Annual Financial Statement of Bank Millennium S.A.

for the 12-month period ending 31st December 2012

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2012 to 31.12.2012	period from 1.01.2011 to 31.12.2011	period from 1.01.2012 to 31.12.2012	period from 1.01.2011 to 31.12.2011
Interest income	2 979 723	2 574 691	713 946	621 891
Fee and commission income	596 859	579 946	143 008	140 080
Operating income	1 857 045	1 774 400	444 950	428 589
Operating profit / (loss)	556 871	523 939	133 427	126 552
Profit /(loss) before taxes	556 871	523 939	133 427	126 552
Profit /(loss) after taxes	450 141	415 342	107 854	100 322
Total comprehensive income of the period	215 672	565 463	51 675	136 582
Net cash flows from operating activities	3 568 395	239 524	854 992	57 855
Net cash flows from investing activities	(1 035 377)	1 481 759	(248 078)	357 904
Net cash flows from financing activities	118 351	(1 337 359)	28 357	(323 026)
Net cash flows, total	2 651 369	383 924	635 271	92 733
Total assets	52 113 387	49 613 277	12 747 269	11 232 856
Deposits from banks	2 253 000	1 522 406	551 098	344 685
Deposits from customers	41 552 183	37 549 802	10 163 931	8 501 585
Total equity	4 475 868	4 260 196	1 094 826	964 544
Share capital	1 213 117	1 213 117	296 736	274 660
Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	3.69	3.51	0.90	0.80
Diluted book value per share (in PLN/EUR)	3.69	3.51	0.90	0.80
Capital adequacy ratio	13.52%	12.43%	13.52%	12.43%
Pledged or paid dividend per share (in PLN/EUR)	-	0.10	-	0.03

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.0882 EUR/PLN rate of 31 December 2012 (for comparable data as of 31 December 2011: 4.4168 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2012 – 4.1736 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data on the period 1 January – 31 December 2011: 4.1401 EUR/PLN).

Quarterly Financial Information

INCOME STATEMENT

Amount '000 PLN	1.01.2012-31.12.2012	1.10.2012-31.12.2012*	1.01.2011-31.12.2011	1.10.2011-31.12.2011*
Interest income	2 979 723	769 129	2 574 691	699 622
Interest expense	(1 941 330)	(517 757)	(1 552 230)	(433 383)
Net interest income	1 038 393	251 372	1 022 461	266 239
Fee and commission income	596 859	148 187	579 946	139 506
Fee and commission expense	(89 515)	(24 700)	(64 276)	(19 959)
Net fee and commission income	507 344	123 487	515 670	119 547
Dividend income	41 467	0	13 545	19
Result on investment financial assets	25 362	16 454	8 419	5 980
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	212 407	81 760	185 033	53 875
Other operating income	32 072	8 705	29 272	8 710
Operating income	1 857 045	481 778	1 774 400	454 370
General and administrative expenses	(1 008 364)	(256 522)	(997 427)	(253 851)
Impairment losses on financial assets	(205 919)	(61 600)	(150 277)	(36 866)
Impairment losses on non-financial assets	(219)	(148)	562	(358)
Depreciation and amortization	(53 530)	(13 327)	(62 325)	(14 443)
Other operating expenses	(32 142)	(5 824)	(40 994)	(11 285)
Operating expenses	(1 300 174)	(337 421)	(1 250 461)	(316 803)
Operating profit / (loss)	**556 871**	**144 357**	**523 939**	**137 567**
Profit / (loss) before taxes	**556 871**	**144 357**	**523 939**	**137 567**
Corporate income tax	(106 730)	(31 713)	(108 597)	(28 454)
Profit / (loss) after taxes	**450 141**	**112 644**	**415 342**	**109 113**

* - quarterly financial information has not been audited

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	1.01.2012-31.12.2012	1.10.2012-31.12.2012*	1.01.2011-31.12.2011	1.10.2011-31.12.2011*
Profit / (loss) after taxes	450 141	112 644	415 342	109 113
Other elements of total comprehensive income:				
Effect of valuation of available for sale debt securities	46 046	42 316	(13 249)	(2 735)
Effect of valuation of available for sale shares	0	0	(2 532)	(5 133)
Hedge accounting	(335 514)	(13 200)	201 115	40 814
Other elements of total comprehensive income before taxes	(289 468)	29 116	185 334	32 946
Corporate income tax on other elements of total comprehensive income	54 999	(5 532)	(35 213)	(6 260)
Other elements of total comprehensive income after taxes	(234 469)	23 584	150 121	26 686
Total comprehensive income of the period	215 672	136 228	565 463	135 799

* - quarterly financial information has not been audited

Annual financial statement of the Bank Millennium S.A. for the 12-months period ending 31 December 2012

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I. INCOME STATEMENT

INCOME STATEMENT

Amount ‘000 PLN	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Interest income	1	2 979 723	2 574 691
Interest expense	2	(1 941 330)	(1 552 230)
Net interest income		1 038 393	1 022 461
Fee and commission income		596 859	579 946
Fee and commission expense		(89 515)	(64 276)
Net fee and commission income	3	507 344	515 670
Dividend income	4	41 467	13 545
Result on investment financial assets	5	25 362	8 419
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	212 407	185 033
Other operating income	6	32 072	29 272
Operating income		1 857 045	1 774 400
General and administrative expenses	7	(1 008 364)	(997 427)
Impairment losses on financial assets	8	(205 919)	(150 277)
Impairment losses on non financial assets	9	(219)	562
Depreciation and amortization	10	(53 530)	(62 325)
Other operating expenses	11	(32 142)	(40 994)
Operating expenses		(1 300 174)	(1 250 461)
Profit / (loss) before taxes		**556 871**	**523 939**
Corporate income tax	12	(106 730)	(108 597)
Profit / (loss) after taxes		**450 141**	**415 342**

II. TOTAL COMPREHENSIVE INCOME STATEMENT

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Profit / (loss) after taxes	450 141	415 342
Other elements of total comprehensive income:		
Effect of valuation of available for sale debt securities	46 046	(13 249)
Effect of valuation of available for sale shares	0	(2 532)
Hedge accounting	(335 514)	201 115
Other elements of total comprehensive income before taxes	(289 468)	185 334
Corporate income tax on other elements of total comprehensive income	54 999	(35 213)
Other elements of total comprehensive income after taxes	(234 469)	150 121
Total comprehensive income of the period	215 672	565 463

III. BALANCE SHEET

BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2012	31.12.2011
Cash, balances with the Central Bank	14	2 465 640	2 017 550
Deposits in other banks and loans and advances to banks	15	1 392 424	2 660 366
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	16	664 682	729 029
Hedging derivatives	17	277 812	130 636
Loans and advances to customers	18	39 341 449	39 832 055
Investment financial assets	19	6 750 830	3 133 585
- available for sale		6 750 830	3 133 585
- held to maturity		0	0
Investments in associates	19	308 648	311 303
Receivables from securities bought with sell-back clause	20	17 469	2 209
Property, plant and equipment	21	179 842	206 525
Intangible assets	22	41 375	31 895
Non current assets held for sale	23	0	0
Receivables from Tax Office resulting from current tax		8 989	86 342
Deferred income tax assets	24	104 569	66 750
Other assets	25	559 658	405 032
Total Assets		**52 113 387**	**49 613 277**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2012	31.12.2011
LIABILITIES			
Deposits from banks	26	2 253 000	1 522 406
Financial liabilities valued at fair value through profit and loss	27	467 634	574 418
Hedging derivatives	28	1 115 202	2 298 099
Deposits from customers	29	41 552 183	37 549 802
Liabilities from securities sold with buy-back clause	30	174 788	1 622 335
Debt securities	31	767 586	394 775
Provisions	32	40 705	34 970
Deferred income tax liabilities	33	0	0
Other liabilities	34	652 811	693 048
Subordinated debt	35	613 610	663 228
Total Liabilities		47 637 519	45 353 081
EQUITY			
Share capital	36	1 213 117	1 213 117
Share premium	36	1 147 241	1 147 241
Revaluation reserve	36	(134 604)	99 865
Retained earnings	36	2 250 114	1 799 973
Total Equity		4 475 868	4 260 196
Total Liabilities and Equity		**52 113 387**	**49 613 277**

IV. STATEMENT OF CHANGES IN EQUITY

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2012	4 260 196	1 213 117	1 147 241	99 865	1 799 973
- total comprehensive income of 2012	215 672	0	0	(234 469)	450 141
Equity at the end of the period (closing balance) 31.12.2012	4 475 868	1 213 117	1 147 241	(134 604)	2 250 114

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2011	3 816 045	1 213 117	1 147 241	(50 256)	1 505 943
- dividend for 2010	(121 312)	0	0	0	(121 312)
- total comprehensive income of 2011	565 463	0	0	150 121	415 342
Equity at the end of the period (closing balance) 31.12.2011	4 260 196	1 213 117	1 147 241	99 865	1 799 973

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

V. CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Profit (loss) after taxes	450 141	415 342
Adjustments for:	3 118 254	(175 818)
Interests in net profit/(loss) of associated companies	0	0
Depreciation and amortization	53 530	62 325
Foreign exchange (gains) /losses	(122 300)	192 780
Dividends	(39 383)	(13 545)
Changes in provisions	5 735	14 467
Result on sale and liquidation of investing activity assets	(35 458)	(6 951)
Change in financial assets valued at fair value through profit and loss	(459 908)	834 359
Change in loans and advances to banks	1 037 138	(845 215)
Change in loans and advances to customers	486 268	(4 168 689)
Change in receivables from securities bought with sell-back clause	(15 260)	52 876
Change in liabilities valued at fair value through profit and loss	(1 289 681)	752 231
Change in liabilities to banks	667 245	180 282
Change in deposits from customers	4 002 381	2 012 265
Change in liabilities from securities sold with buy-back clause	(1 447 547)	948 141
Change in debt securities	372 811	10 238
Change in income tax settlements	194 632	33 974
Income tax paid	(104 819)	(119 683)
Change in other assets and liabilities	(205 147)	(147 265)
Other	18 017	31 592
Net cash flows from operating activities	**3 568 395**	**239 524**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Inflows:	177 765 054	82 217 639
Proceeds from sale of property, plant and equipment and intangible assets	8 836	303
Proceeds from sale of shares in associates	7 274	0
Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
Proceeds from sale of investment financial assets	177 709 561	82 203 791
Other	39 383	13 545
Outflows:	(178 800 431)	(80 735 880)
Acquisition of property, plant and equipment and intangible assets	(25 014)	(18 021)
Acquisition of shares in associates	0	0
Acquisition of financial assets valued at fair value through profit and loss	0	0
Acquisition of investment financial assets	(178 775 417)	(80 717 859)
Other	0	0
Net cash flows from investing activities	**(1 035 377)**	**1 481 759**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Inflows:	298 750	0
Long-term bank loans	298 750	0
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other	0	0
Outflows:	(180 399)	(1 337 359)
Repayment of long-term bank loans	(140 844)	(787 520)
Redemption of debt securities	0	0
Decrease in subordinated debt	0	(362 040)
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	(121 312)
Other	(39 555)	(66 487)
Net cash flows from financing activities	**118 351**	**(1 337 359)**

D. NET CASH FLOWS, TOTAL (A+B+C)	2 651 369	383 924
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	3 642 752	3 258 828
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	6 294 121	3 642 752

VI. GENERAL INFORMATION ON THE ISSUER

Bank Millennium S.A. (the Bank) is a nationwide universal bank, offering its services to all market segments via a network of branches, corporate centers, individual advisors and electronic banking.

The Bank, entered under the number KRS 0000010186 in the National Court Register kept by the Local Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, is seated in Warsaw, ul. Stanisława Żaryna 2A.

The Bank is listed on the Warsaw Stock Exchange since 1992, first Bank ever to float its shares on the WSE.

The Bank is a parent company of a Capital Group (the Group) with over 6,000 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, and investment fund management.

Supervisory Board and Management Board of Bank Millennium S.A. as at 31 December 2012

Annual General Meeting of the Bank on 20 of April 2012 has chosen the following persons to the Supervisory Board of the Bank (in alphabetical order):

1. Nuno Manuel da Silva Amado,
2. Maciej Bednarkiewicz,
3. Miguel de Campos Pereira de Bragança,
4. Luís Maria França da Castro Pereira Coutinho,
5. Marek Furtek,
6. Bogusław Kott,
7. Andrzej Koźmiński,
8. Krzysztof Kwiatkowski (Mr. Krzysztof Kwiatkowski, in a letter dated December 12, 2012 made a statement about his resignation, due to additional professional plans, from a position of the member of the Supervisory Board of the Bank),
9. Maria da Conceição Mota Soares de Oliveira Callé Lucas,
10. Marek Rocki,
11. Dariusz Rosati,
12. Rui Manuel da Silva Teixeira.

Mr Bogusław Kott has been appointed, conditional on his resignation from the position of Chairman of the Management Board of the Bank, however not earlier than 1 July 2013.

On 20 April 2012 a meeting was held of the Supervisory Board of the Bank, convened on the same day by the General Shareholders' Meeting for a new term, at which the Supervisory Board constituted itself, appointing Mr Maciej Bednarkiewicz as the Chairman of the Supervisory Board, Mr Nuno Manuel da Silva Amado as the Deputy Chairman of the Supervisory Board, Mr Marek Furtek as the Secretary of the Supervisory Board.

The Supervisory Board decided that the Management Board of the Bank shall have 8 members appointed as of 20 April 2012:

1. Bogusław Kott for Chairman of the Management Board,
2. Joao Bras Jorge for First Deputy Chairman of the Management Board,
3. Fernando Bicho and Artur Klimczak for Deputy Chairmen of the Management Board,
4. and Julianna Boniuk-Gorzelańczyk, Wojciech Haase, Andrzej Gliński and Maria Jose Campos as remaining Members of the Management Board.

VII. ACCOUNTING POLICY

1) STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

This financial report was approved for publication by the Management Board on 27 February 2013.

2) STANDARDS AND INTERPRETATIONS NOT BINDING AS OF THE BALANCE SHEET DAY.

A number of new Standards (IFRS), amendments to Standards and Interpretations are not yet mandatorily effective for annual periods ending on 31 December 2012 and have not been applied in preparing these financial statements. Of these pronouncements, the following have been chosen as they may potentially have an impact on the Bank's financial statements due to Bank's activity. The Bank plans to adopt these pronouncements when they become effective.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS AS ADOPTED BY THE EU THAT ARE NOT YET EFFECTIVE FOR ANNUAL PERIODS ENDING ON 31 DECEMBER 2012.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

Effective date: for periods beginning on 1 July 2012 or after that date

Nature of changes:

The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects then the aggregated tax amount should be allocated between these sections.
- change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

Possible impact on financial statements:

Standard changes will have no impact on the financial position and results of the Bank's operations influencing only the way of data presentation in the financial statements.

IAS 19 Employee Benefits (2011)

Effective date: for periods beginning on 1 January 2013 or after that date

Nature of changes:

- The amendments require actuarial gains and losses to be recognised immediately in other comprehensive income.
- The amendments remove the corridor method previously applicable to recognising actuarial gains and losses, and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendments also require the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standard, however, it is not expected to have a significant effect on its financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

Effective date: for periods beginning on 1 January 2013 or after that date

Nature of changes:

The Amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standard, however, it is not expected to have a significant effect on its financial statements.

IFRS 13 Fair Value Measurement

Effective date: for periods beginning on 1 January 2013 or after that date

Nature of changes:

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

Possible impact on financial statements:

The Bank is not able to prepare an analysis of the impact this will have on the Bank's financial statements until the date of initial application.

IFRS 12 Disclosure of Interests in Other Entities

Effective date: for periods beginning on 1 January 2014 or after that date

Nature of changes:

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

Possible impact on financial statements:

The Group does not expect IFRS 12 to have material impact on the consolidated financial statements.

IAS 27 Separate Financial Statements (2011)

Effective date: for periods beginning on 1 January 2014 or after that date

Nature of changes:

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.

Possible impact on financial statements:

The Bank does not expect that aforementioned change will have material impact on the financial statements, since it does not results in a change in the entity's accounting policy.

IAS 28 Investments in Associates and Joint Ventures (2011)

Effective date: for periods beginning on 1 January 2014 or after that date

Nature of changes:

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

Possible impact on financial statements:

The Bank does not expect the amendments to Standard to have material impact on the Bank's financial statements.

STANDARDS AND INTERPRETATIONS NOT YET ENDORSED BY THE EU AS AT 31 DECEMBER 2012

Improvements to IFRS (2009-2011)

Effective date: for periods beginning on 1 January 2013 or after that date

Nature of changes:

The Improvements to IFRSs (2009-2011) contains 7 amendments to 5 standards, with consequential amendments to other standards and interpretations. The main changes relate to:

- repeated application of IFRS 1 – a repeated adopter that elects not to apply IFRS 1 has to apply IFRS retrospectively in accordance with IAS 8, as if it had never stopped applying IFRS;
- clarification that first-time adopter of IFRS choosing to apply borrowing costs exemptions should not restate the borrowing cost component that was capitalized under previous GAAP and should account for borrowing cost incurred on or after the date of transition (or an earlier date, as permitted by IAS 23) in accordance with IAS 23;
- clarification that only one comparative period, which is the preceding period, is required to a complete set of financial statements; however if additional comparative information is prepared it should be accompanied by related notes and be in accordance with IFRS;
- clarification that the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or reclassification has a material effect upon the information in that statement of financial position and except for the disclosures required under IAS 8, other notes related to the opening statement of financial position are no longer required.
- clarification on the classification and accounting of spare parts, stand-by equipment and servicing equipment;
- removal of inconsistencies between IAS 32 and IAS 12 in respect of distributions to holders of an equity instrument and transaction costs of an equity transaction, by clarification that IAS 12 applies to the accounting for income taxes relating to those transactions;
- additional disclosure required of a measure of total assets and liabilities for a particular reportable segment for interim financial reporting.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standards, however aforementioned changes are expected to have insignificant impact on Bank's financial statements.

Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

Effective date: for periods beginning on 1 January 2013 or after that date

Nature of changes:

The amendments:

- define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
- limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
- requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
- will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standards, however aforementioned changes are expected to have insignificant impact on Bank's financial statements.

IFRS 9 Financial Instruments (2009)

Effective date: for periods beginning on 1 January 2015 or after that date

Nature of changes:

This Standard replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standard on the financial statements, however, due to the complex nature of changes and still ongoing process of Standard modifying estimation of the impact of changes on the Bank's financial statements has not been completed yet.

Additions to IFRS 9 Financial Instruments (2010)

Effective date: for periods beginning on 1 January 2015 or after that date

Nature of changes:

The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities.

The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.

The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss.

Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.

Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standard on the financial statements, however, due to the complex nature of changes and still ongoing process of Standard modifying estimation of the impact of changes on the Bank’s financial statements has not been completed yet.

Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

Effective date: for periods beginning on 1 January 2015 or after that date

Nature of changes:

These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 Financial Instruments (2010).

The amended IFRS 7 requires to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.

If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application.

If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7.

If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 are required.

Possible impact on financial statements:

The Bank is currently evaluating the impact of the new Standard on the financial statements, however, due to the complex nature of changes and still ongoing process of Standard modifying estimation of the impact of changes on the Bank’s financial statements has not been completed yet.

3) Adopted Accounting standards

Basis of Financial Statements Preparation

These financial statement are prepared on the basis of the assumption of business continuity by the Bank, namely scale of business is not to be reduced substantially, in a period of not less than one year from the balance sheet date.

The financial statements have been prepared in PLN, and all values, unless otherwise indicated, are given in PLN rounded to one thousand.

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

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

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

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

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

Functional and presentation currency

Functional and presentation currency

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

Transactions and balances

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

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

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

Application of Estimates in connection with Accounting Policies

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

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

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

- Impairment of loans and advances

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

- Fair value of financial instruments

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

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

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

- Prices quoted on the active market for identical instruments for following financial instruments:

  Treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:

  Treasury floating interest debt securities,

  Derivatives:

  - FRA, IRS, CIRS,

  - FX Swap, FX Forward,

  - Embedded derivatives,

  Bills issued by the Central Bank;
- Techniques of measurement with use of significant parameters not coming from the market:

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

  Derivatives:

  - FX Options acquired by the Bank,

  - Indexes options acquired/placed by the Bank.

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

- Impairment of other non current assets

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

- Other Estimate Values

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

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

Financial assets and liabilities

Classification

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

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

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

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

- Held to maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than: (1) those that the Bank upon initial recognition designates as at fair value through profit or loss; (2) those that the entity designates as available for sale; and (3) those that meet the definition of loans and receivables. Held to maturity investments cannot be reclassified to other category. The Bank cannot classify any financial assets as held to maturity during two financial years (any remaining held to maturity investments have to be reclassified as available for sale), if the Bank, during the current financial year, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity. This does not apply if the sale or reclassification described above took place, so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; the event occurs after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or the event is result of an isolated event that is beyond the Bank's control, is nonrecurring and could not have been reasonably anticipated by the Bank.

- Loans and receivables

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

- Financial assets available for sale

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

- Other financial liabilities

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

Recognition of financial instruments in the balance sheet

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

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

Derecognition of financial instruments from the balance sheet

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

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

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

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

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

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

  The instruments are valued at fair value, and any changes are recognized directly in the profit and loss of the Bank.

- Held to maturity investments and loans and receivables

  This category is valued at amortized cost using effective interest rate less any impairment. Impairment is recognised in the profit and loss account.

- Financial asset available for sale

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

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

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

- Other financial liabilities

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

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

Capital investments in subsidiary and associated entities

Subsidiary entities

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

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

- it has more than a half of the voting rights under an agreement with other investors,
- it has the ability to govern the financial and operational policy of the business entity under articles of association or agreement,
- it has the ability to appoint or recall a majority of members of the Management Board or an equivalent body, where such Management Board or body exercises control over the entity, or
- it has a majority of votes at meetings of the Management Board or an equivalent body, where such Management Board or body exercises control over the entity.

Associated entities

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

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

Hedge Accounting and Financial Derivatives

Valuation at fair value

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

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and thorough the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- The Bank anticipates that the hedge will be highly effective in balancing cash flows and changes in fair value in accordance with the documented risk management strategy pertaining to this particular hedge combination;

- The hedging of cash flows covers a highly probable forecasted transaction exposed to the risk of changing cash flows impacting the level of earnings;
- The effectiveness of a hedge can be reliably assessed, i.e. one can credibly assess the fair value of the hedged position or cash flows originating from such position and the fair value of the hedging instrument;
- The hedge is verified on an on-going basis and it is found to be very effective throughout the period of its utilisation.

Hedging cash flows

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

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

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

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

Hedging fair value

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

Changes in the fair value of derivative instruments assigned and qualifying as fair value hedge are put through the income statement along with the corresponding changes in the fair value of the hedged asset or liability relating to the risk which the Bank hedges against.

The profits and losses resulting from the revaluation of the fair value of a hedging instrument (for a derivative hedging instrument) are disclosed in the income statement, while the profits or losses associated with the hedged position resulting from the hedged risk adjust the on-balance value of the hedged position and are recorded in the income statement. This principle applies to a hedged position which in other circumstances is valued at depreciated cost. If the hedged position is a financial asset available for sale, the profits or losses resulting from the hedged risk are recorded in the income statement until disposing or maturity date of such asset.

Discontinuing hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

- FX forward

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

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

- FX SWAP

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

- Interest Rate SWAP (IRS)

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

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

- Cross – Currency Swap (CCS)

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

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

- IRS transactions with embedded options

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

- FX options

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

- Forward Rate Agreement (FRA)

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

- Commodity futures

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

- Commodity options

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

Impairment of financial assets

Assets valued at amortized cost

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

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

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

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

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

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

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

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

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

Financial assets available for sale

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

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

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

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

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

Offsetting of financial instruments

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

Transactions with sell/buy-back clauses

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

The Bank presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause.

This is in order to reflect the risks and rewards arising on this asset that is retained by the Bank after the transfer. When the Bank purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

These transactions are measured at amortized cost, and securities which are the subject of aforementioned transactions are not removed from the balance sheet and are measured in accordance with principles applicable for particular securities portfolio.

The difference between sale and repurchase price is treated as interest cost/ income, and is accrued over the period of the agreement by application of an effective interest rate.

Settlement of leasing agreements

The Bank is a party to leasing agreements based on which it accepts for paid use or collecting benefits external fixed assets for an agreed period.

In the case of lease contracts, under provisions of which the Bank takes transferring substantially all risks and rewards resulting from the ownership of the assets being the subject of the contract (financial leasing), the subject of the lease (in this case: investments in third party fixed assets, equipment, furniture and means of transport) is recognized in the Bank's Balance Sheet and the settlement of lease payments is reflected in the profit and loss account based on effective interest rate method.

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

Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

Tangible fixed assets are reported at historical cost less depreciation and impairment.

Fixed assets under construction are disclosed at the value of the purchasing price or production cost and are not subject to depreciation.

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

Costs of repairing and maintenance of tangible fixed assets encumber the income statement in the reporting period in which they were incurred.

Borrowing costs related to the acquisition, construction or production of an asset, are recognised by the Bank as an expense in the period in which they are incurred

Intangible assets

An intangible asset is an identifiable non-pecuniary asset which does not have physical form and will generate economic benefits for the Bank in the future.

The main components of intangible assets are licenses for computer software.

Purchased computer software licenses are activated in the amount of incurred cost of purchase and preparation for use, taking into account impairment charges.

Outlays associated with the improvement and maintenance of computer software are disclosed as costs at the moment of being incurred.

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

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

All intangible assets are subject to periodic review in order to verify whether there were triggers indicating possible loss of values, which would require a test for the loss of values and an impairment recognition.

Depreciation and amortization charges

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

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

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

Selected categories of property, plant and equipment:	
Bank buildings	2.5%
Lease holding improvements	period of the lease
Computer hardware	30%
Network devices	30%
Vehicles	20%/25%
Telecommunication equipment:	10%
Intangibles (software):	
Main applications (systems)	10%

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

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

Non current assets held for sale

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

For this to be the case the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated.

Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

Impairment of non current assets

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

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

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

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

Prepayments, Accruals and Deferred Income

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

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

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

Provisions

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

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

A detailed formal plan for the restructuring identifies at least: the business or part of a business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented.

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

Employee Benefits

Short-term employee benefits

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

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

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

Long-term employee benefits

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

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

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

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

Bank's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

Revaluation reserve consists of: revaluation of financial assets available for sale and result of cash flow hedge valuation with deferred income tax effect applied. Revaluation reserve is not subject to distribution.

Retained Earnings

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

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

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

Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

Interest income

The Bank recognises in the Profit and Loss Account all interest revenue and costs concerning financial instruments measured at amortised cost with use of the effective interest rate method as well as financial assets available for sale.

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

Net interest income covers also interest income and expense on derivative instruments designated as and being effective hedging instruments in the hedge accounting (detailed information on active hedge accounting relationships is presented in note 17).

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

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

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

Fee and commission income/ Fee and Commission Costs

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

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

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

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

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

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

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

Dividend Income

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

Result on Investment Financial Instruments

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

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

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

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

Other Operating Income and Expenses

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

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

Income tax

Corporate income tax comprises current and deferred tax.

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

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

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

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

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

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

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

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

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

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

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

VIII. FINANCIAL RISK MANAGEMENT

The management of risk is one of the key tasks of the Management Board in the process of effective management of the Bank. It defines the framework for business development, profitability and stability, by creating rules ensuring the Bank’s compliance with best internal control practices and legal requirements and coordination of the strategy for managing all risks.

1) BANK'S RISK MANAGEMENT MISSION

The mission of risk management in the Bank is to ensure that all types of risks are managed, monitored and controlled as required for the risk profile (risk appetite) and nature and scale of the Bank's operations. Risk management takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk.

Efficient risk management requires a consistent risk management system, which is a collection of rules and mechanisms that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such rules also include a broad range of methods, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems.

The results of risk measurement are regularly reported within the management information system.

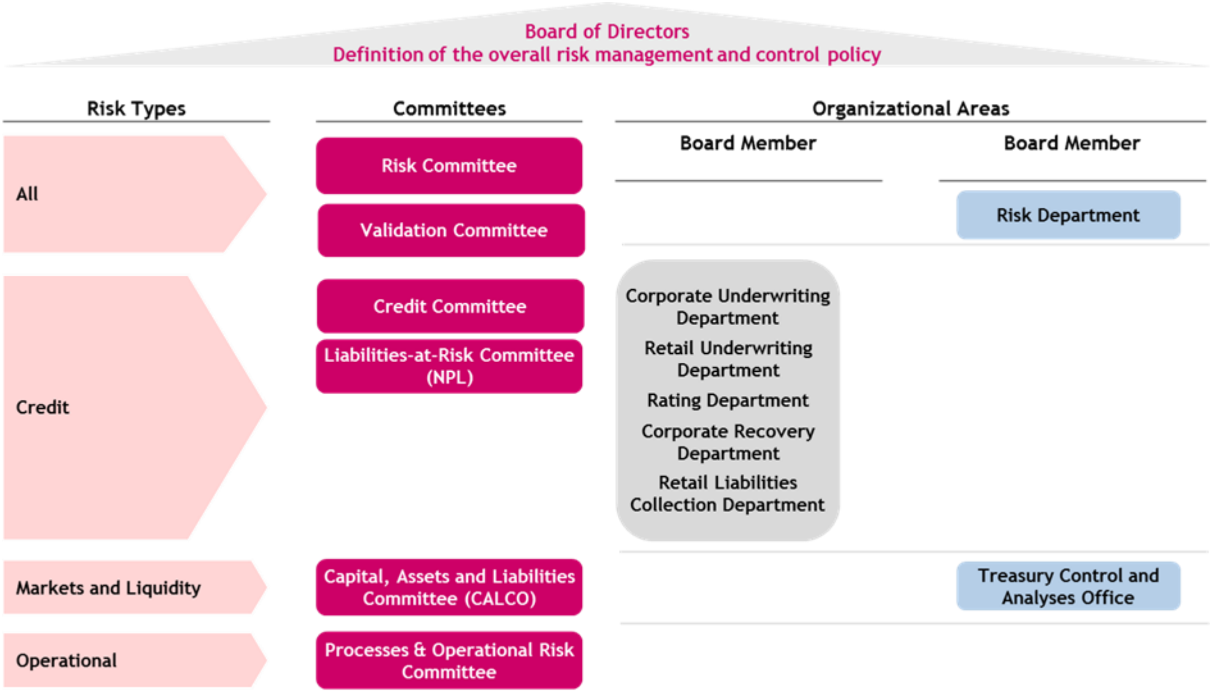
Important principle of risk management is the optimization of the risk and profitability trade-off – the Bank pays special attention to ensure that its business decisions balance risk and profit adequately.

The segregation of duties between risk origination, risk management and risk control is the next of the main rules on the risk management framework in the Bank.

The goals of the mission are achieved through implementation of the following actions:

- Development of risk management strategies, credit policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of the Bank's employees as regards their responsibility for proper risk management at every level of the Bank's organisational structure.

The risk governance model can be represented as follows:



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

- The Supervisory Board is responsible for overseeing the compliance of the Bank's risk-taking policy with the Bank's strategy and its financial plan;
- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board; and
- The Risk Committee and the Processes and Operational Risk Committee are responsible for monitoring and control of different areas of banking risk, within the framework determined by the Management Board.
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Validation Team in Risk Department
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing, monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Risk Committee and the Management Board to make decisions with respect to risk management.
- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process.

- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits.
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection.
- The Corporate Recovery Department develops specific strategies with respect to each debtor, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Bank. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts.
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Bank's limits, including counterparty and stop-loss limits, the Bank's FX position, results of active trading and control of operations of the treasury segment.

2) Capital Management

Regulatory own funds

The management of the Bank's capital, in addition to complying with own needs must fully observe statutory regulations in this regard (own funds, prudential standards, capital requirements) as set by the Banking Act and respective resolutions of the Polish Financial Supervisory Authority.
The Bank's capital adequacy is regularly monitored in detail for individual types of exposure, its coverage by own regulatory funds and change in trends. In this context risk factors, which may lead to deterioration of the Bank's capital position are monitored, including changes of FX rates, real estate prices, growth of impaired exposures. Stress tests are carried out, reflecting growth of these risk factors as well as the potential impact on capital adequacy.
At the end of 2012 year Banco de Portugal (as the consolidating Supervisor) and Polish Financial Supervision Authority granted a consent from 31.12.2012 to the use of the Internal Rating Based (IRB) approach by Bank Millennium to calculate the capital requirements for credit risk relatively to the following sub-portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE).
The capital requirements calculated using the IRB approach must be temporarily maintained at no less than 80% of the respective capital requirements calculated using the Standardized approach and this constraint will be applied until the fulfilment of the conditions defined by BdP and KNF are confirmed by both regulators, but will not cease before 30 June 2014.

Internal capital

The Bank performs its process of internal capital adequacy assessment based on model of economic capital.

The calculation of economic capital covers all the material risk types to which the Bank is exposed to and is based on the set of parameters adjusted to the specifities and realities of the Polish market.

In the process of internal capital calculation particular types of risk and risk-diversification effects are subject to stress testing. Total diversified economic capital is compared then with the risk-taking capacity, i.e. with own funds/available financial resources. As a result of that analysis, internal economic capital adequacy of the Bank is assessed.

In 2012 – similarly as in the previous years – the Bank's aggregate risk (internal capital) was fully covered with funds that could be used for its collateralisation. The internal capital is allocated to specific business areas/product Banks.

3) Credit risk

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

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

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

(3A) Measurement of Credit Risk

Loans and advances

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

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

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

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

(i) The Bank assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed at the level of the BCP Bank, in-house or by external providers, and combine statistical analysis with assessment by a credit professional. The Bank’s customers are divided into 15 rating classes, which for the purposes of this Report have been grouped into 6 main brackets. The Bank’s Master Ratings Scale, presented below, also contains the scale of probabilities of non-compliance with the liabilities specified for a given class/rating. Rating models are subject to regular reviews and – if necessary – to relevant modification. Modifications of models are confirmed by Validation Committee

The Bank regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments is performed by Rating Department independently from credit decision process and transactions are supported by IT systems, obtaining and analyzing information from internal and external databases.

The Bank’s internal rating scale

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

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

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

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

Master scale	Description	31.12.2012		31.12.2011	
		Loans and advances (%)	Impairment charges (%)	Loans and advances (%)	Impairment charges (%)
1	Highest quality	43.80%	3.60%	29.67%	2.35%
2	Good quality	16.13%	1.62%	30.17%	2.59%
3	Medium quality	17.36%	3.44%	15.20%	3.54%
4	Low quality	7.76%	1.89%	7.97%	1.92%
5	Watched	1.62%	3.58%	1.72%	3.20%
6	Default	5.47%	84.72%	4.73%	84.48%
Without rating**		7.86%	1.15%	10.54%	1.92%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

* - In 2012 Master Scale was revised and based on new rules data from 2011 and 2012 were also updated.

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

Debt Securities

The portfolio of debt securities, other than those issued by the State Treasury or the Central Bank, is relatively small. It was decided not to present the portfolio.

Derivatives

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

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

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

Credit risk-based off-balance sheet liabilities

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

Guarantees and letters of credit of standby type (liability similar to guarantee) bears at least the same credit risk as loans (in the case of guarantees and stand-by letters of credit type when valid claim appears, the Bank must make a payment).

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

The available credit line balance is the non-utilised part of previously accepted amounts pertaining to credit liabilities, available for use in the form of loans, guarantees or letters of credit. Considering the credit risk of undertakings to grant credit, the Bank is potentially exposed to a loss in an amount equal to the sum of non-utilised liabilities. However the probable loss amount is usually lower than the total value of non-utilised liabilities, because most of the undertakings to disburse credit depend on customers' particular credit conditions.

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

(3B) Limits control and risk mitigation policy

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

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

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

Collateral

The Bank accepts collateral to mitigate its credit risk exposure; the main role of collateral is to minimize loss in the event of customers' default in repayment of credit transactions in contractual amounts and on contractual dates by ensuring an alternative source of repayment of due and payable amounts.

Collateral is accepted in accordance with the credit policy principles defined for each customer segment. The key principle is that collateral for credit transaction should correspond to the credit risk incurred by the Bank, taking into account the specific nature of the transaction (i.e. its type, amount, repayment period and the customer's rating).

The credit policy defines the types, kinds and legal forms of collateral accepted in the Bank as well as more detailed requirements that are to ensure the probability of selling collateral of respective types in the context of the Bank's recovery experiences.

The Bank pays special attention to the correct determination of collateral value. It defined the rules for preparing and verifying collateral valuation and does it utmost to ensure that such valuations are objective, conservative and reflect the true value of the collateral. In order to ensure effective establishment of collateral, the Bank has developed appropriate forms of collateral agreements, applications, powers-of-attorney and representations.

In the retail segment, accepted collateral consists mainly of residential real property (mortgage loans) and financial assets. In the corporate segment, in addition to all types of real property (residential, commercial, land), physical collateral is also accepted (vehicles, construction equipment, technical equipment, machinery) as well as assignment of contractual receivables.

Temporary collateral is also accepted in the period before the final collateral is established. Additionally, the Bank uses various forms of instruments supplementing the collateral, which facilitate enforcement or increase probability of effective repayment of debt from a specific collateral. Those instruments include: statement of submitting to enforcement, blank promissory note, power-of-attorney to a bank account, assignment of rights under an insurance agreement, low contribution insurance, bridge insurance.

The Bank monitors the collateral to ensure that it satisfies the terms of the agreement, i.e. that the final collateral of the transaction has been established in a legally effective manner or that the assigned insurance policies are renewed. The value of the collateral is also monitored during the term of the credit transaction.

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

(3C) Policy with respect to impairment and creation of impairment provisions

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

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

Individual impairment analysis for credit receivables

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

The whole process comprises following stages:

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

At the end of 2012, the financial effect of the established collaterals for the Bank’s receivables with recognised impairment being a subject to individual analysis (Case by Case) amounted to PLN 183 million (in 2011 - PLN 180 million). This is the amount by which the level of impairment provisions assigned to the portfolio would be higher if during impairment provisions computations estimated cash flows from collaterals had not been taken into account.

Collective analysis of loans portfolio

The following loans are subjected to collective analysis:

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

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

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

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

In 2012, the Bank focused on validating the impairment methodology. As a result of those activities, additional elements were added to the collective analysis methodology:

- Increase LIP (loss identification period) for mortgage loans,
- Creation of a new sub-portfolio for mortgage loans, depending on LTV (i.e. for LTV>80% and LTV<= 100%) with higher provisions charges.

(3D) Maximum exposure to credit risk i.e. net of risk-mitigating instruments

PLN'000	Maximum exposure	
	31.12.2012	31.12.2011
Exposures exposed to credit risk connected with balance sheet assets	**48 475 502**	**46 668 547**
Loans and advances to banks	1 392 424	2 660 366
Loans and advances to customers:	39 341 449	39 832 055
Loans to private individuals:	30 226 297	31 067 852
- Credit cards	707 539	739 913
- Cash loans and other loans to private individuals	2 283 444	2 044 976
- Mortgage loans	27 235 314	28 282 963
Loans to companies	8 282 963	7 853 472
Loans to public entities	832 189	910 731
Trading securities:	46 791	316 250
- Debt securities	46 791	316 250
- Shares	0	0
Derivatives and adjustment from fair value hedge	617 891	412 779
Financial assets valued at fair value	0	0
Investment financial assets	7 059 478	3 444 888
- Debt securities	6 749 758	3 132 507
- Shares	309 720	312 381
Receivables from securities bought with sell-back clause	17 469	2 209
Credit risk connected with off-balance sheet items	6 975 843	8 817 765
Financial guarantees	1 365 076	2 126 403
Credit commitments and other commitments connected with loans	5 610 767	6 691 362

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2012 and 31st December 2011, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

(3E) Loans

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

Gross exposure in '000 PLN

	31.12.2012		31.12.2011	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	36 607 700	1 392 424	37 500 912	2 660 366
Overdue, but without impairment	2 028 421	0	1 626 497	0
With impairment	1 798 498	0	1 783 249	0
Gross	40 434 619	1 392 424	40 910 658	2 660 366
Impairment write-offs together with IBNR	(1 093 170)	0	(1 078 603)	0
Net	**39 341 449**	**1 392 424**	**39 832 055**	**2 660 366**
Loans with impairment / total loans	4.45%		4.36%	

Loans and advances not past due and not impaired

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

Loans and advances not overdue and without impairment

Master Scale	Description	31.12.2012 Loans and advances to customers	31.12.2011 Loans and advances to customers
1	Highest quality	17 653 975	12 113 562
2	Good quality	6 273 616	12 124 776
3	Medium quality	6 438 289	5 871 360
4	Low quality	2 603 309	2 887 591
5	Watched	138 793	152 941
6	Default *	330 846	124 419
Without rating		3 168 872	4 226 263
Total		36 607 700	37 500 912

* - receivables without impairment, due to good quality of collaterals

All receivables from Banks on 31/12/2012 was in the "highest quality (as it was on 31/12/2011).

Loans and advances past due but without impairment

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

Gross exposure in ‘000 PLN

	31.12.2012				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	230 865	1 253 551	238 357	0	1 722 773
Delay 30 - 60 days	57 402	84 579	42 308	0	184 289
Delay 60-90 days	30 223	28 781	17 414	0	76 418
Delay above 90 days*	43 465	3	1 473	0	44 941
Total	361 955	1 366 914	299 552	0	2 028 421

Gross exposure in ‘000 PLN

	31.12.2011				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	163 808	1 075 814	216 999	0	1 456 621
Delay 30 - 60 days	16 253	52 427	35 943	0	104 623
Delay 60-90 days	7 638	19 950	16 166	0	43 754
Delay above 90 days*	19 899	6	1 594	0	21 499
Total	207 598	1 148 197	270 702	0	1 626 497

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

Impaired loans and advances

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

Gross exposure in ‘000 PLN

	31.12.2012				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	842 316	47 575	1 198	0	891 089
Collective analysis	123 523	257 220	526 666	0	907 409
Total	965 839	304 795	527 864	0	1 798 498

Gross exposure in '000 PLN

	31.12.2011				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	845 180	32 226	902	0	878 308
Collective analysis	110 003	238 718	556 220	0	904 941
Total	955 183	270 944	557 122	0	1 783 249

Loans and advances covered by case-by-case analysis

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

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

- By products

Loans and advances to customers, gross exposure

	31.12.2012			31.12.2011		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
Investment loans	313 123	35.1%	18.6%	371 388	42.3%	28.1%
Working capital loans	74 360	8.3%	45.3%	126 575	14.4%	26.7%
Current account loans	160 843	18.1%	70.0%	60 437	6.9%	60.7%
Guarantees and sureties realised	34 540	3.9%	99.8%	800	0.1%	64.5%
Mortgage loans	47 984	5.4%	25.0%	32 226	3.7%	21.9%
Factoring	79 708	8.9%	22.5%	15 804	1.8%	59.9%
Other*	180 531	20.3%	61.9%	271 078	30.8%	60.5%
Total	891 089	100.0%	42.7%	878 308	100.0%	40.5%

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

- By currency

Loans and advances to customers, gross exposure

	31.12.2012			31.12.2011		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	633 774	71.1%	55.2%	560 988	63.9%	48.6%
CHF	5 424	0.6%	23.7%	20 822	2.4%	14.9%
EUR	1 339	0.2%	61.2%	532	0.0%	0.0%
USD	250 516	28.1%	11.5%	295 966	33.7%	27.0%
GBP	36	0.0%	100.0%	-	-	-
Total	891 089	100.0%	42.7%	878 308	100.0%	40.5%

- By coverage ratio

Loans and advances to customers, gross exposure

	31.12.2012		31.12.2011	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	300 262	33.7%	149 526	17.0%
20% to 40%	177 365	19.9%	439 823	50.1%
40% to 60%	127 493	14.3%	92 445	10.5%
60% to 80%	38 089	4.3%	70 866	8.1%
Above 80%	247 880	27.8%	125 648	14.3%
Total	891 089	100.0%	878 308	100.0%

Restructured loans and advances

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

The restructuring of both corporate and retail receivables allows the Bank to take effective action towards the customers, the purpose of which is to minimize losses and mitigate, as quickly as possible, any risks to which the Bank is exposed in connection with client transactions giving rise to the Bank's off-balance sheet receivables or liabilities.

The restructuring process applies to the receivables which, based on the principles in place in the Bank, are transferred to restructuring and recovery portfolios and includes setting new terms of transactions which are acceptable for the Bank (including in particular the terms of their repayment and their collateral and possibly obtaining additional collateral).

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

- warning process - conducted by Direct Banking Department,
- restructuring and execution proceedings - implemented by Retail Liabilities Collection Department.

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

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

The scoring model is based on its internal calculations including, inter alia, Customer's business segment type of credit risk based product (applicable, primarily, to mortgage products) and history of cooperation with the Customer relative to previous restructuring and execution activities. Late receivables from retail customers are sent to the IT system automatically no later than 4 days after the date of the receivable becoming due and payable.

The restructuring and recovery process applicable to corporate receivables is centralized and performed by the Corporate Recovery Department. Recovery of corporate receivables aims to maximize the recovery amounts in the shortest possible periods of time and to mitigate risk incurred by the Bank by carrying out the accepted restructuring and recovery strategies towards:

- the Customer,
- corporate receivables,
- collateral ensuring their repayment.

The actions performed as part of those strategies include, among others: setting the terms and conditions of Customer financing, terms and conditions of restructuring corporate receivables, including the terms on which they will be repaid and secured, obtaining valuable and liquid collateral, achieving amicable repayment, recovery of due and payable receivables (also by court executive officer), also from collateral, actions performed within debtors' bankruptcy proceedings, conducting required legal actions.

Corporate Recovery Department manages the corporate receivable restructuring and recovery process in the corporate portfolio by using IT applications supporting the decision-making process. They provide instantaneous information on receivables, collateral, approach used and key actions and dates.

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

Gross exposure in '000 PLN

	31.12.2012	31.12.2011
Loans and advances to private individuals	397 626	290 840
Loans and advances to companies	324 430	466 818
Total	722 056	757 658

Bank execution titles

In 2012, the Bank issued in corporate 183 bank execution titles for the aggregated amount of PLN 262.6 million (based on the average NBP exchange rate of 31 December 2012), including:

- 181 bank execution titles for the aggregated amount of PLN 245.8 million,
- 2 bank execution title for EUR 4.1 million,

Additionally, in 2011 the Bank issued 13 059 bank execution titles for retail and small business receivables for the aggregated amount of PLN 191.4 million (based on the exchange rate of 31 December 2012). In addition, in 2012, the Bank sent to the courts 7 262 lawsuit for a payment order in the amount of PLN 47.8 million.

(3F) Debt and equity securities

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2012.

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	46 791	3 037 456	22	3 084 269
Central Bank	0	3 598 724	0	3 598 724
Other	0	113 578	328 784	442 362
- listed	0	0	0	0
- not listed	0	113 578	328 784	442 362
Total	**46 791**	**6 749 758**	**328 806**	**7 125 355**

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2011.

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	316 250	1 927 780	24	2 244 054
Central Bank	0	1 099 887	0	1 099 887
Other	0	104 840	334 154	438 994
- listed	0	0	0	0
- not listed	0	104 840	334 154	438 994
Total	**316 250**	**3 132 507**	**334 178**	**3 782 935**

(3G) Collateral transferred to the Bank

In 2012 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (also as part of selling organized parts of the debtor's whole enterprise).

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

(3H) Policy for writing off receivables

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

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

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

(3l) Concentration of risks of financial assets with exposure to credit risk

Industry sectors

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

31.12.2012	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 392 424	0	0	0	0	0	0	0	1 392 424
Loans and advances to customers	350 430	3 545 996	2 095 349	996 848	590 585	27 392 947	3 411 458	2 051 006	40 434 619
Trading securities	0	0	0	0	46 791	0	0	0	46 791
Derivatives and adjustment from fair value hedge	863 287	14 832	1 020	10 187	0	0	0	6 377	895 703
Investment securities	152 955	160 539	8 200	27	6 749 780	0	0	7 064	7 078 564
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	17 469	0	0	0	0	0	0	0	17 469
Total	2 776 566	3 721 366	2 104 569	1 007 062	7 387 156	27 392 947	3 411 458	2 064 447	49 865 571

31.12.2011	Financial intermediation	Industry and constructions	Wholesale and retail trade	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	2 660 366	0	0	0	0	0	0	0	2 660 366
Loans and advances to customers	461 647	3 640 541	2 018 294	766 101	833 111	28 410 931	3 246 262	1 533 771	40 910 658
Trading securities	0	0	0	0	316 250	0	0	0	316 250
Derivatives and adjustment from fair value hedge	513 012	17 029	2 324	250	0	0	0	10 800	543 415
Investment securities	158 345	160 539	8 200	29	3 132 531	0	0	7 066	3 466 709
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	2 209	0	0	0	0	0	0	0	2 209
Total	3 795 579	3 818 109	2 028 818	766 380	4 281 892	28 410 931	3 246 262	1 551 637	47 899 607

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

4) MARKET RISK

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

Market-risk evaluation measures

The market risk measurement allows monitoring of all of the risk types that are considered to be relevant in the Bank, that is generic risk (including interest rate risk, foreign exchange risk, equity risk), non-linear risk, specific risk and commodity risk. In 2012 the equity risk, nonlinear risk and commodities risk did not exist or was insignificant in the Bank.

Each market risk type is measured individually using an appropriate risk model and then integrated measurement of total market risk is built from those assessments without considering any type of diversification between the four risk types (the worst case scenario).

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

Calculation of the VaR in the Bank is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics company (1996). The VaR is calculated considering the holding period of 10 working days and a 99% confidence level (one tail).

According to the adopted methodology, the volatility associated with each market risk vertex considering in the model (and respective correlation between them) is estimated by the exponentially weighted moving average method (EWMA) using the historical data of one year and a time weighting factor (lambda) of 0,94. The method gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear risk, commodity risk and specific risk), the appropriate risk assessment rules were defined.
The non-linear risk is measured according to internally developed methodology which is in line with the VaR methodology – the same time horizon and significant level is used. Specific and commodities' risks are measured through standard approach defined in supervisory regulations (Basel II), with a corresponding change of the time horizon considered.

The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily.

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

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

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

The following types of market scenarios are being applied in the stress test analysis:

- Parallel shifts of the yield curves;
- More steep or flat shape of the yield curves;
- Variations of interest rate volatility;
- Variations of the exchange rates;
- Variations of currency and currency interest rate swaps spreads;
- Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows to have on-line access to the risk exposures in terms of VaR in all market risk management areas.

VaR is used as a measure in assessing the risks incurred by the positions both in Trading and Banking Book. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Bank. In June 2012,the market risk limits were revised (adjustment of the Group's Own Funds and EUR/PLN fx rate).

VaR ratios presented in the table below reflect joint exposures to market risk in the Bank, that is Trading Book and the Banking Book. The average total risk exposure in 2012 was equal to approx. PLN 21.52 million. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect is connected with the fact that the Bank's market is mainly the interest rate risk. The figures in the Table include also the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

The market risk in terms of VaR in the Global Bank in 2012 (PLN thousand):

VaR measures for market risk	VaR (from 31st December 2011 to 31st December 2012)				
	End of 2011	Average	Maximum	Minimum	End of 2012
Total risk	19 925	21 518	44 503	11 419	11 419
Generic risk	16 912	18 742	41 833	8 399	8 399
Interest Rate VaR	16 871	18 726	41 832	8 397	8 397
FX Risk	94	274	2 367	11	18
Equity risk	0	3	280	0	0
Diversification Effect	0,3%				0,2%
Non-linear risk	0	0	0	0	0
Commodities risk	0	0	0	0	0
Specific risk	2 790	2 774	3 121	2 641	3 020

The corresponding exposures as of 2011 respectively amounted to:

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 2011)				
	End of 2010	Average	Maximum	Minimum	End of 2011
Total risk	11 979	15 826	25 980	8 495	19 925
Generic risk	9 247	13 023	23 106	5 752	16 912
Interest Rate VaR	9 264	13 041	23 774	5 764	16 871
FX Risk	152	515	6 847	9	94
Equity risk	0	0	0	0	0
Diversification Effect	2%				0,3%
Non-linear risk	22	7	57	0	0
Commodities risk	0	0	0	0	0
Specific risk	2 710	2 796	2 982	2 680	2 790

The market risk exposure divided into Trading Book and Banking Book together with risk type division is presented in the table below (PLN thousand):

Banking Book:

VaR measures for market risk	VaR (from 31st December 2011 to 31st December 2012)				
	End of 2011	Average	Maximum	Minimum	End of 2012
Total risk	18 464	19 399	38 608	11 764	11 764
Generic risk	15 694	16 640	35 953	8 760	8 760
Interest Rate VaR	15 665	16 640	35 953	8 760	8 760
FX Risk	58	1	64	0	0
Diversification Effect	0.2%				0.0%

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 2011)				
	End of 2010	Average	Maximum	Minimum	End of 2011
Total risk	11 097	12 539	19 275	7 378	18 464
Generic risk	8 389	9 763	16 385	4 672	15 694
Interest Rate VaR	8 389	9 760	16 385	4 672	15 665
FX Risk	0	10	88	0	58
Diversification Effect	0.0%				0.2%

Trading Book:

VaR measures for market risk	VaR (from 31st December 2011 to 31st December 2012)				
	End of 2011	Average	Maximum	Minimum	End of 2012
Total risk	2 371	4 331	8 593	1 563	2 676
Generic risk	2 127	4 314	8 570	1 546	2 661
Interest Rate VaR	2 121	4 296	8 631	1 504	2 665
FX Risk	36	273	2 367	11	18
Diversification Effect	1.4%				0.8%

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 20111)				
	End of 2010	Average	Maximum	Minimum	End of 2011
Total risk	4 258	5 901	11 200	1 551	2 371
Generic risk	4 235	5 874	11 190	1 536	2 127
Interest Rate VaR	4 248	5 833	11 818	1 540	2 121
FX Risk	152	510	6 847	9	36
Diversification Effect	3.9%				1.4%

In 2012, there were no total market risk limit excesses neither in Banking Book nor in Trading Book.

During some days of December 2012, the total market risk exposure in terms of VaR in ALM Portfolio (Banking Book) was above the sublimit for this management area due to the increase of observed market volatility connected with the PLN reference interest rate cuts (two reference interest rate cuts, each by 25 b.p. in 4th quarter 2012) as well as the change of the interest rate risk hedging strategy.

All excesses of market risk limits are reported, documented and ratified at the proper competence level.

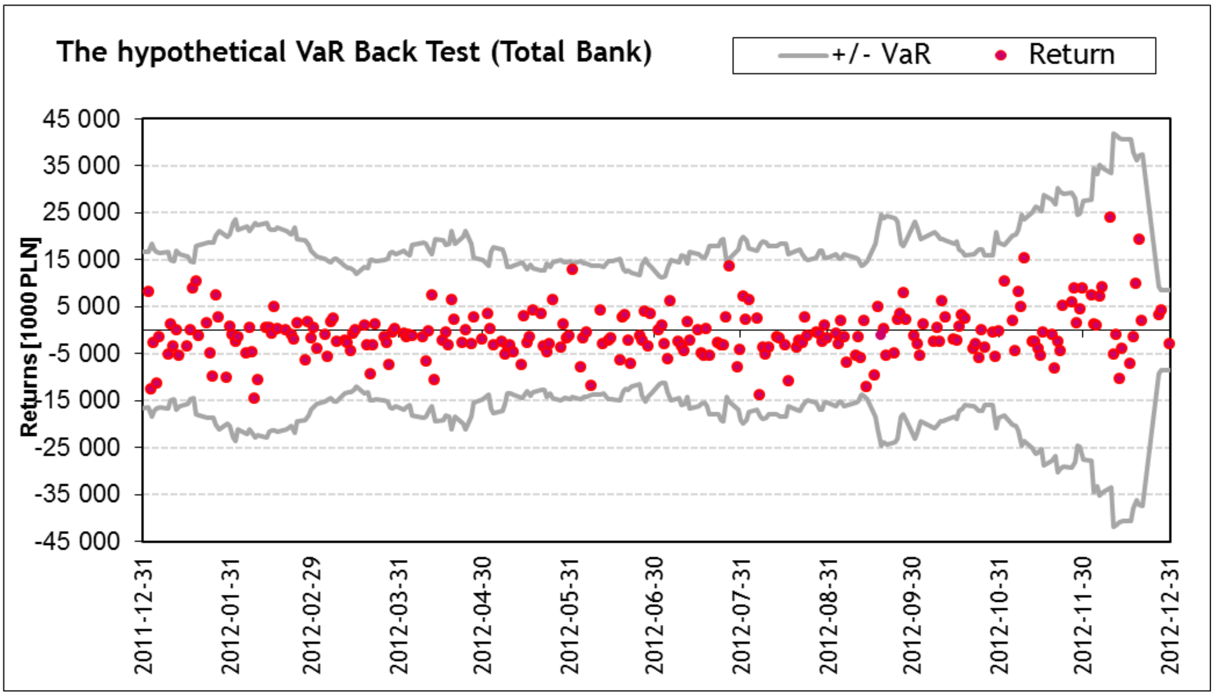
Open positions mostly included interest-rate instruments and FX risk instruments. The FX Risk covers all the foreign exchange exposures of the Bank. The open positions are allowed only in the Trading Portfolios.

Evolution of the total FX open position in Trading Portfolio (PLN thousand):

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2012	25 890	2 246	65 228	9 155
2011	16 208	1 635	61 390	3 112

In the Var model back test process, there was no excesses detected during the last twelve months.

Market risk - VaR Back Testing



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

In keeping with principles adopted by the Bank the indicative limits for stress test results are twice as high as limits for daily management of market risk.

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

Bank performs hedging strategies against interest rate risk connected with the fixed rate loan portfolio, in particular with the portfolio of consumer loans and leasing portfolio. Cash loans portfolio was partially hedged with amortizing IRS transactions and incorporated into the hedge accounting until August 2012. Currently, the portfolio is economically hedged with demand deposits and fixed rate term deposits.

As at end of December 2012 the value of BPV for the Banking Book was approx. PLN 22 million.

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

BPV Banking Book	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2012	(13 459)	(58 639)	23 421	21 683
2011	5 676	(16 698)	24 422	5 332

5) LIQUIDITY RISK

The objective of liquidity risk management is to ensure and maintain the Bank's ability to meet both current, as well as future funding requirements.

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

The large, diversified and stable funding from retail, corporate and public sectors remains the main source of financing. In 2012 the deposit grew to the level of approx. PLN 41.4 billion due to an attractive offer and effective marketing campaigns.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2012 slightly decreased compared to 2011, amounting respectively to 3.4% and 9.6% (in December 2011 it was respectively 4.5% and 9.8%).

The Bank manages FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, Cross Currency Swap and FX Swap transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Bank has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Bank is obliged to place deposits as a collateral with counterparties in order to secure the settlement of derivative instruments in the future, and in case of favourable FX rates changes (PLN appreciation) receives deposits as a collateral from the counterparty.

The Bank assesses the possibility of unfavourable changes of FX rates (especially CHF and EUR, which causes increase of liquidity needs), analyses the impact on liquidity risk and reflects this risk in the liquidity plans.

In 2012 the Bank disbursed the last tranche of the medium-term loan in total amount of 100 million euro from EIB (the outstanding amount to the tranches disbursed in December 2010 in amount of 31,2 m euro) as well as prolonged for additional year a 200 million euro stand-by facility with Millennium BCP – the parent company. Additionally, in December 2012 new loan agreement with EBRD was concluded as an extension of the PolSEFF program (energy efficiency projects). The disbursement of 60 million PLN was done in January 2013 with final repayment in 4 years.

During 2012 the level of long-term stable sources of funding increased also due to the issue of the new own bonds. In 2012, the Bank issued an additional structured bonds (about PLN 165 million) and in 4th quarter 2012 the Bank made two private placements of 3-year bond issues with large Polish institutional investors in total amount of 350 million PLN.

Liquidity risk evaluation measures

The estimation of the Bank's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. The evolution of the Bank's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively.

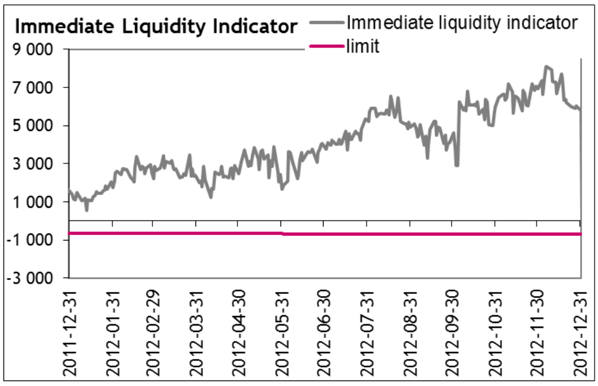
The calculation of these indicators involves adding to the day's liquidity position the estimated future cash flows for each day from the respective time horizon (spot date or 3 months) for the transactions concluded by markets areas. The amount of assets from the Bank's highly liquid securities portfolio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

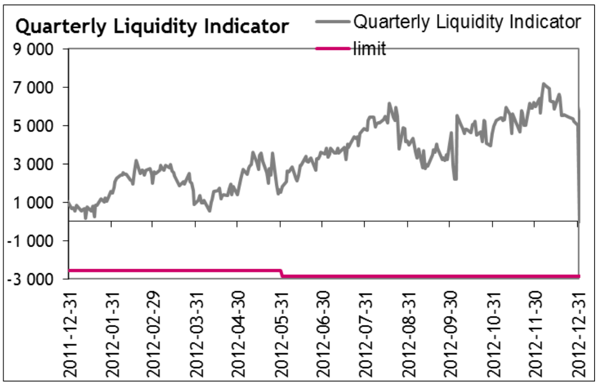
These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force. During the year, these indicators were well above minimum limit.

Current Liquidity indicators PLN million

	31.12.2012			
	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	5 543	5 796	5 006	5 883
Minimum limit		(713)	(2 853)	2 000

	31.12.2011			
	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	933	1 677	1 041	3 698
Minimum limit		(636)	(2 544)	2 000





The Bank monitors liquidity on the basis of internal liquidity measures, taking into account in particular the impact of FX rates on the liquidity situation.

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

In 2012 liquidity gaps in both normal and under stress scenarios were maintained at levels significantly above the safe limits.

The Bank has developed a liquidity risk management tool defining stress scenarios under which liquidity gaps are calculated on a real basis assuming a conservative approach to the assessment of probability of cash flow occurrence (among others taking into account a reduction of deposits delays of loans repayment, deteriorated liquidity of the secondary securities market, the highest cost of funding - the assumption of the worst observed margins on deposits in the Bank, parallel shift of the yield curve and PLN depreciation).

Adjusted Liquidity Gap (m PLN) 31.12.2012	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	13 723	2 713	4 366	3 956	5 892	30 615
Adjusted balance liabilities	6 747	1 024	770	714	1 444	47 033
Balance-Sheet Gap	6 976	1 689	3 596	3 242	4 448	(16 418)
Cumulative Balance-Sheet Gap	6 976	8 665	12 260	15 502	19 950	3 532
Adjusted off-balance assets	339	286	260	214	287	297
Adjusted off-balance liabilities	(885)	(219)	(273)	(157)	(277)	(319)
Off-Balance Sheet Gap	(546)	67	(13)	57	10	(22)
Total Gap	6 429	1 756	3 583	3 299	4 458	(16 440)
Total Cumulative Gap	6 429	8 185	11 768	15 067	19 525	3 085

Adjusted Liquidity Gap (m PLN) 31.12.2011	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	12 350	2 795	3 728	3 915	6 456	35 172
Adjusted balance liabilities	7 403	876	569	217	1 462	43 988
Balance-Sheet Gap	4 947	1 919	3 159	3 698	4 994	(8 816)
Cumulative Balance-Sheet Gap	4 947	6 867	10 026	13 724	18 718	9 901
Adjusted off-balance assets	385	307	482	346	441	779
Adjusted off-balance liabilities	(1 131)	(327)	(508)	(339)	(442)	(824)
Off-Balance Sheet Gap	(746)	(19)	(26)	8	0	(45)
Total Gap	4 202	1 900	3 134	3 706	4 993	(8 861)
Total Cumulative Gap	4 202	6 102	9 235	12 941	17 934	9 073

Stress tests are performed at least quarterly, to determine the Bank's liquidity-risk profile, to ensure that the Bank is in a position to fulfil its obligations in the event of a liquidity crisis and to update the liquidity contingency plan and management decisions.

The results of the stress test analysis demonstrated that the liquidity indicators will be maintained above the established limits.

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

For the purpose of supervisory liquidity measures management, the Bank developed a dedicated model, which is based on the concept of minimum buffers and allows performing simulation analyses. In 2012, the supervisory liquidity measured remained well above the minimum, supervisory limits.

In order to maintain supervisory liquidity measures at permanently safe levels in May 2012 the Management Board decided to strengthen the Bank's liquidity position. In the second half of 2012, as a result of a series of action taken (including an increase of the deposit base, own bond issue, a new tranche disbursement of the bilateral loan), the internally defined minimum buffer for the liquidity measures was reached. Keeping the indicators above the minimum buffer ensures the safe level of the measures even in face of strong PLN depreciation.

6) OPERATING RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk and excluding strategic and reputational risk. Operational risk is demonstrated in every aspect of activity of the organisation and constitutes its intrinsic part.

In the year 2012 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions. The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Bank. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks. Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

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

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

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

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

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

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

Information about operational risk in processes is included in the top level dashboards consolidating information about the processes performance.

Considering the degree of development of operational risk management and the scale and profile of its activity, the Bank calculates its capital requirement due to the operational risk using the Standard Approach.

IX. TRANSACTIONS WITH RELATED ENTITIES

1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 2012 were driven by current activity. The below table presents major amounts of intergroup transactions, these were transactions with the following entities:

- MILLENNIUM LEASING,
- MILLENNIUM DOM MAKLERSKI,
- MILLENNIUM TFI
- MB FINANCE AB,
- ORCHIS
- MILLENNIUM SERVICE,
- MILLENNIUM TELECOMMUNICATION SERVICES,
- TBM

and with the Capital Group of Bank parent company - Banco Comercial Portugues (these transactions are mainly of banking nature).

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

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2012

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits	0	2 605
Loans and advances to customers	2 333 191	0
Investments in associates	295 297	0
Financial assets valued at fair value through profit and loss (held for trading)	2 813	0
Hedging derivatives	0	0
Other assets	207 448	45
LIABILITIES		
Deposits from banks	0	206 150
Deposits from customers	225 108	0
Liabilities from securities sold with buy-back clause	0	0
Hedging derivatives	0	133 578
Financial liabilities valued at fair value through profit and loss (held for trading)	61	63
Subordinated debt	613 610	0
Other liabilities, including:	97 113	165
- financial leasing liabilities	70 864	0

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2011

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits	0	248 655
Loans and advances to customers	1 757 548	0
Investments in associates	300 687	0
Financial assets valued at fair value through profit and loss (held for trading)	3 021	0
Hedging derivatives	0	0
Other assets	261 857	105
LIABILITIES		
Deposits from banks	0	74 971
Deposits from customers	228 926	0
Liabilities from securities sold with buy-back clause	15 707	0
Hedging derivatives	0	304 263
Financial liabilities valued at fair value through profit and loss (held for trading)	203	91
Other liabilities, including:	118 599	469
- financial leasing liabilities	72 469	0

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) FOR THE PERIOD OF 1.01-31.12.2012

	With subsidiaries	With parent Group
Income from:		
Interest	95 159	100 390
Commissions	47 172	143
Derivatives net	27	0
Dividends	37 465	0
Other net operating income	507	877
Expense from:		
Interest	27 379	19 506
Commissions	23	2 831
Derivatives net	0	5 785
General and administrative expenses	95 520	4 184

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) FOR THE PERIOD OF 1.01-31.12.2011

	With subsidiaries	With parent Group
Income from:		
Interest	78 769	105 633
Commissions	48 387	0
Derivatives net	232	3 463
Dividends	11 000	0
Other net operating income	3 083	1 999
Expense from:		
Interest	51 364	43 665
Commissions	27	5 710
Derivatives net	0	0
General and administrative expenses	76 178	4 181

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) AS AT 31.12.2012

	With subsidiaries	With parent Group
Conditional commitments	67 947	933 638
- granted	66 664	105 448
- obtained	1 283	828 190
Derivatives (par value)	66 322	1 740 865

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) AS AT 31.12.2011

	With subsidiaries	With parent Group
Conditional commitments	123 238	986 570
- granted	122 271	103 210
- obtained	967	883 360
Derivatives (par value)	154 177	5 361 126

2) Transactions with the Managing and Supervising Persons

Information on total exposure towards the managing and supervising persons as at 31.12.2012 (in ‘000 PLN):

	The managing persons	The supervising persons
Total debt limit	788.0	145.0
- including an unutilized limit	731.7	121.6
Mortgage loans and advances	3 116.0	-
Active guarantees	-	-

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

Data about total exposure to entities related personally, as of 31.12.2012:

Entity	Amount (in '000 PLN)	Relationship
Client 1	4 268	Personal with a supervising person
Client 2	423	Personal with a supervising person
Group 1	89 063	Personal with a supervising person
Group 2	2 656	Personal with a supervising person

Information on total exposure towards the managing and supervising persons as at 31.12.2011 (in '000 PLN):

	The management	The supervising persons
Total debt limit	1 198,0	165,0
- including an unutilized limit	702,9	143,3
Mortgage loans and advances	3 576,3	-
Active guarantees	-	-

Data about total exposure to entities related personally, as of 31.12.2011:

Entity	Amount (in '000 PLN)	Relationship
Client 1	5 868	Personal with a supervising person
Client 2	455	Personal with a supervising person
Client 3	1 382	Personal with a supervising person
Group 1	170 611	Personal with a supervising person

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

Salaries (including created provisions for payments of bonuses) and benefits of managing persons recognized in Profit and loss account of the Bank were as follows (data in thousand PLN):

Year	Salaries and bonuses	Benefits	TOTAL
2012	19 582.4	1 598.1	21 180.5
2011	18 773.9	1 589.6	20 363.5

The benefits are mainly the costs of accommodation of the foreign members of the Management Board. The values presented in above table are included in the category of short-term benefits.

In 2012 the Members of the Management Board received no salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2012	1 980,1
2011	1 669,2

In 2012 Members of the Bank's Supervisory Board received no salaries or any fringe benefits from Subsidiaries.

X. FAIR VALUE

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

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

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

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

Receivables and liabilities with respect to banks (structured contract)

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

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

Other receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

Liabilities to customers

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

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

Liabilities from the issuance of structured debt securities

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

Subordinated liabilities

The fair value of this financial instrument is estimated on the basis of a model used for determining the market value of floating-rate bonds with the current level of market rates and credit risk margin based on current level of market rates and historical margin for credit risk. Similar as in loan portfolio the Bank includes the level of the original margin as a part of mid-term cost of financing obtained in the past in relation to the current margin level for the comparable instruments, as long as reliable assessment is possible. Due to lack of the mid-term loans liquid market as a reference to estimate current level of margins, the Bank used the original margin.

The table below presents results of the above-described analyses as at 31 December 2012:

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 392 424	1 446 903
Loans and advances to customers *	18	39 341 449	37 793 877

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 253 000	2 310 389
Amounts due to customers	29	41 552 183	41 564 101
Debt securities	31	767 586	778 277
Subordinated debt	35	613 610	607 159

* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads due to the refinancing cost increase of those positions. Commencing from 2008 Polish banks raised spreads on newly granted loans to compensate for increased risk coming from deteriorating credit capacity of customers. The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is applied for valuation of debt securities, which are not quoted on active markets. In result, paradoxically whenever the Bank raises spreads, fair value of the “old” loans portfolio falls.

The table below presents results of the above-described analyses as at 31 December 2011:

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	2 660 366	2 700 024
Loans and advances to customers	18	39 832 055	38 835 199

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	1 522 406	1 562 356
Amounts due to customers	29	37 549 802	37 546 663
Debt securities	31	394 775	386 978
Subordinated debt	35	663 228	655 546

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

In PLN ths., as at 31.12.2012

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			522 956	76 520
- debt securities		46 791		
Hedging derivatives	17		277 812	
Financial assets available for sale	19			
- debt securities		3 037 456	3 598 724	113 578
- shares and interests				1 072
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities			389 853	77 781
Hedging derivatives	28		1 115 202	

In PLN ths., as at 31.12.2011

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			340 729	59 725
- debt securities		316 250		
Hedging derivatives	17		130 636	
Financial assets available for sale	19			
- debt securities		1 927 780	1 099 887	104 840
- shares and interests				1 078
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities			518 415	56 003
Hedging derivatives	28		2 298 099	

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2012 are presented in the table below:

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
As at 01.01.2012	46 778	(43 108)	52	104 840	1 078
Settlement/sell/purchase	14 929	(20 105)	(52)	7 813	(2)
Change of valuation recognized in P&L account (including interests	1 672	(1 427)	0	925	(4)
As at 31.12.2012	63 379	(64 640)	0	113 578	1 072

XI. CONDITIONAL LIABILITIES AND ASSETS

Total value of claims in the court proceedings in which the Bank was either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31 December 2012 to PLN 448.6 million. Total value of claims in the court proceedings, in which the bank appeared as defendant was PLN 288.1 million, and the total value of claims in the court proceedings, in which the Bank appeared as plaintiff was PLN 160.5 million.

As at 31 December 2012 the volume of provisions created by the Bank for contentious claims was PLN 18.2 million.

Below are descriptions of the largest, according to the issuer's opinion ongoing cases involving the Bank. Aforementioned information is divided into three categories and classification was based on the nature of the proceedings. The proceedings associated with the Fiscal Control Office stands for separate category and are described in Chapter XII Section 12 "Income Taxes".

Proceedings connected with derivatives

As of 31 December 2012 the Bank was party to 42 lawsuits connected with derivatives, where in 32 cases the Bank was the defendant, while in 10 as the plaintiff. Accordingly to the Bank’s best knowledge the total disputed value in these lawsuits was PLN 379.4 million. The highest unit value of the dispute was PLN 71.1 million.

The largest lawsuit connected with derivatives in which Bank is defendant:

Plaintiff: legal person

Value of the object of the dispute: PLN 71,065,496

Object: Claim for return of amounts due on account of settlement of FX options and compensations for lost benefits.

Case status: The lawsuit was formally received by an attorney of the Bank in January 2011, a reply to the lawsuit was prepared and delivered in line with binding terms. Further three hearings took place, during which plaintiff’s and Bank’s witnesses were questioned. After that lecturer judge has been changed. The case is at the initial stage of judgment. No next trial date has been set yet.

Expectations: the Bank has a positive view of the chances of getting a positive ruling.

The other largest lawsuit in which Bank is defendant except proceedings connected with derivatives and proceedings with participation of the Chairman of UOKiK:

Plaintiff: natural person

Value of the subject matter of the dispute: PLN 16,500,000

Object: Recognition as ineffective legal action detrimental to creditors made (Article 527 of the Civil Code) – the establishing of bail mortgage.

Case status: On 11 December 2012, the Bank received the lawsuit. The case is at the initial stage before the first trial.

Prospects: probability of winning the case is estimated as high

Proceedings with participation of the Chairman of UOKiK:

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

The Bank is a party in proceedings instituted by the Chairman of UOKiK against operators of the Visa and Europay systems as well as banks – issuers of Visa and Europay/Eurocard/Mastercard cards. The proceedings concern practices restricting competition on the card payments market in Poland, whereby interchange fees were said to be agreed jointly for transactions done with Visa and Europay/Eurocard/Mastercard cards and also access was restricted for entrepreneurs who did not belong to the association of card issuers against whom the proceedings were instituted. On 29 December 2006 the Chairman of UOKiK deemed the practices consisting in jointly agreeing on interchange fees as restricting competition and ordered desisting from their use, at the same time imposing i.a. on the Bank a cash penalty of PLN 12.158.370. On 19 January 2007 the Bank appealed against the decision of the Chairman of UOKiK to SOKiK. On 25 August 2008 SOKiK gave a ruling, in which it decided to suspend enforcement of the appealed decision in the item concerning the order to desist from jointly agreeing on the interchange fees.

In the ruling of 12 November 2008 SOKiK changed the appealed decision so that it did not find use of practice restricting competition, consisting in participation by banks participants in the proceedings (including the Bank) in an agreement restricting competition on the market of outsourcing of services connected with payment of consumers' liabilities to merchants on account of payments for goods and services purchased by the consumers with use of cards in Poland, by jointly agreeing on interchange fees charged on transactions done with Visa and MasterCard cards in Poland.

On 12 January 2009 the Chairman of UOKiK appealed against this ruling. Response to the appeal has been lodged by the Bank on 13 February 2009.

On 22/04/2010, the appeals hearing was held, after which the Court of Appeal overturned the positive for banks verdict entirely, sending the case back to the court of first instance. At the meeting held on 9 February 2012, the Court took into account the request of the representative of the Bank and set the date of the next hearing on April 24, and then on May 8. On May 8, 2012, the Court issued an order suspending the proceedings; the Bank filed a complaint against that ruling on May 29, 2012. The Court of Appeal in Warsaw on 25 October 2012, issued a decision taking into account the complaint. No next trial date is known.

Proceedings concerning provisions included in General Agreement Conditions (GAC) of Individual Pension Accounts (IPA)

On 28 December 2012, the Bank received Chairman of UOKiK decision dated 28 December 2012, which stated infringement of collective consumers interests, banned the use of the practices and imposed fines on the Bank a total of PLN 2,857,389. Chairman of UOKiK accused the Bank that:

- In the period from 24 April 2011 to 1 September 2011, the Bank used the GAC IPA, which does not contain provisions on the reasons of GAC IPA change and during the period from 1 April 2011 to 1 April 2012, the Bank applied the terms of use IPA in which contains no provisions on liability for proper and timely conduct of monetary settlements;

- Bank changed GAC IPA provisions in September 2011 and April 2012, only to new customers, without changing the old contracts.

Bank on 11 January 2013 filed an appeal of the decision.

OFF-BALANCE ITEMS

	31.12.2012	31.12.2011
Off-balance conditional commitments granted and received	**7 889 885**	**10 159 265**
Commitments granted:	6 975 843	8 817 765
a) financial	5 610 767	6 691 362
b) guarantee	1 365 076	2 126 403
Commitments received:	914 042	1 341 499
a) financial	817 640	883 360
b) guarantee	96 402	458 139

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

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

Customer - sector, amount in PLN million	31.12.2012	31.12.2011
financial sector	145.0	123.6
non-financial sector (companies)	1 206.2	1 976.3
public sector	9.5	25.5
private individuals	4.4	1.0
Total	1 365.1	2 126.4

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

Subsidiary, amount in PLN million	31.12.2012	31.12.2011
Millennium Leasing Sp. z o.o.	49.9	54.0
Millennium Service Sp. z o.o.	16.7	18.1
TBM Sp. z o.o.	0.1	0.1
Total	66.7	72.2

Guarantees, sureties and avals granted to Clients

Liabilities granted – guarantee in PLN million	31.12.2012	31.12.2011
Active guarantees, sureties and avals	963.5	1 289.8
Sureties for loans granted through EFRWP*	1.7	2.8
Lines for guarantees and sureties	416.4	849.8
Total gross	1 381.6	2 142.4
Impairment charges	(16.5)	(16.0)
Total net	**1 365.1**	**2 126.4**

* European Development Fund of the Polish countryside

The structure of liabilities under guarantees, sureties and avals divided by particular criteria are presented by the tables below (PLN'000):

By currency	31.12.2012	31.12.2011
PLN	802 528	1 161 312
Other currencies	160 998	128 456
Total	963 526	1 289 768

By type of commitment	31.12.2012		31.12.2011	
	Number	Amount in	Number	Amount in
Aval	0	0	1	1 050
Guarantee	2 848	942 213	2 811	1 269 368
Surety	3	8 079	3	9 086
Re-guarantee	38	13 233	8	10 264
Total	2 889	963 526	2 823	1 289 768

By object of the commitment	31.12.2012			31.12.2011		
	Number	% share	Amount in	Number	% share	Amount in
good performance of contract	2 015	69.75%	620 564	1 945	68.90%	811 316
rent payment	310	10.73%	52 397	300	10.63%	55 873
punctual payment for goods or services	224	7.75%	140 328	231	8.18%	154 621
bid bond	247	8.55%	68 602	223	7.90%	48 268
other	24	0.83%	5 779	56	1.98%	10 250
advance return	40	1.38%	60 619	49	1.74%	196 600
customs	23	0.80%	10 898	17	0.60%	11 665
payment of bank loan	6	0.21%	4 340	2	0.07%	1 175
Total	2 889	100.00%	963 526	2 823	100.00%	1 289 768

XII. NOTES TO FINANCIAL REPORT

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

1) Interest income

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Interest income and other of similar nature, including:		
Balances with the Central Bank	61 429	52 367
Loans and advances to banks	10 181	20 046
Loans and advances to customers	1 897 417	1 692 209
Transactions with repurchase agreement	12 008	11 067
Hedging derivatives	684 714	589 218
Financial assets held for trading (debt securities)	17 557	21 561
Investment securities	296 417	188 223
Total	2 979 723	2 574 691

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

Interest income for the year 2012 contains interest accrued on impaired loans in the amount of PLN 88,206 thous. (for corresponding data in the year 2011 the amount of such interest stood at PLN 98,131 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

2) Interest expense

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Interest expense and other of similar nature, including:		
Banking deposits	(17 216)	(8 737)
Loans and advances from banks	(54 403)	(69 590)
Transactions with repurchase agreement	(58 748)	(57 911)
Deposits from customers	(1 773 743)	(1 375 400)
Subordinated debt	(17 880)	(31 593)
Debt securities	(18 296)	(7 486)
Other	(1 045)	(1 513)
Total	(1 941 330)	(1 552 230)

3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Resulting from accounts service	93 023	111 458
Resulting from loan activity	57 288	54 399
Resulting from payments service	39 650	42 832
Resulting from payment and credit cards	210 597	187 456
Resulting from sale of insurance products	62 472	60 827
Resulting from distribution of investment funds units and other savings products	95 403	84 576
Resulting from guarantees and sureties granted	17 425	19 069
Resulting from brokerage and custody service	6 065	7 652
Other	14 936	11 678
Total	596 859	579 946

3b. Fee and commission expense

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Resulting from accounts service	(1 825)	(1 679)
Resulting from loan activity	(4 359)	(6 760)
Resulting from payments service	(1 437)	(3 178)
Resulting from payment and credit cards	(76 384)	(43 153)
Other	(5 509)	(9 506)
Total	(89 515)	(64 276)

4) DIVIDEND INCOME

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Dividend income from related parties	39 550	11 619
Dividend income from other entities	1 917	1 926
Total	41 467	13 545

Net dividends from subsidiaries under consolidation (eliminated in the consolidated report) recognized by the Bank in the Profit and loss account, amounted in financial years 2012 and 2011 to PLN 37,466 thousand, and PLN 11,000 thousand, respectively.

In 2012, as a dividend income from related parties the Bank recognized a gain on the liquidation of a subsidiary BBG Finance BV in the amount of PLN 2,084 thousand.

5) Result on investment financial assets

5a. Result on investment financial assets

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Operations on debt instruments	25 361	2 489
Operations on equity instruments	1	5 930
Total	25 362	8 419

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

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Operations on securities	4 158	(11 605)
Operations on derivatives	53 507	88 498
Fair value hedge accounting operations, including:	(337)	(427)
- result from hedging derivatives	(7 896)	(4 451)
- result from items subjected to hedging	7 559	4 024
Foreign exchange result	158 299	111 244
Costs of financial operations	(3 220)	(2 677)
Total	**212 407**	**185 033**

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

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

6) Other operating income

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Profit on sale and liquidation of property, plant and equipment, intangible assets	4 325	0
Income from sale of other services	13 378	12 652
Income from collection service	1 611	1 400
Other	12 759	15 220
Total	32 072	29 272

7) General and administrative expenses

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Staff costs:	(521 350)	(500 066)
Salaries (including bonuses)	(436 369)	(423 088)
Social security contributions	(68 568)	(58 986)
Employee benefits, including:	(16 413)	(17 992)
- provisions for retirement benefits	(1 505)	(1 184)
- provisions for unused employee holiday	(1 457)	(3 501)
- other	(13 451)	(13 307)
General administrative costs	(487 014)	(497 361)
Costs of advertising, promotion and representation	(39 752)	(49 929)
Costs of software maintenance and IT services	(20 573)	(18 366)
Costs of renting	(176 226)	(174 670)
Costs of buildings maintenance, equipment and materials	(27 457)	(28 457)
ATM and cash costs	(22 686)	(22 141)
Costs of communications and IT	(54 980)	(62 900)
Costs of consultancy, audit and legal advisory and translation	(14 206)	(13 625)
Taxes and fees	(18 560)	(18 016)
KIR clearing charges	(3 362)	(2 999)
PFRON costs	(5 439)	(5 664)
BFG costs	(34 450)	(30 766)
Financial Supervision costs	(4 458)	(4 753)
Other	(64 865)	(65 074)
Total	**(1 008 364)**	**(997 427)**

8) Impairment losses on financial assets

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Impairment losses on loans and advances to customers	(208 416)	(140 895)
- Impairment charges on loans and advances to customers	(519 581)	(432 714)
- Reversal of impairment charges on loans and advances to customers	285 179	278 074
- Amounts recovered from loans written off	1 837	4 053
- Result from sale of receivables portfolio	24 149	9 692
Impairment losses on investment securities	0	0
- Impairment write-offs for investment securities	0	0
Impairment losses on investments in associates	2 735	(1 384)
- Impairment write-offs for investments in associates	0	(3 084)
- Reversal of impairment write-offs for investments in associates	2 735	1 700
Impairment losses on off-balance sheet liabilities	(238)	(7 998)
- Impairment write-offs for off-balance sheet liabilities	(17 149)	(17 226)
- Reversal of impairment write-offs for off-balance sheet liabilities	16 911	9 228
Total	**(205 919)**	**(150 277)**

9) Impairment losses on non financial assets

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Fixed assets	0	0
Other assets	(219)	562
Total	(219)	562

10) Depreciation and amortization

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Property, plant and equipment	(44 262)	(53 699)
Intangible assets	(9 268)	(8 626)
Total	(53 530)	(62 325)

11) OTHER OPERATING COSTS

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Loss on sale and liquidation of property, plant and equipment, intangible assets	0	(85)
Indemnifications, penalties and fines paid	(4 542)	(2 402)
Provisions for contentious claims	(7 808)	(11 134)
Costs of sale of other services	(9 611)	(11 094)
Donations made	(370)	(330)
Costs of collection service	(9 769)	(13 804)
Other	(42)	(2 146)
Total	(32 142)	(40 994)

12) INCOME TAX

12a. Income tax reported in income statement

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Current tax	(114 083)	(107 737)
Current year	(116 973)	(107 737)
Adjustment of previous years	2 890	0
Deferred tax	7 355	(844)
Appearance and reversal of temporary differences	7 355	(844)
Appearance and utilisation of tax loss	0	0
Adjustment resulted from Article 38a of CIT	(2)	(16)
Total income tax reported in income statement	**(106 730)**	**(108 597)**

12b. Effective tax rate

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Gross profit / (loss)	556 871	523 939
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(105 805)	(99 548)
Impact of permanent differences on tax charges:	**(3 813)**	**(9 033)**
- Non taxable income	7 900	3 445
Dividend income	7 478	2 561
Release of other provision	413	0
Other	9	884
- Cost which is not a tax cost	(11 713)	(12 478)
Loss on sale of receivables	(4 099)	(3 789)
PFRON fee	(1 033)	(1 076)
Receivables written off	(1 695)	(971)
Costs of litigations	(1 330)	(2 116)
Other	(3 556)	(4 526)
Amendments in declaration CIT 8 for previous years	2 890	0
Adjustment resulted from Article 38a of CIT	(2)	(16)
Total income tax reported in income statement	**(106 730)**	**(108 597)**

12c. Deferred tax reported directly in equity

	31.12.2012	31.12.2011
Valuation of available for sale securities	(8 097)	652
Valuation of cash flow hedging instruments	39 671	(24 077)
Deferred tax reported directly in equity	31 574	(23 425)

On 1 January 2011 the Bank created with a subsidiary - Millennium Services Sp. z o.o., Tax Capital Group (TCG). TCG is a vehicle, described in and subject to the provisions of the Polish Corporate Income Tax law. The essence of TCG is to concentrate two or more related entities as one taxpayer for the corporate income tax purposes. The creation of TCG does not lead to the creation of a new entity, and consolidation is done only at the level of corporate income tax settlements.

TCG formation is aimed at increasing the efficiency of tax management within the Group and reducing risks resulting from the corporate income tax settlements through centralization of expertise of tax calculations and payments obligations to one chosen entity of the Group (the Bank).

Bank Millennium S.A. tax control procedures

As a result of the tax inspection carried out in the Bank in 2011 the Tax Office questioned the correctness of income tax calculation for 2005, having its consequences for subsequent tax years. The Bank fully supports the correctness of its tax calculation, nonetheless several procedural steps have been undertaken, such as: (i) adjusting tax settlements for the period 2005-2010; (ii) paying (in November 2011) the tax arrears of PLN 69 million (to avoid the risk of penalty interest burden); and (iii) raising a claim against the Tax Office for the above mentioned amount. As a result of these proceedings on 30 January 2012 the Tax Office returned to the Bank a substantial part of the amount paid (PLN 66 million).

At the same time the tax authority sustain a negative opinion in the proceedings. As a result of the different positions of the Bank and tax authorities, there are currently omgoing appeals against the decision, in particular:

1 / Proceedings in front of the Tax Chamber resulting from the Bank's appealing against the decision of the Director of the Tax Control Office (first instance) determining a tax loss in the CIT for 2005.

2 / Appeal proceedings against the decision of the Head of Second Mazovian Tax Office determining CIT for the year 2006.

3 / Appeal proceedings against the decisions of the Head of Second Mazovian Tax Office – determining tax liabilities for 2007 and 2008, and refusing confirmation of tax overpayment for 2007 and 2008.

As at the date of the approval of the financial statements, the Management Board continues to fully support the correctness of its 2005 tax calculation. In the opinion of the Bank the control proceedings of the Tax Office are unfounded and the Bank expects the positive outcome of the proceedings. The positive final outcome is supported by the Bank's external tax advisor.

In consequences, as at 31 December 2012, the Bank does not create provision for the amount of questioned tax settlement. The final outcome of the case depends of tax authorities' further decisions and results of the ongoing proceedings.

13) Earnings per share

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

14) Cash, balances with the Central Bank

14a. Cash, balances with the Central Bank

	31.12.2012	31.12.2011
Cash	664 891	631 372
Cash in Central Bank	1 800 709	1 386 138
Other funds	40	40
Total	2 465 640	2 017 550

In the period from 31 December 2012 to 30 of January 2013 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,540,107 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

The interest rate on funds on the mandatory deposit account constitutes 0.9 of the central bank's rediscount rate and in the above-mentioned period of time was 4.05 % (till 9 January 2013) and 3.825 % (since 10 January 2013).

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

	31.12.2012	31.12.2011
in Polish currency	1 991 065	1 764 358
in foreign currencies (after conversion to PLN)	474 575	253 192
- currency: USD	39 006	38 319
- currency: EUR	327 074	117 961
- currency: CHF	26 390	34 155
- currency: GBP	34 239	26 410
- other currencies	47 866	36 347
Total	**2 465 640**	**2 017 550**

15) Deposits in other banks and Loans and advances to banks

15a. Loans and advances to banks

	31.12.2012	31.12.2011
Current accounts	211 004	141 926
Deposits in other banks	741 452	2 112 219
Loans	435 657	402 152
Interest	4 311	4 069
Total (gross) loans and advances to banks	1 392 424	2 660 366
Impairment write-offs	0	0
Net loans and advances to banks	**1 392 424**	**2 660 366**

15b. Loans and advances to banks by maturity date

	31.12.2012	31.12.2011
Current accounts	211 004	141 926
to 1 month	741 452	2 112 219
above 1 month to 3 months	0	0
above 3 months to 1 year	0	0
above 1 year to 5 years	435 657	402 152
above 5 years	0	0
past due	0	0
Interest	4 311	4 069
Total (gross) loans and advances to banks	1 392 424	2 660 366

15c. Loans and advances to banks by currency

	31.12.2012	31.12.2011
in Polish currency	452 182	671 362
in foreign currencies (after conversion to PLN)	940 242	1 989 004
- currency: USD	115 776	35 920
- currency: EUR	739 760	1 848 010
- currency: CHF	22 828	19 534
- currency: JPY	20 657	14 973
- currency: GBP	16 187	21 120
- other currencies	25 034	49 448
Total	**1 392 424**	**2 660 366**

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

	31.12.2012	31.12.2011
Balance at the beginning of the period	0	0
Change in the period	0	0
Balance at the end of the period	0	0

16) FINANCIAL ASSETS VALUED TO FAIR VALUE THROUGH THE PROFIT AND LOSS (HELD FOR TRADING) AND ADJUSTMENT FROM FAIR VALUE HEDGE

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

	31.12.2012	31.12.2011
Debt securities	**46 791**	**316 250**
Issued by State Treasury	46 791	316 250
a) bills	436	0
b) bonds	46 355	316 250
Adjustment from fair value hedge	18 414	12 325
Positive valuation of derivatives	599 477	400 454
Total	**664 682**	**729 029**

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

	31.12.2012	31.12.2011
Trading financial assets	646 268	716 704
Adjustment from fair value hedge	18 414	12 325
Financial assets valued at fair value when initially recognized	0	0
Total	664 682	729 029

Information on financial assets collateralizing liabilities has been presented in Chapter XIII.3).

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

	31.12.2012	31.12.2011
- with fixed interest rate	37 227	288 423
- with variable interest rate	9 564	27 827
Total	46 791	316 250

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

	31.12.2012	31.12.2011
to 1 month	3 893	46 723
above 1 month to 3 months	1 265	0
above 3 months to 1 year	4 970	156 812
above 1 year to 5 years	25 648	103 939
above 5 years	11 016	8 776
Total	46 791	316 250

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

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	316 250	980 360
Increases (purchase and accrual of interest and discount)	46 074 611	142 597 458
Reductions (sale and redemption)	(46 344 520)	(143 262 503)
Differences from valuation at fair value	450	935
Balance at the end of the period	46 791	316 250

Note 16 f / Note 27 Valuation of derivatives and: Adjustment from fair value hedge, Liabilities from short sale of securities as at 31.12.2012

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	5 253 878	14 901 040	10 722 974	88 369	442 071	353 702
Forward Rate Agreements (FRA)	1 800 000	3 800 000	0	(1 733)	4 101	5 834
Interest rate swaps (IRS)	3 424 475	11 062 984	10 615 990	91 732	436 937	345 205
Other interest rate contracts: option, volatility swap, swap with FX option	29 403	38 056	106 984	(1 630)	1 033	2 663
2. FX derivatives *	8 409 129	8 401 420	467 352	44 735	80 886	36 151
FX contracts	939 718	437 792	185 403	3 547	13 192	9 645
FX swaps	6 360 172	10 804	136 404	21 645	40 551	18 906
Other FX contracts (CIRS)	1 109 239	7 952 825	145 546	19 543	27 143	7 600
FX options	0	0	0	0	0	0
3. Embedded instruments	288 498	1 178 541	272 117	(64 640)	0	64 640
Options embedded in deposits	235 798	1 021 048	62 346	(38 725)	0	38 725
Options embedded in securities issued	52 700	157 493	209 771	(25 915)	0	25 915
4. Indexes options	301 325	1 308 071	337 510	63 379	76 520	13 141
Valuation of derivatives, TOTAL	**14 252 830**	**25 789 072**	**11 799 954**	**131 843**	**599 477**	**467 634**
Valuation of balance-sheet items resulting from fair value hedge					18 414	
Liabilities from short sale of securities						0

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

Note 16 f / Note 27 Valuation of derivatives and: Adjustment from fair value hedge, Liabilities from short sale of securities as at 31.12.2011

	Par value of instruments with future maturity			Fair values		
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	5 828 492	8 225 406	8 751 242	4 770	259 122	254 352
Forward Rate Agreements (FRA)	1 600 000	700 000	0	658	780	122
Interest rate swaps (IRS)	4 228 492	7 495 069	8 675 590	10 457	257 861	247 404
Other interest rate contracts: option, volatility swap, swap with FX option	0	30 337	75 652	(6 345)	481	6 826
2. FX derivatives *	13 432 245	730 658	1 460 995	(173 153)	81 659	254 813
FX contracts	1 760 954	351 370	134 005	(1 368)	12 012	13 380
FX swaps	11 249 427	372 357	0	(151 867)	65 462	217 329
Other FX contracts (CIRS)	421 865	0	1 326 990	(19 919)	4 133	24 052
FX options	0	6 931	0	0	52	52
3. Embedded instruments	227 928	649 041	583 712	(43 108)	0	43 108
Options embedded in deposits	219 720	590 841	242 265	(24 163)	0	24 163
Options embedded in securities issued	8 208	58 200	341 447	(18 945)	0	18 945
4. Indexes options	276 853	697 991	586 012	46 778	59 673	12 895
Valuation of derivatives, TOTAL	**19 765 518**	**10 303 096**	**11 381 961**	**(164 714)**	**400 454**	**565 168**
Valuation of balance-sheet items resulting from fair value hedge					12 325	
Liabilities from short sale of securities						9 250

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

17) DERIVATIVE AND HEDGING INSTRUMENTS

The Bank uses the following types of hedge accounting:
1. Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate;
2. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
3. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;
4. Cash flow volatility hedge for the flows generated by future revenues and expenditures denominated in foreign currency

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

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

In 2012 the Bank started to apply hedge accounting for following transactions:

	Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate;	Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans
Description of hedge transactions	The Bank hedges the risk related to changes in fair value of the fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables resulting from variation in interest rate component (margin)	The Bank hedges the risk of the volatility of cash flows generated by PLN mortgages The volatility of cash flows results from interest rate risk.
Hedged items	Fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables	Cash flows resulting from the PLN mortgage loan portfolio
Hedging instruments	CIRS transactions	IRS transactions
Presentation of the result on the hedged and hedging transactions	adjustment to fair value of hedged and hedging instruments are recognised in profit and loss as result on financial instruments valued at fair value through profit and loss and FX result; interest on hedging and hedged instruments are recognised in net interest income	effective part of the valuation of hedging instruments is recognised in revaluation capital; interest on both the hedged and the hedging instruments are recognised in net interest income;

Other types of hedge accounting the Bank applies are:

	Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	Cash flow volatility hedge for the flows generated by future revenues and expenditures denominated in foreign currency
Description of hedge transactions	The Bank hedges the risk of the volatility of cash flows generated by FX mortgages and by PLN deposits financially underlying such loans. The volatility of cash flows results from the currency risk and interest rate risk.	The Bank hedges FX risk resulting from future revenues and expenditures denominated in foreign currency by exchange of aforementioned flows into PLN ones.
Hedged items	Cash flows resulting from the mortgage loan portfolio and PLN deposits funding them.	Cash flows resulting from future revenues and expenditures denominated in foreign currency.
Hedging instruments	CIRS transactions	FX Forward transactions
Presentation of the result on the hedged and hedging transactions	effective part of the valuation of hedging instruments is recognised in revaluation capital; interest on both the hedged and the hedging instruments are recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in financial instruments valued at fair value through profit and loss and foreign exchange result	effective part of spot revaluation of hedging instruments is recognised in revaluation reserve;

During 2012 the Bank ceased the use of two of hedging relationships:

- Fair value hedge portfolio of long-term consumer loans,
- Hedging the variability of cash flows generated by the portfolio of floating rate mortgages denominated in foreign currencies.

17a / 28. Hedge accounting

As at 31.12.2012	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk (*)
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities	
1. Fair value hedging derivatives connected with interest rate risk							
CIRS contracts	0	0	895 673	(84 986)	0	84 986	6 034
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	7 074 348	5 680 740	27 999 009	(725 856)	271 840	997 696	x
IRS contracts	0	270 000	0	2 157	2 157	0	x
Forward contracts	62 678	188 651	346 507	(28 705)	3 815	32 520	x
3. Total hedging derivatives	7 137 026	6 139 391	29 241 188	(837 390)	277 812	1 115 202	x

(*) Adjustment is presented for active hedge relationships

As at 31.12.2011	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities	
1. Fair value hedging derivatives connected with interest rate risk							
IRS contracts	1 047	242 361	1 157 080	(19 841)	195	20 036	12 325
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	2 985 885	6 458 508	26 826 634	(1 986 978)	89 392	2 076 369	x
FX SWAP contracts	6 210 676	5 321 754	0	(88 359)	41 050	129 409	x
Forward contracts	65 212	196 209	625 364	(72 285)	0	72 285	x
3. Total hedging derivatives	9 262 820	12 218 832	28 609 078	(2 167 463)	130 636	2 298 099	x

17b. Hedge accounting for cash flows

Hedge relationship	Maximum period in which cash flows with hedged value are expected to occur
Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate	24.03.2020
Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	06.11.2013
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	06.06.2022
Cash flow volatility hedge for the flows generated by future revenues and expenditures denominated in foreign currency	15.06.2015

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2012 amounted to PLN – 24.7 million (respectively in 2011 amounted to PLN –4.6 million).

18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2012	31.12.2011
Loans and advances	36 843 029	37 984 890
- to companies	6 159 587	6 438 670
- to private individuals	29 869 616	30 699 165
- to public sector	813 826	847 055
Receivables on account of payment cards	777 919	822 652
- due from companies	38 110	29 066
- due from private individuals	739 809	793 586
Purchased receivables	2 480 877	1 828 853
- from companies	2 464 618	1 766 232
- from public sector	16 259	62 621
Guarantees and sureties realised	35 005	234
Debt securities eligible for rediscount at Central Bank	13 235	17 573
Other	137	177
Interest	284 417	256 279
Total gross	**40 434 619**	**40 910 658**
Impairment write-offs	(1 093 170)	(1 078 603)
Total net	**39 341 449**	**39 832 055**

18b. Quality of loans and advances to customers portfolio

	31.12.2012	31.12.2011
Loans and advances to customers (gross)	40 434 619	40 910 658
- impaired	1 798 498	1 783 249
- not impaired	38 636 121	39 127 409
Impairment write-offs	(1 093 170)	(1 078 603)
- for impaired exposures	(919 874)	(911 531)
- for incurred but not reported losses (IBNR)	(173 296)	(167 072)
Loans and advances to customers (net)	**39 341 449**	**39 832 055**

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

	31.12.2012	31.12.2011
Loans and advances to customers (gross)	40 434 619	40 910 658
- case by case analysis	891 089	878 308
- collective analysis	39 543 530	40 032 350
Impairment write-offs	(1 093 170)	(1 078 603)
- on the basis of case by case analysis	(380 565)	(355 939)
- on the basis of collective analysis	(712 605)	(722 664)
Loans and advances to customers (net)	**39 341 449**	**39 832 055**

18d. Loans and advances to customers portfolio by customers

	31.12.2012	31.12.2011
Loans and advances to customers (gross)	40 434 619	40 910 658
- corporate customers	9 630 214	9 253 465
- individuals	30 804 405	31 657 193
Impairment write-offs	(1 093 170)	(1 078 603)
- for receivables from corporate customers	(515 062)	(489 262)
- for receivables from individuals	(578 108)	(589 341)
Loans and advances to customers (net)	**39 341 449**	**39 832 055**

18e. Loans and advances to customers by maturity

	31.12.2012	31.12.2011
Current accounts	2 385 892	2 399 217
to 1 month	138 211	179 755
above 1 month to 3 months	1 011 607	782 823
above 3 months to 1 year	2 756 195	2 718 663
above 1 year to 5 years	9 719 499	9 664 532
above 5 years	23 261 954	24 113 917
past due	876 843	795 471
Interest	284 417	256 279
Total gross	40 434 619	40 910 658

18f. Loans and advances to customers by currency

	31.12.2012	31.12.2011
in Polish currency	20 006 402	17 760 864
in foreign currencies (after conversion to PLN)	20 428 216	23 149 793
- currency: USD	318 315	386 996
- currency: EUR	817 896	782 770
- currency: CHF	19 254 776	21 822 969
- currency: JPY	36 957	156 867
- other currencies	271	191
Total gross	**40 434 619**	**40 910 658**

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

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	1 078 603	1 028 761
Change in value of provisions:	14 567	49 842
Write-offs in the period	519 581	432 714
Amounts written off	(137 237)	(65 910)
Reversal of write-offs in the period	(285 179)	(278 074)
Write-offs decrease due to sale of receivables	(70 545)	(61 657)
Changes resulting from FX rates differences	(12 842)	22 563
Other	789	206
Balance at the end of the period	**1 093 170**	**1 078 603**

19) INVESTMENT FINANCIAL ASSETS

19a. Investment financial assets available for sale

	31.12.2012	31.12.2011
Debt securities	**6 749 758**	**3 132 507**
Issued by State Treasury	3 037 456	1 927 780
a) bills	0	0
b) bonds	3 037 456	1 927 780
Issued by Central Bank	3 598 724	1 099 887
a) bills	3 598 724	1 099 887
b) bonds	0	0
Other securities	113 578	104 840
a) listed	0	0
b) not listed	113 578	104 840
Shares and interests in other entities	1 072	1 078
Total financial assets available for sale	**6 750 830**	**3 133 585**
Available for sale instruments listed on the stock exchange	3 037 476	1 927 780
Available for sale instruments not listed on the stock exchange	3 713 354	1 205 805

19b. Debt securities available for sale

	31.12.2012	31.12.2011
- with fixed interest rate	4 982 515	2 297 202
- with variable interest rate	1 767 243	835 305
Total	6 749 758	3 132 507

19c. Debt securities available for sale by maturity

	31.12.2012	31.12.2011
to 1 month	3 598 725	1 118 739
above 1 month to 3 months	0	0
above 3 months to 1 year	10 641	884 046
above 1 year to 5 years	2 186 724	1 084 371
above 5 years	953 669	45 351
Total	6 749 758	3 132 507

19d. Change of investment financial assets available for sale

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	3 133 585	4 507 847
Increases (purchase and accrual of interest and discount)	181 255 403	80 717 859
Reductions (sale and redemption)	(177 684 199)	(82 076 341)
Difference from measurement at fair value	46 046	(15 781)
Impairment write-offs	0	0
Other	(5)	0
Balance at the end of the period	6 750 830	3 133 585

19e. Investments in associates

	31.12.2012	31.12.2011
Investments in associates	308 648	311 303

19f. Investments in associates as at 31.12.2012

Company	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warszawa	100	100
MB FINANCE AB	funding companies from the Group	Sztokholm	100	100
MILLENNIUM SERVICE Sp. z o.o.	general construction and engineering	Warszawa	100	100
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	45	45
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50	50
BG LEASING	leasing services	Gdańsk	74	74
PHCRS	wholesale market	Gdańsk	38,39	42,92

As a result of the liquidation of the company on 29 June 2012, Chamber of Commerce in Rotterdam, deregistered from the Commercial Register ("Commercial Register") BBG Finance BV. Until the liquidation of the company BBG Finance BV was a subsidiary of the Group and used to be included in the consolidated financial statements using full consolidation method.

19f. Investments in associates as at 31.12.2012

Name	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	70 001	3 442 185	2 899 898	48 195	163 077	46 554	subordinated
MILLENNIUM DOM MAKLERSKI S.A.	16 500	0	0	171 195	107 080	16 500	23 434	5 843	subordinated
MB FINANCE AB	237	0	0	615 553	614 815	237	254	48	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	143 000	361 478	0	1 000	104 645	1 767	subordinated
TBM Sp. z o.o.	225	0	0	661	0	500	209	(3)	associated
LUBUSKIE FABRYKI MEBLI S.A.*	6 700	(265)	0	19 264	3 228	13 400	31 557	(1 189)	associated
PHCRS S.A.*	8 200	(1 284)	0	82 939	61 323	21 357	18 930	7 782	associated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	294	870	0	100	1 290	279	subordinated
BG LEASING S.A. under bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates	97 802	(2 449)	213 295						

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

* data as at 30.11.2012; Despite having a majority shareholding of the Lubuskie Fabryki Mebli S.A., accordingly adopted an investment policy, the Bank actually affect neither financial nor operational policy of the company in order to achieve the economic benefits. As a result of aforementioned lack of control the Bank recognizes (based on IAS 28), this involvement as associate company.

19g. Investments in associates as at 31.12.2011

Company	Activity domain	Head office	% of the Bank's capital share	% of the Bank's voting share
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warszawa	100	100
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warszawa	100	100
BBG FINANCE BV	funding companies from the Group	Rotterdam	100	100
MB FINANCE AB	funding companies from the Group	Sztokholm	100	100
MILLENNIUM SERVICE Sp. z o.o.	general construction and engineering	Warszawa	100	100
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	45	45
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warszawa	98	98
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50	50
BG LEASING	leasing services	Gdańsk	74	74
PHCRS	wholesale market	Gdańsk	38,39	42,92

19g. Investments in associates as at 31.12.2011

Name	Gross value of shares/ interests	Impairment write-offs	Additional capital paid in	Assets	Liabilities	Equity	Income	Profit / (Loss)	Relationship
MILLENNIUM LEASING Sp. z o.o.	63 942	0	70 001	3 518 742	2 963 698	48 195	154 346	49 075	subordinated
MILLENNIUM DOM MAKLERSKI S.A.	16 500	0	0	217 009	107 045	16 500	35 009	13 531	subordinated
BBG FINANCE BV	5 380	0	0	7 711	0	80	1 144	259	subordinated
MB FINANCE AB	247	0	0	663 864	663 145	247	259	60	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	143 000	418 832	0	1 000	82 099	1 649	subordinated
TBM Sp. z o.o.	225	0	0	668	0	500	455	80	associated
LUBUSKIE FABRYKI MEBLI S.A.*	6 700	0	0	19 335	3 086	13 400	31 490	(461)	associated
PHCRS S.A.*	8 200	(4 284)	0	72 033	60 372	21 357	11 231	443	associated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	294	599	0	100	826	108	subordinated
BG LEASING S.A. under bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates	103 192	(5 184)	213 295						

19h. Change of investments in associates

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	311 303	312 105
Liquidation of the company	(5 380)	0
Impairment write-offs in the period	2 735	(1 384)
Differences in valuation of shares expressed in foreign currencies	(10)	582
Balance at the end of the period	308 648	311 303

20) RECEIVABLES FROM SECURITIES WITH SELL-BACK CLAUSE

	31.12.2012	31.12.2011
a) from banks	0	0
b) from clients	17 460	2 208
c) interest	9	1
Total	17 469	2 209

21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2012	31.12.2011
Fixed assets:		
- land	1 286	1 271
- buildings, premises, civil and hydro-engineering structures	92 359	106 903
- machines and equipment	46 393	48 823
- vehicles	19 169	18 643
- other fixed assets	7 573	13 704
Fixed assets under construction	13 062	17 181
Total	179 842	206 525

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2012 - 31.12.2012

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 271	338 691	200 342	26 016	85 130	17 181	668 631
b) increases (on account of)	15	4 639	12 038	5 905	2 714	15 107	40 418
- purchase	0	0	0	0	0	7 627	7 627
- transfer from fixed assets under construction	15	4 639	11 806	0	2 714	0	19 174
- transfer from financial leasing	0	0	0	5 905	0	1 590	7 495
- investment provisions	0	0	0	0	0	5 844	5 844
- other	0	0	232	0	0	46	278
c) reductions (on account of)	0	11 178	38 701	7 320	666	19 226	77 091
- sale	0	8 985	112	510	16	0	9 623
- liquidation	0	1 365	37 738	0	578	0	39 681
- settlement of financial leasing agreement	0	0	0	0	0	19 219	19 219
- settlement of fixed assets under construction	0	530	797	6 810	71	0	8 208
- other	0	298	54	0	1	7	360
d) gross value of property, plant and equipment at the end of the period	**1 286**	**332 152**	**173 679**	**24 601**	**87 178**	**13 062**	**631 958**
e) cumulated depreciation (amortization) at the beginning of the period	0	208 314	151 519	7 373	70 051	0	437 257
f) depreciation over the period (on account of)	0	12 330	(24 233)	(1 941)	8 179	0	(5 665)
- current write-off (P&L)	0	18 410	14 305	2 726	8 820	0	44 261
- reductions on account of sale	0	(4 329)	(111)	(510)	(17)	0	(4 967)
- reductions on account of liquidation	0	(1 259)	(37 615)	0	(560)	0	(39 434)
- settlement of financial leasing	0	(246)	(760)	(4 157)	(64)	0	(5 227)
- other	0	(246)	(52)	0	0	0	(298)
g) cumulated depreciation (amortization) at the end of the period	**0**	**220 644**	**127 286**	**5 432**	**78 230**	**0**	**431 592**
h) impairment write-offs at the beginning of the period	0	23 474	0	0	1 375	0	24 849
- increase	0	0	0	0	0	0	0
- reduction	0	4 325	0	0	0	0	4 325
i) impairment write-offs at the end of the period	0	19 149	0	0	1 375	0	20 524
j) net value of property, plant and equipment at the end of the period	**1 286**	**92 359**	**46 393**	**19 169**	**7 573**	**13 062**	**179 842**
including finance lease	0	46 629	26 326	19 169	4 087	45	96 256

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2011 - 31.12.2011

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 856	340 213	252 476	26 300	94 679	5 364	720 888
b) increases (on account of)	0	3 374	5 503	8 726	529	21 280	39 412
- purchase	0	0	0	0	0	11 349	11 349
- transfer from fixed assets under construction	0	3 374	5 503	0	529	0	9 406
- transfer from financial leasing	0	0	0	8 726	0	6 444	15 170
- investment provisions	0	0	0	0	0	3 487	3 487
c) reductions (on account of)	585	4 896	57 637	9 010	10 078	9 463	91 669
- sale	66	0	1 915	409	1	0	2 391
- liquidation	0	117	48 722	0	2 751	0	51 590
- settlement of financial leasing agreement	0	0	0	0	0	9 406	9 406
- settlement of fixed assets under construction	0	553	108	8 425	210	0	9 296
- settlement of physical inventory	519	3 233	6 665	176	6 985	0	17 578
- other	0	993	227	0	131	57	1 408
d) gross value of property, plant and equipment at the end of the period	**1 271**	**338 691**	**200 342**	**26 016**	**85 130**	**17 181**	**668 631**
e) cumulated depreciation (amortization) at the beginning of the period	0	192 689	190 261	10 763	68 248	0	461 961
f) depreciation over the period (on account of)	0	15 625	(38 742)	(3 390)	1 803	0	(24 704)
- current write-off (P&L)		20 092	18 334	3 454	11 819	0	53 699
- reductions on account of sale	0	0	(1 883)	(409)	(1)	0	(2 293)
- reductions on account of liquidation	0	(117)	(48 447)	0	(2 737)	0	(51 301)
- settlement of financial leasing	0	(472)	(98)	(6 259)	(197)	0	(7 026)
- settlement of physical inventory	0	(3 065)	(6 460)	(176)	(6 967)	0	(16 668)
- other	0	(813)	(188)	0	(114)	0	(1 115)
g) cumulated depreciation (amortization) at the end of the period	**0**	**208 314**	**151 519**	**7 373**	**70 051**	**0**	**437 257**
h) impairment write-offs at the beginning of the period	500	23 885	0	0	1 375	0	25 760
- increase	0	0	0	0	0	0	0
- reduction	500	411		0	0	0	911
i) impairment write-offs at the end of the period	0	23 474	0	0	1 375	0	24 849
j) net value of property, plant and equipment at the end of the period	**1 271**	**106 903**	**48 823**	**18 643**	**13 704**	**17 181**	**206 525**
including finance lease	0	55 203	31 314	18 643	9 265	1 541	115 965

22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2012	31.12.2011
- concessions, patents, licenses, know how and similar assets, including:	41 375	31 895
- computer software	41 375	31 895
Total intangible assets	41 375	31 895

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2012 - 31.12.2012

	concessions, patents, licenses, know how and similar assets, including:		TOTAL
		computer software	
a) gross value of intangible assets at the beginning of the period	399 083	188 939	399 083
b) increases (on account of)	19 052	19 052	19 052
- expenditures on intangible assets	9 846	9 846	9 846
- provision	9 160	9 160	9 160
- other	46	46	46
c) reductions (on account of)	310	310	310
- liquidation	6	6	6
- other	304	304	304
d) gross value of intangible assets at the end of the period	**417 825**	**207 681**	**417 825**
e) cumulated depreciation (amortization) at the beginning of the period	367 188	157 044	367 188
f) depreciation over the period (on account of)	9 262	9 262	9 262
- current write-off (P&L)	9 268	9 268	9 268
- liquidation	(6)	(6)	(6)
g) cumulated depreciation (amortization) at the end of the period	**376 450**	**166 306**	**376 450**
h) impairment write-offs at the beginning of the period	0	0	0
i) impairment write-offs at the end of the period	0	0	0
j) net value of intangible assets at the end of the period	**41 375**	**41 375**	**41 375**

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2011 - 31.12.2011

	concessions, patents, licenses, know how and similar assets, including:	computer software	TOTAL
a) gross value of intangible assets at the beginning of the period	401 612	191 468	401 612
b) increases (on account of)	10 723	10 723	10 723
- expenditures on intangible assets	6 673	6 673	6 673
- other (provision)	4 050	4 050	4 050
c) reductions (on account of)	13 252	13 252	13 252
- liquidation	13 252	13 252	13 252
d) gross value of intangible assets at the end of the period	**399 083**	**188 939**	**399 083**
e) cumulated depreciation (amortization) at the beginning of the period	371 814	161 670	371 814
f) depreciation over the period (on account of)	(4 626)	(4 626)	(4 626)
- current write-off (P&L)	8 626	8 626	8 626
- liquidation	(13 252)	(13 252)	(13 252)
g) cumulated depreciation (amortization) at the end of the period	**367 188**	**157 044**	**367 188**
h) impairment write-offs at the beginning of the period	0	0	0
i) impairment write-offs at the end of the period	0	0	0
j) net value of intangible assets at the end of the period	**31 895**	**31 895**	**31 895**

23) NON-CURRENT ASSETS HELD FOR SALE

As of 31.12.2012 and 31.12.2011 the Bank did not classify any assets in the Fixed Assets for Sale category.

24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets

	31.12.2012			31.12.2011		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	5 861	0	5 861	7 243	0	7 243
Balance sheet valuation of financial instruments	352 013	(354 906)	(2 893)	668 692	(674 712)	(6 020)
Unrealised receivables/ liabilities on account of derivatives	87 170	(117 650)	(30 480)	86 083	(112 753)	(26 670)
Interest on deposits and securities to be paid/ received	64 192	(78 879)	(14 687)	52 288	(78 615)	(26 327)
Interest and discount on loans and receivables	0	(24 030)	(24 030)	0	(19 975)	(19 975)
Income and cost settled at effective interest rate	2 034	(245)	1 789	5 510	(4 224)	1 286
Provisions for loans presented as temporary differences	105 026	0	105 026	131 992	0	131 992
Employee benefits	11 760	0	11 760	10 507	0	10 507
Provisions for future costs	16 702	0	16 702	14 261	0	14 261
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	39 671	(8 097)	31 574	652	(24 077)	(23 425)
Other	5 108	(1 161)	3 947	5 005	(1 127)	3 878
Net deferred income tax asset	689 537	(584 968)	104 569	982 233	(915 483)	66 750

24b. Change of temporary differences

	31.12.2011	Adjustments for previous years*	Changes to financial result	Changes to equity	31.12.2012
Difference between tax and balance sheet depreciation	7 243		(1 382)		5 861
Balance sheet valuation of financial instruments	(6 020)		3 127		(2 893)
Unrealised receivables/ liabilities on account of derivatives	(26 670)		(3 810)		(30 480)
Interest on deposits and securities to be paid/ received	(26 327)		11 640		(14 687)
Interest and discount on loans and receivables	(19 975)		(4 055)		(24 030)
Income and cost settled at effective interest rate	1 286		503		1 789
Provisions for loans presented as temporary differences	131 992		(26 966)		105 026
Employee benefits	10 507		1 253		11 760
Provisions for future costs	14 261		2 441		16 702
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(23 425)			54 999	31 574
Other	3 878	(24 536)	24 605	0	3 947
Total	66 750	(24 536)	7 355	54 999	104 569

* - reclassification between deferred and current income tax

24c. Change of temporary differences

	31.12.2010	Changes to financial result	Changes to equity	31.12.2011
Difference between tax and balance sheet depreciation	7 688	(445)		7 243
Balance sheet valuation of financial instruments	(3 104)	(2 916)		(6 020)
Unrealised receivables/ liabilities on account of derivatives	(14 586)	(12 084)		(26 670)
Interest on deposits and securities to be paid/ received	(35 799)	9 472		(26 327)
Interest and discount on loans and receivables	(17 130)	(2 845)		(19 975)
Income and cost settled at effective interest rate	(179)	1 465		1 286
Provisions for loans presented as temporary differences	135 004	(3 012)		131 992
Employee benefits	9 650	857		10 507
Provisions for future costs	6 323	7 938		14 261
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	11 788		(35 213)	(23 425)
Other	3 152	726		3 878
Total	102 807	(844)	(35 213)	66 750

24d. Change of deferred income tax

	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Difference between tax and balance sheet depreciation	(1 382)	(445)
Balance sheet valuation of financial instruments	3 127	(2 916)
Unrealised receivables/ liabilities on account of derivatives	(3 810)	(12 084)
Interest on deposits and securities to be paid/ received	11 640	9 472
Interest and discount on loans and receivables	(4 055)	(2 845)
Income and cost settled at effective interest rate	503	1 465
Provisions for loans presented as temporary differences	(26 966)	(3 012)
Employee benefits	1 253	857
Provisions for future costs	2 441	7 938
Tax loss deductible in the future	0	0
Other	24 605	726
Change of deferred income tax recognized in financial result	7 355	(844)
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	54 999	(35 213)

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

Temporary differences expiry year	31.12.2012	31.12.2011
Unlimited	9 612	9 612
Total	9 612	9 612

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

	31.12.2012	31.12.2011
Net deferred income tax assets	104 569	66 750
Net deferred income tax provision	-	-
Total	104 569	66 750

25) OTHER ASSETS

	31.12.2012	31.12.2011
Expenses to be settled	221 705	276 355
Income to be received	12 625	8 404
Interbank settlements	28 726	13 750
Settlements of financial instruments transactions	63 772	25 865
Receivables from sundry debtors	236 180	88 431
Settlements with the State Treasury	3 544	1 330
Total other assets (gross)	566 552	414 135
Provisions	(6 894)	(9 103)
Total other assets (net)	**559 658**	**405 032**

26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2012	31.12.2011
In current account	210 646	146 393
Term deposits	709 999	163 486
Loans and advances received	1 329 248	1 210 840
Interest	3 107	1 687
Total	2 253 000	1 522 406

26b. Deposits from banks by maturity

	31.12.2012	31.12.2011
Current accounts	210 646	146 393
to 1 month	403 906	162 827
above 1 month to 3 months	305 851	599
above 3 months to 1 year	242	41
above 1 year to 5 years	1 001 374	1 073 038
above 5 years	327 874	137 822
Interest	3 107	1 687
Total	2 253 000	1 522 406

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

26c. Deposits from banks by currency

	31.12.2012	31.12.2011
in Polish currency	950 951	608 509
in foreign currencies (after conversion to PLN)	1 302 049	913 897
- currency: USD	30 045	25 150
- currency: EUR	1 132 930	888 747
- currency: CHF	136 298	0
- other currencies	2 776	0
Total	**2 253 000**	**1 522 406**

The increase in liabilities to banks denominated in CHF at the end of December 2012 was due to interbank deposits accepted.

27) Financial liabilities valued at fair value through profit and loss

	31.12.2012	31.12.2012
Negative valuation of derivatives	467 634	565 168
Short sale of securities	0	9 250
Financial liabilities valued at fair value through profit and loss	467 634	574 418

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

28) Derivative hedging instruments

The information can be found in **note (17) Derivative hedging instruments**

29) DEPOSITS FROM CUSTOMERS

29a. Structure of deposits from customers by type

	31.12.2012	31.12.2011
Amounts due to private individuals	25 910 983	22 906 106
Balances on current accounts	9 803 466	7 234 168
Term deposits	15 747 647	15 354 993
Other	116 399	124 686
Accrued interest	243 471	192 259
Amounts due to companies	13 415 067	13 121 962
Balances on current accounts	3 597 973	3 218 802
Term deposits	9 515 604	9 628 032
Other	245 799	215 654
Accrued interest	55 691	59 474
Amounts due to public sector	2 226 133	1 521 734
Balances on current accounts	851 060	714 705
Term deposits	1 322 798	770 357
Other	45 858	34 093
Accrued interest	6 417	2 579
Total	**41 552 183**	**37 549 802**

29b. Deposits from customers by maturity

	31.12.2012	31.12.2011
Current accounts	14 252 499	11 167 675
to 1 month	12 048 018	10 558 239
above 1 month to 3 months	7 973 691	10 312 554
above 3 months to 1 year	6 107 792	4 375 830
above 1 year to 5 years	864 052	867 044
above 5 years	552	14 148
Interest	305 579	254 312
Total	41 552 183	37 549 802

29c. Deposits from customers by currency

	31.12.2012	31.12.2011
in Polish currency	38 783 577	35 501 552
in foreign currencies (after conversion to PLN)	2 768 607	2 048 250
- currency: USD	954 244	647 214
- currency: EUR	1 645 086	1 284 442
- currency: GBP	117 067	84 179
- currency: CHF	36 874	26 195
- other currencies	15 336	6 219
Total	**41 552 183**	**37 549 802**

30) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

	31.12.2012	31.12.2011
a) to the Central Bank	0	0
b) to banks	0	1 099 422
c) to customers	174 370	516 711
d) interest	418	6 202
Total	174 788	1 622 335

31) DEBT SECURITIES

31a. Debt securities

	31.12.2012	31.12.2011
Outstanding bonds and bills	418 966	153 862
Bank Securities	344 374	240 913
Interest	4 246	0
Total	767 586	394 775

31b. Debt securities

	31.12.2012	31.12.2011
to 1 month	0	7 973
above 1 month to 3 months	49 344	8 187
above 3 months to 1 year	143 027	56 644
above 1 year to 5 years	570 969	321 971
above 5 years	0	0
Interest	4 246	0
Total	767 586	394 775

31c. Change of debt securities

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	394 775	384 537
Increases, on account of:	511 082	203 084
- issue of bonds	350 000	6 738
- issue of Bank Securities	156 836	196 346
- interest accrual	4 246	0
Reductions, on account of:	(138 271)	(192 846)
- repurchase of bonds	(84 897)	(149 299)
- repurchase of Bank Securities	(53 375)	(43 547)
Balance at the end of the period	**767 586**	**394 775**

31d. Debt securities by type

As at 31.12.2012	Balance sheet value	Final legal maturity	Market
BM_2013/02,A	12 533	2013-02-07,08	-
BM_2013/03,A,B,C,D	14 058	2013-03-04,5,6,7,8	-
BM_2013/04,A,B	4 736	2013-04-03,4,8	-
BM_2013/05,A,B,C	14 017	2013-05-08,9,10	-
BM_2013/06,A,B	10 379	2013-06-03,6,7	-
BM_2013/10,A	1 119	2013-10-07,8	-
BM_2014/01,A	6 215	2014-01-06,7	-
BM_2014/04	5 910	2014-04-04	-
BPW_2013/02	10 559	2013-02-04	-
BPW_2013/03	12 195	2013-03-04	-
BPW_2013/07,A,B	15 386	2013-07-08,9,31	-
BPW_2013/08	9 453	2013-08-02	-
BPW_2013/09,A	9 807	2013-09-09,30	-
BPW_2013/10,A	24 020	2013-10-04,31	-
BPW_2013/11,A,B	31 980	2013-11-04,29	-
BPW_2013/12,A	22 131	2013-12-02,31	-
BPW_2014/01,A	15 589	2014-01-03,31	-
BPW_2014/04,A	13 593	2014-04-02,30	-
BPW_2014/05	6 209	2014-05-02	-
BPW_2014/06	12 614	2014-06-02	-
BPW_2014/07,A,B	36 450	2014-07-03,30,31	-
BPW_2014/09,A,B,C	26 866	2014-09-03	-
BPW_2015/01,A	6 170	2015-01-05,30	-
BPW_2015/03	6 875	2015-03-04	-
BPW_2015/04,A,B,C	34 629	2015-04-01,29	-
BPW_2015/06,A	11 079	2015-06-03	-
BPW_2015/07	16 563	2015-07-01	-
BPW_2015/09,A	10 406	2015-09-30	-
BPW_2015/11	6 744	2015-11-30	-
BPW_2015/12,A	5 058	2015-12-31	-
BKMO_051015B	254 183	2015-10-05	-
BKMO_281215A	100 063	2015-12-28	-
TOTAL	767 586		

In the case of Bonds (BM) and Banking Securities (BPW) issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date. For the remaining bonds (BKMO) interest shall be calculated from the value of bonds and paid semi-annually. As of 31.12.2012 the balance amounted to PLN 4,246 thousand.

31e. Debt securities by type

As at 31.12.2011	Balance sheet value	Final legal maturity	Market
BM_2012/01,A,B,C	7 973	2012-01-03,04,10,12	-
BM_2012/02,A,B	8 187	2012-02-01,02	-
BM_2012/04,A,B,C	12 159	2012-04-10,11,12	-
BM_2012/05	347	2012-05-09	-
BM_2012/06	4 226	2012-06-11	-
BM_2012/07,A	6 131	2012-07-06,09	-
BM_2012/08,A	6 922	2012-08-08	-
BM_2012/09,A,B,C,D,E	13 710	2012-09-06,07,10,11,12	-
BM_2012/11,A,B,C	13 148	2012-11-02,05,06,07	-
BM_2013/02,A	13 073	2013-02-07,08	-
BM_2013/03,A,B,C,D	14 802	2013-03-04,05,06,07,08	-
BM_2013/04,A,B	9 203	2013-04-03,04,08	-
BM_2013/05,A,B,C	14 080	2013-05-08,09,10	-
BM_2013/06,A,B	15 485	2013-06-03,06,07	-
BM_2013/10,A	2 100	2013-10-07,08	-
BM_2014/01,A	6 198	2014-01-06,07	-
BM_2014/04	6 119	2014-04-04	-
BPW_2013/02	10 864	2013-02-04	-
BPW_2013/03	13 014	2013-03-04	-
BPW_2013/07,A,B	17 731	2013-07-08,09,31	-
BPW_2013/08	12 634	2013-08-02	-
BPW_2013/09,A	14 488	2013-09-09,30	-
BPW_2013/10,A	28 298	2013-10-04,31	-
BPW_2013/11,A,B	40 416	2013-11-04,29	-
BPW_2013/12,A	28 013	2013-12-02,31	-
BPW_2014/01	9 067	2014-01-03	-
BPW_2014/04	9 148	2014-04-02	-
BPW_2014/05	7 625	2014-05-02	-
BPW_2014/06	13 186	2014-06-02	-
BPW_2014/07	16 432	2014-07-03	-
BPW_2014/09	15 846	2014-09-03	-
BPW_2015/01	4 150	2015-01-05	-
TOTAL	394 775		

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

32) PROVISIONS

32a. Provisions

	31.12.2012	31.12.2011
Provision for off-balance sheet commitments	22 463	22 271
Provision for contentious claims	18 242	12 699
Total	40 705	34 970

32b. Change of provisions

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Provision for off-balance sheet commitments		
Balance at the beginning of the period	22 271	14 273
Charge of provision	17 149	17 226
Release of provision	(16 911)	(9 228)
FX rates differences	(46)	0
Balance at the end of the period	22 463	22 271
Provision for contentious claims		
Balance at the beginning of the period	12 699	6 230
Charge of provision	7 808	11 134
Release of provision	(2 177)	(4 138)
Utilisation of provision	(88)	(527)
Balance at the end of the period	18 242	12 699

33) DEFERRED INCOME TAX PROVISION

	31.12.2012	31.12.2011
Deferred income tax provision	0	0

34) OTHER LIABILITIES

34a. Other liabilities

	31.12.2012	31.12.2011
Short-term	570 693	598 561
Accrued costs - bonuses, salaries	43 701	42 799
Accrued costs - other	102 688	85 339
Interbank settlements	173 211	223 208
Other creditors	114 577	102 332
Liabilities from financial leasing	15 721	12 348
Liabilities to public sector	18 119	10 325
Deferred income	72 809	70 193
Provisions for unused employee holiday	8 792	7 629
Provisions for retirement benefits	1 043	927
Other	20 032	43 461
Long-term	82 118	94 487
Provisions for retirement benefits	8 189	7 208
Deferred income	14 997	23 628
Liabilities from financial leasing	58 760	63 651
Accrued costs	172	0
Total	**652 811**	**693 048**

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

34b. Liabilities from financial leasing

	31.12.2012	31.12.2011
Liabilities from financial leasing (gross)	85 620	88 969
Unrealised financial costs	(11 139)	(12 970)
Current value of minimum leasing instalments	74 481	75 999
Liabilities from financial leasing (gross) by maturity		
Under 1 year	18 604	14 821
From 1 year to 5 years	48 684	47 180
Above 5 years	18 332	26 968
Total	85 620	88 969
Liabilities from financial leasing (net) by maturity		
Under 1 year	15 720	12 348
From 1 year to 5 years	41 077	38 429
Above 5 years	17 684	25 222
Total	74 481	75 999

34c. Change of provisions for unused employee holiday

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	7 629	4 513
Charge of provisions/ reversal of provisions	1 457	3 501
Utilization of provisions	(294)	(385)
Balance at the end of the period	8 792	7 629

34d. Change of provisions for retirement benefits

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	8 135	7 165
Charge of provisions/ reversal of provisions	1 505	1 184
Utilization of provisions	(408)	(214)
Balance at the end of the period	9 232	8 135

35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2012	31.12.2011
Name of entity	MB FINANCE A.B.	MB FINANCE A.B.
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	613 230	662 520
Interest rate	2.358%	3.207%
Maturity	20.12.2017 r.	20.12.2017 r.
Interest	379.8	708
Balance sheet value of subordinated debt	613 610	663 228

35b. Change of subordinated debt

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	663 228	911 988
Increases, on account of:	17 880	145 284
- FX rates differences	0	113 691
- interest accrual	17 880	31 593
Reductions, on account of:	(67 498)	(394 044)
- interest payment	(18 208)	(32 004)
- FX rates differences	(49 290)	0
- repayment of subordinated debt	0	(362 040)
Balance at the end of the period	**613 610**	**663 228**

In the course of 2012 and 2011 the Bank did not record any delays in making principal or interest payments, nor did it breach any other contractual provisions resulting from its subordinated liabilities.

In December 2011, in accordance with contractual terms, the Bank made a repayment of subordinated debt in relation to company BBG FINANCE B.V. in the amount of EUR 80 million.

36) SHAREHOLDERS' EQUITY

36a. Share capital

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

SHARE CAPITAL Par value of one share = 1 PLN

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

In the reporting period a there were no conversion of shares into the bearer shares. As a consequence of former conversion number of registered shares decreased and as of 31.12.2012 amounted to 109 316, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 201. Information on the shareholder - Banco Comercial Portugues S.A. presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Bank's General Shareholders Meeting held on 31 March 2011 and 20 April 2012. In case of ING OFE the number of shares and their participation in the Bank's share capital were calculated on the basis of annual ING OFE asset structure, published as on 30 December 2011 and 31 December 2012. For the purpose of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 3,71 PLN for 2011 and 4,41 PLN for 2012.

The largest shareholders of the Bank - (above 5% share in the vote at the General Shareholders Meetings) were as follows:

Shareholders as at 31.12.2012

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING Otwarty Fundusz Emerytalny	112 824 664	9.30	112 824 664	9.30

Shareholders as at 31.12.2011

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING Otwarty Fundusz Emerytalny	61 645 799	5.08	61 645 799	5.08

36b. Revaluation capital

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

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

Revaluation reserve

	31.12.2012	31.12.2011
Effect of valuation (gross)	(166 178)	123 291
Deferred income tax	31 574	(23 425)
Net effect of valuation	(134 604)	99 865

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

Revaluation reserve on available for sale financial assets 1.01.2012 - 31.12.2012

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(3 429)	651	(2 778)
Transfer to income statement of the period as a result of sale	(25 361)	4 819	(20 542)
Change of capitals connected with maturity of securities	(1 221)	232	(989)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	72 629	(13 799)	58 829
Revaluation reserve at the end of the period	42 617	(8 097)	34 520

Revaluation reserve on available for sale financial assets 1.01.2011 - 31.12.2011

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	12 352	(2 347)	10 005
Transfer to income statement of the period as a result of sale	(5 021)	954	(4 067)
Change of capitals connected with maturity of securities	(3 819)	726	(3 093)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	(6 941)	1 319	(5 623)
Revaluation reserve at the end of the period	(3 429)	651	(2 778)

Revaluation reserve on cash flows hedge financial instruments 1.01.2012 - 31.12.2012

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	126 720	(24 077)	102 643
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	(25 148)	4 778	(20 370)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	(310 367)	58 970	(251 397)
Revaluation reserve at the end of the period	(208 795)	39 671	(169 124)

Revaluation reserve on cash flows hedge financial instruments 1.01.2011 - 31.12.2011

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(74 395)	14 135	(60 260)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	59 536	(11 312)	48 224
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	141 579	(26 900)	114 679
Revaluation reserve at the end of the period	126 720	(24 077)	102 643

36c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2012	374 957	780 772	228 902	415 342	1 799 973
appropriation of profit, including:	0	415 342	0	(415 342)	0
- transfer to reserve capital	0	415 342	0	(415 342)	0
net profit/ (loss) of the period	0	0	0	450 141	450 141
Retained earnings at the end of the period 31.12.2012	374 957	1 196 114	228 902	450 141	2 250 114

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2011	374 957	581 042	228 902	321 042	1 505 943
appropriation of profit, including:	0	199 730	0	(321 042)	(121 312)
- transfer to reserve capital	0	199 730	0	(199 730)	0
- dividend paid for 2010	0	0	0	(121 312)	(121 312)
net profit/ (loss) of the period	0	0	0	415 342	415 342
Retained earnings at the end of the period 31.12.2011	**374 957**	**780 772**	**228 902**	**415 342**	**1 799 973**

37) LIQUIDITY GAP BY MATURITY

31 December 2012 PLN '000

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other	TOTAL
Cash, balances with the Central Bank	2 465 640	0	0	0	0		2 465 640
Deposits in other banks and loans and advances to banks	956 767	0	0	435 657	0		1 392 424
Trading debt securities	3 893	1 265	4 970	25 648	11 016		46 791
Trading derivatives	41 219	86 455	204 066	255 132	31 019		617 891
Hedging derivatives	23 932	51 355	131 198	33 287	38 040		277 812
Loans and advances to customers	2 845 432	994 477	2 698 021	9 643 968	23 159 549		39 341 449
Debt securities available for sale	3 598 725	0	10 641	2 186 724	953 669		6 749 758
Receivables from securities bought with sell-back clause	17 469	0	0	0	0		17 469
Shares and interests						309 720	309 720
Other non-financial assets						894 433	894 433
TOTAL	9 953 077	1 133 552	3 048 896	12 580 416	24 193 293	1 204 153	52 113 387
LIABILITIES							
Deposits from banks	615 782	307 011	960	1 001 374	327 874		2 253 000
Deposits from customers	26 424 835	8 059 691	6 178 703	888 399	554		41 552 183
Trading derivatives and liabilities from short sale of securities	27 431	43 839	118 853	252 317	25 194		467 634
Hedging derivatives	102 558	38 184	10 583	272 768	691 109		1 115 202
Liabilities from securities sold with buy-back clause	154 715	20 073	0	0	0		174 788
Debt securities, by final legal maturity	0	49 344	147 273	570 969	0		767 586
Subordinated debt	0	0	380	613 230	0		613 610
Other non-financial liabilities						693 516	693 516
Equity						4 475 868	4 475 868
TOTAL	27 325 321	8 518 142	6 456 752	3 599 057	1 044 731	5 169 384	52 113 387
OFF-BALANCE SHEET LIABILITIES							
Liabilities from opened credit lines	5 505 827						5 505 827
Liabilities from sureties and guarantees	965 768						965 768
Balance sheet Gap	(17 372 244)	(7 384 590)	(3 407 856)	8 981 359	23 148 561	(3 965 231)	(0)
Total Gap	(23 843 839)	(7 384 590)	(3 407 856)	8 981 359	23 148 561	(3 965 231)	(6 471 595)

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

31 December 2011 PLN '000

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other	TOTAL
Cash, balances with the Central Bank	2 017 550	0	0	0	0		2 017 550
Deposits in other banks and loans and advances to banks	2 247 222	0	10 992	402 152	0		2 660 366
Trading debt securities	46 723	0	156 812	103 939	8 776		316 250
Trading derivatives	34 514	72 790	99 217	161 573	44 685		412 779
Hedging derivatives	0	32 536	28 899	46 094	23 107		130 636
Loans and advances to customers	2 882 979	774 329	2 677 458	9 540 665	23 956 625		39 832 055
Debt securities available for sale	1 118 738	0	884 046	1 084 371	45 351		3 132 507
Receivables from securities bought with sell-back clause	2 209	0	0	0	0		2 209
Shares and interests						312 381	312 381
Other non-financial assets						796 544	796 544
TOTAL	8 349 935	879 655	3 857 423	11 338 795	24 078 544	1 108 925	49 613 277
LIABILITIES							
Deposits from banks	309 298	617	42	1 074 615	137 835		1 522 406
Deposits from customers	21 807 503	10 406 542	4 444 112	877 495	14 150		37 549 802
Trading derivatives and liabilities from short sale of securities	38 986	244 902	94 630	154 119	41 781		574 418
Hedging derivatives	178 083	207 110	482 732	631 004	799 170		2 298 099
Liabilities from securities sold with buy-back clause	1 137 517	484 818	0	0	0		1 622 335
Debt securities, by final legal maturity	7 973	8 187	56 643	321 972	0		394 775
Subordinated debt	0	0	708	0	662 520		663 228
Other non-financial liabilities						728 018	728 018
Equity						4 260 196	4 260 196
TOTAL	23 479 359	11 352 177	5 078 867	3 059 204	1 655 456	4 988 214	49 613 277
OFF-BALANCE SHEET LIABILITIES							
Liabilities from opened credit lines	5 758 206						5 758 206
Liabilities from sureties and guarantees	1 289 768						1 289 768
Balance sheet Gap	(15 129 424)	(10 472 522)	(1 221 444)	8 279 591	22 423 088	(3 879 289)	0
Total Gap	(22 177 398)	(10 472 522)	(1 221 444)	8 279 591	22 423 088	(3 879 289)	(7 047 974)

XIII. SUPPLEMENTARY INFORMATION

1) 2012 Dividend

The Management Board of the Bank intends to propose to Supervisory Board and General Meeting of Shareholders to keep entire profit of 2012 in the Bank's equity.

2) Reclassification of debt securities

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

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

Name	WZ0911
Notional value as at reclassification date	120 000 000 PLN
Book value as at reclassification date	119 132 400 PLN
Interest rate as at reclassification date	6,64%

Data in PLN ths.

	Valuation recognized in P&L (with tax effect)	Valuation recognized in revaluation reserve (with tax effect)	Total effect recognized in equity
Year 2007			
Before reclassification in "trading" portfolio	(3)	-	(3)
Year 2008			
Before reclassification in "trading" portfolio	(1 016)	-	(1 016)
After reclassification in "available for sale" portfolio		(2 509)	(2 509)
TOTAL 2008	(1 016)	(2 509)	(3 525)
Year 2009			
After reclassification in "available for sale" portfolio	-	(461)	(1 477)
Year 2010			
After reclassification in "available for sale" portfolio	-	274	(742)
May 2011			
After reclassification in "available for sale" portfolio	-	119	(897)
May 2011 (proforma)			
If the reclassification did not occur	(155)	-	(897)

On June 3, 2011 the Bank made the sale of aforementioned securities realizing a profit of PLN 133 thousand.

3) Information on assets collateralizing liabilities

As at 31 December 2012 following assets of the Bank constituted security of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	133 548
2.	Treasury bonds OK0114	available for sale	Initial security deposit for bond futures	500	484
3.	Treasury bonds WZ0115	available for sale	Loan agreement	182 000	187 094
4.	Treasury bonds WZ0117	available for sale	Loan agreement	400 000	411 336
5.	Treasury bonds WZ0117	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	55 000	56 559
6.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	195 000	200 322
7.	Cash		Payment to the Futures Settlement Guarantee Fund	100	100
8.	Deposits	Deposits in other banks	Settlement on transactions concluded	741 092	741 092
		Total		1 703 692	1 730 534

As at 31 December 2011 following assets of the Bank constituted security of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0115	available for sale	Lombard credit granted to the Bank by the NBP	280 000	284 301
2.	Treasury bonds OK0114	available for sale	Initial security deposit for bond futures	500	453
3.	Treasury bonds WZ0115	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	37 545	38 122
4.	Treasury bonds OK1012	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	16 374	15 788
5.	Treasury bonds PS0416	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	25 548	26 204
6.	Treasury bonds OK0114	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	133 000	120 624
7.	Cash		Payment to the Futures Settlement Guarantee Fund	100	100
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	1 801 044	1 801 044
9.	Loans and advances	Loans and advances	Loan agreement	127 009	125 793
		Total		2 421 120	2 412 429

4) SECURITIES SUBJECT TO TRANSACTIONS WITH BUY-BACK CLAUSE

As at 31 December 2012, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Par value	Balance sheet value
Treasury bonds	171 072	175 622
TOTAL	171 072	175 622

As at 31 December 2011, the following securities (presented in the balance sheet of the Bank) were subject to Sell Buy Back transactions):

Type of security	Par value	Balance sheet value
Treasury bonds	1 651 329	1 621 794
TOTAL	1 651 329	1 621 794

5) ADDITIONAL EXPLANATIONS TO CASH FLOW

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

Data in PLN thous.	31.12.2012	31.12.2011
Cash and balances with the Central Bank	2 465 640	2 017 550
Receivables from interbank deposits (*)	224 599	459 741
Debt securities issued by the State Treasury (*)	3 603 882	1 165 461
of which available for sale	3 598 725	1 118 738
of which trading	5 157	46 722
Total	**6 294 121**	**3 642 752**

(*) financial assets of maturity below 3 months

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

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

"Other items" of operating cash flows in 2012 include an adjustment of PLN 18 million (PLN 32 million in 2011) on account of accrual of interest on subordinated loans, the outflow of these funds has been presented in the part concerning cash flows on financial operations. In addition 'other flows' from financing activities includes the payment of interest on loans of PLN 21 million (34 million respectively for the year 2011).

6) INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2012 the Custody Department maintained 11,048 accounts (representing an increase of 11.48% compared to the year 2011), in which Customers' assets were kept with the total value of PLN 29.9 billion (including assets of the Group's companies in the amount of PLN 34 million). Net revenue from the custody business for 2012 amounted to PLN 6.2 million. The Custody Department serves as a depositary bank for 57 mutual funds including 10 of Millennium TFI S.A..

7) OPERATING LEASE

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

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

Balance as at:	31.12.2012	31.12.2011
to 1 year	62 472	40 148
above 1 year to 5 years	159 671	120 950
above 5 years	58 246	94 462
TOTAL	280 388	255 560

8) Share based payments

In 2012 the Bank implemented Variable Remuneration Policy for Persons Holding Managerial Positions in Bank Millennium S.A. in accordance with requirements described in Resolution of Polish Financial Supervisory Authority no 258/2011.

According to the mentioned Policy, Bank's employees who are covered by this Policy, who have significant impact on Bank's risk profile, will be paid variable remuneration on the basis of individual results and on the basis of unit / department and the entire Bank results.

Part of the variable remunerations for employees of the Bank will be paid in the form of Bank's phantom shares. Those payments fulfil definition of the cash-settled share-based payments.

	Variable Remuneration for 2012 – Phantom Shares
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments
Commencement of vesting period	For year 2012: 1 January 2012
The date of announcing the program	For year 2012: 30 July 2012
Grant date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after General Shareholders' Meeting that approves the financial statement for the year 2012
Number of granted instruments	Will be determined at the grant date of the program in accordance with the definition of IFRS 2
Maturity date	3 years since the date of granting program
Vesting date	31 December 2012
Vesting conditions	Employment in the Bank 2012, results of the Bank and individual performance
Program settlement	On the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw preceding the settlement date.

On 31 December 2012 the Bank performed the valuation of phantom shares granted to employees covered by the program who are not members of the Management Board, with the assumption that the grant was made on 31 December 2012.

Due to the fact that this program is cash-settled, the fair value will be adjusted on each balance sheet date until the program settlement.

On 31 December 2012 the fair value of rights to acquire phantom shares granted in the period until 31 December 2012 to employees who are not members of the Board of the Bank as at 31 December 2012 is PLN 568 thousand and this amount was recognized in the profit and loss account of year 2012 P&L as cost of remunerations.

In the case of the Management Board Members covered by the program, the valuation will be possible after determination of amount of bonuses by the Personnel Committee of the Supervisory Board, which decision will be taken after the General Shareholders Meeting.

9) ESSENTIAL EVENTS BETWEEN THE DATE, FOR WHICH THE FINANCIAL REPORT WAS PREPARED, AND ITS PUBLICATION DATE

Between the date on which this report is drawn up and the date of its publication, there were no events that could significantly affect bank's future financial results.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
27.02.2013	Bogusław Kott	Chairman of the Management Board	....
27.02.2013	Joao Bras Jorge	First Deputy Chairman of the Management Board	....
27.02.2013	Fernando Bicho	Deputy Chairman of the Management Board	....
27.02.2013	Artur Klimczak	Deputy Chairman of the Management Board	....
27.02.2013	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
27.02.2013	Wojciech Haase	Member of the Management Board	....
27.02.2013	Andrzej Gliński	Member of the Management Board	....
27.02.2013	Maria Jose Campos	Member of the Management Board	....