Annual Consolidated Financial Statement
of Bank Millennium S.A. Capital Group
on the 12-month period ending 31st December 2007

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	1 611 082	1 282 550	426 574	328 938
II. Fee and commission income	626 869	420 500	165 979	107 846
III. Operating income	1 709 368	1 267 558	452 598	325 093
IV. Operating profit / (loss)	584 555	370 732	154 776	95 082
V. Profit / (loss) before taxes	584 555	370 732	154 776	95 082
VI. Profit (loss) after taxes	461 595	300 787	122 219	77 143
VII. Net cash flows from operating activities	-1 754 882	-4 904 175	-464 649	-1 257 803
VIII. Net cash flows from investing activities	951 775	2 157 640	252 006	553 383
IX. Net cash flows from financing activities	1 333 043	833 629	352 956	213 806
X. Net cash flows, total	529 936	-1 912 906	140 314	-490 606
XI. Total assets	30 530 106	24 692 125	8 523 201	6 445 011
XII. Deposits from banks	2 568 688	3 600 205	717 110	939 707
XIII. Deposits from customers	21 800 662	16 069 301	6 086 170	4 194 326
XIV. Total equity	2 519 932	2 215 321	703 499	578 232
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)	2.97	2.61	0.83	0.68
XVIII. Diluted book value per share (in PLN/EUR)	2.97	2.61	0.83	0.68
XIX. Capital adequacy ratio	13.75%	13.63%	13.75%	13.63%
XX. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.54	0.35	0.14	0.09
XXI. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.54	0.35	0.14	0.09
XXII. Pledged or paid dividend per share (in PLN/EUR)	0.17	0.54	0.05	0.13

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I. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	**Note**	**01.01.2007 – 31.12.2007**	**01.01.2006 – 31.12.2006**
Interest income	1	1 611 082	1 282 550
Interest expense	2	-839 390	-640 982
NET INTEREST INCOME		**771 692**	**641 568**
Fee and commission income		626 869	420 500
Fee and commission expense		-83 662	-55 322
Net fee and commission income	3	**543 207**	**365 178**
Dividend income	4	1 614	2 573
Result on investment financial assets	5	5 770	2 278
Result on financial instruments valued at fair value through profit and loss	5	85 417	59 910
Foreign exchange profit	5	240 519	181 512
Other operating income	6	92 852	67 322
Other operating expenses	6	-31 703	-52 783
Operating income		**1 709 368**	**1 267 558**
General and administrative expenses	7	-969 897	-795 736
Impairment losses on financial assets	8	-66 506	-38 646
Impairment losses on non financial assets	9	-1 286	-979
Depreciation and amortization	10	-87 124	-61 465
Operating expenses		**-1 124 813**	**-896 826**
Profit / (loss) before taxes		**584 555**	**370 732**
Corporate income tax	11	-122 960	-69 945
Profit / (loss) after taxes		**461 595**	**300 787**
Attributable to:			
Equity holders of the parent		461 595	300 787
Minority interests			
Basic earnings per ordinary share (in PLN)	12	**0.54**	**0.35**
Diluted earnings (losses) per ordinary share (in PLN)	12	**0.54**	**0.35**

II. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	**Note**	**31.12.2007**	**31.12.2006**
Cash, balances with the Central Bank	13	1 257 128	965 834
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	3 134 582	3 742 760
Hedging derivatives	16	218 321	108 027
Loans and advances to customers	17	22 027 152	14 937 743
Investment financial assets	18	1 894 569	2 931 656
- available for sale		1 894 569	2 931 656
- held to maturity		0	0
Investments in associates	18	5 100	7 016
Receivables from securities bought with sell-back clause (loans and advances)	19	28 807	15 509
Property, plant and equipment	20	337 306	297 040
Intangible assets	21	18 162	21 578
Non current assets held for sale	22	1 571	25 907
Receivables from Tax Office resulting from current tax		86 427	20 139
Deferred income tax assets	23	73 609	127 370
Other assets	24	394 320	368 415
Total Assets		**30 530 106**	**24 692 125**

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	566 821	298 709
Hedging derivatives	27	20 220	14 506
Deposits from customers	28	21 800 662	16 069 301
Liabilities from securities sold with buy-back clause	29	725 976	1 428 134
Debt securities	30	851 474	5 705
Provisions	31	12 351	10 400
Deferred income tax liabilities	32	0	0
Current tax liabilities		1 050	1 436
Other liabilities	33	636 897	741 099
Subordinated debt	34	826 035	307 309
Total Liabilities		**28 010 174**	**22 476 804**

EQUITY

Amount '000 PLN	**Note**		
Share capital	35	849 182	849 182
Share premium	35	471 709	471 709
Revaluation reserve	35	-2 742	9 881
Retained earnings	35	1 201 783	884 549
Total equity attributable to equity holders of the parent		2 519 932	2 215 321
Minority interests		0	0
Total Equity		**2 519 932**	**2 215 321**

Total Liabilities and Equity		**30 530 106**	**24 692 125**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total consolidated equity	Share capital	Share premium	Revaluation reserve on available for sale financial assets	Revaluation reserve on derivatives designated for future cash flows hedge	Retained earnings
Equity at the beginning of the period 01.01.2007	**2 215 321**	**849 182**	**471 709**	**9 282**	**599**	**884 549**
- 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	461 595	0	0	0	0	461 595
- dividend payment	-144 361	0	0	0	0	-144 361
Equity at the end of the period (closing balance) 31.12.2007	**2 519 932**	**849 182**	**471 709**	**-1 949**	**-793**	**1 201 783**

	Total consolidated equity	Share capital	Share premium	Revaluation reserve on available for sale financial assets	Revaluation reserve on derivatives designated for future cash flows hedge	Retained earnings
Equity at the beginning of the period 01.01.2006	**2 390 823**	**849 182**	**471 709**	**27 612**	**0**	**1 042 320**
- purchase/sale and valuation of available for sale financial assets	-18 330	0	0	-18 330	0	0
- effect of valuation of derivatives designated for future cash flows hedge	599	0	0	0	599	0
- profit / (loss) of the period after taxes	-458 558	0	0	0	0	-458 558
- dividend payment	300 787	0	0	0	0	300 787
Equity at the end of the period (closing balance) 31.12.2006	**2 215 321**	**849 182**	**471 709**	**9 282**	**599**	**884 549**

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

IV. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**01.01.2007 – 31.12.2007**	**01.01.2006 – 31.12.2006**
I. Profit (loss) after taxes	**461 595**	**300 787**
II. Adjustments for:	**-2 216 477**	**-5 204 962**
1. Minority profit (loss)	0	0
2. Interests in net profit / (loss) of associated companies	0	0
3. Depreciation and amortization	87 124	61 465
4. Foreign exchange (gains) / losses	-165 772	-6 450
5. Dividends	-1 614	-2 573
6. Changes in provisions	1 951	-6 068
7. Result on sale and liquidation of investing activity assets	-53 951	-20 770
8. Change in financial assets valued at fair value through profit and loss (held for trading)	565 340	-1 720 291
9. Change in loans and advances to banks	300 488	236 099
10. Change in loans and advances to customers	-7 101 692	-5 350 235
11. Change in receivables from securities bought with sell-back clause	-13 298	295 618
12. Change in liabilities valued at fair value through profit and loss (held for trading)	273 826	-212 718
13. Change in deposits from banks	-1 132 131	1 190 071
14. Change in deposits from customers	5 731 361	2 074 885
15. Change in liabilities from securities sold with buy-back clause	-702 158	-1 632 903
16. Change in debt securities	134 356	-46 600
17. Change in income tax settlements	45 818	69 801
18. Income tax paid	-86 029	-166 277
19. Change in other assets and liabilities	-118 775	15 686
20. Other	18 679	16 298
III. Net cash flows from operating activities	**-1 754 882**	**-4 904 175**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**01.01.2007 – 31.12.2007**	**01.01.2006 – 31.12.2006**
I. Inflows:	**3 494 093**	**6 691 299**
1. Proceeds from sale of property, plant and equipment and intangible assets	77 358	189 275
2. Proceeds from sale of shares in associates	216	0
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	3 414 905	6 499 451
5. Other	1 614	2 573
II. Outflows:	**-2 542 318**	**-4 533 659**
1. Acquisition of property, plant and equipment and intangible assets	-94 564	-75 461
2. Acquisition of shares in associates	0	0
3. Acquisition of financial assets valued at fair value through profit and loss	-2 447 754	-4 458 198
4. Acquisition of investment financial assets	0	0
5. Other	0	0
III. Net cash flows from investing activities	**951 775**	**2 157 640**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**01.01.2007 – 31.12.2007**	**01.01.2006 – 31.12.2006**
I. Inflows:	**1 535 968**	**1 328 936**
1. Long-term bank loans	275 400	1 323 231
2. Issue of debt securities	717 118	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**	**-493 307**
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	**1 333 043**	**833 629**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**529 936**	**-1 912 906**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**1 642 747**	**3 555 653**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**2 172 683**	**1 642 747**

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

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

Composition of the Management Board of Bank Millennium S.A. (the Group's parent entity) as at 31 December 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 Bank Millennium as at 31 December 2007:

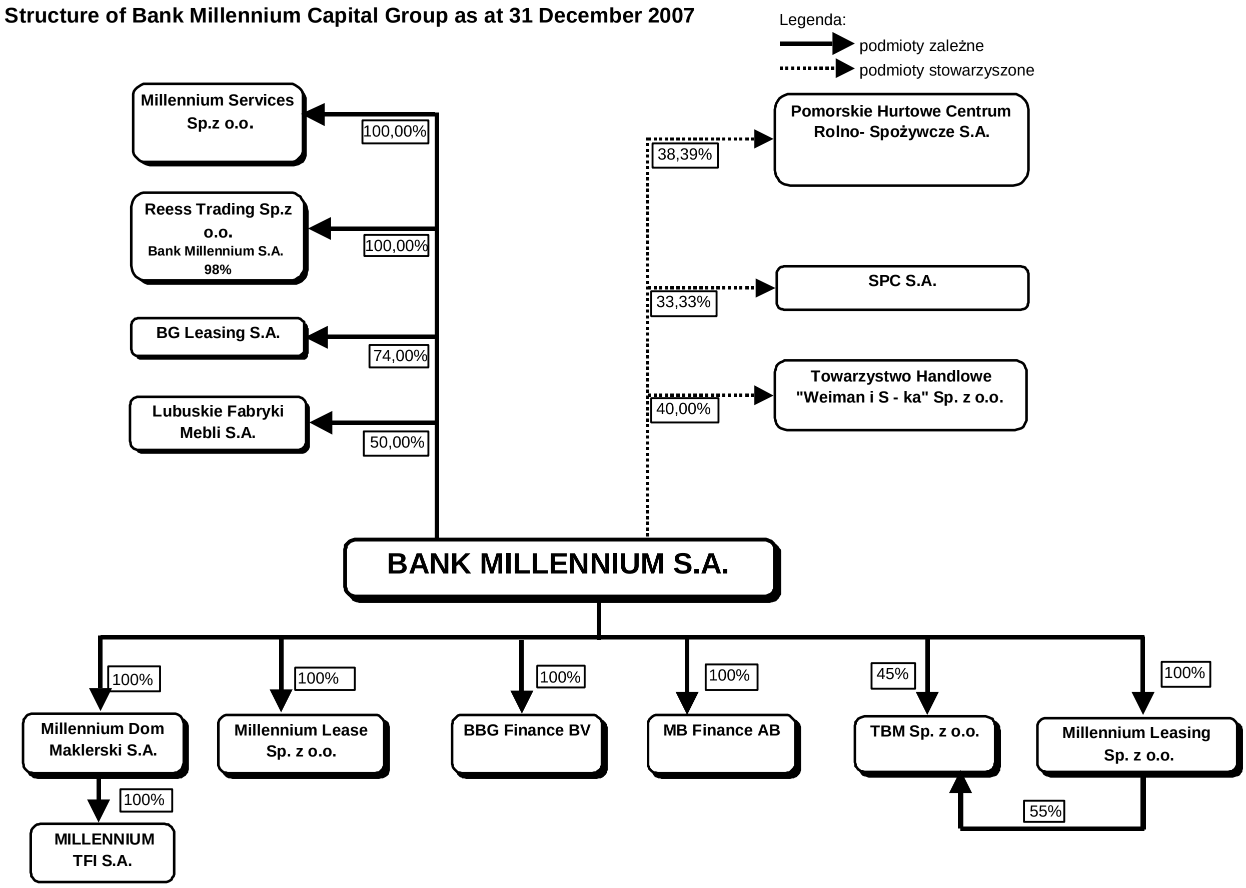
1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman and Secretary of the Supervisory Board,
3. Christopher de Beck - Member of the Supervisory Board,
4. Dimitrios Contominas - Member of the Supervisory Board,
5. Pedro Maria Calaínho Teixeira Duarte - 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.

The Group's parent entity is Bank Millennium S.A. The companies that belong to the Capital Group as at 31 December 2007, are presented by the diagram below:



The Group applied provisions of IAS 8 ("Accounting principles (policies), changes in value estimates and error adjustment") section 8, whereby IFRS constitute a complete set of accounting principles, which do not have to be applied if the result of their application is immaterial. By the virtue of the above, provisions of IAS 27 ("Consolidated and solo-basis financial statements") and provisions of IAS 28 ("Investment in associated companies") were not applied in relation to the financial statements of the following entities – members of the Capital Group as at 31 December 2007.

- Lubuskie Fabryki Mebli S.A.
- Reess Trading Sp. z o.o.
- BG Leasing S.A. - unit in bankruptcy

- Ø Pomorskie Hurtowe Centrum Rolno – Spożywcze S.A.
- Ø Towarzystwo Handlowe „Weiman i S-ka” Sp. z o.o. - the unit does not conduct business operations
- Ø SPC S.A. - the unit does not conduct business operations

With respect to the Group’s organisational chart presented as at 31st December 2006, in 2007 following changes took place in the Group’s structure:

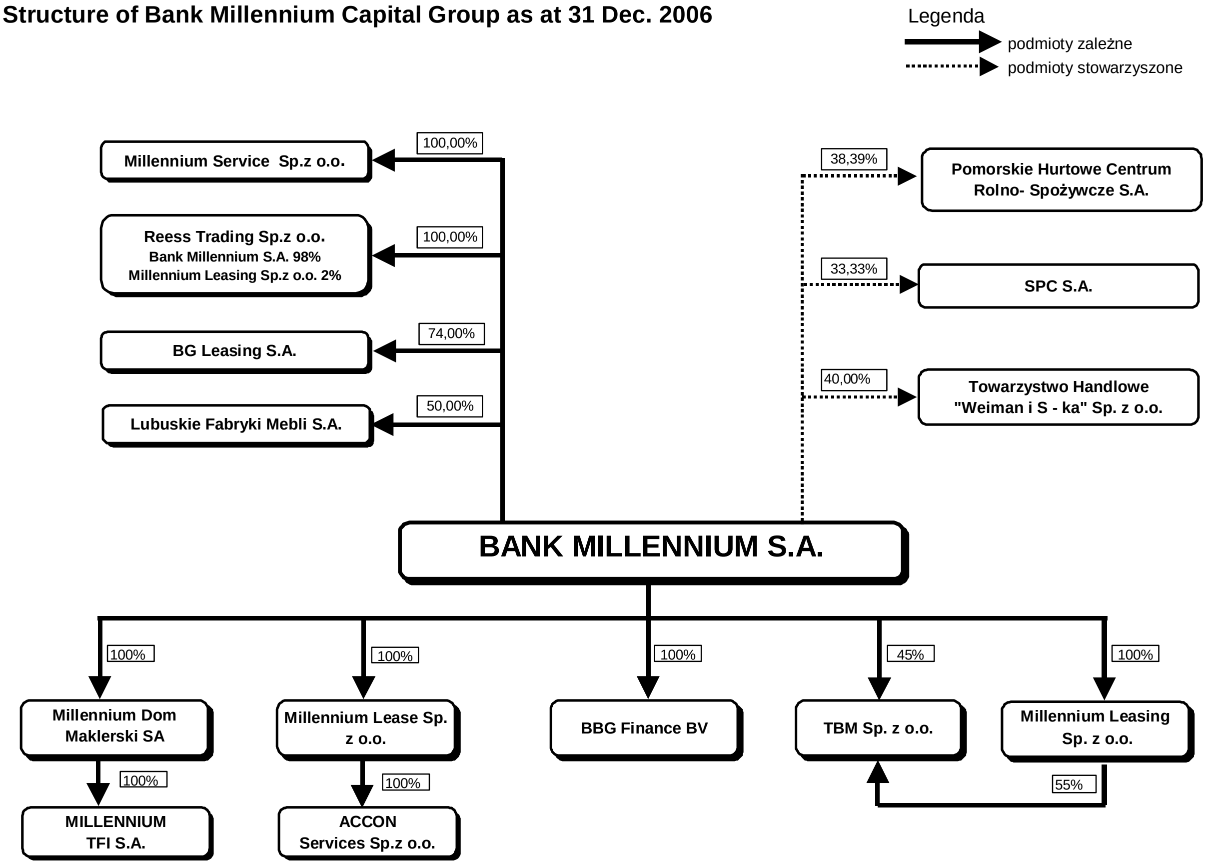
- Millennium Lease Sp. z o.o. (a subsidiary of the Bank) sold 100 shares of Accountancy & Consulting – Accon Services Sp. z o.o. („Accon”) to an entity not connected with the Group. The book value of the sold shares (constituting 100% of the equity of Accon) was PLN 216 000, while the total sale price – PLN 247 000;
- The Bank concluded with an unrelated entity the agreement on sale of 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 (the value carried in the Bank’s books is PLN 5 000 000). The condition precedent for performance of the agreement is obtaining by the buyer of consent from the Office for Competition and Consumer Protection for acquisition of the shares. As at 31st December 2007 the transaction had not been executed.

In 2007 the Bank assumed 100% shares in the equity 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 to issue Eurobonds. This bonds issue was done after MB Finance AB assumed debt securities (subordinated notes) issued by the Bank, under terms and conditions reflecting the term sheet of the Bank’s bonds issue (a detailed description of the issue of subordinated notes has been presented in ***note (34)***.

The company MB Finance AB is consolidated by Bank Millennium.

In addition to the above in 2007 following to the securitisation transaction described in detail in ***note (17)***. the analysis had been performed examining risks, advantages and nature of activities of the special purpose vehicle Orchis Sp. z o.o. (SPV) taking into consideration the provisions of IAS 27, IAS 39 and SIC 12. Based on conclusions taken from the analysis it has been resolved that securitisation transaction fulfils the conditions of control over SPV by Millennium Leasing Sp. z o.o. and, indirectly, by the Bank. As a result SPV was consolidated by Bank Millennium, although the Group has no capital participation in this entity (and this is the reason why the entity was not presented in the Group’s scheme).

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



VI. ACCOUNTING POLICY

STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These financial statement meets the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).
This financial 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 Group 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 Group'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 Group 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 Group 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 Group’s financial condition;
- Information concerning the nature and scope of the Group’s exposure to risk connected with financial instruments;
- Approach to management of individual risk types.

In 2007 the Group changed the methodology concerning presentation in the Profit and Loss Account of income (costs) on debt securities with interest coupon classified in the Trading portfolio. Until the end of 2006 the settled discount (premium) on these securities was reported as “Result on financial instruments measured at fair value in the Profit and Loss Account”. Starting with 1st January 2007 settled discount (premium) is reported as a component of interest margin. The relevant adjustment – reclassification in comparable data in the value of PLN 8,933 thousand - has been taken into account.

ADOPTED ACCOUNTING PRINCIPLES

1. Basis of Financial Statements Preparation

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

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

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

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

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

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

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

2. Basis of Consolidation

Purchase method

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

Subsidiaries

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

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

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

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

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

Associates

Associates are any entities over which the Group has significant influence but do not control them, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are initially accounted at purchase price and then accounted for by using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Group in the profits (losses) of associates since the date of acquisition is recognised in the profit and loss, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition. When the share of the Group in the losses of an associate becomes equal or greater than the share of the Group in that associate, the Group discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

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

3. Functional currency and presentation currency

Functional currency and presentation currency

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

Transactions and balances

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

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

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

4. Financial assets and liabilities

Classification

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

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

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

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

  At present the Group classifies as financial instruments measured at fair value in the Profit and Loss Account only instruments held for trading, not using the possibility of earmarking for this category instruments at their initial recognition.

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

- *Held to maturity investments*

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

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

- *Loans and receivables*

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

- *Financial assets available for sale*

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

- *Other financial liabilities*

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

Recognition of financial instruments in the balance sheet

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

All financial assets at their initial recognition are valued 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/liability.

De-recognition of financial instruments from the balance sheet

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

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

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

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

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

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

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

- *Held to maturity investments and loans and receivables*

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

- *Financial asset available for sale*

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

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

If there is any objective evidence of impairment, the Group recognizes impairment loss as described in the **point 6: 'Impairment of 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 Group determines the fair value using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of other instruments, discounted cash flow analysis and option pricing models, as well as other valuation methods generally applied by market participants.

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).

Recognition of embedded derivative instruments

The Group distinguishes and records in the balance sheet the derivatives which are a component of hybrid instruments. A hybrid agreement contains an underlying (host) contract (not being a derivative) and an embedded derivative which on the basis of a specific interest rate, price of financial instrument, price of a commodity, rate of a currency, index of prices or rates or another variable modifies part or the total of the cash flows resulting from the underlying contract.
Embedded derivative instruments are treated as stand-alone derivative instruments provided they meet conditions presented below. Embedded derivative instruments are valued at fair value, and their changes are recognized in the profit and loss. Embedded derivative instruments are recognized and valued separately from the host contract if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

- ü At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- ü The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);
- ü For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);
- ü The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- ü The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

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

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

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

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

Fair value hedge

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

Any gains or losses resulting from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) are recognised in profit or loss and the gains or losses on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset. The valuation of hedged financial assets classified as available for sale, resulting from factors other than risk hedged, is recognized in the revaluation reserve till the date of sale of this financial asset.

Termination of hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

Derivative instruments that are not subject to hedge accounting principles are classified as instruments for trading, and valued at fair value The changes in fair value of derivative instruments held for trading are recognized in the profit and loss in item ‘Result from financial instruments valued at fair value through the profit and loss account’ or ‘Foreign exchange profit’, which was described below.

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

1) *FX forward*

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

2) *FX SWAP*

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

3) *Interest Rate SWAP (IRS)*

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

4) *Cross – Currency Swap (CCS)*

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

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

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

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

6) *FX options*

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

7) *Forward Rate Agreement (FRA)*

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

6. Impairment of financial assets

Assets valued at amortized cost

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

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

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

The Group assesses in the first place, whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Group classifies credit receivables by size of engagement, into the individual and group portfolios. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets

with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
If there is objective evidence that an impairment loss on loans and receivables or other financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is possible.

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

Impairment is presented as reduction of the balance-sheet value of an asset, while the amount of loss (of the impairment charge posted in the period) is charged against the Profit and Loss Account for the period.

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 the next period the amount of impairment loss is reduced in result of an event, which occurred after the impairment (e.g. improvement of the debtor's debt capacity assessment) then the previously made impairment charge is reversed. The amount of the made reversal is reported in the Profit and Loss Account.

Financial assets available for sale

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

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

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

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

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

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

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

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

9. Receivables from leasing contracts

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

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

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

The Group is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period. These are agreements (mainly rent or lease), which do not meet the conditions of the financial leasing contract (operating leasing). Lease payments for contracts, which do not fulfil qualifications of a finance lease agreement are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

Fixed assets under construction are disclosed at purchase price or production costs less depreciation (amortisation) and impairment charges.

Subsequent costs

The Group recognizes as a part of the asset's carrying value, the replacement costs as incurred, only when it is probable that future economic benefits associated with these items will flow to the Group, and the cost of the item can be reliably measured.

Costs of repairs and maintenance of property, plant and equipment are charged to the profit and loss in the reporting period in which they were incurred.

Intangible Assets

Intangible assets are deemed to include assets, which can be separated from an entity and sold, transferred, licensed or rented to third parties, either individually or together with a related contract, asset or liability. Intangible asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Computer Software

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

Other Intangibles

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

Subsequent costs

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

Depreciation and amortization charges

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

Land, an intangible asset with an unspecified useful life, outlays for tangible assets and intangible assets are not depreciated. At each balance sheet date intangible assets with indefinite useful life are regularly tested for impairment.

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

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

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

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

11. Non current assets held for sale

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

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

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

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

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

12. Impairment of non current assets

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

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

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

An impairment loss can be reversed only to the amount, where the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss would not be recognized.

13. Prepayments, Accruals and Deferred Income

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

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

14. Provisions

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

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

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented. A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The restructuring provision does not cover future operating expenses.

15. Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

16. Group's Equity

Equity consists of capital and funds established in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or the Articles of Association.
Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are presented at nominal value.

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

17. Financial guarantee

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

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

18. Interest income

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

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

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

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

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

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

19. Fee and commission income/ Fee and Commission Costs

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

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

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

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

20. Dividend Income

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

21. Result on Investment Financial Instruments

Result on investment financial instruments includes profits and losses generated as a result of selling financial instruments classified as 'available for sale', and other profits and losses arising from investment activities.
Result on investment financial instruments comprises also a change of fair value of designated hedge derivative transactions being a result of effective hedge instruments in hedge accounting of fair value of securities in foreign currencies in the area of risk of interest rates' changes.

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

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

23. Foreign exchange profit

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

24. Other Operating Income and Expenses

Other operating income and expenses include expenses and incomes not associated directly with the Group's banking and brokerage activity. In particular, this is result on sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines.

25. Income Tax

Corporate income tax comprises current and deferred tax.
Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income

and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.
Deferred income tax is recognized in profit and loss or equity depending on type of temporary differences.

The Group forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are a result of different timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation.
Provision for a deferred income tax is recognized in liabilities in the caption ‘deferred income tax liabilities’. Deferred income tax asset is recognized in assets as ‘deferred income tax assets’. The Group offsets deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

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

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

Deferred income tax assets are recognised with respect to all negative timing differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value. Deferred income tax assets are also recognised for the unused tax losses carried forward. Deferred income tax assets are recognised in the amount in which taxable income is likely to be achieved, which allows to set-off negative temporary differences and unused tax losses carried forward.
Deferred income tax assets are not recognised for negative temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).
The carrying amount of a deferred income tax asset is verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or component.
An asset or a liability arising from temporary differences associated with investments in subsidiaries and associates are not included in calculation of deferred income tax assets or liabilities, unless the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

26. Application of Estimates in connection with Accounting Policies

The preparation of financial statements in accordance with IFRS requires from the Group the use of estimates and assumptions that affect the amounts reported in the financial statements.
The estimates and assumptions, revised by the Group management on a regular basis, are made on basis of historical experience and other factors considered being relevant in given circumstances.
Despite the fact, that such estimates are based on best knowledge about current conditions and activities undertaken by the Group, the actual results may differ from the estimates. The major areas for which the Group makes estimates are presented below.

- *Impairment of loans and advances*

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

- *Fair value of financial instruments*

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

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

Business Segmentation

The Group's activity is pursued on the basis of diverse business lines, which offer specific products and services targeted at the market segments listed below:

a) Retail Customers Segment

The Retail Customers Segment covers activity targeted at mass-market Customers, affluent Customers, small companies and individual entrepreneurs.

The activity of the above business lines is developed with use of the full offer of banking products and services as well as sales of specialised products offered by subsidiaries in the group. In the credit products area the key portfolio growth factors are mortgage loans, retail credit products, credit card revolving credit as well leasing products for small companies. Meanwhile key Customers funds include: current accounts, term deposits, mutual funds and structured products. Additionally the offer comprises insurance products, mainly linked with loans and credit cards, as well as specialised insurance products. Recently the offer was further improved to include selected mutual funds from other financial brokers as well as foreign funds.

b) Corporate Customers Segment

The Corporate Customers Segment is based on activity targeted at Small and Medium Companies as well as Strategic Corporations. The offer is also addressed to Customers from the Public Sector.

Business in the Corporate Customers segment is pursued with use of a high quality offer of typical banking products (loans for day-to-day activity, investment loans, current accounts, term deposits) supplemented by a range of cash management products as well as treasury products including derivatives. In this segment cross-selling of leasing and factoring services has a particularly high profile.

c) Investment and treasury business

This segment covers the Group's activity as regards equity investments by the Treasury Department, brokerage, inter-bank market transactions and taking positions in debt securities, which are not assigned to other segments.

d) Non-allocated (Other) assets and liabilities as well as income and costs

Non-allocated assets and liabilities comprise equity, other assets and other liabilities, assets and liabilities connected with hedging derivatives as well as assets on account of deferred tax and cash not allocated to any segment.

Group-level equity for presentation purposes has been shown under "Total Consolidated"

Income tax charge has been presented on Group level only

Geographic segmentation

The Group operates only in Poland and considering the geographic location of outlets, no significant differences in risk have been identified. For this reason the Group did not prepare a report by segments with use of the geographic location criterion.

Accounting principles

The accounting principles followed in presentation of segmentation data are consistent with IAS 14.

For each segment the pre-tax profit is determined, comprising:

- Net interest income calculated on the basis of interest on external working assets and liabilities of the segment as well as allocated assets and liabilities generating internal interest income or cost. Internal income and costs are calculated based on market interest rates;
- Net commission income;
- Other income from financial transactions and FX gains, such as: dividend income, result on investment and trading activity, FX gains/losses and result on other financial instruments;
- Other operating income and expenses;
- Costs on account of impairment of financial and non-financial assets;
- Segment share in operating costs, including personnel and administration costs;
- Segment share in depreciation costs.

The assets and liabilities of commercial segments are the operating assets and liabilities used by the segment in its operations, allocated on reasonable business grounds. The difference between operating assets and liabilities is covered by money market assets/liabilities and debt securities. The assets and liabilities of the Treasury and Investment Banking segment are money market assets/liabilities and debt securities.

Non-allocated assets and liabilities are presented under “Other”.

Land and real estate, which in result of continuing business optimisation will not be used for further activity of the Bank, are presented in assets of the Retail Banking segment. Fixed assets for sale – fixed assets coming from ended lease agreements - are presented in assets of the Corporate Banking segment.

Income statement 01.01.2007 - 31.12.2007

In '000 PLN	Retail Banking	Corporate Banking	Investment and Treasury Banking	Other	Total consolidated
Net interest income	525 184	224 918	21 590	0	771 692
external income	814 658	373 005	423 419	0	1 611 082
external cost	-347 805	-201 222	-290 363	0	-839 390
External income less cost	466 853	171 783	133 056	0	771 692
internal income	465 979	295 681	-761 660	0	0
internal cost	-407 649	-242 546	650 195	0	0
Internal income less cost	58 331	53 135	-111 465	0	0
Net fee and commission income	409 247	101 692	32 268	0	543 207
Dividends, other income from financial operations and foreign exchange profit	172 581	81 019	79 720	0	333 320
Other operating income and cost	258	-100	60 991	0	61 149
Operating income	**1 107 270**	**407 529**	**194 569**	**0**	**1 709 368**
Staff costs	-369 488	-130 401	-38 936	0	-538 825
Administrative costs	-338 013	-76 499	-16 560		-431 072
Impairment losses on assets	-100 408	37 593	-4 977	0	-67 792
Depreciation and amortization	-55 711	-21 022	-10 391		-87 124
Operating expenses	**-863 620**	**-190 329**	**-70 864**	**0**	**-1 124 813**
Profit / (loss) before taxes	**243 650**	**217 199**	**123 705**	**0**	**584 555**
Income taxes					-122 960
Profit / (loss) after taxes					**461 595**

Balance sheet 31.12.2007

In '000 PLN	Retail Banking	Corporate Banking	Investment and Treasury Banking	Other	Total consolidated
ASSETS					
Segment assets	16 159 661	7 188 306	4 546 351	16 992	27 911 309
- including capital investment outlays	78 429	10 286	1 491	16 992	107 198
Assets allocated to segment	758 472	1 750 679	-2 509 150	0	0
Assets not allocated to segment	0	0	0	2 618 797	2 618 797
TOTAL	**16 918 133**	**8 938 984**	**2 037 201**	**2 635 789**	**30 530 106**
LIABILITIES					
Segment liabilities	14 142 535	8 071 241	4 559 060	0	26 772 835
Liabilities allocated to segment	1 909 813	287 604	-2 197 416	0	0
Liabilities not allocated to segment	0	0	0	1 237 339	1 237 339
Equity	0	0	0	0	2 519 932
Total	**16 052 348**	**8 358 844**	**2 361 644**	**1 237 339**	**30 530 106**

Income statement 01.01.2006 - 31.12.2006

In '000 PLN	Retail Banking	Corporate Banking	Investment and Treasury Banking	Other	Total consolidated
Net interest income	380 317	191 324	69 927	0	641 568
external income	429 369	327 348	525 833	0	1 282 550
external cost	-240 386	-148 274	-252 322	0	-640 982
External income less cost	188 983	179 074	273 511	0	641 568
internal income	361 457	221 368	-582 825	0	0
internal cost	-170 124	-209 118	379 241	0	0
Internal income less cost	191 333	12 250	-203 584	0	0
Net fee and commission income	237 100	85 689	42 389	0	365 178
Dividends, other income from financial operations and foreign exchange profit	116 879	41 044	88 350	0	246 273
Other operating income and cost	214	34	14 291	0	14 539
Operating income	**734 510**	**318 091**	**214 960**	**0**	**1 267 558**
Staff costs	-274 786	-96 956	-41 140	0	-412 882
Administrative costs	-286 844	-70 940	-25 071	0	-382 854
Impairment losses on assets	-74 842	30 939	4 278	0	-39 625
Depreciation and amortization	-51 349	-11 542	1 426	0	-61 465
Operating expenses	**-687 821**	**-148 499**	**-60 506**	**0**	**-896 826**
Profit / (loss) before taxes	**46 689**	**169 590**	**154 453**	**0**	**370 732**
Income taxes					-69 945
Profit / (loss) after taxes					**300 787**

Balance sheet 31.12.2006

In '000 PLN	Retail Banking	Corporate Banking	Investment and Treasury Banking	Other	Total consolidated
ASSETS					
Segment assets	10 226 125	6 855 735	6 370 405	25 102	23 477 367
- including capital investment outlays	58 576	5 617	2 981	25 102	92 276
Assets allocated to segment	2 366 936	2 596 831	-4 963 767	0	0
Assets not allocated to segment	0	0	0	1 214 758	1 214 758
TOTAL	**12 593 060**	**9 452 567**	**1 406 638**	**1 239 860**	**24 692 125**
LIABILITIES					
Segment liabilities	9 652 091	6 168 095	5 590 467	0	21 410 654
Liabilities allocated to segment	2 330 022	2 794 867	-5 124 888	0	0
Liabilities not allocated to segment	0	0	0	1 066 150	1 066 150
Equity	0	0	0	0	2 215 321
Total	**11 982 113**	**8 962 962**	**465 579**	**1 066 150**	**24 692 125**

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Amounts presented in the notes to the consolidated financial statement are presented in PLN thousands.

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2007 - 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	34 349	100 058
Loans and advances to customers	1 176 388	721 962
Transactions with repurchase agreement	2 483	2 104
Hedging derivatives	100 429	99 957
Financial assets held for trading (debt securities)	152 741	127 014
Investment securities	119 717	221 684
Total	**1 611 082**	**1 282 550**

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

Interest income in 2007 includes interest accrued on impaired loans. This interest amount is PLN 38,401 thousand (the amount of this interest in 2006 was PLN 42,846 thousand on a comparable basis). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

(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 and advances	-57 543	-23 721
Transactions with repurchase agreement	-127 059	-149 283
Hedging derivatives	-549	0
Deposits from customers	-555 384	-400 706
Subordinated debt	-17 812	-14 011
Debt securities	-4 935	-592
Other	-1 362	-2 229
Total	**-839 390**	**-640 982**

(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	59 211	63 225
Resulting from loan activity	41 647	32 903
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	31 938	21 237
Resulting from guarantees and sureties granted	10 176	7 602
Resulting from brokerage and custody service	57 427	52 666
Resulting from investment funds management	215 811	82 220
Other	5 078	8 132
Total	**626 869**	**420 500**

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
Resulting from brokerage and custody service	-10 900	-8 944
Other	-2 493	-3 546
Total	**-83 662**	**-55 322**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Investment securities	1 614	2 573
Total	**1 614**	**2 573**

(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	775
Total	**5 770**	**2 278**

(5B) RESULT ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSSACCOUNT

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 Group does not use the capacity to assign other instruments as appraised at fair value through the profit and loss account at the initial booking (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	-34 830	633
Operations on derivatives	133 220	72 152
Other financial operations	-12 973	-12 875
Total	**85 417**	**59 910**

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	29 519	21 707
Total	**240 519**	**181 512**

(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	20 073	4 047
Profit on sale of non current assets held for sale	44 007	30 940
Indemnifications, penalties and fines received	12 854	4 902
Income from sale of other services	1 847	6 680
Income from collection service	389	1 164
Income from leasing business	311	1 282
Other	13 372	18 306
Total	**92 852**	**67 322**

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	-14 199	-11 563
Indemnifications, penalties and fines paid	-1 909	-2 042
Provisions for contentious claims	-2 432	-19 095
Costs of leasing business	-6 283	-2 918
Donations made	-343	-628
Costs of collection service	-2 212	-3 030
Costs of payments to compensation system	-734	-785
Other	-3 590	-12 723
Total	**-31 703**	**-52 783**

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:	-538 825	-412 882
Salaries	-518 366	-395 562
Employee benefits, including:	-20 459	-17 320
- provisions for retirement benefits	2 096	-2 803
- provisions for unused employee holiday	-2 903	-175
- other	-19 653	-14 342
General administrative costs	-431 072	-382 854
Costs of advertising, promotion and representation	-53 565	-47 352
Costs of software maintenance and IT services	-13 528	-14 644
Costs of renting	-101 783	-80 055
Costs of buildings maintenance, equipment and materials	-51 703	-37 253
ATM and cash costs	-21 527	-22 079
Costs of communications and IT	-64 495	-66 959
Costs of consultancy, audit and legal advisory and translation	-26 163	-27 105
Taxes and fees	-16 652	-19 895
KIR clearing charges	-2 319	-2 196
PFRON costs	-4 285	-3 360
BFG costs	-3 618	-2 434
Other	-71 434	-59 522
Total	**-969 897**	**-795 736**

(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	**-62 753**	**-42 699**
- Impairment charges on loans and advances to customers	-361 205	-450 011
- Reversal of impairment charges on loans and advances to customers	269 003	388 945
- Amounts recovered from loans written off	11 273	18 367
- Result on sale of receivables	18 176	0
Impairment losses on investment securities	**0**	**-19**
- Impairment write-offs for investment securities	0	-19
- Reversal of impairment write-offs for investment securities	0	0
Impairment losses on investments in associates	**-1 700**	**-1 965**
- Impairment write-offs for investments in associates	-1 700	-1 965
- 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	**-66 506**	**-38 646**

(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	384	-2 948
Other assets	-1 670	1 969
Total	**-1 286**	**-979**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Property, plant and equipment	-78 556	-50 566
Intangible assets	-8 568	-10 899
Total	**-87 124**	**-61 465**

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 period of economic use 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 costs of disassembly 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	**-65 465**	**-38 375**
Current year	-65 465	-38 375
Deferred tax	**-56 723**	**-33 136**
Appearance and reversal of temporary differences	-24 346	-87 809
Utilisation of tax loss	-32 377	54 673
Other		
Receivables resulting from the article 38a of the CIT Act	-772	1 564
Total income tax reported in income statement	**-122 960**	**-69 945**

11b. Effective tax rate		
	1.01.2007- 31.12.2007	1.01.2006- 31.12.2006
Gross profit / (loss)	**584 555**	**370 732**
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-111 065**	**-70 439**
Impact of permanent differences on tax charges:	**-11 123**	**-1 072**
- Non taxable income	1 426	7 672
Dividend income	307	489
Other	1 119	7 183
- Cost which is not a tax cost	-12 549	-8 744
Loss on sale of receivables	-5 555	0
PFRON fee	-814	-586
Other	-6 179	-8 158
Receivables resulting from the article 38a of the CIT Act	**-772**	**1 564**
Total income tax reported in income statement	**-122 960**	**-69 945**

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	461 595	300 787
Weighted average number of shares in the period	849 181 744	849 181 744
Earnings per share	**0.54**	**0.35**

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

The diluted EPS is equal to the basic EPS (the calculation approach is analogous since there are no diluting instruments).

(13) CASH, BALANCES WITH THE CENTRAL BANK

13a. Cash, balances with the Central Bank		
	31.12.2007	31.12.2006
Cash	476 155	413 659
Cash in Central Bank	778 861	551 138
Other funds	2 112	1 037
Total	**1 257 128**	**965 834**

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 706 062 000 (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	1 104 576	835 940
b. in foreign currencies (after conversion to PLN)	152 552	129 894
- currency: USD	23 794	23 367
- currency: EURO	95 612	75 352
- currency: GBP	16 041	18 016
- other currencies (PLN ‘000)	17 105	13 159
Total	**1 257 128**	**965 834**

(14) LOANS 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	698 155	810 290
Loans	291 865	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
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 MEASURED AT FAIR VALUE THROUGH THE PROFIT AND LOSS ACCOUNT (HELD FOR TRADING)

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

	31.12.2007	31.12.2006
Debt securities	**2 331 038**	**3 368 029**
Issued by State Treasury	2 331 038	3 368 029
a) bills	353 296	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	**323**	**4 418**
Quoted on the active market	323	4 418
a) financial institutions	60	22
b) non-financial institutions	263	4 396
Not quoted on the active market	0	0
a) financial institutions	0	0
b) non-financial institutions	0	0
Positive valuation of derivatives	**799 207**	**370 313**
Other financial instruments	**4 014**	**0**
Total	**3 134 582**	**3 742 760**

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

	31.12.2007	31.12.2006
Trading financial assets	3 134 582	3 742 760
Financial assets valued at fair value when initially recognized	0	0
Total	**3 134 582**	**3 742 760**

Information on financial assets securing liabilities is presented in Chapter XI.

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	1 674 072	2 624 305
- with variable interest rate	656 966	743 724
Total	**2 331 038**	**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	12 848	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	**2 331 038**	**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	3 372 447	2 993 696
Increases (purchase and accrual of interest and discount)	63 140 526	75 669 806
Reductions (sale and redemption)	-64 165 115	-75 287 883
Differences from valuation at fair value	-16 498	-3 172
Balance at the end of the period	**2 331 361**	**3 372 447**

15f. Derivatives as at 31.12.2007

Amount in '000 PLN	Par 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	14 775 838	60 867	189 987	129 120
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**	**14 839 852**	**70 146**	**200 048**	**129 902**
2. FX derivatives						
FX contracts	5 525 703	4 704 972	862 067	-17 125	132 202	149 327
FX swaps	11 201 043	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	**25 828 260**	**26 418 331**	**9 807 437**	**176 735**	**480 192**	**303 457**
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**	**18 389**	18 389	
6. Valuation of hedged portfolio				**-12 934**	0	12 934
7. Liabilities from short sale of securities				**-9 002**	0	9 002
8. Total derivatives	**30 530 132**	**36 479 565**	**25 893 990**	**232 386**	**799 207**	**566 821**

15g. Derivatives as at 31.12.2006

Amount in '000 PLN	**Par 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	5 366 594	2 667 326	2 232 099	-6 493	35 747	42 240
FX swaps	5 320 853	658 694	0	51 521	65 588	14 067
Other FX contracts (CIRS)	0	0	2 416 812	38 756	41 622	2 866
FX options	4 192 790	3 430 316	66 820	0	24 702	24 702
Total FX derivatives	**14 880 237**	**6 756 336**	**4 715 731**	**83 784**	**167 659**	**83 875**
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				**-18 135**	**0**	**18 135**
5. Valuation of future FX payments	**4 458**	**680**	**71 643**	**10 265**	10 265	0
6. Total derivatives	**20 315 018**	**14 939 461**	**17 228 388**	**71 604**	**370 313**	**298 709**

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

(16) HEDGING DERIVATIVES

The Group 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 Group established a formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding such position resulting from the zloty deposit portfolio).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	Par 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	above 1 year	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	Par 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	above 1 year	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	**19 184 351**	**13 072 100**
- to companies	4 371 022	4 128 650
- 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	**115 830**	**96 974**
- from companies	93 677	80 668
- 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
Financial leasing receivables	2 757 231	2 000 016
Other	2 813	29 530
Interest	26 438	25 559
Total gross	**22 635 541**	**15 600 256**
Impairment write-offs	-608 389	-662 513
Total net	**22 027 152**	**14 937 743**

In December 2007 Millennium Leasing Sp. z o.o. ("ML"), carried out the transaction of securitisation of the portfolio of lease receivables with the value remaining within a defined limit up to PLN 850 million ("securitisation", the "transaction"). The concluded transaction is a case of traditional securitisation i.e. it consists in transfer of the right of ownership of the securitised lease receivables by ML to the Orchis Sp. z o.o. ("Orchis") special purpose vehicle, which issued debt securities with the securitised assets underlying. In result of the transaction ML raised funding for its operations and transferred credit risk connected with the securitised assets up to the amount of the junior tranche to Orchis. From the terms and conditions of the transaction agreement flows the right of ML to sell receivables to Orchis during the revolving period i.e. in the course of three years from the day of signing the securitisation agreement.

The purchase of receivables is refinanced by Orchis in issuance of following series of bonds with varying hierarchy and secured with the securitised receivables.

Entities participating in financing of Orchis are:

1. European Investment Bank – investor in the fixed senior tranche in the amount of PLN 420,000,000,
2. Galleon Capital LLC – investor in the variable senior tranche with the maximum limit of PLN 379,000,000 and the mezzanine tranche in the amount of PLN 35,275,000,
3. European Investment Fund – underwriter of mezzanine tranche,
4. Millennium Leasing Sp. z o.o. – investor in junior tranche in the target amount of PLN 15,725,000.

In the light of provisions of IAS 39 the contractual terms and conditions of ML securitisation do not meet criteria for removal of the securitised assets from the Group's balance sheet. Therefore the Group recognises a liability under bonds issued by Orchis. The termsheet of the bonds has been disclosed in ***Note (30c)***.

17b. Quality of loans and advances to customers portfolio

	31.12.2007	31.12.2006
Loans and advances to customers (gross)	**22 635 541**	**15 600 256**
- impaired	765 594	885 415
- not impaired	21 869 947	14 714 841
Impairment write-offs	**608 389**	**662 513**
- for impaired exposures	383 451	485 686
- for incurred but not reported losses (IBNR)	224 938	176 827
Loans and advances to customers (net)	**22 027 152**	**14 937 743**

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)	**22 635 541**	**15 600 256**
- case by case analysis	559 290	724 422
- collective analysis	22 076 251	14 875 834
Impairment write-offs	**608 389**	**662 513**
- on the basis of case by case analysis	245 713	382 144
- on the basis of collective analysis	362 676	280 369
Loans and advances to customers (net)	**22 027 152**	**14 937 743**

17d. Loans and advances to customers portfolio by customers

	31.12.2007	31.12.2006
Loans and advances to customers (gross)	**22 635 541**	**15 600 256**
- corporate customers	7 493 723	6 602 354
- private individuals	15 141 818	8 997 902
Impairment write-offs	**608 389**	**662 513**
- for receivables from corporate customers	371 675	497 176
- for receivables from private individuals	236 714	165 337
Loans and advances to customers (net)	**22 027 152**	**14 937 743**

17e. Loans and advances to customers by maturity

	31.12.2007	31.12.2006
Current accounts	1 615 376	1 165 374
- to 1 month	451 624	452 421
- above 1 month to 3 months	317 112	540 327
- above 3 months to 1 year	1 572 660	1 971 532
- above 1 year to 5 years	4 693 035	4 544 657
- above 5 years	13 839 127	6 815 951
- past due	119 893	84 435
Interest	26 715	25 559
Total gross	**22 635 541**	**15 600 256**

17f. Loans and advances to customers by currency

	31.12.2007	31.12.2006
in Polish currency	10 769 093	6 714 156
in foreign currencies (after conversion to PLN)	11 866 448	8 886 100
- currency: USD	268 949	547 647
- currency: EURO	1 085 733	1 108 558
- currency: CHF	10 319 162	7 172 837
- other currencies (PLN ‘000)	192 604	57 058
Total gross	**22 635 541**	**15 600 256**

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	662 513	665 463
Change in value of provisions:	-54 124	-2 950
Write-offs in the period	361 205	450 011
Amounts written off	-20 601	-44 597
Reversal of write-offs in the period	-269 003	-388 945
Sale of receivables	-93 229	0
Changes resulting from FX rates differences	-33 207	-23 078
Other	711	3 659
Balance at the end of the period	**608 389**	**662 513**

17h. Financial leasing receivables

	31.12.2007	31.12.2006
Financial leasing receivables (gross)	3 197 609	2 277 959
Unrealised financial income	-440 378	-277 943
Financial leasing receivables (net)	**2 757 231**	**2 000 016**

Financial leasing receivables (gross) by maturity		
Under 1 year	1 197 039	912 074
From 1 year to 5 years	1 876 220	1 299 770
Above 5 years	124 350	66 116
Total	**3 197 609**	**2 277 959**

Financial leasing receivables (net) by maturity		
Under 1 year	1 011 128	784 076
From 1 year to 5 years	1 647 552	1 158 371
Above 5 years	98 551	57 569
Total	**2 757 231**	**2 000 016**

(18) INVESTMENT FINANCIAL ASSETS

18a. Investment financial assets available for sale

	31.12.2007	31.12.2006
Debt securities	**1 892 720**	**2 928 607**
Issued by State Treasury	1 540 449	2 585 954
a) bills	0	198 198
b) bonds	1 540 449	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	**1 849**	**3 049**
Other financial instruments	**0**	**0**
Total financial assets available for sale	**1 894 569**	**2 931 656**
Available for sale instruments listed on the stock exchange	1 679 127	2 513 020
Available for sale instruments not listed on the stock exchange	215 442	418 636

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	1 710 202	1 715 917
Total	**1 892 720**	**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	1 491 716	2 302 516
- above 5 years	3 229	186 680
Total	**1 892 720**	**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	2 931 656	4 824 838
Increases (purchase and accrual of interest and discount)	2 447 754	4 546 642
Reductions (sale and redemption)	-3 470 974	-6 417 173
Difference from measurement at fair value	-13 866	-22 632
Impairment write-offs	0	-19
Other	0	0
Balance at the end of the period	**1 894 569**	**2 931 656**

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	5 100	7 016

18j. Change of investments in associates (gross)

	01.01.2007 – 31.12.2007	01.01.2006 – 31.12.2006
Balance at the beginning of the period	16 188	16 188
- sale of shares	-255	0
Balance at the end of the period	**15 933**	**16 188**

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

	01.01.2007 – 31.12.2007	01.01.2006 – 31.12.2006
Balance at the beginning of the period	9 172	7 207
Impairment charges/ reversal of impairment charges	1 661	1 965
Balance at the end of the period	**10 833**	**9 172**

(19) RECEIVABLES FROM SECURITIES BOUGHT 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	1 553	1 575
- buildings, premises, civil and hydro-engineering structures	191 285	184 014
- machines and equipment	52 371	41 691
- vehicles	25 176	15 694
- other fixed assets	27 698	22 481
Fixed assets under construction	38 690	31 585
Advances for fixed assets under construction	533	0
Total	**337 306**	**297 040**

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	**2 117**	**367 819**	**329 656**	**31 232**	**107 165**	**31 585**	**869 574**
b) increases (on account of)	**0**	**51 181**	**29 506**	**14 802**	**19 902**	**61 063**	**176 454**
- purchase	0	21 051	8 035	1 620	6 562	53 792	91 060
- transfer from fixed assets under construction	0	18 427	16 689	0	12 489	0	47 605
- transfer from financial leasing	0	0	0	13 182	0	0	13 182
- other	0	11 703*	4 782	0	851	7 271	24 607
c) reductions (on account of)	**19**	**28 031**	**74 709**	**7 307**	**12 778**	**53 424**	**176 268**
- sale	19	19 373	48 282	7 001	1 559	0	76 234
- liquidation	0	7 861	25 989	207	10 825	0	44 882
- settlement of fixed assets under construction	0	0	0	0	0	47 611	47 611
- other	0	797	438	99	394	5 813	7 541
d) gross value of property, plant and equipment at the end of the period	**2 098**	**390 969**	**284 453**	**38 727**	**114 289**	**39 224**	**869 760**
e) cumulated depreciation (amortization) at the beginning of the period	**39**	**145 350**	**286 824**	**15 538**	**81 167**	**0**	**528 918**
f) depreciation over the period (on account of)	**3**	**24 293**	**-54 742**	**-1 987**	**1 951**	**0**	**-30 482**
- current write-off (P&L)	0	40 389	19 813	4 681	13 673	0	78 556
- reductions on account of sale and liquidation	0	-16 096	-74 116	-6 628	-11 713	0	-108 553
- other	3	0	-439	-40	-9	0	-485
g) cumulated depreciation (amortization) at the end of the period	**42**	**169 643**	**232 082**	**13 551**	**83 118**	**0**	**498 436**
h) impairment write-offs at the beginning of the period	**503**	**38 455**	**1 141**	**0**	**3 517**	**0**	**43 616**
- increase	0	0	0	0	0	0	0
- reduction	0	8 414	1 141	0	43	0	9 598
i) impairment write-offs at the end of the period	**503**	**30 041**	**0**	**0**	**3 474**	**0**	**34 018**
j) net value of property, plant and equipment at the end of the period	**1 553**	**191 285**	**52 371**	**25 176**	**27 697**	**39 224**	**337 306**

*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	**463**	**271 240**	**334 740**	**24 718**	**97 074**	**17 778**	**746 013**
b) increases (on account of)	**1 850**	**111 644**	**30 163**	**11 498**	**22 663**	**75 505**	**253 323**
- purchase	0	660	2 122	1 641	544	60 335	65 302
- transfer from fixed assets under construction	0	17 198	17 850	2 113	19 712	0	56 873
- transfer from financial leasing	0	0	0	7 744	0	0	7 744
- reclassification from non current assets held for sale	1 775	93 533	7 183	0	494	0	102 985
- other	75	253	3 008	0	1 913	15 170	20 419
c) reductions (on account of)	**196**	**15 065**	**35 247**	**4 984**	**12 572**	**61 698**	**129 762**
- sale	196	4 301	14 249	4 893	4 769	0	28 408
- liquidation	0	9 751	18 336	0	7 803	0	35 890
- settlement of fixed assets under construction	0	0	0	0	0	57 825	57 825
- other	0	1 013	2 662	91	0	3 873	7 639
d) gross value of property, plant and equipment at the end of the period	**2 117**	**367 819**	**329 656**	**31 232**	**107 165**	**31 585**	**869 574**
e) cumulated depreciation (amortization) at the beginning of the period	**48**	**108 592**	**294 097**	**15 774**	**80 428**	**0**	**498 939**
f) depreciation over the period (on account of)	**-9**	**36 758**	**-7 273**	**-236**	**739**	**0**	**29 979**
- current write-off (P&L)	0	19 785	16 133	4 341	10 307	0	50 566
- reductions on account of sale	-12	-1 193	-9 725	-4 516	-1 790	0	-17 236
- reductions on account of liquidation	0	-6 849	-18 045	0	-7 277	0	-32 171
- reversal of profits from investments within the Group	0	-4 009	0	0	0	0	-4 009
- reclassification to impairment write-offs	0	0	0	0	-1 700	0	-1 700
- reclassification from non current assets held for sale	3	29 504	6 933	0	494	0	36 934
- other	0	-480	-2 569	-61	705	0	-2 405
g) cumulated depreciation (amortization) at the end of the period	**39**	**145 350**	**286 824**	**15 538**	**81 167**	**0**	**528 918**
h) impairment write-offs at the beginning of the period	**0**	**11 238**	**1 713**	**0**	**2 000**	**0**	**14 951**
- increase, including:	503	34 079	0	0	1 842	0	36 424
- 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	6 862	572	0	325	0	7 759
i) impairment write-offs at the end of the period	**503**	**38 455**	**1 141**	**0**	**3 517**	**0**	**43 616**
j) net value of property, plant and equipment at the end of the period	**1 575**	**184 014**	**41 691**	**15 694**	**22 481**	**31 585**	**297 040**

(21) INTANGIBLE ASSETS

21a. Intangible assets

	31.12.2007	31.12.2006
- concessions, patents, licenses, know how and similar assets, including:	18 157	21 578
- computer software	18 157	21 578
- advances for intangible assets	5	0
Total intangible assets	**18 162**	**21 578**

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

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	**25**	**400 413**	**190 293**	**4**	**0**	**400 442**
b) increases (on account of)	**0**	**5 555**	**5 555**	**0**	**5**	**5 560**
- purchase	0	1 288	1 288	0	5	1 293
- transfer from investments and advances	0	6	6	0	0	6
- expenditures on intangible assets	0	1 876	1 876	0	0	1 876
- other	0	2 385	2 385	0	0	2 385
c) reductions (on account of)	**0**	**451**	**451**	**0**	**0**	**451**
- sale	0	0	0	0	0	0
- other	0	451	451	0	0	451
d) gross value of intangible assets at the end of the period	**25**	**405 517**	**195 397**	**4**	**5**	**405 551**
e) cumulated depreciation (amortization) at the beginning of the period	**25**	**378 835**	**168 715**	**4**	**0**	**378 864**
f) depreciation over the period (on account of)	**0**	**8 525**	**8 525**	**0**	**0**	**8 525**
- current write-off (P&L)	0	8 568	8 568	0	0	8 568
- other	0	-43	-43	0	0	-43
g) cumulated depreciation (amortization) at the end of the period	**25**	**387 360**	**177 240**	**4**	**0**	**387 389**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**18 157**	**18 157**	**0**	**5**	**18 162**

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

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

(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	vehicles	other fixed assets	**TOTAL**
a) value at the beginning of the period	564	38 460	716	203	184	**40 127**
b) impairment write-offs at the beginning of the period	-349	-13 199	-452	-61	-159	**-14 220**
c) net value of non current assets held for sale at the beginning of the period	**214**	**25 261**	**264**	**142**	**25**	**25 907**
d) change of value in the period, including:	**-214**	**-36 549**	**-476**	**-55**	**-184**	**-37 478**
- sale of non current assets held for sale	-214	-35 027	-476	-55	-184	**-35 956**
e) change of impairment write-offs in the period, including:	**0**	**12 717**	**212**	**55**	**159**	**13 142**
- sale of non current assets held for sale	0	12 407	212	55	159	**12 832**
f) impairment write-offs at the end of the period	**-349**	**-482**	**-240**	**-6**	**0**	**-1 078**
g) net value of non current assets held for sale at the end of the period	**0**	**1 429**	**0**	**142**	**0**	**1 571**

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

(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	39 349	6 474	45 822	15 460	-6 087	9 373
Balance sheet valuation of financial instruments	10 090	-39 356	-29 266	16 417	-31 185	-14 768
Unrealised receivables/ liabilities on account of derivatives	117 488	-97 362	20 127	163 142	-91 053	72 089
Interest on deposits and securities to be paid/ received	21 183	-80 404	-59 221	14 782	-32 287	-17 505
Interest and discount on loans and receivables	12 217	-24 872	-12 654	22 533	-73 131	-50 598
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	56 538	0	56 538
Employee benefits	0	0	0	0	0	0
Provisions for future costs	24 722	0	24 722	37 319	0	37 319
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	643	0	643		-2 317	-2 317
Tax loss deductible in the future	15 614	0	15 614	47 990	0	47 990
Other	18 539	-5 775	12 763	8 932	-6 703	2 229
Net deferred income tax asset	**327 673**	**-254 065**	**73 609**	**387 038**	**-259 668**	**127 370**

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	9 373	36 449		45 822
Balance sheet valuation of financial instruments	-14 768	-14 498		-29 266
Unrealised receivables/ liabilities on account of derivatives	72 089	-51 962		20 127
Interest on deposits and securities to be paid/ received	-17 505	-41 716		-59 221
Interest and discount on loans and receivables	-50 598	37 944		-12 654
Income and cost settled at effective interest rate	-12 979	209		-12 770
Provisions for loans presented as temporary differences	56 538	11 290		67 828
Employee benefits	0	0		0
Provisions for future costs	37 319	-12 597		24 722
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-2 317		2 960	643
Tax loss deductible in the future	47 990	-32 376		15 614
Other	2 229	10 534		12 763
Total	**127 370**	**-56 723**	**2 960**	**73 609**

23c. Change of temporary differences

	1.01.2006	Changes to financial result	Changes to equity	31.12.2006
Difference between tax and balance sheet depreciation	42 465	-33 092		9 373
Balance sheet valuation of financial instruments	-11 444	-3 324		-14 768
Unrealised receivables/ liabilities on account of derivatives	-27 012	99 101		72 089
Interest on deposits and securities to be paid/ received	-12 273	-5 232		-17 505
Interest and discount on loans and receivables	-433	-50 165		-50 598
Income and cost settled at effective interest rate	-4 560	-8 419		-12 979
Provisions for loans presented as temporary differences	40 454	16 084		56 538
Employee benefits	0	0		0
Provisions for future costs	35 170	2 149		37 319
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-6 478		4 161	-2 317
Tax loss deductible in the future	85 602	-37 612		47 990
Other	15 994	-13 765		2 229
Total	**157 485**	**-34 275**	**4 161**	**127 370**

23d. Change of deferred income tax

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Difference between tax and balance sheet depreciation	36 449	-33 092
Balance sheet valuation of financial instruments	-14 498	-3 324
Unrealised receivables/ liabilities on account of derivatives	-51 962	99 101
Interest on deposits and securities to be paid/ received	-41 716	-5 232
Interest and discount on loans and receivables	37 944	-50 165
Income and cost settled at effective interest rate	209	-8 419
Provisions for loans presented as temporary differences	11 290	16 084
Employee benefits		0
Provisions for future costs	-12 597	2 149
Tax loss deductible in the future	-32 376	-37 612
Other	10 534	-13 765
Change of deferred income tax recognized in financial result	**-56 723**	**-34 275**
Change on account of receivables from Tax Office resulting from the article 38c of the CIT Act	**-772**	**1 564**
Sale of asset from deferred income tax 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	**2 960**	**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**

The value of negative transition differences presented in the table above has been calculated at the binding tax rate.

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

	31.12.2007	31.12.2006
Net deferred income tax assets	73 609	127 370
Net deferred income tax provision	-	-

(24) OTHER ASSETS

24. Other assets

	31.12.2007	31.12.2006
Expenses to be settled	41 613	60 093
Income to be received	674	251
Interbank settlement accounts	3 882	32 849
Settlement accounts for financial instruments transactions	63 533	129 051
Receivables from sundry debtors	107 489	55 606
Settlements with the State Treasury, including:	63 294	91 648
- receivables from Tax Office resulting from the article 38a of the CIT Act	9 022	9 795
- tax on dividend, paid	0	46 270
Perpetual usufruct right to land	5 155	5 155
Other	120 062	2 992
Total other assets (gross)	405 702	377 646
Provisions	-11 381	-9 231
Total other assets (net)	**394 320**	**368 415**

The item other assets for 2007 includes settlements resulting from the activities of Millennium Dom Maklerski (Brokerage House) amounting to PLN 115,964 thousand.

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

(25) DEPOSITS FROM BANKS

25a. Deposits from banks

	31.12.2007	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	1 458 945	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
Total	**2 568 688**	**3 600 205**

(26) FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH THE PROFIT AND LOSS ACCOUNT (HELD FOR TRADING)

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

	31.12.2007	31.12.2006
Negative valuation of derivatives	557 819	298 709
Short sale of securities	9 002	0
Financial liabilities valued at fair value through profit and loss	**566 821**	**298 709**

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

(27) *HEDGE DERIVATIVES*

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

(28) *DEPOSITS FROM CUSTOMERS*

28a. Deposits from customers by type structure

	31.12.2007	31.12.2006
Amounts due to companies	**7 646 442**	**5 795 825**
Balances on current accounts	2 732 681	2 059 635
Term deposits	4 749 424	3 605 611
Other	148 026	119 128
Accrued interest	16 311	11 451
Amounts due to public sector	**1 559 036**	**1 357 681**
Balances on current accounts	828 457	704 113
Term deposits	703 394	643 419
Other	24 699	8 714
Accrued interest	2 486	1 435
Amounts due to private individuals	**12 595 184**	**8 915 795**
Balances on current accounts	3 109 371	2 547 895
Term deposits	9 260 695	6 126 314
Other	147 410	187 824
Accrued interest	77 708	53 762
Total	**21 800 662**	**16 069 301**

28b. Deposits from customers by maturity

	31.12.2007	31.12.2006
Current accounts	6 670 509	5 311 643
- to 1 month	7 496 349	5 815 534
- above 1 month to 3 months	1 910 705	2 184 790
- above 3 months to 1 year	5 486 891	2 351 384
- above 1 year to 5 years	138 972	339 294
- above 5 years	731	8
Interest	96 505	66 648
Total	**21 800 662**	**16 069 301**

28c. Deposits from customers by currency

	31.12.2007	31.12.2006
in Polish currency	19 632 033	13 948 848
in foreign currencies (after conversion to PLN)	2 168 629	2 120 453
- currency: USD	880 617	1 143 227
- currency: EURO	1 177 345	911 882
- currency: GBP	94 488	53 302
- currency: CHF	7 369	7 979
- other currencies (PLN '000)	8 810	4 063
Total	**21 800 662**	**16 069 301**

(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	537 565	1 341 295
c) interest	2 408	892
Total	**725 976**	**1 428 134**

(30) LIABILITIES FROM DEBT SECURITIES

30a. Debt securities

	31.12.2007	31.12.2006
Outstanding bonds and bills	851 474	0
Bills of exchange	0	5 705
Interest	0	0
Total	**851 474**	**5 705**
- to 1 month	134 356	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	717 118	0
Interest	0	0
Total	**851 474**	**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	69 436
Increases, on account of:	851 474	6 240
- issue of bonds in leasing portfolio securitization transaction	717 118	0
- issue of short term bonds by subsidiary	134 356	0
- purchase of bill of exchange by the NBP	0	5 705
- discount/ interest accrual	0	535
Reductions, on account of:	-5 705	-69 971
- repurchase of bonds	0	-45 760
- 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	**851 474**	**5 705**

30c. Debt securities by type

As at 31.12.2007	Balance sheet value	Interest rate	Maturity	Market
Millennium Leasing Sp. z o.o. - A13 Series bonds	134 356	6.17%	29.01.2008	-
Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	229 118	1MWIBOR+26,0bp	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	420 000	1MWIBOR+26,0bp	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	68 000	1MWIBOR+215,0bp	20.12.2016	-

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 ***(33)***

(32) PROVISION FOR DEFERRED INCOME TAX

	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	**588 031**	**684 805**
Accrued costs - bonuses, salaries	78 429	58 515
Accrued costs - other	80 650	84 771
Interbanking settlement accounts	100 347	208 271
Financial instruments transactions settlement accounts	24	153 471
Other creditors	89 781	56 454
Liabilities to public sector	7 658	10 741
Deferred income	22 559	18 335
Provisions for unused employee holiday	14 530	13 096
Provisions for contentious claims	10 151	7 629
Other	183 903	73 522
Long-term	**48 865**	**56 294**
Provisions for retirement benefits	6 143	8 680
Deferred income	894	627
Provisions for contentious claims	12 158	12 158
Accrued costs - other	183	1 030
Other	29 487	33 800
Total	**636 897**	**741 099**

The item other liabilities for 2007 includes settlements resulting from the activities of Millennium Dom Maklerski (Brokerage House) amounting to PLN 110,143 thousand.

33b. 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	**19 787**	**939**
Charge of provisions	2 432	19 095
Utilization/ reclassification of provisions	90	-247
Balance at the end of the period	**22 309**	**19 787**

33c. 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	**13 096**	**13 548**
Charge of provisions	2 903	175
Utilization of provisions	-1 469	-627
Balance at the end of the period	**14 530**	**13 096**

33d. 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	**8 680**	**5 896**
Charge of provisions/ reversal of provisions	-2 096	2 803
Utilization of provisions	-441	-19
Balance at the end of the period	**6 143**	**8 680**

(34) SUBORDINATED DEBT

34a. Subordinated debt

	31.12.2007	31.12.2006
Name of entity	-	-
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	230 000	80 000
Value of the liability in PLN	823 860	306 496
Interest rate	80 m EUR - 6.360% 150 m EUR – 6.337%	5,19%
Maturity	80 m EUR - 12.12.2011 150 m EUR – 20.12.2017	12.12.2011
Interest	2 175	813
Balance sheet value of subordinated debt	**826 035**	**307 309**

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

SHARE CAPITAL Par value of one share = 1 PLN

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

In the reporting period 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 Group did not change.

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

Shareholders as at 31.12.2007

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

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

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

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

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

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

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

35b. REVALUATION CAPITAL

Revaluation reserve arises on the recognition of :

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

Revaluation reserve

	31.12.2007	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

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

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	34 091	-6 479	27 612
Transfer to income statement of the period as a result of sale	-1 277	244	-1 033
Change of capitals connected with maturity of securities	-9 130	1 735	-7 395
Profit/loss on revaluation of available for sale financial assets, recognized in equity	-12 225	2 323	-9 902
Revaluation reserve at the end of the period	**11 459**	**-2 177**	**9 282**

Revaluation reserve on 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	-1 718	326	-1 392
Profit/loss removed from equity and recognized in financial result of the period			0
Revaluation reserve at the end of the period	**-979**	**186**	**-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	**224 439**	**100 736**	**88 366**	**471 008**	**884 549**
- appropriation of profit, including:					
- *dividend payment*	0	0	0	-144 361	**-144 361**
- net profit/ (loss) of the period	0	0	0	461 595	**461 595**
Retained earnings at the end of the period 31.12.2007	**224 439**	**100 736**	**88 366**	**788 242**	**1 201 783**

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

IX. DIVIDEND FOR 2006 AND 2007

On 26.03.2007 the Bank's General Shareholders' Meeting passed a resolution on allocating the amount of PLN 144,360,896.48 for payment of dividend, 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.

X. 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:

Data 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			0.00
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
Leasing	2 691.62	2 687.38	4.24
Consortium loans	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:

Data 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
Interbank deposits accepted	1 962.07	1 962.02	0.05
Loans and advances to customers	7 867.42	7 724.50	142.93
Leasing	1 954.63	1 929.11	25.52
Fixed rate deposits from customers	2 283.76	2 282.82	0.94
Subordinated debt	307.47	306.50	0.97

XI. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2007 r. following assets of the Bank constituted security 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**

The terms and conditions of agreements establishing security of the Bank's liabilities do not differ from the standards followed generally on the market.

As at 31 December 2006 r. following assets of the Bank constituted security 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**

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

As at 31 December 2007 r. following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	available for sale	77 053	79 034
Treasury bonds	trading	632 806	646 943
TOTAL		**709 859**	**725 977**

In result of conclusion of Sell-Buy-Back transactions with the underlying securities presented in the table above, the Bank is exposed to risks, which are the same as in case of holding securities with the same characteristics in its treasury portfolio.

As at 31 December 2006 r. following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

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

XIII. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

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

Data in '000 PLN

	31.12.2007	31.12.2006
Cash and balances with the Central Bank	1 257 128	965 834
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	**2 172 683**	**1 642 747**

(*) Financial assets with maturity below three months

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

1. Operating activities – cover the basic scope of operations connected with services provided by the Group's units covering events whose purpose is to earn profit and not being investment or financial activity,

2. Investment activities cover operations connected with the purchasing and selling of fixed assets, in particular financial assets not included in the ”for trading” category, shares and shares in subsidiaries, tangible and intangible fixed assets.
3. Financial activities cover activities connected with raising of funds in the form of capital or liabilities, as well servicing sources of funding.

XIV. INFORMATION ON CUSTODY 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.

XV. TRANSACTIONS WITH LINKED ENTITIES

(1) Description of the transactions with linked entities

All and any transactions between entities of the Group in the first half of 2007 were concluded on the market conditions and resulted from the current operations. Below you may find the most important amounts – eliminated in the data consolidation process – of intra-group transactions concluded between the following entities:

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

and amount of transactions with the dominant entity of the Bank– MILLENNIUM BCP.

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	528 781	106 533
Loans and advances to customers	1 574 689	0
Receivables from securities bought with sell-back clause	4 017	0
Investments in associates	199 668	0
Investment financial assets	34 000	0
Financial assets valued at fair value through profit and loss (held for trading)	3 130	14 068
Other assets	161 309	0
LIABILITIES		
Deposits from banks	0	54
Deposits from customers	3 002 882	0
Liabilities from securities sold with buy-back clause	4 017	0
Debt securities	-717 118	0
Financial liabilities valued at fair value through profit and loss (held for trading)	4 816	21 972
Other liabilities	27 150	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	383 686	48 934
Loans and advances to customers	1 382 072	0
Receivables from securities bought with sell-back clause	49 552	0
Investments in associates	165 781	0
Financial assets valued at fair value through profit and loss (held for trading)	326	19 202
Other assets, including:	582 674	0
- dividend to be received by the Bank from Millennium Leasing Sp. z o.o.	506 363	0
LIABILITIES		
Deposits from banks	0	57
Deposits from customers	1 834 789	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)	326	23 781
Other liabilities, including:	522 895	0
- dividend to be paid by Millennium Leasing Sp. z o.o. to the Bank	506 363	0

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	106 367	3 929
Commissions	146 996	0
Financial instruments valued at fair value through profit and loss (held for trading)	2 671	32 842
Dividends	134 804	0
Other net operating income	37 601	0
Expense from:		
Interest	105 468	937
Commissions	141 591	0
Financial instruments valued at fair value through profit and loss (held for trading)	3 800	36 261
General and administrative expenses	34 274	-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	72 105	6 589
Commissions	40 722	0
Financial instruments valued at fair value through profit and loss (held for trading)	0	41 591
Dividends	516 663	0
Other net operating income	4 237	0
Expense from:		
Interest	77 508	0
Commissions	43 999	0
Financial instruments valued at fair value through profit and loss (held for trading)	1 023	37 123
General and administrative expenses of entities subject to consolidation	15 711	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 the value of the prepayments, loans, advanced payments and guarantees granted

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 about compensations and benefits of persons supervising and managing the bank

1. Compensations and benefits for the senior executive persons (PLN thousand):

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 Members of the Supervisory Board of the Bank (PLN thousand):

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

(4) Bank's shares held by the persons managing and supervising the Bank (in office as at 31 December 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.

XVI. 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 the Group.

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 Group.

The organizational structure and processes to support the risk management and control function implemented at Group 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	1 629 929	1 220 420
Market risk	33 371	49 824
Contractor risk and delivery-settlement risk	8 342	2 392
Total capital requirement of Bank Millennium Group	**1 671 642**	**1 272 636**
Own funds, including:	**2 872 288**	**2 167 956**
- main funds	***2 164 443***	***1 873 679***
- deductions from main funds	***-35 162***	***-21 578***
- additional funds	***760 007***	***315 855***
- deductions from additional funds	***-17 000***	***0***
Consolidated Capital Adequacy Ratio	**13.75%**	**13.63%**

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 advavces
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 Group 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 Group's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Group'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 Group regularly analyses and assesses rating results and their predictive power with respect to cases of default.

The Group'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 Group predicts will be the amounts of its receivables at the time of default against liabilities. Liabilities are understood by the Group 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 Group 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 Group 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 Group 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 Group strives to post additional collateral when impairment triggers appear with respect to the particular credit exposure.

Derivatives

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group's portfolio covered by individual analysis was characterised by following values:

Balance-sheet impairment charge: PLN 246 million.

Coverage ratio: 44%.

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:

- 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)*,
- Loans where an impairment loss was reported, but which were not subjected to individual analysis.

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

Corporate customers:
Balance-sheet impairment provision: PLN 127 million
Coverage ratio: 1.8%

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 Group

	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	32.6%	6.6%	13.0%	3.5%
3. Medium quality	39.7%	18.4%	49.3%	13.1%
4. Low quality	8.4%	8.6%	9.3%	5.9%
5. Watched	4.1%	6.8%	12.0%	6.4%
6. Default	3.3%	50.2%	5.1%	64.4%
7. Clients without rating*	11.9%	9.3%	11.2%	6.7%
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:	**28 143 262**	**22 757 815**
Loans and advances to banks	**1 053 052**	**1 123 131**
Loans and advances to customers:	**22 027 152**	**14 937 743**
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	**6 890 387**	**5 808 314**
Loans to public entities	**231 661**	**296 866**
Trading securities:	**2 335 375**	**3 372 447**
– Debt securities	2 331 038	3 368 029
– Shares	4 337	4 418
Derivatives	**799 207**	**370 313**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**1 899 669**	**2 938 672**
– Debt securities	1 892 720	2 928 607
– Shares	6 949	10 065
Receivables from securities bought with sell-back clause	28 807	15 509
Credit risk connected with off-balance sheet items appears as follows:	**7 331 787**	**5 960 867**
Financial guarantees	1 784 036	1 377 915
Credit commitments and other commitments connected with loans	5 547 751	4 582 952

The table above presents the structure of the Group'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	20 899 198	1 053 052	13 963 007	1 123 131
Overdue, but without impairment	970 749	0	751 834	0
With impairment	765 594	0	885 415	0
Gross	**22 635 541**	**1 053 052**	**15 600 256**	**1 123 131**
Impairment write-offs together with IBNR	-608 389	0	-662 513	0
Net	**22 027 152**	**1 053 052**	**14 937 743**	**1 123 131**
Loans with impairment / total loans	3.4 %		5.7 %	
Total impairment write-offs / loans with impairment	79.5 %		74.8 %	

In 2007 Bank Millennium Group created PLN 62 million credit risk charges in the Profit and Loss Account, including PLN 58 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 608 million as at 31st December 2007 (PLN 662 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	7 280 779		1 979 888	
3. Medium quality	8 741 992		7 444 244	
4. Low quality	1 760 221		1 257 274	
5. Watched	694 905		1 587 013	
6. Default	132 646		202 408	
7. Clients without rating	2 288 234		1 492 156	
Total	**20 899 198**	**1 053 052**	**13 963 007**	**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 – Companies	Loans and advances to customers – Mortgages	Loans and advances to customers – Other retail	Loans and advances to banks	Total
Delay till 30 days	373 640	370 026	99 179	0	842 845
Delay 30 - 60 days	84 577	20 762	12 279	0	117 618
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	**461 592**	**392 857**	**116 300**	**0**	**970 749**

Gross exposure in '000 PLN

31.12.2006	Loans and advances to customers – Companies	Loans and advances to customers – Mortgages	Loans and advances to customers – Other retail	Loans and advances to banks	Total
Delay till 30 days	397 910	238 560	55 051	0	691 521
Delay 30 - 60 days	38 315	8 406	6 118	0	52 839
Delay 60-90 days	1 699	2 064	1 241	0	5 004
Delay above 90 days*****	2 470	-	-	0	2 470
Total	**440 394**	**249 030**	**62 410**	**0**	**751 834**

*- 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 – Companies	Loans and advances to customers – Mortgages	Loans and advances to customers – Other retail	Loans and advances to banks	Total
By type of analysis					
Case by case analysis	554 806	4 361	123	0	559 290
Collective analysis	37 416	46 879	122 009	0	206 304
Total	**592 222**	**51 240**	**122 132**	**0**	**765 594**

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	688 330	33 134	2 958	0	724 422
Collective analysis	50 790	54 148	56 055	0	160 993
Total	**739 120**	**87 282**	**59 013**	**0**	**885 415**

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	45.1%	48.4%	352 419	48.6%	52.3%
Working capital loans	34 530	6.2%	78.8%	56 191	7.7%	86.0%
Current account loans	85 769	15.3%	45.6%	42 707	5.9%	63.2%
Revolving loans	691	0.1%	10.0%	16 824	2.3%	78.4%
Mortgage loans	4 361	0.8%	30.5%	33 134	4.6%	39.4%
Factoring	14 615	2.7%	27.0%	0	0.0%	
Leasing	148 992	26.6%	26.7%	156 129	21.6%	25.7%
Other	18 010	3.2%	66.9%	67 018	9.3%	83.6%
	559 290	**100.0%**	**43.9%**	**724 422**	**100.0%**	**52.8%**

In the group of loans covered by individual analysis investment loans dominate (45.1% of the portfolio), however their share fell in 2007 by 3.5 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 9.4 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	248 617	44.5%	48.8%	299 929	41.4%	58.4%
CHF	12 494	2.2%	33.0%	68 144	9.4%	27.3%
EUR	59 367	10.6%	15.8%	73 512	10.2%	35.0%
USD	233 919	41.8%	47.0%	281 402	38.8%	57.8%
JPY	4 893	0.9%	18.9%	1 435	0.2%	15.7%
	559 290	**100.0%**	**43.9%**	**724 422**	**100.0%**	**52.8%**

The portfolio covered by individual analysis is largely diversified. Loans in PLN account for over 45% of it, with FX loans being just under 55%.

- 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%	118 774	21.2%	163 552	22.6%
20% - 40%	70 590	12.6%	68 047	9.4%
40% - 60%	281 371	50.4%	321 045	44.3%
60% - 80%	27 016	4.8%	35 378	4.9%
Above 80%	61 540	11.0%	136 400	18.8%
	559 290	**100.0%**	**724 422**	**100.0%**

Coverage of the examined portfolio with revaluation charges as at 31st December 2007 was 44% on average and over half of this portfolio's receivables (50.3%) 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	368 793	388 241
Total	**444 764**	**507 457**

(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	2 331 038	1 540 449	0	**3 871 487**
Central Bank	0	165 939	0	**165 939**
Other issuers	0	186 332	22 379	**208 711**
- listed	0	138 106	895	**139 001**
- not listed	0	48 226	21 483	**69 709**
Total	**2 331 038**	**1 892 720**	**22 379**	**4 246 137**

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	23 937	**201 110**
- listed	0	123 555	6 127	**129 682**
- not listed	0	53 618	17 810	**71 428**
Total	**3 368 029**	**2 928 607**	**23 937**	**6 320 573**

(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 Group 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	21 490	1 653 104	1 389 210	1 337 142	240 837	13 189 689	1 952 129	2 851 940	**22 635 541**
Trading securities	4 124	18	0	0	2 330 988	0	0	246	**2 335 376**
Derivatives	633 637	59 265	25 149	627	0	0	0	80 529	**799 207**
Investment securities	19 988	0	8 200	78 162	1 754 613	0	0	49 799	**1 910 762**
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	**1 761 098**	**1 712 386**	**1 422 559**	**1 415 931**	**4 326 438**	**13 189 689**	**1 952 129**	**2 982 513**	**28 762 745**

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	31 484	1 530 682	1 034 765	889 798	306 309	7 684 831	1 313 437	2 808 951	**15 600 256**
Trading securities	22	4 119	0	0	3 368 027	0	0	279	**3 372 447**
Derivatives	326 554	21 392	7 095	0	0	0	0	15 272	**370 313**
Investment securities	29 591	0	8 200	93 964	2 805 052	0	0	11 319	**2 948 126**
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	**1 526 291**	**1 556 193**	**1 050 060**	**983 762**	**6 479 388**	**7 684 831**	**1 313 437**	**2 835 821**	**23 429 782**

* 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)

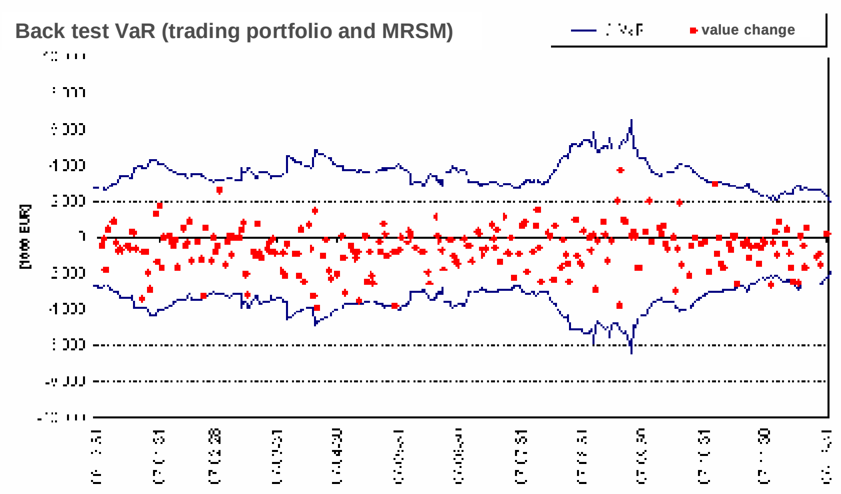
	VaR (from July to December 2007)				
	31.12.2007	Average	Maximum	Minimum	30.06.2007
General risk	5 488	9 498	14 503	5 488	11 042
Interest rate VaR	5 460	9 497	14 527	5 460	11 008
FX Risk	61	789	4 520	37	3 548
Diversification Effect	1%				32%

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 Group 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.

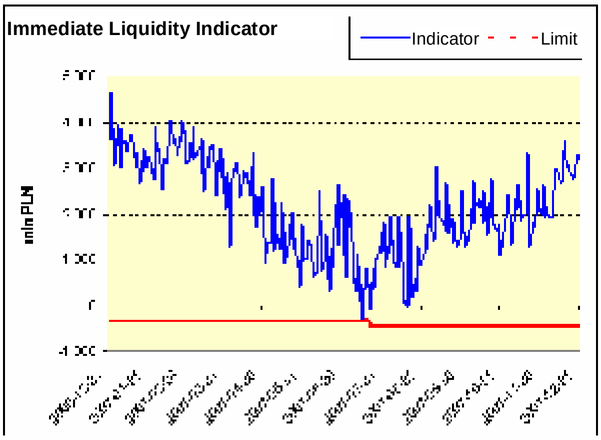
The Bank concluded in the middle of July 2007 a new syndicated loan of CHF 120 million (approximately PLN 300 million) and in December 2007 a securitization transaction (involving Millennium Leasing, a subsidiary company of the Bank) with a positive impact on the Group's liquidity as of 31 December 2007 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.

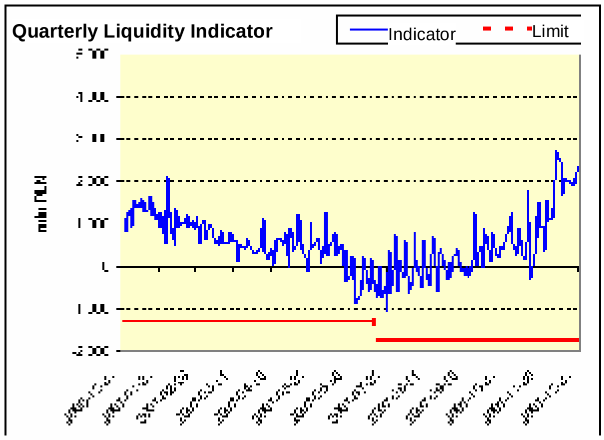
Evaluation of the Bank's liquidity risk is carried out using both indicators defined by the Supervisory Authorities and other internal metrics, for which exposure limits are also defined.

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 Group, 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.

XVII. 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	1 257 128	0	0	0	0		1 257 128
Loans and advances to banks	731 188	30 000	2	0	291 862		1 053 052
Trading debt securities	12 848	96 289	338 630	1 429 085	454 186		2 331 038
Loans and advances to customers	2 154 111	308 588	1 530 390	4 566 898	13 467 165		22 027 152
Debt securities available for sale	67 924	0	329 851	1 491 716	3 229		1 892 720
Receivables from securities bought with sell-back clause	28 807	0	0	0	0		28 807
Shares and interests						11 286	11 286
Other non-financial assets						911 395	911 395
TOTAL	**4 252 006**	**434 877**	**2 198 873**	**7 487 699**	**14 216 442**	**922 681**	**29 512 578**

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	14 263 364	1 910 705	5 486 891	138 972	731		21 800 662
Liabilities from securities sold with buy-back clause	589 361	136 615	0	0	0		725 976
Debt securities	134 356	0	0	0	717 118		851 474
Subordinated debt	0	0	2 175	286 560	537 300		826 035
Other non-financial liabilities						650 298	650 298
Equity						2 519 932	2 519 932
TOTAL	**15 677 566**	**2 123 996**	**5 539 863**	**1 884 477**	**1 546 934**	**3 170 230**	**29 943 066**

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	**-11 425 559**	**-1 689 118**	**-3 340 990**	**5 603 222**	**12 669 508**	**-2 247 549**	**-430 487**
Total Gap	**-17 211 816**	**-1 689 118**	**-3 340 990**	**5 603 222**	**12 669 508**	**-2 247 549**	**-6 216 744**

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	965 834	0	0	0	0		965 834
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	1 654 413	517 380	1 887 805	4 351 654	6 526 491		14 937 743
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						14 483	14 483
Other non-financial assets						860 449	860 449
TOTAL	**2 990 377**	**830 102**	**3 018 842**	**9 239 535**	**7 259 997**	**874 932**	**24 213 785**

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	11 193 825	2 184 790	2 351 384	339 294	8		16 069 301
Liabilities from securities sold with buy-back clause	1 407 911	18 723	1 500	0	0		1 428 134
Debt securities	0	0	5 705	0	0		5 705
Subordinated debt	0	0	813	306 496	0		307 309
Other non-financial liabilities						752 935	752 935
Equity						2 215 321	2 215 321
TOTAL	**14 314 158**	**2 493 647**	**2 364 477**	**1 969 021**	**269 351**	**2 968 256**	**24 378 910**

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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	**-11 323 781**	**-1 663 545**	**654 365**	**7 270 514**	**6 990 646**	**-2 093 324**	**-165 125**
Total Gap	**-15 660 814**	**-1 663 545**	**654 365**	**7 270 514**	**6 990 646**	**-2 093 324**	**-4 502 158**

The above data do not include cash flows from derivatives

XVIII. 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:** joint stock company (in bankruptcy)

   Claim value: PLN 159,461,349

   Claim: consideration as ineffective of:

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

   Case description: On 14.06.2006 by decision of the District Court in Gdańsk the action was dismissed in its entirety, on 10.08.2006 the plaintiff lodged an appeal. The Appellate Court in Gdańsk on 23.03.2007 waived the ruling of the District Court and forwarded the case for reconsideration by the court of 1st instance. Currently the case is before the District Court in Gdańsk in the phase of evidence proceedings.

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

4. **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.

5. **Plaintiff:** joint stock company

   Claim value: PLN 10,951,198

   Claim: consideration of dissolution of lease agreements as ineffective

   Case description: On 28.04.2006 a reply was lodged to the lawsuit, moving for dismissal of the claim in its entirety and adjudication of court charges. In reply to the lawsuit the irrelevance and groundlessness of the claim was demonstrated. The date in the case was set for April 2008.

   Prospects: probability of winning is estimated to be high.

OFF-BALANCE ITEMS

	31.12.2007	31.12.2006
Off-balance conditional commitments granted and received	**8 032 120**	**6 442 924**
1. Commitments granted:	7 331 787	5 960 867
a) financial	5 547 751	4 582 952
b) guarantee	1 784 036	1 377 915
2. Commitments received:	700 333	482 057
a) financial	15 936	50 000
b) guarantee	684 397	432 057

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 Group 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**

XIX. OPERATING LEASING

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

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

Balance as at:	31.12.2007	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**

XX. 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**	....