Annual Financial Statement of Bank Millennium S.A. on the 12-month period ending 31st December 2010

MAIN FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2010 to 31.12.2010	period from 1.01.2009 to 31.12.2009	period from 1.01.2010 to 31.12.2010	period from 1.01.2009 to 31.12.2009
I. Interest income	2 204 316	2 207 880	550 479	508 653
II. Fee and commission income	568 136	525 443	141 879	121 052
III. Operating income	1 586 566	1 425 299	396 210	328 361
IV. Operating profit / (loss)	389 348	80 535	97 231	18 554
V. Profit / (loss) before taxes	389 348	80 535	97 231	18 554
VI. Profit (loss) after taxes	321 042	84 115	80 173	19 378
VII. Total comprehensive income of the period	259 587	55 073	64 826	12 688
VIII. Net cash flows from operating activities	-89 068	1 695 971	-22 243	390 719
IX. Net cash flows from investing activities	-1 008 237	-220 249	-251 785	-50 741
X. Net cash flows from financing activities	227 724	-286 807	56 869	-66 075
XI. Net cash flows, total	-869 581	1 188 915	-217 159	273 903
XII. Total assets	46 050 065	43 969 150	11 627 923	10 702 777
XIII. Deposits from banks	2 084 456	4 909 356	526 338	1 195 014
XIV. Deposits from customers	35 525 839	31 653 587	8 970 492	7 704 977
XV. Total equity	3 816 045	2 517 625	963 575	612 829
XVI. Share capital	1 213 117	849 182	306 319	206 704
XVII. Number of shares	1 213 116 777	849 181 744	1 213 116 777	849 181 744
XVIII. Book value per share (in PLN/EUR)	3,15	2,96	0,79	0,72
XIX. Diluted book value per share (in PLN/EUR)	3,15	2,96	0,79	0,72
XX. Capital adequacy ratio	13,45%	10,36%	13,45%	10,36%
XXI. Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

RATES USED FOR CONVERSION OF FINANCIAL DATA TO EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 3.9603 PLN/EUR rate of 31 December 2010 (for comparable data as of 31 December 2009: 4.1082 PLN/EUR),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2010 – 4.0044 PLN/EURO, rate calculated as the average of rates at end of reporting months (for comparable data on the period 1 January – 31 December 2009: 4.3406 PLN/EUR).

MAIN QUARTERLY FINANCIAL DATA

INCOME STATEMENT (PLN '000)	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*	1.01.2009 - 31.12.2009	1.10.2009 - 31.12.2009*
I. Interest income	2 204 316	566 061	2 207 880	539 189
II. Interest expense	-1 403 943	-345 264	-1 740 794	-369 804
III. Net interest income	**800 373**	**220 797**	**467 086**	**169 385**
IV. Fee and commission income	568 136	145 777	525 443	142 436
V. Fee and commission expense	-46 045	-10 958	-70 149	-15 018
VI. Net fee and commission income	**522 091**	**134 819**	**455 294**	**127 418**
VII. Dividend income	20 191	13	101 446	16
VIII. Result on investment financial assets	6 372	191	22 950	10 163
IX. Result on financial instruments valued at fair value through profit and loss and foreign exchange result	210 340	71 110	319 754	56 583
X. Other operating income	27 199	6 982	58 769	27 884
XI. Operating income	**1 586 566**	**433 912**	**1 425 299**	**391 449**
XII. General and administrative expenses	-949 646	-247 904	-910 886	-209 150
XIII. Impairment losses on financial assets	-146 139	-29 857	-358 448	-62 040
XIV. Impairment losses on non-financial assets	-2 218	-2 358	-150	103
XV. Depreciation and amortization	-71 716	-17 197	-50 602	-12 129
XVI. Other operating expenses	-27 499	-9 439	-24 678	-6 795
XVII. Operating expenses	**-1 197 218**	**-306 755**	**-1 344 764**	**-290 011**
XVIII. Operating profit / (loss)	**389 348**	**127 157**	**80 535**	**101 438**
XIX. Profit / (loss) before taxes	**389 348**	**127 157**	**80 535**	**101 438**
XX. Corporate income tax	-68 306	-26 145	3 580	-16 630
XXI. Profit / (loss) after taxes	**321 042**	**101 012**	**84 115**	**84 808**

TOTAL COMPREHENSIVE INCOME STATEMENT (PLN '000)	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*	1.01.2009 - 31.12.2009	1.10.2009 - 31.12.2009*
PROFIT / (LOSS) AFTER TAXES	**321 042**	**101 012**	**84 115**	**84 808**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME				
I. Effect of valuation of available for sale debt securities	2 182	-2 144	-4 022	-10 286
II. Effect of valuation of available for sale shares	-2 193	-501	3 543	1 449
III. Hedge accounting	-75 859	-50 608	-35 373	28 082
IV. Other elements of total comprehensive income before taxes	**-75 870**	**-53 253**	**-35 852**	**19 245**
V. Corporate income tax on other elements of total comprehensive income	14 415	10 118	6 810	-3 656
VI. Other elements of total comprehensive income after taxes	**-61 455**	**-43 135**	**-29 042**	**15 589**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**259 587**	**57 877**	**55 073**	**100 397**

*** - quarterly data has not been audited**

ANNUAL FINANCIAL STATEMENT OF THE BANK MILLENNIUM S.A. CAPITAL GROUP FOR THE PERIOD OF 12 MONTHS ENDING 31 DECEMBER 2010

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I. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	Note	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Interest income	1	2 204 316	2 207 880
Interest expense	2	-1 403 943	-1 740 794
Net interest income		**800 373**	**467 086**
Fee and commission income		568 136	525 443
Fee and commission expense		-46 045	-70 149
Net fee and commission income	3	**522 091**	**455 294**
Dividend income	4	20 191	101 446
Result on investment financial assets	5	6 372	22 950
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	210 340	319 754
Other operating income	6	27 199	58 769
Operating income		**1 586 566**	**1 425 299**
General and administrative expenses	7	-949 646	-910 886
Impairment losses on financial assets	8	-146 139	-358 448
Impairment losses on non financial assets	9	-2 218	-150
Depreciation and amortization	10	-71 716	-50 602
Other operating expenses	11	-27 499	-24 678
Operating expenses		**-1 197 218**	**-1 344 764**
Profit / (loss) before taxes		**389 348**	**80 535**
Corporate income tax	12	-68 306	3 580
Profit / (loss) after taxes		**321 042**	**84 115**

TOTAL COMPREHENSIVE INCOME STATEMENT	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Amount '000 PLN		
PROFIT / (LOSS) AFTER TAXES	**321 042**	**84 115**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME		
I. Effect of valuation of available for sale debt securities	2 182	-4 022
II. Effect of valuation of available for sale shares	-2 193	3 543
III. Hedge accounting	-75 859	-35 373
IV. Other elements of total comprehensive income before taxes	**-75 870**	**-35 852**
V. Corporate income tax on other elements of total comprehensive income	14 415	6 810
VI. Other elements of total comprehensive income after taxes	**-61 455**	**-29 042**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**259 587**	**55 073**

II. BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2010	31.12.2009
Cash, balances with the Central Bank	14	2 050 515	2 191 027
Loans and advances to banks	15	1 485 797	695 689
Financial assets valued at fair value through profit and loss	16	1 429 543	3 029 253
Hedging derivatives	17	80 231	377 334
Loans and advances to customers	18	35 677 997	32 482 473
Investment financial assets	19	4 507 847	4 163 076
- available for sale		4 507 847	4 163 076
- held to maturity		0	0
Investments in associates	19	312 105	262 288
Receivables from securities bought with sell-back clause	20	55 085	208 781
Property, plant and equipment	21	233 167	285 490
Intangible assets	22	29 798	18 458
Non current assets held for sale	23	0	0
Receivables from Tax Office resulting from current tax		2 952	36 548
Deferred income tax assets	24	102 807	102 660
Other assets	25	82 221	116 073
Total Assets		**46 050 065**	**43 969 150**

LIABILITIES

Amount '000 PLN	Note	31.12.2010	31.12.2009
Deposits from banks	26	2 084 456	4 909 356
Financial liabilities valued at fair value through profit and loss	27	804 965	683 378
Hedging derivatives	28	1 315 321	122 813
Deposits from customers	29	35 525 839	31 653 587
Liabilities from securities sold with buy-back clause	30	674 194	2 346 190
Debt securities	31	384 537	262 466
Provisions	32	20 503	23 196
Deferred income tax liabilities	33	0	0
Other liabilities	34	512 217	504 744
Subordinated debt	35	911 988	945 795
Total Liabilities		**42 234 020**	**41 451 525**

EQUITY

Amount '000 PLN	Note	31.12.2010	31.12.2009
Share capital	36	1 213 117	849 182
Share premium	36	1 147 241	472 343
Revaluation reserve	36	-50 256	11 199
Retained earnings	36	1 505 943	1 184 901
Total Equity		**3 816 045**	**2 517 625**
Total Liabilities and Equity		**46 050 065**	**43 969 150**

III. STATEMENT OF CHANGES IN EQUITY

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2010	**2 517 625**	**849 182**	**472 343**	**11 199**	**1 184 901**
- L-shares issue	1 038 833	363 935	674 898	0	0
- total comprehensive income of 2010	259 587	0	0	-61 455	321 042
Equity at the end of the period (closing balance) 31.12.2010	**3 816 045**	**1 213 117**	**1 147 241**	**-50 256**	**1 505 943**

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2009	**2 462 552**	**849 182**	**472 343**	**40 241**	**1 100 786**
- total comprehensive income of 2009	55 073	0	0	-29 042	84 115
Equity at the end of the period (closing balance) 31.12.2009	**2 517 625**	**849 182**	**472 343**	**11 199**	**1 184 901**

Detailed information concerning changes in different equity items are presented in the ***Note (36)***

IV. CASH FLOWS FROM OPERATING ACTIVITIES

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**1.01.2010 - 31.12.2010**	**1.01.2009 - 31.12.2009**
I. Profit (loss) after taxes	**321 042**	**84 115**
II. Adjustments for:	**-410 110**	**1 611 856**
1. Interests in net profit / (loss) of associated companies	0	0
2. Depreciation and amortization	71 716	50 602
3. Foreign exchange (gains) / losses	-75 324	-148 837
4. Dividends	-20 191	-101 446
5. Changes in provisions	-2 693	-9 356
6. Result on sale and liquidation of investing activity assets	11 536	-33 951
7. Change in financial assets valued at fair value through profit and loss	1 881 313	2 760 402
8. Change in loans and advances to banks	-989 238	902 384
9. Change in loans and advances to customers	-3 186 146	128 921
10. Change in receivables from securities bought with sell-back clause	153 696	-147 499
11. Change in liabilities valued at fair value through profit and loss	1 314 095	-4 775 685
12. Change in liabilities to banks	-1 997 886	2 229 678
13. Change in deposits from customers	3 867 878	-358 708
14. Change in liabilities from securities sold with buy-back clause	-1 671 996	839 837
15. Change in debt securities	122 071	149 259
16. Change in income tax settlements	68 307	-11 760
17. Income tax paid	-20 443	-59 949
18. Change in other assets and liabilities	37 011	153 779
19. Other	26 184	44 185
III. Net cash flows from operating activities	**-89 068**	**1 695 971**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**1.01.2010 - 31.12.2010**	**1.01.2009 - 31.12.2009**
I. Inflows:	**75 270 420**	**24 926 250**
1. Proceeds from sale of property, plant and equipment and intangible assets	4 808	40 145
2. Proceeds from sale of shares in associates	20 025	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	75 225 396	24 784 659
5. Other	20 191	101 446
II. Outflows:	**-76 278 657**	**-25 146 499**
1. Acquisition of property, plant and equipment and intangible assets	-26 938	-7 221
2. Acquisition of shares in associates	-70 001	-23 000
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-76 181 718	-25 116 278
5. Other	0	0
III. Net cash flows from investing activities	**-1 008 237**	**-220 249**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**1.01.2010 - 31.12.2010**	**1.01.2009 - 31.12.2009**
I. Inflows:	**1 366 448**	**1 331 630**
1. Long-term bank loans	327 615	1 331 630
2. Issue of debt securities	0	0
3. Increase in subordinated debt	0	0
4. Net proceeds from issues of shares and additional capital paid-in	1 038 833	0
5. Other	0	0
II. Outflows:	**-1 077 433**	**-1 551 655**
1. Repayment of long-term bank loans	**-1 138 724**	**-1 618 437**
2. Redemption of debt securities	-1 051 873	-1 511 487
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	0	0
7. Other	0	0
III. Net cash flows from financing activities	-86 851	-106 950

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**-869 581**	**1 188 915**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**4 128 408**	**2 939 493**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**3 258 827**	**4 128 408**

V. GENERAL INFORMATION ON THE ISSUER

Name (firm) and domicile: Bank Millennium S.A., Poland, Warsaw, Stanisława Żaryna 2A
Court of registration and reg. no.: 13th Business Registration Division of the National Judicial Register, Registration Court for the Capital City of Warsaw, no 0000010186
Core business of the issuer: banking activity and other financial intermediation, except for insurance and pension fund.

Supervisory Board and Management Board of Bank Millennium S.A.
Composition of the Supervisory Board of the Bank Millennium S.A. ('Bank') being parent company for Bank Millennium Group ('Group') as at 31 December 2010 was as follows:

1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman of the Supervisory Board,
3. Carlos Jorge Ramalho dos Santos Ferreira – Deputy Chairman of the Supervisory Board,
4. Marek Furtek – Secretary of the Supervisory Board,
5. Luis Maria Franca de Castro Pereira Coutinho – Supervisory Board Member,
6. Vitor Manuel Lopes Fernandes – Supervisory Board Member,
7. Andrzej Koźmiński – Supervisory Board Member,
8. Paulo José de Ribeiro Moita de Macedo – Supervisory Board Member,
9. Nelson Ricardo Bessa Machado – Supervisory Board Member,
10. Marek Rocki – Supervisory Board Member,
11. Dariusz Rosati – Supervisory Board Member,

On 22 April 2010 the Bank's Supervisory Board held a meeting, where the Supervisory Board acknowledged the resignation of Mr. Rui Manuel da Silva Teixeira from the position as Vice-Chairman of the Management Board of Bank Millennium S.A and the Member of the Management Board due to personal reasons, effective as of 22 April 2010.

Moreover, the Supervisory Board changed the composition of the Management Board of the current term in office, increasing the number of the Management Board members from 7 to 8 members. The Supervisory Board appointed one of the Members of the Management Board Mr. Joao Nuno Lima Bras Jorge as Vice-Chairman of Bank Millennium S.A. Management Board and appointed Mr. Andrzej Gliński and Mr. Antonio Pinto Junior for posts of Management Board Members of the current term in office.

Composition of the Management Board of the Bank Millennium S.A. as at 31 December 2010 was as follows:

1. Bogusław Kott – Chairman of the Management Board,
2. Joao Bras Jorge – Deputy Chairman of the Management Board,
3. Fernando Bicho – Member of the Management Board,
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board,
5. Andrzej Gliński - Member of the Management Board,
6. Wojciech Haase – Member of the Management Board,
7. Artur Klimczak – Member of the Management Board,
8. Antonio Pinto Junior– Member of the Management Board.

VI. ACCOUNTING POLICY

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

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

This financial report was approved for publication by the Management Board on 25 February 2011.

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

The Bank did not use the possibility of an earlier adoption of the new Standards and Interpretations, which have already been published and which will enter into force after the balance sheet day, including:

Standards, Interpretations and amendments to published Standards that are not yet effective

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	The proposed amendment would provide relief to first-time adopters from the requirement to provide comparative period disclosures for the information required to be presented by the Amendments to IFRS 7 if the first IFRS reporting period starts earlier than 1 January 2010.	The amendment has no impact on the Bank's Financial Statements	1 July 2010 According to Commission Regulation No 574/2010 each entity shall apply the amendments at the latest, as from the commencement date of its first financial year starting after 30 June 2010.
Revised IAS 24 *Related Party Disclosures*	The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.	Revised IAS 24 is not relevant to the Bank's financial statements as the Bank is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.	1 January 2011 According to Commission Regulation No 632/2010 each entity shall apply the revised standard at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IAS 32 *Improving Disclosures about Financial Instruments*	The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.	The amendments to IAS 32 are not relevant to the Bank's financial statements as the Bank has not issued such instruments at any time in the past.	1 February 2010 According to Commission Regulation No 1293/2009 each entity shall apply the amendments at the latest, as from the commencement date of its first financial year starting after 31 January 2009.
Amendments to IFRIC 14 *Prepayments of a Minimum Funding*	The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.	The amendments to IFRIC 14 is not relevant to the Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.	1 January 2011 According to Commission Regulation No 633/2010 each entity shall apply the amendments at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a ‘debt for equity swap’ are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.	The Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Bank’s financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.	1 July 2010 According to Commission Regulation No 662/2010 each entity shall apply IFRIC 19 at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

Standards and interpretations not yet endorsed by the EU

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Improvements to IFRS 2010	The *Improvements to IFRSs 2010* contains 11 amendments to 6 standards and one interpretation.	The possible impact of the amendments on the entity's financial statements in the period of initial recognition is not known.	1 January 2011 except changes to IFRS 3 *Business combinations* – Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS, Measurement of non-controlling interests, Unreplaced and voluntarily replaced share-based payment awards, IAS 27 *Consolidated and separate Financial Statements* – Transition requirements for amendments made as result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31– where the effective date is 1 July 2010

Amendments to IFRS 7 *Disclosures - Transfers of Financial Assets*	The Amendments require disclosure of information that enables users of financial statements: I) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and II) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.	The Bank does not expect the amendment to IFRS 7 to have material impact on the financial statements, because of the nature of the Bank's operations and the types of financial assets that it holds.	1 July 2011
IFRS 9 *Financial Instruments*	This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: • financial assets measured at amortized cost; or • financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.	The Bank does not expect IFRS 9 to have material impact on the financial statements. The classification and measurement of the Bank's financial assets is not expected to change significantly under IFRS 9 because of the nature of the Bank's operations and the types of financial assets that it holds.	1 January 2013

Additions to IFRS 9 *Financial Instruments* (issued in 2010)	The 2010 additions to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities. The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity. Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.	The Bank does not expect IFRS 9 issued in 2010 to have material impact on the financial statements. The classification and measurement of the Bank's financial liabilities are not expected to change significantly under IFRS 9 because of the nature of the Bank's operations and the types of financial assets that it holds.	1 January 2013

Amendments to IAS 12 *Income taxes - Deferred Tax: Recovery of Underlying Assets*	The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.	The amendments are not relevant to the Bank's financial statements, since the Bank does not have any investment properties measured using the fair value model in IAS 40.	1 January 2012

L-SERIES SHARE ISSUE

In connection with implementation of resolution No. 2 of the Extraordinary Annual Meeting of 3 December 2009 as well as resolution No. 5/2010 of the Management Board of the Bank dated 13 January 2010 on increasing initial capital through an issue of ordinary bearer shares, the L-series share issue took place. 722,222,644 shares were duly subscribed and paid for, therefore on 8 February 2010 the number of 363,935,033 L-series shares were allocated. During the subscription period there were 6,410 primary subscriptions for 361,796,921 shares and 804 additional subscriptions for 360,425,723 shares. The reduction of additional subscriptions was 99.41 %. On 26 February 2010 the Court registered the Bank's share capital increase from PLN 849,181,744 up to PLN 1,213,116,777 and respective change in Bank's Statute.

The effect of L-shares issue recognised in Bank's equity was as follows (data in PLN):

(data in PLN)	Unconsolidated equity (Bank)
Number of L-shares issued	363 935 033
PLN per share	2.90
Income from L-shares issue	1 055 411 596
Share capital	**363 935 033**
Income from National Depository for Securities	1 162 694
Costs of issue	-17 741 425
Share premium	**674 897 832**

Costs of Bank's series L shares issue

The final costs of the issue calculated on the grounds of the invoices received and accepted by the Bank totalled 17,741,424.73 PLN gross, including:

a) Preparation, conducting of the offer and underwriting the issue: 9,590,929.81 PLN;
b) Preparation of the issue prospectus: 2,203,306.26 PLN;
c) Promotion of the offer: 2,460,357.17 PLN; and
d) Taxes (including VAT): 3,486,831.49 PLN.

The method of relevant accounting in the books and capturing in the financial report: the costs of the Bank's series L shares issue were accounted in the books through reduction of the share premium - surplus of the value of the shares issued over their nominal value. These costs were reflected in the financial statement under "Share premium".

According to the costs calculated on the basis of the invoices received and accepted by the Bank, average cost of conducting the series L share issue per share of series L under the subscription was 0.05 PLN.

Reclassification of debt securities

In 2008 the Bank reclassified WZ0911 seven-year floating-rate Treasury bonds from the portfolio "held for trading" to the portfolio "available for sale". This change of classification was possible based on the amendment of IAS MSR 39 and IFRS 7, implemented by virtue of Regulation No. 1004/2008 of the Commission of the European Communities of 15 October 2008. Under the invoked standard the reclassification was done at fair value – the valuation losses recognised in the Profit and Loss Account until the moment of reclassification were not reversed and the fair value of the instrument on the day of reclassification constituted new cost of acquisition. The premise justifying the above reclassification (resulting from IAS 39.50B) was change of intention to keep these securities in the Bank's portfolio; realisation of short-term gains on the investment ceased to be possible due to changes in the market situation.

The below data constitute the fulfilment of the information duties referring to the above mentioned transactions, which imply from provisions of MSSF 7:

Securities	WZ0911
Par value in a date of reclassification	PLN 120 000 000
Balance sheet value in a date of reclassification	PLN 119 132 400
Interest rate in a date of reclassification	6.64%

Data in PLN ths.	Valuation recognized in P&L (with tax effect)	Valuation recognized in revaluation reserve (with tax effect)	Total effect recognized in equity
Year 2007			
Before reclassification in "trading" portfolio	-3	-	-3
Year 2008			
Before reclassification in "trading" portfolio	-1 016	-	-1 016
After reclassification in "available for sale" portfolio		-2 509	-2 509
TOTAL 2008	***-1 016***	***-2 509***	***- 3 525***
Year 2009			
After reclassification in "available for sale" portfolio	-	- 461	- 1 477
Year 2010			
After reclassification in "available for sale" portfolio	-	274	-742
Year 2010 (proforma)			
If the reclassification did not occur	735	-	-742

(2) ADOPTED ACCOUNTING STANDARDS

1. Basis of Financial Statements Preparation

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

The financial statements have been prepared on the basis of historical cost principle, with the exception of financial assets and liabilities measured at fair value in the P&L Account, including derivatives as well as assets classified as available for sale, with exception of those, for which fair value cannot be credibly ascertained. Other items of financial assets and liabilities (including loans and borrowings) are presented at amortized cost less impairment charges, or at their purchase price less impairment charges.

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

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

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

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

2. Functional and presentation currency

Functional and presentation currency

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

Transactions and balances

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

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

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

3. Financial assets and liabilities

Classification

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

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

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

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

- *Held to maturity investments*

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

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

- *Loans and receivables*

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

- *Financial assets available for sale*

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

- *Other financial liabilities*

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

Recognition of financial instruments in the balance sheet

The Bank recognizes financial assets or liabilities on the balance sheet when, and only when it becomes a party to the contractual provisions of the instrument. Standardised purchase and sale transactions of financial assets are recognized at the transaction date .
All financial assets at the moment of initial recognition are recognized at fair value adjusted, in the case of a financial asset not valued at fair value through profit or loss, by transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Derecognition of financial instruments from the balance sheet

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

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

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

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

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

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

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

- *Held to maturity investments and loans and receivables*

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

- *Financial asset available for sale*

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

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

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

- *Other financial liabilities*

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

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

4. Capital investments in subsidiary and associated entities

Subsidiary entities

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

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

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

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

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

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

Associated entities

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

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

5. Hedge Accounting and Financial Derivatives

Valuation at fair value

Derivative instruments are reported at fair value starting from the day of conclusion of the transaction. Fair value is determined on the basis of quotations of instruments on active markets, including pricing of recently concluded transactions. A market is considered active when the quoted instrument prices are regularly available and result from actual transactions on the market and represent a level, at which the Bank could conclude such transactions. If the market for the instruments is not active the Bank determines fair value with use of measurement techniques, including models based on discounted cash flows and options measurement models. The measurement techniques used by the Bank are based on maximum use of input data coming from the active market, such as interest rates, FX rates and implied volatilities. In case of lack of input data from the active market the Bank makes use in the measurement techniques of proprietary estimates of measurement parameters, based on best knowledge and experience.

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

- ü At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- ü The Bank anticipates that the hedge will be highly effective in balancing cash flows and changes in fair value in accordance with the documented risk management strategy pertaining to this particular hedge combination;
- ü The hedging of cash flows covers a highly probable forecasted transaction exposed to the risk of changing cash flows impacting the level of earnings;

- ü The effectiveness of a hedge can be reliably assessed, i.e. one can credibly assess the fair value of the hedged position or cash flows originating from such position and the fair value of the hedging instrument;
- ü The hedge is verified on an on-going basis and it is found to be very effective throughout the period of its utilisation.

Hedging cash flows

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

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

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

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

Hedging fair value

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

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

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

Discontinuing hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

1) *FX forward*

   Forward transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FX forward transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

   Moreover the Bank designated selected FX forward transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

2) *FX SWAP*

   FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions. Changes of fair value of FX SWAP transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' in the Profit and Loss Account.

   Moreover the Bank designated selected FX SWAP transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

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 on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

Moreover the Bank designated selected IRS transactions as hedging instruments. The method of capturing and valuating hedging financial instruments was described in the part on hedge accounting.

4) *Cross – Currency Swap (CCS)*

CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure. Changes of fair value of CCS transactions are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result'.

Moreover the Bank designated selected CCS transactions as hedging instruments. The method of recognition and measurement of hedging instruments was described in the part devoted to hedge accounting.

5) *IRS transactions with embedded options*

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method, while the option component is valued with use of the option valuation models. 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 on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Bank.

6) *FX options*

Option transactions are measured at fair value with use of option measurement models. In case of options issued by the Bank's counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of FX options are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' line 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 on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

8) *Commodity futures*

Commodity futures are measured at fair value based on the discounted future cash flow methodology, using reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodities market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

9) *Commodity options*

Commodity options are measured at fair value with use of option valuation models as well as reference prices set at the LME reference market (London Metal Exchange), whereas the Bank does not keep own positions on the commodities market. Changes of fair value are reported in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

6. Impairment of financial assets

Assets valued at amortized cost

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

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

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

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

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

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 (parameter PD) method is applied. Modification of the PD parameter takes into account characteristics of specific products and emerging periods for losses on those products. In particular this approach allows to detect credit losses as of the balance sheet date: 1) incurred and reported, as well as 2) incurred but not yet reported (the so-called revaluation charge „IBNR" provision).

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

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

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

Financial assets available for sale

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

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

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

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

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

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

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

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

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

9. Settlement of leasing agreements

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

In the case of operating lease contracts concluded by the Bank, under which substantially all risks and rewards resulting from leased assets are taken by the party who provides the assets (lessor), lease payments are recognized as costs in the profit and loss on a straight-line basis throughout the period of the lease.

10. Property, plant and equipment and Intangible Assets

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

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

Subsequent costs

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

Costs of repairing and maintenance of tangible fixed assets encumber the income statement in the reporting period in which they were incurred.

Intangible assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form.

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

Computer software

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

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

Other Intangibles

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

Subsequent costs

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

Depreciation and amortization charges

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

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

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

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

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

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

11. Non current assets held for sale

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

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

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

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

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

12. Impairment of non current assets

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

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

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

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

Prepayments, Accruals and Deferred Income

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet.

Accruals are provisions for costs arising from services provided to the Bank, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities' in the balance sheet.

Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities" in the balance sheet.

13. Provisions

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

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

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

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

Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

14. Bank's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

15. Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

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

16. Interest income

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

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

Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the hedge accounting (detailed information on active hedge accounting relationships is presented in note 17).
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

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

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

17. Fee income/ Fee and commission expenses

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

The basic types of commissions associated with lending operations at the Bank include among others preparation fees/commissions and commitment fees.
Fees and commissions (both income and expense) directly associated with the origination of financial assets having specific repayment schedules are included in the income statement as an element of the effective interest rate; they are part of interest income. Other fees integrally associated with the origination of assets without specific time schedules are settled on a straight-line basis within the

duration of the contract. Fees for a commitment to grant an advance which will probably be taken are deferred and once the financial assets arise are settled as an element of an effective interest rate or on a straight-line basis with the use of the above-mentioned criterion. In the case of loans and advances with unspecified instalment payment dates and unspecified interest rate repricing dates, e.g. overdraft facilities and credit cards, commissions are settled over time throughout the period of card validity or overdraft limit validity by straight-line method and accounted towards commission income.
In connection with performance of a material transaction consisting in intermediation in the sale of insurance policies, the Bank upon the initial recognition of loan receivables reports in the Profit and Loss Account the fair value of the provided service of sale of an insurance policy. As for the remaining part of insurance fees, the Bank settles it over time as an integral part of effective interest rate and reports it in the Profit and Loss Account under interest income.
Remaining fees and commissions connected with financial services offered by the Group, such as:

- Asset management services;
- Services connected with cash management;
- Income from participation system of remuneration of the Bank from participation in insuring bank products (The bank is paid part of the earnings generated by the insurer in cooperation with the Bank).
- Brokerage services;
- Fees for withdrawal of funds before maturity of the deposit;

are recognised in the Profit and Loss Account on a cash basis.

18. Dividend Income

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

19. Result on Investment Financial Instruments

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

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

Result on financial instruments valued at fair value through profit and loss and foreign exchange result 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) as well as foreign exchange profit.

Foreign exchange profit includes: i) realised result and result of valuation of FX spot and FX forward transactions ii) 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.

21. Other Operating Income and Expenses

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

22. Income tax

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

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

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

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

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

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

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

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

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

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

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

23. Application of Estimates in connection with Accounting Policies

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

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

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

- *Impairment of loans and advances*

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

Fair value of financial instruments not quoted on active markets is determined with use of measurement techniques consistent with the Bank's accounting policy. With respect to non-option derivatives and debt securities use is made of models based on discounted cash flows. Option pricing models are applied to option instruments. All models are approved prior to use and also calibrated to ensure that attained results reflect the actual fair value of the measured instruments. If possible, only observable data from the active market are used in the models.

In case of lack of measurement parameters coming from the active market, fair value is determined on the basis of application of measurement techniques using estimated input parameters.

The Bank measures financial instruments using the measurement methods below in the following hierarchical order:

- Prices quoted on the active market for identical instruments for following financial instruments:
  - treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:
  Treasury floating interest debt securities,
  Derivatives:
  - FRA, IRS, CIRS;
  - FX Swap, FX Forward;
  - Embedded derivatives;
  - Options placed by the Bank;
  - Bills issued by the Central Bank;
  - forwards on the price of raw materials

- Techniques of measurement with use of significant parameters not coming from the market:
  Debt securities of other issuers (e.g. municipalities),
  Derivatives:
  - FX Options acquired by the Bank.

The most important parameter not coming from an active market and used by the Bank for measurement of financial instruments is the component of credit risk on account of transactions concluded by the Bank on derivatives with non-bank customers, in a situation when uncertainty with respect to future settlement of the transaction exposes the Bank to potential loss.

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. NOTES TO FINANCIAL REPORT

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

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2010 - 31.12.2010	**01.01.2009 - 31.12.2009**
Interest income and other of similar nature, including:		
Balances with the Central Bank	35 454	39 203
Loans and advances to banks	10 289	5 826
Loans and advances to customers	1 466 465	1 432 206
Transactions with repurchase agreement	10 084	11 140
Hedging derivatives	368 775	391 742
Financial assets held for trading (debt securities)	91 830	154 560
Investment securities	221 419	173 203
Total	**2 204 316**	**2 207 880**

The item „Hedging derivatives" contains net interest income on selected derivatives used as effective hedging instruments regarding cash flows and fair value. Detailed description of hedging mechanisms applied by the Bank can be found in ***note (17)***.

Interest income for the year 2010 contains interest accrued on impaired loans in the amount of PLN 107,312 thous. (for corresponding data in the year 2009 the amount of such interest stood at PLN 69,038 thous.). 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

	01.01.2010 - 31.12.2010	**01.01.2009 - 31.12.2009**
Interest expense and other of similar nature, including:		
Banking deposits	-19 501	-18 028
Loans and advances from banks	-80 063	-88 490
Transactions with repurchase agreement	-45 254	-85 683
Hedging derivatives	0	0
Deposits from customers	-1 221 079	-1 503 163
Subordinated debt	-25 770	-39 216
Debt securities	-9 552	-4 740
Other	-2 722	-1 474
Total	**-1 403 943**	**-1 740 794**

(3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Resulting from accounts service	106 420	82 818
Resulting from loan activity	50 175	42 566
Resulting from payments service	44 431	38 823
Resulting from payment and credit cards	180 032	171 415
Resulting from sale of insurance products	62 447	106 553
Resulting from distribution of investment funds units and other savings products	92 668	56 464
Resulting from guarantees and sureties granted	16 549	11 761
Resulting from brokerage and custody service	7 143	6 376
Other	8 271	8 667
Total	**568 136**	**525 443**

3b. Fee and commission expense

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Resulting from accounts service	-1 376	-1 089
Resulting from loan activity	-5 169	-13 068
Resulting from payments service	-4 134	-2 075
Resulting from payment and credit cards	-32 588	-51 522
Other	-2 778	-2 395
Total	**-46 045**	**-70 149**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Dividend income from related parties	18 206	99 287
Dividend income from other entities	1 985	2 159
Total	**20 191**	**101 446**

Net dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in financial years 2010 and 2009 to PLN 18,206 thousand, and PLN 99,287 thousand, respectively.

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Operations on debt instruments	6 372	20 411
Operations on equity instruments	0	2 539
Total	**6 372**	**22 950**

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

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

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

In 2008 Bank transferred Treasury bonds nominally valued at PLN 120 million from the „intended for trading” portfolio to the „available for sale” portfolio. Information on such transfer along with figures are presented in Chapter VI „Accounting Policy – *Reclassification of Debt Securities*”.

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

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Operations on securities	3 992	34 867
Operations on derivatives	90 329	219 502
Hedging operations	-3 748	-573
Foreign exchange result	122 540	68 649
Other financial operations	-2 772	-2 691
Total	**210 340**	**319 754**

(6) OTHER OPERATING INCOME

6. Other operating income

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Profit on sale and liquidation of property, plant and equipment, intangible assets	606	3 837
Profit on sale of non current assets held for sale	0	0
Income from sale of other services	11 941	10 116
Income from collection service	1 574	521
Income from adjustment in VAT settlements	3 111	12 689
Other	9 967	31 605
Total	**27 199**	**58 769**

In Q4 2009 the parent company of the Group – the Bank, in connection with received individual interpretations of tax law, issued by the Minister of Finance, adjusted settlements of VAT in previous years. Revenue generated on this account stood at PLN 12.7 million. Similarly, in the year 2010 an amount of PLN 3.1 million was recorded

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Staff costs:	**-486 161**	**-435 185**
Salaries (including bonuses)	-473 266	-424 220
Employee benefits, including:	-12 895	-10 965
- provisions for retirement benefits	-1 461	-813
- provisions for unused employee holiday	1 024	2 991
- other	-12 458	-13 143
General administrative costs	**-463 485**	**-475 701**
Costs of advertising, promotion and representation	-47 354	-35 606
Costs of software maintenance and IT services	-14 803	-15 653
Costs of renting	-165 794	-181 678
Costs of buildings maintenance, equipment and materials	-28 694	-32 387
ATM and cash costs	-20 796	-23 348
Costs of communications and IT	-63 047	-64 299
Costs of consultancy, audit and legal advisory and translation	-13 973	-11 286
Taxes and fees	-17 660	-14 189
KIR clearing charges	-2 655	-2 893
PFRON costs	-5 406	-5 512
BFG costs	-13 621	-15 147
Financial Supervision costs	-4 920	-6 113
Other	-64 761	-67 590
Total	**-949 646**	**-910 886**

(8) *IMPAIRMENT LOSSES ON FINANCIAL ASSETS*

8. Impairment losses on financial assets

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Impairment losses on loans and advances to customers	**-133 599**	**-363 268**
- Impairment charges on loans and advances to customers	-540 369	-688 227
- Reversal of impairment charges on loans and advances to customers	403 209	322 026
- Amounts recovered from loans written off	3 561	2 933
Impairment losses on investment securities	**-16 538**	**0**
- Impairment write-offs for investment securities	-16 538	0
- Reversal of impairment write-offs for investment securities	0	0
Impairment losses on investments in associates	**0**	**7 000**
- Impairment write-offs for investments in associates	0	0
- Reversal of impairment write-offs for investments in associates	0	7 000
Impairment losses on off-balance sheet liabilities	**3 998**	**-2 180**
- Impairment write-offs for off-balance sheet liabilities	-7 743	-14 990
- Reversal of impairment write-offs for off-balance sheet liabilities	11 741	12 810
Total	**-146 139**	**-358 448**

(9) *IMPAIRMENT LOSSES ON NON FINANCIAL ASSETS*

9. Impairment losses on non financial assets

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Fixed assets	0	0
Other assets	-2 218	-150
Total	**-2 218**	**-150**

(10) *DEPRECIATION AND AMORTIZATION*

10. Depreciation and amortization

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Property, plant and equipment	-63 330	-44 481
Intangible assets	-8 386	-6 121
Total	**-71 716**	**-50 602**

(11) OTHER OPERATING COSTS

11. Other operating expenses

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Loss on sale and liquidation of property, plant and equipment, intangible assets	0	0
Indemnifications, penalties and fines paid	-1 146	-1 231
Provisions for contentious claims	-2 645	-2 767
Costs of sale of other services	-7 589	-6 396
Donations made	-314	-443
Costs of collection service	-12 320	-11 929
Other	-3 485	-1 912
Total	**-27 499**	**-24 678**

(12) INCOME TAX

12a. Income tax reported in income statement

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Current tax	**-54 038**	**-97 859**
Current year	-54 038	-97 859
Deferred tax	**-14 268**	**101 439**
Appearance and reversal of temporary differences	-14 268	80 817
Utilisation of tax loss	0	0
Adjustment in CIT-8 declarations for previous years	0	20 622
Total income tax reported in income statement	**-68 306**	**3 580**

12b. Effective tax rate

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Gross profit / (loss)	389 348	80 535
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-73 976**	**-15 301**
Impact of permanent differences on tax charges:	**5 670**	**18 881**
- Non taxable income	10 967	23 893
Dividend income	3 825	19 275
Other	7 142	4 618
- Cost which is not a tax cost	-5 297	-5 012
Loss on sale of receivables	0	-7
PFRON fee	-1 027	-1 047
Other	-4 270	-3 958
Total income tax reported in income statement	**-68 306**	**3 580**

12c. Deferred tax reported directly in equity

	31.12.2010	31.12.2009
Valuation of available for sale securities	-2 347	-2 349
Valuation of cash flow hedging instruments	14 135	-278
Deferred tax reported directly in equity	**11 788**	**-2 627**

(13) EARNINGS PER SHARE

Under IAS 33, the Bank calculates earnings per share on the basis of consolidated data and presents these earnings in the consolidated financial report.

(14) CASH, BALANCES WITH THE CENTRAL BANK

14a. Cash, balances with the Central Bank

	31.12.2010	31.12.2009
Cash	480 368	437 625
Cash in Central Bank	1 570 107	1 753 362
Other funds	40	40
Total	**2 050 515**	**2 191 027**

In the period from 31st of December 2010 to 30 of January 2011 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,227,569 thousand (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 central bank's rediscount rate and in the above-mentioned period of time was 3.375%.

14b. Cash, balances with the Central Bank – by currency

	31.12.2010	31.12.2009
a. in Polish currency	1 830 411	2 036 820
b. in foreign currencies (after conversion to PLN)	220 104	154 207
- currency: USD	31 638	23 234
- currency: EUR	120 517	81 070
- currency: GBP	19 488	21 380
- other currencies (PLN '000)	48 461	28 523
Total	**2 050 515**	**2 191 027**

(15) DEPOSITS IN OTHER BANKS AND LOANS AND ADVANCES TO BANKS

15a. Loans and advances to banks

	31.12.2010	31.12.2009
Current accounts	110 114	87 639
Deposits in other banks	1 003 003	265 347
Loans	371 164	342 610
Other	275	0
Interest	1 241	93
Total (gross) loans and advances to banks	**1 485 797**	**695 689**
Impairment write-offs	0	0
Net loans and advances to banks	**1 485 797**	**695 689**

15b. Loans and advances to banks by maturity date

	31.12.2010	31.12.2009
Current accounts	110 114	87 639
- to 1 month	1 003 278	265 347
- above 1 month to 3 months	0	0
- above 3 months to 1 year	0	0
- above 1 year to 5 years	371 164	0
- above 5 years	0	342 610
- past due	0	0
Interest	1 241	93
Total (gross) loans and advances to banks	**1 485 797**	**695 689**

15c. Loans and advances to banks by currency

	31.12.2010	31.12.2009
in Polish currency	387 782	487 356
in foreign currencies (after conversion to PLN)	1 098 015	208 333
- currency: USD	21 452	33 141
- currency: EUR	1 027 048	106 519
- currency: CHF	17 908	19 888
- currency: GBP	9 743	12 518
- other currencies (PLN ‘000)	21 864	36 267
Total	**1 485 797**	**695 689**

15d. Change of impairment write-offs for loans and advances to banks

	31.12.2010	31.12.2009
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	**0**	**0**

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

16a. Financial assets valued at fair value through profit and loss (held for trading)	31.12.2010	31.12.2009
Debt securities	**980 360**	**2 320 318**
Issued by State Treasury	980 360	2 320 318
a) bills	67 486	511 977
b) bonds	912 874	1 808 341
Equity instruments	**0**	**0**
Positive valuation of derivatives	**449 183**	**708 935**
Total	**1 429 543**	**3 029 253**

16b. Financial assets valued at fair value through profit and loss (held for trading)

	31.12.2010	31.12.2009
Trading financial assets	1 429 543	3 029 253
Financial assets valued at fair value when initially recognized	0	0
Total	**1 429 543**	**3 029 253**

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

16c. Debt securities valued at fair value through profit and loss, at balance sheet value

	31.12.2010	31.12.2009
- with fixed interest rate	749 240	2 088 217
- with variable interest rate	231 120	232 101
Total	**980 360**	**2 320 318**

16d. Debt securities valued at fair value through profit and loss (held for trading) by maturity

	31.12.2010	31.12.2009
- to 1 month	0	1 751
- above 1 month to 3 months	63 587	1 477
- above 3 months to 1 year	569 631	1 475 345
- above 1 year to 5 years	321 597	831 789
- above 5 years	25 545	9 956
Total	**980 360**	**2 320 318**

16e. Change of debt securities and equity instruments valued at fair value through profit and loss (held for trading)

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	2 320 318	3 471 808
Increases (purchase and accrual of interest and discount)	103 709 451	74 128 066
Reductions (sale and redemption)	-105 041 990	-75 258 315
Differences from valuation at fair value	-7 419	-21 241
Balance at the end of the period	**980 360**	**2 320 318**

Note 16 f / Note 27 Valuation of derivatives and Liabilities from short sale of securities as at 31.12.2010

	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	**7 959 540**	**13 829 350**	**10 933 645**	**8 397**	**282 878**	**274 481**
Forward Rate Agreements (FRA)	4 550 000	7 300 000	0	-304	1 346	1 650
Interest rate swaps (IRS)	3 409 540	6 521 623	10 785 153	12 032	278 434	266 402
Other interest rate contracts: volatility swap, swap with FX option	0	7 727	148 492	-3 331	3 098	6 429
2. FX derivatives *	**10 402 553**	**5 310 499**	**4 359 678**	**-284 814**	**83 823**	**368 637**
FX contracts	1 490 907	796 188	40 737	35 658	38 863	3 205
FX swaps	7 637 755	636 271	56 196	-186 357	17 034	203 391
Other FX contracts (CIRS)	1 182 265	3 844 963	4 262 745	-134 622	27 381	162 003
FX options	91 626	33 077	0	507	545	38
3. Commodity derivatives	**8 443**	**0**	**0**	**6**	**268**	**262**
Commodity forwards	8 443	0	0	6	268	262
Commodity options	0	0	0	0	0	0
4. Embedded instruments	**216 065**	**741 633**	**330 343**	**-47 880**	**19 003**	**66 883**
Options embedded in deposits	200 402	688 215	0	-13 578	19 003	32 581
Options embedded in securities issued	15 663	53 418	330 343	-34 302	0	34 302
5. Fair value measurement of items subject to hedging	**x**	**x**	**x**	**8 301**	**8 301**	**0**
Valuation of hedged consumer loans portfolio	x	x	x	8 301	8 301	0
6. Indexes options	**196 531**	**755 308**	**210 040**	**51 498**	**54 910**	**3 412**
Valuation of derivatives	**18 783 133**	**20 636 790**	**15 833 706**	**-264 492**	**449 183**	**713 675**
Liabilities from short sale of securities						**91 290**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**449 183**	**804 965**

*Notional value for double-currency derivatives constitutes the sum of both transactions expressed in PLN

Note 16 g / Note 27 Valuation of derivatives and Liabilities from short sale of securities as at 31.12.2009

	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	**6 840 086**	**7 494 362**	**12 138 945**	**1 629**	**346 527**	**344 898**
Forward Rate Agreements (FRA)	200 000	750 000	0	141	194	53
Interest rate swaps (IRS)	6 640 086	6 744 362	12 027 502	6 356	346 277	339 921
Other interest rate contracts: volatility swap, swap with FX option	0	0	111 443	-4 868	56	4 924
2. FX derivatives *	**8 655 263**	**10 731 764**	**4 577 672**	**122 954**	**325 781**	**202 827**
FX contracts	1 034 242	238 862	358 010	55 659	59 847	4 188
FX swaps	3 231 907	231 576	15 848	80 884	110 356	29 472
Other FX contracts (CIRS)	3 242 924	8 614 279	4 170 583	-17 669	78 261	95 930
FX options	1 146 190	1 647 047	33 231	4 080	77 317	73 237
3. Commodity derivatives	**107 980**	**216 312**	**8 338**	**288**	**6 854**	**6 566**
Commodity forwards	107 980	158 832	8 338	139	6 003	5 864
Commodity options	0	57 480	0	149	851	702
4. Embedded instruments	**0**	**241 320**	**252 352**	**-19 478**	**8 118**	**27 596**
Options embedded in deposits	0	196 860	0	637	8 118	7 481
Options embedded in securities issued	0	44 460	252 352	-20 115	0	20 115
5. Fair value measurement of items subject to hedging	**x**	**x**	**x**	**6 853**	**6 853**	**0**
Valuation of hedged consumer loans portfolio	x	x	x	6 853	6 853	0
6. Indexes options	**0**	**0**	**472 005**	**13 512**	**14 802**	**1 290**
Valuation of derivatives	**15 603 329**	**18 683 758**	**17 449 312**	**125 758**	**708 935**	**583 177**
Liabilities from short sale of securities						**100 201**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**708 935**	**683 378**

* The notional for dual currency derivatives in presented in an amount, which is the sum of both transactions expressed in PLN.

(17) DERIVATIVE AND HEDGING INSTRUMENTS

The Group uses the following types of hedge accounting:

- Hedge of the fair value of the portfolio of long-term consumer loans;
- Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans with floating rate;
- Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;
- Cash flow volatility hedge for the flow generated by future revenues and expenditures denominated in foreign currency

Starting from 1 January 2006 the Group established first 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 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.

In 2010, the Bank has established a formal relationship (hedge accounting) against the variability of cash flows resulting from future revenue and expenses denominated in foreign currencies, designating Forward FX as hedging instruments.

At the end of each month the Bank performs an assessment of effectiveness of the hedge used 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, as at 31.12.2010:

	Hedging fair value of the portfolio of long-term consumer loans	**Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN deposits**	**Cash flow volatility hedge for the flow generated by mortgage loans with floating rate, denominated in foreign currency**	**Cash flow volatility hedge for the flow generated by future revenues and expenditures denominated in foreign currency**
Description of hedge transactions	The Bank hedges the risk of the fair value of the long-term consumer loan portfolio denominated in PLN based on a fixed interest rate. The risk hedged results from interest rate fluctuations	The Bank hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN deposits financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk.	The Group hedges (in time horizon limited to maturity of hedging instruments) currency risk and interest rate risk resulted from volatility in cash flows generated by mortgage loans with floating rate denominated in foreign currency.	The Group hedges FX risk resulted from future revenues and expenditures denominated in foreign currency by exchange of aforementioned flows into PLN ones.
Hedged items	Fixed rate PLN long-term consumer loan portfolio.	Cash flows resulting from the mortgage loan portfolio and PLN deposits funding them.	Cash flows resulting from mortgage loans with floating rate denominated in foreign currency.	Cash flows resulting from future revenues and expenditures denominated in foreign currency.
Hedging instruments	IRS transactions	CIRS transactions	FX Swap transactions	FX Forward transactions
Presentation of the result on the hedged and hedging transactions	adjustment to fair value of hedged assets and of the valuation of hedging instruments is recognised in profit and loss as result on financial instruments valued at fair value through profit and loss and foreign exchange result; interest on hedging and hedged instruments is recognised in net interest income	effective part of the valuation of hedging instruments is recognised in revaluation capital; interest on both the hedged and the hedging instruments is recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in the result on financial instruments valued at fair value through profit and loss and foreign exchange result	effective part of valuation of hedging instruments is recognised in revaluation reserve; interest from hedging instruments (settled Swap points) are recognised in the net interest income	effective part of spot revaluation of hedging instruments is recognised in revaluation reserve;

17a / 28. Hedge accounting	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
As at 31.12.2010	**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	0	300 000	1 535 709	-17 700	2 193	19 893	8 301
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	2 849 615	5 811 116	22 018 810	-1 069 082	78 038	1 147 120	x
FX SWAP contracts	3 707 902	360 196	0	-99 509	0	99 509	x
Forward contracts	47 086	141 823	649 595	-48 799	0	48 799	x
3. Total hedging derivatives	**6 604 603**	**6 613 134**	**24 204 114**	**-1 235 090**	**80 231**	**1 315 321**	**x**

17a / 28. Hedge accounting	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
As at 31.12.2009	**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	0	0	1 878 735	-7 617	3 862	11 479	6 853
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	2 914 196	6 109 895	14 764 650	157 787	269 121	111 334	x
FX SWAP contracts	1 515 650	142 765	0	104 351	104 351	0	x
3. Total hedging derivatives	**4 429 846**	**6 252 660**	**16 643 385**	**254 521**	**377 334**	**122 813**	**x**

17b. Hedge accounting for cash flows

	31.12.2010	31.12.2009
Gross valuation recognized in revaluation reserve	-74 395	1 463
Period in which cash flows with hedged value are expected to occur	01.01.11 – 08.06.22	01.01.10 - 04.12.19

Ineffective part of valuation of hedging instrument recognised in Profit and loss account in 2010 amounted to PLN -35.4 million.

(18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2010	31.12.2009
Loans and advances	**33 367 286**	**30 244 238**
- to companies	5 231 100	5 412 468
- to private individuals	27 459 922	24 322 109
- to public sector	676 264	509 661
Receivables on account of payment cards	**895 822**	**867 447**
- due from companies	12 950	8 896
- due from private individuals	882 872	858 551
Purchased receivables	**2 252 838**	**2 228 658**
- from companies	2 201 417	2 225 290
- from private individuals	0	0
- from public sector	51 421	3 368
Guarantees and sureties realised	255	2 496
Debt securities eligible for rediscount at Central Bank	32 204	22 826
Other	5 081	1 649
Interest	153 272	107 786
Total gross	**36 706 758**	**33 475 100**
Impairment write-offs	-1 028 761	-992 627
Total net	**35 677 997**	**32 482 473**

18b. Quality of loans and advances to customers portfolio

	31.12.2010	31.12.2009
Loans and advances to customers (gross)	**36 706 758**	**33 475 100**
- impaired	1 735 681	1 528 206
- not impaired	34 971 077	31 946 894
Impairment write-offs	**1 028 761**	**992 627**
- for impaired exposures	852 859	705 636
- for incurred but not reported losses (IBNR)	175 902	286 991
Loans and advances to customers (net)	**35 677 997**	**32 482 473**

18c. Loans and advances to customers portfolio by methodology of impairment assessment

	31.12.2010	31.12.2009
Loans and advances to customers (gross)	**36 706 758**	**33 475 100**
- case by case analysis	928 745	982 648
- collective analysis	35 778 013	32 492 452
Impairment write-offs	**1 028 761**	**992 627**
- on the basis of case by case analysis	364 056	393 714
- on the basis of collective analysis	664 705	598 913
Loans and advances to customers (net)	**35 677 997**	**32 482 473**

18d. Loans and advances to customers portfolio by customers

	31.12.2010	31.12.2009
Loans and advances to customers (gross)	**36 706 758**	**33 475 100**
- corporate customers	8 278 947	8 231 840
- individuals	28 427 811	25 243 260
Impairment write-offs	**1 028 761**	**992 627**
- for receivables from corporate customers	485 286	559 046
- for receivables from individuals	543 475	433 581
Loans and advances to customers (net)	**35 677 997**	**32 482 473**

18e. Loans and advances to customers by maturity

	31.12.2010	31.12.2009
Current accounts	2 224 822	1 925 932
- to 1 month	360 195	395 946
- above 1 month to 3 months	710 192	759 292
- above 3 months to 1 year	2 825 237	2 794 810
- above 1 year to 5 years	8 357 050	8 129 776
- above 5 years	21 322 993	19 019 700
- past due	752 998	341 858
Interest	153 272	107 786
Total gross	**36 706 758**	**33 475 100**

18f. Loans and advances to customers by currency

	31.12.2010	31.12.2009
in Polish currency	14 889 105	12 879 526
in foreign currencies (after conversion to PLN)	21 817 653	20 595 574
- currency: USD	367 837	351 191
- currency: EUR	1 015 864	1 191 275
- currency: CHF	20 146 446	18 632 018
- currency: JPY	287 400	421 090
- other currencies (PLN ‘000)	106	0
Total gross	**36 706 758**	**33 475 100**

18g. Change of impairment write-offs for loans and advances to customers

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	992 627	673 131
Change in value of provisions:	36 134	319 496
Write-offs in the period	540 369	688 227
Amounts written off	-121 608	-42 054
Reversal of write-offs in the period	-403 209	-322 026
Write-offs decrease due to sale of receivables	0	-77
Changes resulting from FX rates differences	20 582	-4 574
Other	0	0
Balance at the end of the period	**1 028 761**	**992 627**

(19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2010	31.12.2009
Debt securities	**4 496 964**	**4 150 278**
Issued by State Treasury	3 355 513	2 462 342
a) bills	245 308	539 287
b) bonds	3 110 205	1 923 055
Issued by Central Bank	999 708	1 499 417
a) bills	999 708	1 499 417
b) bonds	0	0
Other securities	141 743	188 519
a) listed	8 342	55 459
b) not listed	133 401	133 060
Shares and interests in other entities	**10 883**	**12 798**
Other financial instruments	**0**	**0**
Total financial assets available for sale	**4 507 847**	**4 163 076**
Available for sale instruments listed on the stock exchange	3 373 686	2 517 801
Available for sale instruments not listed on the stock exchange	1 134 161	1 645 275

19b. Debt securities available for sale

	31.12.2010	31.12.2009
- with fixed interest rate	3 878 232	3 595 623
- with variable interest rate	618 732	554 655
Total	**4 496 964**	**4 150 278**

19c. Debt securities available for sale by maturity

	31.12.2010	31.12.2009
- to 1 month	1 014 649	1 607 836
- above 1 month to 3 months	17 922	94 327
- above 3 months to 1 year	935 935	556 680
- above 1 year to 5 years	2 480 078	1 888 729
- above 5 years	48 380	2 706
Total	**4 496 964**	**4 150 278**

19d. Change of investment financial assets available for sale

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	4 163 076	2 913 379
Increases (purchase and accrual of interest and discount)	75 588 404	26 011 722
Reductions (sale and redemption)	-75 227 362	-24 761 455
Difference from measurement at fair value	-10	-478
Impairment write-offs	-16 538	197
Other	277	-289
Balance at the end of the period	**4 507 847**	**4 163 076**

19e. Investments in associates

	31.12.2010	31.12.2009
Investments in associates	312 105	262 288

19f. Associates as at 31.12.2010

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING	Leasing	25 363	0	70 001	3 035 191	2 576 429	43 400	156 970	29 943	subordinated
MILLENNIUM LEASE	Leasing	38 579	0	0	462 607	394 811	40 656	10 616	-3 277	subordinated
MILLENNIUM DOM MAKLERSKI	Brokerage services	16 500	0	0	269 023	143 668	16 500	33 847	11 758	subordinated
BBG FINANCE BV	Funding companies from the Group	4 824	0	0	323 742	316 824	71	0	212	subordinated
MB FINANCE AB	Funding companies from the Group	221	0	0	683 720	682 853	221	0	68	subordinated
MILLENNIUM SERVICE	General construction, civil engineering	1 000	0	143 000	159 396	0	1 000	74 890	5899	subordinated
TBM	Financial operations on equity market and advisory services	225	0	0	713	0	500	394	77	associated
LUBUSKIE FABRYKI MEBLI	Furniture manufacturer	6 700	-1 700	0	21 162	4 269	13 400	43 967	1 654	subordinated
PHCRS*	Wholesale market for groceries	8 200	-1 200	0	76 279	64 480	21 357	9 835	-198	associated
MILLENNIUM TELECOMMUNICATION SERVICES	Financial operations on equity market and advisory services	98	0	294	456	0	100	691	94	subordinated
BG LEASING	Leasing	900	-900	0	The company is under bankruptcy					subordinated
Total investments in associates		**102 610**	**-3 800**	**213 295**					**213 295**	

Millennium Dom Maklerski, subsidiary of the Bank, is a 100% holder of Millennium TFI shares.
The above table does not include Orchis Sp. z o.o – the company being a special purpose vehicle (SPV) which is controlled by Millennium Leasing as a result of securitisation transaction, despite lack of capital participation in mentioned company.

* data as at 30.11.2010

19g. Associates as at 31.12.2009

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING	Leasing	25 363	0	0	3 039 214	2 672 935	43 400	151 665	9 041	subordinated
MILLENNIUM LEASE	Leasing	38 579	0	20 025	431 317	331 110	86 318	7 935	455	subordinated
MILLENNIUM DOM MAKLERSKI	Brokerage services	16 500	0	0	257 556	140 963	16 500	42 201	20 488	subordinated
BBG FINANCE BV	Funding companies from the Group	5 004	0	0	336 141	328 656	74	0	328	subordinated
MB FINANCE AB	Funding companies from the Group	200	0	0	660 203	659 164	200	0	52	subordinated
MILLENNIUM SERVICE	General construction, civil engineering	1 000	0	143 000	150 722	0	1 000	90 885	435	subordinated
TBM	Financial operations on equity market and advisory services	225	0	0	871	0	500	421	99	associated
LUBUSKIE FABRYKI MEBLI	Furniture manufacturer	6 700	-1 700	0	20 315	5 626	13 400	38 963	2 836	subordinated
PHCRS	Wholesale market for groceries	8 200	-1 200	0	83 162	66 407	21 357	8 512	1 405	associated
MILLENNIUM TELECOMMUNICATION SERVICES	Financial operations on equity market and advisory services	98	0	294	362	0	100	129	-59	subordinated
BG LEASING	Leasing	900	-900	0	The company is under bankruptcy					subordinated
Total investments in associates		**102 769**	**-3 800**	**163 319**						

In 2009 the Bank wrote-off against provisions the shares in affiliates: SPC S.A. and Weiman i S-ka Sp. z o.o. with the total value of PLN 33 thou. Both companies were not operational. Additionally the name of a subsidiary was changed from Ress Trading Sp. z o.o. to Millennium Telecommunication Services Sp. z o.o.

19h. Change of investments in associates

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	262 288	232 357
Additional capital paid in	49 976	23 000
Impairment write-offs in the period	0	7 000
Differences in valuation of shares expressed in foreign currencies	-159	-69
Balance at the end of the period	**312 105**	**262 288**

(20) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

20. Receivables from securities bought with sell-back clause

	31.12.2010	31.12.2009
a) from banks	55 080	208 746
b) interest	5	35
Total	**55 085**	**208 781**

(21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2010	31.12.2009
Fixed assets:		
- land	1 356	1 356
- buildings, premises, civil and hydro-engineering structures	123 639	146 705
- machines and equipment	62 215	73 497
- vehicles	15 537	20 137
- other fixed assets	25 056	32 816
Fixed assets under construction	5 364	10 979
Total	**233 167**	**285 490**

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2010 - 31.12.2010

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**1 856**	**347 295**	**258 845**	**30 207**	**92 395**	**10 979**	**741 577**
b) increases (on account of)	**0**	**5 097**	**10 885**	**102**	**5 002**	**12 135**	**33 221**
- purchase	0	0	0	0	0	8 914	8 914
- transfer from fixed assets under construction	0	3 254	8 939	0	4 417	0	16 610
- transfer from financial leasing	0	1 843	1 946	102	585	0	4 476
- impairment charges	0	0	0	0	0	3 214	3 214
- other	0	0	0	0	0	7	7
c) reductions (on account of)	**0**	**12 179**	**17 254**	**4 009**	**2 718**	**17 750**	**53 910**
- sale	0	4 812	1 947	0	571	715	8 045
- liquidation	0	2 309	14 370	102	1 868	0	18 649
- settlement of financial leasing agreement	0	328	29	3 780	187	0	4 324
- settlement of fixed assets under construction	0	0	0	0	0	16 610	16 610
- other	0	4 730	908	127	92	425	6 282
d) gross value of property, plant and equipment at the end of the period	**1 856**	**340 213**	**252 476**	**26 300**	**94 679**	**5 364**	**720 888**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**176 705**	**185 348**	**10 070**	**58 204**	**0**	**430 327**
f) depreciation over the period (on account of)	**0**	**15 984**	**4 913**	**693**	**10 044**	**0**	**31 634**
- current write-off (P&L)	0	24 788	21 925	3 996	12 621	0	63 330
- reductions on account of sale	0	-2 177	-1 904	0	-572	0	-4 653
- reductions on account of liquidation	0	-2 135	-14 257	-62	-1 786	0	-18 240
- settlement of financial leasing	0	-114	-18	-3 019	-57	0	-3 208
- other	0	-4 378	-833	-222	-162	0	-5 595
g) cumulated depreciation (amortization) at the end of the period	**0**	**192 689**	**190 261**	**10 763**	**68 248**	**0**	**461 961**
h) impairment write-offs at the beginning of the period	**500**	**23 885**	**0**	**0**	**1 375**	**0**	**25 760**
- increase	0	0	0	0	0	0	0
- reduction	0	0	0	0	0	0	0
i) impairment write-offs at the end of the period	**500**	**23 885**	**0**	**0**	**1 375**	**0**	**25 760**
j) net value of property, plant and equipment at the end of the period	**1 356**	**123 639**	**62 215**	**15 537**	**25 056**	**5 364**	**233 167**

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2009 - 31.12.2009

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	**TOTAL**
a) gross value of property, plant and equipment at the beginning of the period	**1 838**	**323 640**	**224 710**	**36 591**	**78 759**	**12 518**	**678 056**
b) increases (on account of)	**20**	**70 183**	**50 154**	**1 296**	**22 386**	**10 110**	**154 149**
- purchase	0	0	0	0	0	4 533	4 533
- transfer from fixed assets under construction	20	1 399	7 871	0	1 450	0	10 740
- transfer from financial leasing	0	68 784	42 283	1 296	20 936	0	133 299
- impairment charges	0	0	0	0	0	5 232	5 232
- other	0	0	0	0	0	345	345
c) reductions (on account of)	**2**	**46 528**	**16 019**	**7 680**	**8 750**	**11 649**	**90 628**
- sale	2	45 403	4 924	5 369	6 462	0	62 160
- liquidation	0	8	10 751	0	1 342	0	12 101
- settlement of financial leasing agreement	0	0	0	2 308	0	0	2 308
- settlement of fixed assets under construction	0	0	0	0	0	11 565	11 565
- other	0	1 117	344	3	946	84	2 494
d) gross value of property, plant and equipment at the end of the period	**1 856**	**347 295**	**258 845**	**30 207**	**92 395**	**10 979**	**741 577**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**167 454**	**186 766**	**10 763**	**60 287**	**0**	**425 270**
f) depreciation over the period (on account of)	**0**	**9 251**	**-1 418**	**-693**	**-2 083**	**0**	**5 057**
- current write-off (P&L)	0	20 337	13 387	4 709	6 048	0	44 481
- reductions on account of sale	0	-10 973	-4 333	-4 566	-6 309	0	-26 181
- reductions on account of liquidation	0	-5	-10 473	0	-1 294	0	-11 772
- other	0	-108	1	-836	-528	0	-1 471
g) cumulated depreciation (amortization) at the end of the period	**0**	**176 705**	**185 348**	**10 070**	**58 204**	**0**	**430 327**
h) impairment write-offs at the beginning of the period	**503**	**25 305**	**0**	**0**	**1 375**	**0**	**27 183**
- increase	0	0	0	0	0	0	0
- reduction	3	1 420	0	0	0	0	1 423
i) impairment write-offs at the end of the period	**500**	**23 885**	**0**	**0**	**1 375**	**0**	**25 760**
j) net value of property, plant and equipment at the end of the period	**1 356**	**146 705**	**73 497**	**20 137**	**32 816**	**10 979**	**285 490**

(22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2010	31.12.2009
- concessions, patents, licenses, know how and similar assets, including:	29 798	18 458
- computer software	29 798	18 458
Total intangible assets	**29 798**	**18 458**

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2010 - 31.12.2010

	concessions, patents, licenses, know how and similar assets, including:		**TOTAL**
		computer software	
a) gross value of intangible assets at the beginning of the period	**381 924**	**171 780**	**381 924**
b) increases (on account of)	**19 832**	**19 832**	**19 832**
- transfer from investments	26	26	26
- expenditures on intangible assets	18 637	18 637	18 637
- other (provision)	1 169	1 169	1 169
c) reductions (on account of)	**144**	**144**	**144**
- other	144	144	144
d) gross value of intangible assets at the end of the period	**401 612**	**191 468**	**401 612**
e) cumulated depreciation (amortization) at the beginning of the period	**363 466**	**153 322**	**363 466**
f) depreciation over the period (on account of)	**8 348**	**8 348**	**8 348**
- current write-off (P&L)	8 386	8 386	8 386
- other	-38	-38	-38
g) cumulated depreciation (amortization) at the end of the period	**371 814**	**161 670**	**371 814**
h) impairment write-offs at the beginning of the period	0	0	**0**
i) impairment write-offs at the end of the period	0	0	**0**
j) net value of intangible assets at the end of the period	**29 798**	**29 798**	**29 798**

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2009 - 31.12.2009

	concessions, patents, licenses, know how and similar assets, including:	computer software	TOTAL
a) gross value of intangible assets at the beginning of the period	**375 347**	**165 203**	**375 347**
b) increases (on account of)	**6 852**	**6 852**	**6 852**
- transfer from investments	825	825	825
- expenditures on intangible assets	2 688	2 688	2 688
- transfer from financial leasing	140	140	140
- other (provision)	3 199	3 199	3 199
c) reductions (on account of)	**275**	**275**	**275**
- liquidation	0	0	0
- other	275	275	275
d) gross value of intangible assets at the end of the period	**381 924**	**171 780**	**381 924**
e) cumulated depreciation (amortization) at the beginning of the period	**357 345**	**147 201**	**357 345**
f) depreciation over the period (on account of)	**6 121**	**6 121**	**6 121**
- current write-off (P&L)	6 121	6 121	6 121
g) cumulated depreciation (amortization) at the end of the period	**363 466**	**153 322**	**363 466**
h) impairment write-offs at the beginning of the period	0	0	**0**
i) impairment write-offs at the end of the period	0	0	**0**
j) net value of intangible assets at the end of the period	**18 458**	**18 458**	**18 458**

(23) NON-CURRENT ASSETS HELD FOR SALE

As of 31.12.2010 and 31.12.2009 the Bank did not classify any assets in the Fixed Assets for Sale category.

(24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets

	31.12.2010			31.12.2009		
	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	7 688	0	7 688	7 983	0	7 983
Balance sheet valuation of financial instruments	430 800	-433 904	-3 104	124 466	-127 478	-3 012
Unrealised receivables/ liabilities on account of derivatives	75 433	-90 019	-14 586	100 119	-112 765	-12 646
Interest on deposits and securities to be paid/ received	41 535	-77 334	-35 799	75 862	-83 658	-7 796
Interest and discount on loans and receivables	2 447	-19 577	-17 130	0	-20 000	-20 000
Income and cost settled at effective interest rate	6 935	-7 114	-179	2 219	-9 038	-6 819
Provisions for loans presented as temporary differences	135 004	0	135 004	138 535	0	138 535
Employee benefits	9 650	0	9 650	7 721	0	7 721
Provisions for future costs	6 323	0	6 323	3 652	0	3 652
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	14 135	-2 347	11 788	0	-2 627	-2 627
Other	4 560	-1 408	3 152	1 796	-4 127	-2 331
Net deferred income tax asset	**734 510**	**-631 703**	**102 807**	**462 353**	**-359 693**	**102 660**

24b. Change of temporary differences

	31.12.2009	Changes to financial result	Changes to equity	31.12.2010
Difference between tax and balance sheet depreciation	7 983	-295		7 688
Balance sheet valuation of financial instruments	-3 012	-92		-3 104
Unrealised receivables/ liabilities on account of derivatives	-12 646	-1 940		-14 586
Interest on deposits and securities to be paid/ received	-7 796	-28 003		-35 799
Interest and discount on loans and receivables	-20 000	2 870		-17 130
Income and cost settled at effective interest rate	-6 819	6 640		-179
Provisions for loans presented as temporary differences	138 535	-3 531		135 004
Employee benefits	7 721	1 929		9 650
Provisions for future costs	3 652	2 671		6 323
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-2 627		14 415	11 788
Other	-2 331	5 483		3 152
Total	**102 660**	**-14 268**	**14 415**	**102 807**

24c. Change of temporary differences

	31.12.2008	Adjustments in opening balance	Changes to financial result	Changes to equity	31.12.2009
Difference between tax and balance sheet depreciation	8 351		-368		7 983
Balance sheet valuation of financial instruments	-25 906		22 895		-3 012
Unrealised receivables/ liabilities on account of derivatives	7 231		-19 877		-12 646
Interest on deposits and securities to be paid/ received	-36 000		28 204		-7 796
Interest and discount on loans and receivables	-25 343		5 343		-20 000
Income and cost settled at effective interest rate	-18 283		11 464		-6 819
Provisions for loans presented as temporary differences	92 100		46 435		138 535
Employee benefits	17 214		-9 493		7 721
Provisions for future costs	5 344		-1 692		3 652
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-9 439			6 812	-2 627
Other	-238	-20 622*	18 529		-2 331
Total	**15 031**	**-20 622**	**101 439**	**6 812**	**102 660**

* - On the basis of individual interpretation of tax law regulation issued by the Minister of Finance, the Bank has changed the principle of IRS contracts taxation, in effect the corrections of previous years tax declarations (CIT-8) have been changed.

24d. Change of deferred income tax

	1.01.2010 - 31.12.2010	1.01.2009 - 31.12.2009
Difference between tax and balance sheet depreciation	-295	-368
Balance sheet valuation of financial instruments	-92	22 895
Unrealised receivables/ liabilities on account of derivatives	-1 940	-19 877
Interest on deposits and securities to be paid/ received	-28 003	28 204
Interest and discount on loans and receivables	2 870	5 343
Income and cost settled at effective interest rate	6 640	11 464
Provisions for loans presented as temporary differences	-3 531	46 435
Employee benefits	1 929	-9 493
Provisions for future costs	2 671	-1 692
Tax loss deductible in the future	0	0
Other	5 483	18 529
Change of deferred income tax recognized in financial result	**-14 268**	**101 439**
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	**14 415**	**6 812**

24e. Negative temporary differences for which the deferred income tax asset was not recognised in the balance sheet

Temporary differences expiry year	31.12.2010	31.12.2009
Unlimited	9 612	9 612
Total	**9 612**	**9 612**

In accordance with IAS 12, the Bank offset deferred income tax assets with deferred income tax liabilities.

	31.12.2010	31.12.2009
Net deferred income tax assets	102 807	102 660
Net deferred income tax provision	-	-
Total	**102 807**	**102 660**

(25) OTHER ASSETS

25. Other assets

	31.12.2010	31.12.2009
Expenses to be settled	27 855	29 421
Income to be received	7 201	9 563
Interbank settlement accounts	19 542	24
Settlement accounts for financial instruments transactions	2	12 099
Receivables from sundry debtors	35 135	56 095
Settlements with the State Treasury, including:	2 284	19 493
- receivables from Tax Office resulting from the article 38 a of the CIT Act	0	0
- receivables from adjustment in VAT settlements	0	12 689
Total other assets (gross)	**92 019**	**126 695**
Provisions	-9 798	-10 622
Total other assets (net)	**82 221**	**116 073**

The balance of income to be received as at 31st December 2008 comprises receivables under the dividend declared for payment by a subsidiary worth PLN 75 million. The payment of this dividend was done in January 2009.

(26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2010	31.12.2009
In current account	54 328	45 670
Term deposits	110 351	2 151 247
Loans and advances received	1 888 384	2 625 839
Other	29 222	70 507
Interest	2 171	16 093
Total	**2 084 456**	**4 909 356**

26b. Deposits from banks by maturity

	31.12.2010	31.12.2009
Current accounts	54 328	45 670
- to 1 month	138 801	988 890
- above 1 month to 3 months	538	1 232 826
- above 3 months to 1 year	792 294	1 050 906
- above 1 year to 5 years	905 690	1 232 460
- above 5 years	190 634	342 511
Interest	2 171	16 093
Total	**2 084 456**	**4 909 356**

The balance of liabilities towards Banks with maturities above 5 years results from the long-term loan agreements concluded by the Bank with the European Investment Bank.

26c. Deposits from banks by currency

	31.12.2010	31.12.2009
in Polish currency	436 831	505 883
in foreign currencies (after conversion to PLN)	1 647 625	4 403 473
- currency: USD	29 650	7
- currency: EUR	1 617 975	4 070 889
- currency: CHF	0	332 577
Total	**2 084 456**	**4 909 356**

The reduction of the balance of liabilities to banks, denominated in Swiss francs in 2010, resulted mainly from repayment by the Bank of loan amounted to CHF 120 million. Additionally, in 2010 the Bank repaid a loan worth EUR 175 million, while concluded in the same year loan agreements with the European Investment Bank and European Bank for Reconstruction and Development and benefited from funding in the amount of EUR 83 million. The following are the essential conditions under which these contracts were concluded:

On 1st December 2010 an agreement was concluded between the Bank and the European Bank for Reconstruction and Development (EBRD), concerning mid-term loan extended to Bank Millennium SA, for total amount of EUR 35 million, within the EBRD's PolSEF (*Poland Sustainable Energy Financing Facility*) programme, currently implemented in Poland.

The loan will be used for financing by Bank Millennium of projects of its SME clients in the field of energy efficiency or renewable energy, covering inter alia investments in industrial energy efficiency improvements, energy efficiency and/or renewable energy measures in commercial buildings and small-scale renewable energy production. Interest rate of the loan is based on EURIBOR and margin specified in the agreement. The loan is scheduled for final repayment by the Bank within 5 years from the date of the agreement.

On 9 December 2010 an agreement was concluded between the Bank and the European Investment Bank (EIB), concerning long-term loan extended by EIB to Bank Millennium SA, for total amount of EUR 100 million, constituting - on the date of signing - the equivalent of approx. PLN 400 million. The proceeds from the loan will be used to enhance Bank capabilities in lending to SME clients as well as municipalities. Interest rate of particular tranches of the loan is based on - at Bank's discretion - fixed or floating rate, in the second case based on relevant interbank rate (EURIBOR) and margin specified in the agreement. Repayment dates of particular tranches depend on types of projects being financed by Bank.

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

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

	31.12.2010	31.12.2009
Negative valuation of derivatives	713 675	583 177
Short sale of securities	91 290	100 201
Financial liabilities valued at fair value through profit and loss	**804 965**	**683 378**

The breakdown of the negative valuation of derivatives into individual instruments has been presented in note ***(16).***

(28) DERIVATIVE HEDGING INSTRUMENTS

The information can be found in note ***(17) DERIVATIVE HEDGING INSTRUMENTS***

(29) DEPOSITS FROM CUSTOMERS

29a. Structure of deposits from customers by type

	31.12.2010	31.12.2009
Amounts due to private individuals	**20 784 845**	**19 443 195**
Balances on current accounts	7 097 957	5 301 711
Term deposits	13 368 776	13 673 853
Other	158 733	125 565
Accrued interest	159 379	342 066
Amounts due to companies	**12 698 621**	**10 076 668**
Balances on current accounts	3 161 605	2 571 336
Term deposits	9 324 381	7 243 771
Other	174 443	225 358
Accrued interest	38 192	36 203
Amounts due to public sector	**2 042 373**	**2 133 724**
Balances on current accounts	855 925	954 502
Term deposits	1 149 996	1 161 374
Other	31 990	14 923
Accrued interest	4 462	2 925
Total	**35 525 839**	**31 653 587**

29b. Deposits from customers by maturity

	31.12.2010	31.12.2009
Current accounts	11 115 487	8 827 549
- to 1 month	10 852 537	10 647 973
- above 1 month to 3 months	6 664 765	6 314 903
- above 3 months to 1 year	5 622 177	5 435 696
- above 1 year to 5 years	1 068 675	46 114
- above 5 years	165	158
Interest	202 033	381 194
Total	**35 525 839**	**31 653 587**

29c. Deposits from customers by currency

	31.12.2010	31.12.2009
in Polish currency	33 728 696	29 927 853
in foreign currencies (after conversion to PLN)	1 797 143	1 725 734
- currency: USD	555 424	601 888
- currency: EUR	1 151 732	1 035 361
- currency: GBP	71 045	68 934
- currency: CHF	15 537	16 267
- other currencies (PLN ‘000)	3 405	3 284
Total	**35 525 839**	**31 653 587**

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

30. Liabilities from securities bought with buy-back clause

	31.12.2010	31.12.2009
a) to the Central Bank	0	481 372
b) to banks	300 000	1 106 704
c) to customers	373 438	753 696
d) interest	756	4 418
Total	**674 194**	**2 346 190**

(31) DEBT SECURITIES

31a. Debt securities

	31.12.2010	31.12.2009
Outstanding bonds and bills	296 423	262 466
Bank Securities	88 114	0
Interest	0	0
Total	**384 537**	**262 466**

31b. Debt securities, by final legal maturity

	31.12.2010	31.12.2009
- to 1 month	0	0
- above 1 month to 3 months	13 804	0
- above 3 months to 1 year	56 799	28 520
- above 1 year to 5 years	313 934	233 946
- above 5 years	0	0
Interest	0	0
Total	**384 537**	**262 466**

31c. Change of debt securities

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	262 466	113 207
Increases, on account of:	201 324	183 864
- issue of bonds	113 210	183 864
- issue of Bank Securities	88 114	0
Reductions, on account of:	-79 253	-34 605
- repurchase of bonds	-79 253	-34 605
Balance at the end of the period	**384 537**	**262 466**

31d. Debt securities by type

As at 31.12.2010	Balance sheet value	Interest rate *	Final legal maturity	Market
BM_2011/02	1 581	-	2011-02-25	-
BM_2011/03,_1,_2	12 223	-	2011-03-31,14,15	-
BM_2011/04,A	9 231	-	2011-04-15,01	-
BM_2011/05,A	14 703	-	2011-05-12,31	-
BM_2011/10,A,B	19 610	-	2011-10-04,04,05	-
BM_2011/11,A	6 558	-	2011-11-08,07	-
BM_2011/12	1 456	-	2011-12-16	-
BM_2012/01,A,B,C	16 843	-	2012-01-03,04,10,12	-
BM_2012/02,A,B	14 689	-	2012-02-02,01,02	-
BM_2012/04,A,B,C	20 993	-	2012-04-10,10,11,12	-
BM_2012/05	1 019	-	2012-05-09	-
BM_2012/06	4 383	-	2012-06-11	-
BM_2012/07,A	16 735	-	2012-07-06,09	-
BM_2012/08,A	12 493	-	2012-08-08,08	-
BM_2012/09,A,B,C,D,E	17 192	-	2012-09-06,07,10,10,11,12	-
BM_2012/11,A,B,C	15 211	-	2012-11-06,07,02,05	-
BM_2012/12,A,B	15 076	-	2012-12-10,11,12	-
BM_2013/02,A	14 659	-	2013-02-07,08	-
BM_2013/03,A,B,C,D	21 416	-	2013-03-07,08,04,05,06	-
BM_2013/04,A,B	9 107	-	2013-04-08,03,04	-
BM_2013/05,A,B,C	15 467	-	2013-05-08,09,09,10	-
BM_2013/06,A,B	18 429	-	2013-06-03,06,07	-
BM_2013/10,A	6 038	-	2013-10-07,08	-
BM_2014/01,A	11 312	-	2014-01-06,07	-
BPW_2011/10	5 240	-	2011-10-05	-
BPW_2013/07,A	13 297	-	2013-07-08,09	-
BPW_2013/08	14 680	-	2013-08-02	-
BPW_2013/09	8 932	-	2013-09-09	-
BPW_2013/10	11 168	-	2013-10-04	-
BPW_2013/11	8 747	-	2013-11-04	-
BPW_2013/12	15 328	-	2013-12-02	-
BPW_2014/01	10 722	-	2014-01-03	-
TOTAL	**384 537**			

* In case of bonds issued by the Bank, their interest formula assumes their calculation on the basis of underlying indexes on maturity date.

31e. Debt securities by type

As at 31.12.2009	Balance sheet value	Interest rate *	Final legal maturity	Market
BM_2010/06	3 933	-	2010-06-02	-
BM_2010/07	8 281	-	2010-07-07	-
BM_2010/07A	6 590	-	2010-07-19	-
BM_2010/09,A	3 328	-	2010-09-06,07	-
BM_2010/12	5 492	-	2010-12-03	-
BM_2010/12A	896	-	2010-12-06	-
BM_2011/02	2 627	-	2011-02-25	-
BM_2011/03,04A	9 615	-	2011-03-31,04-01	-
BM_2011/03_1,2	7 495	-	2011-03-14,15	-
BM_2011/04	7 144	-	2011-04-15	-
BM_2011/05	8 738	-	2011-05-12	-
BM_2011/05A	6 695	-	2011-05-31	-
BM_2011/10	7 871	-	2011-10-04	-
BM_2011/10A	7 114	-	2011-10-04	-
BM_2011/10B	4 610	-	2011-10-05	-
BM_2011/11,A	11 122	-	2011-11-07,08	-
BM_2012/01	5 904	-	2012-01-03	-
BM_2012/01A	6 683	-	2012-01-04	-
BM_2012/01B,C	10 545	-	2012-01-10,12	-
BM_2012/02	7 456	-	2012-02-02	-
BM_2012/04	8 258	-	2012-04-10	-
BM_2012/05	2 741	-	2012-05-09	-
BM_2012/06	4 600	-	2012-06-11	-
BM_2012/07,A	17 983	-	2012-07-06,09	-
BM_2012/08	5 543	-	2012-08-08	-
BM_2012/08A	9 121	-	2012-08-08	-
BM_2012/09,A,B	12 051	-	2012-09-06,07,10	-
BM_2012/09C,D,E	11 395	-	2012-09-10,11,12	-
BM_2012/11,A	13 591	-	2012-11-06,07	-
BM_2012/11B,C	4 262	-	2012-11-02,05	-
BM_2012/12,A,B	20 323	-	2012-12-10,11,12	-
BM_2013/10,A	9 131	-	2013-10-07,08	-
BM_2014/01,A	11 328	-	2014-01-06,07	-
TOTAL	**262 466**			

* In case of bonds issued by the Bank, their interest formula assumes their calculation on the basis of underlying indexes on maturity date.

(32) PROVISIONS

32a. Provisions

	31.12.2010	31.12.2009
Provision for off-balance sheet commitments	14 273	18 384
Provision for contentious claims	6 230	4 812
Total	**20 503**	**23 196**

32b. Change of provisions

Provision for off-balance sheet commitments	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	18 384	16 433
Charge of provision	7 743	14 990
Release of provision	-11 741	-12 810
FX rates differences	-113	-229
Balance at the end of the period	**14 273**	**18 384**

Provision for contentious claims		
Balance at the beginning of the period	4 812	16 119
Charge of provision	2 645	2 767
Release of provision	-735	-13 741
Utilisation of provision	-492	-333
Balance at the end of the period	**6 230**	**4 812**

(33) DEFERRED INCOME TAX PROVISION

	31.12.2010	31.12.2009
33. Deferred income tax provision	**0**	**0**

(34) OTHER LIABILITIES

34a. Other liabilities

	31.12.2010	31.12.2009
Short-term	**505 051**	**479 839**
Accrued costs - bonuses, salaries	44 957	28 986
Accrued costs - other	45 621	48 286
Interbanking settlement accounts	74 640	75 299
Financial instruments transactions settlement accounts	34 797	0
Other creditors	84 828	98 048
Liabilities from financial leasing	140 668	152 767
Liabilities to public sector	13 218	28 177
Deferred income	53 198	40 411
Provisions for unused employee holiday	4 513	5 809
Other	8 611	2 056
Long-term	**7 165**	**24 905**
Provisions for retirement benefits	7 165	5 844
Deferred income	0	10 439
Other	0	8 622
Total	**512 216**	**504 744**

The Bank is a lessee in financial leasing agreements concerning the car fleet as well as office space and equipment, signed with the Bank's subsidiaries - Millennium Leasing Sp. z o.o. and Millennium Service Sp. z o.o. The Bank carries the property in the financial lease as fixed assets.

34b. Liabilities from financial leasing

	31.12.2010	31.12.2009
Liabilities from financial leasing (gross)	166 845	192 808
Unrealised financial costs	-26 177	-40 041
Current value of minimum leasing instalments	**140 668**	**152 767**

Liabilities from financial leasing (gross) by maturity		
Under 1 year	33 643	27 752
From 1 year to 5 years	90 628	102 823
Above 5 years	42 574	62 233
Total	**166 845**	**192 808**

Liabilities from financial leasing (net) by maturity		
Under 1 year	26 415	20 147
From 1 year to 5 years	74 241	76 449
Above 5 years	40 013	56 171
Total	**140 668**	**152 767**

34c. Change of provisions for unused employee holiday

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	**5 809**	**9 655**
Charge of provisions/ reversal of provisions	-1 024	-2 991
Utilization of provisions	-272	-855
Balance at the end of the period	**4 513**	**5 809**

34d. Change of provisions for retirement benefits

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	**5 844**	**5 532**
Charge of provisions/ reversal of provisions	1 461	813
Utilization of provisions	-140	-501
Balance at the end of the period	**7 165**	**5 844**

(35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2010	31.12.2009
Name of entity	BBG FINANCE B.V.	BBG FINANCE B.V.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	80 000	80 000
Value of the liability in PLN	316 824	328 656
Interest rate	3.384%	2.997%
Maturity	12.12.2011	12.12.2011
Interest	566	431
Balance sheet value of subordinated debt	**317 390**	**329 087**

35a. Subordinated debt

	31.12.2010	31.12.2009
Name of entity	MB FINANCE A.B.	MB FINANCE A.B.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	594 045	616 230
Interest rate	2.794%	2.537%
Maturity	20.12.2017	20.12.2017
Interest	553	478
Balance sheet value of subordinated debt	**594 598**	**616 708**

35b. Change of subordinated debt

	01.01.2010 - 31.12.2010	01.01.2009 - 31.12.2009
Balance at the beginning of the period	945 795	**961 420**
Increases, on account of:	25 770	39 216
- interest accrual	25 770	39 216
Reductions, on account of:	-59 577	-54 841
- interest payment	-25 560	-40 168
- FX rates differences	-34 017	-14 673
Balance at the end of the period	**911 988**	**945 795**

In the course of 2010 and 2009 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

(36) SHAREHOLDERS' EQUITY

36a. SHARE CAPITAL

The share capital of the Bank Millennium S.A. is PLN 1,213,116,777 divided into 1,213,116,777 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
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

In the reporting period no registered shares were converted into the bearer shares. As of 31.12.2010 the number of registered shares was 109 356, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

On 3 December 2009 the Extraordinary Meeting of Bank Millennium S.A. passed a resolution on increasing the Bank's equity by an amount of not less than PLN 1, up to an amount of not more than PLN 1.274.181.744 by issuing not less than 1, but not more than 425.000.000 L-series ordinary bearer shares with PLN 1 face value per share. L-series shares issue has been described in Chapter VI "Accounting Policy".

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2010. Information on the Bank's shareholding structure presented in the table below is given on the basis of information contained in the notices sent to the shareholders of the Bank, pursuant to Article. 69 of the

Act on Public Offering, the conditions for introducing financial instruments to organized trading, and public companies, or on the basis of information provided by shareholders in the registration at the AGM of the Bank, as far as possible aforementioned sources are updated based on public information. 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 31.12.2010

Shareholder	**Number of shares**	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK*	61 341 239	5.06	61 341 239	5.06

* On 18 January 2011, the shareholder has informed the Bank on reduction the number of shares held below 5% of the share capital of the Bank

Shareholders as at 31.12.2009

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
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	69 568 623	8.19	69 568 623	8.19

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**

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

36b. REVALUATION CAPITAL

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

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

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

Revaluation reserve

	31.12.2010	31.12.2009
Effect of valuation (gross)	-62 044	13 826
Deferred income tax	11 788	-2 627
Net effect of valuation	**-50 256**	**11 199**

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

Revaluation reserve on available for sale financial assets 1.01.2010 - 31.12.2010

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**12 363**	**-2 349**	**10 014**
Transfer to income statement of the period as a result of sale	-6 372	1 211	-5 162
Change of capitals connected with maturity of securities	-3 735	710	-3 026
Profit/loss on revaluation of available for sale financial assets, recognized in equity	10 097	-1 918	8 179
Revaluation reserve at the end of the period	**12 352**	**-2 347**	**10 005**

Revaluation reserve on available for sale financial assets 1.01.2009 - 31.12.2009

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	12 841	-2 440	**10 402**
Transfer to income statement of the period as a result of sale	-22 007	4 181	**-17 826**
Change of capitals connected with maturity of securities	-2 207	419	**-1 788**
Profit/loss on revaluation of available for sale financial assets, recognized in equity	23 736	-4 510	**19 226**
Revaluation reserve at the end of the period	**12 363**	**-2 349**	**10 014**

Revaluation reserve on cash flows hedge financial instruments 1.01.2010 - 31.12.2010

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	**1 463**	**-278**	**1 185**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	-128 252	24 368	-103 884
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	52 394	-9 955	42 439
Revaluation reserve at the end of the period	**-74 395**	**14 135**	**-60 260**

Revaluation reserve on cash flows hedge financial instruments 1.01.2009 - 31.12.2009

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	36 837	-6 999	**29 839**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	-15 491	2 943	**-12 548**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	-19 883	3 778	**-16 105**
Revaluation reserve at the end of the period	**1 463**	**-278**	**1 185**

36c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2010	**374 957**	**496 927**	**228 902**	**84 115**	**1 184 901**
- appropriation of profit, including:	0	84 115	0	-84 115	**0**
- transfer to reserve capital	0	84 115	0	-84 115	**0**
- net profit/ (loss) of the period	0	0	0	321 042	**321 042**
Retained earnings at the end of the period 31.12.2010	**374 957**	**581 042**	**228 902**	**321 042**	**1 505 943**

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2009	**374 957**	**0**	**228 902**	**496 927**	**1 100 786**
- appropriation of profit, including:	0	496 927	0	-496 927	**0**
- transfer to reserve capital	0	496 927	0	-496 927	**0**
- net profit/ (loss) of the period	0	0	0	84 115	**84 115**
Retained earnings at the end of the period 31.12.2009	**374 957**	**496 927**	**228 902**	**84 115**	**1 184 901**

VIII. 2010 DIVIDEND

Taking into consideration the very solid capital adequacy ratio and the significant rebound in Group's profitability, the Management Board considers to submit to General Shareholders Meeting a proposal to pay a dividend in the amount of PLN 121.3 million, which means PLN 0.1 per share. This amount of dividend will leave enough capital for the expected stronger loans growth in the future. This dividend proposal corresponds to a 37% pay-out ratio from consolidated net profit, which means a resume of Bank's stable dividend policy maintained until 2008. Proposed dividend gives 2% dividend yield (related to PLN 4.90 share price from the end of the year 2010).

There was not dividend payment from profit recorded in 2009.

IX. FAIR VALUE

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

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

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

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 is estimated by discounting related cash flows on contractual dates and under contractual conditions with the use of current zero-coupon rates and credit risk margins.

In case of residential mortgage loans the effect of early repayment, significant in this case, is additionally taken into account due to their long-term nature.

Liabilities to customers

Fair value of such instruments without maturity or with maturity under 3 months is considered by the Bank to be close to balance-sheet value.

Fair value of instruments due and payable in 3 or more months is determined by discounting future principal and interest cash flows with current rates contractual terms.

Liabilities from the issuance of structured debt securities

Liabilities from the issuance of structured debt securities are stated/priced at fair value in accordance with Bank's model. In this model, zero coupon bond price is calculated, which afterwards is increased by the option price, which was basis for a strategy built in a given structured bond.

Subordinated liabilities

The fair value of this financial instrument is 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 current level of market rates and historical margin for credit risk.

The table below presents results of the above-described analyses as at 31 December 2010:

in PLN '000

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 485 797	1 516 427
Loans and advances to customers *	18	35 677 997	34 050 739

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 084 456	2 142 727
Amounts due to customers	29	35 525 839	35 525 113
Debt securities	31	384 537	395 814
Subordinated debt	35	911 988	906 290

* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads due to the refinancing cost increase of those positions. Commencing from 2008 polish Banks raised spreads on newly granted loans to compensate for increased risk coming from deteriorating credit capacity of customers.

The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is applied for valuation of debt securities, which are not quoted on active markets.
In result, paradoxically whenever the Bank raises spreads, fair value of the "old" loans portfolio falls.

The table below presents results of the above-described analyses as at 31 December 2009:

in PLN '000

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	695 689	725 385
Loans and advances to customers	18	32 482 473	30 602 811

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	4 909 356	4 944 571
Amounts due to customers	29	31 653 587	31 654 923
Debt securities	31	262 466	270 543
Subordinated debt	35	945 795	943 172

The table below presents balance sheet values of instruments measured at fair value, ranked according to the fair value measurement method applied:

In PLN ths., as at 31.12.2010				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			448 638	545
- debt securities		752 141	228 219	
Hedging derivatives	**17**		80 231	
Financial assets available for sale	**19**			
- debt securities		2 975 319	1 388 244	133 401
- shares and interests		9 812		1 071
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			804 965	
Hedging derivatives	**28**		1 315 321	

In PLN ths., as at 31.12.2009				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			631 618	77 317
- debt securities		2 089 136	231 182	
Hedging derivatives	**17**		377 334	
Financial assets available for sale	**19**			
- debt securities		2 121 581	1 895 637	133 060
- shares and interests		11 725		1 073
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			683 378	
Hedging derivatives	**28**		122 813	

The category of derivatives which were measured at fair value based on unobservable inputs (valuation techniques with use of important parameters not derived from the market) comprises FX options. The credit risk valuation component (valuation component not derived from the market) is reflected only in case of options, whose fair value is presented in the balance sheet as an asset. Options presented as the Bank's liability are included in the category "measured at fair value based on parameters derived from the market (description of the method of valuation of FX options is presented in Chapter VI "Accounting Policy"). In 2009 the bank ceased to conclude FX options transactions with the transaction customers, in result the value of these transactions fell strongly.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2010 are presented in the table below:
In PLN ths.

	FX options	Debt securities (municipal bonds)	Shares and interests
As at 01.01.2010	77 317	133 060	1 073
Settlement /purchase /sell	-81 786	-122 127	0
Valuation change comprised in Profit and Loss Account including interests	4 603	1945	-2
Valuation change comprised in revaluation reserve	0	0	0
Purchase	411	120 523	0
As at 31.12.2010	545	133 401	1 071

X. INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

As at 31 December 2010 following assets of the Bank constituted security of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0811	available for sale	Lombard credit granted to the Bank by the NBP	65 000	65 900
2.	Treasury bonds OK0711	available for sale	Lombard credit granted to the Bank by the NBP	75 000	73 350
3.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	507
4.	Treasury bonds OK0711	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	75 000	73 350
5.	Treasury bonds DZ0811	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	30 000	30 415
6.	Treasury bonds OK0112	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	85 000	81 209
7.	Cash		Payment to the Futures Settlement Guarantee Fund	70	70
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	1 000 302	1 000 302
9.	Loans and advances	Loans and advances	Loan agreement	164 708	141 385
TOTAL				**1 495 580**	**1 466 488**

As at 31 Dec 2009, the following assets of the Bank were used as collaterals of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0811	available for sale	Lombard credit granted to the Bank by the NBP	65 000	66 250
2.	Treasury bonds OK0711	available for sale	Lombard credit granted to the Bank by the NBP	75 000	69 795
3.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	510
4.	Treasury bonds DS1110	trading	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	67 279	68 759
5.	Treasury bonds DZ0811	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	30 000	30 577
6.	Treasury bonds OK0710	trading	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	70 000	68 506
7.	Cash		Payment to the Futures Settlement Guarantee Fund	70	70
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	41 055	41 055
		TOTAL		**348 904**	**345 521**

XI. SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

As at 31 Dec 2010, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	trading	716 927	673 330
TOTAL		**716 927**	**673 330**

As at 31 Dec 2009, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Portfolio	Par value	Balance sheet value
Treasury bills	available for sale	500 000	490 458
Treasury bonds	available for sale	575 000	519 944
Treasury bills	trading	201 490	198 260
Treasury bonds	trading	1 209 002	1 161 592
TOTAL		**2 485 492**	**2 370 254**

XII. ADDITIONAL EXPLANATIONS TO CASH FLOW ACCOUNT

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

Data in PLN thous.

	31.12.2010	**31.12.2009**
Cash and balances with the Central Bank	2 050 515	2 191 027
Receivables from interbank deposits (*)	145 018	334 770
Debt securities issued by the State Treasury (*)	1 063295	1 602 611
of which available for sale	999 708	1 599 383
of which trading	63 587	3 228
Total	**3 258 827**	**4 128 408**

(*) financial assets of maturity below 3 months

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

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

“Other items” of operating cash flows in 2010 include an adjustment of PLN 26 million (PLN 40 million in 2009) on account of accrual of interest on subordinated loans, the outflow of these funds has been presented in the part concerning cash flows on financial operations. In addition ‘other flows’ from financing activities includes the payment of interest on loans of PLN 61 million (67 million respectively for the year 2009 - in order to ensure comparability of data, adjustments were made for the year 2009, respectively making the reclassification of aforementioned interest in correlation with the item ‘change in liabilities to banks‘).

XIII. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2010 the Custody Department maintained 8,966 securities accounts, registers of foreign financial instruments and deposits accounts, in which Customers’ assets were kept with the total value of PLN 22,345.4 million. Net revenue from the custody business for 2010 amounted to PLN 7.1 million as compared to PLN 6.4 million recorded in 2009. The Custody Department serves as a depositary bank for 45 mutual funds including 11 of Millennium TFI S.A. (two funds with separated sub funds).

XIV. TRANSACTIONS WITH RELATED ENTITIES

(1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 2010 were driven by current activity. The below table presents major amounts of intergroup transactions, which were eliminated in the data consolidation process; these were transactions with the following entities:

- MILLENNIUM LEASING,
- MILLENNIUM LEASE,
- MILLENNIUM DOM MAKLERSKI,
- MILLENNIUM TFI
- BBG FINANCE BV,
- MB FINANCE AB
- ORCHIS
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- TBM,

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

Apart from transactions described herein, in the indicated period neither Bank Millennium S.A., nor subsidiaries of Bank Millennium S.A. made any other transactions with related entities, which individually or jointly may have been significant and concluded under terms and conditions other than market-based.

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2010

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits		4 728
Loans and advances to customers	2 191 276	
Investments in associates	300 105	
Financial assets valued at fair value through profit and loss (held for trading)	3 852	19 216
Hedging derivatives		69 616
Other assets	1 897	528

LIABILITIES		
Deposits from banks		793 828
Deposits from customers	273 971	
Liabilities from securities sold with buy-back clause	3 503	
Hedging derivatives		69 748
Financial liabilities valued at fair value through profit and loss (held for trading)	634	
Other liabilities, including:	139 548	
- financial leasing liabilities	137 673	

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2009

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits		70 542
Loans and advances to customers	2 193 055	
Investments in associates	252 772	
Financial assets valued at fair value through profit and loss (held for trading)	4 093	53 043
Hedging derivatives		74 839
Other assets	12 264	

LIABILITIES		
Deposits from banks		2 892 670
Deposits from customers	235 627	
Liabilities from securities sold with buy-back clause	3 506	
Financial liabilities valued at fair value through profit and loss (held for trading)	1 175	757
Other liabilities, including:	151 155	
- financial leasing liabilities	149 057	

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2010

	With subsidiaries	With controlling entity
Income from:		
Interest	61 049	64 044
Commissions	53 776	
Derivatives net	1 250	
Dividends	18 206	
Other net operating income	3 291	
Expense from:		
Interest	6 609	54 187
Commissions	29	1 017
Derivatives net		6 678
General and administrative expenses	69 888	9

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2009

	With subsidiaries	With controlling entity
Income from:		
Interest	70 962	41 521
Commissions	42 507	
Derivatives net	0	11 314
Dividends	99 287	
Other net operating income	3 331	
Expense from:		
Interest	6 916	49 991
Commissions	804	
Derivatives net	7 257	
General and administrative expenses	86 731	9

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2010

	With subsidiaries	With controlling entity
Conditional commitments	150 124	805 797
Derivatives (par value)	303 809	4 536 378

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2009

	With subsidiaries	With controlling entity
Conditional commitments	274 008	160 481
Derivatives (par value)	439 504	4 316 181

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

Data on exposure reported with respect to Persons Managing and Supervising the Bank, as of 31.12.2010:

	The management	The supervising persons
Total debt limit (in '000 PLN), **- including an unutilized limit (in '000 PLN),**	1 210.0 381.7	125.0 113.0
Mortgage loans and advances	3 314.5	-
Active guarantees	-	-

The Bank provides standard banking services to relatives of Members of the Management Board and Members of the Supervisory Board, which services comprise i.a.: keeping bank accounts, accepting deposits or sale of financial instruments. In the Bank's opinion these transactions are concluded on market terms and conditions.

Data about total exposure to entities related personally, as of 31.12.2010:

Entity	Amount (in '000 PLN)	Relationship
Client 1	5 269	Personal with The supervising person
Client 2	395	Personal with The supervising person
Group 1	140 465	Personal with The supervising person
Group 2	6 465	Personal with The supervising person

Outstanding loans granted to the Bank's employees from ZFŚS (company social benefits fund) amounted to PLN 4,349.6 thousands.

The Bank does not keep a record of loans granted to employees as part of its regular business i.e. on terms and conditions stipulated for the Bank's Customers.

Data on exposure reported with respect to Persons Managing and Supervising the Bank, as of 31.12.2009:

	The management	The supervising persons
Total debt limit (in '000 PLN), **- including an unutilized limit (in '000 PLN),**	1 055.0 253.4	160.0 125.3
Mortgage loans and advances	3 070.0	-
Active guarantees	-	-

Data about total exposure to entities related personally, as of 31.12.2009:

Entity	Amount (in '000 PLN)	Relationship
Client 1	6 838	Personal with The supervising person
Client 2	315	Personal with The supervising person
Group 1	80 634	Personal with The supervising person
Group 2	10 519	Personal with The supervising person

Outstanding loans granted to the Bank's employees from ZFŚS (company social benefits fund) amounted to PLN 4,666.7 thousands.

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

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

Year	Salaries and bonuses	Benefits	TOTAL
2010	9 180.0	1 692.7	**10 872.7**
2009	20 194.5	1 185.0	**21 379.5**

Total value of remuneration of the Members of the Management Board in 2010 was PLN 10,872.7 thou. This amount includes remuneration of the Members of the Management Board together with fringe benefits. The Members of the Management Board were not paid bonuses for 2009 and the provision for bonus for 2010 was established in the amount of PLN 6,177.9 thousands. In 2010 the Members of the Management Board received no salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2010	**1 637.9**
2009	**1 827.9**

In 2010 Members of the Bank's Supervisory Board received no salaries or any fringe benefits from Subsidiaries.

(4) BALANCE OF SHARES OF THE BANK HELD BY PERSONS MANAGING OR SUPERVISING THE BANK (PERFORMING THEIR FUNCTIONS AT 31 DEC 2010)

Name and surname	Function	Number of shares as at 31.12.2010	Number of shares as at 31.12.2009
Bogusław Kott	Chairman of the Management Board	4 465 791	3 126 174
Joao Bras Jorge	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	492 248	490 000
Andrzej Gliński	Member of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	5 246
Artur Klimczak	Member of the Management Board	0	0
Antonio Pinto Junior	Member of the Management Board	0	0
Jerzy Andrzejewicz	Proxy	6 260	6 260
Maciej Bednarkiewicz	Chairman of the Supervisory Board	134	94
Ryszard Pospieszyński	Deputy Chairman of the Supervisory Board	86 300	60 470
Carlos Jorge Ramalho dos Santos Ferreira	Deputy Chairman of the Supervisory Board	0	0
Marek Furtek	Secretary of the Supervisory Board	1	1
Luis Pereira Coutinho	Member of the Supervisory Board	0	0
Vitor Manuel Lopes Fernandes	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Paulo Jose de Ribeiro Moita de Macedo	Member of the Supervisory Board	0	0
Nelson Ricardo Bessa Machado	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

XV. RISK MANAGEMENT

Risk management is an essential framework for the development, profitability and sustainability of the Bank's business, forming a set of functions which ensure that the Bank follows the best practices in terms of internal control, complies with all legal requirements and that the Bank's business strategy is aligned with the Bank's risk strategy for the different types of risks.

Risk management in the Bank aims to ensure that all types of risks are managed, monitored and controlled with reference to its sustainability, profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system.

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

The segregation of duties between risk origination, risk management and risk control is one of the main principles on the risk management framework in the Bank.

Split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan;
- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board; and
- The Risk Control Committee and the Processes and Operational Risk Committee are responsible for monitoring and control of different areas of banking risk, within the framework determined by the Management Board.
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Risk Control Committee and the Management Board to make decisions with respect to risk management.
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits.
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection.
- The Corporate Collection Department develops specific strategies with respect to each debtor, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Bank. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts.
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Bank's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment.

(1) CAPITAL MANAGEMENT

Regulatory own funds

The management of the Bank's capital, in addition to complying with own needs must fully observe statutory regulations in this regard (own funds, prudential standards, capital requirements) as set by the Banking Act and respective resolutions of the Polish Financial Supervisory Authority.

Bank Millennium conducted in the beginning of 2010 a shares rights issue, increasing its own capital by more than 1 bln PLN thus strengthening the solvency ratios in order to implementation the new business strategy for years 2010-2012.

Due to the capital increase, and to the improvement of net profit, the capital position measured by the CAR improved in 2010 significantly above the minimum required level of capital adequacy.

The Bank's capital adequacy is regularly monitored in detail for individual types of exposure, its coverage by own regulatory funds and change in trends. In this context risk factors, which may lead to deterioration of the Bank's capital position are monitored, including changes of FX rates, real estate prices, growth of impaired exposures. Stress tests are carried out, reflecting growth of these risk factors as well as the potential impact on capital adequacy.

A main priority in 2010 was the strengthening of all the activities to enhance the application process to implement the internal rating based approach of Basel II to the calculation of capital requirements for credit risk.

Internal capital

The Bank performs its process of internal capital adequacy assessment based on model of economic capital.

The calculation of economic capital covers all the material risk types to which the Bank is exposed to and is based on the set of parameters adjusted to the specifities and realities of the Polish market.

In the process of internal capital calculation particular types of risk and risk-diversification effects are subject to stress testing. Total diversified economic capital is compared then with the risk-taking capacity, i.e. with own funds/available financial resources. As a result of that analysis, internal economic capital adequacy is assessed. In 2010 – similar to 2009 - total risk of the Bank (internal to capital) was completely secured by available to this purpose funds. Internal capital is allocated into particular business areas.

(2) CREDIT RISK

The credit risk is one of the most important risk type for the Bank and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures (i.e., granted credit and loans) as well as off-balance sheet financial instruments, such as granted and unutilized credit lines, guarantees and letters of credit, as well as limits for transactions in financial instruments.

The credit policy is subject to periodic reviews and verification process taking into account the prevailing market conditions and changes in the Bank's regulatory environment.

The Bank uses several rating systems to manage credit risk depending on the type of exposure and the customer segment involved. A rating system is a set of methods (models), processes, controls, data collection procedures and IT systems that identify and measure credit risk, sort levels of exposure by grades or pools (granting of credit rating), and quantify probability of default and expected loss estimates for specific types of exposure.

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances

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

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

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

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

(i) The Bank assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed at the level of the BCP Group, in-house or by external providers, and combine statistical analysis with assessment by a credit professional. The Bank's customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Bank's Master Scale, presented below, also contains the scale of probabilities of non-compliance with the liabilities specified for a given class/rating group. Rating models are subject to regular reviews and – if necessary – to relevant modification. The Bank regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments and transactions is supported by IT systems, obtaining and analyzing information from internal and external databases.

The Bank's internal rating scale

INTERNAL RATING GRADE	Description of rating
1-3	Highest quality
4-6	Good quality
7-9	Medium quality
10-12	Low quality
13-14	Watched
15	Default

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

(iii) LGD – loss given default is what the Bank expects will be its losses resulting from actual cases of default, with the 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 relatively small.

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

The Bank measures, monitors and controls large credit exposures and high credit risk concentrations, wherever they are identified. Concentration risk management process encompasses single-name exposures (with respect to an individual borrower or group of connected borrowers with material capital, organizational or economic relations) and sectoral concentration – to economic industries, geographical regions, countries, and the real estate financing portfolio including FX loans. Above types of sectoral exposures are subject to internal limits system. Information about the utilization of limits are presented at the Risk Control Committee, that may take decisions concerning reduction of exposure to particular borrowers or loan subportfolios or certain sectors of activities, etc.

Resulting from art. 71 of the Banking Act limits with respect to one borrower or group of connected borrowers, are monitored monthly while the internal, sectoral limits are monitored quarterly. Limits are 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 performed through regular monitoring of customers' economic and financial situation and/or track record of their relationship with the Group from the point of view of punctual repayment of their principal and interest liabilities.

Collateral

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

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

The type and value of required collateral depends on the amount and type of credit exposure, loan maturity and customers' rating. The Bank tries to use collateral to ensure an appropriate cushion against the risk, given the specificity of a transaction. The possibility of satisfying oneself from the collateral is treated as an alternative source of repaying the required receivables in case the client has not performed the repayment in the amounts and by the deadlines specified in the agreement.

The real value and possibility of satisfying oneself from the collateral may be critical to the level of the final settlement of the transaction, therefore the Bank attaches much importance to specifying such value at the moment of its granting and its validation within the duration of the transaction and this is an important element of monitoring both for an individual transaction and the whole credit portfolio.

In connection with mortgage loans, final collateral is always established in the form of final binding entry of the first mortgage on a residential real property (mortgage may be established on a real property other than the one being acquired). Other standard types of collateral of mortgage loans in the Bank include assignment of rights under real estate insurance and assignment of rights under life insurance of the customer.

Until a mortgage can be established effectively, the Bank requires temporary collateral. Standard temporary collateral is bridge insurance i.e. loan insurance until first mortgage on a residential real property in favor of the Bank is entered.

In accordance with credit policy adopted in the Bank it is also allowed to grant a transaction without collateral, but this takes place according to specific principles, which are different depending on the client's segment. But in the case of the deterioration of the debtor's economic and financial situation, in the most of documents signed with the client the Group stipulates the possibility of taking additional collateral for the transaction.

Derivatives

The Bank maintains strict control over the limits of net open derivative positions both with respect to amounts and transaction maturities. Credit risk exposures resulting from derivatives are managed as part of total credit limits defined for individual customers calculated on the basis of verification of natural exposure and analysis of customer's financial situation, and also as part of counterparties' limits.

The Bank offers Treasury products for FX risk or interest rate risk only for hedging purposes and under Treasury limits assigned to clients or secured by specific collateral (deposit).

Most of the Bank's agreements include the possibility of calling the client to replenish the margin deposit, (if the valuation of the client's open position exceeds treasury limit, the so-called *margin call*); and if the client does not supplement the deposit, the Bank has the right to close the position.

Credit risk-based off-balance sheet liabilities

Credit risk-based off-balance sheet liabilities include guarantees, letters of credit as well as granted credit lines. The main purpose of these instruments is to enable the customer to use the funds granted by the Bank in a specific way.

Documentary and commercial letters of credit are a written, irrevocable and final obligation of the Bank to accept payments based on compliant documents within the time limits specified in the letters of credit and are connected with a guarantee-like risk.

The available credit line balance is the non-utilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters of credit. Considering the credit risk of undertakings to grant credit, the Bank is potentially exposed to a loss in an amount equal to the sum of non-utilised liabilities.

However the probable loss amount is usually lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on customers' particular credit conditions.

The Bank monitors the period remaining to maturity of off-balance liabilities because long-term liabilities usually involve a higher degree of credit risk than short-term liabilities.

(2C) POLICY WITH RESPECT TO IMPAIRMENT AND CREATION OF REVALUATION CHARGES

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

Within the process of individual analysis, in the first place objective and subjective impairment factors are looked for and, if identified, in the second place, cash flows are estimated including flows from collaterals and on such basis impairment level is defined. In case of collective analysis, the level of revaluation charges is estimated using statistical parameters for probability of being impaired (PI) and loss given the impairment (LGI).

Individual impairment analysis for credit receivables

If in the course of analysis triggers are identified, indicating the possibility of impairment of credit receivables, the Bank will determine the amount of impairment. This amount constitutes of the difference between current balance credit exposure and the present value of expected future cash flows, discounted with the 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 the collateral, definition of expected sale date and estimating expected sales proceeds taking account of recovery process costs.

Collective analysis of loans portfolio

The following loans are subjected to collective analysis:

- Individually immaterial receivables;
- Individually material receivables in which impairment was not recognised.

A portfolio of homogenous loans comprises exposures with a similar risk profile, and thus e.g. a homogenous loans portfolio may be created on the basis of segmentation into business lines, type of credit products, number of past due days, type of collateral (leasing) 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 at the level of individual exposures and provisions are created for risk which has been incurred but not yet reported *(IBNR portfolio)*,
- Loans where impairment was recognised, but which were not subjected to case-by-case analysis.

In the first half of 2010, the Bank reviewed the credit impairment estimation process in collective analysis in order to update more frequently the estimation of the parameters. In effect of the revision the following changes were introduced:

• Definition of impaired receivables resulting from changes in internal processes of restructuring and vindication of loans.

• Estimation of loss (LGI – loss given impairment) for each homogenous group of impaired exposures taking account of the length of period the exposures are included in the impaired portfolio. As a result for each impaired exposure separate values of the LGI parameters were defined as well as period of delay above which LGI value is equal to 100%.

• Probability of being impaired (PI) for the IBNR portfolio, for which the PI parameters were updated in order to reflect the current data on the quality of the respective loan portfolios as well as the loss identification period (LIP) was updated taking into account uniform criteria and characteristics of the loan portfolios.

Main changes referred to above were introduced in June 2010. In the second half of the year, the Bank focused on monitoring of outcomes of changes implemented together with implementation of process improvements resulting from these observations.

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

Internal rating of the Bank

	31.12.2010		**31.12.2009**	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	39.02%	3.99%	38.0%	1.6%
3. Medium quality	33.04%	6.21%	32.9%	9.3%
4. Low quality	10.95%	2.61%	14.9%	13.1%
5. Watched	3.80%	6.08%	2.7%	6.9%
6. Default	5.63%	79.86%	5.0%	65.8%
7. Clients without rating*	7.56%	1.25%	6.4%	3.3%
Total	**100.00%**	**100.00%**	**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. NET OF RISK-MITIGATING INSTRUMENTS

'000 PLN

	Maximum exposure	
	31.12.2010	**31.12.2009**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**43 468 374**	**40 841 560**
Loans and advances to banks	**1 485 797**	**695 689**
Loans and advances to customers:	**35 677 997**	**32 482 473**
Loans to private individuals:	**27 884 336**	**24 809 679**
– Credit cards	777 952	772 796
– Cash loans and other loans to private individuals	2 223 510	2 123 829
– Mortgage loans	24 882 874	21 913 054
Loans to companies	**7 064 437**	**7 169 970**
Loans to public entities	**729 224**	**502 824**
Trading securities:	**980 360**	**2 320 318**
– Debt securities	980 360	2 320 318
– Shares	0	0
Derivatives	**449 183**	**708 935**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**4 819 952**	**4 425 364**
– Debt securities	4 496 964	4 150 278
– Shares	322 988	275 086
Receivables from securities bought with sell-back clause	**55 085**	**208 781**
Credit risk connected with off-balance sheet items appears as follows:	**8 126 650**	**7 407 330**
Financial guarantees	1 884 009	1 539 925
Credit commitments and other commitments connected with loans	6 242 641	5 867 405

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2010 and 31st December 2009, not taking into account 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

	31.12.2010		31.12.2009	
	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	33 460 815	1 485 797	30 652 639	695 697
Overdue, but without impairment	1 510 262	0	1 294 254	0
With impairment	1 735 681	0	1 528 206	0
Gross	**36 706 758**	**1 485 797**	**33 475 099**	695 697
Impairment write-offs together with IBNR	-1 028 761	0	-992 627	0
Net	**35 677 997**	**1 485 797**	**32 482 472**	695 697
Loans with impairment / total loans	4,73%		4,57%	

Loans and advances not past due and not impaired

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 31.12.2010	Banks 31.12.2010	Customers 31.12.2009	Banks 31.12.2009
Rating:				
1. Highest quality	699	1 485 797	265	695 697
2. Good quality	14 215 850		12 689 231	
3. Medium quality	11 522 380		10 699 519	
4. Low quality	3 435 056		4 348 025	
5. Watched	671 828		475 241	
6. Default	229 287		318 061	
7. Clients without rating	3 385 715		2 122 298	
Total	**33 460 815**	**1 485 797**	**30 652 639**	**695 697**

Loans and advances past due 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 past due but without impairment, divided between customer segments, is as follows:

Gross exposure in '000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	112 537	985 939	213 338	0	1 311 814
Delay 30 - 60 days	29 710	47 773	39 481	0	116 964
Delay 60-90 days	5 440	13 730	18 181	0	37 351
Delay above 90 days*****	40 733	416	2 984	0	44 133
Total	**188 420**	**1 047 858**	**273 984**	**0**	**1 510 262**

Gross exposure in '000 PLN

	31.12.2009				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	139 638	713 546	220 794	0	1 073 978
Delay 30 - 60 days	38 139	53 774	46 232	0	138 145
Delay 60-90 days	21 581	185	16 266	0	38 032
Delay above 90 days*****	43 590	0	509	0	44 099
Total	**242 948**	**767 505**	**283 801**	**0**	**1 294 254**

* - Receivables past due over 90 days, but not included in the impaired portfolio, displaying impairment triggers but not demonstrating impairment due to estimated cash flows.

Impaired loans and advances

The gross amount of impaired loans and advances broken down into customer segments is as follows:

Gross exposure in '000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	909 685	18 508	552	0	928 745
Collective analysis	95 375	203 392	508 169	0	806 936
Total	**1 005 060**	**221 900**	**508 721**	**0**	**1 735 681**

Gross exposure in ‘000 PLN

	31.12.2009				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	976 022	6 419	207	0	982 648
Collective analysis	73 720	144 197	327 641	0	545 558
Total	**1 049 742**	**150 616**	**327 848**	**0**	**1 528 206**

Loans and advances covered by case-by-case analysis

The quantification of the value of the portfolio subjected to case-by-case analysis as well as of the value of created charges, split between impaired receivables and the IBNR portfolio (and respectively charges) is presented in financial notes.

The tables below present the structure of the impaired portfolio subjected to case-by-case analysis.

- By products

Gross exposure

Loans and advances to customers

	31.12.2010			31.12.2009		
	Amount in ‘000 PLN	Share %	Coverage by impairment	Amount in ‘000 PLN	Share %	Coverage by impairment
Investment loans	320 317	34,5%	28,5%	332 554	33,8%	34,6%
Working capital loans	195 823	21,1%	24,7%	133 358	13,6%	19,4%
Current account loans	63 810	6,9%	35,2%	156 917	16,0%	36,4%
Revolving loans	1 108	0,1%	59,3%	1 587	0,2%	62,9%
Mortgage loans	18 508	2,0%	20,5%	6 419	0,7%	21,3%
Factoring	94 990	10,2%	50,7%	21 560	2,2%	37,0%
Other*	234 189	25,2%	63,7%	330 253	33,6%	56,2%
	928 745	**100,0%**	**39,2%**	**982 648**	**100,0%**	**40,1%**

* - Additionally, in this position the liabilities regarding a settlement of forward operations, as well as refinance credits have been taken into account.

- By currency

Gross exposure

Loans and advances to customers

	31.12.2010			31.12.2009		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	642 397	69.2%	44.6%	689 479	70.2%	42.1%
CHF	12 789	1.4%	16.7%	2 365	0.2%	39.7%
EUR	5 785	0.6%	21.7%	23 446	2.4%	20.2%
USD	267 774	28.8%	27.8%	267 358	27.2%	36.6%
	928 745	**100.0%**	**39.2%**	**982 648**	**100.0%**	**40.1%**

- By coverage ratio

Gross exposure

Loans and advances to customers

	31.12.2010		31.12.2009	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	246 082	26,5%	289 371	29,4%
20% - 40%	342 155	36,8%	283 529	28,9%
40% - 60%	162 073	17,5%	182 150	18,5%
60% - 80%	21 545	2,3%	79 042	8,0%
Above 80%	156 890	16,9%	148 556	15,1%
	928 745	**100,0%**	**982 648**	**100,0%**

Restructured loans and advances

The 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 minimise losses and as fast as possible mitigate risks carried by the Bank.

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

Recovery of retail receivables is a fully centralised process implemented in two stages:

1) warning process - conducted by Direct Banking Department

2) restructuring and execution proceedings – implemented by Retail Liabilities Collection Department.

Process performed by Direct Banking Department involves, solely, direct, telephone contacts with Customers and obtaining repayment of receivables due to the Bank. In case of failure to receive repayment or in case the Customer applies for debt restructuring, the case is taken over by the Retail Liabilities Collection Department and involves any and all restructuring and execution activities (court proceedings).

Recovery process is supported by specialised IT system covering the entire Customer portfolio , fully automated at the stage of portfolio monitoring and supporting actions undertaken in later restructuring and recovery phases. The behavioural scoring model constitutes an integral component of the system, used at the warning stage. The system is used for retail liabilities collection process applicable to all retail Customer segments.

The model is based on its internal calculations including, *inter alia,* total exposure of the Bank in a given Customer, Customer's business segment type of credit risk based product (applicable, primarily, to mortgage products) and history of cooperation with the Customer relative to previous restructuring and execution activities. Receivables due from Customers are automatically recorded in the system not later than on 4th day from the date the receivable becomes due and payable.

Corporate receivables included in the restructuring and recovery portfolio are managed by the Corporate Recovery Department and the restructuring and recovery of corporate receivables is aimed at undertaking effective steps with respect to customers, their receivables and collateral aimed at maximizing recovery as quickly as possible in order to limit the risks borne by the Bank.
To manage the process of restructuring and recovery of corporate receivables portfolio, the Bank uses applications supporting decision-making process, which quickly provide essential information about the receivables, collateral, implemented approach, as well as key activities and deadlines.

As of 31.12.2010 the amount of the loans without impairment (balance-sheet exposure), which were restructured in the past, stood in the Bank at PLN 171,2 million and was up 15% as compared with the balance as of 31.12.2009 (PLN 148,3 million). As of 31.12.2010 the amount of retail receivables (balance exposure) which were restructured in the past and now are cured (totally 993 cases) and classified as not-impaired loans equals to PLN 21,7 million (appropriately as at the end of 2009 it was PLN 21,8 million).
The table below presents the loan portfolio with recognised impairment managed by the Bank's organisational units responsible for loan restructuring.

Gross exposure in '000 PLN

	31.12.2010	**31.12.2009**
Loans and advances to private individuals	193 744	219 641
Loans and advances to companies	446 112	610 169
Total	**639 856**	**829 810**

Bank execution titles

In 2010 with respect to receivables from businesses (corporate), the Bank issued 122 bank execution titles ("BTE") in the total amount of PLN 156,1 million (converted at the average NBP rate of 31.12.2010), where:

- 111 BTE in PLN for the total amount of PLN 152,6 million,
- 3 BTE in EUR for the total amount of EUR 0,9 million (PLN 3,5 million),
- 8 BTE regarding release of items constituting security of the Bank's receivables

Moreover in 20100 the Bank issued 24 612 bank execution titles concerning retail and small business receivables in the total amount of PLN 239,8 million (converted at the rate of 31.12.2010).

(2F) DEBT AND EQUITY SECURITIES

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2010.

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	980 360	3 355 513	24	**4 335 897**
Central Bank	0	999 708	0	**999 708**
Other	0	141 743	343 401	**485 144**
- listed	0	8 342	9 812	**18 154**
- not listed	0	133 401	333 589	**466 990**
Total	**980 360**	**4 496 964**	**343 425**	**5 820 749**

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2009.

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	2 320 318	2 462 342	24	**4 782 684**
Central Bank	0	1 499 417	0	**1 499 417**
Other	0	188 519	278 961	**467 480**
- listed	0	55 459	11 725	**67 184**
- not listed	0	133 060	267 236	**400 296**
Total	**2 320 318**	**4 150 278**	**278 985**	**6 749 581**

(2G) COLLATERAL TRANSFERRED TO THE BANK

In 2010 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of part of the proceeds for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (as part of selling organized parts of the debtor's whole enterprise).
As a result of the above the implemented debt-collection procedure is not recorded on the so-called Fixed Assets for Sale.

(2H) POLICY FOR WRITING OFF RECEIVABLES

Credit exposures, with respect to which the Bank no longer expects any cash flows to be recovered and for which impairment provisions (or fair value adjustments in case of receivables originated from derivatives) have been created fully covering the outstanding debt are written-off the balance sheet against said provisions (or fair value adjustments) and transferred off-balance. This operation does not cause the debt to be cancelled and the restructuring and recovery actions are not interrupted.
In most of cases the Bank writes off receivables against impairment provisions when said receivables are found to be unrecoverable i.e. among other things:

- ineffective execution proceedings;
- death of a debtor;
- confirmation that there are no chances to satisfy claims from the estate in bankruptcy;
- exhaustion of all opportunities to carry out execution against main debtor and other obligors (e.g. collateral providers).

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

Industry sectors

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

31.12.2010	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 485 797	0	0	0	0	0	0	0	**1 485 797**
Loans and advances to customers	90 554	3 060 635	1 852 326	849 980	676 344	24 991 572	3 436 239	1 749 108	**36 706 758**
Trading securities	0	0	0	0	980 360	0	0	0	**980 360**
Derivatives	483 934	42 759	1 529	0	0	0	0	1 192	**529 414**
Investment securities	175 185	160 539	8 200	26	4 455 787	0	0	40 655	**4 840 392**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0	0	0	0	**55 085**
As at 31 December 2009	**2 290 555**	**3 263 933**	**1 862 055**	**850 006**	**6 112 491**	**24 991 572**	**3 436 239**	**1 790 955**	44 597 806

31.12.2009	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	695 689	0	0	0	0	0	0	0	**695 689**
Loans and advances to customers	38 675	3 247 952	1 690 647	1 041 619	507 320	22 046 324	3 196 937	1 705 626	**33 475 100**
Trading securities	0	0	0	0	2 320 318	0	0	0	**2 320 318**
Derivatives	727 544	47 053	14 883	0	0	0	0	296 789	**1 086 269**
Investment securities	174 103	144 000	8 200	27	3 982 031	0	0	120 902	**4 429 263**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	208 781	0	0	0	0	0	0	0	**208 781**
As at 31 December 2008	**1 844 792**	**3 439 005**	**1 713 730**	**1 041 646**	**6 809 669**	**22 046 324**	**3 196 937**	**2 123 317**	**42 215 420**

* 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 portfolio due to adverse movement in interest rates, foreign exchange rates or prices of bonds, equities or commodities.

Market-risk evaluation measures

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

Calculation of the VaR in the 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 value at risk is determined daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.
Back testing is a standard technique used to evaluate the quality of the risk measurement model, performed according to the following rules:

- In the existing system an ex-post comparison is made of the risk measure generated by the model with the verified daily changes in the portfolio value 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 or equal 8 excesses) corresponds to a result which does not suggest any problem in the model,
  - the yellow zone (9 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 to 99%,
  - the red zone (more or equal to 15 excesses) indicates a problem in the risk model.

All reported excesses are documented. This includes an explanation of their causes and their incorporation in one of the three classes of excess explanation: adequacy of the model, insufficient model accuracy or unanticipated market movements.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear instruments), other risk ratios were defined, such as Gamma, Vega and Theta.

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 market risk factors,
- Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- Identify 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 shape of the yield curves; iii) Variations of interest rate volatility; iv) Variations of the exchange rates; v) Variations of currency and currency interest rate swaps spreads; vi) Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows the trading areas to have on-line access to the values at risk in their respective portfolios.

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 (Positioning Portfolios).

VaR ratios presented in the table below reflect joint exposures to market risk in the Trading Book and the Banking Book worth approx. PLN 13.8 million average in 2010, with the valid limit of PLN 113 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents.

The figures include also the exposures to market risk generated in subordinated companies, as the Bank takes over the risk of subordinated companies and manages it at central level.

VaR measures for market risk (‘000 PLN):

	VaR (from 31 December 2009 to 31 December 2010)				
	The end of December 2010	Average	Maximum	Minimum	The end of December 2009
Total risk	**11 979**	**13 843**	**20 671**	**6 999**	**17 497**
Generic risk	9 247	12 712	19 759	6 106	16 545
Interest rate VaR	9 264	12 682	21 308	6 309	16 377
FX Risk	152	785	7 903	20	721
Equity risk	0	0	0	0	0
Diversification Effect	2%				3%
Non-linear risk	22	12	34	0	0
Commodity risk	0	0	0	0	0
Specific risk	2 710	1 118	2 710	561	951

For the purpose of comparability with the Report as of 2009 the table below presents joint exposures to market risk in the Trading Book and the Funding Risk Area (Financial Markets Activity):

	VaR (from 31 December 2009 to 31 December 2010)				
	The end of December 2010	Average	Maximum	Minimum	The end of December 2009
Generic risk	**7 442**	**8 974**	**15 497**	**4 481**	**12 382**
Interest rate VaR	7 445	8 917	15 454	4 423	12 237
FX Risk	152	784	7 903	20	721
Diversification Effect	2%				5%

The corresponding exposures as of 2009 respectively amounted to:

VaR measures for market risk ('000 PLN)

	VaR (from 31 December 2008 to 31 December 2009)				
	The end of December 2009	Average	Maximum	Minimum	The end of December 2008
Generic risk	**12 382**	**12 861**	**41 606**	**5 626**	**40 963**
Interest rate VaR	12 237	10 977	24 428	5 367	23 627
FX Risk	721	5 192	32 669	330	30 188
Diversification Effect	5%				31%

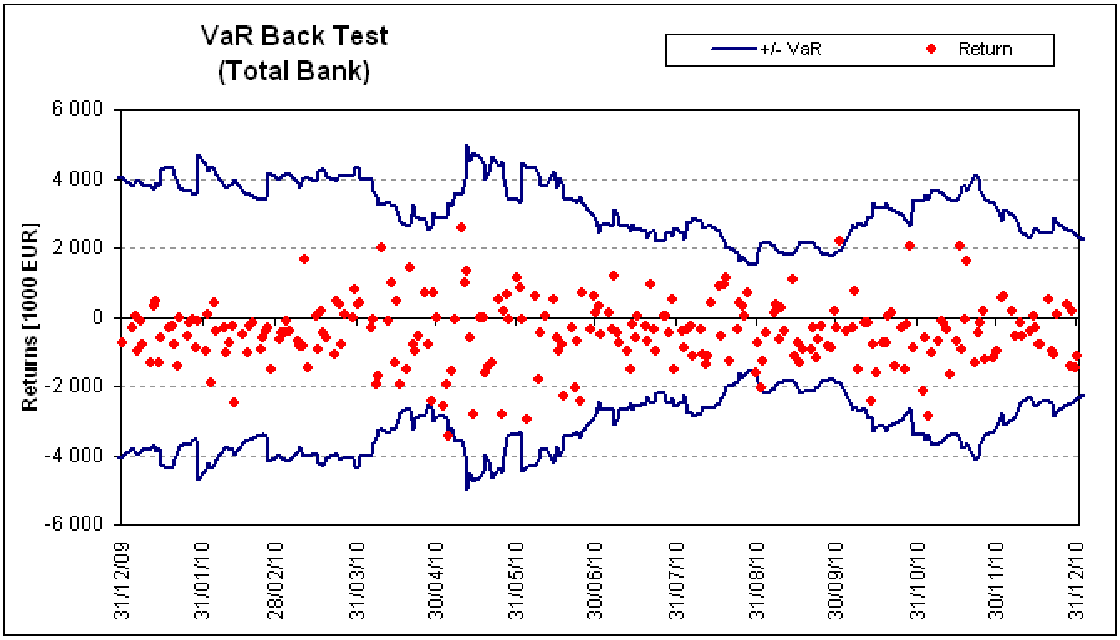
Open positions mostly included interest-rate instruments. The FX Risk covers all the foreign exchange exposures of the Bank, as well as open positions allowed only in the Trading Portfolios.

Evolution of the total FX position is presented in the table below (in thousand PLN):

Total FX position	**Period Average**	**Period Minimum**	**Period Maximum**	**The Last Day of Period**
2010	26 181	5 837	119 526	16 162
2009	53 429	8 765	398 071	12 027

The back testing proves that the applied model is appropriate.

Market risk - VaR Back Testing



VaR assessment is supplemented by monitoring the sensitivity to the above-mentioned scenarios of portfolios carrying market risk (only worst case results are being disclosed).
In keeping with principles adopted by the bank the indicative limits for stress test results are twice as high as limits for daily management of market risk.

In case of the Banking Book, for the purpose of interest rate risk a sensitivity of non-trading portfolios analysis is carried out, while to mitigate it hedging strategies are applied. The Bank is performing monthly risk transfer from Commercial, as well as Structural Risk Areas of the Banking Book to the Areas, where the risk is being managed on the operational level (i.e. respectively ALM and Funding).

As a result of this analysis in 2010 additional interest rate hedges were concluded connected with the fixed rate loan portfolio, in particular with the portfolio of consumer loans and leasing portfolio. As at end of December 2010 the value of BPV for the Banking Book was approx. PLN 23 million.

Sensitivity of the Banking Book to changes of interest rates was as follows (in thousand PLN):

BPV Banking Book	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2010	15 021	-14 005	37 027	22 618
2009	38 820	10 548	70 135	31 340

(4) LIQUIDITY RISK

The aim of liquidity risk management is to ensure and maintain the Bank's ability to meet both current, as well as future liabilities with consideration of cost of liquidity acquiring.
Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the needs for funding arising from the Group's obligations.

In subsidiaries there were no exposures to liquidity risk, because the Bank takes over the risk from its subsidiaries and manages it at central level.

In 2010 the Bank concluded new loan transactions for the amount of EUR 100 million with European Investment Bank (EIB), EUR 35 million with European Bank for Reconstruction and Development (EBRD) (partially disbursed in December) and prolonged EUR 200 million stand-by facility with Millennium BCP – the parent company. Moreover, during 2010 the Bank issued additional structured bonds (about PLN 120 million) impacting the level of long-term stable sources of funding.

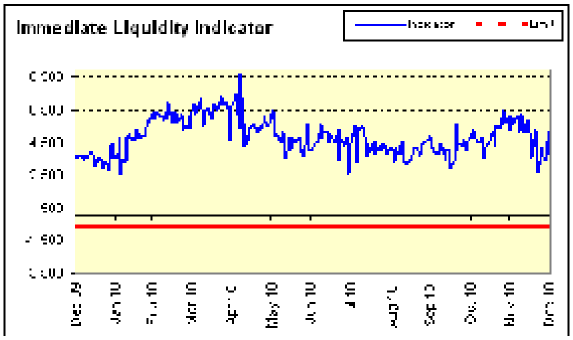
The large, diversified and stable funding from retail and corporate sectors remains the main source of financing. In 2010 it grew by 11% to approx. PLN 36 billion thanks to an appealing offer and effective marketing campaign despite ongoing strong competition in the market.

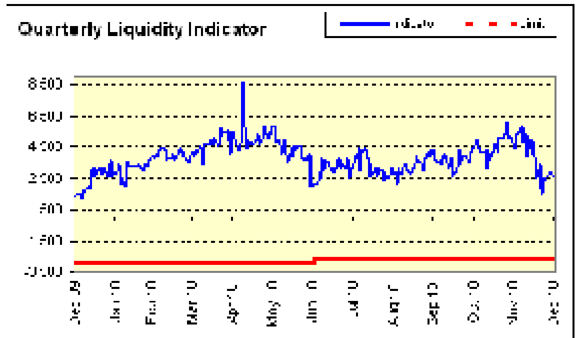
Concentration of the deposits base, measured with the share of top 5 and 20 depositors, at the end of 2010 remained almost unchanged comparing to 2009, amounting respectively to 4.4% and 11.1% (in December 2009 it was respectively 4.7% and 10.4%).
The Bank ensures FX liquidity thanks to FX-denominated syndicated deposits, bilateral loans loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions.

Liquidity risk evaluation measures

Evaluation of the Banks liquidity risk is carried out using indicators defined by the Supervisory Authorities, as well as other internal metrics, for which limits of exposure are also defined. The evolution of the Bank's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively.
The calculation of these indicators involves adding to the day's liquidity position the estimated future cash flows for each day from the respective time horizon (spot date or 3 months) for the transactions concluded by markets areas. The amount of assets from the Bank's highly liquid securities portfolio is added, which results in the determination of the accumulated liquidity gap for each day of the period under review.

These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force, which in the middle of the year have been adjusted to the new level of own funds and EUR/PLN exchange rate.





Current Liquidity indicators

PLN million

		31.12.2010		
	Highly liquid assets	Spot liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	4 231	5 143	2 547	5 007
Minimum limit		-657	-2 623	2 000
		31.12.2009		
	Highly liquid assets	Spot liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	3 958	3 628	1 368	6 146
Minimum limit		-723	-2 891	2 000

In 2010 both liquidity indicators were positive, despite repayment in the second half of the year of two syndicated loans of respectively CHF 120 million and EUR 175 million.

Additionally the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on real basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted at the Bank for the ratio of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets.

In 2010 all the defined ratios were maintained at levels significantly exceeding the limits.

The Bank has developed a liquidity risk management tool defining stress scenarios under which liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence (among others taking into account a reduction of deposits and delays of loans repayment, along with a deteriorated liquidity of the secondary securities market, and with PLN depreciation).

In 2010 the methodology has been improved in the scope of stress test scenarios and deposit base stability assessment, which is being performed daily.

	31.12.2010					
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	12 827	2 685	3 812	3 890	5 594	29 627
Adjusted balance liabilities	7 123	1 166	672	682	2 380	42 034
Balance-Sheet Gap	5 703	1 519	3 139	3 208	3 214	-12 407
Cumulative Balance-Sheet Gap	5 703	7 222	10 361	13 569	16 784	4 377
Adjusted off-balance assets	278	295	586	435	529	766
Adjusted off-balance liabilities	-1 170	-391	-608	-445	-504	-997
Off-Balance Sheet Gap	-892	-96	-22	-10	25	-230
Total Gap	4 811	1 422	3 118	3 198	3 240	-12 637
Total Cumulative Gap	4 811	6 233	9 351	12 549	15 789	3 151

Liquid Assets Indicator	**mln PLN**
Liquid Assets	8 300
Share of Liquid Asstes in Total Asstes	**17,8%**

	31.12.2009					
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	13 530	2 563	3 612	3 713	5 101	27 329
Adjusted balance liabilities	10 955	1 865	748	1 758	1 611	39 476
Balance-Sheet Gap	2 575	698	2 864	1 955	3 490	-12 147
Cumulative Balance-Sheet Gap	2 575	3 272	6 136	8 091	11 581	-565
Adjusted off-balance assets	565	186	364	256	185	79
Adjusted off-balance liabilities	-676	-188	-202	-256	-523	-241
Off-Balance Sheet Gap	-111	-2	162	0	-338	-162
Total Gap	2 463	696	3 026	1 955	3 152	-12 308
Total Cumulative Gap	2 463	3 160	6 185	8 141	11 293	-1 015

Liquid Assets Indicator	
Liquid Assets	8 618
Share of Liquid Asstes in Total Asstes	**19,4%**

Stress tests are done quarterly, to determine 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 show that even in stress test conditions the liquidity indicators will be maintained above the established limits.

The Bank has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Group's financial liquidity deteriorates) is regularly updated. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

For the purpose of supervisory quantitative liquidity measures management the Group utilizes a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. In order to better manage the supervisory metrics the Group prolonged in June 2010 a stand-by line from Millennium BCP of 200 million euros.
In 2010, contrary to a few cases in the first half of 2009, the limits for the supervisory risk metrics, both short- and long-term, have been not exceeded.

(5) OPERATING RISK

In the year 2010 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of international financial institutions.

The operational risk management model, implemented by Bank Millennium Group, is a consistent part of codified strategy of Millennium BCP.

The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Group. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks. Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

A higher risk management level is the Processes and Operational Risk Committee, which focuses on threats identified in more than one process. All and any activities concerning operational risk are coordinated and supervised by the Risk Control Committee, the Management Board and the Supervisory Board.

In keeping with the adopted model, risk management is a process of continuous improvement as regards identification, assessment, monitoring, mitigating and reporting by:

- Gathering operational risk events,
- Self-assessment of operational risk in individual processes,
- Analysis and monitoring of risk indicators.

The Group gathers operational risk events in an IT tool, which is being continuously improved. The tool supports management of operational risk. Such events are being afterwards analysed in what concerns the source of event and possibility of mitigating the effects and apply appropriate preventive actions. In the IT tool, event, are being ascribed to a certain risk category and proper process type, which is later used as a part of reporting and risk self-assessment validation. The internal database of risk events additionally meets qualitative and quantitative requirements for following the advanced approach in calculating capital requirements on account of operational risk.

In 2010 another risk and control self-assessment exercise in all processes was made with regard to identification and assessment of risk. The assessment was made together with a processes review that rely on assessment of adopted solutions' effectiveness in fulfilling expectations of Clients and business partners in the scope of both, services quality and costs optimisation.
Approved operational risk and control methodology allowed assessment of risk level in a given process, taking into account existing controls and basing on accepted scenarios. Mitigation actions were proposed implemented and are monitored for purposes of assessment of risk levels above the accepted tolerance threshold.

During the risk and control self-assessment exercise an analysis of performance indicators was made, including risk indicators defined for each process. Key persons - responsible for creating and implementation activities in given processes - have defined and adjusted the indicators thus to make them the best forecasts of future risks. Ongoing monitoring of indicators serves the purpose of increasing effectiveness and productivity of processes as well as effective control of risk on the level of individual actions within processes.

XVI. LIQUIDITY GAP BY MATURITY

31 December 2010							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	2 050 515	0	0	0	0		**2 050 515**
Loans and advances to banks	1 114 633	0	0	371 164	0		**1 485 797**
Trading debt securities	0	63 587	569 631	321 597	25 545		**980 360**
Trading derivatives	17 847	184 816	145 229	67 146	34 145		**449 183**
Hedging derivatives	0	0	0	78 982	1 249		**80 231**
Loans and advances to customers	2 916 371	690 207	2 740 661	8 211 238	21 119 520		**35 677 997**
Debt securities available for sale	1 014 649	17 922	935 935	2 480 078	48 380		**4 496 964**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0		**55 085**
Shares and interests						322 988	**322 988**
Other non-financial assets						450 945	**450 945**
TOTAL	**7 169 101**	**956 532**	**4 391 456**	**11 530 205**	**21 228 839**	**773 933**	**46 050 065**

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	195 300	538	792 294	905 690	190 634		**2 084 456**
Deposits from customers	22 170 057	6 664 765	5 622 177	1 068 675	165		**35 525 839**
Trading derivatives and liabilities from short sale of securities	97 164	370 767	94 022	125 229	117 784		**804 965**
Hedging derivatives	76 250	132 966	307 353	446 795	351 958		**1 315 321**
Liabilities from securities sold with buy-back clause	670 691	0	3 503	0	0		**674 194**
Debt securities, by final legal maturity	0	13 804	56 799	313 934	0		**384 537**
Subordinated debt	0	0	317 943	0	594 045		**911 988**
Other non-financial liabilities						532 720	**532 720**
Equity						3 816 045	**3 816 045**

TOTAL	23 209 462	7 182 840	7 194 090	2 860 322	1 254 585	4 348 765	46 050 065

31 December 2010 — **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	4 935 754						**4 935 754**
Liabilities from sureties and guarantees	1 239 652						**1 239 652**
Balance sheet Gap	**-16 040 361**	**-6 226 308**	**-2 802 635**	**8 669 883**	**19 974 253**	**-3 574 833**	**0**
Total Gap	**-22 215 767**	**-6 226 308**	**-2 802 635**	**8 669 883**	**19 974 253**	**-3 574 833**	**-6 175 406**

In accordance with the statistical analysis of the open credit facilities and liabilities under sureties and guarantees listed in the table below their actual levels of utilisation are 10% and 5% of the presented nominal, respectively.

31 December 2009 **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	2 191 027	0	0	0	0		**2 191 027**
Loans and advances to banks	353 079	0	0	0	342 610		**695 689**
Trading debt securities	1 751	1 477	1 475 345	831 789	9 956		**2 320 318**
Trading derivatives	22 363	183 040	180 993	292 087	30 452		**708 935**
Hedging derivatives		175 054	71 094	124 689	6 497		**377 334**
Loans and advances to customers	2 731 298	740 603	2 691 443	7 665 965	18 653 164		**32 482 473**
Debt securities available for sale	1 607 836	94 327	556 680	1 888 729	2 706		**4 150 278**
Receivables from securities bought with sell-back clause	208 781	0	0	0	0		**208 781**
Shares and interests						275 086	**275 086**
Other non-financial assets						559 229	**559 229**
TOTAL	**7 116 135**	**1 194 501**	**4 975 555**	**10 803 259**	**19 045 385**	**834 315**	**43 969 150**

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	1 050 653	1 232 826	1 050 906	1 232 460	342 511		**4 909 356**
Deposits from customers	19 856 716	6 314 903	5 435 696	46 114	158		**31 653 587**
Trading derivatives and liabilities from short sale of securities	122 043	110 298	199 031	233 154	18 852		**683 378**
Hedging derivatives	0	4 465	8 234	92 754	17 360		**122 813**
Liabilities from securities sold with buy-back clause	1 562 120	780 564	3 506	0	0		**2 346 190**
Debt securities, by final legal maturity	0	0	28 520	233 946	0		**262 466**
Subordinated debt	0	0	909	328 656	616 230		**945 795**
Other non-financial liabilities						527 940	**527 940**
Equity						2 517 625	**2 517 625**
TOTAL	**22 591 532**	**8 443 056**	**6 726 802**	**2 167 084**	**995 111**	**3 045 565**	**43 969 150**

31 December 2009 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	4 663 399						**4 663 399**
Liabilities from sureties and guarantees	1 054 042						**1 054 042**
Balance sheet Gap	**-15 475 397**	**-7 248 555**	**-1 751 247**	**8 636 175**	**18 050 274**	**-2 211 250**	**0**
Total Gap	**-21 192 838**	**-7 248 555**	**-1 751 247**	**8 636 175**	**18 050 274**	**-2 211 250**	**-5 717 441**

XVII. CONDITIONAL LIABILTIES AND ASSETS

Total value of claims in the biggest court proceedings in which the Bank was either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31 December 2010 to PLN 316 million. Total value of claims in the biggest court proceedings, in which the bank appeared as defendant was PLN 244 million, and the total value of claims in the biggest court proceedings, in which the Bank appeared as plaintiff was PLN 72 million.

The biggest proceedings as of 31 December 2009, in which the Bank appear as the defendant:

1. **Plaintiff:** legal person

   Disputed Value: PLN 31 049 160

   Claim: The claim is based on the statement that the disputed transaction was not effectively concluded due to not agreeing its important elements. Additionally, the plaintiff states that he evaded the legal consequences of his declarations of will which were submitted under the influence of an error.

   Case status: The first hearing was held on 26 October 2010. During the investigation, witnesses were heard. The next hearing is scheduled for 12 April 2011.

   In the Bank's estimation the above reasoning is groundless, and the arguments raised are not supported by the evidence collected in the case.

2. **Plaintiff:** natural person

   Disputed value: PLN 5 108 036

   Claim: The plaintiff's claim is based on the statement that the Bank forced the plaintiff to make a sales order for 33 300 items of shares by threatening to the plaintiff's company that the Bank would take over all the funds which would come from the sale of all the 30 000 shares constituting the ownership of such company.

   Description of the case: There were several hearings in this case and as a result on 21.02.2008 due to the non-implementation of the court order relating to the precisioning of the factual and legal grounds of the suit – the Court suspended the proceedings indefinitely.

   Prospects: probability of winning the case is estimated as high.

3. **Plaintiff:** legal person

   Disputed Value: PLN 71 065 495

   Claim: The plaintiff contests the way the disputed transaction has been settled.

   Case status: On 24 January 2011 Bank transferred to the court's response to a lawsuit in which the Bank rejects all allegations of the plaintiff.

   Prospects: Proxy of the Bank assesses the chances of getting the Bank's process of a favorable outcome to the high.

Proceedings connected with financial derivatives

As of 31 December 2010 the Bank was party to 35 lawsuits connected with futures/forwards, where in 27 cases the Bank was the defendant, while in 8 as the plaintiff. To the Bank's best knowledge the total disputed value in these lawsuits was PLN 290 million. The highest unit value of the dispute was PLN 71 million.

The above-mentioned cases connected with financial futures/forwards are business-related i.e. connected with the business activity of a customer of the Bank, which is the plaintiff or defendant. The claims are construed under financial future/forward agreements concluded with the Bank. In result of depreciation and high volatility of the PLN rate to foreign currencies starting from the fourth quarter of 2008, some of the Bank's customers began to have problems with performance of obligations resulting from concluded financial futures/forwards. Some of these customers, wanting to free themselves entirely or partly from their obligations under the concluded financial future/forward agreements, resorted to lawsuits. The demands and accusations in individual lawsuits against the Bank are based on various legal grounds, however their aim is either to make it impossible for the Bank to claim receivables under financial futures/forwards and full or partial release from liability to the Bank, or to question the validity of the signed agreements and to demand payment from the Bank.

At present most of the above lawsuits have not yet found a final settlement before the court. The Bank has no specific provision for lawsuits filed by customers against the Bank in connection with financial futures/forwards.

Proceedings before the Chairman of UOKiK concerning provisions of mortgage loans

As of 31 December 2010 the Bank is party in one case before the Chairman of UOKiK concerning provisions of mortgage loan agreements as regards the method of calculation of insurance contribution, used by the Bank.

In such proceedings, the Chairmen calls for recognition of the illegal provisions of a standard agreement concerning the rules for setting the exchange rate at which the loan is repaid, criteria allowing changes in the price list of fees and rules for amendments to the regulations; the conditions under which the Bank may demand additional collateral, rules for the reimbursement of insurance premium for the period during which there has been no mortgage registration (the so-called bridge insurance). On 14 December 2010, there was the sentence of the Court of First instance recognizing all the clauses used by the Bank to be illegal. Sentence is not valid.

On 9 February 2011 the Bank's attorney appealed against the verdict by SOKiK of 14 December 2010 for having challenged the whole sentence. The decision to challenge appeal is dictated by a strong conviction that the Court of First Instance failed to consider relevant factors fundamentally supporting the position of the Bank. This is in conformity with the opinion of a law firm supporting the Bank in that case. Until now, no period for hearing appeals has been established.

Irrespective of the above, the precautionary principle decided that the Bank set up a working group mandated to work out appropriate clauses to contracts in case Court of Second Instance would maintain the position of the District Court.

Proceedings concerning determination of interchange fees in connection with transactions done with Visa and Europay/Eurocard/Mastercard cards

The Bank is a party in proceedings instituted by the Chairman of UOKiK against operators of the Visa and Europay systems as well as banks – issuers of Visa and Europay/Eurocard/Mastercard cards. The proceedings concern practices restricting competition on the card payments market in Poland, whereby interchange fees were said to be agreed jointly for transactions done with Visa and Europay/Eurocard/Mastercard cards and also access was restricted for entrepreneurs who did not belong to the association of card issuers against whom the proceedings were instituted. On 29 December 2006 the Chairman of UOKiK deemed the practices consisting in jointly agreeing on interchange fees as restricting competition and ordered desisting from their use, at the same time imposing i.a. on the Bank a cash penalty of PLN 12.148.370. On 19 January 2007 the Bank appealed against the decision of the Chairman of UOKiK to SOKiK. On 25 august 2008 SOKiK gave a ruling, in which it decided to suspend enforcement of the appealed decision in the item concerning the order to desist from jointly agreeing on the interchange fees. In the ruling of 12 November 2008 SOKiK changed the appealed decision so that it did not find use of practice restricting competition, consisting in participation by banks participants in the proceedings (including the Bank) in an agreement restricting competition on the market of outsourcing of services connected with payment of consumers' liabilities to merchants on account of payments for goods and services purchased by the consumers with use of cards in Poland, by jointly agreeing on interchange fees charged on transactions done with Visa and MasterCard cards in Poland. On 12 January 2009 the Chairman of UOKiK appealed against this ruling. Response to the appeal has been lodged by the Bank on 13 February 2009. On 22/04/2010, the appeals hearing was held, after which the Court of Appeal overturned the verdict entirely, sending the case back to the court of first instance. A copy of the Judgement of the Court of Appeals reasoned served with the Bank on 1 June 2010. As at 31.12.2010 trial date has not yet been appointed.

The Bank assesses the chances for a positive outcome of the Bank in aforementioned case at a level exceeding 50%. The rationale behind such estimation is that the Appealing Court annulling favourable for the Bank's verdict of the Court of First instance, and transferring the case back has based on facts regarding the designation of the relevant market. At this stage this does not constitute sufficient evidence to change the Bank's positive evaluation process in the case.

OFF-BALANCE ITEMS

	31.12.2010	31.12.2009
Off-balance conditional commitments granted and received	**9 399 510**	**8 392 421**
1. Commitments granted:	8 126 650	7 407 330
a) financial	6 242 641	5 867 405
b) guarantee	1 884 009	1 539 925
2. Commitments received:	1 272 860	985 091
a) financial	794 880	480 398
b) guarantee	477 980	504 693

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.

The breakdown by entity of all net guarantee liabilities, reported in non balance-sheet items is presented in the table below:

Customer – sector, amount in PLN million	**31.12.2010**	**31.12.2009**
- financial sector	155.4	157.4
- non-financial sector (companies)	1 704.4	1 358.0
- public sector	21.7	21.5
- private individuals	2.5	3.0
Total	**1 884.0**	**1 539.9**

The Bank as the dominant entity extended no guarantees, sureties or avals to remaining companies of the Capital Group, while it did grant them upon instructions from these companies to external entities. The value of the guarantees, sureties and avals granted by the bank upon instructions of companies comprising the Group is presented by the table below:

Subsidiary, **amount in PLN million**	**31.12.2010**	**31.12.2009**
Millennium Leasing Sp. z o.o.	55.1	34.0
Millennium Service Sp. z o.o.	17.9	19.0
TBM Sp. z o.o.	0.1	0.1
Total	**73.1**	**53.1**

Guarantees, sureties and avals granted to Clients

Commitments granted - guarantee, amounts in PLN million	**31.12.2010**	**31.12.2009**
Active guarantees, sureties and avals	1 239.7	1 054,0
Sureties for loans granted through EFRWP	4.5	9.0
Lines for guarantees and sureties	643.2	481.7
Total, gross	**1 887.4**	**1 544.7**
Impairment charges	-3.4	-4.8
Total, net	**1 884.0**	**1 539.9**

In the period from 01.01.2010 till 31.12.2010 the Bank granted 2,377 guarantees, sureties and avals totalling PLN 1,082,477 thousand.

The amount of such liabilities as of 31.12.2010 stood at 1,239,652 thousand PLN (2,592 items of active guarantees) which means an increase in their value by PLN 172,006 thousand i.e. by 18.14% compared to 31.12.2009 as well as the value of such liabilities granted in foreign currency which increased by 13,604 thous. PLN, i.e. 12,84%.

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

1. By currency	31.12.2010	31.12.2009
PLN	1 120 090	948 084
Other currencies	119 562	105 958
TOTAL	**1 239 652**	**1 054 042**

2. By type of commitment	31.12.2010		31.12.2009	
	Number	**Amount in '000 PLN**	**Number**	**Amount in '000 PLN**
Aval	2	1 073	1	1 050
Guarantee	2 554	1 212 734	2 516	1 032 597
Surety	4	11 162	2	12 758
Re-guarantee	32	14 683	7	7 637
TOTAL	**2 592**	**1 239 652**	**2 526**	**1 054 042**

3. By object of the commitment	31.12.2010			31.12.2009		
	Number	**% share**	**Amount in '000 PLN**	**Number**	**% share**	**Amount in '000 PLN**
good performance of contract	1 759	67.86%	838 289	1 639	64.89%	613 869
rent payment	314	12.11%	54 737	384	15.20%	52 055
punctual payment for goods or services	214	8.26%	124 415	181	7.17%	139 215
bid bond	176	6.79%	70 354	191	7.56%	119 497
other	72	2.78%	34 123	85	3.37%	23 499
advance return	40	1.54%	66 130	21	0.83%	7 177
customs	14	0.54%	50 260	20	0.79%	56 890
payment of bank loan	3	0.12%	1 344	5	0.20%	41 840
TOTAL:	**2 592**	**100.00%**	**1 239 652**	**2 526**	**100.00%**	**1 054 042**

XVIII. OPERATING LEASING

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

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

Balance as at:	31.12.2010	31.12.2009
- to 1 year	64 989	66 572
- above 1 year to 5 years	177 470	187 223
- above 5 years	118 200	106 301
TOTAL	**360 660**	**360 096**

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

Aforementioned events did not take place.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
25.02.2011	Bogusław Kott	Chairman of the Management Board	....
25.02.2011	Joao Bras Jorge	Deputy Chairman of the Management Board	....
25.02.2011	Fernando Bicho	Member of the Management Board	....
25.02.2011	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
25.02.2011	Andrzej Gliński	Member of the Management Board	....
25.02.2011	Wojciech Haase	Member of the Management Board	....
25.02.2011	Artur Klimczak	Member of the Management Board	....
25.02.2011	Antonio Pinto Junior	Member of the Management Board	....