Millennium bank

Semi-annual Management Board Report on the Activity of Bank Millennium Capital Group in the 1st Half of 2006

TABLE OF CONTENTS

I. MACROECONOMIC SITUATION

The first half of the year 2006 was characterised by a dynamic growth of the Polish economy. Gross Domestic Product (GDP) growth remained at the high level, already recorded at the end of the previous year, and stood at 5.4% y/y during the whole half of the year, as compared with 3.4% GDP during the entire year 2005. Despite the acceleration, the Polish economy still remains behind other Central-Eastern European countries such as Estonia, Latvia or the Czech Republic, which have had much greater dynamics of economic growth. On the other hand, the Polish economy is growing much faster than most of the EU economies, thus catching-up the distance between Poland and the rest of the European Union.

As opposed to previous periods, the main conducive factor to the economic growth was domestic demand, including private consumption, which grew by 5.1% y/y. The consumption increase was supported by higher real dynamics of disposable income of the population, which resulted from increase in nominal wages and social benefits as well as from low inflation. Growth trends continued in investments, though the pace of their recovery was slower than expected. The slower than expected dynamics of investments resulted i.a. from uncertainty as to the future business climate and the economic policy as well as from the delay in absorption of EU funds. Exports continued to affect the business climate positively, though its positive contribution to GDP growth was lower than previously. Notable is the fact that the nominal value of exports increased in the 1st half of this year to the record amount of PLN 201 billion, which confirms high competitiveness of Polish companies. Also the geographic structure of Polish exports is changing, because the Polish companies are increasing sales to new markets in Central and Eastern Europe as well as Asia. The advantageous trends in exports, with gradual recovery of imports led to reduction of the trade deficit. Coupled with the inflow of funds from the European Union, the limitation of external disequilibrium of the Polish economy took place, which was reflected by the reduction of the Current Account deficit to 1.3% GDP.

High economic growth was accompanied by low inflationary pressure. In June inflation measured with the Consumer Price Index (CPI) amounted to 0.8% y/y, significantly below the NBP target (2.5%, +/-1%). Decrease in inflation was attributable to low demand pressure, appreciation of the Polish zloty and competition from imports from low-production-cost countries (China, India).

The proceeding economic recovery supported improvement of situation in the labour market. In June the registered unemployment rate fell to 16.0%, reaching the lowest level in over six years. It must be remembered that the reduction of the unemployment rate partly results from economic migration of Poles to the EU Member States. In the 1st half of the year employment was following a growth trend. In the analysed period the number of persons employed in the corporate sector increased by 3.1% as compared with the same period of the previous year. Falling unemployment was increasing pressure on growth of wages. In nominal terms the average salary in the corporate sector grew in the 1st half of 2006 by 4.6% y/y, although this was partly connected with non-recurrent factors and bonus payments in some sectors. It must also be noted that the growth of wages in the economy still remains lower than the dynamics of productivity, as a result of which the growing salaries are not generating the inflationary pressure.

In the first half of the year the situation in the public finance sector was positive. Central budget deficit in that period amounted to PLN 17.7 billion, which constituted 57.8% of the plan for the entire year. Good budgetary performance is the result of stronger-than-expected economic growth, which led to the increase of incomes from personal income tax, corporate income tax and value added tax. It must be noted that the government is using the increased incomes for rising expenditures, mainly social expenditures, rather than for reducing the deficit. This does not threat the accomplishment of this year's budget, but it is not conducive to the mid-term fiscal perspectives.

The improvement of inflationary prospects inclined the Monetary Policy Council (MPC) to relax monetary policy and reduce interest rates by a total of 50 bps during first half of the year. After the February decision of MPC the reference rate hit the record low level of 4.00% and since then has not changed. Together with the reduction of NBP base rates, commercial banks were cutting down the interest on deposits and on loans. The biggest falls of interest rates occurred in case of loans connected with money market rates i.e. corporate loans and mortgage loans for households. The lower interest rate on bank deposits induced households to invest their savings in more profitable investment options. Among available instruments investment funds' participation units aroused most interest. Bank deposits were also growing though at a modest pace compared with other investment forms. The decrease in interest rates together with income improvement were conducive to increasing indebtedness of households (+28.5% y/y). As in previous years, housing loans had the highest dynamics (+53% y/y). On the other hand, due to the slower rate of investments recovery, the corporate lending increased slightly.

In the opinion of the Bank, in following quarters of the year the Polish economy will remain on the dynamic growth track. Along with the proceeding recovery, the structure of growth will be changing. Exports will continue to affect business activity favourably, but its positive contribution to GDP growth will gradually phase out. However, the role of domestic demand will be gaining importance, especially the role of investments. Good financial standing of companies, high usage of output capacity and inflow of funds from the European Union will be the factors supporting the investments growth. Acceleration is also expected in private consumption, which will be supported by growth of disposable incomes of the public owing i.a. due to indexation of pensions, direct payments to farmers and increasing wages. Moderate inflationary pressure from demand and strong Polish zloty will help keep inflation at a low level. In following months the CPI index is expected to grow, however not in excess of the NBP inflationary target i.e. 2.5% y/y at least until end of 2007. Growth of crude oil prices remains a risk factor for inflation, however the strong Polish zloty will limit the inflationary effects of growing fuel prices in the international markets.

The form of fiscal policy will have a strong influence on the business environment and on economic growth. The solutions proposed so far do little to improve medium-term fiscal prospects. Meanwhile carrying out structural reforms including i. a. restriction of fixed budgetary expenditures will be conducive to creating favourable conditions for sustainable economic growth. Carrying out fiscal reforms is also essential to meet Maastricht convergence criteria, permitting Poland to join the European Economic and Monetary Union.

Continuation of economic recovery positively influenced on the banking sector. As households become more affluent, their savings can be expected to grow. It must be noted here that due to the decrease in interest rates, the reallocation of savings will continue, although the banking sector will still be the main place of investing financial resources. Among available financial instruments, the most dynamic growth can be expected in case of investment funds. We are also expecting lending to increase. An increase in the dynamics of corporate lending is expected to follow the rebounding in the scope of investments. These expectations are supported by anticipated inflow of funds from the European Union, which will for the most part be used for co-financing investment projects. In the households segment the growth trend for mortgage loans should continue.

Summing up the Bank anticipates an improvement of the general economic situation in the Polish banking sector.

II. FINANCIAL STANDING OF BANK MILLENNIUM GROUP

In the first half of 2006 Bank Millennium Group continued business growth at high speed accompanied by implementation of new image and start of branch expansion project.

The Group achieved the following positive financial results in the first half of 2006:

- Net profit reached PLN 139.7million and was 8,2% higher than in the 1st half of 2005, recurrent net profit grew 29,4%
- Annualized ROE of 12.5%
- Significant net commissions growth by 35.4% y/y, driven by mutual funds, asset management/ bancassurance products and loans
- Net interest income up by 3.8% y/y
- Improvement of C/I ratio which reached 67.4%, despite the costs resulting from branch expansion and re-branding
- Total costs (excluding costs related to re-branding and expansion) grew only 0.5%
- Further improvement of loan quality: impaired to total loans ratio at 8.2%
- Strong solvency ratio at 16,95%

Buoyant business development was a main driver of the improvement of financial results in the first half of 2006. It happened in majority of Group's activities, continuing the positive trends of the previous quarters:

Total loans:	46% growth y/y
Mortgage loans:	13.8% market share in new loans, PLN 1.2 billion disbursements in 2Q 06, PLN 5.4 billion portfolio (3rd position on the market)
Credit cards:	123% growth y/y, more 36 thousand cards in 2Q 06; total number 194 thousand,
Other retail loans:	116% growth y/y, PLN 901 million portfolio
Mutual funds:	195% growth y/y, PLN 2.3 billion under management, 2.9% market share
Customer Funds:	19% growth y/y
Leasing:	15% growth of leasing portfolio, market share of 6%
Internet:	345 ths. individual customers registered
Cross-selling:	2.89 products per customer in Retail

During the first half of 2006, the Bank's performance and management principles achieved important recognition in three different levels:

- "Trustworthy Company 2006" and the highest (5 stars) score in the Institutional Investors rating of the listed companies in Poland (organized by Polish Institute of Directors)

- “Pearl of the Polish Stock Exchange 2005” title for the best company in category “Finance” (by PARKIET Daily)

- Increase of financial strength rating to D by Moody’s rating agency - as a recognition of increasing recurring profitability and continued ability to deliver on strategic objectives.

II.1. Profit and Loss Account

Income

Operating Income (PLN million)	1H 2006 pro-forma **	1H 2005 pro-forma **	Change
Net Interest Income*	330.6	318.4	3.8%
Net Commissions Income	164.4	121.4	35.4%
Other Non-Interest Income	91.8	107.7	-14.8%
Operating Income	**586.8**	**547.5**	**7.2%**
Of which one-off results		*26.1*	
Operating Income without one-off	**586.8**	**521.4**	**12.5%**

(*) includes margin from all derivatives which hedge FX loan portfolio.

(**) From 1st January 2006 the Bank started to treat under hedge accounting principles the combination of mortgage floating rate foreign currency loans, floating rate PLN deposits and related cross currency interest rate swaps. The margin from these operations is reflected in Net Interest Income since aforementioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, and additionally having in mind that until the end of 2005 the Bank has not applied formal hedge accounting (all interest from derivatives used to be shown in Result on Financial Operations then), in this chapter the Bank provides pro-forma data. The pro-forma statement presents all interest from derivatives included in Net Interest Income which allows better understanding of the real evolution of this item from economic point of view.

Net interest income (on a pro-forma basis) of the Group in 1H 2006 amounted to PLN 330.6 million and was 3.8% higher than last year’s (PLN 318.4 million). Lower net interest margin was compensated by growing business volumes.

Net commissions income jumped 35% mainly thanks to mutual funds, asset management/ bancassurance products and loans.

Other non-interest income dropped versus last year due to one-off income of PLN 26.1 million recognized in 2Q 2005 connected with the sale agreement for 10% of PZU S.A. shares. Foreign exchange results grew strongly from PLN 42.7 million to 82.1 million in 1H 2006 mainly due to greater number of foreign exchange transactions with corporate customers and foreign exchange transactions connected with the service of mortgage loans of the retail customers whereas other results on financial operations were lower than year before.

Total operating income reached PLN 586.8 million, which means an increase of 7.2% compared with 1H 2005 (or 12.5% excluding one-off result from the sale agreement for 10% of PZU S.A. shares in 2005).

Costs

Operating Costs (PLN million)	1H 2006	1H 2005	Change
Personnel Costs	183.9	161.4	14.0%
Other Administrative Costs	181.1	171.8	5.4%
Depreciation & impairment of tangibles	30.4	48.4	-37.2%
Total Operating Costs	**395.5**	**381.6**	**3.6%**
Of which expansion and new image	*11.7*		
Operating costs without expansion	**383.7**	**381.6**	**0.5%**

Total Costs of the Group in 1H 2006 were affected by the beginning of the 3-year expansion project preceded by the new image implementation. If not the costs connected with these items (PLN 11.7 million, of which 2.9 million personnel costs), total costs would stay on a similar level than a year before. The increase of personnel number by 7% y/y from 4333 at the end of June 2005 to 4 644 at the end of June 2006 and personal costs (by 14%) was connected not only with new branches opening but also with the fast growth of particular business lines.

Cost to Income ratio in 1H 2006 reached 67.4%, similar level to the previous quarter and much better than one year before i.e. 73.2% (excluding one-off income connected with the sale agreement for 10% of PZU S.A. shares).

Over the first six months of 2006 the Group's results were encumbered with financial assets impairment by PLN 18.8 million. To compare, in the first half of 2005 the impairment was PLN 2.4 million. The value of impairment charges covers a positive impact brought by recovered receivables, that had been written off against provisions. The first half of 2006 saw recovery of receivables at PLN 11.1 million vs. PLN 29 million in the 1HY 2005.

Profit

Pre-tax profit of Bank Millennium Group in 1H 2006 stood at PLN 172.5 million which means an increase by 5.5% compared with first half of 2005 (PLN 163.5 million). Net income in the current period stood at PLN 139.7 million and was 8.2% higher compared with the amount of net income generated during first half of 2005 (PLN 129.0 million), but without considering the one-off income reached in the first half of 2005 (PLN 26.1 million gross [PLN 21.1 million net] connected with the execution of sale agreement for 10% of PZU S.A. shares) this increase was even higher and amounted to 29.4%.

II.2. Balance sheet and off-balance items

Assets

Evolution of key asset items of the Group throughout the year, along with the structure, have been presented in the table below:

ASSETS (PLN million)	30 June 2006		30 June 2005 pro-forma		Change
	Value	Structure	Value	Structure	2006/2005
Cash, operations with Central Bank	795.2	3.4%	666.5	3.4%	19.3%
Loans and advances to other banks	1 503.5	6.4%	1 283.3	6.5%	17.2%
Loans and advances to Customers	11 967.0	51.1%	8 190.9	41.3%	46.1%
Receivables under purchased buy-sell-back securities	164.8	0.7%	123.2	0.6%	33.7%
Financial assets valued at fair value through P&L and hedging derivatives	2 826.5	12.1%	3 646.5	18.4%	-22.5%
Investment financial assets	4 922.6	21.0%	4 829.4	24.4%	1.9%
Intangible and tangible fixed assets	239.8	1.0%	276.8	1.4%	-13.4%
Other assets	988.7	4.2%	813.3	4.1%	21.6%
Total assets	**23 408.1**	**100.0%**	**19 829.9**	**100.0%**	**18.0%**

As at 30 June 2006, total assets reached PLN 23,408 million, or 18% growth over a year.

The dominant position in the structure of assets was held by loans and advances to Customers (51.1%). At the end of 1HY 2006 net loans granted to Customers increased by 46.1% as compared to the end of 1HY of the previous year, reaching PLN 11,967 million.

Evolution and structure of loans and advances to Customers of the Bank Millennium Group, by type, can be found in the below table:

Item	30 June 2006		30 June 2005		Change 2006/2005	
	Value	Structure	Value	Structure	Value	(%)
Total loans and advances to Customers	11 967.0	100.0%	8 190.9	100.0%	3 776.1	46.1%
Of which:						
- loans to companies and leasing	*5 665.1*	*47.3%*	*5 473.7*	*66.8%*	*191.3*	*3.5%*
- mortgage loans	*5 401.0*	*45.1%*	*2 299.9*	*28.1%*	*3 101.1*	*134.8%*
- other retail loans	*900.9*	*7.5%*	*417.2*	*5.1%*	*483.7*	*115.9%*

The structure of loan portfolio is dominated by loans to companies (47.3% at the end of June 2006), however their share dropped as compared to the end of June 2005 (66.8%) due to much higher dynamics of the retail portfolio, in particular mortgage loans, whose contribution to the portfolio grew from 28.1% to 45.1% over the period in question.

Loans to corporate customers (including leasing) grew slightly, by 3.5% over the year, mainly driven by the leasing portfolio.

Between June 30, 2005 and June 30, 2006 the net retail portfolio of the Millennium Group grew by PLN 3,584 million, or 132%. The increase was mainly caused by the dynamics of the mortgage loans portfolio, now responsible for 45.1% of the consolidated credit portfolio of the Bank. Total mortgage loans portfolio reached 5,401 million, thanks to the record-breaking sales in the second quarter of 2006 – PLN 1,154 million. Bank's share in the newly sold mortgage loans was 13.8%, and 8.9% by value of the total portfolio (the Bank moved from 5th to 3rd place over the second quarter of the year). Other retail loans (including credit cards) also grew significantly – by 116% y-o-y, reaching PLN 901 million. In corporate area, the highest dynamics was that of leasing (15.4% increase y-o-y, PLN 514 million under new agreements in the 1H 2006).

Number of credit cards sold by the Bank after the first 6 months of 2006 reached 194 thousand, marking growth by as much as 123% compared to the corresponding period of the previous year. Cards distribution through branches has been supported by a network of intermediaries, whose share in the sales of new cards in 1H 2006 was 31%. Gross value of loans under credit cards doubled over a year.

The investment financial assets were the second largest item in assets with 21% share as at the end of June 2006. Their value reached PLN 4,923 million, growing by 1.9% compared to June 2005. Investment financial assets portfolio was nearly entirely composed of debt securities (99.7%), mostly those issued by the State Treasury.

Another key item of assets, as at end of June 2006, were financial assets valued at fair value through P&L and hedging derivatives (12.1%). Over the year this asset item dropped by 22.5%, down to PLN 2,827 million, entirely due to the 27.5% reduction of portfolio of debt securities for trading. The portfolio was a major component of the discussed assets item (86.4%) and covered mainly securities issued by the central bank, State Treasury, and EU governments. The reminder of the item "financial assets valued at fair value through P&L and hedging derivatives" was the positive valuation of trading and hedging derivatives and equities, the latter playing just a marginal role.

Loans and advances to banks accounted for 6.4% of total assets of the Group (PLN 1,504 million) and their value increased over a year by 17.2%. Evolution of the two above mentioned asset items, i.e. "financial assets valued at fair value through P&L and hedging derivatives" as well as "loans and advances to banks", reflect both implementation of requirements regarding current Bank's liquidity management, and the effort to allocate funds in the most profitable assets.

Fixed assets, both tangible and intangible, amounted at the end of June 2006 to 1% of assets, reaching the value of PLN 240 million.

Liabilities

The structure of the Group's liabilities, as at the end of 1HY 2005 and 2006, has been presented in the below table:

LIABILITIES AND EQUITY (PLN millions)	30 June 2006		30 June 2005 pro-forma		Change
	Value	Structure	Value	Structure	2006/2005
Liabilities to banks	2 136.2	10.0%	779.9	4.4%	173.9%
Liabilities to Customers	14 891.0	69.7%	13 518.6	75.8%	10.2%
Liabilities under sold sell-buy-back securities	2 276.4	10.7%	1 949.3	10.9%	16.8%
Financial liabilities valued at fair value through P&L and hedging derivatives	492.2	2.3%	216.7	1.2%	127.2%
Own debt issued	32.8	0.2%	234.2	1.3%	-86.0%
Provisions	17.7	0.1%	21.0	0.1%	-15.8%
Subordinated liabilities	324.3	1.5%	323.8	1.8%	0.1%
Other liabilities	1 198.5	5.6%	802.2	4.5%	49.4%
Total liabilities	**21 369.1**	**100.0%**	**17 845.9**	**100.0%**	**19.7%**
Total equity	**2 039.1**		**1 984.0**		**2.8%**
Total liabilities and equity	**23 408.1**		**19 829.9**		**18.0%**

In the structure of passive side of the balance sheet, as at the end of June 2006 liabilities constituted 91% of the total, with the reminder, i.e. 9% accountable to the Group's equity.

The main item in the structure of liabilities, with 69.7%, were Customer deposits, at PLN 14,891 million at the end of June 2006, showing a 10.2% increase vs. the end of June 2005.

The scale of growth of deposits of the Bank Millennium Group does not fully reflect evolution of total Customer savings entrusted to the Group, as they also include mutual funds, not reported in the consolidated balance sheet. Taking into account market trends – reduction in interest rates and spreads – and higher demand for more complex products with higher return rate, the Bank moved the stress from traditional term deposits to more sophisticated products, in particular mutual funds, as they are more attractive for customers yet more profitable for the Bank. The Bank's offer was warmly welcomed by Customers leading to a significant increase of the value of investment products.

Total Customer Funds, including mutual funds and bonds, amounted as at June 30, 2006, to PLN 17,159 million, showing 19.4% increase y-o-y. Just like in the past, the highest dynamics was that of investment funds – 195%, up to PLN 2,259 million – despite high fluctuations of mutual funds' results over the second quarter of 2006. Moreover, the Bank started selling to its affluent Customers saving insurance products of external companies.

Customer funds: (PLN millions)	30 June 2006	30 June 2005	Change (%)
Total Customer funds (*)	17 158,6	14 374.9	19.4%
- of which: deposits	*14 891.0*	*13 518.6*	*10.2%*
- of which: mutual funds	*2 258.7*	*765.3*	*195.1%*

(*) the item includes customer deposits, retail bonds and investment funds

Number of individual Customers using the Bank's service via Internet reached 345 thousand, which marks significant growth of 60% year-on-year. Internet banking has been actively used by 18 thousand companies.

The structure of deposits, by Customer type, as at June 30, 2005 and 2006, has been presented in the below table:

	30 June 2006		30 June 2005		Change 2006/2005	
Customer Deposits (PLN million)	**Value**	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Deposits of individuals,	8 269.4	55.5%	8 121.3	60.1%	148.1	1.8%
Deposits of corporate customers and public sector	6 621.6	44.5%	5 397.3	39.9%	1 224.3	22.7%
TOTAL	**14 891.0**	**100.0%**	**13 518.6**	**100.0%**	**1 372.4**	**10.2%**

Deposits of individual Customers of the Group reached at June 30, 2006 a total of PLN 8,269 million, exceeding by PLN 148 million (or 1.8%) the number presented an year ago. The slight increase in this group of deposits during the analysed period resulted from higher interest in investment products (investment funds and saving insurance products).

Deposits from corporate customers and the public sector totalled as at June 30, 2006 PLN 6,622 million, i.e. they were by 22.7%, or PLN 1,224 million higher than as at June 30, 2005. The increase was due to general trends in the banking sector, and better efforts of the Group in the SME segment.

In the Group's liabilities, second to customer deposits (10.7%) were liabilities from securities sold with buy-back clause (sell-buy-back) that reached at the end of June 2006 PLN 2,276 million. This item mainly includes short-term funds acquired from Customers and financial institutions. As compared to June 2005, the funds acquired through sell-buy-backs increased by 16.8%, largely due to increased value of transactions made with corporate customers of the Bank.

Next item, as regards share in the financing structure of the Group, were liabilities to other banks (10% at the end of 1H 2006), increased since the end of 1H 2005 by 173.9%.

Liabilities from own debt issued, as at the end of June 2006, constituted small portion of Group's liabilities (0.2% of the total), lowering over the year from PLN 234 million to PLN 33 million. Lower level of the issued debt resulted mainly from redemption of bonds of Bank Millennium and redemption of bonds issued by Millennium Leasing Sp. z o.o. subsidiary.

Off-balance items

Off-balance items of the Group have been presented in the below table:

OFF-BALANCE ITEMS (PLN million)	**30 June 2006**	**30 June 2005**	**Change (%)**
I. Off-balance conditional commitments – granted and received	6 352.9	5 236.9	21.3%
1. Commitments, granted:	5 668.2	4 213.5	34.5%
2. Commitments, received:	684.7	1 023.4	-33.1%
II. Commitments related to buy/sell transactions	3 860.9	2 571.0	50.2%
III. Derivatives	56 242.6	27 394.8	105.3%
1. Interest Rate Forward contracts (FRA)	2 200.0	1 410.0	56.0%
2. Interest Rate Swap contracts (IRS)	17 228.6	6 842.6	151.8%
3. Currency Swap contracts	8 036.8	6 463.7	24.3%
4. Currency Interest Rate Swap contracts (CIRS)	9 761.3	5 651.1	72.7%
5. Other FX derivative instruments	18 945.0	6 851.9	176.5%
6. Commodity derivative instruments	70.9	175.5	-59.6%
IV. Other	0.2	0.2	0.0%
Total off-balance items	66 456.5	35 202.7	88.8%

The total off-balance items reached at the end of June 30, 2006, PLN 66.5 billion. The biggest item were derivatives at PLN 56.2 billion, increased since June 2005 by 105.3%. This item was mainly driven by FX instruments, including Currency Swaps, CIRS, and other FX contracts, inter alia options and forwards. Another major item of derivatives was IRS (interest rate swap), totalling at the end of June 2006 PLN 17.2 billion. The increase in derivative instruments resulted from the need to manage currency and interest rate risks.

Commitments related to buy/sell transactions are related mainly to currency spot transactions (PLN 3 831.8 million), and in much less extent to transactions on securities (PLN 29.1 million).

Off-balance conditional commitments amounted to 9.6% of total off-balance liabilities, or PLN 6.4 billion at the end of June 2006 (21.3% increase compared to the corresponding number from 30 June 2005). This item contains commitments given of PLN 5.7 billion and commitments received of PLN 0.7 billion – mainly related to credit risk security.

II.3. Stock exchange quotations and rating

Good financial results and promising growth prospects of the Bank have been of positive impact onto the pricing of the company shares on the Warsaw Stock Exchange. The increase in prices of the Bank shares during 12 months ending on 30 June 2006 was higher than that of majority of the biggest Polish listed banks, and was significantly higher than the growth rate of banking index WIG-Banks and WIG-20 index over the analyzed period.

It is worth to remind that in 2005 the shares of Bank Millennium noted the most dynamic growth among largest banks quoted at the WSE. As a recognition of this fact, as well as of the results improvement and dividend payment, Bank Millennium was awarded an honourable title of 'The 2005 Pearl of the Warsaw Stock Exchange' for the best quoted company in Poland, in the category 'Finance' (given by the PARKIET – Stock Exchange daily). The Bank paid high dividend for 2005 in the amount PLN 0.54 per share, which made 80.9 % of consolidated net profit and gave a dividend yield of 10.3% based on the share price of 30 December 2005 (PLN 5.25).

BASIC SHARE PRICE RATIOS FOR BANK MILLENNIUM

	30 June 2006	30 June 2005	Change	Change (%)
Share price of Bank Millennium (PLN)	6.00	3.31	2.69	81.3%
WIG Banks	54 661.13	38 333.66	16 327.47	42.6%
WIG 20	2 889.67	2 047.30	842.37	41.1%
EPS (PLN) *	0.16	0.15	0.01	6.7%
Book value per share (PLN)	2.40	2.33	0.06	2.6%

* not-annualized

On April 10, 2006, the rating agency Moody's Investors Service Ltd. increased the financial strength rating of the Bank from D- to D, with a stable outlook, sustaining long- and short-term deposit rating as is A2/ Prime-1, with a stable outlook.

The Moody's Agency stated in the report of April 10, 2006 that the increase of financial strength rating of the Bank reflects its progressing ability to fulfil strategic goals, increasing profitability of core activities, and reducing risk profile. The Moody's agency accounted for challenges that the Bank has met on its way towards cost reduction, with the assumed branch expansion and maintained assets quality, when faced with growing volumes of retail loans.

Moreover, the Moody's agency declared that the Bank has been successful in promoting selected retail products, developing efforts aimed at increasing cross-selling, and further efficiency improvement, thus in result improving the financial fundamentals of the Bank.

MOODY’S AGENCY RATING for BANK MILLENNIUM

Type of rating	Current	Last change	Previous rating
Long-term deposit rating	A2	7 April 2005	A3
Short-term deposit rating	Prime-1	14 January 2003	Prime-2
Financial strength of the Bank	D	10 April 2006	D-

III. BUSINESS DEVELOPMENT OF BANK MILLENNIUM GROUP

As part of the implementation of the organic growth strategy in Poland, Bank Millennium communicated to the general public, on January 19, 2006, its mid-term plans related to sales network development, modification of the business formula of branch operation, new offer for individual affluent Customers (the previous 'Prestige' segment), and rollout of the new corporate image. All the changes announced and under implementation, are a part of the program for Bank development on the market of banking services. The purpose of the changes is to improve the quality of services, facilitate access to them, increase efficiency of the sales network, strengthen the power of the Bank's brand, and in result – create conditions for a dynamic business growth in every segment of the Bank's operations.

III.1. Changing the visual identification

The purpose of the program of changing visual identification of Bank Millennium, conducted in 1HY 2006, was to launch a new graphic sign (logo) of the bank, and a new set of corporate colours that reflect – to a higher extent than before – the values of the Bank, that emphasize its nature, and create space in which to build a strong, well-recognized brand. The actions were accompanied by rollout of a new motto: 'Life inspires us'. This is a message stressing the Bank's involvement in its relationship with people, the link to their life, needs, and aspirations.

The program of changes in the visual identification was centrally-managed by the Bank's purpose-built dedicated workforce. In stage one (1st quarter) the process covered the following items:

- multi-channel program for communication to employees and Customers of Bank Millennium, informing them of the reasons behind the changes, the look of the new graphic sign, and new corporate colours along with the underlying values;
- nation-wide promotion campaign for the new graphic sign (logo), corporate colours, and the underlying set of values;
- change of panels with Bank Millennium graphic sign in every branch of the Bank;
- full replacement of materials used in marketing communication to Customers, including large-size posters in windows of all branches;
- change in design and colours of ATM screens;
- design and implementation of a new graphic and colour standard for the Bank's payment cards;
- change in the design of the Bank's internet sites, adjusting them to the new visual standards.

In stage two of implementation of the program for the change of the Bank's visual identification, efforts of the project workforce were closely coordinated with activities of the team managing the Bank's branches expansion and modernization project. During 2nd quarter the following changes were introduced:

- change of visual identification of subsidiaries of the Bank Millennium Group: Millennium Bel Leasing, Millennium Dom Maklerski, and Millennium Investment Funds (including replacement of all marketing materials);
- adjustment of external ATM rooms and external ATMs to the new standards;
- change of marketing materials displayed inside branches;
- design, production, and implementation of new signage for retail branches and Credit Centers;
- changes of external advertising panels at the Bank's head office in Warsaw and Gdańsk.

At the same time works were scheduled related to functional adjustment of existing branches of the Bank to the new solutions implemented under the sales network expansion project. The completion of stage two of the works marked the end of introduction of the entire scope of works planned for the Bank's visual identification project.

Image changes performed by Bank Millennium were well-accepted by its Customers. Their introduction, along with modification of the Bank's offer and of the sales network operation resulting from the process of modernization and construction of new branches, have proven the Bank's declarations to speed towards higher efficiency and accessibility for Customers. Also, by introducing the new visual standards in all entities of the Bank Millennium Group, the Bank gained power to strengthen the Millennium brand's position on the market. They facilitate more intense efforts towards cross selling, marketing synergies, and quality control to be applied to all companies under umbrella brand. The new visual identification, consistent with that used by the Millenniumbcp Group, shall also support promotion of the Millennium brand in other countries, joint marketing undertaking, as well as cost synergies in their implementation.

III.2. Network expansion and the new distribution model

On May 18, 2006, Bank Millennium opened in Bydgoszcz first Financial Center. By this fact itself, the sales network expansion program announced by the Bank, with 160 new branches to be opened over the coming three years entered the implementation stage.

The network expansion program, announced by Bank Millennium at the beginning of 2006, and the introduction of the accompanying new distribution model is the Bank's response to the dynamically developing and highly competitive market of services for individual Customers. On the Polish market there is a clear connection between the number of branches and the share in retail banking market. Banks of significant share in the retail banking have been planning and implementing development of their networks. The two above caused Bank Millennium to modify its mid-term strategy. Following its assumptions, the Bank's intention is to open 160 new branches over the coming three years. 36 of those branches will be already existing ones modernized and adjusted to the new customer service model.

The program implementation is managed by a dedicated workforce appointed at the Bank's head office level and has been proceeding as scheduled. In the 1st half of 2006 the Bank opened 17 new branches, 12 of which are existing previously branches modernized and adjusted to the new working model. Prior to new branches going operational under the new customer service formula, it was necessary to run a diligent staff recruitment, which led to employment and training of 189 new people for branches – both already opened and those to be opened in the following quarter. The total 2006 plan assumes opening a total of 57 new (and modernized) branches.

Also, based on analyses of market trends, the Bank updated its policy for market segmentation introducing new sales management solutions. The conclusions from the analysis have been reflected in the 'Single network, three segments' principle. The integration covered service and offer management for three Customer segments: mass individual Customers, affluent individual Customers (the previous 'Prestige' segment) and micro businesses. The development of the Bank's branches leads them towards more universal than before, multi-segmented outlets, servicing under 'common roof' and a single Millennium brand these various Customer segments. In order to ensure privacy and high quality of service, the Bank created Financial Centers with separated areas for every of the above-mentioned Customer groups. The Centers offer both regular banking service and specialized consulting. Financial Centers have completed their offer by leasing services (Millennium Bel Leasing), capital markets operations (Millennium Brokerage House), and investment funds (Millennium TFI). As a result, the Bank offers to its Customers higher quality of service and more convenient access in a single location, expecting quantifiable business effects in form of intensified cross selling.

The target solution is that the Bank Millennium network will comprise mutually complementary retail branches (including several dozens larger ones, with special positions for Relationship Managers of the SME segment) and multi-segment Financial Centers. The Customer service will be completed by Credit Centers offering mortgage and consumer loans and automatic distribution channels, such as Internet banking, multi-function ATMs and phone banking. The Bank will also continue its cooperation with mortgage loans brokers and commercial agents running direct sale of payment cards.

Implementation of the scheduled, 3-year network expansion plan will entail investment expenditures of PLN 188 million, of which PLN 84 million in 2006 for 57 outlets and change in visualization.

Expansion and modernization of the sales network, as well as the parallel introduction of the distribution model supported by the updated product offer for every Customer segment strengthens competitive position of Bank Millennium on financial services markets most relevant from business perspective.

III.3. Structure of the Group

Business activity of the Bank Millennium Capital Group is conducted chiefly within the structure of Bank Millennium S.A. – the dominant company of the Group. Additionally, business operations are carried out also in three subsidiaries: Millennium Leasing, Millennium Dom Maklerski and Millennium TFI which are conducting specialized services in the areas of leasing, brokerage/capital market and mutual funds/asset management.

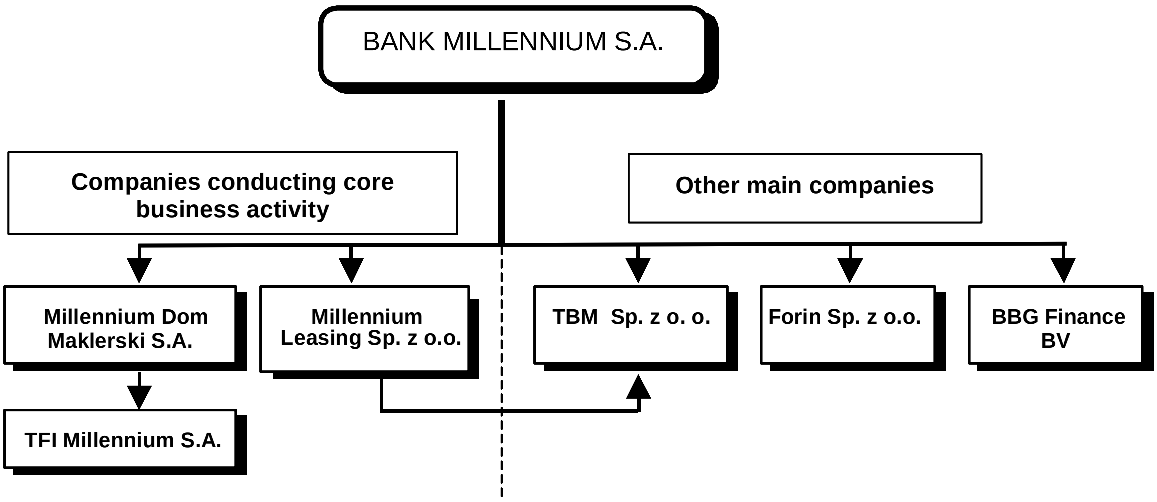
The other subsidiaries of the Group have no material importance for the business operations and provide services mainly in favour of the other members of the Group, thus constituting necessary supplementation of the core activity. During the first half of 2006 there were no changes in the structure of Bank Millennium Group.

In May and July 2006 the changes of the names of the subsidiaries of the Bank were registered (in sequence):

a. the company name BEL Leasing Sp. z o.o. was changed into Millennium Leasing Sp. z o.o.,
b. the company name Forin Sp. z o.o. was changed into Millennium Lease Sp. z o.o.

After balance date in August 2006, the Bank separated from Millennium Leasing Spółka z o.o. a part of the enterprise including a commercial real estate in MP Leasing Sp. z o.o. with the initial capital amounts to PLN 150,000 (in which the Bank took over 100% shares).

Bank Millennium S.A. Capital Group structure (as at 30.06.2006)



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

IV. RISK MANAGEMENT AND KEY THREATS

Risk exposure is an intrinsic component of financial market operations and constitutes fundamental behavioural driver for the market players and, in particular, banks. Today, almost all of financial decisions take into account the related risk these decisions generate.

In view of this, the Management Board of the Bank formulated and implemented a risk management policy aimed at elimination of potential threats for the Bank Millennium Group's operations. In terms of this policy execution – within frames set by the Management Board - there are three high-level committees responsible: Capital Assets and Liabilities Committee, Credit Committee and Operational Risk. Risk management in the Bank Millennium Group is conducted in strict co-operation with the Bank Millenniumbcp Group.

The main risk management areas include: credit risk, market risk, liquidity risk and operational risk. Risk measurement, analysis, control and management require application of a wide spectrum of methods and advanced mathematical tools. All types of risk are monitored and controlled in terms of profitability of the operations and level of the capital required to ensure security of operations in view of capital adequacy ratios.

Bank Millennium Group maintains a high level of equity that supports capital ratios much above the required minimum. As at June 30, 2006 the Group's equity totalled PLN 2,039 million (the Bank: PLN 1,715 million), whereas the capital adequacy ratio stood at 16.95% (for the Group) and 10.56% (for the Bank). For comparison, as at the end of June 2005 the consolidated equity amounted PLN 1,981 million (for the Bank PLN 1,976 million).

IV.1. Credit policy

As part of its credit policy, in the first half of 2006 the Bank Millennium Group continued the works started earlier and aimed at development of optimal conditions for its credit activity, maintaining satisfactory risk level and high quality portfolio. One of the objectives of this policy was also to improve the speed and quality of customer service through effective use of human resources, their specialisation and increasingly more advanced process support tools.

The credit policy of the Bank is contained in a number of regulations and procedures, issued by the Management Board of the Bank or its Members, covering the following main aspects:

- Scope of the credit process and decision competencies,
- Monitoring process,
- Concentration by customers, group of customers, by economic or geographic sector,
- Collateral management policy

An important element of the Group's credit policy is to fine-tune and develop credit capacity analytical and assessment methods. In order to ensure proper objectivity credit analysis applies modern methods based on scoring (rating) models, by each of the segment of customer, specifying the risk level related to Client financing. In the Group there are various scoring (rating) models applied for specific Client segments.

Assessment of the risk related to specific sectors of economy (industries) is supported by regular analyses conducted by the Macro Economic Analyses Bureau. The analyses cover – apart from the general assessment of the economic situation of the country – also the current situation and development prospects of specific industries. These analyses are applied in particular to determine the risk related to financing Clients operating in a given industry. Industries are rated according to the risk they carry. In order to manage the industry structure of the Group's credit portfolio also the principles for setting industry limits were established. In execution of the above principles in the 1st half of 2006 industry exposure limits were approved.

Apart from the industry limits in the Bank Millennium Group there are also exposure concentration limits per geographic regions as well as credit concentration limits for real estate financing. In the 1st half of 2006 none of the above limits was exceeded.

An important addition to the Client financing policy is collateral assessment policy. The existence of collateral is checked, its value, liquidity and possible legal limitations in administration of the collateral are evaluated. As regards the choice of the legal form, the efficiency of claim collection and specificity of a given transaction is considered. In order to minimise the risk of the collateral for the credit risk transactions there is a catalogue of the types of collateral items at the Bank that cannot be accepted (due to their type), as well as there are document-based collateral value adjustment ratios applied. The security items required by the Bank are always adequate to the evaluation of credit transaction risk.

IV.2. Credit risk

Credit risk means uncertainty as to whether the Client satisfies the agreements concluded with the Bank in terms of Client financing or repayment of the principal and interest within specific deadlines.

Credit risk management process is subject to the above-described credit policy of the Bank Millennium Group, which has been defined in detail in a number of procedures and other regulations.

In the 1st half of 2006 the Group took up a number of new initiatives in the credit risk area, and in particular:

- A new real estate market strategy and financing policy were adopted as well as risk management for mortgage-secured credit exposures
- Principles were modified for credit capacity assessment in case of the mortgage banking products – these principles were first of all an execution of the provisions contained in the Recommendation S issued by the Banking Supervision Commission

- A special organisational unit was set up at the Bank responsible for collateral management

The quality of the portfolio is measured in accordance with IAS using impairment methodology. Impairment is calculated for exposures material from the Bank's point of view (individual analysis) and for other exposures (collective analysis).

The scoring/rating models applied in the Group, as well as the credit decision support systems implemented earlier contributed significantly to the improvement of the quality of the credit portfolio as well as the timing to take decisions. The rating models are subject to regular evaluation in terms of their capacity to recognize creditworthy and not creditworthy customers. In addition, there were employees' training programmes conducted – mostly internal - in customer service, legal regulations and in the area of assessment of Clients' economic and financial standing.

As at 30.06.2006 the quality of the Group's credit portfolio increased significantly against the similar period of the last year, which is demonstrated by the ratios presented below:

Credit quality ratios (IFRS)	**30.06.2006**	**30.06.2005**
Total impaired loans (PLN million)	1 039	1 163
Impaired loans to total loans	8.2%	13.1%
Total provisions to impaired loans	67.0%	61.7%

Impaired loans to total loans ratio decreased down to 8.2% (by 4.9 p.p. compared to June 2005). The improvement resulted from a decline in the total of impaired loans by PLN 124 million (i.e. by 11%) in the period from June 2005 and from an increase in the total credit portfolio (by 46%).

The following events drove down the value of impaired loans in the Bank Millennium Group over the last 12 months:

- Restructuring and recovery actions at Bank Millennium, of particular efficiency in the hotel, real estate and construction industry,
- Bank's lost receivables write-off policy, whereby lost receivables (with 100% provision coverage) are written off against provisions and transferred into the off-balance sheet records. The value of the receivables written-off against provisions in the whole Bank Millennium Group in the period from July 1, 2005 to June 30, 2006 totalled PLN 32.0 million.

The improved security of the Group's portfolio is demonstrated by an increased impaired loans to provisions ratio. As at the end of June 2006 this ratio stood at 67% (5.3 p.p. up against the end of June 2005).

IV.3. Market risk

The market risk is related to the uncertainty that the interest rates, exchange rates and prices of securities as well as financial derivatives held by the Bank shall assume values different from the originally forecasted levels, which in consequence shall result in uncontrolled profits or losses.

In the 1st half of 2006 the Bank continued to develop market risk control system in order to both adjust to the requirements of the changing profile of the Bank's financial activity, resulting from among others higher diversification and growing turnover in financial instruments, inclusion of the detailed risk control principles required by the law, and to adjust the measurement tools to the new methodological developments and higher technological capacities. The basic method applied for the purpose of the Bank's every-day market risk management is the VaR approach. The VaR approach is applied for the trade and bank portfolios containing all the financial instruments of both balance sheet and off-balance sheet nature.

As supplementation of the VaR approach the Bank backtests the adequacy of the model and develops market risk measurement tools for trade portfolios employing a scenario approach. These methods are of particular use from the point of view of extraordinary events, which cannot be anticipated by the VaR method. At parallel to the changes concerning market risk organisation and approach, the Bank continued implementation of the technological changes regarding risk management supporting IT solutions. On the grounds of the new Kondor+ transaction system, which supports transaction services for the transactions concluded in the Treasury Department, the Bank uses IT tool InVaR developed by the Bank's Strategic Investor (BCP Risk Office) in a joint effort with Reuters on the grounds of RiskMetrics approach (JP Morgan). From the point of view of the risk control, the new transaction system has very essential characteristics as it supports access to the integrated and complete transaction database, allows management of all items and control over use of limits in real time and allows every-day calculation of the result on all the operational platforms.

Interest rate risk

In the interest rate risk area the Bank assumes the principle of maximisation of the market value of principal combined with obtaining the assumed net interest income within the risk limits.

On the last day of June 2006 the Bank's exposure to interest rate risk (VaR) stood at approx. PLN 66.1 million (in June 2005 PLN 25.3 million) and on average, in the first half of 2006 approx. PLN 25.8 million with the binding global market risk limit PLN 48.2 million. The limit was exceeded due to a temporary strong increase of volatility of market interest rates in the second half of June, which followed a resignation of the Minister of Finance and was ratified by the CALCO (Capital Assets and Liabilities Committee) in accordance with current Bank's procedures. The risk management procedures applied in the Bank allow for exceeding the limits within specified amount and time, as a result of temporary fluctuation of market conditions, if the Bank expects the fluctuation is limited in time.

In supplementation to the measurement of the value at risk (VaR) the Bank estimates also hypothetical changes in the financial result (EaR) due to changes in the market interest rates.

Due to the interest rate risk for the detailed structure of balance sheet and off-balance sheet items see the chapter XVI of Consolidated Financial Statements.

<u>FX risk</u>

The fundamental objective of FX risk management is to shape the structure of FX assets and liabilities and off-balance sheet positions within internal and external limits specified – in the case of the Bank – by the requirements of the Banking Law.

In the first half of 2006 the Bank maintained a balanced FX position. As at the end of June 2006 the Bank's exchange risk exposure (VaR) totalled approx. PLN 0.7 million (in June 2005 PLN 0.3 million) and on average in the first half of 2006 - approx. PLN 0.7 million with the binding limit of PLN 16.1 million.

<u>Risk related to the derivative instruments</u>

All the transactions involving financial derivatives are concluded either to hedge open balance sheet items or for trade purposes – within the internal limits. The basic derivatives, which the Bank uses both for interest rate and FX risk management as well as for trading purposes, are *FX Forward, Forward Rate Agreement, Interest Rate Swap, FX Swap, Cross Currency Swap contracts and currency options*.
In particular the Bank uses *FX Swap* and *Cross Currency Swap* transactions as a source of financing loans denominated in FX.

IV.4. Liquidity risk

As the supreme objective of liquidity risk management the Bank assumed such fund management so that in case of unfavourable scenarios regarding developments in the Bank's environment all the Bank's obligations towards its Clients could be met in a timely manner. Liquidity risk would also occur when the Bank had problems with obtaining funds to finance its operations or could not sell its trade assets in a relatively short time at market prices. Therefore, liquidity provision is a portfolio of treasury securities with the highest liquidity on the secondary market.

The Bank manages liquidity risk on an every-day basis with net liquid assets method (liquidity gap). In order to ensure proper level of the current liquidity the Bank maintains mandatory provision at the level as required by the National Bank of Poland, funds on the nostro account necessary for non-cash settlements, optimal funds in the Bank's vaults, liquidity surplus in the form of highly liquid financial instruments.

In its investment policy the Bank is governed by the requirements of the Banking Law and NBP's recommendations. The Bank employs an internal structural liquidity ratio defining the relation of the verified matured assets total and verified liabilities total. The safe level adopted at the Bank for this relation in the range up to 3 months stands at 100%. The liquid asset ratio is limited (at 20%) and it determines the share of liquid assets in the Bank's balance sheet total, which at the end of June 2006 reached 34.8% (in June 2005 42.7%). The limited immediate liquidity ratios (balance of receivables and liabilities on the money market, plus securities available for immediate sale) and quarterly liquidity (the lowest balance of receivables and liabilities on the money market accumulated within quarter, plus securities available for immediate sale on the date of this balance) were much above the adopted minimal values. For the purpose of current liquidity a portfolio of blocked Treasury securities is maintained in the amount ensuring settlement of short-term payments. Furthermore, monitoring covers the liabilities towards the biggest Clients and evolution of the Bank's assets and liabilities structure (both balance sheet and off-balance sheet commitments), which allows early recognition of unfavourable financial liquidity trends. In supplementation to the above, regular reviews of the deposit base stability, premature termination of deposits, scale of unauthorised overdrafts and utilisation of open credit lines are conducted systematically. In order to cover the liquidity risk related to the most unstable part of the financing sources an additional limit was introduced for the minimum value of the total value of the portfolio of liquid securities and short-term interbank deposits.

The Bank has emergency procedures for increased liquidity risk situations, so called contingency plan in case the Bank's financial liquidity deteriorates.

IV.5. Operational risk

In pursuance to the recommendations of the New Capital Accord and Recommendation M issued by the Banking Supervision Commission, Bank Millennium S.A. defines the operational risk as the risk of a loss incurred as a result of inadequate or ineffective internal actions and processes, human actions, systems and due to the impact of external events. Operational risk is intrinsic for every type of activity and it is not limited to exclusively some specific areas of activity of the institution. Therefore, many events containing elements of other types of risk (such as credit or market risk) include also elements of the operational risk. The above-mentioned definition does not include the system risk, strategic risk and risk of loss of reputation, whereas it does contain the legal risk. The operational risk factors such as internal actions and processes, people, systems and external events may have a negative impact on both efficiency and effectiveness of the Bank's operations as well as on the quality of financial and management information and on the compliance of the operations with the regulations in force and external rules.

In the first half of 2006 the Bank continued the process of implementation of advanced IT tools connected to the improvement in the data collection system for operational risk events (by business lines and relevant categories), self-assessment of the operational risk and key risk ratios system. IT tool implementation takes place and is co-ordinated at the level of the Millenniumbcp Group. The Bank, in pursuance to the standard approach of the New Capital Accord made in the first half of 2006 calculations and simulations regarding the level of the operational risk.

Bank's initiatives in the area of operational risk are co-ordinated at the level of the Operational Risk Committee. The identified areas, of particular importance in terms of operational risk, are obliged to report regularly to the Committee in accordance with the adopted standards. Furthermore, the Committee is the source of initiatives oriented at the best operational risk management.

IV.6. Basel II – level of preparation of the Bank Millennium Group

As regards the implementation of the New Capital Accord the Bank assumes application of an advanced IRB approach for the credit risk and standardised approach for operational risk. For conformance with the New Capital Accord the Bank is currently implementing a number initiatives integrated within the Basel II Project approved by the Management Board of the Bank. Within the project there are specific tasks concerning among others:

- LGD and EAD estimation,
- Development and valuation of the scoring models,
- Definition of the operational risk formula,
- Definition of the capital adequacy assessment methodology

The Basel II Project has been implemented in strict co-operation with Bank Millenniumbcp.

V. OWNERSHIP STRUCTURE AND AUTHORITIES OF THE BANK

V.1. Ownership structure

According to data in the Bank's possession, shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders (GMS) of Bank Millennium S.A. as at 30 June 2006 were:

Shareholder	***Number of shares***	***% share in equity***	***Number of votes***	***% share in votes at GSM***
Banco Comercial Portugues S.A.	424.624.072	50,00	424.624.072	50,00
Carothers Trading Limited	84.833.256	9,99	84.833.256	9,99
Priory Investments Group Corp.	84.833.256	9,99	84.833.256	9,99
M+P Holding S.A.	84.833.256	9,99	84.833.256	9,99

The above data relating to number of shares, percentage share in equity, number of votes and their percentage share in total number of votes at GMS were prepared based on information included in the shareholders' announcements sent to the Bank in accordance with art 69 of the "Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies".

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

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

On April 5, 2006 the Bank, as announced by the current report no. 11/2006, was informed by the Bank's shareholder – Banco Comercial Portugues (BCP) of its decision to file an application to the Polish Banking Supervision Commission for an approval to increase its share in the capital and voting rights of the Bank from the present 50% to a maximum of 66%. At the same time, BCP announced that it shall decide at the right moment how and when, and at what amount it shall increase its share in the Bank, taking into account adequate economic, legal, and market conditions.

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

Founder shares are subject to restrictions on disposal of the shares in that disposing of them upon consent of at least three fourths of founders to other founders does not result in loss of their privileged status.

Disposal of registered founder shares in remaining cases results in loss of their privileged status. There are no restrictions with respect to exercising voting rights under the Bank's shares.

V.2. Authorities of the Bank

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

General Meeting of Shareholders

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

On April 6, 2006, the Ordinary General Meeting of Shareholders of the Bank was held pursuant to the closing the 2005 financial year. The GMS approved financial reports of the Bank and the Bank's Capital Group, as well as the Management Board and Supervisory Board activity reports for the above period. The GMS discharged every member of the management board and every member of the supervisory board from performance of their duties. Also, the GMS made a decision regarding distribution of profit for 2005, dedicating part of it to the shareholders' dividend. Moreover, the GMS modified the Bank's Articles of Association, adjusting the text to the requirements of the amended Banking Law, and introducing Corporate Governance provisions, in particular independence criteria for Supervisory Board members. More, changes were made in the scope of activity of the Bank, driven by operating needs. The GMS elected the Supervisory Board for the new term.

Supervisory Board

The Bank's Supervisory Board is composed at least of 5 members elected by the General Meeting of Shareholders, half of whom, including the Chairman, are of Polish nationality. The Supervisory Board exercises permanent supervision over the Bank's activity. The Supervisory Board acts on the basis of legal provisions, the Bank's Articles of Association, resolutions of the General Meeting of Shareholders as well as the Bylaws adopted by itself and available on the Bank's website. The Supervisory Board has tenure of 3 years.

In the reporting period, pursuant to the end of the tenure of the to-date Supervisory Board Members, the General Meeting of Shareholders appointed a 14-strong Supervisory Board of the new term. The Supervisory Board of the new term is composed of the persons who performed the same function in the previous term, plus two gentlemen: Pedro Teixeira Duarte and Marek Furtek.

<u>The composition of the current tenure Supervisory Board as at 30 June 2006 is as follows:</u>

1. Maciej Bednarkiewicz
2. Ryszard Pospieszyński
3. Christopher de Beck
4. Dimitrios Contominas
5. Pedro Maria Calaínho Teixeira Duarte
6. Marek Furtek
7. Jorge Manuel Jardim Goncalves
8. Andrzej K. Koźmiński
9. Francisco José Queiroz de Barros de Lacerda
10. Vasco Maria Guimarăes José de Mello
11. Paulo Jorge de Assunção Rodrigues Teixeira Pinto
12. Marek Rocki
13. Dariusz Rosati
14. Zbigniew Sobolewski

The tenure of the present Supervisory Board ends on the day of holding the General Meeting of Shareholders, approving the Bank’s financial statements on 2008 financial year.

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

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

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

Management Board

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

The Management Board is composed of at least 3 Members, half of whom with Polish nationality. The Management Board is appointed by the Supervisory Board. The Management Board's tenure is 3 years. A Management Board Member may be recalled by the Supervisory Board at any time.

The following authorizations shall be given to make declarations of will regarding property rights and liabilities of the Bank, as well as to sign documents in the name of the Bank: Management Board Chairman – single-handedly, or two other Management Board Members jointly, or the Management Board Member with a proxy, or two proxies together. A proxy holding a joint power of attorney is Mr. Jerzy Andrzejewicz. For actions of a specified type attorneys-in-fact can be established, acting single-handedly within their authorization.

The Management Board performs its duties employing Committees appointed by the Management Board of the Bank pursuant to resolution that define the composition and competencies of the committees. The committees shall in particular comprise: Investment Banking Committee Commercial Committee, Investment Committee, Quality Committee, Capitals, Assets, and Liabilities Committee; NPL Committee, Personnel Committee, Operating Risk Committee, IT Steering Committee.

Since the tenure of the to-date Management Board members ended during the reporting period, on April 6, 2006, the Supervisory Board elected an 8-person Management Board for consecutive tenure. The personal composition of the newly appointed Management Board was the same as the personal composition of the Management Board of the preceding tenure.

The tenure of the present Management Board ends on the day of holding the General Meeting of Shareholders, approving the Bank's financial statements on 2008 financial year.

<u>The composition of the Management Board as at 30 June 2006 is as follows:</u>

1. Bogusław Kott – Chairman of the Management Board
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board
3. Fernando Bicho - Member of the Management Board
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board

5. Wojciech Haase - Member of the Management Board
6. Wiesław Kalinowski – Member of the Management Board
7. Zbigniew Kudaś - Member of the Management Board
8. Rui Manuel Teixeira - Member of the Management Board

On July 19, 2006, faced with the resignation from the Management Board function submitted by Rui Manuel Teixeira, entailed by his acceptance of new responsibilities in the Group of Banco Comercial Portugues, the Supervisory Board appointed Joao Bras Jorge to replace him in this function.

V.3. Rules of Corporate Governance

Bank Millennium fully respects all corporate governance principles accepted by the Bank, contained in the document titled 'Good practice in public companies in 2005', as declared in the statement made on June 29, 2006, available at the Bank's internet site.

In the third rating of public companies, issued by the Institutional Investors Rating Board (KRII), at the Polish Institute of Directors (PID), Bank Millennium was awarded top mark – five stars – and the title 'Trustworthy Company 2006'. The Board assessed the effectiveness in implementing corporate governance practices by companies quoted at the Warsaw Stock Exchange.

Bank Millennium was appreciated, inter alia, for its open and competent information policy, supporting investors in decision-making, and for adjustment of internal regulations to the corporate governance rules.

VI. REPRESENTATIONS OF THE MANAGEMENT BOARD

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

According to the best knowledge, the Semi-annual Consolidated Financial Report of the Capital Group of Bank Millennium S.A., as at 30 June 2006, and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This Semi-annual Management Board Report on the Activity of Bank Millennium Group contains a true picture of development, success, and condition of the Capital Group (including description of key risks and threats).

Selection of an entity authorized to financial reports auditing

The entity authorized to review financial reports, auditing this semi-annual consolidated financial report of the Capital Group of Bank Millennium SA, as at 30 June 2006, was selected in accordance with the regulations of law. The entity and chartered accountants who performed the audit, met all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURE:

Date	***Name and surname***	***Post/Function***	**Signature**
....	**Bogusław Kott**	**Chairman of Management Board**	....
....	**Luis Pereira Coutinho**	**Vice Chairman of Management Board**	....
....	**Fernando Bicho**	**Management Board Member**	....
....	**Julianna Boniuk-Gorzelańczyk**	**Management Board Member**	....
....	**Wojciech Haase**	**Management Board Member**	....
....	**Joao Bras Jorge**	**Management Board Member**	....
....	**Wiesław Kalinowski**	**Management Board Member**	....
....	**Zbigniew Kudaś**	**Management Board Member**	....