# Semi-annual Management Board Report

## on the activity of Bank Millennium Capital Group

### in the 6-month period ending 30th June 2008

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# I. MACROECONOMIC SITUATION

The first half of 2008 brought continued strong economic growth, although its pace fell slightly with respect to the very good performance last year. In the analysed period Gross Domestic Product (GDP) dynamics stood 5.9% y/y as compared with 6.9% y/y in the same period of the previous year. The main factor, which was conducive to economic growth was – as in previous periods – domestic demand, especially investments, which were up 15.4% y/y. High dynamics of investments came from a positive and stable business climate, a high level of output capacity utilisation and absorption of EU funding. Private consumption has been noting high growth dynamics (5.6% y/y), which was supported by higher real dynamics of disposable income coming from growing wages and social benefits, as well as growing employment. Net exports remained with negative contribution to GDP. This is a consequence of increasing imports as well as a slowdown of exports in connection with deteriorating business climate on part of our main trade partners plus relatively strong zloty. These trends have led to a growth of current account deficit to 4.5% GDP.

High economic growth was accompanied by growing inflationary pressure. In June the consumer price index grew to 4.6% y/y, strongly exceeding the Central Bank’s target (2.5% y/y). Growth of the overall level of prices was determined on the one hand by negative supply shocks i.e. growth of fuel and food prices on international markets, as well as increases of controlled prices. On the other hand the increasing inflationary pressure results from strong growth of domestic demand and growing disposable income of households. Inflation growth was mitigated by an appreciating zloty and competition of imports from low-manufacturing-cost countries (China, India). Nevertheless these factors were unable to neutralise growing demand pressure.

The evolving economic recovery supported improvement of the labour market situation. In June the registered unemployment rate fell to 9.6%, reaching a single-digit value for the first time since 1998. The BAEL unemployment rate (consistent with EU methodology) decreased in the second quarter to 7.1%, the lowest level in history. In June the number of persons employed in the corporate sector was up 4.8% over the same period of the previous year. However the declining rate of employment growth must be noted, which may be connected with decreased demand for labour on part of employers in result of growing unit costs of labour and the prospects of business climate slowdown. The falling unemployment increased the squeeze on growth of wages. In nominal terms average salary in the corporate sector grew in June 2008 by 12.0% y/y and wage growth in the economy continues to exceed the dynamics of productivity, in result of which unit costs of labour grow, generating additional inflationary pressure.

Deterioration of inflationary prospects and the concern that the “second round” effect may appear induced the monetary Policy council (MPC) to tighten monetary policy and go for a total increase of 100 basis points in the course of the first half-year. In June this year the reference NBP rate stood at 6.00% as compared with 5.00% in December 2007. Together with the growth of base NBP rates, commercial banks began to increase the interest on deposits and loans. The highest interest hikes occurred in the case of loans related to money market rates i.e. loans to businesses and mortgages for households.

Due to increased aversion to risk, households reallocated their savings towards safer investment options. As regards monetary aggregates household deposits grew markedly, which was doubtless attributable to the hike of interest rates as well as a slump on the stock exchange that led to a strong decline of mutual fund assets and the departure of investors from stock products. In the first half of the year the assets of mutual funds fell PLN 40.8 billion, while with respect to the peak from October 2007 by as much as PLN 52.2 billion. Over the same period of time the dynamics of household deposits grew to 21.8% y/y in June from 9.8% y/y in December 2007. Meanwhile the dynamics of corporate deposits experienced a major slowdown (6,9% y/y in June as compared with 14,4% y/y in December 2007), which is probably connected with the continuously high growth of corporate investments and stabilisation of corporate financial results. The turbulence on financial markets as well as increase of interest rates have slowed down lending in the first months of this year. Although both the dynamics of loans to households as well as to businesses remain relatively high (34,4% y/y and 24,5% y/y in June this year respectively), the growing concern about the prospects of Poland's economy has slowed down propensity to debt.

In the Bank's opinion in subsequent quarters the Polish economy will stay on the growth track, although the pace will be coming down. The main pillar of growth will continue to be domestic demand, in particular consumption, which will be aided by growing disposable income of the population. Meanwhile the factor supporting growth of investments will be the good, albeit gradually deteriorating financial standing of businesses and the inflow of money from the European Union. Data from last months have however increased the risk of an even more profound slowdown of the economy. The stronger-than-expected halting of business activity in the European Union, our main trade partner, increase of prices of raw materials on global markets as well as appreciation of the zloty may negatively impact the prospects facing Poland's economy, in particular exports and corporate investments. At the same time the upcoming quarters should see the inflation rate staying at the increased level, in excess of the inflationary target of the central bank. Due to growing risk to economic growth as well as a strong zloty, the cycle of turning the monetary policy screw is coming to an end.

## II. DEVELOPMENT OF BANK MILLENNIUM GROUP ACTIVITY

In the first half of 2008 Bank Millennium was consistently implementing its earlier developed strategy, which is based on three key pillars:

- Development of retail banking through organic growth
- Building a strong market position in the area of consumer finance
- Improvement of the SME business model

Bank Millennium Group performance in the first six months of 2008 has shown considerable improvement: consolidated net profit in the 1st half of 2008 grew 19% over the 1st half of 2007 and stood at PLN 252 million. This means that the Bank was able to avoid the impact of the notably deteriorating market conditions, especially visible on the capital products markets.

As compared with the last year, the Group attained almost doubling of gross result in the retail segment (up to the amount of PLN 182 million) and now this segment accounts for 57% of the gross result. In the reporting period the Bank reached 6.2% share in the market for private deposits (the target for end of 2009 was 6%), also reaching 6.7% in private loans, which is close to meeting the target of 8%. The Bank also increased its share in the mortgage market (11.1%) and credit cards (5.6%), thus confirming the ability to effectively deliver on business targets in the area of consumer finance. The gross result of the corporate banking area (PLN 88 million) accounts for 28% of the consolidated result and although it was not possible to improve the share in the entire business customers market, nevertheless Bank Millennium markedly improved its position in the SME segment, which is a strategic priority in the corporate banking area.

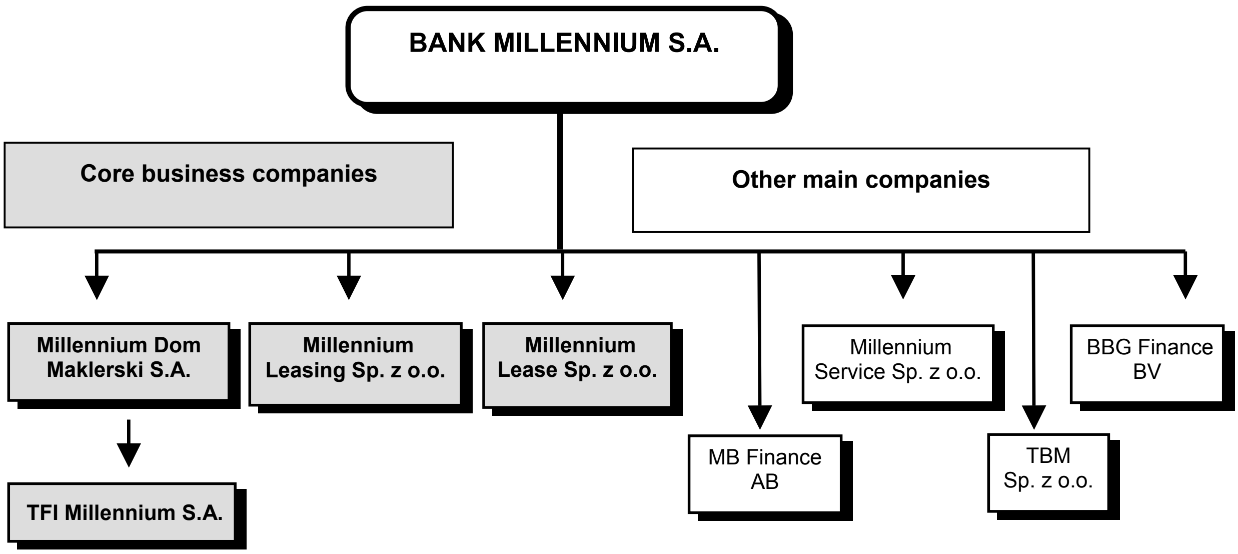
Market share dynamics of key Group's products compared to the status as at the end of December 2006, being the base of setting mid-term targets being currently realised:

| **Product category** | **June 2008** | **December 2006** |
|---|---|---|
| Private deposits | 6.2% | 4.0% |
| Business deposits | 3.6% | 3.7% |
| **Total deposits** | **5.0%** | **3.9%** |
| Private loans | 6.7% | 5.4% |
| Mortgage | 11.1% | 9.8% |
| Credit cards | 5.6% | 4.9% |
| Business loans | 3.1% | 3.4% |
| **Total loans** | **4.9%** | **4.3%** |
| **Millennium mutual funds** | **2.9%** | **3.6%** |

## II.1. The structure of Bank Millennium Capital Group

There have been no significant changes in the structure of Bank Millennium Group in the course of the first half of 2008. As in the previous reporting periods, the Group's business activity is largely pursued by Bank Millennium S.A. – the Group's parent company and four subsidiaries: Millennium Leasing and Millennium Lease – both supplying leasing services, Millennium Dom Maklerski, supplying brokerage and investment banking services and Millennium TFI, engaged in asset management activities within offered mutual funds or Clients' private portfolios. The remaining Group's 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 the core business.

**The structure of Bank Millennium S.A. Capital Group as at 30 June 2008:**




The full list of companies from Bank Millennium Group, stating the method of their consolidation, is presented in Chapter V of the "Semi-annual Consolidated Financial Statement of Bank Millennium S.A. Capital Group on the 6-month Period ending 30th June 2008".

## II.2. Sales network expansion programme

The sales network expansion programme started in 2006 and continued in the last half-year is one of the Bank's strategic projects. Under this programme the Bank is opening new or transformed branches, tailored to the new customer service model in four categories: Financial Centres - providing service to individual and business customers, Retail & Biznes branches - which serve individuals and small businesses, Retail branches - specialised in service for individual customers only and Credit Centres - for customers in the mortgage segment. As in the previous years, the Bank is opening new outlets above all in regions with the highest growth potential, focusing on urban centres, selecting locations, which permit convenient access for customers and effective execution of information and marketing campaigns.

As at end of the 1st half of 2008 the network of Bank Millennium numbered 445 branches, which means that the Bank had branches in all Polish cities with over 60 000 inhabitants.

### Branch expansion status:

| | December 2009 (plan) | December 2008 (plan) | June 2008 | December 2007 | December 2006 |
|---|---|---|---|---|---|
| Number of opened branches in scope of expansion programme: | 282 | 212 | 167 | 128 | 53 |
| *- new* | *233* | *163* | *121* | *83* | *22* |
| *- transformed* | *49* | *49* | *46* | *45* | *31* |
| | | | | | |
| **Total number of branches** | **560** | **490** | **445** | **410** | **354** |

Total Capital expenditure since the start of the programme until the end of the 1st half of 2008 amounted to PLN 172 million. In the 1st half of 2008 the Bank recorded positive impact of the sales network expansion programme (separated effect of creating new branches and modernisation of some existing branches) upon the Profit and Loss Account in the amount of PLN 22 million in gross terms.

In keeping with the adopted plan, at the end of 2008 the Bank Millennium network will have 490 branches and at the end of 2009 there will be 560 branches. In the Bank's view this target is quite attainable.

## II.3. New banking products launched in the 1st half of 2008

Bank Millennium is regularly expanding its range of products for all customer segments. These were the following in the past six months:

1. Deposit and investment products

- "Superprocent" deposit (since 27.03.2008) – high interest rate deposit for 3, 6 or 12 months, available to Customers from the retail, Prestige (affluent individual customers) and Biznes. Since 21.07.2008 the bank has a new, higher interest rate on this deposit as well as a 24-month version of the deposit at 8% p.a.
- "Megazysk" deposit (since 20.06.2008) – a combination of a term deposit with life insurance.
- Investment Program "Prestige" in USD and EUR (since 19.06.2008) for customers of the Prestige segment combines life insurance with an investment in foreign funds in USD and EUR, selected from a broad range of 56 various funds.
- "Megaduet" deposit (since 24.06.2008) is a three-month deposit with a high, guaranteed interest rate, coupled with investment products selected by the Customer (mutual funds, structured products).
- The possibility (since 15.07.2008) of making payments to all Millennium SFIO Foreign Funds subfunds in PLN and investing through them in the most renowned mutual funds in the world.

2. Products for businesses

- New accounts for micro businesses (since 10.04.2008) "Konto Biznes Start" and "Konto Biznes Profesja" for start-ups and liberal professionals.

3. Mortgage banking products.

- Promotion offer for customers applying for a mortgage loan (since 6th February until end of April 2008) – the Bank was offering a special spread of 0.5 – 1.3%.
- "Mój dom, moje szczęście…" (from 28th April to 30th June 2008) was a marketing campaign featuring the "Feel" group, based on a special promotion offer with a 0% loan fee, a loan payment of PLN 398 for every PLN 100 000 lent and simple refinancing.

## II.4. Main awards received in the 1st half of 2008.

The activity and offer of Bank Millennium were the object of many independent assessments and rankings in the first half of the year:

- Bank Millennium came 4th in the category of universal banks on the list of 50 largest banks in Poland, prepared by the "Bank" monthly. In the category of banks offering mortgages the Bank came 3rd while being 4th on the list of banks offering online banking service.
- In this year's edition of the "PremiumBrand" survey of Polish brands – Bank Millennium, as in the last year, was awarded the title of "Brand of High Repute" in the "Finance" category. Bank Millennium was especially appreciated as a business partner and potential employer, also the brand's high media profile was noted.
- For the fourth year in a row, Bank Millennium S.A. has been honoured by the US "Global Custodian Magazine" quarterly with the title "Top Rated" for the best bank offering custodian services in Poland in 2007.
- Millenet – the Bank Millennium Internet banking system – has been considered for the fourth year in a row as the best one in Poland in the "World's Best Internet Banks" global survey, organised by the "Global Finance" independent, international financial magazine.
- Bank Millennium was recognised in the 'Ranking of gold credit cards' by the "Rzeczpospolita" daily. The gold credit cards of Bank Millennium: Visa Gold and Millennium MasterCard Gold came third and were considered to be among the best.
- For the second time Bank Millennium was awarded the "2008 Financial Order" in the "Mortgage Loan" category by the financial magazine "Home&Market".
- On the ranking list of "Gazeta Wyborcza" and the "Open Finance" advisory company the offer of Bank Millennium came 1st in the category of loans for persons seeking an economical and flexible source of financing a real estate.
- The Bank received the crest "Business Friendly Bank", awarded by the Chapter of the 9th edition of a competition held by the Polish Chamber of Commerce and the Polish-American Small Business Advisory Foundation. The Jury especially appreciated introduction by Bank Millennium of innovative solutions in the SME sector with use of new technologies as well as the high flexibility in contacts with entrepreneurs.
- The loan offer of Bank Millennium to businesses was honoured with the prestigious title "2008 Market Leader" and "Euro Leader 2008".

## III. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

The financial situation of Bank Millennium Group has improved after the first half-year of 2008 despite unfavourable trends on global financial markets and on the domestic capital market. Consolidated net profit of Bank Millennium Group in the 1st half of 2008 stood at PLN 252 million, which signifies 19% growth over the 1st half of 2007.

The net profit earned in 1st half of 2008 was similar to that of 2nd half of 2007 and presented stable quarterly values reflecting the Group's resilience to the deteriorating market conditions, which have affected commission revenue on capital market products (mutual funds and brokerage activity).

Key information about 1st half of 2008 performance:

- **Total deposits:** increase by 49% year-on-year
- **Total loans:** increase by 34% year-on-year
- **Cost/income ratio:** 61.8%
- **ROE:** 19.9%
- **Solvency ratio:** 12.1%
- **Loans/deposits ratio:** 98%

Strong growth of business volumes, especially in the retail segment, has allowed the Bank to get quite close to the mid-year targets set for 2009.

Faster growth of deposits than loans, generated by the Group in the course of the last 12 months, has permitted improvement of the liquidity situation; loans/deposits ratio fell in the course of the year from 109% to 98% as at 30th June 2008. Thanks to high liquidity Bank Millennium is a net lender on the domestic money market.

Bank Millennium Group is also keeping a strong capital position: solvency ratio as at 30th June 2008 was 12.1%, but including assumed retention of 65% of net profit of the current year it would stood at 12.7%. Therefore capitalisation poses no obstacle to further organic growth of the Group.

In the 1st half of the year Bank Millennium continued expansion of the network of retail branches and at the end of June 2008 it had a total of 445 outlets. Total capital expenditures on the branch network expansion programme has reached PLN 172 million so far with new branches contributing PLN 22 million to pre-tax earnings in the 1st half of 2008.

## III.1. Profit and loss account

**INCOME**

| **Operating Income** (PLN million) | **1st half 2008** | **1st half 2007** | **Change** |
|---|---|---|---|
| Net Interest Income * | 529,3 | 369,3 | 43,3% |
| Net Commissions Income | 249,1 | 254,5 | -2,1% |
| Other Non-Interest Income ** | 151,9 | 173,7 | -12,6% |
| **Operating Income** | **930,2** | **797,5** | **16,6%** |

*(*) Pro-forma data: Net Interest Income includes margin from all derivatives. 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 afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 68,5 m in 1st half 08 and PLN 21,4 m in 1st half 07) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.*
*(**) includes net "other operating income and costs"*

**Net interest income** (on a pro-forma basis) of the Group in 1st half of 2008 reached PLN 529,3 million and was 43% higher than in 1st half of 2007. Quarterly interest income reaffirmed its up-ward trend growing strongly by 12% versus previous quarter. This was achieved thanks to the constantly strong growth of business volumes and the higher Net Interest Margin. NIM jumped in 2Q 2008 to 3.5% thanks to the growing margin on deposits, mainly as a result of higher market interest rates. Strongly growing net interest income more than compensated drop in net commission, also in quarterly terms.

**Net commissions income** in 1st half of 2008 reached PLN 249,1 million, which means 2% drop versus 1st half of 2007. Bank has managed to offset partially the decrease of commissions from own and third parties' mutual funds (PLN - 32 million) with growth in fees from insurance, cards, loans and other transactions with Customers. As a consequence, mutual funds share in total commissions income dropped from 38% in 1st half of 2007 to 27% now.

**Other non-interest income** reached PLN 151.9 million, which means a 13% drop versus 1st half of 2007, where there were exceptionally good results from trading on securities. Foreign exchange results remained the main contributor to this item, growing by 10% to PLN 130.8 million. The considerable growth of FX gains during the quarter (33%) was supported by increased currency exchange transactions of individuals connected with accelerated distribution of FX denominated mortgages as well as higher value of other transactions with customers.

**Total operating income** of Bank Millennium Group reached PLN 930,2 million after the first two quarters of 2008, which means 17% growth versus the homologous period of the previous year.

**COSTS**

| **Operating Costs** (PLN million) | **1st half 2008** | **1st half 2007** | **Change** |
|---|---|---|---|
| Personnel Costs | 300,1 | 249,7 | 20,2% |
| Other Administrative Costs | 242,7 | 197,0 | 23,2% |
| Depreciation & impairment of fixed assets | 32,4 | 31,8 | 1,9% |
| **Total Operating Costs** | **575,2** | **478,4** | **20,2%** |
| Of which expansion | *108,0* | *62,5* | |
| **Operating costs without expansion** | ***467,2*** | ***416,0*** | ***12,3%*** |

**Total costs** in 1st half of 2008 grew 20% y/y as a result of business development and, especially, branch expansion project. Without the expansion, total costs would grow 12%.

**Personnel costs** grew 20% during the year that is exactly as fast as number of employees grew. At the end of June 2008, Bank Millennium Group was employing in total 6,761 persons. The structure of Group's employment was the following:

| **Employment structure (full time equivalent)** | **30.06.2008** | **30.06.2007** | **Change** |
|---|---|---|---|
| Bank Millennium S.A. | 6 339 | 5 235 | 1 104 |
| Millennium Leasing Sp. z o.o. | 250 | 209 | 41 |
| Millennium Dom Maklerski S.A. | 124 | 128 | -4 |
| Millennium TFI S.A. | 33 | 35 | -2 |
| Other subsidiaries | 15 | 16 | -1 |
| **Total Bank Millennium Group** | **6 761** | **5 623** | **1 138** |

**Administrative costs** grew by 23% y/y mainly due to branch expansion and higher marketing spending. Depreciation (which includes provisions for non-financial assets) grew less than 2% versus last year.

**Cost to income ratio** increased slightly by 1.8 percentage point compared to 1st half of 2007 to the level of 61.8%, which does not indicate any significant deterioration of the Group's efficiency, bearing in mind the relatively high scale of cost increase (mainly due to branch expansion).

**Net impairment provisions** created by the Group during 1st half of 2008 amounted to PLN 36.8 million and were lower than the provisions created in 1st half of 2007 (PLN 50.8 million). Provisions created in 1st half of 2008 represent 31 b.p. over average total loans (on annualized basis).

**PROFIT**

Gross profit of Bank Millennium Group in the 1st half of 2008 reached PLN 318.2 million, which signifies 19% growth over the profit in the 1st half of last year. Net profit was also 19% up year-on-year, standing at PLN 252.3 million. This improved ROE over the past 12 months from 19.2% to 19.9%, which is very close to the 2009 target of 20%.

| **Key profit indicators** (PLN million) | 1st half of 2008 | 1st half of 2007 | Change |
|---|---|---|---|
| Gross profit | 318.2 | 268.3 | 18.6% |
| Net profit | 252.3 | 212.1 | 18.9% |
| EPS (PLN) | 0.30 | 0.25 | 18.9% |
| ROE (%)* | 19.9% | 19.2% | 0.7 p.p. |

** annualised*

## III.2. Balance-Sheet and off-balance sheet items

### *ASSETS*

As at 30 June 2008 the total assets of Bank Millennium Group stood at PLN 34,253 million, which signifies 25.1% growth over the same period of the previous year. Changes of key assets of the Group and their structure over the 12 months are presented in the table below:

| **ASSETS** (PLN million) | 30.06.2008 | | 30.06.2007 | | Change |
|---|---|---|---|---|---|
| | Value | Structure | Value | Structure | 2008/2007 |
| Cash, transactions with the Central Bank | 1 131.9 | 3.3% | 773.8 | 2.8% | 46.3% |
| Loans and advances to other banks | 1 595.5 | 4.7% | 1 052.1 | 3.8% | 51.7% |
| Loans and advances to Customers | 25 208.8 | 73.6% | 18 769.6 | 68.6% | 34.3% |
| Receivables from purchased sell-buy-back securities | 173.1 | 0.5% | 144.7 | 0.5% | 19.7% |
| Financial assets measured at fair value through P&L Acc. and hedging derivatives | 3 212.3 | 9.4% | 3 848.8 | 14.1% | -16.5% |
| Investment financial assets* | 2 156.1 | 6.3% | 1 993.0 | 7.3% | 8.2% |
| Intangible and tangible fixed assets** | 375.7 | 1.1% | 320.5 | 1.2% | 17.2% |
| Other assets | 399.5 | 1.2% | 478.1 | 1.7% | -16.4% |
| **Total assets** | **34 253.0** | **100.0%** | **27 380.7** | **100.0%** | **25.1%** |

** including investments in subordinated entities*
*** without fixed assets for sale*

In the structure of assets the dominating position i.e. 73.6% were loans and advances to Customers. Their share increased as compared with the same period of the previous year, in which it had been 68.6%. As at end of June 2008 the net value of loans and advances granted to Customers totalled PLN 25,209 million, which reflects their very dynamic growth by 34.3% annually. The change of this asset in value terms (up PLN 6,439 million) was the key determinant of the increase of the Group's total assets. The increase of loans and advances to Customers would have been even higher, were it not for the appreciation of the domestic currency in the 1st half of 2008.

The structure of loans and advances to Customers of Bank Millennium Group by main types as well as annual changes is presented in the table below:

| **Loans and advances to Customers** (PLN million) | **30.06.2008** | | **30.06.2007** | | **Change 2008/2007** | |
|---|---|---|---|---|---|---|
| | **Value** | **Structure** | **Value** | **Structure** | **Value** | **(%)** |
| Retail loans | 17 273,6 | 68,5% | 12 162,4 | 64,8% | 5 111,2 | 42,0% |
| *- mortgage loans* | *15 188,7* | *60,3%* | *10 570,7* | *56,3%* | *4 618,0* | *43,7%* |
| *- other retail loans* | *2 084,9* | *8,3%* | *1 591,7* | *8,5%* | *493,2* | *31,0%* |
| Loans to businesses | 7 935,2 | 31,5% | 6 607,2 | 35,2% | 1 328,0 | 20,1% |
| *- leasing* | *2 958,9* | *11,7%* | *2 249,8* | *12,0%* | *709,1* | *31,5%* |
| *- other loans to businesses* | *4 976,3* | *19,7%* | *4 357,4* | *23,2%* | *618,9* | *14,2%* |
| **Total loans and advances to Customers** | **25 208,8** | **100,0%** | **18 769,6** | **100,0%** | **6 439,1** | **34,3%** |

Retail loans remain the main driver of total loans growth. In the course of one year, starting with 30th June 2007, they showed high growth dynamics i.e. 42%, reaching the value of PLN 17,274 million. in value terms this increase was also highly significant, reaching PLN 5,111 million. The share of loans granted to individual Customers in total loans rose from 64.8% at end of 1st half of 2007 to 68.5% at end of 1st half of 2008.

Mortgage loans dominate in the structure of the retail loans portfolio. They also dominate quite clearly among total loans – their share increased to 60.3% at the end of June 2008 coming from 56.3% at the end of June last year. This group of loans was the main driver of growth of the Group's loans portfolio. The value of the mortgage portfolio at the end of 1st half of 2008 was PLN 15,189 million, which means 43.7% growth as compared with the end of the 1st half of 2007 and in value terms – by PLN 4,618 million. Sales of mortgages in the reported period was subject to fluctuations, depending on the overall situation on the market for these loans and following a relatively weaker 1st quarter with respect to the same period of the previous year the second quarter brought a marked recovery (PLN 1,804 million new disbursements). This allowed Bank Millennium to remain the third player on the mortgage market in Poland (newly-granted loans) with market share of 11.7% (data on January-June 2008). In this group the Bank has been noting a continued growth trend regarding foreign currency loans: foreign currency loans constituted 83% of the value of all disbursed loan tranches in the 1st half of 2008.

The value of other retail loans (covering card debt, personal account overdraft limits, cash loans and other) at the end of the reported period stood at PLN 2,085 million, which means an increase by 31% in the course of the year and their share in the total portfolio was 8.3%. The value of credit card indebtedness (gross) increased significantly by 52% in the course of the full year, reaching PLN 584 million. The number of active credit cards held by the Bank's Customers reached the record number of half a million, with the Bank reaching the 6th position by number of cards issued, with a market share of 5.7%. Use of credit cards, measured with the value of concluded transactions, is growing as fast as their number (up 45% year-on-year). The portfolio of cash loans increased 52% in the course of the last 12 months, reaching the total value of PLN 1,306 million (gross). Sales in the 1st half of 2008 (PLN 542 million) were 35% higher than in the same period of 2007.

Business loans grew in the course of the year starting with 30th June 2007 by 20.1% (or by PLN 1,328 million in value terms), reaching the total amount of PLN 7,935 million at the end of the reported period, with their share in the portfolio standing at 31.5%. Growth of the SME (businesses with turnover from 3 to 30 million per year) loans portfolio by 40% annually starting from 30th June last year, was important as regards growth of the corporate business. Such significant growth resulted i.a. from implementation last year of a new and more effective model of credit underwriting to customers from this segment. Leasing activity, carried on by the two Group's subsidiaries - Millennium Leasing and Millennium Lease, remains a very important driver of the value of corporate loans: the leasing portfolio increased 31.5% year-on-year, reaching the value of PLN 2,959 million at end of June 2008. Although such pace of growth is very good, the leasing business experienced a decline in Q2 2008 (as it happened on the entire market), mainly in the transport sector, which was connected with high oil prices. The value of leased commercial real estate doubled in the course of the year (to PLN 80 million), although movable assets still remain the vast majority of leased property. In terms of the value of the leased movables, the company's market share was 6.4% at the end of June 2008.

Strong growth of loans and advances to Customers was accompanied by a decrease of exposure to securities, which is illustrated by changes of the next two assets (in volume terms), which are: "Financial assets measured at fair value through the Profit and Loss Account and hedging derivatives" (9.4% share in total assets) and "Investment financial assets" (6.3% share of total assets). In both these groups of financial assets the dominating component were domestic debt securities, predominantly those issued by the State Treasury, accounting for 60.6% and 99.7% of the discussed items, respectively.

The value of "Financial assets measured at fair value through the Profit and Loss Account and hedging derivatives" fell by 636 million (i.e. 16.5%) to the amount of PLN 3,212 million at the end of June 2008, mainly owing to the aforementioned decrease of the value of debt securities by PLN 1,293 million, i.e. 39.9%. Apart from State treasury debt securities, assets from positive valuation of derivatives for trading and hedging are important items in this group of financial assets (39.2% share). The value of these instruments increased during the period of one year by PLN 653 million i.e. 107.6% to the amount of PLN 1,260 million, above all in result of appreciation of the domestic currency in the discussed period. The remaining component of the portfolio of “Financial assets measured at fair value through the Profit and Loss Account and hedging derivatives” were capital instruments and participation units in mutual funds, which had a marginal share of 0.1%.

The value of “Investment financial assets” increased by PLN 163 million (i.e. 8.2%) to the amount of PLN 2,156 million at the end of June 2008. Debt securities, which as mentioned above, were the dominating asset in this portfolio, were up PLN 166 million (i.e. 8.4%) with respect to the end of the 1st half of 2007. The remaining part of this group of financial assets were shares and interests in other entities, nevertheless their share was marginal, standing at 0.3%, the majority of that being investments in unconsolidated subsidiaries and associated entities.

Loans and advances to banks constituted 4.7% of the Group’s total assets (PLN 1,596 million) at the end of the 1st half of 2008. Their value grew in the period of one year by PLN 543 million, i.e. 51.7%.

Fixed assets, both tangible as well as intangible (without fixed assets for sale, which were reported in other assets) constituted jointly 1.1% of assets at the end of June 2008, reaching the value of PLN 376 million.

### *LIABILITIES*

The value and structure of the Group’s liabilities at the end of June 2008 and 2007 are shown in the table below:

| **LIABILITIES AND EQUITY** (PLN million) | **30.06.2008** | | **30.06.2007** | | **Change** |
|---|---|---|---|---|---|
| | **Value** | **Structure** | **Value** | **Structure** | **2008/2007** |
| Liabilities to banks | 2 227.8 | 7.0% | 3 357.9 | 13.4% | -33.7% |
| Liabilities to Customers | 25 641.2 | 81.0% | 17 217.4 | 68.6% | 48.9% |
| Liabilities on account of sell-buy-back transactions | 481.4 | 1.5% | 3 258.4 | 13.0% | -85.2% |
| Financial liabilities measured at fair value through P&L Acc. and hedging derivatives | 880.1 | 2.8% | 364.5 | 1.5% | 141.4% |
| Liabilities on account of debt securities | 911.9 | 2.9% | 85.5 | 0.3% | 967.0% |
| Provisions | 28.8 | 0.1% | 13.0 | 0.1% | 121.6% |
| Subordinated liabilities | 773.4 | 2.4% | 302.7 | 1.2% | 155.5% |
| Other liabilities | 699.5 | 2.2% | 505.6 | 2.0% | 38.4% |
| **Total liabilities** | **31 644.2** | **100.0%** | 25 105.1 | **100.0%** | **26.0%** |
| **Total equity** | **2 608.8** | | **2 275.6** | | **14.6%** |
| **Total liabilities and equity** | **34 253.0** | | **27 380.7** | | **25.1%** |

Liabilities accounted for 92.4% and Group’s equity for 7.6% of the total at the end of June 2008.

The dominating item in the liabilities' structure (81.0%) were deposits from Customers, which as at end of June 2008 reached PLN 25,641 million. Deposits increased significantly in the course of one year and were 48.9% higher than as at end of June 2007.

The structure of deposits by Customer type as at the end of the 1st half of 2008 and 2007 is presented in the table below:

| **Deposits of Customers** (PLN million) | 30.06.2008 | | 30.06.2007 | | Change 2008/2007 | |
|---|---|---|---|---|---|---|
| | Value | Structure | Value | Structure | Value | (%) |
| Deposits from individual Customers * | 17 311,1 | 67,4% | 9 450,2 | 54,9% | 7 860,8 | 83,2% |
| Deposits from corporate Customers and the public sector | 8 387,8 | 32,6% | 7 767,2 | 45,1% | 620,6 | 8,0% |
| **TOTAL** | **25 698,9** | **100,0%** | **17 217,4** | **100,0%** | **8 481,5** | **49,3%** |

** together with retail bonds issued by the Bank*

The rapid increase of deposits was largely attributable to the very high dynamics of deposits of individual Customers – their value was 83.2% (or PLN 7,861 million) higher than a year earlier and as at 30th June 2008 stood at the total of PLN 17,311 million. It must be noted that the growth of these deposits was over 60 p.p. higher than on the whole retail deposits market. This was possible i.a. thanks to campaigns promoting a series of attractive savings products, such as "SuperProcent", "MilleInwestycja" and "MegaZysk".

In the segment of corporate Customers the increment of deposits was not that significant. The value of business and public sector deposits as at 30th June 2008 was at the total of PLN 8,388 million, being 8% (i.e. PLN 621 million) higher than in the same period of last year. The moderate dynamics of growth in this segment came from the fact that with liquidity surplus the Bank did not pursue an overtly aggressive policy regarding corporate deposits.

Because not all savings invested by Customers with Bank Millennium Group are reflected in the consolidated Balance Sheet, the table below presents additional information about total Customers' funds invested in savings products offered by the Group.

| **Total Customers' funds** (PLN million) | 30.06.2008 | 30.06.2007 | Change 2008/2007 | |
|---|---|---|---|---|
| | | | Value | (%) |
| Customers' funds managed by the Group, where | **29 451** | **24 571** | 4 880 | 19,9% |
| - deposits and bonds | *25 699* | *17 217* | 8 481 | *49,3%* |
| - Millennium TFI mutual funds | *2 807* | *6 211* | -3 404 | *-54,8%* |
| - third-party savings products distributed by the Group* | *946* | *1 143* | -197 | *-17,2%* |

**insurance/investment products and mutual funds offered by companies not in the Bank Millennium Group*

Total Customers' funds in Bank Millennium Group, also including bonds sold to retail Customers, totalled PLN 29,451 million, which means a growth by 20% in the course of the last 12 months. Reaching this level was possible thanks to an exceptionally high increase of deposits, which more than offset the decreases in the mutual funds portfolio. The long correction on the capital market led to the appearance of another wave of outflows of money from mutual funds. Consequently the volume of other investment products held by Customers of Bank Millennium (chiefly own and third-party mutual funds) fell 49% from the level as at end of 1st half of 2007.

The item of liabilities of similar nature to that of deposits (funds collected from external parties) are liabilities on account of sell-buy-back transactions, which at the end of the 1st half of 2008 reached the value of PLN 481 million and accounted for 1.5% of total liabilities. This item mainly comprises short-term funds raised from Customers and financial institutions and as a rule is highly volatile. As compared with the end of 1st half of 2007 the value of funds raised in result of sell-buy-back transactions fell by PLN 2,777 million i.e. by 85.2%, largely due to the decline in the value of transactions concluded with corporate Customers.

The second highest liabilities item of the Group, after Customers' deposits, were liabilities to banks (7% share in assets at end of June 2008), which with respect to the end of June 2007 fell PLN 1,130 million, i.e. by 33.7%, to the amount of PLN 2,228 million. The cause of this decrease was first of all reduction of the value of deposits of other banks, while the balance of loans taken from other financial institutions increased in result of a syndicated loan agreement concluded by the Bank for the amount of CHF 120 million in July 2007.

Liabilities on account of debt securities issuance rose strongly as at the end of June 2008 – by PLN 826 million and reached the value of PLN 912 million, with their share in the structure of the Group's liabilities increasing to 2.9%. This item increased above all due to the agreement concluded by the subsidiary Millennium Leasing on securitisation of part of the company's assets. In its result, the value of the Group's liabilities on this account as at end of 1st half of 2008 totalled PLN 808 million. In addition, at the end of the reporting period the company recorded liabilities from short-term debt securities of PLN 46 million. The remaining part of this group of liabilities (PLN 58 million) comprised the Bank's liabilities under bonds issued within the private placement programme.

Subordinated liabilities constituted 2.4% of the value of liabilities (PLN 773 million) at end of June 2008 and comprised debt on account of issue of long-term bonds with the nominal value of EUR 80 million, with maturity on 2011, as well as liabilities on account of newly issued subordinated bonds with the nominal value of EUR 150 million, with maturity in 2017. The new issue strongly increased the value of subordinated liabilities by 155.5% during one-year period starting with 30th June 2007.

The value of the Group's equity as at the end of the 1st half of 2008 stood at PLN 2,609 million and increased by PLN 333 million, i.e. 14.6% as compared with the end of the 1st half of 2007, thanks to retained earnings after dividend paid in May 2008 in the amount of PLN 161.3 million.

### *OFF-BALANCE SHEET ITEMS*

The total of nominal values of off-balance sheet items as at end of June 2008 was PLN 146,189 million. The biggest item were "derivatives", which reached the value of PLN 134,866 million, thus a 64.8% growth as compared with the end of June 2007. in this item an important part is played by FX instruments, such as currency swaps, CIRS and others (including i.a. options and futures) as well as IRS and FRA instruments. The increase of the value of derivative instruments resulted from the needs of FX risk and interest rate risk management, connected with the growth of the Group's business volumes.

Off-balance sheet conditional liabilities constituted 6.1% of total off-balance sheet liabilities and at the end of 1st half of 2008 they stood at PLN 8,947 million (down 9.9% from the end of 1st half of 2007). This item comprised liabilities granted in the amount of PLN 8,252 million (up 16.3%) and liabilities received, which were PLN 695 million (down 75.5%). The decrease of liabilities received resulted from the decrease of the value of financial liabilities while guaranties, being largely connected with securing of credit risk, increased by 9.1% during analysed period. Liabilities connected with execution of buy/sell transactions stood at the end of June 2008 at PLN 2,376 million and resulted from FX transactions concluded by the Bank.

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

| **OFF-BALANCE SHEET ITEMS** (PLN million) | **30.06.2008** | **30.06.2007** | **Change (%)** |
|---|---|---|---|
| I. Off-balance sheet conditional liabilities granted and received | 8 947.4 | 9 933.6 | -9.9% |
| 1. Granted liabilities | 8 252.4 | 7 094.4 | 16.3% |
| 2. Received liabilities | 695.1 | 2 839.2 | -75.5% |
| II. Liabilities connected with execution of buy/sell transactions | 2 375.6 | 3 838.3 | -38.1% |
| III. Derivatives | 134 865.9 | 81 852.5 | 64.8% |
| 1. FRA | 9 832.9 | 4 576.6 | 114.9% |
| 2. IRS | 41 887.4 | 31 056.4 | 34.9% |
| 3. FX swaps | 17 996.1 | 8 163.8 | 120.4% |
| 4. CIRS | 15 607.2 | 12 417.9 | 25.7% |
| 5. Other FX derivatives | 47 435.3 | 22 562.5 | 110.2% |
| 6. Commodity derivatives | 1 759.0 | 1 326.2 | 32.6% |
| 7. Other derivatives | 348.1 | 1 749.2 | - |
| IV. Other | 0.0 | 0.0 | - |
| **Total off-balance sheet items** | **146 189.0** | **95 624.5** | **52.9%** |

## III.3. Market quotations and rating

The period of the past 12 months saw major decreases of stock prices both on global markets as well as on the domestic capital market. This has made the price of Bank Millennium shares drop on the Warsaw Stock Exchange in the period from 29th June 2007 to 30th June 2008 by 47%. Netting-out the payment of dividend in the amount of PLN 0.19 per share, done on 20th May 2008, the price of the Bank's shares fell 45.3% in the last 12 months.

Over the same period of time WIG - the main index of WSE lost 38%, the WIG Banks sector index being down 32%, while mWIG40, which comprises the shares of Bank Millennium, lost as much as 53%.

| Market indicators | 30.06.2008 | 29.06.2007 | Change (%) |
|---|---|---|---|
| Free float shares of Bank Millennium | 849 181 744 | 849 181 744 | 0 |
| Trading in the Bank's shares in 1st half of (PLN million) | 12 840 | 14 760 | -13.0 |
| Price of Bank Millennium shares(PLN) | 6.80 | 12.97 | -47.6 |
| Market capitalisation (million) | 5 744 | 11 014 | -47.6 |
| WIG - main index | 41 146.26 | 66 077.69 | -37,7 |
| WIG Banki | 6 009.90 | 8 783.89 | -31.6 |
| mWIG 40 | 2 649.88 | 5 684.46 | -53.4 |

In the first half of 2008 none of the rating agencies evaluating the Bank made any changes.

Shown below is current rating assigned to the Bank by two leading agencies, which give rating to Bank Millennium.

| Moody's Investor Services: | Current | Last change | Previous |
|---|---|---|---|
| Long-Term Deposit Rating | A3 | 24th April 2007 | A2 |
| Short-Term Deposit Rating | Prime-2 | 24th April 2007 | Prime-1 |
| Bank's Financial Strength Rating (BFSR) | D | 10th April 2006 | D- |

Moody's agency has currently a positive outlook for the Bank's Financial Strength Rating.

| Fitch Ratings: | Current | Date given |
|---|---|---|
| Long-Term Deposit Rating | A | 21st May 2007 |
| Short-Term Deposit Rating | F-1 | 21st May 2007 |
| Issuer Default Rating (IDR) | C/D | 21st May 2007 |
| Support Rating | 1 | 13th July 2005* |

** the relationship with Fitch as regards support rating was in place already before other types of rating were assigned*

## IV. RISK MANAGEMENT IN BANK MILLENNIUM GROUP

Risk management plays a key role in the balanced and sustained growth strategy of Bank Millennium Group, contributing to the optimization of the risk/return trade off across the different business lines as well as to the maintenance of an adequate risk profile in terms of capital and liquidity.

To ensure an efficient risk management function and consistent practices, Bank Millennium implemented a risk management model where the main risks for the Bank's activity – i.e. Credit, Market, Liquidity and Operational – are managed in an integrated way.

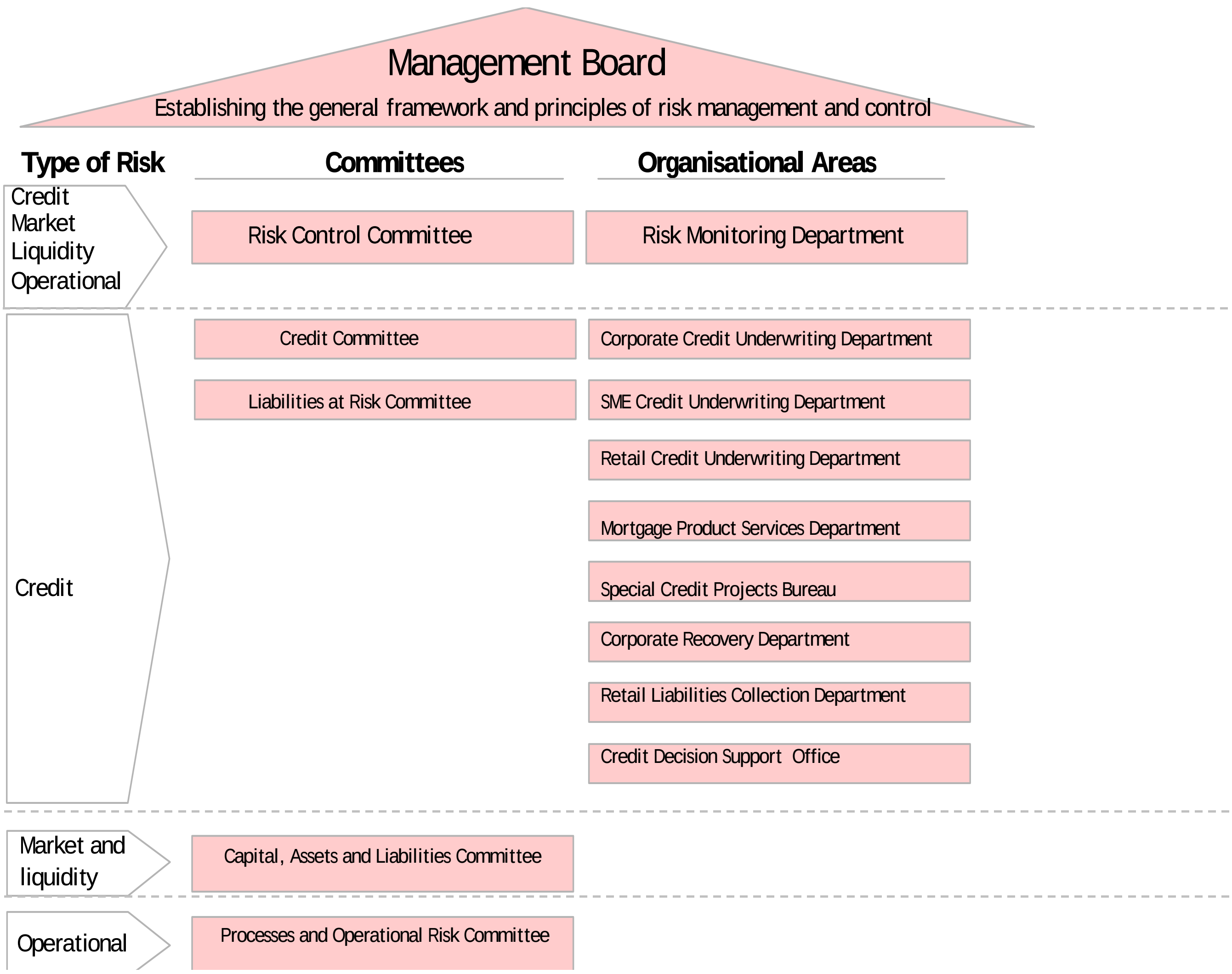
The risk management model and risk control of Bank Millennium Group is based on the following main principles:

- Total segregation between origination, management and risk control functions;
- Use of economic capital as the overall risk management metrics;
- Concentration of market risks in specific portfolios (trading and financing);
- Use, as much as possible, the same methodologies and information technologies as the ones that are used at BCP Group level.

During the first half of 2008, Bank Millennium implemented a number of initiatives in order to strengthen risk management function. They had particular influence on such areas as: i) specialized monitoring of the quality of each of the credit sub-portfolio (both in retail and in the corporate area); ii) Fraud prevention; iii) liquidity risk management; iv) Self assessment of the risks involved in the main processes that are supporting the Bank activities; v) Reporting and control mechanisms.

Bank Millennium Supervisory Board and Bank Millennium Board of Directors have the responsibility of defining the overall risk policy and main principles and rules that are adopted in risk management as well to ensuring that Bank Millennium has the necessary competences and resources in the Risk management and control areas. The risk management function is supported by an organizational model with a Risk Control Committee, with responsibilities across different types of risks, and by four specialized Risk Committees chaired by members of the Management Board, on which those responsible for the main areas involved in the process of origination, monitoring and management of a specific risk.

**Bank Millennium internal risk management organisation:**




All the Bank Millennium Board Members are members of the Risk Control Committee and the Committee have responsibility for monitoring the evolution of the Groups integrated risk profile namely in what regards the evolution of the main key risk indicators to each type of risk, the compliance with the current policies, regulations and limits, and the more relevant facts in the risk areas during the analyzed period.

Specialized risk committees are analogically responsible for every type of risk: CALCO for market and liquidity risk, Credit Committee for credit risk and Processes and Operational Risk Committee for operational risk. Liabilities at Risk Committee is responsible for giving opinions and taking decisions in the field of restructured and vindicated portfolio of Bank’s liabilities.

## IV.1. Capital Management

At the end of the third quarter 2007 Bank delivered to Supervisory Entities (both in Portugal and Poland) the approval package request the use of internal methods for calculating capital requirement for credit and market risk. The approval package is being analyzed by the Supervisory Authorities and some additional information regarding this subject was already delivered to Supervisory Authorities following their request. Until receiving the approval to use internal rating method, Bank will use the standardised approach.

Capital requirement for Bank Millennium Group, calculated for 30th June 2008 using the standardised approach of the New Capital Accord (and for 2007 year according to the former CAD I rules) is presented in the table below:

*in PLN million*

| **Capital requirement by main types of risk** | **30.06.2008** | **31.12.2007** | **30.06.2007** |
|---|---|---|---|
| Credit risk | 1 747 | 1 630 | 1 475 |
| Operational risk | 177 | | |
| Market, Counterparty and delivery-settlement risk | 90 | 42 | 52 |
| Total capital requirement | **2 015** | **1 672** | **1 528** |
| ***Own funds*** | ***3 043*** | ***2 872*** | ***2 320*** |
| **Consolidated Capital Adequacy Ratio** | **12,09%** | **13,75%** | **12,15%** |

The decrease of capital adequacy ratio during the first half of 2008 was mainly connected with the consideration of capital requirements for operational risk (based on the standardized method) and with the growth of the credit portfolio, impact not fully compensated by the increasing of own funds.

The following chapters present a concise description of management practices in particular risk area. The more detailed description, including information on methods of measurement of those risks, has been presented in "Semi-annual Consolidated Financial Statement of Bank Millennium S.A. Capital Group on the 6-month period ending 30th June 2008" in chapter XVI.

## IV.2. Credit risk

Credit risk denotes uncertainty whether client will meet his obligations under funding agreements concluded with the Group, i.e. whether the client will duly repay the principal and interest, which may be conducive to a financial loss incurred by the Group.

Credit policy executed by the Group relies on a set of rules such as:

- Centralisation of credit decision process;
- Usage of specific scoring/rating models for each client segment / types of products;
- Usage of IT tools (credit workflow) in order to support credit process on every stage;
- High level of credit decisions standardization;
- Existence of specialised credit decision departments for each client segment;
- Regular credit portfolio monitoring, on a level of each customer separately in case of significant exposures, as well as on the level of each of the credit sub-portfolio (by segment of customer, type of product; channel of distribution etc);
- Usage of structure of limits and sub-limits of credit exposure in order to avoid concentration risk and promoting credit portfolio diversification.

The following important events in the field of credit risk took place during the first half of 2008:

- Implementation of new rating model for Small and Medium Enterprises (SME) segment
- Development of new workflow for Small Business (SB) segment
- Validation of scoring/rating models for retail and corporations
- Further development of security tools against retail frauds fully incorporated in the credit decision systems.
- Redefinition of concentration risk management policy

Credit risk is the most important type of risk borne by Bank Millennium Group - vast majority of required capital is used for it: PLN 1,747 million out of total capital PLN 2,015 million as at 30.06.2008.

Bank Millennium Group increased the amount of capital for credit risk during the first half of the year 2008 by 7% due to the fast increase of the credit portfolio.

The quality of credit portfolio has improved during the last year, and the first half of 2008 in particular, what is presented in the table below:

| **Loans quality main indicators** | **30.06.2008** | **31.12.2007** | **30.06.2007** |
|---|---|---|---|
| Loans with impairment, total (m. PLN) | 793 | 766 | 901 |
| Loans with impairment/total loans | 3,1% | 3,4% | 4,6% |
| Total provisions/loans with impairment | 75% | 79% | 75% |

The ratio of impaired loans to total loans has fallen to 3.1% (from 4.6% in June 2007) being on the lowest level in Bank Millennium Group for the last decade. The coverage of impaired loans by total provisions (IBNR included) remains on a strong level of 75%.

This means that Bank Millennium Group is managing carefully the most important risk connected with its activity, which is a crucial element in the context of historical and planned growth of loans volumes to different client segments.

## IV.3. 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 Millennium BCP Group Entities.

The main measure used by the Group to evaluate market risks is variance-covariance (delta-normal) 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. 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. 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 Market 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 most adverse market risk movements and to identify the actions that can be taken to reduce the impact of these extreme variations in the risk factors. Different market scenarios as: Parallel shifts of the yield curves; Steepening and flattening of the yield curves; Variations of the yield volatility; Variations of the exchange rates; Variation of the swap spreads and Historical adverse scenarios are used in the stress test analysis.

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 at approx. PLN 8 million (on average) during the 1st half of 2008.

**VaR measures for market risk ('000 PLN):**

| | 30.06.2008 | 1H 2008 | | | 31.12.2007 |
|---|---|---|---|---|---|
| | | Average | Maximum | Minimum | |
| Global | 7 260 | 8 192 | 12 359 | 4 837 | 5 488 |
| Interest Rate VaR | 7 299 | 8 127 | 12 392 | 4 858 | 5 460 |
| FX Risk | 267 | 669 | 2 555 | 59 | 61 |
| Diversification Effect | 4% | | | | 1% |

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.

The VaR limits were not exceeded during the first half of 2008.

In case of Banking Book, sensitivity analyses of the non-trading portfolios are being performed in order to manage interest rate risk and hedging strategies are implemented in order to mitigate this risk. As a result additional hedging transactions have been concluded in the first half of 2008 reducing the interest rate risk linked with the fixed rate loans portfolio, especially consumer loans and leasing portfolios.

## IV.4. 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.

Bank Millennium Group 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 planning and budgeting process of the Bank includes a detailed liquidity plan with the objective of ensuring that the business growth will be supported by the appropriate liquidity structure of funding. In the 1st half of 2008, deposits grew at a stronger pace then loans, which together with the reduction of securities portfolio, made the Bank a net lender in the domestic Money Market during this period.

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 indicators measure the maximum fund-taking requirements (negative value) 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 2008 the immediate and quarterly liquidity indicators were constantly maintained with positive values, with increasing tendency in the second quarter, meaning that the Bank kept during all the period a long liquidity position for the time horizon up to 3 months.

Bearing in mind more restrictive and adequate quantitative liquidity measures imposed by the banking supervision (KNB Resolution No 9/2007), the Bank revised the global set of liquidity indicators that are used to manage the liquidity position. During the first half of 2008 the limits for all the new measures, which are in force since July 2008, have been observed.

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 2008 decreased and amounted to 3,7% and 7,9% respectively (5,7% and 10,6% in December 2007).

Liquidity stress tests are performed each month in order 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), updated on quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

## IV.5. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is present in every aspect of organisational activity and is its inherent part. Taking into account the development level of the operational risk management as well as the scale and profile of activities, the Millennium Bank Group decided to calculate the capital requirement on the basis of Standardised Approach.

The operational risk management model is based on the process structure, which is overlaying the main organizational structure of the Group. The day-to-day management of each process, together with its operational risk profile, is the responsibility of nominated Process Owner, who reports to and is supported by all other risk management entities.

In order to identify, analyse and monitor operational risk level, the following techniques are used: loss events data gathering, monitoring of key risk indicators and operational risk self assessment. Those tools together with the trainings are essential for building the risk awareness in the organisation.

By its nature operational risk cannot be avoided. Therefore, apart from implementing mitigating steps, the Group aims at minimising potential consequences of operational risk events. The undertaken measures are being constantly improved. During the first half of 2008 there were several initiatives ongoing in the Group, such as:

- further optimisation of the Key Risk Indicators monitoring systems,
- update of the business continuity plans management,
- renewal and widening the scope of insurance policies, with special regard to operational risks.

All those actions are aimed at adjusting the operational risk management system to the evolving environment, in which Bank Millennium Group operates.

# V. OWNERSHIP STRUCTURE AND CORPORATE BODIES

## V.1. Ownership structure

According to data held by the Bank, as at 30th June 2008 the sole shareholder, holding at least 5% of the total number of votes at the General Shareholders' Meeting (GSM) of Bank Millennium S.A. was:

| Shareholder | Number of shares | % share in equity | Number of votes | % share in votes at GSM |
|---|---|---|---|---|
| Banco Comercial Portugues S.A. | 556,325,794 | 65.5 | 556,325,794 | 65.5 |

The above data concerning the number of shares, percentage share in equity, number of votes and their percentage share in the total number of votes at the GSM were prepared based on information contained in notifications addressed to the bank by shareholders, pursuant to art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies.

In result of the transaction of purchase of shares of the Bank on 25th July 2008 also Poland's largest pension fund, Commercial Union OFE BPH CU WBK, became a shareholder exceeding the threshold of 5% of the Bank's equity, holding 5.1% shares in equity and votes at the GSM of Bank Millennium.

The bank is not aware of any agreements concluded between shareholders, concerning mutual cooperation and collaboration, also the Bank is not aware 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 special control authority with respect to the Bank.

Each share of the Bank entitles to one vote, however registered founding shares in the current number of 62,200 are privileged in that one share entitles to two votes at the GSM. Registered founding shares amount to the total of 0.0073% of the Bank's equity and 0.0146% of the total number of votes at GSM.

Subject to restrictions on the sale of shares are founding shares in that selling them with the consent of at least three fourths of founders to other founders does not result in loss of their privileged status. The sale of registered founding shares in other cases results in loss of their privileged status. There are no restrictions on exercising of voting rights under the Bank's shares.

## V.2. Corporate bodies

The Bank's corporate bodies are: General Shareholders Meeting, Supervisory Board and Management Board.

**General Shareholders Meeting**

The General Shareholders Meeting (GSM) is the highest authority of the Bank. The GSM competencies comprise, apart from considering and approving financial reports, passing resolutions on distribution of profit or covering of losses, discharging members of the authorities of the Bank from performance of their duties, also in particular: change of the Articles of Association, including increase and reduction of equity, issue of convertible bonds and senior bonds as well as subscription warrants, creation and elimination of capital and funds as well as passing resolutions on their use, selection and recalling of members of the Supervisory Board and setting their remuneration, dissolution of the Bank or its sale or merger, selection of liquidators, all and any decisions concerning claims to redress damage caused at creation of the Bank or exercising management or supervision, as well as redemption of shares and defining detailed terms and conditions of the redemption.

On 28th March 2008 an Ordinary General Shareholders Meeting of the Bank was held in connection with end of 2007 accounting year. The GSM approved the financial report of the Bank and the Bank's Capital Group as well as reports of the Management Board and the Supervisory Board on activity during the above period. GSM discharged each member of the Management Board and each member of the Supervisory Board of the Bank from performance of their duties. The GSM also decided on distribution of 2007 accounting year earnings, assigning 39% of the Bank's profit (or 35% of the Group's profit) of them for dividend to shareholders. The GSM also added members to the current Supervisory Board.

**Supervisory Board**

The Supervisory Board of the Bank comprises at least five members, elected by the General Shareholders Meeting, half of whom – including the chairman – are of Polish nationality. The Supervisory Board exercises permanent supervision over activity of the Bank. The Supervisory Board operates under provisions of the law, the Bank's Articles of Association, resolutions of the General Meeting as well as the Bylaws, adopted by it and available on the Bank's website. The term of office of the Supervisory Board is 3 years.

The composition of the Supervisory Board of the current term of office as at 30th June 2008 was as follows:

1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman and Secretary,
3. Carlos Santos Ferreira – Member of the Supervisory Board,
4. Paulo Macedo – Member of the Supervisory Board,
5. Vitor Fernandes – Member of the Supervisory Board,

6. Nelson Machado – Member of the Supervisory Board,
7. Andrzej Koźmiński – Member of the Supervisory Board,
8. Marek Rocki – Member of the Supervisory Board,
9. Dariusz Rosati – Member of the Supervisory Board.

During the reporting period the following persons stepped down from the Supervisory Board for personal reasons: Dimitrios Contominas, Christopher de Beck, Francisco de Lacerda, Pedro Teixeira Duarte, Zbigniew Sobolewski and Marek Furtek.

The General Shareholders Meeting on 28th march 2008, deciding about the 9-strong composition of the Supervisory Board, additionally elected following persons:

- Carlos Santos Ferreira – Chairman of the Management Board of Millennium BCP,
- Paulo Macedo – Deputy Chairman of the Management Board of Millennium BCP,
- Vitor Fernandes – Member of the Management Board of Millennium BCP,
- Nelson Machad - Member of the Management Board of Millennium BCP.

The term of office of the current Supervisory Board ends with the day of the General Shareholders Meeting, approving the Bank's 2008 accounting year financial report.

The Supervisory Board has established standing committees for collective performance of specific activities of the Board. The standing committees of the Supervisory Board are the following: Audit Committee and Personnel Committee.

The Audit Committee is responsible in particular for performance on behalf of the Supervisory Board of control over functioning of the Bank's internal audit. Moreover the Audit Committee gives guidelines and recommends to the Supervisory Board the selection of an entity to act as external auditor.

The Personnel Committee is responsible in particular for: assessment of candidates for members of the Management Board of the Bank and establishing the terms and conditions of employment of members of the Management Board of the Bank.

**Management Board of the Bank**

The management Board is the Bank's executive body and manages the entirety of the Bank's activity. The Management Board operates under the Code of Commercial Companies as well as other laws and regulations, the Articles of Association of the Bank, resolutions of the General Meeting and the Supervisory Board as well as provisions of the Management Board Operational Bylaws adopted by the Supervisory Board, which are available on the Bank's website. The authority of the Management Board comprises all matters not reserved for other bodies of the Bank.

The Management Board is made-up of at least 3 members, of whom at least half have Polish nationality. The Management Board is appointed by the Supervisory Board. The term of office lasts 3 years. A member of the

Management Board may be recalled by the Supervisory Board at any time.

The following are authorised to make declarations of will regarding financial rights and obligations of the Bank as well as to sign documents on behalf of the Bank: Chairman of the Management Board – individually as well as jointly two other members of the Management Board, or a member of the Management Board with a proxy, or two proxies. Mr Jerzy Andrzejewicz holds joint proxy. Attorneys may be appointed, operating independently within the ramifications of the authorisation, to perform activities of a specific nature.

The Management Board of the Bank will carry out its duties with participation of Committees appointed by the Management Board of the Bank under resolutions, which define the composition of the committees and their authority. In particular such committees are: Commercial, Personnel, Investment, IT Steering, Risk Control, Capital, Assets and Liabilities, Credit, Liabilities-at-Risk, Contingency Council, Processes and Operational Risk.

The term of office of the current Management Board ends with the day of the General Shareholders Meeting, approving the Bank's 2008 accounting year financial report.

As at 30th June 2008 the Management Board of the Bank had the following composition:

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.
8. Piotr Romanowski - Member of the Management Board

Piotr Romanowski joined the Management Board on 5th May 2008.

## V.3. Principles of corporate governance

Bank Millennium observes the principles of corporate governance described in the document "Good Practice of Companies Listed on WSE", which was introduced by virtue of a Resolution of the WSE Supervisory Board dated 4th July 2007 and in force since 1st January 2008.

The aim of this new set of principles is to strengthen transparency of public companies, to improve the quality of communication with investors and to enhance protection of the rights of shareholders. The new set of good practices comprises rules, governed by the approach "comply or explain why you are not complying", as well as principles, which constitute only recommendations and are not fully governed by this principle.

Bank Millennium, going beyond the regulations governed by the "comply or explain why you are not complying" approach and responding to the recommendation of the WSE Supervisory Board, provided Internet transmission of proceedings of the General Shareholders Meeting, which was held on 28th March 2008 and made a recording of the proceedings available on the Bank's website.

## 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., in 6 month period ending 30th June 2008, and the comparable data as well as the Abbreviated Semi Annual Financial Statement of Bank Millennium S.A. for the period of 6 month ending 30 June 2008 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 audit financial reports, reviewing this Semi-annual consolidated financial report of the Capital Group of Bank Millennium S.A. for the 6 month period ending 30 June 2008 and the comparable data as well as the Abbreviated semi-annual financial report of Bank Millennium S.A. for the 6 month period ending 30 June 2008, was selected in accordance with the binding regulations of law. The entity and chartered accountants who performed the review, met all the conditions required to issue an unbiased and independent review report, as required by the national law.

**SIGNATURE:**

| Date | Name and surname | Post/Function | Signature |
|---|---|---|---|
| 29.09.2008 | Bogusław Kott | Chairman of Management Board | ..................................... |
| 29.09.2008 | Luis Pereira Coutinho | Vice Chairman of Management Board | …................................. |
| 29.09.2008 | Fernando Bicho | Management Board Member | ..................................... |
| 29.09.2008 | Julianna Boniuk-Gorzelańczyk | Management Board Member | …................................. |
| 29.09.2008 | Wojciech Haase | Management Board Member | ..................................... |
| 29.09.2008 | Joao Bras Jorge | Management Board Member | …................................. |
| 29.09.2008 | Zbigniew Kudaś | Management Board Member | ..................................... |
| 29.09.2008 | Piotr Romanowski | Management Board Member | ………………………….. |