The 2006 Financial report of
Bank Millennium S.A.
in line with the International Financial Reporting Standards

MAIN FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2006 - 31.12.2006	period from 1.01.2005 - 31.12.2005	period from 1.01.2006 - 31.12.2006	period from 1.01.2005 - 31.12.2005
I. Interest income	1 161 456	1 137 913	297 881	282 834
II. Fee and commission income	327 538	238 364	84 004	59 247
III. Operating income	1 531 851	930 728	392 876	231 337
IV. Operating profit / (loss)	701 764	443 123	179 983	110 140
V. Gross profit / (loss)	701 764	443 123	179 983	110 140
VI. Net profit (loss)	662 682	426 258	169 959	105 948
VII. Net cash flows from operating activities	-4 908 208	-203 025	-1 258 816	-50 463
VIII. Net cash flows from investing activities	2 147 763	420 013	550 840	104 396
IX. Net cash flows from financing activities	847 542	-1 196 571	217 370	-297 413
X. Net cash flows, total	-1 912 903	-979 583	-490 605	-243 480
XI. Total assets	24 369 963	21 574 044	6 360 922	5 589 420
XII. Deposits from banks	3 600 205	1 067 345	939 707	276 529
XIII. Deposits from customers	16 195 022	14 084 763	4 227 141	3 649 091
XIV. Total equity	1 829 048	1 642 662	477 409	425 582
XV. Share capital	849 182	849 182	221 649	220 007
XVI. Number of shares	849 181 744	849 181 744	849 181 744	849 181 744
XVII. Book value per share (in PLN/EUR)	2.15	1.93	0.56	0.50
XVIII. Diluted book value per share (in PLN/EUR)	2.15	1.93	0.56	0.50
XIX. Capital adequacy ratio	11.92%	10.67%	11.92%	10.67%
XX. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.78	0.50	0.20	0.12
XXI. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.78	0.50	0.20	0.12
XXII. Pledged or paid dividend per share (in PLN/EUR)	0.54	0.28	0.13	0.07

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I. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	**Note**	**01.01.2006 - 31.12.2006**	**01.01.2005 - 31.12.2005**
Interest income	1	1 161 456	1 137 913
Interest expense	2	-655 826	-778 756
Net interest income		**505 630**	**359 157**
Fee and commission income		327 538	238 364
Fee and commission expense		-46 618	-23 105
Net fee and commission income	3	**280 920**	**215 259**
Dividend income	4	508 936	373 791
Result on investment financial assets	5	3 549	31 888
Result on financial instruments valued at fair value through profit and loss	5	63 843	-150 018
Result on other financial instruments	5	-12 875	-6 264
Foreign exchange profit		177 419	84 696
Other operating income	6	39 500	33 451
Other operating expenses	6	-35 071	-11 232
Operating income		**1 531 851**	**930 728**
General and administrative expenses	7	-728 610	-602 493
Impairment losses on financial assets	8	-42 060	218 209
Impairment losses on non financial assets	9	-1 130	-20 831
Depreciation and amortization	10	-58 287	-82 490
Operating expenses		**-830 087**	**-487 605**
Operating profit		**701 764**	**443 123**
Share of profit of associates		0	0
Gross profit / (loss)		**701 764**	**443 123**
Corporate income tax	11	-39 082	-16 865
Net profit / (loss)		**662 682**	**426 258**
Basic earnings per ordinary share (in PLN)	12	**0.78**	**0.50**
Diluted earnings (losses) per ordinary share (in PLN)	12	**0.78**	**0.50**

II. BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2006	31.12.2005
Cash, balances with the Central Bank	13	965 817	510 785
Loans and advances to banks	14	1 123 131	2 602 815
Financial assets valued at fair value through profit and loss	15	3 742 385	3 302 666
Hedging derivatives	16	108 027	14 826
Loans and advances to customers	17	14 109 193	8 979 645
Investment financial assets	18	2 929 896	4 909 751
- available for sale		2 929 896	4 831 115
- held to maturity		0	78 636
Investments in associates	18	159 156	114 167
Receivables from securities bought with sell-back clause	19	15 509	331 155
Property, plant and equipment	20	263 910	224 184
Intangible assets	21	20 936	26 352
Non current assets held for sale	22	12 086	231 740
Deferred income tax assets	23	82 451	89 121
Other assets	24	837 466	236 837
Total Assets		**24 369 963**	**21 574 044**

LIABILITIES

Amount '000 PLN	Note	31.12.2006	31.12.2005
Deposits from banks	25	3 600 205	1 067 345
Financial liabilities valued at fair value through profit and loss	26	298 744	504 185
Hedging derivatives	27	14 506	22 273
Deposits from customers	28	16 195 022	14 084 763
Liabilities from securities sold with buy-back clause	29	1 477 686	3 472 115
Debt securities	30	5 705	32 587
Provisions	31	10 400	15 843
Deferred income tax liabilities	32	0	0
Current tax liabilities		0	0
Other liabilities	33	631 338	422 767
Subordinated debt	34	307 309	309 504
Total Liabilities		**22 540 915**	**19 931 382**

EQUITY

Amount '000 PLN	**Note**	**31.12.2006**	**31.12.2005**
Share capital	35	849 182	849 182
Share premium	35	472 343	472 343
Revaluation reserve	35	9 881	27 617
Retained earnings	35	497 642	293 520
Total Equity		**1 829 048**	**1 642 662**

Total Liabilities and Equity		**24 369 963**	**21 574 044**

III. STATEMENT OF CHANGES IN EQUITY

	Total equity	Share capital	Share premium	Revaluation reserve on available for sale financial assets	Revaluation reserve on derivatives designated for future cash flows hedge	Retained earnings
Equity at the beginning of the period (opening balance) 01.01.2006	**1 642 662**	**849 182**	**472 343**	**27 617**	**0**	**293 520**
- purchase/sale and valuation of available for sale financial assets	-18 335	0	0	-18 335	0	0
- effect of valuation of derivatives designated for future cash flows hedge	599	0	0	0	599	0
- net profit / (loss) of the period	662 682	0	0	0	0	662 682
- dividend payments	-458 558	0	0	0	0	-458 558
Equity at the end of the period (closing balance) 31.12.2006	**1 829 048**	**849 182**	**472 343**	**9 282**	**599**	**497 642**

	Total equity	Share capital	Share premium	Revaluation reserve on available for sale financial assets	Revaluation reserve on derivatives designated for future cash flows hedge	Retained earnings
Equity at the beginning of the period (opening balance) 01.01.2005	**1 447 930**	**849 182**	**508 095**	**21 372**	**0**	**69 281**
- purchase/sale and valuation of available for sale financial assets	6 245	0	0	6 245	0	0
- net profit / (loss) of the period	426 258	0	0	0	0	426 258
- dividend payments	-237 771	0	0	0	0	-237 771
- loss covered from share premium	0	0	-35 752	0	0	35 752
Equity at the end of the period (closing balance) 31.12.2005	**1 642 662**	**849 182**	**472 343**	**27 617**	**0**	**293 520**

IV. CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**1.01.2005 - 31.12.2006**	**1.01.2005 - 31.12.2005**
I. Net profit (loss)	**662 682**	**426 258**
II. Adjustments for:	**-5 570 890**	**-629 283**
1. Interests in net profit / (loss) of associated companies	0	0
2. Depreciation and amortization	58 287	82 490
3. Foreign exchange (gains) / losses	-2 253	-21 201
4. Dividends	-508 936	-373 791
5. Changes in provisions	-5 443	-15 938
6. Result on sale and liquidation of investing activity assets	-9 480	261 191
7. Change in financial assets valued at fair value through profit and loss	-1 721 401	42 441
8. Change in loans and advances to banks	236 099	-296 108
9. Change in loans and advances to customers	-5 121 318	-2 311 117
10. Change in receivables from securities bought with sell-back clause	315 646	-250 504
11. Change in liabilities valued at fair value through profit and loss	-213 210	214 656
12. Change in deposits from banks	1 185 909	672 661
13. Change in deposits from customers	2 110 259	-592 904
14. Change in liabilities from securities sold with buy-back clause	-1 994 429	2 025 901
15. Change in debt securities	-9 751	-85 298
16. Change in deferred income tax settlements	7 924	19 609
17. Income tax paid	0	0
18. Change in other assets and liabilities	98 174	-1 521
19. Other	3 033	150
III. Net cash flows from operating activities	**-4 908 208**	**-203 025**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**1.01.2005 - 31.12.2006**	**1.01.2005 - 31.12.2005**
I. Inflows:	**6 693 010**	**7 831 837**
1. Proceeds from sale of property, plant and equipment and intangible assets	163 437	8 881
2. Proceeds from sale of shares in associates	150	175
3. Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
4. Proceeds from sale of investment financial assets	6 503 863	6 499 224
5. Other	25 560	1 323 557
II. Outflows:	**-4 545 247**	**-7 411 824**
1. Acquisition of property, plant and equipment and intangible assets	-44 776	-20 622
2. Acquisition of shares in associates	-950	0
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-4 453 521	-7 107 702
5. Other	-46 000	-283 500
III. Net cash flows from investing activities	**2 147 763**	**420 013**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**1.01.2005 - 31.12.2006**	**1.01.2005 - 31.12.2005**
I. Inflows:	**1 328 936**	**24 012**
1. Long-term bank loans	1 323 231	0
2. Issue of debt securities	5 705	22 836
3. Increase in subordinated debt	0	0
4. Net proceeds from issues of shares and additional capital paid-in	0	0
5. Other	0	1 176
II. Outflows:	**-481 394**	**-1 220 583**
1. Repayment of long-term bank loans	0	-803 985
2. Redemption of debt securities	-22 836	-178 760
3. Decrease in subordinated debt	0	0
4. Issue of shares expenses	0	0
5. Redemption of shares	0	0
6. Dividends paid and other payments to owners	-458 558	-237 771
7. Other	0	-67
III. Net cash flows from financing activities	**847 542**	**-1 196 571**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**-1 912 903**	**-979 583**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**3 555 633**	**4 535 216**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**1 642 730**	**3 555 633**

V. GENERAL INFORMATION ON THE ISSUER

Name (firm) and domicile: Bank Millennium S.A., Poland, Warsaw, Al. Jerozolimskie 123 a
Court of registration and reg. no.: 12th Economic Division of the National Court Register, Local Court for the Capital City of Warsaw, no. 0000010186
Core business of the issuer: banking activity and other financial intermediation, except for insurance and pension fund,

Composition of the Management Board of Bank Millennium S.A. („Bank") as at 31 Dec 2006:

1. Bogusław Kott – Chairman of the Management Board of the Bank,
2. Luis Pereira Coutinho – Deputy Chairman of the Management Board of the Bank,
3. Fernando Bicho - Management Board Member,
4. Julianna Boniuk - Gorzelańczyk – Management Board Member,
5. Wojciech Haase - Management Board Member,
6. Joao Bras Jorge - Management Board Member.
7. Wiesław Kalinowski – Management Board Member,
8. Zbigniew Kudaś – Management Board Member,

As of July 19, 2006, Rui Manuel de Silva Teixeira filed his resignation from the function of the Bank's Management Board Member. The resignation of Mr. Rui Manuel de Silva Teixeira was caused by acceptance of new responsibilities within the BCP Group. Acting under paragraph 17 sec. 1 of the Bank's Articles of Association, the Supervisory Board of the Bank appointed a new Management Board Member – Mr. Joao Bras Jorge.

As at Dec 31, 2006,. **the composition of the Supervisory Board of the Bank was as follows:**

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

Following a decision of the Bank's General Shareholders Meeting held on April 6, 2006, the Supervisory Board composition was extended from 12 to 14. The new members of the Supervisory Board are Pedro Maria Calaínho Teixeira Duarte and Marek Furtek.

VI. ACCOUNTING POLICY

(1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These financial statement meets the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).
This financial report was authorised for publication by the Bank's Management Board on 27 February 2007.

The financial report on the accounting year ending on 31 December 2005 was approved by the General Shareholders' Meeting of the Bank on 6 April 2006.

(2) CHANGES OF ACCOUNTING POLICIES RESULTING FROM IMPLEMENTATION OF IFRS IN THE BANK

The Bank's financial reports until 31 December 2005 were being prepared in keeping with Polish Accounting Standards on the basis of the Accounting Law of 29 September 1994, which in some areas differs from IFRS approved by the European Community. In accordance with IFRS 1 applicable to the process of adapting IFRS, the accounting policies valid as at the reporting day should be applied with respect to the opening balance sheet and the presented comparable data.

On the basis of art. 45 in connection with art. 2 sect 3 of the Accounting Law of 29 September 1994 (Journal of Laws of 2002, No. 76 item 694) the Ordinary General Shareholders' Meeting of the Bank on 6 April 2006 accepted implementation of IFRS and related interpretations announced in the form of Regulations of the European Commission with regard to separate financial reports of the Bank, beginning with financial reports on reporting periods starting in 2006.

The first IFRS-compliant annual consolidated financial report of the Bank Millennium S.A. Capital Group ("Group") was prepared on the year ending 31 December 2005. In preparing this report the requirements of IFRS 1 were applied. The day of transition of the Group to IFRS was the opening balance sheet day of the earliest of periods presented in the consolidated financial report on the year ending 31 December 2005 i.e. 1 January 2004. The separate financial report of the Bank on the year ending 31 December 2005 was prepared in keeping with Polish Accounting Standards (in accordance with the Accounting Law of 29 September 1994 as well as secondary legislation issued on its basis).

Pursuant to the provisions of IFRS 1 par. 25 if the parent company (Bank) became a first time adopter of IFRS for preparation of its separate financial statement after the date of adoption of IFRS for the purpose of preparation by it of a consolidated financial report, it should measure all its assets and liabilities in the same amounts in both financial reports, before consolidation adjustments.
In result the day of transition of the Bank to IFRS is the day of the opening balance sheet of the earliest of the periods presented i.e. 1 January 2005. The Bank applied the same accounting policies in preparing the opening balance sheet in keeping with IFRS approved by the European Community as at 1 January 2005 and through all the presented periods. Consequently, in accordance with requirements of IAS 8 the Bank made a full restatement of 2005 comparable data to assure compliance with IFRS

The applied accounting policies are consistent with the provisions of each IFRS approved by the European Community and valid as at 31 December 2006 i.e. the reporting day, barring exemptions permitted by IFRS and approved by the European Community. A detailed explanation of the impact of adoption of IFRS approved by the EU upon individual items in the Bank's financial statement, has been presented below.

The most important of the changes made in the Bank in result of implementation of IFRS are as follows:

1. Equity method accounting for investments in subsidiaries

In keeping with the amended version of IAS 27 (valid as of 1 January 2005) in the separate statement shares and interests held by the reporting parent in subsidiaries cannot be accounted for by the equity method.
Polish Accounting Standards in their current form (Ordinance of the Minister of Finance of 10 December 2001 in the matter of special accounting policies of banks, as amended) impose the obligation to apply specifically this valuation method with respect to shares and interests in subsidiaries.
In effect of the above, upon adoption of IFRS for preparation of its separate financial statement the Bank ceased to apply the equity method and introduced the principle of accounting for shares and interests in subsidiaries at cost, following the requirements of IAS 27, with consideration of write-offs for potential impairment in keeping with IAS 36.

2. Impairment of credit exposures and other financial assets accounted for at amortised cost.

In keeping with IAS 39 financial asset or group of assets is impaired, and impairment losses are recognised, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset (loss event and when this event (or events) affects expected future cash flows concerning this financial asset or group of financial assets.
If impairment occurred the amount of the revaluation write-off equals the difference between the balance-sheet value of the asset and the present value of expected future flows discounted with the initial effective interest rate (economic value). For the purpose of calculating the amount of provision

for balance-sheet exposures covered by group analysis i.a. the probability is used of arisal of the loss (modified PD parameter). This approach in particular permits detection as at balance-sheet day of credit losses: 1) incurred and reported as well as 2) incurred but not reported (IBNR provision).

In result of implementation of IFRS the Bank identified following adjustments in this area as at 1 January 2005:

- Adjustment in the amount of provisions between loan provisions in keeping with IFRS and the provisions calculated in accordance with Polish Accounting Standards,
- A provision was created for credit exposures approached collectively as regards impairment, including a provision for loan losses, which were incurred but not reported – IBNR – reducing the value of credit exposure in presentation terms,
- The general risk provision created in accordance with Polish Accounting Standards was eliminated,
- The adjustment was calculated of the effect of input deferred tax on the difference of the value of general risk provisions and the IBNR provision arisen upon implementation of IFRS. This adjustment applies to banks preparing their financial statements in keeping with IFRS and comes from the fact that according to valid tax regulations taxable income does not include the surplus of the amount of eliminated or reduced general risk provision over the amount of the IBNR provision created in keeping with IFRS.
- Interest on irregular loans accrued according to Polish Accounting Standards on the gross exposure amount and recognised in the balance-sheet as suspended interest (in case of repayment – in the Profit and Loss Account) was derecognised in the balance-sheet (according to IAS 39 interest on irregular exposures, accrued by the Bank on net exposure value, is recognised in the Profit and Loss Account), unamortized discount on receivables as well as the unamortized part of loan commissions reduce the balance-sheet value of credit exposures.

3. Separate balance-sheet category – “fixed assets held for sale”

The Bank, following IFRS 5, includes assets in “fixed assets held for sale” if their balance-sheet value is recovered first of all in a sale transaction and not by their further use. Such a situation takes place when an asset (or group) is available for immediate sale in its current condition, considering only the normal and accepted conditions for sale of such assets and its sale is highly likely, i.e. the decision was taken to execute the plan of sale of the asset, active solicitation of its sale and conclusion of the disposal plan began. Moreover such an asset is offered for sale at a price, which is reasonable as regards in present fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset in this category.
Fixed assets held for sale are accounted for at the lower of the following two values: balance-sheet value and fair value less cost of sale of the assets. Assets classified in this category are not subject to depreciation.

4. Goodwill revaluation charge

In accordance with IFRS 3.79 upon adoption of IFRS, as of 1 January 2005 the Bank ceased amortisation of goodwill arisen in result of acquisition in previous years of TBM Sp. z o.o. („TBM") and BESTA Sp. z o. („BESTA") operations and derecognised the balance-sheet value of goodwill amortisation, at the same time reducing goodwill by the same amount as at 1 January 2005. In effect goodwill of these companies was as at 1 January 2005 as follows:

i) goodwill of BESTA: PLN 3 898 000,

ii) goodwill of TBM: 1 907 000.

Additionally further to IFRS 3.79 the Bank conducted goodwill impairment tests on the basis of IAS 36.80-99. Goodwill was assigned to Property, Plant and Equipment taken over in connection with acquisition of BESTA and TBM, which fixed assets generate cash. In connection with the restructuring of the Bank's activity, which began in 2005, and with the change of visual identity it was estimated that in case of these investments fair value and useful value is at most equal to balance-sheet value.

Due to the above, based on provisions of IAS 36.104, the Bank recognised on the day of adoption of IFRS (1 January 2005) a revaluation charge for goodwill of TBM and BESTA in the amount of PLN 1,907 thousand and PLN 3,898 thousand respectively.

5. Settlement of revaluation capital against retained earnings

In connection with the application of IFRS 1 as regards adoption of real estate balance-sheet value as the cost assumed as at the day of transition to IFRS, Property, Plant and Equipment revaluation capital was settled against retained earnings. This adjustment with the value of PLN 30 974 000 has a reclassification character (transfer from revaluation capital to retained earnings) and does not affect the amount of the Bank's equity.

Pursuant to the adopted methodology of IFRS implementation, the adjustments resulting from adoption of new standards by the Bank, were recognised in the opening balance-sheet of equity as at 1 January 2005.

It must be noted that this description does not reflect the change of the level of the Bank's equity resulting from implementation of the effective interest rate methodology, also done on 1 January 2005 but in keeping with Polish Accounting Standards (this matter has been described more extensively in the Bank's 2005 financial report, published on 10 March 2006). The requirement to apply the above-mentioned effective interest rate methodology also results from IFRS.

The adjustments as at 1 January 2005 have been presented in the tables below (numbers of the adjustment correspond to the above descriptions):

Quantification of adjustments affecting the value of the Bank's equity in result of implementation of IFRS

Data in PLN thous.

	(1) Discontinuation of equity rights valuation of shares in subsidiaries	(2) Loan impairment	(3) Effect of valuation of asset recognized as 'non current assets held for sale' category	(4) Revaluation write-offs of goodwill	**TOTAL**
Gross adjustment value	- 596 061	+ 21 509	- 5 499	- 5 805	**- 585 856**
Net adjustment value (including the deferred tax effect)	- 596 061	+ 19 575	- 5 499	- 5 805	**- 587 790**

Change in the Bank's eqiuty items as a result of IFRS

Data in PLN thous.

EQUITY

	31.12.2004 PAS	**Number of adjustment(s)**	**Value of adjustment(s)**	**01.01.2005 IFRS**
Share capital	849 182			849 182
Share premium	508 095			508 095
Revaluation reserve	52 346	(5)	-30 974	21 372
Retained earnings	626 097	(1) (2) (3) (4)	-556 816	69 281
Total Equity	**2 035 720**		**-587 790**	**1 447 930**

(3) CONVERSION OF THE BANK'S COMPARABLE DATA IN RESULT OF IMPLEMENTATION OF IFRS

The Bank's balance-sheet as at 31 December 2005 - transition PAS – IFRS

The table below illustrates the changes made in the last published report of the Bank prepared in keeping with PAS as at 31 December 2005 to assure comparability of data for the purposes of this report.

ASSETS

Amount '000 PLN	**31.12.2005 PAS**	**Number of adjustment(s)**	**Value of adjustment(s)**	**31.12.2005 IFRS**
Cash, balances with the Central Bank	510 785			510 785
Loans and advances to banks	2 602 815			2 602 815
Financial assets valued at fair value through profit and loss	3 504 760	(5) (7)	-202 094	3 302 666
Hedging derivatives	14 826			14 826
Loans and advances to customers	9 370 832	(2) (4)	-391 187	8 979 645
Investment financial assets	4 909 751			4 909 751
- available for sale	4 831 115			4 831 115
- held to maturity	78 636			78 636
Investments in associates	854 091	(1) (10)	-739 924	114 167
Receivables from securities bought with sell-back clause	331 155			331 155
Property, plant and equipment	466 578	(3)	-242 394	224 184
Intangible assets	30 298	(8)	-3 946	26 352
Non current assets held for sale	0	(3)	231 740	231 740
Deferred income tax assets	270 432	(2) (5) (6)	-181 311	89 121
Other assets	198 700	(3) (7) (10)	38 137	236 837
Total Assets	**23 065 023**		**-1 490 979**	**21 574 044**

LIABILITIES

Amount '000 PLN	31.12.2005 PAS	Number of adjustment(s)	Value of adjustment(s)	31.12.2005 IFRS
Deposits from banks	1 067 345			1 067 345
Financial liabilities valued at fair value through profit and loss	706 399	(5)	-202 214	504 185
Hedging derivatives	22 273			22 273
Deposits from customers	14 084 763			14 084 763
Liabilities from securities sold with buy-back clause	3 472 115			3 472 115
Debt securities	32 587			32 587
Provisions	224 944	(1) (2)	-209 101	15 843
Deferred income tax liabilities	184 967	(2) (5) (6)	-184 967	0
Current tax liabilities	0			0
Other liabilities	613 809	(2) (4) (7)	-191 042	422 767
Subordinated debt	309 504			309 504
Total Liabilities	**20 718 706**		**-787 324**	**19 931 382**

EQUITY

Share capital	849 182			849 182
Share premium	472 343			472 343
Revaluation reserve	58 591	(9)	-30 974	27 617
Retained earnings	966 201	(1) (2) (3) (8) (9)	-672 681	293 520
Total Equity	**2 346 317**		**-703 655**	**1 642 662**
Total Liabilities and Equity	**23 065 023**		**-1 490 979**	**21 574 044**

(1) Discontinuing the use of equity method valuation with respect to shares and stocks in subsidiary entities (as described in *item (2) of the Changes of Accounting Policies resulting from the Implementation of IFRS at the Bank* **subitem 1).**

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Investments in associates	(1)	-759 949
Provisions	(1)	-23 706
Retained earnings	(1)	-736 243

(2) Adjustments resulting from the Bank's implementation of the methodologies for the calculation of credit exposure impairment – this issue is presented in *item (2) of the Changes of Accounting Policies resulting from the Implementation of IFRS at the Bank* **subitem 2.**

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(2)	-195 033
Deferred income tax assets	(2)	6 053
Provisions	(2)	-185 395
Deferred income tax liabilities	(2)	2 397
Other liabilities	(2)	-48 015
Retained earnings	(2)	42 033

(3) Separation of the on-balance category „fixed assets for sale" as of 1 January 2005 (this issue is described in *item (2) of the Changes of Accounting Policies resulting from the Implementation of IFRS at the Bank* subitem 3), and classifying (on the basis of IAS 17) of the land perpetual usufruct held by the Bank as operational leasing; in the balance sheet as other assets (previously tangible fixed assets).

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Property, plant and equipment	(3)	-242 394
Non current assets held for sale	(3)	231 740
Other assets	(3)	5 155
Retained earnings	(3)	-5 499

(4) Exclusion from the balance sheet of suspended interest calculated according to PAS, reduction of receivables' value by a discount to be settled due to the application of the principles of IAS 39 for the calculation and recognising of loan impairment. This issue was presented in *item (2) of the Changes of Accounting Policies resulting from the Implementation of IFRS at the Bank* **subitem 3.**

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Loans and advances to customers	(4)	-196 154
Other liabilities	(4)	-196 154

(5) Presentation of derivatives on the balance sheet broken down into particular instruments (instruments with positive fair value are recognised in assets and with negative value in liabilities). Previously, the analogous division was founded on a valuation performed based on derivative portfolios (types).

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Financial assets valued at fair value through profit and loss	(5)	-202 214
Deferred income tax assets	(5)	-38 421
Financial liabilities valued at fair value through profit and loss	(5)	-202 214
Deferred income tax liabilities	(5)	-38 421

(6) Based on IAS 12 the Bank set off deferred tax assets against deferred tax provisions.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Deferred income tax assets	(6)	-148 943
Deferred income tax liabilities	(6)	-148 943

(7) The implementation of the method of accounting for standardised buy and sell transactions of financial assets on the day of concluding the transaction instead of the previously adopted method based on the transaction settlement date.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Financial assets valued at fair value through profit and loss	(7)	120
Other assets	(7)	53 007
Other liabilities	(7)	53 127

(8) The treatment of the goodwill revaluation charge (adjustment described in item (2) of the *Changes of Accounting Policies resulting from the Implementation of IFRS at the Bank* **subitem 4).**

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Intangible assets	(8)	-3 946
Retained earnings	(8)	-3 946

`(9) The settlement of the fixed assets revaluation reserve against retained earnings. In connection with the application of IFRS 1 with respect to the adoption of the on-balance value of real estate as cost imputed as of the day of changing to IFRS the fixed asset revaluation reserve was settled against retained earnings.

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Revaluation reserve	(9)	-30 974
Retained earnings	(9)	+30 974

(10) Changes in value of shares in associates resulted from contribution to capital of those asociates made by the Bank (previously presented as other assets)

Quantification:

BALANCE SHEET ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Investments in associates	(10)	+20 025
Other assets	(10)	-20 025

Income statement for the year 2005 – translation of PAS into IFRS

The table below illustrates the changes made in the last published income statement of the Bank prepared according to PAS for 2005. This is to allow comparability of data for the needs of this report.

INCOME STATEMENT

Amount '000 PLN	**01.01.2005 - 31.12.2005 PAS**	**Number of adjustment(s)**	**Value of adjustment(s)**	**01.01.2005 - 31.12.2005 IFRS**
Interest income	1 117 880	(2) (5) (7)	20 033	1 137 913
Interest expense	-785 267	(5)	6 511	-778 756
Net interest income	**332 613**		**26 544**	**359 157**
Fee and commission income	238 364			238 364
Fee and commission expense	-23 105			-23 105
Net fee and commission income	**215 259**			**215 259**
Dividend income	373 791			373 791
Result on investment financial assets	31 888			31 888
Result on financial instruments valued at fair value through profit and loss	-139 914	(5) (7)	-10 104	-150 018
Result on other financial instruments	-6 264			-6 264
Foreign exchange profit	84 696			84 696
Other operating income	78 392	(4) (6)	-44 941	33 451
Other operating expenses	-17 593	(4)	6 361	-11 232
Operating income	**952 868**		**-22 140**	**930 728**
General and administrative expenses	-598 672	(5)	-3 821	-602 493
Impairment losses on financial assets	164 535	(2) (6)	53 674	218 209
Impairment losses on non financial assets	-20 831			-20 831
Depreciation and amortization	-84 348	(3)	1 858	-82 490
Operating expenses	**- 539 316**		**51 711**	**-487 605**
Operating profit	**413 552**		**29 571**	**443 123**
Share of profit of associates	140 167	(1)	-140 167	0
Gross profit / (loss)	**553 719**		**-110 596**	**443 123**
Corporate income tax	-11 600	(2)	-5 265	-16 865
Net profit / (loss)	**542 119**	(1) (2) (3)	**-115 861**	**426 258**

(1) Balance sheet adjustment no (1) referred to the income statement.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Share of profit of associates	(1)	-140 167
Net profit / (loss)	(1)	-140 167

(2) Balance sheet adjustment no (2) referred to the income statement.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Interest income	(2)	12 619
Impairment losses on financial assets	(2)	15 094
Corporate income tax	(2)	- 5 265
Net profit / (loss)	(2)	22 448

(3) Balance sheet adjustment no (8) referred to the income statement.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Depreciation and amortization	(3)	1 858
Net profit / (loss)	(3)	1 858

(4) As part of adjusting to IFRS standards the manner of presenting net income from sale and liquidating fixed assets, the values of other operational expense and income were reduced by the same amount (previously other operational income included the entire income from such operations, while other operating expenses recorded the on-balance value of the asset – this now corresponds only to the net income from the sale operation).

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Other operating income	(4)	- 6 361
Other operating expenses	(4)	6 361

(5) The effect of hedge valuation reclassified from the interest margin to costs of activity. Starting from 1 January 2005 net interest income on swap transactions concluded in order to hedge a transaction of renting business space denominated in foreign currencies, previously presented in interest margin, is now included in costs of activity.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Interest income	(5)	-2 502
Interest expense	(5)	6 511
Result on financial instruments valued at fair value through profit and loss	(5)	-188
General and administrative expenses	(5)	-3 821

(6) Reclassification within the "impairment charges" category of sums of recovered credit receivables (after their writing off against provisions) previously treated under PAS as other operational income.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Other operating income	(6)	-38 580
Impairment losses on financial assets	(6)	38 580

(7) Reclassification of the discount/premium on debt securities with coupon (classified as trading portfolio) from the interest margin to net income from trading.

Quantification:

INCOME STATEMENT ITEM	NUMBER OF ADJUSTMENT	VALUE OF ADJUSTMENT
Interest income	(7)	9 916
Result on financial instruments valued at fair value through profit and loss	(7)	-9 916

(4) EARLIER ADOPTION OF STANDARDS WHICH ARE NOT IN FORCE AS AT THE BALANCE SHEET DATE

The Bank has not opted for the possibility of an earlier application of standards and interpretations which had already been approved by the European Union but which has or would come into force after the balance sheet date. As at the balance sheet date the Bank has not completed the process of estimating the impact of these standards and interpretations, on the financial statements of the Bank for the period in which they will be applied for the first time.

Standards and Interpretations approved by EU	**Types of an expected change in accounting principles**	**Possible impact on financial statements**	**Date of coming into force for periods beginning on the day or later**
IFRS 7 Financial Instruments: Disclosure of information	The extent of disclosure requirements in respect of Bank financial instruments has been enlarged. The standard shall replace IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable to all the entities that prepare the financial statements in accordance with IFRS.	Bank is of the opinion, that significant disclosures will be related to its objectives, policies and financial risk management processes.	1st January 2007
Later amendment to IAS 1: Disclosure related to equity	As a result of the amendments to IFRS 7 (see above), the Standard will extend the scope of disclosures in relation to the Bank's equity.	Bank is of the opinion, holds that the required additional disclosures in relation to its equity structure will not significantly differ from the disclosures presented so far.	1st January 2007
IFRIC 9 Reassessment of embedded derivatives.	The interpretation specifies that an entity recognises embedded derivatives when the entity first becomes a party to the contract and that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows resulting from the contract.	The Bank has not yet concluded analysing the impact, which the new interpretation will have on the Bank's activity.	1 June 2006

Other standards, amendments to currently effective and IFRIC interpretations recently approved or to be approved by the European Commission, are not applicable to the Bank's financial statement or would not have any significant impact on these financial statements.

(5) AMENDMENTS TO EXISTING STANDARDS

As of 1 January 2006 there have been enacted amendments to IAS 39 updating the provisions of the standard in the following areas:

- Later amendments to IAS 39 and IFRS 4: Financial guarantees. The amendment consists in the incorporation of the definition of a financial guarantee to IAS 39. The amendment had no impact on the manner of presentation of the Bank's financial data.
- Financial Instruments: recognition and measurement – Cash Flow Hedge Accounting for anticipated group internal transactions. The amendments allow to establish a forecasted group internal transaction as an instrument hedging from the risk of cash flow fluctuations in consolidated financial statements, if the established transaction will have an impact on the profit and loss account at the consolidated level. The amendment had no impact on the manner of presentation of the Bank's financial data.
- Later amendments to IAS 39 Financial Instruments: recognition and measurement – Fair Value Option (incorporating consequent amendments to IAS 32 and IFRS 1). Compared to the previous version of IAS 39 adopted by the European Union the amendment allows to include a liability in the category of liabilities valued at fair value through the profit and loss account. At the same time the amendment limits the application of the possibility of including components of financial assets and liabilities in the category of fair value valuation. This is limited to the situation in which one of specific conditions is met. The amendment had no impact on the manner of presentation of the Bank's financial data.

(6) ADOPTED ACCOUNTING PRINCIPLES

1. Basis of Financial Statements Preparation

The financial statements were prepared in Polish zlotys, rounded to one thousand.

In the financial statements, the Bank has adopted valuation at the fair value for financial assets and liabilities recognised at fair value through profit and loss account, including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items of financial assets and liabilities (including loans and borrowings) are presented at amortized cost less impairment charges, or at their purchase price less impairment charges.

The preparation of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. The respective unit of the Bank is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Bank management.

Estimations and assumptions applied to the presentation of value of assets, liabilities, revenues and costs, are made on basis of historical data available and other factors considered to be relevant in given circumstances. Applied assumptions related to the future and available data sources are the base for making estimations regarding carrying value of assets and liabilities, which cannot be determined explicitly on basis of other sources. The actual results may differ from those estimates.

The conformity between real results and adopted estimations and assumptions is verified on regular basis. Adjustments to estimates are recognized in the period when the estimation was changed, provided that the adjustment applies to this period alone, or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

The below-presented accounting principles have been applied to all reporting periods presented in the non-consolidated financial statements.

2. Functional and presentation currency

Functional and presentation currency

Items included in the financial statement are priced in the currency of the basic business environment in which a given entity operates („functional currency"). The Bank's financial statement is presented in PLN which are the Bank's functional and presentation currency.

Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences on monetary items, both those valued at fair value through the profit and loss account or classified as available for sale or held to maturity are disclosed in the profit and loss account.

Exchange rate differences on non monetary items valued at fair value through the profit and loss, are accounted in the profit and loss account. Exchange rate differences due to items, such as equity instruments classified to financial assets available for sale, are included in the revaluation reserve.

3. Hedge Accounting and Financial Derivatives

Valuation at fair value

Derivative financial instruments are recognized at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions and on the basis of valuation techniques, including discounted cash flows and options pricing models, depending on which method is more appropriate. All derivative instruments with a positive fair value are recognized in the Balance Sheet as assets, whereas with a negative value as liabilities. The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the consideration paid or received), unless the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation.

Recognition of embedded derivative instruments

The Bank distinguishes and records in the balance sheet the derivatives which are a component of hybrid instruments. A hybrid agreement contains an underlying (host) contract (not being a derivative) and an embedded derivative which on the basis of a specific interest rate, price of financial instrument, price of a commodity, rate of a currency, index of prices or rates or another variable modifies part or the total of the cash flows resulting from the underlying contract.

Embedded derivative instruments are treated as stand alone derivative instruments provided they meet conditions presented below. Embedded derivative instruments are valued at fair value, and their changes are recognized in the profit and loss. Embedded derivative instruments are recognized and valued separately from the host contract if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The method of recognizing the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedging relationship and the hedged item.

Derivative instruments designated as hedging instruments – hedge accounting

The Bank uses derivative instruments in order to hedge against interest rate risk, arising from operating, financing and investing activities of the Bank. Derivative instruments are designated as a hedging instrument of:

- ü cash flows hedges of recognized asset or liability or highly probable forecasted transaction (cash flow hedges), or:
- ü fair value hedges of recognized asset or liability or firm commitment (fair value hedges).

Hedge accounting criteria

The Bank uses hedge accounting, if the conditions established in IAS 39 are met:

- ü At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.

- The contracted financial hedging instrument and the assets or liabilities hedged by it show similar features, in particular the notional value, maturity, interest rate or FX sensitivity;
- The Bank anticipates that the hedge will be highly effective in balancing cash flows in accordance with the documented risk management strategy pertaining to this particular hedge combination;
- The hedging of cash flows covers a highly probable forecasted transaction exposed to the risk of changing cash flows impacting the level of earnings;
- The effectiveness of a hedge can be reliably assessed, i.e. one can credibly assess the fair value of the hedged position or cash flows originating from such position and the fair value of the hedging instrument;
- The hedge is verified on an on-going basis and it is found to be very effective throughout the period of its utilisation.

Hedging cash flows

The hedging of cash flows consists in hedging against the risk of cash flow fluctuations which (i) can be attributed to a specific risk connected with a given asset or liability (such as all or part of future interest payments on floating interest rate debt) or with a highly probable planned transaction and which (ii) can affect the income statement.

A cash flow hedge is treated in the following manner: part of the profits or losses attributed to a hedging instrument which is an effective hedge are recorded directly in equity through the statement of changes in equity, while the ineffective part of the profits or losses attributed to the hedging instrument is recorded in the income statement.

The profits and losses recorded in equity (effective hedge), at the moment of recording a financial asset or liability resulting from the planned hedged transaction are transferred to the income statement in such period or periods in which the hedged asset or liability affects the income statement.

In the case of hedging non-financial assets or liabilities related to equity as an effective hedge, the profits and losses are referred to the P & L gradually, in periods in which the asset or liability has an impact on the income statement (e.g. in the form of depreciation) or on a one-off basis in the form of adjusting the initial cost of purchase or the on-balance value of the hedged position.

Hedging fair value

The hedging of fair value consists in hedging against the risk of changing fair value of a given asset or liability or future liability whose likelihood is justified, which can be attributed to a specific risk and which can impact the income statement.

Changes in the fair value of derivative instruments assigned and qualifying as fair value hedge are put through the income statement along with the corresponding changes in the fair value of the hedged asset or liability relating to the risk which the Bank hedges against.
The profits and losses resulting from the revaluation of the fair value of a hedging instrument (for a derivative hedging instrument) are disclosed in the income statement, while the profits or losses associated with the hedged position resulting from the hedged risk adjust the on-balance value of the hedged position and are recorded in the income statement. This principle applies to a hedged position which in other circumstances is valued at depreciated cost. If the hedged position is a financial asset available for sale, the profits or losses resulting from the hedged risk are recorded in the income statement.

Discontinuing hedge accounting

If a hedge has ceased to meet the criteria of using hedge accounting, the adjustment of the on-balance value of the hedged instrument valued at effective interest rate is settled over time in the income statement in the period remaining to maturity. The valuation of hedged financial assets classified as available for sale resulting from other factors than hedged risks is presented under revaluation reserve until disposing of such asset.

Derivative instruments not qualifying as hedging instruments

Derivative instruments that are not subject to hedge accounting principles are classified as instruments for trading, and valued at fair value The changes in fair value of derivative instruments that do not meet hedge accounting criteria are recognized in the profit and loss for the current period in in item ‘Result from financial instruments valued at fair value through the profit and loss account’ or ‘Foreign exchange profit’ of the Income Statement.

The Bank uses the following principles of recognition of gain and losses resulting from the valuation of derivative instruments:

1) *FX forward*

   Forward transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FX forward transactions are recorded in *‘Foreign exchange profit’* of the Profit and Loss Account.

2) *FX SWAP*

   FX SWAP transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FX SWAP transactions are recorded in *Result from financial instruments valued at fair value through the profit and loss account* and in *Foreign exchange profit* of the Profit and Loss Account.

3) *Interest Rate SWAP (IRS)*

   IRS transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of IRS transactions are recorded in *Result from financial instruments valued at fair value through the profit and loss account* of the Profit and Loss Account.

4) *Cross – Currency Swap (CCS)*

   CCS transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of CCS transactions are recorded in *Result from financial instruments valued at fair value through the profit and loss account* of the Profit and Loss Account.

   Moreover, the Bank designated selected CCS transactions as hedging instruments. The recognition and valuation criteria of hedging instruments in accordance with hedge accounting rules are described in the part on hedge accounting.

5) *Equity SWAP, Volatility Swap, Swap with embedded FX option*

   The swap transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of the above transactions are recorded in *Result from financial instruments valued at fair value through the profit and loss account* of the Profit and Loss Account.

6) *FX options*

   Transactions on options are valued at fair value on discounted future cash flows basis. Any changes in fair value of option transactions are recorded in *Result from financial instruments valued at fair value through the profit and loss account* of the Profit and Loss Account.

7) *Forward Rate Agreement (FRA)*

FRA transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FRA transactions are recorded in *Result from financial instruments valued at fair value through the profit and loss account* of the Profit and Loss Account.

4. Financial assets and liabilities

Classification

The Bank classifies financial instruments (as defined in IAS 39) into the following categories: financial assets and liabilities valued at fair value through profit and loss, investments held to maturity, loans and receivables, financial assets available for sale, capital investment in subsidiaries and associates, other financial liabilities. The classification of investments is determined by the related individuals at the time of their initial recognition.

- *Financial instruments valued at fair value through the profit and loss*

  These are financial assets or financial liabilities that are either held for trading (those that acquired or incurred principally for the purpose of selling it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading, other than those that are designated and effective hedging instruments or those that were designated as at fair value through profit and loss.

  Such designation can be made only if (i) the designated financial asset or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden; (ii) usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (so called accounting difference due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them); (iii) the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

  The Bank does not reclassify financial instruments to or from categories at fair value through profit and loss since initial recognition.

- *Held to maturity investments*

  These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than: (1) those that the Bank upon initial recognition designates as at fair value through profit or loss; (2) those that the entity designates as available for sale; and (3) those that meet the definition of loans and receivables; (4) capital investment in subsidiaries and affiliates.

  Held to maturity investments cannot be reclassified to other category. The Bank cannot classify any financial assets as held to maturity during two financial years (any remaining held to maturity investments have to be reclassified as available for sale), if the Bank, during the current financial year, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. This does not apply if the sale or reclassification, described above took place, so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; the event occurs after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or the event is result of an isolated event that is beyond the Bank's control, is nonrecurring and could not have been reasonably anticipated by the Bank.

- *Loans and receivables*

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: 1) those that are classified as held for trading or are designated as at fair value through profit or loss; 2) those that the entity upon initial recognition designates as available for sale; 3) capital investment in subsidiaries and associates or 4) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

- *Financial assets available for sale*

  Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss and are not capital investment in subsidiaries and associates.

- *Other financial liabilities*

  The Bank classifies as other financial liabilities any financial liabilities not included in the category of financial instruments priced at fair value through the income statement, including in particular deposits taken and advances received.

Recognition of financial instruments in the balance sheet

The Bank recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Standarised purchase and sale transactions of financial assets are recognized at the transaction date .

All financial assets at the moment of initial recognition are recognized at fair value adjusted, in the case of a financial asset not valued at fair value through profit or loss, by transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Derecognition of financial instruments from the balance sheet

The Bank derecognizes a financial asset when and only when: the contractual rights to the cash flows from the financial asset expire, or the Bank ransfers the financial asset to third party. The transfer takes place when the Bank 1) transfers the contractual right to receive the cash flows from the financial asset, or 2) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to an entity from outside the Bank. On transferring a financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

– transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset,
– retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset,
– neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, and if the Bank has not retained control, it derecognises the financial asset accordingly.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Valuation of financial instruments after the initial recognition in the balance sheet

After the initial recognition, financial instruments are valued as follows:

- *Financial instruments valued at fair value through the profit and loss*

  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Bank.

- *Held to maturity investments and loans and receivables*

  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- *Financial asset available for sale*

  Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity until the derecognition of the respective financial asset in the balance sheet or until its impairment: at such time the aggregate net gain or loss is recognised in the profit and loss.

  Interests calculated using the effective interest rate is recognized in interest income.

  If there are objective triggers that such asset has become impaired, then the Bank recognises the revaluation charge in the manner described in item 6 Impairment of Financial Assets.

- *Other financial liabilities*

Financial instruments classified as other financial liabilities are valued at amortized cost using the effective interest rate.

In the first place the measurement at fair value is based on prices quoted for a given instrument on the active market. If the valued instrument is not quoted on an active market, the Bank determines the fair value using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of other instruments, discounted cash flow analysis and option pricing models, as well as other valuation methods generally applied by market participants.

5. Capital investments in subsidiary and associated entities

Subsidiary entities

Subsidiary entities are any entities (including SPVs) controlled by the Bank (the Group's parent company), which means that the Bank directly or indirectly influences the financial and operational policy of a given entity in order achieve economic advantages. When assessing if the Group controls a given entity what is taken into account is among others the existence and impact of potential voting rights which at a given moment can be exercised or exchanged.

You can also speak of exercising control, if the parent company has a half or less of the voting rights in a given business unit and if:

a) it has more than a half of the voting rights under an agreement with other investors,

b) it has the ability to govern the financial and operational policy of the business entity under articles of association or agreement,

c) it has the ability to appoint or recall a majority of members of the Management Board or an equivalent body, where such Management Board or body exercises control over the entity, or

d) it has a majority of votes at meetings of the Management Board or an equivalent body, where such Management Board or body exercises control over the entity.

Subsidiary entities are subject to consolidation from the day of the Group's assuming their control. They cease to be consolidated once the control has ceased.

Associated entities

Associated entities are any entities which the Group has a considerable influence upon but which are not controlled by it - this is usually accompanied by holding 20% to 50% of the total number of votes in the decision-making bodies. A considerable influence is defined as the right to participate in decision-making about the operational and financial policy of the business entity, provided it does not consist in exercising control or joint control over the such entity's policy .

Investments in subsidiary and associated entities are recognised at cost of purchase (under IAS 27) less potential impairment charges calculated according to IAS 36 and recognised in the income statement. The payout of a dividend is not reflected in the on-balance value of the investment, it impacts solely the income statement and is included under „dividend income".

6. Impairment of financial assets

Assets valued at amortized cost

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence of impairment includes, inter alia, information on one or more of the following loss- events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- concessions granted by the Bank to a borrower caused by borrower's financial difficulties due to the economic or legal aspects, which would not be considered otherwise;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
    - adverse changes in the payment status of borrowers; or
    - national or local economic conditions that correlate with defaults on the assets in the Bank

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Bank classifies credit receivables by size of engagement, into the individual and group portfolios. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or other financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is possible.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of the uniformity of credit risk connected with the given portfolio. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. For the purposes of the calculation of the provision against balance sheet exposures analysed collectively, inter alia, the probability of default (PD) method is applied. Modification of the PD parameter takes into account characteristics of specific products and emerging periods for losses on those products. In particular this approach allows to detect credit losses as of the balance sheet date: 1) incurred and reported, as well as 2) incurred but not yet reported (the so-called „IBNR” provision).

The impairment is presented as a reduction of the carrying amount of the asset either through use of an allowance account and the amount of the loss shall be recognized in profit or loss.

When a loan is uncollectible, it is written off against the related provision for impairment. Before any loan is written off, it is necessary to conduct all the required procedures and to determine the amount of the loss. Recoveries subsequent to write – offs decrease the amount of the provision for loan impairment in the profit and loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal shall be recognised in profit or loss.

Financial assets available for sale

At each balance sheet date the Bank estimates whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

For financial assets classified as available for sale, if the impairment of the fair value of such assets was recorded directly in equity and if there are objective impairment triggers for such asset, then the cumulated losses so far recognised directly in equity are removed from equity and recorded in the income statement, despite the financial asset not having been removed from the balance sheet.

The amount of cumulated losses which is taken off equity and recognised in the income statement constitutes the difference between the cost of purchase (less any repayment of capital and depreciation) and the current fair value, less any impairment losses for such asset which were previously recorded in the profit and loss account.

Impairment losses on an investment in a capital instrument qualified as available for sale are not reversed through the income statement.

If the fair value of a debt instrument classified as available for sale grows later and such growth can be objectively linked to an event which took place after the impairment was included in the income statement, then the impairment charge is reversed in the income statement.

7. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

8. Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.

The Bank presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause.

This is in order to reflect the risks and rewards arising on this asset that is retained by the Bank after the transfer. When the Bank purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

These transactions are measured at amortized cost, and securities which are the subject of aforementioned transactions are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio.

The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

9. Receivables from Leasing Agreements

The bank is a party to leasing agreements based on which it accepts for paid use or collecting benefits external fixed assets for an agreed period. These are agreements, (mainly of rent or lease) under which in principle not the whole risk and benefits resulting from the assets subject to the Agreement are transferred, namely those which do not meet the terms of the financial leasing agreement (operational leasing).

Leasing fees resulting from such agreements are recognised as expenses in the income statement on a straight-line basis throughout the period of leasing duration.

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, under the rent agreement or for administrative purposes.

Accounting for tangible fixed assets is conducted according to a model based on the purchasing price or production cost i.e. after initial recognition they are disclosed at historic cost less depreciation (amortisation) and impairment charges. Historic cost comprises purchasing price/ production cost and costs directly associated with the purchase of given assets.
Fixed assets under construction are disclosed at the value of the purchasing price or production cost and are not subject to depreciation.

Subsequent costs

The Bank recognises in the on-balance value of tangible fixed assets the costs of replacing part of those positions at the moment of incurring them, if it is likely to obtain future economic benefits connected with a given asset and the purchasing price or production cost can be credibly valued. Other costs are incurred in the income statement at the moment of their incurring.
Costs of repairing and maintenance of tangible fixed assets encumber the income statement in the reporting period in which they were incurred.

Intangible assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form.
Intangible assets are deemed to include assets which can be separated from an entity and sold, transferred, licensed or rented to third parties, either individually or together with a related contract, asset or liability. Intangible asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Computer software

Purchased computer software licenses are activated in the amount of incurred cost of purchase and preparation for use, taking into account impairment charges.

Outlays associated with with the improvement and maintenance of computer software are disclosed as costs at the moment of being incurred.

Other Intangibles

Other intangibles purchased by the Bank are recognized at cost less accumulated amortization and accumulated impairment write-offs.

Subsequent costs

Subsequent costs incurred after initial recognition of acquired intangible assets are recognized only when it is probable that future economic benefits will flow to the Bank. In the other cases, costs are charged to the profit and loss in the reporting period in which they were incurred.

Depreciation and amortization charges

The depreciation charge of tangible and intangible assets is accounted for on a straight line basis with the use of defined depreciation rates throughout the period of their useful lives. The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The useful life, amortization/ depreciation rates and residual values of tangible and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation periods recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 charged to profit and loss).

No depreciation is made of land, outlays for tangible fixed assets and outlays for intangible assets. Neither are any depreciation charges made with respect to an intangible asset with an indefinite period of use. Intangible assets with an indefinite period of use are regularly tested for impairment as of every balance sheet date.

On-balance depreciation rates employed for basic groups of tangible fixed assets and intangible assets and for investment real estate are as follows:

Selected categories of property, plant and equipment:	
Bank buildings	2.5%
Lease holding improvements	period of the lease, hire purchase
Computer hardware	30.0%
Network devices	30.0%
Vehicles	20.0%
Telecommunication equipment:	10.0%
Intangibles (software):	
Main applications (systems)	10.0%

For other computer software the Bank applies the rate not lower than 50%, which depends on the expected useful life.

Depreciation and amortization charges are recognized as operating expenses in the profit and loss account.

11. Non current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
For this to be the case the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated.
Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non- current assets held for sale are measured at the lower of: its carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:
(a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
(b) its recoverable amount at the date of the subsequent decision not to sell.

12. Impairment of non current assets

The Bank assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Bank estimates the recoverable amount of the asset and if the recoverable amount of an asset is less than its carrying amount, the Bank recognizes impairment charge in the profit and loss.

The impairment loss is the difference between the carrying amount and the recoverable amount of the asset. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is established for particular assets, if a given asset generates cash flows substantially independent of those generated by other assets or groups of assets. If such indications exist, the Bank performs an estimation of recoverable value. If, and only if, the recoverable value of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value.

If pursuant to IAS 36, paragraph 21 there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will be particularly the case of an asset that is held for disposal.

An impairment charge can be reversed through P & L to the level at which the book value of the asset does not exceed the net book value of a given asset component on the assumption that no revaluation charge was made, but depreciation was continued.

Prepayments, Accruals and Deferred Income

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet. This caption also includes the annual fee for perpetual usufruct of land accrued over time.

Accruals are provisions for costs arising from services provided to the Bank, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities' in the balance sheet.
Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities' in the balance sheet.

13. Provisions

Provisions are established when (1) the Bank has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.
A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Bank has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of

employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The restructuring provision does not cover future operating expenses.

Employee Benefits

Short-Term Employee Benefits

Short-term employee benefits of the Bank (other than termination benefits) comprises of wages, salaries, and paid annual leave and social security contributions.

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

Long-term employee benefits

The Bank's liabilities on long-term employee benefits are equal to the amount of future benefits which the employee will receive in return for providing his services in the current and earlier periods which are not fully due within 12 months from carrying out the work.

In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Bank's future liabilities due to employees according to the headcount and wages as at the date of revaluation. The provision is updated on an annual basis.

Provisions for short-term and long-term employee benefits are recognized in the caption 'Other Liabilities' in balance sheet in correspondence with the 'staff costs' in the profit and loss.

The Bank fulfils a programme of post – employment benefits called defined contribution plan. Under this plan the Bank pays fixed contributions into the state pension fund. Post – employment benefits are paid to an employee from the proceeds of the fund including the return on the invested contributions. Consequently, the Bank does not have a legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

14. Bank's Equity

Equity consists of capital and funds established in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or the Articles of Association.

Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are presented at nominal value.

Share Capital

Share capital is presented at nominal value, in accordance with the Articles of Association and the entry in the Register of Companies.

If the Bank acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is treated as a change in the Equity. Acquired own shares are treated as own shares and disclosed as reduction of the Equity until the time they are cancelled.

Dividends for the financial year which have been approved by the General Shareholders' Meeting, but not distributed as of the balance sheet day are disclosed in the caption „Other Liabilities' in the balance sheet.

Share Premium

Share premium is formed from agio obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Revaluation Reserve

Revaluation of financial assets available for sale including deferred income tax resulting from above mentioned treatments are included in revaluation reserve. Revaluation reserve is not subject to distribution.

Retained Earnings

Retained earnings are created with charges against profit and are allocated for purposes specified in the Articles of Association or other legal regulations (the remaining part of supplementary capital, additional reserve capital, including general banking risk fund) or constitute previous years' profit/loss or year-to-date net financial result.

The General Banking Risk Fund at Bank Millennium SA is created from profit after tax in accordance with the Banking Act dated 29 August 1997 as later amended.

A current period's net financial income is the result from the current period's income statement adjusted by the corporate income tax charge.

15. Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees granted are measured at the higher of:

(a) The amount being the best estimate of the expenditure required to settle the present obligation resulting from this financial guarantee, considering the probability of its realization;
(b) the amount initially recognised less amortized amount of commission received for guarantee granting,

16. Interest income

The Bank recognises in the Profit and Loss Account all interest revenue and costs concerning financial instruments measured at amortised cost with use of the effective interest rate method as well as financial assets available for sale.
Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result from financial instruments valued at fair value through the profit and loss account. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.
Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the accounting for hedging the fair value of FX securities with respect to interest rate fluctuation risk and in the accounting for hedging against the volatility of cash flows generated by the FX mortgage loan portfolio and zloty deposits funding them.
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

Interest income comprises interest and commissions (received or due) included in the calculation of the effective interest rate on: loans with repayment schedule, inter-bank deposits and securities held to maturity, available for sale and valued at fair value through profit and loss account. Additionally, interest income includes the directly attributable incremental costs to the conclusion loan agreement incurred by the Bank (mainly commissions paid to external and own agents for concluding mortgage loan agreements, and costs of property valuation connected with this type of agreements) that are an integral part of the effective interest rate calculation and subject to amortization over time.

Following the recognition of an impairment loss on a financial instrument carried at amortized cost and available for sale financial assets, interest income is recognised in the profit and loss calculated on a net asset value basis (gross carrying amount less impairment amount). In this case interest income is calculated using the interest rate applied for discounting future cash flows for the purpose of impairment valuation.

17. Fee income/ Fee and commission expenses

Fee income and expenses relating to the handling of bank accounts, payment card operations , factoring, are included in the income statement at the moment of carrying out the service, while the remaining fees and commissions are settled over time.

The basic types of commissions associated with lending operations at the Bank include among others preparation fees/commissions and commitment fees.

Fees and commissions (both income and expense) directly associated with the origination of financial assets having specific repayment schedules are included in the income statement as an element of the effective interest rate; they are part of interest income. Other fees integrally associated with with the origination of assets without specific time schedules are settled on a straight-line basis within the duration of the contract. Fees for a commitment to grant an advance which will probably be taken are deferred and once the financial assets arise are settled as an element of an effective interest rate or on a straight-line basis with the use of the above-mentioned criterion. In the case of loans and advances with unspecified instalment payment dates and unspecified interest rate repricing dates, e.g. overdraft facilities and credit cards, commissions are settled over time throughout the period of card validity or overdraft limit validity by straight-line method and accounted towards commission income.

Other fees and commissions associated with financial services offered by the bank, such as cash management, brokerage and asset management services, are recognised in the income statement at the time carrying out the service.

18. Dividend Income

Dividend income is recognized in the profit and loss when the shareholders' right to receive payment is established.

19. Result on Investment Financial Instruments

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.
Net income from investment financial assets also covers the change of fair value of hedging derivative transactions designated as and being effective hedging instruments in hedge accounting for the fair value of FX securities with respect to interest rate fluctuation risk.

20. Result on Financial Instruments Valued at Fair Value through the Profit and Loss Account

Result on financial instruments valued at fair value through the profit and loss includes profits and losses generated as a result of selling financial instruments from the trading portfolio and the effect of their valuation to fair value (debt securities and derivatives held for trading).

21. Foreign exchange profit

Foreign exchange profit is calculated taking into account foreign exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency at the average rate established as at the balance sheet date for a given currency by National Bank of Poland and recognized under foreign exchange profit.

Result on foreign exchange includes also result and valuation of FX spot and FX forward transactions.

22. Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the Bank's core activity.

In particular, this is result on sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines.

23. Income tax

Corporate income tax comprises current and deferred tax.

Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.

Deferred income tax depending on the source of the origin of the temporary differences is recorded in the income statement or in equity.

The Bank forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are caused by a timing shift between the moment of recognising income as earned and expense are incurred according to accounting and corporate income tax regulations. The provision for deferred income tax is recognised in liabilities as "Provision for deferred income tax".

Provision for a deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Bank offsets deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

The deferred income tax asset or liability are created on a balance sheet method basis with regard to all temporary differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value.

Deferred income tax liabilities are created for all positive temporary differences except when it arises from the amortization of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

Deferred income tax assets are recognised with respect to all negative timing differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value. Deferred income tax assets are also recognised for the unused tax losses carried forward. Deferred income tax assets are recognised in the amount in which taxable income is likely to be achieved, which allows to set off negative temporary differences and unused tax losses carried forward.

Deferred income tax assets are not recognised for negative temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).

The carrying amount of a deferred income tax asset is verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or component in respect of deferred income tax.

The calculation of assets on deferred income tax and provisions for deferred tax is based on the anticipated degree of realising the on-balance value of assets and liabilities, with the application of the tax rates, which are anticipated to be in force in the period when the asset is realised or provision eliminated, taking as the basis the tax rates (and tax regulations) legally or factually binding as of the balance sheet date.

Income tax relating to positions included directly in equity is recognised in equity.

24. Application of Estimates in connection with Accounting Policies

The preparation of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements.

The estimates and assumptions, revised by the Bank management on a regular basis, are made on basis of historical experience and other factors considered being relevant in given circumstances.

Despite the fact, that such estimates are based on best knowledge about current conditions and activities undertaken by the Bank, the actual results may differ from the estimates. The major areas for which the Bank makes estimates are presented below.

- *Impairment of loans and advances*

For each balance sheet date, the Bank assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Bank assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio since the initial recognition of those assets, although the decrease cannot yet be identified with the individual. The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be recovered are regularly reviewed and updated, in order to estimate the difference between the actual loss results and estimations of impairment.

- *Fair value of financial instruments*

The fair value of financial instruments not quoted on active markets is measured using valuation models. For non-optional derivatives and debt securities, valuation models based on discounted cash flows are used. Options are valued using option valuation models.

Valuation models used by the Bank, are approved before their use and calibrated in order to ensure, that results achieved reflect actual data and comparative market prices. Where possible, in models the Bank uses observable data from active markets.

- *Impairment of other non current assets*

The Bank assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Bank performs an estimation of recoverable amount. Estimation of value-in-use of a non-current asset (or cash generating units) requires assumptions to be adopted, regarding, among others, amounts and timing of future cash flows, which the Bank may obtain from the given non-current asset (or cash generating unit). The Bank performs an estimation of the fair value less costs to sell on the basis of available market data regarding this subject or estimations made by external parties, which are also based on estimations.

- *Other Estimate Values*

Retirement provision is calculated using an actuarial method by an independent actuary as the present value of future liabilities of the Bank due to employees based on headcount and remuneration as of the date of the update. The estimation of the provision is made on the basis of several assumptions, regarding macroeconomic conditions and employee turnover, mortality risk and other.

With regard to certain short-term employee benefits (bonuses granted to directors and key management personnel), the Management Board makes assumptions and estimates regarding the amount of benefits as at the balance sheet date. The final amount of bonuses granted is established by the Supervisory Board.

VII. NOTES TO FINANCIAL REPORT

Figures presented in the notes to financial report in PLN thousands.

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Interest income and other of similar nature, including:		
Balances with the Central Bank	9 771	10 109
Loans and advances to banks	100 058	124 446
Loans and advances to customers	591 226	522 958
Transactions with repurchase agreement	2 421	5 570
Subordinated loans	392	1 164
Hedging derivatives	99 957	15 769
Financial assets held for trading (debt securities)	135 947	175 981
Investment securities	221 684	281 916
Total	**1 161 456**	**1 137 913**

The item „Hedging derivatives" contains net interest income on selected derivatives used as effective hedging instruments regarding cash flows. Detailed description of hedging mechanisms applied by the Bank can be found in ***note (16)***.

Interest income for 2006 contains interest accrued on impaired loans at PLN 26 832 thousand (the corresponding figure for the 2005 comparable data was PLN 25 044 thousand).

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Interest expense and other of similar nature, including:		
Banking deposits	-50 439	-9 378
Loans	-23 721	-66 716
Transactions with repurchase agreement	-155 381	-172 065
Hedging derivatives	0	-17 239
Deposits from customers	-411 742	-490 929
Subordinated debt	-14 011	-12 150
Debt securities	-532	-10 279
Total	**-655 826**	**-778 756**

(3) *FEE AND COMMISSION INCOME*

3a. Fee and commission income

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Resulting from accounts service	63 468	58 704
Resulting from loan activity	32 902	26 498
Resulting from payments service	35 783	40 747
Resulting from payment and credit cards	81 201	69 590
Resulting from financial intermediation, including:	56 767	1 227
- bankassurance	35 531	1 227
- sale of non-Group investment funds units	21 236	0
Investment funds units distribution/ management commissions	35 791	6 888
Custody and deposit of securities commissions	5 120	4 060
Commissions on guarantees and sureties granted	7 602	5 943
Other	8 904	24 707
Total	**327 538**	**238 364**

The item *Commissions on payments handling* includes commissions for transfers, cash deposits and withdrawals, as well as other payment transactions.

3b. Fee and commission expense

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Resulting from accounts service	-694	-616
Resulting from loan activity	-4 141	-1 082
Resulting from payments service	-193	-71
Resulting from payment and credit cards	-37 804	-18 417
Other	-3 785	-2 919
Total	**-46 618**	**-23 105**

(4) *DIVIDEND INCOME*

4. Dividend income

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Dividend income from related parties	507 096	372 198
Dividend income from other entities	1 840	1 593
Total	**508 936**	**373 791**

Net dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in 2006 and 2005 to PLN 506 363 thousand, and PLN 371 599 thousand, respectively.

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2006 - 31.12.2006	**01.01.2005 - 31.12.2005**
Operations on debt instruments	1 178	31 246
Operations on investment funds units	325	0
Operations on equity instruments	2 046	642
Total	**3 549**	**31 888**

(5B) NET INCOME ON FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT

The Net trading income contains profits and losses generated by selling financial instruments posted under financial assets/ liabilities valued at fair value through Profit and loss account, as well as the result of their valuation at fair value.

5b. Result on financial instruments valued at fair value through profit and loss

	01.01.2006 - 31.12.2006	**01.01.2005 - 31.12.2005**
Operations on securities	-7 906	19 302
Operations on derivatives	71 749	-169 320
Total	**63 843**	**-150 018**

Starting January 1, 2006, the Bank (and the entire Group) created a formal link hedging against the risk of fluctuating cash flows (hedge accounting). In consequence, any 2006 interest accrued on hedging derivatives shall be included in the interest margin. This matter is discussed in ***note (16)***.

In consequence of the final settlement of the sale of 10% of shares of PZU S.A., 2005 saw the Bank recognizing PLN 283 500 thousand of costs of derivative operations under a SWAP contract made on October 1, 2003 with Banco Comercial Portugues.

	In PLN thous.
Settlement of dividend paid by PZU S.A. for 2004 – Group's share	48 537
Adjustment in minimum guaranteed sale price	700 000
Cost of swap transaction with BCP	-283 500
Settlement of interest income for deferred payment term of second instalment of minimum guaranteed sale price	24 941
Total gross result	**589 978**

(5C) RESULT ON OTHER FINANCIAL INSTRUMENTS

5c. Result on other financial instruments

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Other operations	-12 875	-6 264
Total	**-12 875**	**- 6 264**

Net income on other financial instruments contains settlements of financial intermediation services, including custody activities.

6) OTHER OPERATING INCOME AND EXPENSES

6a. Other operating income

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Profit on sale of non current assets held for sale	10 414	0
Non-core income	9 312	8 661
Remuneration for advisory services provided by subsidiary, consisting in negotiations and other activities connected with sale of PZU S.A. shares	0	14 000
Income from collection service	1 164	890
Costs incurred in previous years	0	1 631
Other	18 610	8 269
Total	**39 500**	**33 451**

6b. Other operating expenses

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Loss on sale and liquidation of property, plant and equipment, intangible assets	0	-1 711
Indemnifications, penalties and fines paid	-794	-95
Provisions for contentious claims	-19 095	0
Non-core costs	-5 111	-4 805
Donations made	-616	-496
Costs of collection service	-3 030	-1 442
Other	-6 425	-2 683
Total	**-35 071**	**-11 232**

The Other operating expenses of 2006 (item „Other" above) have been supported by a provision towards a fine imposed onto banks by the President of the Consumer and Competition Protection Bureau (the share of the fine attributable to Bank Millennium S.A. is PLN 12 158 370, the provision is equal). The decision to impose the fine was made in consequence of an anti-monopolistic investigation, initiated by the Polish Organisation for Trade and Distribution, and resulted from recognising the practice of banks' arrangments regarding joint establishment of the interchange fee on Visa and Mastercard card transactions as „competition-limiting”.

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Staff costs:	**-375 320**	**-290 382**
Salaries	-359 380	-277 544
Employee benefits, including:	-15 940	-12 838
- provisions for retirement benefits	-2 639	-990
- other	-13 301	-11 849
General administrative costs	**-353 290**	**-312 111**
Costs of advertising, promotion and representation	-43 918	-32 826
Costs of software maintenance and IT services	-12 291	-15 938
Costs of renting	-79 712	-78 737
Costs of buildings maintenance, equipment and materials	-33 608	-27 013
ATM and cash costs	-22 079	-21 890
Costs of communications and IT	-63 238	-38 165
Costs of consultancy, audit and legal advisory and translation	-23 026	-18 097
Taxes and fees	-15 119	-15 837
KIR clearing charges	-2 196	-2 605
PFRON costs	-3 103	-2 695
BFG costs	-2 434	-2 306
Other	-52 567	-56 001
Total	**-728 610**	**-602 493**

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Impairment losses on loans and advances to customers	**-46 171**	**214 464**
- Impairment charges on loans and advances to customers	-410 434	-602 461
- Reversal of impairment charges on loans and advances to customers	345 896	778 345
- Amounts recovered from loans written off	18 367	38 580
Impairment losses on investment securities	**0**	**1 037**
- Impairment write-offs for investment securities	0	-674
- Reversal of impairment write-offs for investment securities	0	1 711
Impairment losses on investments in associates	**-1 926**	**-174**
- Impairment write-offs for investments in associates	-1 926	-2 874
- Reversal of impairment write-offs for investments in associates	0	2 700

Impairment losses on off-balance sheet liabilities	**6 037**	**2 882**
- Impairment write-offs for off-balance sheet liabilities	-26 842	-45 118
- Reversal of impairment write-offs for off-balance sheet liabilities	32 879	48 000
Total	**-42 060**	**218 209**

(9) IMPAIRMENT LOSSES ON NON FINANCIAL ASSETS

9. Impairment losses on non financial assets

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Fixed assets	-3 099	-18 110
Other assets	1 969	-2 721
Total	**-1 130**	**-20 831**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Property, plant and equipment	-47 972	-69 502
Intangible assets	-10 315	-12 988
Total	**-58 287**	**-82 490**

Following the IAS 38 and IAS 16, at the end of 2005 the Bank verified the lenght of the period of economic lifetime of intangibles and tangible fixed assets. In result, the 2005 amortisation amount was increased by PLN 11m, largely caused by a decision to implement a new business model of the Bank, including a change in the visual identity of branches.

(11) INCOME TAX

11a. Income tax

Income tax reported in income statement	31.12.2006	31.12.2005
Current tax	**-29 815**	**0**
Current year	-29 815	0
Adjustments in previous years	0	0
Deferred tax	**-10 831**	**-15 069**
Appearance and reversal of temporary differences	42 724	-19 605
Utilisation of tax loss	-53 555	0
Adjustment in CIT-8 return	0	4 536

Other		
Receivables resulting from the article 38a of the CIT Act	1 564	-1 796
Total income tax reported in income statement	**-39 082**	**-16 865**

11b. Effective tax rate

	31.12.2006	31.12.2005
Gross profit / (loss)	**701 764**	**443 123**
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-133 335**	**-84 193**
Impact of permanent differences on tax charges:	**94 253**	**67 328**
Non taxable income	97 426	71 118
- Dividend income	96 698	71 020
- Reversal of impairment charges on loans (tax non deductible)	578	0
- Other	150	97
Cost which is not a tax cost	-7 135	-1 994
- Provision for penalties and claims	-3 771	0
- Loss on sale of receivables	0	-1 403
- PFRON fee	-537	-512
- Other	-2 826	-79
Change in not recognized deferred income tax asset	2 398	0
Receivables resulting from the article 38a of the CIT Act	1 564	-1 796
Total income tax reported in income statement	**-39 082**	**-16 865**

11c. Deferred tax reported directly in equity

Valuation of available for sale securities	-2 177	-6 475
Valuation of cash flow hedging instruments	-140	0
Deferred tax reported directly in equity	**-2 317**	**-6 475**

(12) EARNINGS PER SHARE

12. Earnings per share (PLN)

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Net earnings	662 682	426 258
Weighted average number of shares in the period	849 181 744	849 181 744
Earnings per share	**0.78**	**0.50**

Earnings per share was calculated by dividing net profit for the period by average weighted number of share in the period, that remained unchanged throughout both presented years.

Since the Bank does not plan any new issue in the near future (no diluting instruments), the diluted earnings per share is equal to earnings per share (the same calculation methodology).

(13) CASH, BALANCES WITH THE CENTRAL BANK

13a. Cash, balances with the Central Bank

	31.12.2006	31.12.2005
Cash	413 658	297 657
Cash in Central Bank	551 138	212 942
Other funds	1 021	186
Total	**965 817**	**510 785**

Between November 30, 2006 and January 1, 2007, the Bank maintained at its NBP current account an average balance of PLN 522 194 thousand (arithmetic average of all provisioning period daily balances).

The interest rate on the mandatory provision funds is 0.9 of the rediscount rate, and in the period in question amounted to 3.825%, with 50% of the interest on the mandatory provision feeding the Union Surety Fund.

13b. Cash, balances with the Central Bank – by currency

	31.12.2006	31.12.2005
a. in Polish currency	835 923	399 643
b. in foreign currencies (after conversion to PLN)	129 894	111 142
- currency: USD	23 367	21 456
- currency: EURO	75 352	59 360
- currency: GBP	18 016	17 048
- other currencies (PLN '000)	13 159	13 278
Total	**965 817**	**510 785**

(14) LOANS AND ADVANCES TO BANKS

14a. Loans and advances to banks

	31.12.2006	31.12.2005
Current accounts	32 410	21 059
Deposits in other banks	810 290	2 256 001
Loans	269 424	318 647
Other	322	349
Interest	10 685	6 759
Total (gross) loans and advances to banks	**1 123 131**	**2 602 815**
Impairment write-offs	0	0
Net loans and advances to banks	**1 123 131**	**2 602 815**

14b. Loans and advances to banks by maturity date

	31.12.2006	31.12.2005
Current accounts	32 410	21 059
- to 1 month	310 103	1 688 532
- above 1 month to 3 months	187 198	105 333
- above 3 months to 1 year	313 323	462 262
- above 1 year to 5 years	0	70 236
- above 5 years	269 412	248 634
- past due	0	0
Interest	10 685	6 759
Total (gross) loans and advances to banks	**1 123 131**	**2 602 815**

14c. Loans and advances to banks by currency

	31.12.2006	31.12.2005
in Polish currency	866 027	1 411 253
in foreign currencies (after conversion to PLN)	257 104	1 191 562
- currency: USD	19 020	859 315
- currency: EURO	108 208	301 952
- currency: CHF	75 620	708
- currency: GBP	22 385	17 239
- other currencies (PLN ‘000)	31 871	12 348
Total	**1 123 131**	**2 602 815**

14d. Change of impairment write-offs for loans and advances to banks

	31.12.2006	31.12.2005
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	**0**	**0**

(15) FINANCIAL ASSETS VALUED TO FAIR VALUE THROUGH THE PROFIT AND LOSS

	31.12.2006	31.12.2005
15a. Debt securities	**3 368 029**	**2 992 560**
Issued by State Treasury	3 368 029	1 775 975
a) bills	108 701	0
b) bonds	3 259 328	1 775 975
Issued by Central Bank	0	1 216 585
a) bills	0	1 216 585
b) bonds	0	0
Other securities	0	0
a) listed	0	0
b) not listed	0	0
Equity instruments	**4 020**	**0**
Quoted on the active market	4 020	0
a) financial institutions	0	0
b) non-financial institutions	4 020	0
Not quoted on the active market	0	0
a) financial institutions	0	0
b) non-financial institutions	0	0
Positive valuation of derivatives	**370 336**	**310 106**
Total	**3 742 385**	**3 302 666**

15b. Financial assets valued at fair value through profit and loss

	31.12.2006	31.12.2005
Trading financial assets	3 742 385	3 302 666
Financial assets valued at fair value when initially recognized	0	0
Total	**3 742 385**	**3 302 666**

Information on financial assets collateralizing liabilities has been presented in Chapter XI.

15c. Debt securities valued at fair value through profit and loss, at balance sheet value

	31.12.2006	31.12.2005
- with fixed interest rate	2 624 305	2 298 053
- with variable interest rate	743 724	694 507
Total	**3 368 029**	**2 992 560**

15d. Debt securities valued at fair value through profit and loss by maturity

	31.12.2006	31.12.2005
- to 1 month	900	1 216 701
- above 1 month to 3 months	35 076	8 634
- above 3 months to 1 year	469 274	250 144
- above 1 year to 5 years	2 585 365	1 123 231
- above 5 years	277 414	393 850
Total	**3 368 029**	**2 992 560**

15e. Change of debt securities and equity instruments valued at fair value through profit and loss

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	2 992 560	2 531 458
Increases (purchase and accrual of interest and discount)	75 669 806	114 547 227
Reductions (sale and redemption)	-75 287 145	-114 075 085
Differences from pricing at fair value	-3 172	-11 041
Balance at the end of the period	**3 372 049**	**2 992 560**

15f. Derivatives as at 31.12.2006

Amount in '000 PLN	**Nominal value of instruments with future maturity**			**Fair values**		
	below 3 months	**from 3 months to 1 year**	**above 1 year**	**Total**	**Assets**	**Liabilities**
1. Interest rate derivatives						
Forward Rate Agreements (FRA)	1 750 000	575 930	0	900	1 227	327
Interest rate swaps (IRS)	2 800 000	6 568 478	12 134 608	-9 770	143 420	153 190
Other interest rate contracts: volatility swap, swap with FX option	0	71 122	110 200	4 440	5 286	846
Total interest rate derivatives	**4 550 000**	**7 215 530**	**12 244 808**	**-4 430**	**149 933**	**154 363**
2. FX derivatives						
FX contracts	5 492 828	2 668 006	2 303 742	-6 234	36 041	42 275
FX swaps	5 320 853	658 694	0	51 521	65 588	14 067
Other FX contracts (CIRS)	0	0	2 416 812	38 756	41 622	2 866
FX options	4 192 790	3 430 316	66 820	0	24 702	24 702
Total FX derivatives	**15 006 471**	**6 757 016**	**4 787 374**	**84 043**	**167 953**	**83 910**
3. Commodity derivatives						
Commodity forwards	80 213	0	0	120	10 199	10 079
Commodity options	363 514	548 816	106 504	0	32 257	32 257
Total commodity derivatives	**443 727**	**548 816**	**106 504**	**120**	**42 456**	**42 336**
4. Options embedded in deposits		**0**	**0**	**-18 135**	0	18 135
5. Valuation of future FX payments		**0**	**0**	**9 994**	9 994	0
6. Other		**0**	**0**	**0**	0	0
7. Total derivatives	**20 000 198**	**14 521 362**	**17 138 686**	**71 592**	**370 336**	**298 744**

15g. Derivatives as at 31.12.2005

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives						
Forward Rate Agreements (FRA)	0	3 600 000	0	501	1 168	667
Interest rate swaps (IRS)	0	0	9 221 572	-39 870	68 352	108 222
Other interest rate contracts: volatility swap, swap with FX option	0	0	352 567	2 380	12 745	10 365
Total interest rate derivatives	**0**	**3 600 000**	**9 574 139**	**-36 989**	**82 265**	**119 254**
2. FX derivatives						
FX contracts	1 946 341	1 712 447	192 856	-11 578	26 433	38 011
FX swaps	5 162 071	1 562 788	0	57 107	63 302	6 195
Other FX contracts (CIRS)			7 560 447	87 026	89 329	2 303
FX options	4 233 665	2 873 689	93 214	-353	28 760	29 113
Total FX derivatives	**11 342 077**	**6 148 924**	**7 846 517**	**132 202**	**207 824**	**75 622**
3. Commodity derivatives						
Commodity forwards	208 430	0	0	140	140	0
Commodity options	64 432	0	0	0	0	0
Total commodity derivatives	**272 862**	**0**	**0**	**140**	**140**	**0**
4. Options embedded in deposits	**0**	**0**	**0**	**-9 254**	**0**	**9 254**
5. Valuation of future FX payments	**0**	**0**	**0**	**19 877**	**19 877**	**0**
6. Total derivatives	**11 614 939**	**9 748 924**	**17 420 656**	**105 976**	**310 106**	**204 130**

The Bank's offer contains deposits presented in the above table, with embedded derivatives. The embedded derivatives are posted in the books of the Bank at fair value, and the evolution of the fair value are shown in the profit and loss account.

(16) DERIVATIVE AND HEDGING INSTRUMENTS

The Bank employs the following types of hedge accounting:

- hedge of fair value of liabilities in foreign currencies resulting from the Bank's corporate administration regarding the risk of FX rates fluctuation;
- hedge of fair value of securities in foreign currencies against interest rates changes;
- hedge of fluctuations of cash flows generated by the FX mortgage loans portfolio and the underlying PLN deposits.

The first two types of hedge accounting were used by the Bank also in previuos reporting periods. Starting January 1, 2006, the Bank set a formal link hedging against the risk of cash flow fluctuations. One should note, that since the implmentation of IFRS, in line with the IAS 39, the result of valuation of any derivatives not classified and other than effective hedging instruments, has been presented under Net income on financial instruments valued at fair value through Profit and loss account. Application of such methodology lead to inconsistence in presenting financial instruments in the Profit and loss account. Net interest income from derivative transactions entered to hedge liquidity in foreign currencies is from the economic perspective a component of interest margin (allowing to match interest income on granted FX loans with the cost of financing of the item by the PLN deposits portfolilo). Implemenetation of the formal hedge accounting supported presentation of the transactions in the Profit and loss account in a manner consistent with their economic meaning. It should be highlighted that hedge accounting was formally implemented as of the beginning of this year, hence the 2005 Profit and loss account of the Bank (comparable data) recognized the total result of the derivatives valuation (incl. any interest accrued) under Financial instruments valued at fair value through Profit and loss account.

At the end of each month, the Bank performs an assessment if a given hedge is effective, analyzing evolution of the fair value of the hedged and hedging instruments.

The below table presents detailed information on all the types of hedge accounting.

	Hedge of fair value of liabilities in foreign currencies	**Hedge of fair value of securities in foreign currencies**	**Hedge of fluctuation of cash flows generated by the portfolio of FX mortgage loans and the underlying PLN deposits**
Hedging relation	The Bank hedges the risk of changes in fair value of liabilities in foreign currencies, generated by corporate administration of the Bank. The hedged risk results from changes in FX rates.	The Bank hedges the risk of changes in fair value of securities denominated in foreign currencies, and classified as available for sale. The hedged risk results from changes in interest rates.	The Bank hedges the risk of fluctuation in cash flows generated by FX mortgage loans and by PLN deposits used as financial base for the loans. Cash flow fluctuation results from the FX and IR risks.
Hedged items	FX liabilities on the Bank's corporate administration.	Securities recognized as available for sale, denominated in foreign currencies and issued by non-financial entities.	Cash flows under FX mortgage loans portfolio and the underlying PLN deposits.
Hedging instruments	CIRS transactions	CIRS transactions	CIRS transactions
Presentation of result on hedged and hedging transactions	1. adjustment of FX payments to fair value, due to FX rates differences shall be posted in Costs of Bank's activity; 2. valuation of hedging instruments shall be posted in Costs of Bank's activity; 3. interest on hedging instruments shall be posted in Costs of Bank's activity.	4. FX rates diffrences on hedged assets and hedging instruments shall be posted in FX gains/losses; 5. adjustment to fair value of hedged assets, and valuation of hedging instruments shall be recognized in the Profit and loss account; 6. interest on hedged assets and hedging instruments shall be recognized in net interest income.	7. effective part of the heding instruments valuation shall be recognized in the revaluation capital; 8. interest on both hedged and hedging instruments shall be recognized in net interest income; 9. valuation of hedging and hedged instruments on FX rates diffrences shall be posted in FX gains/losses.

16a. Hedge accounting 31.12.2006

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	below 3 months	Total	Assets	Liabilities
1. Fair value hedging derivatives connected with interest rate risk						
CIRS contracts	0	0	198 036	19 690	20 528	838
2. Fair value hedging derivatives connected with FX rate risk						
CIRS contracts	4 458	680	71 643	-10 098	0	10 098
3. Cash flows hedging derivatives connected with interest rate and/or FX rate						
CIRS contracts	723 510	1 911 680	4 590 265	83 929	87 499	3 570
4. Total hedging derivatives	**727 968**	**1 912 360**	**4 859 944**	**93 521**	**108 027**	**14 506**

16b. Hedge accounting 31.12.2005

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	below 3 months	Total	Assets	Liabilities
1. Fair value hedging derivatives connected with interest rate risk						
CIRS contracts	97 933	0	215 132	10 119	14 826	4 707
2. Fair value hedging derivatives connected with FX rate risk						
CIRS contracts	0	0	162 974	-17 566	0	17 566
3. Total hedging derivatives	**97 933**	**0**	**378 106**	**-7 447**	**14 826**	**22 273**

16c. Hedge accounting for cash flows	31.12.2006	31.12.2005
Gross valuation recognized in revaluation reserve	739	0
Period in which cash flows with hedged value are expected to occur	od 01.01.07 do 14.01.13	-

(17) LOANS AND ADVANCES TO CUSTOMERS

17a. Loans and advances to customers

	31.12.2006	31.12.2005
Loans and advances	**13 378 074**	**9 107 333**
- to companies	4 434 624	4 777 419
- to private individuals	8 660 332	3 971 664
- to public sector	283 118	358 250
Receivables on account of payment cards	**333 302**	**209 810**
- due from companies	5 386	4 404
- due from private individuals	327 916	205 406
Purchased receivables	**907 614**	**136 686**
- from companies	891 308	126 926
- from private individuals	0	2 022
- from public sector	16 306	7 738
Guarantees and sureties realised	21 186	24 951
Debt securities eligible for rediscount at Central Bank	21 590	25 884
Other	702	314
Interest	37 325	40 497
Total gross	**14 699 793**	**9 545 475**
Impairment write-offs	-590 600	-565 830
Total net	**14 109 193**	**8 979 645**

17b. Quality of loans and advances to customers portfolio

	31.12.2006	31.12.2005
Loans and advances to customers (gross)	**14 699 793**	**9 545 475**
- impaired	705 098	787 546
- not impaired	13 994 695	8 757 929
Impairment write-offs	**590 600**	**565 830**
- for impaired exposures	427 393	456 570
- for incurred but not reported losses (IBNR)	163 207	109 260
Loans and advances to customers (net)	**14 109 193**	**8 979 645**

17c. Loans and advances to customers portfolio by methodology of impairment assessment

	31.12.2006	31.12.2005
Loans and advances to customers (gross)	**14 699 793**	**9 545 475**
- case by case analysis	3 546 816	3 700 277
- collective analysis	11 152 977	5 845 198
Impairment write-offs	**590 600**	**565 830**
- on the basis of case by case analysis	398 431	441 127
- on the basis of collective analysis	192 169	124 703
Loans and advances to customers (net)	**14 109 193**	**8 979 645**

17d. Loans and advances to customers portfolio by customers

	31.12.2006	31.12.2005
Loans and advances to customers (gross)	**14 699 793**	**9 545 475**
- corporate customers	5 701 891	5 331 964
- individuals	8 997 902	4 213 511
Impairment write-offs	**590 600**	**565 830**
- for receivables from corporate customers	425 263	474 125
- for receivables from individuals	165 337	91 705
Loans and advances to customers (net)	**14 109 193**	**8 979 645**

17e. Loans and advances to customers by maturity

	31.12.2006	31.12.2005
Current accounts	1 165 374	1 098 033
- to 1 month	416 022	246 879
- above 1 month to 3 months	439 354	115 675
- above 3 months to 1 year	1 524 301	691 035
- above 1 year to 5 years	4 211 229	2 205 185
- above 5 years	6 822 660	4 973 084
- past due	83 528	175 087
Interest	37 325	40 497
Total (gross) loans and advances to customers	**14 699 793**	**9 545 475**

17f. Loans and advances to customers by currency

	31.12.2006	31.12.2005
in Polish currency	5 815 144	3 901 048
in foreign currencies (after conversion to PLN)	8 884 649	5 644 427
- currency: USD	546 438	775 977
- currency: EURO	1 106 840	1 118 158
- currency: CHF	7 179 168	3 706 114
- other currencies (PLN '000)	52 203	44 178
Total	**14 699 793**	**9 545 475**

17g. Change of impairment write-offs for loans and advances to customers

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	565 830	812 988
Change in value of provisions:	47 848	-254 017
Write-offs in the period	410 434	602 461
Amounts written off	-16 506	-91 331
Reversal of write-offs in the period	-345 896	-778 345
Transfer from provisions for off-balance sheet liabilities	0	13 198
Other	-184	0
Changes resulting from FX rates differences	-23 078	6 859
Balance at the end of the period	**590 600**	**565 830**

(18) INVESTMENT FINANCIAL ASSETS

18a. Investment financial assets available for sale

	31.12.2006	31.12.2005
Debt securities	**2 928 607**	**4 826 353**
Issued by State Treasury	2 585 954	4 399 293
a) bills	198 198	78 094
b) bonds	2 387 756	4 321 199
Issued by Central Bank	165 480	167 867
a) bills	0	0
b) bonds	165 480	167 867
Other securities	177 173	259 193
a) listed	123 555	0
b) not listed	53 618	259 193
Shares and interests in other entities	**1 289**	**1 432**
Other financial instruments	**0**	**3 330**
Total financial assets available for sale	**2 929 896**	**4 831 115**
Available for sale instruments quoted on the stock exchange	2 511 311	4 322 913
Available for sale instruments not quoted on the stock exchange	418 585	508 202

18b. Debt securities available for sale

	31.12.2006	31.12.2005
- with fixed interest rate	1 212 690	3 028 194
- with variable interest rate	1 715 917	1 798 159
Total	**2 928 607**	**4 826 353**

18c. Debt securities available for sale by maturity

	31.12.2006	31.12.2005
- to 1 month	523	8 191
- above 1 month to 3 months	90 448	55 710
- above 3 months to 1 year	348 440	1 409 900
- above 1 year to 5 years	2 302 516	2 725 611
- above 5 years	186 680	626 941
Total	**2 928 607**	**4 826 353**

18d. Change of investment financial assets available for sale

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	4 831 115	4 199 109
Increases (purchase and accrual of interest and discount)	4 546 642	7 107 702
Reductions (sale and redemption)	-6 425 227	-6 484 445
Difference from measurement at fair value	-22 633	7 712
Impairment write-offs	0	1 037
Other	0	0
Balance at the end of the period	**2 929 896**	**4 831 115**

18e. Investment financial assets held to maturity

	31.12.2006	31.12.2005
Debt securities	**0**	**78 636**
Issued by State Treasury	0	78 636
a) bills	0	0
b) bonds	0	78 636
Issued by Central Bank	0	0
a) bills	0	0
b) bonds	0	0
Other securities	0	0
a) listed	0	0
b) not listed	0	0
Total financial assets held to maturity	**0**	**78 636**
Held to maturity instruments quoted on the stock exchange	0	78 636
Held to maturity instruments not quoted on the stock exchange	0	0

18f. Debt securities held to maturity

	31.12.2006	31.12.2005
- with fixed interest rate	0	78 636
- with variable interest rate	0	0
Total	**0**	**78 636**

18g. Held to maturity instruments by maturity

	31.12.2006	31.12.2005
- to 1 month	0	0
- above 1 month to 3 months	0	0
- above 3 months to 1 year	0	78 636
- above 1 year to 5 years	0	0
- above 5 years	0	0
Total	**0**	**78 636**

18h. Change of held to maturity instruments

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period, after adjustments	78 636	74 007
Increases (purchase and accrual of interest and discount)	1 364	4 629
Reductions (sale and redemption)	-80 000	0
Difference from measurement at fair value	0	0
Impairment write-offs	0	0
Balance at the end of the period	**0**	**78 636**

18i. Investments in associates

	31.12.2006	31.12.2005
Investments in associates	159 156	114 167

18j. Associates as at 31.12.2006

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM DOM MAKLERSKI	Brokerage services	16 500	0	0	360 168	263 277	88 126	51 467	29 863	subordinated
MILLENNIUM LEASE	Leasing	38 578	0	20 025	339 105	279 094	55 126	14 461	1 706	subordinated
TBM	Financial operations on equity market and advisory services	225	0	0	5 707	0	5 325	0	127	associated
MILLENNIUM LEASING	Leasing	25 363	0	0	2 096 849	1 166 696	314 170	161 568	81 500	subordinated
BBG FINANCE BV	Funding companies from the Group	4 666	0	0	312 320	306 496	5 092	0	31	subordinated
MILLENNIUM SERVICE	General construction, civil engineering	1 000	0	46 000	63 791	0	47 434	14 836	391	subordinated
LUBUSKIE FABRYKI MEBLI	Furniture manufacturer	6 700	0	0	20 568	4 576	14 776	42 426	323	subordinated
PHCRS	Wholesale market for groceries	8 200	-8 200	0	76 856	58 792	6 623	2 170	-789	associated
RESS TRADING	Financial operations on equity market and advisory services	98	0	0	119	0	106	0	2	subordinated
BG LEASING	Leasing	900	-900	0	The company is under bankruptcy					subordinated
T.H. WEIMAN i S-KA	Production of ceramic sanitary ware and trade	0	0	0	The company is not conducting business activity, is not preparing financial reports					associated
SPC	Investing activity	33	-33	0	The company is not conducting business activity, is not preparing financial reports					associated
Total investments in associates		**102 264**	**-9 133**	**66 025**						

Millennium Dom Maklerski, a Bank subsidiary, is the owner of a 100% block of shares of Millennium TFI.

18k. Associates as at 31.12.2005

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM DOM MAKLERSKI	Brokerage services	16 500	0	0	349 070	282 889	58 467	38 811	14 878	subordinated
MILLENNIUM LEASE	Managing other companies	38 578	0	20 025	300 856	224 818	53 409	12 715	430	subordinated
TBM	Financial operations on equity market and advisory services	225	0	0	5 821	0	5 199	40	155	associated
MILLENNIUM LEASING	Leasing	25 363	0	0	2 303 277	1 210 794	735 553	157 324	471 451	subordinated
BBG FINANCE BV	Funding companies from the Group	4 701	0	0	442 313	436 157	5 286	0	241	subordinated
MILLENNIUM SERVICE	Supporting insurance and pension fund operations	50	0	0	223	7	92	0	0	subordinated
LUBUSKIE FABRYKI MEBLI	Furniture manufacturer	6 700	0	0	20 724	4 625	16 099	39 313	431	subordinated
PHCRS	Wholesale market for groceries	8 200	-6 274	0	78 529	54 744	20 633	2 501	736	associated
RESS TRADING	Financial operations on equity market and advisory services	98	0	0	117	0	117	0	3	subordinated
BG LEASING	Leasing	900	-900	0	The company is under bankruptcy					subordinated
T.H. WEIMAN i S-KA	Production of ceramic sanitary ware and trade	0	0	0	The company is not conducting business activity, is not preparing financial reports					associated
SPC	Investing activity	33	-33	0	The company is not conducting business activity, is not preparing financial reports					associated
Total investments in associates		**101 349**	**-7 207**	**20 025**						

18l. Change of investments in associates

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period, after adjustments	114 167	1 063 196
Increase in capital	950	0
Additional capital paid in	46 000	0
Shares taken up after division of subsidiary	150	0
Sale of shares	-150	0
Reduction in share capital	0	-948 590
Impairment write-offs	-1 926	-174
Differences in valuation of shares expressed in foreign currencies	-35	-265
Balance at the end of the period	**159 156**	**114 167**

Pursuant to the resolution of the General Meeting of Millennium Leasing Sp. z o.o. (100% subsidiary of the Bank) adopted on August 4, 2006, the Bank took over a 100% share in MP Leasing Sp. z o.o. created in result of spinning out an organized part of the enterprise (covering a commercial real estate) from Millennium Leasing Sp. z o.o. The initial equity of MP Leasing Sp. z o.o. is PLN 150 thousand, and the Bank took over 100% of the entity shares at nominal value.
On Novebmer 15 the Bank sold to an independent entity all shares it had (covering 100% of initial equity) of MP Leasing Sp. z o.o., for a total price of PLN 1 432 thousand. The generated profit was recognized in the Profit and loss account as „Profit on investment activity".

The 2005 reduction of value of the Bank's shares of subsidiaries was chiefly caused by lowering the initial equity of BIG BG Inwestycje S.A. Since November 1999, the company, founded as the Bank's subsidiary, had held a 10% stock of PZU S.A., which was sold in to EUREKO B.V. in December 2004.

(19) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

19. Receivables from securities bought with sell-back clause

	31.12.2006	31.12.2005
a) from financial sector	15 502	331 018
b) from non-financial and public sector	0	0
c) interest	7	137
Total	**15 509**	**331 155**

(20) PROPERTY, PLANT AND EQUIPMENT

20a. Property, plant and equipment

	31.12.2006	**31.12.2005**
Fixed assets:		
- land	1 415	146
- buildings, premises, civil and hydro-engineering structures	171 676	148 908
- machines and equipment	35 816	37 905
- vehicles	13 095	7 270
- other fixed assets	18 385	10 621
Fixed assets under construction	23 523	19 334
Advances for fixed assets under construction	0	0
Total property, plant and equipment	**263 910**	**224 184**

20b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2006 - 31.12.2006

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**146**	**267 036**	**314 911**	**19 450**	**87 876**	**19 334**	**708 753**
b) increases (on account of)	**1 775**	**103 757**	**24 194**	**9 670**	**19 268**	**56 232**	**214 896**
- purchase	0	0	87	12	0	44 576	44 675
- transfer from fixed assets under construction	0	10 224	13 953	2 113	17 869	0	44 159
- transfer from financial leasing	0	0	0	7 545	0	0	7 545
- charge of investment provision	0	0	0	0	0	11 656	11 656
- reclassification from non current assets held for sale	1 775	93 533	7 183	0	494	0	102 985
- other	0	0	2 971	0	905	0	3 876
c) reductions (on account of)	**0**	**11 872**	**34 464**	**3 586**	**10 034**	**52 043**	**111 999**
- sale	0	1 653	13 724	3 537	2 241	0	21 155
- liquidation	0	9 314	18 325	0	7 793	0	35 432
- settlement of investment	0	0	0	0	0	45 110	45 110
- release of investment provision	0	0	0	0	0	3 409	3 409
- other	0	905	2 415	49	0	3 524	6 893
d) gross value of property, plant and equipment at the end of the period	**1 921**	**358 921**	**304 641**	**25 534**	**97 110**	**23 523**	**811 650**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**107 831**	**275 293**	**12 180**	**77 255**	**0**	**472 559**
f) depreciation over the period (on account of)	**3**	**40 959**	**-7 609**	**259**	**95**	**0**	**33 707**
- current write-off (P&L)	0	19 522	15 153	3 601	9 696	0	47 972
- reductions on account of sale	0	-705	-9 246	-3 319	-1 638	0	-14 908
- reductions on account of liquidation	0	-6 849	-18 034	0	-7 267	0	-32 150
- reclassification from non current assets held for sale	3	29 504	6 933	0	494	0	36 934
- reclassification to impairment write-offs	0	0	0	0	-1 700	0	-1 700
- other	0	-513	-2 415	-23	510	0	-2 441
g) cumulated depreciation (amortization) at the end of the period	**3**	**148 790**	**267 684**	**12 439**	**77 350**	**0**	**506 266**

h) impairment write-offs at the beginning of the period	**0**	**10 297**	**1 713**	**0**	**0**	**0**	**12 010**
- increase	503	34 079	0	0	1 700	0	36 282
- reclassification from non current assets held for sale	503	34 029	0	0	0	0	34 532
- reclassification from amortization	0	0	0	0	1 700	0	1 700
- reduction	0	5 921	572	0	325	0	6 818
i) impairment write-offs at the end of the period	**503**	**38 455**	**1 141**	**0**	**1 375**	**0**	**41 474**
j) net value of property, plant and equipment at the end of the period	**1 415**	**171 676**	**35 816**	**13 095**	**18 385**	**23 523**	**263 910**

20c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2005 - 31.12.2005

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**146**	**266 760**	**370 669**	**19 802**	**96 927**	**18 547**	**772 851**
b) increases (on account of)	**0**	**12 494**	**7 913**	**1 942**	**4 295**	**28 876**	**55 520**
- purchase	0	0	0	0	0	16 320	16 320
- transfer from fixed assets under construction	0	12 494	7 913	1 942	4 295	0	26 644
- charge of investment provision	0	0	0	0	0	12 556	12 556
c) reductions (on account of)	**0**	**12 218**	**63 671**	**2 294**	**13 346**	**28 089**	**119 618**
- sale	0	803	2 770	1 994	7 056	0	12 623
- liquidation	0	7 833	57 514	0	5 352	0	70 699
- reclassification to non current assets held for sale	0	3 582	2 535	0	0	0	6 117
- settlement of investment	0	0	0	0	0	27 358	27 358
- other	0	0	852	300	938	731	2 821
d) gross value of property, plant and equipment at the end of the period	**146**	**267 036**	**314 911**	**19 450**	**87 876**	**19 334**	**708 753**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**87 548**	**316 103**	**10 770**	**75 595**	**0**	**490 016**
f) depreciation over the period (on account of)	**0**	**20 283**	**-40 810**	**1 410**	**1 660**	**0**	**-17 457**
- current write-off (P&L)	0	29 140	22 167	3 302	14 892	0	69 501

- reductions on account of sale	0	-803	-2 762	-1 748	-7 026	0	-12 339
- reductions on account of liquidation	0	-7 833	-57 514	0	-5 301	0	-70 648
- reclassification to non current assets held for sale	0	-126	-1 859	0	0	0	-1 985
- other	0	-95	-842	-144	-905	0	-1 986
g) cumulated depreciation (amortization) at the end of the period	**0**	**107 831**	**275 293**	**12 180**	**77 255**	**0**	**472 559**
h) impairment write-offs at the beginning of the period	**0**	**3 211**	**0**	**0**	**0**	**0**	**3 211**
- increase	54	8 840	1 713	0	0	0	10 607
- reduction	54	1 754	0	0	0	0	1 808
i) impairment write-offs at the end of the period	**0**	**10 297**	**1 713**	**0**	**0**	**0**	**12 010**
j) net value of property, plant and equipment at the end of the period	**146**	**148 908**	**37 905**	**7 270**	**10 621**	**19 334**	**224 184**

(21) INTANGIBLE ASSETS

21a. Intangible assets

	31.12.2006	31.12.2005
- costs of completed development work	0	0
- concessions, patents, licenses, know how and similar assets, including:	20 936	26 352
- computer software	20 936	26 053
- other intangible assets	0	0
- advances for intangible assets	0	0
Total intangible assets	**20 936**	**26 352**

21b. Change of balance of intangible assets (by type groups) in the period 01.01.2006 - 31.12.2006

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	**26**	**371 656**	**161 538**	**0**	**0**	**371 682**
b) increases (on account of)	**0**	**8 242**	**8 242**	**0**	**0**	**8 242**
- purchase	0	101	101	0	0	101
- transfer from investments	0	288	288	0	0	288
- expenditures on intangible assets	0	2 650	2 650	0	0	2 650
- other (provision)	0	5 203	5 203	0	0	5 203
c) reductions (on account of)	**0**	**3 343**	**3 343**	**0**	**0**	**3 343**
- transfer to fixed assets	0	2 971	2 971	0	0	2 971
- other	0	372	372	0	0	372
d) gross value of intangible assets at the end of the period	**26**	**376 555**	**166 437**	**0**	**0**	**376 581**
e) cumulated depreciation (amortization) at the beginning of the period	**26**	**345 304**	**135 186**	**0**	**0**	**345 330**
f) depreciation over the period (on account of)	**0**	**10 315**	**10 315**	**0**	**0**	**10 315**
- current write-off (P&L)	0	10 315	10 315	0	0	10 315
- other	0	0	0	0	0	0
g) cumulated depreciation (amortization) at the end of the period	**26**	**355 619**	**145 501**	**0**	**0**	**355 645**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**20 936**	**20 936**	**0**	**0**	**20 936**

21c. Change of balance of intangible assets (by type groups) in the period 01.01.2005 - 31.12.2005

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	**26**	**367 139**	**157 021**	**0**	**0**	**367 165**
b) increases (on account of)	**0**	**5 015**	**5 015**	**0**	**0**	**5 015**
- purchase	0	0	0	0	0	0
- transfer from investments	0	712	712	0	0	712
- expenditures on intangible assets	0	4 303	4 303	0	0	4 303
- other						0
c) reductions (on account of)	**0**	**498**	**498**	**0**	**0**	**498**
- release of provision for expenditures	0	441	441	0	0	441
- other	0	57	57	0	0	57
d) gross value of intangible assets at the end of the period	**26**	**371 656**	**161 538**	**0**	**0**	**371682**
e) cumulated depreciation (amortization) at the beginning of the period	**26**	**332 316**	**122 200**	**0**	**0**	**332 342**
f) depreciation over the period (on account of)	**0**	**12 988**	**12 986**	**0**	**0**	**12 988**
- current write-off (P&L)	**0**	12 988	12 986	**0**	**0**	12 988
- other						0
g) cumulated depreciation (amortization) at the end of the period	**26**	**345 304**	**135 186**	**0**	**0**	**345 330**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**26 352**	**26 352**	**0**	**0**	**26 352**

(22) NON-CURRENT ASSETS HELD FOR SALE

22a. Change of balance of non current assets held for sale in the period 01.01.2006 - 31.12.2006

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	189 599	90 622	536	0	0	**280 757**
b) impairment write-offs at the beginning of the period	-8 002	-41 015	0	0	0	**-49 017**
c) net value of non current assets held for sale at the beginning of the period	181 597	49 607	536	0	0	**231 740**
d) change of value in the period, including:	-189 385	-72 684	-304	0	0	**-262 373**
- reclassification to property, plant and equipment	-1 772	-64 029	-250	0	0	**-66 051**
- sale of non current assets held for sale	-187 538	-9 347	-57	0	0	**-196 942**
e) change of impairment write-offs in the period, including:	8 002	34 929	-212	0	0	**42 719**
- reclassification to property, plant and equipment	503	34 029	0	0	0	**34 532**
- sale of non current assets held for sale	7 499	3 787	0	0	0	**11 286**
f) impairment write-offs at the end of the period	**0**	**-6 086**	**-212**	**0**	**0**	**-6 298**
g) net value of non current assets held for sale at the end of the period	**214**	**11 852**	**20**	**0**	**0**	**12 086**

The item „Fixed assets for sale" contains real estates and land, not used for own needs, and are scheduled to be sold shortly, i.e. within 1 year.
The main component of the category (as at 31 Dec 2005) was the right of perpetual usufruct of land in Wilanow, worth PLN 180m net. The asset was sold in 2006.

As at 31 December 2006, the Bank performed a revaluation of fixed assets for sale, leading to another revaluation write-off. Also, in line with IFRS 5, the Bank assessed the capability of recognizing fixed assets as Fixed assets for sale. In result some fixed assets presented as fixed assets for sale, worth PLN 31,5m net, were moved to tangible fixed assets, as not satisfying the requirements set by IFRS 5.

22b. Change of balance of non current assets held for sale in the period 01.01.2005 - 31.12.2005

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL

a) value at the beginning of the period	189 685	95 032	454	0	0	**285 171**
b) impairment write-offs at the beginning of the period	-7 499	-33 896	0	0	0	**-41 395**
c) net value of non current assets held for sale at the beginning of the period	182 186	61 136	454	0	0	**243 776**
d) change of value in the period, including:	-86	-4 410	82	0	0	**-4 414**
- sale of non current assets held for sale	-83	-4 560	-42	0	0	**-4 685**
e) change of impairment write-offs in the period, including:	-503	-7 119	0	0	0	**-7 622**
- sale of non current assets held for sale	54	1 658	0	0	0	**1 712**
f) impairment write-offs at the end of the period	**-8 002**	**-41 015**	**0**	**0**	**0**	**-49 017**
g) net value of non current assets held for sale at the end of the period	**181 597**	**49 607**	**536**	**0**	**0**	**231 740**

(23) DEFERRED INCOME TAX ASSETS

	31.12.2006			**31.12.2005**		
23a. Deferred income tax assets	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	13 226		13 226	24 036		24 036
Balance sheet valuation of financial instruments	8 361	-17 143	-8 782	7 572	-3 976	3 596
Unrealised receivables/ liabilities on account of derivatives	163 143	-91 051	72 091	31 380	-9 280	22 100
Interest on deposits and securities to be paid/ received	14 782	-32 262	-17 481	14 249	-31 654	-17 405
Interest and discount on loans and receivables	12 270	-72 787	-60 517	12 397	-77 692	-65 295
Income and cost settled at effective interest rate	3 925	-16 904	-12 979	11 422	-15 982	-4 560
Provisions for loans presented as temporary differences	53 953		53 953	40 310		40 310
Employee benefits	13 907		13 907	9 408		9 408
Provisions for future costs	5 936		5 936	3 391		3 391
Valuation of investment assets and cash flows hedge recognized in revaluation reserve		-2 318	-2 318		-6 478	-6 478
Tax loss deductible in the future	27 269		27 269	80 824		80 824
Other	1 158	-3 013	-1 856	3 075	-3 881	-806
Net deferred income tax	**317 930**	**-235 479**	**82 451**	**238 064**	**-148 943**	**89 121**

asset

23b. Change of temporary differences

	31.12.2005 IFRS	Changes to financial result	Changes to equity	31.12.2006
Difference between tax and balance sheet depreciation	24 036	-10 810	0	13 226
Balance sheet valuation of financial instruments	3 596	-12 378	0	-8 782
Unrealised receivables/ liabilities on account of derivatives	22 100	49 991	0	72 091
Interest on deposits and securities to be paid/ received	-17 405	-76	0	-17 481
Interest and discount on loans and receivables	-65 295	4 778	0	-60 517
Income and cost settled at effective interest rate	-4 560	-8 419	0	-12 979
Provisions for loans presented as temporary differences	40 310	13 644	0	53 953
Employee benefits	9 408	4 499	0	13 907
Provisions for future costs	3 391	2 545	0	5 936
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-6 478	0	4 160	-2 318
Tax loss deductible in the future	80 824	-53 555	0	27 269
Other	-806	-1 050	0	-1 856
Total	**89 121**	**-10 831**	**4 160**	**82 451**

23c. Change of temporary differences

	1.01.2005 IFRS	Changes to financial result	Changes to equity	31.12.2005
Difference between tax and balance sheet depreciation	28 817	-4 781	0	24 036
Balance sheet valuation of financial instruments	-93	3 689		3 596
Unrealised receivables/ liabilities on account of derivatives	22 312	-212	0	22 100
Interest on deposits and securities to be paid/ received	-5 536	-11 869	0	-17 405
Interest and discount on loans and receivables	-62 712	-2 584	0	-65 295
Income and cost settled at effective interest rate	7 538	-12 098	0	-4 560
Provisions for loans presented as temporary differences	89 385	-49 075	0	40 310
Employee benefits	7 256	2 152	0	9 408
Provisions for future costs	7 692	-4 301	0	3 391
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-5 012		-1 466	-6 478
Tax loss deductible in the future	26 286	54 538	0	80 824

Other	-5 741	4 935		-806
Total	**110 192**	**-19 605**	**-1 466**	**89 121**

23d. Change of deferred income tax

	1.01.2006 - 31.12.2006	1.01.2005- 31.12.2005
Difference between tax and balance sheet depreciation	-10 810	-4 781
Balance sheet valuation of financial instruments	-12 378	3 689
Unrealised receivables/ liabilities on account of derivatives	49 991	-212
Interest on deposits and securities to be paid/ received	-76	-11 869
Interest and discount on loans and receivables	4 778	-2 584
Income and cost settled at effective interest rate	-8 419	-12 098
Provisions for loans presented as temporary differences	13 644	-49 075
Employee benefits	4 499	2 152
Provisions for future costs	2 545	-4 301
Tax loss deductible in the future	-53 555	54 538
Other	-1 050	4 935
Change of deferred income tax recognized in financial result	**-10 831**	**-19 605**
Change on account of receivables from Tax Office resulting from the article 38c of the CIT Act	**1 564**	**-1 795**
Change of temporary differences of the previous period – final CIT declaration		**4 536**
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	**4 160**	**-1 466**

23e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	**31.12.2006**	**31.12.2005**
Unlimited	5 772	8 750
Total	5 772	8 750

Basing on provisions of IAS 12, the Bank set off the deferred tax asset with deferred tax provisions.

	31.12.2006	31.12.2005
Net deferred income tax assets	**82 451**	**89 121**
Net deferred income tax provision	**-**	**-**

(24) *OTHER ASSETS*

24. Other assets

	31.12.2006	31.12.2005
Expenses to be settled	60 168	60 938
Income to be received	506 614	1 117
Interbank settlement accounts	32 849	376
Settlement accounts for financial instruments transactions	129 051	53 007
Receivables from sundry debtors	56 293	31 000
Settlements with the State Treasury, including:	56 567	96 174
- receivables from Tax Office resulting from the article 38a of the CIT Act	9 795	8 231
- tax on dividend, paid	46 274	75 600
Perpetual usufruct right to land	5 155	5 155
Other	0	760
Total other assets (gross)	**846 697**	**248 527**
Provisions	-9 231	-11 690
Total other assets (net)	**837 466**	**236 837**

2006 income-to-be-received balance includes the receivable for the dividend of 506 million zloties declared for payout by a subsidiary. This dividend was paid out in January 2007.

(25) *DEPOSITS FROM BANKS*

25a. Deposits from banks

	31.12.2006	31.12.2005
In current account	32 551	46 996
Term deposits	1 967 844	768 229
Loans and advances received	1 592 574	248 686
Interest	7 236	3 434
Total deposits from banks	**3 600 205**	**1 067 345**

The increase in liabilities towards banks under loans received in 2006 results from an agreement made between the Bank and the consortium of international banks, in the matter of the Bank's incurrence of a mid-term syndicated loan of CHF 555,000,000, or ca. 1.35bn at PLN equivalent as at the agreement date.

The interest rate formula is based on a variable LIBOR for CHF, plus the contractual margin. The loan is to be paid in November 2009, with an option to extend, upon approval of the Parties, by another two one-year periods (i.e. till 2010 or 2011).

25b. Deposits from banks by maturity

	31.12.2006	31.12.2005
Current accounts	32 551	46 996
- to 1 month	1 672 635	446 513
- above 1 month to 3 months	290 134	190 105

- above 3 months to 1 year	5 075	131 670
- above 1 year to 5 years	1 323 231	0
- above 5 years	269 343	248 627
Interest	7 236	3 434
Total	**3 600 205**	**1 067 345**

25c. Deposits from banks by currency

	31.12.2006	31.12.2005
in Polish currency	1 998 392	943 949
in foreign currencies (after conversion to PLN)	1 601 813	123 396
- currency: USD	173 951	68 375
- currency: EURO	73 011	22 548
- currency: CHF	1 354 851	32 473
- currency: GBP	0	0
- other currencies (PLN '000)	0	0
Total	**3 600 205**	**1 067 345**

(26) *FINANCIAL LIABILITIES VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS*

26. Financial liabilities valued at fair value through profit and loss

	31.12.2006	31.12.2005
Negative valuation of derivatives	298 744	204 130
Short sale of securities	0	300 055
Financial liabilities valued at fair value through profit and loss	**298 744**	**504 185**

The breakdown of the negative valuation of derivatives into individual instruments have been presented in note ***(15)***

(27) *HEDGING DERIVATIVE INSTRUMENTS*

The information can be found in note ***(16) HEDGING DERIVATIVE INSTRUMENTS***

(28) *DEPOSITS FROM CUSTOMERS*

28a. Deposits from customers by type structure

	31.12.2006	31.12.2005
Amounts due to companies	**6 170 377**	**5 153 504**
Balances on current accounts	2 305 969	1 925 482
Term deposits	3 733 708	3 072 181
Other	119 128	146 684
Accrued interest	11 572	9 157
Amounts due to public sector	**1 357 679**	**1 030 319**
Balances on current accounts	704 111	656 358
Term deposits	643 419	372 696
Other	8 714	602
Accrued interest	1 435	663

Amounts due to private individuals	**8 666 966**	**7 900 940**
Balances on current accounts	2 299 066	1 782 486
Term deposits	6 126 314	5 943 618
Other	187 824	116 843
Accrued interest	53 762	57 993
Total deposits from customers	**16 195 022**	**14 084 763**

28b. Deposits from customers by maturity

	31.12.2006	**31.12.2005**
Current accounts	5 309 146	4 364 326
- to 1 month	5 920 198	4 701 381
- above 1 month to 3 months	2 201 411	1 661 913
- above 3 months to 1 year	2 352 596	2 354 289
- above 1 year to 5 years	344 894	877 905
- above 5 years	8	57 136
Interest	66 769	67 813
Total	**16 195 022**	**14 084 763**

28c. Deposits from customers by currency

	31.12.2006	**31.12.2005**
in Polish currency	14 066 453	12 417 134
in foreign currencies (after conversion to PLN)	2 128 569	1 667 629
- currency: USD	1 143 824	908 484
- currency: EURO	918 836	723 674
- currency: GBP	53 302	23 389
- currency: CHF	8 544	6 998
- other currencies (PLN ‘000)	4 063	5 084
Total	**16 195 022**	**14 084 763**

(29) LIABILITIES FROM SECURITIES BOUGHT WITH BUY-BACK CLAUSE

29. Liabilities from securities bought with buy-back clause

	31.12.2006	**31.12.2005**
a) from financial sector	1 322 969	2 027 895
b) from non-financial and public sector	153 798	1 441 738
c) interest	919	2 482
Total	**1 477 686**	**3 472 115**

(30) DEBT SECURITIES

30a. Debt securities

	31.12.2006	31.12.2005
Outstanding bonds and bills	0	8 909
Bills of exchange	5 705	22 836
Other term liabilities	0	0
Interest	0	842
Total	**5 705**	**32 587**
- to 1 month	0	0
- above 1 month to 3 months	0	0
- above 3 months to 1 year	5 705	31 745
- above 1 year to 5 years	0	0
- above 5 years	0	0
Interest	0	842
Total	**5 705**	**32 587**

30b. Change of debt securities

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	32 587	275 544
Increases, on account of:	6 240	28 726
- purchase of bill of exchange by the NBP	5 705	22 836
- discount/ interest accrual	535	5 890
Reductions, on account of:	-33 122	-271 683
- repurchase of bonds	-8 911	-214 987
- repurchase of bill of exchange from NBP	-22 836	-45 687
- FX rates differences	0	-1 545
- settlement of discount/ interest payment	-1 375	-9 464
Balance at the end of the period	**5 705**	**32 587**

30c. Debt securities by type

As at 31.12.2006	Balance sheet value	Interest rate	Maturity	Market
Bank Millennium S.A. - restructuring bill of exchange	5 705	1.00%	04.11.2007	not listed

30d. Debt securities by type

As at 31.12.2005	Balance sheet value	Interest rate	Maturity	Market
Bank Millennium S.A. - restructuring bill of exchange	22 836	1.00%	04.11.2006	not listed

Bank Millennium S.A. - II Issue Programme	7 527	4.46%	10.11.2006	CeTO
Bank Millennium S.A. - II Issue Programme	2 224	4.46%	08.12.2006	CeTO

(31) ***PROVISIONS***

31. Provisions

	31.12.2006	31.12.2005
Provision for off-balance sheet commitments	10 400	15 843
Total	**10 400**	**15 843**

31b. Change of provisions

	01.01.2006 - 31.12.2006	01.01.2005 – 31.12.2005
Provision for off-balance sheet commitments		
Balance at the beginning of the period	15 843	32 530
Charge of provision	26 842	45 118
Reclassification to impairment write-offs for receivables	0	-13 198
Release of provision	-32 879	-48 000
FX rates differences	594	-607
Balance at the end of the period	**10 400**	**15 843**

Information on provision on claims in dispute arising from the penalty is presented below note ***(33c)***

(32) ***DEFERRED INCOME TAX PROVISION***

	31.12.2006	31.12.2005
32. Deferred income tax provision	**0**	**0**

(33) ***OTHER LIABILITIES***

33a. Other liabilities

	31.12.2006	31.12.2005
Short-term	**592 972**	**389 199**
Accrued costs - bonuses, salaries	54 088	30 068
Accrued costs - other	76 881	60 241
Settlement accounts	361 742	187 588
Other creditors	48 660	73 754
Liabilities from financial leasing	7 236	0
Liabilities to public sector	7 944	12 165
Deferred income	17 877	13 235
Provisions for unused employee holiday	11 607	12 148

Provisions for contentious claims	6 937	0
Long-term	**38 366**	**33 568**
Provisions for retirement benefits	7 501	4 972
Provisions for contentious claims	12 158	0
Accrued costs	0	4 537
Other	18 707	24 059
Total	**631 338**	**422 767**

The Bank is a lessee in the car fleet financial lease agreements concluded with Bank's subsidiary - Millennium Leasing Sp. z o.o. The Bank recognizes the funds from the financial lease as fixed assets.

33b. Liabilities from financial leasing (including VAT)

	31.12.2006	31.12.2005
Liabilities from financial leasing (gross)	8 485	0
Unrealised financial costs	1 249	0
Current value of minimum leasing instalments	**7 236**	**0**
Liabilities from financial leasing (gross) by maturity		
Under 1 year	1 285	0
From 1 year to 5 years	7 200	0
Above 5 years	0	0
Total	**8 485**	**0**
Liabilities from financial leasing (net) by maturity		
Under 1 year	863	0
From 1 year to 5 years	6 373	0
Above 5 years	0	0
Total	**7 236**	**0**

33c. Change of provisions for contentious claims

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	**0**	**0**
Charge of provisions	19 095	0
Balance at the end of the period	**19 095**	**0**

In 2006 the Bank established - to the debit of operational costs - provisions for claims in dispute in the amount of 19 095 thousand PLN composed of the following:

- Provision for claims in dispute arising from the penalty imposed on the banks by the Chairman of the Office of Competition and Consumer Protection – UOKiK. The penalty decision was taken following antimonopoly proceedings instituted upon the request of the Polish Organisation of Commerce and Distribution, and it resulted from the conclusion that the practice, whereby banks participate in an agreement aimed at joint decisions on the amount of interchange fee rates charged on the Visa and Mastercard card transactions, limits the competition. The Bank appealed against the above decision and therefore the implementation of the penalty depends on the Court decision. At the moment the Bank has a provision corresponding to the full value of the penalty (i.e. 12 158 thousand PLN), whereas as a result of the appeal process the amount may be changed. The Bank estimates that the potential cash flow as penalty payment will take place in the period in excess of 12 months;

ü Provision for claims in dispute related to the operational risk resulting from the credit activity in the outstanding amount of 6 937 thousand PLN. The provisions in question were established in the value of 100% of the outgoing cash flow estimated by the Group, which are expected to take place within 12 months after 31 December 2006.

(34) SUBORDINATED DEBT

34a. Subordinated debt

	31.12.2006	**31.12.2005**
Name of entity	BBG FINANCE B.V.	BBG FINANCE B.V.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	80 000	80 000
Value of the liability in PLN	306 496	308 784
Interest rate	5.39%	4.20%
Maturity	12.12.2011 r.	12.12.2011
Interest	813	720
Balance sheet value of subordinated debt	**307 309**	**309 504**

34b. Change of subordinated debt

	01.01.2006 - 31.12.2006	**01.01.2005 - 31.12.2005**
Balance at the beginning of the period	309 504	326 978
Increases, on account of:	14 006	12 150
- interest accrual	14 006	12 150
Reductions, on account of:	-16 201	-29 624
- interest payment	-13 913	-12 053
- FX rates differences	-2 288	-17 571
Balance at the end of the period	**307 309**	**309 504**

35) SHAREHOLDERS' EQUITY

35a. SHARE CAPITAL

The initial capital of Bank Millennium S.A. (being at the same time the initial capital of the Group) is PLN 849 181 744, and is divided into 849 181 744 shares, of nominal value PLN 1 each, as shown in the below table.

SHARE CAPITAL Par value of one share = 1 PLN

Series / issue	Share type	Type of preference	Number of shares	Value of series/issue	Manner of capital coverage	Registration date	Right to dividend

A	registered founder	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			5.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
Total number of shares			849 181 744				
Total share capital				849 181 744			

The reporting period saw shares conversion, from registered shares to ordinary shares. In result of the conversion, the number of registered shares reduced, totaling 109 356 at 31 Dec 2006, 62 200 of which are initial shares.

Throughout the reporting period there were no changes to the initial equity of the Bank.
The biggest shareholders of the Bank (holding over 5% of the GSM votes) included:

Shareholders as at 31 Dec 2006	**Shares**	***% share in initial equity***	***Votes***	***% share in votes at GSM***
Banco Comercial Portugues S.A.	556 325 794	65,51	556 325 794	65,51

Shareholders as at 31 Dec 2005	**Shares**	***% share in initial equity***	***Votes***	***% share in votes at GSM***
Banco Comercial Portugues S.A.	424 624 072	50,00	424 624 072	50,00
Carothers Trading Limited	84 833 256	9,99	84 833 256	9,99
Priory Investments Group Corp.	84 833 256	9,99	84 833 256	9,99
M+P Holding S.A.	84 833 256	9,99	84 833 256	9,99

The data on number of shares, percentage of initial equity, number of votes and their percentage weight in the overall number of shares at the general meeting have been collected based on information contained in shareholder notifications to the Bank, pursuant to art. 69 of the Act on public offer and terms and conditions of introducing financial instruments to organized trading, and on public companies.

Following requirements of IFRS 1 (first application of the International Financial Reporting Standards), the Capital Group is obligated to issue financial reports under IAS 29 (Financial reporting under hyperinflation) retrospectively.
Pursuant to paragraph 24 of the IAS 29, „Financial reporting under hyperinflation", own capital items (except for retained profits and any surplus of assets revaluation) should be converted using the general price index, starting at the date when the capitals were contributed or otherwise generated, for a period, in which the base economy of the entity's operations was a hyperinflation economy, as defined by IAS 29.

The result of converting appropriate own capital items using inflation ratios should be on the other side recognized in the Undistributed profits of previous years. Application of provisions of IAS 29, paragraph 24, would lead to increase in initial and reserve capitals – PLN 222 907 thousand surplus of the issue price of shares over their nominal value (as presented in the table below), and to a charge at the same amount to the undistributed profits of previous years.

Capital:	**Change in '000 PLN**
- share capital	110 487
- supplementary capital	112 420
Total	**222 907**

Full implementation of the IAS 29 requirements would entail legal consequences as the share capital would need to be changed pursuant to the Commercial Companies Code, and the Banking Law. At the same time, since results of the conversion do not change the value of net assets of the Capital Group, the Management Board of the Bank believes that such recognition of the adjustment would be of no significant impact onto the correctness and reliability of presentation of the reported financial position.

35b. REVALUATION CAPITAL

The revaluation capital of the Bank is generated in result of recognizing:

- result of valuation (at fair value) of financial assets available for sale at their net value, i.e. after deferred tax. The above items are deducted from the revaluation capital when all or some of the valued assets are taken out of the books (the result of the valuation is then recognized in the profit and loss account),
- result of valuation (at fair value) of derivative instruments hedging cash flows at their net value, i.e. after deferred tax. The revaluation capital contains the part of profits or losses related to the instrument hedging the cash flows, which is an effective hedge, while the ineffective part of profits or losses on the instrument is posted in the profit and loss account.

Revaluation reserve

	31.12.2006	**31.12.2005**

Effect of valuation (gross)	12 199	34 092
Deferred income tax	-2 318	-6 475
Net effect of valuation	9 881	27 617

Sources of the revaluation capital evolution are as follows (data in PLN thousands):

Revaluation reserve on available for sale financial assets
1.01.2006 - 31.12.2006

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	34 092	-6 475	27 617
Transfer to income statement of the period as a result of sale	-1 277	242	-1 035
Change of capitals connected with maturity of securities	-9 130	1734	-7 396
Profit/loss on revaluation of available for sale financial assets, recognized in equity	-12 226	2 322	-9 904
Revaluation reserve at the end of the period	**11 459**	**-2 177**	**9 282**

Revaluation reserve on available for sale financial assets 1.01.2005 - 31.12.2005

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	26 380	-5 012	21 368
Transfer to income statement of the period as a result of sale	-37 654	7 155	-30 499
Change of capitals connected with maturity of securities	-430	82	-348
Profit/loss on revaluation of available for sale financial assets, recognized in equity	45 796	-8 700	37 096
Revaluation reserve at the end of the period	**34 092**	**-6 475**	**27 617**

Revaluation reserve on cash flows hedge financial instruments 1.01.2006 - 31.12.2006

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	0	0	0
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period	739	-140	599
Profit/loss removed from equity and recognized in financial result of the period	0	0	0
Revaluation reserve at the end of the period	**739**	**-140**	**599**

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2006	**0**	**0**	**383 265**	**-89 745**	**293 520**
- appropriation of profit, including:	124 378	0	0	-582 936	**-458 558**
- write-off to supplementary capital	124 378	0	0	-124 378	**0**
- dividend payment	0	0	0	-458 558	**-458 558**
- net profit / (loss) of the period	0	0	0	662 682	**662 682**
Retained earnings at the end of the period 31.12.2006	**124 378**	**0**	**383 265**	**-9 999**	**497 642**

35d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2005	**0**	**0**	**380 532**	**-311 251**	**69 281**
- appropriation of profit, including:	0	0	2 733	-240 504	**-237 771**
- write-off to General risk fund	0	0	2 733	-2 733	**0**
- dividend payment	0	0	0	-237 771	**-237 771**
- net profit / (loss) of the period	0	0	0	426 258	**426 258**
- coverage of losses of previous years from share premium	0	0	0	35 752	**35 752**
Retained earnings at the end of the period 31.12.2005	**0**	**0**	**383 265**	**-89 745**	**293 520**

VIII. 2005 & 2006 DIVIDENDS

Pursuant to the Resolution no. 4 adopted by the General Meeting of Shareholders of the Bank on April 6, 2006, in the matter of distribution of profit for the financial year 2005, the General Meeting of Shareholders decided to dedicate PLN 458 558 141.76 out of the 2005 net profit to pay the dividend. The Bank's share capital is PLN 849 181 744, broken down into 849 181 744 shares, thus giving PLN 0.54 per share. The dividend was paid July 19, 2006, with the right to the dividend held by those who were shareholders at July 5, 2006.

Following the declared dividend policy, the Management Board of the Bank shall recommend to the Shareholders the 2006 dividend payout at PLN 0.17 per share, or PLN 144.4m, consuming 48% of the 2006 consolidated net income (and 22% of the Bank's solo result, respectively). The dividend yield would be 2.1% (at the share price of Dec 29, 2006).

IX. FAIR VALUE

The Bank has financial instruments which under the adopted IFRS are not valued at fair value; they include: receivables from banks, loans and advances to customers, liabilities towards banks and customers, and liabilities under debt securities issue (including subordinated liabilities).

Fair value of financial instruments is best reflected in their market value. In case of many products and transactions, for which market value is not available, the fair value must be estimated with internal models based on cash flow discounting.
Cash flows for various instruments are determined in accordance with their individual characteristics, whereas the discount factors take into account both changes in the market interest rates and margins.

All model estimations contain an element of discretion and therefore they reflect exclusively the value of the instruments, for which they were developed.

The main assumptions and methods applied to estimate the fair value of assets and liabilities of the Bank are the following:

Receivables and liabilities to banks (structured agreement)
This is a transaction, which is composed of simultaneous purchase of a long-term zero coupon bond and a fixed rate long-term loan from the bond issuer.
The fair value of both parties to the transaction was estimated through discounting the related cash flows on their maturity, with the current zero coupon rate and a margin scaled for adjustment to the current market rate level.

Other receivables and liabilities to banks

The fair value of these financial instruments was determined through discounting the future principal and interest cash flows with the current rates, assuming the cash flows occur on contractual terms.

Loans and advances to clients

Owing to their short-term character and stable policy of the Bank in relation to this portfolio, the fair value of the instruments of this type without maturity and with short maturities, is close to the balance sheet value.

The fair value of the instruments with specific long maturities was estimated through discounting the related financial cash flows on the terms and conditions resulting from the agreements, with the current zero coupon rates and credit risk margins.

Additionally, in case of housing loans the effect of earlier repayment was considered.

Negative difference between the estimated fair value and the balance sheet value of the portfolio of cash loans is attributable mainly to the higher dynamics of margin growth than the dynamics of market rates decrease.

Liabilities to clients

The fair value of this type of instruments - without maturity or with maturity below 3 months - was recognised by the Bank as close to the balance sheet value.

The fair value of the instruments with maturities equal to 3 or more months was determined through discounting the future principal and interest cash flows with the current rates, assuming their occurrence on contractual terms.

Subordinated liabilities

This item is a bond issued in Euro. The fair value of this financial instrument was estimated on the basis of a model applied for market value determination of variable interest bonds with current market rate level and historical credit risk margin.

The Bank estimated fair value of the above instruments, using valuation models, as at December 31, 2006. The results of the analysis have been presented in the below table:

Data in PLN million

Financial instrument	Balance sheet value	Fair value	Difference
Loans and advances to banks – structurized agreement*	326,42	269,42	57,00
Amounts due to banks – structurized agreement *	326,42	269,42	57,00
Total net*			0,00
NBP bond	167,19	165,48	1,71
Non-governmental bonds	53,47	53,62	-0,15
Interbank deposits granted	927,99	928,18	-0,20
Interbank deposits accepted	1 962,07	1 962,02	0,05
Receivables repurchased from subsidiary	657,11	659,04	-1,93
Mortgages	7 244,80	7 091,73	153,07

Cash loans	622,62	632,77	-10,15
Fixed rate deposits from customers	2 283,76	2 282,82	0,94
Subordinated debt	307,47	306,50	0,97

X. INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

As at 31 Dec 2006, the following assets of the Bank were used as collaterals of liabilities:

In PLN thous.

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0109	available for sale	Pledge to the NBP - securing assistance received by the Bank from the NBP	54 825	58 699
2.	Treasury bonds DZ0109	trading	Lombard credit granted to the Bank by the NBP	75 000	80 300
3.	Treasury bonds DZ0110	available for sale	Lombard credit granted to the Bank by the NBP	120 000	129 505
4.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	508
5.	Treasury bills 070808	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	44 000	42 902
6.	Cash	-	Payment to the Futures Settlement Guarantee Fund	70	70
		TOTAL		**294 395**	**311 984**

As at 31 Dec 2005, the following assets of the Bank were used as collaterals of liabilities:

In PLN thous.

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0109	available for sale	Pledge to the NBP - securing assistance received by the Bank from the NBP	54 825	60 412
2.	Treasury bonds DZ0109	available for sale	Lombard credit granted to the Bank by the NBP	17 572	19 363
3.	Treasury bonds DZ0109	trading	Lombard credit granted to the Bank by the NBP	57 428	63 280
4.	Treasury bonds DZ0110	available for sale	Lombard credit granted to the Bank by the NBP	120 000	133 188
5.	Treasury bonds DZ1006	trading	Initial security deposit for bond futures	420	427
6.	Treasury bills	available for	Security of Guaranteed Monies	35 000	34 575

	sale	Protection Fund under the Bank Guarantee Fund		
7. Cash	-	Payment to the Futures Settlement Guarantee Fund	70	70
	TOTAL		**285 315**	**311 315**

XI. SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

As at 31 Dec 2006, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	available for sale	559 873	558 834
Treasury bonds	trading	843 318	841 752
Treasury bills	available for sale	77 990	77 100
TOTAL		**1 481 181**	**1 477 686**

As at 31 Dec 2005, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	available for sale	2 751 052	2 828 863
Treasury bonds	trading	590 284	608 333
Treasury bills	available for sale	31 390	30 144
TOTAL		**3 372 726**	**3 467 340**

XII. ADDITIONAL EXPLANATIONS TO CASH FLOW ACCOUNT

The following assets are recognized by the Bank as cash and cash equivalents for the application in the cash flow account:

Data in PLN thous.

	31.12.2006	31.12.2005
Cash and balances with the Central Bank	956 817	510 785
Receivables from interbank deposits (*)	551 138	1 819 636
Debt securities issued by the State Treasury (*)	125 775	1 225 212
of which available for sale	89 808	0
of which trading	35 967	1 225 212
Total	**1 642 730**	**3 555 633**

(*) financial assets of maturity below 3 months

The following activity categories have been adopted for the cash flow account report:

1. operating activity – covers core scope of activities related to provision of the Bank's serivces, covering any efforts to generate profits, other than investment or financial ones,

2. investment activity – covers actions related to purchase and sale of fixed assets, in particular financial assets not classified as „held for trading" or stocks and shares in subsidiaries, and material fixed assets and intangibles,
3. financial activity – covers actions related to acquisition of funds in form of capitals or liabilities, as well as the servicing the sources of financing.

XIII. INFORMATION ON CUSTODY ACTIVITIES

As at 31 Dec 2006, the Custody Department (DPO) kept 2 709 securities accounts, holding in total the Customer funds of PLN 26.766bn, or 25% more than in January 2006. The Custody Department acts as a bank-depositary and a transfer agent for 16 investment funds of the Millennium TFI S.A. group. Over the year 2006 DPO acquired 37 new corporate customers (4 of which are foreign financial institutions), and closed negotiations of the offer for bank-depositary services to be rendered to a newly-created FORUM TFI, which will manage 5 closed-end funds. At Dec 31, 2006, net revenues from custody operations amounted to PLN 8.901m, while net income PLN 3.795m (+38% vs. 2005).

XIV. TRANSACTIONS WITH ASSOCIATED ENTITIES

(1) DESCRIPTION OF TRANSACTIONS WITH ASSOCIATED ENTITIES

All transactions made in 2006 with members of the Group were executed at market terms and conditions, and were driven by current activity. The below table presents major amounts of intergroup transactions, which were eliminated in the data consolidation process; these were transactions with the following entities:

- MILLENNIUM DOM MAKLERSKI,
- MILLENNIUM LEASE,
- TBM,
- MILLENNIUM LEASING,
- BBG FINANCE BV,
- MILLENNIUM SERVICE,

and with the Bank's dominant entity - Banco Comercial Portugues.

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) AS AT 31.12.2006

	With subsidiaries	With controlling entity
ASSETS		
Accounts and deposits	0	48 934
Receivables from loans, advances, purchased receivables	1 128 381	0
Receivables from securities bought with sell-back clause	0	0
Shares in subsidiaries subject of consolidation	86 329	0
Debt securities	0	0
Short-term financial assets (valuation of derivatives)	293	19 202
Other assets, including:	584 705	0
- dividend to be received by the Bank from Millennium Leasing Sp. z o.o.	506 363	0
LIABILITIES		
Liabilities from accepted deposits	383 524	0
Liabilities from securities sold with buy-back clause	49 552	0
Short-term financial liabilities (valuation of derivatives)	33	23 781
Special funds and other liabilities	7 644	0

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) AS AT 31.12.2005

	With subsidiaries	With controlling entity
ASSETS		
Accounts and deposits	0	12 954
Receivables from loans, advances, purchased receivables	1 043 803	0
Receivables from securities bought with sell-back clause	20 028	0
Shares in subsidiaries subject of consolidation	85 414	0
Debt securities	8 091	0
Short-term financial assets (valuation of derivatives)	0	2 226
Other assets	33 026	0
LIABILITIES		
Liabilities from accepted deposits	345 553	12 432
Liabilities from securities sold with buy-back clause	411 078	0
Short-term financial liabilities (valuation of derivatives)	525	17 566
Special funds and other liabilities	1 611	0

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) FOR THE PERIOD OF 1.01-31.12.2006

	With subsidiaries	With controlling entity
Income from:		
Interest	38 374	6 589
Commissions	39 846	0
Due/paid-out group internal dividends	506 363	0
Financial operations	0	41 591
Other operating income	10 003	0
Expense from:		
Interest	21 973	0
Commissions	245	0
Financial operations	333	37 123
Activities	4 708	0

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) FOR THE PERIOD OF 1.01-31.12.2005

	With subsidiaries	With controlling entity
Income from:		
Interest	119 507	26 852
Commissions	10 466	0
Due/paid-out group internal dividends	371 599	0
Financial operations	0	31 213
Other operating income	19 151	272
Expense from:		
Interest	82 567	34 933
Commissions	1 450	0
Financial operations	344	283 500
Activities	1 894	0

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) AS AT 31.12.2006

	With subsidiaries	With controlling entity
Conditional commitments	140 474	0
Derivatives (par value)	121 776	1 110 942

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) AS AT 31.12.2005

	With subsidiaries	With controlling entity
Conditional commitments	79 501	0
Derivatives (par value)	120 440	1 412 836

(2) INFORMATION ON OUTSTANDING PREPAYMENTS, ADVANCES, LOANS, AND GUARANTEES

Information as at 31 Dec 2006:

1. Managers have a total debt limit of PLN 254.0 thousand, of which PLN 177.3 thousand is an unutilized credit cards limit.
2. There were no active guarantees given to managers
3. Supervisors have debt limit of PLN 155.0 thousand, of which PLN 131.3 thousand is an unutilized credit cards limit
4. The Bank recorded a total exposure of PLN 13 116 thousand on an entity linke personally with a member of the Bank's supervision.

The balance of outstanding loans granted to Bank staff by the Social Fund (ZFŚS) was PLN 4 556.6 thousand.

The Bank does not keep a record of loans and advances granted to employees through standard activity, i.e. on terms and conditions for Customers of the Bank.

Information, as at 31 Dec 2005:

1. Managers have a total debt limit of PLN 401.5 thousand, of which PLN 159.1 thousand is an unutilized credit cards limit.
2. There were no active guarantees given to managers
3. Supervisors have debt limit of PLN 155.0 thousand, of which PLN 148.8 thousand is an unutilized credit cards limit
4. The Bank recorded a total exposure of PLN 16 306 thousand on an entity linke personally with a member of the Bank's supervision.

The balance of outstanding loans granted to Bank staff by the Social Fund (ZFŚS) was PLN 4 465.9 thousand.

The Bank does not keep a record of loans and advances granted to employees through standard activity, i.e. on terms and conditions for Customers of the Bank.

(3) INFORMATION ON REMUNERATIONS AND BENEFITS OF PERSONS MANAGING AND SUPERVISING THE BANK

1. Remuneration of the Management Board Members (data in PLN '000):

Year	Salaries and bonuses	Benefits	TOTAL
2006	20 605.7	1 002.0	21 607.7
2005	18 028.4	877.6	18 906.0

The total amount of paid or due remunerations and bonuses for 2006 is the gross amount of remunerations paid or due between Jan and Dec 2006 plus the bonus for 2005 paid in 2006 at PLN 10 800 thousand.

The benefits chiefly include accomodation expenses of foreign Members of the Management Board, as well as severance pays and compensations for termination of employment contracts.

Provision for holiday leave days not used by the Management Board Members amounted at 31 Dec 2006 to PLN 2 624 thousand, reaching a level similar to that of 2005-end.

Moreover, a provision of PLN 13 539 thousand was created in 2006 towards the annual bonus.
Management Board Members are bound by agreements banning competitive activities after completion of their responsiblities as Management Board Members at the Bank.
Should they be not appointed for another tenure, or recalled, Management Board Members shall have the right to a severance pay.

2. Remuneration of the Supervisory Board Members of the Bank (data in PLN ‘000):

Year	Salaries	Benefits	TOTAL
2006	2 105.3	133.9	2 239.2
2005	1 777.7	124.8	1 902.5

(4) Balance of shares of the Bank held by persons managing or supervising the Bank (performing their functions at 31 Dec 2006)

Name and surname	Position/Function	Number of shares as of 31.12.2006	Number of shares as of 31.12.2005
Bogusław Kott	Chairman of the Management Board	3 023 174	3 023 174
Luis Pereira Coutinho	Deputy Chairman of the Management Board	0	0
Fernando Bicho	Member of the Management Board	0	0
Julianna Boniuk-Gorzelańczyk	Member of the Management Board	490 000	490 000
Wojciech Haase	Member of the Management Board	5 246	5 246
Joao Bras Jorge	Member of the Management Board	0	-
Wiesław Kalinowski	Member of the Management Board	0	0
Zbigniew Kudaś	Member of the Management Board	0	0
Manuel Teixeira	Member of the Management Board	-	0
Jerzy Andrzejewicz	Proxy	6 260	6 260
Maciej Bednarkiewicz	Chairman of the Supervisory Board	94	94
Ryszard Pospieszyński	Deputy Chairman of the Supervisory Board	26 200	26 200
Christopher de Beck	Member of the Supervisory Board	95 000	95 000
Dimitrios Contominas	Member of the Supervisory Board	0	0
PedroTeixeira Duarte	Member of the Supervisory Board	0	-
Marek Furtek	Member of the Supervisory Board	1	-

Jorge Manuel Jardim Goncalves	Member of the Supervisory Board	10 000	10 000
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Francisco de Lacerda	Member of the Supervisory Board	0	0
Vasco de Mello	Member of the Supervisory Board	0	0
Paulo Teixeira Pinto	Member of the Supervisory Board	0	0
Marek Rocki	Member of the Supervisory Board	0	0
Dariusz Rosati	Member of the Supervisory Board	0	0
Zbigniew Sobolewski	Member of the Supervisory Board	0	0

XV. RISK MANAGEMENT

(1) CREDIT RISK

<u>Credit Policy</u>

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

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

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

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

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

<u>Concentration risk</u>

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

<u>Credit impairment</u>

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

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

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

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

Loan portfolio quality of Bank Millennium

Loan quality indicators	31.12.2006	31.12.2005	Change
Total loans with recognized impaired (PLN million)	705	788	-10%
Loans with recognized impairment over Total Loans	4,7%	8,3%	-3,6 p.p.
Total Provisions over Loans with recognized impairment	84%	72%	12 p.p.

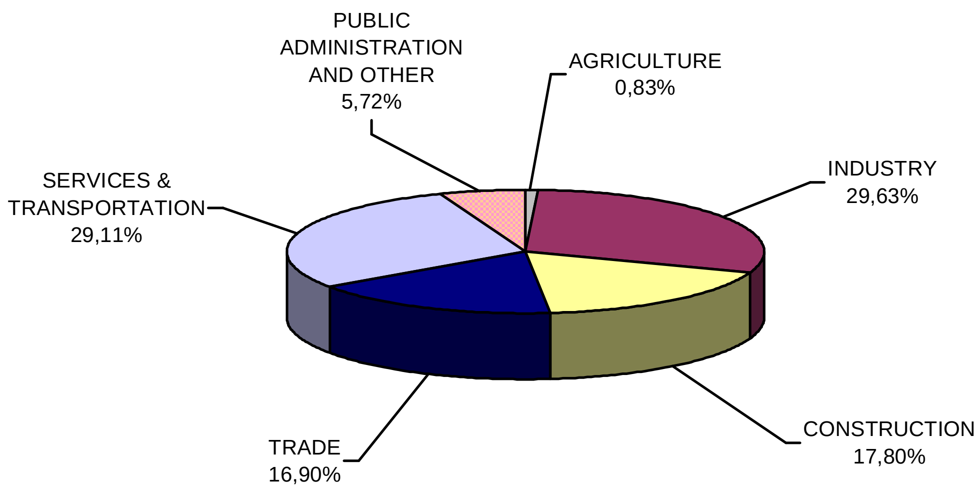
In 2006 the quality of the credit portfolio of the Bank has significantly improved. The loans with recognized impairment (non-performing) decreased by 83 mln PLN. Their share in the portfolio decreased from 8.3% at the end of 2005 to 4.7% at the end of 2006. The coverage of loans with recognized impairment by the impairment charges (provisions) increased at the end of 2006 to 84% (including provisions for incurred but not reported losses - IBNR).

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

- restructuring and vindication actions in the Bank,
- improvement of the tools used to monitor the timeliness of repayment,
- the write-off policy concerning the lost receivables covered with the provisions in 100% run by the Bank as well as transferring these receivables to the off-balance sheet; in 2006 PLN 16,5 million of receivables have been written off,
- good economic-financial standing of the corporate customers resulting from the improvement of the macro-economical situation in Poland.

The Bank loan portfolio is well diversifies among sectors of the economy, which presents below chart.

Loan portfolio split by sectors as at 31 Dec. 2006



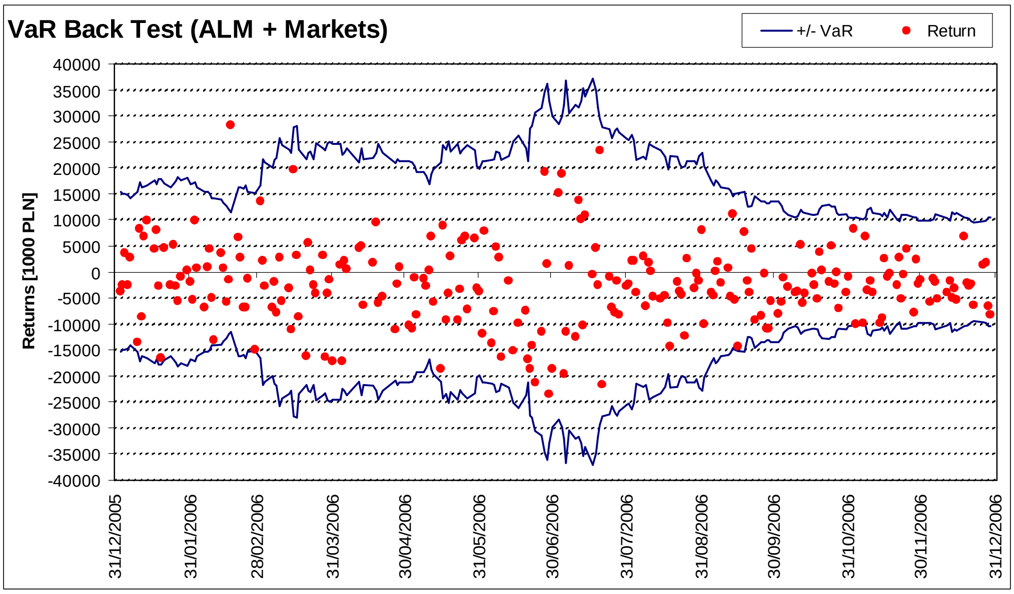
Banking execution titles

As regards business receivables, in 2006 the Bank issued 37 banking execution titles totalling 48.5 million PLN (at average NBP rate of 31 December 2006), including:
- 36 banking execution titles in PLN totalling 47.8 million PLN,
- 1 banking execution title in EUR totalling 0.2 million EUR,
and additionally 1 banking execution title concerning issuance of an object (of total value 2.5 million PLN, as estimated on the day, on which the agreement was concluded).
Furthermore, in 2006 the Bank issued 669 banking execution titles for he retail receivables and small companies totalling 16.6 million PLN (at the rate as of 31.12.2006).

(2) MARKET RISK

The Market Risk concept reflects the potential loss that could be recorded as a result of adverse alterations to interest or exchange rates or to the price of equities, bonds, commodities held both in the trading and investment portfolios of the Bank. Bank carries out day-to-day market risk measurement using Value at Risk (VaR) method with respect to interest rate and FX risks.

Adequacy of market risk measurment methods is proved by back tests. The results of back tests for 2006 are presented on below chart.



Market risk VaR results

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

VaR measures for market risk

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

	VaR (From January to December 2006)				
	End Dec.2006	Average	Maximum	Minimum	End Dec.2005
Global	10 756	18 964	38 675	9 572	16 543
Interest Rate VaR	10 706	18 969	38 589	9 555	16 522
FX Risk	187	775	5 904	40	148
Diversification Effect	1%	n/a	n/a	n/a	1%

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

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

As at 31December 2006 the structure of balance sheet and off-balance sheet items generating interest rate risk exposure was as follows:

ASSETS (PLN million)

	to 1 m	1-3 m	3-6 m	6-12 m	1-3 yrs	3-5 yrs	ab. 5 yrs	Total
Placed interbank deposits	320.5	188.7	349.2	81.7	38.7	0.0	0.0	**978.7**
Loans to financial and non-financial sector	3 859.6	9 603.5	120.0	635.3	342.2	115.3	1.4	**14 677.4**
Securities (in purchase and sale transactions)	953.2	639.3	112.5	861.9	1 654.2	431.9	251.6	**4 904.6**
Interest rate swaps	4 641.4	5 948.6	6 069.1	2 771.9	5 184.3	1 722.4	0.0	**26 337.7**
FRA	0.0	497.8	996.1	5 334.8	0.0	0.0	0.0	**6 828.6**
Other assets exposed to interest rate risk	7 352.5	6 256.0	1 580.9	1 416.7	1 653.8	6.7	11.0	**18 277.6**
Other assets	463.5	0.0	0.0	1 806.3	0.0	0.0	0.0	**2 269.8**
Total assets	**17 590.7**	**23 133.9**	**9 227.9**	**12 908.5**	**8 873.2**	**2 276.3**	**264.0**	**74 274.5**

LIABILITIES (PLN million)

	to 1 m	1-3 m	3-6 m	6-12 m	1-3 yrs	3-5 yrs	ab. 5 yrs	Total
Accepted interbank deposits	1 666.2	340.7	0.0	5.0	0.0	0.0	0.0	**2 011.9**
Deposits accepted from customers	8 887.3	4 257.7	1 194.1	1 555.2	190.2	0.0	0.0	**16 084.4**
Issued debt securities	0.0	0.0	310.8	5.7	0.0	0.0	0.0	**316.5**
Interest rate swaps	4 472.0	5 851.2	6 523.5	1 834.4	4 949.4	2 594.6	139.0	**26 364.0**
FRA	698.5	297.7	693.9	5 171.4	0.0	0.0	0.0	**6 861.4**
Other liabilities exposed to interest rate risk	8 613.5	5 581.9	1 326.4	699.3	1 248.8	6.8	54.0	**17 530.6**
Other liabilities	32.6	1 916.5	0.0	3 156.5	0.0	0.0	0.0	**5 105.6**
Total liabilities	**24 370.0**	**18 245.7**	**10 048.7**	**12 427.5**	**6 388.4**	**2 601.3**	**193.0**	**74 274.5**

Mismatch in revaluation periods	**-6 779.3**	**4 888.2**	**-820.8**	**481.0**	**2 484.8**	**-325.0**	**71.0**	**0.0**

In the Bank's balance sheet there are assets and liabilities:

a) Encumbered with fair value risk connected with interest rate risk:
- Debt securities with fixed interest rate,
- Discount debt securities,
- Fixed rate loans and deposits,
- Commitments on account of issue of fixed interest rate securities.

b) Encumbered with risk of cash flows connected with interest rate:
- Variable rate debt securities,
- Variable rate loans and deposits.

c) Not encumbered directly by interest rate risk:

- Fixed assets,
- Equity investments,
- Own funds

The below table presents effective interest rates of the selected balance sheet items:

Balance sheet item	TOTAL - AVERAGE %	PLN	USD	EUR	CHF	GBP	JPY
Receivables from banks	3.46%	3.93%	5.27%	3.66%		5.00%	0.45%
Debt securities							
Available for sale	4.29%	4.29%					
Receivables from customers	5.58%	7.03%	4.48%	4.87%	3.89%		0.50%
Receivables on account of repo	3.98%	3.98%					
Liabilities to banks	4.13%	4.11%	5.36%	3.76%	2.12%		
Deposits							
Term	4.29%	4.35%	4.60%	2.89%	1.65%	3.59%	
Current accounts	1.07%	1.11%	0.63%	0.76%	0.50%	0.80%	0.50%
Saving accounts	4.26%	4.27%	0.50%	1.50%			
Liabilities on account of repo	3.89%	3.89%					
Subordinated debt	3.82%			3.82%			

The capital requirement for the Bank for trading portfolio calculated for capital adequacy ratio purpose as at 31 December 2006 was as follows (data in PLN thousands):

Market risk not covered by model, including:	
- risk of prices of equity securities	483
- general interest rate risk	48 521
- delivery settlement and counterparty risk	2 392
Total	**51 396**

(3) LIQUIDITY RISK

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

As at 31 December 2006 the liquidity measures used by the Bank were as follows:

1. In the structural liquidity area:

Real Liquidity Gap (PLN million)	**to 3 m**	**ab. 3m**
Balance sheet gap	3 534.7	-3 097.2
Accumulated balance sheet gap	3 534.7	437.6

Off-balance gap	-394.4	0.0
Total gap	3 140.3	-3 097.2
Total accumulated gap	3 140.3	43.2

Liquid assets ratio	**PLN million**
Liquid assets	7 323.2
Total assets	24 608.7
Share of liquid assets in total assets %	**29.8%**

2. In the current liquidity area:

Current liquidity ratios

	Highly liquid assets	Spot liquidity ratio	Quarterly liquidity ratio	Deposits volatility hedging ratio
Level in PLN million	4 950.0	3 799.0	1 438.9	6 372.0
Minimum limit in PLN million	-	-321.1	-1 284.3	2 000.0

(4) OPERATIONAL RISK

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

(1) CONDITIONAL LIABILTIES AND ASSETS

Total value of claims in all proceedings involving the Bank, either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted at Dec 31, 2006 to PLN 476.5m. The total value of claims in court proceedings involving the Bank as a defendant amounted to PLN 376.8m, while the total value of claims in court proceedings involving the Bank as a plaintiff was PLN 99.6m.

The following are major cases in progress:

- As at December 31, 2006, the Bank, as a defendant, was involved in the following cases, considered to be most significant by the criterion of value of the claim:

1. **Plaintiff:** natural person
   Claim value: PLN 299 833 300
   Claim: compensation for BIG BANK Spółka Akcyjna (former ŁBR S.A.), which according to the plaintiff was taken over illegaly
   Status: On Oct 10, 2004, the court suspended the proceedings till a legally binding ruling is given in another case; no appeal was filed against the suspending decision. Presently the case was finally closed, thus enabling further steps to be taken.
   Prospects: the Bank has assessed the probability of winning as high

2. **Plaintiff:** legal person
   Claim value: PLN 18 293 091,71
   Claim: cancellation of an enforcement clause of an execution title, and return of funds recovered under the clause
   Status: In the trial regarding cancellation of enforcement of the execution title, the plaintiff withdrew the claim and the court decided to discontinue the prodeeding. The court's decision to discontinue the proceeding was appealed by the plaintiff.
   In the case regarding the executed funds, the Bank filed its response to the claim, and the trial was postponed till Feb 21, 2007.
   Prospects: the Bank has assessed the probability of winning both cases as high

3. **Plaintiff:** natural person
   Claim value: PLN 14 725 245
   Claim: compensation related to completed execution
   Status: The trial has been scheduled to begin on March 21, 2007.
   Prospects: the Bank has assessed the probability of winning as high

4. **Plaintiff:** legal person
   Claim value: PLN 14 000 000
   Claim: compensation for the Bank-inflicted bankrupty of a 'daughter company'.

Status: The Bank's proxy filed a response to the claim, requesting the claim to be fully rejected. Responding to the claim, the Bank brought up the fact that the claimant is not actively legitimate to claim from the Bank any of the listed claims. The first hearing was held on January 5, 2007. During the following one, held on January 16, 2007, the court presented its ruling, dismissing the claim for payment of the compensation.

5. **Plaintiff:** natural persons
   Claim value: PLN 8 000 000
   Claim: compensation for a completed execution from the plaintiffs' civil law company's assets, which the claimants belive was illegal
   Status: The claimants presented the Bank with a composition agreement proposal, which was rejected. The next hearing has been scheduled for February 15, 2007.
   Prospects: the Bank has assessed the probability of winning as high

OFF-BALANCE ITEMS

	31.12.2006	31.12.2005
Off-balance conditional commitments granted and received	**6 583 398**	**6 003 562**
1. Commitments granted:	6 045 675	5 238 436
a) financial	4 666 790	4 466 171
b) guarantee	1 378 885	772 265
2. Commitments received:	537 723	765 126
a) financial	50 000	43 379
b) guarantee	487 723	721 747

The given conditional liabilities shown in the above table are composed of committments to grant loans (such as: available credit card limits, available overdraft limits, available tranches of investment loans), and issued guarantees and letters of credit (securing the performance of the Bank customers' liabilities towards third parties). The value of guarantee-related liabilities shown above reflects maximum value of potential loss, should customers fail to deliver upon their liabilities. The Bank creates provisions towards impairment risk-bearing irrevocable conditional liabilities, reported under 'Provisions' in the balance sheet liabilities. The value of the provision is determined as a difference between the estimated amount of available conditional exposure and the current value of exptected future cash flows under this credit exposure.

Guarantees, sureties, and avals given to Customers

Between Jan 1, 2006 and Dec 31, 2006 the capital group of Bank Millennium S.A. granted 2 537 guarantees, sureties, and avals, totaling PLN 787 885 thousand.

The total of the liabilities (except for guarantees of sureties of payment of EFRWP loans, and open guarantee lines) amounted at Dec 31, 2006 to PLN 941 247 thousand (1 852 active guarantees), showing their value increase by PLN 188 988 thousand, or 25.12% vs. Dec 31, 2005.

The value of guarantees, sureties, and avals granted in PLN increased by PLN 219,840 thousand, or 39.10% when compared to the end of the previous year, while the value of the liabilities granted in foreign currencies dropped by PLN 30 852 thousand, or 16.23%.

The structure of liabilities under guarantees, sureties, and avals, broken down into PLN and FX ones, can be found below:

	31.12.2005	31.12.2006
Commitments granted in PLN thous.:	562 181	782 021
Commitments granted in FX (equivalent in PLN thous.):	190 078	159 226
Total	**752 259**	**941 247**

The structure of the liabilities by type, as at Dec 31, 2006, can be found below:

Type of commitment	Number	Amount in PLN thous.
Avals	1	1 050
Guarantees	1 802	904 015
Sureties	2	6 595
Re-guarantees	47	29 587
Total	**1 852**	**941 247**

The structure of the liabilties by their title, as at Dec 31, 2006, can be found below:

Object of the commitment	Number	% share	Amount in PLN thous.
good performance of contract	1 027	55.45%	315 082
rent payment	245	13.23%	17 432
bid bond	231	12.47%	31 961
payment for goods or services	161	8.69%	126 030
other	98	5.29%	56 568
advance return	54	2.92%	87 311
customs	23	1.24%	292 668
payment of bank loan	13	0.70%	14 195
Total	**1 852**	**100.00%**	**941 247**

The sectoral structure of all net guarantee liabilities reported as off balance sheet, as at Dec 31, 2006, can be found below:

Customer – sector	Amount PLN millions
- financial sector	30,5
- non-financial sector (companies)	1 320,3
- public sector	25,6
- natural persons	2,5
Total	**1 378,9**

As a dominant entity, the Bank did not grant any guarantees, sureties, or avals to any member of the Capital Group; however, it granted such product to third parties upon request of the Group members. The value of guarantees, sureties, and avals granted by the Bank upon order from members of the Group can be found in the below table:

Subsidiary	**Amount in PLN million**
TBM Sp. z o.o.	0.1
Millennium Services Sp. z o.o.	0.9
Total	**1.0**

(2) OPERATING LEASING

The Bank has lease agreements for office space which according to IAS 17 are posted under operating leasing. As a standard, the Bank usually makes agreements of lease of commercial property for a specified period of time: between 5 and 10 years. Majority of these is entered for 5 years with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The other agreements are made with no time limitation, and may be terminated with adequate notice, usually 3 to 6 months.

Total liabilities under the irrevocable operating leasing are as follows (data in PLN thousands):

Balance as at:	**31.12.2006**	**31.12.2005**
- to 1 year	47 036	58 800
- above 1 year to 5 years	95 149	97 130
- above 5 years	7 142	5 770
Total	**149 327**	**161 700**

(3) MAJOR EVENTS BETWEEN THE DATE OF THE FINANCIAL REPORT AND THE PUBLISHING DATE

On January 29, 2007, the Bank and the Bison Non-standard Closed-end Securitization Investment Fund, with the seat in Warsaw (the Fund), founded and managed by BPH Towarzystwo Funduszy Inwestycyjnych S.A., with the seat in Warsaw, entered an agreement of a sale of irregular corporate receivables (hereinafter referred to as the Agreement). The total amount of receivables (principal, interest, and other dues) to be sold under the agreement is PLN 541,604 thousand .

SIGNATURES:

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