Annual Consolidated Report
of the Bank Millennium S.A. Capital Group
for the period of 12 months
ending 31 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	2 373 617	2 444 774	546 836	692 160
II. Fee and commission income	576 378	568 895	132 786	161 065
III. Operating income	1 513 763	1 866 651	348 742	528 483
IV. Operating profit / (loss)	-5 125	521 736	-1 181	147 713
V. Profit / (loss) before taxes	1 875	521 736	432	147 713
VI. Profit (loss) after taxes	1 495	413 409	344	117 044
VII. Total comprehensive income of the period	-27 547	456 392	-6 346	129 213
VII. Net cash flows from operating activities	1 786 951	700 982	411 679	198 461
IX. Net cash flows from investing activities	-335 986	-389 689	-77 405	-110 328
X. Net cash flows from financing activities	-262 043	455 709	-60 370	129 020
XI. Net cash flows, total	1 188 922	767 002	273 905	217 152
XII. Total assets	44 913 824	47 104 643	10 932 726	11 289 580
XIII. Deposits from banks	4 909 370	3 060 550	1 195 017	733 523
XIV. Deposits from customers	31 558 664	31 702 279	7 681 871	7 598 092
XV. Total equity	2 787 336	2 814 883	678 481	674 644
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)	3.28	3.31	0.80	0.79
XIX. Diluted book value per share (in PLN/EUR)	3.28	3.31	0.80	0.79
XX. Capital adequacy ratio	11.29%	10.20%	11.29%	10.20%
XXI. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.00	0.49	0.00	0.14
XXII. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.00	0.49	0.00	0.14
XXIII. 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/EURO, 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 QUARTERLY FINANCIAL DATA

CONSOLIDATED 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	2 373 617	572 614	2 444 774	710 415
II. Interest expense	-1 775 079	-377 094	-1 510 068	-479 253
III. Net interest income	**598 538**	**195 520**	**934 706**	**231 162**
IV. Fee and commission income	576 378	157 318	568 895	135 936
V. Fee and commission expense	-82 532	-18 016	-96 907	-25 727
VI. Net fee and commission income	**493 846**	**139 302**	**471 988**	**110 209**
VII. Dividend income	2 165	18	26 244	24 804
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	251 500	28 995	152 413	12 504
X. Foreign exchange profit	65 185	29 834	239 146	28 412
XI. Other operating income	79 579	31 695	39 166	9 032
XII. Operating income	**1 513 763**	**435 527**	**1 866 651**	**416 805**
XIII. General and administrative expenses	-942 707	-220 746	-1 119 171	-292 744
XIV. Impairment losses on financial assets	-436 078	-91 346	-135 138	-52 030
XV. Impairment losses on non financial assets	-579	264	-2 128	-1 587
XVI. Depreciation and amortization	-79 646	-20 037	-70 427	-20 270
XVII. Other operating expenses	-59 878	-18 491	-18 051	-3 356
XVIII. Operating expenses	**-1 518 888**	**-350 356**	**-1 344 915**	**-369 987**
XIX. Operating profit / (loss)	**-5 125**	**85 171**	**521 736**	**46 818**
XX. Share in net profit of associated companies	7 000	0	0	0
XXI. Profit / (loss) before taxes	**1 875**	**85 171**	**521 736**	**46 818**
XXII. Corporate income tax	-380	-17 720	-108 327	-11 255
XXIII. Profit / (loss) after taxes	**1 495**	**67 451**	**413 409**	**35 563**
Attributable to:				
Equity holders of the parent	1 495	67 451	413 409	35 563
Minority interests	0	0	0	0

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME (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	**1 495**	**67 451**	**413 409**	**35 563**
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	6 810	-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	**-27 547**	**83 040**	**456 392**	**71 419**
Attributable to:				
Equity holders of the parent	-27 547	83 040	456 392	71 419
Minority interests	0	0	0	0

* - not audited

Annual consolidated financial statement of the Bank Millennium S.A. Capital Group for the period of 12 months ending 31 December 2009

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I. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Interest income	1	2 373 617	2 444 774
Interest expense	2	-1 775 079	-1 510 068
Net interest income		**598 538**	**934 706**
Fee and commission income		576 378	568 895
Fee and commission expense		-82 532	-96 907
Net fee and commission income	3	**493 846**	**471 988**
Dividend income	4	2 165	26 244
Result on investment financial assets	5	22 950	2 988
Result on financial instruments valued at fair value through profit and loss	5	251 500	152 413
Foreign exchange profit	5	65 185	239 146
Other operating income	6	79 579	39 166
Operating income		**1 513 763**	**1 866 651**
General and administrative expenses	7	-942 707	-1 119 171
Impairment losses on financial assets	8	-436 078	-135 138
Impairment losses on non financial assets	9	-579	-2 128
Depreciation and amortization	10	-79 646	-70 427
Other operating expenses	11	-59 878	-18 051
Operating expenses		**-1 518 888**	**-1 344 915**
Operating profit / (loss)		**-5 125**	**521 736**
Share in net profit of associated companies		7 000	**0**
Profit / (loss) before taxes		**1 875**	**521 736**
Corporate income tax	12	-380	-108 327
Profit / (loss) after taxes		**1 495**	**413 409**
Attributable to:			
Equity holders of the parent		1 495	413 409
Minority interests		0	0
Basic earnings per ordinary share (in PLN)	13	**0.00**	**0.49**
Diluted earnings (losses) per ordinary share (in PLN)	13	**0.00**	**0.49**

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME (*Amount '000 PLN*)	**1.01.2009 - 31.12.2009**	**1.10.2008 - 31.12.2008**
PROFIT / (LOSS) AFTER TAXES	**1 495**	**413 409**
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	6 810	-10 082
VI. Other elements of total comprehensive income after taxes	**-29 042**	**42 983**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**-27 547**	**456 392**
Attributable to:		
Equity holders of the parent	-27 547	456 392
Minority interests	0	0

II. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2009	31.12.2008
Cash, balances with the Central Bank	14	2 191 227	1 802 594
Loans and advances to banks	15	695 697	1 580 027
Financial assets valued at fair value through profit and loss (held for trading)	16	3 032 081	6 279 933
Hedging derivatives	17	377 334	9 977
Loans and advances to customers	18	33 484 935	33 748 166
Investment financial assets	19	4 163 657	2 913 997
- available for sale		4 163 657	2 913 997
- held to maturity		0	0
Investments in associates	19	12 000	5 395
Receivables from securities bought with sell-back clause (loans and advances)	20	208 781	61 282
Property, plant and equipment	21	346 671	385 011
Intangible assets	22	22 821	21 837
Non current assets held for sale	23	869	1 111
Receivables from Tax Office resulting from current tax		37 475	48 710
Deferred income tax assets	24	140 325	51 253
Other assets	25	199 951	195 350
Total Assets		**44 913 824**	**47 104 643**

LIABILITIES

Amount '000 PLN	Note	31.12.2009	31.12.2008
Deposits from banks	26	4 909 370	3 060 550
Financial liabilities valued at fair value through profit and loss (held for trading)	27	682 203	4 399 498
Hedging derivatives	28	122 813	1 179 649
Deposits from customers	29	31 558 664	31 702 279
Liabilities from securities sold with buy-back clause	30	2 342 684	1 502 062
Debt securities	31	1 024 335	917 094
Provisions	32	24 577	33 881
Deferred income tax liabilities	33	0	0
Current tax liabilities		2 080	514
Other liabilities	34	513 967	532 813
Subordinated debt	35	945 795	961 420
Total Liabilities		**42 126 488**	**44 289 760**

EQUITY

Amount '000 PLN	Note		
Share capital	36	849 182	849 182
Share premium	36	472 343	472 343
Revaluation reserve	36	11 199	40 241
Retained earnings	36	1 454 612	1 453 117
Total equity attributable to equity holders of the parent		2 787 336	2 814 883
Minority interests		0	0
Total Equity		**2 787 336**	**2 814 883**
Total Liabilities and Equity		**44 913 824**	**47 104 643**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2008	**2 519 932**	**849 182**	**471 709**	**-2 742**	**1 201 783**
- total comprehensive income of 2008	456 392	0	0	42 983	413 409
- dividend payment	-161 345	0	0	0	-161 345
- other appropriation of profit (increase in social benefits fund of subordinated entity)	-96	0	0	0	-96
- consolidation adjustment	0	0	634	0	-634
Equity at the end of the period 31.12.2008	**2 814 883**	**849 182**	**472 343**	**40 241**	**1 453 117**

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

IV. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**01.01.2009 – 31.12.2009**	**01.01.2008 – 31.12.2008**
I. Profit (loss) after taxes	**1 495**	**413 409**
II. Adjustments for:	**1 785 456**	**287 573**
1. Minority profit (loss)	0	0
2. Interests in net profit / (loss) of associated companies	-7 000	0
3. Depreciation and amortization	79 646	70 427
4. Foreign exchange (gains) / losses	-148 906	710 271
5. Dividends	-2 165	-26 244
6. Changes in provisions	-9 304	-779
7. Result on sale and liquidation of investing activity assets	-11 995	-12 546
8. Change in financial assets valued at fair value through profit and loss (held for trading)	2 744 785	-2 900 767
9. Change in loans and advances to banks	902 377	-992 875
10. Change in loans and advances to customers	197 986	-11 707 973
11. Change in receivables from securities bought with sell-back clause	-147 499	-32 475
12. Change in liabilities valued at fair value through profit and loss (held for trading)	-4 774 131	4 992 106
13. Change in deposits from banks	2 162 910	-670 308
14. Change in deposits from customers	-143 615	9 901 617
15. Change in liabilities from securities sold with buy-back clause	840 622	776 086
16. Change in debt securities	149 259	-10 870
17. Change in income tax settlements	-5 345	111 055
18. Income tax paid	-64 114	-61 600
19. Change in other assets and liabilities	-21 210	85 053
20. Other	43 155	57 395
III. Net cash flows from operating activities	**1 786 951**	**700 982**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**01.01.2009 – 31.12.2009**	**01.01.2008 – 31.12.2008**
I. Inflows:	**24 813 732**	**5 489 000**
1. Proceeds from sale of property, plant and equipment and intangible assets	26 872	18 820
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	24 784 695	5 443 936
5. Other	2 165	26 244
II. Outflows:	**-25 149 718**	**-5 878 689**
1. Acquisition of property, plant and equipment and intangible assets	-33 440	-109 533
2. Acquisition of shares in associates	0	0
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	-25 116 278	-5 769 156
5. Other	0	0
III. Net cash flows from investing activities	**-335 986**	**-389 689**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	**01.01.2009 – 31.12.2009**	**01.01.2008 – 31.12.2008**
I. Inflows:	**1 331 630**	**674 332**
1. Long-term bank loans	1 331 630	587 563
2. Issue of debt securities	0	86 769
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:	**-1 593 673**	**-218 623**
1. Repayment of long-term bank loans	-1 511 487	0
2. Redemption of debt securities	-42 018	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	**-262 043**	**455 709**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**1 188 922**	**767 002**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**2 939 685**	**2 172 683**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**4 128 607**	**2 939 685**

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

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

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

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

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

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

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 2007 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 Chairman. 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:

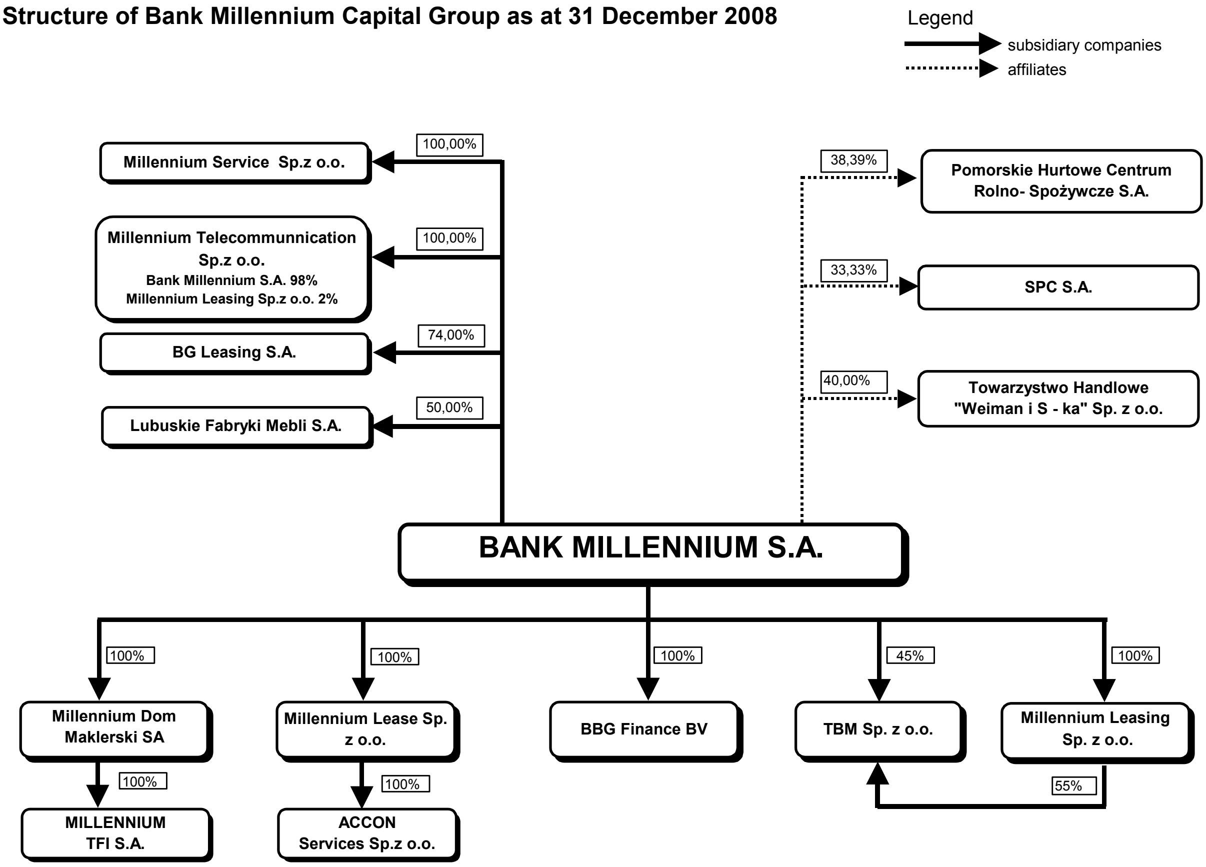
- Mr Bogusław Jerzy Kott for the function of Chairman of the Management Board,
- Mr Rui Manuel Teixeira for the function of Deputy Chairman of the Management Board,

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.

The Group's parent entity is Bank Millennium S.A. The companies that belong to the Capital Group as at 31 December 2009, are presented by the diagram below:

Structure of Bank Millennium Capital Group as at 31 December 2008



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

The Group applied provisions of IAS 8 ("Accounting principles (policies), changes in value estimates and error adjustment") section 8, whereby IFRS constitute a complete set of accounting principles, which do not have to be applied if the result of their application is immaterial. By the virtue of the above, provisions of IAS 27 ("Consolidated and solo-basis financial statements") and provisions of IAS 28 ("Investment in associated companies") were not applied in relation to the financial statements of BG Leasing S.A. being a member of the Capital Group as at 31 December 2009 but despite holding a majority block of shares, due to pending bankruptcy proceedings, the Group is practically not exercising any control in this company.

In 2009 the only changes in structure of the Group were following:

- the Group 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;
- the name of a subsidiary was changed from Ress Trading Sp. z o.o. to Millennium Telecommunication Services Sp. z o.o. Additionally Group started to consolidate aforementioned company considering its planned development of activity.

VI. ACCOUNTING POLICY

Compliance Statement

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

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

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

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

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

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
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 Group'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 Group'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.	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.

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
	• Subsequent change in contingent consideration will be recognized in profit or loss. • 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 Group'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 Group'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.

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
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 Group'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 Group's operations as none of the Group's entity has 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 Group's financial statements as the Group 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.

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
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 Group's financial statements as the Group 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 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.	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 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.	1 July 2009 According to Commission 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.

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
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 Group'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 Group'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 Group'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 Group'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 Group's financial statements in the period of initial recognition is not known.	1 January 2013

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
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 Group'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 Group'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 Group's financial statements in the period of initial recognition is not known.	1 July 2010

Restatements of previously published financial data

CHANGE IN PRESENTATION OF THE EFFECT OF REVALUATION OF INTEREST ACCRUED IN THE BALANCE SHEET

In 2009 the Group 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	2 490 922	2 444 774	-46 148
Result on financial instruments valued at fair value through profit and loss	146 825	152 413	+5 588
Foreign exchange profit	198 586	239 146	+40 560

CHANGE IN PRESENTATION OF DISCOUNT ON ISSUED DEBT SECURITIES

In 2009 the Group 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	205 629	195 350	-10 279
Debt securities	927 373	917 094	-10 279

Reclassification of debt securities

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

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

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

Data in PLN thous

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

Adopted accounting principles

1. **Basis of Financial Statements Preparation**

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

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

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

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

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

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

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

2. **Basis of Consolidation**

Purchase method

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

Subsidiaries

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

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

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

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

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

Associates

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

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

3. Functional currency and presentation currency

Functional currency and presentation currency

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

Transactions and balances

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

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

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

4. Financial assets and liabilities

Classification

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

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

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

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

- *Held to maturity investments*

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

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

- *Loans and advances*

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

- *Financial assets available for sale*

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

- *Other financial liabilities*

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

Recognition of financial instruments in the balance sheet

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

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

De-recognition of financial instruments from the balance sheet

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

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

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

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

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

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

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

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

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

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

5. Hedge Accounting and Financial Derivatives

Valuation at fair value

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

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

Cash flow hedge

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

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

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

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

Fair value hedge

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

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

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

Termination of hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

1) *FX forward*

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

2) *FX SWAP*

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

3) *Interest Rate SWAP (IRS)*

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

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

4) *Cross – Currency Swap (CCS)*

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

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

5) *IRS transactions with embedded FX option*

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in *Result 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 put by the Bank's counterparties, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter. Changes of fair value of FX options are reported in "Result on financial instruments measured at fair value through the Profit and Loss Account" of the Profit and Loss Account.

7) *Forward Rate Agreement (FRA)*

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

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

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

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

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

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

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

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

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

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

Financial assets available for sale

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

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

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

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

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

The Group presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause. This is in order to reflect the risks and rewards arising on this asset that is retained by the Group after the transfer. When the Group purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

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

9. Receivables from leasing contracts

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

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

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

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

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

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

Subsequent costs

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

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

Intangible Assets

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

Computer Software

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

Other Intangibles

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

Subsequent costs

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

Depreciation and amortization charges

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

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

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

Selected categories of property, plant and equipment:

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

Intangibles (software):

Main applications (systems)	10.0%

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

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

11. Non current assets held for sale

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

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

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

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

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

12. Impairment of non current assets

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

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

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

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

13. Prepayments, Accruals and Deferred Income

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

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

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

14. Provisions

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

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

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

15. Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

16. Group's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

17. Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

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

18. Interest result

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

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

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

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

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

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

19. Fee and commission income/ Fee and Commission Costs

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

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

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

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

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.

20. Dividend Income

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

21. Result on Investment Financial Instruments

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

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

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

23. Foreign exchange profit

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

24. Other Operating Income and Expenses

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

25. Income Tax

Corporate income tax comprises current and deferred tax.
Current income tax is calculated on profit before tax, established in accordance with appropriate accounting regulations adjusted by non-taxable income and non-tax deductible expenses, with usage of binding tax rate. Moreover, for tax purposes, the gross profit is adjusted by previous years' income and expenses realised for tax purposes in a given reporting period and deductions from income arising from e.g. donations.
Deferred income tax is recognized in profit and loss or equity depending on type of temporary differences.
The Group forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are a result of different timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. Provision for a deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Group offsets deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

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

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

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

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

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

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

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

26. Application of Estimates in connection with Accounting Policies

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

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

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

- *Impairment of loans and advances*

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Group assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio since the initial recognition of those assets, although the decrease cannot yet be

identified with the individual. The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group
Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be recovered are regularly reviewed and updated, in order to estimate the difference between the actual loss results and estimations of impairment.

- *Fair value of financial instruments*

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

- Prices quoted on the active market for identical instruments for following financial instruments:
  - treasury fixed-coupon 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 Group
- 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 Group.

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

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. OPERATIONAL SEGMENTS

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

a) Retail Customers Segment

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

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

b) Corporate Customers Segment

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

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

c) Treasury and investment business

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

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

Income tax charge has been presented on Group level only.

Column “other” contains:

- for 2009: income recognised due to adjusted settlements of VAT in previous years
- for 2008: dividend received from Visa Inc.

Accounting principles

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

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

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

Adjustment of fair value on account of measurement of credit risk component of FX derivatives concluded with Customers (the matter is described in note 5(b) in Chapter VIII „Notes to consolidated financial report”) was assigned to the “Corporate Banking” segment.

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

BALANCE SHEET 31.12.2009, *In '000 PLN* **ASSETS**	**Retail Banking**	**Corporate Banking**	**Investment and Treasury Banking**	**Other**	**Total Consolidated**
Segment assets	26 376 319	10 293 886	8 243 619	0	44 913 824
(including capital investment expenditure)	13 547	1 706	35	0	15 288
Assets allocated to segment	433 163	2 280 126	-2 713 290	0	0
Total	**26 809 482**	**12 574 012**	**5 530 329**	**0**	**44 913 824**
LIABILITIES					
Segment liabilities	22 371 437	11 774 305	7 980 748	0	42 126 490
Liabilities allocated to segment	2 984 296	204 001	-3 188 297	0	0
Equity allocated to segment	1 453 750	595 706	737 878	0	2 787 334
Total	**26 809 482**	**12 574 012**	**5 530 329**	**0**	**44 913 824**

INCOME STATEMENT 1.01.2008 - 31.12.2008 *In '000 PLN*	Retail Banking	Corporate Banking	Investment and Treasury Banking	Other	Total Consolidated
Net interest income	652 653	264 621	17 432	0	934 706
external income	1 251 942	521 445	671 387	0	2 444 774
external cost	-917 317	-328 251	-264 499	0	-1 510 068
External income less cost	**334 625**	**193 193**	**406 888**	**0**	**934 706**
internal income	1 131 956	431 309	-1 563 264	0	0
internal cost	-813 928	-359 881	1 173 809	0	0
Internal income less cost	**318 028**	**71 428**	**-389 455**	**0**	**0**
Net fee and commission income	347 379	104 065	20 545	0	471 988
Dividends, other income from financial operations and foreign exchange profit	257 367	-35 261	173 883	24 804	420 792
Other operating income and cost	206	1 315	19 593		21 114
Operating income	**1 257 604**	**334 740**	**231 453**	**24 804**	**1 848 601**
Staff costs	-447 404	-138 807	-22 805	0	-609 016
Administrative costs	-386 908	-93 992	-29 255	0	-510 155
Impairment losses on assets	-88 711	-45 707	-2 848	0	-137 266
Depreciation and amortization	-51 569	-13 858	-5 001		-70 427
Operating expenses	**-974 591**	**-292 363**	**-59 910**	**0**	**-1 326 865**
Operating profit / (loss)	**283 012**	**42 376**	**171 543**	**24 804**	**521 736**
Share in net profit of associated companies				0	0
Profit / (loss) before taxes	**283 012**	**42 376**	**171 543**	**24 804**	**521 736**
Income taxes					-108 327
Profit / (loss) after taxes					**413 409**

BALANCE SHEET 31.12.2008, *In '000 PLN* **ASSETS**	Retail Banking	Corporate Banking	Investment and Treasury Banking	Other	Total Consolidated
Segment assets	26 299 927	9 388 884	11 415 832	0	47 104 643
(including capital investment expenditure)	85 454	6 477	25 613	0	117 543
Assets allocated to segment	1 671 930	885 730	-2 557 660	0	0
Total	**27 971 857**	**10 274 614**	**8 858 172**	**0**	**47 104 643**
LIABILITIES					
Segment liabilities	23 872 589	9 196 000	11 221 171	0	44 289 760
Liabilities allocated to segment	2 590 444	372 018	-2 962 462	0	0
Equity allocated to segment	1 508 824	706 596	599 463	0	2 814 883
Total	**27 971 857**	**10 274 614**	**8 858 172**	**0**	**47 104 643**

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2009 – 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	76 256
Loans and advances to customers	1 597 943	1 798 151
Transactions with repurchase agreement	11 140	17 171
Hedging derivatives	391 742	176 575
Financial assets held for trading (debt securities)	154 560	166 424
Investment securities	173 202	162 270
Total	**2 373 617**	**2 444 774**

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

Interest income for the year 2009 contains interest accrued on impaired loans in the amount of PLN 97,783 thous. (for corresponding data in the year 2008 the amount of such interest stood at PLN 63,332 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2009 – 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	-85 464	-63 977
Hedging derivatives	0	0
Deposits from customers	-1 498 524	-1 216 436
Subordinated debt	-39 216	-57 001
Debt securities	-43 588	-59 335
Other	-1 769	-1 435
Total	**-1 775 079**	**-1 510 068**

(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	82 628	77 616
Resulting from money transfers, cash payments and withdrawals and other payment transactions	38 823	38 607
Resulting from granted credits and loans	41 468	42 589
Resulting from guarantees and sureties granted	11 367	10 768
Resulting from payment and credit cards	171 415	146 439
Resulting from sale of insurance products	111 801	93 068
Resulting from distribution of investment funds units and other savings products	17 124	14 195
Resulting from brokerage and custody service	30 268	30 212
Resulting from investment funds managed by the Group	62 579	106 875
Other	8 905	8 526
Total	**576 378**	**568 895**

3b. Fee and commission expense

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Resulting from accounts service	-1 093	-1 309
Resulting from money transfers, cash payments and withdrawals and other payment transactions	-2 075	-1 627
Resulting from granted credits and loans	-16 769	-11 988
Resulting from payment and credit cards	-51 522	-69 183
Resulting from brokerage and custody service	-6 444	-6 005
Resulting from investment funds managed by the Group	-2 286	-3 405
Other	-2 342	-3 390
Total	**-82 532**	**-96 907**

(4) *DIVIDEND INCOME*

4. Dividend income

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Securities valued at fair value through profit and loss (held for trading)	4	22
Investment securities	2 161	26 222
Total	**2 165**	**26 244**

In 2008 the Bank recognised revenue on account of dividend from Visa Inc. in the amount of PLN 24.8 million, which comprised: cash received worth USD 5.5 million (PLN 15.5 million) and 67,190 ordinary shares of Visa Inc. received free-of-charge (worth PLN 9.3 million on day of receipt). The shares were classified in the “available for sale” portfolio.

(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) RESULT ON FINANCIAL INSTRUMENTS MEASURED 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 Group does not use the capacity to assign other instruments as appraised at fair value through the profit and loss account at the initial booking (so-called fair value option).

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

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

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Operations on securities	35 430	18 314
Operations on derivatives	218 790	136 131
Hedging operations	-573	-2 757
Other financial operations	-2 148	725
Total	**251 500**	**152 413**

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 PLN -152 million, out of which PLN -106 million was presented in Trading Result, and PLN -46 million – in Foreign Exchange Revaluation Result. Respectively the effect of valuation of the credit risk component in derivatives recognised in 2009 amounted to + 14.5 million PLN.

(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 FX negotiated transactions	56 915	26 746
Other	-46 080	42 800
Total	**65 185**	**239 146**

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 41 million in 2008 to approximately 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	13 161	13 005
Profit on sale of non current assets held for sale	712	909
Indemnifications, penalties and fines received	14 899	10 032
Income from sale of other services	501	3 741
Income from collection service	521	436
Income from leasing business	4 282	1 237
Income from adjustment in VAT settlements	12 690	0
Other	32 813	9 805
Total	**79 579**	**39 166**

In Q4 2009 the parent company of the Group – the Bank, in connection with received individual interpretations of tax law, issued by the Minister of Finance, adjusted settlements of VAT in previous years. Revenue generated on this account stood at PLN 12,7 million.

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2009 – 31.12.2009	01.01.2008 - 31.12.2008
Staff costs:	**-470 678**	**-609 016**
Salaries	-458 875	-586 510
Employee benefits, including:	-11 804	-22 506
- provisions for retirement benefits	-685	-407
- provisions for unused employee holiday	2 967	64
- other	-14 086	-22 163
General administrative costs	**-472 029**	**-510 156**
Costs of advertising, promotion and representation	-36 653	-65 568
Costs of software maintenance and IT services	-18 698	-15 119
Costs of renting	-171 523	-134 911
Costs of buildings maintenance, equipment and materials	-29 762	-37 811
ATM and cash costs	-20 593	-24 107
Costs of communications and IT	-65 439	-84 222
Costs of consultancy, audit and legal advisory and translation	-15 125	-18 594
Taxes and fees	-15 288	-18 690
KIR clearing charges	-2 893	-2 703
PFRON costs	-5 856	-5 723
BFG costs	-15 147	-4 433
Financial Supervision costs	-6 113	-7 046
Other	-68 938	-91 230
Total	**-942 707**	**-1 119 171**

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	**-433 898**	**-131 147**
- Impairment charges on loans and advances to customers	-894 461	-506 127
- Reversal of impairment charges on loans and advances to customers	457 630	363 049
- Amounts recovered from loans written off	2 933	9 097
- Result on sale of receivables	0	2 834
Impairment losses on investments in associates	**0**	**0**
- Impairment charges on investments in associates	**0**	**0**
- Reversal of impairment charges on investments in associates	**0**	**0**
Impairment losses on off-balance sheet liabilities	**-2 180**	**-3 991**
- Impairment charges on off-balance sheet liabilities	-14 990	-20 047
- Reversal of impairment charges on off-balance sheet liabilities	12 810	16 056
Total	**-436 078**	**-135 138**

(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	103	162
Other assets	-682	-2 290
Total	**-579**	**-2 128**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Property, plant and equipment	-72 942	-62 277
Intangible assets	-6 704	-8 150
Total	**-79 646**	**-70 427**

(11) OTHER OPERATING EXPENSE

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	-24 992	-4 324
Loss on sale of non current assets held for sale	0	-31
Indemnifications, penalties and fines paid	-3 317	-2 852
Provisions for contentious claims	-2 850	-2 383
Costs of leasing business	-8 221	-971
Donations made	-443	-646
Costs of collection service	-15 747	-2 392
Costs of payments to compensation system	-419	-697
Other	-3 891	-3 756
Total	**-59 878**	**-18 051**

(12) INCOME TAX

12a. Income tax reported in income statement

	1.01.2009-31.12.2009	1.01.2008-31.12.2008
Current tax	**-103 262**	**-96 051**
Current year	-103 262	-96 051
Deferred tax	**102 882**	**-12 276**
Appearance and reversal of temporary differences	81 448	-7 175
Utilisation of tax loss	812	-5 101
Adjustment in CIT-8 declarations	20 622	0
Total income tax reported in income statement	**-380**	**-108 327**

12b. Effective tax rate

	1.01.2009-31.12.2009	1.01.2008-31.12.2008
Gross profit / (loss)	1 875	521 736
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**-356**	**-99 130**
Impact of permanent differences on tax charges:	**-24**	**-9 197**
- Non taxable income	*7 253*	*2 748*
Dividend income	411	225
Release of other provision	6 170	0
Other	672	2 523
- Cost which is not a tax cost	*-7 277*	*-11 945*
Loss on sale of receivables	-7	-4 005
PFRON fee	-1 112	-1 087
Other	-6 158	-6 853
Total income tax reported in income statement	**-380**	**-108 327**

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

13. Earnings per share (PLN)

	1.01.2009-31.12.2009	1.01.2008-31.12.2008
Earnings after taxes	1 495	413 409
Weighted average number of shares in the period	849 181 744	849 181 744
Earnings per share	**0.00**	**0.49**

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

The L-series issue of shares (a description of the issue was presented in Chapter XXI "Important events between the date of the report and the date of its publication") had no impact on calculation of Earnings Per Share, because the number of shares changed after the day of the financial report.

At the same time due to the nature of the issue it was not necessary to make a separate calculation of diluted Earnings Per Share (the calculation methodology in case of absence of diluting instruments is the same as in case of Earnings Per Share in result diluted Earnings Per Share equals baseline Earnings Per Share).

(14) CASH, BALANCES WITH THE CENTRAL BANK

14a. Cash, balances with the Central Bank

	31.12.2009	31.12.2008
Cash	437 625	633 457
Cash in Central Bank	1 753 362	1 168 905
Other funds	240	231
Total	**2 191 227**	**1 802 594**

In the period from 31st of December 2009 to 31st of January 2010 the Bank kept on its current account with NBP (the central bank) 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 central bank's rediscount rate and in the above-mentioned period of time was 3.375%.

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

	31.12.2009	31.12.2008
a. in Polish currency	2 036 820	1 553 492
b. in foreign currencies (after conversion to PLN)	154 406	249 102
- currency: USD	23 234	29 573
- currency: EUR	81 070	171 121
- currency: GBP	21 380	22 749
- other currencies (PLN '000)	28 722	25 659
Total	**2 191 227**	**1 802 594**

(15) LOANS AND ADVANCES TO BANKS

15a. Loans and advances to banks

	31.12.2009	31.12.2008
Current accounts	87 646	91 343
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	**695 697**	**1 580 027**
Impairment write-offs	0	0
Net loans and advances to banks	**695 697**	**1 580 027**

15b. Loans and advances to banks by maturity date

	31.12.2009	31.12.2008
Current accounts	87 646	91 343
- 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	**695 697**	**1 580 027**

15c. Loans and advances to banks by currency

	31.12.2009	31.12.2008
in Polish currency	487 364	326 136
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	**695 697**	**1 580 027**

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

	01.01.2009 - 31.12.2009	01.01.2008 - 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 MEASURED AT FAIR VALUE THROUGH THE PROFIT AND LOSS ACCOUNT (HELD FOR TRADING)

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

	31.12.2009	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	**430**	**428**
Quoted on the active market	430	428
a) financial institutions	32	0
b) non-financial institutions	398	428
Positive valuation of derivatives	**710 797**	**2 805 286**
Other financial instruments	**536**	**2 410**
Total	**3 032 081**	**6 279 933**

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

	31.12.2009	31.12.2008
Trading financial assets	**3 032 081**	**6 279 933**
Financial assets valued at fair value when initially recognized	0	0
Total	**3 032 081**	**6 279 933**

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

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

	31.12.2009	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	3 472 236	2 331 361
Increases (purchase and accrual of interest and discount)	74 273 464	118 122 058
Reductions (sale and redemption)	-75 403 749	-116 906 714
Reclassification to investment financial assets available for sale	0	-119 132
Differences from valuation at fair value	-21 203	44 663
Balance at the end of the period	**2 320 748**	**3 472 236**

16f / 27. Derivatives as at 31.12.2009

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	**6 840 086**	**7 494 362**	**11 785 427**	**-1 026**	**342 786**	**343 812**
Forward Rate Agreements (FRA)	200 000	750 000	0	141	194	53
Interest rate swaps (IRS)	6 640 086	6 744 362	11 673 984	3 701	342 536	338 835
Other interest rate contracts: volatility swap, swap with FX option	0	0	111 443	-4 868	56	4 924
2. FX derivatives *	**8 569 277**	**10 731 764**	**4 577 672**	**128 646**	**331 384**	**202 738**
FX contracts	948 256	238 862	358 010	61 351	65 450	4 099
FX swaps	3 231 907	231 576	15 848	80 884	110 356	29 472
Other FX contracts (CIRS)	3 242 924	8 614 279	4 170 583	-17 669	78 261	95 930
FX options	1 146 190	1 647 047	33 231	4 080	77 317	73 237
3. Commodity derivatives	**107 980**	**216 312**	**8 338**	**288**	**6 854**	**6 566**
Commodity forwards	107 980	158 832	8 338	139	6 003	5 864
Commodity options	0	57 480	0	149	851	702
4. Embedded instruments	**0**	**0**	**0**	**-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	**15 517 343**	**18 442 438**	**16 843 442**	**128 795**	**710 797**	**582 002**
Liabilities from short sale of securities						**100 201**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**710 797**	**682 203**

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

16g / 27. Derivatives 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**	**20 940 573**	**14 587**	**711 800**	**697 213**
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	20 926 843	12 300	704 443	692 143
Other interest rate contracts: volatility swap, swap with FX option	57 251	0	13 730	4 117	4 621	504
2. FX derivatives *	**46 410 121**	**26 792 226**	**21 993 358**	**-1 597 016**	**1 893 509**	**3 490 525**
FX contracts	4 776 689	1 371 814	747 698	169 614	268 950	99 336
FX swaps	33 923 008	5 493 553	42 785	-1 907 547	151 674	2 059 221
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	**0**	**0**	**0**	**-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**	**20 893**	**28 215**	**7 322**
Valuation of future FX payments subject to hedging	0	2 435	285 776	-7 322	0	7 322
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	**57 161 244**	**38 671 023**	**43 590 627**	**-1 566 990**	**2 805 286**	**4 372 276**
Liabilities from short sale of securities						**27 222**
Assets and Liabilities valued at fair value through profit and loss (held for trading) - TOTAL					**2 805 286**	**4 399 498**

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

(17) DERIVATIVE HEDGING INSTRUMENTS

The Group uses the following types of hedge accounting:

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

Starting from 1 January 2006 the Group established a formal hedging relationship against cash flow volatility. One should note that as from IFRS implementation, pursuant to IAS 39 the effect of valuation of all derivatives not classified as and not being effective hedges is presented in result from financial instruments valued at fair value through the profit and loss account. The employment of such methodology resulted in the lack of coherence in the manner of presentation of financial instruments in the profit and loss account. Net interest income from derivative transactions concluded in order to hedge FX liquidity from the economic point of view constitutes an interest margin component (allows to adjust interest income from FX loans to the cost of funding 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 165 thousand PLN.

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

	Hedging the fair value of the long-term consumer portfolio	**Cash flow volatility hedge for the flow generated by mortgage loans with floating rate, denominated in foreign currency**	**Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN deposits**
Description of hedge transactions	The Group hedges the risk of the fair value of the long-term consumer loan portfolio denominated in PLN based on a fixed interest rate. The risk hedged results from interest rate fluctuations	The Bank hedges (in time horizon limited to maturity of hedging instruments) currency risk and interest rate risk resulted from volatility in cash flows generated by mortgage loans with floating rate denominated in foreign currency.	The Group hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN deposits financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk.
Hedged items	Fixed rate PLN long-term consumer loan portfolio.	Cash flows resulting from mortgage loans with floating rate denominated in foreign currency.	Cash flows resulting from the mortgage loan portfolio and zloty deposits funding them.
Hedging instruments	IRS transactions	FX Swap transactions	CIRS 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 valuation of hedging instruments is recognised in revaluation reserve; Interest from hedging instruments (settled Swap points) are recognised in the net interest income	effective part of 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

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**

17c. 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	**30 236 448**	**29 765 623**
- to companies	5 404 678	5 455 817
- 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	**19 325**	**76 358**
- from companies	16 479	59 027
- from private individuals	0	0
- from public sector	2 846	17 331
Guarantees and sureties realised	2 496	123
Debt securities eligible for rediscount at Central Bank	22 826	35 691
Financial leasing receivables	3 332 506	3 745 868
Other	2 595	2 639
Interest	107 783	140 099
Total gross	**34 591 426**	**34 497 245**
Impairment write-offs	-1 106 491	-749 078
Total net	**33 484 935**	**33 748 166**

18b. Quality of loans and advances to customers portfolio

	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**34 591 426**	**34 497 245**
- impaired	2 032 835	1 163 428
- not impaired	32 558 591	33 333 816
Impairment write-offs	**1 106 491**	**749 078**
- for impaired exposures	819 383	464 824
- for incurred but not reported losses (IBNR)	287 108	284 254
Loans and advances to customers (net)	**33 484 935**	**33 748 166**

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

	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**34 591 426**	**34 497 245**
- case by case analysis	1 403 552	834 470
- collective analysis	33 187 874	33 662 775
Impairment write-offs	**1 106 491**	**749 078**
- on the basis of case by case analysis	482 172	264 718
- on the basis of collective analysis	624 319	484 361
Loans and advances to customers (net)	**33 484 935**	**33 748 166**

18d. Loans and advances to customers portfolio by customers

	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**34 591 426**	**34 497 245**
- corporate customers	9 348 166	9 545 543
- private individuals	25 243 260	24 951 702
Impairment write-offs	**1 106 491**	**749 078**
- for receivables from corporate customers	672 910	425 908
- for receivables from private individuals	433 581	323 170
Loans and advances to customers (net)	**33 484 935**	**33 748 166**

18e. Loans and advances to customers by maturity

	31.12.2009	31.12.2008
Current accounts	1 923 577	2 108 358
- to 1 month	756 200	640 257
- above 1 month to 3 months	924 772	599 998
- above 3 months to 1 year	3 449 579	3 139 664
- above 1 year to 5 years	8 278 410	8 060 203
- above 5 years	18 804 451	19 714 947
- past due	346 654	93 719
Interest	107 783	140 099
Total gross	**34 591 426**	**34 497 245**

18f. Loans and advances to customers by currency

	31.12.2009	31.12.2008
in Polish currency	13 903 233	12 615 523
in foreign currencies (after conversion to PLN)	20 688 193	21 881 722
- currency: USD	351 264	393 277
- currency: EUR	1 209 514	1 375 173
- currency: CHF	18 673 217	19 464 729
- currency: JPY	454 198	648 542
- other currencies (PLN ‘000)	**34 591 426**	**34 497 245**

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	749 078	608 389
Change in value of provisions:	357 413	140 690
Impairment write-offs created in the period	894 460	506 127
Amounts written off	-73 970	-30 036
Impairment write-offs released in the period	-457 631	-363 049
Sale of receivables	-77	-21 856
Changes resulting from FX rates differences	-6 269	47 872
Other	900	1 631
Balance at the end of the period	**1 106 491**	**749 078**

18h. Financial leasing receivables

	31.12.2009	31.12.2008
Financial leasing receivables (gross)	3 719 703	4 303 460
Unrealised financial income	-387 197	-557 592
Financial leasing receivables (net)	**3 332 506**	**3 745 868**

Financial leasing receivables (gross) by maturity		
Under 1 year	1 525 466	1 546 265
From 1 year to 5 years	1 876 184	2 421 778
Above 5 years	318 053	335 417
Total	**3 719 703**	**4 303 460**

Financial leasing receivables (net) by maturity		
Under 1 year	1 336 886	1 330 531
From 1 year to 5 years	1 726 862	2 145 926
Above 5 years	268 758	269 411
Total	**3 332 506**	**3 745 868**

(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	**13 380**	**12 295**
Other financial instruments	**0**	**0**
Total financial assets available for sale	**4 163 657**	**2 913 997**
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	1 645 857	270 346

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	2 913 997	1 894 569
Increases (purchase and accrual of interest and discount)	26 011 722	6 325 996
Reclassification to investment financial assets available for sale	0	119 132
Reductions (sale and redemption)	-24 761 492	-5 440 948
Difference from measurement at fair value	-478	15 248
Impairment write-offs	197	0
Other	-289	0
Balance at the end of the period	**4 163 657**	**2 913 997**

19e. Investments in associates

	31.12.2009	31.12.2008
Investments in associates	12 000	5 395

Assets resulting from investments in associates classified as available for sale constitute the Group's shares in companies not listed on an active market. Due to the fact that it is not possible to credibly assess the fair value of such assets, it is not presented in this financial report.

19f. Change of investments in associates (gross)

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Balance at the beginning of the period	16 228	15 933
- consolidation of Millennium Telecommunication Services	-394	0
- investments written off	-34	0
- capital paid-in	0	295
Balance at the end of the period	**15 800**	**16 228**

19g. Change of impairment write-offs for investments in associates

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Balance at the beginning of the period	10 833	10 833
Reclassification	-7 000	0
Balance at the beginning of the period after reclassification	3 833	0
Utilisation of impairment charges	-33	0
Balance at the end of the period	**3 800**	**10 833**

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

20. Receivables from securities bought with sell-back clause

	31.12.2009	31.12.2008
a) from banks	208 746	0
b) from customers	0	61 272
c) 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:	335 500	355 807
- land	12 048	1 467
- buildings, premises, civil and hydro-engineering structures	193 422	202 730
- machines and equipment	77 835	83 827
- vehicles	23 103	30 775
- other fixed assets	29 092	37 008
Fixed assets under construction	11 137	29 204
Advances for fixed assets under construction	34	0
Total	**346 671**	**385 011**

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

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 construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**2 056**	**391 011**	**284 453**	**38 727**	**114 289**	**39 224**	**869 760**
b) increases (on account of)	**26**	**43 633**	**52 185**	**12 983**	**20 459**	**57 004**	**186 290**
- purchase	0	22 122	17 917	12 933	8 647	40 980	102 599
- transfer from fixed assets under construction	25	20 708	33 140	50	10 621	0	64 544
- impairment charges	0	0	0	0	0	16 013	16 013
- other	1	803	1 128	0	1 191	11	3 134
c) reductions (on account of)	**112**	**34 505**	**40 971**	**6 937**	**26 106**	**67 024**	**175 655**
- sale	99	19 344	8 087	6 327	20 865	63	54 785
- liquidation	3	1 805	19 415	43	4 132	0	25 398
- settlement of fixed assets under construction	0	0	0	0	0	64 554	64 554
- transfer of amortization **	0	2 454	11 414	0	1 033	0	14 901
- other	10	10 902*	2 055	567	76	2 407	16 017
d) gross value of property, plant and equipment at the end of the period	**1 970**	**400 139**	**295 667**	**44 773**	**108 642**	**29 204**	**880 395**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**169 685**	**232 082**	**13 551**	**83 118**	**0**	**498 436**
f) depreciation over the period (on account of)	**0**	**2 419**	**-20 242**	**447**	**-14 235**	**0**	**-31 611**
- current write-off (P&L)	0	23 519	20 344	6 490	11 924	0	62 277
- reductions on account of sale	0	-13 343	-7 769	-5 958	-19 528	0	-46 598
- reductions on account of liquidation	0	-1 460	-19 348	-6	-3 969	0	-24 783
- transfer of amortization**	0	-2 454	-11 414	0	-1 033	0	-14 901
- other	0	-3 843	-2 055	-79	-1 629	0	-7 606
g) cumulated depreciation (amortization) at the end of the period	**0**	**172 104**	**211 840**	**13 998**	**68 883**	**0**	**466 825**
h) impairment write-offs at the beginning of the period	**503**	**30 041**	**0**	**0**	**3 474**	**0**	**34 018**
- increase	0	0	0	0	738	0	738
- reduction	0	4 736	0	0	1 461	0	6 197
i) impairment write-offs at the end of the period	**503**	**25 305**	**0**	**0**	**2 751**	**0**	**28 559**
j) net value of property, plant and equipment at the end of the period	**1 467**	**202 730**	**83 827**	**30 775**	**37 008**	**29 204**	**385 011**

* The „other reductions" item largely consists of the writing off of the outlays on the demolition and removal of assets (recognized in 2007) resulting from moving the Bank's head office in 2008.
** As part of adjusting accounting to the IFRS requirements the Bank adjusted the initial value of part of purchased fixed assets to the net value.

(22) *INTANGIBLE ASSETS*

22a. Intangible assets

	31.12.2009	31.12.2008
- concessions, patents, licenses, know how and similar assets, including:	22 816	21 837
- computer software	22 816	21 837
- advances for intangible assets	5	0
Total intangible assets	**22 821**	**21 837**

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

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

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

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	**25**	**405 517**	**195 397**	**4**	**5**	**405 551**
b) increases (on account of)	**0**	**11 833**	**11 833**	**0**	**305**	**12 138**
- purchase	0	2 300	2 300	0	142	2 442
- transfer from investments and advances	0	321	321	0	0	321
- expenditures on intangible assets	0	3 370	3 370	0	0	3 370
- other	0	5 842	5 842	0	163	6 005
c) reductions (on account of)	**2**	**13 624**	**13 624**	**0**	**310**	**13 936**
- sale	0	0	0	0	0	0
- liquidation	0	13 599	13 599	0	0	13 599
- other	2	25	25	0	310	337
d) gross value of intangible assets at the end of the period	**23**	**403 726**	**193 606**	**4**	**0**	**403 753**
e) cumulated depreciation (amortization) at the beginning of the period	**25**	**387 360**	**177 240**	**4**	**0**	**387 389**
f) depreciation over the period (on account of)	**-2**	**-5 470**	**-5 470**	**0**	**0**	**-5 473**
- current write-off (P&L)	0	8 150	8 151	0	0	8 150
- liquidation	0	-13 599	-13 599	0	0	-13 599
- other	-2	-21	-22	0	0	-24
g) cumulated depreciation (amortization) at the end of the period	**23**	**381 890**	**171 770**	**4**	**0**	**381 916**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
i) impairment write-offs at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**
j) net value of intangible assets at the end of the period	**0**	**21 837**	**21 837**	**0**	**0**	**21 837**

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

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

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

23b. Change of balance of non current assets held for sale in the period 01.01.2008 - 31.12.2008

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	350	1 911	240	148	0	2 649
b) impairment write-offs at the beginning of the period	-349	-482	-240	-6	0	-1 077
c) net value of non current assets held for sale at the beginning of the period	**0**	**1 429**	**0**	**142**	**0**	**1 571**
d) change of value in the period, including:	**-126**	**-948**	**162**	**0**	**0**	**-912**
- sale of non current assets held for sale	-111	-847	-38	0	0	-996
e) value at the end of the period	**224**	**963**	**402**	**148**	**0**	**1 737**
f) change of impairment write-offs in the period, including:	**282**	**331**	**-162**	**0**	**0**	**451**
- sale of non current assets held for sale	64	450	22	0	0	536
g) impairment write-offs at the end of the period	**-67**	**-151**	**-402**	**-6**	**0**	**-626**
h) net value of non current assets held for sale at the end of the period	**156**	**812**	**0**	**142**	**0**	**1 111**

(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	52 402	-58 349	-5 947	23 372	-75 338	-51 966
Balance sheet valuation of financial instruments	176 595	-146 476	30 119	555 120	-514 175	40 945
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	76 249	-83 675	-7 426	70 290	-106 162	-35 872
Interest and discount on loans and receivables	178	-20 958	-20 780	1 651	-26 992	-25 341
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	8 572	0	8 572	18 617	0	18 617
Provisions for future costs	4 978	0	4 978	6 661	0	6 661
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	0	-2 627	-2 627	0	-9 439	-9 439
Tax loss deductible in the future	11 318	0	11 318	10 512	0	10 512
Other	9 531	-6 483	3 048	24 077	-7 989	16 088
Net deferred income tax asset	**580 696**	**-440 371**	**140 325**	**1 014 005**	**-962 752**	**51 253**

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

* - On the basis of individual interpretation of 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	45 822	-97 788		-51 966
Balance sheet valuation of financial instruments	-29 266	70 211		40 945
Unrealised receivables/ liabilities on account of derivatives	20 127	-12 896		7 231
Interest on deposits and securities to be paid/ received	-59 221	23 349		-35 872
Interest and discount on loans and receivables	-23 218	-2 123		-25 341
Income and cost settled at effective interest rate	-12 770	-5 513		-18 283
Provisions for loans presented as temporary differences	78 391	13 709		92 100
Employee benefits	18 796	-179		18 617
Provisions for future costs	5 926	735		6 661
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	643		-10 082	-9 439
Tax loss deductible in the future	15 614	-5 102		10 512
Other	12 763	3 325		16 088
Total	**73 609**	**-12 276**	**-10 082**	**51 253**

24d. Change of deferred income tax

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Difference between tax and balance sheet depreciation	46 019	-97 788
Balance sheet valuation of financial instruments	-10 826	70 211
Unrealised receivables/ liabilities on account of derivatives	-19 877	-12 896
Interest on deposits and securities to be paid/ received	28 446	23 349
Interest and discount on loans and receivables	4 561	-2 123
Income and cost settled at effective interest rate	11 464	-5 513
Provisions for loans presented as temporary differences	46 435	13 709
Employee benefits	-10 045	-179
Provisions for future costs	-1 683	735
Tax loss deductible in the future	806	-5 102
Other	7 582	3 325
Change of deferred income tax recognized in financial result	**102 882**	**-12 276**
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**

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

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

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

	31.12.2009	31.12.2008
Net deferred income tax assets	140 325	51 253
Net deferred income tax provision	-	-
TOTAL	**140 325**	**51 253**

(25) OTHER ASSETS

25. Other assets

	31.12.2009	31.12.2008
Expenses to be settled	34 665	42 660
Income to be received	5 829	3 145
Interbank settlement accounts	24	525
Settlement accounts for financial instruments transactions	12 099	10 482
Receivables from sundry debtors	57 697	48 901
Settlements with the State Treasury, including:	22 929	34 850
- receivables from Tax Office resulting from the article 38a of the CIT Act	0	9 022
- receivables from adjustment in VAT settlements	12 690	0
Perpetual usufruct right to land	0	5 155
Settlement accounts for activities of Millennium Dom Maklerski S.A.	72 098	56 247
Other	5 814	4 561
Total other assets (gross)	**211 155**	**206 526**
Provisions	-11 204	-11 176
Total other assets (net)	**199 951**	**195 350**

(26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2009	31.12.2008
In current account	45 670	70 571
Term deposits	2 221 768	35 482
Loans and advances received	2 625 839	2 937 280
Interest	16 093	17 217
Total	**4 909 370**	**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 as of 31 December 2009 there were several money market transactions outstanding, concluded by the Treasury Department of the Bank and Banco Comercial Portugues S.A., comprising short-term deposits, accepted from Banco Comercial Portugues S.A. on the basis of standards and procedures of the interbank money market. The total notional amount of the above deposit transactions was EUR 500 million as of the said date.

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	988 904	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	**4 909 370**	**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	505 897	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	**4 909 370**	**3 060 550**

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

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

	31.12.2009	31.12.2008
Negative valuation of derivatives	582 002	4 372 276
Short sale of securities	100 201	27 222
Financial liabilities valued at fair value through profit and loss	**682 203**	**4 399 498**

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

(28) HEDGE DERIVATIVES

Respective information can be found in note ***(17) HEDGE DERIVATIVES***

(29) DEPOSITS FROM CUSTOMERS

29a. Deposits from customers by type structure

	31.12.2009	31.12.2008
Amounts due to private individuals	**19 583 888**	**19 238 111**
Balances on current accounts	5 442 404	2 918 109
Term deposits	13 673 853	15 931 154
Other	125 565	155 430
Accrued interest	342 066	233 418
Amounts due to companies	**9 841 049**	**10 733 056**
Balances on current accounts	2 384 458	2 499 182
Term deposits	7 196 292	7 742 361
Other	224 316	377 928
Accrued interest	35 983	113 585
Amounts due to public sector	**2 133 727**	**1 731 112**
Balances on current accounts	954 505	1 054 587
Term deposits	1 161 374	662 581
Other	14 923	10 951
Accrued interest	2 925	2 993
Total	**31 558 664**	**31 702 279**

29b. Deposits from customers by maturity

	31.12.2009	31.12.2008
Current accounts	8 781 367	6 336 162
- to 1 month	10 613 734	10 386 329
- above 1 month to 3 months	6 301 080	6 115 505
- above 3 months to 1 year	5 435 236	8 116 595
- above 1 year to 5 years	46 115	397 687
- above 5 years	158	5
Interest	380 974	349 996
Total	**31 558 664**	**31 702 279**

29c. Deposits from customers by currency

	31.12.2009	31.12.2008
in Polish currency	29 840 293	29 439 618
in foreign currencies (after conversion to PLN)	1 718 371	2 262 661
- currency: USD	601 852	927 095
- currency: EUR	1 028 247	1 239 761
- currency: GBP	68 934	78 132
- currency: CHF	16 185	14 271
- other currencies (PLN ‘000)	3 153	3 402
Total	**31 558 664**	**31 702 279**

(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	750 196	336 360
d) interest	4 412	5 988
Total	**2 342 684**	**1 502 062**

(31) LIABILITIES FROM DEBT SECURITIES

31a. Debt securities

	31.12.2009	31.12.2008
Outstanding bonds and bills	1 024 335	917 094
Interest	0	0
Total	**1 024 335**	**917 094**

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	761 078	802 569
Interest	791	1 318
Total	**1 024 335**	**917 094**

31c. Change of debt securities

	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Balance at the beginning of the period	917 094	851 474
Increases, on account of:	184 655	227 018
- issue of bonds in leasing portfolio securitization transaction	0	85 451
- issue of bonds by the Bank	183 864	136 509
- interest accrual	791	5 058
Reductions, on account of:	-77 414	-161 398
- repurchase of bonds in leasing portfolio securitization transaction	-42 809	0
- repurchase of short term bonds by subsidiary	0	-138 096
- repurchase of bonds by the Bank	-34 605	-23 302
Balance at the end of the period	**1 024 335**	**917 094**

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	-

* In the case of bonds issue by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date.

Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	306 127	4.02%	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	420 413	4.02%	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	35 329	5.91%	20.12.2016	-

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	-

* In the case of bonds issue by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date.

Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	347 870	5.87%	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	420 667	5.87%	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	35 350	7.76%	20.12.2016	-

(32) PROVISIONS

32a. Provisions

	31.12.2009	31.12.2008
Provision for off-balance sheet commitments	18 383	16 433
Provision for contentious claims	6 194	17 448
Total	**24 577**	**33 881**

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
Sale of receivables	0	-120
FX rates differences	-230	211
Balance at the end of the period	**18 383**	**16 433**
Provision for contentious claims		
Balance at the beginning of the period	17 448	22 309
Charge of provision	2 850	2 383
Release of provision	-13 746	-1 592
Utilisation of provision	-358	-5 752
Other	0	100
Balance at the end of the period	**6 194**	**17 448**

(33) PROVISION FOR DEFERRED INCOME TAX

	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	**467 986**	**500 941**
Accrued costs - bonuses, salaries	31 953	81 719
Accrued costs - other	50 024	91 181
Interbanking settlement accounts	75 299	100 453
Financial instruments transactions settlement accounts	0	0
Other creditors	108 098	95 090
Liabilities to public sector	32 659	13 587
Deferred income	40 812	24 729
Provisions for unused employee holiday	6 750	10 664
Settlement accounts for activities of Millennium Dom Maklerski S.A.	66 313	48 523
Other	56 077	34 995
Long-term	**45 981**	**31 870**
Provisions for retirement benefits	6 448	6 210
Deferred income	14 486	1 285
Other	25 047	24 375
Total	**513 967**	**532 813**

34b. 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	**10 664**	**14 530**
Charge of provisions/ reversal of provisions	-2 967	-1 530
Utilisation of provisions/ reclassification of provision	-947	-2 337
Balance at the end of the period	**6 750**	**10 664**

34c. 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	**6 210**	**6 143**
Charge of provisions/ reversal of provisions	685	407
Utilisation of provisions/ reclassification of provision	-446	-341
Balance at the end of the period	**6 448**	**6 210**

(35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2009	31.12.2008
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	230 000	230 000
Value of the liability in PLN	944 886	959 652
Interest rate	EUR 80 million – 2.872% EUR 150 million – 2.497%	EUR 80 million – 4.966% EUR 150 million – 4.702%
Maturity	EUR 80 million - 12.12.2011 EUR 150 million - 20.12.2017	EUR 80 million - 12.12.2011 EUR 150 million -20.12.2017
Interest	909	1 768
Balance sheet value of subordinated debt	**945 795**	**961 420**

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**

During 2009 and 2008 the Group did not have any delays in the payment of principal and interest instalments, nor it infringed any contractual provisions resulting from its subordinated liabilities.

(36) SHAREHOLDERS' EQUITY

36a. SHARE CAPITAL

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

SHARE CAPITAL Par value of one share = 1 PLN

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

In the reporting period no registered shares were converted into the bearer shares. As 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 acquisition by investors of 100% of L-series shares is reported in Chapter XXI. "Important events between the date, as of which the financial report was made and the date of its publication" of this report.

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

Shareholders as at 31.12.2009

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

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

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

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

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

36b. REVALUATION RESERVE

Revaluation reserve arises on the recognition of:

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

Revaluation reserve

	31.12.2009	**31.12.2008**
Effect of valuation (gross)	13 826	49 679
Deferred income tax	-2 627	-9 438
Net effect of valuation	**11 199**	**40 241**

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

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

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	**224 439**	**100 736**	**88 366**	**788 242**	**1 201 783**
- appropriation of profit, including:	287 494	1 232	0	-450 071	**-161 345**
- dividend payment	0	0	0	-161 345	**-161 345**
- transfer to supplementary capital	287 494	0	0	-287 494	**0**
- transfer to reserve capital	0	1 232	0	-1 232	**0**
- other appropriation of profit (increase in social benefits fund of subordinated entity)	0	0	0	-96	**-96**
- reclassification of consolidation adjustment	0	0	0	-634	-634
- net profit/ (loss) of the period	0	0	0	413 409	**413 409**
Retained earnings at the end of the period 31.12.2008	**511 933**	**101 968**	**88 366**	**750 850**	**1 453 117**

IX. 2008 AND 2009 DIVIDEND

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.

X. FAIR VALUE

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

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

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

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

Receivables and liabilities with respect to banks (structured contract)

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

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

Other receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

With respect to floating rate leasing products fair value was assessed by adjusting balance-sheet value with discounted cash flows resulting from difference of spreads

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

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

Liabilities to customers

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

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

Subordinated liabilities

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

The table below presents results of the above-described analyses as at 31.12.2009 (data in PLN thousand):

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

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

* The 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 data as at 31 December 2008 (data in PLN thousand):

ASSETS	**Note**	**Balance sheet value**	**Fair value**
Loans and advances to banks	15	1 580 027	1 656 557
Loans and advances to customers	18	33 748 166	33 486 155

LIABILITIES	**Note**	**Balance sheet value**	**Fair value**
Amounts due to banks	26	3 060 550	3 164 947
Amounts due to customers	29	31 702 279	31 714 266
Debt securities	31	917 094	922 777
Subordinated debt	35	961 420	964 101

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

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

Data in '000PLN, 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			1 332 401	1 472 885
- debt securities		3 070 448	401 360	
- shares and interests		428		
-fund units		2 410		
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		1 857
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives			4 399 498	
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 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:

Data in '000 PLN

	FX options	Debt securities (municipal bonds)	Shares and interests
Balance on 1 January 2009	1 472 885	22 986	1 857
Settlement/repurchase/sale	-1 362 185	-7 694	-180
Change of valuation recognized in P&L account (in case of FX options for contracts active as at 31.12.2009)	-33 383	-72	-22
Purchase	0	5 028	0
Balance on 31 December 2009	77 317	20 248	1 655

XI. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

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

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

As at 31 December 2008 following assets of the Bank constituted security of liabilities:

In '000 PLN

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0109	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**	**1 305 950**

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

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

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

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

As at 31 December 2008 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bills	available for sale	202 000	200 966
Treasury bonds	available for sale	527 538	541 993
Treasury bills	trading	14 920	14 637
Treasury bonds	trading	866 550	854 419
TOTAL		**1 611 008**	**1 612 015**

XIII. ADDITIONAL EXPLANATIONS TO THE CASH FLOW STATEMENT

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

Data in '000 PLN

	31.12.2009	31.12.2008
Cash and balances with the Central Bank	2 191 227	1 802 594
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	**4 128 607**	**2 939 685**

(*) Financial assets with maturity below three months

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

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

"Other items" of operating cash flows in 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.

XIV. 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 DPO acquired 1 new TFI and 8 new corporate customers.

XV. TRANSACTIONS WITH RELATED ENTITIES

(1) Description of the transactions with linked entities

All and any transactions between entities of the Group in 2009 resulted from the current operations. Below you may find the most important amounts – eliminated in the data consolidation process – of intra-group transactions concluded between the following entities:

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

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

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

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

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

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	305 514	100 333
Loans and advances to customers	2 554 155	
Receivables from securities bought with sell-back clause	4 291	
Investments in associates	240 388	
Investment financial assets	15 725	
Financial assets valued at fair value through profit and loss (held for trading)	15 628	2 774
Other assets	88 018	
LIABILITIES		
Deposits from banks	2 547 832	3 375
Deposits from customers	1 141 325	
Liabilities from securities sold with buy-back clause	4 291	
Debt securities	-803 887	
Financial liabilities valued at fair value through profit and loss (held for trading)	14 420	932
Other liabilities	111 401	5
- including liabilities from financial leasing contracts	21 455	

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

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

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	127 347	2 951
Commissions	75 028	0
Derivatives net	0	634
Dividends	208 806	0
Other net operating income	76 702	0
Expense from:		
Interest	130 721	320
Commissions	73 501	0
Derivatives net	1 661	0
General and administrative expenses	74 455	-3 721

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 the value of prepayments, loans, advances and guarantees granted

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

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

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

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

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

Outstanding loans granted to staff from Company Social Benefits Fund:

- In the Bank - 4 666,7 (PLN ths.)
- In Millennium Leasing - 1 404,5 (PLN ths.)

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

Information on total exposure towards the managing and supervising persons as at 31.12.2008:

	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	-	-

Information on total exposure towards companies and groups personally related as at 31.12.2008:

Entity	Amount (PLN’000)	Relation
Company No 1	7 858	Personal with a supervising person
Group No 1	117 675	Personal with a supervising person
Group No 2	11 717	Personal with a supervising person

Outstanding loans granted to staff from Company Social Benefits Fund:

- In the Bank - 5 434,9 (PLN ths.)
- In Millennium Leasing - 1 308,2 (PLN ths.)

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

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

Period	Short term salaries and bonuses	Benefits	TOTAL
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, the Members of the Bank's Management Board did not receive remuneration for performing their functions in subsidiaries

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

Period	Short term salaries and benefits
2009	**1 827,9**
2008	**2 074,4**

In 2009, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

(4) Bank's shares held by the persons managing and supervising the Bank (in office as at 31 December 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	0
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	Członek Rady	0	0
Dariusz Rosati	Członek Rady	0	0

XVI. 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 Group.

Risk management is premised on the principle that the strict segregation of duties between risk origination, management and control must be ensured. Risk management in the Group aims to ensure that all types of risks are monitored and controlled with reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system.

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

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

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

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

(1) Capital Management

Regulatory Own Funds

The management of the Group's capital, in addition to complying with own needs must fully observe statutory regulations in this regard (own funds, prudential standards, capital requirements) as set by the Banking Act and respective resolutions of the Polish Financial Supervisory Authority.
The Group meets the minimum required level of capital adequacy as of the reporting day.
The capital position measured by the CAR improved in 2009 (increase by 109 b.p.).
The Group'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 Group'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 Group performs its process of internal capital adequacy assessment based on model of economic capital.
The calculation of economic capital covers all the material risk types to which the Group is exposed to and is based on the set of parameters adjusted to the specifics and realities of the Polish market.
In the process of internal capital calculation particular types of risk and risk-diversification effect are subject to stress testing. Total diversified economic capital is compared then with the risk-taking capacity, i.e. with own funds/available financial resources. As a result of that analysis, internal economic capital adequacy is assessed. In 2009 total risk of the Group (internal capital) was completely secured by available to this task funds. Internal capital is divided into particular business areas.

(2) Credit risk

The credit risk is one of the most important risk type for the Group and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures (i.e., granted credit and loans) as well as off-balance sheet financial instruments, such as granted and unutilized credit lines, guarantees and letters of credit.
The Group uses several scoring and rating systems to manage credit risk depending on the type of exposure and the customer segment involved. A scoring and rating system is a set of methods (models), processes, controls, data collection procedures and IT systems that identify and measure credit risk, sort levels of exposure by grades or pools (rating), and quantify probability of default and expected loss estimates for specific types of exposure.

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances
Measurement of credit risk, on the level of individual customers, on account of granted loans is done with the consideration of three parameters:
(i) Probability of Default (PD) of a customer or counterparty as regards their liability;
(ii) amount of Exposure At Default (EAD) and
(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

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

The Group's internal rating scale

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

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

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

Debt Securities

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

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

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

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

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

Collateral

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

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

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

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

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

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

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

Derivatives

The Group maintains strict control over the limits of net open derivative positions, both with respect to amounts and transaction maturities. Credit risk exposures resulting from derivatives are managed as part of total credit limits defined for individual customers. The Group has updated its procedures and reviewed documentation relating with derivatives accordingly to Banking Supervisory requirements.

The Group offers Treasury products for hedging the FX risk under Treasury limits assigned to clients. The product portfolio covers among others:

- FX Spot,
- Forward,
- FX Swap transactions.

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

Credit risk-based off-balance sheet liabilities

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

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

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

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

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

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

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

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.

Individual impairment analysis for credit receivables

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

The whole process comprises following stages:

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

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

Internal rating of the Group

	31.12.2009		31.12.2008	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	36,94%	1,49%	33,51%	4,63%
3. Medium quality	32,19%	8,28%	38,62%	12,34%
4. Low quality	14,66%	11,70%	11,59%	14,32%
5. Watched	2,80%	8,18%	1,92%	7,27%
6. Default	5,46%	65,29%	2,88%	46,50%
7. Clients without rating*	7,94%	5,05%	11,48%	14,94%
Total	**100,00%**	**100,00%**	**100,00%**	**100,00%**

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

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

PLN '000

	Maximum exposure	
	31.12.2009	**31.12.2008**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**41 597 152**	**44 588 799**
Loans and advances to banks	**695 697**	**1 580 027**
Loans and advances to customers:	**33 484 935**	**33 748 166**
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	**8 172 954**	**8 951 092**
Loans to public entities	**502 302**	**168 542**
Trading securities:	**2 321 284**	**3 474 646**
– Debt securities	2 320 318	3 471 808
– Shares	966	2 838
Derivatives	**710 797**	**2 805 286**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**4 175 658**	**2 919 392**
– Debt securities	4 150 278	2 901 702
– Shares	25 380	17 690
Receivables from securities bought with sell-back clause	**208 781**	**61 282**
Credit risk connected with off-balance sheet items appears as follows:	**7 134 510**	**8 245 876**
Financial guarantees	1 486 766	1 666 241
Credit commitments and other commitments connected with loans	5 647 744	6 579 635

The table above presents the structure of the Group'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	30 785 445	695 697	31 067 488	1 580 027
Overdue, but without impairment	1 773 146	0	2 266 328	0
With impairment	2 032 835	0	1 163 428	0
Gross	**34 591 426**	**695 697**	**34 497 244**	**1 580 027**
Impairment write-offs together with IBNR	-1 106 491	0	-749 078	0
Net	**33 484 935**	**695 697**	**33 748 166**	**1 580 027**
Loans with impairment / total loans	5,88 %		3,37 %	

Loans and advances not past due and not impaired

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

Loans and advances not overdue and without impairment

Gross exposure in '000 PLN

	Customers 31.12.2009	**Banks 31.12.2009**	**Customers 31.12.2008**	**Banks 31.12.2008**
Rating:				
1. Highest quality	308	695 697	295	1 580 027
2. Good quality	12 727 569		11 423 571	
3. Medium quality	10 768 440		12 754 787	
4. Low quality	4 367 124		3 226 591	
5. Watched	323 820		256 935	
6. Default	195 609		235 720	
7. Clients without rating	2 402 573		3 169 589	
Total	**30 785 445**	**695 697**	**31 067 488**	**1 580 027**

Loans and advances past due but without impairment

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

Gross exposure in '000 PLN

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

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	617 653	1 258 856	160 969	0	2 037 478
Delay 30 - 60 days	111 713	78 855	26 936	0	217 504
Delay 60-90 days	2 260	1563	4 707	0	8 530
Delay above 90 days*	1 833	0	983	0	2 816
Total	**733 459**	**1 339 274**	**193 595**	**0**	**2 266 328**

* - 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	1 396 926	6 419	207	0	1 403 552
Collective analysis	157 445	144 197	327 641	0	629 283
Total	**1 554 371**	**150 616**	**327 848**	**0**	**2 032 835**

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	826 354	7 938	178	0	834 470
Collective analysis	100 753	64 414	163 791	0	328 958
Total	**927 107**	**72 352**	**163 969**	**0**	**1 163 428**

Loans and advances covered by case-by-case analysis

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

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

- By products

Gross exposure

Loans and advances to customers

	31.12.2009			31.12.2008		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
Investment loans	332 554	23,7%	34,6%	316 091	37,9%	44,8%
Working capital loans	133 358	9,5%	19,4%	31 211	3,7%	49,7%
Current account loans	156 917	11,2%	36,4%	94 672	11,3%	28,0%
Revolving loans	1 587	0,1%	62,9%	5 246	0,6%	43,3%
Mortgage loans	6 419	0,5%	21,3%	7 938	1,0%	45,7%
Factoring	21 560	1,5%	37,0%	20 554	2,5%	25,5%
Leasing	420 578	30,0%	20,9%	280 288	33,6%	22,0%
Other*	330 579	23,6%	56,2%	78 470	9,4%	10,7%
	1 403 552	**100,0%**	**34,4%**	**834 470**	**100,0%**	**31,7%**

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

- By currency

Gross exposure

Loans and advances to customers

	31.12.2009			31.12.2008		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	857 629	61,1%	38,6%	355 181	42,6%	24,8%
CHF	79 940	5,7%	22,8%	79 099	9,5%	19,8%
EUR	146 488	10,4%	14,3%	78 857	9,4%	17,0%
USD	267 730	19,1%	36,5%	289 847	34,7%	47,6%
JPY	51 765	3,7%	26,3%	31 486	3,8%	30,85%
	1 403 552	**100,0%**	**34,4%**	**834 470**	**100,0%**	**31,7%**

- 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 %
Up to 20%	578 838	41,2%	333 488	40,0%
20% - 40%	348 643	24,8%	112 077	13,4%
40% - 60%	225 315	16,1%	330 322	39,6%
60% - 80%	90 257	6,4%	21 383	2,5%
Above 80%	160 499	11,4%	37 200	4,5%
	1 403 552	**100,0%**	**834 470**	**100,0%**

Restructured loans and advances

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

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

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

Collection of loans granted to retail customers is fully centralized, managed in one organizational unit which covers all of the activity connected with the collection of the receivables, i.e. monitoring of the portfolio, early restructuring as well as the late restructuring and vindication phases. The organization is supported by a specialized IT system to monitor automatically the complete portfolio of customers in either the monitoring or soft collection phases, as well as supporting activity in late collection phase treated as a restructuring and vindication. As an integral part of the system, a behavioral scoring model, is used in connection with the determination and management of all collection activity from retail customers as compared to all customer segments. This model bases its calculations on, among other things, the amount of the total commitment of the Group with respect to a given customer, business segment of the customer, type of the product covered by the credit risk (including especially mortgage products) and the history of cooperation with the customer in connection with previous restructuring and vindication occurrences.Receivables from customers are included into this system not later than on the 4th day from the date when the receivable became due and payable.

Corporate receivables included in the restructuring and recovery portfolio are managed by the Corporate Recovery Department and the restructuring and recovery of corporate receivables is aimed at undertaking effective steps with respect to customers, their receivables and collateral aimed at maximizing recovery as quickly as possible in order to limit the risks borne by the Group.

To manage the process of restructuring and recovery of corporate receivables portfolio, the Group uses applications supporting decision-making process which quickly provide essential information about the receivables, collateral, implemented approach, as well as key activities and deadlines.

As of 31.12.2009 the amount of the loans without impairment (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. Meanwhile in Millennium Leasing as of 31.12.2009 the amount of receivables without impairment, which were subject to restructuring in 2009 was PLN 146.1 million.

A significant part of the revaluation charges created in September 2009 resulted from the Group'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 Group 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. In case of leasing (Millennium Leasing / Millennium Lease) in 2009 PLN 70.2 million of impairment provisions were created (out of which PLN 16.5 million in September) mainly due to update of risk parameters.

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

Gross exposure in '000 PLN

	31.12.2009	31.12.2008
Loans and advances to private individuals	219 641	142 750
Loans and advances to companies	800 489	510 464
Total	**1 020 130**	**653 214**

Bank execution titles

In 2009 with respect to receivables from businesses (corporate), 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 Bank Execution Titles concerning surrender of movables (inventory pledged to the Bank under an ownership transfer agreement to secure the Bank's receivables on account of the loan granted pursuant to the PLN 2,0 million revolving credit agreement) Total value of the pledge property: 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 Group's portfolio as at 31 December 2009.

Gross exposure in '000 PLN

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

The table below presents the structure of securities in the Group'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	31 265	**137 829**
- listed	0	15 760	11 439	**27 199**
- not listed	0	90 804	19 826	**110 630**
Total	**3 471 807**	**2 901 702**	**31 329**	**6 404 838**

(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 under the Bank's supervision and with the allocation of part of the proceeds for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (as part of selling organized parts of the debtor's whole enterprise).

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

(2H) POLICY FOR WRITING OFF RECEIVABLES

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

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

- 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 Group's total credit exposure broken down into components, according to category of customers.

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

31.12.2008	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 580 027	0	0	0	0	0	0	0	**1 580 027**
Loans and advances to customers	62 563	2 560 635	1 813 575	1 666 201	170 521	22 289 147	2 662 872	3 271 731	**34 497 245**
Trading securities	2 509	193	72	26	3 471 807	0	0	39	**3 474 646**
Derivatives	1 280 698	587 456	139 892	32 434	0	0	0	764 806	**2 805 286**
Investment securities	194 370	4	8 347	41	2 650 941	0	0	76 785	**2 930 488**
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	**3 181 449**	**3 148 288**	**1 961 886**	**1 698 702**	**6 293 269**	**22 289 147**	**2 662 872**	**4 113 362**	**45 348 974**

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

(3) Market Risk

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

Market-risk evaluation measures

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

Calculation of the VaR in the Trading Book is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics company. It is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). Calculating the volatility associated with each risk vertex the model gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions. The 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 VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.

Back testing is a standard technique used to evaluate the quality of the risk measurement model, performed according to the following rules:

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

All reported excesses are documented. This includes an explanation of their causes and their incorporation in one of the three classes of excess explanation: 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 risk with the use of the VaR model (non-linear instruments), other risk ratios were defined, such as Gamma, Vega and Theta.

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

- o Estimate the potential economic loss resulting from extreme variations 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 being applied in the stress test analysis: i) Parallel shifts of the yield curves; ii) More steep or flat shape of the yield curves; iii) Variations of interest rate volatility; iv) Variations of the exchange rates; v) Variations of swap spreads; vi) Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows the trading areas to have on-line access to the values at risk in their respective portfolios.
VaR is used as a measure in assessing the risks incurred by the trading positions, including the positions decided by the Market Risk Strategy Meetings (Positioning Portfolios).

VaR ratios presented in the table below reflect joint exposures to market risk in the Trading Book and the Funding Risk Area (Financial Markets Activity) worth approx. 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 m 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	30188	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 the FX rate instruments. The FX Risk covers all the foreign exchange exposures of the Bank, as well as open positions allowed only in the Trading Portfolio.

The exposure to FX risk was connected with active FX risk management, through opening a currency position, in order to mitigate credit risk connected with transactions with clients. As a result the Bank accepted non-linear risk for such instruments, which resulted with excesses of VaR limits for Financial Markets Activity. The excesses have been ratified at the proper competence levels according to the internal rules and did not cause any economical 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 FX risk 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 the indicative limits for stress test results are twice as high as limits for daily management of market risk.
In case of the Banking Book, for the purpose of interest rate risk a sensitivity of non-trading portfolios analysis is carried out, while to mitigate it hedging strategies are applied. The Bank is performing monthly risk transfer from Commercial, as well as Structural Risk Areas of the Banking Book to the Areas, where the risk is being managed on the operational level (i.e. respectively ALM and Funding).

As a result of this analysis in 2009 additional interest rate hedges were concluded connected with the fixed rate loan portfolio, in particular with the portfolio of consumer loans and leasing portfolio. As at end of December 2009 the value of BPV for the Banking Book was approx. PLN 31 million.

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

BPV Banking Book	Period Average	Period Minimum	Period Maximum	The Last Day of Period
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 Group's ability to meet both current as well as future liabilities with consideration of cost of liquidity acquiring.
Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the needs for funding arising from the Group's obligations.

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

In 2009 the Bank concluded new loan transactions for the amount of EUR 300 million and stand-by facility with the mother company and repaid a medium-term loan of CHF 555 million. Moreover, during 2009 the Bank issued additional structured bonds (about PLN 140 million) impacting positively the level of long-term stable sources of funding.
The large, diversified and stable deposits base remains the main source of financing. In 2009 it was maintained at approx. PLN 30 billion thanks to an appealing offer and an effective marketing campaign, despite continuing deposit war in the market, however the stake of retail deposits dropped from 70.9% in the end of 2008 to 66.2% in the end of 2009.
Concentration of the deposits base, measured with the share of top 5 and 20 depositors, at the end of 2009 increased 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, Cross Currency Swaps and FX Swap transactions.

Liquidity risk evaluation measures

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

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

Current Liquidity indicators

PLN million

31.12.2009

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

31.12.2008

	Highly liquid assets	Immediate 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 immediate liquidity indicator was positive, whereas the quarterly indicator twice dropped below zero due to PLN depreciation in the first quarter of 2009 and in the fourth quarter due to repayment of CHF 555 million syndicated loan.

Additionally the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on real basis (i.e. assuming the probability of cash flow occurrence). The safe level adopted at the Bank for the ration of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets. In 2009 the methodology has been supplemented with the expected outflows connected with interest on rolled-over deposit base, which will be required for financing the assets portfolio till its maturity, so the structural 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 (among others taking into account a withdrawal of deposits and delays of loans repayment, along with a deteriorated liquidity of the secondary securities market, and with PLN 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	14 429	3 247	4 449	4 230	5 484	27 705
Adjusted balance liabilities	11 629	2 293	1 286	2 114	1 907	40 056
Balance-Sheet Gap	2 800	954	3 163	2 115	3 578	-12 351
Cumulative Balance-Sheet Gap	2 800	3 754	6 917	9 032	12 610	259
Adjusted off-balance assets	565	186	364	256	185	79
Adjusted off-balance liabilities	-676	-188	-202	-256	-523	-241
Off-Balance Sheet Gap	-111	-2	162	0	-338	-162
Total Gap	2 689	952	3 325	2 116	3 240	-12 513
Total Cumulative Gap	2 689	3 641	6 966	9 082	12 322	-191

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	16 202	2 150	3 136	2 855	4 752	28 032
Adjusted balance liabilities	11 530	3 452	100	1 534	60	27 740
Balance-Sheet Gap	4 672	-1 300	3 037	1 321	4 692	291
Cumulative Balance-Sheet Gap	4 672	-1 986	189	1 272	5 028	12 712
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	2 229	-1 536	2 606	1 202	4 224	251
Total Cumulative Gap	2 229	693	3 298	4 501	8 725	8 976

Liquid Assets Indicator	
Liquid Assets (PLN million)	9 036
Share of Liquid Assets in Total Assets	**19.2%**

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

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

In February and March 2009 the limits for short-term as well as long-term supervisory liquidity measures have been breached. It was connected with strong PLN depreciation, high FX rate volatility and methodological consequences of assumptions included in the KNF Resolution No 386/2008, which cause overestimation of volatile sources of funding and was not connected with 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 purpose of supervisory quantitative liquidity measures management the Bank has developed a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses.

(5) Operational Risk

The Group adopted the operational risk definition compliant with the New Capital Accord presented by the Basel Committee, 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 includes legal risk, but strategic risk or reputational risks are treated as separate risk categories.

In order to mitigate operational risk, the Group implemented a management system based on the best market practices. The framework of such system was codified in the general strategy of Millennium bcp and adjusted at the operational level to the specificity of the Polish market and the Group's activity profile.

As part of its adopted strategy the Group defined its risk appetite in the form of a risk tolerance matrix. The standard approach was adopted for the purpose of calculating the capital requirement for the Group's operational risk. The separate elements of operational risk management are regular controls conducted by the Internal Audit Department and regulations pertaining to on-going controls in processes.

The process of managing operational risk in the Group is based on the identification, assessment, monitoring, mitigating and reporting of risk. Each decision on taking operational risk mitigating steps is preceded by a cost-benefit analysis. Basing on the defined risk categorization the Group has conducted the risk self-assessment exercise for the vital processes.

The adopted structure of operational risk management defines particular management levels and scope of their responsibility and duties. The key element of the operational risk management in an on-going activity is the function of a process owner. Based on an in-depth knowledge of the process the process owner can identify and eliminate on-going threats the fastest. A higher management level is the Process and Operational Risk Committee. It addresses threats whose impact goes beyond a single process. Any activities relating to operational risk management are coordinated and supervised by the Risk Control Committee, the Management Board and Supervisory Board.

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

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

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

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	1 802 594	0	0	0	0		**1 802 594**
Loans and advances to banks	1 263 769	0	4	0	316 254		**1 580 027**
Trading debt securities	59 261	44 302	1 418 681	1 712 199	237 365		**3 471 808**
Trading derivatives	291 464	409 188	956 134	1 011 150	137 349		**2 805 286**
Hedging derivatives	0	0	25	9 952	0		**9 977**
Loans and advances to customers	2 917 672	586 969	3 071 489	7 885 182	19 286 854		**33 748 166**
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						20 528	**20 528**
Other non-financial assets						713 552	**713 552**
TOTAL	**7 006 445**	**1 199 986**	**6 039 782**	**12 155 402**	**19 979 227**	**734 080**	**47 114 922**

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	17 072 487	6 115 505	8 116 595	397 687	5		**31 702 279**
Trading derivatives	750 453	1 493 641	1 169 601	851 864	133 939		**4 399 498**
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	0	0	0		**1 502 062**
Debt securities	1 318	0	11 068	112 418	802 569		**927 373**
Subordinated debt	0	0	1 768	333 792	625 860		**961 420**
Other non-financial liabilities						567 208	**567 208**
Equity						2 814 883	2 814 883
TOTAL	**18 972 452**	**8 136 744**	**11 047 124**	**3 666 534**	**1 909 977**	**3 382 091**	**47 114 922**

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	**-11 966 007**	**-6 936 758**	**-5 007 342**	**8 488 868**	**18 069 250**	**-2 648 011**	**0**
Total Gap	**-18 224 576**	**-6 936 758**	**-5 007 342**	**8 488 868**	**18 069 250**	**-2 648 011**	**-6 258 569**

XVIII. CONDITIONAL LIABILITIES AND ASSETS

Total value of claims in the biggest court proceedings involving companies from the Group, either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31.12.2009 to PLN 452.7 million. Total value of claims in the biggest court proceedings, in which companies from the Group appeared as defendant was PLN 279.4 million, and the total value of claims in the biggest court proceedings, in which companies from the Group appeared as plaintiff was PLN 173.3 million.

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

1. **Plaintiff:** natural person

   Disputed value: PLN 5 108 036.

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

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

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

2. **Plaintiff:** legal person

   Disputed Value: PLN 31 049 160.

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

   Case status: 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.

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

   Disputed value: PLN 159 461 349

   Object: recognition as ineffective:

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

Description of the case: on 14.06.2006 the ruling of the District Court In Gdańsk dismissed the lawsuit in full, on 10.08.2006 the Plaintiff appealed. The Appellate Court in Gdansk on 23.03.2007 overruled the decision of the District Court and resubmitted the case to the Court of First Instance. Currently, the case is considered by the District Court in Gdańsk at the evidentiary stage. On 5 June 2008 the Court accepted evidence from an expert's opinion about the valuation of the real estate as of 25 October 2002 and specified a three-months time limit for exercising such an opinion. As at 31.12.2009 aforementioned opinion was not yet prepared.

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

Proceedings connected with financial futures/forwards

(description below refers to the bank as other Group's companies have not concluded such transactions)

As of 31 December 2009 the Bank was party to 31 lawsuits connected with futures/forwards, 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	**8 118 413**	**8 961 660**
1. Commitments granted:	7 134 510	8 245 876
a) financial	5 647 744	6 579 635
b) guarantee	1 486 766	1 666 241
2. Commitments received:	983 903	715 784
a) financial	480 398	23 532
b) guarantee	503 505	692 252

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

Subsidiary	**Amount in PLN million**
- 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

Liabilities granted - guarantee As at 31.12.2009	**Amount in PLN million**
Active Guarantees, sureties and avals	1 054,0
Sureties of loans granted from the The European Fund for the Development of Polish Villages	9,0
Open lines for guarantees and sureties	481,7
Total, gross	**1 544,7**
Impairment write offs	-4,8
Total, net	**1 539,9**

In the period from 01.01.2009 do 31.12.2009 the Bank as the Group's dominant entity granted 2,360 guarantees, sureties and avals totaling 883,933 thous. PLN.

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 and open guarantee lines) as of 31.12.2009 stood at 1,054,042 thous. PLN. (2,526 items of active guarantees) which means a drop of their value by PLN 155,803 thous. PLN i.e. o 12,88% compared to 31.12.2008.

The value of guarantees, sureties and avals issued in PLN fell by 126,074 thous. 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 thous. PLN, i.e. 21,91%.

The structure of liabilities under guarantees, sureties and avals divided by particular criteria are presented by the tables 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	12 758
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
RAZEM:	**2 526**	**100%**	**1 054 042**

XIX. SECURITISATION

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

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

Entities participating in financing of Orchis are the following:

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

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

XX. OPERATING LEASING

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

Balance as at:	**31.12.2009**	**31.12.2008**
- to 1 year	106 938	95 463
- above 1 year to 5 years	268 777	265 923
- above 5 years	120 002	141 542
TOTAL	**495 717**	**502 928**

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

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
1.03.2010	Bogusław Kott	Chairman of the Management Board	....
1.03.2010	Rui Manuel Teixeira	Deputy Chairman of the Management Board	....
1.03.2010	Fernando Bicho	Member of the Management Board	....
1.03.2010	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
1.03.2010	Wojciech Haase	Member of the Management Board	....
1.03.2010	Joao Bras Jorge	Member of the Management Board	....
1.03.2010	Artur Klimczak	Member of the Management Board	....