Annual Report
of the Bank Millennium S.A.
for the 12-month period ending 31st December 2013

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2013 to 31.12.2013	period from 1.01.2012 to 31.12.2012	period from 1.01.2013 to 31.12.2013	period from 1.01.2012 to 31.12.2012
Interest income	2 564 341	2 979 723	608 962	713 946
Fee and commission income	634 934	596 859	150 780	143 008
Operating income	1 941 437	1 857 045	461 039	444 950
Operating profit / (loss)	622 910	556 871	147 924	133 427
Profit /(loss) before taxes	622 910	556 871	147 924	133 427
Profit /(loss) after taxes	496 775	450 141	117 971	107 854
Total comprehensive income of the period	499 928	215 672	118 720	51 675
Net cash flows from operating activities	2 717 761	3 568 395	645 396	854 992
Net cash flows from investing activities	(2 097 992)	(1 035 377)	(498 217)	(248 078)
Net cash flows from financing activities	(161 350)	118 351	(38 316)	28 357
Net cash flows, total	458 419	2 651 369	108 862	635 271
Total assets	56 529 066	52 113 387	13 630 658	12 747 269
Liabilities to banks and other monetary institutions	2 202 585	2 253 000	531 102	551 098
Liabilities to customers	45 448 660	41 552 183	10 958 878	10 163 931
Total equity	4 975 796	4 475 868	1 199 796	1 094 826
Share capital	1 213 117	1 213 117	292 515	296 736
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)	4.10	3.69	0.99	0.90
Diluted book value per share (in PLN/EUR)	4.10	3.69	0.99	0.90
Capital adequacy ratio	13.62%	13.52%	13.62%	13.52%
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

- For balance-sheet items 4.1472 EUR/PLN rate of 31 December 2013 (for comparable data as of 31 December 2012: 4.0882 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2013 – 4.2110 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data on the period 1 January – 31 December 2012: 4.1736 EUR/PLN).

QUARTERLY FINANCIAL INFORMATION

INCOME STATEMENT

Amount '000 PLN	1.01.2013-31.12.2013	1.10.2013-31.12.2013*	1.01.2012-31.12.2012	1.10.2012-31.12.2012*
Interest income	2 564 341	618 555	2 979 723	769 129
Interest expense	(1 450 486)	(300 507)	(1 941 330)	(517 757)
Net interest income	1 113 855	318 048	1 038 393	251 372
Fee and commission income	634 934	157 804	596 859	148 187
Fee and commission expense	(88 043)	(22 448)	(89 515)	(24 700)
Net fee and commission income	546 891	135 356	507 344	123 487
Dividend income	29 015	0	41 467	0
Result on investment financial assets	20 721	637	25 362	16 454
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	184 898	39 972	212 407	81 760
Other operating income	46 057	15 102	32 072	8 705
Operating income	1 941 437	509 115	1 857 045	481 778
General and administrative expenses	(979 395)	(247 106)	(1 008 364)	(256 522)
Impairment losses on financial assets	(220 674)	(62 828)	(205 919)	(61 600)
Impairment losses on non-financial assets	(1 559)	(1 069)	(219)	(148)
Depreciation and amortization	(52 618)	(12 169)	(53 530)	(13 327)
Other operating expenses	(64 281)	(29 436)	(32 142)	(5 824)
Operating expenses	(1 318 527)	(352 608)	(1 300 174)	(337 421)
Operating profit / (loss)	**622 910**	**156 507**	**556 871**	**144 357**
Profit / (loss) before taxes	**622 910**	**156 507**	**556 871**	**144 357**
Corporate income tax	(126 135)	(36 446)	(106 730)	(31 713)
Profit / (loss) after taxes	**496 775**	**120 061**	**450 141**	**112 644**

* - quarterly financial information has not been audited

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	1.01.2013-31.12.2013	1.10.2013-31.12.2013*	1.01.2012-31.12.2012	1.10.2012-31.12.2012*
Profit / (loss) after taxes	496 775	120 061	450 141	112 644
Other elements of total comprehensive income:				
Effect of valuation of available for sale debt securities	(44 482)	15 817	46 046	42 316
Effect of valuation of available for sale shares	0	0	0	0
Hedge accounting	48 375	12 338	(335 514)	(13 200)
Other elements of total comprehensive income before taxes	3 893	28 155	(289 468)	29 116
Corporate income tax on other elements of total comprehensive income	(740)	(5 349)	54 999	(5 532)
Other elements of total comprehensive income after taxes	3 153	22 806	(234 469)	23 584
Total comprehensive income of the period	499 928	142 867	215 672	136 228

* - quarterly financial information has not been audited

ANNUAL FINANCIAL STATEMENT OF THE BANK MILLENNIUM S.A. FOR THE 12-MONTHS PERIOD ENDING 31 DECEMBER 2013

Table of contents

1. INCOME STATEMENT

INCOME STATEMENT

Amount '000 PLN	Note	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Interest income	1	2 564 341	2 979 723
Interest expense	2	(1 450 486)	(1 941 330)
Net interest income		1 113 855	1 038 393
Fee and commission income		634 934	596 859
Fee and commission expense		(88 043)	(89 515)
Net fee and commission income	3	546 891	507 344
Dividend income	4	29 015	41 467
Result on investment financial assets	5	20 721	25 362
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	184 898	212 407
Other operating income	6	46 057	32 072
Operating income		1 941 437	1 857 045
General and administrative expenses	7	(979 395)	(1 008 364)
Impairment losses on financial assets	8	(220 674)	(205 919)
Impairment losses on non financial assets	9	(1 559)	(219)
Depreciation and amortization	10	(52 618)	(53 530)
Other operating expenses	11	(64 281)	(32 142)
Operating expenses		(1 318 527)	(1 300 174)
Profit / (loss) before taxes		**622 910**	**556 871**
Corporate income tax	12	(126 135)	(106 730)
Profit / (loss) after taxes		**496 775**	**450 141**

2. TOTAL COMPREHENSIVE INCOME STATEMENT

TOTAL COMPREHENSIVE INCOME STATEMENT

Amount '000 PLN	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Profit / (loss) after taxes	496 775	450 141
Other elements of total comprehensive income:		
Effect of valuation of available for sale debt securities	(44 482)	46 046
Effect of valuation of available for sale shares	0	0
Hedge accounting	48 375	(335 514)
Other elements of total comprehensive income before taxes	3 893	(289 468)
Corporate income tax on other elements of total comprehensive income	(740)	54 999
Other elements of total comprehensive income after taxes	3 153	(234 469)
Total comprehensive income of the period	499 928	215 672

Section of Statement of total comprehensive income presenting the components of other comprehensive income for the period includes only amounts that will be subsequently reclassified to profit or loss under certain conditions.

3. BALANCE SHEET

BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2013	31.12.2012
Cash, balances with the Central Bank	14	3 411 940	2 465 640
Deposits, loans and advances to banks and other monetary institutions	15	1 519 595	1 392 424
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	16	853 058	664 682
Hedging derivatives	17	211 395	277 812
Loans and advances to customers	18	41 087 590	39 341 449
Investment financial assets	19	8 241 226	6 750 830
- available for sale		8 241 226	6 750 830
- held to maturity		0	0
Investments in associates	19	298 007	308 648
Receivables from securities bought with sell-back clause	20	242 061	17 469
Property, plant and equipment	21	158 943	179 842
Intangible assets	22	36 869	41 375
Non current assets held for sale	23	0	0
Receivables from Tax Office resulting from current tax		63 571	8 989
Deferred income tax assets	24	113 131	104 569
Other assets	25	291 680	559 658
Total Assets		**56 529 066**	**52 113 387**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2013	31.12.2012
LIABILITIES			
Liabilities to banks and other monetary institutions	26	2 202 585	2 253 000
Financial liabilities valued at fair value through profit and loss	27	575 189	467 634
Hedging derivatives	17	930 346	1 115 202
Liabilities to customers	28	45 448 660	41 552 183
Liabilities from securities sold with buy-back clause	29	116 803	174 788
Debt securities	30	701 352	767 586
Provisions	31	63 066	40 705
Liabilities to Tax Office resulting from current tax		8 217	
Deferred income tax liabilities	32	0	0
Other liabilities	33	884 467	652 811
Subordinated debt	34	622 585	613 610
Total Liabilities		51 553 270	47 637 519
EQUITY			
Share capital	35	1 213 117	1 213 117
Share premium	35	1 147 241	1 147 241
Revaluation reserve	35	(131 451)	(134 604)
Retained earnings	35	2 746 889	2 250 114
Total Equity		4 975 796	4 475 868
Total Liabilities and Equity		**56 529 066**	**52 113 387**

4. STATEMENT OF CHANGES IN EQUITY

	Total equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2013	4 475 868	1 213 117	1 147 241	(134 604)	2 250 114
- total comprehensive income of 2013	499 928	0	0	3 153	496 775
Equity at the end of the period (closing balance) 31.12.2013	4 975 796	1 213 117	1 147 241	(131 451)	2 746 889

	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

Detailed information concerning changes in different equity items are presented in the **note (35).**

5. CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount ‘000 PLN	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Profit (loss) after taxes	496 775	450 141
Adjustments for:	2 220 986	3 118 254
Interests in net profit/(loss) of associated companies	0	0
Depreciation and amortization	52 618	53 530
Foreign exchange (gains) /losses	26 132	(122 300)
Dividends	(29 015)	(39 383)
Changes in provisions	22 361	5 735
Result on sale and liquidation of investing activity assets	(22 027)	(35 458)
Change in financial assets valued at fair value through profit and loss	(76 929)	(459 908)
Change in loans and advances to banks	(14 832)	1 037 138
Change in loans and advances to customers	(1 746 502)	486 268
Change in receivables from securities bought with sell-back clause	(224 592)	(15 260)
Change in liabilities valued at fair value through profit and loss	(77 301)	(1 289 681)
Change in liabilities to banks	78 603	667 245
Change in deposits from customers	3 896 477	4 002 381
Change in liabilities from securities sold with buy-back clause	(57 985)	(1 447 547)
Change in debt securities	(66 234)	372 811
Change in income tax settlements	125 363	194 632
Income tax paid	(181 030)	(104 819)
Change in other assets and liabilities	500 071	(205 147)
Other	15 808	18 017
Net cash flows from operating activities	**2 717 761**	**3 568 395**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Inflows:	284 529 971	177 765 054
Proceeds from sale of property, plant and equipment and intangible assets	8 002	8 836
Proceeds from sale of shares in associates	0	7 274
Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
Proceeds from sale of investment financial assets	284 492 660	177 709 561
Other	29 309	39 383
Outflows:	(286 627 963)	(178 800 431)
Acquisition of property, plant and equipment and intangible assets	(24 664)	(25 014)
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	(286 603 299)	(178 775 417)
Other	0	0
Net cash flows from investing activities	**(2 097 992)**	**(1 035 377)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Inflows:	60 000	298 750
Long-term bank loans	60 000	298 750
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:	(221 350)	(180 399)
Repayment of long-term bank loans	(190 729)	(140 844)
Redemption of debt securities	0	0
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other	(30 621)	(39 555)
Net cash flows from financing activities	**(161 350)**	**118 351**

D. NET CASH FLOWS, TOTAL (A+B+C)	458 419	2 651 369
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	6 294 121	3 642 752
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	6 752 540	6 294 121

6. 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 almost 5,900 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 2013

General Meeting held on 11 April 2013 appointed Mr. Grzegorz Jędrys as a member of the Supervisory Board.

On 24 October 2013 Mr. Bogusław Kott – Chairman of the Management Board resigned from the post of the Chairman of the Management Board, with the effective date of 24 October 2013.

On the meeting on October 24, 2013 the Supervisory Board nominated Mr. Joao Nuno Lima Bras Jorge to the post of the Chairman of the Management Board of the Bank and established, that the Management Board of the Bank of the current term of office shall be composed of 7 persons.

Until now, Mr. Joao Bras Jorge kept the post of the First Deputy Chairman of the Management Board of the Bank (Polish Financial Supervision Commission on October 1, 2013 expressed its consent for nomination of Mr. Joao Bras Jorge to the post of the Chairman of the Management Board of the Bank).

As a result of filing by Mr. Bogusław Kott of his resignation from the function of the Chairman of the Management Board of the Bank, the condition has been met determining the nomination of Mr. Bogusław Kott into the composition of the Supervisory Board of the Bank of the current term of office (as set forth in the provisions of the resolution no. 19 of the Annual General Meeting of Shareholders of the Bank of April, 20, 2012), having such an effect, that as of the day of 24 October 2013 Mr. Bogusław Kott is a member of the Supervisory Board of the Bank.

During the above-said meeting of the Supervisory Board Mr. Bogusław Kott has been nominated to the post of the Chairman of the Supervisory Board. Mr. Maciej Bednarkiewicz, who occupied this post until that time, has been nominated to the post of Deputy Chairman of the Supervisory Board.

Composition of the Supervisory Board as at 31 December 2013 was as follows:
- Bogusław Kott - Chairman of the Supervisory Board,
- Maciej Bednarkiewicz – Deputy Chairman of the Supervisory Board,
- Nuno Manuel da Silva Amado – Deputy Chairman of the Supervisory Board,
- Marek Furtek –Secretary of the Supervisory Board,
- Miguel de Campos Pereira de Bragança – Member of the Supervisory Board,
- Luís Maria França de Castro Pereira Coutinho – Member of the Supervisory Board,
- Grzegorz Jędrys – Member of the Supervisory Board,
- Andrzej Koźmiński – Member of the Supervisory Board,
- Maria da Conceição Mota Soares de Oliveira Callé Lucas – Member of the Supervisory Board,
- Marek Rocki – Member of the Supervisory Board,
- Dariusz Rosati – Member of the Supervisory Board,
- Rui Manuel da Silva Teixeira – Member of the Supervisory Board.

Composition of the Management Board as at 31 December 2013 was as follows:

- Joao Nuno Lima Bras Jorge – Chairman of the Management Board,
- Fernando Maria Cardoso Rodrigues Bicho – Deputy Chairman of the Management Board,
- Artur Klimczak – Deputy Chairman of the Management Board,
- Julianna Boniuk-Gorzelańczyk – Member of the Management Board,
- Wojciech Haase – Member of the Management Board,
- Andrzej Gliński – Member of the Management Board,
- Maria Jose Henriques Barreto De Matos De Campos – Member of the Management Board.

7. 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 2013, item 330, 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 28 February 2014.

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 2013 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 2013.

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 IAS 27 (2011) to 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 (2011):

- 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 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 IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

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

Nature of changes:

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

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.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 Financial Instruments: Recognition and Measurement)

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

Nature of changes:

The Amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

- The novation is made as a consequence of laws or regulations.
- A clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument.
- Changes to the terms of the derivative are limited to those necessary to replace the counterparty.

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.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets)

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

Nature of changes:

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period.

The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal:

- the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised;
- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;

- for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

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.

STANDARDS AND INTERPRETATIONS NOT YET ENDORSED BY THE EU

IFRS 9 Financial Instruments (2009)

Effective date: not available yet

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: not available yet

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: not available yet

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.

IFRIC Interpretation 21 Levies

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

Nature of changes:

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government.

In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

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.

Improvements to IFRS (2010-2012)

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

Nature of changes:

The Improvements to IFRSs (2010-2012) contains 8 amendments to 7 standards, with consequential amendments to other standards and interpretations. The main changes were to:

- clarify the definition of 'vesting conditions' in Appendix A of IFRS 2 Share-based Payment by separately defining a 'performance condition' and a 'service condition',
- clarify certain aspects of accounting for contingent consideration in a business combination,
- amend paragraph 22 of IFRS 8 to require entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This is to supplement the current disclosure requirements in paragraph 22(a) of IFRS 8,
- amend paragraph 28(c) of IFRS 8 Operating Segments to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker. This proposed amendment is consistent with the requirements in paragraphs 23 and 28(d) in IFRS 8,
- clarify the IASB's rationale for removing paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement,
- clarify the requirements for the revaluation method in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to address concerns about the calculation of the accumulated depreciation or amortisation at the date of the revaluation,
- make an entity providing management personnel services to the reporting entity a related party of the reporting entity.

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.

Improvements to IFRS (2011-2013)

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

Nature of changes:

The Improvements to IFRSs (2011-2013) contains 4 amendments to standards, with consequential amendments to other standards and interpretations. The main changes were to:

- clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1 First-time Adoption of IFRSs,
- clarify that the scope exemption in paragraph 2(a) of IFRS 3 Business Combinations:
    - excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and
    - only applies to the financial statements of the joint venture or the joint operation itself,
- clarify that the portfolio exception included in paragraph 48 of IFRS 13 applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation,
- clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3.

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.

3) Adopted Accounting standards

Basis of Financial Statements Preparation

These financial statements are prepared for the financial year from 1 January 2013 to 31 December 2013, 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, taking into account both: counterparty risk (credit value adjustment – CVA) and own Bank's risk (debit value adjustment - DVA). Aforementioned factors (CVA, DVA) are taken into account when there is non-performance risk of the counterparty (or Bank), with respect to future settlement of the transaction, thus exposing the Bank (counterparty) 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. An additional element of the valuation of derivatives is a component of credit risk including both the risk of the counterparty (credit value adjustment - CVA) and own Bank's risk (debit value adjustment - DVA). Aforementioned factors (CVA, DVA) are taken into account when there is non-performance risk of the counterparty (or Bank), with respect to future settlement of the transaction, thus exposing the Bank (counterparty) to potential loss.

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, taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. 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 and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. 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, taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. 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 and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. 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 taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal, 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 and Index 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 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 and with taking into account the credit risk of the counterparty (and the Bank) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. 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

The Bank assesses at each balance sheet date whether there is any 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 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.

Assessment of impairment of financial assets takes place in the framework of individual and collective analysis. Subject of individual analysis are significant assets according to the criteria of significance adopted by the Bank, based primarily on the size of the engagement. As regards collective analysis the process includes assets not individually significant, and individually significant, for which as a result of individual analysis, impairment has not been identified.

The Bank has defined a list of evidence of impairment, adapted to the profile of the Bank, based on the requirements of IAS 39 Financial Instruments: Recognition and Measurement and recommendations provided by Financial Supervision in Recommendation R. The list of evidence of impairment was defined separately for the assets covered by individual and collective analysis.

Assets valued at amortized cost

The Bank assesses in the first place, whether evidence of impairment exists both for individually significant assets and assets that are not individually significant. If the Bank determines that no 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 analysis.

If there is evidence that an impairment loss on 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.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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.

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

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

Financial assets are written off against the related provision for impairment in case when collection of receivables becomes not possible. Recoveries subsequent to write – offs are recognised in the Profit and Loss Account as a decrease of the amount of created provisions.

Financial assets available for sale

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of instrument below its cost is considered in determining whether the assets are impaired.

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

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

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

Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

Detailed accounting policy regarding write-offs due to impairment of loan receivables is described in **Chapter 8. Financial Risk Management.**

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. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2013 has been set at 4.3%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

In 2012, 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.

The benefits of the program are realized partially in cash payments and partially by granting phantom shares entitling to receive cash in the amount that depends on the share price of Bank Millennium in the relevant period. Part of the scheme payable in cash is accounted for in the period employees acquire rights to such benefits. In the case of benefits granted in the form of phantom shares a 3-year term of holding shares is applied. During this period the employee cannot perform the rights attaching to the allocated phantom shares. The fair value of the phantom shares is determined in accordance with accepted principles and allocated over the vesting period. The value of the provision is recognized as a liability to employees in correspondence with the Profit and Loss Account.

Policy details are presented in **Chapter 13.8).**

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 the Bank's bancassurance activity (selling insurance services), based on the criterion how the income from aforementioned activity is recorded, two groups of products can be identified.

The first group consists of insurance products without direct links with the financial instrument (for example: health insurance, personal accident insurance) - in this case the Bank's remuneration is recognised as income after performance of a significant act, i.e. in a date of commencement or renewal of insurance policies.

In the second group (where there is a direct link to a financial instrument) two sub-groups can be identified:

a) With respect to insurance connected with housing loans, in case of insurance premiums collected monthly (life insurance and property insurance) remuneration is applied to Profit and Loss Account upon remuneration receipt while in other cases (hLTV insurance) the ratio of revenues undergoing one-off recognition remained flat relative to 2012 at 25%. Remuneration for card insurance (with premiums collected monthly) is applied to Profit and Loss Account upon remuneration receipt.
b) With respect to insurance associated with cash loans the Bank allocate the total value of remuneration for combined transaction due to their respect for the individual elements of the transaction, after deducting by provision on the part of the remuneration to be reimbursed, for example as a result of the cancellation by the customer with insurance, prepayments or other titles. Provision estimate is based on an analysis of historical information about the real returns in the past and predictions as to the trend returns in the future.

Allocation of remuneration referred to above is based on the methodology of 'relative fair value' involving division of the total remuneration pro rata to, respectively, fair value of remuneration with respect to financial instrument and fair value of intermediation service. Determination of the above fair values is based on market data including, in particular, for:

- Intermediation services – upon market approach involving the use of prices and other market data for similar market transactions,
- Remuneration relative to financial instrument – upon income approach based on conversion of future amounts into present value using information on interest rates and other charges applicable to identical or similar financial instruments offered separately from the insurance product.

Individual, separated elements of a given transaction or several transactions considered jointly are subject to the following income recognition principles:

- Fees charged by insurance agencies – partially including fee for performance of a significant act, recognised in revenue on the day of commencement or renewal of insurance policy.
- Fees/charges constituting an integral part of effective interest rate accruing on financial instrument – treated as adjustment of effective interest rate and recognised under interest income.

In 2013, the Bank reviewed the assumptions of the model used for bancassurance income, resulting in insurance-related cash loans ratio of revenues undergoing one-off recognition as a commission for the performance of significant act being set at 21% in comparison to 25% rate applied to the end of 2012.

As on 31 December 2013, with respect to insurance products linked with cash loans, the Bank estimated provisions against refunds of premiums, expressed as percentage ratio of refunds to the level of gross fees, at 30%.

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;

are recognised in the Profit and Loss Account on an one-off 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, because 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.

8. 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.

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 Models Validation Office;
- 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;
- The Models Validation Office has responsibility for qualitative and quantitative models validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs.

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 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.

On the 3rd of January, 2013, 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 specificities 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 2013 – similarly as in the previous years – the Bank's aggregate risk (internal capital) was fully covered with funds that could be used for its safety. The internal capital is allocated to specific business areas/product Banks.

3) Credit risk

The credit risk is one of the most important risk types 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.

- 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 in-house or at the level of the BCP Bank 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

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

- 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.

- 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	31.12.2013		31.12.2012	
		Loans and advances (%)	Impairment charges (%)	Loans and advances (%)	Impairment charges (%)
1-3	Highest quality	42.18%	2.74%	43.80%	3.60%
4-6	Good quality	14.89%	1.18%	16.13%	1.62%
7-9	Medium quality	17.96%	2.50%	17.36%	3.44%
10-12	Low quality	10.39%	1.83%	7.76%	1.89%
13-14	Watched	1.52%	3.44%	1.62%	3.58%
15	Default	5.42%	87.73%	5.47%	84.72%
Without rating*		7.64%	0.58%	7.86%	1.15%
Total		100.00%	100.00%	100.00%	100.00%

* - The group of customers without internal rating including i.a. 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 (see point 3f).

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 Risk 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.

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

Organisation of the Process

The process of impairment identification and measurement with respect to loan exposures is regulated in the internal instruction introduced by a Management Note of the Bank's Management Board Member. Moreover, the principles of receivables classification and estimation of revaluation charges and provisions in the bank's management system are laid down in the document „Management System at Bank Millennium S.A." adopted by resolution of the Management Board and approved by the Supervisory Board.

Supervision over the process of estimating revaluation charges and provisions is exercised at the Bank by the Risk Department (DMR), which also has direct responsibility for individual analysis in the business portfolio, as well as collective analysis. In addition to DMR the process also involves recovery and restructuring units. These are the Corporate Recovery Department – DNG (individual analysis for the recovery-restructuring portfolio for corporate customers) and the Retail Liabilities Collection Department - DDN (individual analysis of individually significant retail impairments, mainly mortgages). DMR is a unit not connected with the process of lending; it is supervised by the Management Board Member responsible for risk management. Similarly organised is the estimation of revaluation charges at Millennium Leasing.

The Management Board of the Bank plays an active part in the process of determining revaluation charges and provisions. The results of credit portfolio valuation are submitted to the Management Board for acceptance in a monthly cycle with a detailed explanation of the most important changes with an impact on the overall level of revaluation charges and provisions, in the period covered by the analysis. Methodological changes resulting from the validation process and methodological improvements are presented at the Validation Committee, and subsequently at the Risk Committee, which includes all the Management Board Members.

In monthly periods detailed reports are prepared presenting information about the Group's retail portfolio in various cross-sections, including the level of revaluation charges and provisions, their dynamics and structure. The recipients of these reports are Members of the Management Board supervising the activity of the Group in the area of finance, risk and management information.

The process of determining revaluation charges and provisions in the Group is formalised in described in the above-mentioned regulation, which defines in detail the mode and principles of individual and collective analysis, including algorithms for calculating particular parameters.

The Audit Department assesses the correctness of estimating the impairment and provisions at least twice a year.

The methodology and assumptions adopted for determining credit impairments are regularly reviewed in order to reduce discrepancies between the estimated and actual losses. In order to assess the adequacy of the impairment determined both in individual analysis and collective analysis a historical verification is conducted from time to time (at least once a year), whose results will be taken into account in order to improve the quality of the process.

Individual analysis of impairment for credit receivables

Credit exposures are selected for individual analysis on the basis of materiality criteria which ensure that case-by case analysis covers at least 55% of the Group's business corporate portfolio and 80% of the portfolio managed by entities responsible for the recovery and restructuring of corporate receivables.

Principal elements of the process of individual analysis:

- Identification of impairment triggers;

The Group defined impairment triggers for individual analysis and adjusted them to its operational profile. The catalogue of triggers incorporates in some more detail the triggers specified in IAS 39 and recommendation R, which pertain among others to:

- The economic and financial situation pointing to the Customer's considerable financial problems,
- Stating the customer's unreliability in communicating information about his economic and financial situation,
- Permanent lack of possibility of establishing contact with the customer in the case of violating the terms of the agreement,
- High probability of bankruptcy or a different type of reorganising the Customer's enterprise/business.
- Declaring bankruptcy or opening a rehabilitation plan with respect to the Customer.

The internal regulation contains a fine-tuning of the above-mentioned triggers by indicating specific cases and situations corresponding to them, in particular with respect to triggers resulting from the Customer's considerable financial problems, violating the critical terms of the agreement and high probability of a bankruptcy or a different enterprise reorganisation. Additionally, the Bank has an extended monitoring process which identifies in monthly periods various types of events subject to additional assessment by credit analysts.

- Estimating future flows;

One element of the impairment calculation process is the estimation of the probability of cash flows contained in the time-table pertaining to the following items: principal, interest and other receivables. The probability of realising cash flows contained in the time-table results from the conducted assessment of the customer's economic and financial situation (indication of the sources of potential repayments) must be justified and assessed on the basis of current documentation and knowledge (broadly understood) of his situation with the inclusion of financial projections. This information is gathered by an analyst prior to the actual analysis in accordance with the guidelines specified in appropriate Group regulations.

If at least one of impairment triggers has been identified in the individual analysis, we have the so-called base impairment, i.e. probability of full repayments of liabilities by the customer from his current activity is estimated at a level lower than 100%. Internal instructions define specific parameters determining the minimum value of base impairment for the business portfolio of corporate customers.

In the event of estimating the probability of cash flows for customers in the portfolio managed by restructuring-recovery departments analysts will take into account the individual nature of each transaction pointing among others to the following elements which may have an impact on the value of potential cash flows:

- Operational strategy with respect to the Customer adopted by the Group,
- Results of negotiations with the customer and his attitude, i.e. willingness to settle his arrears,
- Improvement/deterioration of his economic and financial situation,
- Possibility of settling liabilities from the borrower's own funds, or perhaps the necessity to seize the collateral, e.g. through its selling.

- Estimation of the fair value of collateral, specifying the expected date of sale and estimation of expected revenues from the sale after deduction of the costs of the recovery process;

If base impairment has occurred with respect to a given credit exposure, then one should estimate the cash flows from realising collateral including the dates of its realisation. The inclusion of cash flows from realising collateral must be preceded by an analysis of how realistically it can be sold and estimation of its fair value after recovery costs.

In order to ensure the fairness of the principles of establishing collateral recoveries the Group prepared guidelines with respect to the recommended parameters of the recovery rate and recovery period for selected collateral groups. Depending on the place of the exposure in the Bank's structure (business portfolio, restructuring-recovery portfolio) and type of exposure (credit, leasing) separate principles have been specified for particular portfolio types: business, restructuring-recovery and leasing portfolio. The recommended recovery rates and period of collateral recovery are verified in annual periods.

If the total discounted value of the expected cash flows from the customer's current activity, collateral recoveries and other documented sources is lower than the on-balance value of the credit exposure, then an impairment is recognised and a revaluation charge posted. If an impairment has been recognised with respect to at least one of the customer's exposure in an individual analysis, then all the remaining exposures of the customer are estimated in the process of an individual analysis irrespective of the exposure level and are classified in the impaired portfolio (cross default).

Internal regulations define the principles of reversing impairment losses. In the case of a customer in an individual analysis after finding that the consequences of the triggers no longer occur and the exposures are being properly repaid in a defined period (which is different for corporate and retail customers), the Bank may decide that the trigger no longer exists/persists and reverse the loss.

Collective analysis of the credit portfolio

Subject to collective analysis shall be the following receivables from the group of credit exposures:

- Individually insignificant exposures;
- Individually significant exposures for which there has not been recognised impairment as a result of a individual analysis.

The former group includes exposures for which as a result of a collective analysis impairment triggers have been defined and for which there has been created a revaluation charge/ provision (the so-called *collective impairment*), as well as exposures for which no impairment triggers have been identified with respect to an individual exposure, but there has been created a group charge for an incurred but not reported loss (IBNR). The latter group includes exposures for which there have not been identified impairment triggers as a result of an individual analysis and, moreover, exposures for which there have been identified impairment triggers, but there has not been created an individual revaluation charge/ provision due to full coverage of the exposure with the discounted value of the expected flows from collateral or other documented sources. For this group an IBNR charge is created.

The Group has defined among others the following catalogue of impairment triggers used in collective analysis for individually insignificant exposures:

- Delay in the repayment of principal or interest in excess of 90 days,
- Inclusion of receivables in the recovery process,
- The Customer's having a product earlier written off and transferred off-balance-sheet.

In its impairment estimation process the Bank employs for many years the *cross-default* rule, which consists in a transfer to the impairment portfolio of the value of all exposures to the customer (irrespective of the segment) for whom there has been detected the occurrence of at least one of the impairment triggers with respect to at least one receivable.

For the purposes of collective analysis the Group has defined homogenous portfolios consisting of exposures with a similar credit risk profile. These portfolios have been created on the basis of segmentation into business lines, types of credit products, number of days of default, type of collateral (leasing), etc. The division into homogenous portfolios is verified from time to time for their uniformity.

The calculation of revaluation charges and provisions by the collective method employs model parameters determined on the basis of historical observations of credit losses for particular homogenous portfolios. The Group employs the following parameters:

- PI (*probability of being impaired*),
- LGI (*loss given impairment*),
- LIP (*loss identification period*),
- PU (*probability of utilization*), which is the probability of implementing an off-balance sheet commitment.

The parameters employed in collective analysis are determined in monthly periods based on historical statistical data. The period of observing historical data is defined in the Group's internal regulations, taking into account the tendency to adjusting revaluation charges to the market and internal situation of the Group with a simultaneous observance of the statistical correctness of the calculated parameters.

The PI parameter is determined on the basis of the historical impairment ratio, the so-called „impaired rate". For the purposes of PI calculation data samples are collected whose length corresponds to the loss identification period (LIP) adopted for a given homogenous portfolio. The samples are collected with monthly frequency. These samples are given weights, so that any observations coming from the most current period have the highest rate, and the least current ones – the lowest. The period of historical data observation for determining PI covers the last 36 months from the balance sheet day and takes into account the shift of the observation time window corresponding to the LIP length. Exposures covered by collective analysis for which at least one impairment trigger has been identified receive PI = 1.

The LGI parameter is calculated as the average of the actual losses observed over 12 observation windows whose length is from 24 to 48 months depending on the homogenous portfolio. By the same token the period of historical data observation for determining the LGI covers losses from the last 36 to 60 months from the balance sheet day.

As of the balance-sheet day the Bank employed in the case of mortgage loans an expert correction increasing the LGI parameter in order to reflect additional risk among others resulting from CHF fluctuations.

The Loss Identification Period (LIP) in the retail segment is specified and verified at least once a year based on data obtained from customers who have a problem with timely repayment. LIP for enterprises follows from the frequency of the Bank's obtaining of information about impairment triggers resulting from periodic financial reports.

The PU parameter denoting the probability of using an off-balance exposure after its obtaining the impaired status is calculated for credit cards, revolving loans, overdraft limits and for guarantees. This parameter is estimated separately for individuals and business entities. The period of observing historical data for PU determination covers the last 36 months from the balance sheet day. Data samples coming from the observation period are assigned appropriate weights whose levels are identical as in the case of the PI parameter. The PU parameter is updated every month. After each update the period of observation moves by 1 month forward.

Internal regulations provide a detailed definition of the principle of reversing impairment losses determined by the collective method. In principle, reversing a loss and elimination of a revaluation charge is possible in the case of cessation of the impairment triggers, including the repayment of arrears or exclusion from the recovery portfolio (reclassification to the IBNR category) or in the case of selling receivables. Reclassification to the IBNR category in the case of exposures subject to restructuring is possible only when the customer has successfully passed the „quarantine" period, during which he will not show delay in the repayment of principal or interest above 30 days. The above does not pertain to the DNG restructuring-recovery portfolio, for which there have been defined separate conditions of transfer to the IBNR group. For leasing transactions the quarantine period is equal to the period of staying in the restructuring portfolio, plus an additionally defined period. Within its duration delays in repayments must not exceed 30 days.

The results of models employed in collective analysis are subject to periodical historical verification. The parameters and models are also covered by the process of models management governed by the document „Principles of Managing Credit Risk Models", which specifies, among others, the principles of creating, approving, monitoring and validation, and historical verification of models. The validation of models and parameters and historical verification of revaluation charges/ provisions determined by the collective method is conducted at least once a year.

If as a result of the validation and analysis of cyclicity of credit models and historical verification of revaluation charges and provisions the Bank comes to the conclusion that the parameters employed as of a given balance sheet day deviate from the actual trend of the data being the basis for their determination, then the Bank may adjust the period of observing historical data to the current economic conditions or (if necessary) make expert corrections in historical parameters. The making of corrections should be preceded by an analysis of macroeconomic factors. Among others the following values should be taken into account: economic growth, gross wages, situation in the labour market and level of unemployment, interest rates, FX rates, factors specific for a given sector, or the number of declared bankruptcies among enterprises from a given sector. The list of included factors is not closed. The selection of specific factors for an analysis preceding a correction should be justified in order to credibly assess their impact on the quality of particular receivables portfolios. Competences for making corrections are exercised by the Head of the Risk Department; a correction must be approved by a Management Board Member.

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

PLN'000	Maximum exposure	
	31.12.2013	31.12.2012
Exposures exposed to credit risk connected with balance sheet assets	**52 452 939**	**48 475 502**
Loans and advances to banks	1 519 595	1 392 424
Loans and advances to customers:	41 087 596	39 341 449
Loans to private individuals:	30 511 707	30 226 297
- Credit cards	665 292	707 539
- Cash loans and other loans to private individuals	3 043 648	2 283 444
- Mortgage loans	26 802 767	27 235 314
Loans to companies	9 960 447	8 282 963
Loans to public entities	615 442	832 189
Trading securities:	432 822	46 791
- Debt securities	432 822	46 791
- Shares	0	0
Derivatives and adjustment from fair value hedge	631 631	617 891
Financial assets valued at fair value	0	0
Investment financial assets	8 539 234	7 059 478
- Debt securities	8 240 418	6 749 758
- Shares	298 816	309 720
Receivables from securities bought with sell-back clause	242 061	17 469
Credit risk connected with off-balance sheet items	7 851 063	6 975 843
Financial guarantees	1 158 020	1 365 076
Credit commitments and other commitments connected with loans	6 693 043	5 610 767

The table above presents the structure of the Bank's exposures to credit risk as at 31st December 2013 and 31st December 2012, 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

	31.12.2013		31.12.2012	
	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	39 695 321	1 519 611	37 618 857	1 392 424
Overdue(*), but without impairment	937 291	0	1 017 264	0
Total without impairment (IBNR)	40 632 612	1 519 611	38 636 121	1 392 424
With impairment	1 645 168	0	1 798 498	0
Loans and advances, gross	**42 277 780**	**1 519 611**	**40 434 619**	**1 392 424**
Impairment write-offs together with IBNR	(1 190 184)	(16)	(1 093 170)	0
Loans and advances, net	**41 087 596**	**1 519 595**	**39 341 449**	**1 392 424**
Loans with impairment / total loans	3.89%	0.00%	4.45%	0.00%

(*) Loans overdue not more than 4 days are treated as technical and are not shown in this category. This approach was adopted in 2013 and in order to maintain consistency the approach is applied to data from 2012.

Loans and advances without impairment (IBNR) in '000 PLN

	31.12.2013		31.12.2012	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without identified triggers	40 104 396	1 519 611	38 185 684	1 392 424
With identified triggers, incl.	528 216	0	450 437	0
- expected cah flows from collateral, incl.	528 216	0	450 437	0
- overdue(*)	54 004	0	88 075	0
Loans and advances without impairment, gross	**40 632 612**	**1 519 611**	**38 636 121**	**1 392 424**
Impairment for BNR portfolio	(178 204)	(16)	(173 296)	0
Loans and advances without impairment, net	**40 454 408**	**1 519 595**	**38 462 825**	**1 392 424**

(*) Loans overdue not more than 4 days are treated as technical and are not shown in this category. This approach was adopted in 2013 and in order to maintain consistency the approach is applied to data from 2012.

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	31.12.2013 Loans and advances to customers	31.12.2012 Loans and advances to customers
1-3	Highest quality	17 800 525	17 683 936
4-6	Good quality	6 213 505	6 434 377
7-9	Medium quality	7 450 309	6 788 411
10-12	Low quality	4 277 202	2 982 293
13-14	Watched	153 502	201 911
15	Default (**)	573 866	349 586
Without rating (***)		3 226 412	3 178 343
Total		39 695 321	37 618 857

(*) – loans not past due include receivables overdue till four days, inclusive, treating it as a technical overdue. This approach was adopted in 2013 and in order to maintain consistency the approach is applied to data from 2012.

(**) - receivables without impairment, due to fact that discounted cash flow from collaterals fully cover the exposure.

(***) - the group of customers without internal rating including i.a. exposures connected with loans to municipal units as well as investment projects.

All receivables from Banks on 31/12/2013 was in the "highest quality (as it was on 31/12/2012).

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

	31.12.2013				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5 - 30 days (*)	54 789	491 036	114 150	0	659 975
Delay 31 - 60 days	43 671	90 118	43 165	0	176 954
Delay 61-90 days	14 069	27 947	18 682	0	60 698
Delay above 90 days(**)	36 521	1 700	1 443	0	39 664
Total	149 050	610 801	177 440	0	937 291

Gross exposure in ‘000 PLN

	31.12.2012				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5 - 30 days (*)	116 845	503 664	91 108	0	711 617
Delay 31 - 60 days	57 403	84 579	42 308	0	184 290
Delay 61-90 days	30 223	28 781	17 413	0	76 417
Delay above 90 days(**)	43 464	3	1 473	0	44 940
Total	247 935	617 027	152 302	0	1 017 264

(*) – Loans overdue not more than 4 days are treated as technical and are not shown in this category. This approach was adopted in 2013 and in order to maintain consistency the approach is applied to data from 2012.

(**) - 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

	31.12.2013				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	617 808	69 971	1 475	0	689 254
Collective analysis	172 867	290 998	492 049	0	955 914
Total	790 675	360 969	493 524	0	1 645 168

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

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

	31.12.2013			31.12.2012		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
Investment loans	82 744	12.0%	49.7%	313 123	35.1%	18.6%
Working capital loans	111 659	16.2%	57.7%	74 360	8.3%	45.3%
Current account loans	86 241	12.5%	62.4%	160 843	18.1%	70.0%
Guarantees and sureties realised	35 659	5.2%	99.8%	34 540	3.9%	99.8%
Mortgage loans	70 440	10.2%	32.9%	47 984	5.4%	25.0%
Factoring	30 836	4.5%	76.4%	79 708	8.9%	22.5%
Other*	271 675	39.4%	75.5%	180 531	20.3%	61.9%
Total	689 254	100.0%	64.8%	891 089	100.0%	42.7%

* - Additionally, in this position the liabilities regarding a settlement of forward operations, as well as exposures of customers which in process of restructuring and recovery has changed records of account (product).

- By currency

Loans and advances to customers, gross exposure

	31.12.2013			31.12.2012		
	Amount in '000 PLN	Share %	Coverage by impairment	Amount in '000 PLN	Share %	Coverage by impairment
PLN	659 185	95.6%	67.1%	633 774	71.1%	55.2%
CHF	26 981	3.9%	11.5%	5 424	0.6%	23.7%
EUR	3 088	0.5%	47.4%	1 339	0.2%	61.2%
USD	0	0.0%	n/a	250 516	28.1%	11.5%
GBP	0	0.0%	n/a	36	0.0%	100.0%
Total	689 254	100.0%	64.8%	891 089	100.0%	42.7%

- By coverage ratio

Loans and advances to customers, gross exposure

	31.12.2013		31.12.2012	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Till 20%	110 296	16.0%	300 262	33.7%
20% to 40%	56 370	8.2%	177 365	19.9%
40% to 60%	149 962	21.8%	127 493	14.3%
60% to 80%	56 123	8.1%	38 089	4.3%
Above 80%	316 503	45.9%	247 880	27.8%
Total	689 254	100.0%	891 089	100.0%

At the end of 2013, the financial impact from the established collaterals securing the Bank's receivables with impairment recognised under individual analysis amounted to PLN 175 million (in 31/12/2012: PLN 183 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

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

	31.12.2013	31.12.2012
Loans and advances to private individuals	436 481	397 626
Loans and advances to companies	166 749	324 430
Total	603 230	722 056

Bank execution titles

In 2013, the Bank issued in corporate segment 190 bank execution titles for the aggregated amount of PLN 193.8 million (based on the average NBP exchange rate of 31 December 2013), including:

- 188 bank execution titles for the aggregated amount of PLN 193.5 million,
- 1 bank execution title for EUR 17,198.36,
- 1 bank execution title for CHF 69,696.01.

Additionally, in 2013 the Bank issued 14,532 bank execution titles for retail and small business receivables for the aggregated amount of PLN 272.7 million. In addition, in 2013, the Bank sent to the courts 10,850 lawsuit for a payment order in the amount of PLN 123.8 million.

(3F) Debt and equity securities

The table below presents the structure of securities in the Bank's portfolio as at 31 December 2013.

Issued by	Trading debt securities	Investment debt securities	Shares and fund units	Total
State Treasury	432 822	5 134 748	22	5 567 592
Central Bank	0	2 999 792	0	2 999 792
Other	0	105 935	319 935	425 870
- listed	0	0	0	0
- not listed	0	105 935	319 935	425 870
Total	**432 822**	**8 240 475**	**319 957**	**8 993 254**

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**

(3G) Collateral transferred to the Bank

In 2013 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).

(31) 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.

31.12.2013	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	1 519 611	0	0	0	0	0	0	0	1 519 611
Loans and advances to customers	230 515	3 972 750	2 957 983	1 319 831	420 282	26 993 293	4 099 859	2 283 267	42 277 780
Trading securities	0	0	0	0	432 822	0	0	0	432 822
Derivatives and adjustment from fair value hedge	594 628	15 836	547	5 752	0	0	0	14 868	631 631
Investment securities	152 638	160 539	0	27	8 240 497	0	0	6 731	8 560 432
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	242 061	0	0	0	0	0	0	0	242 061
Total	2 739 453	4 149 125	2 958 530	1 325 610	9 093 601	26 993 293	4 099 859	2 304 866	53 664 337

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

* including: credit cards, cash loans, current accounts, overdrafts and loans for purchase of shares.

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 Bank's market risk measurement allows monitoring of all of the risk types, that is generic risk (including interest rate risk, foreign exchange risk, equity risk), non-linear risk, specific risk and commodity risk. In 2013 the equity risk, nonlinear risk and commodities risk did not exist 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). It 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.

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 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, 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 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 having 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 for Bank in consolidated terms and separately for the Trading and Banking Book. In addition, each Book is divided into the risk management areas. Limit for the Bank is expressed as a fraction of the consolidated Own Funds and then limit is divided into the books, risk management areas and various types of risk, which enables the Bank for full measurement, monitoring and control of market risk. 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 3Q2013, the market risk limits were revised. Limit revision took into account amount of the consolidated Own Funds, current and projected balance sheet structure as well as the current market environment. The new limits have been valid since 1st August 2013.

Within the market environment of 2013, the Bank continued to act very prudently. In spite of the relatively high fluctuation of the market volatility, mainly observed in polish interest rates and the Polish Public debt, the VaR indicators in the period under consideration for the Bank remained at moderate levels, that is on average approx. PLN 27.2 million (25% of the limit) and approx. PLN 17.3 million (10% of the limit) as of the end of December 2013. The VaR indicators presented in the table below reflect joint exposures to market risk in the Bank, that is Trading Book and the Banking Book. 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 risk 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 for the Bank ('000 PLN):

VaR measures for market risk	VaR (from 31st December 2012 to 31st December 2013)				
	End of 2012	Average	Maximum	Minimum	End of 2013
Total risk	11 419	27 202	60 812	11 419	17 316
Generic risk	8 399	24 270	57 907	8 399	14 506
Interest Rate VaR	8 397	24 282	57 915	8 397	14 503
FX Risk	18	184	5 077	13	132
Equity risk	0	0	0	0	0
Diversification Effect	0.2%				0.9%
Non-linear risk	0	0	0	0	0
Commodities risk	0	0	0	0	0
Specific risk	3 020	2 932	3 037	2 810	2 810

The corresponding exposures as of 2012 respectively amounted to:

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 market risk exposure divided into Trading Book and Banking Book together with risk type division is presented in the table below (PLN‘000):

Banking Book:

VaR measures for market risk	VaR (from 31st December 2012 to 31st December 2013)				
	End of 2012	Average	Maximum	Minimum	End of 2013
Total risk	**11 764**	**23 923**	**56 326**	**11 764**	**17 232**
Generic risk	8 760	20 993	53 447	8 760	14 422
Interest Rate VaR	8 760	20 993	53 447	8 760	14 422
FX Risk	0	8	133	0	0
Diversification Effect	0.0%				0.0%

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%

Trading Book:

VaR measures for market risk	VaR (from 31st December 2012 to 31st December 2013)				
	End of 2012	Average	Maximum	Minimum	End of 2013
Total risk	2 676	5 842	20 911	878	1 124
Generic risk	2 661	5 840	20 911	878	1 124
Interest Rate VaR	2 665	5 832	20 919	816	1 118
FX Risk	18	180	5 077	13	132
Diversification Effect	0.8%				11.2%

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%

In 2013, total market risk limits in terms of VaR were not breached - neither for the whole Bank nor for the Banking Book and Trading Book, separately.

All eventual 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. According to the Risk Strategy approved in the Bank, the FX open position is allowed, however should be kept at low levels. For this purpose, the Bank has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows keeping FX open positions mainly in Trading Book. In 2013, the risk management area which generated mainly FX risk was Trading area in the Trading Book. The FX Total open position (Intraday as well Overnight) remained below the maximum limits in place.

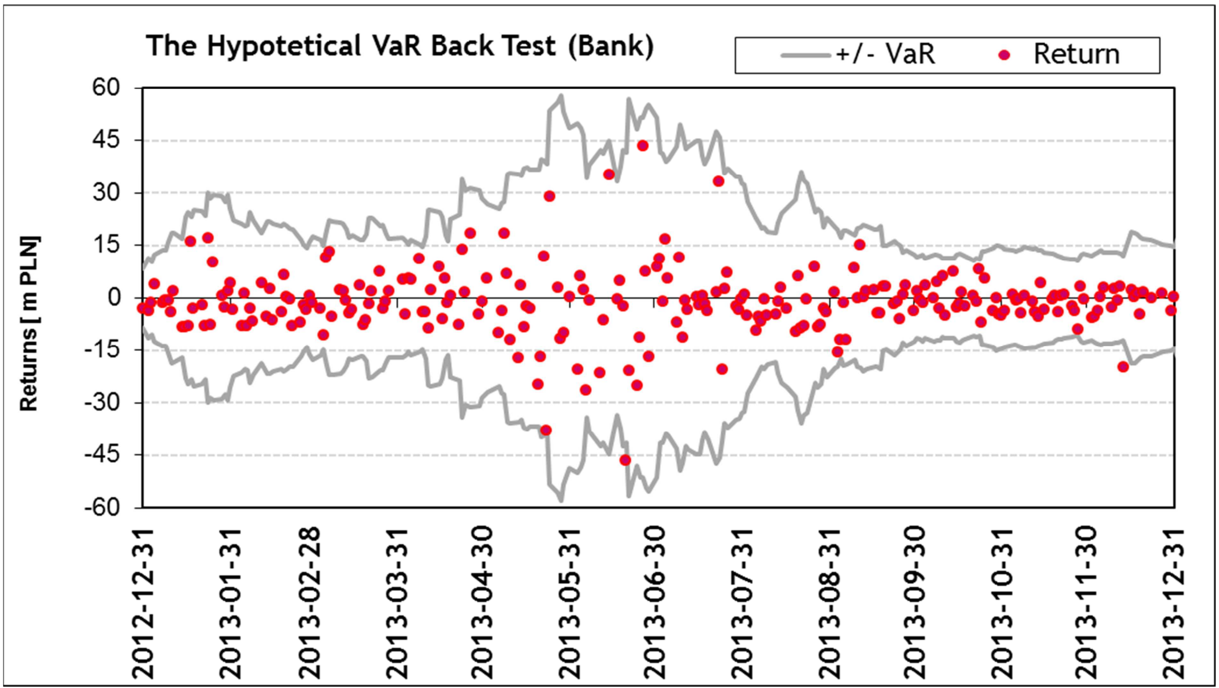
Evolution of the total FX open position (Overnight) in Trading Portfolio (PLN thousand):

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2013	8 318	1 431	63 984	7 287
2012	25 890	2 246	65 228	9 155

In addition to above mentioned market risk limits, the stop loss limits are introduced for the financial markets portfolios. The aim is to limit the maximum losses of the trading activity of the Bank. In case the limit is reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

In the back-testing calculation for VaR model, two excesses were detected during the last twelve months. The excesses were caused by unanticipated market movements, that is a rapid movements of PLN swap and PLN bond yield curves in June and December 2013. The number of excesses proves the model adequacy (green zone: 1 - 8 excesses acceptable).

Market risk – The hypothetical VaR Back Testing for the Bank



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 limits for stress test results based on the probability of the scenario materialization are triple 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 transactions have a macro hedging character.

The variations in market interest rate have an influence on the Bank's net interest income, both under a short and medium-term perspective, affecting its economic value in the long term. In 2013, the Bank continued the additional analysis of the interest rate sensitivity in face of the series of decision taken by the Monetary Policy Council to lower the basic interest rates, which started in November 2012. Apart from regular gap analysis of repricing gaps and interest rate sensitivity in terms of BPV for Bank's assets and liabilities, one of the most important objectives of the additional analysis was to ensure the maximisation and protection of Net Interest Income against the decrease of market interest rates.

As at end of December 2013 the value of BPVx100 for the Banking Book was approx. PLN 29 million.

Sensitivity of the Banking Book (excluding the net of Equity and fixed assets) to changes of interest rates was as follows (in thousand PLN):

BPVx100 Banking Book	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2013	(10 777)	(36 921)	28 815	28 815
2012	(13 459)	(58 639)	23 421	21 683

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, taking into account costs of funding.

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 main source of financing is still deposits base, the large, diversified and stable funding from retail, corporate and public sectors. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2013 was relatively higher in comparison to the end of 2012, amounting respectively to 5.8% and 10.7% (in December 2012 it was respectively 3.4% and 9.6%). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2013. In case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Bank maintains the reserves of liquid assets in the form of securities portfolio. Additionally, in February 2013 the Bank prolonged for one additional year the agreement with BCP for the unconditional and irrevocable off-balance sheet commitment which gives the Bank right for withdrawal of 200 million EUR. This Stand-by Facility is treated as an additional liquidity buffer which can be used in case of need and has been never utilized yet.

In 2013, the Bank kept the liquidity surplus that was invested in the portfolio of liquid assets, especially in the securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) – since end of December 2012 this portfolio's nominal value grew by 30%

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.

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.

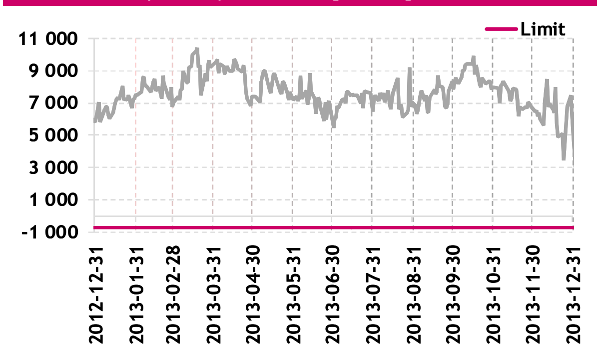
These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force. During 2013, all internal as well as supervisory liquidity indicators were well above minimum limits. In 3Q2013, the internal limits were revised. Limit revision took into account amount of the consolidated Own Funds and historical limit consumption.

Current Liquidity indicators PLN million

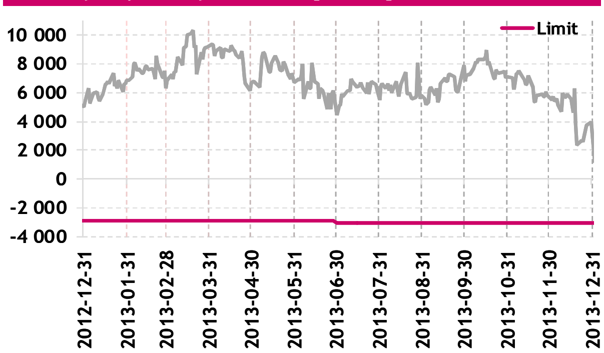
	31.12.2013		
	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	4 943	3 154	7 611
Minimum limit	(753)	(3 012)	2 000

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

Immediate Liquididity Indicator [m PLN]



Quartely Liquidity Indicator [m PLN]



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 2013 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).

	31.12.2013					
Adjusted Liquidity Gap (m PLN)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	17 191	2 941	4 591	4 280	6 462	32 094
Adjusted balance liabilities	10 538	951	779	449	1 532	49 276
Balance-Sheet Gap	6 653	1 990	3 812	3 831	4 931	(17 183)
Cumulative Balance-Sheet Gap	6 653	8 643	12 456	16 287	21 217	4 035
Adjusted off-balance assets	207	140	251	183	306	206
Adjusted off-balance liabilities	(914)	(126)	(161)	(131)	(202)	(149)
Off-Balance Sheet Gap	(707)	15	90	51	104	57
Total Gap	5 947	2 005	3 902	3 882	5 034	(17 125)
Total Cumulative Gap	5 947	7 951	11 854	15 736	20 770	3 645

	31.12.2012					
Adjusted Liquidity Gap (m PLN)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	13 723	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

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. Keeping the indicators above the minimum buffer ensures the safe level of the measures even in face of strong PLN depreciation. In 2013, the supervisory liquidity measured remained well above the minimum, supervisory limits.

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 (last two are treated as separate categories). Operational risk is demonstrated in every aspect of activity of the organisation and constitutes its intrinsic part.

In the year 2013 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:

1. Gathering operational risk events,
2. Self-assessment of operational risk in individual processes,
3. 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.

9. TRANSACTIONS WITH RELATED ENTITIES

1) DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES

All transactions among members of the Group made in 2013 and 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 31.12.2013

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits	0	4 058
Loans and advances to customers	2 770 629	0
Investments in associates	295 000	0
Financial assets valued at fair value through profit and loss (held for trading)	2 678	0
Hedging derivatives	0	0
Other assets	159 147	38
LIABILITIES		
Deposits from banks	0	223 424
Deposits from customers	275 123	0
Liabilities from securities sold with buy-back clause	2 002	0
Hedging derivatives	0	127 058
Financial liabilities valued at fair value through profit and loss (held for trading)	91	0
Subordinated debt	622 585	0
Other liabilities, including:	87 452	167
- financial leasing liabilities	69 044	0

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

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) FOR THE PERIOD OF 1.01-31.12.2013

	With subsidiaries	With parent Group
Income from:		
Interest	82 734	18 212
Commissions	55 755	161
Derivatives net	0	0
Dividends	27 383	0
Other net operating income	1 524	499
Expense from:		
Interest	22 078	3 873
Commissions	27	2 648
Derivatives net	79	412
General and administrative expenses	95 650	3 874

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

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN ‘000 PLN) AS AT 31.12.2013

	With subsidiaries	With parent Group
Conditional commitments	37 041	933 909
- granted	35 571	100 345
- obtained	1 470	833 564
Derivatives (par value)	57 225	1 225 020

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

2) Transactions with the Managing and Supervising Persons

Information on total exposure towards the managing and supervising persons as at 31.12.2013 (in ‘000 PLN):

	The managing persons	The supervising persons
Total debt limit	345.0	158.0
- including an unutilized limit	265.9	110.4
Mortgage loans and advances	2 890.7	-
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 31.12.2013:

Entity	Amount (in '000 PLN)	Relationship
Client 1	2 513	Personal with a supervising person
Client 2	419	Personal with a supervising person
Group 1	77 569	Personal with a supervising person
Group 2	1 553	Personal with a supervising person

Information on total exposure towards the managing and supervising persons as at 31.12.2012:

	The management	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	-	-

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

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
2013	18 868.4	1 830.8	20 699.2
2012	19 582.4	1 598.1	21 180.5

The benefits are mainly the costs of accommodation of the foreign members of the Management Board. The values presented in the table above include items classified to the category of short-term benefits and provision for variable remuneration components.

In 2013 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
2013	1 745.9
2012	1 980.1

In 2013 Members of the Bank's Supervisory Board received no salaries or any fringe benefits from Subsidiaries.

10. FAIR VALUE

The best reflection of fair value of financial instruments is their market value which can be obtained for the sale of assets or paid for the transfer of liability in case of mutually beneficial market transactions (an exit price). For many products and transactions for which market value to be taken directly from the quotations in an active market (marking-to-market) is not available, the fair value must be estimated using internal models based on discounted cash flows (marking-to-model). Financial flows for the various instruments are determined according to their individual characteristics, and discounting factors include changes in time both in market interest rates and margins.

Accordingly IRS 13 “Fair value measurement” in order to determinate fair value the Bank applies models that are appropriate under existing circumstances and for which sufficient input data is available, based to the maximum extent on observable input whereas minimizing use of unobservable input, namely:

1 - valuation based on the data fully observable (active market quotations);
2 - valuation models using the information constituting the data from level 1, but observable, either directly or indirectly;
3 - valuation models using unobservable data (not derived from an active market).

Valuation techniques used to determine fair value are applied consistently. Change in valuation techniques resulting in a transfer between these methods occurs when:

- transfer from method 1 to 2 takes place when for the financial instruments measured according to method 1 quoted market prices from an active market are not available at the balance sheet day (previously used to be);
- transfer from method 2 to 3 takes place when for the financial instruments measured according to the method 2 value of parameters not derived from the market has become significant at the balance sheet day (and previously used to be irrelevant).

Financial instruments not recognized at fair value in the balance sheet

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 specified repayment schedule, 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 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 mortgage loans due to their long-term nature estimation of the future cash flows also includes: the effect of early repayment and liquidity risk in foreign currencies.

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 cash flows from principal and interest (including the current average margins by major currencies and time periods) using current interest (including the current average margins by major currencies and time periods) in 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 and medium term loans

The fair value of these financial instruments 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 2013:

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 519 595	1 562 354
Loans and advances to customers *	18	41 087 590	39 308 945

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 202 585	2 247 819
Amounts due to customers	28	45 448 660	45 451 735
Debt securities	30	701 352	705 382
Subordinated debt	34	622 585	615 720

* 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. 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.

Models used for determination of the fair value of financial instruments presented in the above table and not recognized at fair value in Bank's balance sheet, use techniques based on parameters not derived from the market. Therefore, they are considered as the third level of valuation.

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	28	41 552 183	41 564 101
Debt securities	30	767 586	778 277
Subordinated debt	34	613 610	607 159

Financial instruments recognized at fair value in the balance sheet

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 31.12.2013

	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			333 642	75 273
- debt securities		432 822		
Hedging derivatives	17		211 395	
Financial assets available for sale	19			
- debt securities		5 134 748	2 999 792	105 878
- shares and interests				808
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities		173 641	326 616	74 932
Hedging derivatives	17		930 346	

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	17		1 115 202	

Using the criterion of valuation techniques Bank classified into the third category following financial instruments:

- index options, option transactions are measured at fair value with use of option measurement models, the model measurement is supplemented with impact on fair value of the estimated credit risk parameter;
- municipal bonds, the fair value is calculated based on discounted cash flows with consideration of the impact of credit risk parameter;
- shares not quoted on an active market, the fair value is assumed to be the cost value less any accumulated impairment losses.

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 01.01.2013	63 379	(64 640)	0	113 578	1 072
Settlement/sell/purchase	(40)	83	0	(8 185)	(264)
Change of valuation recognized in P&L account (including interests)	(2 561)	4 120	0	485	0
As at 31.12.2013	60 778	(60 437)	0	105 878	808

For options on indexes concluded on an inactive market, the Bank concludes back-to-back transactions on the interbank market, in result estimated credit risk component has no impact on the financial result.

Accordingly Bank's estimation impact of adjustments for counterparty credit risk was not significant from the point of view of individual derivative transactions concluded by the Bank. Consequently, the Bank does not consider the impact of unobservable inputs used in the valuation of derivative transactions for significant and in accordance with the provisions of IFRS 13.73 does not classify such transactions for level 3 fair value measurements.

11. 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 2013 to PLN 526.6 million. Total value of claims in the court proceedings, in which the bank appeared as defendant was PLN 328.3 million, and the total value of claims in the court proceedings, in which the Bank appeared as plaintiff was PLN 198.3 million.

Below are presented the amount of claims in which the Bank appears as defendant in the division due to the risk of resources outflow as result of case loosing. Data in table includes also proceedings with participation of the Chairman of UOKiK with total value of claims PLN 15 million, in which the Bank formally acts as the plaintiff, though there is a risk associated with the resources outflow.

The proceedings associated with the Fiscal Control Office stands for separate category and are described in **Chapter 13. Section 12 "Income Taxes".**

The amount of claims for which:	PLN million
probability of resources outflow is negligible	0.0
outflow of resources is possible	325.0
outflow of resources is probable	18.3
TOTAL	343.3

The Bank assesses that the risk of adverse financial consequences in the event of losing the claim is fully covered by the value created provisions for contentious claims.

As at 31 December 2013 the volume of claims in the court proceedings for which outflow of resource is considered to be possible amounted to PLN 325.0 million. In the Bank's opinion probability of winning cases included in this category is high, in effect the Bank has not created provisions for these proceedings. The most important group of lawsuits for which an outflow of resources is possible are proceedings connected with derivatives with total value in dispute amounted to PLN 262.9 million.

In terms of lawsuits connected with derivatives, the Bank, as a defendant, was present together in 26 such proceedings. The highest unit value of the dispute considering this group of proceedings was PLN 71.1 million. Whereas in the group of proceedings not connected with derivatives, in which the Bank acted as the defendant, the highest unit value of the dispute was PLN 16.5 million.

OFF-BALANCE ITEMS

	31.12.2013	31.12.2012
Off-balance conditional commitments granted and received	**8 747 496**	**7 889 885**
Commitments granted:	7 851 063	6 975 843
a) financial	6 693 043	5 610 767
b) guarantee	1 158 020	1 365 076
Commitments received:	896 433	914 042
a) financial	850 558	817 640
b) guarantee	45 875	96 402

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	31.12.2013	31.12.2012
financial sector	80.0	145.0
non-financial sector (companies)	1 068.5	1 206.2
public sector	8.4	9.5
private individuals	1.1	4.4
Total	1 158.0	1 365.1

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	31.12.2013	31.12.2012
Millennium Leasing Sp. z o.o.	19.1	49.9
Millennium Service Sp. z o.o.	15.7	16.7
TBM Sp. z o.o.	0.0	0.1
Total	34.8	66.7

Guarantees and sureties granted to Clients

Liabilities granted - guarantee in PLN million	31.12.2013	31.12.2012
Active guarantees and sureties	721.7	963.5
Sureties for loans granted through EFRWP*	1.4	1.7
Lines for guarantees and sureties	448.2	416.4
Total gross	1 171.3	1 381.6
Impairment charges	(13.3)	(16.5)
Total net	**1 158.0**	**1 365.1**

* European Development Fund of the Polish countryside

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

By currency	31.12.2013	31.12.2012
PLN	578 423	802 528
Other currencies	143 241	160 998
Total	721 664	963 526

By type of commitment	31.12.2013		31.12.2012	
	Number	Amount in	Number	Amount in
Guarantee	2 949	697 830	2 848	942 213
Surety	2	7 057	3	8 079
Re-guarantee	36	16 777	38	13 233
Total	2 987	721 664	2 889	963 526

By object of the commitment	31.12.2013			31.12.2012		
	Number	% share	Amount in	Number	% share	Amount in
good performance of contract	2 102	63,01%	454 711	2 015	69.75%	620 564
rent payment	316	7,57%	54 588	310	10.73%	52 397
punctual payment for goods or services	238	15,60%	112 570	224	7.75%	140 328
bid bond	242	3,70%	26 719	247	8.55%	68 602
other	33	1,33%	9 609	24	0.83%	5 779
advance return	29	6,95%	50 167	40	1.38%	60 619
customs	22	1,47%	10 628	23	0.80%	10 898
payment of bank loan	5	0,37%	2 672	6	0.21%	4 340
Total	2 987	100,00%	721 664	2 889	100.00%	963 526

12. NOTES TO FINANCIAL REPORT

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

1) INTEREST INCOME

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balances with the Central Bank	45 302	61 429
Loans and advances to banks	3 749	10 181
Loans and advances to customers	1 723 722	1 897 417
Transactions with repurchase agreement	10 749	12 008
Hedging derivatives	417 904	684 714
Financial assets held for trading (debt securities)	15 709	17 557
Investment securities	347 206	296 417
Total	2 564 341	2 979 723

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 2013 contains interest accrued on impaired loans in the amount of PLN 70,419 thous. (for corresponding data in the year 2012 the amount of such interest stood at PLN 88,206 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

2) INTEREST EXPENSE

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Banking deposits	(29 833)	(17 216)
Loans and advances from banks	(52 063)	(54 403)
Transactions with repurchase agreement	(64 264)	(58 748)
Deposits from customers	(1 258 941)	(1 773 743)
Subordinated debt	(15 178)	(17 880)
Debt securities	(29 292)	(18 296)
Other	(915)	(1 045)
Total	(1 450 486)	(1 941 330)

3) Fee and commission income

3a. Fee and commission income

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Resulting from accounts service	87 390	93 023
Resulting from loan activity	60 001	57 288
Resulting from payments service	40 815	39 650
Resulting from payment and credit cards	206 765	210 597
Resulting from sale of insurance products	83 871	62 472
Resulting from distribution of investment funds units and other savings products	121 019	95 403
Resulting from guarantees and sureties granted	14 084	17 425
Resulting from brokerage and custody service	6 487	6 065
Other	14 503	14 936
Total	634 934	596 859

3b. Fee and commission expense

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Resulting from accounts service	(1 930)	(1 825)
Resulting from loan activity	(2 137)	(4 359)
Resulting from payments service	(1 399)	(1 437)
Resulting from payment and credit cards	(77 915)	(76 384)
Other	(4 661)	(5 509)
Total	(88 043)	(89 515)

4) Dividend income

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Dividend income from related parties	27 383	39 550
Dividend income from other entities	1 632	1 917
Total	29 015	41 467

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 2013 and 2012 to PLN 27,383 thousand, and PLN 37,466 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 financial instruments and foreign exchange result

5a. Result on investment financial assets

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Operations on debt instruments	20 140	25 361
Operations on equity instruments	581	1
Total	20 721	25 362

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Operations on securities	(7 528)	4 158
Operations on derivatives	31 609	53 507
Fair value hedge accounting operations, including:	364	(337)
- result from hedging derivatives	3 966	(7 896)
- result from items subjected to hedging	(3 602)	7 559
Foreign exchange result	162 992	158 299
Costs of financial operations	(2 539)	(3 220)
Total	**184 898**	**212 407**

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Profit on sale and liquidation of property, plant and equipment, intangible assets	2 442	4 325
Income from sale of other services	13 830	13 378
Revenues from billing adjustments of tax on goods and services	8 736	1 310
Income from collection service	1 959	1 611
Other	19 090	11 448
Total	46 057	32 072

7) General and administrative expenses

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Staff costs:	(509 899)	(521 350)
Salaries (including bonuses)	(425 648)	(436 369)
Social security contributions	(68 456)	(68 568)
Employee benefits, including:	(15 795)	(16 413)
- provisions for retirement benefits	(1 847)	(1 505)
- provisions for unused employee holiday	0	(1 457)
- other	(13 948)	(13 451)
General administrative costs	(469 496)	(487 014)
Costs of advertising, promotion and representation	(47 570)	(39 752)
Costs of software maintenance and IT services	(20 458)	(20 573)
Costs of renting	(173 950)	(176 226)
Costs of buildings maintenance, equipment and materials	(27 615)	(27 457)
ATM and cash costs	(18 400)	(22 686)
Costs of communications and IT	(47 029)	(54 980)
Costs of consultancy, audit and legal advisory and translation	(14 316)	(14 206)
Taxes and fees	(15 732)	(18 560)
KIR clearing charges	(3 742)	(3 362)
PFRON costs	(3 939)	(5 439)
BFG costs	(33 872)	(34 450)
Financial Supervision costs	(1 603)	(4 458)
Other	(61 269)	(64 865)
Total	**(979 395)**	**(1 008 364)**

8) Impairment losses on financial assets

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Impairment losses on loans and advances to customers	(207 294)	(208 416)
- Impairment charges on loans and advances to customers	(532 674)	(519 581)
- Reversal of impairment charges on loans and advances to customers	316 525	285 179
- Amounts recovered from loans written off	1 288	1 837
- Result from sale of receivables portfolio	7 567	24 149
Impairment losses on investment securities	32	0
- Impairment write-offs for investment securities	(57)	0
- Reversal of impairment write-offs for investment securities	89	0
Impairment losses on investments in associates	(2 144)	2 735
- Impairment write-offs for investments in associates	(3 462)	0
- Reversal of impairment write-offs for investments in associates	1 318	2 735
Impairment losses on off-balance sheet liabilities	(11 268)	(238)
- Impairment write-offs for off-balance sheet liabilities	(23 655)	(17 149)
- Reversal of impairment write-offs for off-balance sheet liabilities	12 387	16 911
Total	**(220 674)**	**(205 919)**

9) Impairment losses on non financial assets

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Fixed assets	0	0
Other assets	(1 559)	(219)
Total	(1 559)	(219)

10) Depreciation and amortization

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Property, plant and equipment	(41 725)	(44 262)
Intangible assets	(10 893)	(9 268)
Total	(52 618)	(53 530)

11) Other operating costs

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Loss on sale and liquidation of property, plant and equipment, intangible assets	0	0
Indemnifications, penalties and fines paid	(3 827)	(4 542)
Provisions for contentious claims	(15 992)	(7 808)
Costs of sale of other services	(10 624)	(9 611)
Donations made	(1 180)	(370)
Costs of collection service	(10 660)	(9 769)
Prudential fee for Banking Guarantee Fund	(3 365)	0
Other	(18 634)	(42)
Total	(64 282)	(32 142)

12) Income tax

12a. Income tax reported in income statement

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Current tax	(135 432)	(114 083)
Current year	(136 798)	(116 973)
Adjustment of previous years	1 366	2 890
Deferred tax	9 302	7 355
Appearance and reversal of temporary differences	9 302	7 355
Appearance and utilisation of tax loss	0	0
Adjustment resulted from Article 38a of CIT	(5)	(2)
Total income tax reported in income statement	**(126 135)**	**(106 730)**

12b. Effective tax rate

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Gross profit / (loss)	622 910	556 871
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(118 353)	(105 805)
Impact of permanent differences on tax charges:	**(7 585)**	**(3 813)**
- Non taxable income	6 429	7 900
Dividend income	5 513	7 478
Release of other provision	914	413
Other	2	9
- Cost which is not a tax cost	(14 014)	(11 713)
Loss on sale of receivables	(1 893)	(4 099)
PFRON fee	(748)	(1 033)
Prudential fee for Banking Guarantee Fund	(639)	0
Receivables written off	(1 659)	(1 695)
Costs of litigations	(5 602)	(1 330)
Cost of provisions for factoring receivables	(1 710)	(1 479)
Other	(1 763)	(2 077)
Amendments in declaration CIT 8 for previous years	1 366	2 890
Adjustment resulted from Article 38a of CIT	(5)	(2)
The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet	(1 558)	0
Total income tax reported in income statement	**(126 135)**	**(106 730)**

12c. Deferred tax reported directly in equity

	31.12.2013	31.12.2012
Valuation of available for sale securities	354	(8 097)
Valuation of cash flow hedging instruments	30 480	39 671
Deferred tax reported directly in equity	30 834	31 574

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 Control 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. In 2013, the Bank re-paid to the account of the Tax Authorities an amount of PLN 58.6 million (based on the decision of the Tax Chamber in Warsaw, on which see below), and part of that amount has been paid to the Bank in the amount of PLN 1.8 million. As a result of the different positions of the Bank and tax authorities, there are currently ongoing 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. On 27.06.2013 the Director of the Tax Chamber issued a decision upholding the decision of the first instance. On 22 July 2013 the Bank submitted a complaint to the Regional Administrative Court. Originally the court ordered a hearing on February 6, 2014 and then postponed it to 8th April, 2014.
2) Appeal proceedings against the decision of the Head of Second Mazovian Tax Office determining CIT for the year 2006. On the 22nd of August 2013 the appellate authority – the Director of the Tax Chamber issued the decision which upheld the decision of the tax office and determine Bank's income which did not cause the obligation to pay additional tax burden to the tax office. On the 25th of September 2013 Bank lodged the complaint to the Regional Administrative Court. The Court set the hearing date on the 14th of April 2014.
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. On the 27th of August 2013 the Director of Tax Chamber issued the decision which upheld the decision of the tax office and determine Bank's income for 2007. On the 30th of September 2013 the Bank lodged the complaint to the Regional Administrative Court. Court set the trial date 19 March 2014.
   On the 29th of August 2013 Director of the Tax Chamber issued a decision setting new deadline for examining an appeal regarding refusing the statement of overpayment in CIT for the year 2007 and corresponding decision regarding 2008 year (determining liability and refusing the statement of overpayment) for 31st of October 2013.
   On the 18th of September 2013 the Director of the Tax Chamber issued the decision which upheld the decision of the tax office refusing the statement of overpayment in CIT for 2007. On 23 October 2013 the Bank submitted a complaint to the Regional Administrative Court. The Court set the hearing date on the 14th of April 2014.
   On the 18th of September 2013 the Director of Tax Chamber issued the decision which upheld the decision of the tax office and determine Bank's income for 2008. On 23 October 2013 Bank submitted a complaint to the Regional Administrative Court. The Court set the hearing date on the 9th of April 2014.
   On the 30th of September 2013 the Director of Tax Chamber issued the decision which upheld the decision of the tax office refusing the statement of overpayment in CIT for 2008. On 25 October 2013 the Bank submitted a complaint to the Regional Administrative Court. The Court set the hearing date on the 9th of April 2014. The both cases regarding 2008 tax year will be judged jointly.

In summary, the Bank paid all of the claimed obligations and interest in the amount of PLN 60 million (not reflected in the Profit and Loss Account), at the same time the Management Board continues to fully support the correctness of originally made 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. The final outcome of the case depends of 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

	31.12.2013	31.12.2012
Cash	706 520	664 891
Cash in Central Bank	2 705 380	1 800 709
Other funds	40	40
Total	3 411 940	2 465 640

In the period from 31 December 2013 to 30 of January 2014 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,593,745 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 2.475 %.

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

	31.12.2013	31.12.2012
in Polish currency	2 979 407	1 991 065
in foreign currencies (after conversion to PLN)	432 533	474 575
- currency: USD	43 137	39 006
- currency: EUR	288 265	327 074
- currency: CHF	35 621	26 390
- currency: GBP	30 264	34 239
- other currencies	35 246	47 866
Total	**3 411 940**	**2 465 640**

15) Deposits, loans and advances to banks and other monetary institutions

15a. Deposits, loans and advances to banks and other monetary institutions

	31.12.2013	31.12.2012
Current accounts	283 684	211 004
Deposits granted	760 622	741 452
Loans	471 976	435 657
Interest	3 329	4 311
Total (gross) deposits, loans and advances	1 519 611	1 392 424
Impairment write-offs	(16)	0
Total (net) deposits, loans and advances	**1 519 595**	**1 392 424**

15b. Deposits, loans and advances to banks and other monetary institutions by maturity date

	31.12.2013	31.12.2012
Current accounts	283 684	211 004
to 1 month	715 622	741 452
above 1 month to 3 months	40 000	0
above 3 months to 1 year	5 000	0
above 1 year to 5 years	471 976	435 657
above 5 years	0	0
past due	0	0
Interest	3 329	4 311
Total (gross) deposits, loans and advances	1 519 611	1 392 424

15c. Deposits, loans and advances to banks and other monetary institutions by currency

	31.12.2013	31.12.2012
in Polish currency	594 203	452 182
in foreign currencies (after conversion to PLN)	925 408	940 242
- currency: USD	94 191	115 776
- currency: EUR	720 509	739 760
- currency: CHF	31 839	22 828
- currency: JPY	11 142	20 657
- currency: GBP	20 546	16 187
- other currencies	47 181	25 034
Total	**1 519 611**	**1 392 424**

15d. Change of impairment write-offs for deposits, loans and advances to banks and other monetary institutions

	31.12.2013	31.12.2012
Balance at the beginning of the period	0	0
Change in the period	16	0
Balance at the end of the period	16	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

	31.12.2013	31.12.2012
Debt securities	**432 822**	**46 791**
Issued by State Treasury	432 822	46 791
a) bills	0	436
b) bonds	432 822	46 355
Adjustment from fair value hedge	11 321	18 414
Positive valuation of derivatives	408 915	599 477
Total	**853 058**	**664 682**

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

	31.12.2013	31.12.2012
Trading financial assets	841 737	646 268
Adjustment from fair value hedge	11 321	18 414
Financial assets valued at fair value when initially recognized	0	0
Total	853 058	664 682

Information on financial assets collateralizing liabilities has been presented in Chapter 13.3).

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

	31.12.2013	31.12.2012
- with fixed interest rate	360 660	37 227
- with variable interest rate	72 162	9 564
Total	432 822	46 791

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

	31.12.2013	31.12.2012
to 1 month	1 812	3 893
above 1 month to 3 months	0	1 265
above 3 months to 1 year	57 195	4 970
above 1 year to 5 years	269 607	25 648
above 5 years	104 208	11 016
Total	432 822	46 791

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	46 791	316 250
Increases (purchase and accrual of interest and discount)	51 901 221	46 074 611
Reductions (sale and redemption)	(51 514 679)	(46 344 520)
Differences from valuation at fair value	(511)	450
Balance at the end of the period	432 822	46 791

Note 16 f / Note 27 Valuation of derivatives and: Adjustment from fair value hedge, Liabilities from short sale of securities as at 31.12.2013

	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	2 996 501	5 338 770	10 951 031	(92)	294 642	294 734
Forward Rate Agreements (FRA)	500 000	0	0	(281)	0	281
Interest rate swaps (IRS)	2 496 501	5 336 827	10 848 631	189	293 762	293 573
Other interest rate contracts: options	0	1 943	102 400	0	880	880
2. FX derivatives *	5 092 896	944 433	344 828	7 119	39 001	31 882
FX contracts	989 516	537 784	150 463	(6 563)	5 930	12 493
FX swaps	4 103 381	406 649	112 393	20 699	33 071	12 372
Other FX contracts (CIRS)	0	0	81 972	(7 017)	0	7 017
FX options	0	0	0	0	0	0
3. Embedded instruments	230 548	511 203	1 335 438	(60 437)	0	60 437
Options embedded in deposits	218 906	451 509	1 059 454	(44 773)	0	44 773
Options embedded in securities issued	11 642	59 694	275 984	(15 664)	0	15 664
4. Indexes options	276 672	715 514	1 436 816	60 778	75 273	14 495
Valuation of derivatives, TOTAL	**8 596 618**	**7 509 920**	**14 068 113**	**7 367**	**408 915**	**401 548**
Valuation of balance-sheet items resulting from fair value hedge					11 321	
Liabilities from short sale of securities						173 641

* 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 31.12.2012

	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

17) DERIVATIVE AND HEDGING INSTRUMENTS

The Bank as at the end of 2013 uses the following types of hedge accounting:

4. Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate;
5. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
6. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;
7. 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.

As at the end of 2013 the Bank continued to apply hedge accounting for following transactions:

	Hedging fair value of the fixed rate portfolio of FX liabilities and floating rate portfolio of FX receivables	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.

	Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN deposits	Cash flow volatility hedge for the flow generated by 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 is recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in financial instruments valued at fair value through profit and loss and foreign exchange result.	Effective part of spot revaluation of hedging instruments is recognised in revaluation reserve.

During 2013, the Bank applied, and then ceased the hedging relationship in terms of volatility of cash flows generated by a portfolio of floating-rate mortgage loans with using FX swaps as a hedging instrument.

17a. Hedge accounting

As at 31.12.2013	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	900 825	(74 363)	0	74 363	2 432
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	6 120 245	13 746 108	22 755 806	(639 135)	201 963	841 098	x
IRS contracts	150 000	230 000	255 000	7 095	7 095	0	x
Forward contracts	42 148	190 271	114 807	(12 549)	2 336	14 885	x
3. Total hedging derivatives	6 312 393	14 166 379	24 026 438	(718 951)	211 395	930 346	x

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

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	02.04.2015
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	08.06.2022
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 2013 amounted to PLN – 9.6 million (respectively in 2012 amounted to PLN –24.7 million).

18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2013	31.12.2012
Loans and advances	38 258 194	36 843 029
- to companies	7 463 382	6 159 587
- to private individuals	30 184 384	29 869 616
- to public sector	610 428	813 826
Receivables on account of payment cards	725 564	777 919
- due from companies	37 581	38 110
- due from private individuals	687 983	739 809
Purchased receivables	2 926 949	2 480 877
- from companies	2 922 711	2 464 618
- from public sector	4 238	16 259
Guarantees and sureties realised	36 373	35 005
Debt securities eligible for rediscount at Central Bank	12 874	13 235
Other	124	137
Interest	317 702	284 417
Total gross	**42 277 780**	**40 434 619**
Impairment write-offs	(1 190 184)	(1 093 170)
Total net	**41 087 596**	**39 341 449**

18b. Quality of loans and advances to customers portfolio

	31.12.2013	31.12.2012
Loans and advances to customers (gross)	42 277 780	40 434 619
- impaired	1 645 168	1 798 498
- not impaired	40 632 612	38 636 121
Impairment write-offs	(1 190 184)	(1 093 170)
- for impaired exposures	(1 011 980)	(919 874)
- for incurred but not reported losses (IBNR)	(178 204)	(173 296)
Loans and advances to customers (net)	**41 087 596**	**39 341 449**

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

	31.12.2013	31.12.2012
Loans and advances to customers (gross)	42 277 780	40 434 619
- case by case analysis	689 254	891 089
- collective analysis	41 588 526	39 543 530
Impairment write-offs	(1 190 184)	(1 093 170)
- on the basis of case by case analysis	(446 896)	(380 565)
- on the basis of collective analysis	(743 288)	(712 605)
Loans and advances to customers (net)	**41 087 596**	**39 341 449**

18d. Loans and advances to customers portfolio by customers

	31.12.2013	31.12.2012
Loans and advances to customers (gross)	42 277 780	40 434 619
- corporate customers	11 184 628	9 630 214
- individuals	31 093 152	30 804 405
Impairment write-offs	(1 190 184)	(1 093 170)
- for receivables from corporate customers	(608 739)	(515 062)
- for receivables from individuals	(581 445)	(578 108)
Loans and advances to customers (net)	**41 087 596**	**39 341 449**

18e. Loans and advances to customers by maturity

	31.12.2013	31.12.2012
Current accounts	2 843 759	2 385 892
to 1 month	110 438	138 211
above 1 month to 3 months	1 209 567	1 011 607
above 3 months to 1 year	3 112 993	2 756 195
above 1 year to 5 years	10 766 961	9 719 499
above 5 years	22 894 251	23 261 954
past due	1 022 109	876 843
Interest	317 702	284 417
Total gross	42 277 780	40 434 619

18f. Loans and advances to customers by currency

	31.12.2013	31.12.2012
in Polish currency	22 492 411	20 006 402
in foreign currencies (after conversion to PLN)	19 785 369	20 428 216
- currency: USD	277 284	318 315
- currency: EUR	1 395 173	817 896
- currency: CHF	18 104 067	19 254 776
- currency: JPY	8 747	36 957
- other currencies	98	271
Total gross	**42 277 780**	**40 434 619**

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	1 093 170	1 078 603
Change in value of provisions:	97 014	14 567
Write-offs in the period	532 658	519 581
Amounts written off	(98 445)	(137 237)
Reversal of write-offs in the period	(316 525)	(285 179)
Write-offs decrease due to sale of receivables	(20 691)	(70 545)
Changes resulting from FX rates differences	(201)	(12 842)
Other	218	789
Balance at the end of the period	**1 190 184**	**1 093 170**

19) Investment financial assets

19a. Investment financial assets available for sale

	31.12.2013	31.12.2012
Debt securities	**8 240 418**	**6 749 758**
Issued by State Treasury	5 134 748	3 037 456
a) bills	0	0
b) bonds	5 134 748	3 037 456
Issued by Central Bank	2 999 792	3 598 724
a) bills	2 999 792	3 598 724
b) bonds	0	0
Other securities	105 878	113 578
a) listed	0	0
b) not listed	105 878	113 578
Shares and interests in other entities	808	1 072
Total financial assets available for sale	**8 241 226**	**6 750 830**
Available for sale instruments listed on the stock exchange	5 134 748	3 037 476
Available for sale instruments not listed on the stock exchange	3 106 478	3 713 354

19b. Debt securities available for sale

	31.12.2013	31.12.2012
- with fixed interest rate	5 884 569	4 982 515
- with variable interest rate	2 355 849	1 767 243
Total	8 240 418	6 749 758

19c. Debt securities available for sale by maturity

	31.12.2013	31.12.2012
to 1 month	3 002 212	3 598 725
above 1 month to 3 months	0	0
above 3 months to 1 year	209 786	10 641
above 1 year to 5 years	4 828 727	2 186 724
above 5 years	199 693	953 669
Total	8 240 418	6 749 758

19d. Change of investment financial assets available for sale

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	6 750 830	3 133 585
Increases (purchase and accrual of interest and discount)	286 603 299	181 255 403
Reductions (sale and redemption)	(285 068 453)	(177 684 199)
Difference from measurement at fair value	(44 482)	46 046
Impairment write-offs	32	0
Other	0	(5)
Balance at the end of the period	8 241 226	6 750 830

19e. Investments in associates

	31.12.2013	31.12.2012
Investments in associates	298 007	308 648

19f. Investments in associates as at 31.12.2013

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

In 2013, the Bank completed the sale transaction of Pomorskie Hurtowe Centrum Rolno-Spożywcze (PHCRS). Until the transaction PHCRS used to be part of the Bank's Millennium Group (associate company) and in the consolidated financial statements was valued using the equity method.

19f. Investments in associates as at 31.12.2013

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	3 719 901	3 095 746	48 195	146 128	57 160	subordinated
MILLENNIUM DOM MAKLERSKI S.A.	16 500	0	0	207 690	131 360	16 500	25 322	8 326	subordinated
MB FINANCE AB	234	0	0	629 455	628 234	235	249	60	subordinated
MILLENNIUM SERVICE Sp. z o.o.	1 000	0	143 000	315 776	0	1 000	101 905	70	subordinated
TBM Sp. z o.o.	225	0	0	665	0	500	191	(8)	associated
LUBUSKIE FABRYKI MEBLI S.A.*	6 700	(3 693)	0	14 152	5 158	13 400	12 083	(5 972)	subordinated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	98	0	0	503	0	100	921	36	subordinated
BG LEASING S.A. under bankruptcy	900	(900)	0	The company is under bankruptcy					subordinated
Total investments in associates	89 599	(4 593)	213 001						

* data as at 30.11.2013; 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.

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.

19g. 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

19g. 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						

* data as at 30.11.2012

19h. Change of investments in associates

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	308 648	311 303
Sale of the company	(8 200)	0
Liquidation of the company	0	(5 380)
Impairment write-offs in the period	(2 144)	2 735
Return of additional capital paid in	(294)	0
Differences in valuation of shares expressed in foreign currencies	(3)	(10)
Balance at the end of the period	298 007	308 648

20) Receivables from securities with sell-back clause

	31.12.2013	31.12.2012
a) from banks	153 787	0
b) from clients	88 229	17 460
c) interest	45	9
Total	242 061	17 469

21) Property, plant and equipment

21a. Property, plant and equipment

	31.12.2013	31.12.2012
Land	1 261	1 286
Buildings, premises, civil and hydro-engineering structures	81 982	92 359
Machines and equipment	38 390	46 393
Vehicles	20 934	19 169
Other fixed assets	5 056	7 573
Fixed assets under construction	11 320	13 062
Total	158 943	179 842

21b. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2013 - 31.12.2013

	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	1 286	332 152	173 679	24 601	87 178	13 062	631 958
b) increases (on account of)	0	9 305	6 337	9 599	1 923	16 179	43 343
- purchase	0	0	0	0	0	7 767	7 767
- transfer from fixed assets under construction	0	9 305	6 264	0	1 919	0	17 488
- transfer from financial leasing	0	0	0	9 599	0	2 349	11 948
- investment provisions	0	0	0	0	0	5 807	5 807
- other	0	0	73	0	4	256	333
c) reductions (on account of)	25	7 818	7 228	5 504	2 777	17 921	41 273
- sale	25	3 155	324	50	48	0	3 602
- liquidation	0	66	4 231	0	1 702	0	5 999
- settlement of financial leasing agreement	0	0	0	0	0	17 746	17 746
- settlement of fixed assets under construction	0	3 930	2 666	5 454	1 002	0	13 052
- other	0	667	7	0	25	175	874
d) gross value of property, plant and equipment at the end of the period	**1 261**	**333 639**	**172 788**	**28 696**	**86 324**	**11 320**	**634 028**
e) cumulated depreciation (amortization) at the beginning of the period	0	220 644	127 286	5 432	78 230	0	431 592
f) depreciation over the period (on account of)	0	11 465	7 112	2 330	3 038	0	23 945
- current write-off (P&L)	0	17 897	14 231	3 811	5 785	0	41 724
- reductions on account of sale	0	(1 806)	(415)	(50)	(48)	0	(2 319)
- reductions on account of liquidation	0	(28)	(4 054)	0	(1 701)	0	(5 783)
- settlement of financial leasing	0	(3 928)	(2 659)	(1 431)	(973)	0	(8 991)
- other	0	(670)	9	0	(25)	0	(686)
g) cumulated depreciation (amortization) at the end of the period	**0**	**232 109**	**134 398**	**7 762**	**81 268**	**0**	**455 537**
h) impairment write-offs at the beginning of the period	0	19 149	0	0	1 375	0	20 524
- increase	0	1 375	0	0	(1 375)	0	0
- reduction	0	976	0	0	0	0	976
i) impairment write-offs at the end of the period	0	19 548	0	0	0	0	19 548
j) net value of property, plant and equipment at the end of the period	**1 261**	**81 982**	**38 390**	**20 934**	**5 056**	**11 320**	**158 943**
including finance lease	0	37 727	20 188	20 934	1 072	163	80 084

21c. 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

22) Intangible assets

22a. Intangible assets

	31.12.2013	31.12.2012
- concessions, patents, licenses, know-how and similar assets, including:	36 869	41 375
- computer software	36 256	41 375
Total intangible assets	36 869	41 375

22b. Change of balance of intangible assets (by type groups) in the period 01.01.2013 - 31.12.2013

	concessions, patents, licenses, know-how and similar assets, including:		TOTAL
		computer software	
a) gross value of intangible assets at the beginning of the period	417 825	207 681	417 825
b) increases (on account of)	7 220	6 973	7 220
- expenditures on intangible assets	5 006	4 759	5 006
- provision	1 956	1 956	1 956
- other	258	258	258
c) reductions (on account of)	840	1 464	840
- liquidation	7	7	7
- other	833	1 457	833
d) gross value of intangible assets at the end of the period	**424 205**	**213 190**	**424 205**
e) cumulated depreciation (amortization) at the beginning of the period	376 450	166 306	376 450
f) depreciation over the period (on account of)	10 886	10 628	10 886
- current write-off (P&L)	10 893	10 635	10 893
- liquidation	(7)	(7)	(7)
g) cumulated depreciation (amortization) at the end of the period	**387 336**	**176 934**	**387 336**
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	**36 869**	**36 256**	**36 869**

22c. 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**

23) NON-CURRENT ASSETS HELD FOR SALE

As of 31.12.2013 and 31.12.2012 the Bank did not classify any assets in the Fixed Assets for Sale category.

24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets and liability

	31.12.2013			31.12.2012		
	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	5 401	0	5 401	5 861	0	5 861
Balance sheet valuation of financial instruments	246 914	(244 472)	2 442	352 013	(354 906)	(2 893)
Unrealised receivables/ liabilities on account of derivatives	61 138	(69 120)	(7 982)	87 170	(117 650)	(30 480)
Interest on deposits and securities to be paid/ received	42 563	(96 674)	(54 111)	64 192	(78 879)	(14 687)
Interest and discount on loans and receivables	0	(26 588)	(26 588)	0	(24 030)	(24 030)
Income and cost settled at effective interest rate	23 592	(173)	23 419	2 034	(245)	1 789
Provisions for loans presented as temporary differences	102 916	0	102 916	105 026	0	105 026
Employee benefits	14 003	0	14 003	11 760	0	11 760
Provisions for future costs	19 640	0	19 640	16 702	0	16 702
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	30 834	0	30 834	39 671	(8 097)	31 574
Other	6 100	(2 943)	3 157	5 108	(1 161)	3 947
Net deferred income tax asset	553 101	(439 970)	113 131	689 537	(584 968)	104 569

24b. Change of temporary differences

	31.12.2012	Changes to financial result	Changes to equity	31.12.2013
Difference between tax and balance sheet depreciation	5 861	(460)		5 401
Balance sheet valuation of financial instruments	(2 893)	5 335		2 442
Unrealised receivables/ liabilities on account of derivatives	(30 480)	22 498		(7 982)
Interest on deposits and securities to be paid/ received	(14 687)	(39 424)		(54 111)
Interest and discount on loans and receivables	(24 030)	(2 558)		(26 588)
Income and cost settled at effective interest rate	1 789	21 630		23 419
Provisions for loans presented as temporary differences	105 026	(2 110)		102 916
Employee benefits	11 760	2 243		14 003
Provisions for future costs	16 702	2 938		19 640
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	31 574		(740)	30 834
Other	3 947	(790)		3 157
Total	104 569	9 302	(740)	113 131

* - reclassification between deferred and current income tax

24c. 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

24d. Change of deferred income tax

	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Difference between tax and balance sheet depreciation	(460)	(1 382)
Balance sheet valuation of financial instruments	5 335	3 127
Unrealised receivables/ liabilities on account of derivatives	22 498	(3 810)
Interest on deposits and securities to be paid/ received	(39 424)	11 640
Interest and discount on loans and receivables	(2 558)	(4 055)
Income and cost settled at effective interest rate	21 630	503
Provisions for loans presented as temporary differences	(2 110)	(26 966)
Employee benefits	2 243	1 253
Provisions for future costs	2 938	2 441
Other	(790)	24 605
Change of deferred income tax recognized in financial result	9 302	7 355
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(740)	54 999

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

Temporary differences expiry year	31.12.2013	31.12.2012
Unlimited	11 170	9 612
Total	11 170	9 612

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

	31.12.2013	31.12.2012
Net deferred income tax assets	113 131	104 569
Net deferred income tax provision	-	-
Total	113 131	104 569

25) Other assets

	31.12.2013	31.12.2012
Expenses to be settled	169 443	221 705
Income to be received	23 386	12 625
Interbank settlements	22	28 726
Settlements of financial instruments transactions	21 520	63 772
Receivables from sundry debtors	92 879	236 180
Settlements with the State Treasury	1 383	3 544
Total other assets (gross)	308 633	566 552
Provisions	(16 953)	(6 894)
Total other assets (net)	**291 680**	**559 658**

26) Liabilities to banks and other monetary institutions

26a. Liabilities to banks and other monetary institutions

	31.12.2013	31.12.2012
In current account	232 679	210 646
Term deposits	716 014	709 999
Loans and advances received	1 251 812	1 329 248
Interest	2 080	3 107
Total	2 202 585	2 253 000

26b. Liabilities to banks and other monetary institutions by maturity

	31.12.2013	31.12.2012
Current accounts	232 679	210 646
to 1 month	544 499	403 906
above 1 month to 3 months	164 987	305 851
above 3 months to 1 year	144 769	242
above 1 year to 5 years	828 244	1 001 374
above 5 years	285 327	327 874
Interest	2 080	3 107
Total	2 202 585	2 253 000

The balance of liabilities to banks and other monetary institutions with maturities above 5 years results from the long-term loan agreements concluded by the Bank with the European Investment Bank.

26c. Liabilities to banks and other monetary institutions by currency

	31.12.2013	31.12.2012
in Polish currency	1 172 064	950 951
in foreign currencies (after conversion to PLN)	1 030 521	1 302 049
- currency: USD	28 544	30 045
- currency: EUR	832 891	1 132 930
- currency: CHF	169 086	136 298
- other currencies	0	2 776
Total	**2 202 585**	**2 253 000**

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

	31.12.2013	31.12.2012
Negative valuation of derivatives	401 548	467 634
Short sale of securities	173 641	0
Financial liabilities valued at fair value through profit and loss	575 189	467 634

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

28) Deposits from customers

28a. Structure of liabilities to customers by type

	31.12.2013	31.12.2012
Amounts due to private individuals	26 302 417	25 910 983
Balances on current accounts	13 049 785	9 803 466
Term deposits	13 012 235	15 747 647
Other	108 104	116 399
Accrued interest	132 293	243 471
Amounts due to companies	16 329 042	13 415 067
Balances on current accounts	3 916 312	3 597 973
Term deposits	12 114 331	9 515 604
Other	223 731	245 799
Accrued interest	74 668	55 691
Amounts due to public sector	2 817 203	2 226 133
Balances on current accounts	873 508	851 060
Term deposits	1 912 101	1 322 798
Other	28 164	45 858
Accrued interest	3 430	6 417
Total	**45 448 662**	**41 552 183**

28b. Liabilities to customers by maturity

	31.12.2013	31.12.2012
Current accounts	17 839 605	14 252 499
to 1 month	13 168 736	12 048 018
above 1 month to 3 months	8 114 039	7 973 691
above 3 months to 1 year	4 745 433	6 107 792
above 1 year to 5 years	1 370 458	864 052
above 5 years	0	552
Interest	210 391	305 579
Total	45 448 662	41 552 183

28c. Liabilities to customers by currency

	31.12.2013	31.12.2012
in Polish currency	42 444 416	38 783 577
in foreign currencies (after conversion to PLN)	3 004 246	2 768 607
- currency: USD	996 728	954 244
- currency: EUR	1 822 076	1 645 086
- currency: GBP	131 310	117 067
- currency: CHF	38 834	36 874
- other currencies	15 298	15 336
Total	**45 448 662**	**41 552 183**

29) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

	31.12.2013	31.12.2012
a) to the Central Bank	0	0
b) to banks	46 319	0
c) to customers	70 427	174 370
d) interest	57	418
Total	116 803	174 788

30) DEBT SECURITIES

30a. Debt securities

	31.12.2013	31.12.2012
Outstanding bonds and bills	359 114	418 966
Bank Securities	339 351	344 374
Interest	2 887	4 246
Total	701 352	767 586

30b. Debt securities

	31.12.2013	31.12.2012
to 1 month	17 745	0
above 1 month to 3 months	0	49 344
above 3 months to 1 year	58 454	143 027
above 1 year to 5 years	622 266	570 969
above 5 years	0	0
Interest	2 887	4 246
Total	701 352	767 586

30c. Change of debt securities

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	767 586	394 775
Increases, on account of:	230 219	511 082
- issue of bonds	0	350 000
- issue of Bank Securities	211 182	156 836
- interest accrual	19 037	4 246
Reductions, on account of:	(296 453)	(138 271)
- repurchase of bonds	(59 852)	(84 897)
- repurchase of Bank Securities	(216 205)	(53 375)
- interest payment	(20 396)	0
Balance at the end of the period	**701 352**	**767 586**

30d. Debt securities by type

As at 31.12.2013	Balance sheet value	Final legal maturity	Market
BM_2014/01,A	6 187	2014-01-06,07	-
BM_2014/04	2 927	2014-04-04	-
BPW_2014/01,A	11 558	2014-01-03,31	-
BPW_2014/04,A	8 999	2014-04-02,30	-
BPW_2014/05	526	2014-05-02	-
BPW_2014/06	10 939	2014-06-02	-
BPW_2014/07,A,B	19 575	2014-07-03,30,31	-
BPW_2014/09,A,B,C	15 488	2014-09-03	-
BPW_2015/01	572	2015-01-05	-
BPW_2015/03	5 716	2015-03-04	-
BPW_2015/04,A,B,C,D	25 837	2015-04-01,29	-
BPW_2015/06,A	4 010	2015-06-03	-
BPW_2015/07	15 663	2015-07-01	-
BPW_2015/09,A	10 288	2015-09-30	-
BPW_2015/11	6 326	2015-11-30	-
BPW_2015/12,A,B,C	27 294	2015-12-02,31	-
BPW_2016/02,A	9 832	2016-02-03	-
BPW_2016/03,A	26 898	2016-03-02,30	-
BPW_2016/04,A	19 017	2016-04-29	-
BPW_2016/05,A	7 589	2016-05-31	-
BPW_2016/06,A	10 898	2016-06-29	-
BPW_2016/07	13 531	2016-07-29	-
BPW_2016/08	9 875	2016-08-31	-
BPW_2016/09,A	34 457	2016-09-29	-
BPW_2016/10,A	25 295	2016-10-31	-
BPW_2016/12,A,B	19 166	2016-12-02,30	-
BKMO_051015B	252 840	2015-10-05	Catalyst (ASO BondSpot)
BKMO_281215A	100 047	2015-12-28	-
TOTAL	701 352		

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 31.12.2013 the balance amounted to PLN 2,887 thousand.

Commencing from the 17th December 2013, 3-year bonds Millennium Series B with a total nominal value of PLN 250 million are listed on the wholesale debt market Catalyst (ASO BondSpot).

30e. 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.

31) PROVISIONS

31a. Provisions

	31.12.2013	31.12.2012
Provision for off-balance sheet commitments	33 738	22 463
Provision for contentious claims and others	29 327	18 242
Total	63 065	40 705

31b. Change of provisions

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Provision for off-balance sheet commitments		
Balance at the beginning of the period	22 463	22 271
Charge of provision	23 655	17 149
Release of provision	(12 387)	(16 911)
FX rates differences	7	(46)
Balance at the end of the period	33 738	22 463
Provision for contentious claims and others		
Balance at the beginning of the period	18 242	12 699
Charge of provision	15 992	7 808
Release of provision	(4 811)	(2 177)
Utilisation of provision	(96)	(88)
Balance at the end of the period	29 327	18 242

32) DEFERRED INCOME TAX PROVISION

	31.12.2013	31.12.2012
Deferred income tax provision	0	0

33) OTHER LIABILITIES

33a. Other liabilities

	31.12.2013	31.12.2012
Short-term	801 832	570 693
Accrued costs - bonuses, salaries	50 609	43 701
Accrued costs - other	112 783	102 688
Interbank settlements	125 735	173 211
Other creditors	393 650	114 577
Liabilities from financial leasing	12 524	15 721
Liabilities to public sector	11 357	18 119
Deferred income	76 562	72 809
Provisions for unused employee holiday	8 392	8 792
Provisions for retirement benefits	1 047	1 043
Other	9 173	20 032
Long-term	82 635	82 118
Provisions for retirement benefits	9 428	8 189
Deferred income	8 475	14 997
Liabilities from financial leasing	60 505	58 760
Accrued costs	4 227	172
Total	**884 467**	**652 811**

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.

33b. Liabilities from financial leasing

	31.12.2013	31.12.2012
Liabilities from financial leasing (gross)	82 854	85 620
Unrealised financial costs	(9 825)	(11 139)
Current value of minimum leasing instalments	73 029	74 481
Liabilities from financial leasing (gross) by maturity		
Under 1 year	15 741	18 604
From 1 year to 5 years	63 073	48 684
Above 5 years	4 040	18 332
Total	82 854	85 620
Liabilities from financial leasing (net) by maturity		
Under 1 year	12 524	15 720
From 1 year to 5 years	56 625	41 077
Above 5 years	3 880	17 684
Total	73 029	74 481

33c. Change of provisions for unused employee holiday

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	8 792	7 629
Charge of provisions/ reversal of provisions	0	1 457
Utilization of provisions	(400)	(294)
Balance at the end of the period	8 392	8 792

33d. Change of provisions for retirement benefits

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	9 232	8 135
Charge of provisions/ reversal of provisions	1 847	1 505
Utilization of provisions	(604)	(408)
Balance at the end of the period	10 475	9 232

34) Subordinated debt

34a. Subordinated debt

	31.12.2013	31.12.2012
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	622 080	613 230
Interest rate	2.433%	2.358%
Maturity	20.12.2017 r.	20.12.2017 r.
Interest	505	380
Balance sheet value of subordinated debt	622 585	613 610

34b. Change of subordinated debt

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	613 610	663 228
Increases, on account of:	24 201	17 880
- FX rates differences	9 023	0
- interest accrual	15 178	17 880
Reductions, on account of:	(15 226)	(67 498)
- interest payment	(15 226)	(18 208)
- FX rates differences	0	(49 290)
Balance at the end of the period	**622 585**	**613 610**

In the course of 2013 and 2012 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.

35) SHAREHOLDERS' EQUITY

35a. 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			05.12.1994	
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 there was a conversion of 80 registered shares into the bearer shares. As a consequence number of registered shares decreased and as of 31.12.2013 amounted to 109 236, 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, 2013. 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 11 April 2013. In case of ING OFE and AVIVA OFE BZ WBK the number of shares and their participation in the Bank's share capital were calculated on the basis of annual asset structure, published as at 31 December 2013 (respectively: www.ingofe.pl i www.aviva.pl). For the purpose of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 7.23 PLN for 2013 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 31.12.2013

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	90 560 790	7.47	90 560 790	7.47
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	65 923 565	5.43	65 923 565	5.43

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

35b. 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

	31.12.2013	31.12.2012
Effect of valuation (gross)	(162 285)	(166 178)
Deferred income tax	30 834	31 574
Net effect of valuation	(131 451)	(134 604)

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

Revaluation reserve on available for sale financial assets 1.01.2013 - 31.12.2013

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	42 617	(8 097)	34 520
Transfer to income statement of the period as a result of sale	(20 140)	3 827	(16 313)
Change of capitals connected with maturity of securities	0	0	0
Profit/loss on revaluation of available for sale financial assets, recognized in equity	(24 342)	4 625	(19 717)
Revaluation reserve at the end of the period	(1 865)	354	(1 511)

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 cash flows hedge financial instruments 1.01.2013 - 31.12.2013

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(208 795)	39 671	(169 124)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	(5 276)	1 002	(4 274)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	53 651	(10 194)	43 457
Revaluation reserve at the end of the period	(160 420)	30 480	(129 940)

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)

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2013	**374 957**	**1 196 114**	**228 902**	**450 141**	**2 250 114**
appropriation of profit, including:	0	450 141	0	(450 141)	0
- transfer to reserve capital	0	450 141	0	(450 141)	0
net profit/ (loss) of the period	0	0	0	496 775	496 775
Retained earnings at the end of the period 31.12.2013	**374 957**	**1 646 255**	**228 902**	**496 775**	**2 746 889**

35d. 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

36) LIQUIDITY GAP BY MATURITY

31 December 2013

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	3 411 940	0	0	0	0		3 411 940
Deposits in other banks and loans and advances to banks	1 002 519	40 031	5 070	471 976	0		1 519 595
Trading debt securities	1 812	0	57 195	269 607	104 208		432 822
Trading derivatives	36 660	44 001	99 790	220 163	19 622		420 236
Hedging derivatives	45 464	16 603	75 496	32 708	41 123		211 395
Loans and advances to customers	3 306 863	1 200 567	3 084 738	10 695 860	22 799 562		41 087 590
Debt securities available for sale	3 002 212	0	209 786	4 828 727	199 693		8 240 418
Receivables from securities bought with sell-back clause	242 061	0	0	0	0		242 061
Shares and interests						298 815	298 815
Other non-financial assets						664 194	664 194
TOTAL	11 049 531	1 301 202	3 532 075	16 519 041	23 164 209	963 009	56 529 066
LIABILITIES							
Deposits from banks	778 031	165 644	145 339	828 244	285 327		2 202 585
Deposits from customers	31 092 111	8 193 073	4 791 798	1 371 677	0		45 448 660
Trading derivatives and liabilities from short sale of securities	199 409	39 953	90 178	229 378	16 270		575 189
Hedging derivatives	905	2 695	147 898	110 019	668 828		930 346
Liabilities from securities sold with buy-back clause	114 801	2 002	0	0	0		116 803
Debt securities, by final legal maturity	17 745	0	61 341	622 266	0		701 352
Subordinated debt	0	0	505	622 080	0		622 585
Other non-financial liabilities						955 750	955 750
Equity						4 975 796	4 975 796
TOTAL	32 203 003	8 403 366	5 237 060	3 783 665	970 426	5 931 546	56 529 066
OFF-BALANCE SHEET LIABILITIES							
Liabilities from opened credit lines	6 846 863						6 846 863
Liabilities from sureties and guarantees	721 801						721 801
Balance sheet Gap	(21 153 473)	(7 102 165)	(1 704 985)	12 735 376	22 193 783	(4 968 537)	0
Total Gap	(28 722 137)	(7 102 165)	(1 704 985)	12 735 376	22 193 783	(4 968 537)	(7 568 664)

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 2012

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)

13. SUPPLEMENTARY INFORMATION

1) 2013 Dividend

Having in mind the high level of capital adequacy ratio and improve of profitability and projected capital requirements, the Management Board intends to propose to the Supervisory Board and the Shareholders' Meeting to allocate 50% of the consolidated net profit for 2013 to be paid in the form of a dividend. The Bank has not paid a dividend from profits earned in 2012.

2) Information on assets collateralizing liabilities

As at 31 December 2013 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	130 689
2.	Treasury bonds OK0114	available for sale	Initial security deposit for bond futures	500	499
3.	Treasury bonds WZ0115	available for sale	Loan agreement	202 000	204 384
4.	Treasury bonds WZ0117	available for sale	Loan agreement	377 000	380 167
5.	Treasury bonds WZ0115	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	15 000	15 177
6.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	200 000	201 060
7.	Treasury bonds WZ0117	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	55 000	55 462
8.	Cash		Payment to the Futures Settlement Guarantee Fund	100	100
9.	Deposits	Deposits in other banks	Settlement on transactions concluded	715 622	715 622
			Total	1 695 222	1 703 159

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

3) Securities subject to transactions with buy-back clause

As at 31 December 2013, 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	114 642	116 778
TOTAL	114 642	116 778

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

4) Offsetting of assets and liabilities on the basis of ISDA agreement

The majority of the Bank's derivatives portfolio arises due to conclusion by the Bank framework ISDA agreements (International Swaps and Derivatives Agreements). Provisions included in the agreements define comprehensive procedures in case of infringement (mainly difficulties in payments), and provide possibility to cancel a deal, making settlements with counterparty base on offset amount of mutual receivables and liabilities. To date, the Bank has not exercised that option, however, in order to meet information requirements as described in IFRS 7 the following table presents the fair values of derivative instruments (both classified as held for trading and dedicated to hedge accounting) as well as cash collaterals under ISDA framework agreements with a theoretical maximum amount resulting from the settlement on the basis of compensation.

	Amounts to be received	Amounts to be paid
Valuation of derivatives	579 757	1 218 768
Amount of cash collaterals accepted/granted	(113 251)	(698 264)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation	466 506	520 504
Theoretical maximum amount of compensation	(322 106)	(322 106)
Financial assets and liabilities covered by framework ISDA agreements allowing compensation taking into account theoretical maximum amount of compensation	**144 400**	**198 398**

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.	31.12.2013	31.12.2012
Cash and balances with the Central Bank	3 411 940	2 465 640
Receivables from interbank deposits (*)	336 577	224 599
Debt securities issued by the State Treasury (*)	3 004 023	3 603 882
of which available for sale	3 002 211	3 598 725
of which trading	1 812	5 157
Total	**6 752 540**	**6 294 121**

(*) 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 2013 include an adjustment of PLN 15 million (PLN 18 million in 2012) 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 15 million (21 million respectively for the year 2012).

6) Information on custody activity

As of 31.12.2013 the Custody Department maintained 11,643 accounts (representing an increase of 5.39% compared to the year 2012), in which Customers' assets were kept with the total value of PLN 30.25 billion (including assets of the Group's companies in the amount of PLN 0.17 billion). Net revenue from the custody business for 2013 amounted to PLN 6.48 million (of which PLN 0.06 million falls on Group's companies). The Custody Department serves as a depositary bank for 62 mutual funds including 11 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 maximum 5 years' time, 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:	31.12.2013	31.12.2012
to 1 year	44 879	62 472
above 1 year to 5 years	133 581	159 671
above 5 years	32 185	58 246
TOTAL	210 645	280 388

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 - Phantom Shares for:	2013	2012
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments	
Commencement of vesting period	1 January 2013	1 January 2012
The date of announcing the program	30 July 2012	
Starting date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after closing of financial year.	
Number of granted instruments	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 2013	31 December 2012
Vesting conditions	Employment in the Bank 2013, results of the Bank and individual performance	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. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment.	
Program valuation	The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date.	

Phantom shares granted to Bank's employees who are not members of the Management Board of the Bank	
Date of shares assigning for 2012	15.02.2013
Number of shares	132 459
- granted	0
- deferred	132 459
Value as at assigning date (PLN)	626 001
- granted	0
- deferred	626 001
Fair value as at 31.12.2013 (PLN)	751 201
Date of shares assigning for 2013	13.02.2014
Number of shares	109 654
- granted	0
- deferred	109 654
Value as at granting date (PLN)	972 846
- granted	0
- deferred	972 846

Profit and Loss Account for 2013 has been charged with the increase of the value of the phantom shares assigned for the year 2012, and the provision for phantom shares assigned for 2013.

Phantom shares granted to members of the Management Board of the Bank	
Date of shares assigning for 2012	03.07.2013
Number of shares:	437 642
- granted	218 821
- deferred	218 821
Value as at assigning date (PLN):	2 295 000
- granted	1 147 500
- deferred	1 147 500
Fair value as at 31.12.2013 (PLN)	2 754 000

Until the publication of the Annual Report, the Personnel Committee of the Supervisory Board has not taken a decision on the amount of variable remuneration for the members of the Management Board for 2013.

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.

Date	Name and surname	Position/Function	Signature
28.02.2014	Joao Bras Jorge	Chairman of the Management Board	
28.02.2014	Fernando Bicho	Deputy Chairman of the Management Board	
28.02.2014	Artur Klimczak	Deputy Chairman of the Management Board	
28.02.2014	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	
28.02.2014	Wojciech Haase	Member of the Management Board	
28.02.2014	Andrzej Gliński	Member of the Management Board	
28.02.2014	Maria Jose Campos	Member of the Management Board	