Annual Financial Statement

of Bank Millennium S.A.

on the 12-month period ending 31st December 2009

MAIN FINANCIAL DATA

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2009 - 31.12.2009	period from 1.01.2008 - 31.12.2008	period from 1.01.2009 - 31.12.2009	period from 1.01.2008 - 31.12.2008
I. Interest income	2 207 880	2 264 464	508 653	641 111
II. Fee and commission income	525 443	510 475	121 052	144 525
III. Operating income	1 425 299	1 830 868	328 361	518 352
IV. Operating profit / (loss)	80 535	587 460	18 554	166 321
V. Profit / (loss) before taxes	80 535	587 460	18 554	166 321
VI. Profit (loss) after taxes	84 115	496 928	19 378	140 689
VII. Total comprehensive income of the period	55 073	539 911	12 688	152 859
VII. Net cash flows from operating activities	1 629 189	586 456	375 334	166 036
IX. Net cash flows from investing activities	-220 249	-186 513	-50 741	-52 805
X. Net cash flows from financing activities	-220 025	368 940	-50 690	104 454
XI. Net cash flows, total	1 188 915	768 883	273 903	217 685
XII. Total assets	43 969 150	45 996 853	10 702 777	11 024 076
XIII. Deposits from banks	4 909 356	3 060 550	1 195 014	733 523
XIV. Deposits from customers	31 653 587	31 877 870	7 704 977	7 640 176
XV. Total equity	2 517 625	2 462 552	612 829	590 200
XVI. Share capital	849 182	849 182	206 704	203 524
XVII. Number of shares	849 181 744	849 181 744	849 181 744	849 181 744
XVIII. Book value per share (in PLN/EUR)	2.96	2.90	0.72	0.70
XIX. Diluted book value per share (in PLN/EUR)	2.96	2.90	0.72	0.70
XX. Capital adequacy ratio	10.36%	9.19%	10.36%	9.19%
XXI. Pledged or paid dividend per share (in PLN/EUR)	-	0.19	-	0.06

RATES USED FOR CONVERSION OF FINANCIAL DATA TO EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.1082 PLN/EUR rate of 31 December 2009 (for comparable data as of 31 December 2008: 4.1724 PLN/EUR),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2009 – 4.3406 PLN/EUR, rate calculated as the average of rates at end of reporting months (for comparable data on the period 1 January – 31 December 2008: 3.5321 PLN/EUR).

MAIN FINANCIAL DATA

INCOME STATEMENT (PLN '000)	1.01.2009 - 31.12.2009	1.10.2009 - 31.12.2009*	1.01.2008 - 31.12.2008	1.10.2008 - 31.12.2008*
I. Interest income	2 207 880	539 189	2 264 464	664 440
II. Interest expense	-1 740 794	-369 804	-1 464 782	-468 083
III. Net interest income	**467 086**	**169 385**	**799 682**	**196 357**
IV. Fee and commission income	525 443	142 436	510 475	122 504
V. Fee and commission expense	-70 149	-15 018	-87 876	-23 524
VI. Net fee and commission income	**455 294**	**127 418**	**422 599**	**98 980**
VII. Dividend income	101 446	16	181 903	99 805
VIII. Result on investment financial assets	22 950	10 163	2 988	682
IX. Result on financial instruments valued at fair value through profit and loss	251 105	29 281	158 507	16 869
X. Foreign exchange profit	68 649	27 302	239 315	31 282
XI. Other operating income	58 769	27 884	25 874	6 032
XII. Operating income	**1 425 299**	**391 449**	**1 830 868**	**450 007**
XIII. General and administrative expenses	-910 886	-209 150	-1 062 724	-278 575
XIV. Impairment losses on financial assets	-358 448	-62 040	-111 701	-42 153
XV. Impairment losses on non financial assets	-150	103	-2 290	-1 509
XVI. Depreciation and amortization	-50 602	-12 129	-52 081	-14 638
XVII. Other operating expenses	-24 678	-6 795	-14 612	-5 608
XVIII. Operating expenses	**-1 344 764**	**-290 011**	**-1 243 408**	**-342 483**
XIX. Operating profit / (loss)	**80 535**	**101 438**	**587 460**	**107 524**
XX. Profit / (loss) before taxes	**80 535**	**101 438**	**587 460**	**107 524**
XXI. Corporate income tax	3 580	-16 630	-90 532	-8 910
XXII. Profit / (loss) after taxes	**84 115**	**84 808**	**496 928**	**98 614**

TOTAL COMPREHENSIVE INCOME STATEMENT (PLN '000)	1.01.2009 - 31.12.2009	1.10.2009 - 31.12.2009*	1.01.2008 - 31.12.2008	1.10.2008 - 31.12.2008*
PROFIT / (LOSS) AFTER TAXES	**84 115**	**84 808**	**496 928**	**98 614**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME				
I. Effect of valuation of available for sale debt securities	-4 022	-10 286	14 068	6 014
II. Effect of valuation of available for sale shares	3 543	1 449	1 180	1 180
III. Hedge accounting	-35 373	28 082	37 817	37 073
IV. Other elements of total comprehensive income before taxes	**-35 852**	**19 245**	**53 065**	**44 267**
V. Corporate income tax on other elements of total comprehensive income	6 812	-3 656	-10 082	-8 411
VI. Other elements of total comprehensive income after taxes	**-29 042**	**15 589**	**42 983**	**35 856**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**55 073**	**100 397**	**539 911**	**134 470**

* - data not subject to examination by an independent auditor

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I. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	Note	1.01.2009 - 31.12.2009	1.01.2008 - 31.12.2008
Interest income	1	2 207 880	2 264 464
Interest expense	2	-1 740 794	-1 464 782
Net interest income		**467 086**	**799 682**
Fee and commission income		525 443	510 475
Fee and commission expense		-70 149	-87 876
Net fee and commission income	3	**455 294**	**422 599**
Dividend income	4	101 446	181 903
Result on investment financial assets	5	22 950	2 988
Result on financial instruments valued at fair value through profit and loss	5	251 105	158 507
Foreign exchange profit	5	68 649	239 315
Other operating income	6	58 769	25 874
Operating income		**1 425 299**	**1 830 868**
General and administrative expenses	7	-910 886	-1 062 724
Impairment losses on financial assets	8	-358 448	-111 701
Impairment losses on non financial assets	9	-150	-2 290
Depreciation and amortization	10	-50 602	-52 081
Other operating expenses	11	-24 678	-14 612
Operating expenses		**-1 344 764**	**-1 243 408**
Profit / (loss) before taxes		**80 535**	**587 460**
Corporate income tax	12	3 580	-90 532
Profit / (loss) after taxes		**84 115**	**496 928**

TOTAL COMPREHENSIVE INCOME STATEMENT	**1.01.2009 - 31.12.2009**	**1.01.2008 - 31.12.2008**
Amount '000 PLN		
PROFIT / (LOSS) AFTER TAXES	**84 115**	**496 928**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME		
I. Effect of valuation of available for sale debt securities	-4 022	14 068
II. Effect of valuation of available for sale shares	3 543	1 180
III. Hedge accounting	-35 373	37 817
IV. Other elements of total comprehensive income before taxes	**-35 852**	**53 065**
V. Corporate income tax on other elements of total comprehensive income	6 812	-10 082
VI. Other elements of total comprehensive income after taxes	**-29 042**	**42 983**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**55 073**	**539 911**

II. BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2009	31.12.2008
Cash, balances with the Central Bank	14	2 191 027	1 802 402
Loans and advances to banks	15	695 689	1 580 026
Financial assets valued at fair value through profit and loss	16	3 029 253	6 292 722
Hedging derivatives	17	377 334	9 977
Loans and advances to customers	18	32 482 473	32 624 259
Investment financial assets	19	4 163 076	2 913 379
- available for sale		4 163 076	2 913 379
- held to maturity		0	0
Investments in associates	19	262 288	232 357
Receivables from securities bought with sell-back clause	20	208 781	61 282
Property, plant and equipment	21	285 490	225 603
Intangible assets	22	18 458	18 002
Non current assets held for sale	23	0	0
Receivables from Tax Office resulting from current tax		36 548	45 656
Deferred income tax assets	24	102 660	15 031
Other assets	25	116 073	176 157
Total Assets		**43 969 150**	**45 996 853**

LIABILITIES

Amount '000 PLN	Note	31.12.2009	31.12.2008
Deposits from banks	26	4 909 356	3 060 550
Financial liabilities valued at fair value through profit and loss	27	683 378	4 402 227
Hedging derivatives	28	122 813	1 179 649
Deposits from customers	29	31 653 587	31 877 870
Liabilities from securities sold with buy-back clause	30	2 346 190	1 506 353
Debt securities	31	262 466	113 207
Provisions	32	23 196	32 552
Deferred income tax liabilities	33	0	0
Other liabilities	34	504 744	400 473
Subordinated debt	35	945 795	961 420
Total Liabilities		**41 451 525**	**43 534 301**

EQUITY

Amount '000 PLN	Note	31.12.2009	31.12.2008
Share capital	36	849 182	849 182
Share premium	36	472 343	472 343
Revaluation reserve	36	11 199	40 241
Retained earnings	36	1 184 901	1 100 786
Total Equity		**2 517 625**	**2 462 552**
Total Liabilities and Equity		**43 969 150**	**45 996 853**

III. STATEMENT OF CHANGES IN EQUITY

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

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2008	**2 083 986**	**849 182**	**472 343**	**-2 742**	**765 203**
- total comprehensive income of 2008	539 911	0	0	42 983	496 928
- dividend payment	-161 345	0	0	0	-161 345
Equity at the end of the period (closing balance) 31.12.2008	**2 462 552**	**849 182**	**472 343**	**40 241**	**1 100 786**

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

IV. CASH FLOWS FROM OPERATING ACTIVITIES

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**1.01.2009 - 31.12.2009**	**1.01.2008 - 31.12.2008**
I. Profit (loss) after taxes	**84 115**	**496 928**
II. Adjustments for:	**1 545 074**	**89 528**
1. Interests in net profit / (loss) of associated companies	0	0
2. Depreciation and amortization	50 602	52 081
3. Foreign exchange (gains) / losses	-148 837	709 550
4. Dividends	-101 446	-181 903
5. Changes in provisions	-9 356	-680
6. Result on sale and liquidation of investing activity assets	-33 951	-10 435
7. Change in financial assets valued at fair value through profit and loss	2 760 402	-2 920 150
8. Change in loans and advances to banks	902 384	-992 875
9. Change in loans and advances to customers	128 921	-11 742 400
10. Change in receivables from securities bought with sell-back clause	-147 499	-32 475
11. Change in liabilities valued at fair value through profit and loss	-4 775 685	4 991 927
12. Change in deposits from banks	2 162 896	-670 308
13. Change in deposits from customers	-358 708	9 856 237
14. Change in liabilities from securities sold with buy-back clause	839 837	776 360
15. Change in debt securities	149 259	123 486
16. Change in income tax settlements	-11 760	85 186
17. Income tax paid	-59 949	-54 327
18. Change in other assets and liabilities	153 779	37 101
19. Other	44 185	63 153
III. Net cash flows from operating activities	**1 629 189**	**586 456**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**1.01.2009 - 31.12.2009**	**1.01.2008 - 31.12.2008**
I. Inflows:	**24 926 250**	**5 637 953**
1. Proceeds from sale of property, plant and equipment and intangible assets	40 145	15 102
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	24 784 659	5 440 948
5. Other	101 446	181 903
II. Outflows:	**-25 146 499**	**-5 824 466**
1. Acquisition of property, plant and equipment and intangible assets	-7 221	-18 002
2. Acquisition of shares in associates	-23 000	-40 294
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-25 116 278	-5 766 170
5. Other	0	0
III. Net cash flows from investing activities	**-220 249**	**-186 513**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2009 - 31.12.2009	1.01.2008 - 31.12.2008
I. Inflows:	**1 331 630**	**587 563**
1. Long-term bank loans	1 331 630	587 563
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	0	0
5. Other	0	0
II. Outflows:	**-1 551 655**	**-218 623**
1. Repayment of long-term bank loans	-1 511 487	0
2. Redemption of debt securities	0	0
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	-161 345
7. Other	-40 168	-57 278
III. Net cash flows from financing activities	**-220 025**	**368 940**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**1 188 915**	**768 883**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**2 939 493**	**2 170 610**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**4 128 408**	**2 939 493**

V. GENERAL INFORMATION ON THE ISSUER

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

Supervisory Board and Management Board of Bank Millennium S.A.
The General Shareholders Meeting of the Bank on 27 March 2009 appointed following persons, in alphabetical order, for members of the Bank's Supervisory Board:

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

On 27 March 2009 a meeting was held of the Supervisory Board, appointed on 27 March 2009 by the Bank's GSM for a new tenure, at which the Supervisory Board constituted itself appointing Mr Maciej Bednarkiewicz for the function of Chairman of the Supervisory Board and Mr Carlos Jorge Ramalho dos Santos Ferreira as well as Mr Ryszard Pospieszyński for the function of Deputy Chairmen. The Supervisory Board also elected Mr Marek Furtek for Secretary of the Supervisory Board.
The Supervisory Board agreed that the Bank's Management Board shall have 7 members.
The Supervisory Board appointed:

- Mr Bogusław Jerzy Kott for the function of Chairman of the Management Board,
- Mr Rui Manuel Teixeira for the function of Deputy Chairman of the Management Board,

and following persons for members of the Management Board:

- Mr Fernando Bicho,
- Ms Julianna Boniuk-Gorzelańczyk,
- Mr Wojciech Haase,
- Mr Joao Bras Jorge,
- Mr Artur Klimczak.

VI. ACCOUNTING POLICY

(1) Statement of compliance with the International Financial Reporting Standards

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

This financial report was approved for publication by the Management Board on 1 March 2010.

Earlier adoption of standards which are not in force as at the balance sheet date

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

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

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Improvements to IFRS 2008: Amendments to IFRS 5 Non-current Assets Held for Sale	IFRS 5 has been amended and states that: • An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in paragraphs 6-8 are met; • Disclosures relating to the discontinued operations are required when the subsidiary is a disposal group that meets the definition of a discontinued operation when the subsidiary is a disposal group that meets the definition of a discontinued operation	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known/ reasonably estimable.	1 July 2009
Revised IFRS 1 *First Time Adoption of IFRS*	The revised version restructures the format of the IFRS without changing the standard's technical content. The revised version moves the exemptions and exceptions contained in the main body of the standard to different appendices.	The amendment has no impact on the Bank's Financial Statements	1 July 2009 According to Commission Regulation No 1136/2009 each entity shall apply the revised standard at the latest, as from the commencement date of its first financial year starting after 31 December 2009.
Revised IFRS 3 *Business Combinations*	The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including: • All items of consideration transferred by the acquirer are recognized and measured at fair value as of the acquisition date, including contingent consideration. • Subsequent change in contingent consideration will be recognized in profit or loss.	As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.	1 July 2009 According to Commission Regulation No 495/2009 Each entity shall apply the revised IFRS 3 at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

	• Transaction costs, other than share and debt issuance costs, will be expensed as incurred. • The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.		
Revised IAS 27 *Consolidated and Separate Financial Statements*	In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 July 2009 According to Commission Regulation No 494/2009 each entity shall apply the amendments to IAS 27 at the latest, as from the commencement date of its first financial year starting after 30 June 2009.
Amendments to IAS 32 *Improving Disclosures about Financial Instruments*	The amendment requires that rights, options or warrants to acquire a fixed number of 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 possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	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.
Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*	The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 July 2009 According to Commission Regulation No 839/2009 each entity shall apply the revised standard at the latest, as from the commencement date of its first financial year starting after 30 June 2009.

IFRIC 12 *Service Concession Arrangements*	The Interpretation provides guidance to private sector entities on certain recognition and measurement with respect to accounting for public-to-private service concession arrangements.	IFRIC 12 is not relevant to the Bank's operations as Bank has not concluded a concession arrangement.	1 January 2008; According to Commission Regulation No 254/2009 each entity shall apply IFRIC 12 at the latest, as from the commencement date of its first financial year starting after the date of entry into force of the Regulation i.e. 28 March 2009.
IFRIC 15 *Agreements for the Construction of Real Estate*	IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: 1. the agreement meets the definition of a construction contract in accordance with IAS 11.3; 2. the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and 3. the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).	IFRIC 15 is not relevant to the Bank's financial statements as Bank does not provide real estate construction services or develop real estate for sale.	1 January 2009 According to Commission Regulation No 636/2009 each entity shall apply the revised standard at the latest, as from the commencement date of its first financial year starting after 31 December 2009.
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.	IFRIC 16 is not relevant to the Bank's financial statements as the Bank has not designated any hedges of a net investment in a foreign operation [*or: does not have any investments in a foreign operation*].	1 October 2008 According to Commission Regulation No 460/2009 each company shall apply IFRIC 16 as at the latest, as from the commencement date of its first financial year starting after 30 June 2009.
IFRIC 17 *Distributions of Non-cash Assets to Owners*	The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to	As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the	1 July 2009 According to Commission

	pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.	interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.	Regulation No 1142/2009 each entity shall apply the revised standard at the latest as from the commencement date of its first financial year starting after 31 October 2009.
IFRIC 18 *Transfers of Assets from Customers*	The Interpretation applies to agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both. This Interpretation also applies to agreements in which the entity receives cash from customer when that amount of cash must be used only to construct or acquire an item of property. The entity that received a contribution within the scope of the interpretation recognises this item as an asset if it determines that the transferred item meets the definition of an asset. The corresponding amount will be recognised as revenue. The exact timing of the revenue recognition will depend on the facts and circumstances of each particular arrangement.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 July 2009 According to Commission Regulation No 1164/2009 each entity shall apply the revised standard at the latest, as from the commencement date of its first financial year starting after 31 October 2009.

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 2009	The *Improvements to IFRSs 2009* contains 15 amendments to 12 standards.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 January 2010 except changes to IFRIC 9 *Reassessment of Embedded Derivatives* –Scope of IFRIC 9 and revised IFRS 3 and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* – Amendment to the restriction on the entity that can hold hedging instruments, IAS 38 *Intangible Assets* – Additional consequential amendments arising from revised IFRS 3, IFRS 2 *Share – based Payments* – Scope of IFRS 2 and revised IFRS 3 *Business Combinations* – where the effective date is 1 July 2009 and IAS 18 *Revenue* – Determining whether an entity is acting as a principal or as an agent where the effective date is not given
Amendments to IFRS *1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*	The amendment consists in issuing additional optional exemptions for first-time adopters of IFRSs with respect to: • establishing of Deemed cost for oil and gas assets; • reassessment of lease determination; • establishing of deemed cost for operations subject to rate regulation.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 January 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 IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	The proposed amendment would provide relief to first-time adopters from the requirement to provide comparative period disclosures for the information required to be presented by the Amendments to IFRS 7 if the first IFRS reporting period starts earlier than 1 January 2010.	The amendment has no impact on the Bank's Financial Statements	1 July 2010
Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*	The amendments require an entity receiving goods or services in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction and the receiving entity has no obligation to settle the payment.	The possible impact of the revised standard on the entity's financial statements in the period of initial recognition is not known.	1 January 2010
IFRS 9 *Financial Instruments*	The standard is issued as part of comprehensive review of financial instruments accounting. The new standard reduces the complexity of the current requirements and to replace IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard deals with classification and measurement of financial assets only.	The possible impact of the new standard on the Bank's financial statements in the period of initial recognition is not known.	1 January 2013
Revised IAS 24 *Related Party Disclosures*	The changes introduced relate mainly to the related party disclosure requirements for government – related entities and the definition of a related party.	The possible impact of the revised standard on the Bank's financial statements in the period of initial recognition is not known.	1 January 2011
Amendments to IFRIC 14 *Prepayments of a Minimum Funding*	Under the amended IFRIC 14 prepayments made to the plan where there are Minimum Funding Requirements would be recognized as an asset.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 January 2009
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with IAS 39.41. The above described equity instruments shall be measured at the fair value and the difference between the carrying amount of the financial liability extinguished and the initial measurement of the equity instruments issued should be recognized in profit or loss.	The possible impact of the amendment on the Bank's financial statements in the period of initial recognition is not known.	1 July 2010

Change of Standards of the effect of revaluation of interest accrued in the balance sheet

In 2009 the Bank changed the method of presentation of FX gains/losses on interest accrued in the balance sheet, expressed in foreign currencies. This revaluation effect, presented previously in the Profit and Loss Account as a component of the interest margin or of result on financial instruments, is currently reported in the item “FX gains/losses”. Adjusted 2008 data are as follows:

Adjusted item	Year 2008 data as presented previously	Year 2008 comparatives	Difference
Interest income	2 310 612	2 264 464	-46 148
Result on financial instruments valued at fair value through profit and loss	152 919	158 507	+5 588
Foreign exchange profit	198 755	239 315	+40 560

Reclassification of discount on issued debt securities

In 2009 the Bank changed the method of presentation in the balance sheet of the discount remaining to be settled, concerning issued debt securities. The amount of the discount, presented previously as a component of other assets, was reflected in the value of liabilities on account of issue of debt securities. Adjusted 2008 data are as follows:

Adjusted item	Year 2008 data as presented previously	Year 2008 comparatives	Difference
Other assets	186 436	176 157	-10 279
Debt securities issued	123 486	113 207	-10 279

Reclassification of debt securities

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

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

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

Amount '000 PLN	Valuation recognized in in profit and loss (with tax effect)	Valuation recognized in revaluation reserve at the end of the period (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 2009 (Proforma)			
If the reclassification did not occur	2 048	-	-1 477

(2) ADOPTED ACCOUNTING STANDARDS

1. Basis of Financial Statements Preparation

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

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

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

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

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

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

2. Functional and presentation currency

Functional and presentation currency

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

Transactions and balances

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

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

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

3. Financial assets and liabilities

Classification

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

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

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

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

- *Held to maturity investments*

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

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

- *Loans and receivables*

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

- *Financial assets available for sale*

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

- *Other financial liabilities*

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

Recognition of financial instruments in the balance sheet

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

Derecognition of financial instruments from the balance sheet

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset,

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

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

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

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

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

  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Bank.
- *Held to maturity investments and loans and receivables*

  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.
- *Financial asset available for sale*

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

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

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

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

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

4. Capital investments in subsidiary and associated entities

Subsidiary entities

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

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

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

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

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

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

Associated entities

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

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

5. Hedge Accounting and Financial Derivatives

Valuation at fair value

Derivative instruments are reported at fair value starting from the day of conclusion of the transaction. Fair value is determined on the basis of quotations of instruments on active markets, including pricing of recently concluded transactions. A market is considered active when the quoted instrument prices are regularly available and result from actual transactions on the market and represent a level, at which the Bank could conclude such transactions. If the market for the instruments is not active the Bank determines fair value with use of measurement techniques, including models based on discounted cash flows and options measurement models. The measurement techniques used by the

Bank are based on maximum use of input data coming from the active market, such as interest rates, FX rates and implied volatilities. In case of lack of input data from the active market the Bank makes use in the measurement techniques of proprietary estimates of measurement parameters, based on best knowledge and experience.

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

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

Hedging cash flows

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

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

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

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

Hedging fair value

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

Changes in the fair value of derivative instruments assigned and qualifying as fair value hedge are put through the income statement along with the corresponding changes in the fair value of the hedged asset or liability relating to the risk which the Bank hedges against.
The profits and losses resulting from the revaluation of the fair value of a hedging instrument (for a derivative hedging instrument) are disclosed in the income statement, while the profits or losses associated with the hedged position resulting from the hedged risk adjust the on-balance value of the hedged position and are recorded in the income statement. This principle applies to a hedged position which in other circumstances is valued at depreciated cost. If the hedged position is a financial asset available for sale, the profits or losses resulting from the hedged risk are recorded in the income statement until disposing or maturity date of such asset.

Discontinuing hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

1) *FX forward*

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

2) *FX SWAP*

FX SWAP transactions are 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 measured at fair value through Profit and Loss" and "FX Gains/Losses" in the profit and Loss Account.

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

3) *Interest Rate SWAP (IRS)*

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

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

4) *Cross – Currency Swap (CCS)*

CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure. Changes of fair value of CCS transactions are reported in "Result on financial instruments measured at fair value thought Profit and Loss.

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

5) *IRS transactions with embedded options*

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method, while the option component is valued with use of the option valuation models. The swap transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of the above transactions are recorded in Result from financial instruments valued at fair value through the profit and loss account of the Profit and Loss Account. The option component hedges options embedded in securities issued by the Bank.

6) *FX options*

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

7) *Forward Rate Agreement (FRA)*

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

6. Impairment of financial assets

Assets valued at amortized cost

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

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

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

- adverse changes in the payment status of borrowers; or
- national or local economic conditions that correlate with defaults on the assets in the Bank.

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

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

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

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

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

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

Financial assets available for sale

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

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

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

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

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.
The Bank presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause.
This is in order to reflect the risks and rewards arising on this asset that is retained by the Bank after the transfer. When the Bank purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.
These transactions are measured at amortized cost, and securities which are the subject of aforementioned transactions are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio.
The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

9. Settlement of leasing agreements

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

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

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

Subsequent costs

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

Intangible assets

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

Computer software

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

Other Intangibles

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

Subsequent costs

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

Depreciation and amortization charges

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

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

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

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

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

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

11. Non current assets held for sale

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

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

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

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:
(a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
(b) its recoverable amount at the date of the subsequent decision not to sell.

12. Impairment of non current assets

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

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

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

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

Prepayments, Accruals and Deferred Income

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

13. Provisions

Provisions are established when (1) the Bank has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.
A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Bank has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.

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

Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

14. Bank's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

15. Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

16. Interest income

The Bank recognises in the Profit and Loss Account all interest revenue and costs concerning financial instruments measured at amortised cost with use of the effective interest rate method as well as financial assets available for sale.
Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result from financial instruments valued at fair value through the profit and loss account. Interest income on debt securities, classified as held for trading, is recognised in the caption 'Interest income'.
Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the accounting for hedging the fair value of FX securities with respect to interest rate fluctuation risk and in the accounting for hedging against the volatility of cash flows generated by the FX mortgage loan portfolio and zloty deposits funding them.
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense or certain commission (those constituting an integral part of the interest rate) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

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

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

17. Fee income/ Fee and commission expenses

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

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

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

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

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

- Fees for withdrawal of funds before maturity of the deposit;
- Services connected with cash management;
- Brokerage services;
- Asset management services;
- 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).

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

18. Dividend Income

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

19. Result on Investment Financial Instruments

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

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

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

21. Foreign exchange profit

Foreign exchange profit is calculated taking into account foreign exchange gains and losses, both realised and unrealised, arising from day to day valuation of assets and liabilities denominated in foreign currency (but without taking into account the accrued interest) at the average rate established as at the balance sheet date for a given currency by National Bank of Poland and recognized under foreign exchange profit.

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

22. Other Operating Income and Expenses

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

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

23. Income tax

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

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

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

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

The deferred income tax asset or liability are created on a balance sheet method basis with regard to all temporary differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value.
Deferred income tax liabilities are created for all positive temporary differences except when it arises from the amortization of goodwill or initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting profit nor taxable profit (tax loss).
Deferred income tax assets are recognised with respect to all negative timing differences as at the balance sheet date between carrying amount of an asset or liability in the balance sheet and its tax value. Deferred income tax assets are also recognised for the unused tax losses carried forward. Deferred income tax assets are recognised in the amount in which taxable income is likely to be achieved, which allows to set off negative temporary differences and unused tax losses carried forward.

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

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

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

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

24. Application of Estimates in connection with Accounting Policies

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

- *Impairment of loans and advances*

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

- *Fair value of financial instruments*

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

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

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

- Prices quoted on the active market for identical instruments for following financial instruments:
  - treasury fixed-coupon and zero-coupon debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:
  Treasury floating interest debt securities,
  Derivatives:
  - FRA, IRS, CIRS;
  - FX Swap, FX Forward;
  - Embedded derivatives;
  - Options placed by the Bank
- Techniques of measurement with use of significant parameters not coming from the market:
  Debt securities of other issuers (e.g. municipalities),
  Derivatives:
  - Options acquired by the Bank.

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

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. NOTES TO FINANCIAL REPORT

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

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2009 - 31.12.2009	**01.01.2008 - 31.12.2008**
Interest income and other of similar nature, including:		
Balances with the Central Bank	39 203	47 927
Loans and advances to banks	5 826	76 241
Loans and advances to customers	1 432 206	1 615 770
Transactions with repurchase agreement	11 140	17 171
Hedging derivatives	391 742	176 575
Financial assets held for trading (debt securities)	154 560	166 420
Investment securities	173 203	164 360
Total	**2 207 880**	**2 264 464**

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

2009 interest income includes interest accrued on impaired loans in the amount of PLN 69,038 thou. (with respect to comparable 2008 data the amount of such interest was PLN 46,907 thou.).

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2009 - 31.12.2009	**01.01.2008 - 31.12.2008**
Interest expense and other of similar nature, including:		
Banking deposits	-18 028	-30 865
Loans and advances from banks	-88 490	-81 019
Transactions with repurchase agreement	-85 683	-64 218
Hedging derivatives	0	0
Deposits from customers	-1 503 163	-1 228 122
Subordinated debt	-39 216	-57 001
Debt securities	-4 740	-2 139
Other	-1 474	-1 418
Total	**-1 740 794**	**-1 464 782**

(3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Resulting from accounts service	82 818	78 038
Resulting from loan activity	42 566	44 326
Resulting from payments service	38 823	38 607
Resulting from payment and credit cards	171 415	146 439
Resulting from sale of insurance products	106 553	93 068
Resulting from distribution of investment funds units and other savings products	56 464	84 250
Resulting from guarantees and sureties granted	11 761	10 768
Resulting from brokerage and custody service	6 376	6 104
Other	8 667	8 875
Total	**525 443**	**510 475**

3b. Fee and commission expense

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Resulting from accounts service	-1 089	-1 304
Resulting from loan activity	-13 068	-11 988
Resulting from payments service	-2 075	-1 627
Resulting from payment and credit cards	-51 522	-69 183
Other	-2 395	-3 774
Total	**-70 149**	**-87 876**

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Dividend income from related parties	99 287	155 680
Dividend income from other entities	2 159	26 223
Total	**101 446**	**181 903**

Net dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in financial years 2009 and 2008 to PLN 99,287 thousand, and PLN 155,680 thousand, respectively.

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Operations on debt instruments	20 411	2 988
Operations on equity instruments	2 539	0
Total	**22 950**	**2 988**

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

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

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

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

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

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Operations on securities	34 867	20 903
Operations on derivatives	219 502	140 413
Hedging operations	-573	-2 757
Other financial operations	-2 691	-52
Total	**251 105**	**158 507**

In 2008 due to an increase of credit risk embedded in financial derivatives concluded with non-banking clients, based on IAS 39 requirements the Bank included the credit risk component in valuation of derivatives concluded with clients as of 31 December 2008. The fair value adjustment due to valuation of credit risk component in derivatives was reduced through active management of the Bank's foreign exchange exposure. The impact of credit risk valuation and revaluation of FX options amounted to the net of PLN -152 million, out of which PLN -106 million was presented in Trading Result, and PLN -46 million – in Foreign Exchange Revaluation Result. Carried in the result on instruments for trading in 2009 – the effect of valuation of the derivatives credit risk component was PLN + 14.5 million.

(5c) FX INCOME

5c. Foreign exchange profit

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Margin on FX Table transactions	54 350	169 601
Margin on negotiable FX transactions	49 207	35 371
Other	-34 908	34 343
Total	**68 649**	**239 315**

Decrease of FX income (comparing 2009 and 2008) was largely attributable to the Bank's withdrawal from granting FX-denominated mortgage loans, which led to decrease of spread realised on disbursements of these loans.

At the same time the result of revaluation of interest accrued in the balance-sheet, carried in "other" fell strongly – from PLN 41 million in 2008 to approximately PLN 13 million in 2009 (the method of presentation of revaluation of interest accrued in the balance-sheet was changed in 2009, which was described in Chapter VI ("Accounting Policy").

Additionally line "other" covers negative result from valuation of short spot position closing open position in financial instrument, which fair value change is recognised" in "Result on financial instruments valued at fair value through profit and loss - operations on derivatives".

(6) OTHER OPERATING INCOME

6. Other operating income

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Profit on sale and liquidation of property, plant and equipment, intangible assets	3 837	7 448
Profit on sale of non current assets held for sale	0	0
Income from sale of other services	10 116	8 321
Income from collection service	521	436
Income from adjustment in VAT settlements	12 689	0
Other	31 605	9 669
Total	**58 769**	**25 874**

In Q4 2009 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.

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Staff costs:	**-435 185**	**-562 726**
Salaries	-424 220	-541 719
Employee benefits, including:	-10 965	-21 007
- provisions for retirement benefits	-813	-331
- provisions for unused employee holiday	2 991	0
- other	-13 143	-20 676
General administrative costs	**-475 701**	**-499 998**
Costs of advertising, promotion and representation	-35 606	-61 825
Costs of software maintenance and IT services	-15 653	-11 706
Costs of renting	-181 678	-148 421
Costs of buildings maintenance, equipment and materials	-32 387	-36 313
ATM and cash costs	-23 348	-25 105
Costs of communications and IT	-64 299	-81 861
Costs of consultancy, audit and legal advisory and translation	-11 286	-14 805
Taxes and fees	-14 189	-15 919
KIR clearing charges	-2 893	-2 703
PFRON costs	-5 512	-5 378
BFG costs	-15 147	-4 429
Financial Supervision costs	-6 113	-7 046
Other	-67 590	-84 488
Total	**-910 886**	**-1 062 724**

The decrease of personnel costs in 2009 (from 2008) resulted first of all from much lower cost of bonus in 2009, which was connected with worse business and financial performance in 2009.

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Impairment losses on loans and advances to customers	**-363 268**	**-107 710**
- Impairment charges on loans and advances to customers	-688 227	-370 439
- Reversal of impairment charges on loans and advances to customers	322 026	250 795
- Amounts recovered from loans written off	2 933	9 097
- Result on sale of receivables	0	2 834
Impairment losses on investment securities	**0**	**0**
- Impairment write-offs for investment securities	0	0
- Reversal of impairment write-offs for investment securities	0	0
Impairment losses on investments in associates	**7 000**	**0**
- Impairment write-offs for investments in associates	0	0

- Reversal of impairment write-offs for investments in associates	7 000	0

Impairment losses on off-balance sheet liabilities	**-2 180**	**-3 991**
- Impairment write-offs for off-balance sheet liabilities	-14 990	-20 047
- Reversal of impairment write-offs for off-balance sheet liabilities	12 810	16 056
Total	**-358 448**	**-111 701**

(9) IMPAIRMENT LOSSES ON NON FINANCIAL ASSETS

9. Impairment losses on non financial assets

	01.01.2009 - 31.12.2009	**01.01.2008 - 31.12.2008**
Fixed assets	0	0
Other assets	-150	-2 290
Total	**-150**	**-2 290**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2009 - 31.12.2009	**01.01.2008 - 31.12.2008**
Property, plant and equipment	-44 481	-44 658
Intangible assets	-6 121	-7 423
Total	**-50 602**	**-52 081**

(11) OTHER OPERATING COSTS

11. Other operating expenses

	01.01.2009 - 31.12.2009	**01.01.2008 - 31.12.2008**
Loss on sale and liquidation of property, plant and equipment, intangible assets	0	0
Indemnifications, penalties and fines paid	-1 231	-920
Provisions for contentious claims	-2 767	-2 337
Costs of sale of other services	-6 396	-5 953
Donations made	-443	-646
Costs of collection service	-11 929	-2 392
Other	-1 912	-2 364
Total	**-24 678**	**-14 612**

(12) INCOME TAX

12a. Income tax reported in income statement

	1.01.2009-31.12.2009	1.01.2008-31.12.2008
Current tax	**-97 859**	**-89 681**
Current year	-97 859	-89 681
Deferred tax	**101 439**	**-851**
Appearance and reversal of temporary differences	80 817	-851
Utilisation of tax loss	0	0
Adjustment in CIT-8 declarations for previous years	20 622	0
Total income tax reported in income statement	**3 580**	**-90 532**

12b. Effective tax rate

	1.01.2009-31.12.2009	1.01.2008-31.12.2008
Gross profit / (loss)	80 535	587 461
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-15 301**	**-111 618**
Impact of permanent differences on tax charges:	**18 881**	**21 085**
- Non taxable income	23 893	31 671
Dividend income	19 275	29 824
Other	4 618	1 847
- Cost which is not a tax cost	-5 012	-10 586
Loss on sale of receivables	-7	-4 005
PFRON fee	-1 047	-1 022
Other	-3 958	-5 559
Total income tax reported in income statement	**3 580**	**-90 532**

12c. Deferred tax reported directly in equity

	31.12.2009	31.12.2008
Valuation of available for sale securities	-2 349	-2 440
Valuation of cash flow hedging instruments	-278	-6 999
Deferred tax reported directly in equity	**-2 627**	**-9 439**

(13) EARNINGS PER SHARE

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

(14) CASH, BALANCES WITH THE CENTRAL BANK

14a. Cash, balances with the Central Bank

	31.12.2009	31.12.2008
Cash	437 625	633 457
Cash in Central Bank	1 753 362	1 168 905
Other funds	40	40
Total	**2 191 027**	**1 802 402**

In the period from 31st December 2009 to 31st January 2010 the Bank kept on its current account with NBP an average balance of PLN 979,501 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 rediscount rate and in the above-mentioned period of time was 3.375%.

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

	31.12.2009	31.12.2008
a. in Polish currency	2 036 820	1 553 491
b. in foreign currencies (after conversion to PLN)	154 207	248 911
- currency: USD	23 234	29 573
- currency: EUR	81 070	171 121
- currency: GBP	21 380	22 749
- other currencies (PLN ‘000)	28 523	25 468
Total	**2 191 027**	**1 802 402**

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

15a. Loans and advances to banks

	31.12.2009	31.12.2008
Current accounts	87 639	91 342
Deposits in other banks	265 347	1 170 639
Loans	342 610	316 258
Other	0	212
Interest	93	1 575
Total (gross) loans and advances to banks	**695 689**	**1 580 026**
Impairment write-offs	0	0
Net loans and advances to banks	**695 689**	**1 580 026**

15b. Loans and advances to banks by maturity date

	31.12.2009	31.12.2008
Current accounts	87 639	91 342
- to 1 month	265 347	1 170 851
- above 1 month to 3 months	0	0
- above 3 months to 1 year	0	4
- above 1 year to 5 years	0	0
- above 5 years	342 610	316 254
- past due	0	0
Interest	93	1 575
Total (gross) loans and advances to banks	**695 689**	**1 580 026**

15c. Loans and advances to banks by currency

	31.12.2009	31.12.2008
in Polish currency	487 356	326 135
in foreign currencies (after conversion to PLN)	208 333	1 253 891
- currency: USD	33 141	465 706
- currency: EUR	106 519	643 088
- currency: CHF	19 888	61 709
- currency: GBP	12 518	15 285
- other currencies (PLN '000)	36 267	68 103
Total	**695 689**	**1 580 026**

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

	31.12.2009	31.12.2008
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	**0**	**0**

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

16a. Financial assets valued at fair value through profit and loss (held for trading)	31.12.2009	31.12.2008
Debt securities	**2 320 318**	**3 471 808**
Issued by State Treasury	2 320 318	3 471 808
a) bills	511 977	933 718
b) bonds	1 808 341	2 538 090
Equity instruments	**0**	**0**
Positive valuation of derivatives	**708 935**	**2 820 914**
Total	**3 029 253**	**6 292 722**

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

	31.12.2009	31.12.2008
Trading financial assets	3 029 253	6 292 722
Financial assets valued at fair value when initially recognized	0	0
Total	**3 029 253**	**6 292 722**

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

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

	31.12.2009	31.12.2008
- with fixed interest rate	2 088 217	3 165 591
- with variable interest rate	232 101	306 217
Total	**2 320 318**	**3 471 808**

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

	31.12.2009	31.12.2008
- to 1 month	1 751	59 261
- above 1 month to 3 months	1 477	44 302
- above 3 months to 1 year	1 475 345	1 418 681
- above 1 year to 5 years	831 789	1 712 199
- above 5 years	9 956	237 365
Total	**2 320 318**	**3 471 808**

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

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	3 471 808	2 327 042
Increases (purchase and accrual of interest and discount)	74 128 066	117 814 934
Reductions (sale and redemption)	-75 258 315	-116 595 706
Reclassification to investment financial assets available for sale	0	-119 132
Differences from valuation at fair value	-21 241	44 670
Balance at the end of the period	**2 320 318**	**3 471 808**

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

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	**6 840 086**	**7 494 362**	**12 138 945**	**1 629**	**346 527**	**344 898**
Forward Rate Agreements (FRA)	200 000	750 000	0	141	194	53
Interest rate swaps (IRS)	6 640 086	6 744 362	12 027 502	6 356	346 277	339 921
Other interest rate contracts: volatility swap, swap with FX option	0	0	111 443	-4 868	56	4 924
2. FX derivatives *	**8 655 263**	**10 731 764**	**4 577 672**	**122 954**	**325 781**	**202 827**
FX contracts	1 034 242	238 862	358 010	55 659	59 847	4 188
FX swaps	3 231 907	231 576	15 848	80 884	110 356	29 472
Other FX contracts (CIRS)	3 242 924	8 614 279	4 170 583	-17 669	78 261	95 930
FX options	1 146 190	1 647 047	33 231	4 080	77 317	73 237
3. Commodity derivatives	**107 980**	**216 312**	**8 338**	**288**	**6 854**	**6 566**
Commodity forwards	107 980	158 832	8 338	139	6 003	5 864
Commodity options	0	57 480	0	149	851	702
4. Embedded instruments	**x**	**x**	**x**	**-19 478**	**8 118**	**27 596**
Options embedded in deposits	x	x	x	637	8 118	7 481
Options embedded in securities issued	x	x	x	-20 115	0	20 115
5. Fair value measurement of items subject to hedging	**0**	**0**	**0**	**6 853**	**6 853**	**0**
Valuation of future FX payments subject to hedging	0	0	0	0	0	0
Valuation of hedged consumer loans portfolio	x	x	x	6 853	6 853	0
6. Indexes options	**0**	**0**	**472 005**	**13 512**	**14 802**	**1 290**
Valuation of derivatives	**15 603 329**	**18 442 438**	**17 196 960**	**125 758**	**708 935**	**583 177**
Liabilities from short sale of securities						**100 201**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**708 935**	**683 378**

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

The Bank’s offer covers deposits with embedded derivatives, which have been presented in the above table. The embedded derivatives are taken in the

Bank’s books at fair value, changes of the fair value are disclosed in the profit and loss account.

Note 16 g / Note 27 Valuation of derivatives and Liabilities from short sale of securities as at 31.12.2008

	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	**10 356 102**	**11 276 052**	**21 456 033**	**18 482**	**717 703**	**699 221**
Forward Rate Agreements (FRA)	2 950 000	850 000	0	-1 830	2 736	4 566
Interest rate swaps (IRS)	7 348 851	10 426 052	21 442 303	16 195	710 346	694 151
Other interest rate contracts: volatility swap, swap with FX option	57 251	0	13 730	4 117	4 621	504
2. FX derivatives *	**46 801 357**	**26 937 287**	**21 993 358**	**-1 588 900**	**1 903 234**	**3 492 134**
FX contracts	4 953 608	1 444 842	747 698	170 237	271 179	100 942
FX swaps	34 137 325	5 565 586	42 785	-1 900 054	159 170	2 059 224
Other FX contracts (CIRS)	0	1 536 548	9 341 581	-79 204	0	79 204
FX options	7 710 424	18 390 311	11 861 294	220 121	1 472 885	1 252 764
3. Commodity derivatives	**395 021**	**600 310**	**216 497**	**737**	**164 455**	**163 718**
Commodity forwards	187 289	393 134	173 803	581	126 216	125 635
Commodity options	207 732	207 176	42 694	156	38 239	38 083
4. Embedded instruments	**x**	**x**	**x**	**-9 548**	**62**	**9 610**
Options embedded in deposits	x	x	x	-4 907	62	4 969
Options embedded in securities issued	x	x	x	-4 641	0	4 641
5. Fair value measurement of items subject to hedging	**0**	**2 435**	**285 776**	**21 781**	**28 215**	**6 434**
Valuation of future FX payments subject to hedging	0	2 435	285 776	-6 434	0	6 434
Valuation of hedged consumer loans portfolio	x	x	x	28 215	28 215	0
6. Indexes options	**0**	**0**	**154 423**	**3 357**	**7 245**	**3 888**
Valuation of derivatives	**57 552 480**	**38 816 084**	**44 106 087**	**-1 554 091**	**2 820 914**	**4 375 005**
Liabilities from short sale of securities						**27 222**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**2 820 914**	**4 402 227**

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

(17) DERIVATIVE AND HEDGING INSTRUMENTS

The Bank applies following types of hedge accounting:

- ✓ Hedge of fair value of the portfolio of long-term consumer loans;
- ✓ Hedge of volatility of cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;
- ✓ Hedge of volatility of cash flows generated by the portfolio of floating rate FX mortgage loans.

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

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

In the 1st half of 2009 the Bank decided to cease the formal hedging relationship (hedge accounting), established for liabilities expressed in FX, resulting from the Bank's trading operations. At the moment of termination effect of valuation of hedged item amounted to PLN 15.4 million and is a subject of amortisation over periods the Group expects cash flows from the item. During 2009 the Group recognised in Profit loss account PLN 5 million of aforementioned amortisation.

Since 1 April 2009 the Bank designated FX Swap transactions to hedge accounting of cash flows generated by floating rate FX mortgage loans, in a time horizon limited to the duration of the hedge transactions.

Additionally during 2008 the Bank employed hedge accounting for transactions hedging the fair value of FX securities against interest rate fluctuation and FX rate risk (micro fair value hedge for FX securities). As a result of the issuer's redemption of the securities in question at maturity in December 2008 the above transactions ceased to be recognised in the Bank's books. The balance of fair value changes resulting from the hedging of the interest rate risk of the hedging and hedged instrument for the hedging transaction in question, which was moved from capitals to profit and loss during 2008 stood at PLN 165 thousand.

The table below presents detailed information regarding particular types of the hedge accounting, as at 31.12.2009:

	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 floating rate FX mortgage portfolio
Description of hedge transactions	The Bank hedges the risk of change of the fair value of the long-term consumer loan portfolio denominated in PLN based on a fixed interest rate. The risk hedged results from interest rate fluctuations.	The Bank hedges against the risk of volatility of the cash flow generated by FX mortgage portfolio and by the PLN deposits, which are the underlying financial base for these loans. Volatility of the cash flow results from the FX and interest rate risk.	The Bank hedges against FX risk and interest rate risk of the cash flow for part of the period – during the time horizon of the hedge transactions – on account of floating rate FX loans, by replacing interest flows in FX to PLN flows, using FX swaps for this purpose.
Hedged items	Fixed rate PLN long-term consumer loan portfolio.	Cash flows resulting from the mortgage loan portfolio and PLN deposits funding them.	Cash flow generated by FX mortgage portfolio.
Hedging instruments	IRS transactions	CIRS transactions	FX Swap 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; interest on hedging and hedged instruments is recognised in net interest income;	Effective part of the valuation of hedging instruments is recognised in revaluation capital; interest on both the hedged and the hedging instruments is recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in the net FX income	Effective part of valuation of hedging instruments is recognised in the revaluation capital; Interest on hedging instruments settled swap points) is presented in interest margin

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**

As at 31.12.2008	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	14 422	1 224 007	-30 309	24	30 333	28 215
2. Fair value hedging derivatives connected with FX rate risk							
CIRS contracts	0	2 435	285 776	6 167	9 953	3 786	-6 434
3. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	787 320	4 005 015	7 436 445	-1 145 530	0	1 145 530	x
4. Total hedging derivatives	**787 320**	**4 021 872**	**8 946 228**	**-1 169 672**	**9 977**	**1 179 649**	**x**

17b. Hedge accounting for cash flows

	31.12.2009	31.12.2008
Gross valuation recognized in revaluation reserve	1 463	36 837
Period in which cash flows with hedged value are expected to occur	from 01.01.10 to 04.12.19	from 01.01.09 to 23.01.13

(18) *LOANS AND ADVANCES TO CUSTOMERS*

18a. Loans and advances to customers

	31.12.2009	31.12.2008
Loans and advances	**30 244 238**	**29 911 222**
- to companies	5 412 468	5 601 416
- to private individuals	24 322 109	24 156 905
- to public sector	509 661	152 901
Receivables on account of payment cards	**867 447**	**730 843**
- due from companies	8 896	8 028
- due from private individuals	858 551	722 815
Purchased receivables	**2 228 658**	**2 477 746**
- from companies	2 225 290	2 460 415
- from private individuals	0	0
- from public sector	3 368	17 331
Guarantees and sureties realised	2 496	123
Debt securities eligible for rediscount at Central Bank	22 826	35 691
Other	1 649	1 505
Interest	107 786	140 260
Total gross	**33 475 100**	**33 297 390**
Impairment write-offs	-992 627	-673 131
Total net	**32 482 473**	**32 624 259**

18b. Quality of loans and advances to customers portfolio

	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**33 475 100**	**33 297 390**
- impaired	1 528 206	943 475
- not impaired	31 946 894	32 353 915
Impairment write-offs	**992 627**	**673 131**
- for impaired exposures	705 636	393 935
- for incurred but not reported losses (IBNR)	286 991	279 196
Loans and advances to customers (net)	**32 482 473**	**32 624 259**

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

	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**33 475 100**	**33 297 390**
- case by case analysis	982 648	669 371
- collective analysis	32 492 452	32 628 019
Impairment write-offs	**992 627**	**673 131**
- on the basis of case by case analysis	393 714	218 096
- on the basis of collective analysis	598 913	455 035
Loans and advances to customers (net)	**32 482 473**	**32 624 259**

18d. Loans and advances to customers portfolio by customers

	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**33 475 100**	**33 297 390**
- corporate customers	8 231 840	8 345 688
- individuals	25 243 260	24 951 702
Impairment write-offs	**992 627**	**673 131**
- for receivables from corporate customers	559 046	349 961
- for receivables from individuals	433 581	323 170
Loans and advances to customers (net)	**32 482 473**	**32 624 259**

18e. Loans and advances to customers by maturity

	31.12.2009	31.12.2008
Current accounts	1 925 932	2 108 428
- to 1 month	395 946	310 818
- above 1 month to 3 months	759 292	425 410
- above 3 months to 1 year	2 794 810	2 523 699
- above 1 year to 5 years	8 129 776	7 906 506
- above 5 years	19 019 700	19 789 054
- past due	341 858	93 215
Interest	107 786	140 260
Total gross	**33 475 100**	**33 297 390**

18f. Loans and advances to customers by currency

	31.12.2009	31.12.2008
in Polish currency	12 879 526	11 460 067
in foreign currencies (after conversion to PLN)	20 595 574	21 837 323
- currency: USD	351 191	395 153
- currency: EUR	1 191 275	1 345 528
- currency: CHF	18 632 018	19 447 333
- other currencies (PLN ‘000)	421 090	649 308
Total gross	0	1
	33 475 100	**33 297 390**

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

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	673 131	552 019
Change in value of provisions:	319 496	121 112
Write-offs in the period	688 227	370 439
Amounts written off	-42 054	-28 826
Reversal of write-offs in the period	-322 026	-250 798
Write-offs decrease due to sale of receivables	-77	-21 856
Changes resulting from FX rates differences	-4 574	52 153
Other	0	0
Balance at the end of the period	**992 627**	**673 131**

(19) *INVESTMENT FINANCIAL ASSETS*

19a. Investment financial assets available for sale

	31.12.2009	31.12.2008
Debt securities	**4 150 278**	**2 901 702**
Issued by State Treasury	2 462 342	2 627 891
a) bills	539 287	675 447
b) bonds	1 923 055	1 952 444
Issued by Central Bank	1 499 417	167 247
a) bills	1 499 417	0
b) bonds	0	167 247
Other securities	188 519	106 564
a) listed	55 459	15 760
b) not listed	133 060	90 804
Shares and interests in other entities	**12 798**	**11 677**
Other financial instruments	**0**	**0**
Total financial assets available for sale	**4 163 076**	**2 913 379**
Available for sale instruments listed on the stock exchange	2 517 801	2 643 651
Available for sale instruments not listed on the stock exchange	1 645 275	269 728

19b. Debt securities available for sale

	31.12.2009	31.12.2008
- with fixed interest rate	3 595 623	1 320 149
- with variable interest rate	554 655	1 581 553
Total	**4 150 278**	**2 901 702**

19c. Debt securities available for sale by maturity

	31.12.2009	31.12.2008
- to 1 month	1 607 836	610 403
- above 1 month to 3 months	94 327	159 527
- above 3 months to 1 year	556 680	593 449
- above 1 year to 5 years	1 888 729	1 536 918
- above 5 years	2 706	1 405
Total	**4 150 278**	**2 901 702**

19d. Change of investment financial assets available for sale

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	2 913 379	1 893 949
Increases (purchase and accrual of interest and discount)	26 011 722	6 325 988
Reclassification of assets available for sale to investment financial assets	0	119 132
Reductions (sale and redemption)	-24 761 455	-5 440 948
Difference from measurement at fair value	-478	15 248
Impairment write-offs	197	0
Other	-289	10
Balance at the end of the period	**4 163 076**	**2 913 379**

19e. Investments in associates

	31.12.2009	31.12.2008
Investments in associates	262 288	232 357

19f. Associates as at 31.12.2009

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

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

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

19g. Associates as at 31.12.2008

Name	Business	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING	Leasing	25 363	0	0	3 587 386	3 133 390	43 400	136 157	34 154	subordinated
MILLENNIUM LEASE	Leasing	38 578	0	20 025	315 913	244 346	86 318	4 346	2 182	subordinated
MILLENNIUM DOM MAKLERSKI	Brokerage services	16 500	0	0	308 147	135 830	16 500	82 813	57 208	subordinated
BBG FINANCE BV	Funding companies from the Group	5 082	0	0	341 283	333 792	75	0	383	subordinated
MB FINANCE AB	Funding companies from the Group	191	0	0	542 094	540 801	191	0	-35	subordinated
MILLENNIUM SERVICE	General construction, civil engineering	1 000	0	120 000	159 670	0	1 000	68 140	3 345	subordinated
TBM	Financial operations on equity market and advisory services	225	0	0	6 107	0	500	632	325	associated
LUBUSKIE FABRYKI MEBLI	Furniture manufacturer	6 700	-1 700	0	17 660	4 773	13 400	38 308	-2 031	subordinated
PHCRS	Wholesale market for groceries	8 200	-8 200	0	75 907	55 144	21 357	13 348	2 482	associated
RESS TRADING	Financial operations on equity market and advisory services	98	0	294	407	0	100	0	-11	subordinated
BG LEASING	Leasing	900	-900	0	The company is under bankruptcy					subordinated
T.H. WEIMAN i S-KA	Production of ceramic sanitary ware and trade	0	0	0	The company is not conducting business activity, is not preparing financial reports					associated
SPC	Investing activity	33	-33	0	The company is not conducting business activity, is not preparing financial reports					associated
Total investments in associates		**102 871**	**-10 833**	**140 319**						

19h. Change of investments in associates

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	232 357	191 343
Increase in capital/ take-up of shares	0	0
Additional capital paid in	23 000	40 294
Shares taken up after division of subsidiary	0	0
Sale of shares	0	0
Impairment write-offs in the period	7 000	0
Differences in valuation of shares expressed in foreign currencies	-69	720
Balance at the end of the period	**262 288**	**232 357**

(20) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

20. Receivables from securities bought with sell-back clause

	31.12.2009	31.12.2008
a) from customers	208 746	61 272
b) interest	35	10
Total	**208 781**	**61 282**

(21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2009	31.12.2008
Fixed assets:		
- land	1 356	1 335
- buildings, premises, civil and hydro-engineering structures	146 705	130 881
- machines and equipment	73 497	37 944
- vehicles	20 137	25 828
- other fixed assets	32 816	17 097
Fixed assets under construction	10 979	12 518
Total	**285 490**	**225 603**

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

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

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2008 - 31.12.2008

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	Fixed assets under constr.and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**1 915**	**354 298**	**244 279**	**30 235**	**96 602**	**21 574**	**748 903**
b) increases (on account of)	**25**	**3 779**	**18 108**	**12 535**	**6 428**	**19 475**	**60 350**
- purchase						14 632	14 632
- transfer from fixed assets under construction	25	3 702	18 050	50	6 428		28 255
- transfer from financial leasing				12 485			12 485
- impairment charges						4 843	4 843
- other		77	58				135
c) reductions (on account of)	**102**	**34 437**	**37 677**	**6 179**	**24 271**	**28 531**	**131 197**
- sale	99	19 311	7 347	5 569	20 387		52 713
- liquidation	3	1 805	16 861	43	2 775		21 487
- settlement of fixed assets under construction						28 265	28 265
- transfer of amortization **		2 454	11 414		1 033		14 901
- other		10 867*	2 055	567	76	266	13 831
d) gross value of property, plant and equipment at the end of the period	**1 838**	**323 640**	**224 710**	**36 591**	**78 759**	**12 518**	**678 056**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**170 887**	**210 646**	**10 876**	**77 193**	**0**	**469 602**
f) depreciation over the period (on account of)	**0**	**-3 433**	**-23 880**	**-113**	**-16 906**	**0**	**-44 332**
- current write-off (P&L)		17 669	13 419	5 346	8 224		44 658
- reductions on account of sale		-13 343	-7 037	-5 374	-19 918		-45 672
- reductions on account of liquidation		-1 460	-16 795	-6	-2 612		-20 873
- transfer of amortization**		-2 454	-11 414		-1 033		-14 901
- other		-3 845	-2 053	-79	-1 567		-7 544
g) cumulated depreciation (amortization) at the end of the period	**0**	**167 454**	**186 766**	**10 763**	**60 287**	**0**	**425 270**
h) impairment write-offs at the beginning of the period	**503**	**30 041**	**0**	**0**	**1 375**	**0**	**31 919**
- increase							0
- reduction		4 736					4 736
i) impairment write-offs at the end of the period	**503**	**25 305**	**0**	**0**	**1 375**	**0**	**27 183**
j) net value of property, plant and equipment at the end of the period	**1 335**	**130 881**	**37 944**	**25 828**	**17 097**	**12 518**	**225 603**

* „Other reductions" comprise mainly write-off of 2007 investments on dismantling removal of fixed assets elements coming from change of HQ realized in 2008.

** In the scope of IFRS adoption Bank adjusted opening balance of part of fixed assets to net value.

(22) *INTANGIBLE ASSETS*

22a. Intangible assets

	31.12.2009	31.12.2008
- concessions, patents, licenses, know how and similar assets, including:	18 458	18 002
- computer software	18 458	18 002
Total intangible assets	**18 458**	**18 002**

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

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

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2008 - 31.12.2008

	concessions, patents, licenses, know how and similar assets, including:	computer software	TOTAL
a) gross value of intangible assets at the beginning of the period	**380 176**	**170 032**	**380 176**
b) increases (on account of)	**8 779**	**8 779**	**8 779**
- transfer from investments	10	10	10
- expenditures on intangible assets	3 370	3 370	3 370
- other (provision)	5 399	5 399	5 399
c) reductions (on account of)	**13 608**	**13 608**	**13 608**
- liquidation	13 599	13 599	13 599
- other	9	9	9
d) gross value of intangible assets at the end of the period	**375 347**	**165 203**	**375 347**
e) cumulated depreciation (amortization) at the beginning of the period	**363 530**	**153 386**	**363 530**
f) depreciation over the period (on account of)	**-6 185**	**-6 185**	**-6 185**
- current write-off (P&L)	7 423	7 423	7 423
- liquidation	-13 599	-13 599	-13 599
- other	-9	-9	-9
g) cumulated depreciation (amortization) at the end of the period	**357 345**	**147 201**	**357 345**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**18 002**	**18 002**	**18 002**

(23) *NON-CURRENT ASSETS HELD FOR SALE*

As of 31.12.2009 and 31.12.2008 the Bank did not classify any assets in the Fixed Assets for Sale category.

(24) *DEFERRED INCOME TAX ASSETS*

24a. Deferred income tax assets

	31.12.2009			31.12.2008		
	Deferred income tax asset	**Deferred income tax provision**	**Net deferred income tax asset**	**Deferred income tax asset**	**Deferred income tax provision**	**Net deferred income tax asset**
Difference between tax and balance sheet depreciation	7 983	0	7 983	8 351	0	8 351
Balance sheet valuation of financial instruments	124 466	-127 478	-3 012	488 168	-514 074	-25 906
Unrealised receivables/ liabilities on account of derivatives	100 119	-112 765	-12 646	211 605	-204 374	7 231
Interest on deposits and securities to be paid/ received	75 862	-83 658	-7 796	70 145	-106 145	-36 000
Interest and discount on loans and receivables	0	-20 000	-20 000	1 647	-26 990	-25 343
Income and cost settled at effective interest rate	2 219	-9 038	-6 819	0	-18 283	-18 283
Provisions for loans presented as temporary differences	138 535	0	138 535	92 100	0	92 100
Employee benefits	7 721	0	7 721	17 214	0	17 214
Provisions for future costs	3 652	0	3 652	5 344	0	5 344
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	0	-2 627	-2 627	0	-9 439	-9 439
Other	1 796	-4 127	-2 331	1 814	-2 052	-238
Net deferred income tax asset	**462 353**	**-359 693**	**102 660**	**896 388**	**-881 357**	**15 031**

24b. Change of temporary differences

	31.12.2008	**Adjustments in opening balance**	**Changes to financial result**	**Changes to equity**	**31.12.2009**
Difference between tax and balance sheet depreciation	8 351		-368		7 983
Balance sheet valuation of financial instruments	-25 906		22 895		-3 012
Unrealised receivables/ liabilities on account of derivatives	7 231		-19 877		-12 646
Interest on deposits and securities to be paid/ received	-36 000		28 204		-7 796
Interest and discount on loans and receivables	-25 343		5 343		-20 000
Income and cost settled at effective interest rate	-18 283		11 464		-6 819
Provisions for loans presented as temporary differences	92 100		46 435		138 535
Employee benefits	17 214		-9 493		7 721
Provisions for future costs	5 344		-1 692		3 652
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	-9 439			6 812	-2 627
Tax loss deductible in the future	0		0		0
Other	-238	-20 622*	18 529		-2 331

Total	**15 031**	**-20 622**	**101 439**	**6 812**	**102 660**

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

24c. Change of temporary differences

	31.12.2007	Changes to financial result	Changes to equity	31.12.2008
Difference between tax and balance sheet depreciation	10 533	-2 182		8 351
Balance sheet valuation of financial instruments	-11 081	-14 825		-25 906
Unrealised receivables/ liabilities on account of derivatives	20 127	-12 896		7 231
Interest on deposits and securities to be paid/ received	-59 625	23 625		-36 000
Interest and discount on loans and receivables	-12 647	-12 696		-25 343
Income and cost settled at effective interest rate	-12 770	-5 513		-18 283
Provisions for loans presented as temporary differences	67 828	24 272		92 100
Employee benefits	17 309	-95		17 214
Provisions for future costs	5 152	192		5 344
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	643		-10 082	-9 439
Tax loss deductible in the future	0	0		0
Other	373	-611		-238
Total	**25 843**	**-852**	**-10 082**	**15 031**

24d. Change of deferred income tax

	1.01.2009 - 31.12.2009	1.01.2008 - 31.12.2008
Difference between tax and balance sheet depreciation	-368	-2 182
Balance sheet valuation of financial instruments	22 895	-14 825
Unrealised receivables/ liabilities on account of derivatives	-19 877	-12 896
Interest on deposits and securities to be paid/ received	28 204	23 625
Interest and discount on loans and receivables	5 343	-12 696
Income and cost settled at effective interest rate	11 464	-5 513
Provisions for loans presented as temporary differences	46 435	24 272
Employee benefits	-9 493	-95
Provisions for future costs	-1 692	192
Tax loss deductible in the future	0	0
Other	18 529	-611
Change of deferred income tax recognized in financial result	**101 439**	**-852**
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	**6 812**	**-10 082**

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

Temporary differences expiry year	31.12.2009	31.12.2008
Unlimited	9 612	9 612
Total	**9 612**	**9 612**

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

	31.12.2009	31.12.2008
Net deferred income tax assets	102 660	15 031
Net deferred income tax provision	-	-
Total	**102 660**	**15 031**

(25) OTHER ASSETS

25. Other assets

	31.12.2009	31.12.2008
Expenses to be settled	29 421	38 405
Income to be received	9 563	81 201
Interbank settlement accounts	24	525
Settlement accounts for financial instruments transactions	12 099	10 482
Receivables from sundry debtors	56 095	41 402
Settlements with the State Treasury, including:	19 493	9 606
- receivables from Tax Office resulting from the article 38 a of the CIT Act	0	9 022
- receivables from adjustment in VAT settlements	12 689	0
Perpetual usufruct right to land	0	5 155
Total other assets (gross)	**126 695**	**186 776**
Provisions	-10 622	-10 619
Total other assets (net)	**116 073**	**176 157**

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

(26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2009	31.12.2008
In current account	45 670	70 571
Term deposits	2 151 247	35 407
Loans and advances received	2 625 839	2 937 280
Other	70 507	75
Interest	16 093	17 217
Total	**4 909 356**	**3 060 550**

Increase of liabilities to banks, expressed in euro in 2009, was largely an effect of signing by the Bank of following agreements:

- On 16 March 2009 an agreement was signed between Bank Millennium S.A. and Banco Comercial Portugues S.A., on a medium-term loan for the Bank, in the amount of EUR 200 million, assigned for general financing of activity. The interest rate on the loan is based on the EURIBOR variable rate, plus a contractual margin. The loan is to be repaid in April 2011.

- On 30 November 2009 an agreement was signed between the Bank and the European Bank for Reconstruction and Development (EBRD), in the matter of taking out by the Bank from EBRD a medium-term loan in the amount of EUR 100 million, consisting on the day of signing the agreement the equivalent of over PLN 400 million. The proceeds from the loan shall be used to increase the possibility of financing by the Bank of customers from the sector of Small and Medium Enterprises. The interest rate on the loan is based on the variable EURIBOR rate plus a contractual margin. Final payment of the loan shall be within 5 years from the date of signing the agreement.

Additionally, on 31.12.2009 several transactions “money market” were active, which were concluded between Treasury Department and Banco Comercial Portugues S.A.. They comprised short-term deposits, adopted from Banco Comercial Portugues S.A. based on standards and procedures of interbank money market. Total nominal value of those deposit transactions stood at EUR 500 million.

The reduction of the balance of liabilities to banks, expressed in Swiss francs in 2009, resulted largely from repayment by the Bank of a syndicated loan, taken in 2006 in the amount of CHF 555 million. According to the terms and conditions of the agreement the loan was repaid in November 2009.

26b. Deposits from banks by maturity

	31.12.2009	**31.12.2008**
Current accounts	45 670	70 570
- to 1 month	988 890	26 816
- above 1 month to 3 months	1 232 826	8 490
- above 3 months to 1 year	1 050 906	1 554 952
- above 1 year to 5 years	1 232 460	1 066 338
- above 5 years	342 511	316 167
Interest	16 093	17 217
Total	**4 909 356**	**3 060 550**

The balance of liabilities towards Banks with maturities above 5 years results from the long-term structured agreement concluded by the Bank in the past with a single counterparty. This agreement resulted in simultaneous taking by the Bank a loan and buying counterparty’s zero-coupon securities of the counterparty and the Bank’s prepaying of (discounted) interest on the loan for the last 10 years in advance.

26c. Deposits from banks by currency

	31.12.2009	31.12.2008
in Polish currency	505 883	393 964
in foreign currencies (after conversion to PLN)	4 403 473	2 666 586
- currency: USD	7	0
- currency: EUR	4 070 889	770 400
- currency: CHF	332 577	1 896 186
Total	**4 909 356**	**3 060 550**

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

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

	31.12.2009	31.12.2008
Negative valuation of derivatives	583 177	4 375 005
Short sale of securities	100 201	27 222
Financial liabilities valued at fair value through profit and loss	**683 378**	**4 402 227**

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

(28) HEDGING DERIVATIVE INSTRUMENTS

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

(29) DEPOSITS FROM CUSTOMERS

29a. Structure of deposits from customers by type

	31.12.2009	31.12.2008
Amounts due to private individuals	**19 443 195**	**19 102 394**
Balances on current accounts	5 301 711	2 782 392
Term deposits	13 673 853	15 931 154
Other	125 565	155 430
Accrued interest	342 066	233 418
Amounts due to companies	**10 076 668**	**11 044 367**
Balances on current accounts	2 571 336	2 686 358
Term deposits	7 243 771	7 866 324
Other	225 358	377 920
Accrued interest	36 203	113 765
Amounts due to public sector	**2 133 724**	**1 731 109**
Balances on current accounts	954 502	1 054 587
Term deposits	1 161 374	662 581
Other	14 923	10 948
Accrued interest	2 925	2 993
Total	**31 653 587**	**31 877 870**

29b. Deposits from customers by maturity

	31.12.2009	31.12.2008
Current accounts	8 827 549	6 523 337
- to 1 month	10 647 973	10 360 008
- above 1 month to 3 months	6 314 903	6 128 781
- above 3 months to 1 year	5 435 696	8 117 876
- above 1 year to 5 years	46 114	397 687
- above 5 years	158	5
Interest	381 194	350 176
Total	**31 653 587**	**31 877 870**

29c. Deposits from customers by currency

	31.12.2009	31.12.2008
in Polish currency	29 927 853	29 606 526
in foreign currencies (after conversion to PLN)	1 725 734	2 271 344
- currency: USD	601 888	928 167
- currency: EUR	1 035 361	1 246 237
- currency: GBP	68 934	78 132
- currency: CHF	16 267	15 386
- other currencies (PLN '000)	3 284	3 422
Total	**31 653 587**	**31 877 870**

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

30. Liabilities from securities bought with buy-back clause

	31.12.2009	31.12.2008
a) from the Central Bank	481 372	1 149 723
b) from banks	1 106 704	9 991
c) from customers	753 696	340 640
d) interest	4 418	5 999
Total	**2 346 190**	**1 506 353**

(31) DEBT SECURITIES

31a. Debt securities

	31.12.2009	31.12.2008
Outstanding bonds and bills	262 466	113 207
Bills of exchange	0	0
Interest	0	0
Total	**262 466**	**113 207**

31b. Debt securities

	31.12.2009	31.12.2008
- to 1 month	0	0
- above 1 month to 3 months	0	0
- above 3 months to 1 year	28 520	10 644
- above 1 year to 5 years	233 946	102 563
- above 5 years	0	0
Interest	0	0
Total	**262 466**	**113 207**

31c. Change of debt securities

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	113 207	0
Increases, on account of:	183 864	136 509
- issue of bonds	183 864	136 509
Reductions, on account of:	-34 605	-23 302
- repurchase of bonds	-34 605	-23 302
Balance at the end of the period	**262 466**	**113 207**

31D. DEBT SECURITIES BY TYPE

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

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

31e. Debt securities by type

As at 31.12.2008	Balance sheet value	Interest rate *	Maturity	Market
BM_2009/10,A	10 644	-	08-13.10.2009	-
BM_2010/07	9 721	-	07.07.2010	-
BM_2010/07A	6 737	-	19.07.2010	-
BM_2010/09,A	4 108	-	06-07.09.2010	-
BM_2010/12	7 311	-	03.12.2010	-
BM_2010/12A	911	-	06.12.2010	-
BM_2011/02	3 145	-	25.02.2011	-
BM_2011/03_1,2	8 905	-	14-15.03.2011	-
BM_2011/04	7 992	-	15.04.2011	-
BM_2011/05	8 642	-	12.05.2011	-
BM_2011/05A	6 764	-	31.05.2011	-
BM_2011/11,A	12 869	-	07-08.11.2011	-
BM_2012/01	5 671	-	03.01.2012	-
BM_2012/01A	6 564	-	04.01.2012	-
BM_2012/04	8 135	-	10.04.2012	-
BM_2012/06	5 088	-	11.06.2012	-
TOTAL	**113 207**			

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

(32) *PROVISIONS*

32a. Provisions

	31.12.2009	31.12.2008
Provision for off-balance sheet commitments	18 384	16 433
Provision for contentious claims	4 812	16 119
Total	**23 196**	**32 552**

32b. Change of provisions

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Provision for off-balance sheet commitments		
Balance at the beginning of the period	16 433	12 351
Charge of provision	14 990	20 047
Release of provision	-12 810	-16 056
Utilization of provision in the period – sale of portfolio	0	-120
FX rates differences	-229	211
Balance at the end of the period	**18 384**	**16 433**

Provision for contentious claims		
Balance at the beginning of the period	16 119	20 881
Charge of provision	2 767	2 337
Release of provision	-13 741	-1 447
Utilisation of provision	-333	-5 752
Other		100
Balance at the end of the period	**4 812**	**16 119**

(33) Deferred income tax provision

	31.12.2009	31.12.2008
33. Deferred income tax provision	**0**	**0**

(34) Other liabilities

34a. Other liabilities

	31.12.2009	31.12.2008
Short-term	**479 839**	**386 461**
Accrued costs - bonuses, salaries	28 986	75 415
Accrued costs - other	48 286	75 371
Interbanking settlement accounts	75 299	100 453
Financial instruments transactions settlement accounts	0	0
Other creditors	98 048	64 277
Liabilities from financial leasing	152 767	24 978
Liabilities to public sector	28 177	11 893
Deferred income	40 411	24 419
Provisions for unused employee holiday	5 809	9 655
Long-term	**2 056**	**0**
Provisions for retirement benefits	5 844	5 532
Deferred income	10 439	0
Other	8 622	8 480
Total	**504 744**	**400 473**

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

34b. Liabilities from financial leasing

	31.12.2009	31.12.2008
Liabilities from financial leasing (gross)	192 808	28 633
Unrealised financial costs	-40 041	-3 655
Current value of minimum leasing instalments	**152 767**	**24 978**
Liabilities from financial leasing (gross) by maturity		
Under 1 year	27 752	5 478
From 1 year to 5 years	102 823	23 155
Above 5 years	62 233	0
Total	**192 808**	**28 633**
Liabilities from financial leasing (net) by maturity		
Under 1 year	20 147	3 906
From 1 year to 5 years	76 449	21 072
Above 5 years	56 171	0
Total	**152 767**	**24 978**

34c. Change of provisions for unused employee holiday

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	**9 655**	**13 254**
Charge of provisions/ reversal of provisions	-2 991	-1 466
Utilization of provisions	-855	-2 133
Balance at the end of the period	**5 809**	**9 655**

34d. Change of provisions for retirement benefits

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	**5 532**	**5 436**
Charge of provisions/ reversal of provisions	813	331
Utilization of provisions	-501	-235
Balance at the end of the period	**5 844**	**5 532**

(35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2009	31.12.2008
Name of entity	BBG FINANCE B.V.	BBG FINANCE B.V.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	80 000	80 000
Value of the liability in PLN	328 656	333 792
Interest rate	2.997%	4.966%
Maturity	12.12.2011	12.12.2011
Interest	431	944
Balance sheet value of subordinated debt	**329 087**	**334 736**

35a. Subordinated debt

	31.12.2009	31.12.2008
Name of entity	MB FINANCE A.B.	MB FINANCE A.B.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	616 230	625 860
Interest rate	2.537%	4.702%
Maturity	20.12.2017	20.12.2017
Interest	478	824
Balance sheet value of subordinated debt	**616 708**	**626 684**

35b. Change of subordinated debt

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Balance at the beginning of the period	**961 420**	826 035
Increases, on account of:	39 216	192 663
- FX rates differences	0	135 662
- interest accrual	39 216	57 001
Reductions, on account of:	-54 841	-57 278
- interest payment	-40 168	-57 278
- FX rates differences	-14 673	0
Balance at the end of the period	**945 795**	**961 420**

In the course of 2009 and 2008 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

(36) SHAREHOLDERS' EQUITY

36a. SHARE CAPITAL

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

SHARE CAPITAL Par value of one share = 1 PLN

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

In the reporting period no registered shares were converted into the bearer shares. As of 31.12.2009 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 shall be issued in a private placement in the meaning of art. 431 § 2 item 2 of the Code of Commercial Companies, by way of a public offering in the meaning of the Act of 29 July 2005 on public offering and conditions for introducing financial instruments to the organised trading system and on public companies.

On 13 January 2010, acting pursuant to § 2 of the resolution of the Extraordinary Annual General Meeting of the Bank in the matter of increasing the Bank's equity and amending the Bank's Articles of Association, the Management Board established the issue price of one L-series share at PLN 2,90 and that the ultimate number of L-series shares offered shall be 363,935,033.

Information about taking up by Investors 100% of shares of L-series can be found in Chapter XIX. "Essential events between the date, for which the Financial Report was prepared, and its publication date".

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 31 December 2009. Information about the Bank's shareholding structure was disclosed on the basis of information submitted by the Bank's significant shareholders, pursuant to art. 69 of the Act on Public Offering or published otherwise as stipulated by legal regulations.

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

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

Shareholders as at 31.12.2008

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	62 200 437	7.32	62 200 437	7.32

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

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

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

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

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

36b. REVALUATION CAPITAL

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

- ✓ result of valuation (at fair value) of financial assets available for sale at their net value, i.e. after deferred tax. The above items are deducted from the revaluation capital when all or some of the valued assets are taken out of the books or at the moment of recognising impairment (the result of the valuation is then recognized in the profit and loss account),
- ✓ result of valuation (at fair value) of derivative instruments hedging cash flows at their net value, i.e. after deferred tax. The revaluation capital contains the part of profits or losses related to the

instrument hedging the cash flows, which is an effective hedge, while the ineffective part of profits or losses on the instrument is posted in the profit and loss account.

Revaluation reserve

	31.12.2009	31.12.2008
Effect of valuation (gross)	13 826	49 680
Deferred income tax	-2 627	-9 439
Net effect of valuation	**11 199**	**40 241**

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

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 available for sale financial assets 1.01.2008 - 31.12.2008

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	-2 407	457	**-1 949**
Transfer to income statement of the period as a result of sale	-2 989	568	**-2 421**
Change of capitals connected with maturity of securities	-1 104	210	**-894**
Profit/loss on revaluation of available for sale financial assets, recognized in equity	19 341	-3 674	**15 667**
Revaluation reserve at the end of the period	**12 841**	**-2 440**	**10 402**

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**

Revaluation reserve on cash flows hedge financial instruments 1.01.2008 - 31.12.2008

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	-978	185	**-793**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	-26 306	4 998	**-21 308**
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	64 121	-12 182	**51 939**
Revaluation reserve at the end of the period	**36 837**	**-6 999**	**29 839**

Ineffective part of valuation of hedging instrument recognised in Profit and loss account in 2009 amounted to PLN 3.7 million.

36c. Retained earnings

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

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2008	**124 376**	**0**	**228 902**	**411 925**	**765 203**
- appropriation of profit, including:	250 581	0	0	-411 925	**-161 345**
- transfer to supplementary capital	250 581	0	0	-250 581	**0**
- dividend payment	0	0	0	-161 345	**-161 345**
- net profit/ (loss) of the period	0	0	0	496 928	**496 928**
Retained earnings at the end of the period 31.12.2008	**374 957**	**0**	**228 902**	**496 927**	**1 100 786**

VIII. DIVIDENDS IN 2008 AND 2009

With a view to the need to maintain a strong equity base in conditions of deteriorating market environment as well as strong depreciation of the zloty with respect to key foreign currencies, which in practice means an increase of capital requirements, the Bank's Annual General Meeting on 27 March

2009 decided to use the entire net profit generated by the Bank in 2008 in the amount of PLN 496,927,275.92 to increase the Bank's reserve capital.

The Bank does not foresee payment of dividend in 2010, i.e. for the financial year ending 31 December 2009.

After 2010 the Bank's dividend policy will depend on several factors, including the Bank's prospects, future profits, level of capital adequacy ratio and regulatory requirements, financial standing, level of liquidity ratios, expansion plans and the laws and regulations pertaining to such matters as well as the dividend policy adopted within the Millennium bcp Group.

IX. FAIR VALUE

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

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

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

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

Receivables and liabilities with respect to banks (structured contract)

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

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

Other receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

Deposits from customers

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

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

Subordinated liabilities

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

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

in PLN '000

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

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

* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads. In 2008 and 2009 Banks raised spreads on newly granted loans to compensate for increased risk coming from deteriorating credit capacity of customers.

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

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

The table below presents results of the above-described analyses as at 31 December 2008:

in PLN '000

ASSETS	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 580 026	1 656 556
Loans and advances to customers	18	32 624 259	32 361 390

LIABILITIES	Note	Balance sheet value	Fair value
Amounts due to banks	26	3 060 550	3 164 947
Amounts due to customers	29	31 877 870	31 889 857
Debt securities	31	113 207	118 890
Subordinated debt	35	961 420	964 101

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

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

In PLN ths., as at 31.12.2008				
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			1 348 029	1 472 885
- debt securities		3 070 448	401 360	
Hedging derivatives	**17**		9 977	
Financial assets available for sale	**19**			
- debt securities		1 396 701	1 414 197	90 804
- shares and interests		10 438		1 239
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives			4 402 227	
Hedging derivatives	**28**		1 179 649	

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 Bank was concluding these contracts with customers by way of symmetrical hedging of risk i.e. simultaneously concluding an opposite transaction on the interbank market. 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, hence in result options presented as the Bank's liability are included in the category "measured at fair value based on parameters derived from the market (description of the method of valuation of FX options is presented in Chapter VI "Accounting Policy"). In 2009 the bank ceased to conclude FX options transactions with the transaction customers, in result the value of these transactions fell strongly in the course of 2009.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2009 are presented in the table below:

In PLN ths.

	FX options	Debt securities (municipal bonds)	Shares and interests
As at 01.01.2009	1 472 885	90 804	1 239
Settlement /purchase /sell	-1 362 185	-65 659	-144
Valuation change comprised in Profit and Loss Account (in case of FX options for contracts active as at 31.12.2009)	-33 383	193	-22
Valuation change comprised in revaluation reserve	0	-87	0
Purchase	0	107 809	0
As at 31.12.2009	77 317	133 060	1 073

X. INFORMATION ON ASSETS COLLATERALIZING LIABILITIES

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

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

As at 31 Dec 2008, the following assets of the Bank were used as collaterals of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0109	trading	Lombard credit granted to the Bank by the NBP	75 000	79 778
2.	Treasury bonds DZ0110	available for sale	Lombard credit granted to the Bank by the NBP	120 000	128 836
3.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	516
4.	Treasury bonds DZ0110	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	45 000	48 313
5.	Treasury bonds DZ0110	trading	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	15 000	16 104
6.	Treasury bonds DZ0109	trading	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	60 400	64 248
7.	Cash		Payment to the Futures Settlement Guarantee Fund	70	70
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	968 085	968 085
		TOTAL		**1 284 055**	**1 305 951**

XI. SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

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

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

As at 31 Dec 2008, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bills	available for sale	202 000	200 966
Treasury bonds	available for sale	531 703	546 289
Treasury bills	trading	14 920	14 637
Treasury bonds	trading	866 550	854 419
TOTAL		**1 615 173**	**1 616 311**

XII. ADDITIONAL EXPLANATIONS TO CASH FLOW ACCOUNT

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

Data in PLN thous.

	31.12.2009	31.12.2008
Cash and balances with the Central Bank	2 191 027	1 802 402
Receivables from interbank deposits (*)	334 770	329 588
Debt securities issued by the State Treasury (*)	1 602 611	807 503
of which available for sale	1 599 383	703 939
of which trading	3 228	103 564
Total	**4 128 408**	**2 939 493**

(*) financial assets of maturity below 3 months

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

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

"Other items" of operating cash flows in 2009 include an adjustment of PLN 40 million (PLN 57 million in 2008) 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.

XIII. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2009 the Custody Department was keeping 8,130 securities accounts and registers of foreign financial instruments, on which Customers' assets were kept with the total value of PLN 40.18 bn, as compared with PLN 36 bn at end of 2008. Net revenue on the custody business as of 31.12.2009 was PLN 6.38 million. The Custody Department is depositary bank for 6 mutual funds from the Millennium TFI S.A. group as well as for 26 other mutual funds. In 2009 Custody Department acquired 1 new TFI and 8 new corporate customers.

XIV. TRANSACTIONS WITH RELATED ENTITIES

(1) DESCRIPTION OF TRANSACTIONS WITH ASSOCIATED ENTITIES

All transactions among members of the Group made in 2009 were driven by current activity. The below table presents major amounts of intergroup transactions, which were eliminated in the data consolidation process; these were transactions with the following entities:

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

- MILLENNIUM TELECOMMUNICATION SERVICES,
- TBM,

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

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

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

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits		70 542
Loans and advances to customers	2 193 055	
Investments in associates	252 772	
Financial assets valued at fair value through profit and loss (held for trading)	4 093	53 043
Derivatives		74 839
Other assets	12 264	
LIABILITIES		
Deposits from banks		2 892 670
Deposits from customers	235 627	
Liabilities from securities sold with buy-back clause	3 506	
Financial liabilities valued at fair value through profit and loss (held for trading)	1 175	757
Other liabilities, including:	151 155	
- financial leasing liabilities	149 057	

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2008

	With subsidiaries	With controlling entity
ASSETS		
Loans and advances to banks – accounts and deposits	0	100 333
Loans and advances to customers	2 520 025	
Investments in associates	229 380	
Financial assets valued at fair value through profit and loss (held for trading)	15 628	2 774
Other assets	88 436	
LIABILITIES		
Deposits from banks	0	3 375
Deposits from customers	311 317	
Liabilities from securities sold with buy-back clause	4 291	
Financial liabilities valued at fair value through profit and loss (held	3 617	932

for trading)		
Other liabilities, including	21 622	
- financial leasing liabilities	20 474	

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

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

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2008

	With subsidiaries	With controlling entity
Income from:		
Interest	84 872	2 951
Commissions	74 678	
Derivatives net	8 352	634
Dividends	155 680	
Other net operating income	3 693	
Expense from:		
Interest	18 562	320
Commissions	47	
General and administrative expenses	64 915	-3 808

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2008

	With subsidiaries	With controlling entity
Conditional commitments	240 454	314 276
Derivatives (par value)	1 051 757	587 450

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

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

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

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

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

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

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

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

Data on exposure reported with respect to Persons Managing and Supervising the Bank, as of 31.12.2008:

	The management	The supervising persons
Total debt limit (in '000 PLN), - including an unutilized limit (in '000 PLN),	875.0 795.9	90.0 68.9
Active guarantees	-	-

Data about total exposure to entities related personally, as of 31.12.2008:

Entity	Amount (in '000 PLN)	Relationship
Client 1	7 858	Personal with The supervising person
Group 1	117 675	Personal with The supervising person
Group 2	11 717	Personal with The supervising person

Balance of unpaid loans granted to the Bank's employees from the Company Social Benefits Fund was PLN 5,434.9 thousands.

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

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

Year	Salaries and bonuses	Benefits	TOTAL
2009	20 194.5	1 185.0	**21 379.5**
2008	20 774.7	1 004.6	**21 779.3**

Total value of remuneration of Members of the Management Board in 2009 was PLN 21,379.5 thou. This amount includes remuneration of Members of the Management Board together with fringe benefits, overdue bonus for 2006 and 2007 as well as severance pay and non-compete compensation paid to Members leaving the Management Board. In 2009 Members of the Management Board received no salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2009	**1 827.9**
2008	**2 074.4**

In 2009 Members of the Management Board received no salaries or any fringe benefits from Subsidiaries.

(4) BALANCE OF SHARES OF THE BANK HELD BY PERSONS MANAGING OR SUPERVISING THE BANK (PERFORMING THEIR FUNCTIONS AT 31 DEC 2009)

Name and surname	Function	Number of shares as at 31.12.2009	Number of shares as at 31.12.2008
Bogusław Kott	Chairman of the Management Board	3 126 174	3 126 174
Rui Manuel Teixeira	Deputy Chairman of the Management Board	0	0
Fernando Bicho	Member of the Management Board	0	0
Julianna Boniuk-Gorzelańczyk	Member of the Management Board	490 000	490 000
Wojciech Haase	Member of the Management Board	5 246	5 246
Joao Bras Jorge	Member of the Management Board	0	0
Artur Klimczak	Member of the Management Board	0	0
Jerzy Andrzejewicz	Proxy	6 260	6 260
Maciej Bednarkiewicz	Chairman of the Supervisory Board	94	94
Carlos Jorge Ramalho dos Santos Ferreira	Deputy Chairman of the Supervisory Board	0	0
Ryszard Pospieszyński	Deputy Chairman of the Supervisory Board	60 470	60 470
Marek Furtek	Secretary of the Supervisory Board	1	-
Luis Pereira Coutinho	Member of the Supervisory Board	0	0
Vitor Manuel Lopes Fernandes	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
Paulo Jose de Ribeiro Moita de Macedo	Member of the Supervisory Board	0	0
Nelson Ricardo Bessa Machado	Member of the Supervisory Board	0	0
Marek Rocki	Member of the Supervisory Board	0	0
Dariusz Rosati	Member of the Supervisory Board	0	0

XV. RISK MANAGEMENT

An effective risk management function is a key to maintaining a strategy of sustained and steady business growth supported by a proper assessment of the risk/return profile of various business lines. It is also a key element to ensuring compliance with all regulatory requirements regarding risk, especially with respect to the maintenance of an adequate level of own funds and other prudential standards necessary to maintain a stable growth by the Bank.

Risk management is based on the principle of providing strict division of responsibilities between areas of risk origination, risk management and its control. Risk management aims at ensuring that all types of risk in the Bank are monitored and controlled with respect to return on operations and the level of capital essential to ensure security of the business from the point of view of capital adequacy requirements. Results of risk measurement are reported regularly in the management information system.

Risk management comprises identification, measurement, mitigation, monitoring and reporting with respect to individual types of risk and requires the use of a broad spectrum of methods – both qualitative as well as quantitative, including advanced mathematical and statistical tools, aided by appropriate IT systems.

Risk management responsibilities are allocated as follows in the Bank:

- The Supervisory Board is responsible for supervising compliance of the Bank's risk acceptance policy with the Bank's strategy and its financial plan;
- The Management Board is responsible for effectiveness of the risk management system, of the process of estimating internal capital and performing reviews of the process of estimating and maintaining internal capital as well as the system of internal control;
- The Credit Committee, the Capital, Assets and Liabilities Committee as well as the Liabilities-at-Risk Committee are responsible for day-to-day management of various types of banking risk within the model established by the Management Board;
- The Risk Control Committee as well as the Processes and Operational Risk Committee are responsible for monitoring and controlling various types of banking risk within the model established by the Management Board;
- The Risk Department is responsible for risk management, including identification, measurement, analysing, monitoring and reporting risk in the Group. The Risk Department also creates risk management principles and appropriate procedures, as well as presenting information and proposing directions of action, essential for the Risk Control Committee and the Management Board to take decisions concerning risk management;
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department are responsible within the Corporate Segment and the Retail Segment respectively, for the process of taking credit decisions, including analysing the financial situation of customers,

preparing drafts of credit decisions for individual decision-making levels as well as for taking credit decisions within defined limits;

- The Retail Liabilities Collection Department is responsible for the process of claiming past due receivables from private persons and for monitoring their payment;
- The Corporate Recovery Department prepares specific strategies for each customer from its portfolio for the purpose of soonest possible maximisation of recovery and mitigation of risk carried by the Bank. The approach to individual cases is kept up-to-date with use of current information, best practice and experience in receivables collection;
- The Treasury Control and Analyses Office is responsible for monitoring and using certain limits of the Bank, such as counterparty limits and stop-loss limits, monitoring the Bank's FX position, the results of active transactions as well as controlling transactions of the Treasury Department.

(1) CAPITAL MANAGEMENT

Regulatory own funds

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

The Bank meets the minimum required level of capital adequacy as of the reporting day.

The capital position measured with the level of solvency ratio in 2009 improved (up by 117 bp). The Bank's capital adequacy is regularly monitored in detail. Capital adequacy requirements for individual types of exposure are analysed, as are trends in change of the requirements as well as coverage by own regulatory funds. In this context risk factors are monitored, which may lead to deterioration of the Bank's capital position, 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.

Internal capital

The Bank carries out the process of internal capital adequacy assessment based on the economic capital model.

The calculation of internal capital comprises all the major risks, to which the Bank's activity is exposed and is based on a set of parameters built on the basis of specificity and realities of the Polish market.

In the process of calculating internal capital particular types of risks as well as the effect of diversification are subject to stress testing. The total diversified internal capital is compared with the capacity to accept risk, i.e. with own funds/available financial resources. In result of this comparison the internal economic capital adequacy is assessed. In 2009 the Bank's aggregated risk (internal capital) was fully covered with funds, which may be used to secure it. Internal capital is divided into business areas.

(2) CREDIT RISK

Credit risk is one of the most important risk types, to which the Bank is exposed, therefore the Bank gives special attention to manage exposures to this risk. Credit risk is connected with balance-sheet credit exposures (granted credit and loans) as well as off-balance sheet financial instruments, such as granted and not utilised credit lines, guarantees and letters-of-credit.

For purposes of credit risk management the Bank uses several scoring / rating models depending on type of exposure and customer segment. The scoring / rating system is a set of methods (models), processes, controls, data collection procedures as well as IT systems, identifying and measuring credit risk, classifying exposures to specific classes or pools (rating) as well as estimating the probability of default and the expected loss on this account.

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances

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

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

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

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

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

The Bank's internal rating scale

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

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

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

Debt Securities

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

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

The Bank measures, monitors and controls large credit exposures and excessive concentration of credit risk, wherever it is identified. The process of concentration risk management concerns both individual exposures - with respect to an individual borrower or group of related borrowers (related by capital, organisation or through existence of material economic interdependencies), as well as sectoral exposures – to specific industries/sectors, geographic regions, countries, real estate financing portfolio (including FX loans) and other. The above types of sectoral exposures are covered by the system of internal limits. Information about utilisation of limits is presented at the Risk Control Committee, which may decide to reduce exposure to specific entities or segments of the portfolio or other actions (additional collateral, risk transfer etc.).

Limits with respect to one borrower or group of borrowers, resulting from art. 71 of the Banking Law are monitored every month while internal limits (mentioned above) are monitored quarterly. These 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 Bank from the point of view of punctual service of their principal and interest liabilities.

Collateral

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

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

The type and value of required collateral depends on the amount and type of credit exposure, loan maturity and customers' rating. The Bank tries to use collateral to ensure an appropriate cushion against the risk, given the specificity of a transaction. The possibility of satisfying oneself from the collateral is treated as an alternative source of repaying the required receivables in case the customer 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 determine the level of the final settlement of the transaction, therefore the Bank attaches much importance to specifying such value at the moment of its granting and its validation within the duration of the transaction and this is an important element of monitoring both for an individual transaction and the whole credit portfolio.

In case of mortgage loans, ultimate collateral is always determined in the form of a legally valid entry in the land and mortgage register (the mortgage may be written on real estate other than the one being purchased). Other standard types of collateral of mortgage loans, which the Bank accepts, are assignments of rights under the real estate insurance policy as well as an assignment of rights under the customer's life insurance.

Until the mortgage is effectively written, the Bank requires other transition collateral to be established. Standard transition collateral is bridge collateral i.e. loan collateral until the mortgage is the Bank's favour is written in the real estate's land and mortgage register file.

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

Derivatives

The Bank maintains strict control over the limits of net open derivative positions, both with respect to amounts as well as transaction maturities. Credit risk exposures resulting from derivatives concluded with customers are managed as part of total credit limits defined on the basis of examination of natural exposure to market risk as well as analysis of the customer's financial situation. The Bank has updated procedures and documents connected with concluding transactions on derivatives in keeping with recommendations of the Polish Financial Supervision Authority.

The Bank offers treasury products for hedging FX risk within treasury limits granted to customers. The product portfolio includes i.a.

- FX Spot transactions
- FX Forwards
- FX Swaps

The definite majority of the Bank's agreements include the possibility of giving the customer a margin call or calling on him to present other collateral agreed with the Bank (if the valuation of the customer's open position exceeds the threshold amount or the amount of granted limit) and if the customer does not supplement the deposit, the Bank has the right to close the position and terminate the agreement.

Credit risk-based off-balance sheet liabilities

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

Guarantees and stand-by letters-of-credit (guarantee-type liabilities) carry at least the same credit risk as loans (in case of guarantees and stand-by letters-of-credit after receipt of a valid claim the Bank must make the payment).

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

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

However the probable loss amount is lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on meeting by the customers of individual credit standards.

The Bank monitors the period remaining to maturity of off-balance credit 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.

In case-by-case analysis internal rating helps to identify objective and subjective impairment triggers. At the same time, in the case of a collective analysis, internal rating is used for segmentation into homogenous portfolios and PD and LGD parameters are used to estimate revaluation charges.

Case-by-case impairment analysis for credit receivables

If in the course of analysis triggers are identified, indicating the possibility of impairment of credit receivables, the Bank will determine the amount of said impairment. This amount constitutes the difference between current credit exposure and the present value of expected future cash flows, discounted with 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 sale proceeds.

Collective analysis of loans portfolio

The following loans are subjected to collective analysis:

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

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

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

- Loans where losses occurred, but have not yet been identified 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 2009 the Bank modified parameters (PD and LGD) used for calculating impairment of receivables in collective analysis. The change was preceded by simulations from the point of view of potential loss rate of individual homogenous portfolios, based on historical data.

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

Internal rating of the Bank

	31.12.2009		31.12.2008	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	38.0%	1.6%	35.0%	5.2%
3. Medium quality	32.9%	9.3%	39.6%	13.7%
4. Low quality	14.9%	13.1%	11.8%	15.3%
5. Watched	2.7%	6.9%	2.0%	8.1%
6. Default	5.0%	65.8%	2.9%	51.6%
7. Clients without rating*	6.4%	3.3%	8.6%	6.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

(2D) MAXIMUM EXPOSURE TO CREDIT RISK I.E. NET OF RISK-MITIGATING INSTRUMENTS

'000 PLN

	Maximum exposure	
	31.12.2009	**31.12.2008**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**40 841 560**	**43 704 025**
Loans and advances to banks	**695 689**	**1 580 026**
Loans and advances to customers:	**32 482 473**	**32 624 259**
Loans to private individuals:	**24 809 679**	**24 628 532**
– Credit cards	772 796	678 267
– Cash loans and other loans to private individuals	2 123 829	1 788 360
– Mortgage loans	21 913 054	22 161 905
Loans to companies	**7 169 970**	**7 827 185**
Loans to public entities	**502 824**	**168 542**
Trading securities:	**2 320 318**	**3 471 808**
– Debt securities	2 320 318	3 471 808
– Shares	0	0
Derivatives	**708 935**	**2 820 914**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**4 425 364**	**3 145 736**
– Debt securities	4 150 278	2 901 702
– Shares	275 086	244 034
Receivables from securities bought with sell-back clause	**208 781**	**61 282**
Credit risk connected with off-balance sheet items appears as follows:	**7 407 330**	**8 486 330**
Financial guarantees	1 539 925	1 721 306
Credit commitments and other commitments connected with loans	5 867 405	6 765 024

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2009 and 31st December 2008, 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

	31.12.2009		31.12.2008	
	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	30 652 639	695 697	30 737 985	1 580 026
Overdue, but without impairment	1 294 254	0	1 615 858	0
With impairment	1 528 206	0	943 475	0
Gross	**33 475 099**	695 697	**33 297 318**	1 580 026
Impairment write-offs together with IBNR	-992 627	0	-673 112	0
Net	**32 482 472**	695 697	**32 624 206**	1 580 026
Loans with impairment / total loans	4.57%		2.83%	

Loans and advances not past due and not impaired

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

Loans and advances not overdue and without impairment

Gross exposure in '000 PLN

	Customers 31.12.2009	**Banks 31.12.2009**	**Customers 31.12.2008**	**Banks 31.12.2008**
Rating:				
1. Highest quality	265	695 697	295	1 580 026
2. Good quality	12 689 231		11 539 556	
3. Medium quality	10 699 519		12 692 058	
4. Low quality	4 348 025		3 220 726	
5. Watched	475 241		265 813	
6. Default	318 061		250 228	
7. Clients without rating	2 122 298		2 769 309	
Total	**30 652 639**	**695 697**	**30 737 985**	**1 580 026**

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 unimpaired, divided between customer segments, is as follows:

Gross exposure in '000 PLN

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

Gross exposure in '000 PLN

31.12.2008					
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	65 590	1 258 856	160 969	0	1 485 415
Delay 30 - 60 days	13 887	78 855	26 936	0	119 678
Delay 60-90 days	2 260	1 563	4 707	0	8 530
Delay above 90 days*	1 252	0	983	0	2 235
Total	**82 989**	**1 339 274**	**193 595**	**0**	**1 615 858**

* 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

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

Gross exposure in '000 PLN

	31.12.2008				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	661 254	7 938	178	0	669 370
Collective analysis	45 900	64 414	163 791	0	274 105
Total	**707 154**	**72 352**	**163 969**	**0**	**943 475**

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, splitted between impaired receivables and the IBNR portfolio 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

	31.12.2009			31.12.2008		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
Investment loans	332 554	33.8%	34.6%	316 091	47.2%	44.8%
Working capital loans	133 358	13.6%	19.4%	31 211	4.6%	49.7%
Current account loans	156 917	16.0%	36.4%	94 672	14.1%	28.0%
Revolving loans	1 587	0.2%	62.9%	5 246	0.8%	43.3%
Mortgage loans	6 419	0.7%	21.3%	7 938	1.2%	45.7%
Factoring	21 560	2.2%	37.0%	20 554	3.1%	25.5%
Leasing (repurchase of receivables)	0	0.0%	Not applic.	115 549	17.3%	13.2%
Other*	330 253	33.6%	56.2%	78 109	11.7%	10.3%
	982 648	**100.0%**	**40.1%**	**669 370**	**100.0%**	**32.6%**

* This item also includes receivables connected with settlement of forwards/futures as well as loans for refinancing.

- By currency

Gross exposure

Loans and advances to customers						
	31.12.2009			31.12.2008		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	689 479	70.2%	42.1%	267 664	40.0%	23.9%
CHF	2 365	0.2%	39.7%	61 710	9.2%	15.6%
EUR	23 446	2.4%	20.2%	42 867	6.4%	11.4%
USD	267 358	27.2%	36.6%	289 484	43.3%	47.6%
JPY	0	0.0%	Not applic.	7 645	1.1%	24.7%
	982 648	**100.0%**	**40.1%**	**669 370**	**100.0%**	**32.6%**

- By coverage ratio

Gross exposure

Loans and advances to customers				
	31.12.2009		31.12.2008	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	289 371	29.4%	255 135	38.1%
20% - 40%	283 529	28.9%	60 547	9.0%
40% - 60%	182 150	18.5%	307 178	45.9%
60% - 80%	79 042	8.0%	15 132	2.3%
Above 80%	148 556	15.1%	31 378	4.7%
	982 648	**100.0%**	**669 370**	**100.0%**

Restructured loans and advances

Receivables are restructured by dedicated units (separately for corporate and retail receivables).

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

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

Collection of retail receivables is a fully centralised process, managed by one organisational units, which covers all areas of collection, i.e. portfolio monitoring, early-stage restructuring as well as final-stage restructuring and recovery. Claiming receivables is aided by a specialised IT system, which works on a Customer's full portfolio, completely automated in the stage of portfolio monitoring as well as aiding activities in the later stage of restructuring as well as recovery. An integral part of the system is a behavioural scoring model, which is used in managing the process of claiming retail receivables with respect to all customer segments. This model is based in its calculations i.a. on total exposure of the Bank with respect to the customer, the customer's business segment, type of credit risk-based product (this especially applies to mortgage products) as well as history of the relationship with the customer in previous restructuring-recovery actions. Receivables from customers arrive in the system not later than 4 days from the date of origination of the due and payable amount receivable.

Corporate receivables in the restructuring-recovery portfolio are collected by the Corporate Recovery Department and restructuring and recovery of corporate receivables aims at taking effective steps with respect to customers, their receivables and collateral, for the purpose of maximising recovery as soon as possible and to mitigate risk incurred by the Bank.
To manage the process of restructuring and recovery of receivables from the corporate portfolio, the Bank uses software supporting the decision-making process, which quickly delivers basic information about the receivables, collateral, used approach as well as basic actions and timing.

As of 31.12.2009 the amount of the Bank's unimpaired corporate loans and advances (balance-sheet exposure), which were subject to restructuring in the past, stood at PLN 103.7 million and was up 122% as compared with the balance as of 31.12.2008 (PLN 46.7 million).

As of 31.12.2009 the amount of unimpaired corporate loans (balance-sheet exposure), which were restructured in the past, stood in the Bank at PLN 148.3 million and was up 218% as compared with the balance as of 31.12.2008 (PLN 46.7 million). At end of 2009 the amount of retail receivables from customers, with whom compositions were signed and which were classified as unimpaired loans, was PLN 21.8 million.
A significant part of the revaluation charges created in September 2009 resulted from the Bank's decision to create additional charges in connection with an in-depth review of the credit-risk based portfolio, including receivables connected with FX derivatives. In result of the review the Bank ascertained that it is necessary to create additional revaluation charges amounting to PLN 108.4 million with respect to some customers in order to reflect the risk of further deterioration of their financial situation.

The table below presents the impaired loan portfolio managed by the Bank's organisational units responsible for loan restructuring.

Gross exposure in '000 PLN

	31.12.2009	31.12.2008
Loans and advances to private individuals	219 641	142 750
Loans and advances to companies	610 169	507 294
Total	**829 810**	**650 044**

Bank execution titles

In 2009 with respect to receivables from businesses, the Bank issued 143 bank execution titles ("BTE") in the total amount of PLN 367.3 million (converted at the average NBP rate of 31.12.2009), where:

- 141 BTE in PLN for the total amount of PLN 362.2 million,
- 1 BTE in EUR for the total amount of EUR 0.3 million (PLN 1.1 million)
- 1 BTE concerning release of movable items (inventory with ownership transferred to the Bank under an agreement of transfer of ownership to secure the Bank's receivables on account of a facility granted under a revolving facility agreement in the amount of PLN 2 million). Total value of items with ownership transferred: PLN 4.0 million.

Moreover in 2009 the Bank issued 8,503 bank execution titles concerning retail and small business receivables in the total amount of PLN 119.4 million (converted at the rate of 31.12.2009).

(2F) DEBT AND EQUITY SECURITIES

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

Gross exposure in '000 PLN

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

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2008.

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	3 471 807	2 627 891	64	**6 099 762**
Central Bank	0	167 247	0	**167 247**
Other	0	106 564	255 067	**361 631**
- listed	0	15 760	10 438	**26 198**
- not listed	0	90 804	244 629	**335 433**
Total	**3 471 807**	**2 901 702**	**255 131**	**6 628 640**

(2G) COLLATERAL TRANSFERRED TO THE BANK

In 2009 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral directly by the collateral provider, under the Bank's supervision and with allocation of all proceeds thus obtained for repayment. A variety of such action is concluding agreements with official bankruptcy receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (as part of selling organized parts of the debtor's whole enterprise).
As a result of the above the implemented debt-collection procedure is not recorded on the so-called Fixed Assets for Sale.

(2H) POLICY FOR WRITING OFF RECEIVABLES

Credit exposures, with respect to which the Bank no longer expects any cash flows to be recovered and for which impairment provisions have been created or an adjustment of value for receivables coming from forwards, which jointly fully cover the outstanding debt are written off the balance sheet against said provisions and adjustment and are transferred off-balance. This operation does not cause the debt to be cancelled, i.e. does not cause the debtor to be relieved from the debt and the legal and reasonable restructuring and recovery actions are not ceased.

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

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

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

Industry sectors

The table below presents the Bank's total credit exposure broken down into components, according to industry sectors.

31.12.2009	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	695 689	0	0	0	0	0	0	0	**695 689**
Loans and advances to customers	38 675	3 247 952	1 690 647	1 041 619	507 320	22 046 324	3 196 937	1 705 626	**33 475 100**
Trading securities	0	0	0	0	2 320 318	0	0	0	**2 320 318**
Derivatives	727 544	47 053	14 883	0	0	0	0	296 789	**1 086 269**
Investment securities	174 103	144 000	8 200	27	3 982 031	0	0	120 902	**4 429 263**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	208 781	0	0	0	0	0	0	0	**208 781**
As at 31 December 2009	**1 844 792**	**3 439 005**	**1 713 730**	**1 041 646**	**6 809 669**	**22 046 324**	**3 196 937**	**2 123 317**	**42 215 420**

31.12.2008	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 580 026	0	0	0	0	0	0	0	**1 580 026**
Loans and advances to customers	176 882	2 282 608	1 626 220	1 180 157	170 388	22 289 147	2 662 483	2 909 433	**33 297 318**
Trading securities	0	0	0	0	3 471 808	0	0	0	**3 471 808**
Derivatives	1 296 326	587 456	139 892	32 434	0	0	0	764 806	**2 820 914**
Investment securities	300 336	121 004	8 347	41	2 650 941	0	0	76 163	**3 156 832**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	61 282	0	0	0	0	0	0	0	**61 282**
As at 31 December 2008	**3 414 852**	**2 991 068**	**1 774 459**	**1 212 632**	**6 293 137**	**22 289 147**	**2 662 483**	**3 750 403**	**44 388 180**

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

(3) MARKET RISK

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

Market-risk evaluation measures

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

Calculation of the VaR in the Trading Book is carried out on the basis of analytical approximation, as defined in the methodology developed by RiskMetrics. It is calculated considering a holding period of 10 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 more recent days, thus ensuring a more correct match with current market conditions.

Capital at risk values are 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 adopted VaR model 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 (equal or less than 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 (equal or more than 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: basic integrity 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 risks with the use of the VaR model (non-linear instruments), other risk ratios were defined, such as Gamma, Vega and Theta.

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

- o Estimate the potential economic loss resulting from extreme volatility in market risk factors,
- o Identify the market risk movements, possibly not captured by VaR, to which the portfolios are more sensitive,
- o 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 applied: 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 exchange rates; v) Variations of swap spreads; vi) Historically adverse scenarios.

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

VaR 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 total exposure to market risk in the Trading Book and Financing Area. (Activity on Financial Markets) valued approx. PLN 12.4 million in the end of 2009 compared to the binding limit of PLN 45.2 million. In terms of the FX risk the results for 2009 and 2008 are fully comparable. Starting from mid-2009 the interest rate risk exposure contains also the residual interest rate risk (i.e. approx. PLN 5 million of exposure below 1 year not hedged under the macro-hedging strategies) transferred from the Banking Book, which consists of Commercial Area, Investment Portfolio, ALM Area, Funding Area and Structural Area.

VaR measures for market risk ('000 PLN):

	End of December 2009		VaR (from 31 December 2008 till 31 December 2009)			End of December 2008	
	Exposition	Use of limit	Average	Maximum	Minimum	Exposition	Use of limit
Globally	**12 382**	**27%**	**12 861**	**41 606**	**5 626**	**40 963**	**129%**
Interest rate risk	12 237	n.a.	10 977	24 428	5 367	23 627	n.a.
FX risk	721	7%	5 192	32 669	330	30 188	385%
Diversification effect	5%					31%	

The corresponding exposures as of 2008 respectively amounted to:

VaR measures for market risk ('000 PLN)

	End of December 2008		VaR (from 31 December 2007 till 31 December 2008)			End of December 2007	
	Exposition	Use of limit	Average	Maximum	Minimum	Exposition	Use of limit
Globally	**40 963**	**129%**	**31 319**	**182 378**	**5 311**	**5 488**	**19%**
Interest rate risk	23 627	n.a.	12 679	30 075	4 858	5 460	n.a.
FX risk	30 188	385%	20 643	173 524	45	61	1%
Diversification effect	31%					1%	

Open positions mostly included interest-rate instruments and, in the first quarter of 2009, also FX rate instruments. FX Risk covers all the foreign exchange exposures of the Bank, as well as open positions allowed only in Trading Portfolio.

The FX risk exposure was created as a result of active management of the FX risk position through opening an FX position in order to mitigate the credit risk connected with transactions concluded with the clients. Consequently, the Bank assumed the non-linear risk of these instruments, which caused the VaR limits for Financial Market Activity to be exceeded. The excesses were ratified in keeping with binding external regulations on appropriate competence levels and did not cause any economic losses.

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

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2009	53 429	8 765	398 071	12 027
2008	175 881	5 776	1 207 226	398 649

In the first 10 days of January 2009 the exposure fell below the limit.

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

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

In keeping with principles adopted by the Bank, 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 management a sensitivity analysis is carried out, while for its mitigation hedging strategies are applied. The Bank conducts a monthly transfer of risk from the Banking Book – Commercial and Structural Area – to the areas in which risk is managed at operational level (i.e. ALM and Financing).

In 2009 as a result of conducted analyses additional interest rate hedging transactions were concluded, which were connected with fixed rate lending portfolios, in particular with the consumer loan portfolio and leasing portfolio. At the end of December 2009 the value of BPV for the Banking Book stood at about PLN 31 million.

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

BPV Banking Book	Period Average	Period Minimum	Period Maximum	The end of Period
2009	38 820	10 548	70 135	31 340
2008	38 967	-16 225	57 525	47 562

(4) LIQUIDITY RISK

The aim of liquidity risk management is to ensure and maintain the Bank's ability to meet both current and future obligations taking into account the cost of acquiring liquidity.

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Bank'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 2009 the Bank concluded new credit transactions for the amount of EUR 300 million and a EUR 200 million stand-by loan with the parent company and repaid a medium-term loan of CHF 555 million.

Additionally, in 2009 the Bank issued structured bonds (about PLN 140 million) impacting positively the level of long-term stable sources of financing.

The large, diversified and stable deposit base remains the main source of financing. In 2009 it was kept at approx. PLN 30 billion thanks to an attractive offer and an effective marketing campaign, despite an on-going war for deposits however the stake of retail deposits dropped from 70.9% in the end of 2008 to 66.2% in the end of 2009.

The concentration of the deposits base, as measured with the share of top 5 and 20 depositors, at the end of 2009 went up to.4.7% and 10.4% respectively (in December 2008 it was 3.2% and 6.8% respectively).

The Bank ensures FX liquidity thanks to FX-denominated syndicated loans as well as subordinated debt and CCS and FX Swap transactions.

Liquidity risk assessment metrics

The evaluation of the Bank's liquidity risk is carried out using both the indicators defined by the Supervisory Authorities and other internal metrics for which exposure limits are also defined. The evolution of the Bank's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: spot liquidity and quarterly liquidity. They measure the maximum borrowing requirement which could arise on a particular day, taking into consideration the cash-flow projections for spot and of 3 months, respectively.

The calculation of these indicators involves adding to the liquidity position on the analysed day the estimated future cash flows for each day from the respective time horizon (spot or 3 months) for the transactions in whose conclusion market areas participate. The amount of assets from the Bank's highly liquid securities portfolio is also 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 were adjusted to the new level of the Bank's own funds and the EUR/PLN rate of exchange.

Current Liquidity indicators

PLN million

31.12.2009

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

31.12.2008

	Highly liquid assets	Spot liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	3 993	3 673	2 367	5 321
Minimum limit		-434	-1 734	2 000

In 2009 the spot liquidity ratio was positive, while the quarterly liquidity ratio on two occasions fell below zero due to zloty depreciation in the first quarter and in the fourth quarter due to repayment of the syndicated loan in the amount of CHF 555 million.

Additionally, the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted at the Bank for the ratio of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets. W 2009 the methodology of structural gap measurement was supplemented by the flows expected in connection with the roll-over of the deposit base necessary to fund the portfolio of assets until their maturity, so the liquidity gaps in 2008 and 2009 are not directly comparable.

In 2009 all the defined ratios were maintained at levels significantly exceeding the limits.

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

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

Liquid Assets Indicator	
Liquid Assets (PLN million)	8 618
Share of Liquid Assets in Total Assets	**19,4%**

	31.12.2008					
Adjusted Liquidity Gap (PLN million)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	15 858	2 013	3 136	2 854	4 752	27 980
Adjusted balance liabilities	11 183	3 370	99	1 534	60	27 334
Balance-Sheet Gap	4 675	-1 357	3 037	1 320	4 692	646
Cumulative Balance-Sheet Gap	4 675	3 318	6 355	7 675	12 367	13 013
Adjusted off-balance assets	289	193	320	197	192	63
Adjusted off-balance liabilities	-2 732	-429	-751	-315	-660	-104
Off-Balance Sheet Gap	-2 443	-236	-431	-119	-468	-40
Total Gap	2 233	-1 593	2 606	1 201	4 224	606
Total Cumulative Gap	2 233	639	3 246	4 447	8 671	9 276

Liquid Assets Indicator	**mln PLN**
Liquid Assets (PLN million)	9 036
Share of Liquid Assets in Total Assets	**19,2%**

Stress tests are performed quarterly, to determine the Bank's liquidity-risk profile, to ensure that the Bank is in a position to fulfil its obligations in the event of a liquidity crisis and to contribute to the preparation of the liquidity contingency plan and management decisions.
The results of the stress test analysis show that even in adverse scenarios the liquidity indicators will be maintained above the established limits.
In February and March 2009 the limits for supervisory liquidity metrics, both short- and long-term, have been exceeded. This was connected with a strong depreciation of the zloty, much volatility of the exchange rate and methodological consequences of the assumptions contained in PFSA Resolution no 386/2008, which caused a revaluation of the volatile sources of funding and was not caused by the deterioration of the Bank's liquidity position.

The Bank has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Bank's financial liquidity deteriorates), updated on a quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.
For the needs of managing supervisory measures the Bank implemented a dedicated model based on the concept of minimum buffers and enabling the running of simulation analyses.

(5) Operating Risk

The Bank adopted the definition of operational risk as per the Basel II guidelines, according to which operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition incorporates legal risk, but strategic or reputation risk are treated as separate risk categories.
In order to mitigate operational risk the Bank implemented a management system based on best market practices. This system's model is codified in the general strategy of Millennium bcp and adjusted at operational level to the specificity of the Polish market and the profile of the Bank's business.
Under the adopted strategy the Bank specified its appetite for risk in the form of a risk tolerance matrix. In order to calculate the capital requirements for the needs of the Bank's operational risk the standard method was adopted. Regular audits conducted by the Internal Audit Department and provisions pertaining to regular process controls constitute separate elements of operational risk management.

The process of the Bank's operational risk management consists in its identification, assessment, monitoring, mitigation and relevant reporting. Each decision relating to the steps whose purpose is to mitigate operational risk is preceded by an analysis of related costs and benefits. Based on the adopted risk classification the Bank conducts risk self-assessment for its most important processes.

The adopted structure of operational risk management specifies particular management levels and scopes of their responsibilities. The key role in operational risk management in day-to-day operations is performed by the process owner. Based on profound knowledge about his process the process owner can fastest identify and eliminate the arising threats. A managment level higher than process owners is the Processes and Operational Risk Committee, whose scope of responsibilities pertains to threats resulting from more than one process. Any steps resulting from operational risk management are coordinated and supervised by the Risk Control Committee, Management Board and Supervisory Board.

XVI. LIQUIDITY GAP BY MATURITY

31 December 2009 **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	2 191 027	0	0	0	0		**2 191 027**
Loans and advances to banks	353 079	0	0	0	342 610		**695 689**
Trading debt securities	1 751	1 477	1 475 345	831 789	9 956		**2 320 318**
Trading derivatives	22 363	183 040	180 993	292 087	30 452		**708 935**
Hedging derivatives		175 054	71 094	124 689	6 497		**377 334**
Loans and advances to customers	2 731 298	740 603	2 691 443	7 665 965	18 653 164		**32 482 473**
Debt securities available for sale	1 607 836	94 327	556 680	1 888 729	2 706		**4 150 278**
Receivables from securities bought with sell-back clause	208 781	0	0	0	0		**208 781**
Shares and interests						275 086	**275 086**
Other non-financial assets						559 229	**559 229**
TOTAL	**7 116 135**	**1 194 501**	**4 975 555**	**10 803 259**	**19 045 385**	**834 315**	**43 969 150**

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

31 December 2009 *PLN '000*

OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	4 663 399						**4 663 399**
Liabilities from sureties and guarantees	1 054 042						**1 054 042**
Balance sheet Gap	**-15 475 397**	**-7 248 555**	**-1 751 247**	**8 636 175**	**18 050 274**	**-2 211 250**	**0**
Total Gap	**-21 192 838**	**-7 248 555**	**-1 751 247**	**8 636 175**	**18 050 274**	**-2 211 250**	**-5 717 441**

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 2008 **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	1 802 402	0	0	0	0		**1 802 402**
Loans and advances to banks	1 263 768	0	4	0	316 254		**1 580 026**
Trading debt securities	59 261	44 302	1 418 681	1 712 199	237 365		**3 471 808**
Trading derivatives	293 518	415 864	957 129	1 017 053	137 349		**2 820 914**
Hedging derivatives	0	0	25	9 952	0		**9 977**
Loans and advances to customers	2 599 094	416 810	2 472 681	7 746 670	19 389 004		**32 624 259**
Debt securities available for sale	610 403	159 527	593 449	1 536 918	1 405		**2 901 702**
Receivables from securities bought with sell-back clause	61 282	0	0	0	0		**61 282**
Shares and interests						244 034	**244 034**
Other non-financial assets						490 728	**490 728**
TOTAL	**6 689 728**	**1 036 503**	**5 441 969**	**12 022 793**	**20 081 377**	**734 762**	**46 007 132**

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	114 603	8 490	1 554 952	1 066 338	316 167		**3 060 550**
Deposits from customers	17 233 521	6 128 781	8 117 876	397 687	5		**31 877 870**
Trading derivatives	750 379	1 494 436	1 169 601	853 872	133 939		**4 402 227**
Hedging derivatives	0	50 637	193 140	904 435	31 437		**1 179 649**
Liabilities from securities sold with buy-back clause	1 033 591	468 471	4 291	0	0		**1 506 353**
Debt securities	0	0	11 068	112 418	0		**123 486**
Subordinated debt	0	0	1 768	333 792	625 860		**961 420**
Other non-financial liabilities						433 025	**433 025**
Equity						2 462 553	**2 462 553**
TOTAL	**19 132 094**	**8 150 815**	**11 052 696**	**3 668 542**	**1 107 408**	**2 895 577**	**46 007 132**

31 December 2008 *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	5 048 724						**5 048 724**
Liabilities from sureties and guarantees	1 209 845						**1 209 845**
Balance sheet Gap	**-12 442 366**	**-7 114 312**	**-5 610 727**	**8 354 251**	**18 973 969**	**-2 160 815**	**0**
Total Gap	**-18 700 935**	**-7 114 312**	**-5 610 727**	**8 354 251**	**18 973 969**	**-2 160 815**	**-6 258 569**

XVII. CONDITIONAL LIABILTIES AND ASSETS

Total value of claims in the biggest court proceedings in which the Bank was either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31 December 2009 to PLN 245.5 million. Total value of claims in the biggest court proceedings, in which the bank appeared as defendant was PLN 119.3 million, and the total value of claims in the biggest court proceedings, in which the Bank appeared as plaintiff was PLN 126.2 million.

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

1. **Plaintiff:** legal person
   Disputed Value: PLN 31 049 160
   Claim: The claim is based on the statement that the disputed transaction was not effectively concluded due to not agreeing its important elements. Additionally, the plaintiff states that he evaded the legal consequences of his declarations of will which were submitted under the influence of an error.
   Case status: A reply to the lawsuit was submitted.
   In the Bank's estimation the above reasoning is groundless, and the arguments raised are not supported by the evidence collected in the case.

2. **Plaintiff:** natural person
   Disputed value: PLN 5 108 036
   Claim: The plaintiff's claim is based on the statement that the Bank forced the plaintiff to make a sales order for 33 300 items of shares by threatening to the plaintiff's company that the Bank would take over all the funds which would come from the sale of all the 30 000 shares constituting the ownership of such company.

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

Proceedings connected with financial derivatives

As of 31 December 2009 the Bank was party to 31 lawsuits connected with financial derivatives, where in 24 cases the Bank was the defendant, while in 7 as the plaintiff. To the Bank's best knowledge the total disputed value in these lawsuits was PLN 210.1 million. The highest unit value of the dispute was PLN 36.2 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 are in initial stages of hearing by courts of law. The Bank has no specific provision for lawsuits filed by customers against the Bank in connection with financial futures/forwards.

The Bank, having due and payable receivables from customers on account of financial futures/forwards, takes steps to enforce these receivables, also on the basis of bank execution titles. The Bank's customers in some cases strive to make it impossible for the Bank to enforce the execution titles and to pursue the executions. As of 31 December 2009 the Bank was pursuing execution proceedings in 17 cases on receivables on account of financial futures/forwards, where it had enforcement titles based on a bank execution title in the total claimed amount of PLN 54.8 million. In 6 cases the Bank petitioned for granting an enforceability clause to bank execution titles, where the total claimed amount is PLN 12.3 million.

As regards 12 customers of the Bank, from whom the Bank has due and payable receivables on account of financial futures/forwards in the total principal amount of PLN 117.2 million, bankruptcy was announced (in 6 of these cases with possibility of an arrangement and in 6 cases – liquidation bankruptcy). In all cases the Bank submitted the receivables to the bankruptcy estate.

In some cases the Bank is talking to customers to amicably define terms and conditions of payment of the Bank's receivables on account of the financial futures/forwards.

Independently, since October 2008 the Bank concluded with its customers a number of compositions, restructuring the Bank's receivables on account of agreements on financial futures/forwards. These compositions provide i.a. for changing the method and time of repayment of the receivables as well as the way they are collateralised. As of 31 December 2009 35 such compositions were being carried out, comprising the amount of approximately PLN 157.9 million of existing receivables

Proceedings before the Chairman of UOKiK concerning provisions of mortgage loans

As of 31 December 2009 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.

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. The Bank replied to the appeal on 13 February 2009.

Proceedings concerning deeming certain provisions of agreements and bylaws used by the Bank in consumer transactions as prohibited

The Bank is a party in 6 proceedings before SOKiK, concerning deeming certain provisions of agreements and bylaws used by the Bank in consumer transactions as prohibited. The questioned provisions concern in particular the use, when converting the amount of a loan indexed to a foreign currency and when calculating the loan instalment of the Bank's purchase or sell rate in keeping with the FX Rates Table binding in the Bank on day of loan disbursement and on day of instalment payment respectively, as well as limiting the Bank's liability for losses caused by circumstances not attributable to the Bank and limiting the Bank's liability in case of non-punctual performance of instructions as well as the provision preventing making an early payment of the loan amount in case of failure to disburse all tranches of the granted mortgage loan. One case brought by the Chairman of UOKiK, one in result of a lawsuit by a private individual, while the remaining ones in result of a lawsuit by the Stowarzyszenie LEXUS association.
All cases are now pending in first instance. The result of a legally valid court ruling unfavourable for the Bank in the above cases will be the invalidity of the questioned provisions and the need for the

Bank to amend them. On the basis of a legally valid court decision the provisions of agreements or bylaws, deemed by the court to be prohibited in consumer transactions, shall be entered in the register of prohibited contractual provisions, kept by the Chairman of UOKiK. A legally valid ruling has effect with respect to third persons as of the entering of a provision deemed prohibited in the above-mentioned register and as of this moment the provision deemed prohibited cannot be used by the Bank as well as other banks operating in Poland.

OFF-BALANCE ITEMS

	31.12.2009	31.12.2008
Off-balance conditional commitments granted and received	**8 392 421**	**9 203 270**
1. Commitments granted:	7 407 330	8 486 330
a) financial	5 867 405	6 765 024
b) guarantee	1 539 925	1 721 306
2. Commitments received:	985 091	716 940
a) financial	480 398	23 532
b) guarantee	504 693	693 408

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 as of 31.12.2009 is presented in the table below:

Customer - sector	Amount in PLN million
- financial sector	157.4
- non-financial sector (companies)	1 358.0
- public sector	21.5
- private individuals	3.0
Total	**1 539.9**

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

Subsidiary	Amount in PLN million
Millennium Leasing Sp. z o.o.	34.0
Millennium Service Sp. z o.o.	19.0
TBM Sp. z o.o.	0.1
Total	**53.1**

Guarantees, sureties and avals granted to Clients

Commitments granted - guarantee, as at 31.12.2009	Amount in PLN million
Active guarantees, sureties and avals	1 054.0
Sureties for loans granted through EFRWP	9.0
Lines for guarantees and sureties	481.7
Total, gross	**1 544.7**
Impairment charges	-4.8
Total, net	**1 539.9**

In the period from 01.01.2009 till 31.12.2009 the Bank granted 2,360 guarantees, sureties and avals totalling PLN 883,933 thousand.

The amount of such liabilities (excluding guarantees and sureties of the repayment of loans from the The European Fund for the Development of Polish Villages (EFRWP) and open guarantee lines) as of 31.12.2009 stood at 1,054,042 thousand PLN (2,526 items of active guarantees) which means a drop of their value by PLN 155,803 thousand i.e. by 12.88% compared to 31.12.2008.

The value of guarantees, sureties and avals issued in PLN fell by 126,074 thousand PLN i.e. by 11.74% compared to the end of last year, while the value of such liabilities granted in foreign currency fell 29,729 thousand PLN, i.e. by 21.91%.

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

1. By currency	31.12.2009	31.12.2008
PLN	948 084	1 074 158
Other currencies	105 958	135 687
TOTAL	**1 054 042**	**1 209 845**

2. By type of commitment, as at 31.12.2009	Number	Amount in '000 PLN
Aval	1	1 050
Guarantee	2 516	1 032 597
Surety	2	12 785
Re-guarantee	7	7 637
TOTAL	**2 526**	**1 054 042**

3. By object of the commitment, as at 31.12.2009	Number	% share	Amount in '000 PLN
good performance of contract	1 639	64.89%	613 869
rent payment	384	15.20%	52 055
bid bond	191	7.56%	119 497
punctual payment for goods or services	181	7.17%	139 215
other	85	3.37%	23 499
advance return	21	0.83%	7 177
customs	20	0.79%	56 890
payment of bank loan	5	0.20%	41 840
TOTAL	**2 526**	**100%**	**1 054 042**

XVIII. OPERATING LEASING

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

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

Balance as at:	31.12.2009	31.12.2008
- to 1 year	66 572	95 463
- above 1 year to 5 years	187 223	265 923
- above 5 years	106 301	141 542
TOTAL	**360 096**	**502 928**

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

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.

On 9 February 2010 the Supervisory Board of the Bank, pursuant to par. 17 sect. 2 item 4 of the Bank's Articles of Association, passed a resolution concerning selection of KPMG Audyt Sp. z o.o. with its seat in Warsaw at ul. Chłodna 51, 00-867 Warsaw as the entity authorised to examine financial reports of Bank Millennium S.A. and of Bank Millennium Capital Group for the year 2010.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
01.03.2010	Bogusław Kott	Chairman of the Management Board	....
01.03.2010	Rui Manuel Teixeira	Deputy Chairman of the Management Board	....
01.03.2010	Fernando Bicho	Member of the Management Board	....
01.03.2010	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
01.03.2010	Wojciech Haase	Member of the Management Board	....
01.03.2010	Joao Bras Jorge	Member of the Management Board	....
01.03.2010	Artur Klimczak	Member of the Management Board	....