Annual Consolidated Report
of the Bank Millennium S.A. Capital Group
for the period of 12 months
ending 31 December 2010

MAIN FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2010 to 31.12.2010	period from 1.01.2009 to 31.12.2009	period from 1.01.2010 to 31.12.2010	period from 1.01.2009 to 31.12.2009
I. Interest income	2 359 969	2 373 617	589 350	546 836
II. Fee and commission income	625 282	576 378	156 150	132 786
III. Operating income	1 771 661	1 513 763	442 433	348 742
IV. Operating profit / (loss)	407 802	-5 125	101 840	-1 181
V. Profit / (loss) before taxes	407 802	1 875	101 840	432
VI. Profit (loss) after taxes	325 997	1 495	81 411	344
VII. Total comprehensive income of the period	264 542	-27 547	66 064	-6 346
VIII. Net cash flows from operating activities	-91 456	1 853 733	-22 839	427 064
IX. Net cash flows from investing activities	-980 657	-335 986	-244 897	-77 405
X. Net cash flows from financing activities	202 554	-328 825	50 583	-75 755
XI. Net cash flows, total	-869 559	1 188 922	-217 153	273 905
XII. Total assets	46 984 418	44 913 824	11 863 853	10 932 726
XIII. Deposits from banks	2 084 456	4 909 370	526 338	1 195 017
XIV. Deposits from customers	35 395 147	31 558 664	8 937 491	7 681 871
XV. Total equity	4 090 972	2 787 336	1 032 995	678 481
XVI. Share capital	1 213 117	849 182	306 319	206 704
XVII. Number of shares	1 213 116 777	849 181 744	1 213 116 777	849 181 744
XVIII. Book value per share (in PLN/EUR)	3.37	3.28	0.85	0.80
XIX. Diluted book value per share (in PLN/EUR)	3.37	3.28	0.85	0.80
XX. Capital adequacy ratio	14.39%	11.29%	14.39%	11.29%
XXI. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.28	0.00	0.07	0.00
XXII. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.28	0.00	0.07	0.00
XXIII. Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

RATES USED FOR CONVERSION OF FINANCIAL DATA TO EURO

Following rates were used to calculate values in EURO:

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

MAIN QUARTERLY FINANCIAL DATA

CONSOLIDATED INCOME STATEMENT (PLN '000)	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*	1.01.2009 - 31.12.2009	1.10.2009 - 31.12.2009*
I. Interest income	2 359 969	605 412	2 373 617	572 614
II. Interest expense	-1 432 482	-352 436	-1 775 079	-377 094
III. Net interest income	**927 487**	**252 976**	**598 538**	**195 520**
IV. Fee and commission income	625 282	160 384	576 378	157 318
V. Fee and commission expense	-60 358	-14 894	-82 532	-18 016
VI. Net fee and commission income	**564 924**	**145 490**	**493 846**	**139 302**
VII. Dividend income	2 003	14	2 165	18
VIII. Result on investment financial assets	6 445	192	22 950	10 163
IX. Result on financial instruments valued at fair value through profit and loss and foreign exchange result	213 529	71 525	316 685	58 829
X. Other operating income	57 273	16 636	79 579	31 695
XI. Operating income	**1 771 661**	**486 833**	**1 513 763**	**435 527**
XII. General and administrative expenses	-1 007 004	-265 681	-942 707	-220 746
XIII. Impairment losses on financial assets	-225 225	-44 548	-436 078	-91 346
XIV. Impairment losses on non-financial assets	-1 650	-2 348	-579	264
XV. Depreciation and amortization	-74 621	-17 945	-79 646	-20 037
XVI. Other operating expenses	-55 359	-14 913	-59 878	-18 491
XVII. Operating expenses	**-1 363 859**	**-345 435**	**-1 518 888**	**-350 356**
XVIII. Operating profit / (loss)	**407 802**	**141 398**	**-5 125**	**85 171**
XIX. Share in net profit of associated companies	0	0	7 000	0
XX. Profit / (loss) before taxes	**407 802**	**141 398**	**1 875**	**85 171**
XXI. Corporate income tax	-81 805	-29 292	-380	-17 720
XXII. Profit / (loss) after taxes	**325 997**	**112 106**	**1 495**	**67 451**
Attributable to:				
Owners of the parent	**325 997**	**112 106**	**1 495**	**67 451**
Non-controlling interests	0	0	0	0

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME (PLN'000)	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*	1.01.2009 - 31.12.2009	1.10.2009 - 31.12.2009*
PROFIT / (LOSS) AFTER TAXES	**325 997**	**112 106**	**1 495**	**67 451**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME				
I. Effect of valuation of available for sale debt securities	2 182	-2 144	-4 022	-10 286
II. Effect of valuation of available for sale shares	-2 193	-501	3 543	1 449
III. Hedge accounting	-75 859	-50 608	-35 373	28 082
IV. Other elements of total comprehensive income before taxes	**-75 870**	**-53 253**	**-35 852**	**19 245**
V. Corporate income tax on other elements of total comprehensive income	14 415	10 118	6 810	-3 656
VI. Other elements of total comprehensive income after taxes	**-61 455**	**-43 135**	**-29 042**	**15 589**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**264 542**	**68 971**	**-27 547**	**83 040**
Attributable to:				
Owners of the parent	**264 542**	**68 971**	**-27 547**	**83 040**
Non-controlling interests	0	0	0	0

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

Annual consolidated financial statement of the Bank Millennium S.A. Capital Group for the period of 12 months ending 31 December 2010

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I. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	**Note**	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**
Interest income	1	2 359 969	2 373 617
Interest expense	2	-1 432 482	-1 775 079
Net interest income		**927 487**	**598 538**
Fee and commission income		625 282	576 378
Fee and commission expense		-60 358	-82 532
Net fee and commission income	3	**564 924**	**493 846**
Dividend income	4	2 003	2 165
Result on investment financial assets	5	6 445	22 950
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	213 529	316 685
Other operating income	6	57 273	79 579
Operating income		**1 771 661**	**1 513 763**
General and administrative expenses	7	-1 007 004	-942 707
Impairment losses on financial assets	8	-225 225	-436 078
Impairment losses on non financial assets	9	-1 650	-579
Depreciation and amortization	10	-74 621	-79 646
Other operating expenses	11	-55 359	-59 878
Operating expenses		**-1 363 859**	**-1 518 888**
Operating profit / (loss)		**407 802**	**-5 125**
Share in net profit of associated companies		0	7 000
Profit / (loss) before taxes		**407 802**	**1 875**
Corporate income tax	12	-81 805	-380
Profit / (loss) after taxes		**325 997**	**1 495**
Attributable to:			
Owners of the parent		**325 997**	1 495
Non-controlling interests		0	0
Basic earnings per ordinary share (in PLN)	13	**0.28**	**0.00**
Diluted earnings (losses) per ordinary share (in PLN)	13	**0.28**	**0.00**

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME (*Amount ‘000 PLN*)	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**
PROFIT / (LOSS) AFTER TAXES	**325 997**	**1 495**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME		
I. Effect of valuation of available for sale debt securities	2 182	-4 022
II. Effect of valuation of available for sale shares	-2 193	3 543
III. Hedge accounting	-75 859	-35 373
IV. Other elements of total comprehensive income before taxes	**-75 870**	**-35 852**
V. Corporate income tax on other elements of total comprehensive income	14 415	6 810
VI. Other elements of total comprehensive income after taxes	**-61 455**	**-29 042**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**264 542**	**-27 547**
Attributable to:		
Owners of the parent	264 542	-27 547
Non-controlling interests	0	0

II. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2010	31.12.2009
Cash, balances with the Central Bank	14	2 050 736	2 191 227
Loans and advances to banks	15	1 485 810	695 697
Financial assets valued at fair value through profit and loss (held for trading)	16	1 429 820	3 032 081
Hedging derivatives	17	80 231	377 334
Loans and advances to customers	18	36 738 493	33 484 935
Investment financial assets	19	4 508 430	4 163 657
- available for sale		4 508 430	4 163 657
- held to maturity		0	0
Investments in associates	19	12 000	12 000
Receivables from securities bought with sell-back clause (loans and advances)	20	55 085	208 781
Property, plant and equipment	21	242 052	346 671
Intangible assets	22	30 407	22 821
Non current assets held for sale	23	599	869
Receivables from Tax Office resulting from current tax		6 176	37 475
Deferred income tax assets	24	146 014	140 325
Other assets	25	198 565	199 951
Total Assets		**46 984 418**	**44 913 824**

LIABILITIES

Amount '000 PLN	Note	31.12.2010	31.12.2009
Deposits from banks	26	2 084 456	4 909 370
Financial liabilities valued at fair value through profit and loss (held for trading)	27	804 331	682 203
Hedging derivatives	28	1 315 321	122 813
Deposits from customers	29	35 395 147	31 558 664
Liabilities from securities sold with buy-back clause	30	670 691	2 342 684
Debt securities	31	1 141 007	1 024 335
Provisions	32	21 445	24 577
Deferred income tax liabilities	33	0	0
Current tax liabilities		0	2 080
Other liabilities	34	549 060	513 967
Subordinated debt	35	911 988	945 795
Total Liabilities		**42 893 446**	**42 126 488**

EQUITY

Amount '000 PLN	Note		
Share capital	36	1 213 117	849 182
Share premium	36	1 147 502	472 343
Revaluation reserve	36	-50 256	11 199
Retained earnings	36	1 780 609	1 454 612
Total equity attributable to owners of the parent		4 090 972	2 787 336
Non-controlling interests		0	0
Total Equity		**4 090 972**	**2 787 336**
Total Liabilities and Equity		**46 984 418**	**44 913 824**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2010	**2 787 336**	**849 182**	**472 343**	**11 199**	**1 454 612**
- L-shares issue	1 039 094	363 935	675 159	0	0
- total comprehensive income of 2010	264 542	0	0	-61 455	325 997
Equity at the end of the period 31.12.2010	**4 090 972**	**1 213 117**	**1 147 502**	**-50 256**	**1 780 609**

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2009	**2 814 883**	**849 182**	**472 343**	**40 241**	**1 453 117**
- total comprehensive income of 2009	-27 547	0	0	-29 042	1 495
Equity at the end of the period 31.12.2009	**2 787 336**	**849 182**	**472 343**	**11 199**	**1 454 612**

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

IV. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**
I. Profit (loss) after taxes	**325 997**	**1 495**
II. Adjustments for:	**-417 453**	**1 852 238**
1. Non-controlling interests	0	0
2. Interests in net profit / (loss) of associated companies	0	-7 000
3. Depreciation and amortization	74 621	79 646
4. Foreign exchange (gains) / losses	-75 483	-148 906
5. Dividends	-2 003	-2 165
6. Changes in provisions	-3 132	-9 304
7. Result on sale and liquidation of investing activity assets	14 846	-11 995
8. Change in financial assets valued at fair value through profit and loss (held for trading)	1 883 864	2 744 785
9. Change in loans and advances to banks	-989 243	902 377
10. Change in loans and advances to customers	-3 193 029	197 986
11. Change in receivables from securities bought with sell-back clause	153 696	-147 499
12. Change in liabilities valued at fair value through profit and loss (held for trading)	1 314 636	-4 774 131
13. Change in liabilities to banks	-1 997 900	2 229 692
14. Change in deposits from customers	3 836 483	-143 615
15. Change in liabilities from securities sold with buy-back clause	-1 671 993	840 622
16. Change in debt securities	142 103	149 259
17. Change in income tax settlements	81 645	-5 345
18. Income tax paid	-43 700	-64 114
19. Change in other assets and liabilities	31 670	-21 210
20. Other	25 466	43 155
III. Net cash flows from operating activities	**-91 456**	**1 853 733**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**
I. Inflows:	**75 234 175**	**24 813 732**
1. Proceeds from sale of property, plant and equipment and intangible assets	6 776	26 872
2. Proceeds from sale of shares in associates	0	0
3. Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
4. Proceeds from sale of investment financial assets	75 225 396	24 784 695
5. Other	2 003	2 165
II. Outflows:	**-76 214 832**	**-25 149 718**
1. Acquisition of property, plant and equipment and intangible assets	-33 187	-33 440
2. Acquisition of shares in associates	0	0
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-76 181 645	-25 116 278
5. Other	0	0
III. Net cash flows from investing activities	**-980 657**	**-335 986**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**
I. Inflows:	**1 366 709**	**1 331 630**
1. Long-term bank loans	327 615	1 331 630
2. Issue of debt securities	0	0
3. Increase in subordinated debt	0	0
4. Net proceeds from issues of shares and additional capital paid-in	1 039 094	0
5. Other	0	0
II. Outflows:	**-1 164 155**	**-1 660 455**
1. Repayment of long-term bank loans	-1 051 873	-1 511 487
2. Redemption of debt securities	-25 431	-42 018
3. Decrease in subordinated debt	0	0
4. Issue of shares expenses	0	0
5. Redemption of shares	0	0
6. Dividends paid and other payments to owners	0	0
7. Other	-86 851	-106 950
III. Net cash flows from financing activities	**202 554**	**-328 825**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**-869 559**	**1 188 922**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**4 128 608**	**2 939 685**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**3 259 049**	**4 128 607**

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

Commercial name and seat: Bank Millennium S.A., Poland, Warsaw, Stanisława Żaryna 2A

Registration court and register number: 13th Business Registration Division of the National Judicial Register, Registration Court for the Capital City of Warsaw, no 0000010186

Issuer's Core Business: banking and other financial intermediation, except insurance and pension funds,

The business of the Capital Group comprises: banking, leasing, factoring, brokerage, capital operations, investment fund management.

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

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

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

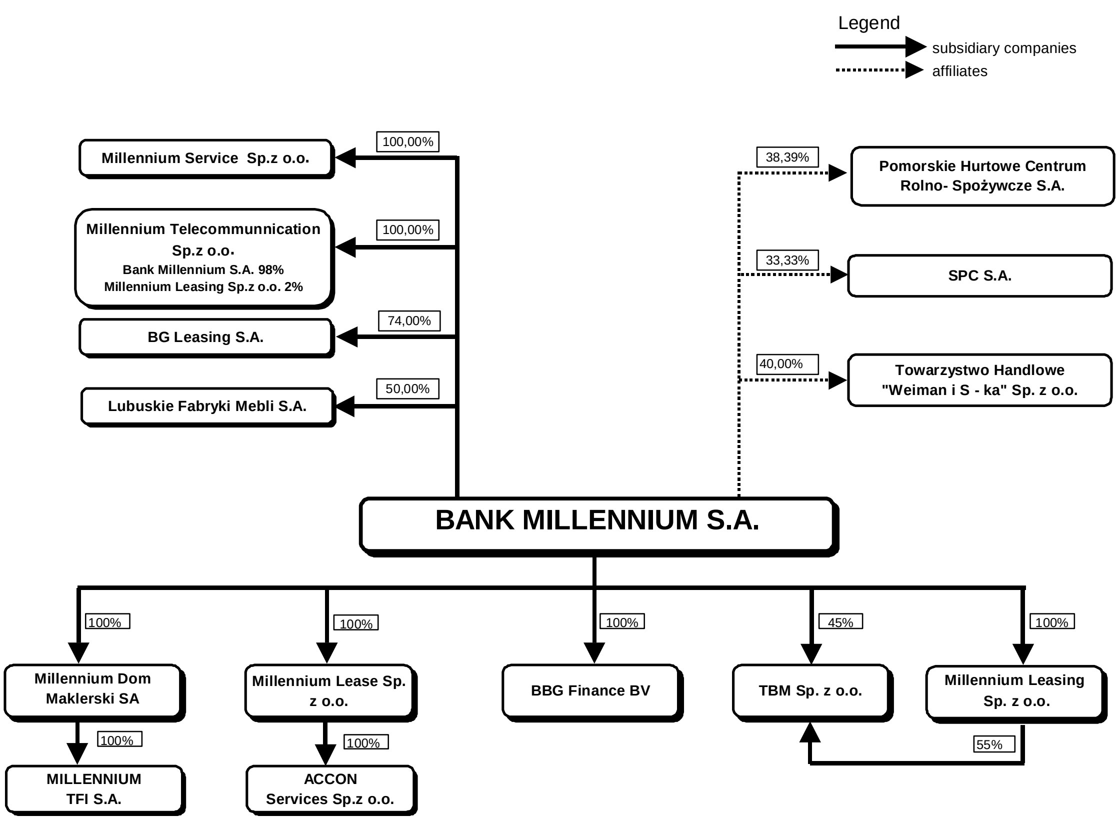
On 22 April 2010 the Bank's Supervisory Board held a meeting, where the Supervisory Board acknowledged the resignation of Mr. Rui Manuel da Silva Teixeira from the position as Vice-Chairman of the Management Board of Bank Millennium S.A and the Member of the Management Board due to personal reasons,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

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

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

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

The Group's parent entity is Bank Millennium S.A. The companies that belong to the Capital Group as at 31 December 2010, are presented by the diagram below:



Moreover, the Group is consolidating a special purpose vehicle Orchis Sp. z o.o. (SPV). The Company was created for the needs of a securitisation transaction conducted by the Group in 2007. In accordance with the provisions of IAS 27, IAS 39 and SIC 12 the Company started to be consolidated, despite the Group not having capital exposure (for this reason the Company is not included in the above Group diagram).

The Group applied provisions of IAS 8 (”Accounting principles (policies), changes in value estimates and error adjustment”) section 8, whereby IFRS constitute a complete set of accounting principles, which do not have to be applied if the result of their application is immaterial. By the virtue of the above, provisions of IAS 27 (“Consolidated and solo-basis financial statements”) and provisions of IAS 28 (“Investment in associated companies”) were not applied in relation to the financial statements of BG Leasing S.A. being a member of the Capital Group as at 31 December 2010 but despite holding a majority block of shares, due to pending bankruptcy proceedings, the Group is practically not exercising any control in this company.

In 2010, there were no changes in the structure of the Group.

VI. ACCOUNTING POLICY

Compliance Statement

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

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

Earlier adoption of standards which are not binding as of the balance sheet day

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

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

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

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

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

Standards and interpretations not yet endorsed by the EU

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

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

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

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

L-SERIES SHARE ISSUE

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

The effect of L-shares issue recognised in non-consolidated and consolidated equity was as follows (data in PLN):

(data in PLN)	Unconsolidated equity (Bank)	Consolidation adjustments	Consolidated equity (Group)
Number of L-shares issued	363 935 033		363 935 033
PLN per share	2.90		2.90
Income from L-shares issue	1 055 411 596		1 055 411 596
Share capital	**363 935 033**		**363 935 033**
Income from National Depository for Securities	1 162 694		1 162 694
Costs of issue	-17 741 425	261 000	-17 480 425
Share premium	**674 897 832**	**261 000**	**675 158 832**

Costs of Bank's series L shares issue

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

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

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

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

Reclassification of debt securities

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

The information requirements in relation to the above transaction, enshrined in the provisions of IFRS 7 are satisfied by the data presented in the tables below:

Securities	WZ0911
Par value in a date of reclassification	PLN 120.000.000
Balance sheet value in a date of reclassification	PLN 119.132.400
Interest rate in a date of reclassification	6.64%

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

Adopted accounting principles

1. **Basis of Financial Statements Preparation**

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

The consolidated financial statements, have been prepared based on the historical cost principle except financial assets and liabilities recognised at fair value through profit and loss account including derivative instruments, and financial assets classified as available for sale, other than those whose fair value cannot be reliably determined. Other items of financial assets and liabilities (including loans and advances) are presented at amortized cost less impairment charges, or at their purchase price less impairment charges.

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

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

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

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

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

2. Basis of Consolidation

Purchase method

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of combination is lower than the Group's interest in net fair value of identifiable assets, liabilities, conditional liabilities of the acquired subsidiary, the Group will reassess identification and measure again the identifiable assets, liabilities and conditional liabilities of the entity being acquired as well as measurement of the cost of the combination. Any surplus remaining after the reassessment is immediately recognised in the Profit and Loss Account.

Subsidiaries

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

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

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

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

Transactions, settlements and unrealized profits resulting from transactions among Group's entities are eliminated. The unrealised losses are also subject to elimination, as long as the transaction does not provide evidence that the transferred asset is impaired.

Associates

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

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

3. Functional currency and presentation currency

Functional currency and presentation currency

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

Transactions and balances

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

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

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

4. Financial assets and liabilities

Classification

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

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

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

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

- *Held to maturity investments*

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

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

- *Loans and advances*

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

- *Financial assets available for sale*

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

- *Other financial liabilities*

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

Recognition of financial instruments in the balance sheet

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

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

De-recognition of financial instruments from the balance sheet

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

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

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

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

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

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

- *Held to maturity investments and loans and advances*
  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- *Financial asset available for sale*
  Financial assets classified as available for sale are measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity until the de-recognition of the respective financial asset in the balance sheet or until its impairment: at such time the aggregate net gain or loss is recognised in the profit and loss.
  Interests calculated using the effective interest rate is recognized in interest income.
  If there is any objective evidence of impairment, the Group recognizes impairment loss as described in the **point 6: 'Impairment of financial assets'**.

- *Other financial liabilities*

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

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

5. Hedge Accounting and Financial Derivatives

Valuation at fair value

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

Recognition of embedded derivative instruments

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

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

ü cash flows hedges of recognized asset or liability or highly probable forecasted transaction (cash flow hedges), or:

ü fair value hedges of recognized asset or liability or firm commitment (fair value hedges).

Hedge accounting criteria

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

ü At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and through the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.

ü The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);

ü For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);

ü The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;

ü The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

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

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

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

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

Fair value hedge

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

Changes in the fair value of derivative instruments classified and eligible as fair value hedges are recognised in the Profit and Loss along with their corresponding changes of the hedged asset or liability relating to the risk hedged by the Group.

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

Termination of hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

1) FX forward

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

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

2) FX SWAP

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

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

3) Interest Rate SWAP (IRS)

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

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

4) Cross – Currency Swap (CCS)

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

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

5) IRS transactions with embedded FX option

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

The option component hedges options embedded in securities or deposits offered by the Bank.

6) FX options

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

7) Forward Rate Agreement (FRA)

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

8) Commodity futures

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

9) Commodity options

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

6. Impairment of financial assets

Assets valued at amortized cost

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

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

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

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

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

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

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

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

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

Financial assets available for sale

At each balance sheet date the Group estimates whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.
When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.
The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.
The Group presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause.
This is in order to reflect the risks and rewards arising on this asset that is retained by the Group after the transfer. When the Group purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

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

9. Receivables from leasing contracts

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

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

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

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

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

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

Subsequent costs

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

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

Intangible Assets

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

Computer Software

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

Other Intangibles

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

Subsequent costs

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

Depreciation and amortization charges

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

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

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

Selected categories of property, plant and equipment:

Bank buildings	2.5%
Lease holding improvements	period of the lease, hire purchase
Computer hardware	30.0%
Network devices	30.0%
Vehicles	20.0%
Telecommunication equipment:	10.0%

Intangibles (software):

Main applications (systems)	10.0%

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

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

11. Non current assets held for sale

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

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

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

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

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

12. Impairment of non current assets

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

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

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

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

13. Prepayments, Accruals and Deferred Income

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

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

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

14. Provisions

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

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

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

15. Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

16. Group's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

17. Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

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

18. Interest result

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

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

Net interest income comprises of interest income and costs on designated derivatives being a result of effective hedge instruments in hedge accounting (detailed information on active hedge accounting relationships is presented in note 17).

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

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

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

19. Fee and commission income/ Fee and Commission Costs

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

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

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

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

Remaining fees and commissions connected with financial services offered by the Group, such as:

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

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

20. Dividend Income

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

21. Result on Investment Financial Instruments

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

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

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

Foreign exchange profit includes: i) realised result and result of valuation of FX spot and FX forward transactions ii) exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency at the average rate established as at the balance sheet date for a given currency by National Bank of Poland.

23. Other Operating Income and Expenses

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

24. Income Tax

Corporate income tax comprises current and deferred tax.
Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.
Deferred income tax is recognized in profit and loss or equity depending on type of temporary differences.
The Group forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are a result of different timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations

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

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

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

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

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

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

An asset or a liability arising from temporary differences associated with investments in subsidiaries and associates are not included in calculation of deferred income tax assets or liabilities, unless the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

25. Application of Estimates in connection with Accounting Policies

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

- *Impairment of loans and advances*

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

- *Fair value of financial instruments*

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

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

- Prices quoted on the active market for identical instruments for following financial instruments:
  - treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;

- Techniques of measurement based on parameters coming from the market for following financial instruments:

  Treasury floating interest debt securities,

  Derivatives:

  - FRA, IRS, CIRS;
  - FX Swap, FX Forward;
  - Embedded derivatives;
  - Options placed by the Group
  - Bills issued by the Central Bank
  - forwards on the price of raw materials

- Techniques of measurement with use of significant parameters not coming from the market:

  Debt securities of other issuers (e.g. municipalities),

  Derivatives:

  - FX Options acquired by the Group.

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

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. OPERATIONAL SEGMENTS

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

a) Retail Customers Segment

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

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

b) Corporate Customers Segment

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

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

c) Treasury and investment business

This segment covers the Group's activity as regards investments by the Treasury Department, brokerage, inter-bank market transactions and taking positions in debt securities, which are not assigned to other segments. This segment includes other assets and other liabilities, assets and liabilities connected with hedging derivatives, liabilities connected with external funding of the Group and deferred income tax assets not assigned to any of the segments.

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

Income tax charge has been presented on Group level only.

Column “other” in Profit and Loss Account contains income recognised due to adjusted settlements of VAT in previous years

Accounting principles

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

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

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

Adjustment of fair value on account of measurement of credit risk component of FX derivatives concluded with Customers was assigned to the “Corporate Banking” segment.

INCOME STATEMENT 1.01.2010 - 31.12.2010 *In '000 PLN*	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total Consolidated
Net interest income	831 653	231 888	-136 054	0	927 487
external income	1 217 529	513 573	628 867	0	2 359 969
external cost	-832 961	-366 720	-232 801	0	-1 432 482
External income less cost	**384 568**	**146 853**	**396 067**	**0**	**927 487**
internal income	843 652	352 880	-1 196 533	0	0
internal cost	-396 567	-267 846	664 412	0	0
Internal income less cost	**447 086**	**85 035**	**-532 121**	**0**	**0**
Net fee and commission income	434 115	112 253	18 556	0	564 924
Dividends, other income from financial operations and foreign exchange profit	87 748	45 784	88 444	0	221 977
Other operating income and cost	-9 261	-4 944	13 009	3 111	1 914
Operating income	**1 344 255**	**384 981**	**-16 045**	**3 111**	**1 716 302**
Staff costs	-373 714	-118 364	-33 800	0	-525 878
Administrative costs	-376 430	-75 644	-29 052	0	-481 126
Impairment losses on assets	-126 417	-98 251	-2 207	0	-226 875
Depreciation and amortization	-62 738	-9 169	-2 714	0	-74 621
Operating expenses	**-939 300**	**-301 427**	**-67 774**	**0**	**-1 308 501**
Operating profit / (loss)	**404 956**	**83 554**	**-83 819**	**3 111**	**407 802**
Share in net profit of associated companies				0	
Profit / (loss) before taxes	**404 956**	**83 554**	**-83 819**	**3 111**	**407 802**
Income taxes					-81 805
Profit / (loss) after taxes					**325 997**

BALANCE SHEET 31.12.2010, *In '000 PLN*	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total Consolidated
ASSETS					
Segment assets	29 479 718	10 231 055	7 273 645	0	46 984 418
Assets allocated to segment	865 947	2 585 560	-3 451 507	0	0
Total	**30 345 665**	**12 816 616**	**3 822 138**	**0**	**46 984 418**
LIABILITIES					
Segment liabilities	26 086 390	10 691 351	6 115 705	0	42 893 446
Liabilities allocated to segment	1 431 752	1 161 213	-2 592 966	0	0
Equity allocated to segment	2 827 523	964 051	299 398	0	4 090 972
Total	**30 345 665**	**12 816 616**	**3 822 138**	**0**	**46 984 418**

INCOME STATEMENT 1.01.2009 - 31.12.2009 *In '000 PLN*	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total Consolidated
Net interest income	574 107	169 219	-144 787	0	598 538
external income	1 164 814	455 493	753 309	0	2 373 617
external cost	-1 187 947	-342 316	-244 815	0	-1 775 079
External income less cost	**-23 133**	**113 178**	**508 494**	**0**	**598 538**
internal income	1 079 947	290 233	-1 370 180	0	0
internal cost	-482 707	-234 192	716 899	0	0
Internal income less cost	**597 240**	**56 041**	**-653 281**	**0**	**0**
Net fee and commission income	379 658	94 677	19 512	0	493 846
Dividends, other income from financial operations and foreign exchange profit	95 175	41 001	205 624	0	341 800
Other operating income and cost	-3 350	-7 989	18 349	12 689	19 700
Operating income	**1 045 590**	**296 907**	**98 698**	**12 689**	**1 453 885**
Staff costs	-326 401	-108 315	-35 962	0	-470 678
Administrative costs	-384 127	-62 191	-25 712	0	-472 029
Impairment losses on assets	-114 987	-323 651	1 981	0	-436 657
Depreciation and amortization	-64 811	-12 401	-2 434		-79 646
Operating expenses	**-890 326**	**-506 558**	**-62 127**	**0**	**-1 459 010**
Operating profit / (loss)	**155 264**	**-209 650**	**36 571**	**12 689**	**-5 125**
Share in net profit of associated companies			7 000	0	7 000
Profit / (loss) before taxes	**155 264**	**-209 650**	**43 571**	**12 689**	**1 875**
Income taxes					-380
Profit / (loss) after taxes					**1 495**

BALANCE SHEET 31.12.2009, *In '000 PLN*	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total Consolidated
ASSETS					
Segment assets	26 376 319	10 293 886	8 243 619	0	44 913 824
Assets allocated to segment	433 163	2 280 126	-2 713 290	0	0
Total	**26 809 482**	**12 574 012**	**5 530 329**	**0**	**44 913 824**
LIABILITIES					
Segment liabilities	22 371 437	11 774 305	7 980 748	0	42 126 490
Liabilities allocated to segment	2 984 296	204 001	-3 188 297	0	0
Equity allocated to segment	1 453 750	595 706	737 878	0	2 787 334
Total	**26 809 482**	**12 574 012**	**5 530 329**	**0**	**44 913 824**

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Interest income and other of similar nature, including:		
Balances with the Central Bank	35 454	39 203
Loans and advances to banks	10 289	5 826
Loans and advances to customers	1 622 119	1 597 943
Transactions with repurchase agreement	10 084	11 140
Hedging derivatives	368 775	391 742
Financial assets held for trading (debt securities)	91 830	154 560
Investment securities	221 419	173 202
Total	**2 359 969**	**2 373 617**

In the line „Hedging derivatives" the Group presents net interest income from derivatives set as and being effective cash flow and fair value hedges. A detailed description of the hedging relations used by the Group is presented in note (17)

Interest income for the year 2010 contains interest accrued on impaired loans in the amount of PLN 133,460 thous. (for corresponding data in the year 2009 the amount of such interest stood at PLN 97,783 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Interest expense and other of similar nature, including:		
Banking deposits	-19 501	-18 028
Loans and advances from banks	-80 063	-88 490
Transactions with repurchase agreement	-45 119	-85 464
Hedging derivatives	0	0
Deposits from customers	-1 216 618	-1 498 524
Subordinated debt	-25 770	-39 216
Debt securities	-42 518	-43 588
Other	-2 891	-1 769
Total	**-1 432 482**	**-1 775 079**

(3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Resulting from accounts service	106 209	82 628
Resulting from money transfers, cash payments and withdrawals and other payment transactions	44 431	38 823
Resulting from granted credits and loans	49 103	41 468
Resulting from guarantees and sureties granted	16 083	11 367
Resulting from payment and credit cards	180 032	171 415
Resulting from sale of insurance products	68 701	111 801
Resulting from distribution of investment funds units and other savings products	42 027	17 124
Resulting from brokerage and custody service	31 870	30 268
Resulting from investment funds managed by the Group	78 818	62 579
Other	8 009	8 905
Total	**625 282**	**576 378**

3b. Fee and commission expense

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Resulting from accounts service	-1 381	-1 093
Resulting from money transfers, cash payments and withdrawals and other payment transactions	-4 134	-2 075
Resulting from granted credits and loans	-8 919	-16 769
Resulting from payment and credit cards	-32 588	-51 522
Resulting from brokerage and custody service	-6 639	-6 444
Resulting from investment funds managed by the Group	-3 969	-2 286
Other	-2 728	-2 342
Total	**-60 358**	**-82 532**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Securities valued at fair value through profit and loss (held for trading)	2	4
Investment securities	2 001	2 161
Total	**2 003**	**2 165**

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Operations on debt instruments	6 372	20 411
Operations on equity instruments	73	2 539
Total	**6 445**	**22 950**

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

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

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

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

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

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Operations on securities	3 597	35 430
Operations on derivatives	88 760	218 790
Hedging operations	-3 748	-573
FX result	127 198	65 185
Other financial operations	-2 278	-2 148
Total	**213 529**	**316 685**

(6) OTHER OPERATING INCOME

6. Other operating income

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Profit on sale and liquidation of property, plant and equipment, intangible assets	11 059	13 161
Profit on sale of non current assets held for sale	713	712
Indemnifications, penalties and fines received	21 506	14 899
Income from sale of other services	1 337	501
Income from collection service	1 574	521
Income from leasing business	2 898	4 282
Income from adjustment in VAT settlements	3 111	12 689
Other	15 075	32 813
Total	**57 273**	**79 579**

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

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Staff costs:	**-525 878**	**-470 678**
Salaries (including bonuses)	-511 660	-458 875
Employee benefits, including:	-14 218	-11 804
- provisions for retirement benefits	-1 648	-685
- provisions for unused employee holiday	830	2 967
- other	-13 400	-14 086
General administrative costs	**-481 126**	**-472 029**
Costs of advertising, promotion and representation	-49 148	-36 653
Costs of software maintenance and IT services	-18 566	-18 698
Costs of renting	-169 912	-171 523
Costs of buildings maintenance, equipment and materials	-27 676	-29 762
ATM and cash costs	-19 054	-20 593
Costs of communications and IT	-66 345	-65 439
Costs of consultancy, audit and legal advisory and translation	-17 479	-15 125
Taxes and fees	-19 099	-15 288
KIR clearing charges	-2 655	-2 893
PFRON costs	-5 767	-5 856
BFG costs	-13 621	-15 147
Financial Supervision costs	-4 920	-6 113
Other	-66 883	-68 938
Total	**-1 007 004**	**-942 707**

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Impairment losses on loans and advances to customers	**-212 685**	**-433 898**
- Impairment charges on loans and advances to customers	-773 832	-894 461
- Reversal of impairment charges on loans and advances to customers	557 586	457 630
- Amounts recovered from loans written off	3 561	2 933
- Result on sale of receivables	0	0
Impairment losses on investments securities	**-16 538**	**0**
- Impairment charges on investments securities	-16 538	0
- Reversal of impairment charges on investments securities	0	0
Impairment losses on off-balance sheet liabilities	**3 998**	**-2 180**
- Impairment charges on off-balance sheet liabilities	-7 743	-14 990
- Reversal of impairment charges on off-balance sheet liabilities	11 741	12 810
Total	**-225 225**	**-436 078**

(9) IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

9. Impairment losses on non financial assets

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Fixed assets	568	103
Other assets	-2 218	-682
Total	**-1 650**	**-579**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Property, plant and equipment	-65 819	-72 942
Intangible assets	-8 802	-6 704
Total	**-74 621**	**-79 646**

(11) Other operating expense

11. Other operating expenses

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Loss on sale and liquidation of property, plant and equipment, intangible assets	-10 561	-24 992
Loss on sale of non current assets held for sale	0	0
Indemnifications, penalties and fines paid	-2 955	-3 317
Provisions for contentious claims	-2 987	-2 850
Costs of leasing business	-11 876	-8 221
Donations made	-314	-443
Costs of collection service	-16 492	-15 747
Costs of payments to compensation system	-382	-419
Other	-9 792	-3 891
Total	**-55 359**	**-59 878**

(12) Income tax

12a. Income tax reported in income statement

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Current tax	**-73 077**	**-103 262**
Current year	-73 077	-103 262
Deferred tax	**-8 728**	**102 882**
Appearance and reversal of temporary differences	-501	81 448
Utilisation of tax loss	-8 227	812
Adjustment in CIT-8 declarations	0	20 622
Total income tax reported in income statement	**-81 805**	**-380**

12b. Effective tax rate

	01.01.2010 – 31.12.2010	01.01.2009 - 31.12.2009
Gross profit / (loss)	**407 802**	1 875
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-77 482**	**-356**
Impact of permanent differences on tax charges:	**-4 323**	**-24**
- Non taxable income	7 670	7 253
Dividend income	370	411
Release of other provision	0	6 170
Other	7 300	672
- Cost which is not a tax cost	-11 993	*-7 277*
Loss on sale of receivables	0	-7
PFRON fee	-1 095	-1 112
Other	-10 898	-6 158
Total income tax reported in income statement	**-81 805**	**-380**

12c. Deferred tax reported directly in equity		
	31.12.2010	**31.12.2009**
Valuation of available for sale securities	-2 347	-2 349
Valuation of cash flow hedging instruments	14 135	-278
Deferred tax reported directly in equity	**11 788**	**-2 627**

(13) EARNINGS PER SHARE

13. Earnings per share (PLN)

	01.01.2010 – 31.12.2010	**01.01.2009 - 31.12.2009**
Earnings after taxes	325 997	1 495
Weighted average number of shares in the period	1 156 283 087	849 181 744
Earnings per share	**0.28**	**0.00**

Earnings per share has been calculated by dividing net profit for the period by the weighted average number of shares that changed in 2010 as a result of the L-shares issue (a description of the issue is presented in Chapter VI, "Accounting Policy"). At the same time due to the nature of the issue it was not necessary to make a separate calculation of diluted Earnings Per Share (the calculation methodology in case of absence of diluting instruments is the same as in case of Earnings Per Share; in result diluted Earnings Per Share equals baseline Earnings Per Share).

(14) CASH, BALANCES WITH THE CENTRAL BANK

14a. Cash, balances with the Central Bank

	31.12.2010	**31.12.2009**
Cash	480 368	437 625
Cash in Central Bank	1 570 107	1 753 362
Other funds	261	240
Total	**2 050 736**	**2 191 227**

In the period from 31st of December 2010 to 30 of January 2011 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,227,569 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period). The interest rate on funds on the mandatory deposit account constitutes 0.9 of the central bank's rediscount rate and in the above-mentioned period of time was 3.375%.

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

	31.12.2010	31.12.2009
a. in Polish currency	1 830 411	2 036 820
b. in foreign currencies (after conversion to PLN)	220 325	154 406
- currency: USD	31 638	23 234
- currency: EUR	120 517	81 070
- currency: GBP	19 488	21 380
- other currencies (PLN '000)	48 682	28 722
Total	**2 050 736**	**2 191 227**

(15) LOANS AND ADVANCES TO BANKS

15a. Loans and advances to banks

	31.12.2010	31.12.2009
Current accounts	110 127	87 646
Deposits in other banks	1 003 003	265 347
Loans	371 164	342 610
Other	275	0
Interest	1 241	93
Total (gross) loans and advances to banks	**1 485 809**	**695 697**
Impairment write-offs	0	0
Net loans and advances to banks	**1 485 809**	**695 697**

15b. Loans and advances to banks by maturity date

	31.12.2010	31.12.2009
Current accounts	110 127	87 646
- to 1 month	1 003 278	265 347
- above 1 month to 3 months	0	0
- above 3 months to 1 year	0	0
- above 1 year to 5 years	371 164	0
- above 5 years	0	342 610
- past due	0	0
Interest	1 241	93
Total (gross) loans and advances to banks	**1 485 809**	**695 697**

15c. Loans and advances to banks by currency

	31.12.2010	31.12.2009
in Polish currency	387 794	487 364
in foreign currencies (after conversion to PLN)	1 098 015	208 333
- currency: USD	21 452	33 141
- currency: EUR	1 027 048	106 519
- currency: CHF	17 908	19 888
- currency: GBP	9 743	12 518
- other currencies (PLN '000)	21 864	36 267
Total	**1 485 809**	**695 697**

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

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	**0**	**0**

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

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

	31.12.2010	31.12.2009
Debt securities	**980 360**	**2 320 318**
Issued by State Treasury	980 360	2 320 318
a) bills	67 486	511 977
b) bonds	912 874	1 808 341
Equity instruments	**931**	**430**
Quoted on the active market	931	430
a) financial institutions	60	32
b) non-financial institutions	870	398
Positive valuation of derivatives	**448 529**	**710 797**
Other financial instruments	**0**	**536**
Total	**1 429 819**	**3 032 081**

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

	31.12.2010	31.12.2009
Trading financial assets	**1 429 819**	**3 032 081**
Financial assets valued at fair value when initially recognized	0	0
Total	**1 429 819**	**3 032 081**

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

16c. Debt securities valued at fair value through profit and loss (held for trading), at balance sheet value

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

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

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

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

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	2 320 748	3 472 236
Increases (purchase and accrual of interest and discount)	104 515 037	74 273 464
Reductions (sale and redemption)	-105 847 062	-75 403 749
Differences from valuation at fair value	-7 432	-21 203
Balance at the end of the period	**981 291**	**2 320 748**

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

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	**7 959 540**	**13 829 350**	**10 738 750**	**5 060**	**279 214**	**274 153**
Forward Rate Agreements (FRA)	4 550 000	7 300 000	0	-304	1 346	1 650
Interest rate swaps (IRS)	3 409 540	6 521 623	10 590 258	8 695	274 770	266 074
Other interest rate contracts: volatility swap, swap with FX option	0	7 727	148 492	-3 331	3 098	6 429
2. FX derivatives *	**10 293 639**	**5 310 499**	**4 359 678**	**-281 498**	**86 833**	**368 331**
FX contracts	1 381 993	796 188	40 737	38 974	41 873	2 899
FX swaps	7 637 755	636 271	56 196	-186 357	17 034	203 391
Other FX contracts (CIRS)	1 182 265	3 844 963	4 262 745	-134 622	27 381	162 003
FX options	91 626	33 077	0	507	545	38
3. Commodity derivatives	**8 443**	**0**	**0**	**6**	**268**	**262**
Commodity forwards	8 443	0	0	6	268	262
Commodity options	0	0	0	0	0	0
4. Embedded instruments	**216 065**	**741 633**	**330 343**	**-47 880**	**19 003**	**66 883**
Options embedded in deposits	200 402	688 215	0	-13 578	19 003	32 581
Options embedded in securities issued	15 663	53 418	330 343	-34 302	0	34 302
5. Fair value measurement of items subject to hedging	**x**	**x**	**x**	**8 301**	**8 301**	**0**
Valuation of hedged consumer loans portfolio	x	x	x	8 301	8 301	0
6. Indexes options	**196 531**	**755 308**	**210 040**	**51 498**	**54 910**	**3 412**
Valuation of derivatives	**18 674 218**	**20 636 790**	**15 638 811**	**-264 512**	**448 529**	**713 041**
Liabilities from short sale of securities						**91 290**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**448 529**	**804 331**

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

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

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	**6 840 086**	**7 494 362**	**11 785 427**	**-1 026**	**342 786**	**343 812**
Forward Rate Agreements (FRA)	200 000	750 000	0	141	194	53
Interest rate swaps (IRS)	6 640 086	6 744 362	11 673 984	3 701	342 536	338 835
Other interest rate contracts: volatility swap, swap with FX option	0	0	111 443	-4 868	56	4 924
2. FX derivatives *	**8 569 277**	**10 731 764**	**4 577 672**	**128 646**	**331 384**	**202 738**
FX contracts	948 256	238 862	358 010	61 351	65 450	4 099
FX swaps	3 231 907	231 576	15 848	80 884	110 356	29 472
Other FX contracts (CIRS)	3 242 924	8 614 279	4 170 583	-17 669	78 261	95 930
FX options	1 146 190	1 647 047	33 231	4 080	77 317	73 237
3. Commodity derivatives	**107 980**	**216 312**	**8 338**	**288**	**6 854**	**6 566**
Commodity forwards	107 980	158 832	8 338	139	6 003	5 864
Commodity options	0	57 480	0	149	851	702
4. Embedded instruments	**0**	**241 320**	**252 352**	**-19 478**	**8 118**	**27 596**
Options embedded in deposits	0	196 860	0	637	8 118	7 481
Options embedded in securities issued	0	44 460	252 352	-20 115	0	20 115
5. Fair value measurement of items subject to hedging	**x**	**x**	**x**	**6 853**	**6 853**	**0**
Valuation of hedged consumer loans portfolio	x	x	x	6 853	6 853	0
6. Indexes options	**0**	**0**	**472 005**	**13 512**	**14 802**	**1 290**
Valuation of derivatives	**15 517 343**	**18 683 758**	**17 095 794**	**128 795**	**710 797**	**582 002**
Liabilities from short sale of securities						**100 201**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**710 797**	**682 203**

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

(17) DERIVATIVE HEDGING INSTRUMENTS

The Group uses the following types of hedge accounting:

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

Starting from 1 January 2006 the Group established first formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding resulting from the zloty deposit portfolio). Implementation of formal hedge accounting permitted presentation of the transactions in the Profit and Loss Account in accordance with their economic meaning.

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

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

The table below presents detailed information regarding particular types of the hedge accounting (active as at 31.12.2010):

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

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

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

17c. Hedge accounting for cash flows

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

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

(18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2010	31.12.2009
Loans and advances	**33 365 376**	**30 236 448**
- to companies	5 229 190	5 404 678
- to private individuals	27 459 922	24 322 109
- to public sector	676 264	509 661
Receivables on account of payment cards	**895 822**	**867 447**
- due from companies	12 950	8 896
- due from private individuals	882 872	858 551
Purchased receivables	**61 037**	**19 325**
- from companies	10 031	16 479
- from private individuals	0	0
- from public sector	51 006	2 846
Guarantees and sureties realised	255	2 496
Debt securities eligible for rediscount at Central Bank	32 204	22 826
Financial leasing receivables	3 410 340	3 332 506
Other	7 474	2 595
Interest	153 270	107 783
Total gross	**37 925 779**	**34 591 426**
Impairment write-offs	-1 187 286	-1 106 491
Total net	**36 738 493**	**33 484 935**

18b. Quality of loans and advances to customers portfolio

	31.12.2010	31.12.2009
Loans and advances to customers (gross)	**37 925 779**	**34 591 426**
- impaired	2 195 119	2 032 835
- not impaired	35 730 660	32 558 591
Impairment write-offs	**1 187 286**	**1 106 491**
- for impaired exposures	989 997	819 383
- for incurred but not reported losses (IBNR)	197 289	287 108
Loans and advances to customers (net)	**36 738 493**	**33 484 935**

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

	31.12.2010	31.12.2009
Loans and advances to customers (gross)	**37 925 779**	**34 591 426**
- case by case analysis	1 311 967	1 403 552
- collective analysis	36 613 812	33 187 874
Impairment write-offs	**1 187 286**	**1 106 491**
- on the basis of case by case analysis	469 231	482 172
- on the basis of collective analysis	718 055	624 319
Loans and advances to customers (net)	**36 738 493**	**33 484 935**

18d. Loans and advances to customers portfolio by customers

	31.12.2010	31.12.2009
Loans and advances to customers (gross)	**37 925 779**	**34 591 426**
- corporate customers	9 497 968	9 348 166
- private individuals	28 427 811	25 243 260
Impairment write-offs	**1 187 286**	**1 106 491**
- for receivables from corporate customers	643 811	672 910
- for receivables from private individuals	543 475	433 581
Loans and advances to customers (net)	**36 738 493**	**33 484 935**

18e. Loans and advances to customers by maturity

	31.12.2010	31.12.2009
Current accounts	2 237 387	1 923 577
- to 1 month	708 494	756 200
- above 1 month to 3 months	882 110	924 772
- above 3 months to 1 year	3 463 795	3 449 579
- above 1 year to 5 years	8 592 616	8 278 410
- above 5 years	21 133 950	18 804 451
- past due	754 157	346 654
Interest	153 270	107 783
Total gross	**37 925 779**	**34 591 426**

18f. Loans and advances to customers by currency

	31.12.2010	31.12.2009
in Polish currency	16 020 583	13 903 233
in foreign currencies (after conversion to PLN)	21 905 196	20 688 193
- currency: USD	294 126	351 264
- currency: EUR	1 108 575	1 209 514
- currency: CHF	20 180 276	18 673 217
- currency: JPY	322 113	454 198
- other currencies (PLN ‘000)	106	0
Total gross	**37 925 779**	**34 591 426**

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

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	1 106 491	749 078
Change in value of provisions:	80 795	357 413
Impairment write-offs created in the period	773 831	894 460
Amounts written off	-158 826	-73 970
Impairment write-offs released in the period	-557 586	-457 631
Sale of receivables	0	-77
Changes resulting from FX rates differences	24 055	-6 269
Other	-680	900
Balance at the end of the period	**1 187 286**	**1 106 491**

18h. Financial leasing receivables

	31.12.2010	31.12.2009
Financial leasing receivables (gross)	3 848 888	3 719 703
Unrealised financial income	-438 548	-387 197
Financial leasing receivables (net)	**3 410 340**	**3 332 506**
Financial leasing receivables (gross) by maturity		
Under 1 year	1 541 801	1 525 466
From 1 year to 5 years	1 902 253	1 876 184
Above 5 years	404 834	318 053
Total	**3 848 888**	**3 719 703**
Financial leasing receivables (net) by maturity		
Under 1 year	1 379 240	1 336 886
From 1 year to 5 years	1 689 080	1 726 862
Above 5 years	342 020	268 758
Total	**3 410 340**	**3 332 506**

(19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2010	31.12.2009
Debt securities	**4 496 964**	**4 150 278**
Issued by State Treasury	3 355 513	2 462 342
a) bills	245 308	539 287
b) bonds	3 110 205	1 923 055
Issued by Central Bank	999 708	1 499 417
a) bills	999 708	1 499 417
b) bonds	0	0
Other securities	141 743	188 519
a) listed	8 342	55 459
b) not listed	133 401	133 060
Shares and interests in other entities	**11 465**	**13 380**
Other financial instruments	**0**	**0**
Total financial assets available for sale	**4 508 429**	**4 163 657**
Available for sale instruments listed on the stock exchange	3 373 686	2 517 801
Available for sale instruments not listed on the stock exchange	1 134 743	1 645 857

19b. Debt securities available for sale

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

19c. Debt securities available for sale by maturity

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

19d. Change of investment financial assets available for sale

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	4 163 657	2 913 997
Increases (purchase and accrual of interest and discount)	75 588 404	26 011 722
Reductions (sale and redemption)	-75 227 362	-24 761 492
Difference from measurement at fair value	-10	-478
Impairment write-offs	-16 538	197
Other	277	-289
Balance at the end of the period	**4 508 428**	**4 163 657**

19e. Investments in associates

	31.12.2010	31.12.2009
Investments in associates	12 000	12 000

19f. Change of investments in associates

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	**12 000**	**5 395**
- reclassification of impairment write-offs	0	7 000
Balance at the beginning of the period after reclassification	**12 000**	**12 395**
- consolidation of Millennium Telecommunication Services	0	-395
Balance at the end of the period	**12 000**	**12 000**

(20) RECEIVABLES FROM SECURITIES BOUGHT WITH SELL-BACK CLAUSE

20. Receivables from securities bought with sell-back clause

	31.12.2010	31.12.2009
a) from banks	55 080	208 746
b) from customers	0	0
c) interest	5	35
Total	**55 085**	**208 781**

(21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2010	31.12.2009
Fixed assets:	233 600	335 500
- land	1 356	12 048
- buildings, premises, civil and hydro-engineering structures	124 329	193 422
- machines and equipment	62 988	77 835
- vehicles	17 669	23 103
- other fixed assets	27 258	29 092
Fixed assets under construction	8 277	11 137
Advances for fixed assets under construction	175	34
Total	**242 052**	**346 671**

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	**TOTAL**
a) gross value of property, plant and equipment at the beginning of the period	**12 679**	**410 084**	**299 774**	**36 384**	**103 935**	**11 171**	**874 027**
b) increases (on account of)	**0**	**4 958**	**9 810**	**470**	**12 140**	**15 870**	**43 248**
- purchase	0	604	268	470	215	12 315	13 872
- transfer from fixed assets under construction	0	3 522	9 243	0	4 493	0	17 258
- impairment charges	0	0	0	0	0	3 214	3 214
- reclassification	0	711	296	0	7 432	0	8 439
- other	0	122	2	0	0	341	465
c) reductions (on account of)	**10 823**	**59 690**	**18 867**	**4 398**	**4 158**	**18 589**	**116 526**
- sale	0	5 452	2 026	4 169	850	715	13 212
- liquidation	0	2 309	14 513	102	1 927	0	18 851
- settlement of fixed assets under construction	0	0	0	0	0	17 258	17 258
- reclassification	10 700	47 201	1 419	0	1 288	0	60 608
- other	123	4 729	908	127	93	616	6 596
d) gross value of property, plant and equipment at the end of the period	**1 856**	**355 352**	**290 717**	**32 456**	**111 917**	**8 452**	**800 749**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**192 368**	**221 926**	**13 282**	**72 196**	**0**	**499 772**
f) depreciation over the period (on account of)	**0**	**14 748**	**5 805**	**1 505**	**9 851**	**0**	**31 909**
- current write-off (P&L)	0	24 929	22 903	5 047	12 940	0	65 820
- reductions on account of sale	0	-2 378	-1 972	-3 265	-713	0	-8 328
- reductions on account of liquidation	0	-2 135	-14 400	-62	-1 845	0	-18 442
- reclassification	0	-1 289	105	0	-368	0	-1 552
- other	0	-4 379	-832	-215	-163	0	-5 589
g) cumulated depreciation (amortization) at the end of the period	**0**	**207 116**	**227 731**	**14 787**	**82 047**	**0**	**531 681**
h) impairment write-offs at the beginning of the period	**631**	**24 294**	**12**	**0**	**2 648**	**0**	**27 585**
- increase	0	0	0	0	337	0	337
- reduction	131	389	12	0	373	0	905
i) impairment write-offs at the end of the period	**500**	**23 905**	**0**	**0**	**2 612**	**0**	**27 017**
j) net value of property, plant and equipment at the end of the period	**1 356**	**124 330**	**62 987**	**17 669**	**27 258**	**8 452**	**242 051**

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	**TOTAL**
a) gross value of property, plant and equipment at the beginning of the period	**1 970**	**400 139**	**295 667**	**44 773**	**108 642**	**29 204**	**880 395**
b) increases (on account of)	**10 720**	**56 473**	**20 451**	**1 112**	**4 662**	**16 403**	**109 821**
- purchase	10 700	50 098	7 490	1 046	2 159	10 421	81 913
- transfer from fixed assets under construction	20	5 313	12 115	0	2 181	0	19 629
- impairment charges	0	0	0	0	0	5 232	5 232
- other	0	1 062	846	66	322	750	3 047
c) reductions (on account of)	**11**	**46 528**	**16 344**	**9 501**	**9 369**	**34 436**	**116 188**
- sale	2	45 403	5 249	7 169	7 068	182	65 073
- liquidation	0	8	10 751	0	1 342	0	12 101
- settlement of fixed assets under construction	0	0	0	0	0	20 454	20 454
- utilisation of provision	0	0	0	0	0	12 020	12 020
- other	9	1 117	344	2 332	959	1 780	6 541
d) gross value of property, plant and equipment at the end of the period	**12 679**	**410 084**	**299 774**	**36 384**	**103 935**	**11 171**	**874 028**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**172 104**	**211 840**	**13 998**	**68 883**	**0**	**466 825**
f) depreciation over the period (on account of)	**0**	**20 264**	**10 086**	**-716**	**3 313**	**0**	**32 947**
- current write-off (P&L)	0	31 024	24 739	5 913	11 267	0	72 942
- reductions on account of sale	0	-10 973	-4 578	-5 792	-6 309	0	-27 653
- reductions on account of liquidation	0	-5	-10 473	0	-1 294	0	-11 772
- other	0	218	399	-836	-351	0	-570
g) cumulated depreciation (amortization) at the end of the period	**0**	**192 368**	**221 926**	**13 282**	**72 196**	**0**	**499 772**
h) impairment write-offs at the beginning of the period	**503**	**25 305**	**0**	**0**	**2 751**	**0**	**28 559**
- increase	128	389	12	0	114	0	646
- reduction	0	1 400	0	0	217	0	1 620
i) impairment write-offs at the end of the period	**631**	**24 294**	**12**	**0**	**2 648**	**0**	**27 585**
j) net value of property, plant and equipment at the end of the period	**12 048**	**193 422**	**77 835**	**23 102**	**29 092**	**11 171**	**346 671**

(22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2010	31.12.2009
- concessions, patents, licenses, know how and similar assets, including:	30 227	22 816
- computer software	30 227	22 816
- advances for intangible assets	180	5
Total intangible assets	**30 407**	**22 821**

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

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:		other intangible assets	advances for intangible assets	TOTAL
			computer software			
a) gross value of intangible assets at the beginning of the period	**23**	**411 410**	**201 289**	**4**	**5**	**411 442**
b) increases (on account of)	**0**	**20 345**	**20 345**	**0**	**235**	**20 581**
- purchase	0	452	452	0	201	653
- transfer from investments and advances	0	85	85	0	0	85
- expenditures on intangible assets	0	18 637	18 637	0	0	18 637
- other	0	1 171	1 171	0	34	1 205
c) reductions (on account of)	**0**	**146**	**146**	**0**	**59**	**205**
- sale	0	0	0	0	0	0
- other	0	146	146	0	59	205
d) gross value of intangible assets at the end of the period	**23**	**431 609**	**221 489**	**4**	**180**	**431 817**
e) cumulated depreciation (amortization) at the beginning of the period	**23**	**388 594**	**178 474**	**4**	**0**	**388 621**
f) depreciation over the period (on account of)	**0**	**8 801**	**8 801**	**0**	**0**	**8 801**
- current write-off (P&L)	0	8 802	8 802	0	0	8 802
- other	0	-1	-1	0	0	-1
g) cumulated depreciation (amortization) at the end of the period	**23**	**397 395**	**187 275**	**4**	**0**	**397 422**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
- increase		3 988	3 988		0	**3 988**
i) impairment write-offs at the end of the period	**0**	**3 988**	**3 988**	**0**	**0**	**3 988**
j) net value of intangible assets at the end of the period	**0**	**30 227**	**30 227**	**0**	**180**	**30 407**

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

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	**23**	**403 726**	**193 606**	**4**	**0**	**403 753**
b) increases (on account of)	**0**	**7 959**	**7 958**	**0**	**5**	**7 964**
- purchase	0	1 214	1 214	0	5	1 219
- transfer from investments and advances	0	825	825	0	0	825
- expenditures on intangible assets	0	2 688	2 688	0	0	2 688
- other	0	3 232	3 231	0	0	3 232
c) reductions (on account of)	**0**	**275**	**275**	**0**	**0**	**275**
- sale	0	0	0	0	0	0
- other	0	275	275	0	0	275
d) gross value of intangible assets at the end of the period	**23**	**411 410**	**201 289**	**4**	**5**	**411 442**
e) cumulated depreciation (amortization) at the beginning of the period	**23**	**381 890**	**171 770**	**4**	**0**	**381 916**
f) depreciation over the period (on account of)	**0**	**6 704**	**6 704**	**0**	**0**	**6 704**
- current write-off (P&L)	0	6 704	6 704	0	0	6 704
- other	0	0	0	0	0	0
g) cumulated depreciation (amortization) at the end of the period	**23**	**388 594**	**178 474**	**4**	**0**	**388 621**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**22 816**	**22 816**	**0**	**5**	**22 821**

(23) NON-CURRENT ASSETS HELD FOR SALE

23a. Change of balance of non current assets held for sale in the period 01.01.2010 – 31.12.2010

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	224	702	402	148	0	1 476
b) impairment write-offs at the beginning of the period	-67	-132	-402	-6	0	-607
c) net value of non current assets held for sale at the beginning of the period	**157**	**570**	**0**	**142**	**0**	**869**
d) change of value in the period, including:	**-101**	**-169**	**0**	**0**	**0**	**-270**
- sale of non current assets held for sale	0	0	0	0	0	0
e) value at the end of the period	**123**	**533**	**402**	**148**	**0**	**1 206**
f) change of impairment write-offs in the period, including:	**0**	**0**	**0**	**0**	**0**	**0**
- sale of non current assets held for sale	0	0	0	0	0	0
g) impairment write-offs at the end of the period	**-67**	**-132**	**-402**	**-6**	**0**	**-607**
h) net value of non current assets held for sale at the end of the period	**56**	**401**	**0**	**142**	**0**	**599**

23b. Change of balance of non current assets held for sale in the period 01.01.2009 – 31.12.2009

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	224	963	402	148	0	1 737
b) impairment write-offs at the beginning of the period	-67	-151	-402	-6	0	-626
c) net value of non current assets held for sale at the beginning of the period	**156**	**812**	**0**	**142**	**0**	**1 111**
d) change of value in the period, including:	**0**	**-261**	**0**	**0**	**0**	**-261**
- sale of non current assets held for sale	0	-261	0	0	0	-261
e) value at the end of the period	**224**	**702**	**402**	**148**	**0**	**1 476**
f) change of impairment write-offs in the period, including:	**0**	**19**	**0**	**0**	**0**	**19**
- sale of non current assets held for sale	0	19	0	0	0	19
g) impairment write-offs at the end of the period	**-67**	**-132**	**-402**	**-6**	**0**	**-607**
h) net value of non current assets held for sale at the end of the period	**156**	**571**	**0**	**142**	**0**	**869**

(24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets

	31.12.2010			31.12.2009		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	59 224	-46 561	12 663	52 402	-58 349	-5 947
Balance sheet valuation of financial instruments	487 491	-461 504	25 987	176 595	-146 476	30 119
Unrealised receivables/ liabilities on account of derivatives	75 433	-90 019	-14 586	100 119	-112 765	-12 646
Interest on deposits and securities to be paid/ received	41 535	-77 355	-35 820	76 249	-83 675	-7 426
Interest and discount on loans and receivables	3 078	-20 052	-16 974	178	-20 958	-20 780
Income and cost settled at effective interest rate	7 054	-8 350	-1 296	2 219	-9 038	-6 819
Provisions for loans presented as temporary differences	135 004	0	135 004	138 535	0	138 535
Employee benefits	10 725	0	10 725	8 572	0	8 572
Provisions for future costs	7 855	0	7 855	4 978	0	4 978
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	14 135	-2 347	11 788	0	-2 627	-2 627
Tax loss deductible in the future	3 082	0	3 082	11 318	0	11 318
Other	11 158	-3 572	7 586	9 531	-6 483	3 048
Net deferred income tax asset	**855 774**	**-709 760**	**146 014**	**580 696**	**-440 371**	**140 325**

24b. Change of temporary differences

	31.12.2009	Changes to financial result	Changes to equity	31.12.2010
Difference between tax and balance sheet depreciation	-5 947	18 610		12 663
Balance sheet valuation of financial instruments	30 119	-4 132		25 987
Unrealised receivables/ liabilities on account of derivatives	-12 646	-1 940		-14 586
Interest on deposits and securities to be paid/ received	-7 426	-28 394		-35 820
Interest and discount on loans and receivables	-20 780	3 806		-16 974
Income and cost settled at effective interest rate	-6 819	5 522		-1 296
Provisions for loans presented as temporary differences	138 535	-3 531		135 004
Employee benefits	8 572	2 153		10 725
Provisions for future costs	4 978	2 877		7 855
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-2 627		14 415	11 788
Tax loss deductible in the future	11 318	-8 236		3 082
Other	3 048	4 537		7 586
Total	**140 325**	**-8 728**	**14 415**	**146 014**

24c. Change of temporary differences

	31.12.2008	Adjustments in opening balance	Changes to financial result	Changes to equity	31.12.2009
Difference between tax and balance sheet depreciation	-51 966		46 019		-5 947
Balance sheet valuation of financial instruments	40 945		-10 826		30 119
Unrealised receivables/ liabilities on account of derivatives	7 231		-19 877		-12 646
Interest on deposits and securities to be paid/ received	-35 872		28 446		-7 426
Interest and discount on loans and receivables	-25 341		4 561		-20 780
Income and cost settled at effective interest rate	-18 283		11 464		-6 819
Provisions for loans presented as temporary differences	92 100		46 435		138 535
Employee benefits	18 617		-10 045		8 572
Provisions for future costs	6 661		-1 683		4 978
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-9 439			6 812	-2 627
Tax loss deductible in the future	10 512		806		11 318
Other	16 088	-20 622*	7 582		3 048
Total	**51 253**	**-20 622**	**102 882**	**6 812**	**140 325**

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

24d. Change of deferred income tax

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Difference between tax and balance sheet depreciation	18 610	46 019
Balance sheet valuation of financial instruments	-4 132	-10 826
Unrealised receivables/ liabilities on account of derivatives	-1 940	-19 877
Interest on deposits and securities to be paid/ received	-28 394	28 446
Interest and discount on loans and receivables	3 806	4 561
Income and cost settled at effective interest rate	5 522	11 464
Provisions for loans presented as temporary differences	-3 531	46 435
Employee benefits	2 153	-10 045
Provisions for future costs	2 877	-1 683
Tax loss deductible in the future	-8 236	806
Other	4 537	7 582
Change of deferred income tax recognized in financial result	**-8 728**	**102 882**
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	**14 415**	**6 812**

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

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

The value of negative temporary differences presented in the above table was recalculated with the valid tax rate.

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

During the reporting period the Group did not have the status of a tax capital group within the meaning of the CIT Act and each of consolidated company operated as a separate taxpayer. As a result, tax losses, reliefs and regulatory tax deductions of all and any type, found (generated) in one company could not reduce tax liabilities of another consolidated company.

	31.12.2010	31.12.2009
Net deferred income tax assets	146 014	140 325
Net deferred income tax provision	-	-
TOTAL	**146 014**	**140 325**

(25) OTHER ASSETS

25. Other assets

	31.12.2010	31.12.2009
Expenses to be settled	32 996	34 665
Income to be received	13 002	5 829
Interbank settlement accounts	19 542	24
Settlement accounts for financial instruments transactions	2	12 099
Receivables from sundry debtors	38 110	57 697
Settlements with the State Treasury, including:	8 383	22 929
- receivables from Tax Office resulting from the article 38a of the CIT Act	0	0
- receivables from adjustment in VAT settlements	0	12 689
Settlement accounts for activities of Millennium Dom Maklerski S.A.	87 077	72 098
Other	9 821	5 814
Total other assets (gross)	**208 933**	**211 155**
Provisions	-10 368	-11 204
Total other assets (net)	**198 565**	**199 951**

(26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2010	31.12.2009
In current account	54 328	45 670
Term deposits	139 573	2 221 768
Loans and advances received	1 888 384	2 625 839
Interest	2 171	16 093
Total	**2 084 456**	**4 909 370**

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

26b. Deposits from banks by maturity

	31.12.2010	31.12.2009
Current accounts	54 328	45 670
- to 1 month	138 801	988 904
- above 1 month to 3 months	538	1 232 826
- above 3 months to 1 year	792 294	1 050 906
- above 1 year to 5 years	905 690	1 232 460
- above 5 years	190 634	342 511
Interest	2 171	16 093
Total	**2 084 456**	**4 909 370**

The balance of liabilities towards Banks with maturities above 5 years results from the long-term loan agreements concluded by the Bank in 2010 with the European Investment Bank.

26c. Deposits from banks by currency

	31.12.2010	31.12.2009
in Polish currency	436 831	505 897
in foreign currencies (after conversion to PLN)	1 647 625	4 403 473
- currency: USD	29 650	7
- currency: EUR	1 617 975	4 070 889
- currency: CHF	0	332 577
Total	**2 084 456**	**4 909 370**

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

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

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

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

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

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

	31.12.2010	31.12.2009
Negative valuation of derivatives	713 041	582 002
Short sale of securities	91 290	100 201
Financial liabilities valued at fair value through profit and loss	**804 331**	**682 203**

The division of the negative valuation of derivatives into specific types of instruments is presented in note (16).

(28) *DERIVATIVE HEDGING INSTRUMENTS*

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

(29) DEPOSITS FROM CUSTOMERS

29a. Deposits from customers by type structure

	31.12.2010	31.12.2009
Amounts due to private individuals	**20 928 083**	**19 583 888**
Balances on current accounts	7 241 195	5 442 404
Term deposits	13 368 776	13 673 853
Other	158 733	125 565
Accrued interest	159 379	342 066
Amounts due to companies	**12 424 689**	**9 841 049**
Balances on current accounts	2 956 393	2 384 458
Term deposits	9 257 875	7 196 292
Other	172 334	224 316
Accrued interest	38 087	35 983
Amounts due to public sector	**2 042 376**	**2 133 727**
Balances on current accounts	855 928	954 505
Term deposits	1 149 996	1 161 374
Other	31 990	14 923
Accrued interest	4 462	2 925
Total	**35 395 147**	**31 558 664**

29b. Deposits from customers by maturity

	31.12.2010	31.12.2009
Current accounts	10 910 237	8 781 367
- to 1 month	10 978 618	10 613 734
- above 1 month to 3 months	6 627 919	6 301 080
- above 3 months to 1 year	5 607 605	5 435 236
- above 1 year to 5 years	1 068 675	46 115
- above 5 years	165	158
Interest	201 928	380 974
Total	**35 395 147**	**31 558 664**

29c. Deposits from customers by currency

	31.12.2010	31.12.2009
in Polish currency	33 609 109	29 840 293
in foreign currencies (after conversion to PLN)	1 786 039	1 718 371
- currency: USD	554 033	601 852
- currency: EUR	1 143 243	1 028 247
- currency: GBP	71 045	68 934
- currency: CHF	14 385	16 185
- other currencies (PLN ‘000)	3 333	3 153
Total	**35 395 147**	**31 558 664**

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

30. Liabilities from securities bought with buy-back clause

	31.12.2010	31.12.2009
a) to the Central Bank	0	481 372
b) to banks	300 000	1 106 704
c) to customers	369 938	750 196
d) interest	752	4 412
Total	**670 691**	**2 342 684**

(31) LIABILITIES FROM DEBT SECURITIES

31a. Debt securities

	31.12.2010	31.12.2009
Outstanding bonds and bills	1 052 111	1 023 544
Bank Securities	88 114	0
Interest	782	791
Total	**1 141 007**	**1 024 335**

31b. Debt securities by final legal maturity

	31.12.2010	31.12.2009
- to 1 month	0	0
- above 1 month to 3 months	13 804	0
- above 3 months to 1 year	76 799	28 520
- above 1 year to 5 years	313 934	233 946
- above 5 years	735 688	761 078
Interest	782	791
Total	**1 141 007**	**1 024 335**

31c. Change of debt securities

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	**1 024 335**	**917 094**
Increases, on account of:	222 106	184 655
- issue of Banking Securities	88 114	0
- issue of bonds by the Bank	113 210	183 864
- issue of bonds by subsidiary company	20 000	0
- interest accrual	782	791
Reductions, on account of:	-105 434	-77 414
- repurchase of bonds in leasing portfolio securitization transaction	-26 181	-42 809
- repurchase of bonds by the Bank	-79 253	-34 605
Balance at the end of the period	**1 141 007**	**1 024 335**

31d. Debt securities by type

As at 31.12.2010	Balance sheet value	Interest rate*	Final legal maturity	Market
Bonds and Banking Securities issued by Bank:				
BM_2011/02	1 581	-	2011-02-25	-
BM_2011/03,_1,_2	12 223	-	2011-03-31,14,15	-
BM_2011/04,A	9 231	-	2011-04-15,01	-
BM_2011/05,A	14 703	-	2011-05-12,31	-
BM_2011/10,A,B	19 610	-	2011-10-04,04,05	-
BM_2011/11,A	6 558	-	2011-11-08,07	-
BM_2011/12	1 456	-	2011-12-16	-
BM_2012/01,A,B,C	16 843	-	2012-01-03,04,10,12	-
BM_2012/02,A,B	14 689	-	2012-02-02,01,02	-
BM_2012/04,A,B,C	20 993	-	2012-04-10,10,11,12	-
BM_2012/05	1 019	-	2012-05-09	-
BM_2012/06	4 383	-	2012-06-11	-
BM_2012/07,A	16 735	-	2012-07-06,09	-
BM_2012/08,A	12 493	-	2012-08-08,08	-
BM_2012/09,A,B,C,D,E	17 192	-	2012-09-06,07,10,10,11,12	-
BM_2012/11,A,B,C	15 211	-	2012-11-06,07,02,05	-
BM_2012/12,A,B	15 076	-	2012-12-10,11,12	-
BM_2013/02,A	14 659	-	2013-02-07,08	-
BM_2013/03,A,B,C,D	21 416	-	2013-03-07,08,04,05,06	-
BM_2013/04,A,B	9 107	-	2013-04-08,03,04	-
BM_2013/05,A,B,C	15 467	-	2013-05-08,09,09,10	-
BM_2013/06,A,B	18 429	-	2013-06-03,06,07	-
BM_2013/10,A	6 038	-	2013-10-07,08	-
BM_2014/01,A	11 312	-	2014-01-06,07	-
BPW_2011/10	5 240	-	2011-10-05	-
BPW_2013/07,A	13 297	-	2013-07-08,09	-
BPW_2013/08	14 680	-	2013-08-02	-
BPW_2013/09	8 932	-	2013-09-09	-
BPW_2013/10	11 168	-	2013-10-04	-
BPW_2013/11	8 747	-	2013-11-04	-
BPW_2013/12	15 328	-	2013-12-02	-
BPW_2014/01	10 722	-	2014-01-03	-
TOTAL:	**384 538**			

* - In the case of Bonds and Banking Securities issue by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date.

Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	303 147	3,92%	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	397 962	3,92%	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	35 328	5,81%	20.12.2016	-
TOTAL:	**736 437**			
Bonds issued by subordinated company:				
Millennium Leasing Sp. z o.o. – B1	20 032	5,25%	20.12.2011	-

31e. Debt securities by type

As at 31.12.2009	Balance sheet value	Interest rate*	Final legal maturity	Market
BM_2010/06	3 933		2010-06-02	
BM_2010/07	8 281	-	2010-07-07	-
BM_2010/07A	6 590	-	2010-07-19	-
BM_2010/09,A	3 328	-	2010-09-06,07	-
BM_2010/12	5 492	-	2010-12-03	-
BM_2010/12A	896	-	2010-12-06	-
BM_2011/02	2 627	-	2011-02-25	-
BM_2011/03,04A	9 615	-	2011-03-31,04-01	-
BM_2011/03_1,2	7 495	-	2011-03-14,15	-
BM_2011/04	7 144	-	2011-04-15	-
BM_2011/05	8 738	-	2011-05-12	-
BM_2011/05A	6 695	-	2011-05-31	-
BM_2011/10	7 871	-	2011-10-04	-
BM_2011/10A	7 114	-	2011-10-04	-
BM_2011/10B	4 610	-	2011-10-05	-
BM_2011/11,A	11 122	-	2011-11-07,08	-
BM_2012/01	5 904	-	2012-01-03	-
BM_2012/01A	6 683	-	2012-01-04	-
BM_2012/01B,C	10 545	-	2012-01-10,12	-
BM_2012/02	7 456	-	2012-02-02	-
BM_2012/04	8 258	-	2012-04-10	-
BM_2012/05	2 741	-	2012-05-09	-
BM_2012/06	4 600	-	2012-06-11	-
BM_2012/07,A	17 983	-	2012-07-06,09	-
BM_2012/08	5 543	-	2012-08-08	-
BM_2012/08A	9 121	-	2012-08-08	-
BM_2012/09,A,B	12 051	-	2012-09-06,07,10	-
BM_2012/09C,D,E	11 395	-	2012-09-10,11,12	-
BM_2012/11,A	13 591	-	2012-11-06,07	-
BM_2012/11B,C	4 262	-	2012-11-02,05	-
BM_2012/12,A,B	20 323	-	2012-12-10,11,12	-
BM_2013/10,A	9 131	-	2013-10-07,08	-
BM_2014/01,A	11 328	-	2014-01-06,07	-
TOTAL:	**262 466**			
* In the case of bonds issue by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date.				
Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	306 127	4.02%	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	420 413	4.02%	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	35 329	5.91%	20.12.2016	-
TOTAL:	**761 869**			

(32) PROVISIONS

32a. Provisions

	31.12.2010	31.12.2009
Provision for off-balance sheet commitments	14 273	18 383
Provision for contentious claims	7 172	6 194
Total	**21 445**	**24 577**

32b. Change of provisions

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Provision for off-balance sheet commitments		
Balance at the beginning of the period	18 383	16 433
Charge of provision	7 743	14 990
Release of provision	-11 741	-12 810
FX rates differences	-112	-230
Balance at the end of the period	**14 273**	**18 383**
Provision for contentious claims		
Balance at the beginning of the period	6 194	17 448
Charge of provision	2 820	2 850
Release of provision	-1 350	-13 746
Utilisation of provision	-492	-358
Other	0	0
Balance at the end of the period	**7 172**	**6 194**

(33) PROVISION FOR DEFERRED INCOME TAX

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

(34) OTHER LIABILITIES

34a. Other liabilities

	31.12.2010	31.12.2009
Short-term	**512 924**	**467 986**
Accrued costs - bonuses, salaries	49 221	31 953
Accrued costs - other	47 940	50 024
Interbanking settlement accounts	74 640	75 299
Financial instruments transactions settlement accounts	34 797	0
Other creditors	95 469	108 098
Liabilities to public sector	16 040	32 659
Deferred income	53 406	40 812
Provisions for unused employee holiday	5 580	6 750
Settlement accounts for activities of Millennium Dom Maklerski S.A.	79 055	66 313
Other	56 775	56 077
Long-term	**36 136**	**45 981**
Provisions for retirement benefits	7 915	6 448
Deferred income	3 304	14 486
Other	24 917	25 047
Total	**549 060**	**513 967**

34b. Change of provisions for unused employee holiday

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	**6 750**	**10 664**
Charge of provisions/ reversal of provisions	-830	-2 967
Utilisation of provisions/ reclassification of provision	-340	-947
Balance at the end of the period	**5 580**	**6 750**

34c. Change of provisions for retirement benefits

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
Balance at the beginning of the period	**6 448**	**6 210**
Charge of provisions/ reversal of provisions	1 648	685
Utilisation of provisions/ reclassification of provision	-181	-446
Balance at the end of the period	**7 915**	**6 448**

(35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2010	31.12.2009
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	230 000	230 000
Value of the liability in PLN	910 869	944 886
Interest rate	EUR 80 million – 3.259% EUR 150 million – 2.754%	EUR 80 million – 2.872% EUR 150 million – 2.497%
Maturity	EUR 80 million - 12.12.2011 EUR 150 million - 20.12.2017	EUR 80 million - 12.12.2011 EUR 150 million - 20.12.2017
Interest	1 119	909
Balance sheet value of subordinated debt	**911 988**	**945 795**

35b. Change of subordinated debt

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

During 2010 and 2009 the Group did not have any delays in the payment of principal and interest instalments, nor it infringed any contractual provisions resulting from its subordinated liabilities.

(36) *SHAREHOLDERS' EQUITY*

36a. SHARE CAPITAL

The share capital of the Bank Millennium S.A. (equal to the Group's share capital) is PLN 1,213,116,777 divided into 1,213,116,777 shares of PLN 1 par value each, as presented by the table below.

SHARE CAPITAL Par value of one share = 1 PLN

Series / issue	Share type	Type of preference	Number of shares	Value of series/issue	Manner of capital coverage	Registration date	Right to dividend
A	registered founder	x2 as to voting	106 850	106 850	cash	30.06.1989	30.06.1989
B1	registered ordinary		150 000	150 000	cash	13.06.1990	01.01.1990
B2	registered ordinary		150 000	150 000	cash	13.12.1990	01.01.1990
C	bearer ordinary		4 693 150	4 693 150	cash	17.05.1991	01.01.1991
D1	bearer ordinary		1 700 002	1 700 002	cash	31.12.1991	01.01.1992
D2	bearer ordinary		2 611 366	2 611 366	cash	31.01.1992	01.01.1992
D3	bearer ordinary		1 001 500	1 001 500	cash	10.03.1992	01.01.1992
E	bearer ordinary		6 000 000	6 000 000	cash	28.05.1993	01.01.1992
F	bearer ordinary		9 372 721	9 372 721	cash	10.12.1993	01.01.1993
G	bearer ordinary		8 000 000	8 000 000	cash	30.05.1994	01.10.1993
H	bearer ordinary		7 082 129	7 082 129	cash	24.10.1994	01.10.1994
Increasing of par value of shares from 1 to 4 PLN				122 603 154	surplus	24.11.1994	
1:4 split			122 603 154			5.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

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

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

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2010.

Information on the Bank's shareholding structure presented in the table below is given on the basis of information contained in the notices sent to the shareholders of the Bank, pursuant to Article. 69 of the Act on Public Offering, the conditions for introducing financial instruments to organized trading, and public companies, or on the basis of information provided by shareholders in the registration at the AGM of the Bank, as far as possible aforementioned sources are updated based on public information. The largest shareholders of the Group's parent entity – the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2010

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

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

Shareholders as at 31.12.2009

Shareholder	**Number of shares**	***% share in share capital***	***Number of votes***	***% share in votes at Shareholders' Meeting***
Banco Comercial Portugues S.A.	556 325 794	65.51	556 325 794	65.51
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	69 568 623	8.19	69 568 623	8.19

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

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

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

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

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

36b. REVALUATION RESERVE

Revaluation reserve arises on the recognition of:

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

Revaluation reserve

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

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

Revaluation reserve on available for sale financial assets 1.01.2010 - 31.12.2010

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

Revaluation reserve on available for sale financial assets 1.01.2009 - 31.12.2009

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

Revaluation reserve on cash flows hedge financial instruments 1.01.2010 - 31.12.2010

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

Revaluation reserve on cash flows hedge financial instruments 1.01.2009 - 31.12.2009

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

36c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2010	**515 944**	**633 014**	**88 366**	**217 288**	**1 454 612**
- appropriation of profit, including:					**0**
- transfer to supplementary capital	2 858			-2 858	**0**
- transfer to reserve capital		84 115		-84 115	**0**
- covering of loss from previous years	-17 017			17 017	**0**
- net profit/ (loss) of the period				325 997	**325 997**
Retained earnings at the end of the period 31.12.2010	**501 786**	**717 129**	**88 366**	**473 329**	**1 780 609**

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2009	**511 933**	**101 968**	**88 366**	**750 850**	**1 453 117**
- appropriation of profit, including:					
- transfer to supplementary capital	4 011			-4 011	**0**
- transfer to reserve capital		531 046		-531 046	**0**
- net profit/ (loss) of the period				1 495	**1 495**
Retained earnings at the end of the period 31.12.2009	**515 944**	**633 014**	**88 366**	**217 288**	**1 454 612**

IX. 2010 DIVIDEND

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

There was not dividend payment from profit recorded in 2009.

X. FAIR VALUE

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

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

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

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

Receivables and liabilities with respect to banks (structured contract)

This is a transaction, which comprises the simultaneous purchase of a long-term zero-coupon bond and the taking-out of a long-term fixed-rate loan from the issuer of the bond.
The fair value of both sides of the transaction is estimated by discounting the related cash flows on maturity/due date with use of the current zero-coupon rate and the margin, which was rescaled to adjust it to the current level of market rates.

Other receivables and liabilities with respect to banks

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

Loans and advances granted to customers

The fair value of such instruments without maturity and with short maturities, given their short-term nature and the time-stable policy of the Group with respect to this portfolio, is close to balance-sheet value.
With respect to floating rate leasing products fair value was assessed by adjusting balance-sheet value with discounted cash flows resulting from difference of spreads

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

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

Subordinated liabilities

The fair value of this financial instrument is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and credit risk margin based on current level of market rates and historical margin for credit risk.

The table below presents results of the above-described analyses as at 31.12.2010 (data in PLN thousand):

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 485 810	1 516 440
Loans and advances to customers *	18	36 738 493	35 113 486

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 084 456	2 142 727
Amounts due to customers	29	35 395 147	35 394 421
Debt securities	31	1 141 007	1 152 284
Subordinated debt	35	911 988	906 290

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

The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is applied for valuation of debt securities, which are not quoted on active markets.

In result, paradoxically whenever the Bank raises spreads, fair value of the “old” loans portfolio falls.

The table below presents data as at 31 December 2009 (data in PLN thousand):

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	695 697	725 393
Loans and advances to customers	18	33 484 935	31 604 715

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	4 909 370	4 944 585
Amounts due to customers	29	31 558 664	31 560 000
Debt securities	31	1 024 335	1 032 412
Subordinated debt	35	945 795	943 172

The table below presents balance-sheet values of instruments measured at fair value, by applied fair value measurement technique:

Data in '000PLN, as at 31.12.2010				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			447 984	545
- debt securities		752 141	228 219	
- shares and interests		931		
-fund units			80 231	
Hedging derivatives	**17**			
Financial assets available for sale	**19**			
- debt securities		2 975 319	1 388 244	133 401
- shares and interests		9 812		1 653
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			804 331	
Hedging derivatives	**28**		1 315 321	

Data in '000PLN, as at 31.12.2009				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			633 480	77 317
- debt securities		2 089 136	231 182	
- shares and interests		430		
-fund units		536		
Hedging derivatives	**17**		377 334	
Financial assets available for sale	**19**			
- debt securities		2 121 581	1 895 637	133 060
- shares and interests		11 725		1 655
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			682 203	
Hedging derivatives	**28**		122 813	

The category of derivatives, which were measured at fair value based on unobservable inputs (valuation techniques with use of important parameters not derived from the market) comprises FX options. The credit risk valuation component (valuation component not derived from the market) is reflected only in case of options, whose fair value is presented in the balance sheet as an asset.

Options presented as the Bank's liability are included in the category measured at fair value based on parameters derived from the market (description of the method of valuation of FX options is presented in Chapter VI "Accounting Policy"). In 2009 the bank ceased to conclude FX options with the transaction customers, in result the value of these transactions fell strongly.

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

Data in '000 PLN

	FX options	Debt securities (municipal bonds)	Shares and interests
Balance on 1 January 2010	77 317	133 060	1 655
Settlement/repurchase/sale	-81 786	-122 127	0
Change of valuation recognized in P&L account (including interests)	4 603	1945	-2
Change of valuation recognized in equity (revaluation reserve)	0	0	0
Purchase	411	120 523	0
Balance on 31 December 2010	545	133 401	1 653

XI. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

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

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

As at 31 December 2009 following assets of the Bank constituted security of liabilities:

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

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

As at 31 December 2010 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	trading	713 477	669 832
TOTAL		**713 477**	**669 832**

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

As at 31 December 2009 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bills	available for sale	500 000	490 458
Treasury bonds	available for sale	575 000	519 944
Treasury bills	trading	201 490	198 260
Treasury bonds	trading	1 205 016	1 158 088
TOTAL		**2 481 506**	**2 366 750**

XIII. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

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

Data in '000 PLN

	31.12.2010	31.12.2009
Cash and balances with the Central Bank	2 050 736	2 191 227
Receivables from interbank deposits (*)	145 018	334 770
Debt securities issued by the State Treasury (*)	1 063 295	1 602 611
of which available for sale	999 708	1 599 383
of which trading	63 587	3 228
Total	**3 259 049**	**4 128 607**

(*) Financial assets with maturity below three months

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

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

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

XIV. INFORMATION ON CUSTODY ACTIVITY

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

XV. TRANSACTIONS WITH RELATED ENTITIES

(1) Description of the transactions with related entities

All and any transactions between entities of the Group in 2010 resulted from the current operations. Below are the most significant amounts – eliminated in the data consolidation process – of intra-group transactions concluded between the following entities:

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

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

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

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

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits	268 347	4 728
Loans and advances to customers	2 336 578	
Receivables from securities bought with sell-back clause	3 503	
Investments in associates	311 242	
Investment financial assets	15 725	
Financial assets valued at fair value through profit and loss (held for trading)	4 120	19 216
Hedging derivatives	0	69 616
Other assets	5 710	528
LIABILITIES		
Deposits from banks	2 195 823	793 828
Deposits from customers	1 029 747	
Liabilities from securities sold with buy-back clause	3 503	
Debt securities	-736 438	
Financial liabilities valued at fair value through profit and loss (held for trading)	1 300	
Hedging derivatives		69 748
Other liabilities	144 969	
- including liabilities from financial leasing contracts	138 786	

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

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits	229 807	70 542
Loans and advances to customers	2 220 036	
Receivables from securities bought with sell-back clause	3 506	
Investments in associates	263 720	
Investment financial assets	15 725	
Financial assets valued at fair value through profit and loss (held for trading)	4 160	53 043
Hedging derivatives	0	74 839
Other assets	12 761	
LIABILITIES		
Deposits from banks	2 219 232	2 892 670
Deposits from customers	1 020 686	
Liabilities from securities sold with buy-back clause	3 506	
Debt securities	-761 869	
Financial liabilities valued at fair value through profit and loss (held for trading)	2 644	757
Other liabilities	164 187	5
- including liabilities from financial leasing contracts	150 320	

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

	With subsidiaries	With controlling entity
Income from:		
Interest	97 749	64 044
Commissions	54 303	
Derivatives net	1 304	
Dividends	28 822	
Other net operating income	79 696	

Expense from:		
Interest	97 860	54 187
Commissions	53 778	1 017
Derivatives net	0	6 678
General and administrative expenses	79 628	73

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

	With subsidiaries	With controlling entity
Income from:		
Interest	97 356	41 521
Commissions	43 548	
Derivatives net	311	11 314
Dividends	119 798	
Other net operating income	107 525	
Expense from:		
Interest	107 197	49 991
Commissions	43 746	
Derivatives net	0	
General and administrative expenses	96 274	111

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

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

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

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

(2) Information on the value of prepayments, loans, advances and guarantees granted

Information on total exposure towards the managing and supervising persons as at 31.12.2010:

	The managing persons	The supervising persons
Total debt limit (in '000 PLN), - including an unutilized limit (in '000 PLN),	1 210,0 381,7	125,0 113,0
Mortgage loans and credits	3 314,5	-
Active guarantees	-	-

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

Information on total exposure towards companies and groups personally related as at 31.12.2010:

Entity	Amount (PLN'000)	Relation
Company No 1	5 269	Personal with a supervising person
Company No 2	395	Personal with a supervising person
Group No 1	140 465	Personal with a supervising person
Group No 2	6 465	Personal with a supervising person

Outstanding loans granted to staff from Company Social Benefits Fund:

- in the Bank - 4 349,6 PLN ths.
- in Millennium Leasing - 1 364,2 PLN ths

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

Information on total exposure towards the managing and supervising persons as at 31.12.2009:

	The managing persons	The supervising persons
Total debt limit (in '000 PLN), - including an unutilized limit (in '000 PLN),	1 055,0 253,4	160,0 125,3
Mortgage loans and credits	3 070,0	-
Active guarantees	-	-

Information on total exposure towards companies and groups personally related as at 31.12.2009:

Entity	Amount (PLN'000)	Relation
Company No 1	6 838	Personal with a supervising person
Company No 2	315	Personal with a supervising person
Group No 1	80 634	Personal with a supervising person
Group No 2	10 519	Personal with a supervising person

Outstanding loans granted to staff from Company Social Benefits Fund:

- in the Bank - 4 666,7 PLN ths.
- in Millennium Leasing - 1 404,5 PLN ths.

(3) Information on compensations and benefits of the persons supervising and managing the Bank

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

Period	**Short term salaries and bonuses**	**Benefits**	**TOTAL**
2010	9 180.0	1 692.7	**10 872.7**
2009	20 194,5	1 185,0	**21 379,5**

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

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

Period	Short term salaries and benefits
2010	**1 637,9**
2009	**1 827,9**

In 2010, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

(4) Bank's shares held by the persons managing and supervising the Bank (in office as at 31 December 2010)

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

XVI. RISK MANAGEMENT

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

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

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

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

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

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan;
- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board; and
- The Risk Control Committee and the Processes and Operational Risk Committee are responsible for monitoring and control of different areas of banking risk, within the framework determined by the Management Board.
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk with the Group. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Risk Control Committee and the Management Board to make decisions with respect to risk management.
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits.
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection.

- The Corporate Collection Department develops specific strategies with respect to each debtor, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts.
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment.

(1) Capital Management

Regulatory Own Funds

The management of the Group's capital, in addition to complying with own needs must fully observe statutory regulations in this regard (own funds, prudential standards, capital requirements) as set by the Banking Act and respective resolutions of the Polish Financial Supervisory Authority.
Bank Millennium conducted in the beginning of 2010 a shares rights issue, increasing its own capital by more than 1 bln PLN thus strengthening the solvency ratios in order to implementation the new business strategy for years 2010-2012.
Due to the capital increase, and to the improvement of net profit, the capital position measured by the CAR improved in 2010 on consolidated basis significantly above the minimum required level of capital adequacy.
The Group's capital adequacy is regularly monitored in detail for individual types of exposure, its coverage by own regulatory funds and change in trends. In this context risk factors , which may lead to deterioration of the Group's capital position are monitored, including changes of FX rates, real estate prices, growth of impaired exposures. Stress tests are carried out, reflecting growth of these risk factors as well as the potential impact on capital adequacy.

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

Internal Capital

The Group performs its process of internal capital adequacy assessment based on model of economic capital.
The calculation of economic capital covers all the material risk types to which the Group is exposed to and is based on the set of parameters adjusted to the specifities and realities of the Polish market.
In the process of internal capital calculation particular types of risk and risk-diversification effects are subject to stress testing. Total diversified economic capital is compared then with the risk-taking capacity, i.e. with own funds/available financial resources. As a result of that analysis, internal

economic capital adequacy is assessed. In 2010 – similar to 2009 - total risk of the Group (internal to capital) was completely secured by available to this purpose funds. Internal capital is allocated into particular business areas.

(2) Credit risk

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

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

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

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances

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

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

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

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

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

The Group's internal rating scale

Internal rating of the group	Description of rating
1-3	Highest quality
4-6	Good quality
7-9	Medium quality
10-12	Low quality
13-14	Watched
15	Default

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

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

Debt Securities

The portfolio of debt securities, other than those issued by the State Treasury or the Central Bank, is relatively small.

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

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

Resulting from art. 71 of the Banking Act limits with respect to one borrower or group of connected borrowers, are monitored monthly while the internal, sectoral limits are monitored quarterly. Limits are subject to annual or more frequent review, when deemed appropriate. The limits are approved by the Credit Committee.

Management of credit risk exposure is also performed through regular monitoring of customers' economic and financial situation and/or track record of their relationship with the Group from the point of view of punctual repayment of their principal and interest liabilities.

Collateral

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

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

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

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

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

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

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

Derivatives

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

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

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

Credit risk-based off-balance sheet liabilities

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

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

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

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

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

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

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

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

Individual impairment analysis for credit receivables

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

The whole process comprises following stages:

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

Collective analysis of loans portfolio

The following loans are subjected to collective analysis:

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

A portfolio of homogenous loans comprises exposures with a similar risk profile, and thus e.g. a homogenous loans portfolio may be created on the basis of segmentation into business lines, type of credit products, number of past due days, type of collateral (leasing) etc.

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

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

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

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

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

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

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

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

Internal rating of the Group

	31.12.2010		**31.12.2009**	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	37,90%	3,50%	36,94%	1,49%
3. Medium quality	32,39%	5,56%	32,19%	8,28%
4. Low quality	10,77%	2,35%	14,66%	11,70%
5. Watched	3,77%	7,78%	2,80%	8,18%
6. Default	5,93%	76,25%	5,46%	65,29%
7. Clients without rating*	9,24%	4,56%	7,94%	5,05%
Total	**100,00%**	**100,00%**	**100,00%**	**100,00%**

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

(2d) Maximum exposure to credit risk i.e. net of risk-mitigating instruments

PLN '000

	Maximum exposure	
	31.12.2010	**31.12.2009**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**44 229 636**	**41 597 152**
Loans and advances to banks	**1 485 809**	**695 697**
Loans and advances to customers:	**36 738 493**	**33 484 935**
Loans to private individuals:	**27 884 336**	**24 809 679**
– Credit cards	777 952	772 796
– Cash loans and other loans to private individuals	2 223 510	2 123 829
– Mortgage loans	24 882 874	21 913 054
Loans to companies	**8 125 348**	**8 172 954**
Loans to public entities	**728 809**	**502 302**
Trading securities:	**981 291**	**2 321 284**
– Debt securities	980 360	2 320 318
– Shares	931	966
Derivatives	**448 529**	**710 797**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**4 520 429**	**4 175 658**
– Debt securities	4 496 964	4 150 278
– Shares	23 465	25 380
Receivables from securities bought with sell-back clause	**55 085**	**208 781**
Credit risk connected with off-balance sheet items appears as follows:	**7 977 715**	**7 134 510**
Financial guarantees	1 810 878	1 486 766
Credit commitments and other commitments connected with loans	6 166 837	5 647 744

The table above presents the structure of the Group's exposures to credit risk as at 31st December 2010 and 31st December 2009, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

(2E) LOANS

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

Gross exposure in '000 PLN

	31.12.2010		31.12.2009	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Not overdue and without impairment	33 682 351	1 485 810	30 785 445	695 697
Overdue, but without impairment	2 048 309	0	1 773 146	0
With impairment	2 195 119	0	2 032 835	0
Gross	**37 925 779**	**1 485 810**	**34 591 426**	**695 697**
Impairment write-offs together with IBNR	-1 187 286	0	-1 106 491	0
Net	**36 738 493**	**1 485 810**	**33 484 935**	**695 697**
Loans with impairment / total loans	5.79%		5.88 %	

Loans and advances not past due and not impaired

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

Loans and advances not overdue and without impairment

Gross exposure in '000 PLN

	Customers 31.12.2010	**Banks 31.12.2010**	**Customers 31.12.2009**	**Banks 31.12.2009**
Rating:				
1. Highest quality	699	1 485 810	308	695 697
2. Good quality	14 221 598		12 727 569	
3. Medium quality	11 678 373		10 768 440	
4. Low quality	3 437 499		4 367 124	
5. Watched	671 828		323 820	
6. Default	229 287		195 609	
7. Clients without rating	3 443 067		2 402 573	
Total	**33 682 351**	**1 485 810**	**30 785 445**	**695 697**

Loans and advances past due but without impairment

Loans past due below 90 days are not considered as impaired exposures, unless other impairment triggers are identified. The gross amount of loans past due but without impairment, divided between customer segments, is as follows:

Gross exposure in '000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	588 909	985 939	213 338	0	1 788 186
Delay 30 - 60 days	86 995	47 773	39 481	0	174 249
Delay 60-90 days	9 830	13 730	18 181	0	41 741
Delay above 90 days*	40 733	416	2 984	0	44 133
Total	**726 467**	**1 047 858**	**273 984**	**0**	**2 048 309**

Gross exposure in '000 PLN

	31.12.2009				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	538 599	713 546	220 794	0	1 472 939
Delay 30 - 60 days	118 070	53 774	46 232	0	218 076
Delay 60-90 days	21 581	185	16 266	0	38 032
Delay above 90 days*	43 590	0	509	0	44 099
Total	**721 840**	**767 505**	**283 801**	**0**	**1 773 146**

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

Impaired loans and advances

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

Gross exposure in '000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	1 292 907	18 508	552	0	1 311 967
Collective analysis	171 591	203 392	508 169	0	883 152
Total	**1 464 498**	**221 900**	**508 721**	**0**	**2 195 119**

Gross exposure in '000 PLN

	31.12.2009				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	1 396 926	6 419	207	0	1 403 552
Collective analysis	157 445	144 197	327 641	0	629 283
Total	**1 554 371**	**150 616**	**327 848**	**0**	**2 032 835**

Loans and advances covered by case-by-case analysis

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

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

- By products

Gross exposure

Loans and advances to customers

	31.12.2010			31.12.2009		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
Investment loans	320 317	24,4%	28,5%	332 554	23,7%	34,6%
Working capital loans	195 823	14,9%	24,7%	133 358	9,5%	19,4%
Current account loans	63 810	4,9%	35,2%	156 917	11,2%	36,4%
Revolving loans	1 108	0,1%	59,3%	1 587	0,1%	62,9%
Mortgage loans	18 508	1,4%	20,5%	6 419	0,5%	21,3%
Factoring	94 990	7,2%	50,7%	21 560	1,5%	37,0%
Leasing	382 870	29,2%	27,4%	420 578	30,0%	20,9%
Other*	234 541	17,9%	63,8%	330 579	23,6%	56,2%
	1 311 967	**100,0%**	**35,8%**	**1 403 552**	**100,0%**	**34,4%**

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

- By currency

Gross exposure

Loans and advances to customers

	31.12.2010			31.12.2009		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	817 810	62,3%	41,3%	857 629	61,1%	38,6%
CHF	73 558	5,6%	35,2%	79 940	5,7%	22,8%
EUR	100 195	7,6%	14,8%	146 488	10,4%	14,3%
USD	267 774	20,4%	27,8%	267 730	19,1%	36,5%
JPY	52 630	4,0%	31,6%	51 765	3,7%	26,3%
	1 311 967	**100,0%**	**35,8%**	**1 403 552**	**100,0%**	**34,4%**

- By coverage ratio

Gross exposure

Loans and advances to customers				
	31.12.2010		**31.12.2009**	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	453 359	34,6%	578 838	41,2%
20% - 40%	419 807	32,0%	348 643	24,8%
40% - 60%	219 670	16,7%	225 315	16,1%
60% - 80%	36 513	2,8%	90 257	6,4%
Above 80%	182 618	13,9%	160 499	11,4%
	1 311 967	**100,0%**	**1 403 552**	**100,0%**

Restructured loans and advances

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

Restructuring aims at performing effective actions with respect to customers, which are to minimise losses and as fast as possible mitigate risks carried by the Group.

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

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

1) warning process - conducted by Direct Banking Department,

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

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

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

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

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

As of 31.12.2010 the amount of the loans without impairment (balance-sheet exposure), which were restructured in the past, stood in the Bank at PLN 171,2 million and was up 15% as compared with the balance as of 31.12.2009 (PLN 148,3 million). As of 31.12.2010 the amount of retail receivables (balance exposure) which were restructured in the past and now are cured (totally 993 cases) and classified as not-impaired loans equals to PLN 21,7 million (appropriately as at the end of 2009 it was PLN 21,8 million). In Millennium Leasing, as on 31.12.2010, the amount of receivables without recognised impairment subject to restructuring and at that date remaining in business portfolio amounted to the total of 105,9 mln PLN i.e. decreased, relative to 2009 (146,1 mln PLN) by 28%.

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

Gross exposure in '000 PLN

	31.12.2010	**31.12.2009**
Loans and advances to private individuals	193 744	219 641
Loans and advances to companies	649 281	800 489
Total	**843 025**	**1 020 130**

Bank execution titles

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

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

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

(2F) DEBT AND EQUITY SECURITIES

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

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	980 358	3 355 516	24	**4 335 898**
Central Bank	0	999 708	0	**999 708**
Other	0	141 743	44 809	**186 552**
- listed	0	8 342	10 742	**19 084**
- not listed	0	133 401	34 067	**167 468**
Total	**980 358**	**4 496 967**	**44 833**	**5 522 158**

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

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	2 320 318	2 462 342	24	**4 782 684**
Central Bank	0	1 499 417	0	**1 499 417**
Other	0	188 519	30 221	**218 740**
- listed	0	55 459	12 155	**67 614**
- not listed	0	133 060	18 066	**151 126**
Total	**2 320 318**	**4 150 278**	**30 245**	**6 500 841**

(2G) COLLATERAL TRANSFERRED TO THE GROUP

In 2010 there were no major seizures by the Group or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Group's supervision and with the allocation of part of the proceeds for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Group puts them up for sale and actually sells them (as part of selling organized parts of the debtor's whole enterprise).

As a result of the above the implemented debt-collection procedure is not recorded on the so-called Fixed Assets for Sale.

(2H) POLICY FOR WRITING OFF RECEIVABLES

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

In most of cases the Group writes off receivables against impairment provisions when said receivables are found to be unrecoverable i.e. among other things:

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

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

Industry sectors

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

31.12.2010	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 485 810	0	0	0	0	0	0	0	**1 485 810**
Loans and advances to customers	128 637	3 454 263	2 022 875	1 179 501	677 381	24 991 572	3 436 239	2 035 311	**37 925 779**
Trading securities	150	112	604	0	980 360	0	0	64	**981 290**
Derivatives	480 435	42 759	1 529					4 037	**528 760**
Investment securities	19 079	16 539	8 200	26	4 455 787	0	0	41 239	**4 540 870**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0	0	0	0	**55 085**
As at 31 December 2010	**2 169 196**	**3 513 673**	**2 033 208**	**1 179 527**	**6 113 528**	**24 991 572**	**3 436 239**	**2 080 651**	**45 517 594**

31.12.2009	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	695 697	0	0	0	0	0	0	0	**695 697**
Loans and advances to customers	75 055	3 607 626	1 842 057	1 380 503	507 320	22 046 324	3 196 936	1 935 605	**34 591 426**
Trading securities	639	247	35	0	2 320 318	0	0	44	**2 321 283**
Derivatives	723 451	47 053	14 883	0	0	0	0	302 744	**1 088 131**
Investment securities	68 108	0	8 200	27	3 982 031	0	0	121 192	**4 179 558**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	208 781	0	0	0	0	0	0	0	**208 781**
As at 31 December 2009	**1 771 731**	**3 654 926**	**1 865 175**	**1 380 530**	**6 809 669**	**22 046 324**	**3 196 936**	**2 359 585**	**43 084 876**

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

(3) Market Risk

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

Market-risk evaluation measures

The main measure used by the 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) and with specified probability (confidence level) from an adverse market movement.

Calculation of the VaR in the Trading Book is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics company. It is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). Calculating the volatility associated with each risk vertex the model gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions.
The value at risk is determined daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

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

- In the existing system an ex-post comparison is made of the risk measure generated by the model with the verified daily changes in the portfolio value assuming static positions,
- The quality of the model is verified using a three-zone statistical approach based on the number of excesses (an excess is said to happen whenever the difference between the absolute daily change value and the daily VaR measure is positive):
  - the green zone (less or equal 8 excesses) corresponds to a result which does not suggest any problem in the model,
  - the yellow zone (9 to 14 excesses) raises some questions about the model but the conclusion is not definitive: in this case a multiplication factor is used, to put the level of confidence of the risk measure back to 99%,
  - the red zone (more or equal to 15 excesses) indicates a problem in the risk model.

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

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

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

- Estimate the potential economic loss resulting from extreme variations in market risk factors,
- Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- Identify the actions that can be taken to reduce the impact of extreme variations in the risk factors.

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

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

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

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

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

VaR measures for market risk ('000 PLN)

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

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

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

The corresponding exposures as of 2009 respectively amounted to:

VaR measures for market risk ('000 PLN)

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

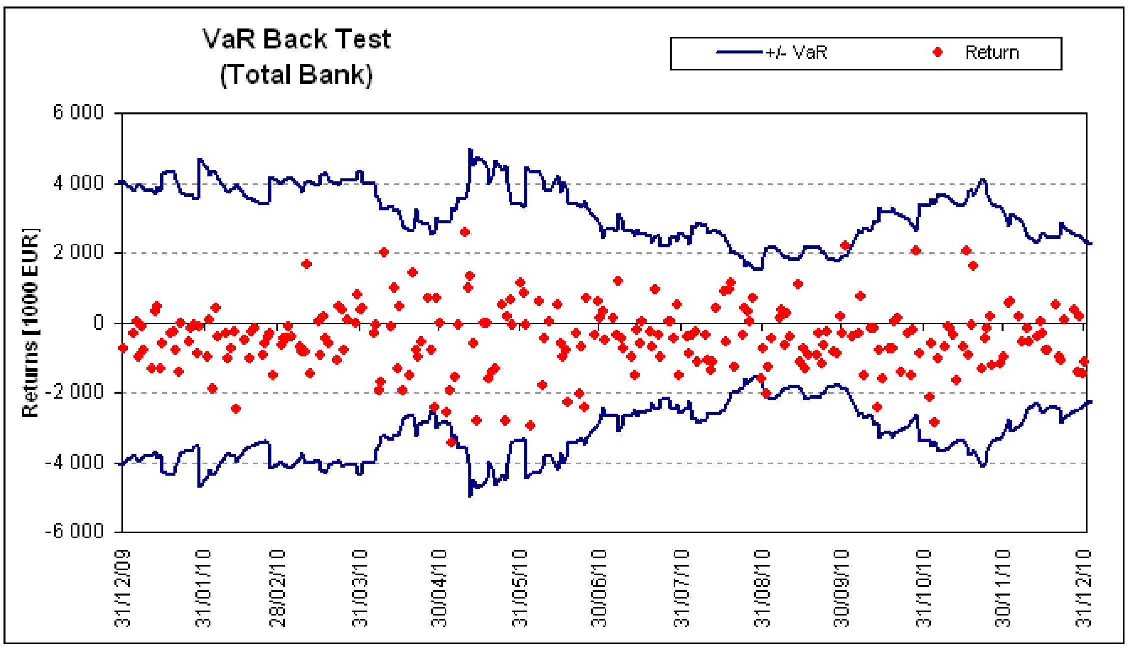
Open positions mostly included interest-rate instruments. The FX Risk covers all the foreign exchange exposures of the Group, as well as open positions allowed only in the Trading Portfolios.

Evolution of the total FX open position (PLN Thousand):

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

The back testing proves that the applied model is appropriate.

Market risk - VaR Back Testing



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

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

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

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

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

(4) Liquidity risk

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

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

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

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

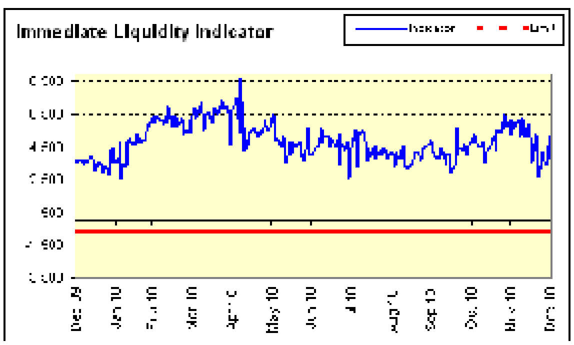
Concentration of the deposits base, measured with the share of top 5 and 20 depositors, at the end of 2010 remained almost unchanged comparing to 2009, amounting respectively to 4.4% and 11.1% (in December 2009 it was respectively 4.7% and 10.4%).
The Group ensures FX liquidity thanks to FX-denominated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

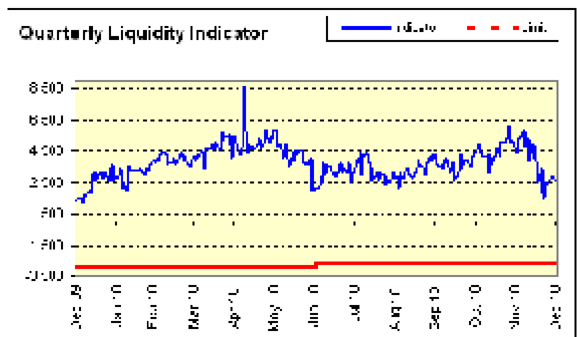
Liquidity risk evaluation measures

Evaluation of the Group's liquidity risk is carried out using indicators defined by the Supervisory Authorities, as well as other internal metrics, for which limits of exposure are also defined. The evolution of the 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. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively.

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

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





Current Liquidity indicators

PLN million

31.12.2010

	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	4 231	5 143	2 547	5 007
Minimum limit		-657	-2 623	2 000

31.12.2009

	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	3 958	3 628	1 368	6 146
Minimum limit		-723	-2 891	2 000

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

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

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

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

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

31.12.2010

Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	13 532	3 363	4 645	4 408	5 988	29 904
Adjusted balance liabilities	7 567	1 573	1 176	1 011	2 674	42 651
Balance-Sheet Gap	5 966	1 790	3 469	3 397	3 314	-12 746
Cumulative Balance-Sheet Gap	5 966	7 755	11 225	14 621	17 935	5 188
Adjusted off-balance assets	278	295	586	435	529	766
Adjusted off-balance liabilities	-1 170	-391	-608	-445	-504	-997
Off-Balance Sheet Gap	-892	-96	-22	-10	25	-230
Total Gap	5 073	1 694	3 447	3 387	3 339	-12 977
Total Cumulative Gap	5 073	6 767	10 214	13 601	16 940	3 963

31.12.2009						
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	14 429	3 247	4 449	4 230	5 484	27 705
Adjusted balance liabilities	11 629	2 293	1 286	2 114	1 907	40 056
Balance-Sheet Gap	2 800	954	3 163	2 115	3 578	-12 351
Cumulative Balance-Sheet Gap	2 800	3 754	6 917	9 032	12 610	259
Adjusted off-balance assets	565	186	364	256	185	79
Adjusted off-balance liabilities	-676	-188	-202	-256	-523	-241
Off-Balance Sheet Gap	-111	-2	162	0	-338	-162
Total Gap	2 689	952	3 325	2 116	3 240	-12 513
Total Cumulative Gap	2 689	3 641	6 966	9 082	12 322	-191

Stress tests are done quarterly, to determine the Group's liquidity-risk profile, to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to contribute to the preparation of the liquidity contingency plan and management decisions.

The results of the stress test analysis show that even in stress test conditions the liquidity indicators will be maintained above the established limits.

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

For the purpose of supervisory quantitative liquidity measures management the Group utilizes a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. In order to better manage the supervisory metrics the Group prolonged in June 2010 a stand-by line from Millennium BCP of 200 million euros.

In 2010, contrary to a few cases in the first half of 2009, the limits for the supervisory risk metrics, both short- and long-term, have been not exceeded.

(5) 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 codified strategy of Millennium BCP.

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

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

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

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

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

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

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

XVII. LIQUIDITY GAP BY MATURITY

31 December 2010 — **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	2 050 736	0	0	0	0		**2 050 736**
Loans and advances to banks	1 114 645	0	0	371 164	0		**1 485 809**
Trading debt securities	0	63 587	569 631	321 597	25 545		**980 360**
Trading derivatives	20 857	184 816	145 229	63 482	34 145		**448 529**
Hedging derivatives	0	0	0	78 982	1 249		**80 231**
Loans and advances to customers	3 265 218	879 975	3 333 619	8 419 477	20 840 205		**36 738 493**
Debt securities available for sale	1 014 649	17 922	935 935	2 480 078	48 380		**4 496 964**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0		**55 085**
Shares and interests						24 396	**24 396**
Other non-financial assets						623 814	**623 814**
TOTAL	**7 521 190**	**1 146 300**	**4 984 414**	**11 734 780**	**20 949 523**	**648 210**	**46 984 418**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	195 300	538	792 294	905 690	190 634		**2 084 456**
Deposits from customers	22 090 783	6 627 919	5 607 605	1 068 675	165		**35 395 147**
Trading derivatives and liabilities from short sale of securities	96 858	370 767	94 022	124 901	117 784		**804 331**
Hedging derivatives	76 250	132 966	307 353	446 795	351 958		**1 315 321**
Liabilities from securities sold with buy-back clause	670 691	0	0	0	0		**670 691**
Debt securities, by final legal maturity	0	13 804	76 830	313 936	736 437		**1 141 007**
Subordinated debt	0	0	317 943	0	594 045		**911 988**
Other non-financial liabilities						570 505	**570 505**
Equity						4 090 973	**4 090 973**
TOTAL	**23 129 881**	**7 145 994**	**7 196 046**	**2 859 996**	**1 991 022**	**4 661 478**	**46 984 418**

31 December 2010							PLN '000
OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	4 935 754						**4 935 754**
Liabilities from sureties and guarantees	1 239 652						**1 239 652**
Balance sheet Gap	**-15 608 691**	**-5 999 694**	**-2 211 633**	**8 874 784**	**18 958 501**	**-4 013 267**	**0**
Total Gap	**-21 784 097**	**-5 999 694**	**-2 211 633**	**8 874 784**	**18 958 501**	**-4 013 267**	**-6 175 406**

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

31 December 2009 **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	2 191 227	0	0	0	0		**2 191 227**
Loans and advances to banks	353 086	0	0	0	342 610		**695 696**
Trading debt securities	1 751	1 477	1 475 345	831 789	9 956		**2 320 318**
Trading derivatives	27 966	183 040	180 993	288 557	30 241		**710 797**
Hedging derivatives	0	175 054	71 094	124 689	6 497		**377 334**
Loans and advances to customers	3 035 936	901 796	3 326 631	7 783 276	18 437 296		**33 484 935**
Debt securities available for sale	1 607 836	94 327	556 680	1 888 729	2 706		**4 150 278**
Receivables from securities bought with sell-back clause	208 781	0	0	0	0		**208 781**
Shares and interests						26 346	**26 346**
Other non-financial assets						748 112	**748 112**
TOTAL	**7 426 582**	**1 355 694**	**5 610 743**	**10 917 040**	**18 829 306**	**774 458**	**44 913 824**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	1 050 667	1 232 826	1 050 906	1 232 460	342 511		**4 909 370**
Deposits from customers	19 776 075	6 301 080	5 435 236	46 115	158		**31 558 663**
Trading derivatives and liabilities from short sale of securities	121 954	110 298	199 031	232 068	18 852		**682 203**
Hedging derivatives	0	4 465	8 234	92 754	17 360		**122 813**
Liabilities from securities sold with buy-back clause	1 562 120	780 564	0	0	0		**2 342 684**
Debt securities, by final legal maturity	1 758	0	28 520	233 946	760 111		**1 024 335**
Subordinated debt	0	0	909	328 656	616 230		**945 795**
Other non-financial liabilities						540 625	**540 625**
Equity						2 787 336	**2 787 336**
TOTAL	**22 512 574**	**8 429 233**	**6 722 836**	**2 165 999**	**1 755 222**	**3 327 961**	**44 913 824**

31 December 2009							PLN '000
OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	4 663 399						**4 663 399**
Liabilities from sureties and guarantees	1 054 042						**1 054 042**
Balance sheet Gap	**-15 085 992**	**-7 073 539**	**-1 112 093**	**8 751 041**	**17 074 084**	**-2 553 503**	**0**
Total Gap	**-20 803 433**	**-7 073 539**	**-1 112 093**	**8 751 041**	**17 074 084**	**-2 553 503**	**-5 717 441**

XVIII. CONDITIONAL LIABILITIES AND ASSETS

Total value of claims in the biggest court proceedings involving companies from the Group, either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31.12.2010 to PLN 566.9 million. Total value of claims in the biggest court proceedings, in which companies from the Group appeared as defendant was PLN 404.2 million, and the total value of claims in the biggest court proceedings, in which companies from the Group appeared as plaintiff was PLN 162.7 million.

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

1. **Plaintiff:** natural person

   Disputed value: PLN 5 108 036.

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

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

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

2. **Plaintiff:** legal person

   Disputed Value: PLN 31 049 160.

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

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

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

3. **Plaintiff:** joint stock company (in bankruptcy)

   Disputed value: PLN 159 461 349

   Object: recognition as ineffective:

   - conditional agreement for selling real estate In Świnoujście between the joint stock company with seat in Świnoujście and a joint stock company with seat in Sopot;
   - agreement on sale of real estate in Świnoujście;
   - three operational lease buy back agreements dated 18 June 2002.

Description of the case: The case is pending before the Regional Court in Gdansk, at the stage of evidence. The court admitted expert evidence of the fact the property valuation as at 25 October 2002, experts have completed an opinion, which according to the decree of the Court was delivered to the parties. The plaintiff in its letter of 15 October 2010, questioned the calculations arising from the opinion, requested a second opinion and to draw up an extension of the expert team of experts in the field of fuel market turnover. In a letter dated 2 November 2010, the Group has made to dismiss the plaintiff's requests for admission of additional evidence from opinion and to extend the team of experts, as well as to call for another date for the hearing of an expert to submit his explanation to the opinion.

According to the Bank's estimations, irrespective of what the final court's verdict is going to be, there is no need for provision creation and the only financial consequences are limited to the court charges being incurred.

4. **Plaintiff:** legal person

Disputed Value: PLN 71 065 495

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

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

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

Proceedings connected with financial futures/forwards
(description below refers to the bank as other Group's companies have not concluded such transactions)

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

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

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

Proceedings before the Chairman of UOKiK concerning provisions of mortgage loans

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

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

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

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

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

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

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

OFF-BALANCE ITEMS

	31.12.2010	31.12.2009
Off-balance conditional commitments granted and received	**9 249 386**	**8 118 413**
1. Commitments granted:	7 977 715	7 134 510
a) financial	6 166 837	5 647 744
b) guarantee	1 810 878	1 486 766
2. Commitments received:	1 271 671	983 903
a) financial	794 880	480 398
b) guarantee	476 791	503 505

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

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

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

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

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

Guarantees, sureties and avals granted to Clients

Liabilities granted - guarantee in PLN million	31.12.2010	31.12.2009
Active guarantees, sureties and avals	1 239.7	1 054.0
Sureties for loans granted through EFRWP	4.5	9.0
Lines for guarantees and sureties	643.2	481.7
Total, gross	**1 887.4**	**1 544.7**
Impairment write offs	-3.4	-4.8
Total, net	**1 884.0**	**1 539.9**

In the period from 01.01.2010 do 31.12.2010 the Bank as the Group's parent entity granted 2,377 guarantees, sureties and avals totaling 1,082,477 thous. PLN.

The amount of aforementioned liabilities active as of 31.12.2010 stood at 1,239,652 thous. PLN. (2,592 items of active guarantees) which means an increase of their value by PLN 185,610 thous. PLN i.e. o 17,61% compared to 31.12.2009.

The value of guarantees, sureties and avals issued in PLN enlarged by 172,006 thous. PLN i.e. by 18,14% compared to the end of last year, as well as the value of such liabilities granted in foreign currency which increased by 13,604 thous. PLN, i.e. 12,84%.

The structure of liabilities under guarantees, sureties and avals divided by particular criteria are presented by the tables below:

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

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

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

XIX. SECURITISATION

In December 2007 Millennium Leasing Sp. z o.o. ("ML"), carried out a transaction of securitisation of the portfolio of leasing receivables with value remaining within the defined limit of up to PLN 850 million ("securitisation", "transaction"). The concluded transaction is traditional securitisation, i.e. it consists in transferring the ownership right to the securitised leasing receivables by ML to the Orchis Sp. z o.o. ("Orchis") special purpose vehicle, which issued debt securities on the basis of the securitised assets. In result of the securitisation ML obtained financing of its business and transferred credit risk connected with the securitised assets up to the junior tranche to Orchis. The terms and conditions of the transaction agreement stipulate the right of ML to sell debt receivables to Orchis within the revolving period, i.e. within three years from the day of signing the securitisation agreement.

Purchase of the receivables is financed by Orchis with an issue of following series of bonds with varying hierarchy and secured with the securitised receivables.

Entities participating in financing of Orchis are the following:

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

In the light of provisions of IAS 39 the contractual terms and conditions of the ML transaction do not permit removal of the securitised assets from the Group's balance-sheet. Therefore the Group recognises the liability under the bonds issued by Orchis. The terms and conditions of the bonds were disclosed in ***note (31d).***

XX. OPERATING LEASING

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

Balance as at:	**31.12.2010**	**31.12.2009**
- to 1 year	99 393	106 938
- above 1 year to 5 years	224 468	268 777
- above 5 years	127 665	120 002
TOTAL	**451 527**	**495 717**

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

Aforementioned events did not take place.

SIGNATURES:

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