The Bank's operating risk initiatives are coordinated by the Operating Risk Committee. The Committee's efforts identified areas of crucial significance for operating risk mitigation. The areas are obligated to report regularly to the Committee, as required by the adopted standards. Moreover, the Committee rolls out initiatives related to best possible operating risk management, such as preparation of operating risk maps or contingency plans.

4.2.15. Hedging instruments, including breakdown into fair value hedging, cash flows hedging, and hedging of investment in a foreign entity:

Hedging instruments (PLN '000):

	Hedging of							
	fair value as of 31.12.2005	fair value as of 31.12.2004	cash flows as of 31.12.2005	cash flows as of 31.12.2004	shares in net assets of foreign entities as of 31.12.2005	shares in net assets of foreign entities as of 31.12.2004	TOTAL as of 31.12.2005	TOTAL as of 31.12.2004
FX risk and interest rate risk	**313 065**	**390 344**					**313 065**	**390 344**
Interest rate risk	**0**	**163 160**					**0**	**163 160**
FX risk	**162 974**	**256 795**					**162 974**	**256 795**
TOTAL	**476 039**	**810 299**	**0**	**0**	**0**	**0**	**476 039**	**810 299**

As at December 31, 2005, the Bank reported the following CCIRS hedging transactions:

- treated as the hedging of fair value of fixed-rate Eurobonds - the hedging consists in converting a fixed interest rate into a floating interest rate, and a nominal value in a foreign currency into PLN. The valuation of CCIRS hedging transactions and the underlying Eurobonds is disclosed in the income statement;
- treated as the hedging of fair value of future payments denominated in foreign currency - they hedge changes in fair value of fx payments in respect of fx risk (revaluation of items to the NBP's fixing rate). The valuation of CCIRS hedging transactions and changes in fair value of fx payments on account of fx risk are presented in the income statement.

Adjustment to fair value of hedging instruments (PLN '000):

	31.12.2004	31.12.2005
- interest rate transactions	-2 534	0
- FX and interest rate transactions	-4 350	662
- FX transactions	-28 157	-17 412
TOTAL	**-35 041**	**-16 750**

4.2.16. Hedging of planned transactions or probable future liabilities

As at December 31, 2005, the Bank hedged future FX payments resulting from concluded contracts. This hedging is discussed in item 4.2.15.

4.2.17. Hedging of cash flows

As at December 31, 2005, the Bank had no hedging instruments for cash flows.

5. OPTIONS FOR SUBSCRIPTION OR SALE OF ORDINARY SHARES

From January 1, 2005 to December 31, 2005, the Bank signed no contract for options for subscription or sale of ordinary shares.

6. ASSETS USED AS SECURITY OF LIABILITIES

As at December 31, 2005, the following assets of the Bank were used as security of liabilities:

in PLN '000

No.	Type of asset	Secured liability	Asset nominal value	Asset balance sheet value
1.	Treasury bonds DZ0109	Pledge for NBP – collateralizing NBP's aid for the Bank	54 825	60 412
2.	Treasury bonds DZ0109	Lombard loan granted to the Bank by NBP	75 000	82 643
3.	Treasury bonds DZ0110	Lombard loan granted to the Bank by NBP	120 000	133 188
4.	Treasury bonds DZ1006	Initial deposit securing forward transactions on bonds	420	427
5.	Treasury bills	Security of the Guaranteed Funds Protection Fund under the Banking Guarantee Fund	35 000	34 575
6.	Money funds	Contribution towards Forward Settlements Guarantees Fund	70	70

In addition, as at December 31, 2005, the following securities were subject to SBB transactions:

In PLN '000

Type of security	Nominal value	Balance sheet value
Treasury bonds	3 341 336	3 437 196
T-bills	31 390	30 144

7. SELL-BUY-BACK TRANSACTIONS NOT INCLUDED IN THE BALANCE SHEET

Data on sell-buy-back transactions concluded by the Bank has been presented in the balance sheet of the Bank.

8. FINANCIAL OBLIGATIONS EXTENDED, INCLUDING IRREVOCABLE OBLIGATIONS EXTENDED

Data on unused credit lines has been presented in Additional Notes to these financial statements concerning off-balance items.

9. DATA ON THE OFF-BALANCE SHEET ITEMS, IN PARTICULAR ON CONTINGENT LIABILITIES

As at December 31, 2005, net contingent liabilities amounted to PLN 5 171 417 thousand, of which:

- guarantees and sureties granted and underwriting of issues of securities PLN 772 265 thousand,
- financing commitments PLN 4 399 152 thousand.

As at December 31, 2004, net contingent liabilities amounted to PLN 3 422 724 thousand, of which:

- guarantees and sureties granted and underwriting of issues of securities PLN 448 490 thousand,
- financing commitments PLN 2 974 234 thousand.

As at December 31, 2005, the total number of guarantees and sureties issued (including bills of exchange and other guarantee type liabilities) was 1 834 pcs. valued as presented below:

Customer - sector	Expiry				TOTAL
	Up to 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	
- Financial	43 162	29 293	14 281	498	**87 234**
- Non-financial	36 944	274 762	296 686	32 934	**641 325**
- Public	355	6 741	26 821	4 193	**38 111**
- Individuals	891	5 106	11 684	118	**17 799**
TOTAL GROSS	**81 352**	**315 902**	**349 472**	**37 743**	**784 468**
				PROVISION	**-13 203**
				TOTAL NET	**771 265**

Total value of contingent liabilities in respect of underwriting arrangements for issues of securities, pending as at December 31, 2005, was PLN 1,000 thousand, as shown in the table below:

Entity	Type of security - bonds	Expiration	Liability as at 31 Dec 2005 (PLN '000)	Affiliation to the Bank	Marketability / presence on regulated market*
Entity no. 1	coupon	31-12-2014	1 000	-	secondary market
TOTAL	X	X	**1 000**	X	X

* - This guarantee does not apply to securities to be traded publicly

As at 31 Dec 2005 the Bank held the following contingent liabilities towards the linked entities:

	subject to equity method		other consolidated
	consolidated	other	
guarantees and sureties granted	37 066	-	-
financial commitments (including open credit lines)	42 059	-	-
guarantees and sureties received	69 488	-	-

Description of guarantees, sureties, and avals (other than guarantees of repayment of loans from the European Fund for Development of Polish Rural Areas) issued by Bank Millennium SA between 1 Jan 2005 and 31 Dec 2005:

Between 1 Jan 2005 and 31 Dec 2005, 1872 guarantees, sureties, and avals were issued in the Capital Group of Bank Millennium SA., totalling PLN 1,499,731 thousand.

At 31 Dec 2005, the amount of the liabilities was PLN 752,259 thousand (1614 active guarantees), showing their increase by PLN 328,752 thousand, or 77.63%, as compared to 31 Dec 2004.

As compared to the end of the previous year, the value of the guarantees, sureties, and avals extended in PLN increased by PLN 284,147 thousand, or 102.20%, while the value of those extended in foreign currencies increased by PLN 44,605, or 30.66%.

Below presented are liabilities under guarantees, sureties, and avals, broken down into those extended in PLN and in other currencies:

	31 Dec 2004	31 Dec 2005
Liabilities in PLN (in PLN thousands):	278 034	562 181
Liabilities in other currencies (equivalent in PLN thousands):	145 473	190 078
TOTAL:	423 507	752 259

The structure of liabilities, broken down by type, as at 31 Dec 2005 has been presented below:

Type of liability	Pcs.	Amount in PLN '000
Avals	1	1 050
Guarantees	1 566	712 714
Sureties	3	7 211
Reguarantees	44	31 284
TOTAL	1 614	752 259

The structure of liabilities, broken down by the collateralized item, as at 31 Dec 2005 has been presented below:

Collateralized item	Pcs.	Percentage share	Amount in PLN '000
Good performance bond	848	52.54%	248 374
Lease fee payment	231	14.31%	21 993
Bid	226	14.00%	50 196
Commercial payments	150	9.29%	115 003
Other	76	4.71%	69 414
Advance return	40	2.48%	78 036
Customs	27	1.67%	149 678
Loan or borrowing repayment	16	0.99%	19 565
Total	1614	100%	752 259

Structure of liabilities from guarantees as at 31 Dec 2005 has been presented below:

Client - sector	Amount in PLN '000
- financial sector	87.2
- non-financial sector (companies)	641.2
- public sector	6.0
- Individuals	17.8
TOTAL	752.3

10. DIVIDEND PAYMENT INFORMATION

The Management Board of the Bank, upon approval of the Supervisory Board, shall present the General Shareholders Meeting an appropriate motion regarding payment of dividend from the 2005 profits totalling PLN 458.6 m, or PLN 0.54 per share.

11. LIABILITIES TO STATE BUDGET OR LOCAL SELF-GOVERNMENT AUTHORITIES IN RESPECT OF RECEIVING AN OWNERSHIP TITLE TO BUILDINGS AND OBJECTS

As at December 31, 2005, the Bank had no such liabilities.

12. REVENUE, COSTS AND RESULTS ON DISCONTINUED BUSINESS IN THE GIVEN PERIOD OR INTENDED TO BE DISCONTINUED IN THE NEXT PERIOD, INCLUDING THE REASONS

From January 1 to December 31, 2005, the Bank did not discontinue any business and does not intend to discontinue any business.

13. COST OF FIXED ASSETS UNDER CONSTRUCTION AND FIXED ASSETS FOR OWN USE

Fixed assets under construction of Bank Millennium S.A. increased by PLN 16,320 thousand from January 1 to December 31, 2005.

14. CAPITAL EXPENDITURE INCURRED AND PLANNED FOR THE NEXT 12 MONTHS FROM THE BALANCE SHEET DATE

From January 1, to December 31, 2005, the Bank incurred capital expenditure of PLN 33.1 million.

The capital expenditure plan for the period between January 1, 2006 and December 31, 2006, comprising investments implemented by Bank Millennium S.A. - totals 119 million PLN (and this includes the outlays related to the process of restructuring described in a greater detail in item 29).

From January 1 to December 31, 2004, the Bank incurred capital expenditures of PLN 19.1 million (including purchases of fixed and intangible assets from FORIN Sp. z o.o. for PLN 1.7 million).

Planned capital expenditures from January 1, 2005 to December 31, 2005 amounted to PLN 47.9 million.

15. ISSUER'S TRANSACTIONS WITH RELATED PARTIES

Significant transactions of the Bank with consolidated subsidiaries (PLN '000):

ASSETS

	31.12.2005	**31.12.2004**
Amounts due, of which:	**1 043 803**	**1 417 507**
from BEL Leasing Sp. z o.o.	44 597	37 870
from FORIN Sp. z o.o.	224 818	235 526
from Millennium DOM Maklerski S.A.	22 275	22 287
from PROLIM S.A.	-	74 899
receivables purchased from BEL Leasing Sp. z o.o.	752 113	1 030 802
Shares in companies subject to equity method	**845 367**	**1 657 163**
BEL Leasing Sp. z o.o.	768 046	250 207
Millennium DOM Maklerski S.A.	70 864	45 484
Forin Sp. z o.o.	0	0
BIG BG Inwestycje S.A.	-	1 355 077
TBM Sp. z o.o.	1 756	1 427
BBG FINANCE B.V.	4 701	4 968
BESTA Sp. z o.o.	0	0
Debt securities, of which:	**8 091**	**-**
elimination of debt securities issued by companies of the Group and held by the Bank	8 091	-
Amounts due in respect of securities purchased with a sell-back clause	**20 028**	**-**
BSB transactions with BEL Leasing Sp. z o.o.	20 028	-
Other assets, of which:	**32 411**	**33 483**

additional capital for FORIN Sp. z o.o.	20 025	20 025
amounts due from BEL Leasing Sp. z o.o.	12 283	13 307

LIABILITIES

	31.12.2005	31.12.2004
Amounts payable, of which:	**345 553**	**1 612 204**
to BEL Leasing Sp. z o.o.	30 601	27 832
to Millennium DOM Maklerski S.A.	261 774	319 516
to TBM Sp. z o.o.	5 680	5 713
to TFI Millennium S.A.	21 077	11 763
to BIG BG Inwestycje S.A.	-	1 209 575
to FORIN Sp. z o.o.	26 421	37 593
Liabilities in respect of securities sold with a buy-back clause	**411 078**	**40 714**
to Millennium DOM Maklerski S.A. in respect of SBB transaction	52 237	40 714
to Millennium BEL Leasing Sp. z o.o. in respect of SBB transaction	358 841	-
Special funds and other liabilities, of which:	**1 611**	**4 718**
liability of the Bank due to PROLIM S.A.	-	3 106
liability of the Bank due to FORIN Sp. z o.o.	183	-

PROFIT AND LOSS ACCOUNT

	1.01 – 31.12.2005	1.01 – 31.12.2004
Income		
interest income, of which:	**119 507**	**53 910**
received from BEL Leasing Sp. z o.o., of which, inter alia:	37 441	38 641
- discount on purchased leasing receivables	30 616	34 858
- interest on BSB transactions	3 928	-
Interest received on loans for former Prolim S.A.	62 761	182
Discount on purchased leasing receivables of former Prolim S.A.	5 223	299
received from FORIN Sp. z o.o.	12 918	13 493
received from Millennium DOM Maklerski S.A.	1 164	1 295
Commissions, of which, inter alia:	**10 116**	**4 820**
received from BEL Leasing Sp. z o.o.	2 149	947
received from TFI Millennium S.A.	7 706	3 148
received from Millennium DOM Maklerski S.A.	255	718
Other operating income, of which inter alia:	**19 151**	**37 070**
Remuneration for consulting service delivered by external provided, related to negotiations and other efforts regarding the sale of the PZU SA shares	14 000	32 000
received from BEL Leasing Sp. z o.o.	2 195	2 136
received from Millennium DOM Maklerski S.A.	2 051	2 100
received from FORIN Sp. z o.o.	470	595

Expenses		
interest expense, of which:	**82 567**	**22 935**
Incurred in favour of BEL Leasing Sp. z o.o., of which, inter alia:	60 311	3 917
- interest on BSB transactions	58 467	-
Incurred in favour of Millennium DOM Maklerski S.A.	19 650	15 041
Incurred in favour of TBM Sp. z o.o.	239	251
Incurred in favour of BIG BG Inwestycje S.A.	-	1 661
Incurred in favour of FORIN Sp. z o.o.	1 726	2 018
Incurred in favour of TFI Millennium S.A.	641	46
Commissions, of which:	**1 450**	**1 674**
Incurred in favour of FORIN Sp. z o.o.	249	1 648
Incurred in favour of Millennium DOM Maklerski S.A.	1 201	26
Bank's activity, of which, inter alia:	**1 894**	**2 402**
Incurred in favour of BEL Leasing Sp. z o.o.	1 399	1 535
Incurred in favour of FORIN Sp. z o.o.	490	865

Subordinated loan granted to MILLENNIUM DOM MAKLERSKI S.A.

The Bank continues the agreement of subordinated loan taken over on April 21, 1998 and granted by the former Bank Gdański S.A. to MILLENNIUM DOM MAKLERSKI S.A. on April 29, 1997 for PLN 20,250 thousand until May 1, 2007 (extended on the expiration date of the previous agreement, i.e. May 1, 2002).

In addition, on September 18, 2003, the Bank granted MILLENNIUM DOM MAKLERSKI S.A. a further subordinated loan of PLN 2,000 thousand until September 18, 2008.

Transactions with related companies holding shares in the Bank (as at December 31, 2005, data in PLN '000):

Assets of the Bank

Entity	Amounts due from financial sector	Short-term financial assets (valuation of derivatives)	Total
BCP	12 954	2 226	15 180

Liabilities of the Bank

Entity	Amounts due to financial sector	Short-term financial liabilities (valuation of derivatives)	Total
BCP	12 432	17 566	29 998

Profit and Loss Account of the Bank

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

Off-balance items

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

Transactions with related companies holding shares in the Bank (as of December 31, 2004, data in PLN '000):

Assets of the Bank

Entity	Amounts due from financial sector	Short-term financial assets (valuation of derivatives)	Total
BCP	58 762	0	58 762

Liabilities of the Bank

Entity	Amounts due to financial sector	Short-term financial liabilities (valuation of derivatives)	Total
BCP	0	54 352	54 352

Profit and Loss Account

Entity	Interest income	Interest expense	Income on financial operations	Costs of financial operations	Total profit/loss
BCP	92 749	-62 872	13 358	-28 477	14 758

Off-balance items

Entity	IR Swaps	FX swaps	Equity swaps	Total
BCP	1 163 160	297 849	12 000	1 473 009

16. JOINT VENTURES THAT ARE NOT SUBJECT TO CONSOLIDATION

Bank Millennium S.A. is not engaged in any such joint ventures.

17. INCOME AND COST OF THE BANK'S BROKERAGE OPERATIONS

Bank Millennium S.A. does not carry out brokerage activities.

18. WRITE-OFFS OF UNCOLLECTIBLE RECEIVABLES

	1 Jan 2005 – 31 Dec 2005	1 Jan 2004 – 31 Dec 2004
Write-offs of uncollectible receivables	91 331	535 191
- charged to the provisions established	91 331	535 191
- charged to other operational costs	0	0
Amounts recovered in respect of uncollectible receivables	38 580	53 812

19. COSTS RELATED TO PROVISIONING AGAINST FUTURE LIABILITIES TOWARDS EMPLOYEES

As at December 31, 2005, the total amount of provisions charged to costs was PLN 16,458 thousand. (The amount is not related to remunerations of Management Board Members, presented in item 24). The following provisions have been created for the following items:

- bonuses,
- retirement severance pays;
- remuneration for 12/2005.

20. COSTS INCURRED TO FINANCE EMPLOYEE PENSION PROGRAMS

Bank Millennium S.A. does not finance any employee pension programs.

21. INFORMATION ON CUSTODY OPERATIONS

As at December 31, 2005, the Custody Department maintained 2,119 securities accounts on which customers deposited securities for the total value of PLN 21.9 billion. The Custody Department serves as a depositary bank and a transfer agent for 16 investment funds from the whole group managed by Millennium TFI SA. In 2005, the Custody Department attracted 33 new corporate customers and the assets totalling PLN 3.4 billion. As at December 31, 2005, net profits on custody operations amounted to PLN 3.2 million.

In an international ranking for the best bank with custody offer in 2005, published by the *Global Custodian Magazine* quarterly, Bank Millennium SA was awarded top score in Poland, thus securing the prestigious status of ‘Top Rated’ second time in a row, in both categories: serving international as well as domestic clients.

22. SECURITIZATION OF ASSETS

In the reporting period the Bank did not acquire any securities as a result of securitization of assets.

23. AVERAGE EMPLOYMENT, BROKEN DOWN BY PROFESSIONAL GROUP

From January 1 to December 31, 2005, average employment in the Bank was as follows (FTEs):

Bank Millennium S.A. in total	3 980
of which:	
- Management	127
- Others	3 853

24. TOTAL VALUE OF SALARIES AND REWARDS (IN CASH AND IN KIND) PAID OR DUE TO THE ISSUER’S MANAGERS AND SUPERVISORS

DATA FOR THE PERIOD BETWEEN 01.01.2005 AND 31.12.2005:

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 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 I-XII/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 Dimitrios Contominas	61.9	-	61.9	*from IV/2005*
11.	Mr Paulo Teixeira Pinto	61.9	-	61.9	*from IV/2005*
12.	Mr Vasco Maria Guimares Jose de Mello	61.9	-	61.9	*from IV/2005*
13.	Mr Gijsbert Johannes Swalef	21.4	-	21.4	*to III/2005*
	TOTAL	1 777.7	124.8	1 902.5	

DATA FOR THE PERIOD 01.01.2004 – 31.12.2004:

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

No	Name and surname	Compensation	Benefits	TOTAL	Comments
1.	Mr Bogusław Kott	2 100.0	-	2 100.0	
2.	Mr Luis Coutinho	1 373.4	444.7	1 818.1	
3.	Mr Fernando Bicho	1 155.0	206.6	1 361.6	
4.	Mrs Julianna Boniuk-Gorzelańczyk	3 255.0	-	3 255.0	
5.	Mr Wojciech Haase	3 255.0	0.9	3 255.9	
6.	Mr Zbigniew Kudaś	673.8	2.8	676.6	*from VI / 2004*
7.	Mr Wiesław Kalinowski	673.8	-	673.8	*from VI / 200*
8.	Mr Anna Rapacka	3 700.6	3 373.1	7 073.7	
9.	Mr Manuel Teixeira	1 155.0	434.0	1 589	
10.	Mr Jerzy Zdrzałka	96.3	5 198.6	5 294.9	*to I / 2004*
	TOTAL	**17 437.9**	**9 660.7**	**27 098.6**	

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	406.3	-	406.3	
2.	Mr Marek Belka	55.0	-	55.0	*to IV / 2004*
3.	Mr Andrzej Koźmiński	81.2	-	81.2	
4.	Mr Ryszard Pospieszyński	274.2	-	274.2	
5.	Mr Dariusz Rosati	47.1	-	47.1	*from VI/2004*
6.	Mr Marek Rocki	81.2	-	81.2	
7.	Mr Zbigniew Sobolewski	81.2	-	81.2	
8.	Mr Christopher De Beck	162.5	-	162.5	
9.	Mr Francisco De Lacerda	81.3	-	81.3	
10.	Mr Jorge Manuel Goncalves	162.5	-	162.5	
11.	Mr Gijsbert Johannes Swalef	81.3	-	81.3	
	TOTAL	1 513.8	0	1 513.8	

25. NUMBER AND NOMINAL VALUE OF THE BANK'S SHARES AND STOCK IN THE CAPITAL GROUP ENTITIES, HELD BY PERSONS MANAGING OR SUPERVISING THE BANK

Management Board of the Bank

1. Bogusław Kott – Management Board Chairman
   - 3.023.174 shares of the Bank of the nominal value PLN 1 each,
   - no shares or stock of the Capital Group entities;
2. Luis Pereira Coutinho – Management Board Deputy Chairman
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
3. Fernando Bicho – Management Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
4. Julianna Boniuk-Gorzelańczyk – Management Board Member

- 490.000 shares of the Bank of the nominal value PLN 1 each,
- no shares or stock of the Capital Group entities;

5. Wojciech Haase – Management Board Member
   - 5.246 shares of the Bank of the nominal value PLN 1 each,
   - no shares or stock of the Capital Group entities;
6. Wiesław Kalinowski – Management Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
7. Zbigniew Kudaś – Management Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
8. Manuel Teixeira – Management Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;

- Jerzy Andrzejewicz – Proxy
  - 6.260 shares of the Bank of the nominal value PLN 1 each,
  - no shares or stock of the Capital Group entities;

Supervisory Board of the Bank

1. Maciej Bednarkiewicz – Chairman
   - 94 shares of the Bank of the nominal value PLN 1 each,
   - no shares or stock of the Capital Group entities;
2. Ryszard Pospieszyński – Deputy Chairman
   - 26 200 shares of the Bank of the nominal value PLN 1 each,
   - no shares or stock of the Capital Group entities;
3. Andrzej Koźmiński – Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
4. Marek Rocki – Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
5. Dariusz Rosati – Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
6. Zbigniew Sobolewski – Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
7. Christopher de Beck – Board Member
   - 95 000 shares of the Bank,
   - no shares or stock of the Capital Group entities;

8. Francisco de Lacerda - Board Member
   - no shares of the Bank,
   - no shares or stock of the Capital Group entities;
9. Jorge Manuel Jardim Goncalves – Board Member
   - 10 000 shares of the Bank,
   - no shares or stock of the Capital Group entities;
10. Paulo Teixeira Pinto – Board Member
    - no shares of the Bank,
    - no shares or stock of the Capital Group entities;
11. Dimitrios Contominas – Board Member
    - no shares of the Bank,
    - no shares or stock of the Capital Group entities;
12. Vasco de Mello – Board Member
    - no shares of the Bank,
    - no shares or stock of the Capital Group entities.

26. INFORMATION ABOUT THE VALUE OF NOT REPAID ADVANCES, LOANS, GUARANTEES, SURETIES OR OTHER AGREEMENTS OBLIGING TO PROVISION IN FAVOUR OF THE ISSUER

1. Persons in the management have a total debt limit of PLN 401,500 including unutilised credit card limit of PLN 159,100
2. As at 31.12.2005 there were no outstanding active guarantees granted to persons in the management
3. Supervising persons have a debt limit of PLN 155,000, including unutilised credit card limit of PLN 148,800
4. As at 31.12.2005 the Bank had exposure to the entity personally connected with a person supervising the Bank, of the total amount of PLN 16,306.

As at December 31, 2005, outstanding balance of borrowings granted to employees of the Bank from the Company Social Benefits Fund (ZFŚS) amounted to PLN 4,465.9 thousand.

The Bank does not maintain records of loans and borrowings granted to employees as part of on-going business, i.e. on commercial terms as for Customers of the Bank.

27. INFORMATION ON SIGNIFICANT EVENTS REGARDING PREVIOUS YEARS RECORDED IN THE FINANCIAL STATEMENT FOR THE CURRENT PERIOD

BANK'S FX BONDS

On 12 December 2001 BBG Finance B.V. ("BBG Finance", "Company"), limited liability company established in the Netherlands – the Bank's subsidiary, acquired 33 series A variable interest bonds issued by the Bank on the same day, maturing in three equal parts falling due on: December 2005, December 2006 and December 2007, with the total nominal value of EUR 33.000.000 and 80 series A subordinated bonds, with variable interest, and maturity due in 2011, with the total nominal value of EUR 80.000.000. The nominal value of each bond amounts to EUR 1.000.000; the purchase price of each of them is equal to its nominal value.

The Bank issued and sold bonds to enhance its credit capacity, including by way of increasing its supplementary funds.

On the same day BBG Finance issued variable interest bonds, with maturity in three equal parts falling due on: December 2005, December 2006 and in December 2007, with the total nominal value of EUR 33.000.000, as well as subordinated variable interest bonds maturing in 2011 with the total nominal value of 80.000.000 EUR. The bonds were issued on the basis of the custody agreement concluded on that same day by BBG Finance with the Bank and Bank of New York as the custodian, acting in favour of investors purchasing the bonds.

At the same time BBG Finance, the Bank and Bank of New York concluded the agency agreement obliging the Bank of New York to provide payment agent services for the needs of the BBG Finance bond issue, to specify due interest, to keep the register of bond holders and the custodian for the bond holders.

In order to secure its liabilities resulting from the custody agreement, BBG Finance concluded the agreement on 12 December 2001 with the Bank of New York, on ownership transfer as security to its bonds issued by Bank Millennium S.A.

On 6 February 2002 the Bank's Management Board announced that the Bank received decision no. 13/02 issued by the Banking Supervision Commission ("KNB") on 29 January 2002 in the matter of consent to charge to the Bank's supplementary funds by 12 December 2011 cash in the amount of 275.000.000 PLN generated by the issue and sale of the Bank's 10-year subordinated bonds amounting to 80.000.000 euro to the Bank's subsidiary, BBG Finance B.V. with its seat in the Netherlands.

SALE OF THE 10% STAKE OF PZU S.A. SHARES

On 21 December 2004 the Bank and its subsidiary BIG BG Inwestycje S.A., signed the agreement ("Agreement) with Eureko B.V. on the sale of 10% of the PZU S.A. shares. Pursuant to the Agreement the minimum guaranteed sales price of the a/m shares amounted to 1.6 billion PLN, to be paid in two tranches. The first tranche of 1.2 billion PLN was received by BIG BG Inwestycje on 30 December 2004, while the second tranche (PLN 400 million) was paid out in December 2005.

The table below (data in 000's PLN) illustrates the settlement of the PZU S.A. shares sale agreement on the basis of the minimum price. In consequence of the assessment by the Bank with the equity rights method regarding the shares and interests held in the subsidiaries, the proceeds were also posted to the Bank's results for 2004:

Data in 000's PLN

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

According to the contractual provisions, the minimum selling price of the PZU S.A. stocks of 1.6 billion zlotys, may increase by the amount of:

- 80% of the surplus of the average price of PZU S.A. stocks over the minimum selling price. Average price shall be calculated (the formula assumes weighing with the daily turnover volume) for the period of 4 weeks starting as of the second week of quotations, in case of floating PZU S.A. stocks on the Warsaw Stock Exchange,
- 100% of the surplus over the selling price obtained by EUREKO B.V. above the minimum selling price, provided that the PZU S.A. stocks will have been sold by EUREKO B.V to a third party by the end of 2005,
- 100% of the surplus above the valuation made by independent investment banks above the minimum selling price, in case the PZU S.A. stocks are not introduced to the public turnover by June 30 2005.

SALE OF THE CAR LOAN PORTFOLIO AND RETENTION OF THE MORTGAGE LOAN PORTFOLIO GRANTED BY THE EXTERNAL OPERATOR

On May 13 2004 the Bank concluded, in execution of the preliminary agreement concluded on February 20 2004 with Santander Consumer Finance S.A., an agreement regarding transfer by the Bank to CC-Bank S.A., company with seat in Poznań ("CC-Bank") of the receivables from part of the car loan portfolio, granted by the Bank through Polskie Towarzystwo Finansowe S.A., company with seat in Wrocław ("PTF") under the co-operation agreement signed between the Bank and PTF on February 4 2000, ensuring the entering by CC-Bank of a legal relationship stemming from this co-operation agreement in lieu of the Bank. As payment of the price for the transfer of the receivables for the loan agreement concluded, CC-Bank paid to the Bank the amount of 150 million złotys plus the amount of the outstanding capital as of the day of the transfer.

On May 13 2004 the Bank concluded, in execution of the preliminary agreement concluded on February 20 2004 with Santander Consumer Finance S.A. an agreement regarding the release of PTF from the obligations stemming from the co-operation agreements concluded between the Bank and PTF, respectively on December 19 2000 and August 28 2003, whereby PTF provided on behalf of the bank agency services in the area of granting mortgage loans. Under mutual settlement of this agreement between the Parties the Bank paid to PTF the amount of 30 million zlotys for resignation by PTF from the part of the interest margin to which PTF was entitled by the agreement.

VERIFICATION OF THE PERIODS OF DEPRECIATION OF THE FIXED ASSETS AND AMORTISATION OF INTANGIBLES

On 22.12.2004 the Bank informed that in preparation for introduction of the new International Financial Reporting Standards and pursuant to the Accounting Act it had conducted a detailed review of fixed assets and intangibles in order to update their useful life as well as fair value of the property currently being in the process of sale. On the basis of the conclusions from this analysis, in case of some of the assets, their depreciation periods were adjusted, which consequently resulted in capturing one-off depreciation in the amount of 221 million zlotys in 2004.

28. INFORMATION ABOUT SIGNIFICANT EVENTS WHICH TOOK PLACE AFTER BALANCE SHEET DATE BUT HAVE NOT BEEN INCLUDED IN THE FINANCIAL REPORT

- On 19 January 2006 the Bank sent information about the initial results of the Bank Millennium Capital Group in 2005 with simultaneous information on introducing major changes in its activity in the Polish market, consisting among others in major branch expansion, development of multisegment branches and rebranding with a new logo, new set of corporate colours and typography standards.

29. INFORMATION ABOUT SIGNIFICANT EVENTS CONCERNING THE FINANCIAL YEAR CONTRIBUTION TO MATERIAL CHANGE IN THE STRUCTURE OF BALANCE SHEET ITEMS AND PROFIT AND LOSS ACCOUNT

SALE OF THE 10% STAKE OF PZU S.A. SHARES

On 7 December 2005 the Bank concluded a Memorandum relating to the Share Sale Agreement concluded on 21 December 2004 with Eureko B.V. (described above in item 27). The Memorandum pertained to the settlement of the final selling price of 10% of PZU S.A. shares.
The Memorandum specified the final price at PLN 2.3 billion, which constituted the average of the valuations of PZU Group prepared by two independent international investment banks. In consequence of the assessment by the Bank with the equity rights method regarding the shares and interests held in the subsidiaries, the income resulting from the Agreement amounting to PLN 700 million was also captured in the Bank's results.

Following the sale of the PZU S.A. shares on 21 December 2004, the swap transaction concluded between Bank Millennium and Bankco Comercial Portugues (BCP) expired. BCP retained its right to participate in sales proceeds (according to the formula set forth in the agreement of 21 December 2004) in case the final selling price of the PZU S.A. shares exceeds 1.6 billion zlotys.In accordance with the above the Bank paid to Banco Comercial Portugues the amount of PLN 283.5 million.After making this payment BCP confirmed that the Bank finally realised all its liabilities resulting from the swap agreement.

The sell agreement of PZU S.A. shares dated 21 December 2004 provided also for the way in which the parties would settle if between the date of the sale agreement stipulated and the date of the final settlement of the transaction, PZU S.A. paid a dividend in the amount higher than the average value of the dividend for the last three financial years. This surplus (in proportion to the shares that are subject of the agreement) was to constitute income of the Millennium Group. In completion of this provision, as result of the payout of dividend for 2004 by PZU S.A., the Group (the Bank in consequence of the assessment with the equity rights method) captured as income in its 2005 profit and loss account the payment received under this title from EUREKO B.V. in the amount of PLN 48 535 thousand gross.

The impact of the above events on the Bank's result which is reflected in 2005 earnings is presented by the table below:

Data in thous. PLN

Settlement of dividend paid by PZU on 2004 – share of the Group	48.537
Adjustment of minimum guaranteed sale price	700 000
Costs resulting from swap transaction concluded with Banco Comercial Portugues	-283 500
Settlement of interest income on account of deferred date of payment of the second instalment of the minimum guaranteed sale price (PLN 400 million)	24 941
GROSS RESULT GENERATED ON THE SALE OF PZU S.A. SHARES IN 2005	489 978

BANK'S FX BONDS

On 15.06.2005 a transaction was realised of purchasing 33 items of variable income bonds, issued by the Bank as of 10.12.2001, valued at 33.000.000 EUR, with redemption on 2007 („Bonds"), owned by BBG Finance B.V. – the Bank's subsidiary, at the average unit price of 1.003.000 EUR, for their redemption. The total price of purchasing Bonds is 33.099.000 EUR. The transaction was performed on the basis of the Bonds Purchase Agreements concluded between the Bank and BBG Finance B.V. (this issue is more broadly discussed in item 27). On 29.06.2005 the Bank voluntarily redeemed 33 Non-Subordinated Variable Income Bonds at 33.000.000 EURO.
The analogous transactions of purchasing and then voluntarily redeeming 33 own bonds valued at 33.000.000 EUR were made by BBG Finance B.V.

CHANGE OF STRUCTURE OF THE BANK'S CAPITAL GROUP

In the course of the ongoing process of restructuring the Bank's Capital Group in 2005 mergers were effected of BEL Leasing Sp. z o.o. with BIG BG Inwestycje S.A. and Prolim S.A. (under this project in 2004 mergers were effected of BEL Leasing Sp. z o.o with BET Services Sp. z o.o. and Forin Sp. with o.o. z Forinwest Sp. z o.o.).

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

BBGI, created as a subsidiary of the Bank, starting from November 1999 held a 10% block of shares of PZU S.A., sold to EUREKO B.V. in December 2004 (the purchase and sale of PZU S.A. shares have been presented above as a stand-alone item). Apart from the investment in PZU S.A. BBGI practically had no operational activity.
On 18.05.2005 the Regional Court for the Capital City of Warsaw, 19th Business Department of the National Court Register, registered a reduction of the initial capital of BBGI by the amount of PLN 1,053,473,000 by way of reduction of the nominal value of all 10,540,000 shares from PLN 100 per

share to PLN 0.05 per share in keeping with the resolution of BBGI's Extraordinary Shareholder Meeting of 31 January 2005. Following the registration of the resolution on capital reduction, the initial capital of BBGI stood at PLN 527,000 and was divided into 10,540,000 shares with the nominal value of PLN .05 each. The total number of votes resulting from all outstanding shares did not change and was 17,375,880 votes.

On 29.07 2005 the Regional Court for the Capital City of Warsaw, 19th Business Department of the National Court Register, registered the merger of BBGI – Acquired Company with BEL – Acquiring Company - subsidiaries of the Bank, in keeping with the resolution of the General Shareholder Meeting of 11.07.2005. In result of the merger the initial capital of the Acquiring Company is PLN 43,400,000 and is divided into 86,800 equal and indivisible shares with the nominal value of PLN 500 each. The total number of votes at a General Shareholder Meeting after the merger is 86,800. Until the day of the merger the amount of initial capital of BEL was PLN 20,000,000. Following the merger the sole shareholder of BEL is the Bank.

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

With a view to business consolidation within the Bank's Capital Group in August 2005 two companies from the Group, offering leasing services – BEL and Prolim – were merged. Formally the process was concluded on 18.08.2005 when the Regional Court for the Capital City of Warsaw, 19th Business Department of the National Court Register, registered the merger of BEL – Acquiring Company with Prolim – Acquired Company – subsidiaries of the Bank, in keeping with resolutions passed by BEL's Extraordinary Shareholder Meeting of 8 August 2005 and Prolim's Extraordinary Shareholder Meeting of 5.08.2005. In result of the merger the initial capital of the Acquiring Company is PLN 43,400,000 and is divided into 86,800 equal and indivisible shares with the nominal value of PLN 500 each. The total number of votes at the General Shareholder Meeting after the merger is 86,800. Following the merger the Bank is BEL's sole shareholder.

The above merger was the effect of re-organisation of the Bank's Capital Group as well as being a component of the process of restructuring receivables from Prolim, classified as non-performing in the Bank's portfolio. The Bank concluded an agreement with Prolim under which receivables from this company during the restructuring process were not made due and payable (although they were past their original maturity) and contractual and penalty interest was not accrued. In result of the merger BEL took over the assets and liabilities of PROLIM S.A. and then under an annex to the above-mentioned agreement repaid loans originally taken by PROLIM S.A. from the Bank in the amount of PLN 223 million as well as interest accrued under market terms on the entire loan period (the annex changed the provision of the Agreement on not accruing interest) in the amount of PLN 62 million.

It must be noted that in result of the repayment the Bank eliminated against the current year's P&L Account PLN 223 million in provisions created for Prolim credit exposures (additionally at the beginning of 2005 the Bank had eliminated provisions of PLN 11 million in result of payment of part of the Prolim exposure) and recognised interest income in the amount of PLN 62 million. On the other hand BEL created provisions against the current year's P&L Account to cover risks connected with the assets acquired in result of the merger with Prolim and recognised interest expenses in the corresponding amount of PLN 62 million. Following the Bank's employment of equity method valuation with respect to shares and interests held in subordinated companies, both the expenses resulting from provisions created by BEL as well as repaid interest were charged against the Bank's 2005 result.

NEW BUSINESS MODEL OF THE BANK

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

This decision is connected with strong multisegment branch expansion with a simultaneous closing of selected branches not compatible with the new business model concept.

Following detailed analyses the Bank's Management Board pursuant to accounting regulations decided to recognise in the 2005 result the impairment costs in the amount of PLN 9.9 million, connected with the anticipated closure of branches, because the Bank would not have economic benefits from them in the future. These costs were recognised in the item "Write-offs for provisions and revaluation" of the Profit and Loss Account. At the same time the Bank estimated the amount of provisions concerning expenses connected with a premature dissolution of lease agreements concerning the above-mentioned branches being closed, at PLN 2 million. These were reported in the item Other Operating Expenses of the Profit and Loss Account.

The new business model of the Bank also assumes the introduction of a new visual identity of Millennium, which involves a visual change of the bank's branches.

This signifies the need to identify such branch fixed assets which were subject to depreciation and will be replaced. Thus, pursuant to accounting regulations the Bank changed its estimate as regards the useful life of the branch fixed assets to be replaced and recognised a depreciation write-off on this account in the amount of PLN 10.9 million.

OTHER 2005 EVENTS HAVING AN IMPACT ON THE BANK'S ACTIVITY

- On 21.02.2005 the Bank informed that it received a letter from Mr Gijsbert J. Swalef informing on his stepping down as of 8.03.2005 from the Bank's Supervisory Board.

- On 8.03.2005 the Bank informed about resolutions taken by the Ordinary General Shareholder Meeting increasing the number of Supervisory Board Members from 10 to 12 persons and simultaneous election of new Supervisory Board members: Mr. Dimitrios Contominas, Mr Vasco Maria Guimaraes Jose de Mello, Mr. Paulo Teixeira Pinto.

- On 11.04.2005 the Bank received information from Moody's Investors Service Ltd. („Moody's") on increasing as of 7 April 2005 the Bank's long-term deposit rating from A3 (7th grade on a 21 point scale) to A2 (6th grade on a 21 point scale), with a stable outlook. The Moody's rating agency also informed on upgrading the outlook of the Bank's financial strength rating at the level D- from stable to positive (10th grade on 13 point scale). The short-term deposit rating of the Bank remained unchanged at P-1 (1st grade on a 4 point scale). Moody's Agency stated that the increased rating reflected the Bank's progressing operational integration with its Portugues strategic shareholder, on-going support and transfer of know-how from the BCP to the Bank and strong involvement of the Portuguese bank in the implementation of its Europe's expansion strategy. Moreover, Moody's found that the upgrading of the outlook of the financial strength rating reflected the progress achieved by the Bank in the wake of a deep financial restructuring process. Moody's also noted that the Bank created in 2004 the bases for an organic growth supported by a strong capital base, innovative products, aggressive market strategy, increased sales potential, more efficient risk management, as well as conducive economic climate. Additionally, according to Moody's, the implementation of this growth strategy will be a challenge in view of the relatively low scale of the Bank's operations.

- On 20.05.2005 the Bank informed about the Investor Day organised on the same date in Lisbon by Millennium bcp – Portuguese banking group with a strategic shareholding at Bank Millennium S.A. As part of this meeting the Bank confirmed the strategy of organic growth, whose main pillars and objectives until 2007 are as follows:

  In retail banking:

    - Focus on increasing the cross-selling rate (average number of products per client) from 2.4 to 3 and achievement of the share in the consumer loan market at the level corresponding to the size of the Bank.
    - Maintaining a very strong market position in mortgage loans with an ultimate share in the loan market at the level of 12%
    - The achievement of a strong market position in credit cards with an ultimate market share at the level of 8%

- Development of the wealth banking segment, doubling net operating income in this area and achievement of the share in the investment fund market at the level corresponding to the size of the Bank

In corporate banking:

- Acquiring a considerable number of new clients (1500)
- Target share in the market for new leasing agreements at the level of 7%

The updated strategic targets of Bank Millennium Group set the net ROE ratio at the level of 15% (assuming the tier 1 solvency ratio at the level of 8%) and cost/income ratio at the level of 65% in 2007.

- On 5.08.2005 the Bank's Management Board informed on starting proceedings in order to delist from the London Stock Exchange („LSE") of the Bank's Global Deposit Certificates ("GDRs"). In order to complete the delisting the Bank wrote on 4.08.2005 to the Financial Services Authority in London („FSA") moving for delisting the GDRs from the suitable list of securities. 15.09.2005 was the last day of the GDR's trading on the LSE. It is the Bank's intention to focus trading on one market – the Warsaw Stock Exchange. Nevertheless, for investors who hold or purchase GDRs, the Bank's GDR programme will be continues on the unregulated market after their delisting from the LSE..

- On 29.08.2005 the Bank's Management Board informed that on 26.08.2005 the Bank acceded to the syndication agreement ("Agreement") concluded by banks with one of the Bank's clients ("Borrower"). The object of the agreement is granting to the Borrower by the syndicate of banks a term loan ("Term Loan") and renewable loan ("Renewable Loan"), with the possibility of disbursement in EUR, USD or PLN. The Bank's participation in the Terms Loan is 33 333 333.33 EUR and in the Renewable Loan 16 666 666.67 EUR. The period of lending for the Term Loan is 5 years, and for the Renewable Loan 3 years. The interest on the Term Loan is based on the EURIBOR rate increased by the Bank's margin and for the Renewable Loan EURIBOR, LIBOR or WIBOR, increased by the Bank's margin. The agreement must be recognised as significant, as the total value of the resulting performances meets the criteria referred to in section 2 para 1, item 52 of the Council of Ministers' Order dated 21.03.2005 in the matter of current and periodic information communicated by securities issuers.

- On 20.10.2005 the Bank's Management Board informed that on 19.10.2005 the Bank concluded with one its corporate Clients an annex to the agreement for a stand-by loan intended for securing several cheques issued by the Client to customs organs, establishing the amount of the loan limit for PLN 250 000 000. The Agreement is concluded for a period until 19.07.2006. The Agreement is concluded on market terms. The Agreement is recognised as significant as it exceeds 10% of the Bank's own capitals.

30. RELATIONS BETWEEN THE LEGAL PREDECESSOR AND THE ISSUER AND ABOUT THE METHOD AND SCOPE OF TAKEOVER OF ASSETS AND LIABILITIES AND EQUITY

In the period from January 1 to December 31, 2005, the Bank did not perform any takeover.

31. FINANCIAL STATEMENT AND COMPARABLE FINANCIAL DATA, ADJUSTED WITH AN ADEQUATE INFLATION RATE – IF THE ACCUMULATED ANNUAL AVERAGE RATE OF INFLATION FROM THE PERIOD OF LAST THREE YEARS OF THE ISSUER'S OPERATIONS REACHED OR EXCEEDED THE VALUE OF 100%

The annual average rate of inflation from last three years did not exceed 100%.

32. LISTING AND CLASSIFICATION OF THE GAPS BETWEEN THE DATA DISCLOSED IN THE FINANCIAL STATEMENT WITH COMPARABLE FINANCIAL DATA AND THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS.

Adjustment (1)

Following the change in the accounting principles regarding reflection of the provisions for short-term employee considerations for the Bank's top management, for the purpose of this report the following adjustments were made to the previously published comparable data (in the annual report prepared as at December 31 2004):

BALANCE SHEET AS AT DECEMBER 31 2004

1) The value of the deferred tax asset was increased by 1 891 thousand PLN.
2) The value of the prepayments and accruals was increased by 9 954 thousand PLN.
3) The value of the loss carried forward was increased by 5 103 thousand PLN. This value presents also adjustment to the opening balance of the profit / loss carried forward as at January 1 2004 captured in the table of changes in equity.
4) The value of the current profit was reduced by 2 960 thousand PLN.

PROFIT AND LOSS ACCOUNT FOR 2004

1) The value of the Bank's costs of activity was increased by 3 654 thousand PLN.
2) The value of the deferred tax on the gross profit was reduced by 694 thousand PLN.

Adjustment (2)

Following the change in the presentation of the interest margin components for derivative instruments, since 2005 the result on these operations has been presented in the net value under result of financial operations (previously income and costs were presented separately under the interest margin); the value of interest income and expenses for 4 quarters of 2004 was reduced by 806 966 thousand PLN and 542 274 thousand PLN, respectively. The result on financial operations was increased by 264 692 thousand PLN.

Adjustment (3)

Starting in 2005, commitments resulting from so-called short sale of debt securities have been captured in the balance sheet under ”Other liabilities under financial instruments” (previously “Special funds and other liabilities”), thus the balance sheet data as at December 31 2004 were reclassified in the amount of 22 263 thousand PLN.

Adjustment (4)

Starting from 2005 the additional unsettled interest resulting from separation of the built-in instruments from structured deposits is presented under balance sheet item ”Liabilities towards clients”. In the comparable data as at December 31 2004 the following adjustments were made: ”Other liabilities under financial instruments” were reduced by 2 216 thousand PLN, item ”Other securities and other financial assets” was reduced by 9 922 thousand PLN, whereas ”Other liabilities towards non-financial sector” – by 7 706 thousand PLN.

Adjustment (5)

Off-balance sheet commitments received as at December 31 2004 were increased by sureties received from subsidiary in the amount of 78 635 thousand PLN.

Presentation of these changes in the table format - in the ”Change” column the numbers of adjustments corresponding to the above description were presented (data in thousand PLN):

BALANCE SHEET AS AT DECEMBER 31 2004

Item adjusted	Data status as at 31.12.2004 in the report of 31.12.2004	Change	Data status as at 31.12.2004 in the report of 31.12.2005
Other securities and other financia assets	546 850	-9 922 (4)	536 928
Deferred income tax assets	228 631	+1 891 (1)	230 522
Liabilities to non-financial sector	13 336 914	-7 706 (4)	13 329 208
Other liabilities under financia instruments	390 636	+22 263 (3) -2 216 (4)	410 683
Special funds and other liabilities	154 237	-22 263 (3)	131 974
Prepayments and accruals	91 070	+9 954 (1)	101 024
Loss carried forward	-35 751	-5 103 (1)	-40 854
Current profit	240 504	-2 960 (1)	237 544

OFF-BALANCE SHEET ITEMS AS AT DECEMBER 31 2004

Item adjusted	Data as at 31.12.2004 in the report for 31.12.2004	Change	Data as at 31.12.2004 in the report for 31.12.2005
Commitments received	1 053 838	+78 635 (5)	1 132 473

PROFIT AND LOSS ACCOUNT FOR 2004

Item adjusted	2004 data status in the report for 31.12.2004	Change	2004 data status in the report for 31.12.2005
Interest income	1 646 220	-806 966 (2)	839 254
Interest expenses	1 220 439	-542 274 (2)	678 165
Result of financial operations	140 628	+264 692 (2)	405 320
Costs of Bank’s activity	598 113	+3 654 (1)	601 767
Income tax / deferred part	-7 489	-694 (1)	-8 183

33. CHANGES IN THE ADOPTED ACCOUNTING RULES (POLICIES) AND THE PRESENTATION OF FINANCIAL STATEMENTS

Information on changes in the adopted accounting policies has been contained in section 11.2) of the Introduction to these financial statements.

34. CORRECTIONS OF FUNDAMENTAL ERRORS

No fundamental errors were made.

35. IN CASE OF UNCERTAINTY REGARDING CONTINUATION OF OPERATIONS, THE DESCRIPTION OF SUCH CONCERNS AND THE DECLARATION OF THE EXISTENCE OF SUCH UNCERTAINTY WITH INFORMATION ON RELEVANT ADJUSTMENT IN THE FINANCIAL STATEMENTS

There is no uncertainty regarding continuation of operations.

36. IN CASE OF THE FINANCIAL STATEMENTS PREPARED FOR THE PERIOD, IN WHICH THE MERGER WAS MADE, AN INDICATION THAT THESE FINANCIAL STATEMENTS WERE PREPARED AFTER THE MERGER OF THE COMPANIES, AND INDICATION OF THE CONSOLIDATION DATE, AND THE APPLIED METHOD OF SETTLING THE CONSOLIDATION

In the period from January 1 to December 31, 2005 there was no merger involving the Bank.

37. IF THE ISSUER DOES NOT PREPARE CONSOLIDATED FINANCIAL STATEMENTS, THE LEGAL GROUNDS FOR NOT PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

Bank Millennium S.A. prepares the consolidated financial statements.

SIGNATURES:

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