Management Board Report

on the activity of the Bank Millennium

Capital Group

for the 12 month period ended 31 December 2009

CONTENTS

LETTER FROM THE CHAIRMAN OF THE BANK'S MANAGEMENT BOARD

Dear Sirs,

It was twenty years in 2009 since Bank Millennium began operation. The world economic crisis, which strongly affected the circumstances, in which we operate, made it arguably the most difficult year in our entire history. But it was at the same time a year of great challenges, effective work and successes, which further strengthened the foundations of our development.

In 2006-2008 Bank Millennium was successfully implementing its growth strategy, significantly improving market share, with simultaneous increase of operational profitability. The dramatic changes of the business reality in the fourth quarter of 2008 – noticeable also throughout 2009 – which especially resulted in economic slowdown, limited sources of financing, decline of PLN value to main currencies as well as rapid increase of unemployment, forced us to rapidly adjust our business model to the new economic environment.

The "Millennium2010" programme, presented in February 2009 and containing a new operational strategy of the Bank for the years 2009-2010, was our response to the challenges of the new economic reality. The Bank focused on pro-active retail Customer relations based on its proprietary network of almost 500 branches, on expanding the product and service range as well as developing relations with SME Customers (Corporate Banking), at the same time simplifying its organisational structure and boosting efficiency of cost management coupled with implementation of a conservative risk management policy.

The effective implementation of the programme, which results were already clearly visible after the first 3 quarters of 2009, namely in what concerns the improvement of the commercial platform for corporate Customers, the implementation of new sales-oriented initiatives targeted at private Customers and the strong reduction of operating expenses, has - in the Bank's opinion – created the conditions for returning to the business growth track.

This mindset was expressed by the announcement after the end of Q3 2009 of the Bank's updated business targets for the period until 2012 as well as the capital increase plan to support these goals. The Bank believes that the increased pace of acquisition of new Customers, keeping solid relations with them and taking advantage of the potential in cross-selling, together with the effects of new initiatives aimed at improving revenues, the maintenance of an efficient cost control and effective risk management as well as the strict discipline in managing liquidity and capital, all supported by the high quality of staff, will make it one of the five largest universal banks in Poland. The Bank also intends to attain a level of profitability on a par with its peers.

This ambitious programme, together with the capital increase plan to support its implementation, has been accepted by the Bank's shareholders. The General Extraordinary Meeting in December 2009 approved the

Bank's capital increase programme by a rights issue. In result of a fast and professionally managed issue, which ended on 8 February 2010, investors acquired all the L-series shares available - 363.935.033 shares - exercising 99,4% of drawing rights. Millennium BCP, the Bank's main shareholder with a 65,5% stake, fully exercised its rights. The remaining, available for investors part of the issue, was almost four times oversubscribed.

The success of our rights issue, which proceeds exceeded PLN 1 billion, confirms that the investors – largely our current shareholders, are confident in the future growth of the Bank. Proceeds of the issue will be used to boost lending both to business as well as to retail customers and to carry out capital expenditure plans in 2010-2012, including these connected with the IT platform.

The year 2009, however tough and full of new experiences, demonstrated that Bank Millennium is poised for attainment of its targets also in an unstable crisis economy. The ability to adjust our operations to the market reality as well as the effective implementation of our programmes, including such difficult ones as cost reduction, show that the Bank is determined to carry out its plans and attain the identified objectives. The capital increase, which is the best proof that we continue to look into the future, will enable us in 2010 to be more active in business. We hope our efforts will be backed by the improvement of the overall economic situation, which will provide the opportunity for returning to growth mode both for us as well as for our Customers.

Respectfully,

Bogusław Kott
Chairman of the Management Board of Bank Millennium

I. MARKET CONDITIONS IN 2009 AND PROSPECTS FOR ACTIVITY

I.1. Macroeconomic environment

The pace of economic growth in Poland slowed down in 2009. Gross Domestic Product increased by 1.7 percent after growing by 5.0 percent in 2008. Polish economy was also affected by the global economic slowdown caused by the crisis in the financial markets but turned out to be more resistant than previously anticipated. Poland was the European leader of the economic growth and the only EU country that avoided recession. First signs of the economic slowdown in Poland were observed in the third quarter of 2008, when investment dynamics declined to 3.5 percent yoy following shrinking foreign demand. The real slowdown started at the turn of 2008 and 2009. The seasonally adjusted GDP declined on the quarterly basis only in the fourth quarter of 2008. The lowest annual growth of the GDP at the average prices of the previous year was observed in the first quarter of 2009, and was equal to 0.8 percent yoy. The GDP growth slowdown occurred to a greater extent in industry than in construction and market services, as the recession abroad affected Polish economy. Consequently, industry was the only sector of the economy that recorded annual decline in value added in 2009. However, green shoots of the recovery at the end of the year were at first observed in the industrial sector.

The sharp decline of gross capital formation was the main reason of the economic slowdown in 2009. This on the one hand was connected with the reduction of inventories that hit record highs during positive economic cycle. On the other hand was a result of a slump of enterprise investment, in particular in machinery, equipment and automotive vehicles. In the whole 2009 investment outlays fell by 0.3 percent, but the category was supported by public infrastructural investments.

The main engine of the economic growth, similarly to last year, was private consumption as well as net exports. Net exports added more that 2.5 percentage points to the GDP growth in 2009, although this was accompanied by the sharp decrease of both exports and imports volumes. Exports of goods and services driven by the economic slowdown in our main trade partners fell by 12.2 percent in real terms in the first three quarters of 2009. At the same time imports decreased much sharper, by 17.4 percent. The decline resulted from the weakening of the domestic demand, mainly investment one and from lower foreign demand as export-oriented manufacturing is import-consuming. As a result, external imbalances of the Polish economy decreased sharply. Current account deficit fell from 5.0 percent of GDP in 2008 to estimated 1.5 percent of GDP in 2009. The entire deficit was financed by the inflow of foreign direct investment, which is regarded as a stable source of financing. Moreover, since the beginning of 2009 short term foreign debt (the debt due within a year) was lower than official reserve assets held by the central bank.

During the economic slowdown in 2009 private consumption dynamics fell to 2.3 percent from 5.9 percent in 2008. Despite the decline, private consumption was one of the main pillars of the economic growth in 2009.

The worsening of labour market conditions at the beginning of the year raised concerns about the state of individual consumption. Monthly data pointed to unemployment growth, employment decline and the slowdown of wage dynamics. Registered unemployment rose to 11.9 percent in December 2009 from 9.5% in the corresponding period of 2008. Nominal increase of payrolls in the enterprise sector with more than 9 employees slowed down from 10 percent yoy at the end of 2008 to minus 0.5 percent yoy in October 2009. Monthly data does not give however the full picture of the labour market. The amount of compensations paid to the employees in the national economy, which includes also public sector, showed in 2009 positive dynamics. In 2009 social benefits, including retirement payments and pensions, showed solid growth and the income of entrepreneurs was growing at a surprisingly strong pace. Private consumption was also supported by the cuts of personal income tax rate and social contributions. We estimate that the slowdown in private consumption observed at the beginning of 2009 was not justified by the households' income but by worse sentiment. At the beginning of the year growing unemployment and uncertainty on the labour market affected negatively the consumer confidence. When it comes to consumption, second quarter of 2009 was the most severe with the dynamics of 1.7 percent yoy. In the third quarter consumption growth accelerated to 2.2 percent yoy and stayed at the similar level in the last three months of the year.

For the most of 2009 Polish Zloty appreciated against major world currencies: Euro and U.S. dollar, although the beginning of the year showed strong PLN depreciation on the back of global financial crisis escalation. Starting from the second quarter, as a result of global recovery and lower risk aversion, emerging markets currencies including Polish Zloty started to regain losses. Despite positive sentiment on the global markets, appreciation of the Polish currency in the second part of the year was much slower on the back of growing concerns about fiscal deficit. At the end of 2009 exchange rates EUR/PLN and USD/PLN were at the levels from January, 4.10 and 2.88 respectively.

Despite the economic slowdown, CPI inflation stayed during the whole year above the central bank target set at 2.5 percent. Mean annual inflation was equal to 3.5 percent and to the upper limit for deviations from the inflation target. The surge in administered prices and food prices at the beginning of the year were conductive to high inflation in 2009**.** The net inflation, excluding food and energy, was also at elevated level, and except for the first quarter was higher that the NBP target. The persistent relatively high core inflation means that the weakening demand has not fully offset the increase of administered prices and the exchange rate depreciation observed in the beginning of 2009.

At the beginning of 2009 Monetary Policy Council continued monetary easing that started in 2008. Reference rate was lowered from 5.00 percent in December 2008 to the record low level of 3.50 percent in June 2009 and was unchanged in the second half of the year. Fast pace of rate cuts was the consequence of the slump in the global economy that started to influence Polish economy. As a response to the turbulences on the financial market, Polish central bank introduced "Confidence Package" and „Pact for the Growth of Lending in Poland". As a response to limited access to sources of foreign exchange financing, NBP enabled commercial banks to conclude currency swap transactions, supplying them with foreign currency. Starting from October 2008, NBP conducted repo transactions that provided additional PLN liquidity. Until April 2009 the liquidity of the banking sector remained low, however from May on one could observe abundant liquidity, which resulted in the record high net open market operations of PLN 41 billion in October 2009.

State budget in 2009 remained very tight. In 2008, a year with relatively high growth, general government deficit surpassed 3.0 percent of the GDP and amounted to 3.6 percent. As a result of sharp reduction of revenues and growing expenses the deficit in 2009 was probably higher than 6.0 percent of the GDP. In 2009 one could observe attempts to push the deficit out of the state budget that resulted in the issuance of State Road Fund bonds and the increase of Social Security Fund debt. State budget for 2009 that assumed a deficit of PLN 18.2 billion was based on too optimistic macroeconomic assumptions. After the September amendment, planned deficit was equal to PLN 27.2 billion.

In 2009 safe forms of saving, such as bank deposits were still very popular among households. Limited growth of income and fears connected with the labour market increased the propensity to save. As a result,household deposits continued to growth at the stable pace and at the end of 2009 were equal to PLN 49 billion and were 14.8 percent higher than a year ago. Corporate deposits were falling in the first quarters of the year as a result of diminishing income and self-financing that stemmed from lower credit availability. However between September and December the value of corporate deposits increased by PLN 18 billion, which was connected with better financial standing and still low investment activity.

As a result of lower credit availability and limited demand from enterprises, the credit dynamics decelerated to 8.4 percent yoy in December 2009 from 36.3 percent yoy in the corresponding period of 2008. The decline of credit dynamics occurred to greater extent in enterprise sector than in household sector. Economic slowdown in 2009 caused also deterioration of the credit portfolio quality. The percentage of non performing loans, according to the NBP methodology, increased from 6.0 percent in December 2008 to 11.8 percent in December 2009 in the enterprise sector and from 3.5 percent to 5.4 percent in household sector.

In 2010 mild recovery is expected. Bank Millennium estimates that investment increased in the fourth quarter of 2009 and the upward tendency should also be observed in coming quarters. In 2010 investment outlays are expected to grow by 6.1% as a result of still high infrastructural investment activity and slow recovery of corporate investment. The financial standing of the enterprises is currently relatively good, but only the confidence about the sustainability of growth would incline them to solid fixed assets purchase. The restocking process caused by growing demand will also be a support to accumulation dynamics. Labour market conditions are not expected to worsen further. After the seasonal increase at the beginning of 2010, registered unemployment is expected to fall to 12.9 percent in December 2010. Stable labour market conditions are likely to support confidence and along with some real wage growth will be conductive to solid consumption growth of 3.2 percent in 2010. Expected economic growth of 3.5 percent implies negative output gap and thus should not cause inflation pressure. Inflation measured by the Consumer Price Index is expected to fall to the NBP target in the first half of the year. In order to avoid future inflation growth, MPC will probably start monetary policy tightening but not earlier than in the fourth quarter of 2010.

I.2. Strategy realization and development prospects

In the years 2006-2008 Bank Millennium Group was successfully implementing the growth strategy, which was combining a strong business development with an improvement of the profitability. However, market conditions have changed rapidly since the 4th quarter of 2008 and year 2009 was a very difficult one both for the entire Polish banking system and for Bank Millennium in particular. Significant economic slowdown, the increase of the unemployment rate, the limited availability of funding sources (apart from deposits and loans from strategic investor) and the depreciation of the zloty versus main currencies, especially strong in the 1st half of the year, were the main factors which affected the Bank's revenue base and, at the same time, led to an increase in the cost of risk.

Bank Millennium had to adjust rapidly its business model to the new environment. In a very short period of time, the Bank prepared and presented to the market in February 2009, a new strategy for the period 2009-2010 called "Millennium 2010" program. The time-horizon of the new strategy was relatively limited due to the high uncertainty resulting from the unprecedented level of turmoil in the financial markets. The main vectors of the Millennium 2010 strategy were: (i) to reinforce branch based banking in retail banking; (ii) to focus on SME in corporate banking; (iii) to achieve higher efficiency and tight cost management; and (iv) to enforce more conservative risk management.

Taking into consideration the negative impact on the Group's revenue base stemming directly or indirectly from the international financial crisis, namely caused by the higher cost of funding, the withdrawal from granting mortgage loans in foreign currency and the significant restrictions imposed to the sale of treasury products to customers, the Bank dedicated particular attention to the development and implementation of several initiatives aimed at optimizing core revenues, both in retail and corporate areas. The most important actions consisted in progressively reducing the interest paid on deposits, re-pricing the portfolio of corporate loans in accordance with the new market conditions and adjusting the price list of fees and commissions of the different products and services. Having in mind the liquidity driven restrictions and the higher cost of risk in the market, Bank Millennium decided to change its distribution model focusing mainly on the own branch network. Consequently, the Bank discontinued the external sales force dedicated to the sale of credit cards, downsized the mortgage direct sales channels network, which was later integrated in the retail network, and reduced the number of external brokers with whom the Bank was cooperating. It is also worth mentioning the reorganization made in the commercial banking area, which led to a significant simplification of its structure.

During the first quarter of 2009, the Bank was particularly involved in streamlining its organizational structure while adjusting it to the new strategy. These actions led to the merger of several departments, sub-units and teams, which resulted in the "de-layering" of the organization and in the increase of the span of control. In a context of significant revenue compression, the Bank set-up an ambitious target of cost reduction, which consisted in achieving savings of PLN 200 million up to the end of 2010 both in administrative and staff costs. Actually, the Bank was able to reach and even to overcome this target still in 2009, thus one year ahead of schedule.

In a context of high turmoil in the financial markets and increased level of uncertainty, risk management was a top priority for Bank Millennium in 2009. In what regards credit risk, the deterioration of the quality of the credit portfolio was observed, particularly in corporate loans, leasing and consumer loans, which was visible in the whole sector in Poland. Nevertheless the Bank maintained a level of impaired loans lower than the average of the banking sector, partially thanks to higher than average share of secured loans (particularly residential mortgage loans) and thanks to tight underwriting criteria and the usage of early warning signals in the management of the loan portfolio. Concerning market risk, the Bank adopted a more conservative approach, which was particularly visible in the introduction of significant restrictions to the sale of FX and derivative products to customers.

On the liquidity front, given the strong limitations in obtaining external funding, the Bank tried to adjust the growth of the loan portfolio to the growth of balance-sheet funds, particularly deposits. This decision followed important measures implemented by the Bank in the end of 2008 such as the withdrawal from granting new mortgage loans in foreign currency and the limitations imposed to new corporate loans in foreign currency. In parallel, the Bank continued its efforts towards obtaining additional medium-term funding. In this framework, it is important to highlight the support received from the parent company, Millennium BCP, which granted to Bank Millennium, in March 2009, a EUR 200 million mid-term loan, and in June 2009, a stand-by credit facility amounting to EUR 200 million. Moreover, within the day-to-day interbank transactions, Millennium BCP as at 31 December 2009 placed in Bank Millennium short-term deposits in the amount of EUR 500 million. In November 2009, Bank Millennium concluded an agreement with the European Bank for Reconstruction and Development (EBRD) for a mid-term loan amounting to EUR 100 million to support its lending activities to small and medium sized companies. All these transactions were very important as they enabled the Bank to keep a stable liquidity position and fully comply with the minimum regulatory liquidity ratios.

Having devoted the first 3 quarters of 2009 mainly to the internal reorganization, Bank Millennium is now prepared to resume growth based on a leaner, more cost effective and agile operational model, a re-aligned commercial platform, a higher share of sustainable revenues, a strong focus on results and an enhanced risk profile with a comfortable capital and liquidity position. Simultaneously with the presentation of the results for the 3rd quarter of 2009, the Bank announced its new strategy and a set of new medium-term financial and commercial targets for 2012, together with a project of increasing the share capital.

The main objective of the Bank for the next years is to come back to a profitable business growth, with a stronger focus on sustainability. In this framework, the Bank's main ambitions are: (i) to be in the top-5 polish banks, with a leading position in retail and a relevant presence in commercial banking; (ii) to reach a level of sustainable profitability that compares well with the best performers in its peer group; (iii) to run a highly efficient operation whilst setting the standard in terms of the quality of service rendered to our Customers;

(iv) to keep a solid capital structure and a strong risk management profile to support future growth; and (v) to strengthen the Bank's market position based on long lasting relationships with its stakeholders.

Bank Millennium Group expects to grow in a balanced way by increasing both deposits and loans in its core markets: retail and companies. The growth will be based on the existing network of c.a. 480 retail branches and 30 business centres across Poland. The Group aims to consolidate its market share in retail at around 7% and in companies at around 5% by 2012. In the scope of the medium-term financial targets the ambitions of the Group for year 2012 are: ROE of approximately 15%, cost-to-income ratio below 60%, capital adequacy ratio very comfortably above the minimum regulatory requirements and loan-to-deposit ratio not significantly above 100%.

In order to support the above-mentioned ambitious growth targets, as well as the investment plans for the next 3 years, while remaining a highly capitalized institution, Bank Millennium has successfully completed in the beginning of 2010 the increase of capital through a rights issue and raised more than 1 billion zlotys.

In 2010, the Bank will be focused on returning to profitable growth by implementing the recently announced strategy. Having achieved a leading position in retail banking, particularly in deposits, mortgage loans and cards, Bank Millennium intends to strengthen its position in other products dedicated for individual customers, such as mutual funds. The increase of the pace of customer acquisition will be a priority, supported by the Bank's large and modern branch network, its comprehensive offer of products and services, its well recognized brand and effective marketing campaigns. The Bank will also dedicate particular attention to the exploitation of its cross-selling capabilities to reinforce the relationships with its existing customer base.

In parallel, Bank Millennium intends to increase substantially its presence in the commercial banking business both by exploring the potential to extend the relations with the current customer base and by attracting new clients, leveraging on the new commercial organization and on the capacity of the sales force dedicated exclusively to acquire new customers. In the corporate area, the Bank's aim is to develop comprehensive relationships with customers, complementing the lending business with day-to-day transactional activity. The rebalance of the loan portfolio is also an important target for the Bank in the coming periods. Bank Millennium intends to increase significantly its market share in loans to companies across different industries, particularly in SME's, with a particular emphasis on asset-backed products such as leasing and factoring, thus keeping a well-diversified loan portfolio with moderate risk.

The tight control of the cost base and the maintenance of a conservative risk approach will remain important drivers of the Bank's activity in the future as both are key supporting elements for the improvement of profitability. In the liquidity front, the Bank will envisage a balanced growth of deposits and loans, while will continue its efforts towards the diversification of the sources of funding. After the share capital raise, Bank Millennium will keep a strict discipline in terms of capital management, in the sense that capital will be primarily allocated to the expansion of its products and segments with a higher potential of return.

To support the implementation of the new strategy, Bank Millennium Group plans to realise in 2010 capital expenditures amounting to PLN 40 million. Part of the above mentioned amount will be dedicated to the continuation of improvement of IT and security systems supporting the Bank's activity and on the final stage of the centralization of HQ in Warsaw. The investments planned for 2010 will be financed by the proceeds from the new capital increase, which was completed in the beginning of current year.

II. FINANCIAL SITUATION OF BANK MILLENNIUM GROUP

In 2009 the Bank Millennium Group, despite unfavourable market trends responsible for decline in deposit margins and increasing impairment provisions, managed to generate net profit of PLN 1.5 million. Global economic crisis resulted in financial service market turbulences and significant changes in banking business conditions. This forced the Group to introduce necessary adjustments and face a range of constraints in the form of, *inter alia,* problems in obtaining external financing, fierce competition on retail deposits market, restricting demand for loans and certain savings products, significant FX rate volatility and deterioration of the situation of borrowers impacting their ability to repay debt.

II.1. Financial results in 2009

Operating income (PLN million)	**2009**	**2008**	**Change y/y**	
			Value	**(%)**
Net interest income *	691.1	1 135.1	-444.0	-39.1%
Net commissions income	493.8	472.0	21.9	4.6%
Other non-interest income **	268.9	241.5	27.4	11.4%
Total operating income	**1 453.9**	**1 848.6**	**-394.7**	**-21.4%**

(*)Pro-forma data: Net Interest Income includes margin from all derivatives. From 1st January 2006 the Bank started to treat under hedge accounting principles the combination of mortgage floating rate foreign currency loans, floating rate PLN deposits and related cross currency interest rate swaps (From 1st of April 2009 the Bank extended hedge accounting principles also to FX swaps). The margin from these operations is reflected in Net Interest Income since afore-mentioned change. However, as this hedge accounting does not cover all the portfolio denominated in foreign currency, the Bank provides pro-forma data, which presents all margin from derivatives in Net Interest Income caption, whereas in accounting terms part of this margin (PLN 92.6 m in 2009 and PLN 200.4 m in 2008) is presented in Other Non-Interest Income. In the Bank's opinion, such approach allows better understanding of the real evolution of this item from economic point of view.

(**)includes net "other operating income and costs"

Net Interest Income (pro-forma) for 2009 amounted to PLN 691.1 million and decreased by 39.1% relative to 2008 primarily due to significantly higher interest costs on term deposits resulting from increasingly strong competition on the deposit market observed since Q4 of 2008. In addition, significant increase of costs of financing in foreign currencies by way of FX swaps and cross-currency swaps had a negative impact upon the net interest income level. Total NIM (on interest earnings assets) decreased from 3.3% for 2008 to 1.6% for 2009. It is necessary to stress that negative trends resulting from increasing deposit market competition and increasing FX financing costs intensified primarily during the 1 half of 2009. In 2nd half of the year the Group carried out certain alignments in deposit pricing to improve net interest margin. Thus, the Group recorded, in the 2nd half of the year an improvement both in terms of absolute amount of the net interest income and the net interest margin (1.9% in 4 quarter of 2009 only).

Net commission income in 2009 amounted to PLN 493.8 million and was higher by 4.6% than in 2008. In 2009, the Bank Millennium Group was able to more than compensate the negative yearly impact in mutual funds and other investment products related fees with a strong growth in the area of other fee and commission sources, mainly credit cards, bancassurance as well as with increase in fees charged for account maintenance (following price adjustment of August 2009).

Other non-interest income amounted to, in 2009, PLN 268.9 million i.e. increased by 11.4% relative to 2008. This income, specifically relative to result on financial instruments (pro-forma) and Forex results, were subject to significant volatility in the course of the year, due to changing market situation and impacts from currency position management relative to the FX derivative instruments. Furthermore, the Bank withdrew foreign currency mortgage loans from its offer at the end of 2008, what was one of the main reasons for decrease in FX income.

Total operating income of the Group in 2009 amounted to PLN 1,453.9 million and was lower by 21.4% than in 2008 mainly due to lower level of interest margins.

Operating Costs	**2009**	**2008**	**Change y/y**	
(PLN million)			**Value**	**(%)**
Personnel costs	470.7	609.0	-138.3	-22.7%
Administrative costs	472.0	510.2	-38.1	-7.5%
Depreciation*	80.2	72.6	7.7	10.6%
Total operating costs	**1 022.9**	**1 191.7**	**-168.8**	**-14.2%**

(*)includes impairment of non-financial assets

Total costs in 2009 amounted to PLN 1,022.9 million i.e. were lower by 14.2% than in 2008. It means that the Bank exceeded its cost reduction objectives determined for the year 2010.

Personnel costs in 2009 dropped by 22.7% relative to 2008 mainly in effect of lower bonuses due to lower results generated for the year 2009. The total number of Group's employees decreased by 804 FTEs relative to the December 2008 level and amounted to, as at the end of 2009, 6,245 FTEs. However, average employment level during the two periods was not materially different (6,515 FTEs in 2009 i.e. a decrease by 3.3% relative to the 2008 level).

The Bank Millennium Group's employment structure is presented in the following table:

Employment structure (FTEs)	**31.12.2009**	**31.12.2008**	**Change**
Bank Millennium S.A.	5 862	6 618	-11.4%
Subsidiaries	383	431	-11.1%
Total Bank Millennium Group	**6 245**	**7 049**	**-11.4%**

Administrative costs were reduced in 2009 by 7.5%. Excluding fixed maintenance costs that increased due to the higher, average number of branches (480 in 2009 relative to 440 in 2008) and higher contribution to the Bank Guarantee Fund, administrative costs declined by 23.9%. Apart from the decrease of marketing costs, lower due to limited promotional and advertising activities, the highest savings were generated in the IT area, business travels, office materials and equipment, car fleet maintenance, consulting and ATMs.

Depreciation (including impairment charges for non-financial assets) increased by 10.6% throughout the entire 2009 relative to 2008 due to a larger branch network.

Cost to income ratio in 2009 amounted to 70.4% and was higher than in 2008 (64.5%), because dropping costs did not fully compensate for lower revenues.

Impairment provisions were still under influence of the overall market trend of deterioration of the corporate loan portfolio quality and, recently, portfolios of loans to individuals. Total amount of impairment provisions in the Bank Millennium Group in 2009 amounted to PLN 436.1 million and was higher by PLN 300.9 million than in 2008. It is necessary to underscore that significant portion of the impairment provisions (PLN 108.4 million) was created by the Group's one-off decision in September 2009 against exposures in certain corporate customers in effect of an in-depth review of credit risk based portfolio including, in particular, receivables connected with FX derivatives.

Despite the fact that the amount of impairment provisions created in 2009 was significantly higher than in 2008, after taking account of revaluation adjustments of derivatives due to credit risk through the trading result: PLN 152 million in 2008 (creation of provisions) and minus PLN 14.5 million in 2009 (release of provisions) – total provisions relative to average value of net loans did not increase to such extent (increase from the level of 110 bp in 2008 to 123 bp in 2009).

The Bank Millennium Group closed 2009 with a **pre-tax profit** of PLN 1.9 million (PLN 521.7 million in 2008) and a **net profit** of PLN 1.5 million (PLN 413.4 million in 2008).

Distribution of result by business segments in 2009

The Bank Millennium Group result for 2009 broken down by main segments of banking activity i.e. retail banking (including micro-enterprises), corporate banking as well as treasury and investment activities is shown in the table below.

Segment: (PLN million)	**Retail banking**	**Corporate banking**	**Treasury, investment banking and other**	**Total Group**
Net interest income	574.1	169.2	-144.8	598.5
Net commission income	379.7	94.7	19.5	493.8
Other non-interest income	91.8	33.0	236.7	361.5
Total operating income	**1 045.6**	**296.9**	**111.4**	**1 453.9**
Change relative to 2008	*-16.9%*	*-11.3%*	*-51.9%*	*-21.4%*
Total operating cost*	**-775.3**	**-182.9**	**-64.1**	**-1 022.4**
Change relative to 2008	*-12.5%*	*-25.9%*	*12.3%*	*-14.1%*
Profit on operations before provisions	**270.3**	**114.0**	**58.3**	**438.6**
Net provisions	-115.0	-323.7	2.0	-436.7
Gross profit	**155.3**	**-209.7**	**56.3**	**1.9**

* *excluding asset impairment provisions*

Decreasing revenue of the Group in 2009 compared to the previous year described above was recorded in all segments. In retail, operating income decreased by 17% relative to the preceding year. Main reasons included, as follows: decline in deposit margins and lower incomes in particular from FX, generated by FX mortgage loans (the bank discontinued granting such loans in December 2008). Operating income in corporate banking area decreased by 11% y/y also in effect of lower deposit margins and lower incomes from treasury products sold to customers. Treasury and investment area recorded the fastest drop in operating incomes (52% y/y) in effect of high costs of financing in foreign currencies and lower incomes from brokerage activities.

Income decline was compensated, in part, by cost reduction. In the retail banking area, despite higher in 2009 average number of branches, costs were reduced by 12.5% y/y. In the corporate banking costs decreased by 26% y/y.

Operating profit generated by segments was subsequently reduced by net impairment charges. This was particularly painful for the corporate banking area. Total net provisions created in the corporate banking area in 2009 amounted to PLN 323.7 million i.e. more than seven times higher than net provisions created in 2008 (PLN 45.7 million). This was a result of deterioration of financial situation in companies, including customers that concluded FX derivative transactions with the Bank, which resulted in creation of additional provisions. So high provisions caused the corporate banking to register loss before tax in the amount of PLN 209.7 million for 2009. Retail banking, after creation of net impairment provisions in the amount of PLN 115 million, registered profit before tax at the level of PLN 155.3 million while treasury, investment and other activities closed 2009 with gross profit of PLN 56.3 million.

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

ASSETS

Main Group's assets and the changes in the values of particular components of Group's asset as on specified dates are presented in the table below:

ASSETS (PLN million)	**31.12.2009**		**31.12.2008**		**Change 2009/2008**
	Value	**Structure**	**Value**	**Structure**	**(%)**
Cash and operations with the Central Bank	2 191.2	4.9%	1 802.6	3.8%	21.6%
Loans and advances to banks	695.7	1.5%	1 580.0	3.4%	-56.0%
Loans and advances to customers	33 484.9	74.6%	33 748.2	71.6%	-0.8%
Receivables from securities bought with sell-back clause	208.8	0.5%	61.3	0.1%	240.7%
Financial assets valued at fair value through profit and loss and hedging derivatives	3 409.4	7.6%	6 289.9	13.4%	-45.8%
Investment financial assets*	4 175.7	9.3%	2 919.4	6.2%	43.0%
Intangible assets and property, plant and equipment **	369.5	0.8%	406.8	0.9%	-9.2%
Other assets	378.6	0.8%	296.4	0.6%	27.7%
Total assets	**44 913.8**	**100.0%**	**47 104.6**	**100.0%**	**-4.7%**

** including investments in subsidiaries, ** excluding fixed assets for sale*

As on 31 December 2009, the total asset value of the Group amounted to PLN 44,914 million. Main asset items comprised of loans and advances granted to customers, investment financial assets and financial assets valued at fair value through profit and loss plus hedging derivatives accounting for, respectively, 74.6%, 9.3% and 7.6% of the total assets.

In the course of 2009, value of assets decreased by PLN 2,191 million i.e. by 4.7% relative to the balance as on 31 December 2008. Lower asset level resulted, primarily, from decline in value of assets valued to fair value through profit and loss and hedging derivatives by PLN 2,880 million i.e. by 45.8% and decline in loans and advances to banks by 884 million PLN i.e. by 56.0% (in effect of a slowdown of the Polish inter-bank market activities). The said decline was partially compensated for by increase in investment financial assets by PLN 1,256 million i.e. by 43.0%.

Loans and advances to customers

The table below provides information on the structure of the loans to customers and changes in this portfolio in the course of 2009.

Loans and advances to customers (million zł)	**31.12.2009**		**31.12.2008**		**Change 2009/2008**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Loans to households	24 809.7	*74.1%*	24 628.5	*73.0%*	*181.1*	*0.7%*
- mortgage loans	*21 913.1*	*65.4%*	*22 161.9*	*65.7%*	*-248.9*	*-1.1%*
- other loans to households	*2 896.6*	*8.7%*	*2 466.6*	*7.3%*	*430.0*	*17.4%*
Loans to business entities	8 675.3	*25.9%*	9 119.6	*27.0%*	*-444.4*	*-4.9%*
- leasing	*3 194.9*	*9.5%*	*3 643.2*	*10.8%*	*-448.2*	*-12.3%*
- other loans to business entities	*5 480.3*	*16.4%*	*5 476.5*	*16.2%*	*3.9*	*0.1%*
Net loans and advances to customers	**33 484.9**	**100.0%**	**33 748.2**	**100.0%**	**-263.2**	**-0.8%**
Provisions against value of receivables	1 106.5		749.1		357.4	47.7%
Gross loans and advances to customers	**34 591.4**		**34 497.2**		**94.2**	**0.3%**

The value of customers' loan and credit portfolio, as on 31 December 2009 and as on 31 December 2008 remained at similar levels (showing an increase by 0.3% in gross terms and a decrease by 0.8% in net terms).

As on 31 December 2009, mortgage loans accounted for 65.4% of the net balance of loans and credits (decrease by 0.3 p.p. relative to 31 December 2008) and constituted the largest component of the Group's loan portfolio. The mortgage loan portfolio value, as on 31 December 2009, slightly declined relative to the level of 31 December 2008 i.e. by 1.1% mainly in effect of general slowdown in the mortgage lending market throughout the entire 2009 and due to decision made by the Group in December 2008 to discontinue selling mortgage loans denominated in foreign currencies.

As on 31 December 2009, other loans and credits granted to individual customers accounted for 8.7% of the net balance of total loans (increase by 1.4 p.p. relative to 31 December 2008). The value of other loans granted to individual customers increased by PLN 430 million i.e. by 17.4% relative to the value as on 31 December 2008 mainly due to increasing volume of cash loans and utilisation of credit card limits by customers.

As on 31 December 2009, portfolios of loans granted to business entities and leasing accounted for, respectively, 16.4% and 9.5% of net loans and credits. Other loans and credits extended to business entities remained at nearly unchanged level relative to their balance as on 31 December 2008 (increase by 0.1%), while the value of leasing receivables decreased by PLN 448 million i.e. by 12.3% in the same period primarily due to, in both cases, decline in the level of business activity resulting from economic slowdown.

The balances of provisions for impairment losses relative to loans extended to customers increased by PLN 357 million mainly due to deterioration of the loan portfolio as a consequence of the economic slowdown, including in particular additional provisions created by the Group in the 3rd quarter for credit exposures to corporate customers in the total amount of PLN 108.4 million.

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

Value of the financial assets valued at fair value through profit and loss and hedging derivatives decreased by PLN 2,880 million i.e. by 45.8% relative to the balance of 31 December 2008 mainly due to decline by PLN 1,727 million i.e. by 61.3% in assets from positive valuation of derivatives (designated for trade and hedging) in effect of reduction of the number of active transactions with customers in effect of more conservative approach adopted by the Group.

Investment financial assets

The value of investment financial assets increased by PLN 1,256 million i.e. by 43.0% relative to the balance as on 31 December 2008 mainly due to increase in securities issued by the Central Bank (NBP) by PLN 1,332 million.

Debt securities

Debt securities constitute a dominating component of both the portfolio of financial assets valued to fair value through profit and loss and hedging derivatives and the portfolio of investment financial assets at – respectively 68.1% and 99.4%. In majority the portfolio includes bonds and bills issued by the State Treasury as well as debt securities issued by the Central Bank.

Table below presents the structure of debt securities portfolios, by type, held by the Group and changes during the year 2009.

DEBT SECURITIES (PLN million)	**31.12.2009**	**31.12.2008**	**Change (%)**
Debt securities in portfolio of financial assets valued at fair value through profit and loss and hedging derivatives	**2 320.3**	**3 471.8**	**-33.2%**
- State Treasury securities	2 320.3	3 471.8	-33.2%
Debt securities in portfolio of investment financial assets (available for sale)	**4 150.3**	**2 901.7**	**43.0%**
- State Treasury securities	2 462.3	2 627.9	-6.3%
- Central Bank securities	1 499.4	167.2	796.5%
- Other securities	188.5	106.6	76.9%

LIABILITIES

The value and structure of the Group's liabilities as at the end of 2009 and 2008 are shown in the table below:

LIABILITIES (PLN million)	**31.12.2009**		**31.12.2008**		**Change 2009/2008**
	Value	**Structure**	**Value**	**Structure**	**(%)**
Deposits from banks	4 909.4	11.7%	3 060.6	6.9%	60.4%
Deposits from customers	31 558.7	74.9%	31 702.3	71.6%	-0.5%
Liabilities from securities sold with buy-back clause	2 342.7	5.6%	1 502.1	3.4%	56.0%
Financial liabilities valued at fair value through profit and loss and hedging derivatives	805.0	1.9%	5 579.1	12.6%	-85.6%
Liabilities from issue of debt securities	1 024.3	2.4%	917.1	2.1%	11.7%
Provisions	24.6	0.1%	33.9	0.1%	-27.5%
Subordinated debt	945.8	2.2%	961.4	2.2%	-1.6%
Other liabilities*	516.0	1.2%	533.3	1.2%	-3.2%
Total liabilities	**42 126.5**	**100.0%**	**44 289.8**	**100.0%**	**-4.9%**
Total equity	**2 787.3**		**2 814.9**		**-1.0%**
Total liabilities and equity	**44 913.8**		**47 104.6**		**-4.7%**

(*) including tax liabilities

As at the end of 2009, liabilities accounted for 93.8%, while Groups equity accounted for 6.2% of the total liabilities and equity.

As on 31 December 2009, deposits from customers, deposits from banks and liabilities from securities sold with buy-back clause constituted the main Group's liability items accounting for, respectively, 74.9%, 11.7% and 5.6% of the Groups total liabilities.

As on 31 December 2009, Group's liabilities decreased by PLN 2,163 million i.e. by 4.9% to the level of PLN 42,126 million relative to PLN 44,290 million as on 31 December 2008. The decrease resulted, primarily, from decline in value of financial liabilities valued at fair value through profit and loss and hedging derivatives by PLN 4,774 million partially compensated for by an increase, by PLN 1,849 million, of deposits from banks and increase, by PLN 841 million of liabilities from securities sold with buy-back clause.

Deposits from customers

Table below describes the structure of Group's liabilities due to its customers and changes these liabilities in the course of 2009, by customer types.

Deposits from customers (PLN million)	**31.12.2009**		**31.12.2008**		**Change 2009/2008**	
	Value	**Structure**	**Value**	**Structure**	**Value**	**(%)**
Deposits from individual customers *	19 780.2	62.7%	22 214.4	70.1%	-2 434.2	-11.0%
Deposits from enterprises and public sector	11 778.5	37.3%	9 487.9	29.9%	2 290.6	24.1%
TOTAL	**31 558.7**	**100.0%**	**31 702.3**	**100.0%**	**-143.6**	**-0.5%**

** including deposits in the form of insurance policies*

Deposits from customers provide the main source of financing of the Group's activities and include, mainly, customer funds deposited on current and term deposit accounts. As on 31 December 2009 deposits from customers amounted to PLN 31,559 million and remained at nearly the same level recording only a slight decrease by PLN 144 million i.e. 0.5% relative to the balance as on 31 December 2008.

As on 31 December 2009 deposits from individual customers accounted for 62.7% of the total balance of deposits from customers. Their value decreased by PLN 2,434 million i.e. by 11.0% relative to the balance as on 31 December 2008 mainly in effect of adjustments in the Bank's pricing policy since June 2009 and reduction of interest rate on deposits (particularly term deposits bearing the highest interest rates) in order to reduce the total cost of deposits.

The decline in the value of deposits from individual customers referred above was compensated by the increase in deposits from enterprises and public sector; value of which, during the same period, increased by PLN 2,291 million i.e. by 24.1% to reach, on 31 December 2009, the amount of PLN 11,778 million. Deposits from business entities accounted for 37.3% of the balance of deposits from customers.

In view of the fact that a part of savings entrusted by the Customers to the Bank Millennium Group is not reflected in the consolidated Balance Sheet, table below provides additional information on total customer funds deposited in savings products offered by the Group.

Total customer funds (PLN million)	**31.12.2009**	**31.12.2008**	**Change 2009/2008**	
			Value	**(%)**
Customer funds managed by the Group, including	**35 313.8**	**34 219.2**	**1 094.7**	**3.2%**
- Deposits and retail bonds	*31 821.1*	*31 815.5*	*5.6*	*0.0%*
- Millennium TFI mutual funds	*2 441.2*	*1 715.0*	*726.2*	*42.3%*
- Third party savings products distributed by the Group *	*1 051.5*	*688.7*	*362.8*	*52.7%*

**investment and insurance products as well as mutual funds from the offer provided by companies operating outside of the Bank Millennium Group*

Deposits from banks

Deposits from banks constitute the second most important source of financing. The item includes funds deposited by banks on current accounts, term deposits from inter-bank market and loans received. Deposits from banks, as on 31 December 2009 amounted to PLN 4,909 million accounting for 11.7% of the Group's liabilities. Their value increased by PLN 1,849 million or 60.4% relative to the balance of 31 December 2008 in effect, mainly, of increase in value of inter-bank term deposits during the period by PLN 2,186 million compensating for a drop by PLN 311 million in loans received (including a CHF 555 million syndicated loan repaid). It should be noted that within its day-to-day interbank transactions, Millennium BCP placed as at 31 December 2009 short-term deposits with Bank Millennium in the total amount of EUR 500 million.

As on 31 December 2009, credits and loans received by the Group included, primarily, as follows:

- medium-term syndicated loan granted to the Bank to the total amount of CHF 120 million by a syndicate of international banks, on 20 July 2007;
- medium-term syndicated loan granted to the Bank to the total amount of EUR 175 million by a syndicate of international banks, on 12 September 2008;
- medium-term credit granted to the Bank to the total amount of EUR 200 million by its main shareholder i.e. Millennium BCP, on 16 March 2009;
- medium-term credit granted to the Bank to the total amount of EUR 100 million by European Bank Reconstruction and Development (EBRD), on 30 November 2009.

Liabilities from securities sold with buy-back clause

Under its liquidity management activity, the Group concludes short-term transactions with buy-back clause both with banking and non-banking customers. The transactions are based on the State Treasury debt securities. As on 31 December 2009, liabilities from securities sold with buy-back clause amounted to PLN 2,343 million increasing by PLN 841 million i.e. 56.0% relative to the balance as on 31 December 2008 mainly due to the shortage of inter-bank transactions forcing banks to seek alternative sources of financing including transactions with buy-back clause.

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

Financial liabilities valued at fair value through profit and loss and hedging derivatives included, primarily, negative valuation of derivatives designated for trading or hedging. The value of this item amounted to, as on 31 December 2009, PLN 805 million i.e. decreased by PLN 4,774 million i.e. 85.6% relative to the balance of 31 December 2008 primarily due to a change of foreign currency rates and reduction of the number of active transactions following adoption by the Group of a more conservative approach.

Debt securities issued

As on 31 December 2009 liabilities from issue of debt securities amounted to PLN 1,024 million recording an increase by PLN 107 million relative to the balance recorded as on 31 December 2008 in effect of increase in the value of liabilities from bonds issued by the Bank to be offered to individual customers. Besides the above-mentioned bonds, the item also includes liabilities from agreements, entered into by the Group in December 2007, regarding securitisation of receivables under the leasing portfolio, which as on 31 December 2009 amounted to PLN 762 million.

Subordinated debt

The value of subordinated debt was maintained at the level amounting to PLN 946 million and PLN 961 million as on 31 December 2009 and 31 December 2008, respectively. These liabilities included subordinated ten-year bonds of the total nominal value of EUR 80 million, issued by the Bank in December 2001 and subordinated ten-year bonds of nominal value of EUR 150 million, issued by the Bank in December 2007.

Equity

As on 31 December 2009, equity capitals amounted to PLN 2,787 million, close to the value recorded as on 31 December 2008 (PLN 2,815 million).

Contingent liabilities

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

CONTINGENT LIABILITIES (PLN million)	**31.12.2009**	**31.12.2008**	**Change (%)**
Contingent liabilities granted and received	**8 118.4**	**8 961.7**	-9.4%
1. Liabilities granted:	7 134.5	8 245.9	-13.5%
a) financial	5 647.7	6 579.6	-14.2%
b) guarantees	1 486.8	1 666.2	-10.8%
2. Liabilities received:	983.9	715.8	37.5%
a) financial	480.4	23.5	1941.5%
b) guarantees	503.5	692.3	-27.3%

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

As on 31 December 2009, the total value of contingent liabilities of the Group amounted to PLN 8,118 million, including commitments granted by the Group: PLN 7,135 million. Decrease in financial and guarantee commitments granted by the Group, respectively, by PLN 932 million (i.e. 14.2%) and PLN 179 million (i.e. 10.8%) relative to the balance of 31 December 2008 resulted mainly from decrease of the number and value of commitments to extend loans and decrease in number and value of guarantees issued by the Group in effect of reduced activity on the part of business entities and individual customers resulting from economic slowdown recorded in 2009.

II.3. Share price and rating

Year 2008 was marked by a global financial crisis triggering permanent decline of global stock exchange indices and, in particular, unprecedented falls of bank stocks. Crisis had also a strong impact upon the situation of Polish companies.

Following sharp reductions at the end of 2008, the year 2009 brought about strong recovery of the Polish capital market. Main index WIG gained 47% during the whole 2009 year while the WIG Banks sector index increased by 34%. Index of mid cap companies mWiG40, which comprises the shares of Bank Millennium, also showed a solid performance of 55%. In the same period Bank Millennium share price increased significantly by 67%.

Market indicators	31.12.2009	31.12.2008	Change, annual (%)
Number of shares (in thous.)	849 182	849 182	-
Daily turnover (in thous. PLN), yearly average	8 750	10 652	-17.9%
Price of the Bank shares (PLN)	4.80	2.88	66.7%
market capitalisation (PLN million)	4 076	2 446	66.7%
WIG – main index	39 986	27 229	46.9%
WIG Banks	5 869	4 391	33.7%
mWIG 40	2 346	1 511	55.2%

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

Type of rating	FITCH	MOODY'S
Long-term deposit rating /IDR	A (stable outlook)	Baa2 (negative outlook)
Short-term deposit rating	F-1	Prime-3
Financial strength rating	C/D (stable outlook)	D (stable outlook)
Support	1	b.d

Throughout 2009, Fitch rating agency maintained the Bank's rating unchanged. In its report of February 2009, the agency confirmed adequate quality of assets and level of Group's capitals and evaluated the probability of provision of support by dominating shareholder (Millennium BCP) as very high. Long-term rating A informs about high capability to meet financial obligations and low insolvency risk.

On 16 September 2009, Moody's reduced Millennium BCP rating – the Bank's dominating shareholder - to A1/P1/D+ and as a consequence long-term deposit rating for Bank Millennium for domestic and foreign currency was reduced from A3 to Baa2, with negative outlook, while short-term deposit rating from P2 to P3. With respect to the above change, the Bank objects to time frameworks and procedures adopted by Moody's. The above-described actions undertaken by Moody's did not influence the financial strength of Bank Millennium (D), retaining stable outlook. According to the definition adopted by this agency, new levels of deposit ratings denote appropriate creditworthiness of the Bank.

III. DESCRIPTION OF THE GROUP'S BUSINESS ACTIVITY

The Bank Millennium Group offers a broad range of universal banking products and services to individual customers, micro-enterprises, corporate customers and public sector entities. As on 31 December 2009, the Group provided services to ca. 1.1 million retail customers and ca. 10 thousand corporate customers. Ca. 900 thousand Group customers used the electronic banking platform "Millenet".

Furthermore, besides retail and corporate banking products and services the Group offers a broad range of leasing products and services, mutual funds and brokerage services provided by its subsidiaries: Millennium Leasing, TFI Millennium i Millennium Dom Maklerski.

The Group has divided its activities into three segments:

- Retail customer segment focusing on individual customers and individual affluent customers under the "Prestige" offer as well as micro-enterprises, offered with full range of banking products and services and sales of specialist products offered by the Group's subsidiaries. The key credit products offered to the segment include mortgage and retail loans, credit cards, renewable loans and leasing products offered to micro-enterprises. The list of key deposit products offered by the Group includes current and savings accounts, term deposits, mutual funds and structured products. The Group's offer directed to this segment includes also insurance products linked with loans and credit cards.

- Corporate segment focusing on SMEs, large companies and public sector customers. In this segment, the Group offers a broad range of standard banking products (working capital loans, investment loans, current accounts and term deposits), supplemented by cash management and treasury products (including derivatives), as well as leasing and factoring products.

- The treasury operation and investment banking segment involves inter-bank transactions, brokerage, investment in debt securities and capital investments undertaken on the Bank's own account not allocated to other segments.

III.1. Retail banking

General description

The Bank Millennium belongs to a group of leading retail banks in Poland operating one of the largest distribution networks in the country (with branches located in every town with population exceeding 50,000) having universal banking products and services and a strong position in individual, affluent as well as in the micro-enterprise segment.

The Bank has divided retail customers into the following groups:

- Individual mass customers (private individuals not included into affluent category),
- Individual affluent customers (private individuals holding assets of the value of, at least, 100,000 PLN or making monthly payments to their personal accounts in the amounts not lower than PLN 12,000)
- Micro-enterprises (individuals operating businesses and business entities recording annual turnovers of up to PLN 3.2 million).

As on 31 December 2009, the Bank provided its services to ca. 1.1 million active Retail Customers (including ca. 18 thous. active individual affluent customers and ca. 56 thous. active micro-enterprises).

Main products and services offered by the Group under its retail banking operations include personal accounts, debit and credit cards, savings accounts, term deposits, mutual funds, consumer finance and mortgage loans, brokerage, structured products and insurance.

Distribution channels

The Group has been selling its products and services through its countrywide distribution network operating 472 branches all of them providing services to individual customers, 85 rendering services to micro-enterprises and 42 financial centres rendering services to all Retail Customer segments in a single branch. Customers may also use telephone and Internet banking as well as multi-functional ATMs.

The Bank followed active network expansion strategy announced at the beginning of 2006, increased its network from 346 branches as on 31 December 2005 to 472 branches as on 31 December 2009, having one of the largest banking branch networks in Poland. The Bank's branches are located in each Polish town with population above 50,000, including the largest agglomerations (Warsaw, Gdańsk, Kraków, Katowice, Poznań, Wrocław and Łódź). The Bank has especially strong position in Warsaw (85 branches), Mazowieckie Voivodship (117 branches) as well as Gdańsk and Pomorskie Voivodship (80 branches).

The Bank's Customers can use their cards in all ATMs in Poland, and as on 31 December 2009, the Customers enjoyed free or preferential rates in more than 2,100 ATMs, including 576 Millennium ATMs, accounting for 14.6% of the total number of ATMs in Poland (in accordance with data of 26 January 2010 obtained from portal www.karty.pl). The Bank's Customers can execute banking transactions also in foreign ATMs accepting VISA and MasterCard. Customers use the Bank's ATMs not only to withdraw cash: multifunctional Millennium ATMs provide an opportunity to execute other transactions, such as transfers to accounts of defined receivers i.e. bill payments.

The Bank has been developing remote service channels based on new technologies: Internet service – Millenet, telephone service - TeleMillennium®, mobile services – MilleSMS in order to expand the distribution network outreach and to meet evolving customer expectations in the more and more competitive market environment. As on 31 December 2009, the Bank serviced ca. 1 million registered on-line Internet accounts and ca. 42% Millenet Customers were active i.e. using their on-line accounts in the course of the last 30 days. In December 2009, transfers executed by individual customers via Millenet accounted for ca. 80% of all transfers executed by individual customers in case of external transfers: ca. 87% of all transactions executed. Most of the active customers already use the electronic formats of account statements which are environment friendly.

The Bank customers using Internet banking can purchase credit products, a broad range of deposit products via Millenet and monitor their finances by way of MilleSMS messages. Recently, Millenet functionality has been enriched by: electronic bill and invoice payments, execution of payments in Internet shops via Internet payment service, opportunity to set up additional card by the main card holder, opening investment deposits, mortgage loan servicing using innovative functionalities: early repayment, change of loan repayment date, shortening grace period and credit holidays. Further improvement of the platform and implementation of consecutive, innovative functions is planned to be introduced in the course of 2010.

Products and services

The Group of Bank Millennium offers to its Retail Customers diverse financial products including, in particular, current accounts, debit and credit cards, consumer finance and mortgage lending, mutual funds, brokerage services as well as insurance and structured products.

Deposit products

The Bank offers to its individual and affluent customers current accounts, saving accounts and a broad range of term deposits in PLN, including promotional deposits bearing interest rate higher than applied to standard products, as well as specific Internet on-line banking accounts. The Bank also offers innovative deposit products such as hybrids combining deposit and life insurance product features and investment products with yield depending on performance of selected capital, commodity or FX market products as well as FX deposits in USD, EUR and GBP.

Products designated for affluent segment

“Prestige” line constitutes a mix of products and services designated to individual affluent customers. Each Prestige customer is serviced by a dedicated Prestige advisor.

The Prestige personal account provides the holder with opportunity to open deposits, make investments and provides access to fund management services and specific offers of companies cooperating with the Bank.

The Bank offers a broad range of investment and insurance products including, in particular, offered by domestic and foreign mutual funds operated by the Group and by third parties, *single premium unit linked* and *single premium endowment* insurance products as well as structured products denominated in PLN, EUR and USD.

The Bank offers various types of credit products to its affluent customers including overdraft facilities, mortgage loans, loans secured by assets, cash loans, debit and credit cards including Millennium Visa Platinum.

As on 31 December 2009, the Bank provided services to ca. 18 thous. active affluent customers.

Micro-enterprises

“Biznes” product line is specialized in services to micro-enterprises i.e. business operating individuals or business entities recording annual turnovers of up to 3.2 million PLN.

The Bank offers a broad range of products and services under this product line including, in particular, current accounts in PLN and four foreign currencies (EUR, USD, GBP, CHF), deposits, credit products (including L/Cs and guarantees), debit and credit cards and other account related services such as telephone and Internet support.

As on 31 December 2009, the Bank had ca. 56 thous. active micro-enterprise customers.

Retail loans

Retail lending products offered by the Bank include mortgage loans, consumer finance in the form of cash loans and overdraft facilities as well as payment and credit cards.

Retail mortgage loans

With the market share of 10.2% as on 31 December 2009, the Bank is the second largest mortgage lender in Poland in terms of the credit portfolio size (according to NBP data). The Bank’s mortgage loans accounted for 88% of the total value of loans granted to private individuals, as on 31 December 2009. In the past, the Bank offered mortgage loans denominated mainly in CHF and PLN. As on 31 December 2009, mortgage loans denominated in foreign currencies accounted for 83% of the total value of mortgage loans; however, in 2009, nearly all new mortgage loans were denominated in PLN, since the Bank withdrew foreign currency mortgage loans from its offer at the end of 2008.

The Bank offers, primarily, standard mortgage loans designated to finance mainly purchase of a single-family house or housing unit, housing unit finishing or repairs and overhauls with maturities of up to 35 years. The above loans are secured by mortgage established on the purchased or other real property. Until establishment of a mortgage in favour of the Bank and entry of the mortgage in the mortgage and land register, the loans are secured by the insurance.

As on 31 December 2009, 93% of the Bank's mortgage loans were undertaken to finance purchase or construction of a house or a housing unit, overhaul of a unit or refinancing of another mortgage loan, while remaining mortgage loans are consolidation loans granted to repay other Consumer finance products and home equity loans undertaken to finance other purposes.

Cash loans and overdrafts

Cash loans is a multi purpose high spread product for individuals, is offered together with an additional insurance package, primarily to existing Bank customers. Besides, the Bank also offers overdraft facilities i.e. standard credit lines allowing Customers to exceed their account balances under specified conditions, agreed upon in advance. The credit lines are usually approved on the basis of turnovers of specific clients recorded at their current accounts.

Debit and credit cards

The Bank offers debit and credit cards to all customer segments. The Bank has been closely cooperating with its key partners in its operations related to debit, credit and charge cards, such as payment systems Visa, MasterCard and American Express. The Bank holds an exclusive right to issue American Express cards in PLN. As on 31 December 2009, the Bank issued more than 1.3 million cards including ca. 0.5 million credit cards. The Bank is one of the largest credit card issuer amongst Polish banks and, as on 30 September 2009, its market share in terms of credit card transaction volume amounted to 9.0% (in accordance with NBP data).

Other products and services offered to retail Customers

Besides above mentioned loans, deposits and services rendered by the Bank, the Group offers a broad range of additional products and services to its retail Customers including brokerage services, investment products, individual pension accounts and leasing operations for micro-enterprises. The Group also offers, to its affluent customers, mutual funds having different risk profiles, offered by external entities.

Moreover, in cooperation with leading Polish and foreign insurance associations, the Bank offers to its Retail Customers a broad range of insurance products including property insurance, third party liability insurance, *endowment* type capital products, job loss insurance, travel and tourist insurance as well as health and life insurance.

New products

In April 2009, the Bank introduced the new Millennium Visa Business Credit Card as an element of its offer addressed to micro-enterprises. This international payment card allows the holder to execute cash-less transactions and withdrawals up to the limit amount allocated by the Bank. The limit may be split between several credit cards thereby facilitating companies to provide its employees with credit cards.

In May 2009, the Bank introduced a new product offered to Retail Customers, consolidating cash loans, helping private individuals to consolidate their debts, including cash loans, overdrafts and credit cards, with a competitive price structure.

In September 2009, the Bank introduced a new payment system under the Maestro brand name to further diversify its debit card offer and to increase the use of debit card by Customers.

III.2. Corporate Banking

General description

The Bank offers a wide range of products and services to meet current and long-term financial needs of the Bank's corporate customers. Corporate banking ensures professional, comprehensive support to small, medium size and large companies recording annual sales at above 3.2 million PLN. The Bank has divided its corporate Customers into following groups:

- Small and medium size enterprises (SME) having total annual turnover in the range from PLN 3.2 million to PLN 30.0 million and
- Large companies recording annual turnover of above PLN 30.0 million.

As on 31 December 2009, the Bank rendered services to ca. 10 thous. active Corporate Customers.

Distribution channels

The Bank carries out corporate banking operations via sales network with countrywide outreach. The network, as on 31 December 2009, comprised 31 Bank Corporate Centres and 278 employees including 176 banking advisors and 71 consultants focusing on attracting new customers and securing provision of current and ongoing service. In addition, corporate Customers have access to 92 product specialists including specialists in the areas of leasing, factoring, treasury and transactional banking to assist Corporate Customers in developing tailor made specific products and services.

Corporate Customers can also conclude transactions in the nationwide retail branch network or via the Bank's electronic banking platforms: "Millenet dla Przedsiębiorstw" (Millenet for Companies - specialist

Internet platform dedicated to corporate customers), intranet system ESOBIG and TeleMillennium® call centre services.

Credit and deposit products

The Bank has a comprehensive offer for its corporate Customers including deposits, credit and transactional products. The Bank assesses the needs of each corporate Customer and prices its products and services taking in consideration the global relationship with the Customer .

The Bank offers to its corporate Customers overdraft facilities, working capital loans and investment loans both in PLN and in other currencies. Furthermore, the Bank offers loans co-financed with EU funds („EUROMillennium" loans), tailored to meet the specific needs of Corporate Customers often with significantly different terms and conditions due to different requirements of individual EU programmes.

The basic deposit product offer of the Bank, addressed to corporate Customers, includes deposits in PLN and foreign currencies (standard and negotiated), automatic deposits and structured investment products including T-bills and bonds, sell-buy-back and buy-sell-back transactions.

Transactional banking

The Bank offers its corporate Customers transaction banking solutions supporting settlement of liabilities, collection of receivables, liquidity improvement cash management services as well as high quality individual products customised to meet the needs of specific customers. Transactional products offered by the Bank facilitate effective cash flow management and liquidity of companies, capital groups and state budget financed units in order to improve operational effectiveness and ensure cost reduction.

Transactional products are divided into the following categories:

- Basic accounts: current accounts, deposit accounts, auxiliary, technical accounts dedicated to specific transactions,
- Controlled accounts: custody and *Escrow*,
- Automatic deposits,
- Settlement of liabilities: domestic and foreign transfers, cash disbursement instructions and postal money orders,
- Receivables' collection products: Automatic Identification of Incoming Payments, Direct Debit, Business-to-Business Direct Debit (GOBI),
- Cash management: cash payments and disbursements, night drop servicing and cash collection and transport services,

- Liquidity management: consolidation, cash-pooling, interest netting,
- Payment cards: debit and charge,
- Electronic banking: Millenet and ESOBIG,

Factoring and leasing

Under factoring services, the Bank Millennium offers a series of flexible solutions to match Customer needs. Within the framework of factoring services, Customer can finance its trade with receivers as well as with suppliers. Depending upon the option chosen, the Bank finances and administers all or only selected receivables due to the Customer, prior and after their maturities. Besides receivables financing and administration, the Bank – under factoring without recourse – may also take up a risk of non-payment by Customer's receivers.

Bank Millennium currently offers the broadest range of factoring services on the market, including:

- Factoring with recourse,
- Factoring without recourse,
- Reverse factoring,
- Maturity factoring (*mille-link)*,
- Factoring for local governments,
- Payment collection.

The Bank has a growing position on the Polish factoring market ranking sixth among the companies offering factoring services (according to '*Rzeczpospolita*' daily, as on 13 January 2010).

At the end of 2009 the Bank changed its factoring transaction support system. In place of the old system, a new one was successfully implemented offering modern IT solutions facilitating comprehensive and safe Customer service in the area of all factoring solutions, ensuring settlement of receivables at the level of individual invoice, differentiating financing conditions for each counterparty as well as supporting non-financial services. The new system includes a developed reporting module for the Bank's Customers and generates and distributes necessary accounting documents. An advanced customer module supporting electronic data exchange between the Bank and a Customer as well as system supporting identification and association of payments with receivables are components of the new system.

The Group also offers a full range of real estate and non real estate leasing services to Corporate Customers, rendered by the subsidiary companies i.e. Millennium Leasing and Millennium Lease.

New products

In 2009, the Bank introduced two new reverse factoring services (discount and maturity factoring), facilitating the servicing of the Customer trade relationships with its suppliers as well as the payment collection service;

under the latter, the Bank, acting on behalf of and to the account of the Customer professionally manages the Customer's commercial receivables.

The Bank also introduced the so-called „technological credit" – a type of co-financing of capital projects supported by EU funding. Technological credit may be granted solely to finance investments in technologies such as purchasing and implementation of new technologies or implementation of technologies held by Customers for a period of up to five years to ensure offering of new products, processes or services.

In 2009, Bank Millennium introduced significant changes in cash servicing. The most important changes included establishment of 89 dedicated cash service centres located in Bank Millennium branches countrywide.

The Bank also introduced an individual deposit service into its offer. The product is offered primarily to all institutions which business involves maintaining third party cash deposits (including: courts, companies conducting tenders, developers). The service is supported by an advanced IT system available to Customers via Internet, fully integrated with the banking system.

Moreover, Bank Millennium incorporated controlled accounts into its product and service offer – custodial and escrow accounts. Benefits from these new solutions include far reaching adjustability of the accounts to specific commercial transactions, customised to match individual needs of Customers.

The Bank commenced offering to its corporate Customers sureties and guarantees issued by the Bank for National Economy (BGK) under Government socio-economic programmes to facilitate access to investment and working capital loans.

III.3. Treasury and investment operations

General description

Treasury Department is responsible for the management of the Group's liquidity, for transactions of treasury products with Clients and for trading and hedging activity, especially of FX and interest rate risk instruments, including the Bank's bond portfolio.

Treasury products designed for Customers

During the period before November 2008, the Treasury Department offered to Corporate Customers a broad range of forward financial transactions. Due to significant depreciation of PLN relative to foreign currencies, at the end of 2008 and at the beginning of 2009, generating significant losses for certain Corporate

Customers, the Bank decided to limit the range of forward financial transactions offered to the Corporate Customers down to simple FX transactions (spot or forwards with maturity of up to three months).

The Bank expects its mix of treasury products to develop gradually. Treasury products are sold by specialists from Treasury Department and through the Bank's network. Since November 2009, FX transactions are sold to corporate Customers also with use of Internet platform (*Millennium Forex Trader Platform*). *Millennium Forex Trader* is a tool ensuring fast and safe access to financial markets, providing Customers with opportunity to conclude transactions without the need to contact a Bank's dealer by phone. Entrepreneurs can, by themselves, at any time and location, conduct transactions on the FX market. Transactions are closed in real time, at spot exchange rates, quoted directly from the market. *Millennium Forex Trader* is an effective tool to manage FX position allowing to minimise service costs by direct access to inter-bank quotations.

In order to manage product risk properly, the Credit Risk Department sets limits for all customers wishing to have access to such products and determines transaction conditions depending on the customer financial situation and on the results of the review of its natural exposure to the currencies in which transactions are to be performed.

Investments

As on 31 December 2009 the value of the Bank's securities portfolio amounted to PLN 6.5 bln. In its majority, the portfolio was composed of T-bills and bonds denominated in PLN.

Within the framework of liquidity management and investment activities, the Bank invests its surplus liquidity in State Treasury and NBP securities. Current liquidity management involves also inter-bank deposits, FX swaps and cross currency swaps on the inter-bank market.

The Bank manages FX risk and interest rate risk by concluding FX spot transactions and transactions on derivative instruments such as forward rate agreements, FX swaps, cross currency and interest rate swaps.

Custody service

The Bank was one of the first banks in Poland to offer custodial services in 1990. Customers of the Custody Department include well known domestic and international financial institutions (global custodial banks, banks holding global depository receipts in custody, investment banks, asset management institutions, insurance companies and investment funds) as well as other legal persons participating in capital and money market transactions, requiring effective, comprehensive and individual service.

As on 31 December 2009, the Bank accumulated 8,130 custody accounts (including securities accounts, registers of foreign financial instruments and deposit accounts), while the value of deposited customers' assets on these accounts amounted to ca. PLN 40 billion.

III.4. Subsidiaries

Millennium Leasing and Millennium Lease

Millennium Lease Sp. z o.o. and Millennium Leasing Sp. z o.o. are subsidiaries of the Bank offering leasing services. Millennium Lease focuses on real property leasing while Millennium Leasing provides services mainly in the area of movables (primarily vehicles and machinery for all industries). As on 31 December 2009, Millennium Leasing held seventh position among leasing companies in terms of the value of assets under lease, with market share of 5.7% according to the Polish Leasing Association. Majority of leasing customers include customers of the Bank, micro-entrepreneurs and corporate customers.

Millennium Leasing, established in 1991, is one of the longest existing leasing companies in Poland. The scale of the company activity comprises nearly 96 thousand lease agreements signed with almost 32 thousand Customers, at total amount of PLN 11.6 billion. Currently in the Company's portfolio are about 11 thousand Customers. The sale of the lease services is carried out by advisors in 56 offices of the Company in the whole Poland and via the Bank's advisors in the branch network of Bank Millennium.

Brokerage services – Millennium DM

Within the Group, brokerage operations are carried out by the company Millennium Dom Maklerski S.A, offering full scope of brokerage service including, in particular, offering securities on primary market and initial public offerings (IPO), acquisition and sale of financial instrument on own account, acquisition and sale of financial instruments on third party account, advisory services in the area of trading in securities as well as maintaining securities accounts and cash accounts to ensure servicing of these securities.

In 2009, the value of Millennium DM trading on equities market amounted to PLN 5.7 bln. As on 31 December 2009, Millennium DM managed ca. 60 thous. investment accounts and acted as market maker for 13 Warsaw Stock Exchange quoted companies.

In 2009, Millennium DM carried out IPO of Aplisens S.A., participated in a syndicate established to carry out public offering of PGE S.A. shares and managed tender offer to acquire all shares of HTL-Strefa S.A. – one of the biggest such transactions on GPW.

Mutual funds – Millennium TFI

Millennium Towarzystwo Funduszy Inwestycyjnych S.A. creates and manages investment funds. Millennium TFI distributes participation units managed by itself, *inter alia,* via the Bank's distribution network and the Bank's Customers constitute the majority of Millennium TFI customer base.

Millennium TFI manages two umbrella investment funds: Millennium Open Investment Fund (FIO) composed of six sub-funds conducting different strategies and Millennium Specialist Open Investment Fund of Foreign Funds composed of five sub-funds. The above products are designated for both individual and institutional Customers. Millennium TFI offers also investment and pension plans (Individual Pension Accounts – IKE) on the basis of sub-funds operated within the Millennium FIO. As on 31 December 2009 the value of assets under management amounted to 2,441 million PLN.

III.5. International activity

In the last year Bank Millennium continued activities regarding enlargement of its medium and long-term asset-financing base involving borrowing on international markets including, in particular, with participation of foreign banks and financial institutions. In view of the fact that in 2009 international syndicated loans' market constituting, in the past, the main source for stable financing in foreign currencies for the Bank was practically not operational, new agreements concluded in the area were bilateral in nature.

As far as mid-term loans are concerned, the Bank entered In March 2009, into agreement with its strategic investor Millennium BCP, regarding medium term loan of 200 million EUR to provide general financing of the Bank's operations. The loan matures in April 2011. Furthermore, in November 2009 the Bank entered into agreement with the European Bank for Reconstruction and Development (EBRD) regarding the loan of 100 million EUR with the purpose to increase the Bank Millennium capacity to provide financing to SME segment customers. The loan will be finally repaid in 2014.

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

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

With only a small number of main correspondents, the bank has opened its nostro accounts in foreign currencies while managing a number of loro accounts in local currencies to the account of, *inter alia,* respected German, Spanish, Italian and Scandinavian banks. Development of this cooperation was facilitated largely by growing role of PLN as settlement currency for transactions executed under current account as well as elimination – recently – of practically all restrictions regarding to capital transactions.

III.6. Main awards achieved in 2009

Bank Millennium was awarded the title of **Pearls of Polish Economy (Perły Polskiej Gospodarki)** in the category of “Great Pearls” ("Perły Wielkie") for "consistent implementation of business policy and strategy and leader’s position among the most dynamic and most effective enterprises in Poland", as it was worded in the justification, in the ranking of Polish businesses prepared by the **Institute of Economics** at the Polish Academy of Sciences and *Polish Market* Monthly.

For the fifth year in a row, “Millenet” - Bank Millennium’s **Internet banking system** for individual clients was ranked the best in Poland in **"World's Best Internet Banks" competition** organised by an independent financial magazine *Global Finance*.

In the **cash loan** ranking published by *Rzeczpospolita* daily “Pilna Pożyczka” took the first place. In a similar ranking published by *Gazeta Wyborcza* “Pilna Pożyczka” ranked the second.

Bank Millennium **mortgage loan** took the first position in the ranking prepared by Comperia.pl portal. The ranking evaluated credit offers denominated in PLN with 100% loan-to-value ratio.

In the ranking of **the best lease companies** in Poland conducted by *Rzeczpospolita* daily, Millennium Leasing took the third place. The evaluation included profit for the last two years, balance sheet total and the value of the total portfolio of receivables, as well as financial ratios (ROE, ROA), growth dynamics of the value of leased assets and dynamics of the total portfolio of receivables.

American trade quarterly *Global Custodian Magazine* awarded Bank Millennium with prestigious **"Top Rated"** title for the best Bank offering **custody services** in Poland in 2009.

IV. RISK MANAGEMENT AT BANK MILLENIUM GROUP

Risk management plays a key role in the strategy of sustained and steady business growth of Bank Millennium Group in optimising the risk/return trade-off under various business lines, as well as in maintaining an adequate risk profile in capital and liquidity.

In order to ensure an effective risk management and consistent policy, Bank Millennium Group implemented a risk management model, which integrates the credit, market, liquidity and operational risk management.

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

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

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the risk management process at Bank Millennium is integrated with the risk management process within the whole Millennium BCP Group.

In 2009 a number of initiatives were taken at Bank Millennium Group in order to improve the process of risk management. These initiatives pertain in particular to:

- Credit risk – redefinition of credit policy; adjusting the models of creditworthiness assessment to current market conditions; further implementation of the tools in support of the credit process;
- Market risk – adjusting the structure of risk areas to the breakdown into the Trading Book (Trading, Sales and Positioning Areas) and Banking Book (Commercial, Structural, Investment, Asset and Liabilities Management and Financing Areas), formalisation and implementation of the principles of market risk management in the Banking Book;
- Liquidity risk – improving the model for measuring the structural gap and implementing the plan for managing the supervisory liquidity metrics;

- Operational risk – increasing the effectiveness of reporting; higher IT support for the risk management process.

To strengthen activities in order to eliminate the risk of external fraud, apart from so far conducted activities in the Group (at the Risk Department and in operational units) a specialized Antifraud Project was created in August 2009.

IV.1. Internal Organization

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

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

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

The duties of the Risk Control Committee pertain to monitoring various types of risks and its members include among others all the Management Board members. This Committee is responsible for monitoring the Group's integrated risk profile, in particular in terms of evolution of key ratios for various types of risk in accordance with current policies, regulations and limits, as well as important events in areas of particular risks during the analysed period. Specialised Committees are chaired by Management Board members, and have members from among persons responsible for the main areas relating to the process of origination, monitoring and management of specific risks.

On-going risk management is centrally supervised by the Bank's dedicated unit – Risk Department in which there is a further specialisation (under subunits, teams) taking into account several types of risk or process stages.

The Risk Department is responsible for the control of risk in the whole Group by assuring the overall risk monitoring and harmonising of the concept, policy and methodology between various business lines and Group entities. The Risk Department is also responsible for informing all the committees on the levels of risk and for proposing the ways of strengthening its control and also for implementation the limits of risk.

IV.2. Capital Management

The capital requirements for Bank Millennium Group calculated as of 31 December 2009 with the use of the standard approach according to the New Capital Accord are presented in the table below:

(mln PLN)

Capital requirements resulting from:	31.12.2009	31.12.2008
Credit risk	2 194.9	2 450.4
Market risk	56.4	112.7
Operational risk	222.4	208.5
Total capital requirements of Millennium Group	**2 473.7**	**2 771.5**
Own funds	**3 491.4**	**3 533.7**
Consolidated solvency ratio	**11.29%**	**10.20%**

The capital position measured by the level of solvency ratio in 2009 went up from 10.2% to 11.29% (i.e. by 109 bp). In result, thanks to i.a. actions taken to improve the use of available capital resources, the capital requirements for credit risk coverage were down 10.5%, while the capital requirement for market risk was halved (in result of closing open FX positions in the first half of 2009). A small increase of capital requirement for operational risk – calculated with use of the standard approach – came from taking into account the gross result on individual business lines from the years 2007-2009 (at end of 2008 the calculation used the 2006-2008 period). At the same time an insignificant (by approx. 1%) drop of own funds was noted, caused mainly by the depreciation of part of subordinated debt, included in supplementary funds.

If we included proceeds from the new shares issue (allocation of shares from the new L series issue took place on 8 February 2010), the solvency ratio as of 31 December 2009 calculated on the pro forma basis (assuming the capital requirement as at the end of December) would be 14.7%.

IV.3. Credit risk

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

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

- Centralisation of the credit decision process;
- Using specific scoring/rating models for each client segment/type of products;
- Using IT information (credit workflow) in order to support the credit process at all stages;

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

In 2009 in response to the market situation, Bank Millennium Group gradually introduced changes in the corporate and retail lending policy. A number of steps were taken in order to limit the credit risk, the most important of them being:

- The implementation of new rating models for corporate segments resulting in higher efficiency of the credit decision-making process;
- Modification of the cost and income elements of the clients adopted for credit capacity assessment;
- Introducing changes in the process of verifying the clients' credit history and structure of the credit decision-making models using the credit history;
- Introducing changes in the structure of rating models resulting in improving the effectiveness of such models.

Credit risk is the most important type of risk carried by Bank Millennium Group. The capital requirement for the coverage of credit risk stood at PLN 2,194 million, with the total capital requirement of 2,474 million PLN as of 31.12.2009.

The lowering of the capital requirement compared to 2008 (by 10.5%) resulted mainly from the lowering of the requirement under the granted off-balance sheet commitments (drop by 63%) and leasing (by 11%).

In 2009 the quality of the Group's credit portfolio deteriorated in accordance with the trend persisting in the whole banking sector in Poland. The share of receivables with recognised impairment in total receivables went up from 3.4% (as of 31.12.2008) to 5.9% at the end of 2009. This growth was influenced not only by the growth of the clients' credit exposure with recognised impairment, but also by the Group's conservative credit policy in 2009, as a result of which the credit portfolio stood at a practically unchanged level compared to the end of 2008. If we excluded from the portfolio impaired receivables connected with FX option transactions, the share of receivables with recognised impairment would be 4.9%.

The dominant credit portfolio for households continues to show a very low level of loans with recognised impairment at the level below 2.0%, including mortgage loans at the level of 0.7%. If we included only past due loans (over 90 days), the indicator of such loans for the mortgage portfolio would be only 0.3%. The average LTV ratio for mortgage loans at the end of 2009 was 69.9% (at the end of 2008: 74.8%). It incorporates the most current adjustment of real estate prices, which is conducted by the Bank twice a year.

The ratio of loans with recognised impairment for corporate portfolio remains at a relatively high level 16.6%. The growth of this ratio is connected with a general deterioration of the country's macroeconomic situation (economic slowdown) and was influenced by receivables connected with FX option transactions, which suddenly deteriorated at the end of 2008 – in connection with rapid depreciation of Zloty (without such receivables, the ratio of impaired corporate loans would be at the level of 13.5%). But one should remember that the share of actually unpaid loans (above 90 days) in the corporate and leasing portfolio was at a much lower level and constituted 5.9% of this portfolio.

Main credit quality ratios	31.12.2009	31.12.2008
Impaired loans (mln PLN)	2 033	1 163
Impaired loans/total loans	5.9%	3.4%
Loans past due over 90 days/total loans	2.6%	0.8%
Impairment charges/loans past due over 90 days	92.6%	161.0%
Total provisions/loans with impairment (coverage ratio)	54.4%	64.4%

The coverage of impaired loans with total provisions (including: IBNR provisions) decreased to 54.4% and was caused mainly by:

- Lower provisioning of leasing receivables (higher level of collateral);
- Writing off during 2009 against provisions PLN 74 million of receivables (fully covered with provisions)
- Modification in the first HY 2009 of PD and LGD parameters for calculating impairment in portfolio analysis;
- Employment of prudent criteria relating to the classification of impaired loans, particularly with respect to certain receivables from enterprises, although this did not imply the necessity to considerably increase related provisions.

IV.4. Market Risk

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

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement. The values of exposures are defined daily, individually for the portfolios in the areas, which are responsible both for taking risk positions and their management. In order to assure the adequacy of the VaR model for estimating the risks generated by open positions a backtesting process was established which is conducted daily.

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

Stress test scenarios are also used for identifying the most adverse market fluctuations and for identifying the actions, which can be taken in order to reduce the impact of these extreme changes in market factors. The following types of market scenarios are applied in stress tests: parallel shifts of the yield curves, more steep or flat shape of the yield curves, variations of interest rate volatility, variations of exchange rates; variations of swap spreads and historically adverse scenarios.

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

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

(mln PLN)

VaR Metrics for Market Risk	**End of December 2009**		**VaR (from 31 December 2008 till 31 December 2009)**			**End of December 2008**	
(Group data)	**Exposition**	**Use of limit**	**Average**	**Maximum**	**Minimum**	**Exposition**	**Use of limit**
Globally	**12.4**	**27%**	**12.9**	**41.6**	**5.6**	**41.0**	**129%**
Interest rate risk	12.2	n.a.	11.0	24.4	5.4	23.6	n.a.
FX risk	0.7	7%	5.2	32.7	0.3	30.2	385%
Diversification effect	5%					31%	

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

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

In case of the Banking Book, for the purpose of interest rate risk a sensitivity analysis is carried out, while for its mitigation hedging strategies are applied. As a result of this analysis in 2009 additional hedging transactions for the interest rate risk connected with fixed rate loan portfolios were concluded, in particular with the consumer loan and leasing portfolio.

IV.5. Liquidity Risk

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Group's obligations.

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

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

In 2009 the dynamics of the loan portfolio fell. This was caused on the one hand by a drop of demand for loans and on the other hand by suspension of granting mortgage loans in foreign currency, as well as tightening the underwriting criteria. Consequently, there was a small growth in the gross credit portfolio and drop (by 0.8%) on a net basis during the year. In the same period deposits remained at an unchanged level (growth in the first half of the year and drop in the second one) and slightly up went client funds acquired through SBB transactions, which consequently improved the Group's liquidity, as measured by the simple loans/deposits ratio (in accordance with the definition under the table) from the level of 102.6% to the level of 100.4%.

Loans/Deposits ratio	**31.12.2009**	**31.12.2008**
Loans/Deposits *	100.4%	102.6%

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

The large, diversified and stable deposit base remains the main source of financing. In 2009 it grew to approx. PLN 30 billion thanks to an attractive offer, effective marketing campaigns, despite persistent war for deposits in the market, however the share of retail deposits dropped from 70.9% in the end of 2008 to 66.2% in the end of 2009. A good position of the Bank in terms of liquidity additionally supported over 2009 by institutional financing in the total amount of 300 million euros allowed maintaining the portfolio of liquid debt securities at the level of about PLN 6 billion (most of which are Polish Treasury and Central Bank securities).

FX liquidity is secured through FX transactions, which enable the transformation of PLN liquidity into liquidity in required currencies. In 2009 the Bank continued to renew the portfolio of this type of transactions thus obtaining more advantageous terms both in terms of cost reduction and lengthening of maturities comparing to the situation in the first half of 2009.

The estimation of the Group's liquidity risk is conducted both with the use of the ratios defined by the supervisory authorities and own metrics for which exposure limits were also established. The evolution of the Group's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. They measure the maximum borrowing requirements (negative value), which could arise on a particular day, taking into consideration the cash-flow projections for spot and for 3 months, respectively. In 2009 the immediate liquidity ratio was positive, while the quarterly liquidity ratio on two occasions fell below zero due to zloty depreciation in the first quarter and in the fourth quarter due to repayment of the syndicated loan in the amount of CHF 555 mln.

Additionally, the Bank employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2009 all the defined ratios were maintained at levels significantly exceeding the limits.

In February and March 2009, the limits for supervisory liquidity metrics, both short- and long-term, have been exceeded. This was connected with a strong depreciation of the zloty, strong volatility of the exchange rate and methodological consequences of the assumptions contained in PFSA Resolution no 386/2008, which caused a revaluation of the volatile sources of funding and was not caused by the deterioration of the Bank's actual liquidity position.

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

The Bank has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan updated on a quarterly basis. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis.

For the needs of managing supervisory metrics the Bank implemented a dedicated model based on the concept of minimum buffers and enabling the running of simulation analyses. In order to better manage the supervisory metrics the Group obtained in June 2009 a stand-by line from Millennium BCP of 200 million euros.

IV.6. Operational risk

The Group adopted the definition of operational risk as per the Basel II guidelines, according to which operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition incorporates legal risk, but strategic or reputation risk are treated as separate risk categories.

In order to mitigate operational risk the Group implemented a management system based on the best market practices. This system's model is codified in the general strategy of Millennium BCP and adjusted at operational level to the specificity of the Polish market and the profile of the Group's business.

Under the adopted strategy the Group specified its appetite for risk in the form of a risk tolerance matrix. In order to calculate the capital requirements for the needs of the Group's operational risk the standard method was adopted. Regular audits conducted by the Internal Audit Department and provisions pertaining to regular process controls constitute separate elements of operational risk management.

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

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

V. HUMAN RESOURCES MANAGEMENT

V.1. Recruitment

In 2009, in response to dropping revenues, Bank Millennium Group has implemented program of significant cost reductions. The implementation of the new business strategy and the internal reorganisation as well as efficiency based approach implied a gradual reduction in the number of employees, which dropped during 2009 by 804 full-time equivalents.

EMPLOYMENT IN THE BANK MILLENNIUM GROUP (full time equivalents)

	31.12.2009	31.12.2008	change
Number of Group's employees	6 245	7 049	-804
Number of Bank's employees	5 862	6 618	-756
- including management positions	143	160	-17

EMPLOYMENT IN BANK MILLENNIUM (full time equivalents)

	31.12.2009	31.12.2008	change
Branches and direct sales	3 835	4 334	-499
Head Office	2 026	2 284	-258
Total	5 862	6 618	-756

Despite that, the Group was performing recruitment activities for particular positions and did not resign from the program of supporting student circles throughout Poland. The student-oriented actions are run since 2002 year under a specially designed program "Come and Grow with us".

Under its "Come and Grow with us" program, the Bank organizes and promotes:

- Internships and training periods. The Bank organises paid internships for the students of all the years and fields of studies in the departments of the Bank's Head Office in Warsaw and Gdańsk. This offer allows ambitious students to participate in internships already in the first years of their studies and thus gather their first professional experience.
- "People Grow", a Two-year Management Competence Development Programme targeting the distinguished students in the last years of their studies and graduates.
- Competitions for creative and ambitious students, developing their expertise and interests.
- Courses and training sessions in soft skills and banking for students.

In the academic year 2008/2009 the Bank adopted for internship 219 trainees, who gained practical experience under the guidance of their Mentors. During the summer holidays the Bank organised also a number of meetings extending the knowledge about the Bank and its values, and also serving an opportunity to exchange experiences. In 2009 Bank Millennium accepted 8 persons for the eighth edition of “People Grow” programme and received also almost 100 entries for the competitions organised by the Bank.

V.2. Development

In an attempt to meet the expectations of the employees and in an effort to provide them with an increasingly better training offer, in 2006 Akademia Millennium was launched addressing defined training areas and topics in five categories:

- Professional training
- Management training
- Trainer’s training
- Development programmes
- “Becoming one voice”.

Creation of Akademia Millennium started a very intensive increase in the number of the training courses organised in the subsequent years. Dynamic development of the sales network, both in retail (launched in 2006) and corporate area (launched in 2008), contributed to the increase in the induction training for the new employees and product training.

In 2009 the process of work induction for the new employees was subject to in-depth restructuring. Currently, work induction lasts 10 months and is composed of many training programmes, in both traditional and e-learning format, workshops and exams to check the knowledge. Additionally, in the first months of work each new employee receives support from a more experienced colleague. The training process is strictly related to relevant career path. Change in the market situation drove the need to dedicate more attention to risk management, change management and legal training.

The main method of training Bank’s employees in 2009 was e-learning launched in 2007. Almost 42 000 man training sessions were conducted. This is up by approx. 40% against 2008. In total almost 40 courses and knowledge tests were delivered on the e-learning platform. The majority of them have been prepared in house and this number has been growing regularly.

This e-learning method served as the base for, among others, the training process for the new Employees of the Retail Banking implemented as of the start of 2009. A new element was also the launch of e-learning project management courses preparing for PRINCE2 certification (British method of projects management - *Projects in Controlled Environments*). The first exams (also on the e-learning platform) were conducted already in 2010.

VI. ADDITIONAL INFORMATION

VI.1. Information about significant agreements for the activity of the Group

During 2009 the following agreements were concluded having important impact on the activity of Bank Millennium and the Group:

- On March 16, 2009 an agreement was signed between Bank Millennium S.A. and Millennium BCP, in the matter of a medium-term *senior loan* for the Bank, totalling EUR 200 million, allocated to general financing of operations. Loan interest rate is based on floating EURIBOR plus the margin agreed in the agreement. The loan is to be repaid in April 2011.

- On June 3, 2009 an agreement was signed with Millennium BCP in the matter of a stand-by facility for the Bank from BCP, with limit of EUR 200 million, to be used for general purposes related to the operations. This is a revolving facility and it remains open for 12 months, starting on the day of conclusion of the agreement. The interest rate for the funds utilised and the term of interest accrual shall be defined at the moment of disbursement of a given tranche, on the basis of the current EURIBOR rate plus the margin defined in the agreement.

- On November 27, 2009 a credit agreement was concluded for the total of PLN 300 million. The loan was granted to a client from the governmental and local authorities sector. The interest rate was based on WIBOR 1M plus Bank's margin. The loan was granted for the period until December 31 2010.

- On November 30, 2009 an agreement was signed between the Bank and European Bank for Reconstruction and Development (EBRD), in the matter of a medium term loan of EUR 100 million for the Bank from EBRD. The loan proceeds shall be allocated to increase of Bank's capacity to finance small and medium sized companies.

VI.2. Information about rights issue of shares

On December 3 2009 the Extraordinary General Shareholders Meeting of the Bank was held, which adopted a Resolution in the matter of increase of the Bank's capital by amount not lower than PLN 1.00 up to the total not higher than PLN 1,274,181,744 through issue of not fewer than 1, but not more than 425,000,000 Series L ordinary bearer shares of nominal value PLN 1.00 per share. The issue of Series L shares was conducted as a closed subscription in the meaning of Art. 431 § 2 item 2 of the Commercial Companies Code, through public offering as construed in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated July 29, 2005.

On January 11 2010 the Polish Financial Supervision Authority approved the Issue Prospectus of the Bank prepared in connection with the issue of the Series L Shares with pre-emptive rights through a public offering and admission and introduction of pre-emptive rights to the Series L Shares, rights to the Series L Shares and the Series L Shares to trading on the Warsaw Stock Exchange (GPW).

On January 13 2010, acting pursuant to the Resolution of the Extraordinary General Shareholders Meeting of the Bank on increase of the share capital of the Bank and change in the Articles of Association of the Bank, the Management Board of the Bank established the issue price for Series L Shares as PLN 2.90 and the final number of the shares in the offer as 363,935,033. On the same day the Bank informed about conclusion of Underwriting Agreement between the Bank and HSBC Bank plc. Furthermore, the Bank informed that pursuant to the provisions of the Underwriting Agreement on January 13 2010 a lock-up agreement was concluded between Millennium BCP and HSBC.

On January 19 2010, i.e. on the pre-emptive rights day, the National Depository of Securities registered 849,181,744 pre-emptive rights Bank's Series L ordinary bearer shares of nominal value PLN 1 per share.

Within the subscription period, i.e. between January 20 and January 28 2010, exercising their pre-emptive rights, investors placed in total 6,410 principal subscriptions for 361,796,921 Series L Shares. Also, 804 additional subscriptions for 360,425,723 Series L Shares were placed. 722,222,644 shares were duly subscribed to and paid, while the level of reduction of additional subscriptions amounted to 99.41%. On February 8 2010 all 363,935,033 Bank's Series L ordinary bearer shares of nominal value PLN 1 per share were allotted to subscribers.

Results of the subscription with pre-emptive rights were as follows:

RESULTS OF THE ISSUE	Number of subscriptions	Number of subscribed shares	Allocation rate (%)	Allotted shares
Principal subscription	6 410	361 796 921	99.4	361 796 921
Additional subscription	804	360 425 723	0.6	2 138 112
In total Series L Shares			100	363 935 033

On February 26 2010 the Court registered the Bank's share capital increase from PLN 849,181,744 up to PLN 1,213,116,777 and registered the amendment to the Articles of Association of the Bank in this regard. It means that the rights issue of L Series shares conducted through public offering on the grounds of Resolution of the Extraordinary General Shareholders Meeting of the Bank on increase of the share capital and change in the Articles of Association of the Bank dated December 3 2009 has been completed.

The issue of Bank Millennium's shares has been completed with a success. The part of the issue available to minority shareholders (Millennium BCP, the main shareholder with 65.5% of Bank's shares, fully used its share rights and did not participate in additional subscription) was fully covered with almost 4-fold oversubscription.

In conclusion, the entire issue process of the Bank's Series L shares was conducted efficiently and in a relatively short time – approx. 3 months. As a result of the issue the Bank increased its share capital by more than PLN 1 billion and therefore both the Group and the Bank shall strengthen their capital adequacy ratios, which shall support implementation of the new 2010-2012 business strategy.

VI.3. Compliance policy, corporate social responsibility and internal control

Compliance policy

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

- Counteracting money laundering and financing of terrorism;
- Ensuring consistency of internal normative acts of Bank Millennium with generally binding legal regulations as well as with recommendations given by domestic as well as EU supervisory authorities (including adjustment to new regulations connected with the Markets in Financial Instruments Directive - MIFID);
- Managing conflicts of interest;
- Restricting personal transactions and protecting confidential information connected with Bank Millennium, financial instruments issued by the Bank as well as information connected with sale/purchase of such instruments.

In October 2009 Poland published amended regulations concerning counteracting money laundering and financing of terrorism. One of the key obligations under the new law is for banks to apply financial security measures based on assessment of risk of money laundering and financing of terrorism. Part of these obligations was formerly adopted in the Bank on the basis of the key concept of the "Know Your Customer" programme. Remaining obligations as regards use of financial security measures as well as other obligations imposed by the law, such as freezing funds, require continuation of initiatives undertakes earlier in the Bank. The purpose of the undertaken adjustment actions is to modify internal regulations and to implement essential IT tools, thus for the Bank to fulfil the new statutory obligations.

Poland was able to transpose EU Directives on markets in financial instruments (MIFID) to national legislation only on 6 October 2009 when the Act on amendment of the act on trading in financial instruments and certain other acts (of 4 September 2008) was published. Before that the Bank Millennium Group applied MIFID regulations to the extent implemented in 2007. In result of amendments of the Act on trading in financial instruments, a project was launched in Bank Millennium Group to fully implement MIFID regulations in keeping with the new Polish law. In this project all areas of activity of the Bank Millennium Group covered by MIFID regulations will be adjusted in line with valid deadlines and requirements of national legislation as well as EU Directives on markets in financial instruments.

Corporate Social Responsibility

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

In 2006, the Bank Millennium Management Board established a working team with the task to review Bank's activities in the area of compliance with corporate social responsibility principles and to develop a report on these activities. The first report „Corporate Responsibility 2006" published in 2007; since that year, the Bank has been publishing annual reports on these activities (available on the Bank's WEB site www.bankmillennium.pl). Soon, the newest "Corporate Responsibility 2009 report will be published.

Documents mentioned above do not constitute, yet, reports in the meaning of international standards applicable to Corporate Social Responsibility reporting as adopted by the Global Reporting Initiative (GRI), but the Bank strives to implement standards, into its regulations and operational practices in an evolutionary manner, to ensure full reporting on the Bank's activity in this area.

Internal Audit

The Internal Audit Department is a specialised unit of institutional control, which aims at performing independent assessment of adequacy, correctness and effectiveness of systems of: internal control and management, including risk management. In particular this is connected with assessment of quality, correctness and security of performing banking activity. In performance of its mission Internal Audit takes into account strategic goals and tasks of the organisation, as defined by the Bank's Management Board and Supervisory Board. The audit process is carried out according to the Internal Auditing Methodology, which promotes international auditing standards as well as best banking practice. Internal Audit activity is planned and based on the annual audit plan. The planning process hinges on assessment of risk of individual areas and processes of the Bank, used for identification of increased risk and supporting setting of priorities and resources to fulfil the tasks. The planning process reflects consultations with senior management as well as key process owners. The Annual Audit Plan approved by the Audit Committee of the Supervisory Board is implemented in a quarterly arrangement by experienced and highly skilled professionals. Internal audit carries out independent and objective assessment of and provides advise to units as regards audited areas and builds positive relations with audited units for the purpose of generating joint value added in order to increase the bank's operational efficiency. Advisory activity may be carried out if it does not breach the principle of objectivity and independence of an internal auditor.

In 2009 the Internal Audit Department carried out 1807 audit tasks in the Bank, the Bank's subsidiaries as well as within the Millennium BCP Group. Planed activity included i.a. IRF ('Independent Review Function') audits, to meet requirements of the New Capital Accord regarding processes of management of credit, market and operational risk. The Internal Audit Department is independent, subordinated to the Chairman of the Management Board of the Bank and reports audit results to the Audit Committee of the Supervisory Board.

VI.4. Information on the agreements with the entity authorised to audit financial reports

In 2009 (similarly as in previous years) the Bank's external auditor was KPMG Audit Sp. z o.o. KPMG belongs to one of the largest companies offering so-called professional services (audit, tax and business advisory services). On February 9, 2010 the Supervisory Board of the Bank adopted a resolution on selection of KPMG to perform audits of annual financial statements of Bank Millennium and consolidated financial statements of the Bank Millennium Group in 2010 as well.

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

Auditor's Remuneration: (PLN thous.)	**2009**	**2008**
(1) for examination and agreed procedures connected with review of periodical consolidated reports with respect to the dominating entity	1 650	1 350
(2) for examination with respect to subsidiaries	936	947
(3) for related services	381	29

(1) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of the Bank's standalone and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of June 29, 2007 on examination regarding 2007, 2008 and 2009) and the review of the semi-annual Bank's standalone and consolidated financial report of Bank Millennium S.A. (resulting from the agreement of June 29, 2007 on review of the semi-annual financial report on the half-year ending on June 30, 2007, June 30, 2008 and June 30, 2009) as well as preparation works associated with the Prospectus of L series rights issue of Bank Millennium S.A.;

(2) The remuneration for examination comprises amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. for professional services connected with examination of financial reports of subsidiaries under concluded agreements.

(3) The remuneration for related services comprises the remaining amounts constituting the total amount of remuneration of KPMG Audyt Sp. z o.o. under concluded agreements. These cover certifying services connected with the examination or review of financial reports of the parent entity and subsidiaries as well as preparation works associated with the Prospectus of L series rights issue of Bank Millennium S.A., however not included under (1) above.

VI.5. Other information

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

Other information regarding:

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

can be found in ”Consolidated financial statement of the Bank Millennium Group for 2009”.

VII. STATEMENT OF THE MANAGEMENT BOARD

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

According to the best knowledge, the Annual Consolidated Financial Statements of the Bank Millennium S.A. Capital Group as at 31 December 2009 and the comparable data, were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Capital Group and its financial result. This Annual Management Board Report of Bank Millennium Group contains a true picture of development, achievements and condition of the Capital Group (including the description of key risks and threats).

Selection of an entity authorized to audit financial statements

The entity authorized to review financial reports that audits these Annual Consolidated Financial Statements of the Bank Millennium SA Capital Group as at 31 December 2009, was selected in accordance with the regulations of law. The entity and chartered accountants, who performed the audit, satisfied all the conditions required to issue an unbiased and independent audit report, as required by the national law.

SIGNATURES:

Data	***Imię i nazwisko***	***Stanowisko/Funkcja***	**Podpis**
01.03.2010	**Bogusław Kott**	**Prezes Zarządu**	**....................................**
01.03.2010	**Rui Manuel Teixeira**	**Wiceprezes Zarządu**	**....................................**
01.03.2010	**Fernando Bicho**	**Członek Zarządu**	**....................................**
01.03.2010	**Julianna Boniuk-Gorzelańczyk**	**Członek Zarządu**	**....................................**
01.03.2010	**Wojciech Haase**	**Członek Zarządu**	**....................................**
01.03.2010	**Joao Bras Jorge**	**Członek Zarządu**	**....................................**
01.03.2010	**Artur Klimczak**	**Członek Zarządu**	**....................................**