Management Board Report on the Activity of Bank Millennium S.A. in 2006

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LETTER OF THE CHAIRMAN OF THE MANAGEMENT BOARD OF BANK MILLENNIUM S.A.

Dear Sirs,

In 2006 Bank Millennium made a quantum leap towards reaching the goals announced in the medium-term development strategy. Consistent implementation of the plans resulted in 2006 being a good year for the Bank and its Shareholders.

In the course of the past twelve months the Bank made substantial qualitative changes in three business areas: retail banking, consumer finance and corporate banking.

In the first area, as planned, we opened 53 new branches, which are in line with the upgraded Customer service model. The process of sales industrialisation allowed us to improve the cross-selling ratio to 3 products per Customer – thus we reached this target one year earlier than planned. We have reached a 3.6% share in the mutual funds market and assets under our management in mutual funds increased 121% over 2005. We have also built an appealing offer for individual affluent Customers, which permitted us to increase Customer Funds in this business line by 70%. The Bank's offer for microenterprises, for which we have high hopes for this year, was strongly remodelled on the basis of new services and new products.

In 2006 Bank Millennium continued its rapid growth of the loans market. In total the Bank's loans portfolio increased 56% over the previous year. The main driver of the growth were retail loans, especially mortgages. Having granted mortgage loans in the amount of PLN 4.7 billion (98% growth y/y) the Bank reached a 13.7% share in the market of loans granted in 2006. The Bank was developing equally fast on the payment cards market, where the attractive offer and reorganised sales network permitted 108% growth of the number of issued credit cards and improved market share from 3% to 4.1% in 2006. The Bank had an extremely promising start on the cash loans market where it recorded 222% portfolio growth and began selling to non-Customers.
The Bank intends to continue developing its offer for individual Customers and small businesses, which was one of the pillars of our activity in 2006.

Our subsidiary Millennium Leasing kept its strong fourth place on the market with a share of 6.2% thanks to over 28% increase of the value of contracts signed in 2006, while Millennium Dom Maklerski did five IPOs in 2006 with the total value of PLN 540 million, which permitted its market share to grow from 2.8% to 3.7%.

The product offer of Bank Millennium has been appreciated many times by Polish and foreign institutions and media, who confirmed attractiveness of Bank's products as well as high quality of Clients service.

Sustainable development and visible market share growth in products of strategic importance for Bank Millennium translated into very good Bank's net income in 2006 of PLN 300.8 million. It was 44% higher than the net income of the previous year (not including one-off items). Especially worth noting is the increase of recurring sources of the income, i.e. net interest income (increase by 9.8%), net commission income (increase by 37.9%), trading and FX income (increase by 68.9%). Simultaneously, despite operating costs increase (by 10.6%) connected with the implementation of branch expansion project and associated necessity for hiring new employees, cost income ratio decreased in 2006 to the level of 67.7%.

According to the previously declared policy of profit allocation The Management Board of the Bank will propose to the General Meeting of Shareholders distribution of the dividend from 2006 in the amount of PLN 0.17 per 1 share, i.e. total amount of PLN 144.4 million. This constitutes 48% of the consolidated net income and implies a dividend yield of 2.1%.

The Bank entered 2007 in good financial standing, with clearly defined strategy and full capacity to realize it. Our development will be determined by successful implementation of adopted plans, day-to-day improvement of the service level and the product offer to the Customers as well as high level of professional qualifications of our employees.

Our motto „Life inspires us” will be accompanying us when realizing those plans this year too.

With regards,

Bogusław Kott
Chairman of the Management Board of Bank Millennium

I. MARKET CONDITIONS IN 2006 AND PROSPECTS FOR THE BANK'S ACTIVITY

I.1. Macroeconomic situation and market condition

The year 2006 brought a dynamic growth of Polish economy. In successive quarters of the previous year, Gross Domestic Product (GDP) growth increased, reaching 5.8% during the year, as compared with 3.5% GDP during the entire year 2005. One should remember that despite the better performance, Polish economy still trails other Central-Eastern European countries such as Estonia, Latvia or the Czech Republic, which posted much higher economic growth rates. On the other hand, Polish economy is growing much faster than most of the "old" EU economies, thus reducing the distance between both regions. One of the main driver of economic growth was domestic demand, including private consumption. This was supported by higher growth of disposable income of the population, which resulted from an increase in nominal wages and social benefits as well as from low inflation. One should also note strong investment activity; its growth reached the levels similar to those of the boom recorded in mid-90s. Stronger investment activity was also supported by a very good financial standing of companies, high utilization of manufacturing capacity and by increased absorption of EU funds.

Economic growth was based on exports to a lesser extent than in the previous year. The very high growth rate of exports remained and its value in nominal terms recorded a record high, however the contribution of net export to GDP growth has gradually been decreasing. The geographic structure of Polish exports undergoes further changes, as Polish companies expand sales to new markets in Central and Eastern Europe as well as Asia. However Germany still is the main trade partner of Poland. The strong growth of domestic demand increased demand for imports, increasing also the trade deficit. This however was not enough to shake external stability of Polish economy, which was confirmed by the payment balance data, according to which in 2006, the payment deficit stood at 2.1% of GDP.

High economic growth was accompanied by low inflationary pressure. In December 2006 inflation measured with the Consumer Price Index (CPI) amounted to 1.4% y/y, significantly below the central bank target (2.5%, +/-1%). The goal of keeping the inflation low was supported by low demand pressures, strengthening of Polish zloty and positive supply shocks on the fuel and food markets.

The proceeding economic recovery supported improvement of situation in the labor market. The increasing employment trend was continued. In the analyzed period the number of persons employed in the corporate sector increased by 4.1% as compared with the previous year. The increased demand for labor translated to a declining registered unemployment rate, which decreased from 17.6% in December 2005 to 14.9% in December 2006, the lowest from over 6 years. It must be remembered that the reduction of the unemployment rate partly results from economic migration of Poles to the EU Member States. The increasing employment forced gradual growth of salaries. In nominal terms, in 2006 the average salary in the corporate sector increased 5.1% yoy. It must also be noted that the salary growth rate in the economy remains lower than the productivity growth rate, as a result of which the growing salaries are not generating the inflationary pressure.

In 2006, the situation in the public finance sector was positive. The central budget deficit in that period was PLN 25.1 billion, i.e. PLN 5.4 billion less than recorded in the budget act. The very good budgetary performance is the result of stronger-than-expected economic growth, which led to the increase of incomes from personal income tax and VAT. At the same, the performance of expenditures was lower than expected.

The improvement of inflationary prospects inclined the Monetary Policy Council (MPC) to relax monetary policy and reduce interest rates by a total of 50 bps. After the February decision of MPC the reference rate hit the record low level of 4.00% and it was kept at this level in the subsequent months of the past year. Along with the reduction of NBP base rates, commercial banks were cutting down the interest on deposits and on loans. The biggest interest rate decreases occurred in the case of loans linked to money market rates i.e. corporate loans and mortgage loans for households. Their interest rate decreased by 0.3 and 0.6 percentage points, respectively. At the same time, the interest rate on household deposits decreased 0.3 percentage points.

The lower interest rate on bank deposits induced households to reallocate their savings to more profitable investment options. Among available instruments investment funds' participation units aroused most interest (assets of TFI increased by 61.2% versus 2005). Bank deposits were also growing though at a modest pace compared with other investment forms (8.4% y/y). The decrease in interest rates, together with income improvement, were conducive to increasing general indebtedness of households (33.2% y/y). As in previous years, housing loans recorded the highest growth rates (growth by 54.1%y/y), which also resulted from the general increase of interest of real estate market. Corporate loans increased as well – their growth rate increased (to 13.3% y/y) along with investments.

In the opinion of the Bank, in following quarters the Polish economy will remain on the dynamic growth track. Just as in 2006, domestic demand should remain the main growth driver, while net exports will have a negative contribution to GDP growth. Good financial standing of companies, high usage of output capacity and further inflow of funds from the European Union will be the factors supporting the investments growth. The high growth rate should also be kept in private consumption, which should be fostered by growth in disposable income of the population. Inflation growth is expected in 2007, however it should not rise above the NBP inflationary target, i.e. 2.5% y/y by the end of 2007. The business environment and economic growth will be strongly influenced by the form of the fiscal policy. Strong economic growth makes it easier to consolidate public finance, whereas the solutions currently proposed by the government only slightly improve medium-term fiscal prospects. Carrying out structural reforms including i.a. restriction of fixed budgetary expenditures will be conducive to creating favorable conditions for sustainable economic growth.

Continuation of economic recovery will have a positive influence on the banking sector. As households become more affluent, their savings can be expected to grow, including further reallocation of savings. Nevertheless, the banking sector will continue to be the main place where financial funds will be invested. Among the available financial instruments, the most dynamic growth can be expected in the investment fund segment. We are also expecting lending to increase. A further increase in the corporate lending growth rate is expected to follow the increased investment activity. These expectations are supported by anticipated inflow of funds from the European Union, which will for the most part be used for co-financing investment projects.

I.2. Bank's strategy and business development prospects

In 2006, development of Bank Millennium's activity was determined by three pillars supporting its mid-term strategy: achieving scale and profitability in retail banking through organic growth, achieving the position of a retail loan specialist through the "category killer" approach with regard to selected credit products and improving the business model for corporates.

As regards retail banking the strategic objectives are to continue the "sales industrialization" programme that is based on an efficient, easily available and specialised sales network using multifarious distribution channels, which aims at higher cross selling ratios (number of different products per Client). Another goal of the Bank is to increase the growth dynamics in the affluent Client segment, to obtain higher share in the mutual fund market (the target being 5% market share by 2008 at minimum) and to improve the offer for small entrepreneurs in order to acquire new Clients and increase business volumes in this segment.

Retail loans are of special importance in the strategy of the Bank. It is important to maintain a significant market position in mortgage loans (the target is 12% market share in the new mortgage production at minimum) as well as to keep up high growth dynamics in credit cards and other consumer loans, which in effect is to result in a higher market share in this product segment.

For corporate banking the strategy of the Bank is based on a launch of a new small and medium-sized enterprise customer service model (SME model), streamlined lending process for this group and increased interest in the Bank's risk management products, trade finance and cash management products, customised for this Client segment. Another essential objective for the corporate banking is to maintain its strong position on the lease market (the target being 7% market share).

In order to support organic growth in retail banking, Bank Millennium decided to launch an expansion program of sales network with the purpose of opening 158 new branches by the end of 2008, including 36 rebuilt branches and adopted to the new activity model. At the same time, a new business model was adopted in retail banking, striving to ensure joint and coordinated management of the retail, affluent Client and small business segments. The new model has also allowed the bank to efficiently service the increasingly demanding segments and has boosted its capacity to handle complex products. One of the major innovations in the new model was to define various types of branches, namely new, larger and multi-segment financial centers, built in selected locations, which will play the key role in supporting the execution of the enhanced approach to segments and higher value products. By the end of 2006, 53 new branches have already been opened, including 31 that were reconstructions of the existing branches. At the same time, the Bank has introduced a new visual identity and a new slogan, "Life inspires us" unified throughout the Millennium bcp Group, serving the purpose of linking a new set of values with the Millennium brand. A change of external visual identity of the whole retail network was completed in July 2006.

The activity in the retail area was focused on continuous improvement of commercial effectiveness. A number of campaigns/offers have been carried out to sell certain products to selected Clients, utilizing sales capacities of branches supplemented by telemarketing activities. Particular emphasis was put on activities aiming at transforming "single-product" Clients acquired by additional channels into retail banking Clients using many products. As a result of these activities, the cross-selling ratio increased from 2.7 products per Client to almost 3.0, and this was despite a significant growth in the number of Clients.

The year 2006 was the first year in which the new business model was introduced for the affluent Client segment. The results were very satisfactory. In reality, introduction of complex savings products with attractive margins, acceptance of the open architecture concept with respect to investment funds, implementation of the new incentive system, an intensive training program and development of complex tools supporting professional financial advice for the high income Client segment allowed to triple of this segment's income.

Thanks to positive developments on the Polish stock market and an improvement in Millennium fund performance (Millennium TFI), the Bank continued to actively promote investment funds for individual Clients. At the end of 2006, the investment fund portfolio more than doubled compared to the end of 2005. Such results allowed the Bank to increase its market share considerably, to the level closer to its natural market share. In this context, one should mention the success of the "SuperDuet" product, which combines a short-term deposit with a mutual fund investment.

In 2006, the Bank devoted more attention to the improvement of the business model for the small business segment. The changes encompassed mainly a better organization of sales forces, their adjustment to the market potential, simplification and unification of the product offer and improved efficiency of business processes.

Bank Millennium continued to develop its retail loan platform, which is one of the main pillars of its strategy. With respect to mortgage housing loans, the Bank strived to keep its market position and maintain high quality of the portfolio. At the same time, the Bank focused on increasing productivity of the retail network, opening specialized mortgage loan centers in high-potential locations and on expanding its arrangements with selected financial intermediaries. As a result, the Bank doubled its production from 2005 and increased its market share. Another priority in 2006 was to increase efficiency of processes in the support area; the purpose was to ensure correct and efficient handling of an increasing number of applications and contract.

Year 2006 was devoted to increasing penetration of payment cards among retail and affluent Clients and at the same time increasing the portfolio through expanding dedicated sales forces. As a result of an undertaken commercial effort and a marketing campaign, the credit card portfolio surpassed 250 thousand and was more than twice bigger than in 2005. In the payment card area as a product, one should emphasize the completion of the segmentation effort. The credit card market was divided into 4 segments – economic, classic, gold and platinum – and the Bank's offer was adjusted accordingly to the specific nature of each segment. This process involved introduction of a number of new products, namely a new Visa Platinum card and MasterCard products. The Bank also focused on implementing card usage activation programs, which are of key importance in order to use the existing potential. In October 2006, the "Inspiracje" program was introduced, which allowed our Clients to benefit from discounts when paying with Bank Millennium cards.

Having developed the business model for mortgage loans and credit cards, the Bank decided to take a specialist approach to cash loans, taking into account the market potential and attractive margins on such products. The Bank utilized the potential of its retail Client base and then it established a dedicated sales team and concluded agreements with selected intermediaries.

In the corporate banking segment, the distribution model was reviewed in 2006 and as a result three segments were defined: SMEs, Large Corporates and Strategic Customers. The main objectives for the corporate banking area were: revenue growth based on systematic sales of value-added products, such as treasury/risk management instruments, cash management solutions and trade financing products, in parallel with a faster acquisition of Clients. In this context, one should emphasize that a treasury call center was opened, whose task is to sell simple treasury products to small and medium-sized enterprises. Just as in previous years, leasing was high on the list of priorities in the corporate banking area. The intensified cooperation between Millennium Leasing and the Bank's networks contributed strongly to acquiring new leasing agreements, which allowed the Bank to strengthen its market position. One should also note growth in factoring activity which, after the internal reorganization period, recorded growth over 2005 numbers in all the major ratios: number of Clients, invoice turnover and credit portfolio.

In 2006, Bank Millennium improved both profitability and efficiency ratios, which are consistent with medium-term targets set for the end of 2008. The consolidated financial result in 2006 reached PLN 300.8 million, which means 44% growth in relation to 2005 on a recurring basis. It should be remembered that in 2006 the Bank's results were not influenced by non-recurring events. Moreover it is also worth considering that the Bank achieved these results despite a significant impact on the Bank's costs regarding network development project, which will start to generate positive results from 2008. Keeping cost under strict control and a significant improvement in the quality of assets also had a significant impact on the last-year result on operation. In this respect, one should notice a significant reduction of the impaired loans ratio, while the overall loan portfolio increased by over 50%. Despite the significant increase in credit volumes, mainly as a result of an impressive growth of the mortgage loan portfolio, the Group maintains a comfortable solvency situation. Thanks to very good and stable performance of the Bank in 2006, Bank Millennium Group shares recorded outstanding performance on the Warsaw Stock Exchange, beating the main indexes.

In April 2006, the Moody's Rating Agency increased The Bank Millennium Financial Strength Rating to "D" in recognition of the increasing profitability of recurring business and the continuing capacity to execute the Bank's strategic objectives. It should also be emphasized that in 2006 Bank Millennium was recognized by "Forbes" magazine as the best bank for Small and Medium Enterprises. Moreover, the second year running an independent international financial magazine, "Global Finance" awarded the title of the "Best Consumer Internet Bank in Poland" to Bank Millennium.
Despite the quick development of the Polish market, in 2007 growth opportunities persist in many areas due to the fact that the penetration of various banking products is lower than the European average. In such conditions, Bank Millennium will continue to execute its medium-term strategy in order to achieve the set strategic objectives.

Reassuming, the main challenges for the next year include the continuation of a timely execution of the network development program, fine-tuning of the business strategy for gaining Client funds, achieving greater efficiency in the payment cards area, development of the cash loan business, implementation of the best-in-class corporate credit platform and improvement of capacity in the area of financial services rendered to corporations.

I.3. Capital expenditures

In 2006, the Bank Millennium Group incurred capital expenditures in the overall amount of PLN 92 million. The major part of this amount was associated with the network expansion project, which involved expenditures in the amount of PLN 51 million. Expenditures for changing the Bank's image constituted another significant item. Replacement of external visual identification elements throughout the Bank's network required expenditures of PLN 12 million. Also, significant expenditures were made in the IT area, in both infrastructure and software and improvement of security systems.

In 2007, the Bank Millennium Group plans capital expenditures in the overall amount of PLN 141 million. The main part of these expenditures - PLN 91 million - is related to the expansion of the branch network. Other investment areas in 2007 include IT and other expenditures related to improvements in the branch network, Bank Head Office and the three key subsidiaries.

II. FINANCIAL STANDING OF BANK MILLENNIUM

The year 2006 was a very positive year for Bank Millennium, with significant improvement in results, as proved by the following main indicators:

- Net interest income (on a pro-forma basis) increased by 7.4% y/y
- Net commissions income increased by 30.5% y/y
- Total operating income (on a recurrent basis) increased by 83.4% y/y
- Total costs increased by 11.6 % y/y (or 7.8% if excluding re-branding and expansion projects impact in 2006 and extraordinary depreciation in 2005)
- Impaired to total loans ratio dropped from 10% to 5.7% (on the consolidated level)
- Solvency ratio at 11.9%

2006 was also a year in which the Bank significantly increased its market share in selected products, in particular:

Mortgage loans:	From 7.1% to 10.1% in total portfolio (117% growth y/y)
	From 11% to 13.7% in new sales (98% growth y/y)
Credit cards:	From 3% to 4.1% in number of cards (108% growth y/y)
Mutual funds:	From 2.6% to 3.6% in assets under management (121% growth y/y)
Factoring:	From 4.1% to 7% in invoice turnover (123% growth y/y)

Thus the Bank approached (or in case of mortgage loans already met) its medium term targets, which were established in 2005. Also the targeted cross-selling ratio of 3 products per customer, set for 2007, was reached one year ahead of the initial plan.

II.1. Income statement

In 2006 profit before tax of Bank Millennium Group stood at PLN 701.8 million, while net profit in the reported period totalled PLN 662.7 million, being 55.5% higher than the amount of profit generated in 2005 (PLN 426.3 million). Excluding all and any non-recurrent income and costs in 2006 (the balance being PLN 506.4 million gross and PLN 410.2 million net) and in 2005 (the balance being PLN 371.6 million gross and PLN 301.0 million net) net profit of the Bank increased 58.4%. The level of profit generated by the Bank was affected by favourable changes of the level of revenue, costs and risk provisions.

Incomes

Net interest income (on a pro-forma basis including margin from all derivatives which hedge FX loan portfolio) of the Bank in 2006 amounted to PLN 536.1 million and was 7.4% higher than last year (PLN 449.2 million). Growing business volumes compensated for lower net interest margin.

Net commissions income grew strongly by 30.5% y/y based on excellent growth of several products such as mutual funds (distribution fees collected by the Bank) and bancassurance products. There was a visible acceleration of net commission income in the 4Q, which is encouraging for year 2007.

Other non-interest income was much higher versus previous year, because of better result from securities and FX as well as higher dividends from subsidiaries. As regards dividends, this item included in both periods - 2005 and 2006 one-off incomes connected with realisation by two Bank's subsidiaries BIG BG Inwestycje and Millennium Leasing (former BEL Leasing, legal successor of first mentioned company) exceptionally high profits resulting from the sale of previously owned shares of PZU. Dividends from those companies, which due to above mentioned reasons can be regarded as one-off incomes, amounted to PLN 506.4 million in 2006 and PLN 371.6 million in 2005 altogether. The foreign exchange result doubled from PLN 84.7 million in 2005 to 177.4 million in 2006, thanks to increased transactions with corporate customers and FX denominated mortgage loans.

Operating income reached PLN 1,531.9, whereas on recurring basis (i.e. without one-off items) it amounted to PLN 1,025.5, which means an increase by 83.4% vs. 2005 (also on recurring basis). In formal accounting terms the increase of Operating income was 64.6%

Operating Income (PLN million)	2006 pro-forma*	2005 pro-forma*	Change
Net Interest Income	536.1	499.2	7.4%
Net Commissions Income	280.9	215.3	30.5%
Other Non-Interest Income	714.8	216.3	230.5%
Operating Income	1 531.9	930.7	64.6%
Of which one-off results	*506.4*	*371.6*	-
Operating Income without one-offs	1 025.5	559.1	83.4%

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

Costs

In 2006, total costs of the Bank (personnel and administrative costs including depreciation and impairment charges for non-financial assets) increased by 11.6% in relation to the previous year. The level of costs was influenced by two projects: branch expansion project and new image implementation. Excluding the costs connected with these items (PLN 50.7 million, of which 2.4 depreciation), and also excluding one-off costs of depreciation and impairment of non-financial assets in 2005 (PLN 22.1 million, mostly connected with planned projects mentioned above), total costs would grow 7.8%.

In 2006 staff costs increased by 29.3% y/y and other administrative costs increased by 13.2% y/y. The increase of staff costs resulted from the increase of employees number connected with the branch expansion and from higher bonuses paid to employees connected with better than planned business results (this factor represented aprox. 50% of the increase of staff costs). In 2006 basic remunerations also increased (by 14.1%) due to changes in the labour market.

In 2006 the total increase of personnel number was 634 employees, including 512 persons employed in the newly build or modernized Bank's branches. In the end of December 2006 Bank Millennium employed 4,718 persons.

Operating Costs (PLN million)	2006	2005	Change
Personnel Costs	375.3	290.4	29.3%
Other Administrative Costs	353.3	312.1	13.2%
Depreciation & impairment of fixed assets	59.4	103.3	-42.5%
Total Operating Costs	788.0	705.8	11.6%
- Of which expansion and new image	*50.7*	-	
- Of which extraordinary depreciation	-	*22.1*	
Operating costs without expansion	737.3	683.7	7.8%

Impairment charges

In 2006 the Bank created net provisions of PLN 42.1 million. This value includes PLN 18.4 million from recovered receivables previously written-off. Net provisions represented 37 b.p. over the average value of net loans in 2006.

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

Assets

Changes of the main asset items of the Bank in the course of the year as well as assets structure are presented in the table below:

ASSETS (PLN million)	31.12.2006		31.12.2005		change
	Value	Structure	Value	Structure	2006/2005
Cash, transactions with Central Bank	965.8	4.0%	510.8	2.4%	89.1%
Receivables from other banks	1 123.1	4.6%	2 602.8	12.1%	-56.8%
Receivables from Customers	14 109.2	57.9%	8 979.6	41.6%	57.1%
Receivables from Buy-Sell-Backs	15.5	0.1%	331.2	1.5%	-95.3%
Financial assets measured at fair value in the P&L Account and hedging derivatives	3 850.4	15.8%	3 317.5	15.4%	16.1%
Investment financial assets	3 089.1	12.7%	5 023.9	23.3%	-38.5%
Intangible and tangible fixed assets	284.8	1.2%	250.5	1.2%	13.7%
Other assets	932.0	3.8%	557.7	2.6%	67.1%
Total assets	24 370.0	100.0%	21 574.0	100.0%	13.0%

As at 31 December 2006 the Balance Sheet total was PLN 24,370 million, which means its growth by 13.0% y/y.

The dominant item in the structure of assets (57.9%) constituted receivables from Customers. Their share was far greater than in the previous year (41.6%), which illustrates a positive change in the structure of assets, shifting towards loans generating highest income. As at end of 2006 the net value of loans granted to Customers was PLN 14,109 million, which signifies growth by 57.1% as compared with the end of the previous year. The change of the value of this item (i.e. increase by PLN 5,130 million) was the greatest contributor to the growth of financial assets and total assets.

The structure of loans granted to Customers of Bank Millennium by main types as well as annual changes are presented in the table below:

Receivables from Customers (PLN million)	31.12.2006		31.12.2005		Change 2006/2005	
	Value	Structure	Value	Structure	Value	(%)
Total loans to Customers	14 109.2	100.0%	8 979.6	100.0%	5 129.5	57.1%
Where:						
- mortgage loans	*7 594.9*	*53.8%*	*3 495.9*	*38.9%*	*4 099.0*	*117.3%*
- other retail loans	*1 237.6*	*8.8%*	*625.9*	*7.0%*	*611.7*	*97.7%*
- loans to businesses	*5 276.6*	*37.4%*	*4 857.8*	*54.1%*	*418.8*	*8.6%*

In the loans portfolio structure the dominating position was occupied by mortgage loans, the share of which in the total portfolio increased to 53.8% as at end of December 2006 from 38,9% in the previous year. The value of these loans as at end of 2006 stood at PLN 7,595 million, which signifies growth by 117.3% as compared with the end of 2005. Currently Bank Millennium has the third-largest mortgage portfolio in value terms in Poland, with a market share of ≈10%. As regards sales of new mortgage loans, in Q4 2006 the Bank attained its best-ever result in loan disbursements: PLN 1,473 million, moving into the second place in Poland with a year-to-date market share of 13.7%.

The importance of other retail loans (covering card credit, CA overdraft facilities, cash loans etc.) is also growing, the share of which in the portfolio reached 8.8% and their value reached PLN 1,238 million at the end of the reported period (98% annual growth). Cash loans were the main growth factor in this group of retail loans, with the growth of 222% y/y. In December 2006 the value of the portfolio of these loans stood at PLN 626 million. For the purpose of expanding sales of these loans also to non-customers a specialised direct sales network is now being built. The attractive product offer and the growing contribution of direct sales have led to more than doubling (by 108% y/y) – to 257 thousands – of the number of credit cards sold by the Bank. The Bank increased its market share from 3% in 2005 to 4.1% in 2006. The "Inspirations" promotion programme launched in Q4 2006 also contributed to increasing usage of the cards.

Although the share of loans to companies in the loan portfolio has fallen during 2006 to 37.4% from 51.4%, the value this group of receivables increased vs. the end of 2005 by PLN 419 million (8.6% annual growth) and reached PLN 5,277 million as at the end of 2006. In the group of trade finance products the factoring business displayed very high dynamics - up 123% y/y as regards the value of invoices turnover. The share of Bank Millennium in this market segment rose substantially - from 4.1% to 7%.

The second-largest item in total assets as at end of December 2006 were "financial assets measured at fair value in the P&L Account and hedging derivatives" (15.8% of total assets). In the course of the year the value of this assets item increased by 16.1% to the amount of PLN 3,850 million, which was largely attributable to the 12.5% growth of the debt securities portfolio held for trading. This portfolio constituted the main component of this assets item (87.5%) and included first of all Treasury Bonds. The growth of these assets was also caused by the 47.2% increase of valuation of derivatives for trading and hedging. Equity instruments had only marginal impact on "Financial assets measured at fair value through the P&L Account and hedging derivatives", constituting merely 0.1% of this item.

A substantial assets item as at end of December 2006 were also investment financial assets (12.7%). Their value reached PLN 3,089 million, which means a decrease by 38.5% as compared with the end of December 2005. The portfolio of investment financial assets contained in predominant part (94.5%) debt securities, mostly issued by the Polish State Treasury. Equity investments of the Bank in shares in other companies had rather small share (5.2%) in this portfolio, and majority were investments in subsidiaries and affiliates (PLN 159 million as at the end of 2006), whereas investments in other companies had insignificant contribution.

Receivables from banks constituted 4.6% of the Group's total assets (PLN 1,123 million) and their value fell in the course of the year by 56.8%. Changes of the value of this item as well as the other items of financial assets were caused both by the striving to allocate funds to the most profitable assets as well as implementation of requirements regarding ongoing management of the Bank's risk (i.a. liquidity and interest rate).

The total value of interest-earning assets increased in the period covered by the report by 8.7% (i.e. by PLN 1,733 million) reaching PLN 21,544 million at the end of 2006.

Fixed assets, both tangible and intangible (not including fixed assets for sale) together at the end of December 2006 constituted 1.2% of assets, reaching the value of PLN 285 million.

Liabilities

The table below presents the structure of the Bank's liabilities as at end of 2005 and 2006:

LIABILITIES & EQUITY (PLN million)	31.12.2006		31.12.2005		change
	Value	Structure	Value	Structure	2006/2005
Liabilities to banks	3 600,2	16,0%	1 067,3	5,4%	237,3%
Liabilities to Customers	16 195,0	71,8%	14 084,8	70,7%	15,0%
Liabilities from Sell-Buy-Backs	1 477,7	6,6%	3 472,1	17,4%	-57,4%
financial liabilities measured at fair value in the P&L Account and hedging derivatives	313,3	1,4%	526,5	2,6%	-40,5%
Liabilities under own securities	5,7	0,0%	32,6	0,2%	-82,5%
Provisions	10,4	0,0%	15,8	0,1%	-34,4%
Subordinated liabilities	307,3	1,4%	309,5	1,6%	-0,7%
Other liabilities	631,3	2,8%	422,8	2,1%	49,3%
Total liabilities	22 540,9	100,0%	19 931,4	100,0%	13,1%
Total equity	1 829,0		1 642,7		11,3%
Total liabilities & equity	24 370,0		21 574,0		13,0%

In the structure of the passive side of the balance sheet as at end of December 2006 liabilities constituted 92.5% of the total with the remaining part, i.e. 7.5%, being the Group's equity.

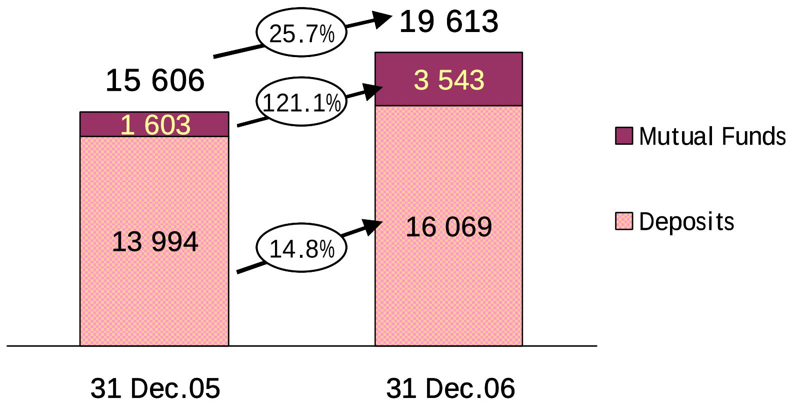
In the structure of liabilities the dominating item (71.8%) were deposits of Customers, which as at end of 2006 totalled PLN 16,195 million, meaning their growth by 15.0% over the end of 2005.

The extent of growth of deposits of the Bank does not fully reflect the changes in total customers' savings, entrusted to the whole Capital Group, which also cover mutual funds of Bank's subsidiary – Millennium TFI. The Bank plays key role in distribution of these mutual funds. To meet Customers' expectations head-on the Bank shifted focus from traditional term deposits to more sophisticated products, especially mutual funds, due to greater attractiveness for Customers (possibility of getting higher rates of return) and greater profitability for the Bank. The Bank's offer in this respect met with considerable interest on part of Customers, which led to a substantial increase of the value of investment products.

As at end of 2006 the value of total Customers' funds, including mutual funds, totalled PLN 19,613 million, which means growth by 25.7% y/y. Total Customers' funds do not include the amount of PLN 499 million, which constitutes savings products of companies from outside the Group, which were sold to affluent Customers of the Bank. Considering the above-mentioned products the increase of the value of Customers' funds would total 29%.

Mutual funds, which were the main driver of growth of Customers' funds, reached PLN 3,543 million, which means 121% annual growth. Thanks to them the market share of Bank Millennium Group increased from 2.6% to 3.6% in the course of the year. The "Superduet" product was especially successful, being a combination of a short-term deposit and a mutual fund (value of total sales in Q4 2006 alone was PLN 1.5 billion).

Customers' funds*
(PLN million)



(*) this item includes Customers' deposits, retail bonds and mutual funds

The deposits structure by Customer type as at end of December 2005 and 2006 is presented in the table below:

Customers' deposits (PLN million)	31.12.2006		31.12.2005		Change 2006/2005	
	Value	Structure	Value	Structure	Value	(%)
Deposits of individual Customers	8 667.0	53.5%	7 900.9	56.1%	766.0	9.7%
Deposits of corporate Customers and the public sector	7 528.1	46.5%	6 183.8	43.9%	1 344.2	21.7%
TOTAL	16 195.0	100.0%	14 084.8	100.0%	2 110.3	15.0%

Deposits of individual Customers of the Bank as at 31 December 2006 totalled PLN 8,667 million, standing PLN 766 million (9.7%) higher than the year before. Considering investment products not reflected in the balance sheet (mutual funds and savings/insurance products) the total growth of funds of individual Customers in the reported period was 28.5% (PLN 12,210 million as at end of 2006).

Corporate and public sector deposits as at 31 December 2006 totalled PLN 7,528 million i.e. were 21.7% or PLN 1,344 million higher than on 31 December 2005. This growth was attributable to general trends in the whole banking sector as well as to greater activity of the Group in the SME segment.

A substantial item in the Group's liabilities (6.6%) with a nature similar to that of deposits (funds acquired from external entities) were liabilities under sell-buy-backs, which at the end of December 2006 reached PLN 1,478 million. This item primarily contains short-term funds acquired from Customers and financial institutions and is usually highly volatile. As compared with December 2005 the value of funds acquired in result of SBB transactions fell by 57.4%, largely due to decline of the value of transactions concluded with the Bank's corporate Customers, but also, although to smaller extent, due to decrease of the value of transactions with financial institutions.

Next to customers' deposits the second-largest item in the Bank's liabilities were liabilities to other banks (16% as at end of 2006), which increased 237.3% over 2005 reaching PLN 3,600 million. The reason behind this growth was above all the CHF 555 million 3-year loan (option to extend up to 5 years) taken by the Bank in November 2006 from an international consortium of banks. This was the largest syndicated loan incurred so far by a Polish bank.

Liabilities on account own debt issue as at end of December 2006 had a marginal share in the structure of financing of the Bank and fell in the course of the year from PLN 33 million to PLN 6 million. The lower level of issued debt resulted from redemption in the course of the year of the last series of retail bonds of Bank Millennium. Subordinated liabilities constituted 1.4% of the value of liabilities (PLN 307 million) as at end of 2006 and comprised debt resulting from issued long-term Euro denominated bonds.

The value of the Bank's equity as at end of 2006 stood at PLN 1,829 million and increased by 11.3% as compared with the end of 2005, which came from exceptionally high net profit generated in 2006 exceeding the payment of dividend for 2005, also in high amount of PLN 458.6. With such an amount of equity the value of the Bank's solvency ratio as at end of 2006 was 11.9% and noticeably came down from 19.1% as at end of 2005. This was affected first of all by the substantial growth of business volumes and the related increase of capital requirements; nevertheless such a value of the solvency ratio has to be considered satisfactory.

Off-balance sheet items

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

OFF-BALANCE SHEET ITEMS (in PLN million)	31.12.2006	31.12.2005	Change (%)
I. Off-balance sheet contingent liabilities granted and received	6 583.4	6 003.6	9.7%
1. Commitments granted	6 045.7	5 238.4	15.4%
2. Commitments received	537.7	765.1	-29.7%
II. Liabilities connected with execution of purchase/sale transactions	1 765.9	823.2	114.5%
III. Derivatives	57 540.7	38 437.3	49.7%
1. FRA	2 325.9	3 600.0	-35.4%
2. IRS	21 684.4	9 574.1	126.5%
3. FX swaps	5 979.6	6 684.9	-10.6%
4. CIRS	9 917.1	8 036.5	23.4%
5. Other FX derivatives	16 401.2	10 269.0	59.7%
6. Commodity derivatives	1 099.0	272.9	302.8%
7. Other derivatives	133.5	0.0	
IV. Other	0.0	0.0	
Off–balance sheet items total	65 890.0	45 264.1	45.6%

The total value of off-balance sheet items as at end of December 2006 was PLN 65,890 million. The largest item were "derivatives", which reached PLN 57,541 million, meaning growth by 49.7% over end of December 2005. In this item an important role is played by FX instruments i.a. FX swaps, cross-currency interest rate swaps (CIRS) and other FX contracts, including options and forward agreements. A substantial item with highest value among derivatives are interest rate swaps, the value of which as at end of June 2006 was PLN 21,684 million. The increase in the value of derivatives resulted from FX and interest rate risk management needs.

Liabilities connected with execution of purchase/sale transactions as at end of December 2006 stood at PLN 1,766 million and largely concerned FX transactions (PLN 1,753 million) as well as – to a marginal extent – securities transactions (PLN 13 million).

Off-balance sheet contingent liabilities constituted 10% of total off-balance sheet liabilities and as at end of December 2006 stood at PLN 6,583 million (up by 9.7% as compared with the status of 31 December 2005). This item comprises commitments granted in the amount of PLN 6,046 million (increase by 15.4%) and commitments received, which stood at PLN 538 million (down by 30.7%) – largely connected with credit risk security.

II.3 Stock listings and rating

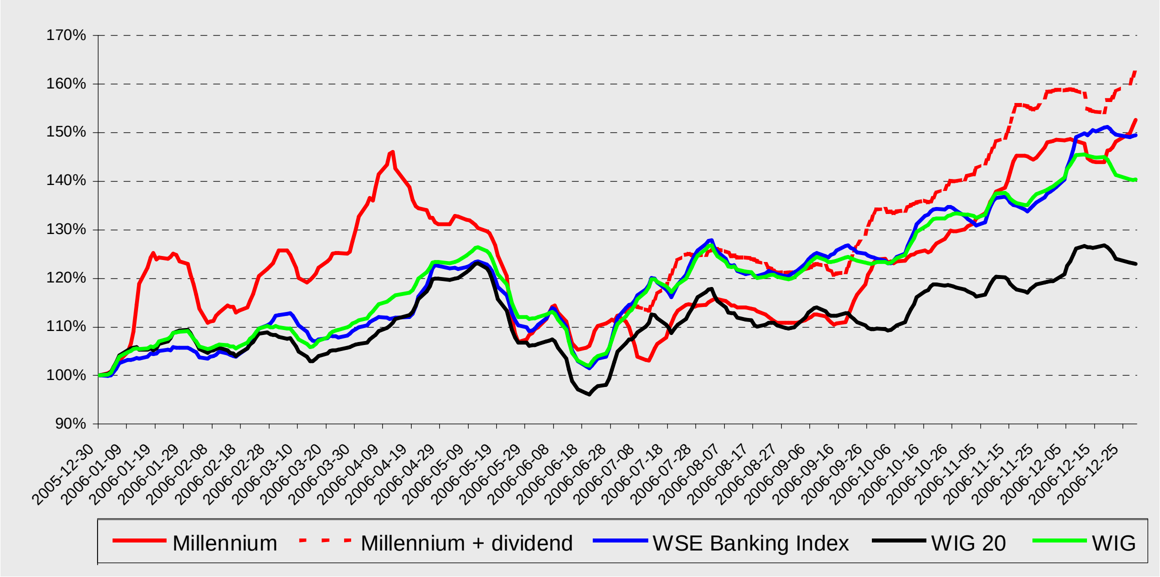
In the course of the year a significant change occurred in the shareholding structure of Bank Millennium S.A. In December 2006, in result of a tender offer for the Bank's shares, the main shareholder Banco Comercial Português increased its stake in the Bank to 65.5%. At the same time in result of the sale of the Bank's shares by three major foreign investors free-float increased substantially to 34.5% of share capital as at end of December 2006.

Improvement of financial performance and increase of the Bank's free-float in 2006 were reflected in the dynamic increase of the share price of Bank Millennium on the Warsaw Stock Exchange. The Bank's shares were up 51.4% and considering the dividend paid in 2006 – up by 61.7%, thus exceeding for the third year in a row the performance of main WSE indexes.

KEY INDICATORS OF BANK MILLENNIUM SHARE PRICE

	31.12.2006	31.12.2005	Change	Change (%)
Bank Millennium Share price (PLN)	7.95	5.25	1.89	+51.4%
Bank Millennium share price with dividend (PLN)	8.49	5.25	3.24	+61.7%
WIG	50 411.82	35 600.79	14 811.03	+ 41.6%
WIG Banks	70 858.4	46 787.80	11 333.43	+51.4%
WIG 20	3 285.50	2 654.95	694.38	+23.7%
Price/book value ratio	3.19	2.19	1.0	+45.7%
Price/earnings ratio	23.89	14.82	9.07	+38.8%

Changes of Bank Millennium share price and selected WSE indexes
(average from 5 consecutive trading days, value as at 30.12.2005 = 100%)



On 10 April 2006 Moody's Investors Service Ltd. increased the Financial Strength Rating of Bank Millennium to "D" "in recognition of recurrent profitability and the continuous ability to deliver strategic objectives". The Bank's long and short-term deposit rating remained at an unchanged level: A2 and P-1 respectively. The prospect of deposit rating (both short as well as long-term) has been established as stable

MOODY'S RATING FOR BANK MILLENNIUM

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

III. DESCRIPTION OF THE BANK'S BUSINESS ACTIVITY

Introduction

Bank Millennium offers its services to Customers via a countrywide network of outlets, automatic distribution channels (telephone and internet, ATM network) as well as direct sales done by cooperating companies and specialised sales teams.

In 2006 the Bank, together with the publication of the new goals of its medium-term development plans, also announced and implemented changes in the existing distribution model. The independently operating branch networks serving retail Customers , affluent individual Customers and small business Customers were merged into one sales network. Now, this single network offers a "one-stop-shop" solution for all Customer segments. This change was possible thanks to last year's effective execution of the Bank Millennium branch network expansion, including the appearance of large Financial Centres as well as to implementation of the new Customer relationship model for microenterprises and SMEs.

For the purposes of the "Annual Report" the business activity of Bank Millennium has been presented as split into: retail banking, corporate banking and leasing, brokerage and mutual fund services offered by companies from the Bank Millennium Group. Custody services and international activity of the Bank were described separately.

III.1. Retail banking

Change of organisation of the sales network

In 2006 the programme began of fundamental changes in Bank Millennium Retail Banking. Starting with the introduction of new uniform visual identity in outlets of the nationwide branch network, through to the merging of capabilities and potential of three segments (operating independently even in 2005): Retail Customers, affluent Individual Customers (*Prestige)* and small businesses (Biznes).

These changes for all Customer groups were a sign of a broad development programme. Its aim was to improve the convenience and comfort of individual service and availability of the Bank's offer for all Customer groups in a single branch and a single network.

Merging the Millennium retail networks also aimed at creating better conditions for meeting business targets and making effective use of the skills and experience of the Bank's management teams. In result of this merger the current structure of Retail Banking is simple and transparent, with the Customers and the Bank reaping the benefits of cooperation between formerly separated segments.

Pursuing the new business strategy under the new brand, in February 2006 the Retail Network Expansion Project was created to handle transformation of existing branches and the building of new ones (i.a. in towns and cities where the Bank had no presence yet).

The network expansion project assumes the creation of:

- Financial Centres, which will provide service as one branch to both individual Customers as well as *Prestige* customers and small businesses in dedicated places,
- Branches serving individual Customers and small businesses (Retail&Business: R&B),
- Retail branches.

In result of network transformation in 2006:

- 7 Financial Centres were created, 7 new R&B branches were opened as well as 8 new retail branches (including 5 Credit Centers)
- 15 branches were transformed into Financial Centres and 16 – into R&B outlets.

The Bank's branches, created in 2006 and those, which are planned to be opened in following years, are bigger, better tailored to the needs of Customers and are multifunctional. These branches attract the most appealing segments of Polish customers – demanding high quality of service and attractive product and services offer.

In the next two years the plan is to open: 81 new branches in 2007 and a further 24 branches in 2008, which will permit reaching an even greater group of Customers. The branches will lead to full availability of the Bank's offer on the Polish market, both geographically and in terms of targeting all the segments. At the same time the network of Credit Centres will remain separate though aligned as regards visual identity supporting direct sales of mortgage and consumer loans.

Development of the offer

In the Individual Customers segment the Bank is offering a wide array of financial products for mass-market Customers – beginning with personal accounts, cards (credit and debit), through savings accounts, term deposits to mutual funds, consumer credit, mortgage loans, brokerage services, structured products and insurance.

Mortgage loans

The key role in the growth of loan portfolio play mortgage and home equity loans secured with residential real estate. The key components of the mortgage portfolio development strategy were:

- Increase of availability of the offer by developing various distribution channels,
- Gradual growth of sales of PLN loans,
- Improving Customer service standards in all stages of the credit process,
- Actions focused on building long-term relationships with Customers,
- Optimisation and automation of the credit process
- Detailed monitoring of risk factors and the whole loan portfolio.

Strong growth of mortgage lending was possible thanks to the comprehensive offer, which meets the financial needs of individual Customers. Mortgage products offered by Bank Millennium can be used to finance not only residential needs (Mortgage Loan), but also payment of liabilities to other financial institutions (Consolidation Loan), purchase of commercial premises for lease of own business use (Biznes Mortgage Loan) as well as any other purpose (Home Equity Loan).

Factors which further increased the appeal of mortgage banking products in 2006 were extension of the lending period to 40 years (PLN loans), simplification and shortening of the loan approval process as well as introduction of an innovation consisting in a grace period for the first payment of as long as 3 months. This is another advantage of the Bank's offer, which is so much about availability, flexibility and Customer-friendliness of its products.

It is worth noting that Millennium mortgage banking products are considered by Customers and independent financial brokers as being among the most attractive and innovative. In the "Rzeczpospolita" ranking of October 2006 the Bank Millennium mortgage loans offer was the only one to receive awards in all three categories:

- Main loan parameters – interest rate and additional fees
- The maximum loan amount, which a Borrower with a certain income can expect to get
- Opinion of partners and financial brokers cooperating with the Bank.

Financial brokers asked for their opinion about Bank Millennium also emphasised:

- The Bank's focus on making the offer attractive
- Universal nature of the offer (inexpensive loan for anyone)
- Broad availability of the product – large branch network
- Clear procedures

- Life insurance – additional security for a small price.

Another award came to the Bank from the monthly "Home & Market". The Bank Millennium Mortgage Loans offer received the Financial Medal for best product in the mortgage loan category in 2006.

Other consumer loans

The consumer credit offer for individuals comprises:

- "Quick Loan" (cash loan for an unspecified purpose),
- Loan for purchase of stock (purpose of financing – purchase of stock on the primary market especially in an IPO),
- Personal account overdraft limit (renewable credit line, linked with a personal account),
- Car loan
- Loan against assets (loan secured with a deposit).

Bank Millennium launched a new attractive referrals programme, which rewards Customers who refer the Bank's cash loans to family or friends. At the same time the Bank successfully launched sales of the "Quick Loan" through new distribution channels – Agents and specialised Credit Advisors.

The most attractive products of the year 2006 include loan for purchase of securities (original issues). In the course of 2006 the loan was offered by the Bank in connection with two original offers on the equity market .

Deposits

In 2006 the Bank's retail deposit offer was expanded to include some innovative products, which were well received by the market. Apart from term deposits (Lokata Millennium) – classic deposit products for those who value traditional forms of saving – the Bank also offered mutual funds and structured products. In keeping with strategy of selling various types of products to existing Customers (*cross-selling*) last year the Bank was offering deposit products to customers who also had other products offered by the Bank and were transferring their salary to a personal account with Bank Millennium. The Bank was also focused on mutual funds, hence the "SuperDuet" product was actively solicited, being a combination of a high-interest rate term deposit and a mutual funds, permitting additional above-average returns. It had a key importance as regards the performance of the Group in customer funds in 2006 and strongly contributed to the substantial growth of Millennium TFI assets.

In order to meet the expectations of increasingly demanding Customers interested in getting high rates of return on their investments the Bank expanded its offer, i.a. adding following investment products:

- "SuperDuet" in USD and EUR – a combination of a high-interest rate term deposit with a mutual fund in foreign currency,
- Lokata Progresywna Plus – 12–month term deposit with the interest rate growing every month, ensuring high liquidity and a special loyalty bonus for regularly feeding current accounts, plus an extra premium for holding Millennium mutual funds.

Payment cards

2006 was also a year of major product changes in the area of credit cards. In October 2006 a complete and unprecedented on the Polish banking market transformation was implemented of the credit cards offer, adapting it to the needs and expectations of Customers from various market segments and optimising it as regards generated revenue.

The new Bank Millennium credit card offer was built on the basis of four segments:

- Platinum
- Gold
- Classic
- Low-end

With respect to the existing portfolio the changes concerned most product parameters. I.a. the changes involved annual fees, interest rate (e.g. in the Gold segment it was reduced from 20.90% to 17.90%), duration of the free credit period (it was extended to 56 days for all credit cards). Moreover the related insurance and additional services were modified. Among others the decision was taken to propose free insurance cover to Customers from the *Gold* segment (travel insurance, *Assistance* insurance providing expert assistance in emergency situations at home as well as the *Concierge* insurance package, offering i.a. booking air tickets or a table in a restaurant, delivery of shopping or flowers).

Together with modification of the existing offer new credit cards were also introduced: Millennium MasterCard and Millennium MasterCard Gold. In this way Bank Millennium became the only bank in Poland to offer to individual Customers credit cards from three leading providers – Visa, MasterCard and American Express. The product range now also includes the flat Blue Millennium Visa credit card targeted at low-income consumers (starting with PLN 650 net).

In parallel with expansion of the product offer the Bank undertook active work to assure adequate quality of the cards portfolio. The efforts were focused mainly on increasing card usage and debt as well as building Customer loyalty.

Among others Customers were offered a *Balance Transfer* service. It permits payment of credit card debt to another bank on very attractive terms – 9.90% interest rate until full payment of the debt. This is the only such attractive offer on the Polish market.

To increase card usage and Customer loyalty two new services were introduced in 2006.
The “Inspirations” benefits programme gives Millennium card holders (of both credit as well as debit cards) the possibility of enjoying discounts up to even 60% in over 700 points of sale. Already at the launch of the programme, it was the third-largest one on the market as regards coverage (number of points of sale).
Meanwhile in the “Pay and Gain” programme the annual card fee may be PLN 0. It is sufficient for the annual sum of card spending to exceed PLN 30 000 for a *Gold* card or PLN 12 000 for a *Classic* card.

In 2006 as part of the overall process of changing the image of Bank Millennium and Millennium bcp, payment cards were given new, uniform graphics and the new logo of the Bank. In this process the card names were also changed, becoming shorter and simpler.

Private Banking

Prestige is the Bank Millennium offer targeted at affluent persons who expect the highest quality of service and an offer of financial products tailored to meet their individual needs.

2006 was a year of fundamental changes in this segment. We introduced new and improved wealth management processes and tools, which put even greater emphasis on building a Customer’s portfolio that would accurately meet his unique interests as well as on managing the Customer’s financial resources in line with his expectations with regard to rate of return and risk profile.

In order to be able to build portfolios, which will really meet the financial goals of Customers we have substantially refocused our product offer. The main change is that it is now based on an “open architecture” providing Customers with access to the best products offered by the best suppliers on the market. Finally the *Prestige* offer contains over 50 mutual funds from eight leading fund management companies (AIG, Arka, DWS, ING, Legg Mason, Millennium, PZU, Union Investments) available individually in the “Prestige Investment Programme”, (which gives a range of tax and insurance benefits) or in hybrid products, which combine classic bank deposits yielding market-leading interest rates with selected funds. An interesting innovation in our offer in 2006 was "Polisa Gwarancyjna Prestige" with a guaranteed attractive rate of return plus additional life insurance. Moreover in 2006 we proposed to our Customers over 15 new structured products taking advantage of investment opportunities appearing on financial and commodity markets worldwide, with relatively low risk levels. The Customers' financing needs were satisfied with an extensive credit offer – ranging from mortgage loans to credit cards.

The marketing communication efforts made in 2006 were intended especially to broadly communicate the changes in the offer. The most interesting of them were a precisely planned press campaign in opinion-leading periodical publications and niche magazines as well as the educational programme about private banking, done together with the "Rzeczpospolita" daily.

The regular seminars for Customers and non-Customers organised by branches (over 30 such events in 2006) also turned out to be a very effective way of communicating the changes and innovations in the offer.

Cross-selling

In keeping with the bank's strategy regarding promotion of Customer activity and loyalty, cross-selling remains an important part of the Bank's business. The Bank regularly implements initiatives aimed at increasing the number of products used by Customers, both in the basic package (personal accounts together with a debit card and access to electronic distribution channels) as well as with term deposits and credit products. In 2006 the Bank continued and developed the 2005-originated special offer for selected groups of Customers. Mortgage or deposit Customers were offered i.a. free debit or credit cards as well free administration of the personal account.

Quality of service

In 2006 improving service quality remained one of the priority goals of the Bank. Many initiatives were undertaken, which were targeted at increasing Customer satisfaction. Among others the quality of service in branches as well as in electronic banking improved. Moreover there were a number of initiatives centred on improving organisation, the aim of which is further improvement of the Bank's operational processes and improvement of service level.

On an increasingly competitive market, apart from actions aimed at acquiring Borrowers, becoming increasingly important is Customer relationship management, which aims at ensuring a high level of satisfaction with the product and the services provided by the Bank.

In 2006 initiatives were continued, leading to improvement of service to current mortgage banking Customers by standardising backoffice processes. Moreover Customer communication functions were integrated in a new organisational unit, dedicated to replying to Customer inquiries and complaints. Considering that mortgage loans are among the most complex financial products, the Bank makes regular educational efforts, sending to Customers various information materials concerning mortgage issues.

The Bank continues to continuously monitor Customer service, periodically conducting Customer satisfaction and loyalty surveys. According to the surveys done in 2006, the level of Customer satisfaction and loyalty as well as willingness to buy additional products and services from the Bank increased significantly as compared with 2005.

Expansion of distribution channels

Retail branches

The nationwide branch network of Bank Millennium, which provides service to retail Customers, operates on the basis of a modern operational platform, thanks to which Customers can access all the Bank's products and services in each of the 324 outlets (287 as at end of 2005), located throughout Poland, regardless of where the Customer had opened the account. Additionally Customers could visit any of the 30 specialised outlets providing advice on credit products.

As was already mentioned, in 2006 Bank Millennium announced and launched the branch network expansion project. In this project Bank Millennium shall open 158 branches until 2008 half year (of which 36 branch transformations).

Branches servicing affluent customers

2006 saw fundamental restructuring – in terms of quality and quantity – of the network of *Prestige* outlets serving affluent Customers. There were 16 of them at the beginning of the year; while at the end of the year there were already 25 branches throughout Poland. 22 of them are located in modern Bank Millennium Financial Centres, the remaining 3 (Kraków, Katowice, Bielsko-Biała) being outlets of the "old" type, which in early 2007 will also be transformed into Financial Centres.

The new *Prestige* branches have modern interiors, which provide a feeling of complete privacy and security. They represent a new type of functionality, elegance and arrangement of available space.

TeleMillennium® - telephone service

Millennium Customers can also manage their finances by telephone, using the call centre. Customer telephone service is fully automated and was expanded in 2006 to include new functions. As at end of 2006 the TeleMillennium system took 2.3 million calls, most of which (75%) were handled in the IVR automatic system.

Bank Millennium has the best offer on the market as regards the scope of services available to individual Customers via IVR. It also has the broadest range of services offered to individual and business Customers through call centre operators.

ATMs

ATMs remain for the Bank and important and convenient channel of Customer service. Thanks to the multifunctional ATMs a Customer does not have to go to a branch to withdraw cash, check the account balance or even make a transfer.

As at end of January 2006 our Customers could use any of the 1285 multifunctional ATMs, 431 of which belong to Millennium and 854 are in the Euronet network. In 2006 almost 35 million transactions were done in ATMs – 15% more than in 2005, with 29 million of them being done in Bank Millennium's own ATMs.

Millenet® - Internet banking

2006 was another year of development of the Millenet® Internet banking system. For the second year in a row Bank Millennium received the "Best Consumer Internet Bank in Poland" award from the independent international "Global Finance Magazine".

As at end of 2006 the number of registered individual Customers reached 434,000. In December transfers done in Millenet by individual Customers constituted 75% of all transfers of individual Customers. In case of external transfers this percentage is even higher, exceeding 82%.

The balance of Internet deposits ("Lokata Millenet" in PLN and in foreign currencies, "Deposit Auctions", "Rachunek Premia On-line"), opened online, exceeded the amount of PLN 831 million. Launching of the "Premia On-line" savings accounts and increase of the interest rate on FX deposits are responsible for most of the attained growth. As a result of "Auction of Term Deposits" – in the course of 2006, 15-day deposits were opened in the amount of almost PLN 2.5 billion. The auctions were held every week. Many journalists and market analysts considered these auctions to be highly innovative forms of distribution on the Polish market.

In 2006 the MilleSMS service was expanded to include the possibility of sending inquiries about the account balance as well as account and credit card history and also making transfers to pre-defined beneficiaries with use of SMS text messages sent from mobile telephones.
In December 2006 the mobile top-up service was launched in Millenet and in MilleSMS.

Millenet has also become a very important distribution channel for mutual funds, attaining an over 19% share in total sales of this product by the Bank.

Direct sale of credit cards

In 2006 a new channel was created – direct sales – specialised only in selling credit cards. Towards the end of 2006 the number of commercial agents employed by the services provider, with whom the Bank had outsourced these services, the agents working exclusively for Bank Millennium, totalled 330 persons. They were working in the largest cities in Poland . Implementation of the new strategy led to diversification of card sales. Although in 2006 branches continued to be the main distribution channels – they sold 58% of the credit cards nevertheless the direct sales channel, generated as much as 42% of sales. Sales representatives contributed 36%, while sales done in cooperation with partners and web portals accounting for another 6%.

Direct sale of mortgage loans

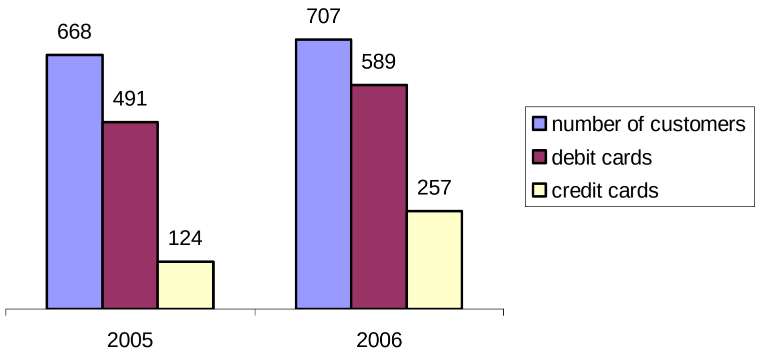
Bank is regularly developing various distribution channels to increase availability of it offer. Apart from the steadily growing retail branch network, Millennium mortgage loans are also available in 30 specialised Credit Centres located in the largest cities in Poland, 118 credit advisors, dedicated to providing mortgage banking services to Customers, are responsible for selling mortgage loans.
The Bank is also putting much emphasis on strengthening long-term cooperation with business partners who sell mortgage loans and are dynamically expanding their own sales networks. They include financial brokers (our mortgage products are currently available from 38 network and local brokers) as well as web portals (currently Bank co-operates with 18 portals).

Business performance

In the individual Customers segment the Bank currently has 707 thousand Customers who actively use banking products and services. As at end of 2006 an individual Customer of the Bank had 3.00 financial products on average as compared with 2.67 at the beginning of the year.

At the end of 2006 the number of debit cards issued to Millennium Customers was 589 ths (491 ths at the end of 2005), with the number of issued credit cards increasing to 257 ths. as compared with 124 ths in 2005. In effect the share of Bank Millennium in the credit cards market increased from 2.8% to 4.1%, and the Bank moved from 11th to 8th place among largest issuers of credit cards in Poland (including issuers of Private Label cards).

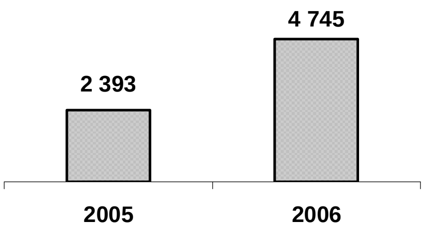
Number of Customers, debit and credit cards in the individual customers segment (in ths.):



2006 for Bank Millennium was another year of record-breaking results in sales of mortgage loans:

- The number of mortgage loan applications increased 67% (i.e. by 20 203) reaching 50 509
- The value of disbursed loans increased by 98% (i.e. by PLN 2 352 million) reaching PLN 4 745 million
- The value of the portfolio grew 117% (i.e. by PLN 4 100 million) reaching PLN 7 595 million

Value of disbursed mortgage loans (in PLN million)



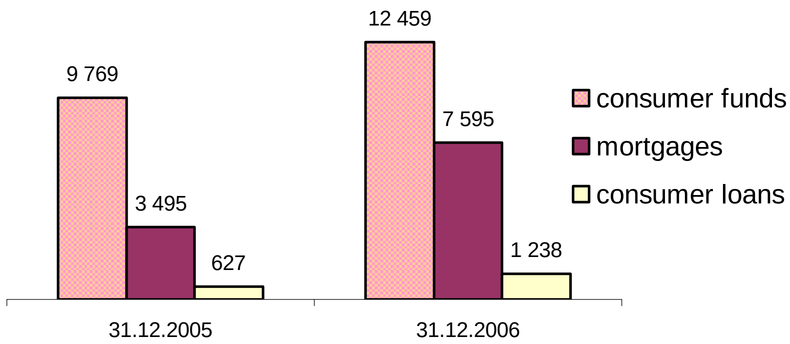
Thanks to this result the Bank was second on the market as regards the value of newly granted loans with a share of 13.7% (as compared with 10.95% as at end of 2005). The 10% share in debt on account of loans granted for residential real estate to private persons gives the Bank the third place on the list in 2006 of largest bank mortgage portfolios, coming from the fifth place as at end of 2005.

In 2006 Bank Millennium recorded also substantial growth of sales of consumer loans. The Bank granted loans ("Quick Loan") in the end of the year amounted to PLN 626 million (growth by 222% y/y). The second half of 2006 was for the Bank the best in the last few years. It was in this period that the Bank granted 33 ths cash loans to its Customers. In 2006 Bank Millennium granted loan for the purchase of securities in the amount of PLN 135,9 million.

In the course of 2006 the Bank was improving its deposits offer, focusing both on product features as well as on their prices, maintaining a strong competitive edge of the offer and keeping margins at an adequate level.
Customer funds in the retail segment (including deposits and mutual funds) reached PLN 12 459 ths (that is 27,5% growth y/y). The growth was engined mainly by inwestment funds that reached PLN 3 543 million (121% growth).

The Bank continued to successfully promote deposits in the Internet, making use of this modern and effective banking transaction platform. As at end of 2006 the balance of deposits made online exceeded PLN 831 million.

Volume of loans and deposits of individual customers (in PLN million):



In the prestige customers segment the Bank ended last year with significant increase of Customers' number. At the end of 2006 supplied services to 8 500 Customers, which means that their number increased 32% as compared with the number at end of 2005. Their total assets under management increased by 29% reaching PLN 4.2 billion at the end of the year. (including funds on brokerage accounts in Millennium Dom Maklerski and on Custody department of the Bank)

III.2. Corporate Banking for Companies

Corporate Clients are serviced in Bank Millennium by the corporate banking line (for medium-sized and large corporate Clients) and retail banking line - micro enterprises (Biznes segment).

Corporate Banking

Corporate Banking is the line of Bank Millennium, which is specialised in services to medium, large and strategic companies. Medium companies are those, which have annual sales in excess of PLN 3.2 million. Large companies have turnover exceeding PLN 30 million. Large companies also include the group of strategic Customers who have turnover above PLN 200 million.

Services to companies are provided via a nationwide sale network comprising 30 Corporate Centres, by Banking Advisors specialised in working with individual Customer segments and having expertise as regards bank products and services for businesses.

Corporate Centres permit execution of specialised banking transactions while Customers can also have their regular transactions executed in any of the over 300 branches in the Bank's retail network. Moreover such transactions can be done with use of electronic banking systems: Millenet for Companies and ESOBIG, as well as TeleMillennium call centre.

On 31 December 2006 the total volume of loans to Corporate Banking Customers was PLN 3 536 million. Last year special emphasis was placed on extension of the financial offer as an alternative to traditional credit products (leasing, factoring).

Main leasing activity is described in chapter III.5 concerning Millennium Leasing entity.
The offer of leasing services was extended in 2006 to include credit for leasing suppliers. The offer was devised having in mind dealers buying lease objects from general importers or manufacturers in Poland, domestic manufacturers and importers of new and used items from the European Union. The credit for leasing suppliers is granted in PLN and is revolving.

Bank Millennium has many years of experience with factoring products and its current offer in this area is adapted to the multi-faceted expectations of Customers, who wish to improve management and turnover of their receivables. The Bank provides factoring services both with recourse as well as without. The main advantage of factoring services provided by Bank Millennium is the possibility of receiving funds within the granted limit before the due and payable date of the amount receivable. Financing of these receivables is done without unnecessary formalities.

Last year the Bank substantially developed its factoring business, reaching 123% growth of the value of invoices turnover as compared with 2005, which resulted in 7% market share as regards value of purchased invoices.

In 2006 factoring Customers gained the possibility of partly eliminating paperwork in correspondence with the Bank owing to introduction of electronic signature. Bank Millennium was the first bank in Poland to implement this solution. Introduction of the electronic signature permitted sending lists of invoices in electronic format, thus significantly shortening the time to disbursement of funds to the Customer.

On the deposit market Corporate Banking ended 2006 with the volume of Customer funds at PLN 5 862 million. The 2006 result is 11.4% higher than in the previous year.

Revenue from treasury transactions grew 44% in 2006 over the previous year.

In order to simplify formalities and to improve the quality of services connected with signing of a bank account agreement a reduction was done of the existing number of agreements and other documents permitting access to some products and services: electronic banking (Millenet, ESOBIG, TransBank, TeleMillennium) as well as payment cards, closed deposits and car collection. The process of account opening permits activation of direct account access through electronic banking channels at the Customer's convenience.

In 2006 there was a further increase of the number of registered users of the Millenet for companies Internet banking system. At the same time a number of functional solutions were introduced to improve day-to-day operation of the account, such as making aggregate transfers, reporting the status of ordered transfers as well as importing and exporting lists of transfer beneficiaries. In 2006 96% of the transfer orders were placed by Customers via electronic systems: ESOBIG and Millenet for companies. The monthly value of electronic transfers expressed in PLN grew 17% in the period from January to December 2006

As regards treasury products Corporate Customers are being served by three alternative, mutually complementary cells of the Bank (in the Treasury Department): the Corporate sales Team, Treasury Call Centre Team and the Product Advisors Team to provide service to Customers of specific Corporate Centres. Customers have access to both FX transactions, deposit products (*FX spot, swap, forward, repo, buy-sell-back*) as well as modern risk management products and structured investment products.

Moreover, meeting the needs of medium companies, Bank Millennium prepared for them a special relationship proposal, thanks to which these companies have gained direct access to Treasury Department products. The Treasury Call Centre Team was created to enable Customers to conclude FX cash transactions and futures. Thanks to the cooperation with Bank Millennium the companies additionally enjoy professional assistance of FX market dealers as well as free access to highest quality economic and market reports prepared by the Bank's experts.

Offer of the small business segment

2006 saw major changes in the approach to small business service in Bank Millennium. The current Biznes segment is part of Retail Banking, together with individual Customers and Prestige line Customers. The Biznes offer is targeted at entrepreneurs with annual turnover of up to PLN 3.2 million and was developed in result of a detailed analysis of the market, its development potential, the Bank's position as well as experience to-date and development plans for the coming years.

Preparing the offer for this market segment the Bank was focused on the needs of Customers who expect a convenient, easily accessible service platform, however not forgetting the most important group of needs of the entrepreneurs, connected with financing their business. In order to reply to these needs the Bank proposed a comprehensive solution, comprising purpose-built products and services, alternative access channels, a network of outlets together with a team of dedicated staff as well as processes enabling efficient and quick service.

Confirming the positive results of these changes is the top position of the Bank's offer in the annual ranking prepared by the monthly "Forbes" in cooperation with the TNS OBOP research institute. Among 24 banks Bank Millennium was ranked first and the Bank's proposal was at the same time considered to outclass competitors in the category "Cost of account maintenance". Also the credit offer and credit availability were highly appreciated. This award, apart from having a favourable impact on the Bank's image, also brought a measurable result in the form of a substantial increase of the number of Customers as well as doubling of the value of loans granted to this segment.

The most important changes implemented by Bank Millennium in 2006 in the offer to Small Businesses are listed below:

Products and services:

- Free access to Millenet Internet Banking,
- Free transfers to ZUS and the Tax Office as well as external transfers in Millenet, which are cheapest on the market,
- Approximation of the offer to microcompanies to the offer for Individual Customers, which fully meets the needs flagged by this group,
- Introduction of one "Rachunek Biznes" account to replace the former four different types of current accounts
- Extension of the Cash Loan lending period from 3 to 5 years,
- Improvement of the car collection service consisting in shortening of the time to service provision thanks to direct contact with the external service provider and collection of the cash already on the day of service request,
- Significant simplification of the Millenet for Companies Internet banking system, permitting a major shortening of the service activation time;

Branch network:

Thanks to the continuing branch expansion programme the number of outlets serving Biznes Customers increased by 19 new branches, to reach currently 59 outlets.

Biznes segment Customers are served by specialised Biznes Customer Advisors, whose number we have doubled in the course of 2006 to 109.

Processes:

The changes made in the offer targeted at this Customer segment were also followed by changes in processes and the introduction of tools enabling shortening of the time needed to deliver the products and services to the customers, including especially credit decisions, as well as reduction of the volume of required documents

III.3. Custody services

Bank Millennium was one of the first banks in Poland to start provision of custody services already in 1990. As of that time the Bank's offer has been gradually improving in order to face up to the pace of growth of the capital market in Poland and the requirements of the ever-growing group of Customers.

Custody services are being provided on the basis of an individual permit from the Securities Commission to *"keeping securities in custody upon order as well as registration of the possession of securities and changes of said possession"*. The Bank is a direct participant in deposit-clearing systems, including the National Depository of Securities, the Register of Securities and Euroclear, the international clearing house in Brussels.

Bank Millennium, being one of the founding members, takes active part in the work of the Council of Banks-Depositaries with the Union of Polish Banks, which Council has been established to represent the community vis-à-vis capital market institutions and regulators.

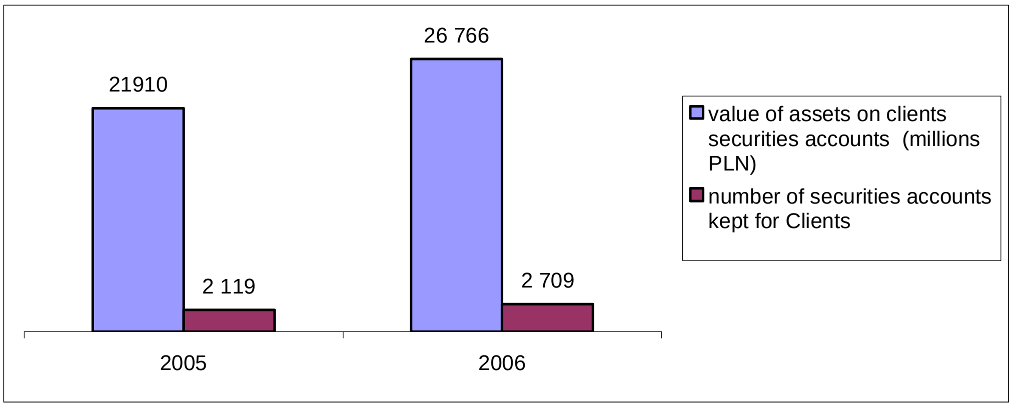
Custody services are being offered by a specialised organisational unit in the Head Office of Bank Millennium. This unit is the Custody Department, which offers a comprehensive range of services connected with safekeeping of securities, clearing of securities transactions and support of Corporate Actions on the domestic market as well as abroad.

Customers of the Custody Department are renowned domestic and foreign financial institutions (global custodian banks, banks – depositaries of Global Depositary Receipts, investment banks, asset management institutions, insurance companies, collective investment undertakings, investment funds) as well as other legal persons taking an active part in capital and money market transactions and requiring efficient, comprehensive and tailored services.

The basic scope of custody services includes maintenance of a securities account and a linked bank account in PLN or foreign currency. The Customer accounts record securities as well as other financial instruments, both paperless as well as in physical form.

Supplementing our basic offer are additional custody services, which comprise comprehensive depositary bank and transfer agent services for investment and pension funds, handling of rights resulting from securities (dividend, interest on bonds, drawing rights, splits / assimilations, tender offers), comprehensive reporting (statements of accounts must be sent as a SWIFT message, by fax or e-mail) as well as opening and maintenance of escrow accounts.

The Custody Department performs the function of depositary bank and transfer agent for 16 funds



In 2006 for the third year in a row the US-based professional quarterly "Global Custodian Magazine" gave Bank Millennium S.A. the prestigious title of "Top Rated" bank offering custody services in Poland. "Top Rated" status, which is the best possible for a custodian bank, is proof of the high quality of services offered by Bank Millennium S.A., also confirming its position in this market segment.

It must be underscored that it has been our Customers, who determined our success, thus confirming their satisfaction with the quality of services offered to them. According to their opinions, which were expressed in satisfaction surveys, the key factors of the Bank's success were:

flexibility of the offer, efficient and professional service and very high value for the money. Bank Millennium had the highest average score among Polish banks, which provide custody services.

III.4. International activities

Last year was a very important one in terms of international activities of Bank Millennium SA.

In 2006 Bank Millennium SA re-appeared in international syndicated loans market, concluding - in November 2006 - the agreement for the amount totalling CHF 555 Mio., constituting - on the date of its signing - the equivalent of ca. PLN 1,35 bn.

The MLA and Bookrunner in the transaction was Bayerische Landesbank (BayernLB), with its seat in Munich, and Lenders comprised over 20 financial institutions, originating in Germany, Austria, Denmark, Luxembourg, Italy, United Kingdom and the United States. Initially syndicated was the amount of CHF 250 Mio., which - due to strong interest in joining the transaction extended by international correspondents cooperating with Bank Millennium SA - was finally increased to above indicated level. The loan is scheduled for repayment in November 2009, with an option for extension - at consent of the parties - for two additional 1-year periods (i.e. till Signing of CHF 555.000.000 Syndicated Term Loan Facility Agreement 2010 or 2011).

The Agreement in question is the 5th one since 1998, the largest hitherto signed by Bank Millennium SA, as well as largest ever concluded by a Polish bank in the field of raising mid-term funding in foreign currencies in international syndicated loans market.

January 2006 started yet another year of practical operation of an international bank consortium, created for the purpose of cooperation with Trade Bank of Iraq. Its members are: JPMorgan Chase Bank (acting as coordinator), Australia & New Zealand Banking Group, Bank Millennium SA, Bank of Tokyo-Mitsubishi, Bayerische Hypo- und Vereinsbank, Calyon, ING Bank, National Bank of Kuwait, San Paolo IMI and Standard Chartered Bank.

In its capacity of a consortium member, till end of 2006 Bank Millennium SA participated in the financial service of over 550 export contracts to Iraq, totalling about USD 1,25 billion, effected in cooperation with the suppliers - and their banks - Bank Millennium SA's correspondents - incorporated in over 30 states (including among others: Germany, Austria, Denmark, Finland, Sweden, Norway, United Kingdom, Italy, Turkey, Belgium, the Netherlands, France, Spain, Switzerland, Canada, UAE, Cyprus, Russia, Ukraine, Latvia, Slovenia, Slovakia, Czech Republic, Bosnia & Herzegovina, Romania, Bulgaria and Croatia).

Irrespective of above mentioned activities, in the reported period the Bank regularly performed all the remaining tasks connected with the overall functioning of its international business, realising various objectives covering among others: current funding of the Bank's own and Client needs, servicing of foreign trade transactions, participation in international money market and fx operations and activity in the capital market.

In their successful achievement one of the basic contribution factors was the - now over 16 year long - process of development of the Bank's cooperation with its international partners and counterparties. The Bank maintains relations with over 1.200 correspondent banks and their outlets located in all major countries in terms of both structure of Polish foreign trade, as well as and non-trade activities. In this context particularly important relations are maintained with banks domicilled in such countries as (in alphabetical order): Australia, Austria, Belarus, Belgium, Bosnia-Herzegovina, Brazil, Bulgaria, Canada, Croatia, China, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Holland, Hong Kong, Hungary, India, Ireland, Italy, Japan, Jordan, Kazakhstan, Kuwait, Lithuania, Luxembourg, Latvia, Mexico, New Zealand, Norway, Portugal, Republic of South Africa, Romania, Russia, Serbia & Montenegro, Singapore, Slovakia, Slovenia, Spain, South Korea, Switzerland, Sweden, Turkey, UAE, Ukraine, United Kingdom, the United States.

With a small part of its main correspondents the Bank maintains nostro accounts in foreign currencies, running at the same time a number of loro accounts in domestic currency for, among others, reputable German, Italian and Scandinavian banks. The development of cooperation in this regard was largely influenced by the liberalisation (pursued for several years now) of the Polish fx legislation, enabling access of non-residents to the Zloty as settlement currency for current account transactions, as well as abolition - in relatively recent period - of most of previously existing restrictions on capital transactions.

In earlier year list of currencies in which the Bank carries out its transactions - both for own account, as well as by order of its Clients - was extended by Hungarian Forint (HUF) and Slovak Crown (SKK). In 2006 preparations were started for the purpose of inclusion into the offer of three further currencies of rising demand for from the side of Clients: Russian Rouble (RUB), Romanian Lei (RON) and Bulgarian Lev (BGN).

IV. RISK MANAGEMENT AND CREDIT POLICY

Integrated risk management - credit, market, liquidity and operational risks – arising from the business carried on by the Bank is one of the prime factors to support a strategy of sustained and safe growth of the Bank. During 2006, the Group has strengthened risk management functions through the implementation of a number of initiatives of strategic scope, including the approval of a new "Manual of Risk Management and Control Principles".

The new rules have been implemented to ensure the stability of the Bank. They comply with the Polish regulatory rules and also with the directives defined at Millennium bcp Group.

The rules concern mostly:
i) determining strict segregation between the duties concerning sourcing and risk-management as well as its control;
ii) using economic capital as the overall risk management metrics (since 2008, after implementation of New Capital Accord "Basle II" principles);
iii) concentration of credit and market risks in specific management areas; and
iv) recommendation to use uniform methodologies and information technology systems by every BCP Group entity.

In Bank Millennium Group the equity is maintained on the level covering all types of risks with efficient utilization of the capital delivered by Bank's shareholders. As at December 31, 2006 the Group's equity totalled PLN 2,215 million, whereas the capital adequacy ratio stood at safe level of 13.63%, much above required minimum (8%). For comparison, as at the end of December 2005 the consolidated equity amounted PLN 2.391 million. Drop of the equity was caused by high dividend paid from the profit of 2005.

IV.1. Internal organisation

The Bank's Management Board is responsible for defining and monitoring the risk policy. This includes approval of the principles and rules that are used in risk management, including the rules to determine the allocation of economic capital to the business lines (after implementation of "Basle II").

The Risk Control Committee is responsible for coordination of the risk policies. There are additionally the following committees in the Bank: Capital, Assets and Liabilities Committee (CALCO), Credit Committee and Process & Operational Risk Committee.

Risk Monitoring Department is an organizational unit in the Bank supporting the work of the committees, and it is responsible for the risk control, the general monitoring of all types of risk as well as informing the given committees about the level of risk in the Group and proposing the methods to limit this risk.
Additionally, the Risk Monitoring Department is responsible for:

- developing, proposing and implementing of evaluation methodologies and risk metrics as well as their control;
- ensuring the consistency of the risk-evaluation principles, concepts, methodologies and tools used by all the business areas (it refers also to all subsidiaries of the Group); and
- ensuring the existence of a technological infrastructure to support the risk-evaluation and monitoring process.

IV.2. Credit Risk

<u>Credit Policy</u>

Credit risk stands for uncertainty that a customer will not fulfil concluded with the Bank agreements in terms of financing, that is payoff of capital and interest in a fixed time.

The main goal of the credit policy pursued by the Bank Millennium Group is the implementation of a credit risk management framework that would allow maximization of the profitability in the credit activity complying with the desired level of risk as well as loan portfolio quality and diversification.

The process of credit risk management is subordinated to the described Bank Millennium Group policy that has been defined in detail in the procedures and other regulations and is based on a set of key principles, i.e.:

- Total segregation between the sale of credit risk based products, risk assessment and decisions of granting these products as well as the management and monitoring of resulting credit risk;
- Centralization of the credit decision process;
- Use of specific scoring/rating models for each of the products/ customer risk segments;
- Use of IT tools to support the credit process in all of its stages;
- Monitoring of the credit portfolio in a regular basis, both on the level of the particular transactions and also at the level of the global portfolio;
- Use of a set of limits by type of product, region, sector of activity, etc. to ensure a proper diversification effect of the credit portfolio.

During 2006, a number of significant changes (described below) were made, in order to ensure compliance with the requirements defined within the scope of the Basel II Accord (the Bank adopted advanced credit risk assessment methods approach) and also with the recommendations produced by the national supervisory authorities.

<u>Risk Segmentation</u>

A categorization model has been developed in which the key aspect of the correct risk evaluation is the classification of the customers and the nature of the transactions .
This model ensures that each individual exposure corresponds exactly to a given risk segment. The main decision processes of the Bank were adjusted in order to accommodating the particularities of each segment.

<u>Rating Master Scale</u>

The Bank took the decision of implementation of the concept of Rating Master Scale, a single risk notation system, approved at BCP Group level in 2006.
The new model of risk evaluation consists in 15 grades and applies to all customers (the specific grades reflect the expected default probability). In addition to introducing uniformity in risk assessment (irrespective of a Client's segment), the Rating Master Scale has come to increase discrimination capacity in customer evaluation in scope of generating the potential risk and thus it extended the customers rank.
The worst risk degrees ("13", "14" and "15") reflect customers having warning signals or undergoing recovery. Risk degrees "14" and "15" are obtained automatically and such clients are subject to special monitoring.

<u>Scoring and rating models</u>

Continuing to the efforts that began several years ago, the Bank continued to implement new models and to enhance some of the existing ones (e.g. new model for small businesses has been prepared).
Emphasis was also given, in 2006, to the validation of the rating notations of a behavioural nature implemented within the TRIAD model, i.e. a customer risk management tool, supporting proactive risk management and the financial needs of the individual and small business Clients within the Retail Network. Risk degrees are assigned to these customers on a monthly basis. The pre-approved limits of commitment are also awarded towards such clients for various credit products.
The methodology to calibrate all the rating models to the Master Scale was defined and the main risk models were already calibrated. Thus it ensures a common metric in the evaluation of the risk of every customer.

Collateral management

In 2006 the Bank established a new specialized organizational unit, under the responsibility of the Risk Monitoring Department, responsible for preparation of the proposals concerning the collateral policy of the Bank.
Last year the collateral recording system of the Bank was significantly upgraded with the objective of increasing the alignment of the Bank systems with regulatory requirements, particularly Basle II principles.

Credit process

The Bank launched in 2006 a project of implementing a new lending process to the small and medium enterprises.
The scope of the project contains, among others, new defining the process of taking credit decisions, collateral policy and portfolio monitoring. The project is treated by the Board as the key elements of the strategy of the Bank to these two segments.
In the retail area a huge number of developments were also made that were strongly supported by IT solutions (credit workflows). These changes ensure greater consistency and effectiveness of decisions as well as full compliance of the credit process with the rules in force.
In the mortgage area, the methodologies used in terms of credit worthiness were modified in accordance with the dispositions of the Recommendation "S" issued by the for Banking Supervision Commission.

Credit impairment

The Group accomplishes cyclical credit exposures quality assessment, in accordance with IAS 39, by means of calculating impairment for given expositions.
Calculation of impairment is done the following way:

- case-by-case analysis, i.e. assessment of the impairment of particular credit exposures – in case of significant commitment towards a customer,
- collective analysis i.e. assessment of impairment of particular credit portfolios of similar characteristics – done in the first place with reference to credit exposures from private individuals.

Individual analysis consists in detail assessment of selected groups of customers from the point of view of appearing certain premises of impairment (so called triggers). In case of detecting such triggers there is estimated probability of capital and interest flows related to a given commitment, and subsequently the flows were discounted and compared to actual commitment indicated in accordance with IAS approach.

Collective analysis consists in turn in separating remaining credit commitments into uniform portfolios in terms of risk, that is so called homogenous portfolios and determining their impairment basing on two parameters calculated on historical data: PD – probability of default and LGD – Loss Given Default.

Loan portfolio quality of Bank Millennium Group

Loan quality indicators	31.12.2006	31.12.2005	Change
Total loans with recognized impaired (PLN million)	885	1 023	-13%
Loans with recognized impairment over Total Loans	5.7%	10.0%	-4.3 p.p.
Total Provisions over Loans with recognized impairment	75%	65%	10 p.p.

In 2006 the quality of the credit portfolio of Bank Millennium Group has significantly improved. The impaired loans (non-performing) decreased by PLN 138 million. Their share in the portfolio decreased from 10% at the end of 2005 to 5.7% at the end of 2006. The cover of impaired loans by the impairment charges (including provisions for incurred but not reported losses - IBNR) increased at the end of 2006 by 10 p.p., i.e. to 75%.

The improvement of the quality of Group's credit portfolio has been influenced, in particular, by the following factors:

- restructuring and vindication actions in the Group's entities,
- improvement of the tools used to monitor the timeliness of repayment,
- the write-off policy concerning the lost receivables covered with the provisions in 100% run by the Group as well as transferring these receivables to the off-balance sheet; in 2006 PLN 44,6 million of receivables have been written off,
- good economic-financial standing of the corporate customers resulting from the improvement of the macro-economical situation in Poland.

Concentration risk

Complementing the recommendations of the prudential regulations in the matter of limitation of the credit risk concentration the Group defined and approved the suitable limits of commitments. In particular the limits of concentration towards the customers of specific sectors, the limits by region and the limits for financing real estate have been awarded. The actions taken by the Bank are mostly to ensure better diversification of the credit portfolio of the Group.

IV.3. Market Risk

The Market Risk concept reflects the potential loss that could be recorded as a result of adverse alterations to interest or exchange rates or to the price of equities, bonds, commodities held both in the trading and investment portfolios of the Bank.

Types of metrics

The current market risk control and management system is the result of a review of the practices followed, in a search to ensure increasingly effective action and alignment with regulatory requirements, especially with the Basel II Accord.

In organisational terms the Group overhauled its management areas to allow effective separation of the management of the trading and investment portfolios.

In quantification of the risks incurred, which is intended to be systematic and complete, several metrics have been progressively developed and implemented. For the trading portfolio, metrics has been developed that are based on a risk measure that includes a parametric VaR (Value at Risk) model.

Monitoring the market risks of the trading is undertaken through a large number of activities that involve daily monitoring of the portfolios, back-testing exercises, complementary validation of the models and assumptions used, control of the transactions characterised in the systems, and allocation of prudential limits underpinned by the amount of own funds and based on rules of allocation by entity, management area and risk component.

The Bank also uses a number of stress, market, historic and customised scenarios to simulate the potential economic loss arising from extreme variations of the market risk factors, to identify situations not grasped by the VaR model, to identify greater sensitivities and to limit exposures considered excessive.

Market-risk evaluation measures

The main measure used by the group to evaluate market risks is the VaR.
Calculation of the VaR is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics. It is calculated considering a time horizon of 10 working days and a confidence interval of 99% one tail. In calculating the volatility associated with each risk

vertex the model gives greater weighting to the market conditions seen in the more recent days, thus ensuring a more correct match with the market conditions. The capital at risk figures are determined both on an individual basis for each of the portfolios of positions of the areas having responsibilities in risk taking and 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. It is carried out daily by comparing VaR indicators with the actual figures. The results of this process during 2006 demonstrate the adequacy of the model in evaluating the risks.

To monitor and limit positions taken in instruments, in which the market risks cannot be properly assessed using the VaR model (non-linear instruments), such as exposure to optionality risks, other risk indicators are used. The portfolio of open positions in instruments of this type is very small (the bank does not have a trading portfolio of options) and therefore the approximation followed in calculating the VaR is considered appropriate to the risk profile.

The VaR calculation process is carried out in the manner, which allows the trading areas to access on-line to the values at risk in their respective portfolio.

Market risk VaR results

The VaR is used as a measure in assessing the risks incurred by the trading positions as well as by the strategic position decided by the Capital, Asset and Liability Committee. The VaR indicators shown in the following table reflect the exposure to market risks of PLN approx. PLN 19 million (on average) during 2006.

VaR measures for market risk

VaR Measures for Trading Area and Strategic Area
(PLN'000s)

	VaR (From January to December 2006)				
	End Dec.2006	Average	Maximum	Minimum	End Dec.2005
Global	10 756	18 964	38 675	9 572	16 543
Interest Rate VaR	10 706	18 969	38 589	9 555	16 522
FX Risk	187	775	5904	40	148
Diversification Effect	1%	n/a	n/a	n/a	1%

The open positions mostly included interest-rate instruments, while the exchange-rate risk was negligible. Low exposure to FX risk result from the fact that Bank set the maximum limit for global open FX position for 2% of the own capitals. The limit covers both trading and commercial activities of the Bank.

The VaR limits were exceeded in the middle of the year due to a temporary strong increase of volatility of market interest rates, caused by the resignation of the Minister of Finance, and was ratified by the CALCO in accordance with current Bank's procedures. The risk management procedures applied in the Bank allow for exceeding the limits within specified amount and time, as a result of temporary fluctuation of market conditions, if the Bank expects the fluctuation is limited in time.

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.

Liquidity-risk management

The liquidity management is carried out by the Bank on a consolidated basis. The budget process of the Bank includes a detail 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 was financed by the deposit base growth, reduction of the securities portfolio, long-term syndicated loans, Sell-Buy-Back transactions, and by the funds obtained on interbank market.

The core deposits are the main source of long term financing and the size of this portfolio is still considerably higher than the portfolio of long-term loans. Moreover the Bank incorporated in the liquidity plan several initiatives in order to secure a diversification of long term financing sources.

The Bank concluded in November 2006 the syndicated loan agreement with the amount of CHF 555 Million (PLN 1 330 Million). This loan constitutes the biggest transaction of this type ever made by a Polish bank.

Liquidity-risk evaluation measures

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 for 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.

Calculation of these indicators involves adding to the liquidity position of the day under analysis the estimated future cash flows for each day of the respective time horizon (3 days or 3 months) for the transactions intermediated by the markets areas. The amount of assets in the Bank's securities portfolio considered highly liquid is added, leading to determination of the liquidity gap accumulated for each day of the period under review. These figures are reported daily to the areas responsible for management of the liquidity position and are compared with the limits in force.

During 2006, the short-term liquidity ratios were constantly maintained with positive values 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 a 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 2006, the defined indicators were maintained well above the limits.

Stress tests

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 Millennium Group is in a position to fulfil its obligations in the event of a liquidity crisis.

The Bank has emergency procedures for increased liquidity risk situations, so called 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.5. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Bank Millennium Group has adopted, in accordance with the best international standards, principles and practices that ensure an adequate quality management of the operational risk, especially through the definition and documentation of these practices and through the implementation of adequate controls, such as an appropriate division of tasks or levels of responsibility.

Governance and management model

Several initiatives were implemented in 2006 with a view to setting up a process-based operational risk management structure. In addition to the definition of the risk management model there were defined responsibilities and objectives to be achieved at particular levels of the structure, characterisation of the processes and instruments to be employed in risk identification, assessment, control and mitigation.

The anchoring of operational risk management in a comprehensive approach to process management will enable not only the correct management of this risk, but will also increase the level of services provided, operational effectiveness and safety, among others through setting up business continuity plans. Process management is entrusted to the Process Owners, the parties responsible for the evaluation of the risks and for improving performance within the scope of the corresponding processes. The Process Owners are responsible for keeping up to date the relevant documentation in respect of a given process, for ensuring the adequacy of the existing controls through direct supervision or by delegating such supervision to the lower level. Process Owners and their delegated managers coordinate and participate in the self-assessment of risks and controls, in order to establish the desirability of implementing risk mitigation measures.

The coordination of operational risk management has been entrusted to the Processes and Operational Risk Committee, set up in line with the approach selected to manage operational risk. The unit in support of risk management coordination is the Operational Risk Team of the Risk Monitoring Department.

The new operational risk governance model allows to better identify risk in particular processes and will contribute to efficient risk management starting from the process improvement stage. This will simplify the implementation of changes limiting operational risk in the Bank's particular activities.
The Bank's Management Board puts great emphasis on the process of steadily increasing operational risk awareness and culture among employees at all levels. Along with preparations for the implementation of a new operational risk strategy a broad-based information and training action is planned for the first quarter of 2007.

Operational risk management instruments

For the Bank and its main subsidiaries software has been acquired to support the management of the operational risk in order to improve the skills in the following fields: i) risk identification and evaluation; ii) monitoring and reporting; and iii) mitigation strategy management.
During an initial stage a process will be implemented to build up new a database of operational losses containing historic information.

In subsequent stages, during 2007, self-assessment exercises will be carried out through which the exposure of each process to potential risks will be gauged in the light of two dimensions: probability of occurrence and impact. Subsequently, the dimensions will be superimposed on the adopted risk tolerance metric.

Associated projects

A project was launched in 2006 at Bank Millennium Group in order to assess and strengthen the internal control system in keeping with Bank of Portugal recommendations and with the practices enshrined in Section 404 of the Sarbanes-Oxley Act. This was preceded by a definition of the process

structure at the Bank and its main subsidiaries. This will allow relevant information to be documented in connection with each process, including a description of the activities, identification of the risks, control procedures and the existing key indicators in the process. Moreover, the project covers the assessment of risks and controls and in the case of an inadequate internal control system, improvements are recommended.
Moreover, the Internal Audit Department of Bank Millennium SA, which includes among its employees certified international auditors (CIA and CISA international certificates), effectively implements annual audit plans and contributes significant added value for the Bank through using a methodology based on international standards and best audit practices, in particular: an independent and objective assessment of the internal control system and risk management processes.

IV.6. Basel II

Following publication of the new Capital Adequacy Accord in June 2004, the Millennium bcp Group prepared a project of implementation of these assumptions taking into account the activity of the Group both in Portugal and abroad (including Poland). The key steps of the project are:

i. review of the activities already undertaken by the Group with a view to the implementation of the new Basle Accord;
ii. identification of any gaps between the current situation and the Basle requirements in respect of credit and operational risks;
iii. identification of the actions to be taken to eliminate these gaps;
iv. development of an implementation strategy of the methods, processes, organisational structures, data and information technologies architecture; and
v. definition of the plan of the implementation of New Capital Accord, taking into consideration the schedule of realisation of all the sub-projects.

On the basis of the conclusions of the analysis above, while bearing in mind the costs, the underlying risks and the materiality of the exposures, the Group informed the Bank of Portugal about the adoption of the following solutions connected with the implementation of Basel II:
(1) with regard to the credit risk, Millennium bcp and its subsidiaries in Portugal, as well as Bank Millennium in Poland and Millennium bank in Greece, would use the IRB Advanced method, the remaining entities to use the standard method;
(2) with regard to the operational risk, use of the standard method by Millennium bcp, Bank Millennium and Millennium bank in Greece. In other entities of the BCP Group, having lesser weight in the Group's structure, temporary adoption of the basic indicator method was proposed; and
(3) with regard to the market risks inherent in the trading portfolio, use of the hitherto method based on internal models, using the Value-at-Risk model, which has been in use at the Group's principal entities.

In this connection and the requirements defined by Directives 2006/48 and 2006/49, the Group is to submit to the Supervisory Authorities its application to use these methodologies in keeping with the initial calendar determined for those banks.

Use of the IRB Advanced is set to apply to all loan portfolios with the exception of the Banks and Sovereign entities, for which the Group intends to use of the standard method based on the information of external rating agencies.

The Bank has developed the supporting systems required for the calculation of capital requirements in accordance with the methodologies and demands of the selected methods.

In 2007 the Bank shall perform the parallel calculation of capital in accordance with Basel I and II. In terms of preparation for New Capital Accord, the huge training effort taken by the Bank and directed at all employees must be underscored. The starting point will be made in the first quarter of 2007 with an e-learning programme to all Bank employees, complemented by specific courses to be attended by employees having responsibilities in the commercial areas and by other internal units involved in the credit life-cycle.

V. BANK’S HUMAN RESOURCES MANAGEMENT AND SOCIAL RRESPONSIBILITY

V.1. Human resource management

Recruitment

The Bank recruits young and talented people, who want to develop and link their professional careers with the Bank. Bank Millennium carries out recruitment campaigns at Polish universities, offering internship tailored to their needs as part of the „Come and Grow with us” program:

The “Come and Grow with us” offer consists of:

- Internships in the Bank’s various areas and departments
- Two-year „People Grow” Management Competence Development Program addressed to the best students in Poland.

In 2006, there were 6191 students that submitted their applications for the internship program organized by Bank Millennium. We invited 248 to cooperate with us and gain experience in our Bank; 80 of them were offered permanent jobs. Last year, we also received approximately 400 applications to the fourth edition of the “People Grow” program.

Development

In 2006, the Bank implemented the assumptions of the Millennium Academy. Compared to 2005, the number of employees being trained increased 18.5%.

In 2006, the “Millennium Academy” was enriched with a special training programs for coaches. The “Millennium Academy” has a broad training offer divided into subject groups:

- ü We speak in one voice – orientation training for new Bank employees;
- ü Specialized programs – substantive training concerning specific areas of competence;
- ü Management programs – training for the management staff;
- ü Development programs – training aiming at speeding up growth and career of the most talented employees.
- ü Training programs – trainings designed for employees of coaching teams.

The dynamic development of the sales network which took place in 2006 resulted in more intensive orientation training for new employees and product training (which recorded an almost 5-fold increase). One of the most important training projects conducted in 2006 was the training cycle for the management staff. In this area, the growth over the previous year was 20-fold. Management training included the following topics:

1. Leadership
2. Team management
3. Project management

In 2006, Bank Millennium made a decision to create development programs for Bank employees. Their purpose is to increase employee growth, who thanks to their involvement, motivation and willingness to develop in the organization will be able to take management positions in the future. There are 56 persons in total that participate in the first edition of the programs.

Incentive system

The bonus system in Bank Millennium is based on assessment of performance of individual units and employees. Bonuses constitute a relatively large part of overall compensation, thus being a strong incentive.

In 2006 new bonus rules were introduced with regard to commercial staff in retail banking and in the Biznes segment.

The new system promotes balanced fulfilment of team sales targets defined for key products in the bonus period. This means that employees are incentivised to carry-out such sales activity, so as to reach all the set targets. The bonus generated by the outlet is distributed on the basis of individual contributions to the joint result. The new rules introduced in 2006 enable employees who have particularly good sales results to earn significantly higher bonus than in previous years.

Employees in the position of Prestige Customer Advisor received bonus in 2006 on the basis of individual sales performance. An important assessment criterion, taken into account when awarding bonuses for these employees, was growth of profitability of products in the portfolio under their management as well as acquisition of new Customers. Also in the Prestige segment particular bonus weight was associated with selling products, which are of crucial importance for Bank Millennium's product development strategy: investment products, mortgage loans and credit cards.

Bonus rules in other units in Bank Millennium are connected with assessment of quantitative and qualitative criteria affecting work results and reflecting the unique nature of their business.

Employment structure

HEADCOUNT IN THE BANK MILLENNIUM GROUP (FTEs)

	31.12.2006	31.12.2005
Number of Group employees	5 089	4 484
Number of Bank employees	4 718	4 084
- of which management positions	143	134

EMPLOYMENT STRUCTURE IN BANK MILLENNIUM (FTEs)

	31.12.2006	31.12.2005
Branches and direct sales **	2 765	2 355
Head Office	1 953	1 729
Total	4 718	4 084

** Retail Banking Department and the Retail Banking Expansion Project – branches, Corporate Banking Department, Strategic Customers Department, Mortgage Product Sales Department.

V.2. Corporate social responsibility

In 2006 Bank Millennium for the first time in its history prepared a paper concerning the Bank's efforts connected with implementation of principles of Corporate Social Responsibility. The paper does not constitute a report in the meaning of international standards for CSR reports – it provides

information about those areas, where in the Bank's opinion the day-to-day practice has approached or reached standards defined for CSR-compliant companies.
The paper contains information about principles of cooperation with the Bank's Stakeholders: its Customers, Employees, Investors and partners. In the paper the Bank presents both information about the adopted standards for cooperation and dialogue as well as information about specific forms in relation to individual groups of Stakeholders. Special attention in the paper was focused on the Bank's efforts for the benefit of Customers and Employees by presenting i.a. results of satisfaction surveys of both groups.

Preparation of this paper is a signal that Bank Millennium intends to increasingly implement solutions, which are seen under international standards to be in line with CSR standards, doing that in an evolutionary way, in accordance with the adopted business strategy and based on best practice.

The paper entitled "Responsible Business" will be published in March of this year.

VI. OWNERSHIP STRUCTURE AND AUTHORITIES OF THE BANK

VI.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 31 December 2006 were:

Shareholder	***Number of shares***	*% in share capital*	*Number of votes*	*% of votes at GMS:*
Banco Comercial Portugues S.A.	556 325 794	65.51	556 325 794	65.51

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.

Founder shares are subject to restrictions on disposal of the shares in that disposing of them upon consent of at least three fourths of founders to other founders does not result in loss of their privileged status. Disposal of registered founder shares in remaining cases results in loss of their privileged status. There are no restrictions with respect to exercising voting rights under the Bank's shares.

Each share of the bank gives the right to one vote, however registered founding shares in the current number of 62,200 are privileged in that one share gives the right to two votes at the GMS. Bearer founder shares in total constitute 0.0073% of initial capital of the Bank and 0.0146% of the total number of votes at GMS.

On April 5, 2006 the Bank, was informed by the main Bank's shareholder – Banco Comercial Portugues (BCP) of its decision to file an application to the Polish Banking Supervision Commission for an approval to increase its share in the capital and voting rights of the Bank from the present 50% to a maximum of 66%. At the same time, BCP announced that it would decide at the right moment how and when, and at what amount it would increase its share in the Bank, taking into account adequate economic, legal, and market conditions.

On November 13, 2006 Banking Supervision Commission authorized Banco Comercial Português to increase its participation in Bank Millennium S.A. from the current 50% to a maximum of 66%.

On November 23, 2006 announced a subscription tender for the sale of shares in Bank Millennium S.A. Subscriptions for the sale of the shares in the amount of 135 835 879 were accepted in the period from 4 December to 18 December 2006 at the price of PLN 7.30.

As a result of a tender, Banco Comercial Portugues purchased 131 701 722 shares , constituting 15.5% of the Bank's share capital and 15.5% of the total number of votes at GMS.

Despite the successful tender offer of the Bank's main shareholder the free-float increased substantially in 2006 from 20% to 34.5%. This was in result of the sale of the Bank's shares by three large foreign investors: M+P Holding S.A., Priory Investments Group Corp, Carothers Trading Limited (as at end of December 2005 each of them had 9.99% shares of the Bank). New shareholders appeared in the free-float category, which accounts for the total of 34.5% shares of the Bank. These investors include some domestic institutional investors: pension and mutual funds. For example Otwarty Fundusz Emerytalny Commercial Union, according to information disclosing the assets structure as at end of 2006, held 4.3% of Bank Millennium shares.

VI.2. Authorities of the Bank

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

General Meeting of Shareholders

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

On April 6, 2006, the Ordinary General Meeting of Shareholders of the Bank was held pursuant to the closing the 2005 financial year. The GMS approved financial reports of the Bank and the Bank's Capital Group, as well as the Management Board and Supervisory Board activity reports for the above period. The GMS discharged every member of the management board and every member of the supervisory board from performance of their duties. The General Meeting of Shareholders made a decision to distribute the 2005 profit designating PLN 458.6 million (85% of net profit of the Bank) for a dividend for shareholders, which was PLN 0.54 per share. Moreover, the GMS modified the Bank's Articles of Association, adjusting the text to the requirements of the amended Banking Law, and introducing Corporate Governance provisions, in particular independence criteria for Supervisory Board members. More, changes were made to the Articles Of Association in the scope of activity of the Bank, driven by operating needs. The GMS elected the Supervisory Board for the new term.

Supervisory Board

The 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.

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.

In the reporting period, pursuant to the end of the tenure of the to-date Supervisory Board Members, on 6 April 2006, the General Meeting of Shareholders appointed a 14-strong Supervisory Board of the new term. The Supervisory Board of the new term is composed of the persons who performed the same function in the previous term, plus Mr Pedro Teixeira Duarte and Mr Marek Furtek.

The composition of the Supervisory Board for the current term is as follows:

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

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

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

The composition of the Bank's Management Board is as follows:
1. Bogusław Kott – Chairman of the Management Board
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board
3. Fernando Bicho – Member of the Management Board
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board
5. Wojciech Haase – Member of the Management Board
6. Wiesław Kalinowski – Member of the Management Board

7. Zbigniew Kudaś – Member of the Management Board
8. Joao Bras Jorge – Member of the Management Board (from 19 July 2006, who replaced Rui Manuel Teixeira)

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

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

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

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

Information on the shares of the Bank and Capital Group entities held by Management Board and Supervisory Board members

<u>Management Board (as at 31.12.2006)</u>

No.	Name	Number of the Bank's shares with nominal value PLN 1 each	Number of shares and interests in units of the Capital Group
1.	Bogusław Kott – Chairman of the Management Board	3,023,174	-
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	490,000	-
5.	Joao Bras Jorge – Member of the Management Board	-	-
6.	Wojciech Haase – Member of the Management Board	5,246	-
7.	Wiesław Kalinowski – Member of the Management Board	-	-
8.	Zbigniew Kudaś – Member of the Management Board	-	-
	Jerzy Andrzejewicz – Proxy representative	6,260	-

Supervisory Board (as at 31.12.2006)

No.	Name	Number of the Bank's shares with nominal value PLN 1 each	Number of shares and interests in units of the Capital Group
1.	Maciej Bednarkiewicz – Chairman	94	-
2.	Ryszard Pospieszyński – Deputy Chairman	26,200	-
3.	Andrzej Koźmiński – Member	-	-
4.	Marek Rocki – Member	-	-
5.	Dariusz Rosati – Member	-	-
6.	Zbigniew Sobolewski – Member	-	-
7.	Christopher de Beck – Member	95,000	-
8.	Francisco de Lacerda - Member	-	-
9.	Jorge Manuel Jardim Goncalves – Member	10,000	-
10.	Paulo Teixeira Pinto – Member	-	-
11.	Vasco de Mello – Member	-	-
12.	Pedro Teixeira Duarte – Member	-	-
13.	Marek Furtek – Member	1	-
14.	Dimitrios Contominas – Member	-	-

Compensation, awards or considerations paid or due to managing persons
(in PLN thous.)

		Compensation and awards	Considerations	Total
1.	p. Bogusław Kott	1 244.2	6.9	1 251.1
2.	p. Luis Coutinho	2 403.0	387.4	2 790.4
3.	p. Julianna Boniuk-Gorzelańczyk	3 284.6	11.5	3 296.1
4.	p. Wojciech Haase	3 283.5	7.3	3 290.8
5.	p. Zbigniew Kudaś	3 284.6	8.8	3 293.4
6.	p. Wiesław Kalinowski	2 684.6	3.5	2 688.1
7.	p. Fernando Bicho	2 184.6	63.2	2 247.8
8.	p. Manuel Teixeira	1 695.9	141.5	1 837.4
9.	p. Joao Bras Jorge	540.7	371.9	912.6
	Total:	20 605.7	1 002.0	21 607.7

The total remuneration paid out or due, awards or benefits includes the gross value of remuneration paid out of due over the period between January - December 2006 and bonus for the year 2005 paid out in 2006 amounting to PLN 10 800 thousand. The benefits include mainly costs of accommodation of foreign Management Board Members as wlel as severance fees and compensation for terminated employment contract.

Provisions for holiday leaves unutilised by Management Board Members as at 31 December 2006 amounted to PLN 2 624 thousand. Moreover, provision was established in 2006 for the bonus due for that year amounting to PLN 13 539 thousand. Management Board Members concluded competition ban agreements after the ceased performance of the function in the Bank's Management Board . In case of failed appointment for the new tenure or recalling the Management Board Members are entitled to the severance fee.

Compensation and considerations paid to supervising persons
(in PLN thous.)

		Compensation	Considerations	Total
1.	Maciej Bednarkiewicz	545.7	133.9	679.6
2.	Marek Furtek	65.0		65.0
3.	Andrzej Koźmiński	87.3		87.3
4.	Ryszard Pospieszyński	294.7		294.7
5.	Dariusz Rosati	174.6		174.6
6.	Marek Rocki	87.3		87.3
7.	Zbigniew Sobolewski	87.3		87.3
8.	Christopher De Beck	87.3		87.3
9.	Francisco De Lacerda	174.6		174.6
10.	Jorge Manuel Goncalves	174.6		174.6
11.	Dimitrios Contominas	87.3		87.3
12.	Paulo Teixeira Pinto	87.3		87.3
13.	Vasco Maria Guimares Jose de Mello	87.3		87.3
14.	Pedro Maria Teixeira Duarte	65.0		65.0
	Total:	2 105.3	133.9	2 239.2

Information about the value of advances, loans and guarantees granted to managing and supervising persons

1. Managing persons have a total debt limit of PLN 254.0 thousand
   including unutilised credit card limit in the amount of PLN 177.3 thousand
2. As at 31.12.2006 there were no active guarantees granted to managing persons
3. Supervising persons have a debt limit of PLN 155.0 thousand
   including unutilised credit card limit in the amount of PLN 131.3 thousand

VI.3. Corporate governance principles

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

The Bank's activities aimed at building good relations with the community of investors and to maintain transparency and availability of information provided were recognized when the corporate governance rules were evaluated.

In the third rating of public companies, issued by the Institutional Investors Rating Board (KRII), at the Polish Institute of Directors (PID), Bank Millennium was awarded top mark – five stars – and the title 'Trustworthy Company 2006'. The Institutional Investors Chapter of the Polish Institute of Directors collected evaluations representing 82% of the domestic institutional investor market. The overall number of 65 public companies were evaluated, and the Trustworthy Company 2006 title was awarded to 10 companies (including two banks: Millennium and Pekao SA).

The Board assessed the effectiveness in implementing corporate governance practices by companies quoted at the Warsaw Stock Exchange.
Bank Millennium was appreciated, inter alia, for its open and competent information policy, supporting investors in decision-making, and for adjustment of internal regulations to the corporate governance rules. For us the award and the title were a great honor and satisfaction.

VII. ADDITIONAL INFORMATION

VII.1. Information on important agreemetns influencing the Bank's activity

- On February 23, 2006 was concluded an outsourcing agreement with IBM Polska Business Services Sp. z o.o. As a result of this contract, IBM will be responsible for the management of Bank Millennium's i-Series, Unix and Windows based systems, with improvement of Data Center Operations and Disaster Recovery Services.With this outsourcing contract, of a total value of 37 million euros over a 10 year period, the Bank estimates that it will be possible to reduce costs of these IT infrastructures by 25 % of the current and future estimated needs.This contract follows the agreement made in December 2005 between Bank Millennium's main shareholder, Millennium bcp, and IBM in Portugal which had already contemplated the potential extension to Poland, and is the result of the strategic decision of the Group to rationalize investments and reduce IT costs.

- On 26 July 2006 an agreement was concluded with one of the banks, whereby the Bank joined the syndicated loan granted to our Client, with the Bank's exposure amounting to 25,000,000.00 EUR. The agreement in question does not contain provisions regarding contractual penalties and the loan becomes due and payable on 22 December 2010.

- On November 13, 2006 an agreement was concluded in Munich between Bank Millennium SA and a consortium of international banks, concerning mid-term Syndicated Term Loan Facility (the "Agreement") extended to Bank Millennium SA, for total amount of CHF 555 million, constituting - on the date of signing - the equivalent of ca. PLN 1.35 billion.

  Interest rate of the loan is based on LIBOR for CHF and margin specified in the Agreement. The loan is scheduled for repayment in November 2009, with an option for extension - at consent of the parties - for two additional 1-year periods (i.e. till 2010 or 2011).

  Drawing of funds within the Facility will take place after fulfilment of - standard in this type of loan agreements - technical and legal conditions defined in the Agreement, relating to eg. delivery of relevant legal opinions *("Conditions Precedent").*

  List of participants of the consortium and lenders comprises following banks:

  Initial Mandated Lead Arranger & Agent:
  Bayerische Landesbank (BayernLB)

  MLAs:
  Bank Austria Creditanstalt AG
  Bayerische Hypo- und Vereinsbank AG
  Erste Bank der oesterreichischen Sparkassen AG
  Landesbank Baden-Wurttemberg
  LRP Landesbank Rheinland-Pfalz

  Senior Lead Arrangers:
  Commerzbank AG
  Danske Bank A/S SA Oddział w Polsce
  Landesbank Berlin AG
  Norddeutsche Landesbank
  WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank

  Lead Arrangers:
  Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale
  San Paolo IMI Bank Ireland

  Senior Lead Managers:
  Anglo Irish Bank Corporation
  Barclays Bank

Lead Managers:
American Express Bank GmbH
Banca Lombarda International
Banque et Caisse d'Epargne de l'Etat
HYPO Tirol Bank AG
Landesbank Saar
Landwirtschaftliche Rentenbank.

Initially syndicated was the amount of CHF 250 Mio., which - due to strong interest in joining the transaction extended by international correspondents cooperating with Bank Millennium SA - was finally increased to above indicated level.

The Agreement in question is the 5th one since 1998 and the largest hitherto signed by Bank Millennium SA in the field of raising mid-term funding in foreign currencies in international syndicated loans market.

- On November 15, 2006, the Bank concluded a loan agreement with one of its client*, based on which the Bank granted the short term loan of USD 60.4 million on the general market conditions.

** The Bank did not disclose the client's name in the report due to bank secrecy .*

About the above mentioned agreements the Bank informed in current reports of 23.02.2006, 27.07.2006, 13.11.2006, 16.11.2006.

VII.2. Information on agreements with the entity authorized to audit financial statements

Presented below is remuneration received by KPMG Audyt Sp. z o.o. for the examination/review of financial statements of the Bank Millennium S.A based on signed agreements:

Data in PLN '000	Financial year ending 31 December 2006	Financial year ending 31 December 2005
Remuneration for examination of financial statements (1)	1,601	1,794
Remuneration for related services (3)	462	282

(1) Remunerations for examination comprise amounts constituting the total amount of remuneration to KPMG Audyt Sp. z o.o. for professional services connected with examination of the consolidated and solo financial statements of Bank Millennium S.A. (resulting from the agreement of 18.10.2006 on examination of 2006 financial year) and the semi-annual solo review as well as consolidated financial statement of Bank Millennium S.A. (resulting from the agreement of 7.06.2006 on review of the semi-annual financial statement for the half-year ending on 30.06.2006).

(2) The remuneration for related services covers remaining amounts constituting the total amount of remuneration to KPMG Audyt Sp. z o.o. on the basis of signed agreements. They cover certification services connected with examination and review of financial statements of the parent entity and subsidiaries, however not included in (1) above.

VII.3. Other information

Other information concerning:

- Volumes and values of execution titles issued by the bank
- Extended guarantees and sureties
- Average interest rate of loans and deposits
- Transactions with affiliated entities

may be found in the “Consolidated financial statements of the Bank Millennium Group for 2006”

VIII. MANAGEMENT BOARD'S REPRESENTATIONS

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

According to the best knowledge, the Annual Consolidated financial statements of Bank Millennium S.A. as at 31 December 2006, and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Bank and its financial result. This Management Board Report contains a true picture of development, achievements and condition of Bank Millennium S.A. (including the description of key risks and threats).

Selection of an entity authorized to audit financial statements

The entity authorized to review financial reports that will audit these annual consolidated financial statements of Bank Millennium S.A. as at 31 December 2006, was selected in accordance with the regulations of law. The entity and chartered accountants who performed the audit satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

Corporate governance principles

Bank Millennium fully respects all corporate governance principles accepted by the Bank, contained in "Good Practices in public companies in 2005", as declared in the statement made on 29 June 2006.

SIGNATURES:

Date	First and last name	Position / Function	Signature
....	Bogusław Kott	Management Board Chairman	....
....	Luis Pereira Coutinho	Management Board Deputy Chairman	....
....	Fernando Bicho	Management Board Member	....
....	Julianna Boniuk-Gorzelańczyk	Management Board Member	....
....	Wojciech Haase	Management Board Member	....
....	Joao Bras Jorge	Management Board Member	....
....	Wiesław Kalinowski	Management Board Member	....
....	Zbigniew Kudaś	Management Board Member	....