Consolidated Financial Statement

of the Bank Millennium S.A. Capital Group

prepared in accordance with the International Financial Reporting Standards for the year 2006

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	1 291 483	1 196 583	331 229	297 416
II. Fee and commission income	420 500	293 503	107 846	72 952
III. Operating income	1 267 558	1 481 037	325 093	368 119
IV. Operating profit / (loss)	370 732	709 743	95 082	176 410
V. Gross profit / (loss)	370 732	709 743	95 082	176 410
VI. Net profit (loss)	300 787	567 054	77 143	140 944
VII. Net cash flows from operating activities	-4 918 088	357 983	-1 261 350	88 978
VIII. Net cash flows from investing activities	2 157 640	-140 661	553 373	-34 962
IX. Net cash flows from financing activities	847 542	-1 197 680	217 370	-297 689
X. Net cash flows, total	-1 912 906	-980 358	-490 606	-243 673
XI. Total assets	24 692 125	22 151 139	6 445 011	5 738 934
XII. Deposits from banks	3 600 205	1 067 345	939 707	276 529
XIII. Deposits from customers	16 069 301	13 994 416	4 194 326	3 625 684
XIV. Total equity	2 215 321	2 390 823	578 232	619 416
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)	2.61	2.82	0.68	0.73
XVIII. Diluted book value per share (in PLN/EUR)	2.61	2.82	0.68	0.73
XIX. Capital adequacy ratio	13.63%	19.07%	13.63%	19.07%
XX. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.35	0.67	0.09	0.17
XXI. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.35	0.67	0.09	0.17
XXII. Pledged or paid dividend per share (in PLN/EUR)	0.54	0.28	0.13	0.07

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I. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Interest income	1	1 291 483	1 196 583
Interest expense	2	-640 982	-716 506
Net interest income		**650 501**	**480 077**
Fee and commission income		420 500	293 503
Fee and commission expense		-55 322	-28 657
Net fee and commission income	3	**365 178**	**264 846**
Dividend income	4	2 573	2 192
Result on investment financial assets	5	2 278	495 301
Result on financial instruments valued at fair value through profit and loss	5	63 852	135 648
Result on other financial instruments	5	-12 875	-6 264
Foreign exchange profit		181 512	93 481
Other operating income	6	67 322	54 580
Other operating expenses	6	-52 783	-38 824
Operating income		**1 267 558**	**1 481 037**
General and administrative expenses	7	-795 736	-670 030
Impairment losses on financial assets	8	-38 646	4 955
Impairment losses on non financial assets	9	-979	-20 381
Depreciation and amortization	10	-61 465	-85 838
Operating expenses		**-896 826**	**-771 294**
Operating profit		**370 732**	**709 743**
Share of profit of associates		0	0
Gross profit / (loss)		**370 732**	**709 743**
Corporate income tax	11	-69 945	-142 689
Net profit / (loss)		**300 787**	**567 054**
Attributable to:			
Equity holders of the parent		300 787	567 054
Minority interests		0	0
Basic earnings per ordinary share (in PLN)	12	**0.35**	**0.67**
Diluted earnings (losses) per ordinary share (in PLN)	12	**0.35**	**0.67**

II. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	**Note**	**31.12.2006**	**31.12.2005**
Cash, balances with the Central Bank	13	965 834	510 805
Loans and advances to banks	14	1 123 131	2 602 815
Financial assets valued at fair value through profit and loss	15	3 742 760	3 304 175
Hedging derivatives	16	108 027	14 826
Loans and advances to customers	17	14 937 743	9 591 642
Investment financial assets	18	2 931 656	4 903 474
- available for sale		2 931 656	4 824 838
- held to maturity		0	78 636
Investments in associates	18	7 016	8 981
Receivables from securities bought with sell-back clause	19	15 509	311 127
Property, plant and equipment	20	297 040	232 123
Intangible assets	21	21 578	26 998
Non current assets held for sale	22	25 907	239 512
Receivables from Tax Office resulting from current tax		20 139	0
Deferred income tax assets	23	127 370	157 485
Other assets	24	368 415	247 176
Total Assets		**24 692 125**	**22 151 139**

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	298 709	503 660
Hedging derivatives	27	14 506	22 273
Deposits from customers	28	16 069 301	13 994 416
Liabilities from securities sold with buy-back clause	29	1 428 134	3 061 037
Debt securities	30	5 705	69 436
Provisions	31	10 400	16 468
Deferred income tax liabilities	32	0	0
Current tax liabilities		1 436	132 186
Other liabilities	33	741 099	583 991
Subordinated debt	34	307 309	309 504
Total Liabilities		**22 476 804**	**19 760 316**

EQUITY

Amount '000 PLN	Note	31.12.2006	31.12.2005
Share capital	35	849 182	849 182
Share premium	35	471 709	471 709
Revaluation reserve	35	9 881	27 612
Retained earnings	35	884 549	1 042 320
Total equity attributable to equity holders of the parent		2 215 321	2 390 823
Minority interests		0	0
Total Equity		**2 215 321**	**2 390 823**
Total Liabilities and Equity		**24 692 125**	**22 151 139**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total consolidated 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	**2 390 823**	**849 182**	**471 709**	**27 612**	**0**	**1 042 320**
- purchase/sale and valuation of available for sale financial assets	-18 330	0	0	-18 330	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	300 787	0	0	0	0	300 787
- dividend payments	-458 558	0	0	0	0	-458 558
Equity at the end of the period (closing balance) 31.12.2006	**2 215 321**	**849 182**	**471 709**	**9 282**	**599**	**884 549**

	Total consolidated 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	**2 055 295**	**849 182**	**507 460**	**21 367**	**0**	**677 286**
- purchase/sale and valuation of available for sale financial assets	6 245	0	0	6 245	0	0
- net profit / (loss) of the period	567 054	0	0	0	0	567 054
- 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	**2 390 823**	**849 182**	**471 709**	**27 612**	**0**	**1 042 320**

IV. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES	1.01.2006 - 31.12.2006	1.01.2005 - 31.12.2005
I. Net profit (loss)	**300 787**	**567 054**
II. Adjustments for:	**-5 218 875**	**-209 071**
1. Minority profit (loss)	0	0
2. Interests in net profit / (loss) of associated companies	0	0
3. Depreciation and amortization	61 465	85 838
4. Foreign exchange (gains) / losses	-2 288	-21 464
5. Dividends	-2 573	-2 192
6. Changes in provisions	-6 068	-17 927
7. Result on sale and liquidation of investing activity assets	-20 770	-454 728
8. Change in financial assets valued at fair value through profit and loss	-1 720 291	55 009
9. Change in loans and advances to banks	236 099	-296 108
10. Change in loans and advances to customers	-5 350 235	-2 484 080
11. Change in receivables from securities bought with sell-back clause	295 618	-230 477
12. Change in liabilities valued at fair value through profit and loss	-212 718	236 394
13. Change in deposits from banks	1 185 909	672 668
14. Change in deposits from customers	2 074 885	606 272
15. Change in liabilities from securities sold with buy-back clause	-1 632 903	1 655 537
16. Change in debt securities	-46 600	-128 354
17. Change in deferred income tax settlements	66 812	161 446
18. Income tax paid	-166 277	-134 078
19. Change in other assets and liabilities	18 675	88 051
20. Other	2 385	-878
III. Net cash flows from operating activities	**-4 918 088**	**357 983**

B. CASH FLOWS FROM INVESTING ACTIVITIES	1.01.2006 - 31.12.2006	1.01.2005 - 31.12.2005
I. Inflows:	**6 691 299**	**7 260 258**
1. Proceeds from sale of property, plant and equipment and intangible assets	189 275	48 071
2. Proceeds from sale of shares in associates	0	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	6 499 451	7 161 283
5 Other	2 573	50 729
II. Outflows:	**-4 533 659**	**-7 400 919**
1. Acquisition of property, plant and equipment and intangible assets	-75 461	-17 506
2. Acquisition of shares in associates	0	0
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-4 458 198	-7 099 913
5. Other	0	-283 500
III. Net cash flows from investing activities	**2 157 640**	**-140 661**

C. CASH FLOWS FROM FINANCING ACTIVITIES	1.01.2006 - 31.12.2006	1.01.2005 - 31.12.2005
I. Inflows:	**1 328 936**	**22 836**
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	0
II. Outflows:	**-481 394**	**-1 220 516**
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	0
III. Net cash flows from financing activities	**847 542**	**-1 197 680**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**-1 912 906**	**-980 358**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**3 555 653**	**4 536 011**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**1 642 747**	**3 555 653**

V. GENERAL INFORMATION ABOUT ISSUER AND THE ISSUER'S CAPITAL GROUP

Commercial name and seat: Bank Millennium S.A., Poland, Warsaw, Al. Jerozolimskie 123 a
Registration court and register number: 12th Business Registration Division of the National Judicial Register, Registration Court for the Capital City of Warsaw, no 0000010186
Issuer's Core Business: banking and other financial intermediation, except insurance and pension funds,
The business of the Capital Group comprises: banking, leasing, factoring, brokerage, capital operations, investment fund management.

The financial statement contains the data of Bank Millennium S.A. (the Bank) and its subsidiaries (hereinafter referred to as "the Group").

Composition of the Management Board of Bank Millennium S.A. (the Group's parent entity) as at 31.12.2006:

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

Mr Rui Manuel da Silva Teixeira as of 19 July 2006 tendered his resignation from the function of the Bank's Management Board Member. The resignation of Rui Manuel da Silva Teixeira is connected with the entrusting of new duties within the BCP Group.
The Bank's Supervisory Board, pursuant to section 17 para 1 of the Bank's Articles of Association, appointed as at 19 July 2006 Mr Joao Bras Jorge the Bank's Management Board Member.

Composition of the Supervisory Board of Bank Millennium as at 31.12.2006:

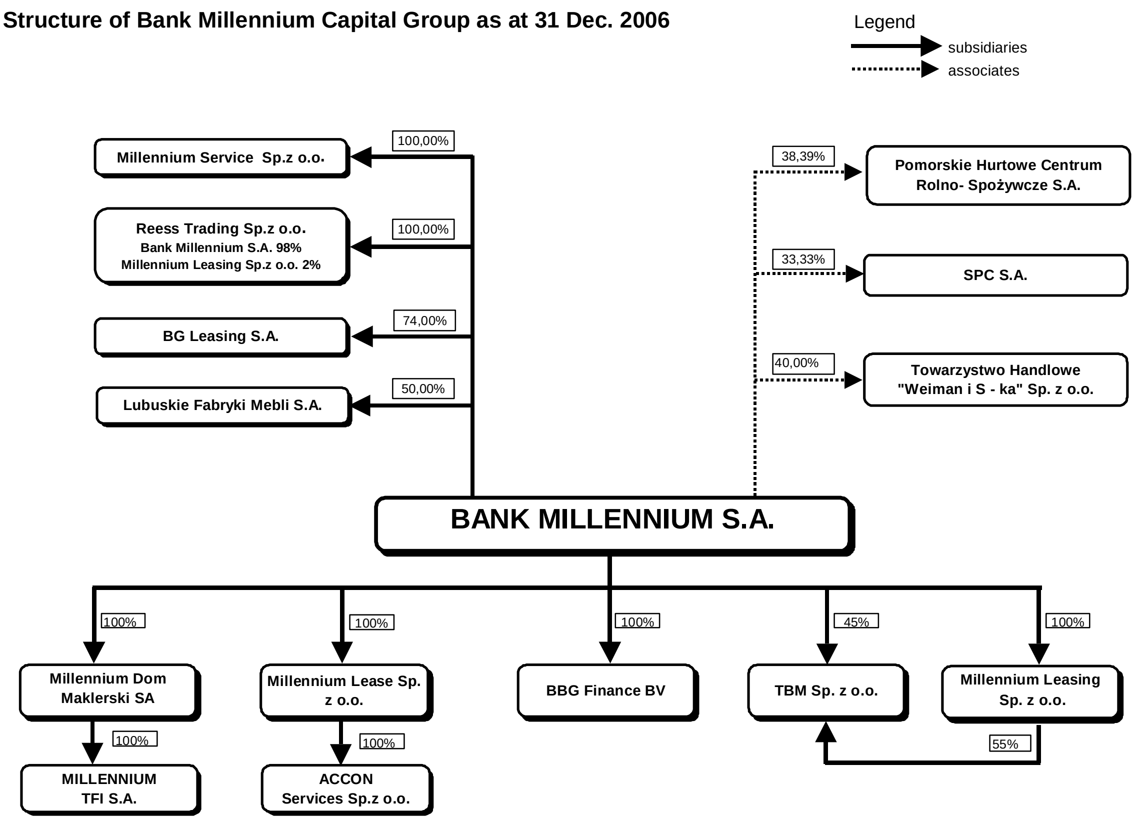
1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman and Secretary of the Supervisory Board,
3. Christopher de Beck - Member of the Supervisory Board,
4. Dimitrios Contominas - Member of the Supervisory Board,
5. Pedro Maria Calaínho Teixeira Duarte - Member of the Supervisory Board,
6. Marek Furtek - Member of the Supervisory Board,
7. Jorge Manuel Jardim Goncalves - Member of the Supervisory Board,
8. Andrzej K. Koźmiński - Member of the Supervisory Board,
9. Francisco José Queiroz de Barros de Lacerda - Member of the Supervisory Board,

10. Vasco Maria Guimarães José de Mello - Member of the Supervisory Board,
11. Paulo Jorge de Assunção Rodrigues Teixeira Pinto - Member of the Supervisory Board,
12. Marek Rocki - Member of the Supervisory Board,
13. Dariusz Rosati - Member of the Supervisory Board,
14. Zbigniew Sobolewski - Member of the Supervisory Board.

Pursuant to the decision of General Shareholders' Meeting held on 6 April 2006, the number of members of the Supervisory Board of the Bank was increased from 12 to 14 members. The new elected members of the Supervisory Board were Mr Pedro Maria Calaínho Teixeira Duarte and Mr Marek Furtek.

The Group's parent entity is Bank Millennium S.A. The companies that belong to the Capital Group as at 31 December 2006 are presented by the diagramme below:

Structure of Bank Millennium Capital Group as at 31 Dec. 2006



The Group applied provisions of IAS 8 ("Accounting principles (policies), changes in value estimates and error adjustment") section 8, whereby IFRS constitute a complete set of accounting principles, which do not have to be applied if the result of their application is immaterial. By the virtue of the above, provisions of IAS 27 ("Consolidated and solo-basis financial statements") and provisions of IAS

28 (“Investment in associated companies”) were not applied in relation to the financial statements of the following entities – members of the Capital Group as at 31 December 2006.

- Lubuskie Fabryki Mebli S.A.
- Ress Trading Sp. z o.o.
- Accon Services Sp. z o.o.
- BG Leasing S.A. - unit in bankruptcy
- Pomorskie Hurtowe Centrum Rolno – Spożywcze S.A.
- Towarzystwo Handlowe „Weiman i S-ka” Sp. z o.o. - the unit does not conduct business operations
- SPC S.A. - the unit does not conduct business operations

Between January 1 and December 31 2006 changes were registered in the firms (names) of the subsidiaries of the Bank in an effort to introduce a consistent architecture of the brands of the Bank and its subsidiaries, namely:

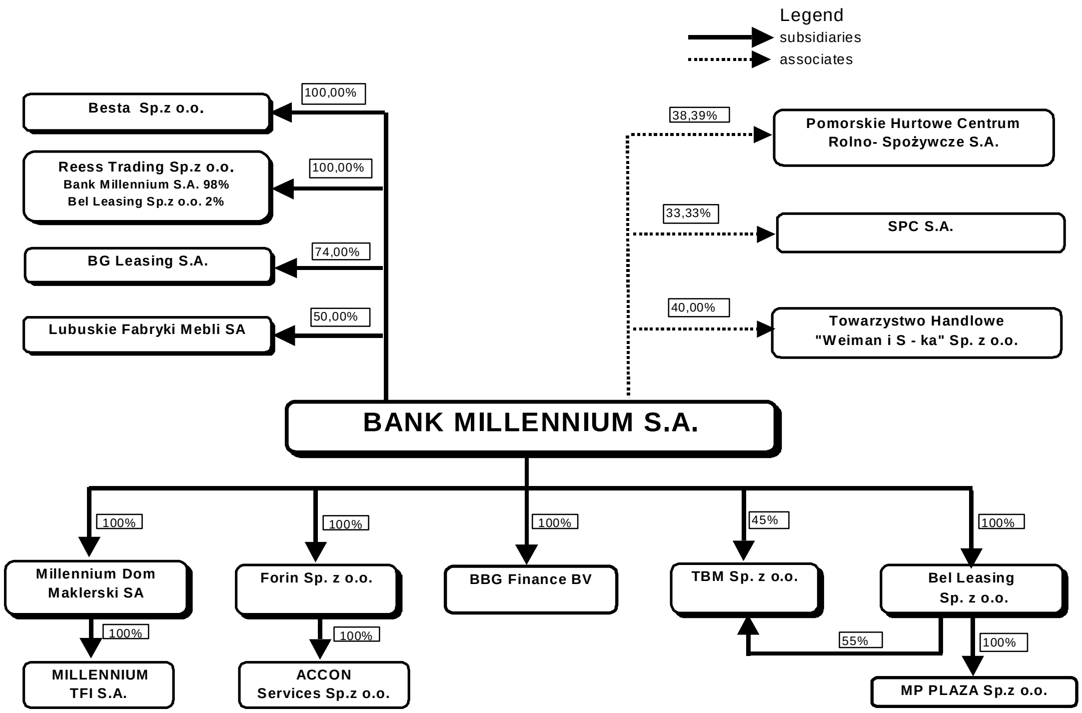
(1) The firm BEL Leasing Sp. z o.o. was replaced by the name of Millennium Leasing Sp. z o.o.,

(2) The firm Forin Sp. z o.o. was replaced by the name of Millennium Lease Sp. z o.o.

(3) The firm Besta Sp. z o.o. was replaced by the name of Millennium Services Sp. z o.o.

Additionally, the Group sold its subsidiaries: MP Plaza Sp. z o.o. (sold on 31July 2006) and MP Leasing Sp. z o.o. (a spin-off from Millennium Leasing Sp. z o.o. as of August 4 this year; the sale transaction was concluded on November 15, 2006). These transactions were concluded with unrelated companies and the companies in question were not consolidated due to the above-described criterion.

Structure of Bank Millennium Capital Group as at 31 Dec. 2005



VI. ACCOUNTING POLICY

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

These consolidated 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.

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

The Group 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 Group has not completed the process of estimating the impact of these standards and interpretations, on the financial statements of the Group 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 Group 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.	Group is of the opinion, that significant disclosures will be related to its objectives, policies and financial risk management processes.	1st January 2007

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
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 Group's equity.	Group 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 Revaluation of embedded derivative financial instruments	The interpretation states that embedded derivative financial instruments are recognized by an entity only when it becomes party of an agreement and revaluation is not allowed unless amendments to the agreement are made which cause significant movements in cash flows resulting from this agreement.	Group has not completed the process of estimating the impact of the new interpretation on its activity.	1st 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 Group's financial statement or would not have any significant impact on these financial statements.

(3) 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 Group'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 Group'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 Group's financial data.

(4) ADOPTED ACCOUNTING PRINCIPLES

1. Basis of Financial Statements Preparation

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

In the consolidated financial statements, the Group 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 Group the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. The respective unit of the Group is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Group 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 consolidated financial statements.

All the entities subject to consolidation prepare their financial statements in accordance with the same accounting standards applied by the whole Capital Group which is IFRS, at the same balance sheet date.

2. Basis of Consolidation

Purchase method

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Subsidiaries

Subsidiaries are any entities (including special purpose vehicles) controlled by the Bank (the parent company of the Group), meaning that the Bank has direct or indirect influence on their financial and operating policy of the given entity to gain economic benefits. When assessing whether the Group controls a given unit or not, one shall take into account, inter alia, the existence and impact of potential voting rights that in any given moment can be exercised or changed.

Control is presumed to exist when the parent owns more than half of the voting power of an entity and when there is:

a) power over more than half of the voting rights by virtue of an agreement with other investors;
b) power to govern the financial and operating policies of the entity under a statute or an agreement;
c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Subsidiaries are subject to consolidation from the date of taking over control by the Group until the date on which the parent ceases to control the subsidiary.

Intragroup transactions, settlements and unrealized profits resulting from intragroup transactions are eliminated. The unrealised losses are also subject to elimination, as long as the transaction does not provide evidence that the transferred asset impaired.

Associates

Associates are any entities over which the Group has significant influence but do not control them, generally accompanying a shareholding of between 20% - 50% of the voting rights.

The consolidated financial statements include the Group's share in profits and losses of associates according to its share in net assets of associates, from the date of obtaining significant influence until the date, the significant influence ceases.

Investments in associates are initially accounted at purchase price and then accounted for by using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit and loss, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

Any unrealised profits on transactions between the Group and its affiliated units shall be eliminated in proportion to the Group's shareholding in the affiliates. Also unrealised losses are subject to elimination, as long as the transaction does not deliver evidence that the transferred asset is impaired.

3. Functional currency and presentation currency

Functional currency and presentation currency

The items contained in consolidated financial statements of the Group are presented in the currency of their basic economic environment, in which a given entity operates ('the functional currency'). The consolidated financial statements are presented in Polish zlotys, being the functional currency and the presentation currency for the Group.

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.

4. 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 Group 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 Group uses derivative instruments in order to hedge against interest rate risk, arising from operating, financing and investing activities of the Group. 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 Group uses hedge accounting, if the conditions established in IAS 39 are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group'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 hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);

- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);
- The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity through the statement of changes in equity; and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

The associated gains or losses that were recognised directly in equity (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned hedged future transaction, are transferred into profit or loss in the same period or periods during which the asset acquired or liability assumed affects the profit or loss.

In case of a hedge of non-financial asset or a non-financial liability, the associated gains and losses recognized directly in equity as an effective hedge, are transferred successively into the profit or loss account in the same period or periods during which the asset acquired or liability assumed affects the profit or loss account directly from equities or are transferred from equities to initial purchase price in the balance sheet and recognized successfully in the periods, in which non – financial asset or liability has impact on profit and loss account.

Fair value hedge

Fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

Any gains or losses resulting from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss and the gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss.

This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

The valuation of hedged financial assets classified as available for sale, resulting from factors other than risk hedged, is recognized in the revaluation reserve till the date of sale of this financial asset.

Termination of hedge accounting

If the fair value hedge no longer meets the criteria for applying hedge accounting, the carrying value adjustment of the hedged instrument valued at amortized cost and effective interest rate, is amortized through profit and loss account over the period ending on the maturity date. The value of hedged financial assets classified as available for sale resulting from factors other than hedged risks is recognized in the revaluation reserve till the date of sale of this financial asset.

If the cash flow hedge no longer meets the criteria for hedge accounting, the valuation of hedging instrument recognized directly in equity at the date of the last effectiveness test remains in equity until the realization of cash flow resulting from the hedged item. Then the amount is transferred into profit and loss account in the periods, in which the hedged transaction influences the profit and loss account.

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 Group 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 Group 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.

5. Financial assets and liabilities

Classification

The Group 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, 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 Group's investment strategy.

  The Group 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 Group has the positive intention and ability to hold to maturity other than: (1) those that the Group 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.

  Held to maturity investments cannot be reclassified to other category. The Group 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 Group, 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 Group 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 Group's control, is nonrecurring and could not have been reasonably anticipated by the Group.

- *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; or 3) 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.

- *Other financial liabilities*

As other financial liabilities, the Group classifies all financial liabilities not classified as financial liability valued at fair value through the profit and loss, including especially received deposits and loans.

Recognition of financial instruments in the balance sheet

The Group recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Purchase and sale transactions of financial assets valued at fair value through the profit and loss, held-to-maturity and available for sale are recognized, in accordance with bookkeeping methods applied to all transactions of a certain type, at the trade date, the date on which the Group commits itself to purchase or sell an asset. Loans and receivables are recognized on distribution of the cash to borrower.

All financial assets are recognized initially, 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 Group derecognizes a financial asset when and only when: the contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset to third party. The transfer takes place when the Group 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 Group. On transferring a financial asset, the Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group:

- 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 Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, and if the Group has not retained control, it derecognises the financial asset accordingly.

The Group 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 Group.

- *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 is any objective evidence of impairment, the Group recognizes impairment loss as described in the **point 6: 'Impairment of 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 Group 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.

6. Impairment of financial assets

Assets valued at amortized cost

The Group 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 Group 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 group, including:
    - adverse changes in the payment status of borrowers; or
    - national or local economic conditions that correlate with defaults on the assets in the group

The Group 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 Group classifies credit receivables by size of engagement, into the individual and group portfolios. If the Group 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. Such an approach facilitates the identification of 1) incurred losses 2) and incurred but not reported losses (IBNR).

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 Group 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.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.
Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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 Group 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 Group after the transfer. When the Group 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. Financial leasing agreements

The Group is a party to lease contracts, on the basis of which it grants for paid use or benefit of non-current assets or intangible assets for an agreed period of time.

In the case of lease contracts, which result in transferring substantially all the risks and rewards incidental to ownership of the asset under lease, the subject of the lease is derecognized. A receivable amount is recognized instead, however, in an amount equal to the present value of minimum lease payments. Lease payments are accounted for (apportioned between the financial income and the reduction of the balance of receivables) to reach constant periodic rate of return from the outstanding receivables.

Lease payments for contracts which do not fulfil qualifications of a finance lease are recognized as income in the profit and loss, using the straight-line method, throughout the period of the lease.

The Group is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period.

These are agreements (mainly rent or lease), that do not meet the conditions of the financial leasing contract (operating leasing). Lease payments for contracts which do not fulfil qualifications of a finance lease agreement are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

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 Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

Own property, plant and equipment, with the exception of land and buildings are carried in accordance with cost model at historical costs less any accumulated depreciation and any accumulated impairment losses. The historical costs comprises of purchase price/cost of creation, and any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.
Fixed assets under construction are disclosed at purchase price or production costs less depreciation (amortisation) and impairment charges.

Subsequent costs

The Group recognizes as a part of the asset's carrying value, the replacement costs as incurred, only when it is probable that future economic benefits associated with these items will flow to the Group, and the cost of the item can be reliably measured.
Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss in the reporting period in which they were incurred.

Intangible assets

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 licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Expenses attached to the development or maintenance of computer software is expensed when incurred.

Other Intangibles

Other intangibles purchased by the Group 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 Group. 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).
Land, an intangible asset with an unspecified useful life, outlays for tangible assets and intangible assets are not depreciated. At each balance sheet date intangible assets with indefinite useful life are regularly tested for impairment.

The following depreciation rates are applied to basic categories of tangible and intangible assets and for investment property:

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 Group 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 Group 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 Group ceases to classify the assets as held for sale. The Group 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 Group assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Group estimates the recoverable amount of the asset and if the recoverable amount of an asset is less than its carrying amount, the Group 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 Group 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 loss can be reversed only to the amount, where the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss would not be recognized.

13. 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 Group, 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.

14. Provisions

Provisions are established when (1) the Group 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 Group 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.

15. Employee Benefits

Short-Term Employee Benefits

Short-term employee benefits of the Group (other than termination benefits) comprises of wages, salaries, and paid annual leave and social security contributions.
The Group 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 Group employees are entitled is calculated as the sum of unused holidays to which particular Group employees are entitled.

Long-term employee benefits

The Group'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 Group'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 Group fulfils a programme of post – employment benefits called defined contribution plan. Under this plan the Group 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 Group 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.

16. Group'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 entity 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.

Net profit of the current year represents net profit adjusted by corporate income tax. Losses attributed to minority shareholders and exceeding the value of minority interests are charged to the Group's equity.

17. 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,

18. Interest income

Interest income and expenses on financial instruments measured at amortized cost using effective interest rate and available for sale financial assets are recognized in the profit and loss.

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 comprises of interest income and costs on designated derivatives being a result of effective hedge instruments in hedge accounting of fair value of securities in foreign currencies in the area of risk of interest rates' changes and in hedge accounting of cash flow changes generated by the portfolio of mortgage loans in foreign currencies and PLN deposits financing 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 Group 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.

19. Fee and commission income/ Fee and Commission Costs

Commission income and expenses received from banking operations on client accounts, from operations on payment cards, factoring and brokerage activity is recognized in the profit and loss at the time the service is rendered; other fees and commissions are deferred and recognized as revenue over time.

The basic types of commissions related to credit operations in the Group include among others: loan origination fees and commissions, and commitment fees.

Fees and commissions (both income and expense) directly attributable to initial recognition of financial assets with established repayment schedules are recognized in profit and loss account as effective interest rate component and are part of interest income. Other, attributed to initial recognition of financial assets without established repayment schedules are amortized on a straight-line basis through the expected life of the financial instrument. Fees and commissions on pledge to grant a loan, which is probable to be drawn, are deferred and since initial recognition of financial assets are amortized as component of effective interest rate or on a straight-line basis based on above mentioned criteria. In the case of loans and advances with undetermined instalment payments and changes in interest, e.g. overdraft facilities and credit cards commissions are settled over the duration of the card or overdraft limit by the straight-line method and included in commission income.

Other fees and commissions resulting from financial services provided by the Group, like cash management services, brokerage services and asset management services are recognized in profit and loss account at the time of performance of the respective services.

20. Dividend Income

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

21. 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.

Result on investment financial instruments comprises also a change of fair value of designated hedge derivative transactions being a result of effective hedge instruments in hedge accounting of fair value of securities in foreign currencies in the area of risk of interest rates' changes.

22. 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).

23. 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.

24. Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the Group's banking and brokerage 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.

25. 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 is recognized in profit and loss or equity depending on type of temporary differences.
The Group forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are a result of different timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation.
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 Group 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.
An asset or a liability arising from temporary differences associated with investments in subsidiaries and associates are not included in calculation of deferred income tax assets or liabilities, unless the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of calculated deferred tax is based on expected degree of realisation of balance-sheet values of assets and liabilities with use of tax rates which are expected to be in force when the asset is realised or provision eliminated, assuming the tax rates (and tax provisions) legally or factually in force as of the balance sheet date. Income tax pertaining to items directly presented in equity is presented in equity.

26. Application of Estimates in connection with Accounting Policies

The preparation of financial statements in accordance with IFRS requires from the Group the use of estimates and assumptions that affect the amounts reported in the financial statements.
The estimates and assumptions, revised by the Group 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 Group, the actual results may differ from the estimates. The major areas for which the Group makes estimates are presented below.

- *Impairment of loans and advances*

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Group 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 Group, 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 Group uses observable data from active markets.

- *Impairment of other non current assets*

The Group assesses the existence of any indications that a non-current asset may be impaired at each balance sheet date. If such indications exist, the Group 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 Group may obtain from the given non-current asset (or cash generating unit). The Group 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 Group 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. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

Business Segments

The activity of the Group is conducted through different business lines offering specific products and services targeted to approach the following market segments:

a) Retail Segment

This segment includes the following business areas: mass market individuals, affluent individuals, micro businesses and individual entrepreneurs. The activity of the above mentioned areas is developed through the disposal of a complete panoply of banking products, complemented by specialized products developed by the Group's subsidiary companies. In the area of credit, mortgage loans, consumer loans, credit cards loans and leasing for small business constitute the major drives of volumes increase. On the side of customer funds, the main products are: current accounts, term deposits, mutual funds and structured products. Bancassurance products are also commercialised in this segment, especially together with loans and credit cards. Offer was recently enriched with selective mutual funds of other financial intermediaries and international investment funds.

b) Corporate Segment

The corporate segment includes the commercial activity made with SME, big and large corporate companies, as well as with local governments and other public entities. The commercial activity in the corporate segment is driven by a high quality base offer of typical banking products (working capital loans, investments loans, current accounts, term deposits) complemented by a modern set of cash management and treasury products including derivatives. Cross selling of leasing and trade finance products is very active for Corporate Clients.

c) Investment and treasury activities

The segment of investment activities consists of the Group activities in equity investments for the bank own account, brokerage and interbank and debt securities market transactions, that are not allocated to other segments.

d) Not allocated incomes and costs (other) in 2005

Non-allocated assets and liabilities comprise equity capitals, other assets and other liabilities, assets and liabilities connected with derivative hedging instruments, deferred tax assets and cash non allocated to any segments.

Equity capitals presented at the level of the Group for presentation purposes were recorded in the item „Other ".

Income tax expenses and equity capitals were presented only at the Group level

Group's results in 2005 were strongly affected by the following events:

- ü Additional income resulting from settlement of PZU shares sale (this transaction was described together with quantification below note (5a) Result on investment financial assets).
- ü Additional depreciation and impairment provision from non-financial assets resulting from Management decision based on evaluation of economic and useful life of tangible and intangible assets according to IFRS.

Tax charge for the period is presented only at total Group level.

Geographical segments

Group Bank Millennium operates exclusively on territory of the Republic of Poland and no significant differences in risk were identified as regarding the geographical location of its outlets. Therefore, the Group does not present financial statements with a breakdown into geographical areas.

Accounting polices

Accounting policies applied in segment reporting are in accordance with the International Accounting Standard 14.

For each segment there is determined gross result, including:

- q Interest result calculated on the basis of external interest from working assets and liabilities of the segment and internal interest income or cost from allocated assets / liabilities, measured using internal transfer interest rates based on market interest rates.
- q Net commissions income
- q Other income from financial operations and FX transactions (mostly affecting Investment and Treasury operations) like dividend income, result on investment and trading activity, income from FX transactions and result from other financial instruments.
- q Other operating cost and income
- q Provisions for impairment of financial and non financial assets
- q Share of the segment in personnel and administrative costs
- q Share of the segment in depreciation

The segment's assets and liabilities are operational assets and liabilities used by that segment in its operating activities, allocated to a particular business segment based on rational business assumptions. Gap between assets and liabilities in each business segment is covered by money market assets/liabilities and debt securities. Assets /liabilities of Treasury and Investment banking segment include money market assets /liabilities and debt securities.

Non-allocated assets and liabilities are presented in the item "Other"

In accordance with IFRS 5, as at December 31 2006 the Group presents fixed assets for sale totalling PLN 25.9 million, and as at December 31 2005 the assets worth PLN 239.5 million. The profit earned on the sale of the main item (plot in Wilanów of balance sheet value PLN 170.6 million as at December 31, 2005), realised in 2006 is presented as other income in the investment and treasury banking. The other land and property, which under the operational optimisation will not be used in further activity of the Bank, are presented under the Retail Banking assets. Fixed assets for sale – fixed assets from the completed lease agreements are presented in the Corporate Banking assets.

Income statement 01.01.2006 - 31.12.2006

In PLN thous.	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
Net interest income	380 317	191 322	78 862	0	650 501
external income	429 369	327 348	534 766	0	1 291 483
external cost	-240 386	-148 274	-252 322	0	-640 982
External income less cost	188 983	179 074	282 444	0	650 501
internal income	361 457	221 366	-582 823	0	0
internal cost	-170 124	-209 118	379 241	0	0
Internal income less cost	191 334	12 248	-203 582	0	0
Net fee and commission income	237 100	85 689	42 389	0	365 178
Dividends, other income from financial operations and foreign exchange profit	116 879	41 044	79 417	0	237 340
Other income and cost	214	34	14 291	0	14 539
Operating income	**734 510**	**318 089**	**214 960**	**0**	**1 267 558**
Staff costs	-274 786	-96 956	-41 140	0	-412 882
Administrative costs	-286 844	-70 940	-25 071	0	-382 854
Impairment losses on financial assets	-74 842	30 939	5 256	0	-38 647
Impairment losses on non financial assets	0	0	-978	0	-978
Depreciation and amortization	-51 349	-11 542	1 426	0	-61 465
Operating expenses	**-687 821**	**-148 499**	**-60 506**	**0**	**-896 826**
Operating profit	**46 689**	**169 590**	**154 453**	**0**	**370 732**
Gross profit / (loss)	**46 689**	**169 590**	**154 453**	**0**	**370 732**
Income taxes					-69 945
Net profit / (loss)					**300 787**

Balance sheet 31.12.2006

In PLN thous.	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
ASSETS					
Segment assets	10 226 125	6 855 735	6 370 405	25 102	23 477 367
- including capital investments	58 576	5 617	2 981	25102	92 276
Assets allocated to segment	2 366 936	2 596 831	-4 963 767	0	0
Assets not allocated to segment	0	0	0	1 214 758	1 214 758
Total	**12 593 060**	**9 452 567**	**1 406 638**	**1 239 860**	**24 692 125**
LIABILITIES & EQUTY					
Segment liabilities	9 652 091	6 168 095	5 590 467	0	21 410 654
Liabilities allocated to segment	2 330 022	2 794 867	-5 124 888	0	0
Liabilities not allocated to segment	0	0	0	1 066 150	1 066 150
Equity	0	0	0	2 215 321	2 215 321
Total	**11 982 113**	**8 962 962**	**465 579**	**3 281 471**	**24 692 125**

Income statement 01.01.2005 - 31.12.2005

In PLN thous.	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
Net interest income	303 415	137 249	14 472	24 941	480 077
external income	240 501	297 467	633 674	24 941	1 196 583
external cost	-334 688	-209 544	-172 275	0	-716 506
External income less cost	-94 187	87 923	461 399	24 941	480 077
internal income	471 039	268 928	-739 966	0	0
internal cost	-73 437	-219 602	293 040	0	0
Internal income less cost	397 601	49 325	-446 926	0	0
Net fee and commission income	133 478	101 635	29 734	0	264 846
Dividends, other income from financial operations and foreign exchange profit	48 709	39 752	164 668	467 229	720 358
Other income and cost	0	0	15 756	0	15 756
Operating income	**485 601**	**278 636**	**224 630**	**492 170**	**1 481 037**
Staff costs	-186 616	-107 749	-31 901	0	-326 266
Administrative costs	-215 457	-87 345	-40 962	0	-343 764
Impairment losses on financial assets	-39 492	44 447	0	0	4 955
Impairment losses on non financial assets	0	0	2 211	-22 592	-20 381
Depreciation and amortization	-28 511	-37 508	-8 877	-10 942	-85 838
Operating expenses	**-470 076**	**-188 155**	**-79 530**	**-33 533**	**-771 294**
Operating profit	**15 525**	**90 480**	**145 100**	**458 637**	**709 743**
Gross profit / (loss)	**15 525**	**90 480**	**145 100**	**458 637**	**709 743**
Income taxes					-142 689
Net profit / (loss)					**567 054**

Balance sheet 31.12.2005

In PLN thous.	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total consolidated
ASSETS					
Segment assets	5 369 625	8 293 317	7 929 840	20 293	21 613 076
- including capital investments	11 320	2 810	888	20 293	35 312
Assets allocated to segment	3 874 009	478 349	-4 352 358	0	0
Assets not allocated to segment	0	0	0	538 063	538 063
Total	**9 243 634**	**8 771 666**	**3 577 482**	**558 356**	**22 151 139**
LIABILITIES & EQUTY					
Segment liabilities	8 698 006	5 159 816	4 757 859	0	18 615 681
Liabilities allocated to segment	248 869	3 208 156	-3 457 024	0	0
Liabilities not allocated to segment	0	0	0	1 144 635	1 144 635
Equity	0	0	0	2 390 823	2 390 823
Total	**8 946 875**	**8 367 971**	**1 300 835**	**3 535 458**	**22 151 139**

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Amounts presented in the notes to the consolidated financial statement are presented 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	721 962	563 161
Transactions with repurchase agreement	2 104	1 642
Hedging derivatives	99 957	15 769
Financial assets held for trading (debt securities)	135 947	174 599
Investment securities	221 684	306 857
Total	**1 291 483**	**1 196 583**

In the line „Hedging derivatives" the Group presents net interest income from derivatives set as and being effective cash flow hedges. A detailed description of the hedging relations used by the Group is presented in ***note (16)***

The interest income for 2006 include the interest accrued on the impaired loans of 42 846 thousand PLN (for the 2005 comparative data the interest stood at 36 174 thousand PLN).

The interest income for the period January 1 – December 31 2005 ("investment securities") include 24,941 thousand PLN from the settlement of the discount effect of the second instalment for the sale of 10% of PZU S.A. shares.

(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	-71 388
Transactions with repurchase agreement	-149 283	-110 424
Hedging derivatives	0	-17 239
Deposits from customers	-400 706	-478 947
Subordinated debt	-14 011	-12 150
Debt securities	-592	-16 143
Other	-2 229	-837
Total	**-640 982**	**-716 506**

(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	63 225	58 704
Resulting from loan activity	32 903	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
Commissions on guarantees and sureties granted	7 602	5 943
Brokerage, custody and deposit of securities commissions	52 666	39 288
Investment funds management commissions	82 220	29 061
Other	8 133	22 445
Total	**420 500**	**293 503**

Payment service commissions include commissions for transfers, deposits and cash deposits and other payment transactions.

Commissions connected to financial brokerage include the commissions charged for the bancassurance products (including insurance products) and commissions for sale of external fund participation units (other than the funds from the Group), collected on a one-off basis.

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
Brokerage and custody commissions	-8 944	-7 024
Other	-3 546	-1 447
Total	**-55 322**	**-28 657**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Trading securities	0	0
Available for sale securities and other securities	2 573	2 192
Total	**2 573**	**2 192**

(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	29 622
Operations on investment funds units	325	0
Operations on equity instruments	775	465 679
- of which: sale of PZU S.A. shares settlement	0	465 037
Total	**2 278**	**495 301**

A detailed description of the settlement of a transaction to sell 10% of PZU S.A. shares and calculation of the impact of this transaction on the 2005 result on the Group's financial assets is presented below:.

On 21December 2004 the Bank together with its subsidiary, BIG BG Inwestycje S.A., signed with Eureko B.V. agreement to sell 10% of PZU S.A. shares (hereinafter referred to as the Agreement) purchased by the Group in November 1999. Pursuant to the Agreement, the minimum guaranteed selling price of the a/m shares totalled 1.6 billion PLN, payable in two instalments.

According to the provisions of the Agreement the minimum guaranteed selling price of the PZU S.A. shares totalling 1.6 billion PLN could be increased by:

- 80% of the surplus of the average price of PZU S.A. shares above the minimum guaranteed selling price. The average price would be calculated (the formula assumes weighing with daily turnover volume) for the period of 4 weeks starting in the second week of the quotations, in case PZU S.A. shares would be floated on the Warsaw Stock Exchange,
- 100% of the surplus of selling price obtained by EUREKO B.V. above the minimum guaranteed selling price, unless the PZU S.A. shares are sold by EUREKO B.V. to a third party by the end of 2005,
- 100% of the surplus of the valuation performed by independent investment banks above the minimum selling price, when the PZU S.A. shares are not floated by 30June 2005.

On 7December 2005 Memorandum on the Stock Sale Agreement dated 21December 2004 was signed with Eureko B.V. The Memorandum concerned settlement of the final selling price of 10% of PZU S.A. shares specified as 2.3 billion PLN, which constituted average valuation of the PZU Group prepared by two independent international investment banks. Following this settlement, the Group reflected gross profit in the amount of 700 million PLN in the 2005 profit and loss account.

In consequence of the sale of PZU S.A. shares, on December 21 2004, also the swap transaction concluded between Banco Comercial Portugues (BCP) and the Bank expired. BCP maintained its right to participate in sales proceeds (according to the formula stipulated in the Annex dated 21December 2004) in case the final selling price of PZU S.A. shares exceeds 1.6 billion PLN. In agreement with the above, in December 2005 the Bank paid BCP 283.5 million PLN. After this payment BCP confirmed that the Bank finally had realised all its obligations resulting from the swap agreement in question.

The sale agreement of PZU S.A. shares dated 21December 2004 established also a formula for the settlement of the parties, if between the date of the sale agreement and the date of the final settlement of the transaction, PZU S.A. pays a dividend in excess of the average dividend for the last three financial years. This surplus (in proportion to the number of shares in the agreement) was to constitute Group's income. In consequence of the payout of dividend for 2004 by PZU S.A., the Group booked as income in its 2005 profit and loss account the respective payment received from EUREKO B.V. in the gross amount of 48.537 thousand PLN.

The impact of the above-described events, reflected in the Group's 2005 result, is presented in the table below:

Data in thousand PLN

Settlement of the dividend paid out by PZU S.A. for 2004 – Group's share	48 537
Adjustment of the minimum guaranteed selling price	700 000
Costs resulting from the swap transaction concluded with BCP	-283 500
TOTAL	**465 037**

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

The result on trading activity comprises profits and losses generated as a result of selling financial instruments allocated to financial assets/liabilities valued at fair value through the profit and loss account and the effect of their fair value valuation.

This category includes the instruments qualified as "for trading" – at the moment the Group does not use the capacity to assign other instruments as appraised at fair value through the profit and loss account at the intitial booking (so-called fair value option)

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	-8 300	19 501
Operations on derivatives	72 152	116 147
Total	**63 852**	**135 648**

Starting from 1 January 2006 the Bank (and consequently the Group) established a formal hedging relationship (hedge accounting) against the risk of cash flow volatility. Consequently, interest accrued on hedge derivatives for the 1st half of 2006 constitutes an interest margin component. This issue is given broader description ***in note (16).***

(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**

The result on other financial instruments contains settlements on financial intermediation, including trust activity.

(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 and liquidation of property, plant and equipment, intangible assets	4 047	192
Profit on sale of non current assets held for sale	30 940	19 675
Indemnifications, penalties and fines received	4 902	8 144
Sale of other services	6 680	5 905
Costs incurred in previous years	0	1 631
Income from collection service	1 164	890
Income from leasing business	1 282	1 908
Other	18 307	16 235
Total	**67 322**	**54 580**

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	-11 563	-15 891
Loss on sale of non current assets held for sale	0	-1 850
Indemnifications, penalties and fines paid	-2 042	-1 852
Provisions for contentious claims	-19 095	-33
Costs of leasing business	-2 918	-2 737
Donations made	-628	-502
Costs of collection service	-3 030	-1 442
Costs of payments to compensation system	-785	-1 584
Other	-12 722	-12 933
Total	**-52 783**	**-38 824**

The Bank (and consequently the Group), established - to the debit of the 2006 operational costs - a 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 provision was established in the full amount of the penalty imposed by UOKiK on the Bank, i.e. 12 158 thousand PLN). 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.

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Staff costs:	**-412 882**	**-326 266**
Salaries	-395 562	-311 878
Employee benefits, including:	-17 320	-14 388
- provisions for retirement benefits	-2 803	-1 126
- provisions for unused employee holiday	-175	-423
- other	-14 342	-12 839
General administrative costs	**-382 854**	**-343 764**
Costs of advertising, promotion and representation	-47 352	-35 697
Costs of software maintenance and IT services	-14 644	-37 191
Costs of renting	-80 055	-82 952
Costs of buildings maintenance, equipment and materials	-37 253	-34 713
ATM and cash costs	-22 079	-21 890
Costs of communications and IT	-66 959	-20 595
Costs of consultancy, audit and legal advisory and translation	-27 105	-21 074
Taxes and fees	-19 895	-21 463
KIR clearing charges	-2 196	-2 605
PFRON costs	-3 360	-2 695
BFG costs	-2 434	-2 306
Other	-59 522	-60 583
Total	**-795 736**	**-670 030**

(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	**-42 699**	**1 204**
- Impairment charges on loans and advances to customers	-450 011	-451 993
- Reversal of impairment charges on loans and advances to customers	388 945	414 617
- Amounts recovered from loans written off	18 367	38 580
Impairment losses on investment securities	**-19**	**1 037**
- Impairment write-offs for investment securities	-19	-674
- Reversal of impairment write-offs for investment securities	0	1 711
Impairment losses on investments in associates	**-1 965**	**-174**
- Impairment write-offs for investments in associates	-1 965	-2 874
- Reversal of impairment write-offs for investments in associates	0	2 700

Impairment losses on off-balance sheet liabilities	**6 037**	**2 888**
- Impairment write-offs for off-balance sheet liabilities	-26 842	-45 118
- Reversal of impairment write-offs for off-balance sheet liabilities	32 879	48 006
Total	**-38 646**	**4 955**

(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	-2 948	-22 592
Other assets	1 969	2 211
Total	**-979**	**-20 381**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2006 - 31.12.2006	**01.01.2005 - 31.12.2005**
Property, plant and equipment	-50 566	-72 460
Intangible assets	-10 899	-13 378
Total	**-61 465**	**-85 838**

Pursuant to IAS 38 and IAS 16 the Group performs periodic verification of the duration of the economic use periods for intangible fixed assets and tangibles. In consequence, the amount of depreciation for 2005 was increased by 11 million PLN, which was largely caused by the decision to implement a new business model of the Bank, assuming also a change in the visual identity of the Bank's branches.

(11) INCOME TAX RECOGNIZED IN THE INCOME STATEMENT

11a. Income tax recognized in income statement	**1.01.2006 - 31.12.2006**	**1.01.2005 - 31.12.2005**
Current tax	**-38 375**	**-164 410**
Current year	-38 375	-164 410
Adjustments in previous years	0	0
Deferred tax	**-33 136**	**23 517**
Appearance and reversal of temporary differences	-87 809	17 524
Utilisation of tax loss	54 673	1 654
Adjustment in CIT-8 declaration	0	4 339
Other		
Receivables resulting from the article 38a of the CIT Act	1 564	-1 796
Total income tax recognized in income statement	**-69 945**	**-142 689**

11b. Effective tax rate		
	1.01.2006 - 31.12.2006	**1.01.2005 - 31.12.2005**
Gross profit / (loss)	370 732	709 743
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-70 439**	**-134 851**
Impact of permanent differences on tax charges:	**492**	**-7 838**
Non taxable income	**5 274**	**533**
- Dividend income	489	533
- Reversal of impairment charges on loans (tax non deductible)	578	0
- Other	4 207	0
Cost which is not a tax cost	**-8 744**	**-6 575**
- Provision for penalties and claims	-3 840	0
- Sale of deferred income tax asset as a part of enterprise	-1 139	0
- Loss on sale of receivables	0	-1 403
- PFRON fee	-586	-626
- Other	-3 179	-4 546
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	**-69 945**	**-142 689**

11c. Deferred tax reported directly in equity	31.12.2006	31.12.2005
Valuation of available for sale securities	-2 177	-6 479
Valuation of cash flow hedging instruments	-140	0
Deferred tax reported directly in equity	**-2 317**	**-6 479**

(12) EARNINGS PER SHARE

12. Earnings per share (PLN)		
	01.01.2006 - 31.12.2006	**01.01.2005 - 31.12.2005**
Net earnings	300 787	567 054
Weighted average number of shares in the period	849 181 744	849 181 744
Earnings per share	**0,35**	**0,67**

Earnings per share were calculated through division of the net profit for the period by the weighed average number of shares in the period, which in both presented years was unchanged.

As in the near future the Bank does not plan to carry out a new issue of shares (there are no diluting instruments), the diluted EPS is equal to the basic EPS (the calculation approach is analogous).

(13) CASH, BALANCES WITH THE CENTRAL BANK

13a. Cash, balances with the Central Bank		
	31.12.2006	**31.12.2005**
Cash	413 659	297 662
Cash in Central Bank	551 138	212 212
Other funds	1 037	931
Total	**965 834**	**510 805**

Between November 30, 2006 to January 1, 2007 the Bank kept on the current account at the NBP an average balance of PLN 522 194 thousand (the average balance on the current account at the NBP calculated for all days of the mandatory reserve period).

The interest rate on the mandatory deposit account is equal to 0.9 of the rediscount rate and in the above mentioned period it stood at 3.825%, furthermore, 50% of the interest proceeds from the mandatory deposit was transferred to the European Union Guarantee Fund.

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

	31.12.2006	31.12.2005
a. in Polish currency	835 940	399 660
b. in foreign currencies (after conversion to PLN)	129 894	111 145
- currency: USD	23 367	21 459
- currency: EURO	75 352	59 360
- currency: GBP	18 016	17 048
- other currencies (PLN '000)	13 159	13 278
Total	**965 834**	**510 805**

(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	**4 418**	**1 136**
Quoted on the active market	4 418	1 136
a) financial institutions	22	35
b) non-financial institutions	4 396	1 101
Not quoted on the active market	0	0
a) financial institutions	0	0
b) non-financial institutions	0	0
Positive valuation of derivatives	**370 313**	**310 479**
Total	**3 742 760**	**3 304 175**

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

	31.12.2006	31.12.2005
Trading financial assets	3 742 760	3 304 175
Financial assets valued at fair value when initially recognized	0	0
Total	**3 742 760**	**3 304 175**

Information on financial assets securing liabilities is 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	2 993 696	2 531 751
Increases (purchase and accrual of interest and discount)	75 669 806	114 548 068
Reductions (sale and redemption)	-75 287 883	-114 075 082
Differences from pricing at fair value	-3 172	-11 041
Balance at the end of the period	**3 372 447**	**2 993 696**

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		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	5 371 052	2 668 006	2 303 742	-6 493	35 747	42 240
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	**14 884 695**	**6 757 016**	**4 787 374**	**83 784**	**167 659**	**83 875**
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				**-18 135**	0	18 135
5. Valuation of future FX payments				**10 265**	10 265	0
6. Other – Debt securities				**0**	0	0
7. Total derivatives	**19 878 422**	**14 521 362**	**17 138 686**	**71 604**	**370 313**	**298 709**

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	-39 871	68 352	108 223
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**	**-36 990**	**82 265**	**119 255**
2. FX derivatives						
FX contracts	1 865 891	1 712 447	192 856	-11 359	26 433	37 792
FX swaps	5 122 081	1 562 788	0	57 413	63 302	5 889
Other FX contracts (CIRS)	0	0	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	**11 221 637**	**6 148 924**	**7 846 517**	**132 727**	**207 824**	**75 097**
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**	**-9 253**	**0**	**9 253**
5. Valuation of future FX payments	**0**	**0**	**0**	**20 250**	**20 250**	**0**
6. Total derivatives	**11 494 499**	**9 748 924**	**17 420 656**	**106 874**	**310 479**	**203 605**

The Bank's offer comprises deposits (presented in the above table) with embedded derivatives. Embedded derivatives are recorded in the Bank's books at fair value. Changes in fair value are disclosed in the profit and loss account.

(16) HEDGING DERIVATIVES

The Group uses the following types of hedge accounting:

- hedging of the fair value of FX liabilities resulting from the Bank's own transactions against FX fluctuation risk
- hedging of the fair value of FX securities against interest rate risk
- hedging from the volatility of cash flows generated by the portfolio of mortgage loans and zloty deposits funding them.

The two first types of hedge accounting were employed by the Group also in earlier reporting periods.

Starting from 1 January 2005 the Group established a formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding such position resulting from the zloty deposit portfolio). The implementation of formal hedge accounting enabled the presentation of the transactions in question in the profit and loss account in accordance with their economic sense. It should be emphasised that hedge accounting was formally implemented as of the beginning of the year, so the Group's profit and loss account for 2005 (comparable data) presented the whole effect of derivative valuation (including accrued interest) in result from financial instruments valued at fair value through the profit and loss account.

At the end of each month the Bank assesses the effectiveness of a hedge employed by analysing changes in the fair value of the hedged instrument and the hedging instrument.

The table below presents detailed information on particular types of hedge accounting:

	Fair value hedge for FX-denominated liabilities	Fair value hedge for FX- denominated securities	Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN deposits
Description of hedge transactions	The Group hedges against the risk of change in the fair value of the liabilities denominated in FX regarding Bank's internal administration. The risk hedged results from FX rate changes.	The Group hedges against the risk of change in the fair value of the securities denominated in FX and classified as available for sale. The risk hedged results from interest rate changes.	The Group hedges against the risk of volatility of the cash flow generated by FX mortgage portfolio and by the PLN deposits, which are the underlying financial base for these loans. Volatility of the cash flow results from the FX and interest rate risk.
Hedged items	Liabilities resulting from the Bank's internal administration, denominated in FX.	Securities classified as available for sale, denominated in FX and issued by non-financial entities.	Cash flow generated by FX mortgage portfolio and underlying PLN deposits.
Hedging instruments	CIRS transactions	CIRS transactions	CIRS transactions
Presentation of the result on the hedged and hedging transactions	1. Fair value adjustment of the payment in FX currency resulting from the FX rate differences is recognised in the costs of Bank's activity; 2. Valuation of hedging instruments is recognised in the costs of Bank's activity; 3. Interest on the hedging instruments are recognised in the costs of Bank's activity.	4. FX rate differences from the hedged assets and hedging instruments are recognised in the FX income; 5. Fair value adjustment of the hedged assets and valuation of the hedging instruments is recognised in income statement; 6. Interest on the hedged assets and hedging instruments are recognised in the net interest income.	7. Effective part of valuation of hedging instruments is recognised in the revaluation capital; 8. Interest on both and hedging instruments and hedged instruments are recognised in the net interest income; 9. Valuation of hedging and hedged instruments under FX rate differences is recognised in the FX income.

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	87499	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	from 3 months to 1 year	below 3 months	from 3 months to 1 year
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	from 01.01.07 to 14.01.13	-

(17) LOANS AND ADVANCES TO CUSTOMERS

17a. Loans and advances to customers

	31.12.2006	31.12.2005
Loans and advances	**13 072 100**	**8 104 576**
- to companies	4 128 650	3 774 662
- 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	**96 974**	**136 686**
- from companies	80 668	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
Financial leasing receivables	2 000 016	1 701 459
Other	29 530	18 288
Interest	25 559	35 451
Total gross	**15 600 256**	**10 257 105**
Impairment write-offs	-662 513	-665 463
Total net	**14 937 743**	**9 591 642**

17b. Quality of loans and advances to customers portfolio

	31.12.2006	31.12.2005
Loans and advances to customers (gross)	**15 600 256**	**10 257 105**
- impaired	885 415	1 022 626
- not impaired	14 714 841	9 234 479
Impairment write-offs	**662 513**	**665 463**
- for impaired exposures	485 686	535 977
- for incurred but not reported losses (IBNR)	176 827	129 486
Loans and advances to customers (net)	**14 937 743**	**9 591 642**

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

	31.12.2006	31.12.2005
Loans and advances to customers (gross)	**15 600 256**	**10 257 105**
- case by case analysis	4 292 544	4 354 949
- collective analysis	11 307 712	5 902 156
Impairment write-offs	**662 513**	**665 463**
- on the basis of case by case analysis	451 292	515 490
- on the basis of collective analysis	211 221	149 973
Loans and advances to customers (net)	**14 937 743**	**9 591 642**

17d. Loans and advances to customers portfolio by customers

	31.12.2006	31.12.2005
Loans and advances to customers (gross)	**15 600 256**	**10 257 105**
- corporate customers	6 602 354	6 043 594
- individuals	8 997 902	4 213 511
Impairment write-offs	**662 513**	**665 463**
- for receivables from corporate customers	497 174	573 757
- for receivables from individuals	165 339	91 706
Loans and advances to customers (net)	**14 937 743**	**9 591 642**

17e. Loans and advances to customers by maturity

	31.12.2006	31.12.2005
Current accounts	1 165 374	1 031 794
- to 1 month	452 421	406 474
- above 1 month to 3 months	540 327	150 283
- above 3 months to 1 year	1 971 532	800 020
- above 1 year to 5 years	4 544 657	2 625 610
- above 5 years	6 815 951	5 003 016
- past due	84 435	204 457
Interest	25 559	35 451
Total (gross) loans and advances to customers	**15 600 256**	**10 257 105**

17f. Loans and advances to customers by currency

	31.12.2006	31.12.2005
in Polish currency	6 714 156	4 582 772
in foreign currencies (after conversion to PLN)	8 886 100	5 674 333
- currency: USD	547 647	768 873
- currency: EURO	1 108 558	1 109 375
- currency: CHF	7 172 837	3 745 429
- other currencies (PLN ‘000)	57 058	50 656
Total	**15 600 256**	**10 257 105**

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	665 463	741 031
Change in value of provisions:	20 128	-82 427
Write-offs in the period	450 011	451 993
Amounts written off	-44 597	-95 943
Reversal of write-offs in the period	-388 945	-414 617
Transfer from provisions for off-balance sheet liabilities	0	13 198
Other	3 659	-37 058
Changes resulting from FX rates differences	-23 078	6 859
Balance at the end of the period	**662 513**	**665 463**

17h. Financial leasing receivables

	31.12.2006	31.12.2005
Financial leasing receivables (gross)	2 277 959	1 930 828
Unrealised financial income	277 943	229 369
Financial leasing receivables (net)	**2 000 016**	**1 701 459**

Financial leasing receivables (gross) by maturity		
Under 1 year	912 074	203 592
From 1 year to 5 years	1 299 770	1 517 092
Above 5 years	66 116	210 144
Total	**2 277 959**	**1 930 828**

Financial leasing receivables (net) by maturity		
Under 1 year	784 076	195 052
From 1 year to 5 years	1 158 371	1 324 766
Above 5 years	57 569	181 641
Total	**2 000 016**	**1 701 459**

(18) INVESTMENT FINANCIAL ASSETS

18a. Investment financial assets available for sale

	31.12.2006	31.12.2005
Debt securities	**2 928 607**	**4 818 265**
Issued by State Treasury	2 585 954	4 399 296
a) bills	198 198	78 094
b) bonds	2 387 756	4 321 202
Issued by Central Bank	165 480	167 867
a) bills	0	0
b) bonds	165 480	167 867
Other securities	177 173	251 102
a) listed	123 555	0
b) not listed	53 618	251 102

Shares and interests in other entities	**3 049**	**3 243**

Other financial instruments	**0**	**3 330**

Total financial assets available for sale	**2 931 656**	**4 824 838**
Available for sale instruments quoted on the stock exchange	2 513 020	4 322 913
Available for sale instruments not quoted on the stock exchange	418 636	501 925

18b. Debt securities available for sale

	31.12.2006	31.12.2005
- with fixed interest rate	1 212 690	3 020 106
- with variable interest rate	1 715 917	1 798 159
Total	**2 928 607**	**4 818 265**

18c. Debt securities available for sale by maturity

	31.12.2006	31.12.2005
- to 1 month	523	100
- above 1 month to 3 months	90 448	55 710
- above 3 months to 1 year	348 440	1 409 903
- above 1 year to 5 years	2 302 516	2 725 611
- above 5 years	186 680	626 941
Total	**2 928 607**	**4 818 265**

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	4 824 838	4 200 930
Increases (purchase and accrual of interest and discount)	4 546 642	7 099 611
Reductions (sale and redemption)	-6 417 173	-6 484 452
Difference from measurement at fair value	-22 632	7 712
Impairment write-offs	-19	1 037
Balance at the end of the period	**2 931 656**	**4 824 838**

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
Balance at the end of the period	**0**	**78 636**

18i. Investments in associates

	31.12.2006	31.12.2005
Investments in associates	7 016	8 981

18j. Change of investments in associates (gross)

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	16 188	16 188
Balance at the end of the period	**16 188**	**16 188**

18k. Change of impairment write-offs for investments in associates

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	7 207	7 033
Impairment charges/ reversal of impairment charges	1 965	174
Balance at the end of the period	**9 172**	**7 207**

(19) RECEIVABLES FROM SECURITIES BOUGHT 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	310 997
b) from non-financial and public sector	0	0
c) interest	7	130
Total	**15 509**	**311 127**

(20) PROPERTY, PLANT AND EQUIPMENT

20a. Property, plant and equipment

	31.12.2006	**31.12.2005**
Fixed assets:		
- land	1 575	415
- buildings, premises, civil and hydro-engineering structures	184 014	151 410
- machines and equipment	41 691	38 930
- vehicles	15 694	8 944
- other fixed assets	22 481	14 646
Fixed assets under construction	31 585	17 586
Advances for fixed assets under construction	0	192
Total property, plant and equipment	**297 040**	**232 123**

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	**463**	**271 240**	**334 740**	**24 718**	**97 074**	**17 778**	**746 013**
b) increases (on account of)	**1 850**	**111 644**	**30 163**	**11 498**	**22 663**	**78 914**	**256 732**
- purchase	0	660	2 122	1 641	544	60 335	65 302
- transfer from fixed assets under construction	0	17 198	17 850	2 113	19 712		56 873
- transfer from financial leasing	0	0	0	7 744	0		7 744
- reclassification from non current assets held for sale	1 775	93 533	7 183		494		102 985
- other	75	253	3 008	0	1 913	18 579	23 828
c) reductions (on account of)	**196**	**15 065**	**35 247**	**4 984**	**12 572**	**65 107**	**133 171**
- sale	196	4 301	14 249	4 893	4 769		28 408
- liquidation	0	9 751	18 336	0	7 803		35 890
- settlement of investment						57 825	57 825
- other (including transfer to leasing)	0	1 013	2 662	91	0	7 282	11 048
d) gross value of property, plant and equipment at the end of the period	**2 117**	**367 819**	**329 656**	**31 232**	**107 165**	**31 585**	**869 574**
e) cumulated depreciation (amortization) at the beginning of the period	**48**	**108 592**	**294 097**	**15 774**	**80 428**	**0**	**498 939**
f) depreciation over the period (on account of)	**-9**	**36 758**	**-7 273**	**-236**	**739**	**0**	**29 979**
- current write-off (P&L)	12	19 773	16 133	4 341	10 307		50 566
- reductions on account of sale	-24	-1 181	-9 725	-4 516	-1 790		-17 236
- reductions on account of liquidation	0	-6 849	-18 045	0	-7 277	0	-32 171
- reversal of profits from investments within the Group	0	-4 009	0	0	0		-4 009
- reclassification to impairment write-offs	0	0	0	0	-1 700		-1 700
- reclassification from non current assets held for sale	3	29 504	6 933		494		36 934
- other	0	-480	-2 569	-61	705		-2 405
g) cumulated depreciation (amortization) at the end of the period	**39**	**145 350**	**286 824**	**15 538**	**81 167**	**0**	**528 918**
h) impairment write-offs at the beginning of the period	**0**	**11 238**	**1 713**	**0**	**2 000**	**0**	**14 951**
- increase, including:	503	34 079	0	0	1 842		36 424
- reclassification from non current assets held for sale	503	34 029					34 532
- reclassification from amortization					1 700		1 700
- reduction	0	6 862	572	0	325		7 759
i) impairment write-offs at the end of the period	**503**	**38 455**	**1 141**	**0**	**3 517**	**0**	**43 616**
j) net value of property, plant and equipment at the end of the period	**1 575**	**184 014**	**41 691**	**15 694**	**22 481**	**31 585**	**297 040**

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	**530**	**285 684**	**390 938**	**25 117**	**101 007**	**17 616**	**820 892**
b) increases (on account of)	**81**	**12 833**	**8 855**	**2 920**	**17 103**	**31 632**	**73 424**
- purchase	81	0	715	872	130	19 076	20 874
- transfer from fixed assets under construction	0	12 494	7 913	1 942	4 298	0	26 647
- transfer from financial leasing	0	0	193	106	10 782	0	11 081
- charge of investment provision	0	0	0	0	0	12 556	12 556
- other	0	339	34	0	1 893	0	2 266
c) reductions (on account of)	**148**	**27 277**	**65 053**	**3 319**	**21 036**	**31 470**	**148 303**
- sale	148	15 862	3 519	2 703	14 232	0	36 464
- liquidation	0	7 833	57 518	0	5 380	0	70 731
- settlement of investment	0	0	0	0	0	27 358	27 358
- reclassification to non current assets held for sale	0	3 582	2 535	0	537	0	6 654
- other	0	0	1 481	616	887	4 112	7 096
d) gross value of property, plant and equipment at the end of the period	**463**	**271 240**	**334 740**	**24 718**	**97 074**	**17 778**	**746 013**
e) cumulated depreciation (amortization) at the beginning of the period	**37**	**90 737**	**334 519**	**14 393**	**78 596**	**0**	**518 282**
f) depreciation over the period (on account of)	**11**	**17 855**	**-40 422**	**1 381**	**1 832**	**0**	**-19 343**
- current write-off (P&L)	14	29 807	22 999	4 145	15 495	0	72 460
- reductions on account of sale	0	-3 993	-3 116	-2 362	-7 228	0	-16 699
- reductions on account of liquidation	0	-7 833	-57 518	0	-5 301	0	-70 652
- reclassification to non current assets held for sale	0	-126	-1 859	0	-528	0	-2 513
- other (including transfer from leasing)	-3	0	-928	-402	-606	0	-1 939
g) cumulated depreciation (amortization) at the end of the period	**48**	**108 592**	**294 097**	**15 774**	**80 428**	**0**	**498 939**
h) impairment write-offs at the beginning of the period	**0**	**8 451**	**0**	**0**	**0**	**0**	**8 451**
- increase	0	12 264	1 713	0	2 278	0	16 255
- reduction	0	9 477	0	0	278	0	9 755
i) impairment write-offs at the end of the period	**0**	**11 238**	**1 713**	**0**	**2 000**	**0**	**14 951**
j) net value of property, plant and equipment at the end of the period	**415**	**151 410**	**38 930**	**8 944**	**14 646**	**17 778**	**232 123**

(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:	21 578	26 872
- computer software	21 578	26 872
- other intangible assets	0	62
- advances for intangible assets	0	64
Total intangible assets	**21 578**	**26 998**

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	**25**	**394 861**	**184 741**	**82**	**64**	**395 032**
b) increases (on account of)	**0**	**8 955**	**8 955**	**0**	**0**	**8 955**
- purchase	0	736	736	0	0	736
- transfer from investments and advances	0	352	352	0	0	352
- expenditures on intangible assets	0	2 650	2 650	0	0	2 650
- other	0	5 217	5 217	0	0	5 217
c) reductions (on account of)	**0**	**3 403**	**3 403**	**78**	**64**	**3 545**
- sale	0	60	60	0	0	60
- release of provision for expenditures	0	371	371	0	0	371
- other	0	2 972	2 972	78	64	3 114
d) gross value of intangible assets at the end of the period	**25**	**400 413**	**190 293**	**4**	**0**	**400 442**
e) cumulated depreciation (amortization) at the beginning of the period	**25**	**367 989**	**157 869**	**20**	**0**	**368 034**
f) depreciation over the period (on account of)	**0**	**10 846**	**10 846**	**-16**	**0**	**10 830**
- current write-off (P&L)	0	10 886	10 886	13	0	10 899
- other	0	-40	-40	-29	0	-69
g) cumulated depreciation (amortization) at the end of the period	**25**	**378 835**	**168 715**	**4**	**0**	**378 864**
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**	**21 578**	**21 578**	**0**	**0**	**21 578**

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	**25**	**389 925**	**179 805**	**119**	**0**	**390 069**
b) increases (on account of)	**0**	**5 444**	**5 444**	**0**	**64**	**5 508**
- purchase	0	346	346	0	64	410
- transfer from investments	0	712	712	0	0	712
- expenditures on intangible assets	0	4 303	4 303	0	0	4 303
- other	0	83	83	0	0	83
c) reductions (on account of)	**0**	**508**	**508**	**37**	**0**	**545**
- release of provision for expenditures	0	441	441	0	0	441
- other	0	67	67	37	0	104
d) gross value of intangible assets at the end of the period	**25**	**394 861**	**184 741**	**82**	**64**	**395 032**
e) cumulated depreciation (amortization) at the beginning of the period	**25**	**354 592**	**144 472**	**38**	**0**	**354 655**
f) depreciation over the period (on account of)	**0**	**13 397**	**13 397**	**-18**	**0**	**13 379**
- current write-off (P&L)	0	13 370	13 370	8	0	13 378
- other	0	27	27	-26	0	1
g) cumulated depreciation (amortization) at the end of the period	**25**	**367 989**	**157 869**	**20**	**0**	**368 034**
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**	**26 872**	**26 872**	**62**	**64**	**26 998**

(22) CHANGE OF BALANCE OF 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	184 046	231 154	64 264	250	3 158	**482 872**
b) impairment write-offs at the beginning of the period	-11 840	-171 077	-59 949	-108	-386	**-243 360**
c) net value of non current assets held for sale at the beginning of the period	**172 206**	**60 077**	**4 315**	**142**	**2 772**	**239 512**
d) change of value in the period, including:	-183 482	-192 694	-63 548	-47	-2 974	**-442 745**
- reclassification to property, plant and equipment	-1 772	-64 029	-250	0	0	**-66 051**
- sale of non current assets held for sale	-181 635	-129 357	-63 301	-47	-2 974	**-377 314**
e) change of impairment write-offs in the period, including:	11 491	157 878	59 497	47	227	**229 140**
- reclassification to property, plant and equipment	503	34 029	0	0	0	**34 532**
- sale of non current assets held for sale	10 988	126 736	59 709	47	227	**197 707**
f) impairment write-offs at the end of the period	**-349**	**-13 199**	**-452**	**-61**	**-159**	**-14 220**
g) net value of non current assets held for sale at the end of the period	**214**	**25 261**	**264**	**142**	**25**	**25 907**

Under the category of property, plant and equipment for sale the Group classifies property and land, which are not used for the own needs, and so are planned for sale in short term, i.e. within one year.
The most considerable component under this category (as at December 31 2005) was the perpetual usufruct for the land in Wilanów totalling net PLN 171 million. In 2006 this asset was sold.
Additionally, in 2006 the Group concluded the transaction of selling a developed real property located in Świnoujście with the total gross value of PLN 182 million. Loss realised on the transaction was charged against impairment provisions established for that asset in the previous years
As at December 31 2006 the Group revalued the group of property, plant and equipment for sale and consequently an additional revaluation charge was made. At the same time, pursuant to the requirements of IFRS 5, the Group conducted evaluation of the possibility to classify its property, plant and equipment into the group of property, plant and equipment for sale. As a result, part of the fixed assets presented as property, plant and equipment for sale, of net worth of PLN 31.5 million, was reclassified into the tangible fixed assets as items that did not meet the requirements of 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	201 386	244 821	64 003	44	2 465	**512 719**
b) impairment write-offs at the beginning of the period	-4 422	-172 197	-63 776	0	-814	**-241 209**
c) net value of non current assets held for sale at the beginning of the period	**196 964**	**72 624**	**227**	**44**	**1 651**	**271 510**
d) change of value in the period, including:	**-17 340**	**-13 667**	**261**	**206**	**693**	**-29 847**
- sale of non current assets held for sale	-17 340	-17 560	-415	-386	-1058	**-36 759**
e) change of impairment write-offs in the period, including:	**-7 418**	**1 120**	**3 827**	**-108**	**428**	**-2 151**
- 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	**-11 840**	**-171 077**	**-59 949**	**-108**	**-386**	**-243 360**
g) net value of non current assets held for sale at the end of the period	**172 206**	**60 077**	**4 315**	**142**	**2 772**	**239 512**

(23) DEFERRED INCOME TAX ASSETS

23a. Deferred income tax assets	**31.12.2006 Deferred income tax asset**	**31.12.2006 Deferred income tax provision**	**31.12.2006 Net deferred income tax asset**	**31.12.2005 Deferred income tax asset**	**31.12.2005 Deferred income tax provision**	**31.12.2005 Net deferred income tax asset**
Difference between tax and balance sheet depreciation	15 460	-6 087	9 373	54 091	-11 626	42 465
Balance sheet valuation of financial instruments	16 417	-31 185	-14 768	22 496	-33 940	-11 444
Unrealised receivables/ liabilities on account of derivatives	163 142	-91 053	72 089	9 347	-36 359	-27 012
Interest on deposits and securities to be paid/ received	14 782	-32 287	-17 505	14 295	-26 568	-12 273
Interest and discount on loans and receivables	22 533	-73 131	-50 598	29 554	-29 987	-433
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	56 538		56 538	40 454		40 454
Provisions for retirement benefits, unused employee holiday and the others			0			0
Provisions for costs	37 319		37 319	35 170		35 170
Valuation of investment assets and cash flows hedge recognized in revaluation reserve		-2 317	-2 317		-6 475	-6 475
Tax loss deductible in the future	47 990		47 990	85 602		85 602
Other	8 932	-6 703	2 229	19 866	-3 872	15 994
Net deferred income tax asset	**387 038**	**-259 668**	**127 370**	**322 297**	**-164 812**	**157 485**

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	42 465	-33 092		9 373
Balance sheet valuation of financial instruments	-11 444	-3 324		-14 768
Unrealised receivables/ liabilities on account of derivatives	-27 012	99 101		72 089
Interest on deposits and securities to be paid/ received	-12 273	-5 232		-17 505
Interest and discount on loans and receivables	-433	-50 165		-50 598
Income and cost settled at effective interest rate	-4 560	-8 419		-12 979
Provisions for loans presented as temporary differences	40 454	16 084		56 538
Employee benefits	0	0		0
Provisions for future costs	35 170	2 149		37 319
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-6 478		4 160	-2 318
Tax loss deductible in the future	85 602	-37 612		47 990
Other	15 994	-13 765		2 229
Total	**157 485**	**-34 275**	**4 160**	**127 370**

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	16 452	26 013		42 465
Balance sheet valuation of financial instruments	12 418	-23 862		-11 444
Unrealised receivables/ liabilities on account of derivatives	-1 009	-26 003		-27 012
Interest on deposits and securities to be paid/ received	-57 646	45 373		-12 273
Interest and discount on loans and receivables	22 520	-22 953		-433
Income and cost settled at effective interest rate	8 434	-12 994		-4 560
Provisions for loans presented as temporary differences	69 255	-28 801		40 454
Employee benefits	0	0		0
Provisions for future costs	29 863	5 307		35 170
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-5 012		-1 466	-6 478
Tax loss deductible in the future	37 195	48 407		85 602
Other	7 303	8 691		15 994
Total	**139 773**	**19 178**	**-1 466**	**157 485**

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	-33 092	26 013
Balance sheet valuation of financial instruments	-3 324	-23 862
Unrealised receivables/ liabilities on account of derivatives	99 101	-26 003
Interest on deposits and securities to be paid/ received	-5 232	45 373
Interest and discount on loans and receivables	-50 165	-22 953
Income and cost settled at effective interest rate	-8 419	-12 994
Provisions for loans presented as temporary differences	16 084	-28 801
Employee benefits	0	0
Provisions for future costs	2 149	5 307
Tax loss deductible in the future	-37 612	48 407
Other	-13 765	8 691
Change of deferred income tax recognized in financial result	**-34 275**	**19 178**
Change on account of receivables from Tax Office resulting from the article 38c of the CIT Act	**1 564**	**-1 795**
Sale of deferred income tax asset as a part of enterprise	**1 139**	
Change of temporary differences of the previous period - final CIT declaration		**4 339**
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

In accordance with IAS 12, the Group offset deferred income tax assets with deferred income tax liabilities. As the Group, under the Polish tax law, cannot be treated as a Group for the tax purposes, deferred tax of each entity subject to consolidation has been offset separately.

	31.12.2006	31.12.2005
Net deferred income tax assets	127 370	157 485
Net deferred income tax provision	-	-

(24) OTHER ASSETS

24. Other assets

	31.12.2006	31.12.2005
Expenses to be settled	60 093	60 630
Income to be received	251	1 117
Interbank settlement accounts	32 849	376
Settlement accounts for financial instruments transactions	129 051	53 007
Receivables from sundry debtors	55 606	23 116
Settlements with the State Treasury, including:	91 648	112 805
- receivables from Tax Office resulting from the article 38a of the CIT Act	9 795	8 231
- tax on dividend, paid	46 270	81 429
Perpetual usufruct right to land	5 155	5 155
Other	2 992	2 660
Total other assets (gross)	377 646	258 866
Provisions	-9 231	-11 690
Total other assets (net)	**368 415**	**247 176**

The Group does not hold a fiscal capital group status as construed in the CIT Act and every consolidated company operates as a separate taxpayer. As a result, tax losses, reliefs and regulatory tax deductions of all and any type, found (generated) in one company cannot reduce tax liabilities of another consolidated company.

(25) DEPOSITS FROM BANKS

25a. Deposits from banks

	31.12.2006	31.12.2005
Amounts due to the Central Bank	0	0
In current account	32 551	46 996
Term deposits	1 967 844	768 229
Loans and advances received	1 592 574	248 627
Other	0	59
Interest	7 236	3 434
Total deposits from banks	**3 600 205**	**1 067 345**

The increase in the liabilities towards the banks under the loans and advances received in 2006 results from the agreement between the Bank and consortium composed of international banks, in the matter of taking by the Bank a mid-term syndicated loan totalling 555.000.000 CHF, which on the day of signing the agreement totalled the equivalent of approx. 1.35 billion PLN.

The interest rate of the loan is based on variable LIBOR for CHF, plus the margin. The loan is to be repaid in November 2009, with an extension option – with consent of the Parties to the Agreement – for the subsequent two annual periods (i.e. do 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	1323231	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 THE PROFIT AND LOSS ACCOUNT*

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

	31.12.2006	31.12.2005
Negative valuation of derivatives	298 709	203 605
Short sale of securities	0	300 055
Financial liabilities valued at fair value through profit and loss	**298 709**	**503 660**

The division of the negative valuation of derivatives into specific types of instruments is presented in note ***(15).***

(27) *HEDGE DERIVATIVES*

Respective information can be found in note ***(16) HEDGE DERIVATIVES***

(28) DEPOSITS FROM CUSTOMERS

28a. Deposits from customers by type structure

	31.12.2006	31.12.2005
Amounts due to companies	**5 795 825**	**4 806 991**
Balances on current accounts	2 059 635	1 650 919
Term deposits	3 605 611	3 000 350
Other	119 128	146 684
Accrued interest	11 451	9 038
Amounts due to public sector	**1 357 681**	**1 030 321**
Balances on current accounts	704 113	656 360
Term deposits	643 419	372 696
Other	8 714	602
Accrued interest	1 435	663
Amounts due to private individuals	**8 915 795**	**8 157 104**
Balances on current accounts	2 547 895	2 038 650
Term deposits	6 126 314	5 943 618
Other	187 824	116 843
Accrued interest	53 762	57 993
Total deposits from customers	**16 069 301**	**13 994 416**

28b. Deposits from customers by maturity

	31.12.2006	31.12.2005
Current accounts	5 311 643	4 345 929
- to 1 month	5 815 534	4 653 020
- above 1 month to 3 months	2 184 790	1 644 043
- above 3 months to 1 year	2 351 384	2 354 289
- above 1 year to 5 years	339 294	872 305
- above 5 years	8	57 136
Interest	66 648	67 694
Total	**16 069 301**	**13 994 416**

28c. Deposits from customers by currency

	31.12.2006	31.12.2005
in Polish currency	13 948 848	12 332 295
in foreign currencies (after conversion to PLN)	2 120 453	1 662 121
- currency: USD	1 143 227	908 043
- currency: EURO	911 882	718 723
- currency: GBP	53 302	23 389
- currency: CHF	7 979	6 882
- other currencies (PLN ‘000)	4 063	5 084
Total	**16 069 301**	**13 994 416**

(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	1 273 444	1 617 580
b) from non-financial and public sector	153 798	1 441 738
c) interest	892	1 719
Total	**1 428 134**	**3 061 037**

(30) LIABILITIES FROM DEBT SECURITIES

30a. Debt securities

	31.12.2006	31.12.2005
Outstanding bonds and bills	0	45 758
Bills of exchange	5 705	22 836
Interest	0	842
Total	**5 705**	**69 436**

- to 1 month	0	36 849
- 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**	**69 436**

30b. Change of debt securities

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Balance at the beginning of the period	69 436	355 249
Increases, on account of:	6 240	1 080 686
- issue of bond	0	1 051 960
- purchase of bill of exchange by the NBP	5 705	22 836
- discount/ interest accrual	535	5 890
Reductions, on account of:	-69 971	-1 366 499
- repurchase of bonds	-45 760	-1 309 802
- repurchase of bill of exchange from NBP	-22 836	-45 687
- FX rates differences	0	-1 545
- settlement of discount/ interest payment	-1 375	-9 465
Balance at the end of the period	**5 705**	**69 436**

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
Millennium Leasing Sp. z o.o. - A48 series	18 488	5.10%	06.01.2006	not listed
Millennium Leasing Sp. z o.o. - A50 series	18 361	5.10%	16.01.2006	not listed

(31) PROVISIONS

31a. Provisions

	31.12.2006	31.12.2005
Provision for off-balance sheet commitments	10 400	16 468
Total	**10 400**	**16 468**

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	16 468	32 537
Charge of provision	26 842	45 118
Transfer to impairment write-offs for loans and advances	0	-13 198
Release of provision	-32 879	-48 006
FX rates differences	-31	17
Balance at the end of the period	**10 400**	**16 468**
Other		
Balance at the beginning of the period	0	906
Charge of provision	0	33
Utilization of provision over the period	0	0
Other	0	-939
Balance at the end of the period	**0**	**0**
Total provisions	**10 400**	**16 468**

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

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

	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	**684 805**	**533 766**
Accrued costs - bonuses, salaries	58 515	34 594
Accrued costs - other	84 771	71 146
Settlement accounts	361 742	187 588
Other creditors	56 454	73 806
Liabilities to public sector	10 741	55 212
Deferred income	18 335	16 170
Provisions for unused employee holiday	13 096	13 548
Provisions for contentious claims	7 629	939
Other	73 522	80 763
Long-term	**56 294**	**50 225**
Provisions for retirement benefits	8 680	5 896
Deferred income	627	0
Provisions for contentious claims	12 158	0
Accrued costs - other	1 030	5 493
Other	33 800	38 836
Total	**741 099**	**583 991**

33b. 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	**939**	**906**
Charge of provisions	19 095	33
Release of provisions	247	0
Balance at the end of the period	**19 787**	**939**

In 2006 the Group 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;

- 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	-	-
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	5.19%	4.05%
Maturity	12.12.2011 r.	12.12.2011 r.
Interest	813	720
Balance sheet value of subordinated debt	**307 309**	**309 504**

BANK'S FX BONDS

On December 12, 2001 BBG Finance B.V., a limited liability company established in the Netherlands – Group's subsidiary, issued junior variable rate bonds with maturity in 2011 totalling par value of EUR 80,000,000. The bonds were issued on the grounds of a custody agreement concluded on the same day by BBG Finance with the Bank and the Bank of New York as custodian, acting on behalf of the investors – bond buyers.

The Group issued and sold bonds in order to increase its credit capacity, also through increase in supplementary funds.

In February 2002 the Group received decision of the Banking Supervision Commission approving inclusion of the cash in the amount of PLN 275,000,000 obtained through issue and sale of BBG Finance B.V.'s ten year junior bonds in the amount of EUR 80,000,000 in the Group's supplementary funds until 12 December 2011.

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	326 977
Increases, on account of:	14 006	12 150
- interest accrual	14 006	12 150
- FX rates differences	0	0
Reductions, on account of:	-16 201	-29 623
- interest payment	-13 913	-12 053
- FX rates differences	-2288	-17 570
Balance at the end of the period	**307 309**	**309 504**

(35) SHAREHOLDERS' EQUITY

35a. SHARE CAPITAL

The share capital of the Bank Millennium S.A. (equal to the Group's share capital) is PLN 849,181,744 divided into 849,181,744 shares of PLN 1 par value each, as presented by the table below.

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			

In the reporting period registered shares were converted into the shares to the bearer. As a result of the conversion the number of the registered shares was reduced and as at 31December 2006 it stood at 109,356, of which 62,200 are founders' shares.

In the period covered by the financial report the tier one of the Group was not changed.

The largest shareholders of the Group's parent entity – the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2006	***Number of shares***	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
Banco Comercial Portugues S.A.	556 325 794	65.51	556 325 794	65.51

Shareholders as at 31.12.2005	***Number of shares***	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
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

Data on numbers of shares, percentage of shareholders' equity, number of votes and their percentage share in the total number of votes at a GSM were prepared on the basis of information contained in notifications sent to the Bank by the shareholders, under art. 69 of the Act on the Public Offer and Conditions of Introducing Financial Instruments to an Organised Trading and on Public Companies.

In accordance with IFRS 1 (Fist-time adoption of the International Financial Reporting Standards) the Group is required to apply to use IAS 29 (Financial Reporting under hyperinflation) retrospectively.

On the basis of section 24 of IAS 29 „Financial Reporting under Hyperinflation" particular equity components (except retained earnings and any revaluation reserves) are required to be indexed by general price index, starting from the date on which such capitals were contributed or otherwise created for the period in which a given business's economy was a hyperinflationary economy within the meaning of IAS 29.

The result of recalculation, of respective components of the equity, based on the proper inflation index, should be reflected in retained earnings. The application of section 24 IAS 29 would have the effect of inflating share capital and share premium (surplus of the issue value of the shares over their par value) by PLN 222 907 thousand (in accordance with the table below) and simultaneous reduction of retained earnings.

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

The full implementation of IAS 29 would give rise to legal consequences in connection with the need to revise share capital on the basis of the Commercial Companies Code and the Banking Act. At the same time due to the fact that the above-discussed revaluation effects have no impact on the change of net assets of the Capital Group, the Bank's Management Board is of the opinion that the incorporation of such amendment would have no major impact on the true and fair presentation of the financial situation in this statement.

35b. REVALUATION CAPITAL

Revaluation reserve arises on the recognition of :

- effect of valuation (at fair value) of financial assets available for sale in the net amount, i.e. after having accounted for deferred tax. These values are taken off revaluation reserve at the moment of excluding the valued assets from the books of account - in full or in part (the effect of valuation is then put through the profit and loss account),
- effect of valuation (at fair value) of derivatives hedging cash flows in the net amount, i.e. having accounted for deferred tax. Revaluation reserve records such part of profits or losses connected with the derivatives hedging cash flows which is an effective hedge, while the ineffective part of the profits or losses connected with such hedging instrument is recognised in the profit and loss account.

Revaluation reserve

	31.12.2006	31.12.2005
Effect of valuation (gross)	12 199	34 091
Deferred income tax	-2 318	-6 479
Net effect of valuation	9 881	27 612

The sources of revaluation reserve are as follows (data in thous PLN):

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	34 091	-6 479	27 612
Transfer to income statement of the period as a result of sale	-1 277	244	-1 033
Change of capitals connected with maturity of securities	-9 130	1735	-7 395
Profit/loss on revaluation of available for sale financial assets, recognized in equity	-12 225	2 323	-9 902
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	26 379	-5 012	21 367
Transfer to income statement of the period as a result of sale	-37 654	7 153	-30 501
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	-8 702	37 094
Revaluation reserve at the end of the period	**34 091**	**-6 479**	**27 612**

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	**110 507**	**243 700**	**88 366**	**599 747**	**1 042 320**
- appropriation of profit, including:					
- write-off to supplementary capital	140 237	0	0	-140 237	**0**
- dividend payment	0	0	0	-458 558	**-458 558**
- coverage of losses of previous years	-26 305	-142 964	0	169 269	**0**
- net profit / (loss) of the period	0	0	0	300 787	**300 787**
Retained earnings at the end of the period 31.12.2006	**224 439**	**100 736**	**88 366**	**471 008**	**884 549**

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	**284 264**	**120 471**	**85 633**	**118 463**	**608 831**
- changes in adopted accounting policies	**0**	**0**	**0**	**68 455**	**68 455**
- appropriation of profit, including:					
- write-off to supplementary capital	15 431	0	0	-15 431	**0**
- write-off to reserve capital	0	129	0	-129	**0**
- write-off to General risk fund	0	0	2 733	-2 733	**0**
- dividend payment	0	0	0	-237 771	**-237 771**
- coverage of losses of previous years	-66 088	0	0	66 088	**0**
- net profit / (loss) of the period	0	0	0	567 054	**567 054**
- transfer between categories of capitals	-123 100	123 100	0	0	**0**
- coverage of losses of previous years from share premium	0	0	0	35 751	**35 751**
Retained earnings at the end of the period 31.12.2005	**110 507**	**243 700**	**88 366**	**599 747**	**1 042 320**

IX. DIVIDENDS FOR 2005 AND 2006

Pursuant to Resolution no 4 of the Bank's Ordinary General Shareholder Meeting dated April 6, 2006 concerning profit distribution for 2005 the General Shareholder Meeting decided to allocate the amount of PLN 458, 558,141.76 from 2005 net profit to dividend. The amount of the Bank's share capital being PLN 849,181,744 divided into 849,181,744 shares results in a dividend payment of PLN

0.54 per share. The dividend was paid out on July 19, 2006 and the right to dividend applied to the persons who were shareholders as at July 5, 2006.

Pursuant to the previously announced dividend policy the Management Board of the Bank will propose to the Shareholders payout of 2006 dividend in the amount of 0.17 PLN per share, i.e. the total of 144.4 million PLN, which would account for 48% of the 2006 consolidated net income (and respectively 22% of the Bank's result on a solo basis). The dividend yield would stand at 2.1% (at the share price of 29.12.2006).

X. FAIR VALUE

The Group has financial instruments, which in pursuance to adopted IFRS standards are not appraised at fair value. Such instruments include: receivables from banks, loans and advances to clients, liabilities towards banks and clients, and liabilities on account of the issue of debt securities (including subordinated liabilities). Pursuant to IFRS the Group should disclose the estimated fair value of such instruments.

Fair value of financial instruments is best reflected by market value. In case of these products and transactions, for which market value is not available, fair value must be assessed with the use of internal models based on cash flow discounting.
Cash flows for assessed instruments are determined in keeping with their individual characteristics, and discounting factors take into account change of over time of both market interest rates and margins.

All the model-based calculations include some simplification assumptions and thus constitute only the fair value estimation.

The main assumptions and methods applied for estimating fair value of the Bank's assets and liabilities are following:

Receivables and liabilities towards banks (structured agreement)
This is a transaction, involving a simultaneous purchase of the long-term zero coupon bond and incurring of the long-term fixed interest loan from bond issuer.
Fair value of both sides of transaction was estimated by discounting related financial flows on maturity/due and payable date with the application of the current zero coupon rate and margin scaled for adjusting to the current level of market rates.

Other receivables and liabilities towards banks
Fair value of these financial instruments was determined by discounting future capital and interest flows with current rates based on the assumption of their occurrence at contractual dates.

Loans and advances to clients
Fair value of this type of instruments without maturity date and with short-term maturity, due to their short-term nature and the Bank's stable policy over time in relation to that portfolio, is close to the balance sheet value.
Fair value of instruments with specific long maturity date was estimated by way of discounting related financial flows on terms and conditions resulting from agreements with the use of current zero coupon rates and margin on credit risk. Current level of margins was determined for transactions concluded during the last quarter of 2006 on instruments with similar credit risk.

In case of the portfolio of leasing loans positive difference between the estimated fair value and balance sheet value is attributable mainly to decrease of margins on these products.
In case of housing loans positive difference between the estimated fair value and balance sheet value is also caused mainly by decrease of margins. Additionally taken into account was the effect of earlier repayments, which was conducive to decreased difference.
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
Fair value of this kind of instruments without maturity period or with maturity shorter than 3 months has been assessed by the Bank as the value similar to the balance sheet value
Fair value of instruments without with maturity of 3 months or longer has been assessed with future cash flows of principal amounts and interests discounted with current rates for future cash flows of principal amounts and interests, assuming their appearance in contractual periods.

Subordinated Liabilities
This item include the euro denominated bond issued. Fair value of this instrument was assessed based on the model used for estimation of market value of bonds with floating interest rates adopting current level of market interest rates and history of previous level of margins for credit risk.

The Group estimated fair values of above instruments based on valuation models and described above assumptions as at 31 December 2006. The table below presented the results of the above-described analyses:

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
Leasing	1 877.31	1 851.79	25.52
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

XI. DATA ON ASSETS USED TO SECURE LIABILITIES (COLLATERAL)

As at 31.12.2006 the following assets of the Bank secured its 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 31.12.2005 the following assets of the Bank secured its 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 sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	35 000	34 575
7.	Cash	-	Payment to the Futures Settlement Guarantee Fund	70	70
		TOTAL		**285 315**	**311 315**

XII. SECURITIES COVERED BY TRANSACTIONS WITH A BUY-BACK CLAUSE (SBB)

As of 31.12.2006 the following securities (presented in the Group's balance sheet) were covered by transactions with a buyback clause (SBB):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	available for sale	511 228	509 282
Treasury bonds	trading	843 318	841 752
Treasury bills	available for sale	77 990	77 100
TOTAL		**1 432 536**	**1 428 134**

As of 31.12.2005 the following securities (presented in the Group's balance sheet) were covered by transactions with a buyback clause (SBB):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	available for sale	2 425 392	2 497 967
Treasury bonds	trading	514 354	528 151
Treasury bills	available for sale	31 390	30 144
TOTAL		**2 971 136**	**3 056 262**

XIII. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

For the purpose of the cash flow statement the following financial assets are classified by the Group as cash or its equivalents:

Data in PLN thous.

	31.12.2006	31.12.2005
Cash and balances with the Central Bank	956 834	510 805
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	**1 642 747**	**3 555 653**

(*) Financial assets with maturity below three months

For the purpose of the cash flow statement the following classification of activity types was adopted:

1. Operating activities – cover the basic scope of operations connected with services provided by the Group's units covering events whose purpose is to earn profit and not being investment or financial activity,
2. Investment activities cover operations connected with the purchasing and selling of fixed assets, in particular financial assets not included in the "for trading" category, shares and shares in subsidiaries, tangible and intangible fixed assets.
3. Financial activities cover activities connected with raising of funds in the form of capital or liabilities, as well servicing sources of funding.

XIV. INFORMATION ON CUSTODY SERVICES

As at 31.12.2006 the Custody Department kept 2 709 security accounts, where clients assets of total PLN 26,766 billion were held, i.e. up 25% against January 2006. The Custody Department has the function of a depositary bank and transfer agent for 16 investment funds from the Millennium TFI S.A. group. In 2006 Custody Department acquired 37 new corporate clients (including four foreign financial intuitions) and finalised negotiations for provision of depositary bank services for a newly established FORUM TFI, which will manage 5 closed-end funds. Net income on custody operations as of 31.12.2006 stood at PLN 8.901 million, and the result totalled PLN 3.795 million (up 38% against 2005).

XV. TRANSACTIONS WITH RELATED ENTITIES

(5) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

Any transactions made between the Group's entities in 2006 were concluded on market terms and resulted from current operations. Below please find the most important elements of the group-internal transactions eliminated in the process of data consolidation, concluded between the following entities:

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

and amounts of the transactions with the parent entity of the Bank, i.e. 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 - BCP
ASSETS		
Accounts and deposits	383 686	48 934
Receivables from loans, advances, purchased receivables	1 382 072	0
Receivables from securities bought with sell-back clause	0	0
Shares in subsidiaries subject of consolidation	99 756	0
Debt securities subject of transaction with repurchase agreement	49 552	0
Short-term financial assets (valuation of derivatives)	326	19 202
Other assets, including:	648 699	0
- additional payments to capital of subsidiaries	66 025	0
- dividend to be received by the Bank from Millennium Leasing Sp. z o.o.	506 363	0

LIABILITIES

Liabilities from accepted deposits, loans, advances, sold receivables	1 834 789	0
Liabilities from securities sold with buy-back clause	49 552	0
Short-term financial liabilities (valuation of derivatives)	326	23 781
Other liabilities, including:	522 895	0
- dividend to be paid by Millennium Leasing Sp. z o.o. to the Bank	506 363	0

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

	With subsidiaries	With controlling entity - BCP
ASSETS		
Accounts and deposits kept in the Bank	345 891	0
Receivables from loans, advances, purchased receivables and deposits	1 416 401	12 954
Shares in subsidiaries subject of consolidation	358 842	0
Debt securities subject of transaction with repurchase agreement	98 741	0
Debt securities	60 328	0
Short-term financial assets (valuation of derivatives)	0	2 226
Other assets	32 677	0

LIABILITIES

Liabilities from accepted deposits, loans, advances, sold receivables between entities subject to consolidation	1 786 573	12 432
Liabilities from securities sold with buy-back clause	411 078	0
Short-term financial liabilities (valuation of derivatives)	525	17 566
Subordinated debt of Millennium DOM Maklerski S.A. to the Bank	22 275	0
Special funds and other liabilities	1 756	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 - BCP
Income from:		
Interest	72 105	6 589
Bank and brokerage commissions	40 722	0
Financial operations	0	41 591
Due/paid-out group internal dividends	516 663	0
Other operating income	26 758	0

Expense from:

Interest	77 508	0
Bank and brokerage commissions	43 999	0
Financial operations	1 023	37 123
Other operating expenses	22 521	0
Operations of entities subject to consolidation	15 711	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 - BCP
Income from:		
Interest	216 508	26 852
Bank and brokerage commissions	12 732	0
Financial operations	622	31 213
Due/paid-out group internal dividends	371 600	0
Other operating income	14 726	272
Expense from:		
Interest	212 770	34 933
Bank and brokerage commissions	14 409	0
Financial operations	344	283 500
Other operating expenses	24 736	0
Operations of entities subject to consolidation	6 766	0

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

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN PLN THOUS.) AS AT31.12.2005

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

(6) INFORMATION ON THE VALUE OF OUTSTANDING LOANS, ADVANCES AND GUARANTEES

Data as at 31.12.2006:

1. Managing persons have a total debt limit of 254.0 thousand PLN, including unutilised credit card limit of PLN 177.3 thousand
2. There were no outstanding guarantees given to managing persons
3. Supervising persons have a debt limit of PLN 155.0 thousand PLN, including unutilised credit card limit of PLN 131.3 thousand PLN
4. The Bank was reporting exposure to an entity personally linked to a Supervisory Board Member in the total amount of PLN 13 116 thousand.

The balance of the outstanding advances granted to the Bank's employees from the company social benefits fund (ZFŚS) totalled 4 556.6 thousand PLN.

The Bank does not keep records of loans and advances granted to its employees within its regular operations, i.e. under the terms and conditions defined for the Bank's Clients.

Data as at 31.12.2005:

1. The members of Management Board of the Bank have a total debt limit of PLN 401.5 thous, including unutilised credit card limit of PLN 159.1 thous.
2. There were no outstanding guarantees given to the members of Management Board of the Bank.
3. The members of the Supervisory Board have a debt limit of PLN 155.0 thous, including unutilised credit card limit of PLN 148.8 thous.
4. The Bank was reporting exposure to an entity personally linked to a member of the Supervisory Board in the total amount of PLN 16 306 thous.

The outstanding balance of loans granted to the Bank's employees from the Company Social Benefits Fund was PLN 4 465.9 thous.

The Bank is not keeping a record of loans and advances granted to employees as part of its day-to-day business i.e. under terms and subject to conditions defined for the Bank's Customers.

(7) INFORMATION ABOUT COMPENSATIONS AND BENEFITSOF THE SUPERVISION AND KEY MANAGEMENT OF THE BANK

1. . Compensations of the Members of the Management Board of the Bank (data in thousand PLN):

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

As the total of the paid or due remuneration and bonuses for 2006 a gross value of the remuneration paid or due in the period I-XII/2006 and bonus for 2005 paid in 2006 in the amount of 10 800 thousand PLN were given.

As the total of the paid or due remuneration and bonuses for 2005 a gross value of the remuneration paid or due in the period I-XII/2005 and bonus for 2004 paid in 2005 in the amount of 8 600 thousand PLN were given.

The benefits are mostly the costs of accommodation of the foreign Members of the Management Board and severance pay and indemnities for termination of employment contract.

As at 31.12.2006 the amount of provisions for unutilised holidays of the Members of the Management Board totalled 2 624 thousand PLN, whereas as at 31.12.2005 the amount stood at 2 673 thousand PLN.

Furthermore, in 2006 a provision was set up for a bonus due for this year in the amount of 13 539 thousand PLN, whereas in 2005 a provision was established for a bonus due for 2005 also totalling 13 539 thousand PLN.

The Members of the Management Board have signed no-competition agreements regarding the period after discontinuation of performance of their functions in the Management Board of the Bank.

In case the Members of the Management Board are not appointed for a new term or are recalled, they shall be entitled to severance pay.

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

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

(8) BANK'S SHARES HELD BY THE PERSONS MANAGING AND SUPERVISING THE BANK (IN OFFICE AS AT DECEMBER 31, 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	0
Wiesław Kalinowski	Member of the Management Board	0	0
Zbigniew Kudaś	Member of the Management Board	0	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

XVI. RISK MANAGEMENT

(9) CREDIT RISK

Credit Policy

Credit risk stands for uncertainty that a customer will not fulfil concluded with the Group 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 Group is the implementation of a credit risk management framework that would allow maximization of the profitability in the credit activity complying with the desired level of risk as well as loan portfolio quality and diversification.

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

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

Collateral management

In 2006 the Bank established a new specialized organizational unit, under the responsibility of the Risk Monitoring Department, responsible for preparation of the proposals concerning the collateral policy of the Bank.

Last year the collateral recording system of the Bank was significantly upgraded with the objective of increasing the alignment of the Bank systems with regulatory requirements, particularly Basel II principles.

Concentration risk

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

Credit impairment

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

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

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

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

Loan portfolio quality of Bank Millennium Group

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

In 2006 the quality of the credit portfolio of the Group has significantly improved. The loans with recognized impairment (non-performing) decreased by 138 mln PLN. Their share in the portfolio decreased from 10% at the end of 2005 to 5.7% at the end of 2006. The coverage of loans with recognized impairment by the impairment charges (provisions) increased at the end of 2006 to 75% (including provisions for incurred but not reported losses - IBNR).

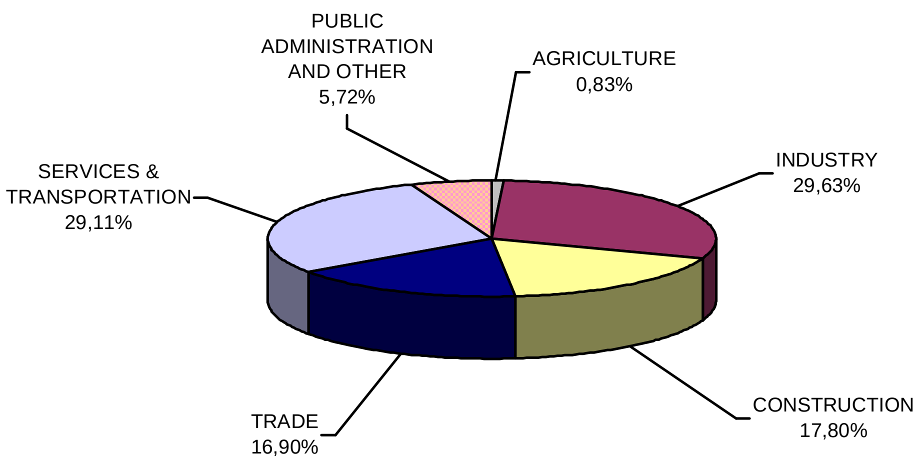
The improvement of the quality of Group's credit portfolio has been influenced, in particular, by the following factors:

- restructuring and vindication actions in the Group's entities,
- improvement of the tools used to monitor the timeliness of repayment,

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

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

Loan portfolio split by sectors as at 31 Dec. 2006



<u>Banking execution titles</u>

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,

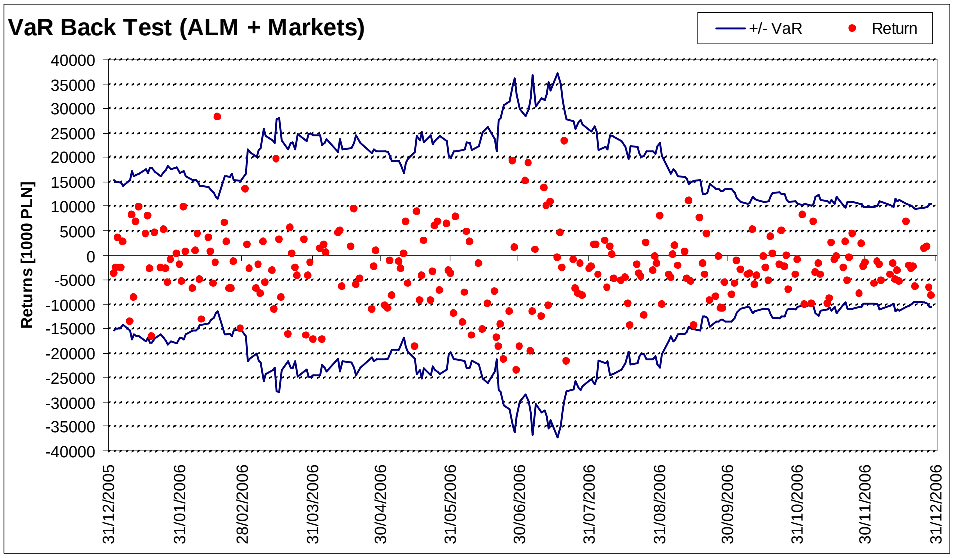
and additionally 1 banking execution title concerning issuance of an object (of total value 2.5 million PLN, as estimated on the day, on which the agreement was concluded).

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).

(10) 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 Group'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 Group 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	1 303
- general interest rate risk	48 521
- delivery settlement and counterparty risk	2 392
Total	**52 216**

(11) Liquidity Risk

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

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

(12) 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.

XVII. CONDITIONAL LIABILTIES AND ASSETS

Total value of claims in the biggest court proceedings involving companies from the Group, either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted at 30.12.2006 to PLN 653.0 million. Total value of claims in the biggest court proceedings, in which companies from the Group appeared as defendant was PLN 547.3 million and the total value of claims in the biggest court proceedings , in which companies from the Group appeared as plaintiff was PLN 105.7 million.

The biggest proceedings, in which companies of the group appear as the defendant:

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. 26, 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:** joint stock company (in bankruptcy)

   Claim value: PLN 159 461 349

   Claim: consideration as ineffective of:

   - Conditional agreement on sale of real estate in Świnoujście between a joint stock company with its seat in Świnoujście and a joint stock company with its seat in Sopot;
   - Agreement on sale of real estate in Świnoujście;
   - Three operating leaseback agreements dated 18 June 2002.

   Case description: In the matter a hearing of evidence took place before the District Court in Gdańsk IX Business Department, which ended in a decision given by the Court on 14 June 2006, in which the Court fully dismissed the lawsuit and adjudicated costs of legal representation to the Company. An appeal was filed against this decision on 10 August 2006 by the plaintiff, which accuses the decision of the court of 1st instance of breaching both provisions of material law as well as failure to understand the essence of the case. On 17 November 2006 a reply to the appeal was filed, with a request to fully dismiss the appeal. The expected date of the hearing – April 2007.

3. **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

4. **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.

5. **Plaintiff: legal person**

Claim value: PLN 14 000 000

Claim: compensation for the Bank-inflicted bankruptcy 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.

6. **Plaintiff:** joint stock company

Claim value: PLN 10 951 198

Claim: unspecified

Status: the plaintiff is claiming (probably, because he did not properly specify the basis for the claim) a refund of expenses to finance the leasing agreement between the parties and a return of the amount received by Millennium Leasing in the course of the palintiff's bankruptcy proceedings, which amount in the pliantiff's opinion is "gaining a financial benefit". In this matter on 28 April 2006 the attorney representing Millennium Leasing moved for fully dismissing the lawsuit. No date for a hearing was set.

Prospects: probability of winning is estimated to be high.

7. **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 believe 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	**6 442 924**	**5 854 949**
1. Commitments granted:	5 960 867	5 159 311
a) financial	4 582 952	4 424 112
b) guarantee	1 377 915	735 199
2. Commitments received:	482 057	695 638
a) financial	50 000	43 379
b) guarantee	432 057	652 259

The granted conditional commitments presented in the table above comprise commitments to grant credit (such as: unutilised credit card limits, unutilised current account overdraft facilities, unutilised tranches of investment loans) and issued guarantees and Letters of Credit (securing performance by customers of the Group of their obligations to third parties). The value of above-presented guarantee commitments presents the maximum value of a loss, which may be incurred by the Group, should the customers default on their obligations. The Group creates provisions for impaired irrevocable conditional commitments, reported in the "provisions" item under liabilities in the balance-sheet. The provision value is determined as the difference between the estimated amount of utilised conditional exposure and the present value of expected future cash flows under this credit exposure.

Guarantees, sureties and avals granted to Customers

In the period from 01.01.2006 to 31.12.2006 the Capital Group of Bank Millennium S.A. granted 2 537 guarantees, sureties and avals in the total amount of PLN 787 885 000.

The amount of these commitments (excluding guarantees under sureties of repayment of loans from the European Fund for the Development of Polish Villages as well as opened lines for guarantees) as at 31.12.2006 was PLN 941 247 000 (1 852 active guarantees), which signifies a growth of their value by PLN 188 988 000 i.e. by 25.12% over 31.12.2005.

The value of guarantees, sureties and avals granted in PLN increased by PLN 219.840 000 i.e. by 39.10% over the end of the previous year with the value of these commitments granted in FX decreasing by PLN 30 852 000 i.e. by 16.23%.

The structure of commitments under guarantees, sureties and avals divided into commitments granted in PLN and in FX is presented in the table below:

	31 December 2005	31 December 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 commitments by type as at 31.12.2006 is presented in the table below:

Type of commitment	Number of commitments	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 commitments by object as at 31.12.2006 is presented in the table below:

Object of the commitment	Number of commitments	Share (%)	Amount in PLN thous.
Contract performance	1 027	55,45%	315 082
Rent payment	245	13,23%	17 432
Bid bond	231	12,47%	31 961
Payment for delivery of goods or performance of a service	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 structure of net guarantee commitments by customer type as at 31.12.2006 in off-balance sheet items is presented in the table below:

Customer - sector	Amount in PLN million
- financial sector	30.5
- non-financial sector (companies)	1 320.3
- public sector	25.6
- individuals	2.5
TOTAL	**1 378.9**

The Bank as a parent entity did not extend any guarantees, sureties or avals to other companies of the Capital Group, however it did extend upon request of these companies to external entities. The value of guarantees, sureties and avals extended by the Bank upon request of companies from the Group is presented in the table below:

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

XVIII. OPERATING LEASING

The Group has agreements for rental of office space, which under IAS 17 are reported as operating leases. The largest lessee of office space is the Bank. Standard agreements on lease of commercial premises are signed by the Bank as a rule for a specified term of 5 to 10 years. A major part of these agreements is signed for 5 years with a clause stipulating the lessee's right to extend the term of rent for another 5 years pursuant to a relevant statement. The remaining agreements are entered into for an unspecified term and may be terminated with notice of usually 3 to 6 months.

Total liabilities on account of irrevocable operating lease are as follows (data in PLN '000):

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**

XIX. IMPORTANT EVENTS BETWEEN THE DATE OF PREPARATION OF THE FINANCIAL REPORT AND THE DATE OF ITS PUBLICATION

On 29 January 2007 the bank concluded with Bison Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty, with its seat in Warsaw, created and managed by BPH Towarzystwo Funduszy Inwestycyjnych S.A. with its seat in Warsaw, an agreement on sale of corporate irregular receivables. The total amount of the receivables (principal, interest and other side receivables) being sold under this Agreement is PLN 541,604 thousand.

SIGNATURES:

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