Semi-annual Report of the Management Board on the activities of Bank Millennium Capital Group during the 6-month period ending 30th June 2007

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I. MACROECONOMIC SITUATION

The first half of 2007 is a continuation of positive economic trends. In this period the Poland's GDP growth rate stood at 7.1%, an unprecedented figure for many years, higher than the growth dynamics of 2006 (6.1%). This very good economic situation translated into improvement on the labour market, where unemployment rate was decreased (as measured by BAEL approach, in accordance with the EU methodologies), to a one-digit level (9.6%). However, the high economic growth was accompanied by growing inflationary pressure and in the mid year the price growth rate exceeded slightly the level of the NBP's inflationary target (2.5%,+/-1%). Growing inflation combined with significant increase in salaries and employment level raised some concerns of the Monetary Policy Council (RPP) as to the stability of the future increase in the price levels. These concerns were expressed in the two interest rate increases in the first half of 2007 and another one in August this year, each by 25 basis points up to the level of 4.75% for the NBP's basic reference rate. In the upcoming quarters one may expect stabilisation of the high level of economic growth rate, which will be however accompanied by slow deterioration of the economic foundations, seen as deepening deficit on the current account and growing inflation.

In the first half of 2007 the main factor supporting the economic growth was domestic demand and in particular investments, which grew 25.3% y/y against 11.5% in the same period of the previous year. High investment dynamics is an effect of good and stable economic situation, high level of utilisation of production capacities and absorption of EU funds. However, it should be indicated that good investment results are also driven by one-off factors, related to exceptionally mild weather conditions in the first quarter, which were favourable for the construction sector. High stable growth dynamics is also recorded in the private consumption (6%), which was supported by a higher real dynamics of the individual disposable income - related to the growth of nominal salaries and benefits as well as growing employment. Also the trends in the foreign trade exchange were reversed as the net export contribution to the GDP demonstrates growing negative values. Such situation is a consequence of a dynamically growing domestic demand, which stimulates imports, as well as stopping the exports dynamics following declining situation abroad and relatively strong zloty. The effect of these trends is increase in the deficit on the current account up to approx. 3% GDP.

High economic growth is accompanied by a growing inflationary pressure. In June inflation measured by the consumer price index (CPI) totalled 2.6% y/y, slightly above the NBP's target (2.5%, +/-1%). Importantly, a year ago this ratio stood at 0.8% y/y. In spite of stronger zloty and import competition from the low-cost-manufacturing countries (China, India), growing salaries and employment drive up the demand, which starts to put pressure on price increases.

The growing economic revival was conductive to the improvement on the labour market. In June the registered unemployment rate decreased down to 12.4%, achieving the lowest level in the history of many years and recording decrease by 3.6% only within one year. According to BAEL approach (pursuant to the methodology of the European Union), the unemployment rate was reduced to a one-digit level (9.6%), the lowest in the last 10 years. However, one should remember that decline in the unemployment rate is partially attributed to the effect of the Polish work migration to the European Union countries. The first half of the year continued the increasing employment trend. The second quarter Q data demonstrated that the number of those employed in the corporate sector increased by 4.8% in relation to the same period of the previous year. Growing unemployment rate increased the pressure on the salary increase. In nominal values the average salary in the corporate sector increased in the second quarter 2007 by 8.9% y/y. Note that the increase in salaries in the economy started to exceed the dynamics of work efficiency as a result of which growing salaries will generate inflationary pressure.

In the first half of the year the situation in the public finance sector was very favourable. In the period between January and July the central budget closed with a surplus of approx. 0.6 billion PLN against the planned annual deficit of 30 billion PLN. Good budget fulfilment is an effect of the economic growth that was stronger than assumed and which translated into increase in the proceeds from individual and corporate income tax as well as VAT. It should be noted that the government is using the higher income in order to increase expenses, mostly social expenses, and not to reduce the deficit. Also, this does not pose a threat for the fulfilment of this year's budget, however it is not conducive to improvement in the medium-term fiscal prospects.

Deterioration of the inflationary prospects resulted in more stringent monetary policy of the Monetary Policy Council (RPP) and two-stage increase in the interest rates by the total of 50 basis points within the first half of the year. Another increase by 25 basis points took place in August and the reference rate was 4.75%. Along with the increase in basic NBP's interest rates, commercial banks started to increase interest rates for deposits and credits. The highest increase in interest rates was recorded for the loans linked to the money market rates, i.e. corporate loans and mortgages for individual households. Despite growing interests on bank's deposits, investment found participation units continued to enjoy a bigger demand form customers.

According to the Bank, in the subsequent quarters Polish economy will stay on track for dynamic growth. The role of the domestic demand will grow, especially the role of consumption, which will be supported by increase in individual disposable income through, inter alia, disability and old-age pensions, direct co-payments for farmers and growing salaries and employment. The growth of investments will be supported by a good financial situation of companies, high utilisation of production capacities and the European Union funding. The negative impact of the net export on the GDP will intensify as the growing domestic demand will stimulate imports. The growing demand will generate increasing inflationary pressure in spite of strong zloty and increase in the international competition. The upcoming quarters are expected to register increase in the CPI much above the NBP's inflationary target, i.e. 2.5% y/y. As a consequence of the expected growing inflation the NBP's interest rates will continue to rise.

The shape of the fiscal policy will have a strong impact on the economic conditions and growth. The solutions proposed so far do not improve medium-term fiscal prospects. However, structural reform, inter alia limitation of fixed budget costs, would support development of favourable conditions for the sustainable economic growth. Conducting fiscal reforms is also necessary to meet the Maastricht convergence criteria required for Poland to enter the European Economic and Monetary Union.

Continuation of the economic revival will have positive impact on the banking sector. Along with increase in the affluence of households one may expect increase in their savings. However, given increase in interest rates the dynamics of the credit action, also for mortgages, will slow down. Investment funds should continue their high popularity. Growing investments should stimulate increase in credit action in corporate sector. The Bank expects continuation of the good economic situation in the Polish banking sector.

II. FINANCIAL STANDING OF BANK MILLENNIUM GROUP

First half of 2007 proved to be very successful for Bank Millennium Group, both in terms of current financial results improvement as well as growth of business and position on the domestic financial services market.

The consolidated net profit of Bank Millennium Capital Group in the first half of 2007 totaled PLN 212.1 million, showing a growth of 51.9% versus the corresponding period of 2006 (PLN 139.7 million).

The main financial indicators achieved by the Group in the first half of 2007 were the following:

- **ROE (annualized):** 19.2%
- **Net interest income:** +13.6% y/y (on a pro-forma basis)
- **Net commissions income:** +54.8% y/y
- **Total operating income:** +35.9% y/y
- **Total costs:** +21.0 % (or +8.5 % if excluding branch expansion project)
- **Cost to income ratio:** 60%
- **Solvency ratio:** 12.2%

On the business development side, the first half of 2007 brought record quarterly sales in all main strategic products, i.e.: mortgages, credit cards, cash loans, mutual funds and leasing. The main business highlights are the following:

- **Active clients in Retail**: 842 thousand, 96 thousand new customers in 1st half 2007
- **Total customers funds** grew 36.5% y/y, of which:
  mutual funds: +175% y/y, market share of 4.5%, PLN 6.2 billion under management
- **Total loans** jumped 56.8% y/y, of which:
  mortgage loans: + 96% y/y, market share of 11% in portfolio and 14.5% in production
  credit cards loans: + 93% y/y, 91 thousand new cards in 1st half 2007
  cash loans: + 101% y/y, PLN 403 million disbursed year-to-date
  leasing production: + 74% y/y, market share in movables of 6.7%

II.1. Profit and loss account

INCOME

Net operating income after six months of 2007 amounted PLN 797.5 million, which means it grew by 35.9% compared with the 1H 2006. This growth resulted from the better results in all main three categories of net operating income.

Operating Income (PLN million)	**1H 2007**	**1H 2006**	**Change**
Net Interest Income *	369.3	325.1	13.6%
Net Commissions Income	254.5	164.4	54.8%
Other Non-Interest Income *	173.7	97.3	78.5%
Operating Income	**797.5**	**586.8**	**35.9%**

(*) Pro-forma data; presents all margin from derivatives in Net Interest Income, whereas in accounting terms part of this margin (PLN 21.4 m in 1H 2007 and PLN 9 m in 1H 2006) is presented in Other Non-Interest Income. 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, the Bank provides pro-forma data. In the Bank Management Board's opinion such approach 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 2007 amounted to PLN 369.3 million and was 13.6% higher than for comparable period of the last year, continuing a stable upward trend quarter after quarter. Net interest margin stabilised at 2.9%, i.e. the same level as for the 4Q 2006.

Net commissions income jumped by 54.8% y/y, mainly as a result of the strong growth of mutual funds, bancassurance products, credit cards, as well as income from brokerage services. Net commission income represented 32% of total operating income in 1H 2007.

Other non-interest income increased by 78.5% versus last year due to bigger Foreign exchange result as well as better trading income compared to 1H 2006. Foreign exchange result grew from PLN 82.1 million to 118.6 million (+44.5%) mainly driven by the increase of margin on customers' transactions, that reached 106.5 PLN million in the first half of the year. FX results include, apart from margin on customers' transaction ("table" and corporate transactions), balance sheet revaluation results and proprietary FX trading transactions.

COSTS

Total Costs in the 1H 2007 grew 21% y/y mainly as a result of branch expansion project.

Operating Costs (PLN million)	**1H 2007**	**1H 2006**	**Change**
Personnel Costs	249.7	183.9	35.7%
Other Administrative Costs	197.0	181.1	8.8%
Depreciation & impairment of fixed assets	31.8	30.4	4.5%
Total Operating Costs	**478.4**	**395.5**	**21.0%**
Of which expansion and new image	62.5	12.1	-
Operating costs without expansion	**415.9**	**383.4**	**8.5%**

If not considering the costs of expansion, total costs would grow 8.5%, of which administration costs would stay flat. Branch expansion accounted for 13% of the cost base (year-to-date) and was the main driver of staff increase of 979 employees during the last 12 months.

The Group employed 5623 persons at the end of June 2007 with the following structure of employment:

Employees number	**30.06.2007**	**30.06.2006**	**change**
Bank Millennium S.A.	5 235	4 275	960
Millennium Leasing Sp. z o.o.	209	195	14
Millennium Dom Maklerski S.A.	128	125	3
Millennium TFI S.A.	35	33	2
Other companies	16	16	0
Bank Millennium Group	**5 623**	**4 644**	**979**

Despite the additional costs of the network expansion, Bank Millennium Group significantly improved the cost to income ratio to 60% (compared with 67.4% a year ago).

In the 1H half of 2007, the Group created net impairment provisions of PLN 50.8 million. This value is strongly influenced by creation of “generic” (IBNR) provisions of PLN 32.5 million associated with the strong growth of the loan portfolio. The transactions of sale of impaired receivables had a positive impact on the level of created impairment provisions (PLN 15.8 million gross profit for the first half of 2007).

PROFIT

Pre-tax profit of the Group in 1H half 2007 stood at PLN 268.3 million, which means a growth by 55.5% compared to the gross profit in 1H 2006 (PLN 172.5 million). Net profit of the Group reached PLN 212.1 million, growing by 51.9% when compared to the previous year (PLN 139.7 million). Change of quarterly profit was even higher at 89.8% and 83% for gross and net profit respectively. Return On Equity (ROE) grew significantly from 12.5% to 19.2% in the course of the last 12 months.

Main profit indicators (PLN million)	**1H 2007**	**2Q 2007**	**1H 2006**	**2Q 2006**	**Change 1H 07/1H 06**	**Change 2Q 07/2Q 06**
Gross profit	268.3	162.6	172.5	85.6	55.5%	89.8%
Net profit	212.1	127.9	139.7	69.9	51.9%	83.0%
ROE (%)*	19.2%	-	12.5%	-	6.7p.p	-

* annualized

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

ASSETS

Changes of key assets of the Group as well as its structure during 12 months are presented in the table below:

ASSETS (PLN million)	**30.06.2007**		**30.06.2006**		**Change**
	Value	**Structure**	**Value**	**Structure**	**2007/2006**
Cash, transactions with the Central Bank	773.8	2.8%	795.2	3.4%	-2.7%
Receivables from other banks	1 052.1	3.8%	1 503.5	6.4%	-30.0%
Receivables from Customers	18 769.6	68.6%	11 967.0	51.1%	56.8%
Buy-sell-back receivables	144.7	0.5%	164.8	0.7%	-12.2%
Financial assets measured at fair value in the P&L Account and hedging derivatives	3 848.8	14.1%	2 826.5	12.1%	36.2%
Investment financial assets	1 993.0	7.3%	4 924.5	21.0%	-59.5%
Intangible and tangible fixed assets	320.5	1.2%	284.5	1.2%	12.7%
Other assets	478.1	1.7%	942.1	4.0%	-49.3%
Total assets	**27 380.7**	**100.0%**	**23 408.1**	**100.0%**	**17.0%**

As at 30.06.2007 total assets stood at PLN 27,381 million, which signifies its increase by 17% over the same period of last year.

Dominating in assets structure (68.6%) were receivables from Customers. Their share was far higher than in the previous year (51.1%), illustrating a positive change in asset structure in favour of loans, which generate higher income levels. As at end of June 2007 the net value of loans to Customers was PLN 18,770 million, reflecting the very dynamic growth by 56.8% as compared with the end of June in the previous year. The change of the value of this asset item (i.e. increase by PLN 6,803 million) determined the growth of the value of financial assets as well as total assets.

The structure and annual changes of loans to Customers of Bank Millennium Group by key types are presented in the table below:

Receivables from Customers (PLN million)	**30.06.2007**		**30.06.2006**		**Change 2007/2006**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Total loans to Customers	18 769.6	100.0%	11 967.0	100.0%	6 802.6	56.8%
Where:						
- mortgage loans	*10 570.7*	*56.3%*	*5 401.0*	*45.1%*	*5 169.7*	*95.7%*
- other retail loans	*1 591.7*	*8.5%*	*900.9*	*7.5%*	*690.8*	*76.7%*
- loans to businesses	*4 357.4*	*23.2%*	*3 916.3*	*32.7%*	*441.1*	*11.3%*
- leasing	*2 249.8*	*12.0%*	*1 748.8*	*14.6%*	*501.1*	*28.7%*

Mortgage loans dominate in the loans portfolio - the share in total loans portfolio grew to 56.3% as at end of June 2007 from 45.1% last year. The value of these loans as at end of the 1H 2007 stood at PLN 10,571 million, which signifies an increase by 95.7% as compared with the end of the first half of 2006. Also the importance of other retail loans is increasing (these comprise card debt, account overdraft limits, cash loans and other) with the current share in the portfolio being 8.5% and a value as at end of the reporting period of PLN 1,592 million (76.7% increase during one year).

Retail loans, as the main factor of net loans portfolio growth, attained another quarterly sales record-setting level in 2Q 2007 in all three key products:

- **Mortgage loans**: in 2Q 2007 the Bank scored another record as regards disbursements of mortgage loans – they reached PLN 2,042 million. In the period January – June 2007 the Bank's market share in new mortgage production stood at 14.5% and in terms of the value of the mortgage portfolio – 11.0%. The share of new loans in PLN is gradually increasing, from 10% a year ago to 34% in the 1st half of 2007.
- **Credit cards**: the total number of cards sold by the Bank in 2Q 2007 reached 46 000 (the highest quarterly sales so far), which permitted reaching at the end of the semester the level of almost 350 000 active cards (79% growth over last year). Average utilisation of Millennium cards is above market average: the Bank's share in total credit card payments is estimated to be in excess of 7%. The Bank decided to introduce a new card – Visa Platinum (as of 1st August 2007) and added new functionalities to current cards, such as bill payments and the possibility of conversion to instalment credit.

- **Cash loans**: 2Q 2007 brought record-setting sales amounting to PLN 207 million (20% growth over the previous year), which were generated largely by the retail branch network. The total portfolio reached PLN 858 million (101% up y/y).

Although the share of corporate business in the Group's loan portfolio – both actual loans as well as leasing – decreased over 12 months (to 23.2% and 12% respectively), the value of both groups of receivables in absolute terms increased in June 2007 as compared with the end of June 2006. The value of corporate loans at the end of the 1H 2007 reached PLN 4,357 million (11.3% annual growth), and of leasing PLN 2,250 million (28.7% annual growth). Thus the overall increment of corporate receivables value during 12 months was 16.6% y/y.

The value of new leasing contracts in the 1H 2007 was exceptionally high, reaching PLN 993 million, which means 93% growth as compared with the 1H 2006. Although the market overall also recorded strong growth, nevertheless Bank Millennium Group was able to increase its share in new production of movable assets lease from 5.9% in the 1H 2006 to an estimated 6.7% in 1H 2007. The leasing sales growth was principally achieved thanks to the SME and micro-business segments (72% of total sales in 1H 2007).

The next important item in total assets as at end of June 2007 were "Financial assets measured at fair value in the P&L Account and hedging derivatives" (14.1% share in total assets) as well as "Investment financial assets" (7.3% of total assets). In both these groups of financial assets the dominating component were debt securities issued by the Polish State Treasury (84.2% and 82.5% respectively), which were largely responsible for the change of their value at end of 1H 2007 as compared with end of 1H 2006.

In the discussed period the value of "Financial assets measured at fair value in the P&L Account and hedging derivatives" increased by PLN 1,022 million (i.e. by 36.2%) to the amount of PLN 3,849 million, meanwhile the value of "Investment financial assets" fell by PLN 2,931.5 million (i.e. by 59.5%) to the amount of PLN 1,993 million. Together these two items of financial assets recorded a decrease of 24.6% per annum, which was connected with the need to provide funding for the Bank's rapidly growing lending activity.

Apart from Treasury debt securities, 15.8% of the "Financial assets measured at fair value in the P&L Account and hedging derivatives" were assets from positive valuation of derivatives for trading and for hedging purposes, while in the portfolio of "Investment financial assets" there were also the Central Bank's debt securities (8.1%), other debt securities (8.8%) and, to a marginal degree, also equity investments (0.5%), the majority being investments in subsidiaries (PLN 7 million as at end of June 2007).

Receivables from banks constituted 3.8% of the Group's total assets (PLN 1,052 million) as at end of June 2007, their value having fallen in the course of the year by 30.0%.
Fixed assets, both tangible as well as intangible (without fixed assets for sale) altogether as at end of June 2007 constituted 1.2% of assets, reaching the value of PLN 321 million.

LIABILITIES

The structure of the Group's liabilities as at end of the 1H 2007 and 2006 is presented in the table below:

LIABILITIES (PLN million)	**30.06.2007**		**30.06.2006**		**Change**
	Value	**Structure**	**Value**	**Structure**	**2007/2006**
Liabilities to banks	3 357.9	13.4%	2 136.2	10.0%	57.2%
Liabilities to Customers	17 217.4	68.6%	14 891.0	69.7%	15.6%
Sell-Buy-back Liabilities	3 258.4	13.0%	2 276.4	10.7%	43.1%
Financial liabilities measured at fair value in the P&L Account and hedging derivatives	364.5	1.5%	492.2	2.3%	-25.9%
Liabilities on account of own securities	85.5	0.3%	32.8	0.2%	160.7%
Provisions	13.0	0.1%	18.7	0.1%	-30.4%
Subordinated liabilities	302.7	1.2%	324.3	1.5%	-6.6%
Other liabilities	505.6	2.0%	1 197.6	5.6%	-57.8%
Total liabilities	**25 105.1**	**100.0%**	**21 369.1**	**100.0%**	**17.5%**
Shareholders' Equity	**2 275.6**		**2 039.1**		**11.6%**
Equity and Liabilities	**27 380.7**		**23 408.1**		**17.0%**

As at end of June 2007 liabilities constituted 92% of Equity and Liabilities, the remaining part i.e. 8% being the Group's Shareholders' Equity.

In the structure of liabilities the dominating item (68.6%) were Customers' deposits, which as at end of June 2007 reached the value of PLN 17,217 million, which signifies their growth by 15.6% as compared with end of June 2006.

The scale of growth of Bank Millennium Group deposits does not reflect fully the total Customers' savings deposited in the Group, which also comprise mutual funds, not reflected in the consolidated Balance Sheet. During the 1st half 2007, the Bank dedicated particular focus to the sale of mutual funds, on the back of favourable market conditions and overall strong growth of the Polish mutual fund market. The Bank's offer in this respect was found considerably interesting by Customers, which led to a substantial increase of the value of investment products.

Total Customers' Funds (PLN million)	30.06.2007	30.06.2006	Change 2007/2006	
			Value	(%)
Customers' funds managed by the Group, including	23 428	17 159	6 278	36.5%
- Deposits and retail bonds	*17 217*	*14 900*	2 326	*15.6%*
- Millennium TFI mutual funds	*6 211*	*2 259*	3 952	*175.0%*
Third-party savings products	1 002	253	749	296%

As at the end of the 1st half of 2007 the value of Customers' funds managed by Bank Millennium Group, including mutual funds, reached the total of PLN 23,428 million, which signifies an increase of 36.5% y/y. Including the value of third-party savings products sold to the Group's Customers, the total increment of Customers' Funds was 40.3% y/y.

As in the previous periods, the biggest growth factors were mutual funds – growth by 175% to the amount of PLN 6,211 million. This means an increase of market share from 2.9% to 4.5% in the course of the year, with 0.8 p.p. increase in 2Q alone. Particularly successful was the "Superduet" product – a combination of a short-term deposit with a mutual fund, which was responsible for the strong increase of sales of mutual fund shares in the 1st half of 2007.

Gaining in importance are third-party savings products (insurance, mutual funds and structured bonds), which are offered to the affluent Customers' segment. The value of these products quadrupled to reach PLN 1,002 million as at 30 June 2007.

Deposits of the Group's individual Customers as at 30th June 2007 stood at the total of PLN 9,101 million and were PLN 832 million (10.1%) higher than in the previous year. Including own mutual funds not reflected in the Balance Sheet, the total growth of Customers' Funds in the period under discussion was 45.3% (PLN 15,312 million as at end of 1st half 2007).

Corporate and public sector deposits as at 30th June 2007 totalled PLN 8,117 million and were 22.6% or PLN 1,495 million higher than on 30th June 2006. This growth was attributable to general trends in the entire banking sector as well as stepped-up activity of the Group in the Small and Medium Enterprises segment.

The structure of deposits by Customer type as at end of 1st half of 2007 and 2006 is presented in the table below:

Customers' Deposits (PLN million)	30.06.2007		30.06.2006		Change 2007/2006	
	Value	Structure	Value	Structure	Value	(%)
Deposits of private Customers	9 100.9	52.9%	8 269.4	55.5%	831.5	10.1%
Deposits of corporate and public sector Customers	8 116.5	47.1%	6 621.6	44.5%	1 495.0	22.6%
TOTAL	**17 217.4**	**100.0%**	**14 891.0**	**100.0%**	**2 326.5**	**15.6%**

An important item in the Group's liabilities (13%) similar to deposits in nature (funds raised from third parties) were sell-buy-back liabilities, which as at end of June 2007 reached PLN 3,258 million. This item comprises mainly short-term money raised from Customers and financial institutions. As compared with June 2006 the value of funds acquired under sell-buy-back transactions increased 43.1% owing to an increase of the value of transactions with financial institutions.

The second-largest item in the Group's liabilities after Customers' deposits were liabilities to banks (13.4% as at end of 1st half 2007), which with respect to end of 1H 2006 increased 57.2% to the amount of PLN 3,358 million. The cause of this growth was above all a CHF 555 million loan, which the Bank took in November 2006 from an international consortium of banks for the period of 3 years (with a 2-year extension option).

Liabilities on account of own debt issue as at the end of June 2007 had a marginal share in the Group's funding structure, constituting merely 0.3% of the Group's liabilities. These were largely liabilities on account of short-term bonds of the Bank's subsidiary Millennium Leasing. Meanwhile subordinated liabilities accounted for 1.2% of the value of liabilities (PLN 303 million) as at end of 1H 2007, covering debt under an issue of long-term euro-denominated bonds.

The value of the Group's Shareholders' Equity as at end of June 2007 stood at PLN 2,276 million and despite payment of 2006 dividend in May 2007 in the amount of PLN 144.4 million it was up 11.6% over the end of June 2006, primarily owing to an increased value of retained earnings. With such equity, the solvency ratio of Bank Millennium Group as at end of June 2007 was 12.2%, less than at end of June 2006 (17.0%). This was especially attributable to the very dynamic growth of granted loans in this period and the related increase of capital requirements, nevertheless the ratio at such level should be considered satisfactory.

OFF-BALANCE SHEET ITEMS

The total value of off-balance sheet items as at end of June 2007 was PLN 95,625 million. The largest item are derivatives, which reached the value of PLN 81,853 million, signifying a growth of o 45.5% as compared with the end of June 2006. A significant role in this item is played both by FX instruments, including currency swaps, currency interest rate swaps (CIRS) and other (comprising i.a. options and futures) as well as interest rate swaps and forward rate agreements (IRS and FRA). The growth of the value of derivatives resulted from FX risk and interest rate risk management needs.

Liabilities connected with execution of buy/sell back transactions were PLN 3,838 million as at end of June 2007 and resulted from FX transactions of the Bank.

Off-balance sheet conditional liabilities constituted 10.4% of total off-balance sheet liabilities, as at end of 1H 2007 amounting to PLN 9,934 million (up 56.4% as compared with end of 1H 2006). This item comprises liabilities granted in the amount of PLN 7,094 million (25.2% growth) and liabilities received, which stood at PLN 2,839 million (up 314.7%) – the latter being primarily connected with securing credit risk.

The Group's off-balance sheet items are presented in the table below:

OFF-BALANCE SHEET ITEMS (in PLN million)	**30.06.2007**	**30.06.2006**	**Change (%)**
I. Off-balance sheet conditional liabilities granted and received	9 933.6	6 352.9	56.4%
1. Liabilities granted	7 094.4	5 668.2	25.2%
2. Liabilities received	2 839.2	684.7	314.7%
II. Liabilities connected with execution of buy/sell transactions	3 838.3	3 860.9	-0.6%
III. Derivatives	81 852.5	56 242.6	45.5%
1. Forward Rate Agreements (FRA)	4 576.6	2 200.0	108.0%
2. Interest Rate Swaps (IRS)	31 056.4	17 228.6	80.3%
3. Currency Swaps	8 163.8	8 036.8	1.6%
4. Currency Interest Rate Swaps (CIRS)	12 417.9	9 761.3	27.2%
5. Other currency derivatives	22 562.5	18 945.0	19.1%
6. Commodity derivatives	1 326.2	70.9	1770.5%
7. Other derivatives	1 749.2	0.0	-
IV. Other	0.0	0.2	-
Total off-balance sheet items	**95 624.5**	**66 456.5**	**43.9%**

II.3. Stock exchange quotations and rating

The improvement of Bank Millennium Group results after the first half of 2007 is reflected in the increase of share price of the Bank and other market indicators.

Market Indicators	**30.06.2007**	**30.06.2006**	**Change (%)**
Bank Millennium share price (PLN)	12.97	6.00	116.2
WIG main index	66077.69	40644.58	62.6
WIG Banks index	8783.89	5466.11	60.7
Book value per share (PLN)	2.68	2.61	2.7
Earnings per share (PLN) – for 1st half of the year	0.25	0.16	56.3
Market capitalization (PLN million)	11,014	5,095	116.2

Shares of Bank Millennium in the Warsaw Stock Exchange grew 116% between 30th June 2006 and 30th June 2007, significantly outperforming the main indexes (WIG Index: +63% and WIG Banks: +61%). Market capitalization reached PLN 11,014 million.

On May 23, the Bank paid out the dividend from the profit for the year 2006 in a total amount of PLN 144.4 million (48% of consolidated net income), which was PLN 0.17 per one share and made 2.2% dividend yield (calculated based on the Bank's share price as at the end of 2006. i.e. PLN 7.95).
On May 21, Fitch Agency assigned for the first time the following ratings for Bank Millennium: Issuer Default (IDR) ('A' Stable Outlook), Short-term ('F1'), Individual ('C/D').
According to Fitch, individual rating reflects Bank Millennium's increasing core profitability, focused strategy, improved quality of loan portfolio and adequate impaired loans coverage.

During 2Q 2007 also Moody's Agency has changed its ratings for Bank Millennium to A3; P-2; D- (positive outlook) due to new methodology implementation.

Below we present the current ratings assigned for Bank Millennium by the aforementioned rating agencies.

Moody's Investor Services:	**Current rating**	**Last change**	**Previous rating**
Long-term deposit rating	A3	24 April 2007	A2
Short-term deposit rating	Prime-2	24 April 2007	Prime-1
Financial strength rating	D	10 April 2006	D-

Fitch Ratings:	**Current rating**	**Date**
Issuer Default (IDR)	A	21 May 2007
Short-term deposit rating	F-1	21 May 2007
Individual	C/D	21 May 2007
Support*	1	13 July 2005 (last change)

* Support rating, by Fitch existed already before other types of rating were given

III. BANK MILLENNIUM GROUP BUSINESS DEVELOPMENT

The first half of 2007 brought about a fast improvement of financial and business results for Bank Millennium Group. Especially important is the improvement of the Bank's performance as regards products and services offered to individual Customers. Also the branch network expansion project, important from the point of view of the growth strategy, was progressing ahead of plan.

The end-of-June 2007 ratios: ROE at 19.2% and Cost/Income of 60% - mean that the medium-term targets defined for end of 2008 have been reached over a year in advance. This fact, coupled with good prospects for the Polish economy in the coming quarters, has made the Bank decide to announce its new medium-term targets timed for end of 2009. At the same time the Bank adjusted the branch network expansion programme by updating its assumptions and announcing the plan to build further outlets until the end of 2009. In this context it must be emphasised that the strategy of Bank Millennium Group remains unchanged and continues to focus on three key pillars: (1) development of retail banking through organic growth, (2) reaching a significant market position in consumer finance and (3) improvement of the business model for small and medium enterprises

III.1. New medium-term targets of the Group

On 1st June 2007 during the "Investor Day" of the Millennium bcp Group – the Bank's main shareholder – new medium-term targets were announced both as regards the whole Millennium bcp Group as well as its key operations – including the Polish Bank Millennium Group. The strategy to-date was reaffirmed with its three main pillars – retail banking, consumer finance and corporate banking – and new business targets were defined in each of these three areas for the end of 2009, in particular:

Retail Banking:

- Reach the level of 1.2 million active customers,
- Reach 6% share in the mutual funds market,

which altogether will permit reaching a 6% market share in retail customers' funds.

Consumer Finance:

- Reach 12% share in the mortgage loans market as regards value of loans portfolio,
- Reach 8% share in the credit cards market as regards number of cards,
- Reach the volume of PLN 2 billion cash loan sales in 2009,

which altogether will permit reaching a market share of 8% in retail loans.

Corporate banking:

- Acquire 1500 new SME customers a year,
- Grow net income in corporate banking by 20% a year,
- Reach 7% market share in movable assets lease sales.

Reaching the assumed business goals in the various strategic areas should be crowned with attainment at end of 2009 of the new financial targets:

- **Return on Equity** (ROE) of **20%**
- **Cost/Income** ratio of **55%.**

III.2. Update of the network expansion plan

By end of June 2007 Bank Millennium carried-out half of the branch network expansion programme, which had been adopted and announced in 2006: 93 branches of the 163 new ones planned until June 2008 were opened (plus 20 new Credit Centres). The total number of 93 new outlets comprises:

- 14 new Financial Centres (largest outlets providing service to all three segments of retail banking: mass-market, affluent and small companies)
- 21 new "Retail and Biznes" branches (mid-sized outlets providing service to retail mass-market customers and small companies)
- 8 new retail branches
- 10 new Credit Centres (supporting sales of mortgage loans and other retail loans)
- 40 branches transformed from existing outlets (including 15 Financial Centres and 24 "Retail and Biznes" branches)

The total number of Bank Millennium Group outlets as at 30th June 2007 stood at 380.

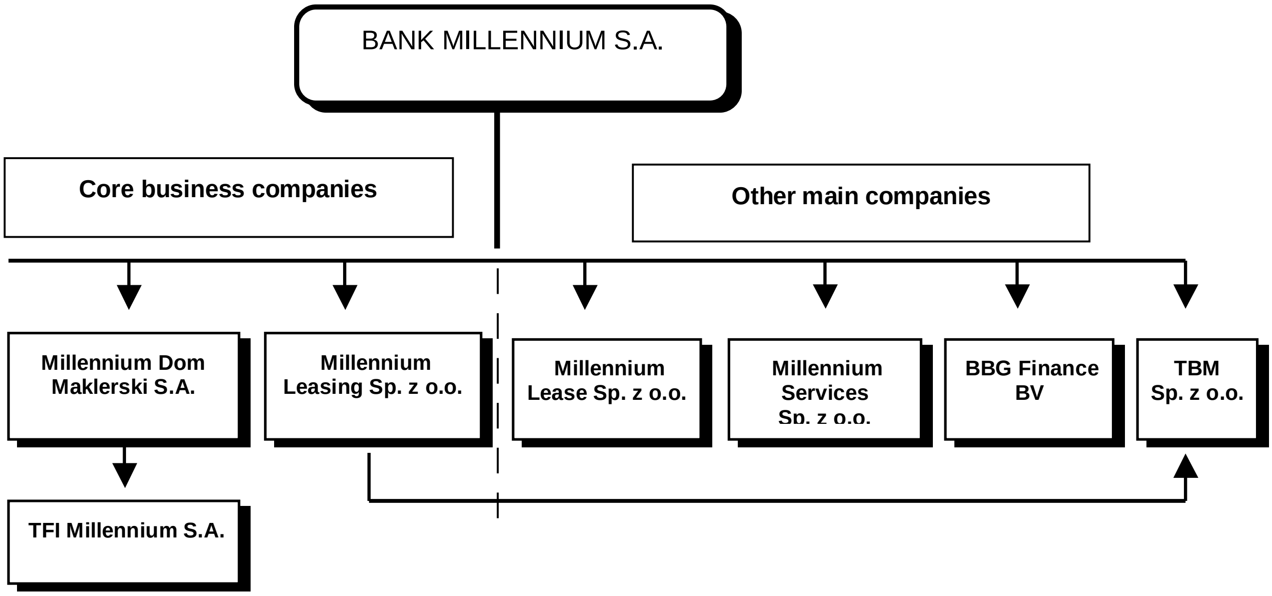
Current profitability of the newly opened branches has exceeded the Bank's expectations both as regards the ability to acquire new customers as well as the average profitability per customer. Also the evolution so far of network expansion expenditure (PLN 91.6 million new investments) has shown that the current programme may ultimately bring savings of 10-15%. Thus the total branch network expansion CAPEX in the period January 2006 – June 2008 is estimated at PLN 160-170 million.

The efficient execution of the current stage of branch network expansion as well as the sustained high growth potential of the Polish banking sector were the basis for announcement by Bank Millennium of an extended network expansion plan. This assumes the building of 100 further branches between Summer 2008 and the end of 2009, in result of which the Bank Millennium Group will have at its disposal the total of 560 branches. The CAPEX necessary to carry-out the extension of the network expansion plan (July 2008 – December 2009) is estimated at PLN 80 million.

III.3. Structure of the Bank's Capital Group

No significant changes took place in the structure of Bank Millennium Group in the course of the first half of 2007. As in previous reporting periods the Group's business activity is largely pursued in the structure of Bank Millennium S.A. – the Group's dominant company. Additionally business activity is also pursued in three subsidiaries: Millennium Leasing, Millennium Dom Maklerski and Millennium TFI, which are engaged in specialised leasing, brokerage/investment banking and asset/mutual fund management. The remaining subsidiaries are of no material significance for the core business and are mainly providing services to the other companies within the Group as an essential supplement to core business.

Structure of Bank Millennium S.A. Capital Group as at 30.06.2007



The full list of companies in Bank Millennium Group, stating the method of their consolidation, is presented in Chapter V of the "Interim Consolidated Financial Statement of Bank Millennium S.A. Capital Group on the 6-month Period ending 30th June 2007.

III.4. Main awards received in the first half of 2007

Bank Millennium was ranked 3rd on a list prepared by "Gazeta Bankowa" of **"Best Banks in 2007"** in a group of large universal banks. Bank Millennium was recognised for its development and efficiency.

Bank Millennium was also termed **"Good Employer"** by university students – in the 3rd edition of "KOMPAS National Ranking Of Employers" with participation of students from the best economics universities in Poland. The Bank was classified among leaders in the "Finance" sector in all categories.

Bank Millennium is proud that its **Macroeconomic Research Bureau** came up third on the list of forecasters, prepared by the "Parkiet" daily. Bank Millennium turned out to be the 3rd best bank among 20 banks, which were surveyed in the whole 2nd quarter of this year.

Effective Millennium brand management policy (after the rebranding in 2006) coupled with practical implementation of the values accompanying it was part of marketing and promotion efforts targeted both at customers as well as employees of Bank Millennium Group. In effect, in the 1H2007 Bank Millennium was among winners of the title of **"High Reputation Brand"** ("Finance" category) in the independent "PremiumBrand 2007" survey and was seen to be one of the trendiest brands in Poland in the "CoolBrands" brand survey.

Both surveys were largely based on preferences of the Bank's consumers (customers). The high level of services offered by Bank Millennium was confirmed by a proprietary customer satisfaction survey concluded in the 1Q 2007. This survey showed that 90% of the Bank's customers are satisfied or very satisfied with the Bank's services. This represents a 10 percentage points increase of the level of customer satisfaction as compared with a survey done in the previous quarter.

In the first half of 2007 Bank Millennium for the first time published a report, which constitutes a review of its actions in the realm of Corporate Social Responsibility. The **"Corporate Responsibility"** report, which accompanies the 2006 Annual report, is a record of the Bank's actions pursued in cooperation with and for the benefit of various groups of stakeholders. Its publication is an announcement of the Bank's intention to increasingly implement in an evolutionary way, in line with the adopted business strategy and on the basis of existing best practice, the solutions, which under international regulations are deemed to be consistent with CSR standards.

IV. FINANCIAL RISK MANAGEMENT AND KEY THREATS

Risk is inseparable from operating in financial markets and constitutes a fundamental factor impacting the behaviour of market participants, financial institutions in particular. Most financial and business decisions are now taken in view of the risk generated by them. Risk identification, measurement, analysis, control and management requires the use of a broad spectrum of methods and advanced mathematical tools. With this in mind the Group prepared and implemented a risk management policy and strategy of its realization. The Bank's policy for managing particular risks is to quantify and parameterise different risks with a view to optimising the structure of the Group's balance sheet and off-balance-sheet positions given an assumed level of business profitability. The main analytical areas – which are also risk areas for a bank activity – cover: credit, market, liquidity and operational risks.

At the strategic level, the Management Board is responsible for setting and monitoring risk policy. At the operational level particular committees are responsible for managing individual banking risks and their on-going control. These are: the Risk Control Committee, Capital, Assets and Liabilities Committee; Credit Committee; Processes and Operational Risk Committee.

All risks are monitored and controlled in terms of business profitability and level of capital necessary for guaranteeing the security of operations in terms of capital requirements. The results of risk management are regularly reported as part of management information system.

BASEL ACCORD

While implementing Basel II assumptions the Bank will use the following approaches to calculating the capital requirement:

- Advanced Internal Rating Based (A-IRB) approach to Credit Risk (excluding exposures to central banks, and public sector institutions
- Comprehensive Approach in the treatment of collaterals,
- Standard Approach to operational risk in all entities of the Group,
- Internal Models approach for market risk,
- Exemption from the use of the IRB approach until 31 December 2017 only for equities that were acquired until 31 December 2007 (if necessary)
- Simple Approach for equity exposures acquired after December 2007 (if necessary),
- Supervisory Formula Approach for securitisation transactions (if applicable),

It was also decided that the Bank would apply for the use of the Advanced Internal Rating Based approach in two stages:

- for retail portfolios – from January 2008
- for corporate portfolios – from January 2009 (until December 2008, standard approach on a transitory basis)

The above-mentioned decisions were taken in accordance with the recommendations resulting from the self-assessment exercise carried out by the Basel Accord II project implementation team within the BCP Group.

IV.1. Credit Risk

Credit risk means uncertainty as to the client's compliance with the agreements concluded with the Bank for his financing, i.e. repayment of interest and principal within a specified time. This may cause the Group's financial loss. Credit risk is a significant risk in the Group's activity. Thus, much importance is attached to managing credit risk exposures. Credit risk is connected with on-balance credit exposures (granted loans and advances), as well as off-balance sheet financial instruments, such as outstanding, but not utilised credit lines, guarantees and letters of credit.

Credit risk resulting from loans and advances, at the level of particular clients, is measured with the use of three parameters:

(i) probability of default by a client or counterparty - PD

(ii) exposure at default – EAD

(iii) loss given default - LGD

The Group manages, limits and controls credit risk concentrations, wherever they are identified – in particular with respect to an individual borrower or group of borrowers and with respect to sectors, geographical regions and real estate funding portfolio.

Exposure to credit risk is also managed through a regular monitoring of clients' economic and financial standing and/or history of cooperation with the Group in terms of timely settlement of their principal and interest liabilities.

The crucial elements of credit risk limitation within the Group are the principles of collateral policy. For particular client segments the Group implements certain guidelines relating to particular types of collateral and other credit risk mitigating instruments. The type and value of required collateral depend on the amount and type of a credit exposure, loan maturity and client rating. Renewable credit lines for natural persons are mostly unsecured. Additionally, in order to minimise credit losses, the Group tries to have additional collateral established in the case of ascertaining impairment triggers for a given credit exposure.

The structure of loans and advances to clients and banks and main credit portfolio ratios are as follows:

	30.06 2007		30.06 2006	
Main credit portfolio quality ratios (PLN million)	**Loans and advances to clients**	**Loans and advances to banks**	**Loans and advances to clients**	**Loans and advances to banks**
Loans without reported impairment	18 545.9	1 052.1	11 624.0	1 503.5
Loans with reported impairment	901.2	0	1 038.6	0
Gross Loans	19 447.1	1 052.1	12 662.6	1 503.5
Impairment charges including IBNR	-677.5	0	-695.5	0
Net Loans	18 769.6	1 052.1	11 967.7	1 503.5
Loans with reported impairment/total gross loans	4.6 %		8.2 %	
Total charges / loans with reported impairment	75.2%		67.0 %	

Based on the above table the improvement in the credit portfolio's quality can be observed: in the last 12 month the share of the portfolio with reported impairment went down from 8.2% to 4.6%. Moreover, the ratio of total charges to loans with reported impairment (coverage ratio) increased from 67% to 75,2%, which was influenced, among others, by a significant growth in charges for the IBNR portfolio in the reported period.

In the first half of 2007 Millennium Group established PLN 50.8 million in Profit of Loss account provisions for credit risk, which included PLN 32.5 million of charges for the IBNR in connection with a rapid growth of the credit portfolio.

The total value of impairment charges (including IBNR charges) for loans and advances stood at PLN 677 million as of 30 June 2007 (and PLN 696 million at the end of June 2006). Additional information on the charges in questions are included in the notes to the "Interim Consolidated Financial Statement of Bank Millennium S.A. Capital Group on the 6-month Period ending 30th June 2007.

During last 12 months the Group's total loans and advances went up 56.8% as a result of credit business development, in particular in the area of mortgage loans. At the same time the amount of loans with reported impairment went down by PLN 137.4 million (13.2%). The amount of that decrease was impacted among others by NPL portfolio sale transactions (with the balance sheet value of PLN 50 million) and write-offs of loans (aprox. PLN 46 million). Not including the above mention sale or write-offs, the decrease of impaired loans portfolio would be 4.1%.

IV.2. Market Risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolios due to adverse movement in bond prices, equity or commodity prices, interest rates or foreign exchange rates. Market risk management and control framework is defined in a centralized way with the same concepts and measures being used by all relevant BCP Group Entities.

The main measure used by the Group to evaluate market risks is parametric VaR (Value at Risk) – an expected loss that may arise on the portfolio over specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement. Calculation of the VaR in Trading Book is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics. The capital at risk figures are determined daily, both on an individual basis for each of the portfolios of positions of the areas having responsibilities in risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the various portfolios. To ensure that the VaR model adopted is appropriate to the evaluation of the risks involved in the open positions, a back-testing process has been instituted and carried out daily.

Parallel to the VaR calculations, trading area portfolios (Trading and Marketing Risk Strategy) are subject to a set of stress scenarios, in order to estimate the potential economic loss resulting from extreme variations in the market risk factors. Stress test scenarios are also used to identify the market risk movements and to identify of the actions that can be taken to reduce the impact of extreme variations in the risk factors.

The following types of market scenarios are being applied to the stress tests scenarios:

a) Parallel shifts of the yield curves,
b) Steepening and flattening of the yield curves,
c) Variations of the yield volatility,
d) Variations of the exchange rates,
e) Variation of the swap spreads,
f) Historical adverse scenarios.

The VaR calculation process is carried out, using software developed on the basis of web technology. This allows an online access for the trading areas to the values at risk in their respective portfolio.

The VaR indicators reflect the exposure to market risk approx. PLN 14 million (on average) during the 1H 2007.

The open positions mostly included interest-rate instruments, while the exchange rate risk was very limited. The FX Risk covers all the foreign exchange exposures of the Bank, as open positions are allowed only in Trading and Market Risk Strategy areas.

There were no market risk exposures in affiliated companies, as the Bank takes over the risk from subsidiaries and manages it at the central level.

The VaR limits were not exeeded in the period under consideration.

In case of Banking Book, sensitivity analyses of the non-trading portfolios are being performed in order to manage interest rate risk. As a result several hedging transactions have been performed in the first half of 2007 reducing the interest rate risk linked with the fixed rate loans portfolio, especially consumer loans portfolio and leasing portfolio.

VaR assessment is supplemented by monitoring the sensitivity of portfolios exposed to market risk to different scenarios including worst case ones.

Stress test results for risk areas exposed to market risk as of the end of June 2007 were the following:

Risk area	**Limit usage**
Trading	34%
Sales	27%
Funding & Hedging	52%
Market Risk Strategy Portfolio	15%

IV.3. Liquidity Risk

The liquidity risk reflects the possibility of incurring significant losses as a result of deterioration of the financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet needs for funds arising from the obligations to which the Group is subject.

The Bank carries out liquidity management centrally. Therefore, both the financing requirements and any surplus liquidity of the subsidiaries, are managed by transactions carried out with the Bank.
The budget process of the Bank includes a detailed liquidity plan with the objective of ensuring that the business growth will be supported by the appropriated liquidity structure of funding.

The significant growth of the loan portfolio occurred in 2006 and in the 1H 2007 was financed by the deposit base growth, Sell-Buy Back transactions, reduction of the securities portfolio, long-term syndicated loans, and by the interbank market.

The Bank incorporated in the liquidity plan several initiatives in order to promote a diversification of long term financing sources. The Bank concluded in the middle of July 2007 a new club deal loan of app. PLN 300 million and is preparing a securitization transaction of the leasing portfolio, to be concluded during the 4Q 2007. For the purpose of long-term liquidity management the Bank is planning a subordinated bond issue with an impact in Own Funds, but also in the long-term liquidity ratios. Securitization of the mortgage portfolio is being prepared as well and the Bank will consider also additional syndicated loans.

Evaluation of the Group's liquidity risk is carried out using both indicators defined by the Supervisory Authorities and other internal metrics, for which exposure limits are also defined. The evolution of the Group's liquidity situation in short-term time horizons (up to 3 months) is reviewed daily on the basis of two indicators defined internally: immediate liquidity and quarterly liquidity. These measure the maximum fund-taking requirements that could arise on a single day, considering the cash-flow projections for periods of 3 days and of 3 months, respectively.

During the first half of 2007, the quarterly liquidity ratio was constantly maintained with positive values (with exception of 3 days) meaning that the Bank kept during all period a long liquidity position for periods up to 3 months.

Additionally the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on actuarial basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted at the Bank for the relation of liquidity shortfall for each time bucket below 1 year corresponds to 25% of Total Assets.

During the first 6 months of 2007, all the defined indicators were maintained well above the limits.

Regarding the liquidity indicators defined by the Supervisory Authorities the liquid assets ratio defined by NBP should be highlighted. The liquid assets ratio of Bank Millennium stood at the end of June 2007 at 23.6% level comparing with 30% in December 2006.

The main source of funding in the Bank constitutes huge and well-diversified deposits base. Concentration of the deposits base, measured by share of 5 and 20 major depositors, as of the end of June 2007 amounted to 6,4% and 12,7% respectively (6,4% and 11.9% in December 2006).

The Bank has developed liquidity risk management tool defining stress scenarios, under which liquidity gaps are calculated on actuarial basis assuming conservative approach to assessment of probability of cash flow occurrence (i.e. inter alia taking into account withdrawal of deposits and delays of loans repayment, together with worse liquidity of secondary market for securities). Liquidity stress tests are performed each month to understand the Bank's liquidity-risk profile, to ensure that the Bank is in a position to fulfil its obligations in the event of a liquidity crisis and to contribute to the preparation of the liquidity contingency plan and management decisions.

The Bank has emergency procedures for situations of increased liquidity risk – The Liquidity Contingency Plan (contingency plan in case the Bank's financial liquidity deteriorates). The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

IV.4. Operational Risk

Operational risk manifests itself in every aspect of organisational activity and is inherent part thereof. The Group adopted the operational risk definition compliant with the New Capital Accord presented by the Basel Committee, according to which operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but strategic risk or reputational risks are treated as separate risk categories".

Being aware of threats resulting from the existence of operational risk the Group implemented a management system based on the best market practices. Its framework was codified in the general strategy prepared at the level of the Group's parent – Banco Comercial Portugues SA adjusted at the operational level to the specificity of the Polish market and the Group' activity profile.

As part of its adopted strategy, the Group defined its risk appetite in the form of a risk tolerance matrix. The Standard Approach was adopted for the purpose calculating the capital requirement for the Group's operational risk. Regular controls conducted by the Internal Audit Department are separate elements of operational risk management and regulations pertaining to on-going controls in processes.

The process of managing operational risk in the Group is based on the identification, assessment, monitoring, mitigating and reporting of risk. Each decision on taking operational risk mitigating steps is preceded by a cost-benefit analysis.

The adopted structure of operational risk management defines particular management levels and scope of their responsibility and duties. The key element of the operational risk management in an on-going activity is the function of a Process Owner. Based on an in-depth knowledge of the process the Process Owner can identify and eliminate on-going threats the fastest. A higher management level is the Process and Operational Risk Committee. It addresses threats whose impact goes beyond a single process. Any activities relating to operational risk management are coordinated and supervised by the Risk Control Committee, the Bank's Management Board and Supervisory Board.
Additionally the Group, while monitoring its domestic and international environment, collects information relating to the most recent trends in approaching operational risk management. By

gathering information about external operational risk events the Group tends to use knowledge about other institutions' mistakes for analysing probability of their occurrence in the organisation and possibility of counteracting them.

Risk awareness is an important element of corporate culture. In view of the specificity of operational risk the Group decided to promote changes in corporate culture through steps whose purpose is to increase operational risk awareness and put emphasis on the importance of the involvement of all Bank employees in the process of identifying and reporting threats and losses resulting from operational risk.

The first half of 2007 saw the Group's completing in Poland the Internal Control Project, which was run in Millennium bcp Group, conducted in cooperation with an external advisor. This project – through an audit of risks existing in processes and control of such risks – contributed to strengthening the control environment and thus materially changed the Group's operational risk profile. An external adviser's statement was issued constituting the project summary sent to the Bank of Portugal confirming the high level of control being implemented at the Bank and expressing a view on lack of any major threats connected with analysed processes It was assumed that the audit and control of risks existing in processes will be conducted every year.

Operational risk by its nature cannot be avoided. Thus, the Group – apart from taking mitigating steps – tends to minimise potential consequences of operational risk events.

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 2007 were:

Shareholder	Number of shares	% share in equity	Number of votes	% share in votes at GMS
Banco Comercial Portugues S.A.	556.325.794	65.5	556.325.794	65.5

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.

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

Founders' 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 founders' 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 March 26, 2007 , the Ordinary General Meeting of Shareholders of the Bank was held pursuant to the closing the 2006 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 2006, dedicating part of it to the shareholders' dividend.

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.

On March 6, 2006 the General Meeting of Shareholders appointed the 14-Member-Supervisory Board of the current tenure.

<u>The composition of the Supervisory Board as at 30 June 2007 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 Guimarães José de Mello
11. Paulo Jorge de Assunção Rodrigues Teixeira Pinto
12. Marek Rocki
13. Dariusz Rosati
14. Zbigniew Sobolewski

On August 31, 2007 Mr.Paulo Teixeira Pinto, resigned from his membership in the Supervisory Board of the Bank, due to personal reasons.

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 Personnel 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 Personnel 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: Commercial, Investment Banking, Quality, Personnel, Investment, IT Steering, Risk Control, Capitals Assets and Liabilities (CALCO); Credit, NPL, "Contingency Council", Process and Operational Risk.

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 2007 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. Joao Bras Jorge – Member of the Management Board
7. Zbigniew Kudaś – Member of the Management Board

Until April 18, 2007 the Management Board included also Mr. Wiesław Kalinowski, who resigned from his membership, due to personal reasons.

V.3. Rules of Corporate Governance

Bank Millennium respects 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, 2007, available at the Bank’s internet site.

The exemption from observance of Principle No. 42 results from the policy of Banco Comercial Portugues (BCP) Group with respect to use by companies from the Group of the same auditor (KPMG). According to this policy the key partner of the auditing company responsible for performance of the statutory audit of the financial report should change at least once every seven years from the date of his appointment (this approach is consistent with Directive 2006/43/EC of the European Parliament and Council of 17.05.2006).

In the Bank’s opinion quality of offered services and compliance by the auditor with world audit standards are decisive in selection of the auditor. KPMG guarantees highest quality of services in every respect.

It must be stressed that the policy of Supervisory Board of the Warsaw Stock Exchange issued in the “Code of the Best Practice WSE Listed Companies”, which will be obligatory from 01.01.2008, and replace currently used rules, coincides with the Bank’s statement mentioned above.

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 2007, 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 2007, 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**	....
....	**Zbigniew Kudaś**	**Management Board Member**	....