Annual Consolidated Report
of the Bank Millennium S.A. Capital Group
for the 12-month period ending 31st December 2012

Millennium
bank

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2012 to 31.12.2012	period from 1.01.2011 to 31.12.2011	period from 1.01.2012 to 31.12.2012	period from 1.01.2011 to 31.12.2011
Interest income	3 120 385	2 719 920	747 648	656 970
Fee and commission income	655 666	646 930	157 098	156 260
Operating income	2 008 152	1 950 904	481 156	471 221
Operating profit / (loss)	593 756	591 288	142 265	142 820
Profit /(loss) before taxes	595 954	591 056	142 791	142 764
Profit /(loss) after taxes	472 181	466 464	113 135	112 670
Total comprehensive income of the period	237 925	616 585	57 007	148 930
Net cash flows from operating activities	3 856 571	628 972	924 039	151 922
Net cash flows from investing activities	(1 073 371)	1 457 243	(257 181)	351 983
Net cash flows from financing activities	(131 840)	(1 702 264)	(31 589)	(411 165)
Net cash flows, total	2 651 360	383 951	635 269	92 740
Total assets	52 742 499	50 838 099	12 901 154	11 510 166
Deposits from banks	2 491 745	1 831 577	609 497	414 684
Deposits from customers	41 434 077	37 427 835	10 135 042	8 473 971
Total equity	4 824 170	4 586 245	1 180 023	1 038 364
Share capital	1 213 117	1 213 117	296 736	274 660
Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	3.98	3.78	0.97	0.86
Diluted book value per share (in PLN/EUR)	3.98	3.78	0.97	0.86
Capital adequacy ratio	14.45%	13.23%	14.45%	13.23%
Basic earnings (losses) per ordinary share (in PLN/EUR)	0.39	0.38	0.09	0.09
Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.39	0.38	0.09	0.09
Pledged or paid dividend per share (in PLN/EUR)	-	0.10	-	0.03

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

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

QUARTERLY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	1.01.2012 - 31.12.2012	1.10.2012 - 31.12.2012*	1.01.2011 - 31.12.2011	1.10.2011 - 31.12.2011*
Interest income	3 120 385	801 209	2 719 920	739 973
Interest expense	(1 959 202)	(519 048)	(1 578 029)	(442 448)
Net interest income	1 161 183	282 161	1 141 891	297 525
Fee and commission income	655 666	162 314	646 930	154 285
Fee and commission expense	(109 629)	(29 602)	(85 177)	(25 488)
Net fee and commission income	546 037	132 712	561 753	128 797
Dividend income	4 013	0	1 954	20
Result on investment financial assets	25 362	16 454	8 419	5 980
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	214 461	81 673	187 731	54 568
Other operating income	57 096	12 440	49 156	15 427
Operating income	2 008 152	525 440	1 950 904	502 317
General and administrative expenses	(1 065 259)	(271 577)	(1 059 246)	(268 736)
Impairment losses on financial assets	(238 042)	(67 142)	(174 313)	(46 571)
Impairment losses on non-financial assets	(179)	(157)	536	150
Depreciation and amortization	(55 388)	(13 720)	(64 833)	(14 972)
Other operating expenses	(55 528)	(9 281)	(61 760)	(13 879)
Operating expenses	(1 414 396)	(361 877)	(1 359 616)	(344 008)
Operating profit / (loss)	**593 756**	**163 563**	**591 288**	**158 309**
Share in net profit of associated companies	2 198	(1 600)	(232)	(1 112)
Profit / (loss) before taxes	**595 954**	**161 963**	**591 056**	**157 197**
Corporate income tax	(123 773)	(36 098)	(124 592)	(32 128)
Profit / (loss) after taxes	**472 181**	**125 865**	**466 464**	**125 069**
Attributable to:				
Owners of the parent	472 181	125 865	466 464	125 069
Non-controlling interests	0	0	0	0

* - quarterly financial information has not been audited

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2012 - 31.12.2012	1.10.2012 - 31.12.2012*	1.01.2011 - 31.12.2011	1.10.2011 - 31.12.2011*
Profit / (loss) after taxes	472 181	125 865	466 464	125 069
Other elements of total comprehensive income:				
Effect of valuation of available for sale debt securities	46 046	42 316	(13 249)	(2 735)
Effect of valuation of available for sale shares	263	16	(2 532)	(5 133)
Hedge accounting	(335 514)	(13 200)	201 115	40 814
Other elements of total comprehensive income before taxes	(289 205)	29 132	185 334	32 946
Corporate income tax on other elements of total comprehensive income	54 949	(5 535)	(35 213)	(6 260)
Other elements of total comprehensive income after taxes	(234 256)	23 597	150 121	26 686
Total comprehensive income of the period	237 925	149 462	616 585	151 755
Attributable to:				
Owners of the parent	237 925	149 462	616 585	151 755
Non-controlling interests	0	0	0	0

* - quarterly financial information has not been audited

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I. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Interest income	1	3 120 385	2 719 920
Interest expense	2	(1 959 202)	(1 578 029)
Net interest income		1 161 183	1 141 891
Fee and commission income		655 666	646 930
Fee and commission expense		(109 629)	(85 177)
Net fee and commission income	3	546 037	561 753
Dividend income	4	4 013	1 954
Result on investment financial assets	5	25 362	8 419
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	214 461	187 731
Other operating income	6	57 096	49 156
Operating income		2 008 152	1 950 904
General and administrative expenses	7	(1 065 259)	(1 059 246)
Impairment losses on financial assets	8	(238 042)	(174 313)
Impairment losses on non financial assets	9	(179)	536
Depreciation and amortization	10	(55 388)	(64 833)
Other operating expenses	11	(55 528)	(61 760)
Operating expenses		(1 414 396)	(1 359 616)
Operating profit / (loss)		**593 756**	**591 288**
Share in net profit of associated companies		2 198	(232)
Profit / (loss) before taxes		**595 954**	**591 056**
Corporate income tax	12	(123 773)	(124 592)
Profit / (loss) after taxes		**472 181**	**466 464**
Attributable to:			
Owners of the parent		472 181	466 464
Non-controlling interests		0	0
Basic earnings per ordinary share (in PLN)	13	0.39	0.38
Diluted earnings (losses) per ordinary share (in PLN)	13	0.39	0.38

II. CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Profit / (loss) after taxes	472 181	466 464
Other elements of total comprehensive income		
Effect of valuation of available for sale debt securities	46 046	(13 249)
Effect of valuation of available for sale shares	263	(2 532)
Hedge accounting	(335 514)	201 115
Other elements of total comprehensive income before taxes	(289 205)	185 334
Corporate income tax on other elements of total comprehensive income	54 949	(35 213)
Other elements of total comprehensive income after taxes	(234 256)	150 121
Total comprehensive income of the period	237 925	616 585
Attributable to:		
Owners of the parent	237 925	616 585
Non-controlling interests	0	0

III. CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2012	31.12.2011
Cash, balances with the Central Bank	14	2 465 879	2 017 798
Deposits in other banks and loans and advances to banks	15	1 392 424	2 660 374
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	16	662 404	729 825
Hedging derivatives	17	277 812	130 636
Loans and advances to customers	18	40 232 240	41 332 337
Investment financial assets	19	6 751 104	3 133 595
- available for sale		6 751 104	3 133 595
- held to maturity		0	0
Investments in associates	19	13 352	11 155
Receivables from securities bought with sell-back clause (loans and advances)	20	17 469	2 209
Property, plant and equipment	21	184 642	212 347
Intangible assets	22	43 694	32 267
Non current assets held for sale	23	24 954	32 713
Receivables from Tax Office resulting from current tax		16 270	101 985
Deferred income tax assets	24	165 206	113 816
Other assets	25	495 049	327 042
Total Assets		**52 742 499**	**50 838 099**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2012	31.12.2011
LIABILITIES			
Deposits from banks	26	2 491 745	1 831 577
Financial liabilities valued at fair value through profit and loss (held for trading)	27	467 573	574 215
Hedging derivatives	28	1 115 202	2 298 099
Deposits from customers	29	41 434 077	37 427 835
Liabilities from securities sold with buy-back clause	30	174 788	1 606 628
Debt securities	31	900 016	1 071 193
Provisions	32	44 805	35 427
Deferred income tax liabilities	33	0	0
Current tax liabilities		2 484	1 320
Other liabilities	34	674 029	742 332
Subordinated debt	35	613 610	663 228
Total Liabilities		47 918 329	46 251 854
EQUITY			
Share capital	36	1 213 117	1 213 117
Share premium	36	1 147 502	1 147 502
Revaluation reserve	36	(134 391)	99 865
Retained earnings	36	2 597 942	2 125 761
Total Equity		4 824 170	4 586 245
Total equity attributable to owners of the parent		4 824 170	4 586 245
Non-controlling interests		0	0
Total Liabilities and Equity		**52 742 499**	**50 838 099**

IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2012	4 586 245	1 213 117	1 147 502	99 865	2 125 761
- total comprehensive income of 2012	237 925	0	0	(234 256)	472 181
Equity at the end of the period 31.12.2012	4 824 170	1 213 117	1 147 502	(134 391)	2 597 942

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2011	4 090 972	1 213 117	1 147 502	(50 256)	1 780 609
- dividend for 2010	(121 312)	0	0	0	(121 312)
- total comprehensive income of 2011	616 585	0	0	150 121	466 464
Equity at the end of the period 31.12.2011	4 586 245	1 213 117	1 147 502	99 865	2 125 761

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

V. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Profit (loss) after taxes	472 181	466 464
Adjustments for:	3 384 390	162 508
Non-controlling interests	0	0
Interests in net profit /(loss) of associated companies	(2 198)	232
Depreciation and amortization	55 388	64 833
Foreign exchange gains /(losses)	(145 502)	227 270
Dividends	(1 929)	(1 954)
Changes in provisions	9 378	13 982
Result on sale and liquidation of investing activity assets	(39 066)	(10 103)
Change in financial assets valued at fair value through profit and loss (held for trading)	(456 834)	833 840
Change in loans and advances to banks	1 037 146	(845 210)
Change in loans and advances to customers	1 095 759	(4 608 475)
Change in receivables from securities bought with sell-back clause	(15 260)	52 876
Change in liabilities valued at fair value through profit and loss (held for trading)	(1 289 539)	752 662
Change in liabilities to banks	625 819	460 635
Change in deposits from customers	4 006 242	2 032 688
Change in liabilities from securities sold with buy-back clause	(1 431 840)	935 937
Change in debt securities	73 016	290 001
Change in income tax settlements	207 787	48 684
Income tax paid	(122 068)	(149 353)
Change in other assets and liabilities	(238 836)	26 502
Other	16 927	37 461
Net cash flows from operating activities	**3 856 571**	**628 972**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Inflows:	177 729 112	82 210 811
Proceeds from sale of property, plant and equipment and intangible assets	15 538	4 493
Proceeds from sale of shares in associates	2 084	0
Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
Proceeds from sale of investment financial assets	177 709 561	82 204 364
Other	1 929	1 954
Outflows:	(178 802 483)	(80 753 568)
Acquisition of property, plant and equipment and intangible assets	(27 066)	(35 709)
Acquisition of shares in associates	0	0
Acquisition of financial assets valued at fair value through profit and loss	0	0
Acquisition of investment financial assets	(178 775 417)	(80 717 859)
Other	0	0
Net cash flows from investing activities	**(1 073 371)**	**1 457 243**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Inflows:	298 750	0
Long-term bank loans	298 750	0
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other	0	0
Outflows:	(430 590)	(1 702 264)
Repayment of long-term bank loans	(140 844)	(787 520)
Redemption of debt securities	(244 193)	(359 815)
Decrease in subordinated debt	0	(362 040)
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	(121 312)
Other	(45 553)	(71 577)
Net cash flows from financing activities	**(131 840)**	**(1 702 264)**

D. NET CASH FLOWS, TOTAL (A+B+C)	2 651 360	383 951
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	3 643 000	3 259 049
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	6 294 360	3 643 000

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

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

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

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

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

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

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

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

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

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

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

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

The Group's parent entity is Bank Millennium S.A. The companies that belong to the Capital Group as at 31 December 2012, are presented by the table below:

Company	Activity domain	Head office	% of the Group's capital share	% of the Group's voting share	Recognition in financial statements
MILLENNIUM LEASING Sp. z o.o.	leasing services	Warsaw	100	100	consolidated
MILLENNIUM DOM MAKLERSKI S.A.	brokerage services	Warsaw	100	100	consolidated
MILLENNIUM TFI SA	investment funds management	Warsaw	100	100	consolidated
MB FINANCE AB	funding companies from the Group	Stockholm	100	100	consolidated
MILLENNIUM SERVICE Sp. z o.o.	general construction and engineering	Warsaw	100	100	consolidated
TBM Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	consolidated
MILLENNIUM TELECOMMUNICATION SERVICES Sp. z o.o.	financial operations - equity markets, advisory services	Warsaw	100	100	consolidated
LUBUSKIE FABRYKI MEBLI S.A.	furniture manufacturer	Świebodzin	50	50	equity method valuation (*)
BG LEASING S.A. under bankruptcy	leasing services	Gdańsk	74	74	historical cost (*)
PHCRS S.A.	wholesale market	Gdańsk	38.39	42.92	equity method valuation

(*) Despite having a majority shareholding of the Lubuskie Fabryki Mebli S.A., accordingly adopted an investment policy, the Group 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 Group does not consolidate capital involvement in the Lubuskie Fabryki Mebli S.A applying equity method instead, recognizing (based on IAS 28), this involvement as associate company.

Additionally under the same criterion of control the Group does not consolidate accounts of BG Leasing S.A., in view of the ongoing company bankruptcy proceedings.

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

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

VII. ACCOUNTING POLICY

1) COMPLIANCE STATEMENT

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

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

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

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

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

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

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

Nature of changes:

The amendments:

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

Possible impact on financial statements:

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

IAS 19 Employee Benefits (2011)

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

Nature of changes:

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

Possible impact on financial statements:

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

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

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

Nature of changes:

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

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

Possible impact on financial statements:

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

IFRS 13 Fair Value Measurement

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

Nature of changes:

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

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

Possible impact on financial statements:

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

IFRS 10 Consolidated Financial Statements

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

Nature of changes:

IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvement with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between the power and returns.

The new standard also includes disclosure requirements and requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

Possible impact on financial statements:

The Group does not expect the new standard to have any impact on its consolidated financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 12 Disclosure of Interests in Other Entities

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

Nature of changes:

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

Possible impact on financial statements:

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

IAS 28 Investments in Associates and Joint Ventures (2011)

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

Nature of changes:

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

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

Possible impact on financial statements:

The Group does not expect the amendments to Standard to have material impact on the consolidated financial statements.

Standards and interpretations not yet endorsed by the EU as at 31 December 2012

Improvements to IFRS (2009-2011)

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

Nature of changes:

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

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

Possible impact on financial statements:

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

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

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

Nature of changes:

The amendments:

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

Possible impact on financial statements:

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

IFRS 9 Financial Instruments (2009)

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

Nature of changes:

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

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

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

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

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

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

Possible impact on financial statements:

The Group 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 consolidated financial statements has not been completed yet.

Additions to IFRS 9 Financial Instruments (2010)

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

Nature of changes:

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

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

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

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

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

Possible impact on financial statements:

The Group 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 consolidated financial statements has not been completed yet.

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

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

Nature of changes:

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

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

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

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

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

Possible impact on financial statements:

The Group 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 consolidated financial statements has not been completed yet.

3) ADOPTED ACCOUNTING PRINCIPLES

Basis of Financial Statements Preparation

Consolidated financial statements of the Group prepared for the financial year from 1 January 2012 to 31 December 2012 includes financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method.

These financial statements are prepared on the basis of the assumption of business continuity by the Group, 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 management the use of estimates and assumptions that affect the amounts (assets, liabilities, incomes and costs) reported in the financial statements and notes thereto. The respective unit of the Group is responsible for selection, application, development, and verification of adopted estimations; the assumptions are then subject to approval by the Group's management.

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

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

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

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

Basis of Consolidation

Purchase method

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

Subsidiaries

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

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

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

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

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

Associates

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

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

Functional currency and presentation currency

Functional currency and presentation currency

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

Transactions and balances

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

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

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

Application of Estimates in connection with Accounting Policies

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

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

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

- Impairment of loans and advances

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of a given financial asset or group of financial asset. The Group assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from a given loan portfolio since the initial recognition of those assets, although the decrease cannot yet be identified with the individual. The estimates include any observable indications pointing at the occurrence of an unfavourable change in the solvency position of debtors belonging to any particular group or national or local economic conditions that correlate with defaults on the assets in the group.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are no longer applicable. The methodology and the assumptions for calculating the amount and timing of estimated cash flows to be recovered are regularly reviewed and updated, in order to estimate the difference between the actual loss results and estimations of impairment.

- Fair value of financial instruments

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

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

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

- Prices quoted on the active market for identical instruments for following financial instruments:
  Treasury fixed-coupon, 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 Group,
    - Indexes options acquired/placed by the Group.

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

- Impairment of other non current assets

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

- Other Estimate Values

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

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

Financial assets and liabilities

Classification

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

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

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

- Held to maturity investments

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

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

- Loans and advances

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

- Financial assets available for sale

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

- Other financial liabilities

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

Recognition of financial instruments in the balance sheet

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

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

De-recognition of financial instruments from the balance sheet

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

Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group:

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

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

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

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

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

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

- Held to maturity investments and loans and advances

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

- Financial assets available for sale

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

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

If there is any objective evidence of impairment, the Group recognizes impairment loss as described in the **point: 'Impairment of financial assets'**.

- Other financial liabilities

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

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

Hedge Accounting and Financial Derivatives

Valuation at fair value

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

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and through the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);

- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

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

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

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

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

Fair value hedge

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

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

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

Termination of hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

- FX forward

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

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

- FX SWAP

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

- Interest Rate SWAP (IRS)

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

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

- Cross – Currency Swap (CCS)

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

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

- IRS transactions with embedded FX option

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

The option component hedges options embedded in securities or deposits offered by the Bank.

- FX options

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

- Forward Rate Agreement (FRA)

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

- Commodity futures

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

- Commodity options

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

Impairment of financial assets

Assets valued at amortized cost

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

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

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

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

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

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

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

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

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

Financial assets available for sale

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

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

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

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

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

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

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

Receivables from leasing contracts

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

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

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

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

Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

Fixed assets under construction are disclosed at purchase price or production costs and are not subject to depreciation.

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

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

Borrowing costs related to the acquisition, construction or production of an asset, are recognised by the Group 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 Group in the future.

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

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

Other intangibles purchased by the Group 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 Group. 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.

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

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

Selected categories of property, plant and equipment:

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

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

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

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

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

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

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

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

Prepayments, Accruals and Deferred Income

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

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

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

Provisions

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

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

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

Employee Benefits

Short-term employee benefits

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

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

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

Long-term employee benefits

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

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

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

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

Group's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

Revaluation 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.

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

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 result

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

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result 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 comprises of interest income and costs on designated derivatives being a result of effective hedge instruments in 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 Group estimates cash flows considering all contractual terms of the financial instrument without considering future credit losses. The calculation includes all fees and points paid or received between contracting parties, that are an integral part of the effective interest rate, as well as transaction costs, and all other premiums or discounts.

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

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

Fee and commission income/ Fee and Commission Costs

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

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

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

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

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

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

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

Dividend Income

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

Result on Investment Financial Instruments

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

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

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

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

Other Operating Income and Expenses

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

Income Tax

Corporate income tax comprises current and deferred tax.

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

Deferred income tax is recognized in profit and loss or equity depending on type of temporary differences.

The Group forms a provision for a deferred income tax asset and liability due to temporary differences on income tax. These differences are a result of different timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. Provision for a deferred income tax is recognized in liabilities in the caption 'deferred income tax liabilities'. Deferred income tax asset is recognized in assets as 'deferred income tax assets'. The Group offsets deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right for such netting and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

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

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

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

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

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

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

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

VIII. FINANCIAL RISK MANAGEMENT

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

1) GROUP'S RISK MANAGEMENT MISSION

The mission of risk management in the Group 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 Group'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.

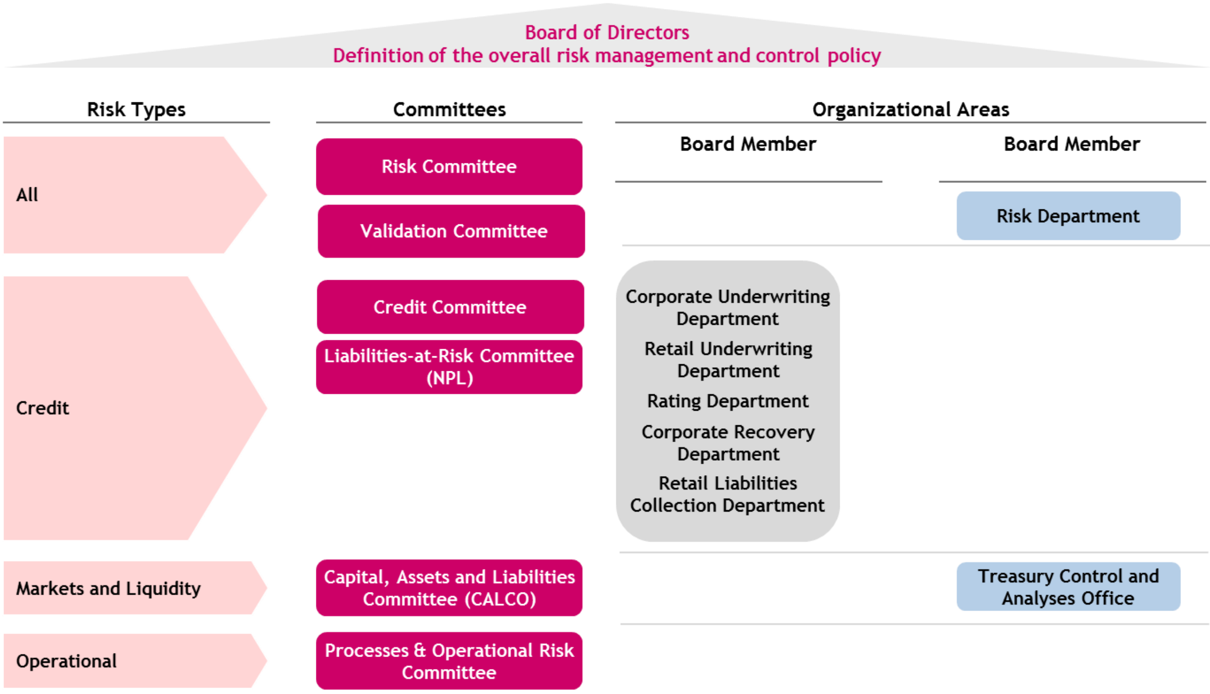
Important principle of risk management is the optimization of the risk and profitability trade-off – the Group pays special attention to ensure that its business decisions balance risk and profit adequately.

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 Group.

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 Group's employees as regards their responsibility for proper risk management at every level of the Group's organisational structure.

The risk governance model can be represented as follows:



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

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

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

2) CAPITAL MANAGEMENT

Regulatory Own Funds

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

The Group's capital adequacy is regularly monitored in detail for individual types of exposure, its coverage by own regulatory funds and change in trends. In this context risk factors , which may lead to deterioration of the Group's capital position are monitored, including changes of FX rates, real estate prices, growth of impaired exposures. Stress tests are carried out, reflecting growth of these risk factors as well as the potential impact on capital adequacy.

At the end of 2012 year Banco de Portugal (as the consolidating Supervisor) and Polish Financial Supervision Authority granted a consent from 31.12.2012 to the use of the Internal Rating Based (IRB) approach by Bank Millennium to calculate the capital requirements for credit risk relatively to the following sub-portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE).

The capital requirements calculated using the IRB approach must be temporarily maintained at no less than 80% of the respective capital requirements calculated using the Standardized approach and this constraint will be applied until the fulfilment of the conditions defined by BdP and KNF are confirmed by both regulators, but will not cease before 30 June 2014.

Internal Capital

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

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

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

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

3) CREDIT RISK

The credit risk is one of the most important risk type for the Group and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures 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 group's regulatory environment.

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

(3a) Measurement of Credit Risk

Loans and advances

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

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

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

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

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

The Group regularly analyses and assesses rating results and their predictive power with respect to cases of default. The process of assigning client risk assessments 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 Group's internal rating scale

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

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

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

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

Master scale	Description	31.12.2012		31.12.2011	
		Loans and advances (%)	Impairment charges (%)	Loans and advances (%)	Impairment charges (%)
1	Highest quality	42.71%	3.18%	28.53%	2.09%
2	Good quality	15.80%	1.44%	29.00%	2.30%
3	Medium quality	17.42%	3.30%	14.97%	3.25%
4	Low quality	7.78%	1.88%	7.80%	1.77%
5	Watched	1.59%	3.18%	1.68%	2.85%
6	Default	5.73%	84.12%	4.62%	76.29%
Without rating**		8.97%	2.90%	13.40%	11.45%
Total		100.00%	100.00%	100.00%	100.00%

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

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

Debt Securities

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

Derivatives

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

The Group 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 Group'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 Group has the right to close the position.

Credit risk-based off-balance sheet liabilities

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

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 Group must make a payment).

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

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

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

(3b) LIMITS CONTROL AND RISK MITIGATION POLICY

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

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

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

Collateral

The Group 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 Group, 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 Group as well as more detailed requirements that are to ensure the probability of selling collateral of respective types in the context of the Group's recovery experiences.

The Group 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 Group 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 Group uses various forms of instruments supplementing the collateral, which facilitate enforcement or increase probability of effective repayment of debt from a specific collateral. Those instruments include: statement of submitting to enforcement, blank promissory note, power-of-attorney to a bank account, assignment of rights under an insurance agreement, low contribution insurance, bridge insurance.

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

(3c) POLICY WITH RESPECT TO IMPAIRMENT AND CREATION OF REVALUATION CHARGES

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

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

Individual impairment analysis for credit receivables

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

The whole process comprises following stages:

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

At the end of 2012, the financial effect of the established collaterals for the Group's receivables with recognised impairment being a subject to individual analysis (Case by Case) amounted to PLN 236 million (in 2011 - PLN 237 million). This is the amount by which the level of impairment provisions assigned to the portfolio would be higher if during impairment provisions computations estimated cash flows from collaterals had not been taken into account.

Collective analysis of loans portfolio

The following loans are subjected to collective analysis:

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

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

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

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

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

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

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

PLN '000	Maximum exposure	
	31.12.2012	31.12.2011
Exposures exposed to credit risk connected with balance sheet assets	**49 068 993**	**47 869 495**
Loans and advances to banks	1 392 424	2 660 374
Loans and advances to customers:	40 232 240	41 332 337
Loans to private individuals:	30 226 297	31 067 852
- Credit cards	707 539	739 913
- Cash loans and other loans to private individuals	2 283 444	2 044 976
- Mortgage loans	27 235 314	28 282 963
Loans to companies	9 174 658	9 354 004
Loans to public entities	831 285	910 481
Trading securities:	46 929	318 246
- Debt securities	46 791	316 250
- Shares	138	1 996
Derivatives and adjustment from fair value hedge	615 475	411 579
Financial assets valued at fair value	0	0
Investment financial assets	6 764 456	3 144 750
- Debt securities	6 749 758	3 132 507
- Shares	14 698	12 243
Receivables from securities bought with sell-back clause	17 469	2 209
Credit risk connected with off-balance sheet items	6 909 180	8 695 495
Financial guarantees	1 298 458	2 054 175
Credit commitments and other commitments connected with loans	5 610 721	6 641 320

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

(3e) LOANS

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

Gross exposure in '000 PLN

	31.12.2012		31.12.2011	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	36 951 034	1 392 424	38 361 813	2 660 374
Overdue, but without impairment	2 408 229	0	2 083 759	0
With impairment	2 110 563	0	2 104 134	0
Gross	41 469 826	1 392 424	42 549 706	2 660 374
Impairment write-offs together with IBNR	(1 237 586)	0	(1 217 369)	0
Net	**40 232 240**	**1 392 424**	**41 332 337**	**2 660 374**
Loans with impairment / total loans	5.09%		4.95%	

Loans and advances not past due and not impaired

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

Loans and advances not overdue and without impairment

Master scale	Description	31.12.2012	31.12.2011
		Credits and Loans PLN ths.	Credits and Loans PLN ths.
1	Highest quality	17 654 304	12 113 541
2	Good quality	6 300 171	12 127 590
3	Medium quality	6 556 940	5 972 354
4	Low quality	2 648 296	2 939 509
5	Watched	139 131	160 198
6	Default *	189 628	87 213
Without rating		3 462 564	4 961 408
Total		36 951 034	38 361 813

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

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

Loans and advances past due but without impairment

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

Gross exposure in ‘000 PLN

	31.12.2012				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	541 123	1 253 551	238 357	0	2 033 031
Delay 30 - 60 days	121 563	84 579	42 308	0	248 450
Delay 60-90 days	35 612	28 781	17 414	0	81 807
Delay above 90 days*	43 465	3	1 473	0	44 941
Total	741 763	1 366 914	299 552	0	2 408 229

Gross exposure in ‘000 PLN

	31.12.2011				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	562 824	1 075 814	216 999	0	1 855 637
Delay 30 - 60 days	70 782	52 427	35 943	0	159 152
Delay 60-90 days	11 356	19 950	16 166	0	47 472
Delay above 90 days*	19 898	6	1 594	0	21 498
Total	664 860	1 148 197	270 702	0	2 083 759

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

Impaired loans and advances

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

Gross exposure in ‘000 PLN

	31.12.2012				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	1 076 258	47 575	1 198	0	1 125 031
Collective analysis	201 646	257 220	526 666	0	985 532
Total	1 277 904	304 795	527 864	0	2 110 563

Gross exposure in '000 PLN

	31.12.2011				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	1 101 429	32 226	902	0	1 134 557
Collective analysis	174 639	238 718	556 220	0	969 577
Total	1 276 068	270 944	557 122	0	2 104 134

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

	31.12.2012			31.12.2011		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
Investment loans	313 123	27.8%	18.6%	371 388	32.7%	28.1%
Working capital loans	74 360	6.6%	45.3%	126 575	11.2%	26.7%
Current account loans	160 843	14.3%	70.0%	60 437	5.3%	60.7%
Guarantees and sureties realised	34 540	3.1%	99.8%	800	0.1%	64.5%
Mortgage loans	47 984	4.3%	25.0%	32 226	2.8%	21.9%
Factoring	79 708	7.1%	22.5%	15 804	1.4%	59.9%
Leasing	233 590	20.8%	38.3%	255 900	22.6%	33.0%
Other*	180 883	16.1%	62.0%	271 427	23.9%	60.6%
Total	1 125 031	100.0%	41.8%	1 134 557	100.0%	38.8%

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

- By currency

Loans and advances to customers

	31.12.2012			31.12.2011		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	807 158	71.7%	52.9%	667 337	58.8%	48.1%
CHF	18 963	1.7%	21.0%	52 043	4.6%	26.4%
EUR	44 286	3.9%	21.7%	77 085	6.8%	19.4%
USD	250 516	22.3%	11.5%	295 966	26.1%	27.0%
JPY	4 072	0.4%	17.5%	42 126	3.7%	26.9%
GBP	36	0.0%	100.0%	-	-	-
Total	1 125 031	100.0%	41.8%	1 134 557	100.0%	38.8%

- By coverage ratio

Loans and advances to customers

	31.12.2012		31.12.2011	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	409 914	36.4%	281 138	24.8%
20% - 40%	229 821	20.4%	495 743	43.7%
40% - 60%	138 611	12.3%	112 935	9.9%
60% - 80%	52 941	4.7%	78 384	6.9%
Above 80%	293 744	26.1%	166 357	14.7%
Total	1 125 031	100.0%	1 134 557	100.0%

Restructured loans and advances

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

The restructuring of both corporate and retail receivables allows the Group 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 Group is exposed in connection with client transactions giving rise to the Group's off-balance sheet receivables or liabilities.

The restructuring process applies to the receivables which, based on the principles in place in the Group, are transferred to restructuring and recovery portfolios and includes setting new terms of transactions which are acceptable for the Group (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 Group. 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 Group 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 Group's organisational units responsible for loan restructuring.

Gross exposure in '000 PLN

	31.12.2012	31.12.2011
Loans and advances to private individuals	397 626	290 840
Loans and advances to companies	431 538	572 330
Total	829 164	863 170

Bank execution titles

In 2012, the Bank issued in corporate 183 bank execution titles for the aggregated amount of PLN 262,6 million (based on the average NBP exchange rate of 31 December 2012), including:

- 181 bank execution titles for the aggregated amount of PLN 245,8 million,
- 2 bank execution title for EUR 4,1 million,

Additionally, in 2012 the Bank issued 13 059 bank execution titles for retail and small business receivables for the aggregated amount of PLN 191,4 million (based on the exchange rate of 31 December 2012). In addition, in 2012, the Bank sent to the courts 7 262 lawsuit for a payment order in the amount of PLN 47, 8 million.

(3f) Debt and equity securities

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

Issued by	Trading debt securities	Investment debt securities	Shares	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	32 344	145 922
- listed	0	0	138	138
- not listed	0	113 578	32 206	145 784
Total	**46 791**	**6 749 758**	**32 366**	**6 828 915**

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

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	316 250	1 927 780	24	2 244 054
Central Bank	0	1 099 887	0	1 099 887
Other	0	104 840	36 034	140 874
- listed	0	0	1 996	1 996
- not listed	0	104 840	34 038	138 878
Total	**316 250**	**3 132 507**	**36 058**	**3 484 815**

(3g) Collateral transferred to the Group

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

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

At the same time, a subsidiary of Bank - Millennium Leasing, takes control over some of assets leased and leads active measures aimed at their disposal. Data about the value of these assets and their changes during the reporting period are shown in note ***(23) "Non-current assets held for sale" of the consolidated balance sheet***.

(3h) Policy for writing off receivables

Credit exposures, with respect to which the Group 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 Group 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).

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

Industry sectors

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

31.12.2012	Financial intermediation	Industry and constructions	Wholesale and retail business	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	372 908	3 751 990	2 225 179	1 257 807	590 688	27 392 947	3 411 458	2 466 850	41 469 827
Trading securities	22	27	0	0	46 791	0	0	89	46 929
Derivatives and adjustment from fair value hedge	863 393	14 832	1 020	10 187	0	0	0	3 855	893 287
Investment securities	1 930	16 539	6 910	27	6 749 780	0	0	6 800	6 781 986
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	2 648 146	3 783 388	2 233 109	1 268 021	7 387 259	27 392 947	3 411 458	2 477 594	50 601 922

31.12.2011	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	2 660 374	0	0	0	0	0	0	0	2 660 374
Loans and advances to customers	494 172	4 112 092	2 271 698	1 338 848	833 559	28 410 931	3 246 262	1 842 144	42 549 706
Trading securities	10	51	1 824	0	316 250	0	0	112	318 246
Derivatives and adjustment from fair value hedge	511 812	17 029	2 324	250	0	0	0	10 800	542 215
Investment securities	1 667	16 539	8 200	29	3 132 531	0	0	7 603	3 166 569
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	2 209	0	0	0	0	0	0	0	2 209
Total	3 670 244	4 145 710	2 284 045	1 339 127	4 282 340	28 410 931	3 246 262	1 860 660	49 239 319

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

4) Market Risk

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

Market-risk evaluation measures

The Group'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 2012 the equity risk, nonlinear risk and commodities risk did not exist or was insignificant in the Group.

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 Group 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. The method gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions.

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear risk, commodity risk and specific risk), the appropriate assessment rules were defined.

The non-linear risk is measured according to internally developed methodology which is in line with the VaR methodology – the same time horizon and significant level is used. Specific and commodities' risks are measured through standard approach defined in supervisory regulations (Basel II), with a corresponding change of the time horizon considered.

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

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

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

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

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

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

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

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

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

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

VaR measures for market risk ('000 PLN)	VaR (from 31st December 2011 to 31st December 2012)				
	End of 2011	Average	Maximum	Minimum	End of 2012
Total risk	19 925	21 518	44 503	11 419	11 419
Generic risk	16 912	18 742	41 833	8 399	8 399
Interest Rate VaR	16 871	18 726	41 832	8 397	8 397
FX Risk	94	274	2 367	11	18
Equity risk	0	3	280	0	0
Diversification Effect	0.3%				0.2%
Non-linear risk	0	0	0	0	0
Commodities risk	0	0	0	0	0
Specific risk	2 790	2 774	3 121	2 641	3 020

The corresponding exposures as of 2011 respectively amounted to:

VaR measures for market risk	VaR (from 31st December 2010 to 31st December 2011)				
	End of 2010	Average	Maximum	Minimum	End of 2011
Total risk	11 979	15 826	25 980	8 495	19 925
Generic risk	9 247	13 023	23 106	5 752	16 912
Interest Rate VaR	9 264	13 041	23 774	5 764	16 871
FX Risk	152	515	6 847	9	94
Equity Risk	0	0	0	0	0
Diversification Effect	0,2%				0.3%
Non-linear risk	22	7	57	0	0
Commodities risk	0	0	0	0	0
Specific risk	2 710	2 796	2 982	2 680	2 790

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

Banking Book:

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

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

Trading Book:

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

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

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

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

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

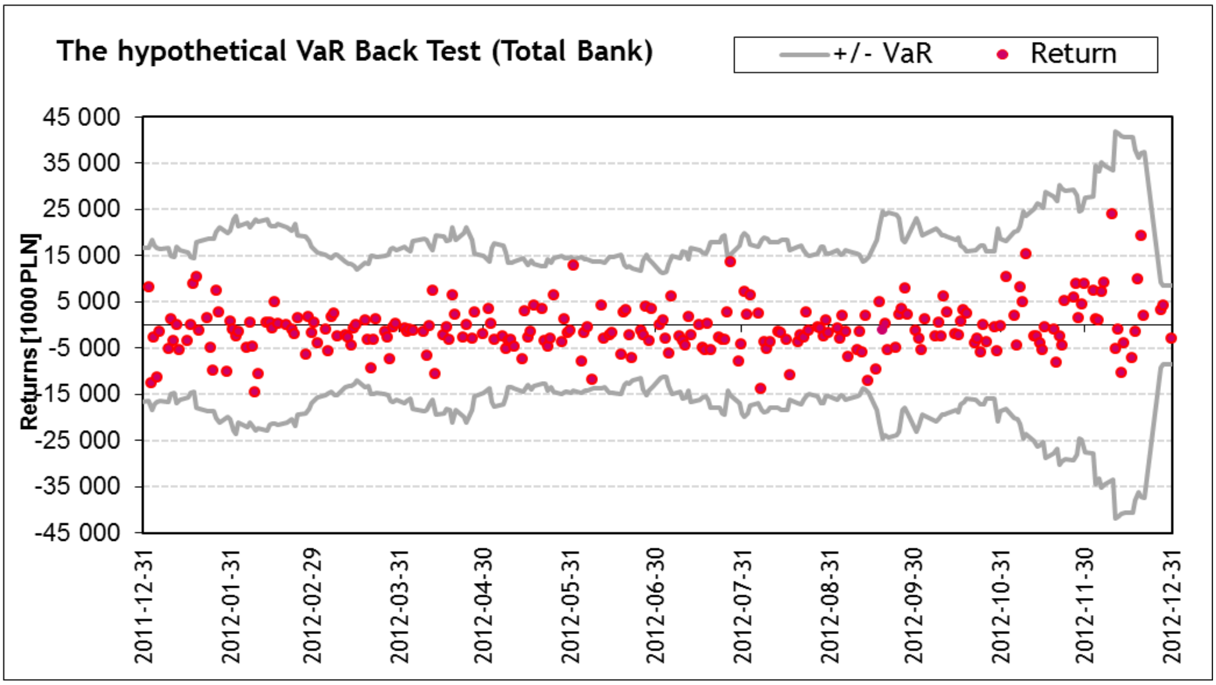
Open positions mostly included interest-rate instruments and FX risk instruments. The FX Risk covers all the foreign exchange exposures of the Group. The open positions are allowed only in the Trading Portfolios.

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
2012	25 890	2 246	65 228	9 155
2011	16 208	1 635	61 390	3 112

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

Market risk - VaR Back Testing



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

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

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

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

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

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

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

5) LIQUIDITY RISK

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

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

There were no exposures to liquidity risk at a subsidiary level, because the Bank manages liquidity risk centrally.

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

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2012 slightly decreased compared to 2011, amounting respectively to 3,4% and 9,6% (in December 2011 it was respectively 4.5% and 9,8%).

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

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

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

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

Liquidity risk evaluation measures

The estimation of the Group'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 Group's liquidity position in short-term horizons (up to 3 months) is tested daily on the basis of two internally defined indicators: immediate liquidity and quarterly liquidity. Both such indicators measure the maximum borrowing requirement, which could arise on a particular day, taking into consideration the cash-flow projections for spot date and period of 3 months, respectively.

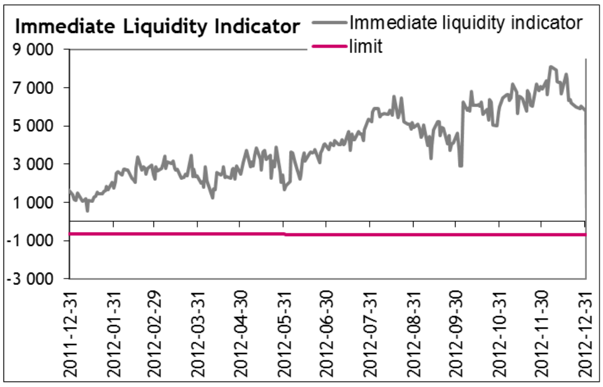
The calculation of these indicators involves adding to the day's liquidity position the estimated future cash flows for each day from the respective time horizon (spot date or 3 months) for the transactions concluded by markets areas. The amount of assets from the Bank's highly liquid securities portfolio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

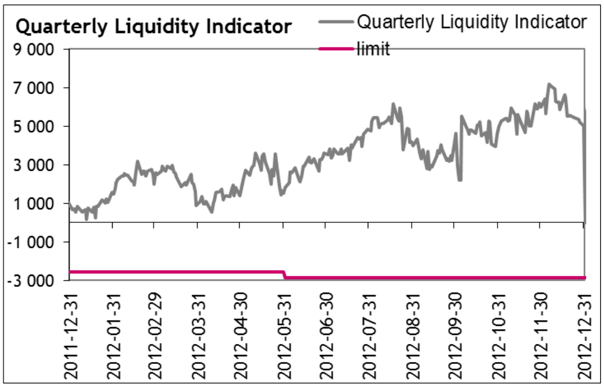
These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force. During the year, these indicators were well above minimum limit.

Current Liquidity indicators PLN million

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

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





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

Additionally the Group 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 Group for the ratio of liquidity shortfall for each time bucket below 5 years corresponds to 25% of Total Assets.

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

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

Adjusted Liquidity Gap (m PLN)	31.12.2012 up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	14 412	3 359	5 209	4 498	6 340	30 878
Adjusted balance liabilities	7 401	1 401	1 372	1 103	1 770	47 694
Balance-Sheet Gap	7 011	1 958	3 837	3 395	4 570	(16 817)
Cumulative Balance-Sheet Gap	7 011	8 969	12 806	16 201	20 771	3 954
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	6 464	2 025	3 824	3 452	4 580	(16 838)
Total Cumulative Gap	6 464	8 490	12 314	15 766	20 346	3 507

Adjusted Liquidity Gap (m PLN)	31.12.2011 up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	13 138	3 451	4 561	4 439	6 901	35 424
Adjusted balance liabilities	7 821	1 684	985	493	1 718	44 580
Balance-Sheet Gap	5 317	1 768	3 576	3 946	5 182	(9 156)
Cumulative Balance-Sheet Gap	5 317	7 085	10 661	14 607	19 790	10 634
Adjusted off-balance assets	385	307	482	346	441	779
Adjusted off-balance liabilities	(1 131)	(327)	(508)	(339)	(442)	(824)
Off-Balance Sheet Gap	(746)	(19)	(26)	8	0	(45)
Total Gap	4 571	1 749	3 551	3 953	5 182	(9 201)
Total Cumulative Gap	4 571	6 320	9 871	13 824	19 006	9 805

Stress tests are performed at least quarterly, to determine the Group's liquidity-risk profile, to ensure that the Group is in a position to fulfil its obligations in the event of a liquidity crisis and to 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 Group has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan (contingency plan in case the Group'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.

6) OPERATIONAL RISK

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

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

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

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

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

The Group 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 Group calculates its capital requirement due to the operational risk using the Standard Approach.

IX. OPERATIONAL SEGMENTS

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

a) Retail Customers Segment

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

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

b) Corporate Customers Segment

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

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

c) Treasury and investment business

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

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

Income tax charge has been presented on Group level only.

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

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

The assets and liabilities of commercial segments are the operating assets and liabilities used by the segment in its operations, allocated on business grounds. The difference between operating assets and liabilities is covered by money market assets/liabilities and debt securities. The assets and liabilities of the Treasury and Investment Banking segment are money market assets/liabilities and debt securities not allocated to commercial segments.

INCOME STATEMENT 1.01.2012 - 31.12.2012 In '000 PLN	Retail Banking	Corporate Banking	Treasury and Investment Banking	Total Consolidated
Net interest income	**1 021 299**	**280 993**	**(141 109)**	**1 161 183**
external income	1 502 563	680 164	937 657	3 120 385
external cost	(1 098 567)	(661 116)	(199 519)	(1 959 202)
External income less cost	403 996	19 048	738 138	1 161 183
internal income	1 179 753	641 931	(1 821 684)	0
internal cost	(562 449)	(379 987)	942 437	0
Internal income less cost	617 303	261 944	(879 248)	0
Net fee and commission income	413 341	124 941	7 755	546 037
Dividends, other income from financial operations and foreign exchange profit	90 138	49 854	103 844	243 836
Other operating income and cost	10 831	(13 306)	4 043	1 568
Operating income	1 535 609	442 482	(25 466)	1 952 624
Staff costs	(402 089)	(126 899)	(29 291)	(558 278)
Administrative costs	(398 655)	(75 306)	(33 020)	(506 980)
Impairment losses on assets	(92 889)	(162 268)	16 937	(238 221)
Depreciation and amortization	(48 861)	(5 767)	(761)	(55 388)
Operating expenses	(942 494)	(370 240)	(46 134)	(1 358 867)
Operating profit / (loss)	**593 115**	**72 242**	**(71 601)**	**593 756**
Share in net profit of associated companies	0	0	2 198	2 198
Profit / (loss) before taxes	**593 115**	**72 242**	**(69 403)**	**595 954**
Income taxes				(123 773)
Profit / (loss) after taxes				**472 181**

BALANCE SHEET 31.12.2012 In '000 PLN	Retail Banking	Corporate Banking	Treasury and Investment Banking	Total Consolidated
ASSETS				
Segment assets	31 760 787	13 352 546	7 629 166	52 742 499
Assets allocated to segment	2 091 660	1 659 972	(3 751 632)	0
Total	33 852 447	15 012 518	3 877 534	52 742 499
LIABILITIES				
Segment liabilities	29 752 952	13 599 181	4 566 197	47 918 329
Liabilities allocated to segment	2 664 045	152 205	(2 816 250)	0
Equity allocated to segment	1 435 451	1 261 132	2 127 588	4 824 170
Total	33 852 447	15 012 518	3 877 534	52 742 499

INCOME STATEMENT 1.01.2011 - 31.12.2011 In '000 PLN	Retail Banking	Corporate Banking	Treasury and Investment Banking	Total Consolidated
Net interest income	**1 021 705**	**264 603**	**(144 418)**	**1 141 891**
external income	1 348 490	585 722	785 708	2 719 920
external cost	(856 964)	(512 650)	(208 415)	(1 578 029)
External income less cost	491 526	73 071	577 293	1 141 891
internal income	989 671	490 406	(1 480 077)	0
internal cost	(459 492)	(298 874)	758 366	0
Internal income less cost	530 179	191 532	(721 711)	0
Net fee and commission income	423 843	120 406	17 503	561 753
Dividends, other income from financial operations and foreign exchange profit	91 292	51 906	54 906	198 103
Other operating income and cost	(4 330)	(12 184)	3 911	(12 603)
Operating income	1 532 510	424 731	(68 098)	1 889 143
Staff costs	(383 433)	(123 381)	(33 357)	(540 171)
Administrative costs	(409 108)	(79 807)	(30 159)	(519 075)
Impairment losses on assets	(103 007)	(80 040)	9 270	(173 777)
Depreciation and amortization	(55 061)	(7 983)	(1 788)	(64 833)
Operating expenses	(950 610)	(291 211)	(56 035)	(1 297 855)
Operating profit / (loss)	**581 900**	**133 520**	**(124 133)**	**591 288**
Share in net profit of associated companies	0	0	(232)	(232)
Profit / (loss) before taxes	**581 900**	**133 520**	**(124 365)**	**591 056**
Income taxes				(124 591)
Profit / (loss) after taxes				**466 464**

BALANCE SHEET 31.12.2011 In '000 PLN	Retail Banking	Corporate Banking	Treasury and Investment Banking	Total Consolidated
ASSETS				
Segment assets	29 727 878	13 538 125	7 572 096	50 838 099
Assets allocated to segment	3 403 840	1 180 685	(4 584 525)	0
Total	33 131 718	14 718 810	2 987 571	50 838 099
LIABILITIES				
Segment liabilities	27 971 468	13 447 209	4 833 182	46 251 859
Liabilities allocated to segment	2 287 224	173 654	(2 460 878)	0
Equity allocated to segment	2 873 026	1 097 947	615 267	4 586 240
Total	33 131 718	14 718 810	2 987 571	50 838 099

X. TRANSACTIONS WITH RELATED ENTITIES

All and any transactions between entities of the Group in 2012 resulted from the current operations.

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.

1) Description of the transactions with the Parent Group

The following are the amounts of transactions with the Capital Group of Bank's parent company - Banco Comercial Portugues (these transactions are mainly of banking nature).

	31.12.2012	31.12.2011
ASSETS		
Loans and advances to banks – accounts and deposits	2 605	248 655
Financial assets valued at fair value through profit and loss (held for trading)	0	0
Hedging derivatives	0	0
Other assets	45	105
LIABILITIES		
Deposits from banks	206 150	74 971
Debt securities	0	299 795
Financial liabilities valued at fair value through profit and loss (held for trading)	63	91
Hedging derivatives	133 578	304 263
Other liabilities	165	469

	1.01-31.12.2012	1.01-31.12.2011
Income from:		
Interest	100 390	105 633
Commissions	143	0
Derivatives net	0	3 463
Other net operating income	877	1 999
Expense from:		
Interest	24 693	53 410
Commissions	2 831	5 710
Derivatives net	5 785	0
General and administrative expenses	4 339	4 300

	31.12.2012	31.12.2011
Conditional commitments	933 638	986 570
- granted	105 448	103 210
- obtained	828 190	883 360
Derivatives (par value)	1 740 865	5 361 126

2) Transactions with the Managing and Supervising Persons

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

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

The Group 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 Group’s opinion these transactions are concluded on market terms and conditions.

Information on total exposure towards companies and groups personally related as at 31.12.2012:

Entity	Amount (PLN’000)	Relation
Company No 1	4 268	Personal with a supervising person
Company No 2	423	Personal with a supervising person
Group No 1	95 565	Personal with a supervising person
Group No 2	2 608	Personal with a supervising person

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

	The managing persons	The supervising persons
Total debt limit	1 198.0	165.0
- including an unutilized limit	702.9	143.3
Mortgage loans and credits	3 576.3	-
Active guarantees	-	-

Information on total exposure towards companies and groups personally related as at 31.12.2011:

Entity	Amount (PLN’000)	Relation
Company No 1	5 868	Personal with a supervising person
Company No 2	455	Personal with a supervising person
Company No 3	1 382	Personal with a supervising person
Group No 1	170 611	Personal with a supervising person

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

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

Period	Short term salaries and bonuses	Benefits	TOTAL
2012	19 582.4	1 598.1	21 180.5
2011	18 773.9	1 589.6	20 363.5

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

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

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

Period	Short term salaries and benefits
2012	1 980.1
2011	1 669.2

In 2012, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

XI. FAIR VALUE

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

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

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

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

Receivables and liabilities with respect to banks (structured contract)

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

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

Other receivables and liabilities with respect to banks

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

Loans and advances granted to customers

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

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

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

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

Liabilities to customers

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

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

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. Data in the table illustrates only part related to bond price, option valuation has not been considered.

Subordinated liabilities

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

The table below presents results of the above-described analyses as at 31.12.2012 (data in PLN thousand):

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	40 232 240	38 686 940

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 491 745	2 549 452
Amounts due to customers	29	41 434 077	41 445 995
Debt securities	31	900 016	910 707
Subordinated debt	35	613 610	607 159

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

The table below presents data as at 31 December 2011 (data in PLN thousand):

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	2 660 374	2 700 032
Loans and advances to customers	18	41 332 337	40 338 424

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 084 456	2 142 727
Amounts due to customers	29	35 395 147	35 394 421
Debt securities	31	1 141 007	1 129 520
Subordinated debt	35	911 988	906 290

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

Data in '000PLN, as at 31.12.2012

	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			520 540	76 520
- debt securities		46 791		
- shares and interests		138		
Hedging derivatives	17		277 812	
Financial assets available for sale	19			
- debt securities		3 037 728	3 598 724	113 578
- shares and interests				1 074
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities			389 792	77 781
Hedging derivatives	28		1 115 202	

Data in ‘000PLN, as at 31.12.2011

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			339 529	59 725
- debt securities		316 250		
- shares and interests		1 966		
Hedging derivatives	17		130 636	
Financial assets available for sale	19			
- debt securities		1 927 780	1 099 887	104 840
- shares and interests				1 088
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities			518 212	56 003
Hedging derivatives	28		2 298 099	

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

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 1 January 2012	46 778	(43 108)	52	104 840	1 088
Settlement/sell/purchase	14 929	(20 105)	(52)	7 813	(10)
Change of valuation recognized in P&L account (including interests)	1 672	(1 427)	0	925	(4)
Balance on 31 December 2012	63 379	(64 640)	0	113 578	1 074

XII. CONDITIONAL LIABILITIES AND ASSETS

The total value of lawsuits as at 31 December 2012, in which Group companies acted as claimants or defendants before courts and arbitration bodies, was PLN 548.3 million. The total value of lawsuits, in which Group companies acted as defendants was PLN 342.2 million and the total value of lawsuits, in which Group companies acted as claimants was PLN 206.1 million.

As at 31 December 2012 the volume of provisions created by the Group for contentious claims was PLN 22.3 million.

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

Proceedings connected with derivatives

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

The largest lawsuit connected with derivatives in which Group company is defendant:

Plaintiff: legal person

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

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

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

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

The other largest lawsuit in which Group company is defendants except proceedings connected with derivatives and pproceedings with participation of the Chairman of UOKiK:

Plaintiff: joint stock company in bankruptcy

Value of the subject matter of the dispute: PLN 49,075,504

Object: Ruling ineffectiveness of:

- conditional real estate sale agreement in Świnoujście between a joint stock company seated in Świnoujście and a joint stock company seated in Sopot;
- real estate sale agreement in Świnoujście;
- three operating sale and leaseback agreements dated 18 June 2002.

Case status: The case was closed by a final judgment of the court of second instance in favour of the Millennium Leasing.

The claimant lodged a cassation complaint a copy of which was received by attorney of Millennium Leasing on 27 September 2012. On 11 October 2012, the attorney of Millennium Leasing filed a reply to cassation complaint. At the moment the Group does not have any information about the Supreme Court decision on the acceptance or refusal of the complaint.

According to the Group's estimations, regardless of the verdict issued by the court, there is no need to establish any reserves; the only financial consequences for the Group are limited to incur court fees.

Proceedings with participation of the Chairman of UOKiK:

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

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

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

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

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

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

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

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

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

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

CONSOLIDATED OFF-BALANCE ITEMS

	31.12.2012	31.12.2011
Off-balance conditional commitments granted and received	**7 821 938**	**10 036 027**
Commitments granted:	6 909 179	8 695 495
a) financial	5 610 721	6 641 320
b) guarantee	1 298 458	2 054 175
Commitments received:	912 759	1 340 532
a) financial	817 640	883 360
b) guarantee	95 119	457 172

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 is presented in the table below:

Customer – sector, amount in PLN million	31.12.2012	31.12.2011
financial sector	95.1	69.6
non-financial sector (companies)	1 189.4	1 958.1
public sector	9.5	25.5
private individuals	4.4	1.0
Total	1 298.4	2 054.2

Guarantees, sureties and avals granted to Clients

Liabilities granted – guarantee in PLN million	31.12.2012	31.12.2011
Active guarantees, sureties and avals	917.5	1 238.2
Sureties for loans granted through EFRWP*	1.7	2.8
Lines for guarantees and sureties	395.7	829.2
Total gross	1 314.9	2 070.2
Impairment write offs	(16.5)	(16.0)
Total net	**1 298.4**	**2 054.2**

* European Development Fund of the Polish countryside

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

By currency	31.12.2012	31.12.2011
PLN	759 960	1 113 635
Other currencies	157 538	124 578
Total:	917 498	1 238 213

By type of commitment	31.12.2012		31.12.2011	
	Number	Amount	Number	Amount in
Aval	0	0	1	1 050
Guarantee	2 779	904 186	2 739	1 226 813
Surety	2	79	2	86
Re-guarantee	38	13 233	8	10 264
Total:	2 819	917 498	2 750	1 238 213

By object of the commitment	31.12.2012			31.12.2011		
	Number	% share	Amount in	Number	% share	Amount in
good performance of contract	2 006	71.16%	619 094	1 936	70.40%	809 888
rent payment	251	8.90%	37 652	238	8.65%	39 810
punctual payment for goods or services	222	7.88%	110 514	229	8.33%	120 557
bid bond	247	8.76%	68 602	223	8.11%	48 268
other	24	0.85%	5 779	56	2.04%	10 250
advance return	40	1.42%	60 619	49	1.78%	196 600
customs	23	0.82%	10 898	17	0.62%	11 665
payment of bank loan	6	0.21%	4 340	2	0.07%	1 175
Total:	2 819	100.00%	917 498	2 750	100.00%	1 238 213

XIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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

1) INTEREST INCOME

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Interest income and other of similar nature, including:		
Balances with the Central Bank	61 429	52 367
Loans and advances to banks	10 183	20 046
Loans and advances to customers	2 038 076	1 837 411
Transactions with repurchase agreement	12 008	11 067
Hedging derivatives	684 714	589 218
Financial assets held for trading (debt securities)	17 557	21 561
Investment securities	296 418	188 250
Total	3 120 385	2 719 920

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

Interest income for the year 2012 contains interest accrued on impaired loans in the amount of PLN 105,303 thous. (for corresponding data in the year 2011 the amount of such interest stood at PLN 119,339 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

2) INTEREST EXPENSE

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Interest expense and other of similar nature, including:		
Banking deposits	(17 227)	(8 835)
Loans and advances from banks	(60 400)	(74 679)
Transactions with repurchase agreement	(58 445)	(57 545)
Deposits from customers	(1 767 244)	(1 359 184)
Subordinated debt	(17 880)	(31 593)
Debt securities	(36 877)	(44 607)
Other	(1 128)	(1 586)
Total	(1 959 202)	(1 578 029)

3) Fee and commission income

3a. Fee and commission income

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Resulting from accounts service	92 852	111 228
Resulting from money transfers, cash payments and withdrawals and other payment transactions	39 650	42 832
Resulting from granted credits and loans	68 293	63 518
Resulting from guarantees and sureties granted	16 934	18 604
Resulting from payment and credit cards	210 597	187 456
Resulting from sale of insurance products	73 059	71 063
Resulting from distribution of investment funds units and other savings products	52 210	39 796
Resulting from brokerage and custody service	18 852	31 749
Resulting from investment funds managed by the Group	68 681	69 680
Other	14 538	11 003
Total	655 666	646 930

3b. Fee and commission expense

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Resulting from accounts service	(1 832)	(1 635)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(1 437)	(3 178)
Resulting from granted credits and loans	(16 525)	(18 493)
Resulting from payment and credit cards	(76 384)	(43 153)
Resulting from brokerage and custody service	(4 136)	(6 000)
Resulting from investment funds managed by the Group	(3 806)	(3 214)
Other	(5 509)	(9 504)
Total	(109 629)	(85 177)

4) Dividend income

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Securities valued at fair value through profit and loss (held for trading)	1	6
Investment securities	4 012	1 948
Total	4 013	1 954

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

5) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

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

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

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Operations on securities	4 222	(12 112)
Operations on derivatives	53 487	88 737
Fair value hedge accounting operations, including:	(337)	(427)
- result from hedging derivatives	(7 896)	(4 451)
- result from items subjected to hedging	7 559	4 024
Foreign exchange result	159 879	113 685
Costs of financial operations	(2 790)	(2 152)
Total	**214 461**	**187 731**

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

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

6) OTHER OPERATING INCOME

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Profit on sale and liquidation of property, plant and equipment, intangible assets	19 951	9 434
Profit on sale of non current assets held for sale	126	139
Indemnifications, penalties and fines received	12 361	9 714
Income from sale of other services	1 423	550
Income from collection service	1 611	1 400
Income from leasing business	3 384	5 200
Other	18 239	22 721
Total	57 096	49 156

7) General and administrative expenses

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Staff costs:	(558 278)	(540 171)
Salaries (including bonuses)	(467 736)	(456 639)
Social security contributions	(73 435)	(63 730)
Employee benefits, including:	(17 107)	(19 802)
- provisions for retirement benefits	(1 567)	(1 491)
- provisions for unused employee holiday	(1 055)	(3 941)
- other	(14 485)	(14 370)
General administrative costs	(506 980)	(519 075)
Costs of advertising, promotion and representation	(41 392)	(52 225)
Costs of software maintenance and IT services	(22 428)	(21 214)
Costs of renting	(187 198)	(184 316)
Costs of buildings maintenance, equipment and materials	(25 253)	(26 504)
ATM and cash costs	(21 791)	(20 671)
Costs of communications and IT	(58 303)	(66 144)
Costs of consultancy, audit and legal advisory and translation	(16 929)	(17 564)
Taxes and fees	(19 390)	(18 793)
KIR costs	(3 362)	(2 999)
PFRON costs	(5 793)	(6 030)
BFG costs	(34 450)	(30 766)
Financial Supervision costs	(4 458)	(4 753)
Other	(66 231)	(67 095)
Total	**(1 065 258)**	**(1 059 246)**

8) Impairment losses on financial assets

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Impairment losses on loans and advances to customers	(237 804)	(166 315)
- Impairment charges on loans and advances to customers	(671 795)	(599 103)
- Reversal of impairment charges on loans and advances to customers	408 005	419 043
- Amounts recovered from loans written off	1 837	4 053
- Result on sale of receivables	24 149	9 692
Impairment losses on investments securities	0	0
- Impairment charges on investments securities	0	0
Impairment losses on off-balance sheet liabilities	(238)	(7 998)
- Impairment charges on off-balance sheet liabilities	(17 149)	(17 226)
- Reversal of impairment charges on off-balance sheet liabilities	16 911	9 228
Total	**(238 042)**	**(174 313)**

9) Impairment losses on non-financial assets

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Fixed assets	46	(62)
Other assets	(224)	598
Total	(179)	536

10) Depreciation and amortization

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Property, plant and equipment	(45 857)	(55 894)
Intangible assets	(9 531)	(8 939)
Total	(55 388)	(64 833)

11) Other operating expense

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Loss on sale and liquidation of property, plant and equipment, intangible assets	(9 271)	(7 663)
Loss on sale of non current assets held for sale	(49)	(225)
Indemnifications, penalties and fines paid	(2 348)	(3 861)
Provisions for contentious claims	(10 462)	(11 468)
Costs of leasing business	(10 234)	(9 364)
Donations made	(370)	(330)
Costs of collection service	(18 432)	(19 579)
Costs of payments to compensation system	(304)	(387)
Other	(4 059)	(8 882)
Total	(55 528)	(61 760)

12) INCOME TAX

12a. Income tax reported in income statement

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Current tax	(144 749)	(127 584)
Current year	(147 019)	(127 584)
Adjustment of previous years	2 270	0
Deferred tax	20 977	3 009
Appearance and reversal of temporary differences	19 941	5 977
Appearance and utilisation of tax loss	1 036	(2 968)
Adjustment resulted from Article 38a of CIT	(2)	(16)
Total income tax reported in income statement	(123 773)	(124 592)

12b. Effective tax rate

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Gross profit / (loss)	595 954	591 056
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(113 231)	(112 300)
Impact of permanent differences on tax charges:	**(12 811)**	**(12 275)**
- Non taxable income	1 288	2 145
Dividend income	362	477
Release of other provision	431	0
Other	495	1 668
- Cost which is not a tax cost	(14 099)	(14 420)
Loss on sale of receivables	(4 099)	(3 789)
PFRON fee	(1 101)	(1 145)
Receivables written off	(1 695)	(971)
Costs of litigations	(1 330)	(2 116)
Depreciation and insurance costs of cars (in excess of EUR 20,000)	(1 133)	(1 111)
Other	(4 741)	(5 288)
Amendments in declaration CIT 8 for previous years	2 270	0
Adjustment resulted from Article 38a of CIT	(2)	(16)
Total income tax reported in income statement	**(123 773)**	**(124 592)**

12c. Deferred tax reported directly in equity

	31.12.2012	31.12.2011
Valuation of available for sale securities	(8 147)	652
Valuation of cash flow hedging instruments	39 671	(24 077)
Deferred tax reported directly in equity	31 524	(23 425)

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

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

Tax Inspection Office control procedures

Millennium Leasing Sp. z o.o. tax control

As a result of findings of the tax inspection carried out in 2011 in Millennium Leasing Sp. z o.o. the correctness of income tax settlements for 2006 has been challenged in the total amount of PLN 11.4 million, including namely; PLN 4.8 million due to underestimation of tax liability for the period 1.01 - 31.08.2006 and PLN 6.6 million due to an overestimation of tax loss for the period 1.09 - 31.12.2006. Company paid the tax arrears of PLN 16.7 million. Of that amount the Tax Office returned PLN 9.8 million to the Company until completion of proceedings. The Company did not agree with the decision and appealed to the Administrative Court. In Q2'2012 the Company created a provision of PLN 2.95 million to cover potential tax liabilities. 13 November 2012, the Regional Administrative Court ruling upheld the application of the company and annulled the contested decisions about tax period 01.01.-31.08.2006. Tax Authority has the right to bring an appeal against aforementioned judgment. As at 31 December 2012, the Board continues to support its view of the accuracy of tax settlement for 2006 keeping the balance of the provisions at the same level.

Bank Millennium S.A. tax control procedures

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

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

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

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

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

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

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

13) Earnings per share

Earnings per share (PLN)

	01.01.2012 – 31.12.2012	01.01.2011 – 31.12.2011
Earnings after taxes	472 181	466 464
Weighted average number of shares in the period	1 213 116 777	1 213 116 777
Earnings per share	0,39	0,38

Earnings per share has been calculated by dividing net profit for the period by the weighted average number of shares. At the same time due to the nature of the issue it was not necessary to make a separate calculation of diluted Earnings Per Share (the calculation methodology in case of absence of diluting instruments is the same as in case of Earnings Per Share; in result diluted Earnings Per Share equals baseline Earnings Per Share).

14) Cash, balances with the central bank

14a. Cash, balances with the central bank

	31.12.2012	31.12.2011
Cash	664 891	631 372
Cash in Central Bank	1 800 709	1 386 138
Other funds	278	288
Total	2 465 879	2 017 798

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

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

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

	31.12.2012	31.12.2011
in Polish currency	1 991 304	1 764 605
in foreign currencies (after conversion to PLN)	474 575	253 193
- currency: USD	39 006	38 319
- currency: EUR	327 074	117 961
- currency: CHF	26 390	34 155
- currency: GBP	34 239	26 410
- other currencies	47 866	36 348
Total	**2 465 879**	**2 017 798**

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

15a. Loans and advances to banks

	31.12.2012	31.12.2011
Current accounts	211 004	141 933
Deposits in other banks	741 452	2 112 215
Loans	435 657	402 152
Other	0	5
Interest	4 311	4 069
Total (gross) loans and advances to banks	1 392 424	2 660 374
Impairment write-offs	0	0
Net loans and advances to banks	**1 392 424**	**2 660 374**

15b. Loans and advances to banks by maturity date

	31.12.2012	31.12.2011
Current accounts	211 004	141 933
to 1 month	741 452	2 112 220
above 1 month to 3 months	0	0
above 3 months to 1 year	0	0
above 1 year to 5 years	435 657	402 152
above 5 years	0	0
past due	0	0
Interest	4 311	4 069
Total (gross) loans and advances to banks	1 392 424	2 660 374

15c. Loans and advances to banks by currency

	31.12.2012	31.12.2011
in Polish currency	452 182	671 370
in foreign currencies (after conversion to PLN)	940 242	1 989 004
- currency: USD	115 776	35 920
- currency: EUR	739 760	1 848 010
- currency: CHF	22 828	19 534
- currency: JPY	20 657	14 973
- currency: GBP	16 187	21 120
- other currencies	25 034	49 448
Total	**1 392 424**	**2 660 374**

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

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

16) Financial assets measured at fair value through the Profit and Loss Account (held for trading) and adjustment from fair value hedge

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

	31.12.2012	31.12.2011
Debt securities	**46 791**	**316 250**
Issued by State Treasury	46 791	316 250
a) bills	436	0
b) bonds	46 355	316 250
Equity instruments	138	1 996
Quoted on the active market	138	1 996
a) financial institutions	0	0
b) non-financial institutions	138	1 996
Adjustment from fair value hedge	18 414	12 325
Positive valuation of derivatives	597 060	399 254
Total	**662 404**	**729 825**

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

	31.12.2012	31.12.2011
Trading financial assets	643 989	717 500
Adjustment from fair value hedge	18 414	12 325
Financial assets valued at fair value when initially recognized	0	0
Total	662 404	729 825

Information on financial assets securing liabilities is presented in Chapter XIV.3).

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

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

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

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

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

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	318 246	981 291
Increases (purchase and accrual of interest and discount)	46 344 982	142 995 740
Reductions (sale and redemption)	(46 616 813)	(143 659 645)
Differences from valuation at fair value	514	860
Balance at the end of the period	46 929	318 246

Nota 16 f / Nota 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	14 894 030	10 709 220	85 712	439 378	353 666
Forward Rate Agreements (FRA)	1 800 000	3 800 000	0	(1 733)	4 101	5 834
Interest rate swaps (IRS)	3 424 475	11 055 974	10 602 237	89 075	434 244	345 169
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 *	8 363 571	8 401 420	467 352	45 036	81 162	36 126
FX contracts	894 160	437 792	185 403	3 848	13 468	9 620
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	**14 207 272**	**25 782 062**	**11 786 200**	**129 487**	**597 060**	**467 573**
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

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

	Par value of instruments with future maturity				Fair values	
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	5 828 492	8 221 506	8 681 383	2 039	256 334	254 295
Forward Rate Agreements (FRA)	1 600 000	700 000	0	658	780	122
Interest rate swaps (IRS)	4 228 492	7 491 169	8 605 731	7 725	255 073	247 347
Other interest rate contracts: option, volatility swap, swap with FX option	0	30 337	75 652	(6 345)	481	6 826
2. FX derivatives *	13 351 827	730 658	1 460 995	(172 581)	82 086	254 666
FX contracts	1 689 413	351 370	134 005	(759)	12 474	13 234
FX swaps	11 240 550	372 357	0	(151 902)	65 426	217 329
Other FX contracts (CIRS)	421 865	0	1 326 990	(19 919)	4 133	24 052
FX options	0	6 931	0	0	52	52
3. Embedded instruments	227 928	649 041	583 712	(43 108)	0	43 108
Options embedded in deposits	219 720	590 841	242 265	(24 163)	0	24 163
Options embedded in securities issued	8 208	58 200	341 447	(18 945)	0	18 945
4. Indexes options	276 853	697 991	586 012	47 939	60 834	12 896
Valuation of derivatives, TOTAL	**19 685 100**	**10 299 196**	**11 312 102**	**(165 711)**	**399 254**	**564 965**
Valuation of balance-sheet items resulting from fair value hedge					12 325	
Liabilities from short sale of securities						9 250

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

17) DERIVATIVE HEDGING INSTRUMENTS

The Group uses the following types of hedge accounting:

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

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

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

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

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

Other types of hedge accounting the Group applies are:

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

During 2012 the Group ceased the use of two of hedging relationships:
- Fair value hedge portfolio of long-term consumer loans,
- Hedging the variability of cash flows generated by the portfolio of floating rate mortgages denominated in foreign currencies.

17a / 28. Hedge accounting

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

(*) Adjustment is presented for active hedge relationships

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

17b. Hedge accounting for cash flows

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

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

18) Loans and advances to customers

18a. Loans and advances to customers

	31.12.2012	31.12.2011
Loans and advances	36 843 032	37 984 890
- to companies	6 159 590	6 438 670
- to private individuals	29 869 616	30 699 165
- to public sector	813 826	847 055
Receivables on account of payment cards	777 919	822 652
- due from companies	38 110	29 066
- due from private individuals	739 809	793 586
Purchased receivables	146 214	69 426
- from companies	130 859	7 055
- from public sector	15 355	62 371
Guarantees and sureties realised	35 005	234
Debt securities eligible for rediscount at Central Bank	13 235	17 573
Financial leasing receivables	3 367 716	3 397 143
Other	2 288	1 509
Interest	284 417	256 279
Total gross	**41 469 827**	**42 549 706**
Impairment write-offs	(1 237 586)	(1 217 369)
Total net	**40 232 240**	**41 332 337**

18b. Quality of loans and advances to customers portfolio

	31.12.2012	31.12.2011
Loans and advances to customers (gross)	41 469 826	42 549 706
- impaired	2 110 563	2 104 134
- not impaired	39 359 263	40 445 572
Impairment write-offs	(1 237 586)	(1 217 369)
- for impaired exposures	(1 045 565)	(1 028 290)
- for incurred but not reported losses (IBNR)	(192 021)	(189 079)
Loans and advances to customers (net)	**40 232 240**	**41 332 337**

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

	31.12.2012	31.12.2011
Loans and advances to customers (gross)	41 469 826	42 549 706
- case by case analysis	1 125 031	1 134 557
- collective analysis	40 344 795	41 415 149
Impairment write-offs	(1 237 586)	(1 217 369)
- on the basis of case by case analysis	(470 393)	(440 667)
- on the basis of collective analysis	(767 193)	(776 702)
Loans and advances to customers (net)	**40 232 240**	**41 332 337**

18d. Loans and advances to customers portfolio by customers

	31.12.2012	31.12.2011
Loans and advances to customers (gross)	41 469 826	42 549 706
- corporate customers	10 665 421	10 892 513
- private individuals	30 804 405	31 657 193
Impairment write-offs	(1 237 586)	(1 217 369)
- for receivables from corporate customers	(659 478)	(628 028)
- for receivables from private individuals	(578 108)	(589 341)
Loans and advances to customers (net)	**40 232 240**	**41 332 337**

18e. Loans and advances to customers by maturity

	31.12.2012	31.12.2011
Current accounts	2 385 812	2 399 137
to 1 month	492 116	540 239
above 1 month to 3 months	1 179 947	958 140
above 3 months to 1 year	3 365 337	3 414 444
above 1 year to 5 years	9 801 824	10 177 778
above 5 years	23 083 177	24 007 869
past due	877 195	795 820
Interest	284 417	256 279
Total gross	41 469 826	42 549 706

18f. Loans and advances to customers by currency

	31.12.2012	31.12.2011
in Polish currency	20 728 689	18 992 568
in foreign currencies (after conversion to PLN)	20 741 137	23 557 138
- currency: USD	317 980	386 029
- currency: EUR	1 086 917	1 124 153
- currency: CHF	19 276 623	21 853 990
- currency: JPY	59 346	192 775
- other currencies	271	191
Total gross	**41 469 826**	**42 549 706**

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

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	1 217 369	1 187 286
Change in value of provisions:	20 217	30 082
Impairment write-offs created in the period	671 795	599 103
Amounts written off	(158 742)	(114 239)
Impairment write-offs released in the period	(408 005)	(419 043)
Sale of receivables	(70 545)	(61 657)
Changes resulting from FX rates differences	(15 407)	25 638
Other	1 121	280
Balance at the end of the period	**1 237 586**	**1 217 369**

18h. Financial leasing receivables

	31.12.2012	31.12.2011
Financial leasing receivables (gross)	3 826 536	3 865 032
Unrealised financial income	(458 820)	(467 889)
Financial leasing receivables (net)	3 367 716	3 397 143
Financial leasing receivables (gross) by maturity		
Under 1 year	1 480 379	1 557 173
From 1 year to 5 years	1 925 618	1 951 425
Above 5 years	420 539	356 434
Total	3 826 536	3 865 032
Financial leasing receivables (net) by maturity		
Under 1 year	1 311 467	1 378 756
From 1 year to 5 years	1 671 871	1 698 742
Above 5 years	384 378	319 645
Total	3 367 716	3 397 143

19) Investment financial assets

19a. Investment financial assets available for sale

	31.12.2012	31.12.2011
Debt securities	**6 749 758**	**3 132 507**
Issued by State Treasury	3 037 456	1 927 780
a) bills	0	0
b) bonds	3 037 456	1 927 780
Issued by Central Bank	3 598 724	1 099 887
a) bills	3 598 724	1 099 887
b) bonds	0	0
Other securities	113 578	104 840
a) listed	0	0
b) not listed	113 578	104 840
Shares and interests in other entities	1 346	1 088
Total financial assets available for sale	**6 751 104**	**3 133 585**
Available for sale instruments listed on the stock exchange	3 037 749	1 927 780
Available for sale instruments not listed on the stock exchange	3 713 355	1 205 805

19b. Debt securities available for sale

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

19c. Debt securities available for sale by maturity

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

19d. Change of investment financial assets available for sale

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	3 133 585	4 508 428
Increases (purchase and accrual of interest and discount)	181 255 403	80 717 860
Reductions (sale and redemption)	(177 684 199)	(82 076 922)
Difference from measurement at fair value	46 309	(15 781)
Impairment write-offs	0	0
Other	6	0
Balance at the end of the period	6 751 104	3 133 585

19e. Investments in associates

	31.12.2012	31.12.2011
Investments in associates	13 352	11 155

19f. Change of investments in associates

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	11 155	12 000
- equity method valuation	2 197	(845)
Balance at the end of the period	13 352	11 155

20) Receivables from securities bought with sell-back clause

Receivables from securities bought with sell-back clause

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

21) Property, plant and equipment

21a. Property, plant and equipment

	31.12.2012	31.12.2011
Fixed assets:	171 210	193 364
- land	1 300	1 285
- buildings, premises, civil and hydro-engineering structures	93 281	107 349
- machines and equipment	47 060	49 591
- vehicles	22 520	21 860
- other fixed assets	7 049	13 279
Fixed assets under construction	13 432	18 983
Total	184 642	212 347

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 285	353 790	238 493	33 292	98 440	18 983	744 283
b) increases (on account of)	15	5 438	12 365	7 227	2 717	13 864	41 626
- purchase	0	0	304	7 227	3	7 647	15 181
- transfer from fixed assets under construction	15	4 634	11 807	0	2 714	0	19 170
- investment provisions	0	0	0	0	0	5 844	5 844
- other	0	804	254	0	0	373	1 431
c) reductions (on account of)	0	11 393	38 810	8 251	1 776	19 415	79 643
- sale	0	9 545	917	8 099	106	0	18 667
- liquidation	0	1 550	37 838	0	605	0	39 993
- settlement of fixed assets under construction	0	0	0	0	0	19 214	19 214
- other	0	297	55	152	1 065	201	1 769
d) gross value of property, plant and equipment at the end of the period	**1 300**	**347 836**	**212 049**	**32 268**	**99 381**	**13 433**	**706 266**
e) cumulated depreciation (amortization) at the beginning of the period	0	222 947	188 902	11 432	83 785	0	507 066
f) depreciation over the period (on account of)	0	12 439	(23 914)	(1 685)	7 172	0	(5 988)
- current write-off (P&L)	0	18 615	14 674	3 647	8 921	0	45 856
- reductions on account of sale	0	(4 584)	(879)	(5 241)	(97)	0	(10 801)
- reductions on account of liquidation	0	(1 351)	(37 679)	0	(587)	0	(39 617)
- other	0	(241)	(30)	(90)	(1 065)	0	(1 426)
g) cumulated depreciation (amortization) at the end of the period	**0**	**235 386**	**164 988**	**9 747**	**90 957**	**0**	**501 078**
h) impairment write-offs at the beginning of the period	0	23 494	0	0	1 376	0	24 870
- 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**	**19 169**	**0**	**0**	**1 376**	**0**	**20 545**
j) net value of property, plant and equipment at the end of the period	**1 300**	**93 281**	**47 060**	**22 520**	**7 049**	**13 433**	**184 642**

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	**1 856**	**355 352**	**290 717**	**32 456**	**111 917**	**8 452**	**800 750**
b) increases (on account of)	**14**	**3 335**	**6 380**	**10 898**	**529**	**20 563**	**41 718**
- purchase	0	0	651	10 898	0	17 416	28 965
- transfer from fixed assets under construction	0	3 335	5 729	0	529	0	9 593
- investment provisions	0	0	0	0	0	3 146	3 146
- other	14	0	0	0	0	0	14
c) reductions (on account of)	**585**	**4 897**	**58 604**	**10 062**	**14 006**	**10 031**	**98 185**
- sale	66	553	2 990	9 886	450	0	13 945
- liquidation	0	117	48 722	0	2 751	0	51 590
- settlement of fixed assets under construction	0	0	0	0	0	9 593	9 593
- settlement of physical inventory	519	3 233	6 665	176	6 985	0	17 578
- other	0	994	227	0	3 820	439	5 479
d) gross value of property, plant and equipment at the end of the period	**1 285**	**353 790**	**238 493**	**33 292**	**98 440**	**18 983**	**744 284**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	207 116	227 731	14 787	82 047	0	531 681
f) depreciation over the period (on account of)	**0**	15 831	(38 829)	(3 355)	1 738	0	(24 614)
- current write-off (P&L)	0	20 297	19 214	4 390	11 993	0	55 894
- reductions on account of sale	0	(472)	(2 948)	(7 569)	(437)	0	(11 425)
- reductions on account of liquidation	0	(117)	(48 447)	0	(2 737)	0	(51 301)
- settlement of physical inventory	0	(3 065)	(6 460)	(176)	(6 967)	0	(16 668)
- other	0	(812)	(188)	0	(114)	0	(1 114)
g) cumulated depreciation (amortization) at the end of the period	**0**	**222 947**	**188 902**	**11 432**	**83 785**	**0**	**507 067**
h) impairment write-offs at the beginning of the period	500	23 905	0	0	2 612	0	**27 017**
- increase	0	0	0	0	0	0	0
- reduction	500	411	0	0	1 236	0	2 147
i) impairment write-offs at the end of the period	**0**	**23 494**	**0**	**0**	**1 376**	**0**	**24 870**
j) net value of property, plant and equipment at the end of the period	**1 285**	**107 349**	**49 591**	**21 860**	**13 279**	**18 983**	**212 347**

22) Intangible assets

22a. Intangible assets

	31.12.2012	31.12.2011
- concessions, patents, licenses, know-how and similar assets, including:	43 592	32 262
- computer software	43 592	32 262
- other intangible assets	97	0
- advances for intangible assets	5	5
Total intangible assets	43 694	32 267

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

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:	computer software	other intangible assets	advances for intangible assets	TOTAL
a) gross value of intangible assets at the beginning of the period	23	429 327	219 207	4	5	429 359
b) increases (on account of)	0	21 174	21 174	97	169	21 440
- purchase	0	1 952	1 952	97	0	2 049
- provision	0	9 160	9 160	0	0	9 160
- expenditures on intangible assets	0	9 846	9 846	0	35	9 881
- transfer from investments and advances	0	169	169	0	0	169
- other	0	46	46	0	134	180
c) reductions (on account of)	0	318	318	0	169	488
- liquidation	0	14	14	0	0	14
- settlement of intangible assets under construction	0	0	0	0	169	169
- other	0	304	304	0	0	304
d) gross value of intangible assets at the end of the period	**23**	**450 182**	**240 062**	**101**	**5**	**450 311**
e) cumulated depreciation (amortization) at the beginning of the period	23	393 077	182 957	4	0	393 104
f) depreciation over the period (on account of)	0	9 525	9 525	0	0	9 525
- current write-off (P&L)	0	9 531	9 531	0	0	9 531
- liquidation	0	(6)	(6)	0	0	(6)
g) cumulated depreciation (amortization) at the end of the period	**23**	**402 602**	**192 482**	**4**	**0**	**402 629**
h) impairment write-offs at the beginning of the period	0	3 988	3 988	0	0	3 988
i) impairment write-offs at the end of the period	0	3 988	3 988	0	0	3 988
j) net value of intangible assets at the end of the period	**0**	**43 592**	**43 592**	**97**	**5**	**43 694**

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

	costs of completed development work	concessions, patents, licenses, know how and similar assets, including:		other intangible assets	advances for intangible assets	TOTAL
			computer software			
a) gross value of intangible assets at the beginning of the period	23	431 609	221 489	4	180	431 817
b) increases (on account of)	0	10 970	10 970	0	0	10 970
- purchase	0	71	71	0	0	71
- provision	0	4 050	4 050	0	0	4 050
- expenditures on intangible assets	0	6 673	6 673	0	0	6 673
- transfer from investments and advances	0	176	176	0	0	176
c) reductions (on account of)	0	13 252	13 252	0	176	13 428
- liquidation	0	13 252	13 252	0	0	13 252
- settlement of intangible assets under construction	0	0	0	0	176	176
d) gross value of intangible assets at the end of the period	**23**	**429 327**	**219 207**	**4**	**5**	429 359
e) cumulated depreciation (amortization) at the beginning of the period	23	397 395	187 275	4	0	397 422
f) depreciation over the period (on account of)	0	(4 318)	(4 318)	0	0	(4 318)
- current write-off (P&L)	0	8 939	8 939	0	0	8 939
- liquidation	0	(13 252)	(13 252)	0	0	(13 252)
- other	0	(5)	(5)	0	0	(5)
g) cumulated depreciation (amortization) at the end of the period	**23**	**393 077**	**182 957**	**4**	**0**	**393 104**
h) impairment write-offs at the beginning of the period	0	3 988	3 988	0	0	3 988
i) impairment write-offs at the end of the period	0	3 988	3 988	0	0	3 988
j) net value of intangible assets at the end of the period	**0**	**32 263**	**32 263**	**0**	**5**	**32 267**

23) NON-CURRENT ASSETS HELD FOR SALE

23a. Change of balance of non current assets held for sale in the period 01.01.2012 – 31.12.2012

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	3 505	29 211	402	142	1 367	34 626
b) impairment write-offs at the beginning of the period	(67)	(132)	(402)	0	(1 312)	(1 913)
c) net value of non current assets held for sale at the beginning of the period	3 438	29 079	0	142	55	32 713
d) change of value in the period, including:	(223)	(7 527)	(369)	0	(1 367)	(9 486)
- sale of non current assets held for sale	(208)	(3 572)	0	0	(14)	(3 794)
e) value at the end of the period	3 282	21 684	33	142	0	25 140
f) change of impairment write-offs in the period, including:	0	46	369	0	1 312	1 726
- sale of non current assets held for sale	0	46	0	0	0	46
g) impairment write-offs at the end of the period	(67)	(86)	(33)	0	0	(187)
h) net value of non current assets held for sale at the end of the period	**3 215**	**21 598**	**0**	**142**	**0**	**24 954**

23b. Change of balance of non current assets held for sale in the period 01.01.2011 – 31.12.2011

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	123	533	402	148	0	1 206
b) impairment write-offs at the beginning of the period	(67)	(132)	(402)	(6)	0	(607)
c) net value of non current assets held for sale at the beginning of the period	56	401	0	142	0	599
d) change of value in the period, including:	3 382	28 678	0	(6)	1 367	33 420
- sale of non current assets held for sale	(178)	(2 279)	0	0	(309)	(2 767)
e) value at the end of the period	3 505	29 211	402	142	1 367	34 626
f) change of impairment write-offs in the period, including:	0	0	0	6	(1 312)	(1 306)
- sale of non current assets held for sale	0	0	0	0	0	0
g) impairment write-offs at the end of the period	(67)	(132)	(402)	0	(1 312)	(1 913)
h) net value of non current assets held for sale at the end of the period	3 438	29 079	0	142	55	32 713

In 2011 the Group qualify as assets held for sale three property seized as a result of the termination of leasing agreements. The property is the land with buildings designated for inventory and service activities. The process of sale of aforementioned property includes intensive actions, aimed at obtaining bid from entities interested in purchasing and ongoing due diligence processes.

24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets

	31.12.2012			31.12.2011		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	67 211	(11 488)	55 723	36 303	(43 468)	(7 165)
Balance sheet valuation of financial instruments	359 735	(354 906)	4 829	704 399	(674 714)	29 685
Unrealised receivables/ liabilities on account of derivatives	87 170	(117 650)	(30 480)	86 083	(112 753)	(26 670)
Interest on deposits and securities to be paid/ received	65 197	(79 150)	(13 953)	52 288	(78 780)	(26 492)
Interest and discount on loans and receivables	98	(24 771)	(24 673)	1 266	(21 230)	(19 964)
Income and cost settled at effective interest rate	2 230	(1 304)	926	5 682	(4 228)	1 454
Provisions for loans presented as temporary differences	105 026	0	105 026	131 992	0	131 992
Employee benefits	12 736	0	12 736	11 688	0	11 688
Provisions for future costs	18 116	0	18 116	15 709	0	15 709
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	39 671	(8 147)	31 524	652	(24 077)	(23 425)
Tax loss deductible in the future	1 165	0	1 165	129	0	129
Other	7 570	(3 303)	4 267	31 873	(4 998)	26 875
Net deferred income tax asset	765 925	(600 719)	165 206	1 078 064	(964 248)	113 816

24b. Change of temporary differences

	31.12.2011	Adjustments for previous years*	Changes to financial result	Changes to equity	31.12.2012
Difference between tax and balance sheet depreciation	(7 165)		62 888		55 723
Balance sheet valuation of financial instruments	29 685		(24 856)		4 829
Unrealised receivables/ liabilities on account of derivatives	(26 670)		(3 810)		(30 480)
Interest on deposits and securities to be paid/ received	(26 492)		12 539		(13 953)
Interest and discount on loans and receivables	(19 964)		(4 709)		(24 673)
Income and cost settled at effective interest rate	1 454		(528)		926
Provisions for loans presented as temporary differences	131 992		(26 966)		105 026
Employee benefits	11 688		1 048		12 736
Provisions for future costs	15 709		2 407		18 116
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(23 425)			54 949	31 524
Tax loss deductible in the future	129		1 036		1 165
Other	26 875	(24 536)	1 928		4 267
Total	113 816	(24 536)	20 977	54 949	165 206

* - reclassification between deferred and current income tax

24c. Change of temporary differences

	31.12.2010	Changes to financial result	Changes to equity	31.12.2011
Difference between tax and balance sheet depreciation	12 663	(19 828)		(7 165)
Balance sheet valuation of financial instruments	25 987	3 698		29 685
Unrealised receivables/ liabilities on account of derivatives	(14 586)	(12 084)		(26 670)
Interest on deposits and securities to be paid/ received	(35 820)	9 328		(26 492)
Interest and discount on loans and receivables	(16 974)	(2 990)		(19 964)
Income and cost settled at effective interest rate	(1 296)	2 749		1 454
Provisions for loans presented as temporary differences	135 004	(3 012)		131 992
Employee benefits	10 725	963		11 688
Provisions for future costs	7 855	7 854		15 709
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	11 788		(35 213)	(23 425)
Tax loss deductible in the future	3 082	(2 953)		129
Other	7 586	19 288		26 875
Total	146 014	3 013	(35 213)	113 816

24d. Change of deferred income tax

	1.01.2012 - 31.12.2012	1.01.2011 - 31.12.2011
Difference between tax and balance sheet depreciation	62 888	(19 828)
Balance sheet valuation of financial instruments	(24 856)	3 698
Unrealised receivables/ liabilities on account of derivatives	(3 810)	(12 084)
Interest on deposits and securities to be paid/ received	12 539	9 328
Interest and discount on loans and receivables	(4 709)	(2 990)
Income and cost settled at effective interest rate	(528)	2 749
Provisions for loans presented as temporary differences	(26 966)	(3 012)
Employee benefits	1 048	963
Provisions for future costs	2 407	7 854
Tax loss deductible in the future	1 036	(2 953)
Other	1 928	19 288
Change of deferred income tax recognized in financial result	20 977	3 013
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	54 949	(35 213)

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

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

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

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

	31.12.2012	31.12.2011
Net deferred income tax assets	165 206	113 816
Net deferred income tax provision	-	-
TOTAL	165 206	113 816

25) Other assets

	31.12.2012	31.12.2011
Expenses to be settled	31 819	28 401
Income to be received	14 746	5 160
Interbank settlements	28 726	13 750
Settlements of financial instruments transactions	63 772	25 865
Receivables from sundry debtors	236 635	95 291
Settlements with the State Treasury	6 692	11 583
Settlements for activities of Millennium Dom Maklerski S.A.	31 544	69 994
Other	88 489	86 586
Total other assets (gross)	502 423	336 630
Provisions	(7 374)	(9 588)
Total other assets (net)	**495 049**	**327 042**

26) Deposits from banks

26a. Deposits from banks

	31.12.2012	31.12.2011
In current account	210 646	146 393
Term deposits	709 997	163 486
Loans and advances received	1 567 995	1 520 012
Interest	3 107	1 687
Total	2 491 745	1 831 577

26b. Deposits from banks by maturity

	31.12.2012	31.12.2011
Current accounts	210 646	146 393
- to 1 month	403 904	162 827
- above 1 month to 3 months	305 851	599
- above 3 months to 1 year	242	41
- above 1 year to 5 years	1 240 121	1 382 208
- above 5 years	327 874	137 822
Interest	3 107	1 687
Total	2 491 745	1 831 577

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

26c. Deposits from banks by currency

	31.12.2012	31.12.2011
in Polish currency	950 949	608 509
in foreign currencies (after conversion to PLN)	1 540 796	1 223 069
- currency: USD	30 045	25 150
- currency: EUR	1 371 677	1 197 919
- currency: CHF	136 298	0
- other currencies	2 776	0
Total	**2 491 745**	**1 831 577**

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

27) Financial liabilities measured at fair value through the Profit and Loss Account (held for trading)

	31.12.2012	31.12.2011
Negative valuation of derivatives	467 573	564 965
Short sale of securities	0	9 250
Financial liabilities valued at fair value through profit and loss	467 573	574 215

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

28) Derivative hedging instruments

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

29) Deposits from customers

29a. Deposits from customers by type structure

	31.12.2012	31.12.2011
Amounts due to private individuals	26 017 955	23 013 040
Balances on current accounts	9 910 438	7 341 102
Term deposits	15 747 647	15 354 993
Other	116 399	124 686
Accrued interest	243 471	192 259
Amounts due to companies	13 189 987	12 893 059
Balances on current accounts	3 449 535	3 069 164
Term deposits	9 439 749	9 549 544
Other	245 143	215 016
Accrued interest	55 561	59 334
Amounts due to public sector	2 226 136	1 521 737
Balances on current accounts	851 063	714 708
Term deposits	1 322 798	770 357
Other	45 858	34 093
Accrued interest	6 417	2 579
Total	**41 434 077**	**37 427 835**

29b. Deposits from customers by maturity

	31.12.2012	31.12.2011
Current accounts	14 211 035	11 124 973
to 1 month	11 987 276	10 514 397
above 1 month to 3 months	7 958 514	10 278 087
above 3 months to 1 year	6 107 200	4 375 014
above 1 year to 5 years	864 052	867 044
above 5 years	552	14 148
Interest	305 449	254 172
Total	41 434 077	37 427 835

29c. Deposits from customers by currency

	31.12.2012	31.12.2011
in Polish currency	38 667 027	35 386 764
in foreign currencies (after conversion to PLN)	2 767 050	2 041 071
- currency: USD	953 510	647 142
- currency: EUR	1 644 339	1 277 447
- currency: GBP	117 067	84 179
- currency: CHF	36 874	26 195
- other currencies	15 260	6 108
Total	**41 434 077**	**37 427 835**

30) Liabilities from securities sold with buy-back clause

	31.12.2012	31.12.2011
a) to the Central Bank	0	0
b) to banks	0	1 099 422
c) to customers	174 370	501 011
d) interest	418	6 195
Total	174 788	1 606 628

31) Liabilities from debt securities

31a. Debt securities

	31.12.2012	31.12.2011
Outstanding bonds and bills	551 264	828 720
Bank Securities	344 374	240 913
Interest	4 378	1 560
Total	900 016	1 071 193

31b. Debt securities by final legal maturity

	31.12.2012	31.12.2011
- to 1 month	21 775	349 383
- above 1 month to 3 months	69 744	47 712
- above 3 months to 1 year	209 895	217 421
- above 1 year to 5 years	594 224	455 117
- above 5 years	0	0
Interest	4 378	1 560
Total	900 016	1 071 193

31c. Change of debt securities

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	1 071 193	1 141 007
Increases, on account of:	1 611 420	2 504 394
- issue of Banking Securities	156 836	196 346
- issue of bonds by the Bank	350 000	6 738
- issue of bonds by subsidiary company	1 095 017	2 290 049
- interest accrual	9 566	11 260
Reductions, on account of:	(1 782 596)	(2 574 208)
- repurchase of bonds in leasing portfolio securitization transaction	(244 325)	(360 311)
- repurchase of bonds by subsidiary company	(1 400 000)	(2 021 050)
- repurchase of Banking Securities	(53 375)	(43 547)
- repurchase of bonds by the Bank	(84 897)	(149 300)
Balance at the end of the period	**900 016**	**1 071 193**

31d. Debt securities by type

Bonds and Banking Securities issued by Bank:

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.

Bonds issued in leasing portfolio securitization process:

As at 31.12.2012	Balance sheet value	Interest rate	Final legal maturity	Market
Orchis Sp. z o.o. - Senior Bond	41 988	4,54%	2016-12-20	-
Orchis Sp. z o.o. - Senior Bond	55 122	4,54%	2016-12-20	-
Orchis Sp. z o.o. - Mezzanine Bond	35 320	6,43%	2016-12-20	-
TOTAL:	132 430			

31e. Debt securities by type

Bonds and Banking Securities issued by Bank:

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

In the case of Bonds and Banking Securities issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date.

As at 31.12.2011	Balance sheet value	Interest rate	Final legal maturity	Market
Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	147 566	5,03%	2016-12-20	-
Orchis Sp. z o.o. - Senior Bond	193 720	5,03%	2016-12-20	-
Orchis Sp. z o.o. - Mezzanine Bond	35 337	6,92%	2016-12-20	-
TOTAL:	376 623			
Bonds issued by subordinated company:				
Millennium Leasing Sp. z o.o. – C5	299 795	4,93%	2012-01-05	-

32) Provisions

32a. Provisions

	31.12.2012	31.12.2011
Provision for off-balance sheet commitments	22 463	22 271
Provision for contentious claims	22 342	13 156
Total	44 805	35 427

32b. Change of provisions

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Provision for off-balance sheet commitments		
Balance at the beginning of the period	22 271	14 273
Charge of provision	17 149	17 226
Release of provision	(16 911)	(9 228)
FX rates differences	(46)	0
Balance at the end of the period	22 463	22 271
Provision for contentious claims		
Balance at the beginning of the period	13 156	7 172
Charge of provision	10 462	11 468
Release of provision	(2 316)	(4 646)
Utilisation of provision	(88)	(837)
Reclassification	1 128	0
Balance at the end of the period	22 342	13 156

33) Provision for deferred income tax

	31.12.2012	31.12.2011
Deferred income tax provision	0	0

34) Other Liabilities

34a. Other liabilities

	31.12.2012	31.12.2011
Short-term	637 676	704 995
Accrued costs - bonuses, salaries	47 967	47 329
Accrued costs - other	103 136	78 405
Interbank settlements	173 211	223 208
Other creditors	121 293	114 850
Liabilities to public sector	19 624	11 905
Deferred income	67 446	60 840
Provisions for unused employee holiday	9 810	9 119
Provisions for retirement benefits	1 043	927
Settlement accounts for activities of Millennium Dom Maklerski S.A.	25 479	59 456
Other	68 667	98 956
Long-term	36 353	37 337
Provisions for retirement benefits	9 308	8 265
Deferred income	0	3 248
Accrued costs	218	0
Other	26 827	25 824
Total	**674 029**	**742 332**

34b. Change of provisions for unused employee holiday

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	9 119	5 580
Charge of provisions/ reversal of provisions	1 055	3 941
Utilisation of provisions/ reclassification of provision	(364)	(402)
Balance at the end of the period	9 810	9 119

34c. Change of provisions for retirement benefits

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Balance at the beginning of the period	9 192	7 915
Charge of provisions/ reversal of provisions	1 567	1 491
Utilisation of provisions/ reclassification of provision	(408)	(214)
Balance at the end of the period	10 351	9 192

35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2012	31.12.2011
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	613 230	662 520
Interest rate	2.318%	3.167%
Maturity	20.12.2017	20.12.2017
Interest	380	708
Balance sheet value of subordinated debt	613 610	663 228

35b. Change of subordinated debt

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

During 2011 and 2012 the Group did not have any delays in the payment of principal and interest instalments, nor it infringed any contractual provisions resulting from its subordinated liabilities.

In December 2011, in accordance with contractual terms, the Group made a repayment of subordinated debt in the amount of EUR 80 million.

36) SHAREHOLDERS' EQUITY

36a. Share capital

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

SHARE CAPITAL Par value of one share = 1 PLN.

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

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

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

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

Shareholders as at 31.12.2012

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

Shareholders as at 31.12.2011

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

36b. Revaluation reserve

Revaluation reserve arises on the recognition of:

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

Revaluation reserve

	31.12.2012	31.12.2011
Effect of valuation (gross)	(165 915)	123 291
Deferred income tax	31 524	(23 425)
Net effect of valuation	(134 391)	99 865

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

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)	652	(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	72 891	(13 849)	59 042
Revaluation reserve at the end of the period	42 880	(8 147)	34 733

Revaluation reserve on available for sale financial assets 1.01.2011 - 31.12.2011

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

Revaluation reserve on cash flows hedge financial instruments 1.01.2012 - 31.12.2012

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

Revaluation reserve on cash flows hedge financial instruments 1.01.2011 - 31.12.2011

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

36c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2012	502 511	819 831	228 902	574 517	2 125 761
appropriation of profit, including:					
- transfer to supplementary capital	466			(466)	0
- transfer to reserve capital		441 254		(441 254)	0
net profit/ (loss) of the period				472 181	472 181
Retained earnings at the end of the period 31.12.2012	502 977	1 261 084	228 902	604 978	2 597 942

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2011	501 786	717 129	88 366	473 329	1 780 609
appropriation of profit, including:					
- transfer to supplementary capital	725			(725)	0
- transfer to reserve capital		243 239		(243 239)	0
- dividend for 2010				(121 312)	(121 312)
net profit/ (loss) of the period				466 464	466 464
reclassification of consolidation amendments		(140 536)	140 536		0
Retained earnings at the end of the period 31.12.2011	502 511	819 831	228 902	574 517	2 125 761

37) Liquidity gap by maturity

31 December 2012 PLN '000

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other	TOTAL
Cash, balances with the Central Bank	2 465 879	0	0	0	0		2 465 879
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
Derivatives and adjustment from fair value hedge	41 495	86 455	203 157	253 349	31 019		615 475
Hedging derivatives	23 932	51 355	131 198	33 287	38 040		277 812
Loans and advances to customers	3 183 849	1 155 027	3 273 629	9 655 591	22 964 144		40 232 240
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						14 836	14 836
Other non-financial assets						929 815	929 815
TOTAL	10 292 009	1 294 101	3 623 595	12 590 255	23 997 888	944 651	52 742 499
LIABILITIES							
Deposits from banks	615 780	307 011	960	1 240 121	327 874		2 491 745
Deposits from customers	26 322 499	8 044 514	6 178 111	888 399	554		41 434 077
Trading derivatives and liabilities from short sale of securities	27 405	43 839	118 841	252 294	25 194		467 573
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	21 907	69 744	214 141	594 224	0		900 016
Subordinated debt	0	0	380	613 230	0		613 610
Other non-financial liabilities						721 318	721 318
Equity						4 824 170	4 824 170
TOTAL	27 244 864	8 523 365	6 523 016	3 861 035	1 044 731	5 545 488	52 742 499
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	(16 952 855)	(7 229 264)	(2 899 421)	8 729 220	22 953 157	(4 600 837)	0
Total Gap	(23 424 450)	(7 229 264)	(2 899 421)	8 729 220	22 953 157	(4 600 837)	(6 471 595)

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

31 December 2011 PLN '000

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other	TOTAL
Cash, balances with the Central Bank	2 017 798	0	0	0	0		2 017 798
Deposits in other banks and loans and advances to banks	2 247 230	0	10 992	402 152	0		2 660 374
Trading debt securities	46 723	0	156 812	103 939	8 776		316 250
Derivatives and adjustment from fair value hedge	36 102	72 790	99 217	158 785	44 685		411 579
Hedging derivatives	0	32 536	28 899	46 094	23 107		130 636
Loans and advances to customers	3 230 404	941 742	3 339 151	9 983 680	23 837 361		41 332 337
Debt securities available for sale	1 118 738	0	884 046	1 084 371	45 351		3 132 507
Receivables from securities bought with sell-back clause	2 209	0	0	0	0		2 209
Shares and interests						14 239	14 239
Other non-financial assets						820 170	820 170
TOTAL	8 699 204	1 047 068	4 519 116	11 779 022	23 959 280	834 409	50 838 099
LIABILITIES							
Deposits from banks	309 298	617	42	1 383 786	137 835		1 831 577
Deposits from customers	21 720 819	10 372 075	4 443 296	877 495	14 150		37 427 835
Trading derivatives and liabilities from short sale of securities	38 840	244 902	94 630	154 062	41 781		574 215
Hedging derivatives	178 083	207 110	482 732	631 004	799 170		2 298 099
Liabilities from securities sold with buy-back clause	1 124 311	482 317	0	0	0		1 606 628
Debt securities, by final legal maturity	308 264	8 187	56 644	698 098	0		1 071 193
Subordinated debt	0	0	708	0	662 520		663 228
Other non-financial liabilities						779 079	779 079
Equity						4 586 245	4 586 245
TOTAL	23 679 614	11 315 209	5 078 052	3 744 444	1 655 456	5 365 325	50 838 099
OFF-BALANCE SHEET LIABILITIES							
Liabilities from opened credit lines	5 758 206						5 758 206
Liabilities from sureties and guarantees	1 289 768						1 289 768
Balance sheet Gap	(14 980 410)	(10 268 141)	(558 936)	8 034 578	22 303 824	(4 530 915)	0
Total Gap	(22 028 384)	(10 268 141)	(558 936)	8 034 578	22 303 824	(4 530 915)	(7 047 974)

XIV. SUPPLEMENTARY INFORMATION

1) 2012 DIVIDEND

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

2) RECLASSIFICATION OF DEBT SECURITIES

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

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

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

Data in PLN ths

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

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

3) Data about assets, which secure liabilities

As at 31 December 2012 following assets of the Bank constituted security of liabilities (PLN'000):

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

As at 31 December 2011 following assets of the Bank constituted security of liabilities (PLN'000):

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

4) Securities covered by transactions with a buy-back clause (SBB)

As at 31 December 2012 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

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

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

As at 31 December 2011 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Par value	Balance sheet value
Treasury bonds	1 635 258	1 606 118
TOTAL	1 635 258	1 606 118

5) Additional explanations to the cash flow statement

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

Data in '000 PLN

	31.12.2012	31.12.2011
Cash and balances with the Central Bank	2 465 879	2 017 798
Receivables from interbank deposits (*)	224 599	459 741
Debt securities issued by the State Treasury (*)	3 603 882	1 165 461
of which available for sale	3 598 725	1 118 739
of which trading	5 157	46 722
Total	**6 294 360**	**3 643 000**

(*) Financial assets with maturity below three months

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

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

Other items' of operating cash flows in 2012 include an adjustment of PLN 18 million (PLN 32 million in 2011) on account of accrual of interest on subordinated loans, the outflow of these funds has been presented in the part concerning cash flows on financial operations. In addition 'other flows' from financing activities includes the payment of interest on loans of PLN 27 million (40 million respectively for the year 2011).

6) Information on custody activity

As of 31.12.2012 the Custody Department maintained 11,048 accounts (representing an increase of 11.48% compared to the year 2011), in which Customers' assets were kept with the total value of PLN 29.9 billion (including assets of the Group's companies in the amount of PLN 34 million). Net revenue from the custody business for 2012 amounted to PLN 6.2 million (including revenues from the Group's companies in the amount of PLN 0.3 million).

The Custody Department serves as a depositary bank for 57 mutual funds including 10 of Millennium TFI S.A..

7) Operating leasing

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

Balance as at:	31.12.2012	31.12.2011
- to 1 year	107 067	80 541
- above 1 year to 5 years	273 713	198 631
- above 5 years	68 254	103 079
TOTAL	449 034	382 251

8) Securitisation

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

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

Entities participating in financing of Orchis are the following:

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

Privileged tranches are subject to depreciation, accordingly repayments of securitised portfolio.

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

9) Share based payments

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

According to the mentioned Policy, Bank's and Group'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 and Group results.

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

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

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

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

On 31 December 2012 the fair value of rights to acquire phantom shares granted in the period until 31 December 2012 to employees who are not members of the Board of the Bank as at 31 December 2012 is PLN 691 thousand and this amount was recognized in the profit and loss account of year 2012 P&L as cost of remunerations.

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

10) 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 group's future financial results.

SIGNATURES:

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