Management Board Report

on the activity of the Bank Millennium Capital Group

for the 12 month period ended 31 December 2010

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LETTER FROM THE CHAIRMAN OF THE BANK'S MANAGEMENT BOARD

Dear Sirs,

We are pleased to present the Annual Report of the Bank Millennium Group for the year 2010.

After the foundation-building year 2009, in which the Bank adjusted its business model to the changed economic realities, 2010 was a year of focus on business development. In accordance with the assumptions of the strategy for 2010-2012, the purpose of the Bank's activities is to combine sustainable growth in core business areas with improved profitability.

In 2010 the Bank achieved a noticeable increase both in terms of collected Customer funds (PLN 4.6 billion, +13% year over year) and outstanding loans (PLN 3.3 billion, 10% year over year). In some product groups, such as leasing and factoring, we have already achieved the market shares planned for 2012. Thanks to a balanced growth in business volumes, the Bank Millennium Group closed the year with the loan to deposit ratio below 100%, which is consistent with the plans adopted in the medium-term strategy.

The Bank's business activity over the past twelve months was characterized by a clear increase in profitability. Thanks to an improved deposit margin we posted a rapid increase in interest income. At the same time the Bank closely controlled operating costs, which showed a much slower increase than revenues. Consequently, the Bank improved efficiency, as measured by the cost/income ratio, which at year-end stood at 63% and thus approached the level before the economic crisis.

A positive and noteworthy feature of our activity was the improved quality of the credit portfolio, which pushed down - compared to 2008 and 2009 - the cost of risk. The total amount of loan impairment charges created in 2010 was half that created in 2009.

A clear improvement in the profitability of business with a simultaneous effective control of operating costs and lower cost of risk allowed the Bank Millennium Group in 2010 to achieve a net profit amounting to PLN 326 million.

Good results achieved in 2010 and the high capital ratios allow the Management Board to propose to the General Meeting of Shareholders the out-of-profit dividend of PLN 0.10 per share, or 37% of consolidated net profit for the year 2010. The proposed amount of the dividend allows the Bank to maintain capitals at a high level allowing its further development.

Detailed information on the financial performance of the Bank Millennium Group can be found further down in the report.

In 2011 the overarching purpose of our activity is to maintain sustainable levels of growth and improve our business profitability in line with our plans and achieve growth in all business areas.

The issue of the Bank's shares in the amount of PLN 1 billion, which ended in February 2010 and brought an increase in equity of 46%, laid down solid foundations for developing plans to further improve our market position. We want to make the best use of thus obtained funds in the expectation that in the future, as the economic situation improves, they will allow us to carry out our ambitious plan of developing our lending to corporate and retail Clients.

The Bank recognises that the key to its further development is the building of lasting relationships with its Clients based on mutually beneficial cooperation. Its main components will be to improve the quality of services and both expand and deepen the scale of cooperation with the Clients.

The Bank also attaches great importance to the policy of sustainable development and corporate social responsibility. The practical implementation of these principles in corporate governance, information policy, investor relations and social relations, ecology and personnel issues was the basic reason why Bank Millennium was included in the group of sixteen listed companies making up the Respect Index. This is the first in our part of Europe index of socially responsible companies. This is both our success and challenge for the future.

Sincerely yours,

Bogusław Kott
Chairman of the Management Board of Bank Millennium

I. MARKET CONDITIONS IN 2010 AND BUSINESS PROSPECTS

I.1. Macroeconomic environment

The situation in the Polish economy has improved in 2010 after a slowdown triggered by a global financial crisis. The economic growth accelerated to 3.8% y/y from 1.7% in 2009 and similar to 2009 it exceeded forecasts. Economic growth in Poland was no more the fastest in the European Union, however it remained at a relatively high level. Only countries that were recovering after a significant recession in 2009 have beaten our country. It is worth to notice that Poland's solid result was achieved despite series of unexpected events like very cold winter at the beginning of the year or a flood in summer months. The main drivers for the growth were personal consumption and inventories, which had fallen strongly in 2009. On the supply side there was a double-digit growth in value added in industry through the whole year. It is worth to mention that industry sector quickly regained from the post-crisis losses.

The private consumption was responsible for almost half of the annual GDP growth in 2010. In the 1st quarter it increased by 2.2% and the growth was similar to that observed in 2009. At the beginning of the year the unemployment was still rising and the registered unemployment rate grew in February to 13.2% - the highest level since mid-2007. During the year the improving economic situation and seasonal factors contributed to the decline in register unemployment rate, which fell to 12.3% at the end of 2010 - only a little bit higher than in December 2009. At the same time the employment was growing systematically. Companies hiring more than nine persons added almost 125,000 jobs during 2010 and number of employees in December was 2.4% higher versus the last year. In the same time the wage growth was moderate. The average wage in corporate sector was 3,6% higher than in 2009, but in the 4th quarter the growth accelerated to 4.3% y/y. Rising employment and salaries increased the disposable personal income in the economy. There was also an improvement in results of private entrepreneurs. Stabilization and then a fall of the unemployment rate helped to increase consumers' sentiment. Consequently, the improvement in the labour market boosted the private consumption, which grew by ca. 4% y/y in the 4th quarter 2010 and by 3.2% in full year.

Gross capital formation, which was one of the factors reducing the growth in 2009, recorded a very strong increase in 2010. However it was resulted mainly from the restocking. Investments in fixed assets, especially machinery and equipment, were at a disappointingly low level. In 1st quarter of 2010 investments in fixed assets fell by 12.8% y/y and the decrease was partly connected to the difficult weather conditions, which stopped the construction works and contributed to the decline in investments in housing and infrastructure. However, double-digit decline in investments in machinery and equipment in first half of 2010 cannot be explained by the weather conditions, but by the lack of willingness of companies to incur capital expenditures. Companies were reluctant to begin investments in spite of strong financial performance, rising capacity utilization and increased availability of credit. The situation improved only slightly in the 2nd half of the year, and in the whole year 2010 investments in fixed assets declined by 2%.

The trade balance in 2010 had a neutral impact on the economic growth rate, although volumes of exports and imports were much higher than in 2009. The strong economic performance of Polish main trade partners, especially buoyant economic growth in Germany (3.6% in 2010 - the highest since unification), supported the Polish exports. The preliminary data presented by the National Bank of Poland (NBP) showed that the value of exports of goods amounted to 122.1 billion EUR in 2010 and was 20,1% higher than a year ago. It means that Polish exports regained the post-crises losses in two years, much faster than expected. Export production in Poland is import-absorbing and this is why exports growth translated into acceleration in imports. Imports was also supported by recovering domestic demand. As a consequence it grew faster than exports in the 2nd half of 2010, worsening the trade balance. We estimate that in 2010 the current account deficit rose to 3.3% of GDP from 2.1% in 2009. The deficit is still on a relatively low level and does not threaten the stability of the Zloty.

In the FX market there was high volatility during 2010. The Polish currency was supported by good macroeconomic fundamentals, but the exchange rates were at the dominant influence from the global sentiment, especially problems with the euro-area peripheral countries. Despite the large fluctuations, EURPLN exchange rate at the end of the December 2010 was only slightly lower than in January (3.96 versus 4.11 at the beginning of 2010). Because of changes in the EURUSD exchange rate, the Zloty weakened slightly against the US dollar and USDPLN exchange rate rose to 2.96 from 2.86. In connection with the strengthening of the Swiss franc against major currencies in 2010, the CHFPLN rate grew to 3.17 from 2.77 at the beginning of the year.

In first half of 2010, CPI inflation fell below the central bank target of 2.5%, from 3.5% in December 2009. However, the end of the year brought acceleration in consumer inflation to 3.1% y/y in December 2010. High levels of inflation and its fluctuations during the year resulted from supply factors, such as rising fuel prices and food products. Core inflation measures were falling in the period between January and November.

Decline of the core inflation gave a great comfort for the new Monetary Policy Council, which kept interest rates unchanged for whole year, holding the reference rate at the record low of 3.50%. Justification for this decision was a low inflationary pressure in the Polish economy, especially the lack of pressure from the labour market. During the year, the central bank was gradually cancelling the operations supplying commercial banks with liquidity. At the Octobers' meeting, the MPC raised the bank required reserve rate by 0.5% from 3.0% to 3.5%. The decision applied to the reserve maintained from 31 December 2010. This change was the beginning of the tightening of monetary policy, which has been continued with a hike in the reference rate by 25 basis points in January 2011.

Despite higher than expected economic growth, the situation in the Polish public finances in 2010 was difficult. General government deficit is likely to have exceeded 8.0% of the GDP compared to 7.2% in 2009 and the government's estimates from the beginning of the year. One of the reasons for the higher deficit was the shortfall in local governments that were involved in numerous investments in infrastructure last year.

However, much of the gap is a central government deficit "pushed" outside the central budget - including the creation of the National Road Fund. The state budget deficit in 2010 amounted to about 45 billion PLN and was lower than that assumed in the budget bill. Growing deficit translated into higher public debt, but according to the preliminary estimates of the Ministry of Finance did not exceed the second safety threshold at 55% of the GDP and it reached 53.5%. However, general government debt calculated according to the Eurostat methodology probably exceeded 55% of the GDP. In order to stop the increase in public debt, the government proposed changes in the pension system. According to the government's proposals contribution transferred to the open pension funds will be reduced to 2.3% from the current 7.3%, while the rest will be transferred to the ZUS (Social Security Fund). According to the intention of the government, legislative changes could be implemented in first half of 2011.

In 2010 the secure forms of saving, like bank deposits, still were very popular among households. The increase in deposits was supported by good households' income situation. In the same time there was a fall in propensity to save and growth in consumption related to better consumer confidence. Households' deposits were growing throughout the year, and in December were about 38.4 billion PLN - 9.9% higher than last year. Corporate deposits also grew steadily, which was related to good financial results of companies and low investments activity. In the whole year they increased by 18.7 billion PLN – 7.6%.

In 2010 there was a stagnation in lending to companies, which, like the increase in deposits resulted from the strong financial performance and lack of investments. Loans to corporate sector grew by only 0.7% y/y. However year 2010 brought an increase in credit for households driven both by consumer and mortgage loans. The dynamic of the portfolio was heavily influenced by fluctuations of the Zloty against the Swiss franc, and in December 2010 was at 14% y/y level. The quality of loan portfolio in the banking sector was deteriorating, however at a slower pace than in 2009.

Polish economy is expected to continue to grow, but the pace of economic expansion should, in our opinion, stabilise slightly above 4%. In 2011 we expect GDP growth at 4.2% level. The private consumption, which may increase by 4.0% in real terms, should remain the main pillar of the growth. We expect further increase in investments, which according to our forecasts might grow by nearly 9.0%, driven by business investments. Smaller impact on the growth as compared with the previous years should be visible in infrastructure investments. Government's declaration to cut expenditures might negatively affect their contribution to GDP growth. The contribution of net exports into GDP will be in our opinion slightly negative, which is related to the expected growth in domestic demand and rebound in imports. The situation in the labour market should continue to improve. Seasonal factors might increase the unemployment rate to slightly above 13.0% in Q1 2011 but at the end of the year, we expect a decline to 11.3%. Inflation measured by the consumer price index will, in our opinion, accelerate. It will be connected with the increase in VAT rates in January, hikes in administered prices and strong growth in commodity prices. Inflation will exceed the upper band of NBP's target through the year and it might reach 3.3% y/y in December. In the second half of the year there is a possibility of an acceleration in core inflation because of tensions in the labour market. This will, in our opinion, encourage the Monetary Policy Council to continue monetary tightening and the reference rate might go up to 4.25% till the end of the year.

I.2. Implementation of strategy and business development prospects

After the year 2009, very difficult for economy and banking sector, which Bank Millennium spent predominantly on internal reorganization and adjustment of its business model to a new reality, 2010 brought back a focus on business development. The main challenge was to combine sustainable growth of business with fast improvement of profitability, which had been significantly affected during 2009.

In terms of business development the Group achieved a visible growth in both deposits and loans despite very limited demand from companies for new financing from the banking sector. During 2010 the Group increased customers' funds by 13% (or PLN 4.6 bn) and loans portfolio by 10% (or PLN 3.3 bn) reaching already in such products like leasing and factoring market shares of 7% targeted for 2012. These growths of business volumes let the Group finish the year with loan-to-deposits ratio below 100%, which is in line with the medium-term strategy.

At the same time the Group successfully improved profitability, especially in the core elements like interest and commission income. Remarkable rebound in interest income was possible thanks to fast improvement of deposit margin, which came back to a positive level in the second half of 2010 year. Operating costs, after sharp reduction in 2009, were kept under control and grew mainly in the variable part of staff remuneration, which was related to increase in revenues and business volumes. As revenues grew much faster than costs, the Bank managed to improve efficiency measured by cost-to-income ratio up to 63.1%, which is lower not only than last year's figure (70.4%), but even than the ratio registered during 2008. The Group targets its cost-to-income ratio for 2012 at the level below 60%.

2010 was also a year with visibly lower cost of risk when compared to the difficult years 2008-2009. Total amount spent in Group's P&L on credit risk impairment constituted half of the same figure in 2009 and was lower than the total impairment charges established in 2008 (including impairment charges connected with FX derivatives and made in the trading line of P&L). Lower provisioning was possible thanks to the improvement of portfolio asset quality as the share of impaired loans in total loans (5.8%) remained one of the lowest among the top 10 Polish banks.

Strong improvement in core income, strict control of operating costs and reduction of risk cost enabled Bank Millennium Group to finish 2010 year with PLN 326 million net profit, much higher than in the previous year (PLN 1.5 million net profit in 2009). This level of net profit gives ROE of almost 9% whereas Group targets ROE of 15%.

In February 2010, the Bank successfully completed a PLN 1 billion rights issue, which allowed growth of consolidated equity by 46% year on year and together with generation of net profit brought the Group capital adequacy ratio to 14.4% in December 2010. The new issue was a part of the new strategy of the Group for the years 2010-2012, which assumes sustainable growth of business volumes and profitability while keeping strong capital base (above 11%).

During the rights issue conducted in 2010, the Group informed about the intention to use the proceeds from it primarily to support the expansion of lending operations, with the majority of the proceeds for the growth of the companies' loan portfolio. Small portion of the proceeds from the issue was supposed to support the investment plan for the period 2010 to 2012, including software purchases and other investments connected with IT platform and security infrastructure.

The proceeds were used during 2010 according to the purposes described above. The total loan portfolio grew in net terms by 10% or PLN 3.3 bn despite low demand from companies observed in the entire market. This result was possible, among others, thanks to a successful switch in corporate business to small and medium enterprises: the total balance of loans for this segment of companies (plus leasing, done predominantly also to SMEs) grew during 2010 year by over PLN 1 bn. Mortgage loans were the remaining driver of loans growth during 2010 year, however in a big extent due to FX rates differences. The Group made also capital outlays in 2010 in the total amount of PLN 34.1 million.

Despite meaningful loans growth, both the Group and the Bank maintain very solid capital adequacy ratios. This fact and the significant rebound in profitability during 2010 were a rationale for the Management Board to consider submitting 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 loans growth in the future. This dividend proposal corresponds to a 37% pay-out ratio from consolidated net profit, which means gives 2% dividend yield (related to PLN 4.90 share price from the end of the year).

In the upcoming years, improvement in profitability and business growth remain the paramount objective of Bank Millennium Group, with strong emphasis on the sustainable nature of activity. To this extent, the key elements of the Group's strategy for the next years as described in the prospectus of the latest capital issue are the following tasks:
(i) To be among the top five Polish banks, with a leading position in retail and firm position in corporate banking;
(ii) To achieve a level of sustainable profitability, which would stand comparison with the top entities from the peer group;
(iii) To conduct highly effective activity and at the same time high quality of Customer service standards;
(iv) To maintain solid capital structure and strong risk management profile to support the future growth, and
(v) To strengthen Bank's market position, thanks to long-term co-operation with all the stakeholders.

In the current year, 2011, Bank Millennium Group aspires to further improve its effectiveness in terms of cost-to-income ratio, which will allow to reach the two-digit rate of return on equity. At the same time, the

Group intends to keep its stable liquidity – as expressed in loans-to-deposits ratio at the level close - to 100% and high capital base.

As regards business development, the Bank counts on the expected surge in the banking loans demand from businesses, which would allow to increase Group's share in the company loan market. In the retail segment, Bank Millennium Group intends to maintain its high position in the sale of selected products, simultaneously trying to improve Customer relationship measured in the cross-selling ratio and quality level of its product offer and to significantly increase the pace of new Customers acquisition.

To support implementation of its aspirations for the current and following years, in 2011 Bank Millennium Group is planning capital expenditure in the total of PLN 41.7 million. Some of the planned capex will be incurred to further improve IT and security systems that support Bank's operations and the last stage of the Warsaw Bank's Head Office project. Similar to the capital outlays made in 2010 in the total of PLN 34.1 million, the investments planned for 2011 will be financed with the rights issue performed in February 2010.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

II.1 Financial results.

Bank Millennium Group finished 2010 financial year with PLN 326 million net profit, which means a remarkable improvement of profitability when comparing with PLN 1.5 million net profit of 2009. This achievement was possible thanks to a significant increase of core income, strict control of operating costs and lower needs of new provisions on credit risk.

Together with the growth of profitability, the Group managed to return to considerable growth in business volumes. The growth of customers' deposits amounted to PLN 4.6 billion (i.e. 13% yearly) and at the same time the growth of customers' loans equaled 3.3 billion (i.e.10% yearly) which was to a high extent an effect of FX rates changes. Such results could be reached owing to a successful switch in business sector to small and medium enterprises and deepened relationships with Clients, which was expressed in a growing cross-selling ratio – average number of product used by a Client. What shall also be underlined is a fact that the Group succeeded in reaching 7% of market share in leasing and factoring – 2 years before a planned date.

Throughout 2010 the liquidity position of the Group, measured by the loans-to-deposits ratio, varied slightly at a rate close to comfortable 100%. At the end of the year this indicator reached 99.5% for the Group[1]. Due to the shares issue in February 2010, the Group substantially strengthened its capital base. The capital adequacy ratio at the end of the year equaled 14.4% and the core Tier 1 ratio was 12.3%. Capital issue together with a rise in shares' price resulted in a 46% growth of Group's market value to PLN 6 billion level at the end of 2010.

[1] The ratio for the Group is calculated by dividing loans and advances to Clients by the total of deposits from Clients, funds obtained from assets securitization, bonds issued by the Bank sold to its retail Clients and transactions with buy-back clause concluded with Clients (net value, i.e. result of assets and liabilities subtraction).

Group profit and loss account main items

Operating Income (PLN million)	**2010**	**2009**	**Change 2010/2009**
Net Interest Income *	1 009.8	691.1	46.1%
Net Commissions Income	564.9	493.8	14.4%
Core income**	***1 574.7***	***1 185.0***	***32.9%***
Other Non-Interest Income ***	141.6	268.9	-47.4%
Operating Income	**1 716.3**	**1 453.9**	**18.0%**

** Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to treat under hedge accounting principles the hedge of mortgage floating rate foreign currency loans and floating rate PLN deposits financing the loans together with related cross currency interest rate swaps (and from 1st of April 2009 also FX swaps). The margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio of derivatives including the interest margin component, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 82.3 m in 2010 and PLN 9.6 m in 2009) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.*
*** Sum of Net Interest Income and Net Commission Income*
**** Includes FX results, Results on Financial Operations and net other operating income and costs*

Net Interest Income (pro-forma) continued a positive trend, which started in 3Q 2009 and was consequently growing quarter after quarter in entire 2010 year. Thus the total net interest income reached PLN 1.010 million in 2010 growing by 46.1% versus 2009. In the same time net interest margin (on interest earnings assets) increased from 1.59% in 2009 to 2.28% in 2010 and in the last quarter of the year reached the level of 2.43%. This was possible mainly thanks to the improvement of average spread on deposits, which achieved a positive 0.13% value in 4Q 2010. In comparison, the average margin on deposits in a peak period of the so-called 'price war' equalled –0.74%. Since then, the Bank has taken advantage of a weakening price competition and a rise of market interest rates at the end of the year to improve the interest margin.

Net Commissions Income grew visibly by 14.4% during 2010 and reached a total of PLN 565 million. The items, which contributed the most to this growth are: cards, loans, account related fees, and investment products which more than compensated reduction of fee income from insurance products. The net commission income has a healthy, diversified structure – the most significant position (card and ATM fees) constitutes no more then 26% of the final income.

Core income defined as a combination of net interest and commission income, remarkably grew during 2010 by 32.9% to the amount of PLN 1,575 million. PLN 421 million core income achieved in 4Q 2010 reached the record level from pre-crisis period of 3Q 2008.

Other non-interest income dropped by 47.4% versus 2009, in which there was an exceptionally high income from financial instruments valuation in the first half of the year. However, FX gains, being part of other non-interest income and in majority having a stable character resulting from transactions with Clients, almost doubled yearly from PLN 65.2 million in 2009 to PLN 127.2 million in 2010.

Total operating income of the Group reached PLN 1,716 million in 2010 thus recording a significant growth of 18.0% versus the previous year.

Operating Costs (PLN million)	**2010**	**2009**	**Change 2010/2009**
Personnel Costs	525.9	470.7	11.7%
Administrative Costs	481.1	472.0	1.9%
Depreciation*	76.3	80.2	-4.9%
Total Operating Costs	**1 083.3**	**1 022.9**	**5.9%**

** includes impairment of non-financial assets*

Total costs in 2010 amounted to PLN 1,083 million, which means a growth of 5.9% versus the previous year after a 14.2% reduction in 2009 when the Group, challenged with the dropping income, undertook several cost-reducing initiatives. The Group's total costs in 2010 are only 1% above the 1.071 million plan for this year announced in the 'Millennium 2010' strategy published in the beginning of 2009.

Personnel costs grew 11.7% yearly after a sharp decrease of 22.7% during 2009. The growth came mostly in variable part of the compensation and was strictly connected with increasing income and business volumes during 2010. Total number of employees in the Group dropped slightly by 2% during 2010 to 6,135 persons (in Full Time Equivalents) after the significant reduction of 11% during 2009.

The structure of employment of Bank Millennium Group is presented in the table below:

Employment structure (in FTEs)	**31.12.2010**	**31.12.2009**	**Change 2010/2009**
Bank Millennium S.A.	5 754	5 862	-1.8%
Subsidiaries	381	383	-0.5%
Total Bank Millennium Group	**6 135**	**6 245**	**-1.8%**

Administrative costs together with **depreciation** grew only 0.9% yearly and the **depreciation** (together with impairment charges for non-financial assets) decreased by 4.9% during 2010. This is an effect of several cost-reducing undertakings launched in 2009, when administrative costs together with depreciation dropped by 5.3%. Strict cost discipline remains one of the principal strategic goals of the Group.

Higher growth of income than costs allowed **cost to income ratio** to improve from 70.4% in 2009 to 63.1% in 2010, which is already better than the ratio registered in 2008 (64.5%), when the impact of crisis was still not so significant. Cost to income ratio achieved just in 4Q 2010 reached 60.6%, which was close to the historical lowest annual level calculated without one-off items.

Pre-tax Income and Net Income (PLN million)	**2010**	**2009**	**Change 2010/2009**
Operating Income	**1 716,3**	**1 453,9**	**18,0%**
Operating Costs *	**-1 083,3**	**-1 022,9**	**5,9%**
Impairment provisions for financial assets	-225,2	-436,1	-48,4%
Pre-tax Income	**407,8**	**1,9**	**-**
Income tax	-81,8	-0,4	**-**
Net Income	**326,0**	**1,5**	**-**

* *without impairment provisions for financial assets*

Impairment provisions were lower by 48.4% versus 2009 and reached the level of PLN 225.2 million for the whole 2010. Unlike in 2009, the majority of provisions (56%) were created on retail portfolio. Impairment charges as percentage of average net loans constituted 65 bps in entire 2010 thus remarkably lower than 127 bps. level registered during 2009 year.

Pre-tax Income for 2010 amounted to PLN 407.8 million which means a significant improvement compared to the income for 2009 amounting to PLN 1.9 million. Similarly **Net Income** increased to PLN 326.0 million in 2010 from PLN 1.5 million recorded in 2009.

Earnings by Business Segments

Better results of the Bank Millennium Group in 2010 compared to 2009 came from improvement in the results in the Group's two major segments, namely in retail and corporate banking. In both areas the 2010 earnings exceeded the pre-crisis earnings of 2008.

Retail Banking

Retail segment earnings (PLN million)	**2008**	**2009**	**2010***	**Change 2010/2009**	**Change 2010/2008**
Net interest income	652.7	574.1	831.7	44.9%	27.4%
Net commission income	347.4	379.7	434.1	14.3%	25.0%
Other income *	257.6	91.8	78.5	-14.5%	-69.5%
Total operating income	**1 257.6**	**1 045.6**	**1 344.2**	**28.6%**	**6.9%**
Total operating expense **	**-885.9**	**-775.3**	**-812.9**	**4.8%**	**-8.2%**
Cost/Income	70.4%	74.2%	60.5%		
Net provisions	-88.7	-115.0	-126.4	9.9%	42.5%
Pre-tax income	**283.0**	**155.3**	**405.0**	**160.8%**	**43.1%**

** including FX income*
*** without impairment charges*

The total operating income of the retail segment in 2010 increased by 28.6% to PLN 1,344 million and already exceeded the level of 2008. This means that the increase of core business income such as interest and fees more than compensated for the decrease of other income (by 69.5% in 2010 compared to 2008).

Despite significantly higher income, operating expenses in 2010 increased only by 4.8% per year, but were still lower than the costs of the segment in 2008 (by 8.2%). That means a much better cost-effectiveness of this business segment: the cost/income ratio fell from 70.4% in 2008 and 74.2% in 2009 to 60.5% in 2010. Good trends in operating income and expense enabled the improvement of pre-tax income in 2010 to a level 160.8% higher than in 2009 (and 43.1% higher than in 2008), despite a year-to-year growth of impairment charges - in line with the general market deteriorating trend in the portfolio of loans to households.

Corporate Banking

Corporate segment earnings (PLN million)	**2008**	**2009**	**2010***	**Change 2010/2009**	**Change 2010/2008**
Net interest income	264.6	169.2	231.9	37.1%	-12.4%
Net commission income	104.1	94.7	112.3	18.6%	7.9%
Other income *	-33.9***	33.0	40.8	20.0%	-
Total operating income	**334.7**	**296.9**	**385.0**	**29.7%**	**15.0%**
**Total operating expense ** **	**-246.7**	**-182.9**	**-203.2**	**11.1%**	**-17.6%**
Cost/Income	73.7%	61.6%	52.8%	-	**-**
Net provisions	-45.7	-323.7	-98.3	-69.6%	115.1%
Pretax income	**42.4**	**-209.7**	**83.6**	**139.9%**	**97.2%**

** including FX income*
*** without impairment charges*
**** of which PLN 152 million of negative valuation of derivatives captured in the „Income from financial instruments" item*

The total operating income of businesses in 2010 increased by 29.7% to PLN 385 million and just like in the retail segment exceeded the 2008 level. Corporate segment income rose compared with the previous year in all categories: interest, commissions and other income (including FX).

Like in retail the 2010 increase in operating expenses (by 11.1%) was significantly lower than the increase in income and absolute level of these costs was still lower than the costs of the segment in 2008 (by 17.6%). This means a considerable improvement in the cost-effectiveness of this business segment: the cost / income ratio fell from 73.7% in 2008 and 61.6% in 2009 to 52.8% in 2010.

As regards risk provisions 2008 and 2009 were special for the corporate segment. The global crisis and additionally problems of some companies with the repayment of obligations under FX derivatives resulted in significant risk charges.

In 2010, the level of loan receivable provisions in corporates decreased significantly compared to previous year, which allowed to rebuild the segment gross profit. The improvement in risk costs, together with favourable trends in operating income and expenses allowed to return segment gross income to a level 97.2% higher than in 2008.

II.2. Balance Sheet and Off - Balance Sheet items

ASSETS

The group's assets as at 31 December 2010 totalled PLN 46,984 and were 4.6% higher compared to the balance at the end of the December 2009. Main Group's assets and the changes in the values of particular components of Group's asset as on specified dates are presented in the table below:

ASSETS (PLN million)	31.12.2010		31.12.2009		Change 2010/2009
	Value	Structure	Value	Structure	(%)
Cash and operations with the Central Bank	2 050.7	4.4%	2 191.2	4.9%	-6.4%
Loans and advances to banks	1 485.8	3.2%	695.7	1.5%	113.6%
Loans and advances to customers	36 738.5	78.2%	33 484.9	74.6%	9.7%
Receivables from securities bought with sell-back clause	55.1	0.1%	208.8	0.5%	-73.6%
Financial assets valued at fair value through profit and loss and hedging derivatives	1 510.1	3.2%	3 409.4	7.6%	-55.7%
Investment financial assets*	4 520.4	9.6%	4 175.7	9.3%	8.3%
Intangible assets and property. plant and equipment **	272.5	0.6%	369.5	0.8%	-26.3%
Other assets	351.4	0.7%	378.6	0.8%	-7.2%
Total assets	**46 984.4**	**100.0%**	**44 913.8**	**100.0%**	**4.6%**

** including investments in associates*
*** excluding fixed assets for sale*

Higher assets level resulted primarily from growth in loans and advances to Clients by PLN 3,254 million, i.e. 9.7% (this was mainly an effect of foreign currencies, primarily CHF, appreciation with respect to PLN). Second important factor that influenced the assets' value in 2010 were financial assets valued at fair value through profit and loss and hedging derivatives that decreased by PLN 1,899 million (by 55.7%) in this period.

Loans and advances to customers

Loans and advances to Clients constitute a dominant position in the asset structure (78.2%) and as on 31.12.2010 their net value reached PLN 36.738 million and was 9.7% higher compared to the December 2009 level. The growth in loans was, to a high extent, an effect of FX changes, mainly with respect to mortgage loans in CHF. Without the FX factor the increase in 2010 would reach approximately 2%.

The table below provides information on the structure of the loans to customers and changes in this portfolio in the course of 2010.

Loans and advances to customers (million PLN)	**31.12.2010**		**31.12.2009**		**Change 2010/2009**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Loans to households	27 884.3	*75.9%*	24 809.7	*74.1%*	*3 074.7*	*12.4%*
- mortgage loans	*24 882.9*	*67.7%*	*21 913.1*	*65.4%*	*2 969.8*	*13.6%*
- other loans to households	*3 001.5*	*8.2%*	*2 896.6*	*8.7%*	*104.8*	*3.6%*
Loans to business entities	8 854.2	*24.1%*	8 675.3	*25.9%*	*178.9*	*2.1%*
- leasing	*3 249.6*	*8.8%*	*3 194.9*	*9.5%*	*54.7*	*1.7%*
- other loans to business entities	*5 604.5*	*15.3%*	*5 480.3*	*16.4%*	*124.2*	*2.3%*
Net loans and advances to customers	**36 738.5**	**100.0%**	**33 484.9**	**100.0%**	**3 253.6**	**9.7%**
Provisions against value of receivables	1 187.3		1 106.5		80.8	7.3%
Gross loans and advances to customers	**37 925.8**		**34 591.4**		**3 334.4**	**9.6%**

As on 31 December 2010, mortgage loans accounted for 67.7% of the net balance of loans and credits and constituted the largest component of the Group's loan portfolio. The mortgage loan portfolio value, as on 31 December 2010, totalled PLN 24.883 million and increased by 13.6% relative to the level of 31 December 2009. Without the above-mentioned FX factor, the rise would be around 2%. This indicates a slightly higher growth in PLN mortgage loans' portfolio with respect to depreciation of old mortgage loans portfolio (mainly in foreign currencies) and, in effect, the reconstruction of mortgage loans' portfolio after the withdrawal of FX mortgage loans from Bank's offer two years ago. In 2010 the mortgage loans sale accelerated and reached PLN 500 million in each of the last 3 quarters.

Other loans and credits granted to individual customers accounted for 8.2% of the net balance of total loans at the end of 2010. The value of other loans granted to individual customers totalled PLN 3.002 million and increased by 3.6% yearly.

As on 31 December 2010, portfolios of loans granted to business entities including leasing amounted to PLN 8,854 million, i.e. 2.1% increase relative to the end of 2009. Business loans portfolio (without leasing) increased significantly in the micro and SME sector (annual turnover below PLN 200 million) i.e. by 30.1% or PLN 804 million year-on-year. In the same period, large corporations' portfolio (annual turnover above PLN 200 million) decreased sharply by 38.6%. The leasing portfolio, encompassing primarily SME Clients, recorded an annual net growth of 1.7% reaching PLN 3,250 million at the end of the year.

The balance of provisions for impairment losses relative to loans and advances extended to customers increased by PLN 81 million due to deterioration of the loan portfolio. The level of provisions was also impacted by the write-off of PLN 159 million of loans in charge of provisions throughout 2010. Quarterly stabilisation of provisions for impairment losses is visible.

The average basic interest rate of loans granted by the Bank throughout 2010 was 4.34% for individuals and 5.43% for businesses and public sector. The lower average interest rate in loans granted to individuals is partially due to the lower nominal interest rate of loans in foreign currencies which represent a bigger share of the retail loan portfolio.

Financial assets valued at fair value through profit and loss and hedging derivatives

Value of the financial assets valued at fair value through profit and loss and hedging derivatives totalled PLN 1.510 million at the end of December 2010 which signify a PLN 1,899 million decrease (i.e. 55.7%) relative to 31 December 2009. This was a result of a PLN 1,340 million (i.e. 57.7%) decrease of treasury debt securities and PLN 559 million (i.e. 51.4%) decrease in assets from positive valuation of derivatives (designated for trade and hedging) mostly as a result of maturing option contracts as well as the decrease of positive valuation of swap instruments, mainly used for financing of FX mortgage loans. The decrease of positive valuation of FX swap and cross-currency interest rate swap instruments resulted first of all from the significant appreciation of CHF in 4 Quarter 2010 versus quite stable CHF rate in 4 Quarter 2009. The discussed assets portfolio comprised mainly treasury debt securities issued by the Treasury (bonds and treasury bills) that constituted 64.9% share at the end of 2010 and positive valuation of derivatives designated for trade and hedging that together accounted for 35.0% share.

Investment financial assets

The value of investment financial assets (including investments in associates) equalled PLN 4,520 million at the end of December 2010 and increased by PLN 345 million i.e. 8.3% relative to the balance as on 31 December 2009 mainly due to PLN 893 million increase in the portfolio of debt securities issued by the Polish State Treasury. Investment financial assets portfolio (including investments in associates) was composed in 96.3% of debt securities issued by the Polish State Treasury and National Bank of Poland (the central bank).

Loans and advances to banks

In effect of deepened cooperation with other banks and higher interbank activity, loans and advances to banks increased by PLN 790 million (i.e. 113.6%) and amounted to PLN 1,486 million at the end of December 2010. Hedging of transactions was a primary cause of this item’s growth.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment dropped in 2010 by PLN 97 million (i.e. 26.3%) and equalled PLN 272 million. This was a result of standard depreciation and change of classification of a part of properties subject to leasing transactions from operating to finance lease (PLN 50.8 million).

LIABILITIES

The value and structure of the Group's liabilities as at the end of 2010 and 2009 are shown in the table below:

LIABILITIES (PLN million)	31.12.2010		31.12.2009		Change 2010/2009
	Value	Structure	Value	Structure	(%)
Deposits from banks	2 084.5	4.9%	4 909.4	11.7%	-57.5%
Deposits from customers	35 395.1	82.5%	31 558.7	74.9%	12.2%
Liabilities from securities sold with buy-back clause	670.7	1.6%	2 342.7	5.6%	-71.4%
Financial liabilities valued at fair value through profit and loss and hedging derivatives	2 119.7	4.9%	805.0	1.9%	163.3%
Liabilities from issue of debt securities	1 141.0	2.7%	1 024.3	2.4%	11.4%
Provisions	21.4	0.0%	24.6	0.1%	-12.7%
Subordinated debt	912.0	2.1%	945.8	2.2%	-3.6%
Other liabilities*	549.1	1.3%	516.0	1.2%	6.4%
Total liabilities	**42 893.4**	**100.0%**	**42 126.5**	**100.0%**	**1.8%**
Total equity	**4 091.0**		**2 787.3**		**46.8%**
Total liabilities and equity	**46 984.4**		**44 913.8**		**4.6%**

** including tax liabilities*

As at the end of 2010, liabilities accounted for 91.3%, while Group's equity accounted for 8.7% of the total liabilities and equity.

As on 31 December 2010, deposits from customers, deposits from banks and financial liabilities valued at fair value through profit and loss and hedging derivatives constituted the Group's main liability items accounting for, respectively, 82.5%, 4.9% and 4.9% of the Group's total liabilities.

As on 31 December 2010, Group's liabilities amounted PLN 42,893 million and increased by PLN 767 million i.e. 1.8% relative to PLN 42,126 million as on 31 December 2009. The increase resulted, primarily, from a considerable growth in customer deposits (12.2%).

Deposits from customers

Table below describes the structure of Group's liabilities due to its customers and changes of these liabilities in the course of 2010, by customer types.

Deposits from customers (PLN million)	**31.12.2010**		**31.12.2009**		**Change 2010/2009**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Deposits from individual customers *	20 928.1	59.1%	19 780.2	62.7%	1 147.9	5.8%
Deposits from enterprises and public sector	14 467.1	40.9%	11 778.5	37.3%	2 688.6	22.8%
TOTAL	**35 395.1**	**100.0%**	**31 558.7**	**100.0%**	**3 836.5**	**12.2%**

* *including deposits in the form of insurance policies*

Deposits from customers provide the main source of financing of the Group's activities and include, mainly, customer funds deposited on current and term deposit accounts. As on 31 December 2010 deposits from customers amounted to PLN 35,395 million and recorded an increase of PLN 3,836 million i.e. 12.2% relative to the balance as on 31 December 2009.

As on 31 December 2010 deposits from individual customers accounted for 59.1% of the total balance of deposits from customers. Their value increased by PLN 1,148 million i.e. 5.8% relative to the balance as on 31 December 2009.

Deposits from enterprises and public sector at the end of December 2010 equalled PLN 14,467 million and accounted for 40.9% of Group's total deposits. Throughout 2010 the value of these deposits increased significantly by PLN 2.689 million (i.e. 22.8%).

The average basic interest rate of deposits of the Bank throughout 2010 was 3.77% for individuals and 3.44% for businesses and public sector.

Deposits from banks

Deposits from banks, as on 31 December 2010, amounted to PLN 2,084 million accounting for 4.9% of the Group's liabilities. Their value decreased considerably by PLN 2,825 million (i.e. 57.5%) relative to the balance as on 31 December 2009 in effect, mainly, of a higher value of amounts repaid by the Bank throughout the year (primarily, repayment of a CHF 120 million and a EUR 175 million syndicated loans) compared to loans received. Moreover financial institutions term deposits balance decreased significantly in this period by PLN 2.041 million mainly due to the maturity of money market deposits of the parent company - Millennium bcp.

As on 31 December 2010, credits and loans received by the Group included, primarily, as follows:

- medium-term credit granted to the Bank to the total amount of EUR 200 million by its main shareholder i.e. Millennium bcp, on 16 March 2009;
- medium-term credit granted to the Bank to the total amount of EUR 100 million by European Bank for Reconstruction and Development (EBRD), on 30 November 2009;
- medium-term credit granted to the Bank to the total amount of EUR 35 million by European Bank for Reconstruction and Development (EBRD), on 1 December 2010;
- long-term credit granted to the Bank to the total amount of EUR 100 million by European Investment Bank (EBI), on 9 December 2010.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Group concludes short-term transactions with buy-back clause both with banking and non-banking customers. The transactions are based on the State Treasury debt securities. As on 31 December 2010, liabilities from securities sold with buy-back clause amounted to PLN 671 million decreasing by PLN 1,672 million i.e. 71.4% relative to the balance as on 31 December 2009 mainly due to the repayments to the Central Bank (PLN 481 million at the end of December 2009), reduction of amounts due to other banks by PLN 807 million and lower balance of transactions with other Clients by PLN 380 million.

Financial liabilities valued at fair value through profit and loss and hedging derivatives

Financial liabilities valued at fair value through profit and loss and hedging derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. The value of this item amounted to, as on 31 December 2010, PLN 2,120 million and increased by PLN 1,315 million i.e. 163.3% relative to the balance of 31 December 2009 primarily due to significant appreciation of CHF in 4 Quarter 2010 versus quite stable CHF rate in 4 Quarter 2009.

Debt securities issued

As on 31 December 2010 liabilities from issue of debt securities amounted to PLN 1,141 million recording an increase by PLN 117 million relative to the balance recorded as on 31 December 2009 in effect of increase in the value of liabilities from bonds and bank securities issued by the Bank to be offered to individual customers in connection with savings products (their balance amounted to PLN 385 million at the end of December 2010). Besides the above-mentioned bonds, the item also includes liabilities from agreements, entered into by the Group in December 2007, regarding securitisation of receivables under the leasing portfolio, which as on 31 December 2010 amounted to PLN 756 million and did not change considerably compared to the end of 2009.

Subordinated debt

The value of subordinated debt was maintained at the level amounting to PLN 912 million as on 31 December 2010 and differences with respect to 31 December 2009 are the result of FX changes. These liabilities included subordinated ten-year bonds of the total nominal value of EUR 80 million, issued by the Bank in December 2001 and subordinated ten-year bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

As on 31 December 2010, equity capitals amounted to PLN 4,091 million and recorded a PLN 1,304 million growth, i.e. by 46,8% relative to the end of December 2009. This was mainly a result of the L-series shares issue concluded in February 2010 and profit retention.

Bank Millennium conducted the 3 to 7 shares rights issue in the total amount of 363,935,033 of L-series shares with an offer price of 2.90 PLN in the beginning of 2010. In February 2010 the Court registered the Bank's increased capital in the amount of 1,213,116,777 PLN. Part of the issue was available to minority shareholders (Millennium bcp, a dominant shareholder, having 65.5% of Bank's shares exercised all the pre-emptive rights from its shares and did not make additional subscriptions) and was sold with subscription that four times exceeded the available number of shares. In the effect of the issue, the Bank increased its own capital by more than PLN 1 billion thus strengthening capital ratios to support implementation of the new business strategy for years 2010-2012.

The main capital ratios during 2010 were the following:

Capital ratios	**31.12.2010**	**31.12.2009**	**Change 2010/2009**
Number of shares (in thous.)	1 213 117	849 182	42.9%
Total consolidated equity (in PLN m)	4 091	2 787	46,8%
BVPS	3.37	3.28	2.7%
Capital Adequacy Ratio (consolidated)	14.4%	11.3%	3.1p.p.
Tier 1 ratio (consolidated)	12.3%	8.9%	3.4 p.p.

Contingent liabilities

Distribution of contingent liabilities of the Group is presented in the table below:

CONTINGENT LIABILITIES (PLN million)	31.12.2010	31.12.2009	Change 2010/2009 (%)
Contingent liabilities granted and received	**9 249,4**	**8 118,4**	**13,9%**
1. Liabilities granted:	7 977,7	7 134,5	11,8%
a) financial	6 166,8	5 647,7	9,2%
b) guarantees	1 810,9	1 486,8	21,8%
2. Liabilities received:	1 271,7	983,9	29,2%
a) financial	794,9	480,4	65,5%
b) guarantees	476,8	503,5	-5,3%

In the course of its operations, the Group executes transactions in effect of which contingent liabilities arise. The main contingent liability items (granted) include: (i) financial commitments mainly commitments to extend loans (including, *inter alia,* not utilised credit card limits, not used overdraft facilities, not utilised investment loan tranches) and (ii) guarantee type commitments including mainly guarantees and letters of credit issued by the Group (providing security for performance, by the Groups customers, of their commitments relative to third parties). Contingent liabilities granted cause that the Group is exposed to various risk types including credit risk. The Group creates provisions against irrevocable risk based contingent liabilities, booked in the item „Provisions" in the liabilities side of the Balance Sheet.

As on 31 December 2010, the total value of contingent liabilities of the Group amounted to PLN 9,249 million, including commitments granted by the Group: PLN 7,978 million. Increase in financial and guarantee commitments granted by the Group, respectively, by PLN 519 million (i.e. 9.2%) and PLN 324 million (i.e. 21.8%) relative to the balance of 31 December 2009 resulted mainly from increase of the number and value of commitments to extend loans and increase in number and value of guarantees issued by the Group in effect of increased activity on the part of Group's Clients in 2010.

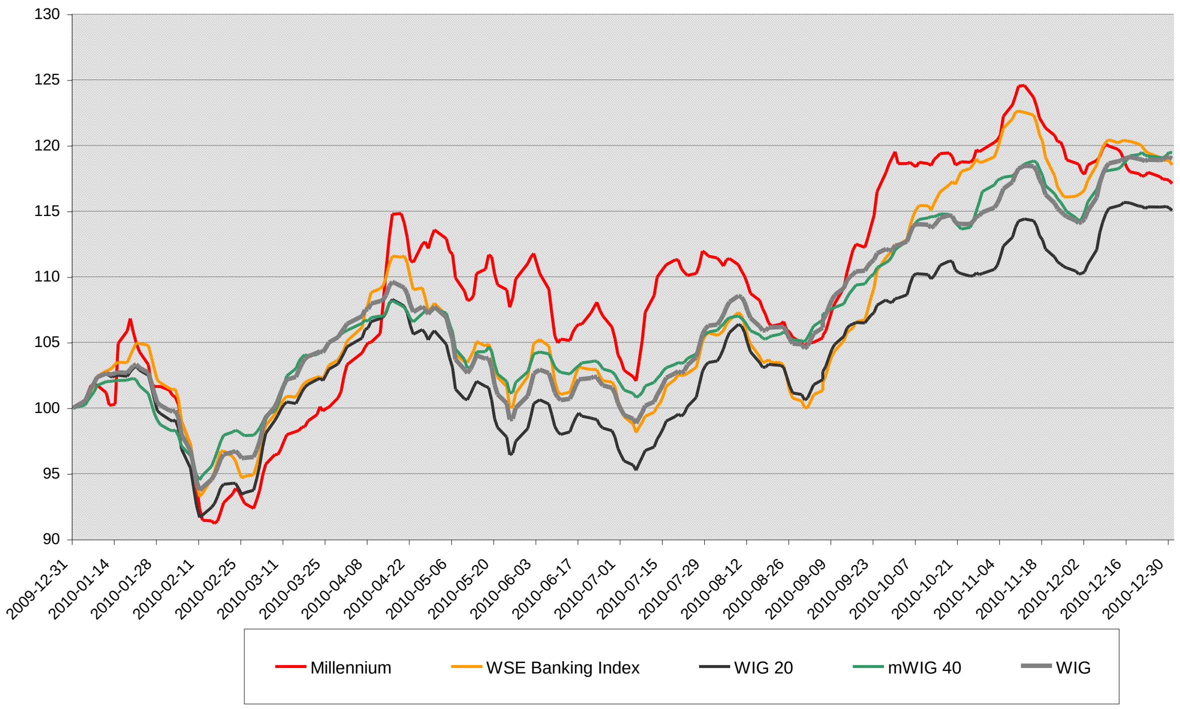
II.3. Market indicators and rating

The year 2010 brought high volatility on the Polish stock exchange but overall the main indexes gained 15-20% yearly. Taking into consideration the rights issue, the share price of the Bank increased by 16% when compared to TERP (*) price from 31 December 2009. Total market capitalization of the Bank increased by 46% thanks to both increase of equity and price of one share.

Market indicators	31.12.2010	31.12.2009	Change 2010/2009
Price of Bank Millennium shares (PLN)	4.90	4.23*	15.8%
Daily turnover – yearly avg (in thous. PLN)	8 611	8 750	-1.6%
market capitalisation (PLN million)	5 944	4 076	45.8%
WIG – main index	47 489	39 986	19.0%
WIG Banks	6 921	5 869	17.9%
WIG 20	2 744	2 389	14.9%
mWIG 40	2 805	2 346	19.6%

** Theoretical ex-right price adjusted by the rights issue concluded in February 2010, nominal price as on 31.12.2009 was PLN 4.80*

Evolution of Bank Millennium share price versus main WSE indexes is presented below:



After a thorough verification process conducted by the Warsaw Stock Exchange in 2010, as of 1.02.2011 Bank Millennium joined the RESPECT Index - the first CEE index of socially responsible companies. The RESPECT Index comprises 16 companies which operate in accordance with best management standards in corporate governance, information policy and investor relations as well as in environmental matters, social relations and labour.

During 2010 year, the Bank's ratings assigned by Moody's Agency remained unchanged (Baa2/P3/D) but two times the ratings were under review for possible downgrade (from 5th of May to 2nd of June and since 10th December 2010) due to the Moody's concerns regarding Portuguese economy. These actions did not affect individual (BFSR) rating of Bank Millennium, which was kept with a stable outlook.

Fitch rating agency downgraded Bank's ratings two times during 2010 year, in both cases as a consequence of downgrades made towards the ratings of Bank's parent - Millennium bcp. On 22nd of July 2010 Fitch agency downgraded Bank Millennium ratings from A/F1/AA+(pol) to A-/F2/AA(pol). Then on 9th of November 2010 Fitch downgraded Bank's ratings to BBB/F3/A(pol) and support rating from 1 to 2. The outlooks for these deposit ratings were negative. However, like with Moody's agency, these rating changes did not affect the Bank's individual rating, which remained stable during entire year at C/D level.

Table below presents current ratings assigned to Bank Millennium by two rating agencies:

Type of rating	FITCH	MOODY'S
Long-term deposit rating/IDR	BBB	Baa2 (negative outlook)
National Long-term IDR	A(pol)	-
Short-term deposit rating	F-3	Prime-3
Financial strength/ Individual rating	C/D (no outlook)	D (stable outlook)
Support	2	"high probability" from the Parent
Outlook	negative	

III. BUSINESS ACTIVITY OF BANK MILLENNIUM GROUP

Bank Millennium Group offers universal banking services and products and addresses its offer to individual Clients, small businesses, corporate and public sector entities. Furthermore the Bank's offer is complemented by the services supplied by specialised Group's companies: Millennium Leasing and Millennium Lease (leasing), TFI Millennium (mutual funds) and Millennium Dom Maklerski (brokerage services). The Bank provides its services through its network of 458 branches, Internet banking, telephone banking and multi-function ATMs. In 2010 the Bank had more than 1.1 million active retail Clients and nearly 10 thousands corporate Clients. In 2010 the number of active Clients using the Millenet electronic banking platform amounted to 439 thousands.

III.1. Retail Banking

Bank Millennium has been consistently striving to achieve its retail banking development objectives to improve its market share for this segment of Clients. To this end the Bank develops its distribution channels (branch network, telephone banking, Internet banking and multi-function ATMs), systematically improves the quality of its services, expands and adapts its offer to the needs and growing requirements of various Client groups. Clients are served through specialized business lines intended for individual Clients, affluent individual Clients (Prestige), and small businesses (Biznes).

In 2010, the Bank focused on exploiting the potential of its retail branch network by developing cooperation with current Clients and acquiring new ones thanks to activities aiming at increasing the awareness of the Millennium brand, improving the quality of services and making the offer more attractive. The Bank also sought to employ cross-selling opportunities with existing Clients. As assumed in its 2010 strategy, the Bank concentrated on active sales of current accounts, term deposits, savings accounts and a wide range of retail loans in an effort to become the bank of first choice for Client deposits. Its wealth management and microenterprise offer was also adjusted.

Bank Millennium is among Poland's leading retail banks. As of 31 December 2010 the Bank had more than 1.1 million Clients, including approximately 21,000 Prestige Clients and more than 57,000 Biznes segment Clients, who actively used banking products and services.

Bank Millennium offers individual Clients a wide range of universal financial products - from personal accounts, payment cards (both debit and credit) through savings accounts and term deposits to mutual funds, consumer and mortgage loans, brokerage services, structured products and insurance.

Individual Clients deposits (including savings in the form of the Bank's bonds) increased 6.3% year on year, reaching PLN 21,313 million (consolidated approach). The loan portfolio at the end of December 2010 stood at PLN 27,884 million, up 12.4% from the end of December 2009 mainly due to FX rates changes.

Mortgage loans were the main item in the retail portfolio and their total value amounted to PLN 24,883 mln (up 13.6% year on year). Other retail loans showed an annual growth of 3.6%.

New Products and Services Introduced in 2010

The Bank's day-to-day relationships with Clients are an important source of information on their needs and provide important lessons allowing to constantly improve the offer.

In May 2010 Bank Millennium expanded its offer by adding a new type of account: "The Internet Account". This was in response to the needs of Clients who prefer to use financial services over the Internet. The free online account was supplemented with a new Millennium Maestro PayPass card permitting contactless payments and coming with a moneyback service, which guarantees the repayment of 1% of performed card transactions. In addition, an unconventional account promotion was run on YouTube: a competition open to all who could volunteer their ideas for advertising the new Bank Millennium Internet Account. In fact, this was the first official competition in Poland run on YouTube whose all accompanying activities took place on-line. The maker of the winning film was awarded a BMW Series 1 Coupé luxury car, while the makers of the next four films – money prizes.

In the first half of 2010 an important development occurred - more banks started to provide free ATMs for their Clients. As it is one of the critical factors regarding the account choice, Bank Millennium adjusted its price conditions to the prevailing market standards by granting the Personal Account Premium holders free cash withdrawals from all Polish ATMs. Until now, those Clients could use over 2,000 free ATMs of Bank Millennium, BZ WBK and Cash4You (with a PLN 5 commission for withdrawals from external ATMs). After the change the number of available ATMs increased to over 15,000.

The Bank also improved its mortgage loan offer by introducing the loan with subsidised interest under the government-run "Family on its own" programme. The offer of preferential loans at Bank Millennium was recognized as very competitive and its price parameters put it among the top banks granting loans with subsidized interest. A special offer was also prepared for mortgage loans. The existing Bank Clients, as well as those who have declared their readiness to use Bank Millennium products (accounts and cards) were proposed the reduction of the margin throughout the period of lending, which was part of promoting Client activity and loyalty.

In 2010 an offer for individual Clients was upgraded with an innovative credit card addressed to women. The "Impresja" card provides a reimbursement of 5% of expenditures made by using the card with program partners (more than 20 leading brands, representing major categories of products used by women). What further distinguishes this card from other programs is the possibility of combining promotions so that the Client can benefit from deeper discounts occasioned by seasonal sales and other rebates offered by program partners.

Cross-selling

One of the Bank's basic principles regarding cooperation with Clients is to maintain lasting relationships and use the potential of cross-selling. The Bank pays special attention to the diversification of the portfolio of products held by Clients so that each one of them, in addition to the basic package products, could easily use other products. For the last few years diverse initiatives have been taken in order to increase cross-selling, carried out both in the form of permanent processes, and ad-hoc actions.

In 2010 this approach was continued. The Bank carried out activities aimed at term deposit holders in order to maintain their funds or obtain new ones. Such activities covered all segments of Clients. What was also continued was the activity in the sale of credit products, as well as debit and credit cards. The result of the Bank activities in this regard is the steady increase in the number of products held by Millennium Clients. The average number of products per individual Client improved steadily, rising from 3.17 in December 2009 to 3.41 in December 2010.

Millenet Internet Banking

The year 2010 was another year of rapid development of Millenet internet banking, which was noticed and welcomed by independent experts and market analysts.

In 2010, the Bank launched a new website. It totally revamped its information part. Clients can now use the new architecture and a lot more user-friendly navigation, making it much easier to find products and services, with a more logical and intuitive system. Improving and updating content and graphics made the site more modern and transparent to users.

The functionality of the electronic banking system is constantly evolving. Users can employ it to buy products such as: cash loans, credit cards, mutual funds and term deposits. Millenet can also be employed to set up a savings account. Online Deposit Auctions have consistently met with Client appreciation, for several years now, due to the attractive interest rates which can be obtained at auctions. Solutions such as online auctions of term deposits, possibility of charging a mobile phone or ordering transactions via SMS put the Bank Millennium transaction platform among the market leaders.

In 2010 the Bank also introduced new features, products and services, such as: the Internet account, electronic invoices, online payments, daily capitalization deposits, investment/structured deposits, online opening of debit cards and certain functionalities for mortgage services on the Internet.

At the end of 2010, the number of active individual Clients in Millenet reached 439,000. Most active Millenet Clients (approximately 75%) also use convenient and environmentally friendly electronic bank statements.

Retail Deposits and others Retail Customer Funds

In 2010, the Bank continued its efforts to improve deposit margins. The growth of the volumes was carried out by selective changes in the interest rates for new funds or through the promotion of longer maturities (2-year deposits).

In the second quarter of 2010 Bank Millennium successfully introduced New Funds Promotion on Savings Account. It offered an attractive rate of 6.5% annually for new funds deposited in the Bank. The promotion was supported by a wide-ranging media campaign and turned out to be a great success. Over 43,000 Clients benefited from it.

In 2010 investment deposits with a full capital guarantee and a possibility to obtain an above-average profit were permanently included in the offer. Every month the Bank offered one or two editions of a 1-year investment product. Deposits were based on different indicators: WIG20, the largest Polish companies, global companies, American companies, raw materials, EUR/PLN rate. In that way the Bank allowed its Clients to choose between various investment options, which contributed to significant interest in this kind of products. Total sale in 2010 reached PLN 1 bln placing the Bank among leaders of investment products' retail market.

In 2010 Bank Millennium harmonised its business with the requirements of Polish law implementing the MiFID Directive (*Markets in Financial Instruments Directive*). The purpose of MiFID is to ensure a greater protection of bank Clients who buy or will be buying investment products, including in particular Polish and foreign investment funds, (also those purchased as part of a life insurance policy), structured products, investment deposits, T-bills, bonds, shares and other securities and to harmonize the rules of the EU Member States. Currently, the Bank provides investment services covered by the MiFID Directive after assessing the adequacy of our products to the Client's knowledge and investment experience, while the Client before signing the agreement shall receive among others information about the risks associated with investing in financial instruments and products.

Products for Wealthy Individuals

Prestige is Bank Millennium's offer addressed to persons of high status, wealth, expecting the highest quality service and offer of financial products tailored to their individual needs. The Prestige Personal Account is a combination of advanced solutions and tools needed to effectively manage their personal finances. It allows you to save, invest, acquire additional resources and manage your capital, and provides the holder with access to offers of third parties working with Bank Millennium.

The Prestige account incorporates a wide range of products and services for on-going financial management: PLN and FX current accounts, term deposits, debit and credit cards. The Bank also offers a wide selection of investment products and bancassurance products, including domestic and foreign investment funds (Millennium, ING, Legg Mason, DWS, Arka, Blackrock), Prestige Investment Programme available in PLN, EUR and USD, and Prestige Guarantee Policy, as well as structured products.

In the first half of 2010 Bank Millennium privately placed 22 structured bonds issues with 100% capital guarantee (all in PLN), with different time horizons, underlying assets and disbursement formulae. Very popular among the Clients was the 3-year bond based on the six companies which are official Olympic sponsors. In June 2010, the Bank successfully started to issue Bank Debt Securities. Since June 2010 the Bank has offered to Clients 10 structured products in the form of Bank Securities. In 2010 the offer of investment and bancassurance products linked to a bank deposit was continued. Prestige Clients can use the offer of SuperDuet and MegaDuet which combine a term deposit and investment product selected from the Prestige offer. The deposit's interest rate was dependent on the chosen investment product and stood at 5% - 6.5% for SuperDuet and 6.5% or 7% for MegaDuet. In December 2010 the Bank added new funds: DWS TFI, ING TFI and Blackrock to its offer of investment products.

Clients' needs for financing were catered for by the offer of cash loans, credit cards, mortgages and asset-based loans. For credit products the sales activities were focused primarily on offering cash loans and credit cards.

In its promotion the Bank focused on organizing investment seminars for current and potential Prestige Clients. They attracted much attention. In 2010 there were 82 investment seminars with 3200 invited Clients. The seminars proved to be an effective way to provide information on market developments and Prestige products. As of 31 December 2010 the Bank had 20,730 active Prestige Clients.

Cards

The Bank offers to its Clients a wide range of payment cards: debit, credit and charge cards, issued in three systems - Visa, MasterCard and American Express. The bank is present in the market segment of classic, gold, platinum, partner and multipartner cards. Visa "Impresja" – its first multipartner card – was first issued by the Bank in June 2010. This card is an example of a unique model of cooperation with partners representing various product categories: fashion, haute couture, footwear, jewelry and cosmetics, interiors, home and food, leisure, entertainment, children's articles. It also provides the option of scheduling the purchases made with it over 0% installments, as well as activating an extensive assistance package. As a result, the "Impresja" card was recognized as the most innovative loyalty card in Europe in 2010. In fact, it was the first Polish card to win the international Trophees Publi-News competition - the main event of this kind on the European payment cards market, and one of the most important global-scale card market events. It was also awarded the Audience Prize in the contest for the most beautiful Polish Card 2010, accompanying the conference "Central European Electronic Card Warsaw 2010". Since October, the "Impresja" card has also been available with MasterCard PayPass™ contactless payment technology. The first card offered by the Bank enabling contactless payments was the Maestro PayPass Millennium card (added to the personal account) started to be sold in April 2010.

At year-end the Bank held in the portfolio the total of over 1.3 million cards, nearly 0.5 million of which were credit cards.

Cash Loans

Cash loans are an important product for individual Clients. They are mainly provided to the Bank's existing Clients along with an additional insurance package. In 2010 the Bank actively promoted a consolidation product "Urgent Loan – Consolidation" that enables Clients to reduce the financing cost through an innovative approach to the establishment of a loan's interest rate ("The Lowest Price Guarantee"). Clients could receive a lower interest rate in comparison with their current loans and simultaneously they would have access to additional funds similarly to a standard loan. What needs to be highlighted is a fact that the Bank also offered possibility of a loan's raise (to the level of initial loan's value or even higher) to its reliable Clients that already possessed a retail loan. Throughout 2010 the retail loans' portfolio grew and reached the level of PLN 2,200 million at the end of the year.

Mortgage Loans

Bank Millennium's mortgage loan's offer is a comprehensive one and addressed to a wide segment of Clients planning to implement a variety of financial needs: from housing plans (mortgage loan), repayment of liabilities to other financial institutions (consolidation loan), or purchase of business premises for letting or running an own business (Biznes Mortgage) and borrowing for any other purpose (home equity loan).

2010 was the time of restarting Bank's mortgage loan's activities, after a period of lending policy adjustments in the years 2008 to 2009 with respect to the turmoil in international financial markets. As a result of steps taken in 2010 the Bank significantly improved its sales compared to 2009. The value of mortgage disbursements stood at PLN 1,807 million, which was about 47% higher than in 2009. An even higher growth rate of sales (139%) was achieved by the Bank in terms of signed mortgage loans – Clients signed agreements for the total amount of PLN 1,875 million. At the end of 2010 Bank's mortgage loan portfolio reached PLN 24.9 billion (the value of the portfolio at year-end 2009 was PLN 21.9 billion) but the annual growth resulted primarily from FX changes.

The most important product innovation was the launching in 2010 of subsidised lending under the "Family at home" governmental programme. Pursuant to the Act on Financial Support for Families Purchasing their Own Homes the Bank offers to Clients loans whose interest in the period of up to first 8 years is covered (up to 50%) by the State Treasury through the Bank Gospodarstwa Krajowego. The offer of preferential loans is extremely popular among Clients – at year-end the share of subsidized loans in Bank Millennium's monthly sales accounted for more than 40%.

In 2010 the Bank sought to increase the availability of the supply side of its credit offer. Most important initiatives in this regard are the relaxation of the criteria for granting loans to 100% of the property value, reduction and pruning of documentary requirements associated with borrowing from the Bank (including the possibility of using electronic copies of mortgage registers and of entries in the KRS business register) and systematically making more attractive the principles of funding premises as part of developer investments (currently possible with investment completion of only 10%).

In 2010, within the framework of the cross-selling development initiatives discussed above, the Bank also took steps towards an active acquisition of new Clients through mortgage loans. Clients using other bank products are able to obtain more favorable loan terms. In addition to acquiring new Clients this initiative's key objective is to establish close and lasting relationship with Bank service recipients by increasing the number of links with the Bank and the average number of products used by Clients (growth of the cross-selling ratio). The efficiency of these activities is proven by the fact that over 80% of the borrowers who have signed a mortgage agreement with the Bank use the offer of other products.

The attractiveness of Bank Millennium lending is shown by the Bank's high places in the rankings and listings of mortgage loans prepared by the media and independent financial advisers. Of 303 mortgage rankings published from January 2009 to the end of June 2010 Bank Millennium topped the lists (among TOP3 banks) in every fourth publication and came first in 15% of them. It is thus no coincidence that in 2010 the Millennium mortgage loan for the third time in a row won the Client Golden Laurel and was awarded the Grand Prix.

In 2011, the Bank will seek to strengthen its position in PLN mortgage loans. The Bank wants to consistently increase its market share in newly produced loans, so as to by 2012 achieve the planned market share of 6%. The activities scheduled for 2011 in support of this goal include: a regular review and improvement of the lending process, improving standards of service and sale of mortgage loans and enhance cooperation with brokerage firms and financial advisers, so that the Bank Millennium mortgage loan becomes one of the three loans most recommended by the brokers to Clients looking for an attractive source of funding their housing needs.

Products for "Biznes" Segment Clients

The Business Clients (of Retail Segment) includes businesses with annual turnover of up to PLN 5 million. Poland's market of microbusinesses undergoes dynamic development and is considered one of the more promising markets. Bank Millennium, recognizing the potential of this group of Clients, concentrated on the offer's improvement and sale processes in order to meet the expectations of that community.

Bank Millennium offered to Clients a wide range of business segment products and services. These include among others:

- current accounts in PLN and four foreign currencies (euro, dollar, British pound, Swiss franc).
- credit products, including a renewable overdraft, cash loan, investment credit

- leasing,
- products related to trade finance (letters of credit, guarantees)
- debit, credit and charge cards.
- range of services related to the account, such as telephone service, Internet service, closed payments or cash collection by car.

The year 2010 was the period of increased work on improving the lending process, particularly through the implementation of the expanded functionality of the new credit application "New Small Business Work Flow." Currently, one credit decision gives access to four credit products. It is only up to the Client to decide if what he wants is a cash loan, overdraft, credit card, debit card, or all the products at once.

At the end of December 2010 the Biznes segment portfolio totalled more than 57.5 thousand actively using the Bank's products and services. In 2010 the total number of Clients increased 5.3%. The number of accounts handled by the business segment was 114.7 thousand at year-end 2010, an increase by 4.6% compared with the previous year.

III.2. Corporate banking

In 2010 the development of banking business was one of the major strategic objectives of the Bank. The overarching aim of the Bank's activity in this area is to build lasting relationships with our Clients and consistently adapt the offer to their current and long-term needs.

In 2010 as part of its objectives the bank systematically expanded its product offer for corporate Clients and developed a network of specialized consultants serving this Client segment. Corporate Banking focuses on a comprehensive and professional service of companies with annual sales totaling over PLN 5 million. As on 31 December 2010 the Bank had 9133 active corporate Clients.

Distribution Channels

To build lasting and partner relationships between the Bank and a Client requires from the Bank’s point of view a direct contact with a specialized Banking Advisor. Therefore, the Corporate Banking Client Service is conducted through an extensive sales network covering the whole of the country. As of 31 December 2010 the Clients had at their disposal 137 Banking Advisors and 71 Consultants working in 31 Business Centers. In addition, Corporate Clients can use the services of 98 product advisors who are specialists in the fields of leasing, factoring, trade finance, treasury transactions and cash management.

Electronic Banking Systems are an important channel of communication between the Client and the Bank. They include:

- Millenet Banking System for Enterprises,
- ESOBIG home banking system,
- TeleMillennium telephone service

ensuring to Clients a stable, fast and secure access to information about the current balance of funds on accounts and the ability to conduct transactions. The use of these systems can also significantly reduce the cost of banking services. In addition to contact with a highly specialized advisor, Corporate Banking Clients can rely on the service provided by the network of 458 branches.

Credit Products

The primary objective of the credit offer prepared by the Bank is a comprehensive and professional satisfying of the financial needs of Clients, such as funding current operations and investments.

The basis of the offer are revolving and working capital loans in support of the current operation of the company and investment loans in order to support long-term business development. The Bank's offer also includes special investment loans tailored to the terms of implementing contracts and preferential loans related to energy efficiency.

Funding is available both in Polish and foreign currencies. The Bank ensures that the terms of funding such as terms of disbursement and repayment, period of lending and required collateral are attractive and tailored to individual Client needs.

In 2010 the financial offer for Corporate Banking Clients was enriched with three new products:

1) Fast financing area for companies.

In November 2010, in connection with the needs reported by Clients as well as in response to the economy's changing situation, a new solution was added to the Corporate Banking offer allowing simple and fast access to additional financial resources – Fast Financing Area for Companies.

This product had the following main advantages:

- Possibility of obtaining very fast credit decisions - issued within 2 working days,
- Relatively high amount of funding – even up to PLN 1.2 million,
- No collateral required - regardless of the amount lent to the Client.

The new solution offered four different products granted in PLN for up to one year and intended to finance current business needs:

- Overdraft facility,
- Revolving loan,

- Working capital loan,
- Bid security guarantees,

The Bank had a flexible approach to determining the amount of funding under each product. Depending on the current needs the Client can decide which of the above products to use at a given moment. After a positive credit decision the amount of credit would be made available directly to the Client's account within 3 working days.

2) Real estate loan for companies.

In 2010 a new product - Real Estate Loan for Companies – was launched. This product was designed for Clients interested in long-term financing of their business activities.

The real estate loan for companies can improve liquidity and provide flexible working capital financing. The Bank does not ask the Client to identify any specific purpose of financing, while the very construction of the loan allows the Client to adjust the level of debt to current needs.

The real estate loan for companies is a non-renewable PLN product in the amount up to PLN 10 million for use in the period of up to 10 years.

The most important advantages for the Client are the long period of financing and a substantial amount of the loan depending on the value of the property pledged as security. Low commissions make this product even more attractive.

The terms of disbursement and repayment of the loan are individually established with the Client. In view of the Client’s needs the Bank allows him to defer capital installments up to 6 months. Low monthly installments being a natural consequence of the long period of lending allow one to make a really good use of the Client-owned property.

3) Multiproduct line.

In response to the needs of Clients seeking flexible and efficient management of their available credit limit, 2010 saw the addition of the Multiproduct Line to the offer. The line in question allows to finance the company’s current operations through a number of instruments under one contract and one global limit. In addition, it gives an opportunity to adjust the structure of current funding to current needs. It also allows to reduce total debt servicing costs.

The main advantages of this product:

- A single application/agreement governing the principles of product operation under the line,
- The Client's ability to make flexible changes in the structure of utilizing the global limit without the need to sign an annex to the agreement,
- Easy activation of products under the multiproduct line,
- One security package for all products,
- Possibility of using the funds from the global limit in various foreign currencies,
- Renewable financing allowing – after having repaid part of the debt – to reuse the available limit.

Factoring

Bank Millennium's factoring is an attractive tool for improving the liquidity of enterprises and improving the security of transactions involving the sale of goods or services by the Client. Factoring products are based on transparent rules and individual approach to the needs of each Client.

As part of services provided by Bank Millennium a Client can register for factoring his turnover with both his Clients and his suppliers. Depending on the solution the Bank administers and finances all or only some of the Client's receivables before the payment maturity and after that date.

To meet our Clients' expectations with respect to the factoring services offer in 2010, the Bank introduced a possibility of financing Clients against documents sent to the Bank via a web-based application, which is an advanced Client module used for electronic data interchange between the Bank and the Client.

Bank Millennium offers Clients a wide range of factoring solutions. Our offer includes:

- Factoring with recourse,
- Factoring without recourse,
- Full factoring with insurance,
- Reverse factoring (discount and maturity factoring),
- Maturity factoring (Mille-link),
- Local government factoring,
- Payment collection.

In January 2010 Bank Millennium – Poland's first bank to do so - became member of the Polish Factors Association, an organization of Polish factoring institutions.

In 2010, Bank Millennium recorded a very high increase in factoring turnover. While in 2009 the Bank realized a turnover of PLN 2,816 million, last year this was more than PLN 4,381 million. This means a year-on-year rate of growth of 156%, which gives one of the market's best results in this respect.

According to information on Poland's factoring market collected by the Polish Factors Association, and the

Parkiet Daily (publication dated 13.01.2011) Bank Millennium is in sixth position among the institutions offering factoring services.

Trade Finance

Bank Millennium has offered trade finance services since 1993. We offer our Clients a full range of instruments to minimize the risk of trade between buyers and suppliers.

Business operations are connected with purchases of raw materials and goods and, subsequently, sale of products domestically or abroad. A key role in this process is played by the provision of adequate sources of financing, as well as the need for conducting purchase and sale transactions in a secure manner.

In order to mitigate the risks of commercial transactions Bank Millennium proposes to use the following traditional banking products:

- Documentary collection,
- Import letters of credit,
- Service of export letters of credit,
- Guarantees.

Documentary collection is a conditional form of payment which consists in collecting a certain amount of money by the Bank in exchange for delivery to an indicated entity the object of the collection (commercial and/or financial documents). Bank guarantees are the bank's (guarantor's) undertakings on behalf of the Client to pay a specific sum to the beneficiary, if the Client has not performed guarantee collection obligations. A documentary letter of credit is a final commitment of the bank which opened it to pay against the delivery of documents specified in the letter of credit to the issuing or designated bank. Bank Millennium provides discount services. We discount receivables from export letters of credit and bills of exchange. Discounting allows our Clients to promptly convert receivables into cash.

In addition to traditional products referred to above Bank Millennium also provides services in the field of structured products.

Through a team of trade finance experts our Clients can benefit from individual advice and assistance in finding the right solution - both from the standpoint of cost and minimizing risk of trades. In 2010 a project was carried out to activate Clients using guarantees and letters of credit, resulting in a 20% increase in the volume of commitments. The volume of commitments made under the issued guarantees and Client's letters of credit as at 31 December 2010 amounted to PLN 2,639.7 million.

The total volume of all credit products for Bank Millennium Group's Corporate Banking Clients (credits, leasing, factoring) reached at the end of 2010 the level of PLN 8,854 million and was 2.1% higher (i.e. PLN 179 million) than at the end of 2009.

Transactional banking

Transactional banking products are addressed to companies, capital groups and budget units. They facilitate efficient management of cash flow and liquidity, allowing to increase operational efficiency and reduce costs.

In 2010, the Bank expanded its prepaid cards offer. Commercial MasterCard Prepaid cards are non-personalised cards and allow companies to simplify the settlement of counterparties, employees or Clients. Prepaid cards are a tool used by Clients to disburse advance payments, bonuses and other remuneration components, in loyalty programs for counterparties and to pay compensation or scholarships.

Moreover, the Bank has made significant changes in settlement services. Among others execution modes were introduced in foreign transfers. These allow Clients to choose the value date with which the payment is to be made. In December 2010 the Bank joined TARGET2, offering money transfers in euro almost online. The hourly limit was extended for submitting foreign transfers until 16.00, which makes Bank Millennium a market leader in this area.

The Bank's offer is now also accompanied by a mass transfer service. Thanks to mass transfers the Client is able to conceal sensitive information (recipients of transfers, the amount of transactions) from access by unauthorized persons. The account shows only one collective debit for performed transfers and the Client receives a report containing details of the transactions making up the collective debit.

New liquidity management products were added to the offer. The simplest of them include the transaction account being one of the basic products in cash management. It allows salary transfers debiting another associated account. The transaction history of the salary account can be accessed only by people selected by the Client. This allows to preserve the principle of wage confidentiality.

More advanced services include the net balance service, which is one way to conduct an active current liquidity management on Client accounts. The service allows you to combine the balances of several accounts to allow making transfers from an account with insufficient funds and debiting funds from other accounts. This service may include renewable credit accounts and those in various currencies. The service is individually tailored to Client needs. Unique in the market parametrisation features allow to define flows between accounts and manage account surpluses. This enables Clients to achieve maximum interest and increase control over spending from various purpose accounts.

Deposit Products

In addition to financing, the Bank also offers to its Clients a comprehensive range of deposit products. The total volume of funds raised from corporate and public sector Clients amounted at the end of 2010 to PLN 14.5 billion (in consolidated terms), up by 22.8% from the end of 2009.

The core of the deposit offer are both PLN and FX deposits. Depending on the deposited amount the Clients can benefit from individually negotiated interest rates.

The offer is supplemented by automatic deposits and structured investment products, including treasury bills and bonds, and SBB and BSB agreements.

Electronic Banking

The Bank provides businesses with two banking systems: home banking system installed on computers (ESOBIG) and internet banking (Millenet for Enterprises). In 2010 the main focus was placed on the development of Internet banking, where there is a rapid increase in the number of supported Clients and processed transactions. The orders authentication improvement project was completed. Thanks to it Clients can authorize transactions through an electronic signature with a certificate or text-messaged one-off passwords (SMS).

In addition, 2010 saw the start of a new project to introduce advanced modifications of the Millenet for the Enterprise system, which already in early 2011 will result in the implementation of new products and features, among others improved library service contractors, new module to manage payments and direct debit service. The project will continue in coming quarters, and the planned features significantly extend the possibilities of contacting the Bank through on-line banking.

In December 2010 nearly 99% of Corporate Client transactions were sent by electronic banking systems to Corporate Clients, including 264 thousand through Millenet for Enterprises. This is a 53% increase compared to December 2009.

Meetings with Clients

"Winners Do What Losers Don't" – this is the motto of a cycle of 13 meetings with Clients that Bank Millennium organised in 2010. The initiative's purpose was to provide Clients with information on economic issues under way and possibility of effectively responding to changing environmental conditions, and strengthening relationships with current and potential Clients. The initiative was very popular with Clients, the total of 13 meetings was attended by over 2,000 people.

Bank Millennium also conducted a nationwide series of free seminars for entrepreneurs under the title: "Technology Credit - with Innovation into the Future", which was an opportunity to share knowledge regarding the possibilities offered by financing investments with technology credit. Seminars were held in seven Polish cities and were addressed to a select group of companies in the sector of SMEs, particularly interested in this offer. The seminars were attended by 120 people from 84 companies.

III.3. Treasury and investment operations

Treasury Products for Clients

The Treasury Department, thanks to an active development of its product range and activity in financial markets, provides Bank's Clients with access to a broad spectrum of financial instruments related to both business development and hedging various types of risks present in transactions conducted by Clients. In 2010, the Treasury Department expanded its offer addressed to Corporate Banking Clients. Currently, it covers a wide range of financial instruments. Apart from FX spot transactions and deposit products as part of the derivative product offer, Corporate Banking Clients can use FX risk management instruments (*FX forwards, FX swaps, options*) and interest rate risk management instruments (*FRAs, IRS, CIRS*).

The Bank Millennium Forex Trader platform introduced in late 2009 is a tool of quick and secure access to financial markets, it enables Clients to carry out transactions with no need for telephoning the dealer at the Treasury Department. An entrepreneur on his own may conclude at any time and place a FX market transaction - in real time at current exchange rates. The platform helps minimize operating costs through access to quotes coming straight from the interbank market.

The year 2010 was a period of market expansion of the Millennium Forex Trader platform, which from the beginning was well perceived by our Clients. At the end of 2010 this innovative system was used by 547 active members. As a result of changes introduced in the offer, in 2010 Bank Millennium increased its turnover in FX transactions by 12.8% (compared to 2009).

In 2010, there were also significant changes in the Polish financial market. These also pertained to Treasury Department activities in connection with the implementation of the EU's MiFID Directive (*Markets in Financial Instruments Directive*) establishing a uniform legal framework for financial institutions offering financial products and instruments, as well as providing investment services. On 17 May 2010 Bank Millennium implemented the recommendations of MiFID in accordance with the Polish legal framework by making considerable modifications pertaining both to the Client service process and the content of signed documentation, thanks to which services provided by the Bank are consistent with the highest market standards and adequately protect Client interest.

Investment Activities

At of 31 December 2010 the value of Bank Millennium's portfolio of securities stood at PLN 6.1 billion. The portfolio mainly comprises PLN denominated bonds and treasury bills.

As part of liquidity management and investment activities the Bank invests surplus cash in debt securities issued by the Treasury and NBP. On-going liquidity management also includes interbank deposits, repos, currency swaps and cross currency swaps made on the interbank market.

The Bank manages its currency risk and interest rate risk by entering spot and derivative foreign exchange transactions, such as forward rate agreements (*FRAs*) and interest rate swaps (*basis swaps*) and *IRS*.

The Bank acts as a Securities Dealer. In the 2010 contest the Bank came 7th improving its result two spots compared to 2009.

Custody Services

Bank Millennium SA, as one of the first banks in Poland, offered custody services as early as in 1990. Custody services are based on an individual permit from the Securities and Exchange Commission. The Bank is a direct participant of the depository and clearing systems, such as the National Securities Depository, Securities Registry of the NBP and the Euroclear International Clearing House in Brussels. Bank Millennium is one of the founding members of Custodian Banks Association affiliated with the Polish Banks Association, tasked to represent the community vis a vis other capital market institutions.

Custody services are provided in the Custody Department, which is a separate entity offering a comprehensive range of services related to the secure storage of securities, settlement of securities transactions, and handling corporate actions on the domestic capital market, as well as on foreign markets. The basic offer is supplemented with additional services whose scope covers the full service of the depository bank for investment and pension funds. At the end of 2010 the Bank served as the depositary for 45 investment funds.

Custody Department Clients include recognised domestic and foreign financial institutions (global custodian banks, depositary banks of global depository receipts, investment banks, asset management institutions, insurance companies, mutual investment institutions, investment funds) and other legal persons actively involved in capital and money market operations requiring an efficient, comprehensive and individualized approach.

The value of assets on securities accounts for Clients as of 31 December 2010 amounted to PLN 22.3 billion, while the number of the accounts 8,966, compared to 8,130 accounts in 2009 (securities accounts, registers of foreign financial instruments and deposit accounts).

The Bank keeps developing its custody offer along with the development of the Polish capital market. In the past year certain solutions were introduced which improved the quality of custodial services provided by the Bank. One of the most important ones was to start implementing a new information system for securities accounting. After completing the implementation of the new IT solution, planned for mid 2011, many processes will be automated, and Clients will have the opportunity to invest in new types of financial instruments which are not yet available in the offer.

III.4. Business activity subsidiaries

Leasing

Millennium Leasing Sp. z o. o. and Millennium Lease Sp. z o. o. are two subsidiaries of Bank Millennium providing leasing services. The scope of Millennium Lease activities are primarily real estate leasing, while Millennium Leasing mainly engages in the leasing of movables (mainly means of transportation, machinery and equipment for all sectors of industry and services). Millennium Leasing established in 1991 is one of the longest-operating leasing companies in Poland. The importance of the company is proven by 105 thousand leasing agreements signed with almost 35 thousand Clients for the total of PLN 13.1 billion. Currently, the company has 12 thousand Clients. The sale of leasing services is carried out by consultants in 58 branches of the company throughout Poland as well as bank advisors in the branch network of Bank Millennium.

Millennium Leasing came fifth in the ranking of leasing companies in Poland in terms of the value of assets leased in 2010, with a 6.7% market share, according to data from the Polish Leasing Association. Most of leasing Clients are the Clients of Bank Millennium as well: microenterprises and corporate Clients.

Brokerage services – Millennium Dom Maklerski

Millennium Dom Maklerski S.A. provides a full range of brokerage services in the area of placing securities in the primary market and initial public offerings, acquisition and sale of financial instruments for the account of third parties, and for own account, advisory services related to trading and running securities accounts, as well as cash accounts for the needs of their processing.

In 2010 the total turnover of Millennium transactions concluded by Dom Maklerski in the stock market amounted to PLN 7.4 billion, which gave the company the market share of 1.8%, according to data of the Warsaw Stock Exchange. As of 31 December 2010 the company processed 64,338 investment accounts (an increase by 4 thousand during the year), and acted as a market maker for 17 companies listed on the Warsaw Stock Exchange.

In 2010, the Millennium Dom Maklerski carried out the following public offerings: Ferro SA, Otmuchów SA and the public offering of rights for existing shareholders of Bank Millennium SA. In addition, it conducted a call for subscription for the sale of shares in Pemug SA and acted as an intermediary in acquiring the shares in HTL - Strefa SA by Terrantium Investment Sp. z o. o. It also acted as a bond issue agent for the following companies: Gant, Zenersis, Impomed, Marvipol, Solveco, Eco Pellets, Widok Energia.

Mutual Funds – Millennium TFI

Millennium Towarzystwo Funduszy Inwestycyjnych S.A. runs a business connected with the establishment and management of investment funds mainly through the Bank's distribution network and its Clients are mostly Bank's Clients.

Millennium TFI manages two investment funds (umbrella type): Millennium Fundusz Inwestycyjny Otwarty (Millennium Open Investment Fund), which comprises six sub-funds with different investment strategies and Millennium Specjalistyczny Fundusz Inwestycyjny Funduszy Zagranicznych (Millennium Specialist Investment Fund of Foreign Funds), which consists of five sub-funds. These products are addressed both to individual Clients and institutional Clients. Millennium TFI also offers investment and pension plans (IKE) based on sub-funds making up the Millennium Open Investment Fund. As of 31 December 2010, the assets managed by Millennium TFI totalled PLN 2,511,6 million and were nearly 3% higher than at the end of 2009.

III.5. International activity and institutional funding

In the last year Bank Millennium continued activities regarding enlargement of its medium and long-term asset-financing base involving borrowing on international markets including, in particular, participation of foreign banks and financial institutions. In view of the fact that in 2010 international syndicated loans' market constituting, in the past, the main source for stable financing in foreign currencies for the Bank was practically not operational, new agreements concluded in the area were bilateral in nature.

In December 2010 the Bank entered into agreement with the European Bank for Reconstruction and Development (EBRD) regarding the loan of EUR 35 million with the purpose to finance projects connected with energy usage optimisation in SME sector within the framework of PolSEFF (*Polish Sustainable Energy Financing Facility*) programme launched by the EBRD. The programme can be also supported by the possible EU subsidy (10-15% of project's value). The final repayment of this loan is scheduled for 2015.

This agreement can be seen as a prolongation of cooperation with the European Bank for Reconstruction and Development (EBRD). Within its framework in November 2009, the Bank received a medium-term loan of 100 million EUR with the purpose to increase Bank Millennium's capacity to provide financing to SME Clients. The loan will be finally repaid in November 2014.

In December 2010 the Bank entered into a loan agreement (the so-called Global Loan) with the European Investment Bank (EIB). The loan amounting to EUR 100 million was granted to support Bank Millennium's activity in financing investments conducted by SME sector.

Irrespective of the above activities, in the past, the Bank performed, on a current basis, all other operations connected with overall activities of the Bank within its international operations, implementing various objectives including, *inter alia,* current financing of the needs of both the Bank itself and its customers, servicing foreign trade transactions, participation in international money and currency market operations (in particular in transactions covered by ISDA agreements) as well as activities on capital market.

For the last 20 years the Bank has been developing cooperation with its foreign partners and counterparties and maintains ongoing contacts with more than 1,200 correspondent banks and their units located in all countries of the world, important from the perspective of the structure of both Polish foreign trade as well as non-commercial transactions. In this context, important relationships are maintained with banks having their head offices located in countries such as (in alphabetic order): Australia, Austria, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, the Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hong-Kong, Hungary, India, Ireland, Italy, Japan, Kuwait, Latvia, Lithuania, Luxemburg, Mexico, the Netherlands, New Zealand, Norway, Portugal, Republic of South Africa, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Korea, Spain, Switzerland, Sweden, Turkey, Ukraine, the United Kingdom and the United States.

IV. RISK MANAGEMENT AT BANK MILLENNIUM GROUP

Risk management plays a key role in the strategy of sustained and steady business growth of Bank Millennium Group by optimizing the risk/return trade-off under various business lines, as well as in maintaining an adequate risk profile in capital and liquidity. In order to ensure an effective risk management and consistent policy, Bank Millennium Group implemented a comprehensive risk management model, which integrates credit, market, liquidity and operational risks. Risk management comprises identification, measurement, mitigation, monitoring and reporting with respect to individual types of risk and requires the use of a broad spectrum of methods – both qualitative as well as quantitative, including advanced mathematical and statistical tools, aided by appropriate IT systems.

The risk management and control model at Bank Millennium Group is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the 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;
- the risk management process at Bank Millennium is integrated with the risk management process within the whole Millennium BCP Group.

In 2010 a number of initiatives were taken at Bank Millennium Group in order to improve the process of risk management. These initiatives pertain in particular to:

- Credit risk – redefinition of credit policy and adjusting the models of creditworthiness assessment to current market conditions and to the new supervisory recommendations; further implementation of the tools in support of the credit process;
- Market risk – implementing additional hedging transactions for FX denominated costs and revenues;
- Liquidity risk – improving the method for deposit base stability assessment and implementing the principle of its daily monitoring;
- Operational risk – appointment of Fraud Risk Management Bureau responsible for implementation of the complex fraud risk management programme; implementation of mitigation actions of operational risks above the accepted tolerance thresholds;

IV.1. Internal Organization

At strategic level, the Supervisory Board and Management Board of Bank Millennium are responsible for defining general risk policy, including approving of the risk management policy and strategy, as well as guaranteeing the necessary resources for implementing this policy.

At operational level, due to the complexity and diversification of the operations of Bank Millennium Group, the risk management function is supported by specialized committees within the competences specified by the Bank's Management Board. This is reflected a.o. in the works of the Risk Control Committee and the activities of four specialized Risk Committees, i.e.:

- Capital, Assets and Liabilities Committee (CALCO);
- Credit Committee;
- Liabilities-at-Risk Committee;
- Processes and Operational Risk Committee.

Risk Control Committee pertains the monitoring of the various types of risks and, among others, includes all the Management Board members. This Committee is responsible for monitoring the Group's integrated risk profile, in particular in terms of evolution of key ratios for various types of risks in accordance with current policies, regulations and limits, as well as important events in areas of particular risks during the analyzed period. Specialized Committees are chaired by Management Board members and incorporate responsibilities for the main areas related to origination, monitoring and management of the specific risks.

The on-going risk management is centrally supervised by the Bank's dedicated unit – Risk Department and its subunits are specializing in particular types of risk or process stages. The Risk Department is responsible for the control of risk in the entire Bank Millennium Group by assuring the overall risk monitoring and harmonizing of the concept, policy and methodology between various business lines and Group entities. The Risk Department is also responsible for informing all the committees on the levels of risk and for proposing the ways of strengthening its control and also for implementation the limits of risk.

IV.2. Capital Management

The capital requirements for Bank Millennium Group calculated as of 31 December 2010 with the use of the standard approach according to the New Capital Accord are presented in the table below:

Capital requirements (PLN million) resulting from:	31.12.2010	31.12.2009
Credit risk	2 271.0	2 194.9
Market risk	48.9	56.4
Operational risk	222.4	222.4
Total capital requirements of Millennium Group	**2 542.3**	**2 473.7**
Own funds	**4 573.8**	**3 491.4**
Consolidated solvency ratio	**14.4%**	**11.3%**
Consolidated Core Tier 1 ratio	**12.3%**	**8.9%**

The capital position measured by the level of capital adequacy ratio went up significantly from 11.3% year ago to 14.4% (i.e. 3.1p.p.) in 2010, following the rise reported in 2009 (1.1 p.p.). The capital requirements for market and operational risk did not change significantly, whereas for credit risk rose by 3.5%, mainly as a result of higher capital requirements for mortgage loans (by c.a. 10%). That was also influenced by a yearly growth of CHF/PLN exchange rate by 14%. At the same time, the risk coverage expressed in a level of regulatory own funds grew by more than 1 billion PLN (by 33%), mainly due to the new rights-issue of shares conducted in February 2010. The capital increase was part of the Group's strategy to keep the ability for dynamic development of business.

Bank Millennium Group has been continuing its efforts aiming at implementation of internal rating method of capital requirements calculation for credit risk. The Bank intends to submit during 2011 the updated documentation required by the KNF Resolution no 76/2010 to start a formal validation of the Bank's application by the KNF with cooperation with the home supervisor of BCP Group (Bank of Portugal).

IV.3. Credit risk

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

The credit policy pursued in the Group is based on a set of principles such as:

- Centralisation of the credit decision process;
- Using specific scoring/rating models for each Client segment/type of products;
- Using IT information (credit workflow) in order to support the credit process at all stages;
- High level of standardising credit decisions;
- Existence of specialised credit decisions departments for particular Client segments;

- Regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit subportfolio level (by the Client segment, type of product, distribution channels, etc.);
- Using the structure of limits and sublimits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification.

The change of Polish economic situation in 2010, confirmed by the improvement of macro-economic ratios, induced Group to review credit policy adopted during difficult period at the end of 2008 and beginning of 2009 year. As a result of this review, some credit policy easing to corporations was implemented during the year. These changes included: diminishing number of restrictions related to fund aims, restoring possibility of funding developer's projects, modification of restrictions for investment credit.

In 2010 Group's credit offer was extended by adding new products. One of them is a multi-line loan enabling Customer a flexibility in selecting different credit products within one limit i.e. credit in current account, revolving credit, bank guarantees and documentary letters of credit. Mortgage loan for corporations is another newly implemented product, enabling good companies gaining funds for any aim with longer period than standard one, with real estate mortgage collateral of this credit. Additionally the Bank's offer was extended in terms of treasury transactions for hedging FX and interest rate risk.

During 2010 the leading role in the Bank's credit policy in the retail segment was played by the process of implementing changes to ensure compliance with the requirements of Recommendation T issued by the Financial Supervision Commission (KNF). The changes covered the following areas of Bank operations: management, risk control, identification, measurement and acceptance of risk, security, reporting, customer relations.

As a part of this process the following actions were performed:

- credit decision-making process was modified, taking into account new indicators, a revised approach to the calculation of financial costs and the necessary verification of all persons required to repay the loan commitment,
- rules of the registration and classification of exceptions to credit procedures were improved,
- additional concentration limits for retail exposures were defined,
- models of risk assessment based on the Bank's internal data were modified,
- regulation of processes ensuring fast response in a case when Bank obtained information about deterioration of the borrower's financial condition.

In the area of mortgages, Bank's offer was extended by the possibility of funding under the program "Family at home". Also rules for granting loans for the purchase of real estate constructed by the developers and cooperatives were changed.

In 2010 the quality of the Group's credit portfolio measured by impaired to total loans ratio slightly improved (by 9 b.p.). The share of receivables with recognised impairment in total receivables decreased from 5.9% (as on 31.12.2009) to 5.8% at the end of 2010. The dominant credit portfolio for households continues to show a very low level of loans with recognised impairment at the level of 2.6%, including mortgage loans at the level of 0.9%. If we included only past due loans (over 90 days), the indicator of such loans for the mortgage portfolio would be only 0.3%. The average LTV ratio for mortgage loans at the end of 2010 was 75.8% (69.9% at the end of 2009). It incorporates the most current adjustment of real estate prices, which is conducted by the Bank twice a year, and the current FX rates.

The ratio of loans with recognised impairment for corporate portfolio decreased from 16.6% (as on 31.12.2009) to 15.4% at the end of 2010. The improvement of this ratio is related to the general improvement in the economic situation in Poland and thus improvement of the economic and financial situation of corporate Clients.

Main credit quality ratios	**31.12.2010**	**31.12.2009**
Impaired loans (mln PLN)	2 195	2 033
Impaired loans/total loans	5.8%	5.9%
Loans past due over 90 days/total loans	2.9%	2.6%
Impairment charges/loans past due over 90 days	93.0%	92.6%
Total provisions/loans with impairment (coverage ratio)	54.1%	54.4%

The coverage of impaired loans with total provisions (including: IBNR provisions) was maintained at a similar level of approximately 54%.

IV.4. Market Risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse movement in prices of bonds, equities or commodities, interest rates or foreign exchange rates. The framework of market risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the Millennium bcp Group.

The main measure used by the Group 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) with a required probability (confidence level) due to an adverse market movement. The values of exposures are defined daily, individually for the portfolios in the areas, which are responsible both for generating risk positions and their management. In order to assure the adequacy of the VaR model for estimating the risks generated by open positions a back testing process was established which is conducted daily.

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for trading portfolios (Trading and Strategic).

Stress test scenarios are also used for identifying high market fluctuations and for identifying the actions, which can be taken in order to reduce the impact of these changes in market factors. The following types of market scenarios are applied in stress tests: parallel shifts of the yield curves, more steep or flat shape of the yield curves, variations of interest rate volatility, variations of exchange rates, variations of spreads on FX swaps and cross currency interest rate swaps and historically 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 ratios presented in the table below reflect total exposure to market risk in joint the Trading Book and Banking Book valued approx. PLN 12.0 million in the end of 2010 compared to the binding limit of PLN 113 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents.

(mln PLN)

VaR Metrics for Market Risk	End of December 2010		VaR (during 2010 year)			End of December 2009	
(Group data)	Exposure	Use of limit	Average	Maximum	Minimum	Exposure	Use of limit
Total risk	**11 979**	**11%**	**13 843**	**20 671**	**6 999**	**17 497**	**18%**
Generic risk	9 247	10%	12 712	19 759	6 106	16 545	31%
Interest Rate VaR	9 264	n.a.	12 682	21 308	6 309	16 377	n.a.
FX Risk	152	2%	785	7 903	20	721	7%
Equity risk	0	n.a.	0	0	0	0	n.a.
Diversification Effect	2%					3%	
Non-linear risk	22	0%	12	34	0	0	0%
Commodities risk	0	0%	0	0	0	0	0%

IV.5. Liquidity Risk

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 funding needs arising from the Group's obligations.

Bank Millennium Group implements liquidity management on a centralized basis. Therefore, both the funding requirements and any surplus of liquidity subsidiaries are managed through transactions with the Bank.

The process of the Bank's planning and budgeting covers the preparation of a liquidity plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In 2010 the dynamics of the loan portfolio was kept at a low level. This was caused on the one hand by a drop of demand for loans (especially from companies) and on the other hand by upholding the decision to suspend granting mortgage loans in foreign currency and the tightening of the underwriting criteria for retail customers. Consequently, there was a moderate growth by 10% in the gross credit portfolio, as well as on a net basis during the year, however partially due to CHF appreciation. In the same period deposits grew by 12% and, despite the decrease of Clients' funds acquired through SBB transactions, improved the Group's liquidity, as measured by the loans/deposits ratio (in accordance with the definition under the table) from the level of 100.4% to the level of 99.5%.

Loans/Deposits ratio	**31.12.2010**	**31.12.2009**
*Loans/Deposits **	99.5%	100.4%

**including obligations (bonds) on leasing securitization, bonds for individual Clients and sell-buy-backs with Clients*

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 due to an attractive offer and effective marketing campaigns (despite persistent strong competition for deposits in the market). A good position of the Group in terms of liquidity, additionally supported over 2010 by institutional financing in the total signed amount of 135 million euros, allowed maintaining the portfolio of liquid debt securities at the average level of above PLN 5.5 billion (most of which are Polish Treasury and Central Bank securities).

FX liquidity is secured through FX transactions, which enable the transformation of PLN liquidity into liquidity in required currencies. In 2010 the Group continued to renew the portfolio of this type of transactions. Their average costs were kept at a similar level.

The estimation of the Group's liquidity risk is conducted both with the use of the ratios defined by the supervisory authorities and own metrics for which exposure limits were also established. The evolution of the Group'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. They measure the maximum borrowing requirements (negative value), which could arise on a particular day, taking into consideration the cash-flow projections for spot and for 3 months, respectively. 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. Simultaneously the Bank signed in December 2010 two contracts regarding long-term loans for up-to EUR 135 million, which have been already partially disbursed.

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2010 all the defined ratios were maintained at levels significantly exceeding the limits.

In the scope of yearly revision of methodological solutions implemented in the liquidity risk area the Bank has improved the method of deposit base stability assessment and introduced the rule of its daily monitoring.

In 2010 the limits for supervisory liquidity metrics, both short- and long-term, have not been exceeded.

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

The Bank has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan 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 needs of managing supervisory metrics the Bank utilizes a dedicated model based on the concept of minimum buffers and enabling the running of simulation analyses. In order to better manage the supervisory metrics the Group obtained the prolongation in June 2010 of a stand-by line from Millennium bcp of 200 million euros.

IV.6. Operational 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 a 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.

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 Supervisory Board.

According to 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. 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. 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. 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.

V. HUMAN RESOURCES MANAGEMENT

V.1. Recruitment

In 2010 Bank Millennium Group presented a balanced approach towards human resources management. From December 2009 until the end of December 2010 the number of employees decreased slightly by 110 full-time equivalents.

Employment in the Bank Millennium Group (full time equivalents):

	31.12.2010	31.12.2009	Change 2010/2009
Number of Group's employees	6 135	6 245	-110
Number of Bank's employees	5 754	5 862	-108
Number of subsidiary's employees	381	383	-2
- Millennium Leasing Sp. z o.o.	*237*	*238*	*-1*
- Millennium Dom Maklerski SA	*113*	*109*	*+4*
- Millennium TFI SA	*27*	*30*	*-3*

Employment in Bank Millennium (full time equivalents):

	31.12.2010	31.12.2009	Change 2010/2009
Branches and direct sale	3 709	3 835	-127
Head Office	2 045	2 026	+19
Total	5 754	5 862	-108
- including management positions	*133*	*143*	*-10*

Despite employment reduction, in 2010 the Group performed recruitment activities targeting both experienced professionals and students. The student-oriented actions are run since 2002 under a specially designed programme "Come and Grow with us". It provides young people with opportunity to gain experience and develop their skills and interest by:

- Internships and training periods. The Bank organises paid internships for students of all years and fields of studies in the departments of the Bank's Head Office. This offer allows ambitious students to participate in internships already in the first years of their studies and thus gather their first professional experience.
- "People Grow", a two-year Management Competence Development Programme targeting the distinguished students in the last years of their studies and graduates.

- “Expert Start Up”, a 7-month development programme designated for students of economic universities interested in pursuing career in the field of risk.
- Competitions for creative and ambitious students, developing their expertise and interests.

In the academic year 2009/2010 the Bank adopted for internships 45 trainees, who gained practical experience under the guidance of their Mentors. Apart from internships in the Head Office, the Bank organised 3 international traineeships in Portugal and Greece and 10 in corporate centres across Poland. During the summer holidays the Bank organised also a number of meetings extending the knowledge about the Bank and its values, and also serving an opportunity to exchange experiences. In 2010 Bank Millennium accepted 10 persons for the ninth edition of “People Grow” programme and the equal number of persons for the new “Expert Start Up” programme.

V.2. Development

In an attempt to meet the expectations of the employees and in an effort to provide them with an increasingly better training offer, in 2006 Akademia Millennium was launched. Since then the field of trainings offered by the Bank is constantly growing.

In 2010 the restructured training process for the new employees of retail network was launched. It equips them with thorough knowledge on banking products (e.g. current accounts, term deposits, mutual funds, credits and loans, mortgage loans) and basic sales’ process. The new employees of ‘Prestige’ business line were offered certifying trainings allowing them to sell insurance products.

In 2010 the Bank organised a regular training programme for branches’ employees called Millemaster. It had a form of coaching led by experienced staff and focused on developing sales skills. The programme was successful - in the discussed period, the results of 159 branches included in the programme improved and the cross-selling ratio in the whole network rose significantly.

Additionally, in 2010 the Bank organised trainings on the recommended course of action in the case of ‘difficult situations’ with the emphasis on bank robbery. All employees of retail network will participate in this kind of training in years 2010-2011.

In 2010 the trainings included employees of corporate network as well. They participated in sessions on negotiations, personal efficiency, time management and treasury products. In 2011 these offer will be enriched with new topics: financial analysis, transactional banking products.

Apart from trainings in the form of workshop and coaching, the Bank offers e-learning courses which are increasingly popular. In 2010 more than 40,000 e-learning training sessions were conducted. They covered:

- Time management project in the Head Office,

- Introduction of the so-called T-recommendation,
- Milleteller application (for retail network employees),
- MiFID (for retail and corporate network employees),
- Money laundering counteraction,
- New credit card “Impresja”,
- Occupational safety and help (BHP).

VI. ADDITIONAL INFORMATION

VI.1. Information on Important Agreements which have an Impact on the Group’s Activity

On 9 December 2010 Bank Millennium SA ("Bank") informed that an agreement was concluded between the Bank and the European Investment Bank (EIB), concerning a long-term loan extended by EIB to Bank Millennium SA, for the 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. The interest rate on particular tranches of the loan is based on – at Bank’s discretion – a fixed or floating rate, in the second case based on the relevant interbank rate (EURIBOR) increased by the margin specified in the agreement. The maturities for particular tranches depend on types of projects being financed by Bank. The drawing of the first tranche of funds within the facility will take place after fulfillment by the Bank, acting as the borrower of the technical and legal conditions defined in the agreement, related to e.g. delivery of a relevant legal opinion (the so-called "Conditions Precedent"). The above-mentioned loan agreement with the EIB is yet another important step in supporting Bank Millennium’s efforts in developing its lending to small and medium sized companies in Poland, which is one of the pillars of the current strategy of the Bank.

On 1st December 2010 an agreement was concluded between the Bank and the European Bank for Reconstruction and Development (EBRD), concerning a mid-term loan extended to Bank Millennium SA, for a 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 by Bank Millennium to finance 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 within 5 years from the date of the agreement.

VI.2. Internal Control, Compliance Policy and Corporate Social Responsibility

Internal Control

The Bank has an internal control system adjusted to the organisational structure and comprising the Bank's head office organisational units, branches and subsidiaries. This system comprises the internal control procedures defined in the form of internal control byelaws for particular Bank units and internal controls which cover a.o. the principles, limits and control procedures and any type of operations in order to control the quality and correctness of the tasks realised at the Bank.

The Internal Audit Department is a specialised internal control unit which aims at performing an independent assessment of the adequacy, correctness and effectiveness of the systems of: internal control and management, including risk management. In particular this is connected with the assessment of quality, correctness and security of performing banking activities. In performance of its mission Internal Audit takes into account the strategic goals and tasks of the organisation, as defined by the Bank's Management Board and Supervisory Board. The audit process is carried out according to the Internal Auditing Methodology, which promotes international auditing standards as well as best banking practices.

The Internal Audit process is planned and based on the annual audit plan. The planning process hinges on the assessment of the risk of the Bank's individual areas and processes, used for the identification of increased risk and supporting the setting of priorities and resources to fulfil the tasks. The planning process reflects consultations with senior management as well as key process owners. The Annual Audit Plan approved by the Audit Committee of the Supervisory Board is implemented on a quarterly basis by experienced and highly skilled professionals. With a view to a constant perfection and improvement of work quality the project entitled “Quality Assurance and Improvement Programme” was conducted in 2010.

Internal audit carries out an independent and objective assessment of and provides advice to units as regards audited areas and builds positive relations with audited units for the purpose of generating joint added value in order to increase the bank's operational efficiency. Advisory activity may be carried out if it does not breach the principle of objectivity and independence of an internal auditor.

In 2010 the Internal Audit Department carried out 1537 audit tasks at the Bank, the Bank's subsidiaries as well as within the Millennium BCP Group. Planed activity included i.a. IRF (‘Independent Review Function’) audits, to meet requirements of the New Capital Accord regarding processes of managing credit, market and operational risk. The Internal Audit Department is subordinated to the Chairman of the Bank's Management Board and reports the audit results directly to the Audit Committee of the Supervisory Board.

Compliance policy

Lack of compliance of internal regulations with valid provisions and the ensuing risk of legal or regulatory sanctions, physical losses or loss of reputation is one of the areas threatening the activity of any bank. Therefore, Bank Millennium has a Compliance Department, which has been tasked with ensuring compliance with laws and regulations, rules, related self-regulatory organisational standards and codes of conduct, with respect to banking activity. In monitoring internal as well as external regulations Bank Millennium Group focuses especially on:

- Ensuring the compliance of internal normative acts of Bank Millennium with generally binding legal regulations as well as with recommendations formulated by supervisory authorities;
- Managing conflicts of interest;
- Restricting personal transactions and protecting confidential information connected with Bank Millennium, financial instruments issued by the Bank as well as information connected with the sale/purchase of such instruments.
- Counteracting money laundering and financing of terrorism;

Entities of the Bank Millennium Group take appropriate steps and employ suitable means in order to monitor, on an on-going and continuous basis, the changes in the general law and recommendations issued by supervisory organs, both domestic and EU-based. In order to assure the compliance of internal legal acts with provisions of the general law, the solutions adopted by the Bank Millennium Group take into account the needs of a periodic review of all the internal normative acts binding at the Group.

The scope of tasks undertaken by the Group generates the possibility of a conflict between such tasks and Client interests. The Group's main principle is to take any rational steps in order to identify a conflict of interests between the Group and its Clients (and also between particular Clients) as well as establish the principles ensuring that such conflicts have no adverse impact on Client interests.

Bank Millennium Group entities undertake appropriate steps and employ appropriate measures for personal transactions to be treated in accordance with the standards and the law. These steps and measures consist in (suitably to the circumstances) – limiting or even preventing personal transactions by Relevant Persons in situations which can cause a conflict of interest or be connected with access to confidential information or access to Client transaction data. Bank Millennium shares are admitted to public trading on the Warsaw Stock Exchange. This status requires particular attention and observance of the duty of maintaining the highest standards with respect to financial market transparency. It is the policy of the Bank Millennium Group to maintain strict control over the protection of the flow of confidential information. The Bank prohibits the use and disclosing of Confidential Information in any form. The buying and selling of shares at the Bank and derivative rights relating to the Bank's shares and any financial instruments connected with them is prohibited in closed periods.

The programme to combat money laundering and financing terrorism employed at Bank Millennium is an overall system for identifying the areas under threat, transactions subject to registration and transactions which can be connected with money laundering or funding of terrorism. Moreover, the programme covers a number of steps, procedures and organisational solutions ensuring the efficient operation of the system counteracting money laundering and financing of terrorism.

Corporate Social Responsibility

Bank Millennium, as an institution of public trust, conducts its operations in compliance with effective legal regulations, best market standards and transparent ethical principles. Working on the assumption that mutual cooperation based on respect for the parties' rights and objectives constitutes effective business foundations the Bank attaches particular importance to cooperation with all stakeholder groups, the most important being: customers, employees, trade partners and suppliers, shareholders and investors, social partners and local communities. Building sustainable, positive and mutually beneficial relations constitutes an important element of the Bank's strategy.

In 2006, the Bank Millennium Management Board established a working party tasked with a review of the Bank's activities in the area of compliance with corporate social responsibility principles and to develop a report on these activities. The first report „Corporate Responsibility 2006" was published in 2007. Since that year the Bank has been publishing annual reports on these activities (available from the Bank's website www.bankmillennium.pl). Soon, the most recent 20010 Corporate Responsibility Report will be published. The above-mentioned documents are not yet reports in the meaning of international standards applicable to Corporate Social Responsibility reporting as adopted by the Global Reporting Initiative (GRI), but the Bank strives to evolutionarily implement – both in its regulations and practice – such standards which will ensure full reporting on the Bank's activity in this area.

As a confirmation to all actions in area of corporate responsibility on 1 February 2011 Bank Millennium was selected to join the RESPECT Index - the first CEE index of socially responsible companies. The RESPECT Index comprises 16 companies listed on the Warsaw Stock Exchange, which operate in accordance with best management standards in corporate governance, information policy and investor relations as well as in environmental matters, social relations and labour.

VI.3. Information on the agreements with the entity authorised to audit financial reports

In 2010 (similarly as in previous years) the audit of Bank's financial statements was performed by KPMG Audyt Sp. z o.o. On 9 February 2010 the Supervisory Board of the Bank adopted a resolution on selection of KPMG to perform audits of annual financial statements of Bank Millennium and Bank Millennium Group for 2010.

Stated below is remuneration received by KPMG Audyt Sp. z o.o. on account of examination/review of financial reports of the Capital Group of Bank Millennium S.A under concluded agreements:

Auditor's Remuneration: (PLN thous.)	**2010**	**2009**
(1) for examination and agreed procedures connected with review of periodical consolidated reports with respect to the dominating entity	1 350	1 650
(2) for examination with respect to subsidiaries	935	936
(3) for related services	13	381

(1) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of the Bank's standalone and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 9 November 2010 on examination regarding 2010) and the review of the semi-annual Bank's standalone and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of 30 June 2010 on review of the semi-annual financial report on the half-year ending on 30 June 2010).
(2) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of financial reports of subsidiaries under concluded agreements.
(3) The remuneration for related services comprises the remaining amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. under concluded agreements. These cover certifying services connected with the examination or review of financial reports of the parent entity and subsidiaries, however not included under (1) above.

VI.4. Other information

The detailed information on the Shareholders, Supervisory Board, Management Board (including the remuneration of the members of the Management Board and Supervisory Board), as well as observance of the principles of the corporate governance can be found in a separate "Corporate governance report", which was published together with this Report.

Other information regarding:

- Numbers and values of the execution titles issued by the bank,
- Guarantees and sureties granted,
- Transactions with related companies,
- List of the biggest court cases, arbitration proceedings before an authority or public administration

can be found in "Consolidated financial statement of the Bank Millennium Group for 2010".

VII. STATEMENT OF THE MANAGEMENT BOARD

Presentation of asset and financial position of the Capital Group of Bank Millennium in the financial report

According to the best knowledge, the Annual Consolidated Financial Statements of the Bank Millennium S.A. Capital Group as at 31 December 2010 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This Annual Management Board Report of Bank Millennium Group contains a true picture of development, achievements and condition of the Capital Group.

Selection of an entity authorized to audit financial statements

The entity authorized to review financial reports that audits these Annual Consolidated Financial Statements of the Bank Millennium SA Capital Group as at 31 December 2010, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

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**	....