Management Board Report

on the Activity of the Bank Millennium

for the 12 month period ending 31 December 2007

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LETTER OF THE CHAIRMAN OF THE BOARD

Dear Sirs!

2007 was a very successful year. The last twelve months saw consistent implementation of Bank Millennium's medium-term strategy towards strengthening our position on the financial services market, attaining quantitative and qualitative growth of the offer as well as improving fundamental operational efficiency ratios. Consequently we generated best-ever net profit of PLN 462 million, 53% more than in 2006.

With our proposal of a universal package of banking products and services, in 2007 we were particularly focused on development of three business areas: retail banking, consumer finance and corporate banking. In each of these areas we reached tangible results.

We successfully continued the branch network expansion programme planned for the years 2006 - 2009. In 2007 we opened 75 outlets, both new as well as transformed to the new Customer service standard. Some of them are large and modern Financial Centres. Our network now has 410 branches and Bank Millennium is present in 127 Polish cities, in all those above sixty thousand inhabitants each. This provides us with the opportunity to develop sales and deliver faster and more convenient service to our Customers.

Growth of the number of branches was accompanied by rapid growth of the number of individual Customers. As at end of 2007 we were providing service to over 950 thousand Customers with over 200 thousand of them having started their relationship with the Bank in the course of the last year. Customers' deposits grew during the twelve months of 2007 by 36%, which allowed us to increase market share in retail deposits to over 5%. Mutual funds under our management were also growing fast, as well and despite the slowdown of their growth in the last quarter, caused by a stock market correction, their value grew 43% over 2006. This gives us 3.8% market share.

In 2007 the Bank continued rapid growth on the loans market. The loan portfolio was up 47% over the previous year. As in preceding years the main driver of the growth were mortgages. Their balance increased by 72% in the course of the year, which gave us 11.2% market share. The Bank was developing with equal dynamics on the cards market – card credit was up 72% year-on-year and in 2007 the Bank issued 170 thousand new cards. Finally, the upgraded offer and restructured sales gave the Bank 68% growth of the volume of cash loans.

Last year notable effects were attained by upgrading the offer for businesses, which was the first phase of quality change, which the Bank intends to implement in this Customer segment. Loans to businesses grew 17% over the previous year, with fastest growth (39%) being recorded by leasing receivables. This gave Millennium Leasing a share of 6.7% in the movables leasing market.

You will find information about the operations of Bank Millennium in 2007 as well as detailed financials further in the Report. The very good performance of the Bank in 2007 was possible also thanks to the high pace of economic growth. Poland’s economy has been outpacing most other EU economies and it is to be assumed that this trend will be maintained also in subsequent years.

However in planning our actions we had to account for the impact of turbulence on financial markets in the second half of 2007, which caused market interest rates to surge, thus significantly increasing the cost of funding operations. Hence the Bank took steps to strengthen its capital base and maintain a high level of liquidity. With the PLN 850 million securitisation of leasing receivables and the EUR 150 million subordinated debt issue, Bank Millennium closed 2007 with a consolidated solvency ratio of as much as 13.7%.

Implementing our dividend policy we shall be proposing to Shareholders to pay 35% of 2007 net profit i.e. a total of PLN 161.3 million or a dividend of PLN 0.19 per share. In the second half of 2007 the Bank liquidity strongly improved thanks to dynamic growth of deposits, proceeds from the leasing receivables securitisation, subordinated loan issue as well as taking out a syndicated loan of CHF 120 million.

Bank Millennium intends to continue its operations in 2008 based on a clear-cut medium-term strategy implemented by the efficient and effective structure of the Bank Millennium Group. The Bank shall continue to develop its universal range of banking products and services, focusing especially on development regarding financing of the needs of individual Customers as well as implementing the programme of improving corporate Customer service. With a view to further market expansion the Bank intends to open 80 new branches in the coming twelve months as part of the branch network expansion programme. This will create opportunities to boost sales and improve quality of Customer service. In the coming year we shall also be attaching particular importance to security and liquidity management issues. With this in mind the Bank already began preparations for a 2008/2009 issuance of domestic bonds worth up to PLN 2 billion.

Although in 2007 we attained part of our goals planned for later years, we shall continue striving to improve our market position. The motto “Life Inspires Us” continues to guide us in pursuit of the expectations and demands of our Customers.

With regards,

Bogusław Kott
Chairman of the Management Board

I. MARKET CONDITIONS IN 2007 AND BUSINESS PROSPECTS

I.1. Macroeconomic Situation

2007 was characterised by dynamic growth of the Polish economy. The annual economic growth totalled 6.5%, significantly higher than expected at the beginning of the year. Polish economic development continues to generate higher GDP dynamics than the majority of the European Union economies, which reduces the distance between the two regions. The key economic growth driver was domestic demand, including private consumption. This was supported by higher disposable income dynamics, a consequence of the growth of nominal salaries and wages, as well as social benefits. Also, of importance was strong investment revival, where the growth ratio reached the level close to that observed during the boom in the middle of the 90's. The investments' revival was supported by very good financial condition of enterprises, high utilisation of production capacities and increased absorption of EU funds.

Compared to the previous year, economic growth was based mostly on the dynamic increase of the domestic demand. Although export continued to demonstrate high dynamics, the net export contribution to GDP growth was negative. The geographical structure of Polish export has been still changing – Polish companies expanded their sales onto the new Central / Eastern European and Asia markets, although Germany still remains Poland's main trade partner. Strong revival of the domestic demand increased imports, thus resulting in higher trade deficit. Nonetheless, this did not disturb the external stability of Polish economy as demonstrated by the balance-of-payment data, whereby in 2007 the deficit on the current account totalled approx. 4% of GDP.

High economic growth was accompanied by the growing inflation pressure. In December 2007 the inflation (CPI - consumer price index) stood at 4.0% year-on-year, much above the Central Bank target (2.5% +/- 1%). On the one hand, increased inflation reflected gradual growth of demand pressure, corresponding to the dynamic growth in domestic demand. However, on the other hand, strong growth of inflation observed at the end of the last year was the effect of negative supply shocks on the food and fuel markets.

Growing economic revival favoured improvement on the labour market. Last year the positive employment trend continued as the number of the employees working in the corporate segment grew 4.9% against the previous year. Increased labour demand translated into the decrease in registered unemployment rate, which in December last year was reduced down to 11.4% from 14.9% as of December 2006, thus falling down to the lowest level in more than six years. Importantly, to some extent lower unemployment rate can be attributed to the work migration of Poles going to the EU countries. Growing employment translated into the gradual growth of salaries. In nominal terms average remuneration in the corporate sector increased in 2007 by 9.2% year-on-year. At the same time, one has to note that currently increase in salaries in the economy exceeds the dynamics of work efficiency, and consequently growing salaries generate additional inflation pressure and deteriorate competitiveness of Polish enterprises.

In 2007 the situation in the sector of public finances was positive. In this period the deficit of the central budget totalled PLN 16.9 billion against PLN 30 billion as planned in the Budget Act. Very good budget fulfilment resulted from stronger than assumed economic growth and higher inflation, which translated into higher proceeds from the personal income tax and VAT. Also, the expenses were realised to a lower degree than planned.

As a result of deterioration of the inflation prospects, the Monetary Policy Council made its monetary policy more stringent and increased the interest rates by the total of 1 percentage point. After the November decision of the Monetary Policy Council, the reference rate reached 5.0%. Along with the increase in the basic NBP rates, commercial banks increased their interest rates for loans and deposits. The highest interest rate growth took place in case of loans related to the money market rates, i.e. loans for enterprises and mortgage loans for households. Last year their interest rates grew 0.4 and 0.5 percentage point, respectively. Interest rates for household deposits increased even more (up 0.7 percentage point).

Last year the households' savings structure continued to change. In the first half of the year investments in mutual funds continued to grow supported by positive stock exchange market. In July 2007 the value of assets under TFI's management reached its record high of PLN 142.5 billion. However, in the second half of the year this trend was reversed and the interest in equity instruments declined. Interest rate hikes and disturbances on the international financial markets made households reallocate their savings towards bank deposits (annual growth of PLN 23.4 billion, i.e. up 9.8%).

Improvement in household income favoured increase in the indebtedness of this segment (37.6% year-on-year), although in the second half of the year stabilisation of the trend was observed. Similarly to previous years, the highest dynamics could be seen in residential loans (up 50.4% year-on-year). Also, revival was observed in the corporate loan segment, where dynamics along with the investment growth increased up to 23.4% year-on-year. Financial markets turmoil on the international arena and deterioration of the banking system liquidity translated into increased costs of financing in the last months of the previous year. It was reflected in the increase of spreads between the Central Bank reference rate and money market rates.

According to the Bank, in the consecutive quarters Polish economy will remain on the high growth path, although undoubtedly it shall be stalled. Similar to 2007, domestic demand should continue to be the main growth driver, whereas net export will have a negative contribution to the GDP dynamics. Investment growth will be supported by good financial condition of enterprises, high utilisation of production capacities and further funding from the European Union. High growth dynamics should be also maintained in the private consumption area, which will be backed by increase in disposable income. We expect that in 2008 inflation will be maintained at a high level, above the NBP target. The shape of fiscal policy will have a strong impact on the economic conditions and development. Still high economic growth creates good conditions for consolidation of public finances. Implementation of structural reforms, among others limitation of the fixed budget expenses, would be conducive to the development of favourable conditions for the country's sustainable economic growth in the long term.

One can expect that an increasing affluence of households will be accompanied by their higher savings. Given the current uncertainty to the prospects of global economy and increased volatility on the international markets, demand for bank deposits may be expected to grow. The banking sector should remain the main place of investing financial means. We also expect increased credit sales, although undoubtedly the loan dynamics will assume a slower pace in the wake of a slower economic growth. In consequence of the investment revival, also corporate loan dynamics should be maintained at a relatively high level. These expectations are supported by an expected inflow of European Union funds, which to the dominant extent will be allocated to co-financing of investment projects.

I.2. Strategy Implementation and Business Development Prospects

2007 was a particularly positive year for Bank Millennium Group. The Group was able to gain dimension, increase its competitive capacity in different segments, gain visibility and market recognition and strongly improve all profitability indicators, reaching the medium-term financial targets set for 2008, more than one year ahead of schedule.

Bank Millennium Group continued to pursue a strategy aimed at achieving a balance between a rapid business growth and a sustained improvement of profitability, based on three main pillars:

i) gaining scale and profitability in the retail business through organic growth;

ii) consolidating the offer of consumer finance platform based on a *category-killer* approach to selected credit products;

iii) expanding the corporate business segment, with particular emphasis in the small and medium enterprises segment

In 2007, the main strategic priorities assigned to Retail Banking segment were centred on four areas: (1) the successful implementation of the branch expansion programme (2) the acceleration of customer acquisition and value of funds (3) the exploitation of the new value proposition for the affluent segment, (4) the cross-selling efforts and multi-channel distribution approach.

Within the scope of the branch expansion project to the end of 2007, 128 new retail branches were opened, including 45 transformed, increasing the total number of retail branches to 410. Since the beginning of the project, Bank Millennium has implemented very efficient expansion process, which already allowed the capture of significant savings in planned capital expenditure and operating costs, thanks to the effectiveness of processes of finding locations, selecting suppliers, recruiting and training employees and promoting the launch of new branches. Also the economics of the new branches clearly exceeded the initial expectations due to the fact that both the pace of customer acquisition and the average revenues per customer are significantly above targets. Based on the current trends, the estimated average break-even period for each of the new branches is 24 months instead of 36 months initially planned.

Taking into consideration the above mentioned, as well as the positive outlook for the polish economy, the Bank announced in June the launch of a 2nd phase of the expansion project which includes opening 100 additional branches until 2009.

Bank Millennium Group made a big progress in customers' acquisition in 2007. Net growth of more than 200 thousands retail customers was achieved thanks to the extended capillarity of the distribution network and to intensive and effective marketing actions carried out during the year, including several TV campaigns. In this framework, it is worth mentioning the impact of the campaigns promoting liabilities products – *Superduet and Lokata Progresywna* - which attracted a high number of customers to the branches and contributed significantly to strengthen and increase the awareness of the Millennium brand.

2007 was the year of broadening of the Bank Millennium Group's value proposition for the affluent segment. It was supported by the new opened Financial Centres, the enlargement of the product offer in the scope of the open architecture platform, the intensive training programs directed at improving the skills of the relationship managers and the upgrade of the advisory tools - which allow a financial diagnosis of the customers to determine the most adequate allocation of assets. These activities, leveraged by a selective, but effective presence in targeted newspapers and magazines, were the main drivers to boost revenues and expand the affluent customer base.

Cross-selling remained a priority in the overall strategy for retail banking, given its strong correlation between the level of customer loyalty and with revenues. It is worth underlining the success of the actions directed at promoting pre-approved credit limits for retail customers, calculated based on behavioural scorecards. Simultaneously, the Bank continued developing specific programs aimed at cross-selling different products to the customers acquired through non-branch channels.

Throughout 2007, Bank Millennium Group fine-tuned its conception of multi-channel distribution approach, which complements face-to-face contacts at the Bank's premises with the use of Internet and telephone banking, which convenience and availability are particularly appreciated by the customers. In view of fully exploiting the potential of sales at the branch, the system supported the sale (front-office) was upgraded in view of enabling the commercial staff to take advantage of every contact made by the customer to propose an adequate, timely offer.

At the same time, the Bank Millennium Group introduced several improvements in the product offer available through electronic direct channels with a view to attract new users and increase business volumes -such as top-up s for mobile phones and Internet, , the introduction of the first current account totally on-line. In what concerns the Internet portal – in 2007 Bank Millennium was again distinguished by "Global Finance" magazine as the best consumer Internet site in Poland

Having selected the consolidation of the consumer finance platform as one of its strategic pillars, Bank Millennium Group continued to reinforce its presence in this area. Keeping mortgage lending as distinctive factor of the strategy, the Group looked for remaining a top-player in the market, while preserving the products' margin and a high quality of the portfolio. It is noteworthy the shift of the new production to a more balanced structure between PLN and foreign currency denominated loans. The second part of the year was affected by the slowdown in the mortgage loans market and by the Bank Millennium Group's decision to keep the margin despite continuous competition from some other banks. Nevertheless, mortgage business remained one of the biggest sources of revenues for the Group and an important tool to attract new customers.

In 2007, the Bank Millennium Group remained focused in increasing significantly the credit card portfolio through the implementation of specific cross-selling programs directed at the new acquired customers and the enlargement of the exclusive external sales force. The success in the sale of credit cards allowed the Bank to gain market share above 5% at year-end. It should also be highlighted the increase in the average volume of transactions as a result of several actions directed at stimulating card usage. In what concerns product development it is worth underlining the launch of the co-branded card with, one of the biggest European insurance companies.

Having in mind the market potential for cash loans and the attractiveness of the product's margin, Bank Millennium Group decided to take the necessary steps to become a relevant player in this area. Such aspiration was materialized thanks to regular multi-channel sales campaigns targeting the retail customer base, supported by pre-approved credit limits. In view of exploring the possibility of developing external sales channels for cash loans, the Bank Millennium Group introduced several improvements in the underwriting process aimed at reducing the time-to-decision and increasing the discriminatory capacity of the credit decision models. Within this framework, a pilot was set-up consisting in the establishment of agreements with a group of selected brokers which initial results are promising.

During 2007 the corporate business segment showed a sustained trend of growth in volumes, both in deposits and loans. Such improvement was particularly visible in the small and medium enterprises segment, which is one of the strategic focuses of the Bank Millennium Group. The project aimed at implementing a best-in-class credit platform for SME was concluded and implemented throughout the network and the results are already visible. In parallel with the efforts to expand the customer base, corporate sales teams were focused in providing a high quality service, including regular personnel attendance, acting in a proactive way in order to fulfil the needs and maximize the satisfaction of the Customers.

The sale of added-value services, particularly risk hedging products, cash management solutions and trade finance instruments, as well as leasing and factoring remained a priority for this segment. At the same time several actions were set-up aimed at encouraging the regular usage of automatic channels. It is worth mentioning that in 2007 Bank Millennium was once again distinguished by “Forbes” magazine as the best Bank in Poland for SME.

The strong growth of business volumes – more than 47% in loans and 39% in customer funds - the adequate management of pricing, the strict cost control and the improvement of loan portfolio quality, led to a remarkable improvement of the main profitability indicators in 2007, which were already beyond the targets established for the year 2008 – ROE ratio of 15% and Cost to Income ratio of 65%.

Consolidated Net Income for 2007 went up 53% to PLN 462 million and the ROE reached 19.9%. Cost-to-income ratio decreased from 68% to 62%, despite the extensive branch expansion project. The adoption of prudent underwriting criteria and the improvement of the efficiency in the recovery area were materialized in the significant drop of the ratio of impaired loans, which went down from 5,7% to 3,4%.

In 2007 Bank Millennium Group concluded a subordinated debt issue, amounting to EUR 150 million, which led to the increase of liquidity, own funds base and the solvency ratio. It is worth mentioning that the Bank Millennium Group concluded also its first securitization operation, covering a portfolio of leasing receivables, amounting to PLN 850 million. Both transactions allowed not only to increase Group’s liquidity and value of solvency ratio but also to lengthen average funding maturity, instruments for finance the business activity.

STRATEGIC MID-TERM TARGETS UPDATE

On June 1, 2007 during the „Investor Day” organised by Millennium bcp in Portugal, Bank Millennium Group announced the Group’s strategic mid-term targets update giving the value of profitability and efficiency ratios and business parameters for 2009.

For 2008 -2009, the Group will remain loyal to its main strategy based on three pillars i.e. development in: i) retail business; ii) consumer finance platform; and iii) corporate business segment, with particular emphasis on SME segment.

The Bank Millennium Group determined the new financial targets of **20% ROE** and **55% Cost to Income** ratio to be achieved in year 2009. The new business targets until the and of 2009 are as following:

In Retail banking:

- to achieve 1.2 million active customers
- to achieve 6% market share in mutual funds

allowing in total to achieve 6% market share in retail customer funds.

In Consumer finance:

- to reach 12% market share in mortgage portfolio
- to achieve 8% market share in number of credit cards
- to achieve PLN 2 billion in cash loans sales

allowing in total to achieve 8% market share in retail loans

In Corporate banking:

- to acquire 1500 new SME customers yearly
- to increase corporate net revenues by 20% yearly
- to achieve 7% market share in movables leasing sales

BRANCH EXPENSION PLAN UPDATE

Together with new targets, the Bank Millennium Group has announced already mentioned extension of the expansion project, by adding 100 branches to the 160 initially planned. The current organic growth plan of the network assumes to have 560 branches at the end of 2009.

The execution of this expansion plan according with the new schedule will be one of the most important challenges for the Bank for the next two years. For 2008 the Bank Millennium Group is planning to open 80 new branches to reach a total of 490 branches by the end of the year.

CAPITAL EXPENDITURES

The improvement of the efficiency of the sales and back-office processes, the strong growth in deposits and mutual funds, the achievement of a relevant position in the cash loans market and the significant expansion of the corporate business constitute the remaining main targets for the next twelve months in 2008.

To support the ambitious business growth, Bank Millennium Group is planning to invest PLN 123 million in 2008, which means an increase of 14% in comparison with 2007. The most significant part of this amount is connected with the retail branch expansion project. In 2007 the project consumed PLN 80 million of the total of PLN 107 million investments. For 2008, the Bank Millennium Group plans to invest another PLN 50 million for the branch network expansion. There will be also relevant investments in IT, both in infrastructure and software, as well as in the upgrade of our ATM network, in order to meet new payment cards standards (EMV compliance).

The Bank Millennium Group has enough resources to conduct the branch expansion project and further strong growth of business volumes. In order to secure enough liquidity, especially in the view of the current situation in the international financial markets and the new restrictions imposed by the polish banking supervision, the Bank may issue in 2008/2009 domestic bonds under a private placement program up to a limit of issue in the amount of c.a. PLN 2 billion. These issues, other external funding (e.g. interbank loans) as well as maintaining of a strong customers' deposits growth will enable Bank Millennium Group to finance expected fast growth of loans while keeping all regulatory requirements.

II. FINANCIAL SITUATION OF BANK MILLENNIUM

The net profit of Bank Millennium in 2007 stood at PLN 411.9 million, and this is the Bank's best ever profit (in recurrent terms).

The main financial highlights of the Bank in 2007 are as follows:

- **ROE:** 21.3%
- **Net interest income *:** growth by 31.2% yoy
- **Net commission income:** growth by 53.1% yoy
- **Total operating income:** growth by 1.5% yoy (or 40.9% without dividend income)
- **Total operating expenses:** growth by 24.3% (or 10.0%, without the network expansion project)
- **Cost/income ratio:** 63.0%
- **Solvency ratio:** 12.1%

**) On a pro-forma basis. Detailed explanation of the difference with respect to the financial results items is presented on the next page*

Fast increase of new customers brought a strong growth of deposits and even stronger growth of loans during 2007 year. The main business achievements in 2007 can be summarized as follows:

- **Active clients in Retail**: 954 thousand, growth of 208 thousand customers during the year
- **Deposits:** grew 36% y/y; market share in retail deposits crossed 5%
- **Total loans** grew 48% y/y, of which:
  - **mortgage loans**: grew by 72% y/y, market share of portfolio: 11.3%
  - **credit cards loans**: grew by 72% y/y, 170 thousand new cards in 2007
  - **cash loans**: + 68% y/y, PLN 817 million disbursed in 2007

Management Board is proposing to distribute, as a dividend, PLN 0,19 per each share, which makes a total of PLN 161,3 million and 39% of 2007 Bank's profit.

By the end of 2007, Bank Millennium completed half of the branch expansion program planned for 2006-2009. Up to now, 128 new branches were opened or transformed to the new format, bringing the total branch network of the Bank to 410 branches. More than half of the investment budget was completed: PLN 144 million was spent so far (including re-branding project) and PLN 100-110 million should be invested until the end of 2009.

II.1. Profit and Loss Statement

INCOME

Operating Income (PLN million)	2007	2006	Change
Net interest income *	703.2	536.1	31.2%
Net commission income	430.1	280.9	53.1%
Other non-interest income *	420.9	714.8	-41.1%
- including one-off dividends	–	*506.4*	–
Operating income	**1 554.2**	**1 531.9**	**1.5%**
Operating income without one-off dividends	***1 554.2***	***1 025.5***	***51.6%***

(*) Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to treat under hedge accounting principles the combination of mortgage floating rate foreign currency loans, floating rate PLN deposits and related cross currency interest rate swaps. The margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 48 m in 2007 and PLN 22 m in 2006) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

Net interest income (on a pro-forma basis) of the Bank in 2007 amounted to PLN 703.2 million and was 31.2% higher than in 2006 year. Interest income was accelerating quarter after quarter. This was possible not only due to strong growth of business volumes, but also thanks to interest margin improvement. Net Interest Margin for 2007 reached 2.9%. Growing interest rates partially helped the margin to improve – especially in the second half of the year.

Net commissions income kept very strong level in the last 3 quarters, reaching for the whole year PLN 430.1 million. This means a very strong yearly growth of 53.1%. Commissions connected with distribution of investment products, bancassurance products as well as credit cards fees were the main drivers of net commission growth. Net commission income represents now 28% of the total operating income.

Other non-interest income decreased by 41.1%, mainly due to exceptionaly high dividend income reported in 2006 – this item included one-off high dividends from two subsidiaries: BIG BG Inwestycje and Millennium Leasing (former BEL Leasing, legal successor of the first mentioned company). Those dividends were connected with income realised by the companies from the sale of PZU shares. Dividends from those companies, which may be treated as one-off income because of mentioned reasons, amounted in total to PLN 506.4 million in 2006.

Other non-interest income in 2007 with exception of one-off dividends, kept strong growth of 102.0% versus last year. Foreign exchange result was the main contributor to this item and they grew by 36.0% yearly, reaching the total amount of PLN 241.4 million during the 2007 year. Foreign exchange result includes, apart from margin on customers' transaction ("table" and corporate transactions), balance sheet revaluation result and proprietary FX trading transactions result.

Total operating income in 2007 reached the amount of PLN 1,554.2 million, which means a 1.5% growth versus previous year. However, with exception of one-off dividend incomes of 2006, the growth of operating income was 51.6%.

EXPENSES

Operating Costs (PLN million)	**2007**	**2006**	**Change**
Personnel Costs	493.2	375.3	31.4%
Other Administrative Costs	407.0	353.3	15.2%
Depreciation & impairment of fixed assets	79.6	59.4	34.0%
Total Operating Costs	**979.8**	**788.0**	**24.3%**
Of which expansion and new image	*168.7*	*50.7*	
Operating costs without expansion	***811.1***	***737.3***	***10.0%***

Total costs in 2007 grew 24.3% y/y mainly as a result of branch expansion project. Without the expansion costs (PLN 168.7 million), total costs would grow 10% only.

Personnel costs grew 31.4% y/y, being the main contributor to total costs growth, as a consequence of headcount increase (the Bank had employed 939 new employees, so the number grew by 19.9% since December 2006), average salary increase and bonuses related to business results. At 2007 year-end Bank Millennium had 5,657 persons employed.

Employment in Bank Millennium S.A.	**31.12.2007**	**31.12.2006**	**Change**
No. of employees Bank (Full Time Equivalent)	5 657	4 718	939

Administrative costs grew only in connection with branch expansion – without this project, they would have stayed flat (0.2% growth y/y).

The costs of depreciation and impairment of non-financial fixed assets increased substantially, by 34% in 2007 compared to the previous year. This was the consequence of the Management Board's decision concerning the change of head office location. The move to the new offices was planned for the 1st quarter of 2008. As a result of the decision the period of utilisation of unamortized investment expenditures in the previous head office had been verified and the costs of bringing the formerly utilised spaces to the required standards had been evaluated. In consequence, the amount of depreciation costs for 2007 had been increased by PLN 20,9 million.

Cost to income ratio, despite the impact of the costs associated with branch expansion project and limited income in the new branches resulting from early phase of their operations, reached 63% in 2007 and improved significantly compared to recurrent value of the ratio for 2006 (without the impact of exceptional dividends) of 77%.

Net impairment provisions created by the Group during 2007 year reached PLN 77.4 million. This amount was strongly influenced by the creation of provisions incurred but non-reported losses (IBNR) of PLN 62.3 million associated with the strong growth of the retail loan portfolio.

PROFITABILITY AND EFFECTIVENESS

Profit before tax for Bank Millennium in 2007 stood at PLN 496.9 million, whereas net profit reached PLN 411.9 million. For such profit level return on equity (ROE) achieved 21.3% and return on assets (ROA) amounted to 1.5%.The data regarding profitability and efficiency for reporting period and the data for the previous year are difficult to compare because of above mentioned one-off incomes earned in 2006. Cost efficiency, measured with Cost/Income ratio improved (on recurrent base), which has been commented above in the section devoted to operating costs.

Basic profitability and effectiveness ratios	**2007**	**2006**	**Change 2007/2006**
Gross profit (PLN mio.)	496.9	701.8	-29.2%
Net profit (PLN mio.)	411.9	662.7	-37.8%
ROE (%)	21.3%	36.3%	-15.0 p.p.
ROA (%)	1.5%	2.9%	-1.4 p.p.
Cost / Income (%)	63.0%	51.4%	11.6 p.p.

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

ASSETS

As of 31.12.2007 total assets of Bank Millennium stood at PLN 29,242 million, showing growth by 20.0% with respect to the corresponding period of the previous year.

Changes in the Bank's key assets items and their structure over the 12 months are presented by the table below:

ASSETS (PLNmillion)	**31.12.2007**		**31.12.2006**		**Change**
	Value	**Structure**	**Value**	**Structure**	**2007/2006**
Cash, transactions with the Central Bank	1 255.1	4.3%	965.8	4.0%	29.9%
Loans and advances to banks	1 053.1	3.6%	1 123.1	4.6%	-6.2%
Loans and advances to Customers	20 881.3	71.4%	14 109.2	57.9%	48.0%
Buy-sell-back receivables	28.8	0.1%	15.5	0.1%	85.7%
Financial assets measured at fair value in the P&L Account and hedging derivatives	3 346.3	11.4%	3 850.4	15.8%	-13.1%
Investment financial assets*	2 085.3	7.1%	3 089.1	12.7%	-32.5%
Intangible and tangible fixed assets	264.0	0.9%	284.8	1.2%	-7.3%
Other assets	328.2	1.1%	932.0	3.8%	-64.8%
Total assets	**29 242.0**	**100.0%**	**24 370.0**	**100.0%**	**20.0%**

** including investments in subsidiaries*

The structure of assets was dominated by loans and advances to Clients (71.4%). This share was considerably higher than in the previous year (57.9%), which illustrates a positive shift in the structure of assets towards higher-yielding loans and advances. At the end of December 2007 the net value of loans and advances granted to Clients stood at PLN 20,881 million, which reflects a very strong growth of 48% compared to the end of December of the previous year. The change of this asset item in value terms (i.e. by PLN 6,772 million) was critical for the growth of financial assets and total assets.

The structure of loans and advances to Bank's Clients by main types and their annual changes is presented in the table below:

Loans and advances to Clients (PLN million)	**31.12.2007**		**31.12.2006**		**Change 2007/2006**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Retail loans	14 905.1	71.4%	8 832.6	62.6%	6 072.5	68.8%
- Mortgage loans	*13 092.5*	*62.7%*	*7 594.9*	*53.8%*	*5 497.6*	*72.4%*
- Other retail loans	*1 812.6*	*8.7%*	*1 237.6*	*8.8%*	*574.9*	*46.5%*
Loans to corporates	5 976.2	28.6%	5 276.6	37.4%	699.6	13.3%
Total loans and advances to Clients	**20 881.3**	**100.0%**	**14 109.2**	**100.0%**	**6 772.1**	**48.0%**

Retail loans continue to be the main driver of total credit growth. Over 2007 they had a very high pace of growth - 69% achieving the value of PLN 14 905 million. The share of loans granted to individual clients in total loans went up from 62.6% at year-end 2006 to 71.4% at year-end 2007.

The structure of the total credit portfolio is dominated by mortgage loans, whose share went up to 62.7% at year-end 2007 from 51% last year. This group of loans was the main factor of growth driver of the Bank's total credit portfolio. The value of Mortgage loans at the end of 2007 was PLN 13,093 million, showing 72.4% growth from the end of 2006 and by 5,498 million in zloty terms. This growth allowed Bank Millennium to increase its mortgage market share from 10% to 11.3% in during the year. Total sales of these loans in 2007 achieved PLN 7,115 million, which means a 50% growth on top of the previous year (although Q4 brought perceivable deceleration as a result of lower sales for the whole market). For all of 2007 the Bank achieved a 12,7% share in the market of new mortgage loans. The share of PLN-denominated loans in new mortgage loans granted in 2007 was 38%.

The value of other retail loans (covering the cards credit outstanding, overdrafts, cash loans and others) at the end of the reported period stood at PLN 1,813 million, showing robust 46.5% growth during one year, and their share in the total portfolio stood at 8.7%. Credit balances in credit cards (gross) went up 72% over the last 12 months achieving PLN 482 million. The Bank sold in total 427 thousands credit cards and increased its market share from 3.8% at the beginning of the year to 5.2% in September 2007. For cash loans the total portfolio (gross) exceeded the PLN 1 billion mark, which enabled 68% growth during the year.

Loans to corporates went up during 2007 by 13.3% (or by PLN 700 million), achieving the total of PLN 5,976 million at the end of the reported period, their share in the portfolio achieving 28.6%.

The next by value major items in total assets as of December 2007 were "Financial assets measured at fair value through the income statement and hedging derivatives" (11.4% of total assets), and „Investment financial assets" (7.1% of total assets). Both groups of financial assets were dominated by debt securities issued by the Polish State Treasury (69.5% and 73.9% respectively), which were largely responsible for changes in the value of both items at year-end 2007 compared to the end of 2006.

In the period under discussion, "Financial assets measured at fair value through the income statement and hedging derivatives" fell by PLN 504 million (or 13.1%) to PLN 3,346 million, while "Investment Financial Assets" fell by PLN 1,004 million (or 32.5%) to PLN 2,085 million. In total, the two financial assets items decreased by 22,6% on an annual basis, which was connected with the necessity to secure funding for the Bank's fast growing lending business.

Apart from Treasury debt securities, 30% of "Financial assets measured at fair value through the income statement and hedging derivatives" were assets from a positive valuation of derivatives intended for trading and hedging derivatives while the "Investment Financial Assets" portfolio also included Central Bank debt securities (8.9%), other debt securities (8.9%) and equity investments (9.2%), the bulk being investments into subordinated companies (PLN 191 million at the end of December 2007).

Receivables from banks constituted 3.6% of the total assets (PLN 1,053 million) at the end of 2007 and their value declined during the year by 6.2%.

Fixed assets, both tangible and intangible (excluding fixed assets for sale), constituted in total 0.9% of Bank's assets at the end of December 2007 achieving the value of PLN 264 million.

LIABILITIES

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

LIABILITIES (PLN million)	**31.12.2007**		**31.12.2006**		**Change**
	Value	**Structure**	**Value**	**Structure**	**2007/2006**
Deposits from banks	2 568.7	9.5%	3 600.2	16.0%	-28.7%
Deposits from Customers	22 021.6	81.1%	16 195.0	71.8%	36.0%
Sell-buy-back Liabilities	730.0	2.7%	1 477.7	6.6%	-50.6%
Financial liabilities measured at fair value in the P&L Account and hedging derivatives	589.9	2.2%	313.3	1.4%	88.3%
Liabilities on account of debt securities	0.0	0.0%	5.7	0.0%	-100.0%
Provisions	12.4	0.0%	10.4	0.0%	18.8%
Subordinated liabilities	826.0	3.0%	307.3	1.4%	168.8%
Other liabilities	409.4	1.5%	631.3	2.8%	-35.2%
Total liabilities	**27 158.0**	**100.0%**	**22 540.9**	**100.0%**	**20.5%**
Shareholders' Equity	**2 084.0**		**1 829.0**		**13.9%**
Equity and Liabilities	**29 242.0**		**24 370.0**		**20.0%**

As at end of 2007 liabilities constituted 92.9% of Equity and Liabilities, the remaining part i.e. 7.1% being the Bank's Shareholders' Equity.

The structure of liabilities was dominated by Clients' deposits (81.1%), which at the end of December 2007 achieved the value of PLN 22,022 million, showing growth by 36.0% compared to the end of December 2006. The value of deposits showed exceptionally high growth, particularly in the second half of 2007, especially among individual clients. In zloty terms the 2007 deposit growth amounted to PLN 5,827 million and constituted the main growth factor in the Bank's total liabilities.

The deposits from individual Clients of the Bank totalled at 31 December 2007 PLN 12,282 million and were 41.7% (or PLN 3,615 million) higher than the year before, which was four times more than the growth rate for the whole market running at 10%. The sale of deposits was supported by a strong marketing campaign, especially in 4th quarter which increased sales result.

Corporate and public sector deposits as of 31 December 2007 totalled PLN 9,739 million, i.e. they were by 29.4% (i.e. PLN 2.211 million) higher than on 31 December 2006. This growth was owed to general trends in the whole banking sector, also to the Bank's expanding activity in the SME segment.

The structure of deposits by type of Client as of 2007 and 2006 is presented in the table below:

Client Deposits (PLN million)	**31.12.2007**		**31.12.2006**		**Change 2007/2006**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Individual Client deposits	12 282.4	55.8%	8 667.0	53.5%	3 615.4	41.7%
Corporate and public sector deposits	9 739.3	44.2%	7 528.1	46.5%	2 211.2	29.4%
TOTAL	**22 021.6**	**100.0%**	**16 195.0**	**100.0%**	**5 826.6**	**36.0%**

The scale of deposit growth in the Bank Millennium does not fully reflect the changes in total customer savings entrusted to the Group, these also covering other saving products not taken into account in the balance sheet. In 2007 the Bank in addition to deposits offered to its clients investment products, both own (mainly investment funds managed by the Millennium TFI subsidiary) as well as third party investment funds and structured products. At year-end 2007 customer funds collected by the Bank Millennium Group, including investment products, totalled PLN 27,917 million, which means a y-o-y growth of 38.8 % .

A category of the Bank's liabilities similar to deposits (funds taken from Clients and financial institutions) are liabilities from SBB (sell-buy-backs) transactions, which at the end of December 2007 stood at PLN 730 million, accounting for 2.7% of total liabilities. This item covers mainly short-term funds obtained from Clients and financial institutions and as a rule shows much volatility. Compared to the end of December 2006 the value of funds from SBB transactions went down by 50.6% (i.e. almost by PLN 748 million) because of the falling value of transactions with corporate Clients.

The second most significant item after client deposits in the Bank's liabilities were Liabilities to banks (9,5% at year-end 2007), which decreased from the end of 2006 by 28.7% to PLN 2,569 million. This drop was occasioned first of all by a declining value of other banks' deposits, however, the balance of borrowings taken from other financial institutions went up. This includes a syndicated loan agreement concluded by the Bank, for the amount of CHF 120 million.

Subordinated debt constituted 3.0% of the value of liabilities (826 PLN million) at the end of December 2007 and covered debt on the issue of long-term bonds with the nominal value of EUR 80 million maturing in 2011, as well as liabilities on newly-issued subordinated bonds with the nominal value of EUR 150 million maturing in 2017. The new issue considerably pushed up the 2007 value of the subordinated debt, by 168.8%. As at the end of December 2007 the Bank did not reported any other type of liabilities resulting from the issue of debt securities.

The value of the Bank's equity amounted at year-end 2007 to PLN 2,084 million, up 13.9% from year-end 2006, thanks to the net profit generated in 2007. The Bank's solvency ratio stood at the end of December 2007 at 12.1% and was slightly higher compared to its level at year-end 2006 (11.9%).
The Bank's solvency ratio improved, in particular with respect to the previous quarters of 2007, thanks to the above-mentioned subordinated bond issues (EUR 150 million), which compensated for increased capital requirements as a result of a considerable credit portfolio growth. Assuming that the level of 2007 retained earnings will stay in line with announced dividend proposal, the solvency ratio should further increase.

The Bank's liquidity, despite dynamic growth of loan portfolio, kept satisfactory level reflected by the value of loans/deposits ratio which amounted to 94.8% as at year-end 2007 (or 91.9% including transactions on securities with repurchase clause – BSB and SBB). The Bank's liquidity position had been strengthened by above-mentioned transactions of issue of subordinated bonds and the syndicated loan from a consortium of foreign banks taken in July (for CHF 120 million). Also the high growth rate of Clients deposits had very positive impact on the Bank's liquidity.

OFF-BALANCE SHEET ITEMS

The total sum of notional values of Off-Balance Sheet items stood at the end of 2007 at PLN 113,441 million. The biggest position were „derivative instruments", which reached the value of PLN 103,490 million, up 77.0% from year-end 2006. In this item a considerable role is played by FX instruments, e.g. currency swaps, currency interest rate swaps (CIRS) and others (covering among others options and forwards), as well as interest rate swaps and forward rate agreements (IRS and FRA). The growing value of derivatives resulted from the needs of currency and interest rate management.

Off-Balance Sheet conditional liabilities constituted 7.3% of total OBS liabilities and at the end of 2007 stood at PLN 8,284 million (up 25.8% from the end of 2006). This item consists of liabilities granted in the amount of PLN 7,583 million (growth by 25.4%) and liabilities received which stood at PLN 701 million (growth by 30.4%) – the last ones are mainly connected with the hedging of credit risk.Liabilities connected with the implementation of the buy/sell operations stood at the end of December 2007 at PLN 1,667 million and resulted from currency transactions concluded by the Bank.

The breakdown of the Group's Off-Balance Sheet items is presented by the table below:

OFF-BALANCE SHEET ITEMS (in PLN million)	**31.12.2007**	**31.12.2006**	**Change (%)**
I. Off-balance sheet conditional liabilities granted and received	8 284.0	6 583.4	25.8%
1. Liabilities granted	7 583.0	6 045.7	25.4%
2. Liabilities received	701.1	537.7	30.4%
II. Liabilities connected with execution of buy/sell transactions	1 667.0	1 765.9	-5.6%
III. Derivatives	103 489.9	58 485.0	77.0%
1. Forward Rate Agreements (FRA)	1 250.0	2 325.9	-46.3%
2. Interest Rate Swaps (IRS)	28 322.4	21 684.4	30.6%
3. Currency Swaps	11 901.9	5 979.6	99.0%
4. Currency Interest Rate Swaps (CIRS)	12 591.7	9 917.1	27.0%
5. Other currency derivatives	46 281.1	16 401.2	182.2%
6. Commodity derivatives	2 950.4	2 043.4	44.4%
7. Other derivatives	192.4	133.5	-
IV. Other	0.0	0.0	-
Total off-balance sheet items	**113 440.9**	**66 834.4**	**69.7%**

II.3. Market Valuation and Ratings

The price of Bank Millennium shares on Warsaw Stock Exchange went up 46% in the period from 31 December 2006 until 31 December 2007, outperforming the main indices (WIG: +10% and WIG Banki: +12%). Due to the global market correction in the second HY 2007 the Bank's capitalisation declined slightly in 4Q versus Q3 (by 1.4%), although it remained in December 2007 at a higher level than last year achieving PLN 9.876 million.However first month of 2008 brought another drop on global markets. So did Bank Millennium shares reaching PLN 7.8 level as on 31.01.2008

Market ratios	**31.12.2007**	**31.12.2006**
Shares outstanding – end of period	849 181 744	849 181 744
Share price (PLN)	11.63	7.95
Market capitalisation (PLN million)	9 876	6 836
Book value per share (PLN)	2,45	2,15
EPS – Earnings per share (PLN)	0,49	0,78

On 21 May 2007 Fitch Ratings assigned to Bank Millennium for the first time the following ratings: Entity (IDR) A (stable prospects), Short-term F1 and individual C/D.

According to Fitch Agency, the individual rating reflected a growing core profitability of the Bank, well-designed strategy, improved loan portfolio quality, and adequate coverage of impaired loans.

In Q2 2007 also Moody's rating agency changed the Bank's rating to A3; P-2; D- (positive prospects) due to the introduction of a new methodology.

Below, please find current ratings assigned to Bank Millennium by the above-mentioned rating agencies.

Moody's Investor Services:	**Current rating**	**Last Change**	**Previous rating**
Long-term deposit rating	A3	24 April 2007	A2
Short-term deposit rating	Prime-2	24 April 2007	Prime-1
Bank's financial strength rating (BFSR)	D	10 April 2006	D-

Fitch Ratings:	**Current**	**Date of Assignment**
Long-term deposit rating	A	21 May 2007.
Short-term deposit rating	F-1	21 May 2007
Bank's individual rating (IDR)	C/D	21 May 2007
Support rating*	1	13 July 2005 (last change)

* *The Fitch agency with respect to support rating existed even prior to the assignment of the remaining types of rating

III. DESCRIPTION OF THE GROUP'S BUSINESS ACTIVITY

III.1. Retail Banking

Retail banking is a strategic area of Bank Millennium development. The Bank offers to its individual clients universal products and financial services through a Poland-wide, ever-expanding network of outlets, automatic distribution channels (internet banking, telephone banking, ATM network) and direct sale of selected products through cooperating companies and dedicated sale force teams.

The programme of fundamental changes in Bank Millennium's Retail Banking, commenced in 2006, was successfully continued in 2007. The changes consisted first of all in implementing a new, unique for the whole international Millennium Group, visual identification in outlets and uniting the power and potential of three segments: Retail, Affluent (*Prestige*) and Micro-Business. The programme's main objective is and was to increase the convenience and comfort of service and availability of the Bank's offer (also in towns in which there have been no Bank Millennium yet) for all the Client groups.

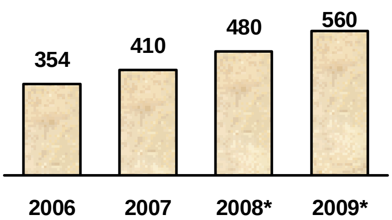
The Retail Expansion Project responsible for the transformation of existing branches and constructing new Bank outlets led to the opening in 2007 of:

- 13 new Financial Centres which cater for – within one branch – both individual clients and in specially dedicated areas – Prestige and business Clients,

- 28 *Retail & Business (*R&B) branches for serving individual and micro-business Clients,
- and 20 new retail branches (including 7 Credit Centres),
- 9 existing branches have been transformed into *Retail & Business* branche*s,* and 5 – into a retail branch.

Bank Millennium outlets now welcome their Clients in all the towns above 60 thousand residents. The newly created Bank branches are bigger, better adjusted to Client needs and multifunctional. These branches attract the most attractive segments of Polish Clients who require a high standard of service and an attractive offer of products and services.

Number of Bank Millennium Outlets (as at the end of a period)



* plans for 2008,2009

For 2008-2009 it is planned to open 150 new branches which will allow us to reach an even bigger group of Clients. The Bank's offer will be fully available in geographic terms and its structure will take into account all the market segments. Simultaneously, there will be maintained a separate, but uniform (in terms of image) network of outlets – Credit Centres in support of direct sale of mortgage loans.

The joining of three separate sale networks (Millennium, Millennium Prestige and Millennium Biznes) into one Retail Banking Network makes it better poised to achieve business objectives and effectively harnesses the skills and experience of the Bank's management teams. Clear and transparent structure of Retail Banking Division constitutes the common platform for offer dedicated to three segments: retail, affluent Clients and micro-businesses.

1. Retail banking and cross- selling

The Bank offers a broad range of financial products intended for individual retail Clients. In addition to basic products, i.e. personal accounts, credit and debit cards) the Clients can use savings accounts, term deposits, as well investment loans, consumer and mortgage loans, brokerage services, structured products and insurance.

At the same time the Bank is very keen on constantly improving the availability of its products and services. In addition to improvements connected with the development of the offer of products and services the Bank regularly offers to its Clients new distribution channels for particular groups of products. In the first half of 2007 Clients were given the possibility to operate one more investment product (SuperDuet) through the Millenet internet service, while in the last quarter 2007 new processes were introduced for opening current accounts bundled with a debit card by Internet and telephone. This offer will soon be available also through specialist advisers.

In this section all retail products were described except retail loans to which section has been devoted (Consumer Finance)

Retail Deposits

In 2007 in addition to Millennium terms deposits – classic deposit products for Clients who like traditional forms of savings – the Bank promoted "SuperDuet" – deposit bundled with Millennium TFI investment funds and "Lokata Progresywna" with very attractive interest .

„SuperDuet„ -in PLN, EUR, USD- is a product in which part of the invested monies is paid into a very attractive interest-bearing term deposit, the remaining part being invested in one of the selected Millennium investment funds

„Lokata Progresywna" is a product having an attractive and ascending interest rate - from 5 to 10% in the twelfth month of savings. In the case of an earlier withdrawal of funds the Bank offers full interest for each completed month of savings. An additional advantage of this product is the possibility of transferring funds at any moment of deposit duration to a selected Millennium TFI investment fund at no cost to the Client.

The Bank's offer evolved along with the current market situation. In the first half-year our selling efforts focused mainly on investment funds, thus the "SuperDuet" product was actively offered. This product also enriched the Bank's internet offer. The product's attractive features were recognised by our Clients, significantly contributing to a large growth of the both the Bank's deposits and Millennium TFI assets. The last quarter of 2007 saw the launching of Lokata Progresywna, but "SuperDuet" was further promoted through scrapping fees for the purchasing of participation units.

The sale of both products was supported by a marketing campaign in the media under the slogan: „You can gain twice" and „Interest grows twice" with the participation of Hubert Urbański, the very popular TV presenter.

At the same time the Bank conducted very active pricing policy by adjusting the offer of the remaining products (deposits available from the Millenet internet service and Milleinwestycje or deposits in the form of insurance) to the requirements of the changing market.Throughout 2007 the Bank also promoted the use of the internet channel, among others through deposit auctions with the possibility of an individual selection of interest – even up to 8%.

Over 2007 the Bank was perfecting its offer of standard deposits and those bundled with investment funds, maintaining a very high competitiveness of the offer and simultaneously retaining margins at a positive level.

Client funds in the retail client segment achieved almost PLN 20 billion. The main growth drivers were:

- the key "Lokata Progresywna" deposit product which sale only in Q4 exceeded PLN 3.3 billion
- investment funds offered mainly as part of "SuperDuet", they exceeded PLN 5 billion at year-end.

This record sales allowed to exceed 5% market share for total retail customers funds at the end of 2007.

Cross-Selling

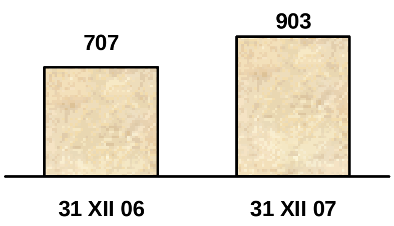
Cross-selling invariably remains a high priority on the Bank's agenda. The Bank Millennium Group regularly increases the quantity of products held by each of the Clients so that each of them in addition to his or her core products (personal accounts with a debit card and access to electronic banking channels) could benefit from the Bank's comprehensive offer and have comfortable access to credit and investment products.

The Bank launched its first initiatives towards increasing cross-selling in 2005. From then on many regular processes have been established in support of cross-selling among for instance holders of mortgage loans or credit cards. In 2007 the already operating processes were gradually improved and cross-selling continued on the basis of the already well-tested methods. The cross-selling processes were expanded upon electronic banking channels, which now allows to reach a broader group of Clients and considerably reduces the costs of product acquisition. Cross-selling is also being promoted in the Small Business segment. Moreover, the first upselling processes were launched for selected and trusted Clients based on the credit offer.

At year-end 2007 the cross-selling ratio in retail banking (i.e. the number of products held per Client) stood at 3.1 compared to 3.0 at the end of 2006.

In the individual Client segment the Bank has currently over 903 thous. Clients who are actively using banking services and products up from 707 thous. at the end of 2006. The total number of products held by the Bank's Clients from such segment went up in total by over 33.6%.

Number of the Bank's active Retail Clients (thousand)



Millenet® - Internet Banking

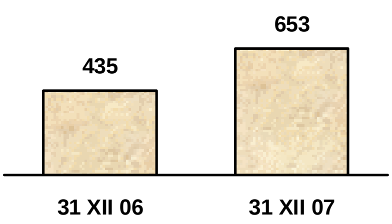
The year 2007 was another year of fast growth for the Millenet® banking system. Bank Millennium was recognised Poland's best bank in the „*World's Best Internet Banks", the* ranking organised by "Global Finance", the independent international finance magazine.

At the end of 2007 the number of registered individual Clients reached 653 thousand. In December individual Client transfers carried out in Millenet constituted 83% of all individual Client transfers. In the case of external transfers this percentage is even higher standing over 87%.

The Bank continued to successfully promote term deposits on the Internet with an active use of the modern and effective banking operational platform. Net deposits acquired through Millenet (term deposits and savings accounts) in December 2007 exceeded the amount of PLN 1 billion. From 2007 it is possible to open "SuperDuet" accounts in Millenet.

In 2007 over PLN 3.4 billion was paid into 15-day term deposits as a result of term deposit auctions and the value of the bids submitted by the Clients achieved almost PLN 4.7 billion. Auctions are conducted every week. Many journalists and market analysts recognised these auctions as a very innovative form of distribution in the Polish market.

The Number of „Millenet" registered Individual Clients **(thous.)**



In 2007 the mobile top-up service launched by Millenet and by MilleSMS at the end of 2007 was very well received by the Clients. The growth of mobile top ups yoy in December 2007 stood almost 6 times.

Millenet has also become a very important distribution channel for selling investment funds by achieving a 27% share in total sales to individual Clients realised by the Bank. From November 2007 internet users who are not yet out Bank's clients can apply for opening personal accounts in the Bank's internet service and also on selected external portals.

2. Affluent Banking at Bank Millennium

Prestige is Bank Millennium's offer addressed to high wealth people expecting highest quality service and an offer of products and financial services tailored to their needs.

2007 saw the continuation of fundamental changes in this segment initiated in the previous year. An innovative approach to wealth management proposed to Clients in 2006 was supported by a further development of wealth management processes and tools and through a comprehensive programme of training in the scope of Prestige Client service and consistent monitoring of its implementation. These activities allowed to even more efficiently manage Client funds and also to better adjust the offer to Client needs and objectives.

Products

2007 saw a further development of Prestige' product offer. Under an open funds architecture the Clients of this segment gained access to many new funds offered by the following investment fund companies: Millennium, ING, ARKA, DWS, Legg Mason and access to foreign funds managed by BlackRock Merrill Lynch®. Last year we have considerably expanded the offer of companies so far cooperating with us under the "Prestige Investment Programme". We have also included the funds of the Skarbiec investment fund company. The 5-year Prestige Guarantee Policy introduced in 2006 was supplemented in terms of the investment horizon by 2 and 3 year maturities.
In 2007 the offer of structured products (which exploit investment opportunities throughout world financial and commodity markets with a relatively low level of risk) was increased to 50 items (in 2006 we offered to our Clients over 15 structured products)

Our Clients' needs for funding were addressed by a broad offer of mortgages, credit cards and asset-based loans (with increasing possibilities of securing such loan with investment products).

Distribution

2007 saw a further transformation of the structure of the Prestige outlet network in terms of quantity and quality. Initially there were 25 of outlets, but by the end of the year our Clients would already be coming to 35 modern Financial Centres throughout Poland. In the coming years the network expansion process will be continued.New Prestige areas are separate, exclusive spaces giving a sense of full discretion and security. They represent a new generation of functionality, elegance and use of space.

In 2007 steps were taken in terms of marketing communication with a view to increasing the awareness of the Prestige offer in the target group and more broadly communicating changes in the offer. The most interesting of those activities was a minutely and strategically planned Poland-wide multimedia campaign covering television, radio, and press advertising in opinion-making periodicals and niche magazines.
Seminars regularly organised by branches for Clients and prospects, 72 of such seminars in 2007 (30 in 2006) proved a very effective and highly regarded by Clients tool of informing about planned changes and new developments in the Prestige offer.

The bottom line of all these activities was a considerable increase in the Client base by the end of 2007, when we had over 13 thousand active, over 54% more than at the end of 2006. Their total assets entrusted to the Group went up by 41% reaching at the end of the year over PLN 6 billion.

3. Offer for Micro-businesses

From its very beginning Bank Millennium has been successfully developing its microbusiness offer. Breakthrough was in mid-2006. Based on its existing experience the Bank prepared and implemented a business market resegmentation project, putting tremendous emphasis on the difficult, but potentially important microbusiness segment (defined by its turnover – up to 3.2 million PLN). 2007 was a period of constant consolidation of the selected strategy and strengthening the product offer.

The current proposal for the segment covers among others:

- current accounts in PLN and four most popular foreign currencies,
- debit cards
- charge cards with a unique in the market possibility of choosing the settlement cycle from a weekly to monthly one
- terms deposits (including ones opened and operated through the Internet),
- investment funds,
- a broad offer of credit products (overdrafts, cash, investment loans) available in PLN and currency,
- letters of credit, guarantees,
- leasing,
- telephone service,
- internet service,
- closed cash deposits and cash transportation.

The last 12 months was a period of strengthening relations with segment Clients, as well as building a robust position to compete for microbusinesses in the coming years. The main stress was on increasing the effectiveness of the processes, shortening the Client's waiting time for Bank decisions (in particular credit decisions) and increasing qualifications of employees.

Already at the beginning of the year pre-approval campaigns were conducted for Clients for whom credit decisions had been taken even before they were contacted with an offer presentation. These type of activities considerably helps small businesses in obtaining funding for day-to-day or investment needs by eliminating the requirement to supply a considerable part of their documentation to confirm a company's financial standing.

Pre-approvals were repeated several times in 2007 and will be continued in the next years. What was new was a credit pre-approval for Millennium Leasing Clients, which increased the portfolio of Clients from this segment in the Bank itself and boosted the Group's cross-selling ratio.

The speed of service for the Bank's existing and new clients – with quality simultaneously going up – dynamically accelerated thanks to changes introduced in the processes relating among others to account opening and related services and taking credit decisions with respect to individual entrepreneurs. As regards expanding the platform of businesses using the Internet service the Bank has high hopes in connection with the separation in mid-2007 of the transaction system intended precisely for sole trader businesses. – Now an individual running a business (also civil partnerships) may use the individual and business module with the same login and merely switch between transaction contexts. This solution responds to the needs reported by those Clients who had both a private and company account at the Bank.

The effectiveness of the implemented strategy is confirmed by growing business results in the micro-business segment. Throughout 2007 the amount of deposits entrusted to the Bank more then doubled. A similar result was achieved in the area of lending, while the value of granted leasing almost quadrupled.

Bank Millennium is perceived as a financial institution acting through modern channels of accessing accounts and their service. Business clients – apart from instructions submitted in branches – make use of alternative channels such as the telephone, Internet and a broad network of ATMS. From 2007 on individual entrepreneurs can use the service of teletext notifications about transactions. SMS messages are sent promptly after carrying out an operation on one's account.

III.2 Retail Loans (Consumer Finance)

To provide financial solutions which professionally and comfortably meet the needs of our Clients is one of Bank Millennium's basic goals. Guided by its motto „Life inspires us" the Bank created a broad offer of *Consumer finance* services based on its own experience in this market and opinions and expectations reported by the Clients. The offer in Consumer finance area was separated in the Bank's organisational structure and includes the mortgage and credit cards areas.

1. Retail Mortgage Banking

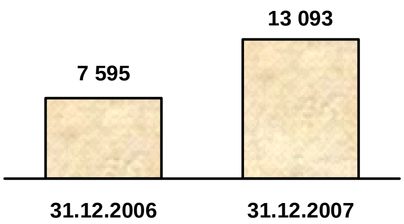
Retail mortgage banking is one of Bank Millennium's strategic development directions and plays a key role in the process of new Client acquisition. The Bank has a comprehensive credit offer for a vast segment of Clients who plan for various financial needs: from housing plans (Kredyt Hipoteczny – Mortgage Loan), repayment of liabilities to other financial institutions (Kredyt Konsolidacyjny), purchase of business premises to let or run a business of one's own (Kredyt Hipoteczny Biznes – Business Mortgage) up to any purpose whatsoever (Pożyczka Hipoteczna – Home Equity Loan).

A strategy (successfully implemented for years) of systematically improving service quality and expanding the offer of real estate backed products earned the Bank a reputation of one of the most important players on the mortgage loans market. In 2007 the bank continued its steps towards increasing the mortgage loan portfolio. As a result, in October 2007, the Bank climbed to the second position in the classification of banks holding the biggest share of real estate financing loans to individual clients. By the end of 2007 the share of Bank Millennium in the total mortgage portfolio stood at 11.2% compared to 10 as of 31 December 2006. In terms of new production in 2007, Millennium retained its second rank with a market share of 12.7% (compared to 13.6% in 2006) and increased its advantage over its direct competitors.

For Bank Millennium and for the whole sector alike, the year 2007 was record-breaking in terms of mortgage sale results.

- Value of disbursements during a year went up 50% (PLN 2,371 million) to PLN 7,11 million
- Value of the portfolio at the end of year went up 72% (5,498PLN million) to 13,093 PLN million

Value of the mortgage loan portfolio at Bank Millennium (PLN million):



The achievement of so good results was possible among others thanks to the Bank's systematic efforts to make the offer more attractive and improve its availability, as well as to adjust the terms of lending to market expectations. In 2007 the Bank extended the period of mortgage lending to 50 years for zloty loans and up to 45 years for loans in foreign currency. What is also regularly improved is the bancassurance offer coming with mortgage loans – 2007 saw the introduction of insurance against loss of one's permanent source of income.

On Poland' increasingly competitive mortgage market steps taken to improve borrower service are becoming fundamentally important. In 2007 the Bank introduced a simplified procedure for granting refinancing loans (intended for the repayment of mortgage loans in other banks). It has also implemented a solution enabling quick and efficient funding of purchasing real estate from developers cooperating with the Bank. A further optimisation and automation of the credit process realized in 2007 allowed once again to shorten the time until issuing a credit decision and loan disbursement.

The main package of activities, with a view to increase availability and user-friendliness of Millennium mortgage products, includes also a further development of distribution channels for the Bank's mortgage products. There is a regular increase of both in the number of retail branches and Credit Centres (36 at the end of 2007) and their full-time relationship managers dedicated exclusively to work with Mortgage Banking Clients (138 employees at the and of 2007). Apart from developing internal distribution and promotion channels, Bank strengthened long-term relationships with business partners involved in selling mortgage loans. In 2007 our products were available in the offer of 40 financial brokers and 21 internet portals.

Apart from its very good business results, the image of the Bank as an attractive lender was considerably influenced by accolades and prizes awarded to the Millennium mortgage banking products and offer by opinion-making media, frequently acting in cooperation with independent financial brokers and portals. In many rankings Bank Millennium's mortgage offer took a top spot. The most important of them include:

- distinction for the best mortgage loan in PLN in the May ranking of „Open Finance" and „Parkiet",
- high position in the November ranking prepared by „Polska" daily in cooperation with the „eHipoteka.com" portal – Millennium's offer was recognized as one of the best for the self-employed (on the basis of an author's agreement or agreement for a specified task and also for contractors)
- „Financial Medal" given by the Business and Economic Analysis Institute affiliated with „Home & Market" Magazine.The order is an award for the best product in the mortgage loan category in 2007. Bank Millennium received the award for the second time in a row.

A number of distinctions were also awarded to Bank Millennium in analyses prepared by e.Hipoteka.com assessing banks' flexibility. Thanks to a high ranking Millennium's offer of mortgage loans and consolidation and refinancing loans has been recognised as one of the best adjusted to client needs. The reasons formulated behind the verdict emphasised:

- Short time of granting a loan
- High quality of service
- Offer broadly available - possibility of contacting the bank through outlets, infoline and the Internet
- long period of lending available to all the Clients
- type and number of required documents
- flexibility of banking procedures and negotiations possibility
- speed of the process.

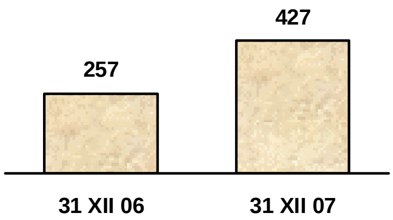
The main building blocks for developing the 2008 mortgage strategy will include maintaining the market position and strengthening the Bank Millennium Group's image as a friendly lender taking care of the offer's attractiveness and high standard of service and oriented towards building long-term Client relations.

2. Payment Card Area at Bank Millennium

Payment card area is second most important expansion area within the framework of retail loans platform – part of Group's strategy. 2007 was yet another year of Bank Millennium's implementing an aggressive growth strategy in the payment cards area. It was a time a full-scope development of the card business, whose pillars were built in 2006. The steps taken focused on assuring high profitability of the portfolio with very ambitious growth targets and further optimisation of processes in order to increase their effectiveness.

Sales and income results in 2007 were in accordance with expectations. The credit card portfolio was built up from 257 thousands to 427 thousands (which corresponds to 66% growth on 2006). This resulted in increasing Bank Millennium's share in the credit market from 4% to 5.2% (as end of 2007) and the Bank climbed from the 8th to 7th spot among the biggest credit card issuers in Poland (including issuers of private label cards, i.e. cards issued in cooperation with supermarket chains).

Credit Card Portfolio at Bank Millennium



The debit card portfolio was growing at a regular pace. At the end of 2007 it comprised 696 thousands cards. This means growth by over 107 thousand (18% up from 2006).

The new strategy of sales diversification introduced in 2006 brought expected results in 2007. 38% of the new portfolio comes from offering our products through the direct sales channel focused on Client acquisition for our Bank. At the end of 2007 Direct Sale Force had 400 commercial representatives employed by an outsourcing company and working exclusively for Bank Millennium in the biggest agglomerations all over Poland. The share of the branch network in sales stood at 33% and resulted mainly from effective cross-selling to existing Clients. The remaining 29% of the new portfolio were supplied by the Internet, Financial Brokers, Partners and telephone sales.

In 2007 two more products were added to the offer of Bank Millennium credit cards. As part of completing the market segmentation process an enriched version of the "Millennium Visa Platinum" credit card was launched. It is intended for the wealth segment. The card's distinctive feature compared to the market is the exclusive "Platinum Programme" allowing regular and quick access to information about the most attractive and most interesting cultural as well as tourist events in Poland and abroad. The Card did not pass unnoticed by "Forbes", which awarded it third spot in the card's segment in "Ranking of the most prestigious credit cards in the Polish Market".

In segment of co-banded cards there was a big growth of "Sephora Millennium Visa" cards, which reached the level of 20 thousand in 2007. "Forbes" magazine gave this card the second place in ranking of the best co-branded credit cards in the Polish market. In continuing the cooperation with external partners, the offer was enriched by yet another co-branded cards „Generali Millennium Visa". Its main advantage is a 20% discount on selected insurance packages of "Generali", to which one is eligible after achieving a specific level of card transactions.

Bank strengthens also activity in area of promoting payments made with the use of credit cards. Among others, special programmes were launched encouraging to use a card for the first time and six promotions were conducted oriented towards increased card usage (organized both in cooperation with the MasterCard and Visa payment system and on our own). At the same time new functionalities appeared on the card: “Convenient Instalments” credit programme enabling to reschedule cash-free transactions within an instalment credit plan and the “Bill Payment” service allowing to make transfers from the credit card for payment of electricity, gas, telephone and rent bills, etc.

In order to maintain an unchanged high standard of service given an increasingly expanding portfolio it was necessary an optimisation, both on the sale side (among others shortening to a few business days the time of issuing a card in the direct sales process), as well as on the side of Client retention (numerous retention and loyalty activities) and recovery.

3. Other consumer loans

The credit offer for the segment of Individual Clients, excluding mortgage and credit card loans, covers various consumer loans. The Millennium Bank Group’s credit offer consist of the fallowing products:

- personal overdraft (renewable credit line linked to a current account),
- „Quick loan” (cash loan for any purpose),
- asset-based loan (loan secured with a deposit product).

In order to meet the expectations of our demanding Clients at the beginning of 2007 Bank Millennium launched an attractive programme, which rewarded Clients recommending the Bank’s cash loans to friends or family. At the same time Bank started the sale of the “Quick Loan” through external brokers (agents) thus expanding access to banking products for Clients from smaller towns in which the Bank does not yet have its branches.

In 2007 Bank Millennium posted a considerable (by 66%) growth of sales in consumer loan volumes. The Bank granted 82 thousand loans of types “Quick Loan” to the tune of PLN 817 million. The sales results allowed to achieve in 2007 a “Quick Loan” credit portfolio valued at almost PLN 1.051 million.

III.3. Corporate Banking

Bank Millennium’s Corporate Banking offers a long line of products and services based on state-of-the-art solutions which comprehensively respond to our Clients’ current and long-term financial needs.

In designing individual solutions for each enterprise and closely cooperating with it in the implementation of its development strategy Bank Millennium builds permanent and mutually beneficial relationships. Highest class specialists and professional analytical backup allow to optimise business decisions and employ the best solutions in terms of funding, investing the surplus of funds, as well as minimizing risk.

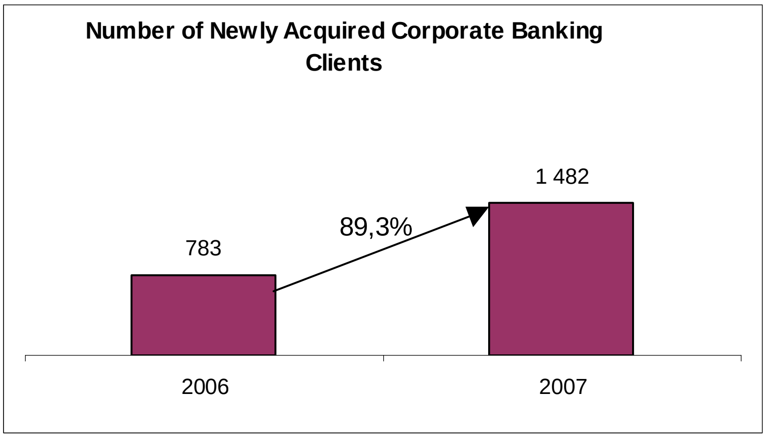
Corporate Banking is focused on service of mid-corporate, big and large companies with an annual turnover exceeding PLN 3.2 million, PLN 30 million and PLN 200 million, respectively.

In 35 Corporate Centres our Clients have at their disposal 228 employees who can assist them in selecting optimum financial instruments and most advantageous forms of financing. Moreover, our Clients can tap on the specialist knowledge of almost 30 Product Advisors.

The carrying out of particular transactions is also made possible through a Network of retail branches all over Poland and use of e-banking systems: Millenet Internet banking, “home banking” system ESOBIG, as well as Telemillennium telephone service.

In 2007 a new distribution channel was launched under Corporate Banking a new distribution channel – a network of mobile Relationship Managers responsible for cooperation with new Bank Clients. The new project will largely increase the number of Relationship Managers responsible for cooperation with enterprises, which will allow to retain the highest standard of service with respect to existing Bank Clients under a simultaneous dynamic increase of the number of new Clients.

Throughout 2007 Corporate Banking acquired 1.482 new Customers almost two times more then in 2006.



Electronic banking systems guarantee to our Clients regular, quick and safe access to information about the current balance of funds on company accounts and the possibility of conducting transactions on company accounts. Additionally, they allow to lower banking costs.

The many years of Bank Millennium’s experience in working with enterprises and a universal offer of modern products in the area of financing the current and investment activity and cash management, trade finance and handling commercial transactions as well as guarantees the highest standard of services. The flexibility and diversity of proposed solutions allows to meet the high Client requirements in terms of on-going service for companies of various sectors and sizes, funding their activity, liquidity management, mass payment service or minimizing financial risk.

Financing of Corporates

A dynamic growth of companies requires access to capital. The services proposed by Bank Millennium for funding company needs enable the coverage of demand for working capital, improvement of liquidity and implementing planned investment projects. Bank Millennium is preparing a full-scope financing strategy under which a full suite of credit products, amounts of particular loans, periods of funding and required collateral will be tailored to company needs.

In 2007 Bank Millennium launched new credit solutions enabling the funding of an enterprise’s day-to-day needs in terms of products. The credit offer now includes three brand-new proposals such as:

- **Multiproduct line** was created in order to give to our Clients a package of banking products used for funding day-to-day activities. These are an overdraft, revolving loan, line for guarantees and L/C line. Under a single agreement signed with the Bank the Client gains access to many products. The Bank assigns one global limit whose level depends on the Client’s borrowing capacity. The global limit is divided between products depending on enterprise’s needs and can be assigned for even up to 3 years.

- **Mortgage-backed loan** for companies for 20 years was prepared with a view to providing a long-term product (also a working capital product) intended for funding current activities Its basic collateral is a maximum mortgage plus the assignment of receivables. The credit limit is renewed every year within the agreement’s duration and is reduced by a constant amount specified in the agreement. Additionally, in the period of first ten years the borrower may apply for increasing the amount of the debt limit.

- **Contract-based loan** is a solution prepared for companies which are carrying out a contract and thus created receivables that can back a loan granted by the Bank. This is a working capital loan used to fund current activities resulting from carrying out specific commissioned work to be paid for in the. This product is granted for a period from six to twelve months.

In the scope of financing investments need, Bank has in the offer investment loan with a period of lending even up to 15 years. This is a product intended for funding investment projects oriented towards increasing the Client’s assets, creating new production capacities (development, replacement or improvement oriented) adjusted to the existing business.

In 2007 was introduced the new offer of real estate funding area addressed both to domestic and international investors. and the Bank can fund projects already from PLN 500 thousand. Construction loans are available in PLN and in any foreign currency specified in the Bank’ Exchange Rate Table. They are granted in the form of an investment loan or revolving loan.

From the housing real estate offer, the Client may take out:

- an investment loan for the purchase of a construction plot,
- construction loan for funding the full investment process, i.e.: purchase of a construction plot and building upon it a housing building intended for sale,
- construction loan for the construction of a housing building intended for sale.

As part of the commercial real estate offer, the Bank makes available:

- investment loans for the purchase of a construction plot which can be allocated for the implementation of commercial construction (services and technical-production development),
- construction loans for funding the full investment process,
- commercial loans for the construction of commercial space intended for sale or rental

SME “fast track” funding

Bank Millennium Group prepared for mid corporate clients a new full-scope funding strategy under which the Relationship Manager on the basis of a single credit decision will adjust to the Client’s needs a set of 15 credit products, including in the working capital, investment and trade finance product area (guarantees, letters of credit, factoring) and Treasury products. An initial credit offer is prepared very quickly based on basic information about the company. The procedure of submitting credit applications and documentation necessary to assign and disburse credit products is simple, friendly and limited to the minimum formalities.

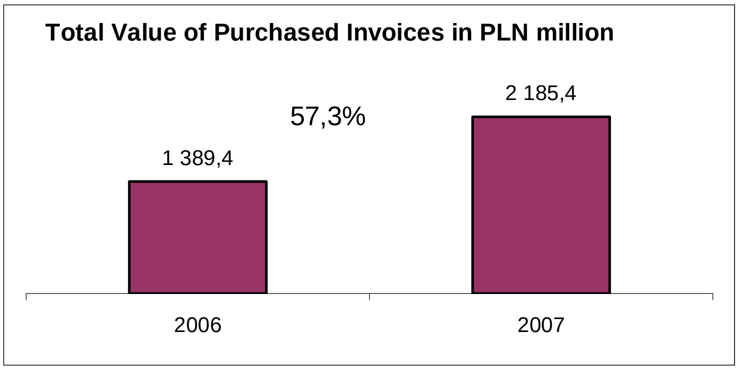
Trade Finance

For Clients who wish to improve the efficiency of the management and turnover of their receivables Bank Millennium offers factoring services. Their basic advantage is the Client’s gaining of cash for the receivables purchased by the Bank prior to their maturity. Client financing is effected under an assigned renewable limit and is adjusted to the sale realized by the Client. Apart from Client financing under a factoring transaction the Bank provides services connected with the administration, management and monitoring of the repayment of the receivables.

2007 saw a considerable increase in the number of Clients who used the secure electronic signature when sending lists of receivables to the Bank. Providing our Clients with such form of sending lists of receivables (Bank Millennium was the first bank to implement this solution) definitely shortens the Client's waiting time for cash and cuts down on paper circulation in correspondence with the Bank.

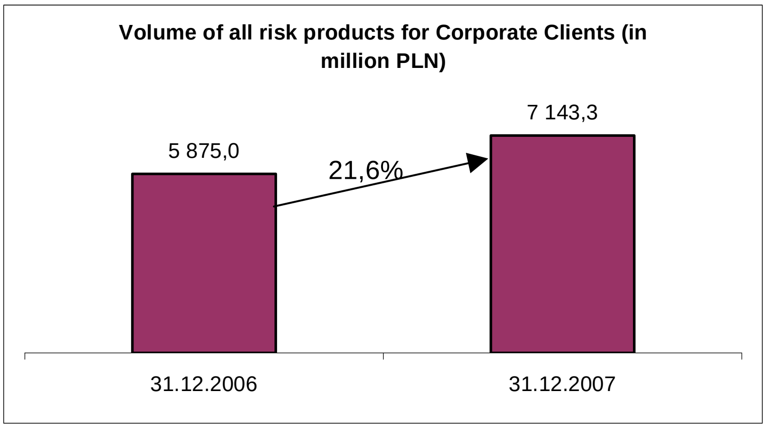
In 2007, Bank Millennium introduced "Mille-Link factoring", a new product in its factoring offer. This product enables the Client to receive funds for the receivables purchased by the Bank on their maturity dates. The counterparty, on the other hand, is assured attractive funding in the period agreed with the Bank after the receivable's maturity

In 2007 the Bank considerably expanded its factoring business. The total value of invoices purchased in that period stood at PLN 2 185 million. This is 57.3% growth compared to 2006 in which the total value of the invoices purchased by the Bank stood at PLN 1 389.4 million.



2007 year saw also the implementation of the project to mobilize the activity of Clients using guarantees and letters of credit. It resulted in 25.6% growth of the exposure volume. The exposure volume under issued guarantees and letters of credit for Corporate Clients, as of 31 December 2007, stood at PLN 1,700.6 million.

The volume of risk-bearing products (loans, leasing, factoring, guarantees and letters of credits) for Corporate Clients reached at the end of 2007 amount 7,143.3 million PLN and was higher by 21.6%, i.e. 1,268.3 higher then on 31 December 2006.

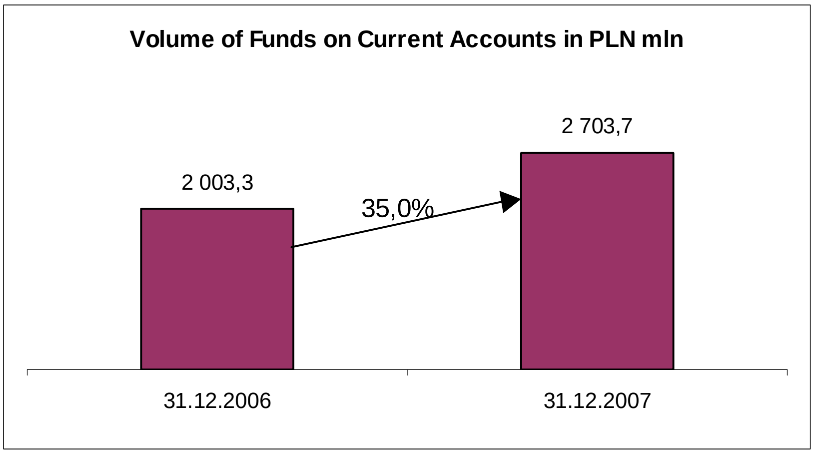


* loans, leasing, factoring and guarantees and letters of credits

Transactional banking

In 2007 was established Department specialized in transaction services among others cash products, electronic channels and advanced cash flow management products for a Client or a group of Clients. It is responsible for product support for all Corporate Client segments: medium, big and large and strategic Clients.

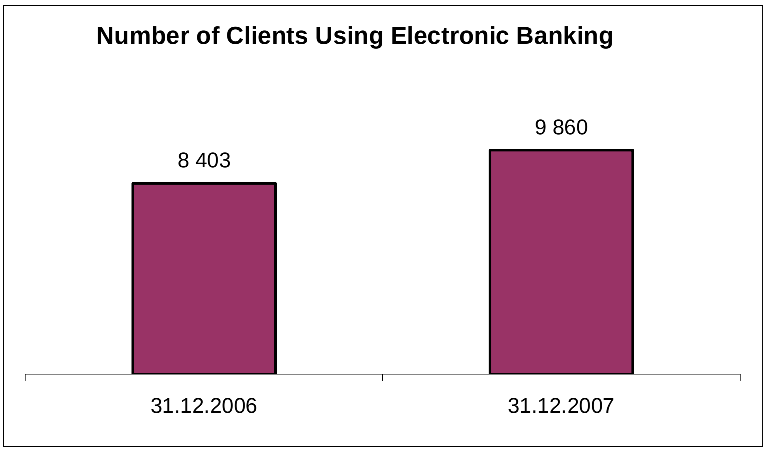
Throughout the year mainly the existing cash management products were developed, in particular payments to virtual account numbers, cash deposits in closed form and services accompanying operations with payment cards. Moreover, new functionalities were introduced the Millenet system improving the management of instructions and importing files from the Bank Clients' accounting systems. The main purpose of these changes was to improve the quality of offered products, standardize the offer with its simultaneous customisation. These changes resulted in a growth of funds maintained by Clients on current accounts and growth of the number of operations carried out at the Bank.



The volume of funds from Corporate Banking Clients on current accounts, as of 31 December 2007, totalled PLN 2,703.7 million and was 35.0%, i.e. PLN 700.4 higher than 31 December 2006, (PLN 2 003.3 million).

In order to develop and improve the cash management service of Corporate Banking Clients the Bank selected a few Professional external entities which on its behalf and in its name will run the service of selected Client operations (payment of cash combined with its guarded transport, cash payment processing, executing payment transfers ordered by Clients by e-mail). More and more important were transactions carried out with the use of trust accounts (in accordance with art. 59 of the Banking Act) and escrow accounts.

During the whole year recruitment was conducted of experienced Cash Management Product Advisers who in particular Corporate Banking Macroregions area are responsible for supporting Relationship Managers as well as for their own sale of Cash Management products to Bank Clients. Thanks to the activity of Product Advisors and training for Corporate Centres, conducted from September to December of 2007, in selling cash management services there was gradual growth in the distribution of (as well as income from the use of) the cash management products among Bank Clients.



The number of Clients using electronic banking, at year-end 2007, totalled 9.860 and was 17.3%, i.e. 1,457 higher than at the end of 2006, (8 403 Customers).

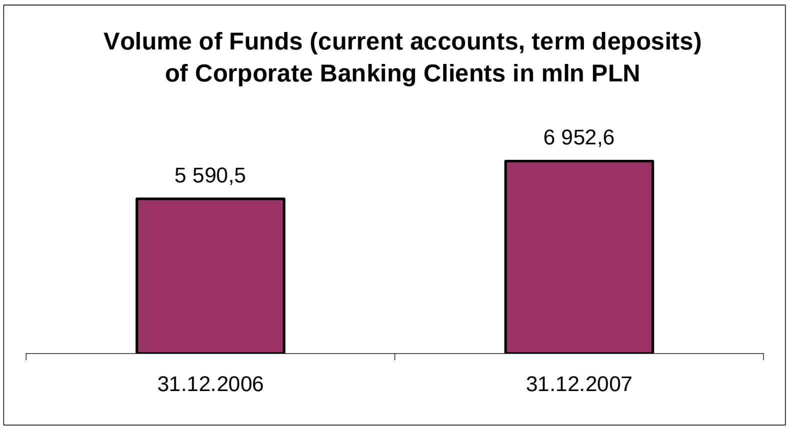
Treasury Products

The offer of Bank Millennium Treasury products addressed to Corporate Banking Clients covers a broad scope of financial instruments. Clients have access both to FX transactions (*FX spot, swap, forward),* deposit products (deposits, buy-sell-backs*,* structured notes) and modern price risk management products. Corporate Banking Clients use advanced FX risk management products (TARN Forward, Ratchet option structures), commodity and raw material price risk (base metal commodity hedges and oil hedges) and interest rate risk (IRS, CCIRS).

In terms of Treasury products Corporate Banking Clients can use three alternative mutually complementary sell units: Client Transaction Team, Call Centre Team and Team of Product Advisors dedicated to Clients of a given corporate centre. Such structure enables a customised service process and satisfy Client needs to the possibly full extent. Thanks to such cooperation companies may use professional advice of experienced currency market dealers, have access to a broad array of products, which allow to build transaction strategies optimally adjusted to Client needs. They also have access to free strategies and macroeconomic analyses prepared by the Bank's expert team.

Total turnover in Treasury products grew 21.7% in 2007, compared to 2006 year.

Total volume of Corporate Clients Funds (current accounts, term deposits) as of 31 December 2007 totalled PLN 6,952.6 million, i.e. was higher by 24.4% then in December 2006.



Custody Services

Bank Millennium was one of the first banks in Poland (as early as 1990) to start providing custody services. Since then the Bank's offer has been gradually perfected to match the pace of Poland's capital market development and the requirements of an ever-growing group of Clients.

Custody services are offered by a specialised organisational unit under Bank Millennium's Head Office. This is the Custody Department, which offers a comprehensive scope of services connected with securities safekeeping, settling transactions on securities and handling corporate actions on the domestic capital market, as well as foreign markets .

The Custody Department's Clients are recognised domestic and foreign financial institutions (global trustee banks, GDR depositary banks, investment banks, asset management institutions, insurance companies, mutual investment companies) and other legal persons actively involved in capital and money market operations requiring an efficient comprehensive and customized service.

The core package of custody services includes the offer to run a securities account and linked bank account in PLN or in convertible currency and a register of foreign securities. The Client's accounts are used to record securities and the remaining financial instruments, both dematerialised and materialized.

Our core offer is supplemented by additional custody services which include a comprehensive service of a depositary bank for investment and pension funds, handling of rights in securities (dividends, interest on bonds, rights, splits/assimilations, calls for sale), comprehensive reporting (statements can be sent by a SWIFT message, by fax or e-mail) as well as establishing and running escrow accounts.

Assets on client securities accounts as of 31 December 2007 stood at PLN 58,683 million and grew by 119% i.e. PLN 31,917 million, compared to 31 December 2006. Also, the number of conducted securities accounts, 4,586 as of 31 December 2007, grew by 69 %, i.e., 1,877 as compared to 31 December 2006.

In 2007 the Bank increased the number of funds for which it plays the role of a depositary bank from 16 to 33. In order to simplify the paperwork connected with the signing of an agreement for providing custody services the length of the agreement was reduced and Client procedures simplified.

In 2007 Bank Millennium received from trade publication Global Custodian Magazine (fourth time in a row) the "Top Rated" status, a prestigious title for the best bank providing custody services in Poland. The Top Rated status, the highest possible for a custodian bank, proves the high standard of services offered by Bank Millennium and also confirms its position in this market segment.

Seminars and Conferences

Bank Millennium partnered a conference organised jointly with Rzeczpospolita Daily on the subject of "Economic Horizon – Regions 2007". During meetings with people from business, local government authorities and entrepreneur organizations there was a discussion of regional development prospects in the light of using EU assistance funds, central investments and the bank's role in supporting such projects.

On 9 October 2007 Bank Millennium Corporate Banking also sponsored the conference „4th Meeting of the Petrochemical Sector - Polish LPG Market" addressed to entrepreneurs connected with LPG import, export and trading. The conference's main topics was the implementation of regulations on mandatory reserves and testing gas quality on petrol stations and fuel bases and discussion about the sector's future in the context of last year and 10 years of trading in LPG on the Polish market.

Bank Millennium also hosted conferences organised for Corporate Banking Clients on „Macroeconomic Prospects for Poland's economy". During meetings with Clients specially invited guests presented the most recent analyses of Poland's macroeconomic situation.

Awards and Distinctions

In 2007 the Bank received the coveted „Forbes" monthly award – „Best SME Bank". The Bank's offer was rated as particularly strong in the following categories: loan availability and interest rate, cost of running an account, as well as interest on deposits. This is yet another mark of appreciation of Bank Millennium's offer in a "Forbes" ranking, after 2006, when the Bank was ranked first for its SME offer.

On 18 January 2008 Bank Millennium was also awarded the „Business Friendly Bank" Promotional Crest in the 9th edition of in the competition organised by the National Chamber of Commerce and the Polish-American Foundation for Counselling Small and Medium Business. The 9th edition of the Competition was organised under the slogan "Fair Bank – Businessman's Partner" and its purpose was to support high cooperation culture between financial institutions and entrepreneurs, creating an atmosphere of mutual trust, popularising innovative solutions introduced in financial outlets in order to better satisfy SME needs.

III.4 International Activities of Bank Millennium

Last year was extremely important for Bank Millennium SA.'s international activity.

Bank Millennium SA continued its activities connected with the expansion of the medium and long-term funding of its assets based on borrowing transactions concluded on international markets. The situation on these markets in the second half of the year was influenced by events in the American market of mortgage loans and related debt instruments. A rapid drop followed in the segment of interbank loans (including syndicated loans).

Irrespective of the above circumstances in July 2007 Bank Millennium S.A. finalised the obtaining of yet another, medium-term loan denominated in Swiss francs (CHF) granted under an agreement concluded with a group of cooperating foreign banks, primarily Austrian banks. The loan in question (CHF 120 million) supplemented earlier funding (in the amount of CHF 555 million) obtained on this market in November 2006.

2007 was also another (fourth) year of the practical functioning of the international consortium of banks set up to cooperate with and support the Trade Bank of Iraq. Its members include: JPMorgan Chase Bank (coordinator), Australia & New Zealand Banking Group, Bank Millennium SA, Bank of Tokyo-Mitsubishi, Bayerische Hypo- und Vereinsbank, Calyon, ING Bank, Intesa SanPaolo, National Bank of Kuwait and Standard Chartered Bank. In its capacity of the consortium's member by the end of 2007 Bank Millennium SA has participated in the financial service of 600 export contracts totalling almost USD 1.5 billion realised in cooperation with suppliers (and their banks) having their seats in over 30 states (including among others in Germany, Austria, Denmark, Finland, Sweden, Norway, Great Britain, Italy, Turkey, Belgium, Netherlands, France, Spain, Switzerland, Canada, United Arab Emirates, Hong Kong, Cyprus, Greece, Russia, Ukraine, Latvia, Slovenia, Slovakia, Czech Republic, Bosnia and Herzegovina, Romania, Bulgaria and Croatia).

Irrespective of the above-mentioned activities last year the Bank carried out all the other tasks connected with integrated pursuing of its international activities. These activities covered objectives connected with, among others, current funding of own needs and those of the Bank's clients, handling foreign trade transactions, participation in operations of the international money and currency market and activity on the capital market.

Their achievement of those objectives was largely helped by the 17 year long process of developing the Bank's cooperation with its international partners and counterparties. The Bank has maintained its current contacts with 1.200 correspondent banks and their outlets located in all the countries of the world important to the turnover structure of Poland's foreign trade and non-trade transactions In this context, particularly important are the relationships maintained with banks which have their seats in such countries as: Australia, Austria, Belarus, Belgium, Bosnia-Herzegovina, Brazil, Bulgaria, Croatia, China, Czech Republic, Denmark, Egypt, Estonia, Finland, and France, Greece, Spain, Netherlands, Hong Kong, India, Ireland, Japan, Jordan, Canada, Kazakhstan, South Korea, Kuwait, Lithuania, Luxembourg, Latvia, Mexico, Germany, New Zealand, Norway, Portugal, Republic of South Africa, Russia, Romania, Serbia, Singapore, Slovakia, Slovenia, USA, Switzerland, Sweden, Turkey, Ukraine, United Kingdom, Hungary, Italy, United Arab Emirates.

In the case of a small group of its main correspondents the Bank has its FX nostro accounts simultaneously running a number of loro accounts in domestic currency for among others reputable German, Spanish, Italian and Scandinavian banks. The development of cooperation in this regard has been largely helped by many years of liberalizing FX legislation allowing non-residents' access to the zloty as the settlement currency for current account transactions as well as lifting – in recent years – most restrictions, earlier in place, on capital account transactions.

IV. RISK MANAGEMENT AND KEY THREATS

The risk management function is one of the main drivers to maintain a strategy of sustained business growth supported by an accurate measurement of main threats to banking activity and a proper assessment of a risk-return profile of various business lines.

Proper risk management ensures also the compliance with all the regulatory requirements regarding risk, namely in what regards the maintenance of an adequate level of own funds to carry on the business activity of Bank Millennium Group.

During 2007, Bank Millennium implemented a set of initiatives, with the objective of strengthening the risk management function with impacts on such areas like: risk governance framework, reporting and control mechanism, monitoring of the credit portfolio and improvement of models to evaluate and to mitigate risks.

Important developments were also observed in what regards the implementation of an internal model of Economic Capital Calculation, based on methodologies developed in close cooperation with Millennium BCP Group. This new instrument will be used as a parallel process of calculation of capital requirements and will work as a complement to the regulatory process of capital requirements calculation.

IV.1. Internal organization

The organizational structure created to support the risk management and control functions ensures a complete segregation of duties between the origination, management and control of risks.

The Management Board of the Bank is responsible for defining and monitoring the risk management policy ensuring the compliance with the regulatory requirements and with the overall Millennium BCP Group risk policy.

The coordination between Bank Millennium and Millennium BCP Group risk management policies is ensured by the organizational model implemented in Millennium BCP Group, supported by Group Risk Committee and specific risk Sub-committees for the main risk types (Credit, Markets & Liquidity, Operational).

Bank Millennium risk management organizational model is based on five high level committees:

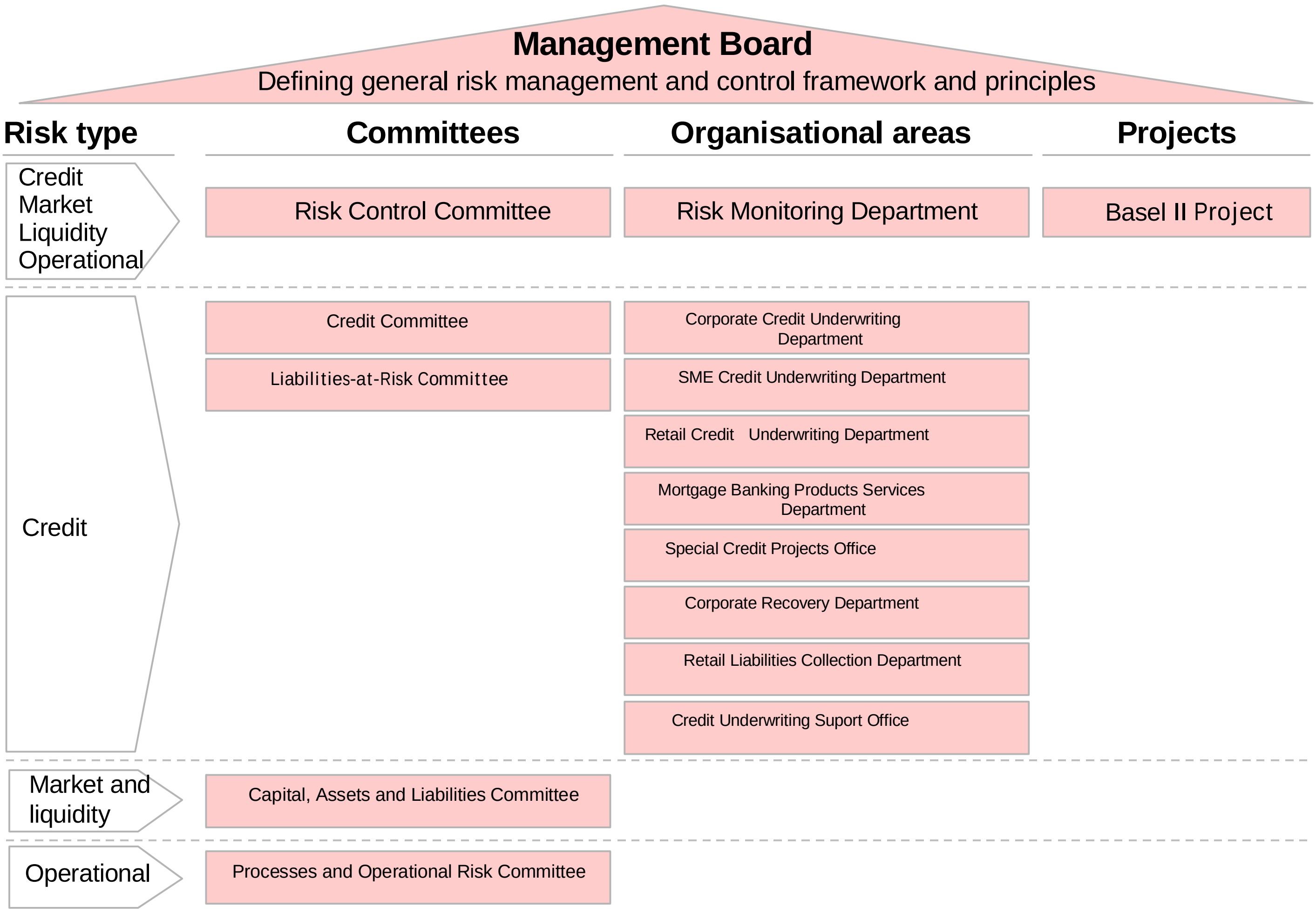
- Risk Control Committee
- Capital, Assets and Liabilities Committee (CALCO)
- Credit Committee
- Liabilities at Risk Committee.
- Processes and Operational Risk Committee

Risk Control Committee has a broad responsibility for risk control, including: i) monitoring the evolution of the different types of risks and compliance with the applicable policies, regulations and limits; ii) reviewing the principles, policies and limits applied in the risk management function; iii) promoting the development of human and technological resources to support the risk management and control function.

The specialized risk committees have analogous responsibilities for each particular type of risk: CALCO for markets and liquidity risk, Credit Committee for credit risk and Processes and Operational Risk Committee for operational risk.

The Liabilities at Risk Committee is responsible for taking decisions as regards the Bank’s recovery loan portfolio.

<u>The internal organization of Bank Millennium risk management function:</u>



The overall risk control, including the monitoring of all types of risks, is provided by the Bank's Risk Monitoring Department. It is responsible for keeping Risk Committees informed about the risk levels, for proposing changes to the Bank's risk profile and for implementation of the adequate control tools.

The structure of Risk Monitoring Department was changed in 2007 with the creation of dedicated areas for defining credit risk models and policies and for monitoring in a specialized way the main loans portfolios: corporate; mortgage; cash loans and credit cards. The competences in the area of antifraud prevention were also reinforced and a dedicated team was established.

IV.2. Capital Management

Capital management of the Group is subordinated not only to the internal needs of the Group but also to a strict compliance with external regulations in this matter (own funds, prudence policies, capital requirements), established by Banking Law and Banking Supervision Commission regulations.

Calculation of the above mentioned regulations for Bank Millennium is the following:

PLN millions

Capital Requirement Regulations (Basel I)	31.12.2007	31.12.2006
Credit Risk	1 582	1 169
Market risk	41	51
Total Capital required for Bank Millennium Group	**1 623**	**1 221**
Own Funds	**2 454**	**1 819**
Of which subordinated debt	*757*	*275*
Consolidated Capital Adequacy Ratio	**12.09%**	**11.92%**

The Bank's solvency position improved thanks to the subordinated bonds issue (EUR 150 million) and leasing securitization, which counterbalanced the strong growth of the loan portfolio. Assuming the retained 2007 profit is according to Management Board proposal for profit distribution, CAR would increase to 14.7% as on 31.12.2007)

BASEL II implementation status

Following publication of the new Capital Adequacy Accord in June 2004, Millennium BCP Group decided to implement a project with the objective of making an overall assessment of the level of adequacy within the established requirements, involving all Group's entities, including Bank Millennium.

On the basis of the self-assessment made during the development of the project, while bearing in mind the costs, the underlying risks, the materiality of the exposures, as far as Bank Millennium is concerned, it was decided to propose to the Supervisory Authorities the adoption of the Basel II approaches under the following terms:

- The use of the Internal Ratings Based Approach for the retail credit portfolios in 2008, as well as the sequential implementation plan of this Approach to the remaining credit portfolios, until the end of 2009;
- The use of the Standard Approach for the risk exposures of Central Governments, Central Banks and other Financial Institutions;
- The use of internal models for the calculation of own funds requirements for the coverage of the generic risk of the trading book;
- The Standardized Approach to the regulatory requirements of own funds concerning Operational Risk.

Preparation of all the documentation to be included in the approval package that was delivered to the Supervisory Authorities in the end of 3rd quarter was one of the major tasks developed by the risk management area during 2007 year.

IV.3. Credit Risk

Credit risk reflects the degree of uncertainty of the expected returns as a result of either the obligor (and of his guarantor, if any) or of the issue of a security or of the counterparty to a contract due to failing to fulfil their obligations.

The credit policy implemented in the Bank is based on a set of principles, such as:

- Centralization of the credit decision process;
- Use of specific scoring/rating models for each segment of customers/type of products;
- Use of IT tools (namely credit workflows) to support the credit process in all stages;
- High level of standardization of the credit decisions;
- Existence of specialized underwriting departments for each type of risks;
- Monitoring of the credit portfolio in a regular basis, both at the level of each particular transaction and also at the level of the global portfolio;
- Use of a structure of limits and sub limits of credit exposure in order to avoid concentration of risk and to promote a diversification effect in the credit portfolio.

The main developments made during year 2007 in credit risk area are the following:

- Review and the update of the main credit risk governance document (Credit Principles and Guidelines).
- Implementation of a new validation framework for each of risk systems and the inherent rating/scoring models.
- Update of the rating/scoring models currently used by the Group
- Increase of automation level of credit decisions in the retail area
- Incorporation of an anti-fraud component in retail credit workflow
- Launch of a new workflow project for micro-business segment.
- Implementation of EWS (Early Warning Signals) process to SME customers.
- Implementation of statistical models for collateral revaluation.
- Increasing of the use of the main credit parameters - Probability of Default (PD), Loss Given Default (LGD) and Cash Conversion Factors (CCF) - for definition of commercial targets, calculation of impairment provisions, assessment of business line performance as well as pricing for the loans transactions.

Credit risk is the most significant risk type incurred by Bank Millennium Group and it consumes the majority of the capital required according to the current regulations: PLN 1 630 million of the total of PLN 1 672 million capital required as on 31.12.2007.

Bank Millennium increased the amount of the capital for credit risk during 2007 year by 35% due to fast growth of the loan portfolio. However the quality of the portfolio regarding credit risk improved during this year, which is well illustrated by the following indicators:

Loan quality main indicators	**31.12.2007**	**31.12.2006**
Total impaired loans (PLN million)	621	705
Impaired Loans over Total Loans	2.9%	4.8%
Total Provisions over Impaired Loans	89%	84%

Total impaired loans dropped by 12% to PLN 621 million and their ratio to all loans dropped even stronger, to 2.9%, thanks to the solid growth of loans portfolio. Finally, impaired loans coverage by provisions (including IBNR) increased to 89%.

IV.4. Operational Risk

The Group adopted the operational risk definition compliant with the New Capital Accord presented by the Basel Committee, according to which „operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events".

Being aware of the threats resulting from operational risk, the Group implemented a management system based on the best market practices. The operational risk management framework is based on a set of principles:

- Definition of lines of responsibility and respective authorizations;
- Definition of risk-exposure tolerance levels;
- Codes of practices and conduct;
- Computer access and security controls;
- Contingency plans;
- Exceptions reporting;
- Training in processes and services.

Risk Monitoring Department includes a specific unit fully dedicated to manage operational risk.

Regular controls conducted by the Internal Audit Department and regulations pertaining to on-going controls in processes are additional elements of operational risk management.

The Group collects information about external operational risk events using this knowledge for analysing probability of their occurrence in the organisation and possibilities of counteracting.

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

Bank Millennium Group completed in the first half of 2007 the Internal Control Project conducted in cooperation with an external advisor. This project – through an audit of risks existing in processes and control of such risks – contributed to strengthening the control environment and thus materially changed the Group's operational risk profile.

An external adviser's statement was issued confirming the high level of control being implemented at the Bank and expressing a view on lack of any major threats connected with analysed processes.

IV.5. Market Risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolios due to adverse movement in bonds, equity or commodity prices, interest rates or foreign exchange rates.

The market risk management framework in Bank Millennium is defined according to the following principles and standards:

- The organizational structure allows a separate and complementary measurement and control of market risk arising from trading and non-trading activities;

- The internal risk models are closely integrated in the daily risk measurement and reporting process, and business units, senior management and the Board have a daily overview of market risk exposures;

- Limits are formally established and revised by CALCO, Risk Control Commission and monitored and reported daily by Risk Monitoring Department. Limits are based on own funds and allocation rules for Risk Components and Management areas, on continuous and forward looking approaches. Excesses to the limits are directly reported to the relevant competence levels.

The identification, measurement and control of market risks intend to be systematic and complete. The metrics are progressively developed and implemented to better capture involved exposures and incorporated in the daily risk process.

In 2007, a new organization of risk management areas was implemented for the purposes of profitability analysis, measurement and control of risk. According with the new management areas structure the Group activity has been divided into the following management areas:

§ Trading areas, namely Trading, Sales and Market Risk Strategy (MRS) Portfolios, cover the bank positions aiming for short-term revenues, either by sale or by revaluation. These positions are actively managed, their tradability is not subject to any restrictions and can be frequently and accurately valued,

§ Funding and Hedging, which groups the bank institutional funding and serves as an intermediate for the hedging transactions made by Trading, including the ones aimed to support structured debt issues,

§ Investment Portfolio, which includes all the securities positions aimed to be held until maturity or during a significant period of time (more than 6 months) or that are not traded in liquid markets,

§ Commercial area, which undertakes commercial activity with the customers,

§ Structural area, which includes Balance Sheet elements or operations that, for their nature, are not directly related with any of the above areas (e.g. fixed assets and own funds)

The last four management areas are aggregated in the Banking Book, while the Trading Book encompasses the above-mentioned Trading areas.

The main measure used by the Group to evaluate market risks is parametric VaR (Value at Risk) – an expected loss that may arise on the portfolio over specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement.

To ensure that the VaR model adopted is appropriate to the evaluation of the risks involved in the open positions, a back-testing process has been instituted and carried out daily.

Parallel to the VaR calculations, the MRS and Trading Portfolios are subject to a set of stress scenarios, in order to:

§ Estimate the potential economic loss resulting from extreme variations in the market risk factors,
§ Identify the market risk movements, eventually not captured by VaR, to which the portfolios are more sensitive,
§ Identify of the actions that can be taken to reduce the impact of extreme variations in the risk factors.

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

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

The total VaR exposure to market risks was to market risks of PLN approx. 13.9 million (on average) during the first half of 2007 and PLN 9.5 million (on average) during the second half. The open positions mostly included interest-rate instruments, while the exchange rate risk was very limited (only PLN 0.9 million and PLN 0.8 million average VaR exposure respectively).
In the middle of the year the Group changed the approach to the market risk management in order to have better segregation between the Trading Book and the Banking Book areas, so the numbers are not directly comparable.The Group has adjusted risk management areas structure to comply with the requirements of the New Capital Accord.

The total VaR limits introduced for market risk management were not exceeded during 2007 year.

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

In terms of the capital required according to the current regulations, market risk consumed at the end of December 2007 PLN 42 million of the capital, which was less than at the end of 2006 year (PLN 52 million).

IV.6. Liquidity Risk

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

The Group carries out liquidity management centrally. Therefore, both the financing requirements and any surplus liquidity of the subsidiaries, are managed by transactions carried out with the Bank.

The planning and budget process of the Bank includes the preparation of a liquidity plan with the objective of ensuring that the business growth will be supported by the appropriate liquidity structure of funding.

The evolution of the business portfolio in recent years, with the faster growth of the loan portfolio than of deposits, has implied growing recourse to alternative sources of financing. The Bank concluded in the middle of July 2007 a new 120 million CHF syndicated loan (approximately PLN 300 million) and in December 2007 securitization transaction of the leasing portfolio (net impact of PLN 720 million). Also in December 2007, subordinated bonds were issued in the amount of EUR 150 million.

The sub-prime mortgage crisis in the USA and its reflexes during the second half of 2007 implied a significant reduction of several alternative sources of financing, besides a widespread deterioration of the financing terms, requiring redoubled attention in respect of liquidity-risk management.

The Group adopted several measures in the second half of 2007 with the aim to protect against the adverse effects of the financial markets on its liquidity, with emphasis on the effort made to attract customer deposits and the implementation of some restrictive measures to limit the credit portfolio growth in less profitable segments. As a result, Bank Millennium Group managed to improve the ratio of total loans to deposits, which was steadily growing during first 3 quarters of the year to the level of 114.5%, but dropped to 101% at year-end.

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.

At the end of 2007, the quarterly liquidity ratio was positive meaning that the Bank kept a long liquidity position for periods up to 3 months.

Additionally the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on actuarial basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted at the Bank for the relation of liquidity shortfall for each time bucket below 1 year corresponds to 25% of Total Assets. During 2007, the defined indicators were maintained well above the limits.

Liquidity stress tests are performed each quarter to understand the Bank's liquidity-risk profile, to ensure that the Bank is in a position to fulfil its obligations in the event of a liquidity crisis and to contribute to the preparation of the liquidity contingency plan and management decisions.

The Bank has emergency procedures for situations of increased liquidity risk. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

V. HUMAN RESOURCES MANAGEMENT

V.1. Recruitment

Bank Millennium recruits talented young people who wish to develop and link their professional career path with the Bank. Bank Millennium runs recruitment campaigns on Polish Universities by addressing their students with the offer of practical training adjusted to their needs as part of the “Come and Grow with us” slogan.

The “Come and Grow with us” programme offers:

- Practical training in various areas and departments of the Bank
- A Two Year Programme of Developing Management Competencies „People Grow” addressed to the best students in Poland.
- Competitions for ambitious, industrious students with a passion

In 2007 year 9,277 students applied for internship programmes organised by Bank Millennium of which 406 were invited for cooperation and gaining experience at the Bank and 141 were offered full-time work. Last year the Group also took about 400 applications for the fifth round of the “People Grow” programme, 9 persons were accepted for the programme. The Bank also received 330 applications to participate in competitions.

V.2. Development

In 2007 the Bank continued the training programme “Akademia Millennium”. The number of employees trained within it grew by 46% versus 2006 year.

A dynamic development of the sales network initiated in 2006 continued in 2007. It resulted in almost a double growth of the number of introduction trainings for new employees and product trainings, which went up by 64%. One of the most important training projects conducted in 2007 was the set of trainings for medium-level management staff.

2007 saw a considerable growth of language training (about 75%) and MS Office (about 82%). Moreover e-learning was implemented as a new form of training which generated much employee interest.

In 2007 Bank Millennium continued the idea of development programmes for Bank employees, started in 2006. The purpose of these programmes is to speed up the rate of employee development who thanks to their dedication, motivation and willingness to grow within the organisation will in future be able to occupy managerial posts. In 2007 the second round of development programmes was launched. In total, 70 employees were covered by development programmes.

V.3. Incentive System

Bank Millennium has an incentive system based on performance appraisal for particular units and employees. The bonus is an attractive, and thus motivating, element of the total remuneration package.

The bonus system in the whole retail area promotes the obtaining of collective (team-based), balanced sales target assigned for key products in a given bonus period. This means, that employees are motivated to such sales activities, which lead them to achieving the implementation of all the assigned targets.

Employees in Corporate Banking were bonused in 2007 on the basis of their individual sales results. Growth of the total return on managed portfolio and acquisition of new Clients for cooperation are an important bonus allocation criterion.

The bonus principles for the remaining units at Bank Millennium are tied to the assessment of quantitative and qualitative criteria impacting work results adjusted to the specificity of their activity.

Structure of employment of the Bank is the following:

Employment structure of the Bank (full FTE)	**31.12.2007**	**31.12.2006**
Branches and Direct Sale Force **	3 602	2 765
Head Office	2 055	1 953
Total Bank Employees	**5 657**	**4 718**
- of which management posts	*148*	*143*

VI. ADDITIONAL INFORMATION

VI.1. Information about Important Agreements Having Impact on Group's Activity

- On 29.01.2007 the Bank concluded with Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty, set up and managed by BPH TFI S.A., agreements for selling irregular corporate receivables for the amount of receivables (principal, interest and secondary receivables) totalling PLN 541.6 million. The impact of the concluded transaction on the net result of Bank Millennium Capital Group was at PLN 6.9 million.

- On 16 April 2007 an agreement was signed with SIRRAH INTERNATIONAL INC., seated in Road Town to sell non-performing receivables totalling (principal, interest and secondary receivables) ca. PLN 103 million. The estimated net impact on the financial results of the Bank is ca. PLN 2 million.

- On 18 April 2007 the Bank informed about the agreement made with Harmony Office Centre Ltd., and with EKO-PARK SA with a view to consolidation of the Bank's core functions, so far dispersed across three Warsaw locations. This decision ensues from the Bank's need to ensure space necessary for the continuing process of business expansion and related employment growth. The new head office will be a newly-built and modern "Harmony-Polifonia Office Centre". This decision was taken in the interest of effectiveness (it will allow to locate in one Office Centre most functions of the head office) and possibility of making processes more effective and better manage the personnel. The Bank's Head Office is planned to be moved to the new location in Q1 2008.

- On 20.07.2007 the Bank signed agreements with a group of international banks concerning the taking of a syndicated loan facility in the amount of 120,000,000 Swiss Francs (CHF). The interest rate on the facility is based on the variable LIBOR rate for CHF, plus a contractual margin. The facility is to be repaid in July 2010, with an extension option – upon agreement of the Parties to the Agreement – for another two years (i.e. until the year 2012). The list of creditors contains the following banks: Bank Austria Creditanstalt AG, Erste Bank der oesterreichischen Sparkassen AG, Raiffeisen Zentralbank Oesterreich AG, Dexia Kommunalkredit Bank AG, Anglo Irish Bank Corporation plc.

- On 16 August 2007 the Bank concluded with Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty, a sale agreement for corporate non-performing receivables The total amount of the receivables (principal, interest and other secondary receivables) was PLN 37 million.

- On 14.12.2007 the Bank's subsidiary Millennium Leasing Sp. z o.o. (100% owned by Bank Millennium S.A.) concluded a set of agreements permitting the execution of a securitisation of future receivables from the portfolio of leasing contracts in the amount of up to PLN 850 million. The future receivables were acquired by a company unrelated with the Bank – Orchis Sp. z o.o. which at the same time issued the notes backed with the securitised receivables.

Entities participating in the Orchis funding project are:

1. European Investment Bank – investor in the fixed senior tranche amounting to PLN 420 million
2. Galleon Capital LLC –
   - § investor in the variable (senior) tranche with the maximum limit of PLN 379 million
   - § the mezzanine tranche in the amount of PLN 35.3 million
3. European Investment Fund – mezzanine tranche underwriter,
4. Millennium Leasing Sp. z o.o. – investor in the junior tranche amounting ultimately to PLN 15.7 million

The price for securitized receivables is equal to the on-balance value of receivables as of the day of signing. Until the end of 2010 the transaction has a revolving character allowing for securitization of further receivables up to the value of the maximum exposure equal to 850 million PLN.

The package of concluded agreements, apart from the principal securitization agreement, comprised:

a) Agreement for a registered pledge over assets of Millennium Leasing concluded between Millennium Leasing and the Bank and aimed at protection of the securitization transaction by separation of risk of the securitized portfolio from the risk of Millennium Leasing .

b) Agreement between the Bank, Millennium Leasing and Orchis aimed at creation of a transaction risk free cash liability collateralised and protected with registered pledge described above.

c) Agreement between the Bank and Millennium Leasing allowing for return transfer of receivables earmarked for securitization, formerly in possession of the Bank on the basis of financing agreements from 12 October 1998 and 30 December.

Millennium Leasing and Bank Millennium managed to successfully complete this transaction despite very unfavourable market conditions thanks to a support from the European Investment Bank and European Investment Fund, which brought to the transaction favourable financing conditions under the scope of their support for the promotion and development of SME business.

- On 20.12.2007 the Bank issued subordinated Notes with the total face value of EUR 150 million. At the same time MB Finance AB (publ) – the Bank's 100% subsidiary – issued junior Eurobonds with the same face value (EUR 150 million)

Bank concluded two agreements in order to complete the transaction:

1) Subscription Agreement with MB Finance AB (publ), committing to purchase the Notes, and

2) Issue Placement Agreement with MB Finance AB (publ) and Banco Millennium bcp Investimento S.A, committing Banco Millennium bcp Investimento S.A to purchase the Eurobonds issued by MB Finance AB (publ) .

The issued Notes have the following features:

- Face Value: EUR 150 million (150 notes with the face value of EUR 1 million each).
- Form: dematerialised, unsecured, floating rate, bearer, subordinated notes (pursuant to art. 127 section 3 point 2, letter b of the Banking Law).
- Redemption: the Notes will be repurchased at face value after 10 years from issue date.
- Early redemption: the notes may be redeemed by the Bank before the due date, in particular if Bank exercises the call option, but not earlier than after five years from the date of issuance. The earlier redemption requires the consent of Financial Supervision Commission (KNF) or another appropriate body responsible for Bank's supervision at a given moment.
- Interest: will be paid semi-annually, every 20 June and 20 December. Interest will be based on EURIBOR 6M plus a margin of 1.54% for the first five years starting from the issuance date. The margin will be increased by 50b.p. in case the Notes are not be called after 5 years.
- Legal jurisdiction: The bonds were issued under English Law, except the provisions on subordination which are subject to Polish Law.
- The funds obtained from the issue will be assigned for financing of the current activity of the Bank.

The Notes were acquired by a Bank's subsidiary – the company MB Finance AB (publ) with its seat in Stockholm, Kingdom of Sweden, at face value. In connection with the purchase of the Notes MB Finance AB (publ) issued Eurobonds with terms and conditions reflecting those applied to the Notes issue, with performance by MB Finance AB (publ) of liabilities under the Eurobonds being secured with the Bank's Notes.

INFORMATION ABOUT IMPORTANT EVENTS AFTER BALANCE SHEET DATE

- On 13.02.2008 Mr Dimitri Contominas stepped down from the function of a Member of the Bank's Supervisory Board.

Information about the above-mentioned events was provided by the Bank in current reports dated: 29.01.2007, 17.04.2007, 18.04.2007, 20.07.2007, 16.08.2007, 15.12.2007, 19.12.2007, 20.12.200, 15.02.2008

VI.2. Information about implementation of MIFID Directives

Implementation of MFID directives in Millennium Group referred to the following entities: Bank Millennium S.A., Millennium Dom Maklerski S.A. and Millennium TFI S.A.. MIFID European Union Directives comprise the following regulations: Directive 2004/39/EC of the European Parliament and the Council on markets in financial instruments (MIFID level I) and Commission Directive 2006/73/ECimplementing Directive 2004/39/EC (MIFID level II) as well as Commission Regulation (EC) No 1287/2006 implementing Directive 2004/39/EC as regards investment firms obligations in the scope of record – keeping , transaction reporting ,market transparency and admission of financial instruments to trading .

EU Commission Regulation directly affects the investment companies without the necessity of transposition to the domestic law. In the case of MIFID level of I and II, the EU member countries were obliged to make their transposition to the domestic law until 31 January 2007 to enable the adjustment of the investment companies to MIFID requirements and their application since November 1 2007. However, Poland until the end of 2007 did not make the Directives transposition to domestic law. There were only initial regulation's projects available.

In this legal situation, Millennium Group started adaptation work and as a result implemented the Commission Regulation and partly MIFID Directive implementation of I and II level, despite of the lack of domestic legislation, based on EU Directives (in the scope which it was not against to the current regulations). This ensured the larger activity transparency and larger clients protection in the scope of financial instruments offering.

The adjustment came particularly in the scope of relations with the clients. Millennium Group tests the clients (tests of appropriateness and adequacy) in order to check clients knowledge and experience in financial instruments. The scope of pre-trade information has been extended among others for description of offered financial instruments and related risk. The Group implemented the policy of conflict of interest management, the rules of the best order execution and the rules of marketing communication.

The full implementation of the EU Directives on markets in financial instruments will take place after domestic regulations come into force.

VI.3. Information on Agreements with an Entity Authorise to Audit Financial Statements

Stated below is remuneration received by KPMG Audyt Sp. z o.o. on account of examination/review of financial reports of Bank Millennium S.A under concluded agreements:

Auditor's Remuneration: (PLN thous.)	**2007**	**2006**
- for examination and agreed procedures connected with review of periodical consolidated reports with respect to the dominating entity	2,085	1,796
- for related services	-	266

(1) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of the solo and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 29.06.2007 on examination regarding 2006 accounting year) as well as the review of the semi-annual solo and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 29.06.2007 on review of the semi-annual financial report on the half-year ending on 30.06.2007), and also review of quarterly consolidated reporting documents.

(2) The remuneration for related services comprises the remaining amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. under concluded agreements. These cover certifying services connected with the examination or review of financial reports of the dominating entity and subsidiaries, however not included under (1) above.

VI.4. Other information

Detailed information concerning the Company's Shareholders, Supervisory Board, Management Board and observance of the Corporate Governance Principles is included in a separate "Corporate Governance Report", which was published together with this Report.

Other information relating to:

- Number and value of execution titles issued by the Bank
- Granted guarantees and sureties
- Average basic interest rate for loans and deposits
- Transactions with related entities

please find in the „Financial Statement of Bank Millennium for 2007"

VII. STATEMENT OF THE MANAGEMENT BOARD

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

According to the best knowledge, the Annual financial statements of the Bank Millennium S.A. as at 31 December 2007 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Bank and its financial result. This Management Board Report contains a true picture of development, achievements and condition of the Bank (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 financial statements of the Bank Millennium S.A. as at 31 December 2007, 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.

Management Board signatures:

Date	*Name and Surname*	*Position/Function*	*Signature*
28.02.2008	**Bogusław Kott**	**Chairman**	**..................................**
28.02.2008	**Luis Pereira Coutinho**	**Deputy Chairman**	**..................................**
28.02.2008	**Fernando Bicho**	**Board Member**	**..................................**
28.02.2008	**Julianna Boniuk-Gorzelańczyk**	**Board Member**	**..................................**
28.02.2008	**Wojciech Haase**	**Board Member**	**..................................**
28.02.2008	**Joao Bras Jorge**	**Board Member**	**..................................**
28.02.2008	**Zbigniew Kudaś**	**Board Member**	**..................................**