



TRANSLATION

**Bank Millennium S.A.**

Opinion and Report  
of the Independent Auditor  
Financial Year ended  
31 December 2006

KPMG Audyt Sp. z o.o.  
The opinion contains 2 pages  
The report supplementing the auditor's opinion  
contains 11 pages  
Opinion of the independent auditor  
and report supplementing the auditor's opinion  
on the financial statements  
for the financial year ended  
31 December 2006



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## OPINION OF THE INDEPENDENT AUDITOR

### *To the General Meeting of Bank Millennium S.A.*

We have audited the accompanying financial statements of Bank Millennium S.A. seated in Warsaw, Al. Jerozolimskie 123a ("the Bank"), which comprise the balance sheet as at 31 December 2006, with total assets of and total liabilities and equity of PLN 24,369,963 thousand, the profit and loss account for the year then ended with a net profit of PLN 662,682 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 186,386 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 1,912,903 thousand, and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility, based on our audit, is to express an opinion on these financial statements, and whether the financial statements are derived from properly maintained accounting records. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) ("the Accounting Act"), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the accompanying financial statements of Bank Millennium S.A. have been prepared, in all material respects, and give a true and fair view of the financial position of the Bank as at 31 December 2006, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Bank's Statute that apply to the Bank's financial statements and have been prepared from accounting records, that in all material respects have been properly maintained.

As required under the Accounting Act we also report that the Report on the Bank's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements.

*Signed on the Polish original*

.....  
Certified Auditor No. 9941/7390  
Bożena Graczyk

*Signed on the Polish original*

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Certified Auditor No. 9941/7390  
Bożena Graczyk  
Member of the Management Board

Warsaw, 27 February 2007



**Bank Millennium S.A.**

Report supplementing  
the auditor's opinion  
on the financial statements  
Financial Year ended  
31 December 2006

KPMG Audyt Sp. z o.o.  
The report supplementing the auditor's opinion  
contains 11 pages  
Report supplementing the auditor's opinion  
on the financial statements  
for the financial year ended  
31 December 2006

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# **1 General**

## **1.1 General information about the Bank**

### **1.1.1 Company name**

Bank Millennium S.A.

### **1.1.2 Registered office**

Al. Jerozolimskie 123a  
02-017 Warsaw

### **1.1.3 Registration in the National Court Register**

Seat of the court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	7 May 2001
Registration number:	KRS 0000010186

### **1.1.4 Tax Office and Provincial Statistical Office registration**

NIP:	526-021-29-31
REGON:	001379728

## **1.2 Auditor information**

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw,
Address:	ul. Chłodna 51, 00-867 Warsaw
KRS number:	0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register;
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

## **1.3 Legal status**

### **1.3.1 Share capital**

The Bank was established for an indefinite period under the terms of its Statute dated 7 June 1989.

The share capital of the Bank amounted to PLN 849,181,744 as at 31 December 2006 divided into 849,181,744 ordinary shares with a nominal value of PLN 1 each.

As at 31 December 2006, the shareholder structure of the Bank was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (%)	Nominal value of shares PLN'000	Percentage of share capital (%)
Banco Comercial Portugues S.A.	556 325 794	65.51%	556 325 794	65.51%
Others < 5%	292 855 950	34.49%	292 855 950	34.49%
<b>Total</b>	<b>849 181 744</b>	<b>100.00%</b>	<b>849 181 744</b>	<b>100.0%</b>

As at 31 December 2005, the shareholder structure of the Bank was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (%)	Nominal value of shares PLN'000	Percentage of share capital (%)
Banco Comercial Portugues S.A.	424 624 072	50.00%	424 624 072	50.00%
Carothers Trading Limited	84 833 256	9.99%	84 833 256	9.99%
Priory Investments Group Corp.	84 833 256	9.99%	84 833 256	9.99%
M+P Holding S.A.	84 833 256	9.99%	84 833 256	9.99%
Others < 5%	170 057 904	20.03%	170 057 904	20.03%
<b>Total</b>	<b>849 181 744</b>	<b>100.0%</b>	<b>849 181 744</b>	<b>100.0%</b>

### 1.3.2 Related parties

The Bank is a member of the Banco Comercial Portugues

### 1.3.3 Management of the Company

The Management Board is responsible for management of the Bank.

At 31 December 2006, the Management Board of the Bank comprised the following members:

- Mr. Bogusław Kott President of the Board
- Mr. Luis Pereira Coutinho Vice-President of the Board
- Mr. Fernando Bicho Board Member
- Mrs. Julianna Boniuk - Gorzelańczyk Board Member
- Mr. Wojciech Haase Board Member
- Mr. Wiesław Kalinowski Board Member
- Mr. Zbigniew Kudaś Board Member
- Mr. Joao Bras Jorge Board Member

As at 19<sup>th</sup> July 2006 Mr. Rui Manuel da Silva Teixeira resigned from the function of the Bank's Management Board Member. The resignation of Rui Manuel da Silva Teixeira was connected with the entrusting of new duties within the BCP Group.

As at 19<sup>th</sup> July 2006 pursuant to section 17 par.1 of the Statute, the Bank's Management Board, appointed Mr. Joao Bras Jorge to the Bank's Management Board Member.

#### **1.3.4 Scope of activities**

The business activities listed in the Bank's Statute include the following:

- opening and maintaining bank accounts and accepting a vista and term deposits;
- maintaining other banking accounts;
- granting credits and loans;
- granting and accepting banking guarantees and opening letters of credit;
- issuing banking securities;
- conducting money settlements;
- granting consumer credits and loans in accordance with other legal requirements;
- cheques and bill of exchange services and performing warrants operations;
- granting payment cards and performing payment cards operations;
- performing term financial operations;
- purchasing and selling receivables;
- safe-keeping of valuables and securities;
- performing purchase and sale of currencies;
- issuing and accepting guarantees;
- performing contracted operations regarding issuing securities;
- intermediary in money transfers and settlements in foreign exchange turnover;
- issuing electronic cash instrument;
- performing banking activities for third parties in accordance with the banking law.

#### **1.4 Prior period financial statements**

The financial statements for the period ended 31 December 2005 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The financial statements were approved at the General Shareholders Meeting on 6 April 2006 where it was resolved to allocate the profit for the prior financial year of PLN 542,119,316.50 as follows:

- the dividend distribution– PLN 458,558,141.76
- the reserve capital – PLN 83,561,174.74

The closing balances as at 31 December 2005 have been properly recorded as the opening balances of the audited year.

On 6 April 2006, General Shareholders Meeting accepted adoption of IFRS and the respective bylaws and regulations announced in the form of regulations of the European Commission for the stand alone financial statements of the Bank, starting with financial statements for reporting periods beginning in 2006, which was presented in the note VI to the financial statements.

The financial statements were submitted to the Registry Court on 21 April 2006 and were published in Monitor Polski B No. 928 on 26 September 2006.



## **1.5 Audit scope and responsibilities**

This report was prepared for the General Shareholders Meeting of Bank Millennium S.A. seated in Warsaw, Al. Jerozolimskie 123a, and relates to the financial statements comprising: the balance sheet as at 31 December 2006 with total assets and total liabilities and equity of PLN 24,369,963 thousand, the profit and loss account for the year then ended with a net profit of PLN 662,682 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 186,386 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 1,912,903 thousand and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Bank prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Shareholders Meeting of Bank Millennium S.A. dated 6 April 2006.

The financial statements have been audited in accordance with the contract dated 18 October 2006, concluded on the basis of the resolution of the Supervisory Board dated 28 January 2004 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the financial statements in the Bank's head office during the period from 20 October 2006 to 27 February 2007.

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements, and whether the financial statements are derived from properly maintained accounting records, based on our audit.

Management of the Bank submitted a statement dated the same date as this report as to the true and fair presentation of the financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the financial statements of the Bank fulfill independence requirements. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

## 2 Financial analysis of the Bank

### 2.1 Summary of the financial statements

#### 2.1.1 Balance sheet

ASSETS	31.12.2006		31.12.2005	
	PLN '000	% of total	PLN '000	% of total
Cash, balances with the Central Bank	965 817	4,0	510 785	2,4
Loans and advances to banks	1 123 131	4,6	2 602 815	12,1
Financial assets valued at fair value through profit and loss	3 742 385	15,3	3 302 666	15,3
Derivative assets held for risk management	108 027	0,4	14 826	0,1
Loans and advances to customers	14 109 193	57,9	8 979 645	41,6
Investment financial assets	2 929 896	12,0	4 909 751	22,8
Investments in associates	159 156	0,7	114 167	0,5
Receivables from securities bought with sell-back clause	15 509	0,1	331 155	1,5
Property and equipment	263 910	1,1	224 184	1,0
Intangible assets	20 936	0,1	26 352	0,1
Non current assets held for sale	12 086	0,1	231 740	1,1
Deferred tax	82 451	0,3	89 121	0,4
Other assets	837 466	3,4	236 837	1,1
<b>TOTAL ASSETS</b>	<b>24 369 963</b>	<b>100,0</b>	<b>21 574 044</b>	<b>100,0</b>

  

EQUITY AND LIABILITIES	31.12.2006		31.12.2005	
	PLN '000	% of total	PLN '000	% of total
<b>Liabilities</b>				
Deposits from banks	3 600 205	16,0	1 067 345	5,4
Financial liabilities valued at fair value through profit and loss	298 744	1,3	504 185	2,5
Derivative liabilities held for risk management	14 506	0,1	22 273	0,1
Deposits from customers	16 195 022	71,8	14 084 763	70,6
Liabilities from securities sold with sell-back clause	1 477 686	6,5	3 472 115	17,4
Debt securities issued	5 705	-	32 587	0,2
Provisions	10 400	0,1	15 843	0,1
Current tax liabilities	-	-	-	-
Deferred tax liabilities	-	-	-	-
Other liabilities	631 338	2,8	422 767	2,1
Subordinated liabilities	307 309	1,4	309 504	1,6
<b>Total liabilities</b>	<b>22 540 915</b>	<b>100,0</b>	<b>19 931 382</b>	<b>100,0</b>
<b>Equity</b>				
Share capital	849 182	46,4	849 182	51,7
Share premium	472 343	25,8	472 343	28,8
Revaluation reserve	9 881	0,5	27 617	1,7
Retained earnings	497 642	27,3	293 520	17,8
<b>Total equity</b>	<b>1 829 048</b>	<b>100,0</b>	<b>1 642 662</b>	<b>100,0</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>24 369 963</b>		<b>21 574 044</b>	

## 2.1.2 Profit and loss account

	1.01.2006 - 31.12.2006 PLN '000	1.01.2005 - 31.12.2005 PLN '000
Interest income	1 161 456	1 137 913
Interest expense	655 826	778 756
Net interest income	505 630	359 157
Fee and commission income	327 538	238 364
Fee and commission expense	46 618	23 105
Net fee and commission income	280 920	215 259
Dividend income	508 936	373 791
Result on investment financial assets	3 549	31 888
Result on financial instruments valued at fair value through profit and loss	63 843	(150 018)
Result on other financial instruments	(12 875)	(6 264)
Foreign exchange profit	177 419	84 696
Net other operating income	4 429	22 219
<b>Operating income</b>	<b>1 531 851</b>	<b>930 728</b>
Net impairment loss on financial assets	42 060	(218 209)
Net impairment loss on non financial assets	1 130	20 831
General and administrative expenses	728 610	602 493
Depreciation and amortisation	58 287	82 490
<b>Operating costs</b>	<b>830 087</b>	<b>487 605</b>
<b>Result on operating activity</b>	<b>701 764</b>	<b>443 123</b>
<b>Profit before income tax</b>	<b>701 764</b>	<b>443 123</b>
Income tax expense	(39 082)	(16 865)
<b>Net profit/(loss) for the period</b>	<b>662 682</b>	<b>426 258</b>
Basic and diluted earnings per share (PLN)	0,78	0,50

## 2.2 Selected financial ratios

	2006	2005
Total assets	24 369 963	21 574 044
Gross profit	701 764	443 123
Net profit	662 682	426 258
Shareholders' equity *	1 166 366	1 216 404
Return on equity	56,82%	35,04%
Capital adequacy ratio	11,92%	10,67%
Receivables to total assets	62,57%	55,22%
Income generating assets to total assets	90,39%	93,36%
Interest bearing liabilities to total liabilities	88,60%	88,92%

\* excluding current-year net profit

## 2.3 Interpretation of selected financial ratios

- Total assets have increased by 13% as at 31 December 2006 compared to 31 December 2005. The highest increase was recorded in loans and advances to customers, including mortgage loans, which increased by PLN 5,129,548 thousand. The highest increase in liabilities was recorded in deposits from banks, which have increased by PLN 2,532,860 thousand and in deposits from customers, which have increased by PLN 2,110,259 thousand.
- The net result of Bank Millennium S.A. for 12 months ended 31 December 2006 increased by 55.5% in comparison to prior year. The impact on the increase of net profit had dividend income received from the Bank's subsidiary and growth of operating income, mainly due to net interest income and commission income.
- Capital adequacy ratio of Bank increased by 1 percentage point and as at 31 December 2006 reached the level of 11.92 %. The growth was a result of recognition of net result for 6 months ended 30 June 2006 decreased by all forecast charges and dividends in accordance with par.127.2 point 2c) of Banking Act in the Bank's own funds. The increase in the Bank's own funds offsets the growth in risk weighed assets, especially loans and advances to customers.

### **3 Detailed report**

#### **3.1 Proper operation of the accounting system**

The Bank maintains current documentation describing the applied accounting principles, adopted by the Management Board, to the extent required by Art.10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system. Our assessment covered in particular:

- appropriateness and consistency of the accounting principles used,
- correctness of the documentation of business transactions,
- fairness, accuracy and verifiability of the books of account, including the matching of accounting entries with supporting documentation and the financial statements,
- compliance of the adopted policies relating to safeguarding of accounting records, books of account and the financial statements with the Accounting Act.

On the basis of the work performed we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

#### **3.2 Verification of assets and liabilities**

The Bank performed a verification of assets and liabilities and in accordance with the requirements and time frame specified in Art. No. 26 of the Accounting Act.

Count differences have been recorded in the period covered by the financial statements.

#### **3.3 Compliance with banking regulations**

Based on our audit we have not identified any significant deviations in the bank's compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

#### **3.4 Audit materiality**

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the financial statements taken as a whole are free of material misstatements.

#### **3.5 Notes to the financial statements**

All information included in the notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the financial statements taken as a whole.

**3.6 Report on the Bank's activities**

The Report on the Bank's activities includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the financial statements.

**3.7 Information on the opinion of the independent auditor**

Based on our audit of the financial statements as at and for the year ended 31 December 2006, we have issued an unqualified opinion.

*Signed on the Polish original*

.....  
Certified Auditor No. 9941/7390  
Bożena Graczyk

*Signed on the Polish original*

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51, 00-867 Warsaw  
Certified Auditor No. 9941/7390  
Bożena Graczyk  
Member of the Management Board

Warsaw, 27 February 2007