Annual Financial Statement
of Bank Millennium S.A.
on the 12-month period ending 31st December

MAIN FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2007 - 31.12.2007	period from 1.01.2006 - 31.12.2006	period from 1.01.2007 - 31.12.2007	period from 1.01.2006 - 31.12.2006
I. Interest income	1 500 467	1 161 456	397 286	297 881
II. Fee and commission income	502 946	327 538	133 168	84 004
III. Operating income	1 554 169	1 531 851	411 505	392 876
IV. Operating profit / (loss)	496 928	701 764	131 574	179 983
V. Profit / (loss) before taxes	496 928	701 764	131 574	179 983
VI. Profit (loss) after taxes	411 922	662 682	109 067	169 959
VII. Net cash flows from operating activities	-1 128 579	-4 894 295	-298 820	-1 255 269
VIII. Net cash flows from investing activities	1 040 534	2 147 763	275 507	550 840
IX. Net cash flows from financing activities	615 925	833 629	163 082	213 806
X. Net cash flows, total	527 880	-1 912 903	139 769	-490 605
XI. Total assets	29 242 011	24 369 963	8 163 599	6 360 922
XII. Deposits from banks	2 568 688	3 600 205	717 110	939 707
XIII. Deposits from customers	22 021 633	16 195 022	6 147 860	4 227 141
XIV. Total equity	2 083 986	1 829 048	581 794	477 409
XV. Share capital	849 182	849 182	237 069	221 649
XVI. Number of shares	849 181 744	849 181 744	849 181 744	849 181 744
XVII. Book value per share (in PLN/EUR)	2.45	2.15	0.69	0.56
XVIII. Diluted book value per share (in PLN/EUR)	2.45	2.15	0.69	0.56
XIX. Capital adequacy ratio	12.09%	11.92%	12.09%	11.92%
XX. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.49	0.78	0.13	0.20
XXI. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.49	0.78	0.13	0.20
XXII. Pledged or paid dividend per share (in PLN/EUR)	0.17	0.54	0.05	0.13

TABLE OF CONTENTS

I. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	**Note**	**01.01.2007 - 31.12.2007**	**01.01.2006 - 31.12.2006**
Interest income	1	1 500 467	1 161 456
Interest expense	2	-845 417	-655 826
Net interest income		**655 050**	**505 630**
Fee and commission income		502 946	327 538
Fee and commission expense		-72 862	-46 618
Net fee and commission income	3	**430 084**	**280 920**
Dividend income	4	112 638	508 936
Result on investment financial assets	5	5 770	3 549
Result on financial instruments valued at fair value through profit and loss	5	84 338	50 968
Foreign exchange profit	5	241 373	177 419
Other operating income	6	39 980	39 500
Other operating expenses	6	-15 064	-35 071
Operating income		**1 554 169**	**1 531 851**
General and administrative expenses	7	-900 205	-728 610
Impairment losses on financial assets	8	-77 392	-42 060
Impairment losses on non financial assets	9	-1 670	-1 130
Depreciation and amortization	10	-77 974	-58 287
Operating expenses		**-1 057 241**	**-830 087**
Profit/ (loss) before taxes		**496 928**	**701 764**
Corporate income tax	11	-85 006	-39 082
Profit/ (loss) after taxes		**411 922**	**662 682**
Basic earnings (losses) per ordinary share (in PLN)	12	**0.49**	**0.78**
Diluted earnings (losses) per ordinary share (in PLN)	12	**0.49**	**0.78**

II. BALANCE SHEET

ASSETS

Amount '000 PLN	**Note**	**31.12.2007**	**31.12.2006**
Cash, balances with the Central Bank	13	1 255 055	965 817
Loans and advances to banks	14	1 053 052	1 123 131
Financial assets valued at fair value through profit and loss (held for trading)	15	3 127 988	3 742 385
Hedging derivatives	16	218 321	108 027
Loans and advances to customers	17	20 881 303	14 109 193
Investment financial assets	18	1 893 949	2 929 896
- available for sale		1 893 949	2 929 896
- held to maturity		0	0
Investments in associates	18	191 343	159 156
Receivables from securities bought with sell-back clause (loans and advances)	19	28 807	15 509
Property, plant and equipment	20	247 382	263 910
Intangible assets	21	16 646	20 936
Non current assets held for sale	22	0	12 086
Receivables from Tax Office resulting from current tax		81 132	0
Deferred income tax assets	23	25 843	82 451
Other assets	24	221 190	837 466
Total Assets		**29 242 011**	**24 369 963**

LIABILITIES

Amount '000 PLN	Note	31.12.2007	31.12.2006
Deposits from banks	25	2 568 688	3 600 205
Financial liabilities valued at fair value through profit and loss (held for trading)	26	569 729	298 744
Hedging derivatives	27	20 220	14 506
Deposits from customers	28	22 021 633	16 195 022
Liabilities from securities sold with buy-back clause	29	729 993	1 477 686
Debt securities	30	0	5 705
Provisions	31	12 351	10 400
Deferred income tax liabilities	32	0	0
Other liabilities	33	409 376	631 338
Subordinated debt	34	826 035	307 309
Total Liabilities		**27 158 025**	**22 540 915**

EQUITY

Amount '000 PLN	Note	31.12.2007	31.12.2006
Share capital	35	849 182	849 182
Share premium	35	472 343	472 343
Revaluation reserve	35	-2 742	9 881
Retained earnings	35	765 203	497 642
Total Equity		**2 083 986**	**1 829 048**

Total Liabilities and Equity		**29 242 011**	**24 369 963**

III. STATEMENT OF CHANGES IN EQUITY

	Total equity	Share capital	Share premium	Revaluation reserve on available for sale financial assets	Revaluation reserve on derivatives designated for future cash flows hedge	Retained earnings
Equity at the beginning of the period (opening balance) 01.01.2007	**1 829 048**	**849 182**	**472 343**	**9 282**	**599**	**497 642**
- purchase/sale and valuation of available for sale financial assets	-11 231	0	0	-11 231	0	0
- effect of valuation of derivatives designated for future cash flows hedge	-1 392	0	0	0	-1 392	0
- profit/ (loss) of the period after taxes	411 922	0	0	0	0	411 922
- dividend payment	-144 361	0	0	0	0	-144 361
Equity at the end of the period (closing balance) 31.12.2007	**2 083 986**	**849 182**	**472 343**	**-1 949**	**-793**	**765 203**

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

Detailed information concerning changes in different equity items are presented in the ***Note (35)***

IV. CASH FLOWS FROM OPERATING ACTIVITIES

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**1.01.2007 - 31.12.2007**	**1.01.2006 - 31.12.2006**
I. Profit (loss) after taxes	**411 922**	**662 682**
II. Adjustments for:	**-1 540 501**	**-5 556 977**
1. Interests in net profit/ (loss) of associated companies	0	0
2. Depreciation and amortization	77 974	58 287
3. Foreign exchange (gains)/ losses	-165 469	-6 415
4. Dividends	-112 638	-508 936
5. Changes in provisions	1 951	-5 443
6. Result on sale and liquidation of investing activity assets	-19 515	-9 480
7. Change in financial assets valued at fair value through profit and loss (held for trading)	571 559	-1 721 401
8. Change in loans and advances to banks	300 488	236 099
9. Change in loans and advances to customers	-6 781 879	-5 121 318
10. Change in receivables from securities bought with sell-back clause	-13 298	315 646
11. Change in liabilities valued at fair value through profit and loss (held for trading)	276 699	-213 210
12. Change in deposits from banks	-1 132 131	1 185 909
13. Change in deposits from customers	5 826 611	2 110 259
14. Change in liabilities from securities sold with buy-back clause	-747 693	-1 994 429
15. Change in debt securities	0	-9 751
16. Change in income tax settlements	36 724	7 924
17. Income tax paid	-59 060	0
18. Change in other assets and liabilities	379 442	98 174
19. Other	19 734	16 946
III. Net cash flows from operating activities	**-1 128 579**	**-4 894 295**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**1.01.2007 - 31.12.2007**	**1.01.2006 - 31.12.2006**
I. Inflows:	**3 555 471**	**6 693 010**
1. Proceeds from sale of intangible assets and property, plant and equipment	29 068	163 437
2. Proceeds from sale of shares in associates	0	150
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	3 413 765	6 503 863
5. Other	112 638	25 560
II. Outflows:	**-2 514 937**	**-4 545 247**
1. Acquisition of intangible assets and property, plant and equipment	-32 993	-44 776
2. Acquisition of shares in associates	-34 190	-950
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-2 447 754	-4 453 521
5. Other	0	-46 000
III. Net cash flows from investing activities	**1 040 534**	**2 147 763**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**1.01.2007 - 31.12.2007**	**1.01.2006 - 31.12.2006**
I. Inflows:	**818 850**	**1 328 936**
1. Long-term bank loans	275 400	1 323 231
2. Issue of debt securities	0	5 705
3. Increase in subordinated debt	543 450	0
4. Net proceeds from issues of shares and additional capital paid-in	0	0
5. Other	0	0
II. Outflows:	**-202 925**	**-495 307**
1. Repayment of long-term bank loans	0	0
2. Redemption of debt securities	-5 705	-22 836
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	-144 361	-458 558
7. Other	-52 859	-13 913
III. Net cash flows from financing activities	**615 925**	**833 629**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**527 880**	**-1 912 903**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**1 642 730**	**3 555 633**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**2 170 610**	**1 642 730**

V. GENERAL INFORMATION ON THE ISSUER

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

Composition of the Management Board of Bank Millennium S.A. („Bank") as at 31 Dec 2007:

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. Zbigniew Kudaś – Member of the Management Board.

On 18 April 2007 Mr. Wiesław Kalinowski submitted the resignation from the function of the member of the Management Board justified by personal reasons.

Composition of the Supervisory Board of the Bank was as follows:

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. Marek Rocki - Member of the Supervisory Board,
11. Dariusz Rosati - Member of the Supervisory Board,
12. Zbigniew Sobolewski - Member of the Supervisory Board.

Mr Paulo Teixeira Pinto filed his resignation from the function of Member of the Supervisory Board of the Bank for personal reasons as of 31.08.2007.

On 27th December 2007 Mr Vasco de Mello filed his resignation from the function of Member of the Supervisory Board of the Bank for personal reasons.

Mr Jorge Jardim Goncalves filed his resignation from the function of Member of the Supervisory Board of the Bank as of 31.12.2007.

VI. ACCOUNTING POLICY

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

These financial statements of the Bank 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 statement was authorised for publication by the Bank's Management Board on 28 February 2008.

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

The Bank has not opted for the possibility of an earlier application of the new Standards and Interpretations, which have already been published and will come into force after balance sheet day. Said regulations:

- IFRIC 11 "IFRS 2 – Share-based Payment";
- IFRIC 12 "Service Concessions Arrangements";
- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 14 – IAS 19 "Defined Benefit Assets and Minimum Funding Requirements";
- Updated IAS 23 "Borrowing Costs";
- IFRS 8 "Operating Segments"

do not at present apply to the Bank's activity, with the exception of IFRS 8. This standard replaces IAS 14 "Segment Reporting" and is valid for annual consolidated financial reports prepared for periods starting 1st January 2009 or later. The adoption of IFRS 8 may, but does not have to force a change of the method of presentation of financial information split by business segments in the consolidated report. IFRS 8 requires the split into operating segments to be done on the basis of internal reports concerning components of the business entity, prepared for members of the entity's management who take operational decisions. The Bank has not yet completed the process of estimating the impact of IFRS 8 implementation upon the method of presentation of data in the consolidated financial report.

So far of the standards and interpretations mentioned above, only IFRIC 11and IFRS 8 have been approved for use by the European Commission.

CHANGES OF ADOPTED STANDARDS

As of 1st January 2007 the Bank has implemented IFRS 7 "Financial Instruments - Disclosures". This regulation replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" as well as (in the part concerning the scope of disclosures) IAS 32 "Financial Instruments: Disclosure and Presentation". In keeping with the provisions of IFRS 7 further on in this report the following was disclosed:

- Data concerning the significance of financial instruments for the Bank's financial condition;
- Information concerning the nature and scope of the Bank's exposure to risk connected with financial instruments;
- Approach to management of individual risk types.

ADOPTED ACCOUNTING PRINCIPLES

1. Basis of Financial Statements Preparation

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

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

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

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

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

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

2. Functional and presentation currency

Functional and presentation currency

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

Transactions and balances

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

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

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

3. Financial assets and liabilities

Classification

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

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

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

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

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

- *Held to maturity investments*

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

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

- *Loans and receivables*

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

- *Financial assets available for sale*

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

- *Other financial liabilities*

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

Recognition of financial instruments in the balance sheet

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

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

Derecognition of financial instruments from the balance sheet

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

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

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

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

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

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

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

- *Held to maturity investments and loans and receivables*

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

- *Financial asset available for sale*

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

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

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

- *Other financial liabilities*

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

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

4. Capital investments in subsidiary and associated entities

Subsidiary entities

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

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

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

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

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

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

Associated entities

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

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

5. 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. zapłaty).

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- The contracted financial hedging instrument and the assets or liabilities hedged by it show similar features, in particular the notional value, maturity, interest rate or FX sensitivity;
- The Bank anticipates that the hedge will be highly effective in balancing cash flows in accordance with the documented risk management strategy pertaining to this particular hedge combination;
- The hedging of cash flows covers a highly probable forecasted transaction exposed to the risk of changing cash flows impacting the level of earnings;
- The effectiveness of a hedge can be reliably assessed, i.e. one can credibly assess the fair value of the hedged position or cash flows originating from such position and the fair value of the hedging instrument;
- The hedge is verified on an on-going basis and it is found to be very effective throughout the period of its utilisation.

Hedging cash flows

The hedging of cash flows consists in hedging against the risk of cash flow fluctuations which (i) can be attributed to a specific risk connected with a given asset or liability (such as all or part of future interest payments on floating interest rate debt) or with a highly probable planned transaction and which (ii) can affect the income statement.
A cash flow hedge is treated in the following manner: part of the profits or losses attributed to a hedging instrument which is an effective hedge are recorded directly in equity through the statement of

changes in equity, while the ineffective part of the profits or losses attributed to the hedging instrument is recorded in the income statement.

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

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

Hedging fair value

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

Changes in the fair value of derivative instruments assigned and qualifying as fair value hedge are put through the income statement along with the corresponding changes in the fair value of the hedged asset or liability relating to the risk which the Bank hedges against.

The profits and losses resulting from the revaluation of the fair value of a hedging instrument (for a derivative hedging instrument) are disclosed in the income statement, while the profits or losses associated with the hedged position resulting from the hedged risk adjust the on-balance value of the hedged position and are recorded in the income statement. This principle applies to a hedged position which in other circumstances is valued at depreciated cost. If the hedged position is a financial asset available for sale, the profits or losses resulting from the hedged risk are recorded in the income statement.

Discontinuing hedge accounting

If the fair value hedge no longer meets the criteria for applying hedge accounting, the carrying value adjustment of the hedged instrument valued at effective interest rate is settled over time in the income statement in the period remaining to maturity. The valuation of hedged financial assets classified as available for sale resulting from other factors than hedged risks is presented under revaluation reserve until disposing of such asset.

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 item 'Result from financial instruments valued at fair value through the profit and loss account' or 'Foreign exchange profit' of the Income Statement.

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

1) *FX forward*

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

2) *FX SWAP*

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

3) *Interest Rate SWAP (IRS)*

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

4) *Cross – Currency Swap (CCS)*

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

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

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

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

6) *FX options*

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

7) *Forward Rate Agreement (FRA)*

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

6. Impairment of financial assets

Assets valued at amortized cost

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

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

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

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

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

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

The impairment is presented as a reduction of the carrying amount of the asset whereas the amount of the loss (the amount of deductions created during reported period) shall be recognized in profit or loss.

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

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

Financial assets available for sale

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

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

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

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

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

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

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

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

These transactions are measured at amortized cost, and securities which are the subject of aforementioned transactions are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio.
The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

9. Receivables from Leasing Agreements

The Bank is a party to leasing agreements based on which it accepts for paid use or collecting benefits external fixed assets for an agreed period.
In the case of lease contracts, under provisions of which the Bank takes transferring substantially all risks and rewards resulting from the ownership of the assets being the subject of the contract (financial leasing), the subject of the lease (mainly means of transportation) is recognized in the Bank's Balance Sheet and the settlement of lease payments is reflected in the profit and loss account based on effective interest rate method.

In the case of operating lease contracts concluded by the Bank, under which substantially all risks and rewards resulting from leased assets are taken by the party who provides the assets (lessor), lease payments 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 Bank's needs or to be transferred to other entities, under the rent agreement or for administrative purposes.

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

Subsequent costs

The Bank recognises in the on-balance value of tangible fixed assets the costs of replacing part of those positions at the moment of incurring them, if it is likely to obtain future economic benefits

connected with a given asset and the purchasing price or production cost can be credibly valued. Other costs are incurred in the income statement at the moment of their incurring.
Costs of repairing and maintenance of tangible fixed assets encumber the income statement in the reporting period in which they were incurred.

Intangible assets

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

Computer software

Purchased computer software licenses are activated in the amount of incurred cost of purchase and preparation for use, taking into account impairment charges.
Outlays associated with with the improvement and maintenance of computer software are disclosed as costs at the moment of being incurred.

Other Intangibles

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

Subsequent costs

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

Depreciation and amortization charges

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

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

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

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

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

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

11. Non current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated.

Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

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

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

(a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and

(b) its recoverable amount at the date of the subsequent decision not to sell.

12. Impairment of non current assets

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

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

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

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

Prepayments, Accruals and Deferred Income

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

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

13. Provisions

Provisions are established when (1) the Bank has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Bank has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.

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

Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

14. Bank's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

15. Financial guarantee

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

Financial guarantees granted are measured at the higher of:

(a) The amount being the best estimate of the expenditure required to settle the present obligation resulting from this financial guarantee, considering the probability of its realization;

(b) the amount initially recognised less amortized amount of commission received for guarantee granting,

16. Interest income

The Bank recognises in the Profit and Loss Account all interest revenue and costs concerning financial instruments measured at amortised cost with use of the effective interest rate method as well as financial assets available for sale.

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result from financial instruments valued at fair value through the profit and loss account. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.

Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the accounting for hedging the fair value of FX securities with respect to interest rate fluctuation risk and in the accounting for hedging against the volatility of cash flows generated by the FX mortgage loan portfolio and zloty deposits funding them.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

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

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

17. Fee income/ Fee and commission expenses

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

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

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

In connection with performance of a material transaction consisting in intermediation in the sale of insurance policies, the Bank upon the initial recognition of loan receivables reports in the Profit and Loss Account the fair value of the provided service of sale of an insurance policy. As for the remaining part of insurance fees, the Bank settles it over time as an integral part of effective interest rate and reports it in the Profit and Loss Account under interest income.

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

18. Dividend Income

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

19. Result on Investment Financial Instruments

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.

Net income from investment financial assets also covers the change of fair value of hedging derivative transactions designated as and being effective hedging instruments in hedge accounting for the fair value of FX securities with respect to interest rate fluctuation risk.

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

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

21. Foreign exchange profit

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

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

22. Other Operating Income and Expenses

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

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

23. Income tax

Corporate income tax comprises current and deferred tax.

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

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

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

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

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

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

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

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

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

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

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

24. Application of Estimates in connection with Accounting Policies

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

The estimates and assumptions, revised by the Bank management on a regular basis, are made on basis of historical experience and other factors considered being relevant in given circumstances.
Despite the fact, that such estimates are based on best knowledge about current conditions and activities undertaken by the Bank, the actual results may differ from the estimates. The major areas for which the Bank makes estimates are presented below.

- *Impairment of loans and advances*

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

- *Fair value of financial instruments*

The fair value of financial instruments not quoted on active markets is measured using valuation models. For non-optional derivatives and debt securities, valuation models based on discounted cash flows are used. Options are valued using option valuation models.
Valuation models used by the Bank, are approved before their use and calibrated in order to ensure, that results achieved reflect actual data and comparative market prices. Where possible, in models the Bank uses observable data from active markets.

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. NOTES TO FINANCIAL REPORT

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

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Interest income and other of similar nature, including:		
Balances with the Central Bank	24 976	9 771
Loans and advances to banks	34 045	100 058
Loans and advances to customers	1 063 652	591 226
Transactions with repurchase agreement	2 483	2 421
Subordinated loans	0	392
Hedging derivatives	100 429	99 957
Financial assets held for trading (debt securities)	152 348	135 947
Investment securities	122 534	221 684
Other	0	0
Total	**1 500 467**	**1 161 456**

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

Interest income for 2007 contains interest accrued on impaired loans at PLN 26,073 thousand (the corresponding figure for the 2006 comparable data was PLN 26,832 thousand).

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Interest expense and other of similar nature, including:		
Banking deposits	-74 746	-50 439
Loans	-57 543	-23 721
Transactions with repurchase agreement	-130 023	-155 381
Hedging derivatives	-549	0
Deposits from customers	-563 415	-409 631
Subordinated debt	-17 812	-14 011
Debt securities	0	-532
Other	-1 329	-2 111
Total	**-845 417**	**-655 826**

(3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Resulting from accounts service	59 406	63 468
Resulting from loan activity	41 647	32 902
Resulting from payments service	39 242	35 783
Resulting from payment and credit cards	110 712	81 201
Resulting from sale of insurance products (bankassurance)	55 627	35 531
Resulting from distribution of investment funds units	171 517	57 027
Resulting from guarantees and sureties granted	10 176	7 602
Resulting from brokerage and custody service	6 765	5 120
Other	7 854	8 904
Total	**502 946**	**327 538**

3b. Fee and commission expense

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Resulting from accounts service	-891	-694
Resulting from loan activity	-11 926	-4 141
Resulting from payments service	-1 466	-193
Resulting from payment and credit cards	-55 986	-37 804
Other	-2 593	-3 786
Total	**-72 862**	**-46 618**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Dividend income from related parties	111 062	507 096
Dividend income from other entities	1 576	1 840
Total	**112 638**	**508 936**

Net dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in 2007 and 2006 to PLN 111,062 thousand, and PLN 506,363 thousand, respectively.

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Operations on debt instruments	1 580	1 178
Operations on investment funds units	0	325
Operations on equity instruments	4 190	2 046
Total	**5 770**	**3 549**

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

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

This category includes the instruments qualified as "held for trading" – at the moment the Bank does not use the capacity to assign other instruments as valued at fair value through the profit and loss account at the initial recognition (so-called fair value option).

5b. Result on financial instruments held for trading

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Operations on securities	-35 580	-7 906
Operations on derivatives	132 891	71 749
Other financial operations	**-12 973**	**-12 875**
Total	**84 338**	**50 968**

The result on other financial operations contains settlements on financial intermediation services, including custody activity.

(5C) FX INCOME

5c. FX Income

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Margin on FX Table transactions	134 426	95 443
Margin on negotiable FX transactions	76 574	64 362
Other	30 373	17 614
Total	**241 373**	**177 419**

(6) OTHER OPERATING INCOME AND EXPENSES

6a. Other operating income

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Profit on sale and liquidation of property, plant and equipment, intangible assets	11 551	0
Profit on sale of non current assets held for sale	6 248	10414
Income from sale of other services	8 512	9 312
Income from collection service	389	1 164
Other	13 280	18 610
Total	**39 980**	**39 500**

6b. Other operating expenses

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Loss on sale and liquidation of property, plant and equipment, intangible assets	-2 355	0
Indemnifications, penalties and fines paid	-1 377	-794
Provisions for contentious claims	-2 298	-19 095
Costs of sale of other services	-5 037	-5 111
Donations made	-343	-616
Costs of collection service	-2 212	-3 030
Other	-1 442	-6 425
Total	**-15 064**	**-35 071**

The Bank established a provision for contentious claims regarding the penalty imposed on the banks by the Chairman of the Office of Competition and Consumer Protection. The provision was charged against operational costs of 2006 (it was established in the full amount of the penalty of PLN 12,158 thous. imposed by the Office of Competition and Consumer Protection). The decision on imposing the penalty was taken following anti-monopoly proceedings upon request of the Polish Organisation of Commerce and Distribution and it resulted from recognising the practise, which consisted in banks' participation in an agreement aimed at joint setting the rates of interchange fees charged against the Visa and Mastercard transactions.

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Staff costs:	**-493 210**	**-375 320**
Salaries	-473 434	-359 380
Employee benefits, including:	-19 776	-15 940
- provisions for retirement benefits	1 842	-2 639
- provisions for unused employee holiday	-2 943	0
- other	-18 675	-13 301
General administrative costs	**-406 995**	**-353 290**
Costs of advertising, promotion and representation	-49 473	-43 918
Costs of software maintenance and IT services	-12 340	-12 291
Costs of renting	-105 818	-79 712
Costs of buildings maintenance, equipment and materials	-44 842	-33 608
ATM and cash costs	-21 527	-22 079
Costs of communications and IT	-59 666	-63 238
Costs of consultancy, audit and legal advisory and translation	-22 952	-23 026
Taxes and fees	-13 816	-15 119
KIR clearing charges	-2 319	-2 196
PFRON costs	-4 004	-3 103
BFG costs	-3 616	-2 434
Other	-66 622	-52 567
Total	**-900 205**	**-728 610**

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Impairment losses on loans and advances to customers	**-73 639**	**-46 171**
- Impairment charges on loans and advances to customers	-284 680	-410 434
- Reversal of impairment charges on loans and advances to customers	181 592	345 896
- Amounts recovered from loans written off	11 273	18 367
- Result on sale of receivables	18 176	0
Impairment losses on investment securities	**0**	**0**
- Impairment write-offs for investment securities	0	0
- Reversal of impairment write-offs for investment securities	0	0
Impairment losses on investments in associates	**-1700**	**-1926**
- Impairment write-offs for investments in associates	-1700	-1926
- Reversal of impairment write-offs for investments in associates	0	0
Impairment losses on off-balance sheet liabilities	**-2 053**	**6 037**
- Impairment write-offs for off-balance sheet liabilities	-9 692	-26 842
- Reversal of impairment write-offs for off-balance sheet liabilities	7 639	32 879
Total	**-77 392**	**-42 060**

(9) IMPAIRMENT LOSSES ON NON FINANCIAL ASSETS

9. Impairment losses on non financial assets

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Fixed assets	0	-3 099
Other assets	-1670	1 969
Total	**-1670**	**-1 130**

(10) AMORTIZATION

10. Depreciation and amortization

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Property, plant and equipment	-70 089	-47 972
Intangible assets	-7 885	-10 315
Total	**-77 974**	**-58 287**

In keeping with IAS 38 and IAS 16 the Group periodically reviews the length of the period of economic use of intangibles as well as tangible fixed assets.

In 2007 the Bank's Management Board decided to change the seat of the Bank's Head Office. The relocation has been planned for Q1 2008. Therefore the economic useful life was verified of part of non-depreciated capital expenditures in the current seat of the Bank and the costs connected with bringing the space being vacated to the required condition were estimated. As a result the Bank increased the initial value of non-depreciated capital expenditures by the amount of estimated dismantling costs and removal of an asset in the amount of PLN 11 million, which was presented in ***note (20b)*** and the amount of costs on account of depreciation in 2007 was increased by PLN 20.9 million.

(11) INCOME TAX

11a. Income tax reported in income statement

	1.01.2007-31.12.2007	1.01.2006-31.12.2006
Current tax	**-24 665**	**-29 815**
Current year	-24 665	-29 815
Deferred tax	**-59 569**	**-10 831**
Appearance and reversal of temporary differences	-32 300	42 724
Utilisation of tax loss	-27 269	-53 555
Other		
Receivables resulting from the article 38a of the CIT Act	-772	1 564
Total income tax reported in income statement	**-85 006**	**-39 082**

11b. Effective tax rate

	1.01.2007-31.12.2007	1.01.2006-31.12.2006
Gross profit / (loss)	496 928	701 764
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-94 416**	**-133 335**
Impact of permanent differences on tax charges:	**10 182**	**94 253**
- Non taxable income	22 093	99 824
Dividend income	21 401	96 698
Other	692	3 126
- Cost which is not a tax cost	-11 911	-7 134
Loss on sale of receivables	-8 114	0
PFRON fee	-761	-537
Other	-3 036	-6 597
Receivables resulting from the article 38a of the CIT Act	-772	1 564
Total income tax reported in income statement	**-85 006**	**-39 082**

11c. Deferred tax reported directly in equity

	31.12.2007	31.12.2006
Valuation of available for sale securities	457	-2 177
Valuation of cash flow hedging instruments	186	-140
Deferred tax reported directly in equity	**643**	**-2 317**

(12) EARNINGS PER SHARE

12. Earnings per share (PLN)

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Earnings after taxes	411 922	662 682
Weighted average number of shares in the period	849 181 744	849 181 744
Earnings per share	**0.49**	**0.78**

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

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

(13) CASH, BALANCES WITH THE CENTRAL BANK

13a. Cash, balances with the Central Bank

	31.12.2007	31.12.2006
Cash	476 154	413 658
Cash in Central Bank	778 861	551 138
Other funds	40	1 021
Total	**1 255 055**	**965 817**

In the period from 31st December 2007 to 30th January 2008 the Bank kept on its current account with NBP an average balance of PLN 706,062 thous. (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

The interest rate on funds on the mandatory deposit account constitutes 0.9 of the rediscount rate and in the above-mentioned period of time was 4.725%.

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

	31.12.2007	31.12.2006
a. in Polish currency	1 102 693	835 923
b. in foreign currencies (after conversion to PLN)	152 362	129 894
- currency: USD	23 794	23 367
- currency: EURO	95 612	75 352
- currency: GBP	16 041	18 016
- other currencies (PLN ‘000)	16 915	13 159
Total	**1 255 055**	**965 817**

(14) DEPOSITS IN OTHER BANKS ANDLOANS AND ADVANCES TO BANKS

14a. Loans and advances to banks

	31.12.2007	31.12.2006
Current accounts	59 838	32 410
Deposits in other banks	698 156	810 290
Loans	291 864	269 424
Other	1 255	322
Interest	1 939	10 685
Total (gross) loans and advances to banks	**1 053 052**	**1 123 131**
Impairment write-offs	0	0
Net loans and advances to banks	**1 053 052**	**1 123 131**

14b. Loans and advances to banks by maturity date

	31.12.2007	31.12.2006
Current accounts	59 838	32 410
- to 1 month	669 411	310 103
- above 1 month to 3 months	30 000	187 198
- above 3 months to 1 year	2	313 323
- above 1 year to 5 years	0	0
- above 5 years	291 862	269 412
- past due	0	0
Interest	1 939	10 685
Total (gross) loans and advances to banks	**1 053 052**	**1 123 131**

14c. Loans and advances to banks by currency

	31.12.2007	31.12.2006
in Polish currency	734 719	866 027
in foreign currencies (after conversion to PLN)	318 333	257 104
- currency: USD	74 317	19 020
- currency: EURO	192 188	108 208
- currency: CHF	3 617	75 620
- currency: GBP	11 802	22 385
- other currencies (PLN '000)	36 409	31 871
Total	**1 053 052**	**1 123 131**

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

	31.12.2007	31.12.2006
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*

15a. Financial assets valued at fair value through profit and loss (held for trading)	**31.12.2007**	**31.12.2006**
Debt securities	**2 327 042**	**3 368 029**
Issued by State Treasury	2 327 042	3 368 029
a) bills	349 300	108 701
b) bonds	1 977 742	3 259 328
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
Equity instruments	**0**	**4 020**
Quoted on the active market	0	4 020
a) financial institutions	0	0
b) non-financial institutions	0	4 020
Not quoted on the active market	0	0
a) financial institutions	0	0
b) non-financial institutions	0	0
Positive valuation of derivatives	**800 946**	**370 336**
Total	**3 127 988**	**3 742 385**

15b. Financial assets valued at fair value through profit and loss (held for trading)

	31.12.2007	**31.12.2006**
Trading financial assets	3 127 988	3 742 385
Financial assets valued at fair value when initially recognized	0	0
Total	**3 127 988**	**3 742 385**

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

15c. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

	31.12.2007	**31.12.2006**
- with fixed interest rate	1 670 076	2 624 305
- with variable interest rate	656 966	743 724
Total	**2 327 042**	**3 368 029**

15d. Debt securities valued at fair value through profit and loss (held for trading) by maturity

	31.12.2007	31.12.2006
- to 1 month	8 852	900
- above 1 month to 3 months	96 289	35 076
- above 3 months to 1 year	338 630	469 274
- above 1 year to 5 years	1 429 085	2 585 365
- above 5 years	454 186	277 414
Total	**2 327 042**	**3 368 029**

15e. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	3 372 049	2 992 560
Increases (purchase and accrual of interest and discount)	63 136 530	75 669 806
Reductions (sale and redemption)	-64 165 040	-75287145
Differences from pricing at fair value	-16 498	-3 172
Balance at the end of the period	**2 327 042**	**3 372 049**

15f. Derivatives as at 31.12.2007

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)	950 000	300 000	0	-102	680	782
Interest rate swaps (IRS)	2 621 492	8 793 821	15 825 498	60 866	191 672	130 806
Other interest rate contracts: volatility swap, swap with FX option	0	34 189	64 014	9 381	9 381	0
Total interest rate derivatives	**3 571 492**	**9 128 010**	**15 889 512**	**70 145**	**201 733**	**131 588**
2. FX derivatives						
FX contracts	5 727 088	4 704 972	862 067	-17 655	132 894	150 549
FX swaps	11 250 003	651 911	0	170 305	258 815	88 510
Other FX contracts (CIRS)	0	59 840	2 754 450	23 555	30 090	6 535
FX options	9 101 514	21 001 608	6 190 920	0	59 085	59 085
Total FX derivatives	**26 078 605**	**26 418 331**	**9 807 437**	**176 205**	**480 884**	**304 679**
3. Commodity derivatives						
Commodity forwards	779 666	378 842	425 414	582	44 610	44 028
Commodity options	350 714	554 382	461 392	0	55 254	55 254
Total commodity derivatives	**1 130 380**	**933 224**	**886 806**	**582**	**99 864**	**99 282**
4. Options embedded in deposits				**-11 530**	714	12 244
5. Valuation of future FX payments			**359 895**	**17 751**	17 751	0
6. Other				**-12 934**	0	12 934
7. Liabilities from short sale of securities				**-9 002**		9 002
8. Total derivatives	**30 780 477**	**36 479 565**	**26 943 650**	**231 217**	**800 946**	**569 729**

15g. Derivatives as at 31.12.2006

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives						
Forward Rate Agreements (FRA)	1 750 000	575 930	0	900	1 227	327
Interest rate swaps (IRS)	2 800 000	6 568 478	12 134 608	-9 770	143 420	153 190
Other interest rate contracts: volatility swap, swap with FX option	0	71 122	110 200	4 440	5 286	846
Total interest rate derivatives	**4 550 000**	**7 215 530**	**12 244 808**	**-4 430**	**149 933**	**154 363**
2. FX derivatives						
FX contracts	5 488 370	2 667 326	2 232 099	-6 234	36 041	42 275
FX swaps	5 320 853	658 694	0	51 521	65 588	14 067
Other FX contracts (CIRS)	0	0	2 416 812	38 756	41 622	2 866
FX options	4 192 790	3 430 316	66 820	0	24 702	24 702
Total FX derivatives	**15 002 013**	**6 756 336**	**4 715 731**	**84 043**	**167 953**	**83 910**
3. Commodity derivatives						
Commodity forwards	145 778	0	0	120	10 199	10 079
Commodity options	734 545	966 915	196 206	0	32 257	32 257
Total commodity derivatives	**880 323**	**966 915**	**196 206**	**120**	**42 456**	**42 336**
4. Options embedded in deposits		**0**	**0**	**-18 135**	0	18 135
5. Valuation of future FX payments	**4 458**	**680**	**71 643**	**9 994**	9 994	0
		0	**0**	**0**	0	0
6. Total derivatives	**20 436 794**	**14 939 461**	**17 228 388**	**71 592**	**370 336**	**298 744**

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

(16) DERIVATIVE AND HEDGING INSTRUMENTS

The Bank applies following types of hedge accounting:

- ü Hedge of fair value of the portfolio of long-term consumer loans as regards risk of change of interest rates;
- ü Hedge of the fair value of FX liabilities resulting from the Bank’s own transactions against FX fluctuation risk
- ü Hedge of the fair value of FX securities against interest rate risk
- ü Hedge of volatility of cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;

Starting from 1 January 2006 the Bank 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).Implementation of formal hedge accounting permitted presentation of the transactions in the Profit and Loss Account in accordance with their economic meaning.

At the end of each month the Bank performs an assessment of effectiveness of the used hedge by analysing changes of fair value of the hedged instrument and the hedging instrument.

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

	Hedging fair value of the portfolio of long-term consumer loans	Hedging fair value of the FX-denominated liabilities	Hedging fair value of the 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 risk of change of the fair value of the portfolio of long-term consumer loans denominated in PLN, based on a fixed interest rate. The hedged risk results from changes of interest rates.	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	Portfolio of long-term consumer loans denominated in PLN, based on a fixed interest rate.	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	IRS transactions	CIRS transactions	CIRS transactions	CIRS transactions
Presentation of the result on the hedged and hedging transactions	Adjustment to fair value of hedged assets and valuation of hedging instruments is reported in the Profit and Loss Account as result on investment financial assets; Interest on hedged assets and hedging instruments reported in net interest income	Fair value adjustment of the payment in FX currency resulting from the FX rate differences is recognised in the costs of Bank's activity; Valuation of hedging instruments is recognised in the costs of Bank's activity; Interest on the hedging instruments are recognised in the costs of Bank's activity.	FX rate differences from the hedged assets and hedging instruments are recognised in the FX income; Fair value adjustment of the hedged assets and valuation of the hedging instruments is recognised in income statement; Interest on the hedged assets and hedging instruments are recognised in the net interest income.	Effective part of valuation of hedging instruments is recognised in the revaluation capital; Interest on both and hedging instruments and hedged instruments are recognised in the net interest income; Valuation of hedging and hedged instruments under FX rate differences is recognised in the FX income.

16a. Hedge accounting 31.12.2007

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
	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							
IRS contracts (macro fair value hedge for consumer loans)	0	0	983 431	14 088	14 088	0	-12 933
CIRS contracts (micro fair value hedge for securities in foreign currencies) *	0	177 257	0	27 279	27 319	40	-72
2. Fair value hedging derivatives connected with FX rate risk							
CIRS contracts (micro fair value hedge for FX liabilities)	0	0	359 895	-18 302	0	18 302	17 750
3. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts (macro cash flow hedge for mortgages and deposits in PLN)	0	0	9 240 215	175 036	176 914	1 878	n/a
4. Total hedging derivatives	**0**	**177 257**	**10 583 541**	**198 101**	**218 321**	**20 220**	**x**

* - the change in the fair value under the hedged interest rate risk and the fx risk on the hedging instrument amounted, since the beginning of the hedge accounting, to PLN 51,448thousand. In the meantime, the change in the fair value under the hedged interest rate risk and the fx risk on the hedged instrument amounted, since the beginning of the hedge accounting, to PLN 52,073 thousand.
FX rate differences on the hedged position, based on the IAS 21, are recognized in the profit and loss account. Hence, only the change in fair value of a hedged position at PLN 72 thousand had been moved from capitals to the profit and loss account.

16b. Hedge accounting 31.12.2006

Amount in '000 PLN	Nominal value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
	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 (micro fair value hedge for securities in foreign currencies) *	0	0	198 036	19 690	20 528	838	-516
2. Fair value hedging derivatives connected with FX rate risk							
CIRS contracts (micro fair value hedge for FX liabilities)	4 458	680	71 643	-10 098	0	10 098	9 994
3. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts (macro cash flow hedge for mortgages and deposits in PLN)	723 510	1 911 680	4 590 265	83 929	87 499	3 570	n/a
4. Total hedging derivatives	**727 968**	**1 912 360**	**4 859 944**	**93 521**	**108 027**	**14 506**	**x**

* - the change in the fair value under the hedged interest rate risk and the fx risk on the hedging instrument amounted, since the beginning of the hedge accounting, to PLN 30 526 thousand. In the meantime, the change in the fair value under the hedged interest rate risk and the fx risk on the hedged instrument amounted, since the beginning of the hedge accounting, to PLN 30 337 thousand.
FX rate differences on the hedged position, based on the IAS 21, are recognized in the profit and loss account. Hence, the accounting move from capitals to the profit and loss account applied just to the change in fair value of the hedged position, at PLN 516 thousand.

16c. Hedge accounting for cash flows

	31.12.2007	31.12.2006
Gross valuation recognized in revaluation reserve	-979	739
Period in which cash flows with hedged value are expected to occur	from 01.01.08 to 23.01.13	from 01.01.07 to 14.01.13

(17) LOANS AND ADVANCES TO CUSTOMERS

17a. Loans and advances to customers

	31.12.2007	31.12.2006
LOANS AND ADVANCES	**19 327 487**	**13 378 074**
- to companies	4 514 158	4 434 624
- to private individuals	14 599 528	8 660 332
- to public sector	213 801	283 118
Receivables on account of payment cards	**526 123**	**333 302**
- due from companies	6 612	5 386
- due from private individuals	519 511	327 916
Purchased receivables	**1 528 853**	**907 614**
- from companies	1 506 700	891 308
- from private individuals	0	0
- from public sector	22 153	16 306
Guarantees and sureties realised	106	21 186
Debt securities eligible for rediscount at Central Bank	22 649	21 590
Other	1 136	702
Interest	26 968	37 325
Total gross	**21 433 322**	**14 699 793**
Impairment write-offs	-552 019	-590 600
Total net	**20 881 303**	**14 109 193**

17b. Quality of loans and advances to customers portfolio

	31.12.2007	31.12.2006
Loans and advances to customers (gross)	**21 433 322**	**14 699 793**
- impaired	621 486	705 098
- not impaired	20 811 836	13 994 695
IMPAIRMENT WRITE-OFFS	**552 019**	**590 600**
- for impaired exposures	333 167	427 393
- for incurred but not reported losses (IBNR)	218 852	163 207
Loans and advances to customers (net)	**20 881 303**	**14 109 193**

In 2007 the Bank sold impaired receivables in the amount of PLN 128 669 thousand. The amount of impairment charges on these receivables amounted to PLN 103 245 thousand.

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

	31.12.2007	31.12.2006
Loans and advances to customers (gross)	**21 433 322**	**14 699 793**
- case by case analysis	431 857	561 257
- collective analysis	21 001 465	14 138 536
Impairment write-offs	**552 019**	**590 600**
- on the basis of case by case analysis	207 954	334 905
- on the basis of collective analysis	344 065	255 695
Loans and advances to customers (net)	**20 881 303**	**14 109 193**

17d. Loans and advances to customers portfolio by customers

	31.12.2007	31.12.2006
Loans and advances to customers (gross)	**21 433 322**	**14 699 793**
- corporate customers	6 291 504	5 701 891
- individuals	15 141 818	8 997 902
Impairment write-offs	**552 019**	**590 600**
- for receivables from corporate customers	315 305	425 263
- for receivables from individuals	236 714	165 337
Loans and advances to customers (net)	**20 881 303**	**14 109 193**

17e. Loans and advances to customers by maturity

	31.12.2007	31.12.2006
Current accounts	1 621 609	1 165 374
- to 1 month	129 638	416 022
- above 1 month to 3 months	186 651	439 354
- above 3 months to 1 year	1 023 317	1 524 301
- above 1 year to 5 years	4 446 526	4 211 229
- above 5 years	13 878 720	6 822 660
- past due	119 893	83 528
Interest	26 968	37 325
Total gross	**21 433 322**	**14 699 793**

17f. Loans and advances to customers by currency

	31.12.2007	31.12.2006
in Polish currency	9 582 571	5 815 144
in foreign currencies (after conversion to PLN)	11 850 751	8 884 649
- currency: USD	268 702	546 438
- currency: EURO	1 070 357	1 106 840
- currency: CHF	10 332 255	7 179 168
- other currencies (PLN '000)	179 437	52 203
Total gross	**21 433 322**	**14 699 793**

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

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	590 600	565 830
Change in value of provisions:	-38 581	24 770
Write-offs in the period	284 680	410 434
Amounts written off	-14 756	-16 506
Reversal of write-offs in the period	-181 592	-345 896
Write-offs decrease due to sale of receivables	-93 229	0
Changes resulting from FX rates differences	-33 207	-23 078
Other	-477	-184
Balance at the end of the period	**552 019**	**590 600**

(18) INVESTMENT FINANCIAL ASSETS

18a. Investment financial assets available for sale

	31.12.2007	31.12.2006
Debt securities	**1 892 719**	**2 928 607**
Issued by State Treasury	1 540 448	2 585 954
a) bills	0	198 198
b) bonds	1 540 448	2 387 756
Issued by Central Bank	165 939	165 480
a) bills	0	0
b) bonds	165 939	165 480
Other securities	186 332	177 173
a) listed	138 106	123 555
b) not listed	48 226	53 618
Shares and interests in other entities	**1 230**	**1 289**
Other financial instruments	**0**	**0**
Total financial assets available for sale	**1 893 949**	**2 929 896**
Available for sale instruments listed on the stock exchange	1 678 553	2 511 311
Available for sale instruments not listed on the stock exchange	215 396	418 585

18b. Debt securities available for sale

	31.12.2007	31.12.2006
- with fixed interest rate	182 518	1 212 690
- with variable interest rate	1 710 201	1 715 917
Total	**1 892 719**	**2 928 607**

18c. Debt securities available for sale by maturity

	31.12.2007	31.12.2006
- to 1 month	67 924	523
- above 1 month to 3 months	0	90 448
- above 3 months to 1 year	329 851	348 440
- above 1 year to 5 years	1 491 715	2 302 516
- above 5 years	3 229	186 680
Total	**1 892 719**	**2 928 607**

18d. Change of investment financial assets available for sale

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	2 929 896	4 831 115
Increases (purchase and accrual of interest and discount)	2 447 754	4 546 642
Reductions (sale and redemption)	-3 469 835	-6 425 227
Difference from measurement at fair value	-13 866	-22 633
Impairment write-offs	0	0
Other	0	0
Balance at the end of the period	**1 893 949**	**2 929 896**

18e. Investment financial assets held to maturity

	31.12.2007	31.12.2006
Debt securities	**0**	**0**
Issued by State Treasury	0	0
a) bills	0	0
b) bonds	0	0
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**	**0**
Held to maturity instruments listed on the stock exchange	0	0
Held to maturity instruments not listed on the stock exchange	0	0

18f. Debt securities held to maturity

	31.12.2007	31.12.2006
- with fixed interest rate	0	0
- with variable interest rate	0	0
Total	**0**	**0**

18g. Held to maturity instruments by maturity

	31.12.2007	31.12.2006
- to 1 month	0	0
- above 1 month to 3 months	0	0
- above 3 months to 1 year	0	0
- above 1 year to 5 years	0	0
- above 5 years	0	0
Total	**0**	**0**

18h. Change of held to maturity instruments

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period, after adjustments	0	78 636
Increases (purchase and accrual of interest and discount)	0	1 364
Reductions (sale and redemption)	0	-80 000
Balance at the end of the period	**0**	**0**

18i. Investments in associates

	31.12.2007	31.12.2006
Investments in associates	191 343	159 156

18j. Associates as at 31.12.2007

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM DOM MAKLERSKI	Brokerage services	16 500	0	0	540 881	312 926	16 500	55 108	43 812	subordinated
MILLENNIUM LEASE	Leasing	38 578	0	20 025	155 045	91 016	86 318	3 741	2 305	subordinated
TBM	Financial operations on equity market and advisory services	225	0	0	6 318	0	500	41	230	associated
MILLENNIUM LEASING	Leasing	25 363	0	0	2 918 767	2 377 967	43 400	191 516	74 426	subordinated
BBG FINANCE BV	Funding companies from the Group	4 363	0	0	292 477	286 560	64	0	284	subordinated
MB FINANCE AB	Funding companies from the Group	190	0	0	539 824	539 668	156	0	-35	subordinated
MILLENNIUM SERVICE	General construction, civil engineering	1 000	0	80 000	108 084	0	1 000	48 704	1 271	subordinated
LUBUSKIE FABRYKI MEBLI	Furniture manufacturer	6 700	-1 700	0	20 328	5 640	13 400	42 960	-141	subordinated
PHCRS	Wholesale market for groceries	8 200	-8 200	0	74 859	52 696	19 285	2 782	19	associated
REESS TRADING	Financial operations on equity market and advisory services	98	0	0	118	0	100	0	-1	subordinated
BG LEASING	Leasing	900	-900	0	The company is under bankruptcy					subordinated
T.H. WEIMAN i S-KA	Production of ceramic sanitary ware and trade	0	0	0	The company is not conducting business activity, is not preparing financial reports					associated
SPC	Investing activity	33	-33	0	The company is not conducting business activity, is not preparing financial reports					associated
Total investments in associates		**102 151**	**-10 833**	**100 025**						

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

The above table does not include Orchis Sp. z o.o – the company being a special purpose vehicle (SPV) which is controlled by Millennium Leasing as a result of securitisation transaction, despite lack of capital participation in mentioned company.

18k. Associates as at 31.12.2006

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

18l. Change of investments in associates

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	159 156	114 167
Increase in capital/ take-up of shares	190	950
Additional capital paid in	34 000	46 000
Shares taken up after division of subsidiary	0	150
Sale of shares	0	-150
Impairment write-offs in the period	-1 700	-1 926
Differences in valuation of shares expressed in foreign currencies	-303	-35
Balance at the end of the period	**191 343**	**159 156**

In 2007 the Bank concluded with an unrelated entity the agreement to sell 134,001 shares of Lubuskie Fabryki Mebli S.A. („LFM"), which constitutes 50% + 1 share of the company's equity, for the total price of PLN 5 000 000 (carried in the Bank's books at the net value of PLN 5 000 000). The condition precedent regarding performance of the agreement is obtaining by the buyer of assent from the Office for Competition and Consumer Protection for purchase of the shares. As at 31st December 2007 the transaction was not executed and the equity exposure to LFM is presented in the balance sheet of the Bank and the Group.

Additionally in 2007 the Bank assumed 100% shares in the initial capital of MB Finance AB with its seat in Stockholm for the price of SEK 500 000. This entity, in the meaning of IFRS is a Special Purpose Vehicle (SPV) and was created for the purpose of issuing Eurobonds. The Eurobonds issue was done after MB Finance AB assumed debt securities (junior notes) issued by the Bank, under terms and conditions reflecting the termsheet of the Bank's notes issue (a detailed description of the issue of junior notes was presented in ***note (34)***.
MB Finance AB is consolidated.

(19) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

19. Receivables from securities bought with sell-back clause

	31.12.2007	31.12.2006
a) from customers	28 768	15 502
b) interest	39	7
Total	**28 807**	**15 509**

(20) PROPERTY, PLANT AND EQUIPMENT

20a. Property, plant and equipment

	31.12.2007	31.12.2006
Fixed assets:		
- land	1 412	1 415
- buildings, premises, civil and hydro-engineering structures	153 370	171 676
- machines and equipment	33 633	35 816
- vehicles	19 359	13 095
- other fixed assets	18 034	18 385
Fixed assets under construction	21 574	23 523
Total	**247 382**	**263 910**

20b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2007 - 31.12.2007

	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	**1 921**	**358 921**	**304 641**	**25 534**	**97 110**	**23 523**	**811 650**
b) increases (on account of)	**0**	**22 119**	**13 635**	**10 669**	**11 094**	**34 462**	**91 979**
- purchase	0	0	0	0	0	30 972	30 972
- transfer from fixed assets under construction	0	11 119	13 628	0	11 094	0	35 841
- transfer from financial leasing	0	0	0	10 669	0	0	10 669
- other	0	11 000	7	0	0	3 490	14 497
c) reductions (on account of)	**3**	**26 745**	**73 997**	**5 968**	**11 602**	**36 411**	**154 726**
- sale	3	18 884	47 571	5 662	1 178	0	73 298
- liquidation	0	7 861	25 989	207	10 424	0	44 481
- settlement of fixed assets under construction	0	0	0	0	0	35 847	35 847
- other	0	0	437	99	0	564	1 100
d) gross value of property, plant and equipment at the end of the period	**1 918**	**354 295**	**244 279**	**30 235**	**96 602**	**21 574**	**748 903**
e) cumulated depreciation (amortization) at the beginning of the period	**3**	**148 790**	**267 684**	**12 439**	**77 350**	**0**	**506 266**
f) depreciation over the period (on account of)	**0**	**22 094**	**-57 038**	**-1 563**	**-157**	**0**	**-36 664**
- current write-off (P&L)	0	38 117	16 805	3 848	11 319	0	70 089
- reductions on account of sale	0	-8 528	-47 488	-5 282	-1 101	0	-62 399
- reductions on account of liquidation	0	-7 496	-25 925	-88	-10 375	0	-43 884
- other	0	1	-430	-41	0	0	-470
g) cumulated depreciation (amortization) at the end of the period	**3**	**170 884**	**210 646**	**10 876**	**77 193**	**0**	**469 602**
h) impairment write-offs at the beginning of the period	**503**	**38 455**	**1 141**	**0**	**1 375**	**0**	**41 474**
- increase	0	0	0	0	0	0	0
- reduction	0	8 414	1 141	0	0	0	9 555
i) impairment write-offs at the end of the period	**503**	**30 041**	**0**	**0**	**1 375**	**0**	**31 919**
j) net value of property, plant and equipment at the end of the period	**1 412**	**153 370**	**33 633**	**19 359**	**18 034**	**21 574**	**247 382**

*The item increases – other includes capital expenditures resulting from estimated costs of disassembly and removal of an asset in the amount of PLN 11 million reported as a consequence of the change of the seat of the Bank's Head Office planned for 1st quarter 2008, which was described in ***note (10).***

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**146**	**267 036**	**314 911**	**19 450**	**87 876**	**19 334**	**708 753**
b) increases (on account of)	**1 775**	**103 757**	**24 194**	**9 670**	**19 268**	**52 823**	**211 487**
- purchase	0	0	87	12	0	44 576	44 675
- transfer from fixed assets under construction	0	10 224	13 953	2 113	17 869	0	44 159
- transfer from financial leasing	0	0	0	7 545	0	0	7 545
- reclassification from non current assets held for sale	1 775	93 533	7 183	0	494	0	102 985
- other	0	0	2 971	0	905	8 247	12 123
c) reductions (on account of)	**0**	**11 872**	**34 464**	**3 586**	**10 034**	**48 634**	**108 590**
- sale	0	1 653	13 724	3 537	2 241	0	21 155
- liquidation	0	9 314	18 325	0	7 793	0	35 432
- settlement of fixed assets under construction	0	0	0	0	0	45 110	45 110
- other	0	905	2 415	49	0	3 524	6 893
d) gross value of property, plant and equipment at the end of the period	**1 921**	**358 921**	**304 641**	**25 534**	**97 110**	**23 523**	**811 650**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**107 831**	**275 293**	**12 180**	**77 255**	**0**	**472 559**
f) depreciation over the period (on account of)	**3**	**40 959**	**-7 609**	**259**	**95**	**0**	**33 707**
- current write-off (P&L)	0	19 522	15 153	3 601	9 696	0	47 972
- reductions on account of sale	0	-705	-9 246	-3 319	-1 638	0	-14 908
- reductions on account of liquidation	0	-6 849	-18 034	0	-7 267	0	-32 150
- reclassification from non current assets held for sale	3	29 504	6 933	0	494	0	36 934
- reclassification to impairment writte-offs	0	0	0	0	-1 700	0	-1 700
- other	0	-513	-2 415	-23	510	0	-2 441
g) cumulated depreciation (amortization) at the end of the period	**3**	**148 790**	**267 684**	**12 439**	**77 350**	**0**	**506 266**

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

(21) INTANGIBLE ASSETS

21a. Intangible assets

	31.12.2007	31.12.2006
- concessions, patents, licenses, know how and similar assets, including:	16 646	20 936
- computer software	16 646	20 936
Total intangible assets	**16 646**	**20 936**

21b. Change of balance of intangible assets (by type groups) in the period 01.01.2007 - 31.12.2007

	concessions, patents, licenses, know how and similar assets, including:		TOTAL
		computer software	
a) gross value of intangible assets at the beginning of the period	**376 581**	**166 437**	**376 581**
b) increases (on account of)	**4 018**	**4 018**	**4 018**
- transfer from investments	6	6	6
- expenditures on intangible assets	1 876	1 876	1 876
- other (provision)	2 136	2 136	2 136
c) reductions (on account of)	**423**	**423**	**423**
- transfer to fixed assets	7	7	7
- other	416	416	416
d) gross value of intangible assets at the end of the period	**380 176**	**170 032**	**380 176**
e) cumulated depreciation (amortization) at the beginning of the period	**355 645**	**145 501**	**355 645**
f) depreciation over the period (on account of)	**7 885**	**7 885**	**7 885**
- current write-off (P&L)	7 885	7 885	7 885
g) cumulated depreciation (amortization) at the end of the period	**363 530**	**153 386**	**363 530**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**16 646**	**16 646**	**16 646**

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

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

(22) NON-CURRENT ASSETS HELD FOR SALE

22a. Change of balance of non current assets held for sale in the period 01.01.2007 - 31.12.2007

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	TOTAL
a) value at the beginning of the period	214	17 938	232	**18 384**
b) impairment write-offs at the beginning of the period	0	-6 086	-212	**-6 298**
c) net value of non current assets held for sale at the beginning of the period	**214**	**11 852**	**20**	**12 086**
d) change of value in the period, including:	**-214**	**-17 938**	**-232**	**-18 384**
- sale of non current assets held for sale	-214	-17 938	-232	**-18 384**
e) change of impairment write-offs in the period, including:	**0**	**6 086**	**212**	**6 298**
- sale of non current assets held for sale	0	6 086	212	**6 298**
f) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**
g) value of non current assets held for sale at the end of the period	**0**	**0**	**0**	**0**

22b. 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	TOTAL
a) value at the beginning of the period	189 599	90 622	536	**280 757**
b) impairment write-offs at the beginning of the period	-8 002	-41 015	0	**-49 017**
c) net value of non current assets held for sale at the beginning of the period	**181 597**	**49 607**	**536**	**231 740**
d) change of value in the period, including:	**-189 385**	**-72 684**	**-304**	**-262 373**
- reclassification to property, plant and equipment	-1 772	-64 029	-250	**-66 051**
- sale of non current assets held for sale	-187 538	-9 347	-57	**-196 942**
e) change of impairment write-offs in the period, including:	**8 002**	**34 929**	**-212**	**42 719**
- reclassification to property, plant and equipment	503	34 029	0	**34 532**
- sale of non current assets held for sale	7 499	3 787	0	**11 286**
f) impairment write-offs at the end of the period	**0**	**-6 086**	**-212**	**-6 298**
g) value of non current assets held for sale at the end of the period	**214**	**11 852**	**20**	**12 086**

(23) DEFERRED INCOME TAX ASSETS

23a. Deferred income tax assets

	31.12.2007			31.12.2006		
	Deferred income tax asset	**Deferred income tax provision**	**Net deferred income tax asset**	**Deferred income tax asset**	**Deferred income tax provision**	**Net deferred income tax asset**
Difference between tax and balance sheet depreciation	10 533	0	10 533	13 226	0	13 226
Balance sheet valuation of financial instruments	9 732	-20 813	-11 081	8 361	-17 143	-8 782
Unrealised receivables/ liabilities on account of derivatives	117 488	-97 362	20 127	163 143	-91 051	72 092
Interest on deposits and securities to be paid/ received	20 758	-80 383	-59 625	14 782	-32 262	-17 480
Interest and discount on loans and receivables	12 206	-24 853	-12 647	12 270	-72 787	-60 517
Income and cost settled at effective interest rate	0	-12 770	-12 770	3 925	-16 904	-12 979
Provisions for loans presented as temporary differences	67 828	0	67 828	53 953	0	53 953
Employee benefits	17 309	0	17 309	13 907	0	13 907
Provisions for future costs	5 152	0	5 152	5 936	0	5 936
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	643	0	643	0	-2 318	-2 318
Tax loss deductible in the future	0	0	0	27 269	0	27 269
Other	2 842	-2 469	373	1 158	-3 013	-1 856
Net deferred income tax asset	**264 492**	**-238 648**	**25 843**	**317 930**	**-235 479**	**82 451**

23b. Change of temporary differences

	31.12.2006	**Changes to financial result**	**Changes to equity**	**31.12.2007**
Difference between tax and balance sheet depreciation	13 226	-2 693		10 533
Balance sheet valuation of financial instruments	-8 782	-2 299		-11 081
Unrealised receivables/ liabilities on account of derivatives	72 092	-51 965		20 127
Interest on deposits and securities to be paid/ received	-17 480	-42 145		-59 625
Interest and discount on loans and receivables	-60 517	47 870		-12 647
Income and cost settled at effective interest rate	-12 979	209		-12 770
Provisions for loans presented as temporary differences	53 953	13 875		67 828
Employee benefits	13 907	3 402		17 309
Provisions for future costs	5 936	-784		5 152
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-2 318		2 961	643
Tax loss deductible in the future	27 269	-27 269		0
Other	-1 856	2 229		373
Total	**82 451**	**-59 569**	**2 961**	**25 843**

23c. Change of temporary differences

	31.12.2005	Changes to financial result	Changes to equity	31.12.2006
Difference between tax and balance sheet depreciation	24 036	-10 810		13 226
Balance sheet valuation of financial instruments	3 596	-12 378		-8 782
Unrealised receivables/ liabilities on account of derivatives	22 100	49 992		72 092
Interest on deposits and securities to be paid/ received	-17 405	-75		-17 480
Interest and discount on loans and receivables	-65 295	4 778		-60 517
Income and cost settled at effective interest rate	-4 560	-8 419		-12 979
Provisions for loans presented as temporary differences	40 310	13 643		53 953
Employee benefits	9 408	4 499		13 907
Provisions for future costs	3 391	2 545		5 936
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-6 478		4 160	-2 318
Tax loss deductible in the future	80 824	-53 555		27 269
Other	-806	-1 050		-1 856
Total	**89 121**	**-10 830**	**4 160**	**82 451**

23d. Change of deferred income tax

	1.01.2007 - 31.12.2007	1.01.2006- 31.12.2006
Difference between tax and balance sheet depreciation	-2 693	-10 810
Balance sheet valuation of financial instruments	-2 299	-12 378
Unrealised receivables/ liabilities on account of derivatives	-51 965	49 992
Interest on deposits and securities to be paid/ received	-42 145	-75
Interest and discount on loans and receivables	47 870	4 778
Income and cost settled at effective interest rate	209	-8 419
Provisions for loans presented as temporary differences	13 875	13 643
Employee benefits	3 402	4 499
Provisions for future costs	-784	2 545
Tax loss deductible in the future	-27 269	-53 555
Other	2 229	-1 050
Change of deferred income tax recognized in financial result	**-59 569**	**-10 830**
Change on account of receivables from Tax Office resulting from the article 38c of the CIT Act	**-772**	**1 564**
Sale of deferred income tax asset as a part of enterprise	**0**	**1 139**
Change of temporary differences of the previous period - final CIT declaration	**0**	**0**
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	**2 961**	**4 160**

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

TEMPORARY DIFFERENCES EXPIRY YEAR	31.12.2007	31.12.2006
Unlimited	7 332	5 772
Total	**7 332**	**5 772**

In accordance with IAS 12, the Bank 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.

	31.12.2007	31.12.2006
Net deferred income tax assets	25 843	82 451
Net deferred income tax provision	-	-
Total	25 843	82 451

(24) OTHER ASSETS

24. Other assets

	31.12.2007	31.12.2006
Expenses to be settled	38 001	60 168
Income to be received	674	506 614
Interbank settlement accounts	3 882	32 849
Settlement accounts for financial instruments transactions	63 533	129 051
Receivables from sundry debtors	111 500	56 293
Settlements with the State Treasury, including:	9 022	56 567
- receivables from Tax Office resulting from the article 38 a of the CIT Act	9 022	9 795
- tax on dividend, paid	0	46 274
Perpetual usufruct right to land	5 155	5 155
Total other assets (gross)	231 767	846 697
Provisions	-10 577	-9 231
Total other assets (net)	**221 190**	**837 466**

The balance of income to be received as at 31st December 2006 comprises receivables under the dividend declared for payment by a subsidiary worth PLN 506 million. The payment of this dividend was done in January 2007.

(25) DEPOSITS FROM BANKS

25a. Deposits from banks

	31.12.2007	31.12.2006
In current account	67 653	32 551
Term deposits	739 971	1 967 844
Loans and advances received	1 750 732	1 592 574
Interest	10 332	7 236
Total	**2 568 688**	**3 600 205**

On 20 July 2007 the Bank concluded the agreement with the consortium of international banks on a medium-term syndicated loan. The amount of loan was CHF 120,000,000.

The interest rate on the loan is based on the variable LIBOR rate for CHF, plus a contractually agreed margin. The loan is to be repaid in July 2010, with an option to extend it – with assent of the parties to the Agreement – for further two annual periods (i.e. until 2012).

The Group (Bank) has not recorded so far any violations of the contractual terms regarding the liabilities from loan taken.

25b. Deposits from banks by maturity

	31.12.2007	31.12.2006
Current accounts	67 653	32 551
- to 1 month	612 500	1 672 635
- above 1 month to 3 months	76 676	290 134
- above 3 months to 1 year	50 797	5 075
- above 1 year to 5 years	1458945	1 323 231
- above 5 years	291 785	269 343
Interest	10 332	7 236
Total	**2 568 688**	**3 600 205**

The balance of liabilities towards Banks with maturities above 5 years results from the long-term structured agreement concluded by the Bank in the past with a single counterparty. This agreement resulted in simultaneous taking by the Bank a loan and buying counterparty's zero-coupon securities, as well as a Bank's prepayment of the interest (discounted) on the loan for the last 10 years in advance. Pursuant to the contractual conditions, until December 31 2004 the prepayment was not reflected in the Profit and Loss Account, current interest on the loan was accrued in a linear approach, whereas the securities discount was settled with exponential approach.

Since implementation of IFRS valuation at depreciated cost and effective interest rate have been employed, applying among others a single effective interest rate for the entire structure and settling the prepaid costs over time.

25c. Deposits from banks by currency

	31.12.2007	31.12.2006
in Polish currency	847 715	1 998 392
in foreign currencies (after conversion to PLN)	1 720 973	1 601 813
- currency: USD	28 885	173 951
- currency: EURO	228 031	73 011
- currency: CHF	1 464 057	1 354 851
- other currencies (PLN '000)	0	0
Total	**2 568 688**	**3 600 205**

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

26. Financial liabilities valued at fair value through profit and loss (held for trading)

	31.12.2007	31.12.2006
Negative valuation of derivatives	560 727	298 744
Short sale of securities	9 002	0
Financial liabilities valued at fair value through profit and loss	**569 729**	**298 744**

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

(27) *HEDGING DERIVATIVE INSTRUMENTS*

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

(28) *DEPOSITS FROM CUSTOMERS*

28a. Deposits from customers by type structure

	31.12.2007	31.12.2006
Amounts due to companies	**8 180 225**	**6 170 377**
Balances on current accounts	3 048 094	2 305 969
Term deposits	4 964 486	3 733 708
Other	151 140	119 128
Accrued interest	16 505	11 572
Amounts due to public sector	**1 559 034**	**1 357 679**
Balances on current accounts	828 455	704 111
Term deposits	703 394	643 419
Other	24 699	8 714
Accrued interest	2 486	1 435
Amounts due to private individuals	**12 282 374**	**8 666 966**
Balances on current accounts	2 796 561	2 299 066
Term deposits	9 260 695	6 126 314
Other	147 410	187 824
Accrued interest	77 708	53 762
Total	**22 021 633**	**16 195 022**

28b. Deposits from customers by maturity

	31.12.2007	31.12.2006
Current accounts	6 673 110	5 309 146
- to 1 month	7 688 886	5 920 198
- above 1 month to 3 months	1 928 716	2 201 411
- above 3 months to 1 year	5 494 474	2 352 596
- above 1 year to 5 years	139 017	344 894
- above 5 years	731	8
Interest	96 699	66 769
Total	**22 021 633**	**16 195 022**

28c. Deposits from customers by currency

	31.12.2007	31.12.2006
in Polish currency	19 845 095	14 066 453
in foreign currencies (after conversion to PLN)	2 176 538	2 128 569
- currency: USD	882 892	1 143 824
- currency: EURO	1 182 959	918 836
- currency: GBP	94 488	53 302
- currency: CHF	7 379	8 544
- other currencies (PLN ‘000)	8 820	4 063
Total	**22 021 633**	**16 195 022**

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

29. Liabilities from securities bought with buy-back clause

	31.12.2007	31.12.2006
a) from banks	186 003	85 947
b) from customers	541 564	1 390 820
c) interest	2 426	919
Total	**729 993**	**1 477 686**

(30) DEBT SECURITIES

30a. Debt securities

	31.12.2007	31.12.2006
Outstanding bonds and bills	0	0
Bills of exchange	0	5 705
Interest	0	0
Total	**0**	**5 705**
- to 1 month	0	0
- above 1 month to 3 months	0	0
- above 3 months to 1 year	0	5 705
- above 1 year to 5 years	0	0
- above 5 years	0	0
Interest	0	0
Total	**0**	**5 705**

30b. Change of debt securities

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	5 705	32 587
Increases, on account of:	0	6 240
- purchase of bill of exchange by the NBP	0	5 705
- discount/ interest accrual	0	535
Reductions, on account of:	-5 705	-33 122
- repurchase of bonds	0	-8 911
- repurchase of bill of exchange from NBP	-5 705	-22 836
- settlement of discount/ interest payment	0	-1 375
Balance at the end of the period	**0**	**5 705**

30d. 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

(31) PROVISIONS

31a. Provisions

	31.12.2007	31.12.2006
Provision for off-balance sheet commitments	12 351	10 400
Total	**12 351**	**10 400**

31b. Change of provisions

	01.01.2007 - 31.12.2007	01.01.2006 – 31.12.2006
Provision for off-balance sheet commitments		
Balance at the beginning of the period	10 400	16 468
Charge of provision	9 692	26 842
Release of provision	-7 639	-32 879
FX rates differences	-102	-31
Balance at the end of the period	**12 351**	**10 400**

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

(32) DEFERRED INCOME TAX PROVISION

	31.12.2007	31.12.2006
32. Deferred income tax provision	**0**	**0**

(33) OTHER LIABILITIES

33a. Other liabilities

	31.12.2007	31.12.2006
Short-term	**377 785**	**592 972**
Accrued costs - bonuses, salaries	72 411	54 088
Accrued costs - other	70 386	76 881
Interbanking settlement accounts	100 347	208 271
Financial instruments transactions settlement accounts	24	153 471
Other creditors	69 098	48 660
Liabilities from financial leasing	16 344	7 236
Liabilities to public sector	5 179	7 944
Deferred income	22 019	17 877
Provisions for unused employee holiday	13 254	11 607

Provisions for contentious claims	8 723	6 937
Long-term	**31 591**	**38 366**
Provisions for retirement benefits	5 436	7 501
Provisions for contentious claims	12 158	12 158
Other	13 997	18 707
Total	**409 376**	**631 338**

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

33b. Liabilities from financial leasing (including VAT)

	31.12.2007	31.12.2006
Liabilities from financial leasing (gross)	18 914	8 485
Unrealised financial costs	2 570	1 249
Current value of minimum leasing instalments	**16 344**	**7 236**
Liabilities from financial leasing (gross) by maturity		
Under 1 year	3 343	1 285
From 1 year to 5 years	15 571	7 200
Above 5 years	0	0
Total	**18 914**	**8 485**
Liabilities from financial leasing (net) by maturity		
Under 1 year	2 376	863
From 1 year to 5 years	13 968	6 373
Above 5 years	0	0
Total	**16 344**	**7 236**

33c. Change of provisions for contentious claims

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	**19 095**	**0**
Charge of provisions	2 298	19 095
Utilization of provisions	-512	0
Balance at the end of the period	**20 881**	**19 095**

33d Change of provisions for unused employee holiday

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	**11 607**	**12 148**
Charge of provisions	2 943	0
Utilization of provisions	-1 296	-541
Balance at the end of the period	**13 254**	**11 607**

33e. Change of provisions for retirement benefits

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	**7 501**	**4 972**
Charge of provisions/ reversal of provisions	-1 842	2 639
Utilization of provisions	-223	-110
Balance at the end of the period	**5 436**	**7 501**

(34) SUBORDINATED DEBT

34a. Subordinated debt

	31.12.2007	31.12.2006
Name of entity	BBG FINANCE B.V.	BBG FINANCE B.V.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	80 000	80 000
Value of the liability in PLN	286 560	306 496
Interest rate	6.485%	5.392%
Maturity	12.12.2011 r.	12.12.2011
Interest	1032	813
Balance sheet value of subordinated debt	**287 592**	**307 309**

34a. Subordinated debt

	31.12.2007	31.12.2006
Name of entity	MB FINANCE A.B.	-
Currency of the liability	EUR	-
Value of the liability in foreign currency	150 000	0
Value of the liability in PLN	537 300	0
Interest rate	6.377%	-
Maturity	20.12.2017 r.	-
Interest	1 143	0
Balance sheet value of subordinated debt	**538 443**	**0**

34b. Change of subordinated debt

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Balance at the beginning of the period	307 309	309 504
Increases, on account of:	562 570	14 006
- liabilities undertaken through issue of bonds	543 450	0
- interest accrual	19 120	14 006
Reductions, on account of:	-43 844	-16 201
- interest payment	-17 759	-13 913
- FX rates differences	-26 085	-2 288
Balance at the end of the period	**826 035**	**307 309**

In December 2007 the Bank issued subordinated notes (under art. 127 sect. 3 item 2 letter b of Banking Law) with the total value of EUR 150,000,000 (150 notes with nominal value of EUR 1,000,000 each).

The notes shall be repurchased at nominal value after ten years from the issue date, or before maturity in particular in case of use by the Bank of the call option, however not earlier than 5 years after issue date. Premature redemption will require consent of the Financial Supervision Commission or another authority competent in the given time and exercising supervision over the Bank's activity.

The interest rate on the Notes is based on the six-month EURIBOR rate, plus a margin of 1.54% for the first 5 years from issue date. If the Notes are not redeemed after five years the margin will be increased by 50 b.p.,

The Notes were acquired at nominal value by a subsidiary of the Bank - MB Finance AB (consolidated) who issued bonds of the same value . The notes issued by MB finance AB were placed by Banco BCP Investimento among final investors.

In the course of 2007 and 2006 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

(35) *SHAREHOLDERS' EQUITY*

35a. SHARE CAPITAL

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

SHARE CAPITAL Par value of one share = 1 PLN

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

In the reporting period no registered shares were converted into the bearer shares. as at 31 December 2007 the number of the registered shares was 109,356 of which 62,200 are founders' shares.

In the period covered by the financial report the share capital of the Bank did not change.

The biggest shareholders of the Bank (holding over 5% of the GSM votes) included:

Shareholders as at 31.12.2007

Shareholder	**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 31.12.2006

Shareholder	**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

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

Following requirements of IFRS 1 (first application of the International Financial Reporting Standards), the Bank is obligated to issue financial reports under IAS 29 (Financial reporting under hyperinflation) retrospectively.

Pursuant to paragraph 24 of the IAS 29, „Financial reporting under hyperinflation”, own capital items (except for retained profits and any surplus of assets revaluation) should be converted using the general price index, starting at the date when the capitals were contributed or otherwise generated, for a period, in which the base economy of the entity's operations was a hyperinflation economy, as defined by IAS 29.

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

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

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

35b. REVALUATION CAPITAL

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

ü result of valuation (at fair value) of financial assets available for sale at their net value, i.e. after deferred tax. The above items are deducted from the revaluation capital when all or some of the valued assets are taken out of the books (the result of the valuation is then recognized in the profit and loss account),

ü result of valuation (at fair value) of derivative instruments hedging cash flows at their net value, i.e. after deferred tax. The revaluation capital contains the part of profits or losses related to the instrument hedging the cash flows, which is an effective hedge, while the ineffective part of profits or losses on the instrument is posted in the profit and loss account.

Revaluation reserve

	31.12.2007	31.12.2006
Effect of valuation (gross)	-3 385	12 199
Deferred income tax	643	-2 318
Net effect of valuation	-2 742	9 881

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

Revaluation reserve on available for sale financial assets
1.01.2007 - 31.12.2007

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	11 459	-2 177	9 282
Transfer to income statement of the period as a result of sale	-7 125	1354	-5 771
Change of capitals connected with maturity of securities	1 769	-336	1 433
Profit/loss on revaluation of available for sale financial assets, recognized in equity	-8 510	1 617	-6 893
Revaluation reserve at the end of the period	**-2 407**	**457**	**-1 949**

Revaluation reserve on available for sale financial assets 1.01.2006 - 31.12.2006

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	34 092	-6 475	27 617
Transfer to income statement of the period as a result of sale	-1 277	242	-1 035
Change of capitals connected with maturity of securities	-9 130	1 734	-7 396
Profit/loss on revaluation of available for sale financial assets, recognized in equity	-12 226	2 322	-9 904
Revaluation reserve at the end of the period	**11 459**	**-2 177**	**9 282**

Revaluation reserve on cash flows hedge financial instruments 1.01.2007 - 31.12.2007

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**739**	**-140**	**599**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period	-1 717	325	-1 392
Profit/loss removed from equity and recognized in financial result of the period	0	0	0
Revaluation reserve at the end of the period	**-978**	**185**	**-793**

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 01.01.2007	**124 376**	**0**	**383 265**	**-9 999**	**497 642**
- appropriation of profit, including:	0	0	-154 363	10 002	**-144 361**
- coverage of IFRS implementation effect	0	0	-154 363	154 363	**0**
- dividend payment	0	0	0	-144 361	**-144 361**
- net profit/ (loss) of the period	0	0	0	411 922	**411 922**
Retained earnings at the end of the period 31.12.2007	**124 376**	**0**	**228 902**	**411 925**	**765 203**

35d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2006	**0**	**0**	**383 265**	**-89 745**	**293 520**
- appropriation of profit, including:	124 376	0	0	-582 936	**-458 558**
- write-off to supplementary capital	124 376	0	0	-124 376	**0**
- dividend payment	0	0	0	-458 558	**-458 558**
- net profit/ (loss) of the period	0	0	0	662 682	**662 682**
Retained earnings at the end of the period 31.12.2006	**124 376**	**0**	**383 265**	**-9 999**	**497 642**

VIII. DIVIDENDS IN 2006 AND 2007

On 26.03.2007 the Bank's Ordinary GSM passed a resolution on allocation for payment of dividend from 2006 profit of the amount of PLN 144,360,896.48, which gives PLN 0.17 gross per share; dividend was paid on 23.05.2007.

The Management Board of the Bank shall propose at the General Shareholders' Meeting of the Bank the payment of dividend from 2007 profit in the amount of PLN 0.19 per share, which constitutes the total amount of PLN 161.3 million and 35% of 2007 consolidated profit.

IX. FAIR VALUE

The best reflection of fair value of financial instruments is their market value. In case of many products and transactions with unavailable market value, fair value must be estimated with use of internal models based on discounting cash flows.

Cash flows for various instruments are determined in accordance with their individual characteristics and the discounting factors take into consideration the changes over time of both interest rates as well as margins.

All estimation models are arbitrary to some extent and this is why they reflect only the value of those instruments, for which they were built. In these circumstances the presented differences between fair values and balance-sheet values cannot be understood to mean adjustments of the economic value of Bank Millennium Group.

The main assumptions and methods applied in estimating fair value of assets and liabilities of the Group are as follows:

Receivables and liabilities with respect to banks (structured contract)

This is a transaction, which comprises the simultaneous purchase of a long-term zero-coupon bond and the taking-out of a long-term fixed-rate loan from the issuer of the bond.

The fair value of both sides of the transaction has been estimated by discounting the related cash flows on maturity/due date with use of the current zero-coupon rate and the margin, which was rescaled to adjust it to the current level of market rates.

Other receivables and liabilities with respect to banks

The fair value of these instruments was determined by discounting future principal and interest flows with current rates, assuming that the flows arise on contractual dates.

Loans and advances granted to customers

The fair value of such instruments without maturity and with short maturities, given their short-term nature and the time-stable policy of the Bank with respect to this portfolio, is close to balance-sheet value.

The fair value of instruments with defined long-term maturity has been estimated by discounting related cash flows on contractual dates and under contractual conditions with use of current zero-coupon rates and credit risk margins.

In case of residential mortgage loans the effect of early payment has been additionally taken into account due to their long-term nature and .

The market value of interest rate swaps (IRS) which hedge interest rate risk of consumer loans portfolio and leasing transactions (resulting from hedging strategies) had been deducted from the fair value of the loan portfolio.

Depositsfrom customers

Fair value of such instruments without a due and payable date or payable in under 3 months has been considered by the Bank to be close to balance-sheet value.

Fair value of instruments due and payable in 3 or more months has been determined by discounting future principal and interest cash flows with current rates, assuming that the flows arise on contractual dates.

Subordinated liabilities

The fair value of this financial instrument has been estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and credit risk margin based on historical records. The assumption was made that fair value of subordinated notes issued in December 2007 is equal to their book value

The table below presents results of the above-described analyses as at 31 December 2007:

in PLN million

Financial instrument	Fair value	Balance sheet value	Difference
Loans and advances to banks – structurized agreement	322.40	291.79	30.62
Amounts due to banks – structurized agreement	322.40	291.79	30.62
Total net			0
NBP bond	166.47	165.94	0.53
Non-governmental bonds	87.76	88.18	-0.42
Interbank deposits granted	685.71	685.78	-0.06
Loans and advances to customers	16 811.78	16 682.91	128.87
Receivables repurchased from a subsidiary	1 416.65	1 413.02	3.63
Consortium credits	1 465.33	1 458.95	6.39
Interbank deposits accepted	744.17	744.39	-0.23
Fixed rate deposits from customers	5 625.81	5 636.73	-10.92
Subordinated debt	826.33	826.04	0.29

The table below presents results of the above-described analyses as at 31 December 2006:

in PLN million

Financial instrument	Fair value	Balance sheet 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
Loans and advances to customers	7 867.42	7 724.50	142.93
Receivables repurchased from a subsidiary	808.71	810.64	-1.93
Interbank deposits accepted	1 962.07	1 962.02	0.05
Fixed rate deposits from customers	2 283.76	2 282.82	0.94
Subordinated debt	307.47	306.50	0.97

X. INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

As at 31 Dec 2007, the following assets of the Bank were used as collaterals of liabilities:

In '000 PLN

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0109	available for sale	Lombard credit facility to the Bank by the NBP	75 000	79 085
2.	Treasury bonds DZ0110	available for sale	Lombard credit facility to the Bank by the NBP	120 000	127 588
3.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	504
4.	Treasury bills 080319	trading	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	6 960	6 879
5.	Treasury bills 080903	trading	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	43 350	41 745
6.	Cash		Payment to the Futures Settlement Guarantee Fund	70	70
		TOTAL		**245 880**	**255 871**

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

In '000 PLN

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 facility to the Bank by the NBP	75 000	80 300
3.	Treasury bonds DZ0110	available for sale	Lombard credit facility 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**

XI. SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

As at 31 Dec 2007, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	available for sale	80 979	83 051
Treasury bonds	trading	632 806	646 943
TOTAL		**713 785**	**729 993**

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

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

XII. ADDITIONAL EXPLANATIONS TO CASH FLOW ACCOUNT

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

Data in PLN thous.

	31.12.2006	31.12.2006
Cash and balances with the Central Bank	1 255 055	965 817
Receivables from interbank deposits (*)	782 447	551 138
Debt securities issued by the State Treasury (*)	133 108	125 775
of which available for sale	27 967	89 808
of which trading	105 141	35 967
Total	**2 170 610**	**1 642 730**

(*) financial assets of maturity below 3 months

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

1. operating activity – covers core scope of activities related to provision of the Bank's serivces, covering any efforts to generate profits, other than investment or financial ones,
2. investment activity – covers actions related to purchase and sale of fixed assets, in particular financial assets not classified as „held for trading" or stocks and shares in subsidiaries, and material fixed assets and intangibles,

3. financial activity – covers actions related to acquisition of funds in form of capitals or liabilities, as well as the servicing the sources of financing.

XIII. INFORMATION ON CUSTODY ACTIVITY

As at 31 December 2007 the Custody Department was maintaining 4,586 securities accounts, on which Customers' assets were kept in the total amount of PLN 58.7 billion, which was 97% more than in December 2006. Net income from the custody business as at 31.12.2007 was PLN 8.6 million (less by 3,3% y/y), the result amounting to PLN 4.6 million (less by 10% y/y).

The Custody Department performs the function of depositary bank for 17 different mutual funds from the Millennium TFI mutual funds company as well as for 16 funds FORUM TFI mutual funds company.

In 2007 the Custody Department acquired 30 new corporate customers and finalised negotiations on the provision of depositary bank services to the newly established SATUS TFI mutual funds company, which will be managing 5 closed-end funds.

Due to the growing interest of customers of financial institutions Custody Department started work aimed at expanding the offer of custody services to include foreign capital markets from the CEE region. For this purpose close cooperation was established with Millennium BCP, which shall play the role of global custodian.

XIV. TRANSACTIONS WITH ASSOCIATED ENTITIES

(1) DESCRIPTION OF TRANSACTIONS WITH ASSOCIATED ENTITIES

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

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

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

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) AS AT 31.12.2007

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits	0	106 533
Loans and advances to customers	1 542 729	0
Investments in associates	186 243	0
Financial assets valued at fair value through profit and loss (held for trading)	2 377	14 068
Other assets	22 212	0
LIABILITIES		
Deposits from banks	0	54
Deposits from customers	529 098	0
Liabilities from securities sold with buy-back clause	4 017	0
Financial liabilities valued at fair value through profit and loss (held for trading)	2 908	21 972
Other liabilities	15 095	0

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) AS AT 31.12.2006

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits	0	48 934
Loans and advances to customers	1 128 381	0
Investments in associates	152 354	0
Financial assets valued at fair value through profit and loss (held for trading)	293	19 202
Other assets	518 680	0
- dividend to be received by the Bank from Millennium Leasing	506 363	0
LIABILITIES		
Deposits from banks	0	57
Deposits from customers	383 524	0
Liabilities from securities sold with buy-back clause	49 552	0
Financial liabilities valued at fair value through profit and loss (held for trading)	33	23 781
Other liabilities	7 644	0

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2007

	With subsidiaries	With controlling entity
Income from:		
Interest	85 486	3 929
Commissions	146 077	0
Dividends	111 062	0
Financial instruments valued at fair value through profit and loss (held for trading)	1 685	32 842
Other net operating income	3 756	0

Expense from:		
Interest	18 256	937
Commissions	108	0
Financial instruments valued at fair value through profit and loss (held for trading)	2 078	36 261
General and administrative expenses	24 995	-4 903

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2006

	With subsidiaries	With controlling entity
Income from:		
Interest	38 374	6 589
Commissions	39 846	0
Dividends	506 363	0
Financial instruments valued at fair value through profit and loss (held for trading)	0	41 591
Other net operating income	10 003	0

Expense from:		
Interest	21 973	0
Commissions	245	0
Financial instruments valued at fair value through profit and loss (held for trading)	333	37 123
General and administrative expenses	4 708	0

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2007

	With subsidiaries	With controlling entity
Conditional commitments	251 906	470 126
Derivatives (par value)	1 300 005	821 304

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2006

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

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

Data as at 31.12.2007:

1. The management holds a debt limit on credit cards and current accounts in the total of 845.0thousand PLN, including an unutilised limit of 793.4 thousand PLN.
2. There were no active guarantees granted to the management of the Bank.
3. The supervising persons hold a debt limit of 155.0 thousand PLN, including an unutilised credit card limit of 145.8 thousand PLN.
4. The Bank demonstrated exposure in the total of 12,203 thousand PLN towards an entity linked personally to a person supervising the Bank.

The balance of outstanding cash advances granted to the employees from the company's social benefit fund (ZFŚS), totalled:

- At the Bank - 4,589.2 thousand PLN,
- At Millennium Leasing - 1,420.4 thousand PLN.

The Bank does not keep records of the cash advances and loans granted to the employees as part of its core activity, i.e. under the terms and conditions set for the clients of the bank.

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.

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

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

Year	Salaries and bonuses	Benefits	TOTAL
2007	19 714.8	920.7	**20 635.5**
2006	20 605.7	1 002.0	**21 607.7**

The gross value of remuneration paid or due in the period from January to December 2007 as well as the 2006 bonus paid in 2007 in the amount of PLN 9 870 000 was the stated total amount of paid or due 2007 remuneration and rewards.

The gross value of remuneration paid or due in the period from January to December 2006 as well as the 2005 bonus paid in 2006 in the amount of PLN 10 800 000 was the stated total amount of paid or due 2006 remuneration and rewards.

Benefits constitute mainly costs of accommodation of foreign Management Board Members as well as severance pay and compensation on account of employment contract termination.

The amount of provisions for unused leave of Management Board Members as at 31.12.2007 stood at PLN 2 624 000 while as at 31.12.2006 it was also PLN 2 624 000.

Moreover in 2007 a provision was posted for bonus due for the year in the amount of PLN 13 539 000, while in 2006 the provision created for 2006 bonus was also in the amount of PLN 13 539 000.

Members of the Management Board have concluded agreements banning competition after cessation of performance of functions in the Management Board of the Bank.

Management Board Members, if not appointed for a new term of office or if recalled, are eligible for severance pay.

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

Year	Salaries	Benefits	TOTAL
2007	2 300.1	0	**2 300.1**
2006	2 105.3	133.9	**2 239.2**

(4) Balance of shares of the Bank held by persons managing or supervising the Bank (performing their functions at 31 Dec 2007)

Name and surname	Function	Number of shares as at 31.12.2007	Number of shares as at 31.12.2006
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	-
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
Pedro Teixeira Duarte	Member of the Supervisory Board	0	-
Marek Furtek	Member of the Supervisory Board	1	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
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

* On 4.01.2008 the Management Board of the Bank informed that Mr Jorge Jardim Goncalves resigned from the function of Member of the Supervisory Board of the Bank as of 31.12.2007.

** On 28.12.2007 Mr Vasco de Mello resigned from the function of Member of the Supervisory Board of the Bank, for personal reasons.

XV. RISK MANAGEMENT

An effective risk management function is key to maintain a strategy of sustained business growth supported by a proper assessment of the risk/return profile of the various business lines. It is also a key element to ensure the compliance with all the regulatory requirements regarding risk, namely in what regards the maintenance of an adequate level of own funds to carry on the business activity by Bank Millennium.

Risk management involves the identification, measurement, limitation, monitoring as well as reporting the various types of risk and requires a use of a broad spectrum of methods and advanced mathematical tools supported by the proper IT systems.

Having this in mind a constant effort to improve the risk management mechanisms and the governance instruments is being done by the Bank.

The organizational structure and processes to support the risk management and control function implemented at the Bank ensure a complete segregation of duties between the origination, management and control of Risks. The Management Board is responsible for setting and monitoring the overall risk policy including the definition of the organizational structure and the approval of the levels of risk tolerance and limits.

The Risk Management function is at the operational level centralized in the Risk Monitoring Department.

The Risk Control Committee has responsibility for the risk control of to all types of risk. The control of each type of risk can be undertaken by specialized sub-committees: Credit Committee and Liabilities at Risk Committee for credit risk, Capital, Assets and Liabilities Committee for market and liquidity risk and Processes and Operational Risk Committee for operational Risk.

(1) CAPITAL MANAGEMENT

Regulatory capital

Capital management on the Group's level is subject to binding legal regulation (regarding own funds, prudence standards, capital requirements) as set by Banking Law and respective resolutions of Banking Supervision Commission.

The method of calculation of those requirements for the Group is presented in the table below:

Capital requirements for:	**31.12.2007**	**31.12.2006**
Credit risk	1 582 087	1 169 179
Market risk	32 781	49 004
Contractor risk and delivery-settlement risk	8 342	2 392
Total capital requirement of Bank Millennium Group	**1 623 210**	**1 220 575**
Own funds, including:	**2 453 914**	**1 818 662**
- main funds	***1 815 797***	***1 631 875***
- deductions from main funds	***-69 268***	***-75 002***
- additional funds	***760 007***	***315 855***
- deductions from additional funds	***-52 622***	***-54 066***
Consolidated Capital Adequacy Ratio	**12.09%**	**11.92%**

Basel II

At the Millennium BCP Group level, with the involvement of Bank Millennium, a project was implemented with the objective of making an overall assessment of the level of capital adequacy in the light of the requirements established in Basel II accord.

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

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

The approval package was submitted to the Supervisory Authorities in the last quarter of 2007.

(2) CREDIT RISK

Credit risk means the uncertainty as regards performance by a customer of agreements concluded with the Bank concerning his financing, i.e. the payment at a defined time of principal and interest, which may cause a financial loss to the Bank.

Credit risk is an important risk in the activity of the Bank and therefore considerable attention is attached to management of exposures subjected to credit risk. Credit risk is connected with balance-sheet credit exposures (granted credit and loans) as well as off-balance sheet financial instruments, such as granted and not utilised credit lines, guarantees and letters-of-credit.

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances

Measurement of credit risk, on the level of individual customers, on account of granted loans is done with consideration of three parameters:

(i) Probability of Default (PD) of a customer or counterparty as regards their liability;

(ii) amount of Exposure At Default (EAD) and

(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

(i) The Bank assesses the probability of default of individual counterparties, using internal rating models adapted to various categories of customers. There were developed in-house or by external providers and combine statistical analysis with assessment by a credit professional. The Bank's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Bank's rating Master Scale, presented below, also contains the range of probabilities of default defined for each rating class/group. Rating models are subject to regular reviews and – if necessary – to relevant upgrades. The Bank regularly analyses and assesses rating results and their predictive power with respect to cases of default.

The Bank's internal rating scale

GROUP'S INTERNAL RATING	Description of assessment
1-3	Highest quality
4-6	Good quality
7-9	Average quality
10-12	Below average quality
13-14	Under watch
15	Default

(ii) EAD – amount of exposure at default – concerns amounts, which the Bank predicts will be the amounts of its receivables at the time of default against liabilities. Liabilities are understood by the Bank to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.

(iii) LGD – loss given default is what the Bank expects will be its losses resulting from actual cases of default, with consideration of internal and external costs of recovery and the discount effect.

Debt securities

The portfolio of debt securities, other than those issued by the State Treasury or the central bank, is irrelevant; it is perceived largely as a potential, more profitable way of allocating capital.

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

The Bank manages, mitigates and controls concentrations of credit risk, wherever it is identified – in particular with respect to individual borrowers or group of borrowers as well as with respect to industries, geographic regions and the real estate financing portfolio including FX loans.

Limits with respect to one borrower or group of borrowers, resulting from art. 71 of Banking Law, are monitored every month while remaining limits i.e. for industries, geographic regions and the portfolio financing real estate are monitored quarterly and subject to annual or more frequent review, when deemed appropriate. The limits are approved by the Credit Committee.

Management of credit risk exposure is also done by regularly monitoring the customers' economic and financial situation and/or track record of their relationship with the Bank from the point of view of punctual service of their principal and interest liabilities.

Collateral

Mitigation of credit risk in the Bank is done in keeping with policy rules and the practice developed in the credit process. As regards individual customer segments, the Group implements guidelines regarding various types of collateral as well as other credit risk mitigation instruments, both real as well as non-real. The key types of loan collateral are:

- Mortgages written on residential real estate;
- Mortgages on commercial and other real estate;
- Pledging of such financial instruments, as cash, debt securities, mutual fund shares and stocks;
- Pledging of fixed assets (movables such as cars, lorries, other vehicles and machines);
- Assignments of receivables under contracts.

Additionally with mortgage loans or home equity loans the Bank requires obligatory insurance in case of default in the Bank's favour, before the first mortgage is written (this insurance is so-called "bridge

collateral"), as well as in case of default on loans with LTV in excess of 80% (FX loans) or 90% (PLN loans), when the insurance is know as "low own funds insurance".
The type and value of required collateral depends on the amount and type of credit exposure, loan maturity and customers' rating. Renewable credit lines for private persons are usually without collateral. Additionally, in order to minimise credit losses the Bank strives to post additional collateral when impairment triggers appear with respect to the particular credit exposure.

Derivatives

The Bank maintains strict control over limits of net open derivative positions (i.e. the difference between put and call transactions), both with respect to amounts as well as transaction maturities. At all times the amount of credit risk is limited to the present fair value of the derivative instrument, if its valuation is favourable (positive) for the Bank and unfavourable (negative) for the customer. Credit risk exposures resulting from derivatives are managed as part of total credit limits defined for individual customers.

Credit exposures resulting from transactions concluded with those instruments underlying, are usually not secured, with the exception of situations, where a special agreement is signed with the customer, requiring him to transfer to the Bank a specified cash amount, should the valuation of transactions, concluded with the Bank, reach an unfavourably low level, defined in the agreement. In majority of cases, with the purpose of minimising risk connected with derivatives, the Bank also signs ISDA agreements in transactions concluded with banks.

Credit risk-based off-balance sheet liabilities

Credit risk-based off-balance sheet liabilities include guarantees, letters-of-credit as well as granted lines of credit. The main purpose of these instruments is to enable the customer to use the funds granted by the Bank in a specific way.
Standby guarantees and letters-of-credit (guarantee-type liabilities) carry the same credit risk as loans.
Documentary and commercial letters-of-credit – which are a written commitment of the Bank on the customer's behalf, constituting authorisation for a third party to draw drafts on the Bank up to a specified amount and after meeting appropriate conditions – are secured with applicable deliveries of goods, which they concern and thus they involve lower risk than direct loans.
The available credit line balance is the unutilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters-of-credit. Considering the credit risk of undertakings to grant credit, the Bank is potentially exposed to a loss in an amount equal to the sum of unutilised liabilities.
However the probable loss amount is lower than the total value of unutilised liabilities, because most of the undertakings to disburse credit depend on customers' meeting individual credit standards. The Bank monitors the period remaining to maturity of the credit liabilities because long-term liabilities usually involve a higher degree of credit risk than short-term liabilities.

in the process of estimating impairment, first of all objective impairment triggers are identified in case of individually material financial assets (individual analysis) and then the remaining part of the portfolio is analysed collectively.

In individual analysis internal rating helps to identify objective impairment triggers. At the same time, in case of collective analysis, it is used (the PD parameter) to determine the level of losses.

Individual impairment analysis for credit receivables

If in the course of analysis triggers are identified, indicating the possibility of impairment of credit receivables, the Bank will determine the amount of said impairment. This amount constitutes the difference between current credit exposure and the present value of expected future cash flows, discounted with effective interest rate. The calculation takes into account the probability of loan repayment on maturity date and the probability of potential recovery from collateral e.g. in connection with its sale.

The whole process comprises following stages:

- Identification of impairment triggers;
- Estimation of probability of recovery of principal and interest;
- Indication if the loan is to be repaid with the borrower's own funds or whether it is necessary to use collateral, e.g. by selling it;
- Estimation of fair value of collateral, definition of expected sale date and estimation of expected sale proceeds.

As at 31.12.2007 the Bank's portfolio covered by individual analysis was characterised by following values:

Balance-sheet impairment charge: PLN 208 million.

Coverage ratio: 48%.

Collective analysis of credit portfolio

Following loans are subjected to collective analysis:

- Individually immaterial receivables;
- Individually material receivables, without impairment triggers;
- Individually material receivables, in case of which impairment was not found.

A portfolio of homogenous loans comprises exposures with similar risk profile, and thus e.g. a homogenous loans portfolio may be created on the basis of credit risk assessment method, rating, type of credit products, type of collateral etc.

All loans, which are subject to collective analysis, are divided into two main portfolio categories:

- Ø Loans where losses occurred, but have not yet been identified on the level of individual exposures and provisions are created for risk, which has been incurred, but not yet reported *(IBNR portfolio)*,
- Ø Loans where an impairment loss was reported, but which were not subjected to individual analysis.

As at 31.12.2007 the Bank's collective portfolio was characterised by following values:

Corporate customers:
Balance-sheet impairment provision: PLN 109 million
Coverage ratio: 1.9%

Retail customers, including mortgage:
Balance-sheet impairment provision: PLN 235 million
Coverage ratio: 1.6%

The table below presents the share of balance-sheet items in the Bank, concerning loans and related impairment provisions for each internal rating class (described under "Credit Risk Measurement").

Internal rating of the Bank

	31.12.2007		**31.12.2006**	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	34.1%	6.5%	13.1%	3.2%
3. Medium quality	41.5%	18.0%	48.6%	12.0%
4. Low quality	8.6%	9.1%	9.0%	5.7%
5. Watched	4.1%	7.4%	12.5%	7.0%
6. Default	3.3%	54.5%	5.1%	70.3%
7. Clients without rating*	8.4%	4.5%	11.7%	1.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* The group of customers without internal rating contains exposures connected with loans to local authorities as well as investment projects.

(2D) Maximum exposure to credit risk, i.e. netting-out risk mitigation instruments

'000 PLN

	Maximum exposure	
	31.12.2007	**31.12.2006**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**27 176 443**	**22 079 270**
Loans and advances to banks	**1 053 052**	**1 123 131**
Loans and advances to customers:	**20 881 303**	**14 109 193**
Loans to private individuals:	**14 905 104**	**8 832 563**
– Credit cards	476 541	307 392
– Cash loans and other loans to private individuals	1 336 026	930 226
– Mortgage loans	13 092 537	7 594 945
Loans to companies	**5 744 538**	**4 979 764**
Loans to public entities	**231 661**	**296 866**
Trading securities:	**2 327 042**	**3 372 049**
– Debt securities	2 327 042	3 368 029
– Shares	0	4 020
Derivatives	**800 947**	**370 336**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**2 085 292**	**3 089 052**
– Debt securities	1 892 720	2 928 607
– Shares	192 572	160 445
Receivables from securities bought with sell-back clause	**28 807**	**15 509**
Credit risk connected with off-balance sheet items appears as follows:	**7 582 956**	**6 045 675**
Financial guarantees	1 956 302	1 378 885
Credit commitments and other commitments connected with loans	5 626 654	4 666 790

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2007 and 31st December 2006, netting-out risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

(2E) LOANS

The structure of loans granted to customers and to banks as well as key loans portfolio ratios are as follows:

Gross exposure in '000 PLN

	31.12.2007		31.12.2006	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Not overdue and without impairment	20 031 268	1 053 052	13 507 137	1 123 131
Overdue, but without impairment	780 568	0	487 558	0
With impairment	621 486	0	705 098	0
Gross	**21 433 322**	**1 053 052**	**14 699 793**	**1 123 131**
Impairment write-offs together with IBNR	-552 019	0	-590 600	0
Net	**20 881 303**	**1 053 052**	**14 109 193**	**1 123 131**
Loans with impairment / total loans	2.9 %		4.8 %	
Total impairment write-offs / loans with impairment	88.8 %		83.8 %	

In 2007 Bank Millennium Bank created PLN 76 million credit risk charges in the Profit and Loss Account, including PLN 65 million IBNR provisions in connection with rapid growth of the loans portfolio.

The total value of impairment charges (including IBNR provisions) on loans totalled PLN 552 million as at 31st December 2007 (PLN 591 million as at end of 2006). Additional information about these charges is contained in financial notes.

Loans and advances not overdue and without impairment

The quality of the portfolio of loans, which were neither past-due, nor impaired, may be assessed by reference to the internal rating system adopted by the Bank.

Loans and advances not overdue and without impairment

Gross exposure in '000 PLN

	Customers 31.12.2007	Banks 31.12.2007	Customers 31.12.2006	Banks 31.12.2006
Rating:				
1. Highest quality	422	1 053 052	24	1 123 131
2. Good quality	7 227 066		1 915 687	
3. Medium quality	8 704 863		7 060 722	
4. Low quality	1 728 840		1 197 328	
5. Watched	649 448		1 566 167	
6. Default	128 303		189 345	
7. Clients without rating	1 592 327		1 577 864	
Total	**20 031 268**	**1 053 052**	**13 507 137**	**1 123 131**

Loans and advances overdue but without impairment

Loans past-due below 90 days are not considered as impaired exposures, unless other impairment triggers are identified. The gross amount of loans, divided between customers, past-due but unimpaired, is as follows:

Gross exposure in '000 PLN

31.12.2007					
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	212 706	370 026	99 179	0	681 911
Delay 30 - 60 days	55 330	20 762	12 279	0	88 371
Delay 60-90 days	512	2 069	3 792	0	6 373
Delay above 90 days*	2 863	0	1 050	0	3 913
Total	**271 411**	**392 857**	**116 300**	**0**	**780 568**

Gross exposure in '000 PLN

31.12.2006					
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	168 860	238 560	55 051	0	462 471
Delay 30 - 60 days	3 089	8 406	6 118	0	17 613
Delay 60-90 days	1 699	2 064	1 241	0	5 004
Delay above 90 days*	2 470	-	-	0	2 470
Total	**176 118**	**249 030**	**62 410**	**0**	**487 558**

*- receivables delayed over 90 days and at the same time not included in the impaired portfolio, displaying impairment triggers but not demonstrating impairment due to estimated cash flows

Impaired loans

The gross amount of impaired loans divided between customer segments is as follows:

Gross exposure in '000 PLN

31.12.2007					
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	427 373	4 361	123	0	431 857
Collective analysis	20 741	46 879	122 009	0	189 629
Total	**448 114**	**51 240**	**122 132**	**0**	**621 486**

Gross exposure in ‘000 PLN

	31.12.2006				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	525 165	33 134	2 958	0	561 257
Collective analysis	33 638	54 148	56 055	0	143 841
Total	**558 803**	**87 282**	**59 013**	**0**	**705 098**

Loans covered by individual analysis

Quantification of the value of the portfolio subjected to individual analysis as well as of the value of created charges, split between impaired receivables and the IBNR portfolio (and provisions respectively) has been presented in financial notes.

The tables below present the structure of the impaired portfolio subjected to individual analysis.

- By products

Gross exposure

Loans and advances to customers						
	31.12.2007			**31.12.2006**		
	Amount in ‘000 PLN	Share %	Coverage by impairment write-offs	Amount in ‘000 PLN	Share %	Coverage by impairment write-offs
Investment loans	252 322	58.4%	48.4%	352 419	62.8%	52.3%
Working capital loans	34 530	8.0%	78.8%	56 191	10.0%	86.0%
Current account loans	85 769	19.8%	45.6%	42 707	7.6%	63.2%
Revolving loans	691	0.2%	10.0%	16 824	3.0%	78.4%
Mortgage loans	4 361	1.0%	30.5%	33 134	5.9%	39.4%
Factoring	14 615	3.4%	27.0%	0	0.0%	not applicable
Leasing	22 039	5.1%	11.5%	0	0.0%	not applicable
Other	17 530	4.1%	66.0%	59 982	10.7%	81.7%
	431 857	**100.0%**	**48.1%**	**561 257**	**100.0%**	**59.7%**

In the group of loans covered by individual analysis investment loans dominate (58.4% of the portfolio), however their share fell in 2007 by 4.4 p.p. Coverage ratio for this group of loans fell by approximately 4 p.p. The greatest share increase occurred in case of CA overdraft facilities – by 12.3 p.p., which came from inclusion under individual analysis of a few customers with high exposure, using this product. In the first half of 2007 individual analysis was for the first time applied to factoring receivables which had been presented under collective analysis by that time.

- By currency

Gross exposure

Loans and advances to customers

	31.12.2007			31.12.2006		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	178 637	41.4%	52.4%	217 584	38.8%	68.5%
CHF	5 876	1.4%	22.0%	42 624	7.6%	29.1%
EUR	8 772	2.0%	24.2%	20 982	3.7%	57.5%
USD	233 720	54.1%	47.1%	280 067	49.9%	57.7%
JPY	4 852	1.1%	18.6%	0	0.0%	not applicable
	431 857	**100.0%**	**48.1%**	**561 257**	**100.0%**	**59.7%**

The portfolio covered by individual analysis is largely diversified. Loans in PLN account for over 41% of it, with FX loans being just under 59%.

- By coverage ratio

Gross exposure

Loans and advances to customers

	31.12.2007		31.12.2006	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	48 737	11.3%	79 027	14.1%
20% - 40%	41 771	9.7%	16 442	2.9%
40% - 60%	274 697	63.5%	309 269	55.1%
60% - 80%	13 657	3.2%	30 913	5.5%
Above 80%	52 995	12.3%	125 606	22.4%
	431 857	**100.0%**	**561 257**	**100.0%**

Coverage of the examined portfolio with revaluation charges as at 31st December 2007 was 48% on average and over half of this portfolio's receivables (63.6%) have coverage close to this level (the group above 40% to 60%). Structure of coverage of the impaired portfolio with revaluation charges as at 31.12.07 did not fundamentally change as compared with 31.12.06. Only the share of loans with 80% plus coverage changed strongly, which came from writing-off receivables against provisions as well as sale of the portfolio.

Restructured loans

Restructuring of receivables is done by dedicated units (separately for corporate and retail receivables).

(Restructuring aims at performing effective actions with respect to customers, which are to bring about maximum and possibly fast mitigation of risks carried by the Bank.

Restructuring covers definition of new terms and conditions applicable to the receivables and acceptable to the Bank (including rules for their repayment and collateralisation and potentially obtaining additional collateral).

Receivables from corporate customers are included in the restructuring portfolio, every time on the basis of a decision of the competent decision-making level, relying on ongoing and periodical monitoring of their financial and economic standing.

The process of restructuring of retail receivables is done with use of an IT support system and receivables from customers get into this system not later than on the 4th day from the date when the receivable became due and payable.

The table below presents loan portfolio with recognised impairment managed by the Group's units responsible for loan restructuring.

Gross exposure in '000 PLN

	31.12.2007	31.12.2006
Loans and advances to private individuals	75 971	119 216
Loans and advances to companies	354 049	351 144
Total	**430 020**	**470 360**

(2F) DEBT AND EQUITY SECURITIES

The table below presents the structure of securities in the Bank's portfolio as at end of December 2007.

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	2 327 042	1 540 449	0	**3 867 491**
Central Bank	0	165 939	0	**165 939**
Other issuers	0	186 332	203 668	**390 000**
- listed	0	138 106	0	**138 106**
- not listed	0	48 226	203 668	**251 894**
Total	**2 327 042**	**1 892 720**	**203 668**	**4 423 430**

The table below presents the structure of securities in the Bank's portfolio as at end of December 2006.

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	3 368 029	2 585 954	0	**5 953 983**
Central Bank	0	165 480	0	**165 480**
Other issuers	0	177 173	173 863	**351 036**
- listed	0	123 555	4 020	**127 575**
- not listed	0	53 618	169 843	**223 461**
Total	**3 368 029**	**2 928 607**	**173 863**	**6 470 499**

(2G) COLLATERAL TRANSFERRED TO THE BANK

In 2007 21 fixed assets (movables) belonging to customers and collateralising loans were taken over; over 50% of them were vehicles. Proceeds from the sale of said assets totalled PLN 391.6 thousand and were used to reduce past-due debt.

(2H) POLICY FOR WRITING-OFF RECEIVABLES

Credit exposures, with respect to which the Bank is not expecting appearance of cash flows available for recovery and for which impairment provisions fully covering the outstanding debt were created, are written-off the balance sheet against said provisions and transferred to off-balance sheet records. This operation does not cause the debt to be forgiven or restructuring and recovery actions to be ceased.

In most of cases the Bank writes-off receivables against impairment provisions when said receivables are found to be unrecoverable i.e.:

- Execution proceedings have been discontinued;
- The debtor has died;
- Bankruptcy proceedings have ended;
- Part of the loan has been forgiven unconditionally;
- Execution was ineffective for a long period of time.

(2I) CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH EXPOSURE TO CREDIT RISK

Industry sectors

The table below presents division of the Bank's main credit exposure broken down into components, according to category of customers.

31.12.2007	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 053 052	0	0	0	0	0	0	0	**1 053 052**
Loans and advances to customers	154 686	1 452 355	1 207 680	863 947	240 837	13 189 689	1 952 129	2 371 999	**21 433 322**
Trading securities	50	0	0	0	2 326 992	0	0	0	**2 327 042**
Derivatives	635 377	59 265	25 149	627	0	0	0	80 529	**800 947**
Investment securities	125 233	81 000	8 200	78 162	1 754 613	0	0	49 179	**2 096 388**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	28 807	0	0	0	0	0	0	0	**28 807**
As at 31 December 2007	**1 997 205**	**1 592 620**	**1 241 029**	**942 736**	**4 322 442**	**13 189 689**	**1 952 129**	**2 501 707**	**27 739 558**

31.12.2006	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 123 131	0	0	0	0	0	0	0	**1 123 131**
Loans and advances to customers	322 833	1 371 713	923 334	641 717	306 309	7 684 831	1 313 069	2 135 987	**14 699 793**
Trading securities	0	0	0	0	3 368 029	0	0	0	**3 368 029**
Derivatives	326 577	21 392	7 095	0	0	0	0	15 272	**370 336**
Investment securities	134 950	51 020	8 200	93 964	2 805 051	0	0	9 284	**3 102 469**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	15 509	0	0	0	0	0	0	0	**15 509**
As at 31 December 2006	**1 923 000**	**1 444 125**	**938 629**	**735 681**	**6 479 389**	**7 684 831**	**1 313 069**	**2 160 543**	**22 679 267**

* including: credit cards, cash loans, car loans, current accounts overdrafts and loans for leveraged shares acquisition

(3) MARKET RISK

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

MARKET-RISK EVALUATION MEASURES

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

Calculation of the VaR in Trading Book is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics company. It is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). Calculating the volatility associated with each risk vertex the model gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions.

The capital at risk figures are determined daily, both on an individual basis for each of the portfolios of positions of the areas having responsibilities in risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the various portfolios.

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

Back testing is the standard technique used to evaluate the quality of the risk measurement model, performed according to the following rules:

- The framework, in place, makes an ex-post comparison of the risk measure generated by the model with the verified daily changes in the portfolio value and the theoretical daily changes assuming static positions,

- The quality of the model is verified, using a three-zone statistical approach based on the number of excesses (an excess is said to happen whenever the difference between the absolute daily change value and the daily VaR measure is positive): The green zone (less than 10 excesses), corresponds to a result that do not suggest any problem in the model, the yellow zone (10 to 14 excesses), raises some questions about the model but the conclusion is not definitive, in this case a multiplication factor is used, to put the level of confidence of the risk measure back in the 99% and the red zone (more than 14 excesses), indicates a problem in the risk model.

- All reported excesses are documented including an explanation of the occurrence and their incorporation in one of the three classes of excesses explanation: basic model integrity, insufficient model accuracy or unanticipated market movements.

Parallel to the VaR calculation the trading portfolios are subject to a set of stress scenarios, in order to:

§ Estimate the potential economic loss resulting from extreme variations in the market risk factors,

§ Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,

§ Identify of the actions that can be taken to reduce the impact of extreme variations in the risk factors.

The following types of market scenarios are being applied in the stress test analysis: i) Parallel shifts of the yield curves; ii) More steep or flat the yield curves; iii) Variations of the yield volatility; iv) Variations of the exchange rates; v) Variations of the swap spreads; vi) Historical adverse scenarios.

The VaR calculation process is carried out, using software which allows the trading areas current access to the values at risk in their respective portfolios.

The VaR is used as a measure in assessing the risks incurred by the trading positions, including the positions decided by the Market Risk Strategy Meetings (MRSM Portfolio).

The VaR indicators shown in the following table reflect the exposure to market risks of PLN approx. 13.9 million (on average) during the first half of 2007 and PLN 9.5 million (on average) during the second half. In the middle of the year the Bank changed the approach to the market risk management in order to have better segregation between the Trading Book and the Banking Book areas, so the numbers are not directly comparable.

The Group has adjusted risk management areas structure to comply with the requirements of the New Capital Accord.

The main changes were the following:

- Excluding from the Trading Area some bonds that were hedging commercial products or bought with the intention to be in the portfolio for periods longer than 6 months,
- Moving from the Trading Area MM transactions, together with swaps concluded exclusively for liquidity purposes.

The minor impact of app. PLN 3 m is visible by comparison of VaR results calculated as of the end of June 2007 according to both approaches.

VaR measures for market risk (for the Trading Areas and ALM Portfolios) according to approach in the first half of the year

(PLN '000s)

	VaR (from January to June 2007)				
	30.06.2007	Average	Maximum	Minimum	31.12.2006
General risk	14 424	13 945	19 075	9 713	10 756
Interest rate VaR	13 542	13 860	18 756	10 069	10 706
FX Risk	3 549	947	7 403	43	187
Diversification Effect	18%				1%

VaR measures for market risk (for the Financial Markets Activity area) according to approach in the second half of the year

(PLN '000s)

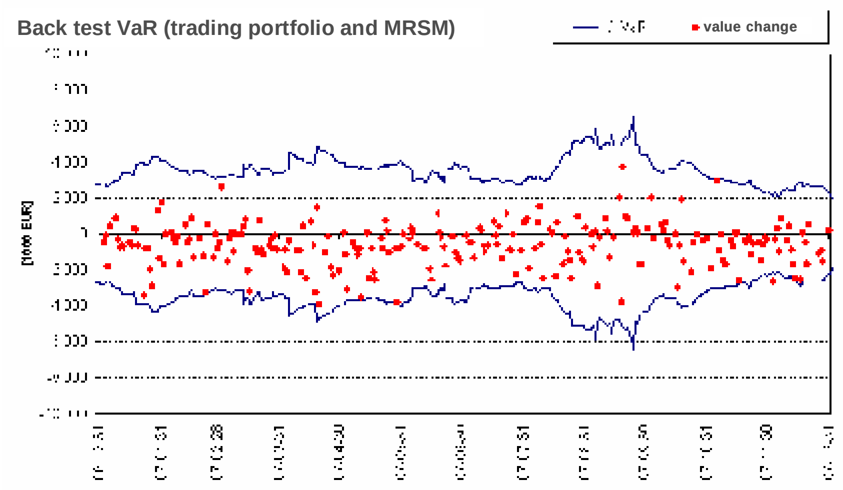
	VaR (from July to December 2007)				
	31.12.2007	Average	Maximum	Minimum	30.06.2007
General risk	5 488	9 498	14 503	5 488	11 042
Interest rate VaR	5 460	9 497	14 527	5 460	11 008
FX Risk	61	789	4 520	37	3 548
Diversification Effect	1%				32%

The open positions mostly included interest-rate instruments, while the exchange rate risk was very limited. The FX Risk covers all the foreign exchange exposures of the Bank, as well as open positions allowed only in Trading and MRSM areas.

The total VaR limits were not exceeded in the period under consideration.

In subordinated companies there were no exposures for market risk as the Bank takes the risk of subordinated companies and manages it on the central level.

Market risk - VaR Back Testing



During the year 2007 two excesses have been detected in the VaR back test, confirming the model adequacy.

VaR assessment is supplemented by monitoring the sensitivity of portfolios bearing market risk to above-mentioned scenarios (only worst case results are being disclosed).

According to the Bank's rules the limits for stress test results are two times higher than the limits for day-to-day market risk management.

In case of Banking Book sensitivity analyses of the non-trading portfolios are being performed monthly in order to manage interest rate risk.

As a result several hedging transactions have been performed in the year 2007 reducing the interest rate risk linked with the fixed rate loans portfolio, especially consumer loans portfolio and leasing portfolio.

(4) LIQUIDITY RISK

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

The evolution of the business portfolio in recent years, with the faster growth of the loan portfolio than of deposits, has implied growing recourse to alternative sources of financing such as long-term syndicated loans and securitisation transactions.

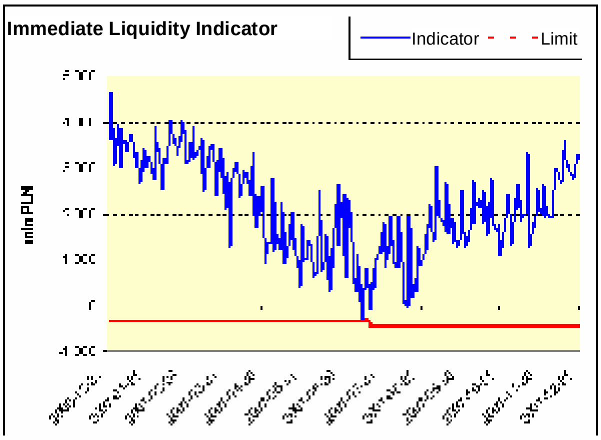
The Bank concluded in the middle of July 2007 a new syndicated loan of CHF 120 million (approximately PLN 300 million) and in December 2007 a securitization transaction (involving Millennium Leasing, a subsidiary company of the Bank) with a positive impact on the Group's liquidity as of 31 December 2007 of PLN 717 million. Moreover in December subordinated bonds were issued of EUR 150 million (approximately PLN 540 million) with an impact in Own Funds.

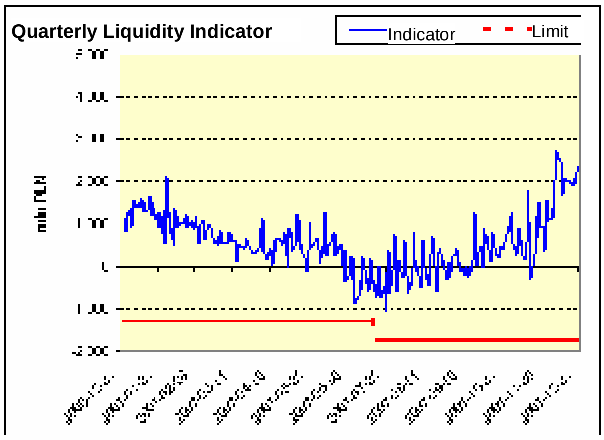
Evaluation of the Bank's liquidity risk is carried out using both indicators defined by the Supervisory Authorities and other internal metrics, for which exposure limits are also defined.

The evolution of the Bank's liquidity position for short-term horizons (up to 3 months) is tested daily on the basis of two indicators defined internally: immediate liquidity and quarterly liquidity. These both indicators measure the maximum fund-taking requirements that could arise on a particular day, taking into consideration the cash-flow projections for periods of 3 days and of 3 months, respectively.

Calculation of these indicators involves adding to the liquidity position of the day under analysis the estimated future cash flows for each day of the respective time horizon (3 days or 3 months) for the transactions intermediated by the markets areas. The amount of assets from the Bank's highly liquid securities portfolio is added, which results in determination of the accumulated liquidity gap for each day of the period under review.

These figures are reported daily to the areas responsible for management of the liquidity position and are compared with the exposure limits in force.





Current Liquidity ratios

PLN million

	Highly liquid assets	Spot liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
31.12.2007				
Exposure	2 891	3 301	2 344	4 723
Minimum limit		-433	-1 734	2 000
31.12.2006				
Exposure	4 950	3 799	1 439	6 732
Minimum limit		-321	-1 284	2 000

During the first two quarters of the year a deterioration of the liquidity ratios were noticed, but despite of that fact they kept above the defined limits.

A significant improvement of both of the indicators were observed during the second half of the year and as of 31 of December both of the indicators were positive, meaning that the Bank kept a long liquidity position for periods up to 3 months.

The limits were revised in the middle of the Year, based on the amount of the Group's own funds as of December 2006.

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

31.12.2007		
Actuarial liquidity gap (PLN million)	**to 3 months**	**above 3 months**
Balance sheet gap	3 379	4 462
Accumulated balance sheet gap	3 379	7 842
Off-balance gap	-326	171
Total gap	3 053	4 633
Total accumulated gap	3 053	7 687

Liquid assets ratio	**mln PLN**
Liquid assets	5 944
Balance sheet assets	29 538
Share of liquid assets in balance sheet assets	**20.1%**

31.12.2006		
Actuarial liquidity gap (PLN million)	**to 3 m.**	**ab. 3 m.**
Balance sheet gap	3 535	-3 097
Accumulated balance sheet gap	3 535	438
Off-balance gap	-393	0
Total gap	3 142	-3 097
Total accumulated gap	3 142	45

Liquid assets ratio	**mln PLN**
Liquid assets	7 323
Balance sheet assets	24 609
Share of liquid assets in balance sheet assets	**29.8%**

STRESS TESTS

The Bank has developed liquidity risk management tool defining stress scenarios, under which liquidity gaps are calculated on actuarial basis assuming conservative approach to assessment of probability of cash flow occurrence (i.e. inter alia taking into account withdrawal of deposits and delays of loans repayment, together with worse liquidity of secondary market for securities).

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

The results of the stress test analysis shows even in stress test conditions, the liquidty indicators will be maintained above the limits. Moreover the Bank performs deposits base concentration analysis.

Deposits taken from 20 and 5 biggest depositors

Share in total deposits	31.12.2007	31.12.2006
20 of the largest depositaries	10.6%	11.9%
5 of the largest depositaries	5.7%	6.4%

(5) OPERATING RISK

According to the definition adopted by the Bank, operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but strategic risk or reputation risks are treated as separate risk categories.

The process of managing operational risk in the Bank is based on the identification, assessment, monitoring, mitigating and reporting of risk. Each decision on taking operational risk mitigating steps is preceded by a cost-benefit analysis. Basing on the defined risk categorisation the Bank has conducted the risk self-assessment exercise for the vital processes.

The key element of the operational risk management in an on-going activity is the function of the Process Owners. Based on an in-depth knowledge of the process the process owner can identify and eliminating on going threats in a quicker way.

Additionally the Risk Monitoring Department has a dedicated unit responsible for the implementation of the operational risk management framework as well as to have a consolidated view of the overall operational risks of the Bank and to report the occurred risk to the Processes and Operational Committee.

All the events that generated operational losses observed during the Year of 2007 were registered in a loss database and mitigation plans were defined and implemented in order to minimize future losses.

The split of the observed losses by main risk categories shows that the major part of the losses were observed in the following main categories: i) External frauds and thefts (approximately 50% of the losses); ii) inappropriate market and business practices (responsible for 35% of the reported losses and iii) product flow errors (10% of the losses).

In what regards the distribution of the losses by main macro process, the major part of the losses were concentrated in processes linked with the retail activity, with particular emphasis to the credit cards process and consumer loans process.

XVI. LIQUIDITY GAP BY CONTRACT TERMS

31 December 2007 **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	1 255 055	0	0	0	0		1 255 055
Loans and advances to banks	731 188	30 000	2	0	291 862		1 053 052
Trading debt securities	8 852	96 289	338 630	1 429 085	454 186		2 327 042
Loans and advances to customers	1 849 222	181 844	996 961	4 332 005	13 521 271		20 881 303
Debt securities available for sale	67 924	0	329 851	1 491 715	3 229		1 892 719
Receivables from securities bought with sell-back clause	28 807	0	0	0	0		28 807
Shares and interests						192 573	192 573
Other non-financial assets						592 193	592 193
TOTAL	**3 941 048**	**308 133**	**1 665 444**	**7 252 805**	**14 270 548**	**784 766**	**28 222 744**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	690 485	76 676	50 797	1 458 945	291 785		2 568 688
Deposits from customers	14 458 695	1 928 716	5 494 474	139 017	731		22 021 633
Liabilities from securities sold with buy-back clause	589 361	140 632	0	0	0		729 993
Debt securities	0	0	0	0	0		0
Subordinated debt	0	0	2 175	286 560	537 300		826 035
Other non-financial liabilities						421 727	421 727
Equity						2 083 986	2 083 986
TOTAL	**15 738 541**	**2 146 024**	**5 547 446**	**1 884 522**	**829 816**	**2 505 713**	**28 652 062**

31 December 2007 *PLN '000*

OFF-BALANCE SHEET LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Liabilities from opened credit lines	4 661 345						4 661 345
Liabilities from sureties and guarantees	1 124 912						1 124 912

Balance sheet Gap	**-11 797 493**	**-1 837 891**	**-3 882 002**	**5 368 283**	**13 440 732**	**-1 720 947**	**-429 318**
Total Gap	**-17 583 750**	**-1 837 891**	**-3 882 002**	**5 368 283**	**13 440 732**	**-1 720 947**	**-6 215 575**

31 December 2006 **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	965 817	0	0	0	0		965 817
Loans and advances to banks	353 198	187 198	313 323	0	269 412		1 123 131
Trading debt securities	900	35 076	469 274	2 585 365	277 414		3 368 029
Loans and advances to customers	1 633 857	421 702	1 463 058	4 042 033	6 548 543		14 109 193
Debt securities available for sale	523	90 448	348 440	2 302 516	186 680		2 928 607
Receivables from securities bought with sell-back clause	15 509	0	0	0	0		15 509
Shares and interests						164 465	164 465
Other non-financial assets						1 216 849	1 216 849
TOTAL	**2 969 804**	**734 424**	**2 594 095**	**8 929 914**	**7 282 049**	**1 381 314**	**23 891 600**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	1 712 422	290 134	5 075	1 323 231	269 343		3 600 205
Deposits from customers	11 296 113	2 201 411	2 352 596	344 894	8		16 195 022
Liabilities from securities sold with buy-back clause	1 407 938	68 248	1 500	0	0		1 477 686
Debt securities	0	0	5 705	0	0		5 705
Subordinated debt	0	0	813	306 496	0		307 309
Other non-financial liabilities						641 738	641 738
Equity						1 829 048	1 829 048
TOTAL	**14 416 473**	**2 559 793**	**2 365 689**	**1 974 621**	**269 351**	**2 470 786**	**24 056 713**

31 December 2006 *PLN '000*

OFF-BALANCE SHEET LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Liabilities from opened credit lines	3 521 877						3 521 877
Liabilities from sureties and guarantees	815 156						815 156
Balance sheet Gap	**-11 446 669**	**-1 825 369**	**228 406**	**6 955 293**	**7 012 698**	**-1 089 472**	**-165 113**
Total Gap	**-15 783 702**	**-1 825 369**	**228 406**	**6 955 293**	**7 012 698**	**-1 089 472**	**-4 502 146**

The above data do not include cash flows from derivatives

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 as at 31 December 2007 to PLN 586.2 million. Total value of claims in the biggest court proceedings, in which companies from the Group appeared as defendant was PLN 542.6 million, and the total value of claims in the biggest court proceedings , in which companies from the Group appeared as plaintiff was 43.6 PLN 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 illegally

   Case description: On 26.10.2004 the Court suspended the proceedings until the valid completion of another case; no complaint was lodged against the suspension of the proceedings. Currently the case was closed by the valid decision, the Court initiated proceedings in this case and the lawsuit was dismissed. That case was validly concluded and then the Court took-up proceedings regarding this case and the lawsuit was dismissed. The decision is not legally valid. The Plaintiff lodged an appeal and the Bank lodged a reply to the Plaintiff's appeal. Until the day of preparation of this list no date for the hearing has been set.

   Prospects: the Bank has assessed the probability of winning as high

2. **Plaintiff:** natural person

   Claim value: PLN 30,000,000

   Claim: compensation related to completed execution

   Case description: To the petition of 31.03.2006, which was served upon the Bank on 17.10.2006, the Bank submitted a reply on 27.10.2006. The Plaintiff expanded the lawsuit from the amount of PLN 14,725,245 to PLN 30,000,000. The lawsuit was dismissed. The Plaintiff lodged an appeal, to which the Bank replied. Then the Plaintiff had the appeal fee waived, in result of which the date for the next hearing has not been decided yet.

   Prospects: the Bank estimates that winning the case is certain.

3. **Plaintiff:** legal person

   Claim value: PLN 8,842,179

   Claim: return of funds recovered under the bank execution title.

   Case description: On 09.05.2007 the Court dismissed the suit. The plaintiff lodged an appeal to which the Bank responded. No date for the appeal trial has been set yet.

   Prospects: Bank has assessed the probability of winning the case as high

OFF-BALANCE ITEMS

	31.12.2007	31.12.2006
Off-balance conditional commitments granted and received	**8 284 026**	**6 583 398**
1. Commitments granted:	7 582 956	6 045 675
a) financial	5 626 654	4 666 790
b) guarantee	1 956 302	1 378 885
2. Commitments received:	701 070	537 723
a) financial	15 936	50 000
b) guarantee	685 134	487 723

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 Clients

In the period from 01.01.2007 to 31.12.2007 the Bank granted 2,703 guarantees, sureties and avals for the total of 1,982,850 thousand PLN.

These liabilities (excluding the guarantees for sureties of loan repayment from EFRWP and open guarantee lines) as at 31.12.2007 totalled 1,296,503 thousand PLN (2310 active guarantees), which is 355,256 thousand PLN, i.e. 37.74% up against 31.12.2006.

The value of guarantees, sureties and avals granted in PLN increased by 328,293 thousand PLN i.e. by 41.98% against the end of the last year, while the value of these liabilities granted in FX increased by 26,963 thousand PLN i.e. 16.93%.

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 2007	31 December 2006
Commitments granted in '000 PLN:	1 110 314	782 021
Commitments granted in FX (equivalent in '000 PLN):	186 189	159 226
TOTAL:	**1 296 503**	**941 247**

The structure of liabilities by type as at 31.12.2007 is presented in the following table:

Type of commitment	Number	Amount in '000 PLN
Avals	1	1 050
Guarantees	2 259	1 257 098
Sureties	2	5 295
Re-guarantees	48	33 060
TOTAL	**2 310**	**1 296 503**

The structure of liabilities by subject as at 31.12.2007 is presented in the following table:

Object of the commitment	Number	% share	Amount in '000 PLN
good performance of contract	1 415	61.26%	545 483
payment for goods or services	251	10.87%	184 336
rent payment	215	9.31%	17 806
bid bond	214	9.26%	37 186
other	112	4.85%	218 630
advance return	67	2.90%	102 538
customs	23	1.00%	139 990
payment of bank loan	13	0.56%	50 534
Total	**2 310**	**100.00%**	**1 296 503**

The structure by subject of all the net guarantee liabilities, demonstrated in the off-balance sheet items, as at 31.12.2007 is presented in the table below:

Customer - sector	Amount in PLN million
- financial sector	273.2
- non-financial sector (companies)	1 661.3
- public sector	17.7
- private individuals	4.1
Total	**1 956.3**

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 Service Sp. z o.o.	2.2
Millennium Leasing Sp. z o.o.	170.0
Total	**172.3**

XVIII. OPERATING LEASING

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

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

Balance as at:	**31.12.2007**	**31.12.2006**
- to 1 year	72 182	47 036
- above 1 year to 5 years	193 616	95 149
- above 5 years	31 940	7 142
TOTAL	**297 738**	**149 327**

XIX. ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED, AND ITS PUBLICATION DATE

On 4 January 2008 Mr Jorge Jardim Goncalves filed his resignation from the function of Member of the Supervisory Board of the Bank.

On 15 February 2008 Mr Dimitri Contominas filed his resignation from the function of Member of the Supervisory Board of the Bank for personal reasons as of 13 February 2008.

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**	....
....	**Zbigniew Kudaś**	**Member of the Management Board**	....