Annual Consolidated Report

of the Bank Millennium S.A. Capital Group

for the period of 12 months

ending 31 December 2011

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2011 to 31.12.2011	period from 1.01.2010 to 31.12.2010	period from 1.01.2011 to 31.12.2011	period from 1.01.2010 to 31.12.2010
I. Interest income	2 719 920	2 359 969	656 970	589 350
II. Fee and commission income	646 930	625 282	156 260	156 150
III. Operating income	1 950 904	1 771 661	471 221	442 433
IV. Operating profit / (loss)	591 288	407 802	142 820	101 840
V. Profit /(loss) before taxes	591 056	407 802	142 764	101 840
VI. Profit /(loss) after taxes	466 464	325 997	112 670	81 411
VII. Total comprehensive income of the period	616 585	264 542	148 930	66 064
VIII. Net cash flows from operating activities	628 972	(91 456)	151 922	(22 839)
IX. Net cash flows from investing activities	1 457 243	(980 657)	351 983	(244 897)
X. Net cash flows from financing activities	(1 702 264)	202 554	(411 165)	50 583
XI. Net cash flows, total	383 951	(869 559)	92 740	(217 153)
XII. Total assets	50 838 099	46 984 418	11 510 166	11 863 853
XIII. Deposits from banks	1 831 577	2 084 456	414 684	526 338
XIV. Deposits from customers	37 427 835	35 395 147	8 473 971	8 937 491
XV. Total equity	4 586 245	4 090 972	1 038 364	1 032 995
XVI. Share capital	1 213 117	1 213 117	274 660	306 319
XVII. Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
XVIII. Book value per share (in PLN/EUR)	3.78	3.37	0.86	0.85
XIX. Diluted book value per share (in PLN/EUR)	3.78	3.37	0.86	0.85
XX. Capital adequacy ratio	13.23%	14.39%	13.23%	14.39%
XXI. Basic earnings (losses) per ordinary share (in PLN/EUR)	0.38	0.28	0.09	0.07
XXII. Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.38	0.28	0.09	0.07
XXIII. 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 4.4168 EUR/PLN rate of 31 December 2011 (for comparable data as of 31 December 2010: 3.9603 EUR/PLN),
- For items from the Profit and Loss Account for the period 1 January – 31 December 2011 – 4.1401 EUR/PLN, rate calculated as the average of rates at end of reporting months (for comparable data on the period 1 January – 31 December 2010: 4.0044 EUR/PLN).

QUARTERLY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT (PLN '000)	1.01.2011 - 31.12.2011	1.10.2011 - 31.12.2011*	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*
I. Interest income	2 719 920	739 973	2 359 969	605 412
II. Interest expense	(1 578 029)	(442 448)	(1 432 482)	(352 436)
III. Net interest income	**1 141 891**	**297 525**	**927 487**	**252 976**
IV. Fee and commission income	646 930	154 285	625 282	160 384
V. Fee and commission expense	(85 177)	(25 488)	(60 358)	(14 894)
VI. Net fee and commission income	**561 753**	**128 797**	**564 924**	**145 490**
VII. Dividend income	1 954	20	2 003	14
VIII. Result on investment financial assets	8 419	5 980	6 445	192
IX. Result on financial instruments valued at fair value through profit and loss and foreign exchange result	187 731	54 568	213 529	71 525
X. Other operating income	49 156	15 427	57 273	16 636
XI. Operating income	**1 950 904**	**502 317**	**1 771 661**	**486 833**
XII. General and administrative expenses	(1 059 246)	(268 736)	(1 007 004)	(265 681)
XIII. Impairment losses on financial assets	(174 313)	(46 571)	(225 225)	(44 548)
XIV. Impairment losses on non-financial assets	536	150	(1 650)	(2 348)
XV. Depreciation and amortization	(64 833)	(14 972)	(74 621)	(17 945)
XVI. Other operating expenses	(61 760)	(13 879)	(55 359)	(14 913)
XVII. Operating expenses	**(1 359 616)**	**(344 008)**	**(1 363 859)**	**(345 435)**
XVIII. Operating profit / (loss)	**591 288**	**158 309**	**407 802**	**141 398**
XIX. Share in net profit of associated companies	(232)	(1 112)	0	0
XX. Profit / (loss) before taxes	**591 056**	**157 197**	**407 802**	**141 398**
XXI. Corporate income tax	(124 592)	(32 128)	(81 805)	(29 292)
XXII. Profit / (loss) after taxes	**466 464**	**125 069**	**325 997**	**112 106**
Attributable to:				
Owners of the parent	**466 464**	**125 069**	**325 997**	**112 106**
Non-controlling interests	0	0	0	0

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME (PLN'000)	1.01.2011 - 31.12.2011	1.10.2011 - 31.12.2011*	1.01.2010 - 31.12.2010	1.10.2010 - 31.12.2010*
PROFIT / (LOSS) AFTER TAXES	**466 464**	**125 069**	**325 997**	**112 106**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME				
I. Effect of valuation of available for sale debt securities	(13 249)	(2 735)	2 182	(2 144)
II. Effect of valuation of available for sale shares	(2 532)	(5 133)	(2 193)	(501)
III. Hedge accounting	201 115	40 814	(75 859)	(50 608)
IV. Other elements of total comprehensive income before taxes	**185 334**	**32 946**	**(75 870)**	**(53 253)**
V. Corporate income tax on other elements of total comprehensive income	(35 213)	(6 260)	14 415	10 118
VI. Other elements of total comprehensive income after taxes	**150 121**	**26 686**	**(61 455)**	**(43 135)**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**616 585**	**151 755**	**264 542**	**68 971**
Attributable to:				
Owners of the parent	616 585	151 755	264 542	68 971
Non-controlling interests	0	0	0	0

*** - quarterly financial information has not been audited**

Annual consolidated financial statement of the Bank Millennium S.A. Capital Group for the period of 12 months ending 31 December 2011

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I. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Interest income	1	2 719 920	2 359 969
Interest expense	2	(1 578 029)	(1 432 482)
Net interest income		**1 141 891**	**927 487**
Fee and commission income		646 930	625 282
Fee and commission expense		(85 177)	(60 358)
Net fee and commission income	3	**561 753**	**564 924**
Dividend income	4	1 954	2 003
Result on investment financial assets	5	8 419	6 445
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	187 731	213 529
Other operating income	6	49 156	57 273
Operating income		**1 950 904**	**1 771 661**
General and administrative expenses	7	(1 059 246)	(1 007 004)
Impairment losses on financial assets	8	(174 313)	(225 225)
Impairment losses on non financial assets	9	536	(1 650)
Depreciation and amortization	10	(64 833)	(74 621)
Other operating expenses	11	(61 760)	(55 359)
Operating expenses		**(1 359 616)**	**(1 363 859)**
Operating profit / (loss)		**591 288**	**407 802**
Share in net profit of associated companies		(232)	0
Profit / (loss) before taxes		**591 056**	**407 802**
Corporate income tax	12	(124 592)	(81 805)
Profit / (loss) after taxes		**466 464**	**325 997**
Attributable to:			
Owners of the parent		466 464	325 997
Non-controlling interests		0	0
Basic earnings per ordinary share (in PLN)	13	**0,38**	**0,28**
Diluted earnings (losses) per ordinary share (in PLN)	13	**0,38**	**0,28**

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME (*Amount '000 PLN*)	**01.01.2011 – 31.12.2011**	**01.01.2010 – 31.12.2010**
PROFIT / (LOSS) AFTER TAXES	**466 464**	**325 997**
OTHER ELEMENTS OF TOTAL COMPREHENSIVE INCOME		
I. Effect of valuation of available for sale debt securities	(13 249)	2 182
II. Effect of valuation of available for sale shares	(2 532)	(2 193)
III. Hedge accounting	201 115	(75 859)
IV. Other elements of total comprehensive income before taxes	**185 334**	**(75 870)**
V. Corporate income tax on other elements of total comprehensive income	(35 213)	14 415
VI. Other elements of total comprehensive income after taxes	**150 121**	**(61 455)**
VII. TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**616 585**	**264 542**
Attributable to:		
Owners of the parent	616 585	264 542
Non-controlling interests	0	0

II. CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2011	31.12.2010
Cash, balances with the Central Bank	14	2 017 798	2 050 736
Loans and advances to banks	15	2 660 374	1 485 810
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	16	729 825	1 429 820
Hedging derivatives	17	130 636	80 231
Loans and advances to customers	18	41 332 337	36 738 493
Investment financial assets	19	3 133 595	4 508 430
- available for sale		3 133 595	4 508 430
- held to maturity		0	0
Investments in associates	19	11 155	12 000
Receivables from securities bought with sell-back clause (loans and advances)	20	2 209	55 085
Property, plant and equipment	21	212 347	242 052
Intangible assets	22	32 267	30 407
Non current assets held for sale	23	32 713	599
Receivables from Tax Office resulting from current tax		101 985	6 176
Deferred income tax assets	24	113 816	146 014
Other assets	25	327 042	198 565
Total Assets		**50 838 099**	**46 984 418**

LIABILITIES

Amount '000 PLN	Note	31.12.2011	31.12.2010
Deposits from banks	26	1 831 577	2 084 456
Financial liabilities valued at fair value through profit and loss (held for trading)	27	574 215	804 331
Hedging derivatives	28	2 298 099	1 315 321
Deposits from customers	29	37 427 835	35 395 147
Liabilities from securities sold with buy-back clause	30	1 606 628	670 691
Debt securities	31	1 071 193	1 141 007
Provisions	32	35 427	21 445
Deferred income tax liabilities	33	0	0
Current tax liabilities		1 320	0
Other liabilities	34	742 332	549 060
Subordinated debt	35	663 228	911 988
Total Liabilities		**46 251 854**	**42 893 446**

EQUITY

Amount '000 PLN	Note		
Share capital	36	1 213 117	1 213 117
Share premium	36	1 147 502	1 147 502
Revaluation reserve	36	99 865	(50 256)
Retained earnings	36	2 125 761	1 780 609
Total equity attributable to owners of the parent		4 586 245	4 090 972
Non-controlling interests		0	0
Total Equity		**4 586 245**	**4 090 972**
Total Liabilities and Equity		**50 838 099**	**46 984 418**

III. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2011	**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**

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2010	**2 787 336**	**849 182**	**472 343**	**11 199**	**1 454 612**
- L-shares issue	1 039 094	363 935	675 159	0	0
- total comprehensive income of 2010	264 542	0	0	(61 455)	325 997
Equity at the end of the period 31.12.2010	**4 090 972**	**1 213 117**	**1 147 502**	**(50 256)**	**1 780 609**

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

IV. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	**01.01.2011 – 31.12.2011**	**01.01.2010 – 31.12.2010**
I. Profit (loss) after taxes	**466 464**	**325 997**
II. Adjustments for:	**162 508**	**(417 453)**
1. Non-controlling interests	0	0
2. Interests in net profit /(loss) of associated companies	232	0
3. Depreciation and amortization	64 833	74 621
4. Foreign exchange gains /(losses)	227 270	(75 483)
5. Dividends	(1 954)	(2 003)
6. Changes in provisions	13 982	(3 132)
7. Result on sale and liquidation of investing activity assets	(10 103)	14 846
8. Change in financial assets valued at fair value through profit and loss (held for trading)	833 840	1 883 864
9. Change in loans and advances to banks	(845 210)	(989 243)
10. Change in loans and advances to customers	(4 608 475)	(3 193 029)
11. Change in receivables from securities bought with sell-back clause	52 876	153 696
12. Change in liabilities valued at fair value through profit and loss (held for trading)	752 662	1 314 636
13. Change in liabilities to banks	460 635	(1 997 900)
14. Change in deposits from customers	2 032 688	3 836 483
15. Change in liabilities from securities sold with buy-back clause	935 937	(1 671 993)
16. Change in debt securities	290 001	142 103
17. Change in income tax settlements	48 684	81 645
18. Income tax paid	(149 353)	(43 700)
19. Change in other assets and liabilities	26 502	31 670
20. Other	37 461	25 466
III. Net cash flows from operating activities	**628 972**	**(91 456)**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	**01.01.2011 – 31.12.2011**	**01.01.2010 – 31.12.2010**
I. Inflows:	**82 210 811**	**75 234 175**
1. Proceeds from sale of property, plant and equipment and intangible assets	4 493	6 776
2. Proceeds from sale of shares in associates	0	0
3. Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
4. Proceeds from sale of investment financial assets	82 204 364	75 225 396
5. Other	1 954	2 003
II. Outflows:	**(80 753 568)**	**(76 214 832)**
1. Acquisition of property, plant and equipment and intangible assets	(35 709)	(33 187)
2. Acquisition of shares in associates	0	0
3. Acquisition of financial assets valued at fair value through profit and loss	0	0
4. Acquisition of investment financial assets	(80 717 859)	(76 181 645)
5. Other	0	0
III. Net cash flows from investing activities	**1 457 243**	**(980 657)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
I. Inflows:	**0**	**1 366 709**
1. Long-term bank loans	0	327 615
2. Issue of debt securities	0	0
3. Increase in subordinated debt	0	0
4. Net proceeds from issues of shares and additional capital paid-in	0	1 039 094
5. Other	0	0
II. Outflows:	**(1 702 264)**	**(1 164 155)**
1. Repayment of long-term bank loans	(787 520)	(1 051 873)
2. Redemption of debt securities	(359 815)	(25 431)
3. Decrease in subordinated debt	(362 040)	0
4. Issue of shares expenses	0	0
5. Redemption of shares	0	0
6. Dividends paid and other payments to owners	(121 312)	0
7. Other	(71 577)	(86 851)
III. Net cash flows from financing activities	**(1 702 264)**	**202 554**

D. NET CASH FLOWS, TOTAL (A III+B III+C III)	**383 951**	**(869 559)**
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	**3 259 049**	**4 128 608**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	**3 643 000**	**3 259 049**

V. 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 parent company of a Capital Group (the Group) with over 6,300 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 2011

On 30 March 2011 Bank received information on the filing by Mr. Paulo Jose de Ribeiro Moita de Macedo of the resignation from the membership of Supervisory Board of Bank Millennium effective as of 31 March 2011.

Ordinary General Meeting of Shareholders of the Bank on 31 March 2011 elected Mr. António Manuel Palma Ramalho to the membership of the Bank Supervisory Board of the current term of office.

Composition of the Supervisory Board of the Bank Millennium S.A. being parent company for the Group as at 31 December 2011 was as follows:

1. Maciej Bednarkiewicz – Chairman of the Supervisory Board,
2. Ryszard Pospieszyński – Deputy Chairman of the Supervisory Board,
3. Carlos Jorge Ramalho dos Santos Ferreira – Deputy Chairman of the Supervisory Board,
4. Marek Furtek – Secretary of the Supervisory Board,
5. Luis Maria Franca de Castro Pereira Coutinho – Supervisory Board Member,
6. Vitor Manuel Lopes Fernandes – Supervisory Board Member,
7. Andrzej Koźmiński – Supervisory Board Member,
8. António Manuel Palma Ramalho – Supervisory Board Member,
9. Nelson Ricardo Bessa Machado – Supervisory Board Member,
10. Marek Rocki – Supervisory Board Member,
11. Dariusz Rosati – Supervisory Board Member

The Supervisory Board of the Bank, at its meeting on 22 July 2011, accepted the resignation - effective as of 22 July 2011 - of Mr. Antonio Pinto Junior from the function of Member of the Bank's Management Board, for personal reasons. Moreover, the Supervisory Board changed the composition of the Management Board of the current term in office appointing Ms. Maria Jose Campos for the post of Bank's Management Board Member.

Composition of the Management Board of the Bank Millennium S.A. as at 31 December 2011 was as follows:

1. Bogusław Kott – Chairman of the Management Board,
2. Joao Bras Jorge – Deputy Chairman of the Management Board,
3. Fernando Bicho – Member of the Management Board,
4. Julianna Boniuk-Gorzelańczyk – Member of the Management Board,
5. Maria Jose Campos – Member of the Management Board,
6. Andrzej Gliński - Member of the Management Board,
7. Wojciech Haase – Member of the Management Board,
8. Artur Klimczak – Member 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 2011, 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
BBG FINANCE BV	funding companies from the Group	Rotterdam	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).

In September 2011 two entities conducting leasing activities remaining under common control of the Bank were merged (Millennium Leasing Sp. z o.o. - acquiring company and Millennium Lease Sp. z o.o. - acquired company, both units used to be 100% subsidiaries of the Bank). Aforementioned transaction has been accounted based on book values in solo reports and had no effect on consolidated financial statements.

VI. ACCOUNTING POLICY

Compliance Statement

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

This financial report was approved for publication by the Management Board on 28 February 2012.

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

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

Standards and Interpretations endorsed by the European Union that are not yet effective

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IFRS 7 *Financial Instruments: Disclosures* - Transfers of Financial Assets	The Amendments require disclosure of information that enables users of financial statements: • to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and • to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.	The Group does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.	1 July 2011

Standards and interpretations not yet endorsed by the EU

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First – time Adopters*	The Amendments add an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows an entity to measure assets and liabilities held before the functional currency normalization date at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.	The amendment has no impact on the Group's Financial Statements.	1 July 2011
Amendments to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities	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.	The Group does not expect the Amendments to have significant impact on the financial statements since it generally does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.	1 January 2013
IFRS 9 *Financial Instruments (2009)*	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:	It is expected that the new Standard, when initially applied, will have an impact on the financial statements. However, the Group has not yet prepared a complex analysis of the impact.	1 January 2015

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	• 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.		
Additions to IFRS 9 *Financial Instruments (2010)*	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.	It is expected that the new Standard, when initially applied, will have an impact on the financial statements. However, the Group has not yet prepared a complex analysis of the impact.	1 January 2015

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	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.		
Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*	These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 *Financial Instruments* (2009) and IFRS 9 (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.	It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since the classification and the measurement of the Group's financial assets are expected to change and its effect will be required to be disclosed in the Group's financial statements.	1 January 2015
IFRS 10 *Consolidated Financial Statements*" and IAS 27 (2011) *Separate Financial Statements*	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	The Group does not expect the new standard to have any impact on the 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.	1 January 2013

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	an investee when (1) it is exposed or has rights to variable returns from its involvements with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns. The new standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).		
IFRS 11 *Joint Arrangements*	IFRS 11, *Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: - a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. - a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement. IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations, under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.	The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.	1 January 2013

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
IFRS 12 *Disclosure of Interests in Other Entities*	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.	The Group does not expect IFRS 12 to have material impact on the financial statements.	1 January 2013
IFRS 13 *Fair Value Measurement*	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. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. 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.	The Group does not expect IFRS 13 to have material impact on the financial statements since the entity considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.	1 January 2013
Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*	The amendments: • require that an entity presents separately the items of OCI 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 OCI 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	The impact of the application of the amendments will depend on the specific items of other comprehensive income at the date of application.	1 July 2012

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
	also allowed to be used.		
Amendments to IAS 12 *Income taxes - Deferred Tax: Recovery of Underlying Assets*	The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that the carrying value of underlying assets would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.	The amendments are not relevant to the Group's financial statements, since the Group does not have any investment properties measured using the fair value model in IAS 40.	1 January 2012
IAS 19 (2011) *Employee Benefits*	The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates 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 amendment also requires 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.	The amendments are not relevant to the entity's financial statements, since the Group does not have any defined benefit plans.	1 January 2013
IAS 27 (2011) *Separate Financial Statements*	IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.	The Group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in accounting policy.	1 January 2013

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
IAS 28 (2011) *Investments in Associates and Joint Venutres*	There are limited amendments made to IAS 28: • *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.	The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.	1 January 2013
Amendments to IAS 32 Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities	The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: • not contingent on a future event; and • enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The Group does not expect the Amendments to have significant impact on the financial statements since in practice it generally does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.	1 January 2014

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine*	The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets. To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 *Inventories*. Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met: • it is probable that future economic benefits will flow to the entity; • the entity can identify the component of the ore body for which access has been improved; and • the costs relating to the stripping activity associated with that component can be measured reliably. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. The stripping activity asset shall initially be recognised at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part. The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a 'relevant' production measure.	The Group does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.	1 January 2013

Adopted accounting principles

1. **Basis of Financial Statements Preparation**

Consolidated financial statements of the Group prepared for the financial year from 1 January 2011 to 31 December 2011 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.

2. Basis of Consolidation

Purchase method

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any 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:

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

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

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

Associates

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

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

3. Functional currency and presentation currency

Functional currency and presentation currency

The items contained in 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.

4. Financial assets and liabilities

Classification

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

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

  These are financial assets or financial liabilities that are either held for trading (those that acquired or incurred principally for the purpose of selling it in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking). Derivatives are also classified as held for trading, other than those that are designated 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 6: 'Impairment of financial assets'**.

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

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

5. Hedge Accounting and Financial Derivatives

Valuation at fair value

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

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

The Group uses derivative instruments in order to hedge against interest rate risk 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:

1) *FX forward*

   Forward transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of FX forward transactions are recorded in ‘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.

2) *FX SWAP*

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

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

3) *Interest Rate SWAP (IRS)*

   IRS transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of IRS transactions are recorded in ‘Result 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.

4) *Cross – Currency Swap (CCS)*

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

5) *IRS transactions with embedded FX option*

The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method, while the option component is valued with use of the option valuation models. Any changes in fair value of the above transactions are recorded in 'Result 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.

6) *FX options*

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

7) *Forward Rate Agreement (FRA)*

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

8) *Commodity futures*

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

9) Commodity options

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

6. Impairment of financial assets

Assets valued at amortized cost

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

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

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

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

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

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

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

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

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

Financial assets available for sale

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity are removed from equity and recognised in the profit or loss account even though the financial asset has not been derecognised.
The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortizations) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in the profit and loss account for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

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

7. Offsetting of financial instruments

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

8. Transactions with sell/buy-back clauses

Repo and sell-buy back transactions as well as reverse-repo and buy-sell back transactions, are transactions of sale and purchase of securities for which a commitment has been made to repurchase or resell them at a contractual date and for specified contractual price.
The Group presents financial assets sold with the repurchase clauses (repo, sell buy-back) in its balance sheet, by simultaneously recognizing a financial liability resulting from the repurchase clause.
This is in order to reflect the risks and rewards arising on this asset that is retained by the Group after the transfer. When the Group purchases securities with a sell back clause (reverse repo, buy-sell-back), the financial assets are presented as receivables arising from sell back clause.

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

9. Receivables from leasing contracts

The Group is a party to lease contracts, on the basis of which it grants for paid use or benefit of non-current assets or intangible assets for an agreed period of time.
In the case of lease contracts, which result in transferring substantially all risks and rewards incidental to ownership of the asset under lease, the subject of the lease is derecognized. A receivable amount is recognized instead, however, in an amount equal to the present value of minimum lease payments. Lease payments are accounted for (apportioned between the financial income and the reduction of the balance of receivables) to reach constant periodic rate of return from the outstanding receivables.
Lease payments for contracts, which do not fulfil qualifications of a finance lease, are recognized as income in the profit and loss, using the straight-line method, throughout the period of the lease.

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

10. Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets
Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.
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	30.0%
Network devices	30.0%
Vehicles	20.0%
Telecommunication equipment:	10.0%

Intangibles (software):

Main applications (systems) 10.0%

For other computer software the Group applies the rate not 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.

11. Non current assets held for sale

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

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

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

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

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

12. Impairment of non current assets

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

The impairment loss is the difference between the carrying amount and the recoverable amount of the asset. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is established for particular assets, if a given asset generates cash flows substantially independent of those generated by other assets or groups of assets. If such indications exist, the Group performs an estimation of recoverable value. If, and only if, the recoverable value of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value.
If pursuant to IAS 36, paragraph 21 there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will be particularly the case of an asset that is held for disposal.
An impairment loss can be reversed only to the amount, where the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if any impairment loss would not be recognized.

13. Prepayments, Accruals and Deferred Income

Prepayments comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments are presented in the caption 'Other assets' in the balance sheet.
Accruals are provisions for costs arising from services provided to the Group, which will be payable over future periods. The accruals are recognized in the caption „Other Liabilities" in the balance sheet.
Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled against in the profit and loss in future reporting periods. They are presented in the caption „Other Liabilities' in the balance sheet.

14. Provisions

Provisions are established when (1) the Group has an obligation (legal or constructive) as a result of past events, and (2) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.
A provision for restructuring costs is recognised only when the general criteria for provisions recognition as well as specific criteria for restructuring provision recognition specified in IAS 37 are met. In particular, the constructive obligation to restructure arises only when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it would carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

15. Employee Benefits

Short-Term Employee Benefits

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

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

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

Long-term employee benefits

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

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

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

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

16. Group's Equity

Equity consists of capital and funds established in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or the Articles of Association.
Equity is comprised of the share capital, share premium, revaluation reserve and retained earnings. All balances of capital and funds are presented at nominal value.

Share Capital

Share capital is presented at nominal value, in accordance with the Articles of Association and the entry in the Register of Companies.
If the entity acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is treated as a change in the Equity. Acquired own shares are treated as own shares and disclosed as reduction of the Equity until the time they are cancelled.
Dividends for the financial year, which have been approved by the General Shareholders' Meeting, but not distributed as of the balance sheet day, are disclosed in the caption „Other Liabilities' in the balance sheet.

Share Premium

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

Revaluation Reserve

Revaluation 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.

17. Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

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

18. Interest result

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

Interest income/costs on derivatives classified as held for trading are recognized in the caption 'Result 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.

19. Fee and commission income/ Fee and Commission Costs

Commission income and expenses received from banking operations on client accounts, from operations on payment cards 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.

20. Dividend Income

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

21. Result on Investment Financial Instruments

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

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

23. 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.

24. 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.

25. 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,
  - Options placed by the Group,
  - Bills issued by the Central Bank,
  - forwards on the price of raw materials.

- 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.

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

- *Impairment of other non current assets*

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

- *Other Estimate Values*

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

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

VII. OPERATIONAL SEGMENTS

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

a) Retail Customers Segment

The Retail Customers Segment covers activity targeted at mass-market Customers, affluent Customers, 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 products area the key portfolio growth factors are mortgage loans, retail credit products, credit card revolving credit as well leasing products for small companies. Meanwhile key Customers funds include: current accounts, term deposits, mutual funds and structured products. Additionally the offer comprises insurance products, mainly linked with loans and credit cards, as well as specialised savings products. The product offer for affluent customers was enriched to include selected mutual funds of other financial intermediaries, foreign funds and structured bonds issued by the Bank.

b) Corporate Customers Segment

The Corporate Customers Segment is based on activity targeted at Small and Medium 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.

Column “other” in Profit and Loss Account contains income recognised due to adjusted settlements of VAT in previous years

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

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

INCOME STATEMENT 1.01.2010 - 31.12.2010 *In '000 PLN*	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total Consolidated
Net interest income	831 653	231 888	(136 054)	0	927 487
external income	1 217 529	513 573	628 867	0	2 359 969
external cost	(832 961)	(366 720)	(232 801)	0	(1 432 482)
External income less cost	**384 568**	**146 853**	**396 067**	**0**	**927 487**
internal income	843 652	352 880	(1 196 533)	0	0
internal cost	(396 567)	(267 846)	664 412	0	0
Internal income less cost	**447 086**	**85 035**	**(532 121)**	**0**	**0**
Net fee and commission income	434 115	112 253	18 556	0	564 924
Dividends, other income from financial operations and foreign exchange profit	87 748	45 784	88 444	0	221 977
Other operating income and cost	(9 261)	(4 944)	13 009	3 111	1 914
Operating income	**1 344 255**	**384 981**	**(16 045)**	**3 111**	**1 716 302**
Staff costs	(373 714)	(118 364)	(33 800)	0	(525 878)
Administrative costs	(376 430)	(75 644)	(29 052)	0	(481 126)
Impairment losses on assets	(126 417)	(98 251)	(2 207)	0	(226 875)
Depreciation and amortization	(62 738)	(9 169)	(2 714)	0	(74 621)
Operating expenses	**(939 300)**	**(301 427)**	**(67 774)**	**0**	**(1 308 501)**
Operating profit / (loss)	**404 956**	**83 554**	**(83 819)**	**3 111**	**407 802**
Share in net profit of associated companies				0	
Profit / (loss) before taxes	**404 956**	**83 554**	**(83 819)**	**3 111**	**407 802**
Income taxes					(81 805)
Profit / (loss) after taxes					**325 997**

BALANCE SHEET 31.12.2010 *In '000 PLN*	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other	Total Consolidated
ASSETS					
Segment assets	29 479 718	10 231 055	7 273 645	0	46 984 418
Assets allocated to segment	865 947	2 585 560	(3 451 507)	0	0
Total	**30 345 665**	**12 816 616**	**3 822 138**	**0**	**46 984 418**
LIABILITIES					
Segment liabilities	26 086 390	10 691 351	6 115 705	0	42 893 446
Liabilities allocated to segment	1 431 752	1 161 213	(2 592 966)	0	0
Equity allocated to segment	2 827 523	964 051	299 398	0	4 090 972
Total	**30 345 665**	**12 816 616**	**3 822 138**	**0**	**46 984 418**

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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

(1) INTEREST INCOME

1. Interest income and other of similar nature

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Interest income and other of similar nature, including:		
Balances with the Central Bank	52 367	35 454
Loans and advances to banks	20 046	10 289
Loans and advances to customers	1 837 411	1 622 119
Transactions with repurchase agreement	11 067	10 084
Hedging derivatives	589 218	368 775
Financial assets held for trading (debt securities)	21 561	91 830
Investment securities	188 250	221 419
Total	**2 719 920**	**2 359 969**

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 2011 contains interest accrued on impaired loans in the amount of PLN 119,339 thous. (for corresponding data in the year 2010 the amount of such interest stood at PLN 133,460 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

(2) INTEREST EXPENSE

2. Interest expense and other of similar nature

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Interest expense and other of similar nature, including:		
Banking deposits	(8 835)	(19 501)
Loans and advances from banks	(74 679)	(80 063)
Transactions with repurchase agreement	(57 545)	(45 119)
Deposits from customers	(1 359 184)	(1 216 618)
Subordinated debt	(31 593)	(25 770)
Debt securities	(44 607)	(42 518)
Other	(1 586)	(2 891)
Total	**(1 578 029)**	**(1 432 482)**

(3) FEE AND COMMISSION INCOME

3a. Fee and commission income

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Resulting from accounts service	111 228	106 209
Resulting from money transfers, cash payments and withdrawals and other payment transactions	42 832	43 967
Resulting from granted credits and loans	63 518	48 541
Resulting from guarantees and sureties granted	18 604	16 385
Resulting from payment and credit cards	187 456	180 032
Resulting from sale of insurance products	71 063	68 701
Resulting from distribution of investment funds units and other savings products	39 796	42 027
Resulting from brokerage and custody service	31 749	31 870
Resulting from investment funds managed by the Group	69 680	78 818
Other	11 003	8 732
Total	**646 930**	**625 282**

3b. Fee and commission expense

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Resulting from accounts service	(1 635)	(1 381)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(3 178)	(3 670)
Resulting from granted credits and loans	(18 493)	(8 919)
Resulting from payment and credit cards	(43 153)	(32 588)
Resulting from brokerage and custody service	(6 000)	(6 639)
Resulting from investment funds managed by the Group	(3 214)	(3 969)
Other	(9 504)	(3 192)
Total	**(85 177)**	**(60 358)**

In 2011 the Bank changed the presentation of financial data in the area of classification of the various types of commission. These changes concern the grouping of financial data and in view of the financial statements affect only the presentation of information in above note. In order to maintain comparability of financial information appropriate changes in the presentation of financial data for 2010 have been made in relation to previously published data in financial statements for year 2010.

(4) DIVIDEND INCOME

4. Dividend income

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Securities valued at fair value through profit and loss (held for trading)	6	2
Investment securities	1 948	2 001
Total	**1 954**	**2 003**

(5A) RESULT ON INVESTMENT FINANCIAL ASSETS

5a. Result on investment financial assets

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Operations on debt instruments	2 489	6 372
Operations on equity instruments	5 930	73
Total	**8 419**	**6 445**

(5B) RESULT ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT AND FOREIGN EXCHANGE RESULT

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).

In 2008 Bank transferred Treasury bonds nominally valued at PLN 120 million from the „intended for trading” portfolio to the „available for sale” portfolio. Information on such transfer along with figures are presented in Chapter X „ Reclassification of Debt Securities”.

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

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Operations on securities	(12 112)	3 597
Operations on derivatives	88 737	88 764
Fair value hedge accounting operations, including:	(427)	(3 752)
- result from hedging derivatives	(4 451)	(5 201)
- result from items subjected to hedging	4 024	1 449
Foreign exchange result	113 685	127 198
Costs of financial operations	(2 152)	(2 278)
Total	**187 731**	**213 529**

(6) OTHER OPERATING INCOME

6. Other operating income

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Profit on sale and liquidation of property, plant and equipment, intangible assets	9 434	11 059
Profit on sale of non current assets held for sale	139	713
Indemnifications, penalties and fines received	9 714	21 506
Income from sale of other services	550	1 337
Income from collection service	1 400	1 574
Income from leasing business	5 200	2 898
Income from adjustment in VAT settlements	0	3 111
Other	22 721	15 075
Total	**49 156**	**57 273**

(7) GENERAL AND ADMINISTRATIVE EXPENSES

7. General and administrative expenses

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Staff costs:	**(540 171)**	**(525 878)**
Salaries (including bonuses)	(456 639)	(449 223)
Social security contributions	(63 730)	(62 437)
Employee benefits, including:	(19 802)	(14 218)
- provisions for retirement benefits	(1 491)	(1 648)
- provisions for unused employee holiday	(3 941)	830
- other	(14 370)	(13 400)
General administrative costs	**(519 075)**	**(481 126)**
Costs of advertising, promotion and representation	(52 225)	(49 148)
Costs of software maintenance and IT services	(21 214)	(18 566)
Costs of renting	(184 316)	(169 912)
Costs of buildings maintenance, equipment and materials	(26 504)	(27 676)
ATM and cash costs	(20 671)	(19 054)
Costs of communications and IT	(66 144)	(66 345)
Costs of consultancy, audit and legal advisory and translation	(17 564)	(17 479)
Taxes and fees	(18 793)	(19 099)
KIR clearing charges	(2 999)	(2 655)
PFRON costs	(6 030)	(5 767)
BFG costs	(30 766)	(13 621)
Financial Supervision costs	(4 753)	(4 920)
Other	(67 095)	(66 883)
Total	**(1 059 246)**	**(1 007 004)**

(8) IMPAIRMENT LOSSES ON FINANCIAL ASSETS

8. Impairment losses on financial assets

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Impairment losses on loans and advances to customers	**(166 315)**	**(212 685)**
- Impairment charges on loans and advances to customers	(599 103)	(773 832)
- Reversal of impairment charges on loans and advances to customers	419 043	557 586
- Amounts recovered from loans written off	4 053	3 561
- Result on sale of receivables	9 692	0
Impairment losses on investments securities	**0**	**(16 538)**
- Impairment charges on investments securities	0	(16 538)
Impairment losses on off-balance sheet liabilities	**(7 998)**	**3 998**
- Impairment charges on off-balance sheet liabilities	(17 226)	(7 743)
- Reversal of impairment charges on off-balance sheet liabilities	9 228	11 741
Total	**(174 313)**	**(225 225)**

(9) IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

9. Impairment losses on non financial assets

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Fixed assets	(62)	568
Other assets	598	(2 218)
Total	**536**	**(1 650)**

(10) DEPRECIATION AND AMORTIZATION

10. Depreciation and amortization

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Property, plant and equipment	(55 894)	(65 819)
Intangible assets	(8 939)	(8 802)
Total	**(64 833)**	**(74 621)**

(11) OTHER OPERATING EXPENSE

11. Other operating expenses

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Loss on sale and liquidation of property, plant and equipment, intangible assets	(7 663)	(10 561)
Loss on sale of non current assets held for sale	(225)	0
Indemnifications, penalties and fines paid	(3 861)	(2 955)
Provisions for contentious claims	(11 468)	(2 987)
Costs of leasing business	(9 364)	(11 876)
Donations made	(330)	(314)
Costs of collection service	(19 579)	(16 492)
Costs of payments to compensation system	(387)	(382)
Other	(8 882)	(9 792)
Total	**(61 760)**	**(55 359)**

(12) INCOME TAX

12a. Income tax reported in income statement

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Current tax	(127 584)	(73 077)
Current year	(127 584)	(73 077)
Deferred tax	3 009	(8 728)
Appearance and reversal of temporary differences	5 977	(501)
Utilisation of tax loss	(2 968)	(8 227)
Adjustment resulted from Article 38a of CIT	(16)	0
Total income tax reported in income statement	**(124 592)**	**(81 805)**

12b. Effective tax rate

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Gross profit / (loss)	**591 055**	**407 802**
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	**(112 300)**	**(77 482)**
Impact of permanent differences on tax charges:	**(12 275)**	**(4 323)**
- Non taxable income	2 145	7 670
Dividend income	477	370
Release of other provision	0	0
Other	1 668	7 300
- Cost which is not a tax cost	(14 420)	(11 993)
Loss on sale of receivables	(3 789)	0
PFRON fee	(1 145)	(1 095)
Other	(9 486)	(10 898)
Adjustment resulted from Article 38a of CIT	**(16)**	**0**
Total income tax reported in income statement	**(124 592)**	**(81 805)**

12c. Deferred tax reported directly in equity

	31.12.2011	31.12.2010
Valuation of available for sale securities	652	(2 347)
Valuation of cash flow hedging instruments	(24 077)	14 135
Deferred tax reported directly in equity	**(23 425)**	**11 788**

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 the control conducted in 2011 by the Tax Inspection Office at Millennium Leasing Sp. z o.o., the correctness of corporate income tax calculation for 2006 was questioned resulting in the assessment of PLN 11.4 million additional tax payment by the Company, including PLN 4.8 million resulting from additional tax liability for the period 1.01 – 31.08.2006 and PLN 6.6 million resulting from overstated tax loss for the period 1.09 -31.12.2006. PLN 6.9 million of the additional tax liability including interest was paid by the Company. The payment of tax does not confirm the Company's concurrence with the position of the tax authorities, the tax authorities decision were claimed by the Company to the Court. The final outcome will depend on the result of the appeal and court proceedings. After a thorough review of the tax inspection findings the management continues to fully support the accuracy of its 2006 tax calculation. In Management Board's view the inspection findings by the Tax Inspection Office are not substantiated and the probability of resolving the matter in the Bank's favour is high. As such, as at 31st December 2011, no provision was recorded in respect of the described tax inspection procedures.

Bank Millennium S.A. tax control procedures

In 2011 the Tax Inspection Office conducted a tax inspection at Bank Millennium S.A., which questioned the Bank's 2005 income tax calculation. The Bank paid the amount of tax due resulting from this tax inspection of PLN 69.4 million, including interest, to the Tax Office (in the balance sheet prepared as the end of 2011 aforementioned amount is presented as receivables from Tax Office). After a thorough review of the tax inspection findings the Management Board continues to fully supports the accuracy of its 2005 tax calculation, in the Management's Board view the inspection findings by the Tax Inspection Office are not substantiated and the amount paid to the Tax Office will be recovered in full. As such, as at 31st December 2011, no provision was recorded in respect of the described tax inspection procedures. In January 2012, the Tax Office repaid the amount of PLN 66 million to the Bank, sustaining, however, its negative position towards the Bank in this matter. This event is not a conclusion of the issue described, which is dependent upon further decisions of the tax authorities and upon the result of possible court proceedings, as well as it does not change of the Management Board's assessment of this matter, as described above.

(13) EARNINGS PER SHARE

13. Earnings per share (PLN)

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Earnings after taxes	466 464	325 997
Weighted average number of shares in the period	1 213 116 777	1 156 283 087
Earnings per share	**0,38**	**0,28**

Earnings per share has been calculated by dividing net profit for the period by the weighted average number of shares that changed in 2010 as a result of the L-shares issue (a description of the issue is presented in note 36 "Shareholders' Equity"). 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

	31.12.2011	31.12.2010
Cash	631 372	480 368
Cash in Central Bank	1 386 138	1 570 107
Other funds	288	261
Total	**2 017 798**	**2 050 736**

In the period from 30 November 2011 to 1 of January 2012 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,319,704 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 4.275%.

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

	31.12.2011	31.12.2010
a. in Polish currency	1 764 605	1 830 411
b. in foreign currencies (after conversion to PLN)	253 193	220 325
- currency: USD	38 319	31 638
- currency: EUR	117 961	120 517
- currency: CHF	34 155	13 345
- currency: GBP	26 410	19 488
- other currencies (PLN '000)	36 348	35 337
Total	**2 017 798**	**2 050 736**

(15) LOANS AND ADVANCES TO BANKS

15a. Loans and advances to banks

	31.12.2011	31.12.2010
Current accounts	141 933	110 127
Deposits in other banks	2 112 215	1 003 003
Loans	402 152	371 164
Other	5	275
Interest	4 069	1 241
Total (gross) loans and advances to banks	**2 660 374**	**1 485 810**
Impairment write-offs	0	0
Net loans and advances to banks	**2 660 374**	**1 485 810**

15b. Loans and advances to banks by maturity date

	31.12.2011	31.12.2010
Current accounts	141 933	110 127
to 1 month	2 112 220	1 003 278
above 1 month to 3 months	0	0
above 3 months to 1 year	0	0
above 1 year to 5 years	402 152	371 164
above 5 years	0	0
past due	0	0
Interest	4 069	1 241
Total (gross) loans and advances to banks	**2 660 374**	**1 485 810**

15c. Loans and advances to banks by currency

	31.12.2011	31.12.2010
in Polish currency	671 370	387 795
in foreign currencies (after conversion to PLN)	1 989 004	1 098 015
- currency: USD	35 920	21 452
- currency: EUR	1 848 010	1 027 048
- currency: CHF	19 534	17 908
- currency: GBP	21 120	9 743
- other currencies (PLN '000)	64 421	21 864
Total	**2 660 374**	**1 485 810**

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

	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
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

	31.12.2011	31.12.2010
Debt securities	**316 250**	**980 360**
Issued by State Treasury	316 250	980 360
a) bills	0	67 486
b) bonds	316 250	912 874
Equity instruments	**1 996**	**931**
Quoted on the active market	1 996	931
a) financial institutions	0	60
b) non-financial institutions	1 996	870
Adjustment from fair value hedge	**12 325**	**8 301**
Positive valuation of derivatives	**399 254**	**440 228**
Total	**729 825**	**1 429 820**

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

	31.12.2011	31.12.2010
Trading financial assets	717 500	1 421 518
Adjustment from fair value hedge	12 325	8 301
Financial assets valued at fair value when initially recognized	0	0
Total	**729 825**	**1 429 820**

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

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

	31.12.2011	31.12.2010
- with fixed interest rate	288 423	749 240
- with variable interest rate	27 827	231 120
Total	**316 250**	**980 360**

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

	31.12.2011	31.12.2010
to 1 month	46 723	0
above 1 month to 3 months	0	63 587
above 3 months to 1 year	156 812	569 631
above 1 year to 5 years	103 939	321 597
above 5 years	8 776	25 545
Total	**316 250**	**980 360**

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

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	981 291	2 320 748
Increases (purchase and accrual of interest and discount)	142 995 740	104 515 037
Reductions (sale and redemption)	(143 659 645)	(105 847 062)
Differences from valuation at fair value	860	(7 432)
Balance at the end of the period	**318 246**	**981 291**

16f / 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 hedged consumer loans portfolio					**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

16g / 27. Valuation of derivatives and Adjustment from fair value hedge, Liabilities from short sale of securities as at 31.12.2010

	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	**7 959 540**	**13 829 350**	**10 738 750**	**5 060**	**279 214**	**274 153**
Forward Rate Agreements (FRA)	4 550 000	7 300 000	0	(304)	1 346	1 650
Interest rate swaps (IRS)	3 409 540	6 521 623	10 590 258	8 695	274 770	266 074
Other interest rate contracts: volatility swap, swap with FX option	0	7 727	148 492	(3 331)	3 098	6 429
2. FX derivatives *	**10 293 639**	**5 310 499**	**4 359 678**	**(281 498)**	**86 833**	**368 331**
FX contracts	1 381 993	796 188	40 737	38 974	41 873	2 899
FX swaps	7 637 755	636 271	56 196	(186 357)	17 034	203 391
Other FX contracts (CIRS)	1 182 265	3 844 963	4 262 745	(134 622)	27 381	162 003
FX options	91 626	33 077	0	507	545	38
3. Commodity derivatives	**8 443**	**0**	**0**	**6**	**268**	**262**
Commodity forwards	8 443	0	0	6	268	262
4. Embedded instruments	**216 065**	**741 633**	**330 343**	**(47 880)**	**19 003**	**66 883**
Options embedded in deposits	200 402	688 215	0	(13 578)	19 003	32 581
Options embedded in securities issued	15 663	53 418	330 343	(34 302)	0	34 302
5. Indexes options	**196 531**	**755 308**	**210 040**	**51 498**	**54 910**	**3 412**
Valuation of derivatives, TOTAL	**18 674 218**	**20 636 790**	**15 638 811**	**(272 813)**	**440 228**	**713 041**
Valuation of hedged consumer loans portfolio					**8 301**	
Liabilities from short sale of securities						**91 290**

*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:

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

The table below presents detailed information regarding particular types of the hedge accounting (active as at 31.12.2011):

	Hedging fair value of the portfolio of long-term consumer loans	**Cash flow volatility hedge for the flow generated by FX mortgage portfolio and its underlying PLN deposits**	**Cash flow volatility hedge for the flow generated by mortgage loans with floating rate, denominated in foreign currency**	**Cash flow volatility hedge for the flow generated by future revenues and expenditures denominated in foreign currency**
Description of hedge transactions	The Group hedges the risk of the fair value of the long-term consumer loan portfolio denominated in PLN based on a fixed interest rate. The risk hedged results from interest rate fluctuations	The 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 (in time horizon limited to maturity of hedging instruments) currency risk and interest rate risk resulting from volatility in cash flows generated by mortgage loans with floating rate denominated in foreign currency, exchanging interests flow in foreign currency into PLN flows using FX SWAPS	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	Fixed rate PLN long-term consumer loan portfolio.	Cash flows resulting from the mortgage loan portfolio and PLN deposits funding them.	Cash flows resulting from mortgage loans with floating rate denominated in foreign currency.	Cash flows resulting from future revenues and expenditures denominated in foreign currency.
Hedging instruments	IRS transactions	CIRS transactions	FX Swap transactions	FX Forward transactions
Presentation of the result on the hedged and hedging transactions	adjustment to fair value of hedged assets and of the valuation of hedging instruments is recognised in profit and loss as result on financial instruments valued at fair value through profit and loss and foreign exchange result; interest on hedging and hedged instruments is 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 is recognised in net interest income; valuation of hedging and hedged instruments on FX differences is recognised in financial instruments valued at fair value through profit and loss and foreign exchange result	effective part of valuation of hedging instruments is recognised in revaluation reserve; interest from hedging instruments (settled Swap points) are recognised in the net interest income	effective part of spot revaluation of hedging instruments is recognised in revaluation reserve;

17a / 28. Hedge accounting	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
As at 31.12.2011	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 / 28. Hedge accounting	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk
As at 31.12.2010	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities	
1. Fair value hedging derivatives connected with interest rate risk							
IRS contracts	0	300 000	1 535 709	(17 700)	2 193	19 893	8 301
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	2 849 615	5 811 116	22 018 810	(1 069 082)	78 038	1 147 120	x
FX SWAP contracts	3 707 902	360 196	0	(99 509)	0	99 509	x
Forward contracts	47 086	141 823	649 595	(48 799)	0	48 799	x
3. Total hedging derivatives	**6 604 603**	**6 613 134**	**24 204 114**	**(1 235 090)**	**80 231**	**1 315 321**	**x**

17c. Hedge accounting for cash flows

	31.12.2011	31.12.2010
Gross valuation recognized in revaluation reserve	126 719	(74 395)
Period in which cash flows with hedged value are expected to occur	01.01.12 - 08.06.22	01.01.11 - 08.06.22

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2011 amounted to PLN – 4.6 million (respectively in 2010 amounted to PLN –35.4 million).

(18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2011	31.12.2010
Loans and advances	**37 984 890**	**33 365 376**
- to companies	6 438 670	5 229 190
- to private individuals	30 699 165	27 459 922
- to public sector	847 055	676 264
Receivables on account of payment cards	**880 549**	**895 822**
- due from companies	29 066	12 950
- due from private individuals	851 483	882 872
Purchased receivables	**69 426**	**61 037**
- from companies	7 055	10 031
- from public sector	62 371	51 006
Guarantees and sureties realised	234	255
Debt securities eligible for rediscount at Central Bank	17 573	32 204
Financial leasing receivables	3 397 143	3 410 340
Other	1 509	7 474
Interest	198 382	153 270
Total gross	**42 549 706**	**37 925 779**
Impairment write-offs	(1 217 369)	(1 187 286)
Total net	**41 332 337**	**36 738 493**

18b. Quality of loans and advances to customers portfolio

	31.12.2011	31.12.2010
Loans and advances to customers (gross)	**42 549 706**	**37 925 779**
- impaired	2 104 134	2 195 119
- not impaired	40 445 572	35 730 660
Impairment write-offs	**1 217 369**	**1 187 286**
- for impaired exposures	1 028 290	989 997
- for incurred but not reported losses (IBNR)	189 079	197 289
Loans and advances to customers (net)	**41 332 337**	**36 738 493**

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

	31.12.2011	31.12.2010
Loans and advances to customers (gross)	**42 549 706**	**37 925 779**
- case by case analysis	1 134 557	1 311 967
- collective analysis	41 415 149	36 613 812
Impairment write-offs	**1 217 369**	**1 187 286**
- on the basis of case by case analysis	440 667	469 231
- on the basis of collective analysis	776 702	718 055
Loans and advances to customers (net)	**41 332 337**	**36 738 493**

18d. Loans and advances to customers portfolio by customers

	31.12.2011	31.12.2010
Loans and advances to customers (gross)	**42 549 706**	**37 925 779**
- corporate customers	10 892 513	9 497 968
- private individuals	31 657 193	28 427 811
Impairment write-offs	**1 217 369**	**1 187 286**
- for receivables from corporate customers	628 028	643 811
- for receivables from private individuals	589 341	543 475
Loans and advances to customers (net)	**41 332 337**	**36 738 493**

18e. Loans and advances to customers by maturity

	31.12.2011	31.12.2010
Current accounts	2 399 137	2 237 387
to 1 month	598 136	708 494
above 1 month to 3 months	958 140	882 110
above 3 months to 1 year	3 414 444	3 463 795
above 1 year to 5 years	10 177 778	8 592 616
above 5 years	24 007 869	21 133 950
past due	795 820	754 157
Interest	198 382	153 270
Total gross	**42 549 706**	**37 925 779**

18f. Loans and advances to customers by currency

	31.12.2011	31.12.2010
in Polish currency	18 992 568	16 020 583
in foreign currencies (after conversion to PLN)	23 557 138	21 905 196
- currency: USD	386 029	366 677
- currency: EUR	1 124 153	1 036 024
- currency: CHF	21 853 990	20 180 276
- currency: JPY	192 775	322 113
- other currencies (PLN '000)	191	106
Total gross	**42 549 706**	**37 925 779**

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

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	1 187 286	1 106 491
Change in value of provisions:	30 082	80 795
Impairment write-offs created in the period	599 103	773 831
Amounts written off	(114 239)	(158 826)
Impairment write-offs released in the period	(419 043)	(557 586)
Sale of receivables	(61 657)	0
Changes resulting from FX rates differences	25 638	24 055
Other	280	(680)
Balance at the end of the period	**1 217 369**	**1 187 286**

18h. Financial leasing receivables

	31.12.2011	31.12.2010
Financial leasing receivables (gross)	3 865 032	3 848 888
Unrealised financial income	(467 889)	(438 548)
Financial leasing receivables (net)	**3 397 143**	**3 410 340**
Financial leasing receivables (gross) by maturity		
Under 1 year	1 557 173	1 541 801
From 1 year to 5 years	1 951 425	1 902 253
Above 5 years	356 434	404 834
Total	**3 865 032**	**3 848 888**
Financial leasing receivables (net) by maturity		
Under 1 year	1 378 756	1 379 240
From 1 year to 5 years	1 698 742	1 689 080
Above 5 years	319 645	342 020
Total	**3 397 143**	**3 410 340**

(19) *INVESTMENT FINANCIAL ASSETS*

19a. Investment financial assets available for sale

	31.12.2011	31.12.2010
Debt securities	**3 132 507**	**4 496 964**
Issued by State Treasury	1 927 780	3 355 513
a) bills	0	245 308
b) bonds	1 927 780	3 110 205
Issued by Central Bank	1 099 887	999 708
a) bills	1 099 887	999 708
b) bonds	0	0
Other securities	104 840	141 743
a) listed	0	8 342
b) not listed	104 840	133 401
Shares and interests in other entities	**1 088**	**11 465**
Total financial assets available for sale	**3 133 595**	**4 508 429**
Available for sale instruments listed on the stock exchange	1 927 780	3 373 686
Available for sale instruments not listed on the stock exchange	1 205 815	1 134 743

19b. Debt securities available for sale

	31.12.2011	31.12.2010
- with fixed interest rate	2 297 202	3 878 232
- with variable interest rate	835 305	618 732
Total	**3 132 507**	**4 496 964**

19c. Debt securities available for sale by maturity

	31.12.2011	31.12.2010
- to 1 month	1 118 739	1 014 649
- above 1 month to 3 months	0	17 922
- above 3 months to 1 year	884 046	935 935
- above 1 year to 5 years	1 084 371	2 480 078
- above 5 years	45 351	48 380
Total	**3 132 507**	**4 496 964**

19d. Change of investment financial assets available for sale

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	4 508 428	4 163 657
Increases (purchase and accrual of interest and discount)	80 717 860	75 588 404
Reductions (sale and redemption)	(82 076 912)	(75 227 362)
Difference from measurement at fair value	(15 781)	(10)
Impairment write-offs	0	(16 538)
Other	0	277
Balance at the end of the period	**3 133 595**	**4 508 428**

19e. Investments in associates

	31.12.2011	31.12.2010
Investments in associates	11 155	12 000

19f. Change of investments in associates

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	**12 000**	**12 000**
- equity method valuation	(845)	0
Balance at the end of the period	**11 155**	**12 000**

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

20. Receivables from securities bought with sell-back clause

	31.12.2011	31.12.2010
a) from banks	0	55 080
b) from customers	2 208	0
c) interest	1	5
Total	**2 209**	**55 085**

(21) PROPERTY, PLANT AND EQUIPMENT

21a. Property, plant and equipment

	31.12.2011	31.12.2010
Fixed assets:	193 364	233 600
- land	1 285	1 356
- buildings, premises, civil and hydro-engineering structures	107 349	124 329
- machines and equipment	49 591	62 988
- vehicles	21 860	17 669
- other fixed assets	13 279	27 258
Fixed assets under construction	18 983	8 277
Advances for fixed assets under construction	0	175
Total	**212 347**	**242 052**

21b. 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**

21c. Change of balance of property, plant and equipment (by type groups) in the period 01.01.2010 – 31.12.2010

	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	**12 679**	**410 084**	**299 774**	**36 384**	**103 935**	**11 171**	**874 027**
b) increases (on account of)	**0**	**4 958**	**9 810**	**470**	**12 140**	**15 870**	**43 248**
- purchase	0	604	268	470	215	12 315	13 872
- transfer from fixed assets under construction	0	3 522	9 243	0	4 493	0	17 258
- investment provisions	0	0	0	0	0	3 214	3 214
- reclassification	0	711	296	0	7 432	0	8 439
- other	0	122	2	0	0	341	465
c) reductions (on account of)	**10 823**	**59 690**	**18 867**	**4 398**	**4 158**	**18 589**	**116 526**
- sale	0	5 452	2 026	4 169	850	715	13 212
- liquidation	0	2 309	14 513	102	1 927	0	18 851
- settlement of fixed assets under construction	0	0	0	0	0	17 258	17 258
- reclassification	10 700	47 201	1 419	0	1 288	0	60 608
- other	123	4 729	908	127	93	616	6 596
d) gross value of property, plant and equipment at the end of the period	**1 856**	**355 352**	**290 717**	**32 456**	**111 917**	**8 452**	**800 749**
e) cumulated depreciation (amortization) at the beginning of the period	**0**	**192 368**	**221 926**	**13 282**	**72 196**	**0**	**499 772**
f) depreciation over the period (on account of)	**0**	**14 748**	**5 805**	**1 505**	**9 851**	**0**	**31 909**
- current write-off (P&L)	0	24 929	22 903	5 047	12 940	0	65 820
- reductions on account of sale	0	(2 378)	(1 972)	(3 265)	(713)	0	(8 328)
- reductions on account of liquidation	0	(2 135)	(14 400)	(62)	(1 845)	0	(18 442)
- reclassification	0	(1 289)	105	0	(368)	0	(1 552)
- other	0	(4 379)	(832)	(215)	(163)	0	(5 589)
g) cumulated depreciation (amortization) at the end of the period	**0**	**207 116**	**227 731**	**14 787**	**82 047**	**0**	**531 681**
h) impairment write-offs at the beginning of the period	**631**	**24 294**	**12**	**0**	**2 648**	**0**	**27 585**
- increase	0	0	0	0	337	0	337
- reduction	131	389	12	0	373	0	905
i) impairment write-offs at the end of the period	**500**	**23 905**	**0**	**0**	**2 612**	**0**	**27 017**
j) net value of property, plant and equipment at the end of the period	**1 356**	**124 330**	**62 987**	**17 669**	**27 258**	**8 452**	**242 051**

(22) INTANGIBLE ASSETS

22a. Intangible assets

	31.12.2011	31.12.2010
- concessions, patents, licenses, know how and similar assets, including:	32 262	30 227
- computer software	32 262	30 227
- advances for intangible assets	5	180
Total intangible assets	**32 267**	**30 407**

22b. 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:	computer software	other intangible assets	advances for intangible assets	TOTAL
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**

22c. Change of balance of intangible assets (by type groups) in the period 01.01.2010 – 31.12.2010

	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**	**411 410**	**201 289**	**4**	**5**	**411 442**
b) increases (on account of)	**0**	**20 345**	**20 345**	**0**	**235**	**20 581**
- purchase	0	452	452	0	201	653
- transfer from investments and advances	0	85	85	0	0	85
- expenditures on intangible assets	0	18 637	18 637	0	0	18 637
- other	0	1 171	1 171	0	34	1 205
c) reductions (on account of)	**0**	**146**	**146**	**0**	**59**	**205**
- sale	0	0	0	0	0	0
- other	0	146	146	0	59	205
d) gross value of intangible assets at the end of the period	**23**	**431 609**	**221 489**	**4**	**180**	**431 817**
e) cumulated depreciation (amortization) at the beginning of the period	**23**	**388 594**	**178 474**	**4**	**0**	**388 621**
f) depreciation over the period (on account of)	**0**	**8 801**	**8 801**	**0**	**0**	**8 801**
- current write-off (P&L)	0	8 802	8 802	0	0	8 802
- other	0	(1)	(1)	0	0	(1)
g) cumulated depreciation (amortization) at the end of the period	**23**	**397 395**	**187 275**	**4**	**0**	**397 422**
h) impairment write-offs at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**
- increase		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**	**30 227**	**30 227**	**0**	**180**	**30 407**

(23) NON-CURRENT ASSETS HELD FOR SALE

23a. 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.

23b. Change of balance of non current assets held for sale in the period 01.01.2010 – 31.12.2010

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	224	702	402	148	0	1 476
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	**157**	**570**	**0**	**142**	**0**	**869**
d) change of value in the period, including:	**(101)**	**(169)**	**0**	**0**	**0**	**(270)**
- sale of non current assets held for sale	0	0	0	0	0	0
e) value at the end of the period	**123**	**533**	**402**	**148**	**0**	**1 206**
f) change of impairment write-offs in the period, including:	**0**	**0**	**0**	**0**	**0**	**0**
- 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)**	**(6)**	**0**	**(607)**
h) net value of non current assets held for sale at the end of the period	**56**	**401**	**0**	**142**	**0**	**599**

(24) DEFERRED INCOME TAX ASSETS

24a. Deferred income tax assets

	31.12.2011			31.12.2010		
	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	36 303	(43 468)	(7 165)	59 224	(46 561)	12 663
Balance sheet valuation of financial instruments	704 399	(674 714)	29 685	487 491	(461 504)	25 987
Unrealised receivables/ liabilities on account of derivatives	86 083	(112 753)	(26 670)	75 433	(90 019)	(14 586)
Interest on deposits and securities to be paid/ received	52 288	(78 780)	(26 492)	41 535	(77 355)	(35 820)
Interest and discount on loans and receivables	1 266	(21 230)	(19 964)	3 078	(20 052)	(16 974)
Income and cost settled at effective interest rate	5 682	(4 228)	1 454	7 054	(8 350)	(1 296)
Provisions for loans presented as temporary differences	131 992	0	131 992	135 004	0	135 004
Employee benefits	11 688	0	11 688	10 725	0	10 725
Provisions for future costs	15 709	0	15 709	7 855	0	7 855
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	652	(24 077)	(23 425)	14 135	(2 347)	11 788
Tax loss deductible in the future	129	0	129	3 082	0	3 082
Other	31 873	(4 998)	26 875	11 158	(3 572)	7 586
Net deferred income tax asset	**1 078 064**	**(964 248)**	**113 816**	**855 774**	**(709 760)**	**146 014**

24b. 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**

24b. Change of temporary differences

	31.12.2009	Changes to financial result	Changes to equity	31.12.2010
Difference between tax and balance sheet depreciation	(5 947)	18 610		12 663
Balance sheet valuation of financial instruments	30 119	(4 132)		25 987
Unrealised receivables/ liabilities on account of derivatives	(12 646)	(1 940)		(14 586)
Interest on deposits and securities to be paid/ received	(7 426)	(28 394)		(35 820)
Interest and discount on loans and receivables	(20 780)	3 806		(16 974)
Income and cost settled at effective interest rate	(6 819)	5 522		(1 296)
Provisions for loans presented as temporary differences	138 535	(3 531)		135 004
Employee benefits	8 572	2 153		10 725
Provisions for future costs	4 978	2 877		7 855
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(2 627)		14 415	11 788
Tax loss deductible in the future	11 318	(8 236)		3 082
Other	3 048	4 537		7 586
Total	**140 325**	**(8 728)**	**14 415**	**146 014**

24d. Change of deferred income tax

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Difference between tax and balance sheet depreciation	(19 828)	18 610
Balance sheet valuation of financial instruments	3 698	(4 132)
Unrealised receivables/ liabilities on account of derivatives	(12 084)	(1 940)
Interest on deposits and securities to be paid/ received	9 328	(28 394)
Interest and discount on loans and receivables	(2 990)	3 806
Income and cost settled at effective interest rate	2 749	5 522
Provisions for loans presented as temporary differences	(3 012)	(3 531)
Employee benefits	963	2 153
Provisions for future costs	7 854	2 877
Tax loss deductible in the future	(2 953)	(8 236)
Other	19 288	4 537
Change of deferred income tax recognized in financial result	3 013	(8 728)
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	**(35 213)**	**14 415**

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

Temporary differences expiry year	31.12.2011	31.12.2010
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.

	31.12.2011	31.12.2010
Net deferred income tax assets	113 816	146 014
Net deferred income tax provision	-	-
TOTAL	**113 816**	**146 014**

(25) OTHER ASSETS

25. Other assets

	31.12.2011	31.12.2010
Expenses to be settled	28 401	32 996
Income to be received	5 160	13 002
Interbank settlements	13 750	19 542
Settlements of financial instruments transactions	25 865	2
Receivables from sundry debtors	95 291	38 110
Settlements with the State Treasury	11 583	8 383
Settlements for activities of Millennium Dom Maklerski S.A.	69 994	87 077
Other	86 586	9 821
Total other assets (gross)	336 630	208 933
Provisions	(9 588)	(10 368)
Total other assets (net)	**327 042**	**198 565**

(26) DEPOSITS FROM BANKS

26a. Deposits from banks

	31.12.2011	31.12.2010
In current account	146 393	54 328
Term deposits	163 486	139 573
Loans and advances received	1 520 012	1 888 384
Interest	1 687	2 171
Total	**1 831 577**	**2 084 456**

26b. Deposits from banks by maturity

	31.12.2011	31.12.2010
Current accounts	146 393	54 328
- to 1 month	162 827	138 801
- above 1 month to 3 months	599	538
- above 3 months to 1 year	41	792 294
- above 1 year to 5 years	1 382 208	905 690
- above 5 years	137 822	190 634
Interest	1 687	2 171
Total	**1 831 577**	**2 084 456**

The balance of liabilities towards Banks with maturities above 5 years results from the long-term loan agreements concluded by the Bank in 2010 with the European Investment Bank.

26c. Deposits from banks by currency

	31.12.2011	31.12.2010
in Polish currency	608 508	436 831
in foreign currencies (after conversion to PLN)	1 223 069	1 647 625
- currency: USD	25 150	29 650
- currency: EUR	1 197 919	1 617 975
Total	**1 831 577**	**2 084 456**

The reduction of the balance of liabilities to banks, denominated in EUR in 2011, resulted mainly from repayment by the Bank of loan amounting to EUR 200 million.

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

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

	31.12.2011	31.12.2010
Negative valuation of derivatives	564 965	713 041
Short sale of securities	9 250	91 290
Financial liabilities valued at fair value through profit and loss	**574 215**	**804 331**

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

	31.12.2011	31.12.2010
Amounts due to private individuals	**23 013 040**	**20 928 083**
Balances on current accounts	7 341 102	7 241 195
Term deposits	15 354 993	13 368 776
Other	124 686	158 733
Accrued interest	192 259	159 379
Amounts due to companies	**12 893 059**	**12 424 689**
Balances on current accounts	3 069 164	2 956 393
Term deposits	9 549 544	9 257 875
Other	215 016	172 334
Accrued interest	59 334	38 087
Amounts due to public sector	**1 521 737**	**2 042 376**
Balances on current accounts	714 708	855 928
Term deposits	770 357	1 149 996
Other	34 093	31 990
Accrued interest	2 579	4 462
Total	**37 427 835**	**35 395 147**

29b. Deposits from customers by maturity

	31.12.2011	31.12.2010
Current accounts	11 124 973	10 910 237
to 1 month	10 514 397	10 978 618
above 1 month to 3 months	10 278 087	6 627 919
above 3 months to 1 year	4 375 014	5 607 605
above 1 year to 5 years	867 044	1 068 675
above 5 years	14 148	165
Interest	254 172	201 928
Total	**37 427 835**	**35 395 147**

29c. Deposits from customers by currency

	31.12.2011	31.12.2010
in Polish currency	35 386 764	33 609 109
in foreign currencies (after conversion to PLN)	2 041 071	1 786 039
- currency: USD	647 142	554 033
- currency: EUR	1 277 447	1 143 243
- currency: GBP	84 179	71 045
- currency: CHF	26 195	14 385
- other currencies (PLN '000)	6 108	3 333
Total	**37 427 835**	**35 395 147**

(30) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

30. Liabilities from securities sold with buy-back clause

	31.12.2011	31.12.2010
a) to the Central Bank	0	0
b) to banks	1 099 422	300 000
c) to customers	501 011	369 938
d) interest	6 195	752
Total	**1 606 628**	**670 691**

(31) LIABILITIES FROM DEBT SECURITIES

31a. Debt securities

	31.12.2011	31.12.2010
Outstanding bonds and bills	828 720	1 052 111
Bank Securities	240 913	88 114
Interest	1 560	782
Total	**1 071 193**	**1 141 007**

31b. Debt securities by final legal maturity

	31.12.2011	31.12.2010
- to 1 month	349 383	48 898
- above 1 month to 3 months	47 712	73 550
- above 3 months to 1 year	217 421	332 966
- above 1 year to 5 years	455 117	684 811
- above 5 years	0	0
Interest	1 560	782
Total	**1 071 193**	**1 141 007**

In 2011 the Group changed a method of presentation of financial data in the area of classification of the liabilities from debt securities split by maturity. These changes concern the grouping of financial data and in view of the financial statements affect only the presentation of information in above note. In order to maintain comparability of financial information appropriate changes in the presentation of financial data for 2010 have been made in relation to previously published data in the financial statements for year 2010.

31c. Change of debt securities

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	**1 141 007**	**1 024 335**
Increases, on account of:	2 504 394	222 106
- issue of Banking Securities	196 346	88 114
- issue of bonds by the Bank	6 738	113 210
- issue of bonds by subsidiary company	2 290 049	20 000
- interest accrual	11 260	782
Reductions, on account of:	(2 574 208)	(105 434)
- repurchase of bonds in leasing portfolio securitization transaction	(360 311)	(26 181)
- repurchase of bonds by subsidiary company	(2 021 050)	0
- repurchase of Banking Securities	(43 547)	0
- repurchase of bonds by the Bank	(149 300)	(79 253)
Balance at the end of the period	**1 071 193**	**1 141 007**

31d. Debt securities by type

As at 31.12.2011	Balance sheet value	Interest rate*	Final legal maturity	Market
Bonds and Banking Securities issued by Bank:				
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.				
Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	147 566	5,03%	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	193 720	5,03%	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	35 337	6,92%	20.12.2016	-
TOTAL:	**376 623**			
Bonds issued by subordinated company:				
Millennium Leasing Sp. z o.o. – C5	299 795	4,93%	05.01.2012	-

31e. Debt securities by type

As at 31.12.2010	Balance sheet value	Interest rate*	Final legal maturity	Market
Bonds and Banking Securities issued by Bank:				
BM_2011/02	1 581	-	2011-02-25	-
BM_2011/03,_1,_2	12 223	-	2011-03-31,14,15	-
BM_2011/04,A	9 231	-	2011-04-15,01	-
BM_2011/05,A	14 703	-	2011-05-12,31	-
BM_2011/10,A,B	19 610	-	2011-10-04,04,05	-
BM_2011/11,A	6 558	-	2011-11-08,07	-
BM_2011/12	1 456	-	2011-12-16	-
BM_2012/01,A,B,C	16 843	-	2012-01-03,04,10,12	-
BM_2012/02,A,B	14 689	-	2012-02-02,01,02	-
BM_2012/04,A,B,C	20 993	-	2012-04-10,10,11,12	-
BM_2012/05	1 019	-	2012-05-09	-
BM_2012/06	4 383	-	2012-06-11	-
BM_2012/07,A	16 735	-	2012-07-06,09	-
BM_2012/08,A	12 493	-	2012-08-08,08	-
BM_2012/09,A,B,C,D,E	17 192	-	2012-09-06,07,10,10,11,12	-
BM_2012/11,A,B,C	15 211	-	2012-11-06,07,02,05	-
BM_2012/12,A,B	15 076	-	2012-12-10,11,12	-
BM_2013/02,A	14 659	-	2013-02-07,08	-
BM_2013/03,A,B,C,D	21 416	-	2013-03-07,08,04,05,06	-
BM_2013/04,A,B	9 107	-	2013-04-08,03,04	-
BM_2013/05,A,B,C	15 467	-	2013-05-08,09,09,10	-
BM_2013/06,A,B	18 429	-	2013-06-03,06,07	-
BM_2013/10,A	6 038	-	2013-10-07,08	-
BM_2014/01,A	11 312	-	2014-01-06,07	-
BPW_2011/10	5 240	-	2011-10-05	-
BPW_2013/07,A	13 297	-	2013-07-08,09	-
BPW_2013/08	14 680	-	2013-08-02	-
BPW_2013/09	8 932	-	2013-09-09	-
BPW_2013/10	11 168	-	2013-10-04	-
BPW_2013/11	8 747	-	2013-11-04	-
BPW_2013/12	15 328	-	2013-12-02	-
BPW_2014/01	10 722	-	2014-01-03	-
TOTAL:	**384 538**			
* - 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.				
Bonds issued in leasing portfolio securitization process:				
Orchis Sp. z o.o. - Senior Bond	303 147	3,92%	20.12.2016	-
Orchis Sp. z o.o. - Senior Bond	397 962	3,92%	20.12.2016	-
Orchis Sp. z o.o. - Mezzanine Bond	35 328	5,81%	20.12.2016	-
TOTAL:	**736 437**			
Bonds issued by subordinated company:				
Millennium Leasing Sp. z o.o. – B1	20 032	5,25%	20.12.2011	-

(32) PROVISIONS

32a. Provisions

	31.12.2011	31.12.2010
Provision for off-balance sheet commitments	22 271	14 273
Provision for contentious claims	13 156	7 172
Total	**35 427**	**21 445**

32b. Change of provisions

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Provision for off-balance sheet commitments		
Balance at the beginning of the period	14 273	18 383
Charge of provision	17 226	7 743
Release of provision	(9 228)	(11 741)
FX rates differences	0	(112)
Balance at the end of the period	**22 271**	**14 273**
Provision for contentious claims		
Balance at the beginning of the period	7 172	6 194
Charge of provision	11 468	2 820
Release of provision	(4 646)	(1 350)
Utilisation of provision	(837)	(492)
Balance at the end of the period	**13 156**	**7 172**

(33) PROVISION FOR DEFERRED INCOME TAX

	31.12.2011	31.12.2010
33. Deferred income tax provision	**0**	**0**

(34) OTHER LIABILITIES

34a. Other liabilities

	31.12.2011	31.12.2010
Short-term	**704 068**	**512 924**
Accrued costs - bonuses, salaries	47 329	49 221
Accrued costs - other	78 405	47 940
Interbank settlements	223 208	74 640
Settlements of financial instruments transactions	0	34 797
Other creditors	114 850	95 469
Liabilities to public sector	11 905	16 040
Deferred income	60 840	53 406
Provisions for unused employee holiday	9 119	5 580
Settlement accounts for activities of Millennium Dom Maklerski S.A.	59 456	79 055
Other	98 956	56 775
Long-term	**38 264**	**36 136**
Provisions for retirement benefits	9 192	7 915
Deferred income	3 248	3 304
Other	25 824	24 917
Total	**742 332**	**549 060**

34b. Change of provisions for unused employee holiday

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	**5 580**	**6 750**
Charge of provisions/ reversal of provisions	3 941	(830)
Utilisation of provisions/ reclassification of provision	(402)	(340)
Balance at the end of the period	**9 119**	**5 580**

34c. Change of provisions for retirement benefits

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	**7 915**	**6 448**
Charge of provisions/ reversal of provisions	1 491	1 648
Utilisation of provisions/ reclassification of provision	(214)	(181)
Balance at the end of the period	**9 192**	**7 915**

(35) SUBORDINATED DEBT

35a. Subordinated debt

	31.12.2011	31.12.2010
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	230 000
Value of the liability in PLN	662 520	910 869
Interest rate	150 mln EUR – 3,167%	80 mln EUR - 3,259% 150 mln EUR - 2,754%
Maturity	150 mln EUR - 20.12.2017	80 mln EUR - 12.12.2011 150 mln EUR - 20.12.2017
Interest	708	1 119
Balance sheet value of subordinated debt	**663 228**	**911 988**

35b. Change of subordinated debt

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
Balance at the beginning of the period	911 988	945 795
Increases, on account of:	145 284	25 770
- FX rates differences	113 691	0
- interest accrual	31 593	25 770
Reductions, on account of:	(394 044)	(59 577)
- repayment of subordinated debt	(362 040)	0
- interest payment	(32 004)	(25 560)
- FX rates differences	0	(34 017)
Balance at the end of the period	**663 228**	**911 988**

During 2011 and 2010 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 conversion of shares into the bearer shares was registered. As of 31.12.2011 the number of registered shares was 109 316, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

In connection with implementation of resolution No. 2 of the Extraordinary General Meeting of 3 December 2009 as well as resolution No. 5/2010 of the Management Board of the Bank dated 13 January 2010 on increasing initial capital through an issue of ordinary bearer shares, the L-series share issue took place. On 26 February 2010 the Court registered the Bank's share capital increase from PLN 849,181,744 up to PLN 1,213,116,777 and respective change in Bank's Statute.

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, 2011. Information on the Bank's shareholding structure presented in the table below is given on the basis of information contained in the notices sent to the shareholders of the Bank, pursuant to Article. 69 of the Act on Public Offering, the conditions for introducing financial instruments to organized trading, and public companies, or on the basis of information provided by shareholders in the registration at the AGM of the Bank, as far as possible aforementioned sources are updated based on public information. 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 31.12.2011

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	60 762 472	5.01	60 762 472	5.01

Shareholders as at 31.12.2010

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
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK*	61 341 239	5.06	61 341 239	5.06

* On 18 January 2011, the shareholder has informed the Bank on reduction the number of shares held below 5% of the share capital of the Bank

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

	31.12.2011	**31.12.2010**
Effect of valuation (gross)	123 291	(62 044)
Deferred income tax	(23 425)	11 788
Net effect of valuation	**99 865**	**(50 256)**

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

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 available for sale financial assets 1.01.2010 - 31.12.2010

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	12 363	(2 349)	10 014
Transfer to income statement of the period as a result of sale	(6 372)	1 211	(5 162)
Change of capitals connected with maturity of securities	(3 735)	710	(3 026)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	10 097	(1 918)	8 179
Revaluation reserve at the end of the period	**12 352**	**(2 347)**	**10 005**

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**

Revaluation reserve on cash flows hedge financial instruments 1.01.2010 - 31.12.2010

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	1 463	(278)	1 185
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	(128 252)	24 368	(103 884)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	52 394	(9 955)	42 439
Revaluation reserve at the end of the period	**(74 395)**	**14 135**	**(60 260)**

36c. 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:					**0**
- *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**

36d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2010	**515 944**	**633 014**	**88 366**	**217 288**	**1 454 612**
- appropriation of profit, including:					**0**
- *transfer to supplementary capital*	2 858			(2 858)	**0**
- *transfer to reserve capital*		84 115		(84 115)	**0**
- covering of loss from previous periods	(17 017)			17 017	**0**
- net profit/ (loss) of the period				325 997	**325 997**
Retained earnings at the end of the period 31.12.2010	**501 786**	**717 129**	**88 366**	**473 329**	**1 780 609**

IX. 2011 DIVIDEND

Bank Millennium has a dividend policy of distributing 35% to 50% of net profit as dividend. However, following to the recent Financial Supervision Commission's (KNF) recommendation, the Management Board of Bank Millennium will propose to retain entire 2011 profit in the equity.

X. 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	PLN 120,000,000
Book value as at reclassification date	PLN 119,132,400
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.

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 31.12.2011 (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	1 831 577	1 872 037
Amounts due to customers	29	37 427 835	37 424 696
Debt securities	31	1 071 193	1 063 397
Subordinated debt	35	663 228	655 546

* 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 2010 (data in PLN thousand):

ASSETS	**Note**	**Balance sheet value**	**Fair value**
Loans and advances to banks	15	1 485 810	1 516 440
Loans and advances to customers	18	36 738 493	35 113 486

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 31.12.2011				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			399 202	52
- 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	1 204 727	
- 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			574 215	
Hedging derivatives	**28**		2 298 099	

Data in '000PLN, as at 31.12.2010				
ASSETS	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
Financial assets valued at fair value through profit and loss (held for trading)	**16**			
- derivatives			439 683	545
- debt securities		752 141	228 219	
- shares and interests		931		
Hedging derivatives	**17**		80 231	
Financial assets available for sale	**19**			
- debt securities		2 975 319	1 521 645	
- shares and interests		9 812		1 653
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	**27**			
- derivatives and short sale of securities			804 331	
Hedging derivatives	**28**		1 315 321	

The category of derivatives, which were measured at fair value based on unobservable inputs (valuation techniques with use of important parameters not derived from the market) comprises FX options. The credit risk valuation component (valuation component not derived from the market) is reflected only in case of options, whose fair value is presented in the balance sheet as an asset. Options presented as the Bank's liability are included in the category measured at fair value based on parameters derived from the market (description of the method of valuation of FX options is presented in Chapter VI "Accounting Policy"). In 2009 the Bank ceased to conclude FX options with the transaction customers, in result the value of these transactions fell strongly.

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2011 are presented in the table below:

Data in '000 PLN

	FX options	Shares and interests
Balance on 1 January 2011	545	1 653
Settlement/repurchase/sale	(494)	(572)
Change of valuation recognized in P&L account (including interests)	1	7
Balance on 31 December 2011	52	1 088

XII. DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

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

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

As at 31 December 2010 following assets of the Bank constituted security of liabilities:

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds DZ0811	available for sale	Lombard credit granted to the Bank by the NBP	65 000	65 900
2.	Treasury bonds OK0711	available for sale	Lombard credit granted to the Bank by the NBP	75 000	73 350
3.	Treasury bonds DZ0811	available for sale	Initial security deposit for bond futures	500	507
4.	Treasury bonds OK0711	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	75 000	73 350
5.	Treasury bonds DZ0811	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	30 000	30 415
6.	Treasury bonds OK0112	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	85 000	81 209
7.	Cash		Payment to the Futures Settlement Guarantee Fund	70	70
8.	Deposits	Deposits on other banks	Settlement on transactions concluded	1 000 302	1 000 302
9.	Loans and advances	Loans and advances	Loan agreement	164 708	141 385
TOTAL				**1 495 580**	**1 466 488**

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

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

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

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 2010 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Portfolio	Par value	Balance sheet value
Treasury bonds	trading	713 477	669 832
TOTAL		**713 477**	**669 832**

XIV. 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

	31.12.2011	**31.12.2010**
Cash and balances with the Central Bank	2 017 798	2 050 736
Receivables from interbank deposits (*)	459 741	145 018
Debt securities issued by the State Treasury (*)	1 165 461	1 063 295
of which available for sale	1 118 739	999 708
of which trading	46 722	63 587
Total	**3 643 000**	**3 259 049**

(*) 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 2011 include an adjustment of PLN 32 million (PLN 26 million in 2010) 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 40 million (61 million respectively for the year 2010).

XV. INFORMATION ON CUSTODY ACTIVITY

As of 31.12.2011 the Custody Department maintained 9,912 securities accounts, registers of foreign financial instruments and deposits accounts, in which Customers’ assets were kept with the total value of PLN 27,708.9 million. Net revenue from the custody business for 2011 amounted to PLN 7.6 million as compared to PLN 7.1 million recorded in 2010. The Custody Department serves as a depositary bank for 49 mutual funds including 10 of Millennium TFI S.A. (two funds with separated sub funds).

XVI. TRANSACTIONS WITH RELATED ENTITIES

(1) Description of the transactions with related entities

All and any transactions between entities of the Group in 2011 resulted from the current operations. Below are the most significant amounts – eliminated in the data consolidation process – of intra-group transactions concluded between the following entities:

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

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

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

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

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits	221 963	248 655
Loans and advances to customers	1 843 071	
Receivables from securities bought with sell-back clause	15 707	
Investments in associates	311 287	
Investment financial assets	215 616	
Financial assets valued at fair value through profit and loss (held for trading)	3 618	
Hedging derivatives		
Other assets	297 105	105
LIABILITIES		
Deposits from banks	1 761 654	74 971
Deposits from customers	622 226	
Liabilities from securities sold with buy-back clause	15 707	
Debt securities	(176 759)	299 795
Financial liabilities valued at fair value through profit and loss (held for trading)	1 096	91
Hedging derivatives		304 263
Other liabilities	379 964	469
- including liabilities from financial leasing contracts	72 634	

ASSETS AND LIABILITIES FROM TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2010

	With subsidiaries	With parent Group
ASSETS		
Loans and advances to banks – accounts and deposits	268 347	4 728
Loans and advances to customers	2 336 578	
Receivables from securities bought with sell-back clause	3 503	
Investments in associates	311 242	
Investment financial assets	15 725	
Financial assets valued at fair value through profit and loss (held for trading)	4 120	19 216
Hedging derivatives	0	69 616
Other assets	5 710	671
LIABILITIES		
Deposits from banks	2 195 823	793 828
Deposits from customers	1 029 747	
Liabilities from securities sold with buy-back clause	3 503	
Debt securities	(736 438)	
Financial liabilities valued at fair value through profit and loss (held for trading)	1 300	
Hedging derivatives		69 748
Other liabilities	144 969	424
- including liabilities from financial leasing contracts	138 786	

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

	With subsidiaries	With parent Group
Income from:		
Interest	116 683	105 633
Commissions	48 254	
Derivatives net	0	3 463
Dividends	24 734	
Other net operating income	90 365	1 999
Expense from:		
Interest	120 702	53 410
Commissions	48 326	5 710
Derivatives net	298	
General and administrative expenses	85 833	4 300

PROFIT AND LOSS ON TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN)
FOR THE PERIOD OF 1.01-31.12.2010

	With subsidiaries	With parent Group
Income from:		
Interest	97 749	64 044
Commissions	54 303	
Derivatives net	1 304	
Dividends	28 822	
Other net operating income	79 696	2 668
Expense from:		
Interest	97 860	54 187
Commissions	53 778	1 790
Derivatives net	0	6 678
General and administrative expenses	79 628	5 348

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

	With subsidiaries	With controlling entity
Conditional commitments	123 238	986 570
Derivatives (par value)	154 177	5 361 126

OFF-BALANCE TRANSACTIONS WITH RELATED PARTIES (DATA IN '000 PLN) AS AT 31.12.2010

	With subsidiaries	With controlling entity
Conditional commitments	150 124	805 797
Derivatives (par value)	303 809	4 536 378

(2) Information on the value of prepayments, loans, advances and guarantees granted

Information on total exposure towards the managing and supervising persons as at 31.12.2011:

	The managing persons	The supervising persons
Total debt limit (in ‘000 PLN), - including an unutilized limit (in ‘000 PLN),	1 198.0 702.9	165.0 143.3
Mortgage loans and credits	3 576.3	-
Active guarantees	-	-

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

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

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

Outstanding loans granted to staff from Company Social Benefits Fund:

- in the Bank - 3 902.3 PLN ths.
- in Millennium Leasing - 1 298.7 PLN ths

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

Information on total exposure towards the managing and supervising persons as at 31.12.2010:

	The managing persons	The supervising persons
Total debt limit (in ‘000 PLN), - including an unutilized limit (in ‘000 PLN),	1 210.0 381.7	125.0 113.0
Mortgage loans and credits	3 314.5	-
Active guarantees	-	-

Information on total exposure towards companies and groups personally related as at 31.12.2010:

Entity	Amount (PLN’000)	Relation
Company No 1	5 269	Personal with a supervising person
Company No 2	395	Personal with a supervising person
Group No 1	140 465	Personal with a supervising person
Group No 2	6 465	Personal with a supervising person

Outstanding loans granted to staff from Company Social Benefits Fund:

- in the Bank - 4 349.6 PLN ths.
- in Millennium Leasing - 1 364.2 PLN ths.

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

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

Period	Short term salaries and bonuses	Benefits	TOTAL
2011	12 957.0	1 589.6	**14 546.6**
2010	9 180.0	1 692.7	**10 872.7**

Total value of remuneration of the Members of the Management Board in 2011 was PLN 14,546.6 thousand. This amount includes remuneration of the Members of the Management Board together with bonus for year 2010 amounted to PLN 3,450 thousand and fringe benefits. In 2011 the provision for bonus was established in the amount of PLN 9,266.9 thousand. In 2011 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
2011	**1 669.2**
2010	**1 637.9**

In 2011, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

(4) Bank's shares held by the persons managing and supervising the Bank (in office as at 31 December 2011)

Name and surname	Function	Number of shares as at 31.12.2011	Number of shares as at 31.12.2010
Bogusław Kott	Chairman of the Management Board	4 465 791	4 465 791
Joao Bras Jorge	Deputy Chairman of the Management Board	0	0
Fernando Bicho	Member of the Management Board	0	0
Julianna Boniuk-Gorzelańczyk	Member of the Management Board	492 248	492 248
Maria Jose Campos	Member of the Management Board	0	0
Andrzej Gliński	Member of the Management Board	0	0
Wojciech Haase	Member of the Management Board	7 494	7 494
Artur Klimczak	Member of the Management Board	0	0
Jerzy Andrzejewicz	Proxy	6 260	6 260
Maciej Bednarkiewicz	Chairman of the Supervisory Board	134	134
Ryszard Pospieszyński	Deputy Chairman of the Supervisory Board	86 300	86 300
Carlos Jorge Ramalho dos Santos Ferreira	Deputy Chairman of the Supervisory Board	0	0
Marek Furtek	Secretary of the Supervisory Board	1	1
Luis Pereira Coutinho	Member of the Supervisory Board	0	0
Vitor Manuel Lopes Fernandes	Member of the Supervisory Board	0	0
Andrzej Koźmiński	Member of the Supervisory Board	0	0
António Manuel Palma Ramalho	Member of the Supervisory Board	0	0
Nelson Ricardo Bessa Machado	Member of the Supervisory Board	0	0
Marek Rocki	Member of the Supervisory Board	0	0
Dariusz Rosati	Member of the Supervisory Board	0	0

XVII. 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.

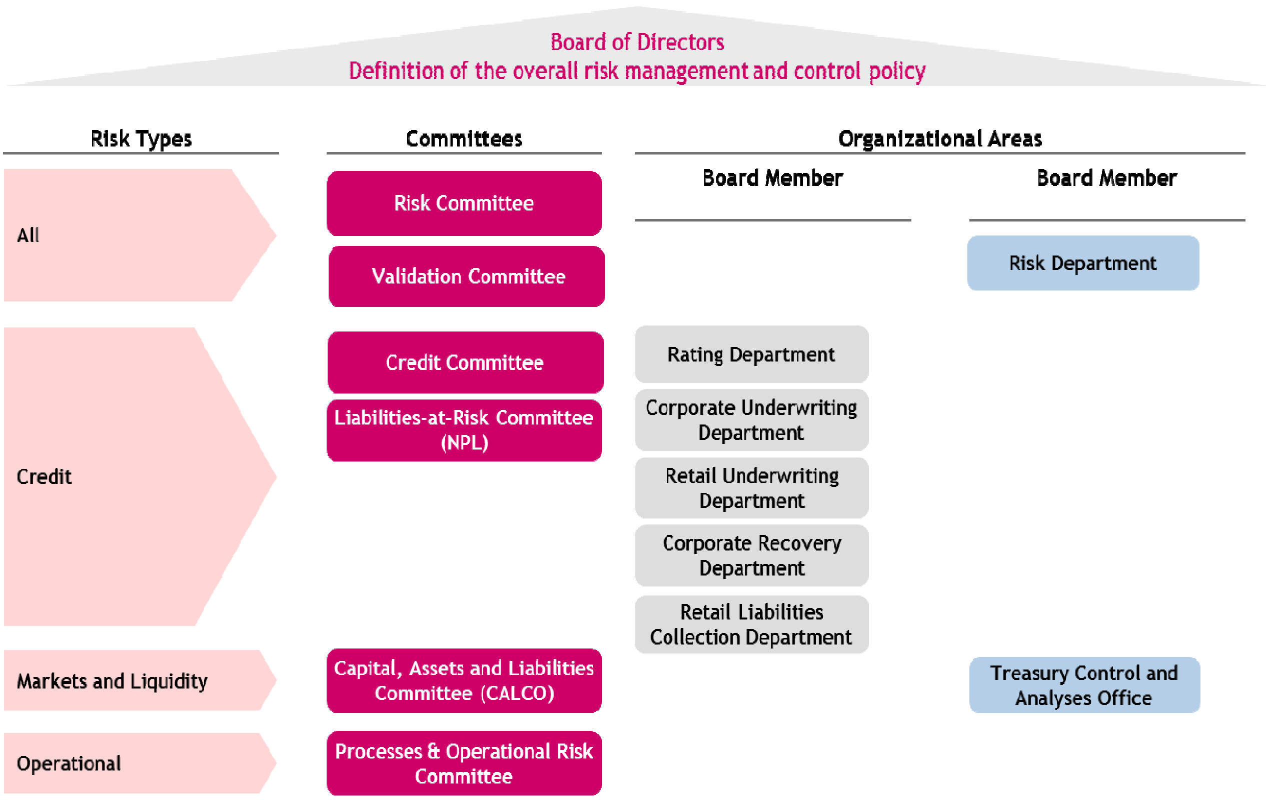
Risk management in the Group aims to ensure that all types of risks are managed, monitored and controlled with reference to its sustainability, profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system.

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.

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 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 (established in 2011) 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 (established in 2011) 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.

(1) Capital Management

Regulatory Own Funds

The management of the Group's capital, in addition to complying with own needs must fully observe statutory regulations in this regard (own funds, prudential standards, capital requirements) as set by the Banking Act and respective resolutions of the Polish Financial Supervisory Authority.
The Group'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.
The key priority in capital management in 2011 was to intensify activities associated with the process in which the supervisory authority evaluated the application to apply the Internal Ratings-Based Approach (IRB) for the calculation of capital requirements for credit risk.

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 2011 - similar to 2010 - total risk of the Group (internal to capital) was completely secured by available to this purpose funds. Internal capital is allocated into particular business areas.

(2) Credit risk

The credit risk is one of the most important risk type for the Group and therefore considerable attention is given to management of credit risk-bearing exposures. Credit risk is connected with balance-sheet credit exposures (i.e., granted credit and loans) as well as off-balance sheet financial instruments, such as granted and unutilized credit lines, guarantees and letters of credit, 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.

(2A) MEASUREMENT OF CREDIT RISK

Loans and advances

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

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

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

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

(i) The Group assesses the probability of default (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.

Debt Securities

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

(2B) LIMITS CONTROL AND RISK MITIGATION POLICY

The Group measures, monitors and controls large credit exposures and high credit risk concentrations, wherever they are identified. Concentration risk management process encompasses single-name exposures (with respect to an individual borrower or group of connected borrowers with material capital, organizational or economic relations) and sectoral concentration – to economic industries, geographical regions, countries, and the real estate financing portfolio including FX loans. Above types of sectoral exposures are 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.

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.

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

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

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 2011, 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 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

In 2011, the Group focused on monitoring the effect of the changes made in the previous year and on implementing further improvements of the process resulting from those observation. As a result of those activities, additional elements were added to the collective analysis methodology:

- In the mortgage portfolio, an additional sub-portfolio was added where impairment charges rely on the current value of the LTV ratio,
- For retail loans, the quarantine period was redefined by taking grace period into account.

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

Internal rating of the Group

	31.12.2011		31.12.2010	
	Loans and advances (%)	**Impairment charges (%)**	**Loans and advances (%)**	**Impairment charges (%)**
1. Highest quality	Minor	Minor	Minor	Minor
2. Good quality	37.10%	3.22%	37.90%	3.50%
3. Medium quality	29.34%	5.35%	32.39%	5.56%
4. Low quality	16.44%	5.38%	10.77%	2.35%
5. Watched	0.98%	2.65%	3.77%	7.78%
6. Default	4.75%	76.61%	5.93%	76.25%
7. Clients without rating*	11.38%	6.79%	9.24%	4.56%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

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

(2d) Maximum exposure to credit risk i.e. net of risk-mitigating instruments

PLN '000

	Maximum exposure	
	31.12.2011	**31.12.2010**
Exposures exposed to credit risk connected with balance sheet assets appear as follows:	**47 869 495**	**44 229 636**
Loans and advances to banks	**2 660 374**	**1 485 809**
Loans and advances to customers:	**41 332 337**	**36 738 493**
Loans to private individuals:	**31 067 852**	**27 884 336**
– Credit cards	739 913	766 096
– Cash loans and other loans to private individuals	2 044 976	2 235 366
– Mortgage loans	28 282 963	24 882 874
Loans to companies	**9 354 004**	**8 125 348**
Loans to public entities	**910 481**	**728 809**
Trading securities:	**318 246**	**981 291**
– Debt securities	316 250	980 360
– Shares	1 996	931
Derivatives and adjustment from fair value hedge	**411 579**	**448 529**
Financial assets valued at fair value	**0**	**0**
Investment financial assets	**3 144 750**	**4 520 429**
– Debt securities	3 132 507	4 496 964
– Shares	12 243	23 465
Receivables from securities bought with sell-back clause	**2 209**	**55 085**
Credit risk connected with off-balance sheet items appears as follows:	**8 695 495**	**7 977 715**
Financial guarantees	2 054 175	1 810 878
Credit commitments and other commitments connected with loans	6 641 320	6 166 837

The table above presents the structure of the Group's exposures to credit risk as at 31st December 2011 and 31st December 2010, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

(2E) LOANS

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

Gross exposure in '000 PLN

	31.12.2011		31.12.2010	
	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	38 361 813	2 660 374	33 682 351	1 485 810
Overdue, but without impairment	2 083 759	0	2 048 309	0
With impairment	2 104 134	0	2 195 119	0
Gross	**42 549 706**	**2 660 374**	**37 925 779**	**1 485 810**
Impairment write-offs together with IBNR	(1 217 369)	0	(1 187 286)	0
Net	**41 332 337**	**2 660 374**	**36 738 493**	**1 485 810**
Loans with impairment / total loans	4.95%		5.79%	

Loans and advances not past due and not impaired

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

Loans and advances not overdue and without impairment

Gross exposure in '000 PLN

	Customers 31.12.2011	**Banks 31.12.2011**	**Customers 31.12.2010**	**Banks 31.12.2010**
Rating:				
1. Highest quality	405	2 660 374	699	1 485 810
2. Good quality	15 727 291		14 221 598	
3. Medium quality	12 036 870		11 678 373	
4. Low quality	5 979 445		3 437 499	
5. Watched	157 924		671 828	
6. Default	156 627		229 287	
7. Clients without rating	4 303 251		3 443 067	
Total	**38 361 813**	**2 660 374**	**33 682 351**	**1 485 810**

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

31.12.2011	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**

Gross exposure in '000 PLN

31.12.2010	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay till 30 days	588 909	985 939	213 338	0	1 788 186
Delay 30 - 60 days	86 995	47 773	39 481	0	174 249
Delay 60-90 days	9 830	13 730	18 181	0	41 741
Delay above 90 days*	40 733	416	2 984	0	44 133
Total	**726 467**	**1 047 858**	**273 984**	**0**	**2 048 309**

* - 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

	31.12.2011				
	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**

Gross exposure in ‘000 PLN

	31.12.2010				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	1 292 907	18 508	552	0	1 311 967
Collective analysis	171 591	203 392	508 169	0	883 152
Total	**1 464 498**	**221 900**	**508 721**	**0**	**2 195 119**

Loans and advances covered by case-by-case analysis

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

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

- By products

Gross exposure

Loans and advances to customers

	31.12.2011			31.12.2010		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
Investment loans	371 388	32.7%	28.1%	320 317	24.4%	28.5%
Working capital loans	126 575	11.2%	26.7%	195 823	14.9%	24.7%
Current account loans	60 437	5.3%	60.7%	63 810	4.9%	35.2%
Revolving loans	800	0.1%	64.5%	1 108	0.1%	59.3%
Mortgage loans	32 226	2.8%	21.9%	18 508	1.4%	20.5%
Factoring	15 804	1.4%	59.9%	94 990	7.2%	50.7%
Leasing	255 900	22.6%	33.0%	382 870	29.2%	27.4%
Other*	271 427	23.9%	60.6%	234 541	17.9%	63.8%
	1 134 557	**100.0%**	**38.8%**	**1 311 967**	**100.0%**	**35.8%**

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

- By currency

Gross exposure

Loans and advances to customers

	31.12.2011			31.12.2010		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	667 337	58.8%	48.1%	817 810	62.3%	41.3%
CHF	52 043	4.6%	26.4%	73 558	5.6%	35.2%
EUR	77 085	6.8%	19.4%	100 195	7.6%	14.8%
USD	295 966	26.1%	27.0%	267 774	20.4%	27.8%
JPY	42 126	3.7%	26.9%	52 630	4.0%	31.6%
	1 134 557	**100.0%**	**38.8%**	**1 311 967**	**100.0%**	**35.8%**

- By coverage ratio

Gross exposure

Loans and advances to customers	31.12.2011		31.12.2010	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	280 753	24.7%	453 359	34.6%
20% - 40%	495 178	43.7%	419 807	32.0%
40% - 60%	111 314	9.8%	219 670	16.7%
60% - 80%	81 299	7.2%	36 513	2.8%
Above 80%	166 013	14.6%	182 618	13.9%
	1 134 557	**100.0%**	**1 311 967**	**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 (receivables).

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:

1) warning process - conducted by Direct Banking Department,

2) 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 (court proceedings).

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,* total exposure of the Group in a given Customer, 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 (DNG). 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 from collateral held by the Group.

DNG 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

	31.12.2011	**31.12.2010**
Loans and advances to private individuals	290 840	193 744
Loans and advances to companies	572 330	649 281
Total	**863 170**	**843 025**

Bank execution titles

In 2011, the Bank issued 74 bank execution titles for the aggregated amount of PLN 97.69 million (based on the average NBP exchange rate of 31 December 2011), including:

- 72 bank execution titles for the aggregated amount of PLN 87.00 million,

- 1 bank execution title for USD 0.002 million (PLN 0.01 million),

- 1 bank execution title for CHF 2.94 million (PLN 10.68 million)

Additionally, in 2011 the Bank issued 16,026 bank execution titles for retail and small business receivables for the aggregated amount of PLN 222.0 million (based on the exchange rate of 31 December 2011).

(2F) DEBT AND EQUITY SECURITIES

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

Gross exposure in '000 PLN

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**

The table below presents the structure of securities in the Group's portfolio as at 31 December 2010.

Gross exposure in '000 PLN

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	980 358	3 355 516	24	**4 335 898**
Central Bank	0	999 708	0	**999 708**
Other	0	141 743	44 809	**186 552**
- listed	0	8 342	10 742	**19 084**
- not listed	0	133 401	34 067	**167 468**
Total	**980 358**	**4 496 967**	**44 833**	**5 522 158**

(2G) COLLATERAL TRANSFERRED TO THE GROUP

In 2011 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of part of the proceeds for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (as part of selling organized parts of the debtor's whole enterprise).

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

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.

(2H) 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).

(2I) CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH EXPOSURE TO CREDIT RISK

Industry sectors

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

31.12.2011	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	925	16 539	8 200	29	3 132 531	0	0	8 345	**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**
As at 31 December 2011	**3 669 502**	**4 145 710**	**2 284 045**	**1 339 127**	**4 282 340**	**28 410 931**	**3 246 262**	**1 861 401**	**49 239 319**

31.12.2010	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	1 485 810	0	0	0	0	0	0	0	**1 485 810**
Loans and advances to customers	128 637	3 454 263	2 022 875	1 179 501	677 381	24 991 572	3 436 239	2 035 311	**37 925 779**
Trading securities	150	112	604	0	980 360	0	0	64	**981 290**
Derivatives and adjustment from fair value hedge	480 435	42 759	1 529	0	0	0	0	4 037	**528 760**
Investment securities	19 079	16 539	8 200	26	4 455 787	0	0	41 239	**4 540 870**
Financial assets valued at fair value	0	0	0	0	0	0	0	0	**0**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0	0	0	0	**55 085**
As at 31 December 2010	**2 169 196**	**3 513 673**	**2 033 208**	**1 179 527**	**6 113 528**	**24 991 572**	**3 436 239**	**2 080 651**	**45 517 594**

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

(3) Market Risk

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

Market-risk evaluation measures

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) and with specified probability (confidence level) from an adverse market movement.
Calculation of the VaR in the Bank is carried out on the basis of the analytical approximation defined in the methodology developed by the RiskMetrics company. It is calculated considering the holding period of 10 working days and a 99% confidence level (one tail). Calculating the volatility associated with each risk vertex the model gives greater weighting to historical market conditions seen in the more recent days, thus ensuring a more correct match with the current market conditions.
The value at risk is determined daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

To ensure that the VaR model adopted is appropriate for the evaluation of the risks involved in the open positions, a back-testing process has been instituted and is carried out daily. Back testing is a standard technique used to evaluate the quality of the risk measurement model, performed according to the following rules:

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

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

In order to monitor and limit the positions in instruments, for which it is not possible to properly assess market risk with the use of the VaR model (non-linear instruments), other risk ratios were defined, such as Gamma, Vega and Theta.

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

- 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: i) Parallel shifts of the yield curves; ii) More steep or flat shape of the yield curves; iii) Variations of interest rate volatility; iv) Variations of the exchange rates; v) Variations of currency and currency interest rate swaps spreads; vi) Historical adverse scenarios.

The VaR calculation process is carried out using Web-based software, which allows the to have on-line access to the risk exposures 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 December 2011, new market risk limits were adjusted to more recent 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 2011 was equal to approx. PLN 15.83 million. The diversification effect applies to the Generic Risk and reflects correlation between its constituents. The figures include also the exposures to market risk generated in subordinated companies, as the Bank takes over the risk of subordinated companies and manages it at central level.

VaR measures for market risk ('000 PLN)	**VaR (from 31st December 2010 to 31st December 2011)**				
	End of 2011	Average	Maximum	Minimum	**End of 2010**
Total risk	**19 925**	**15 826**	**25 980**	**8 495**	**11 979**
Generic risk	16 912	13 023	23 106	5 752	9 247
Interest Rate VaR	16 871	13 041	23 774	5 764	9 264
FX Risk	94	515	6 847	9	152
Diversification Effect	0	0	0	0	0
Non-linear risk	0%				2%
Commodities risk	0	7	57	0	22
Specific risk	0	0	0	0	0
Total risk	2 790	2 796	2 982	2 680	2 710

The corresponding exposures as of 2010 respectively amounted to:

VaR measures for market risk	**VaR (from 31st December 2009 to 31st December 2010)**				
	End of 2010	Average	Maximum	Minimum	**End of 2009**
Total risk	**11 979**	**13 843**	**20 671**	**6 999**	**17 497**
Generic risk	9 247	12 712	19 759	6 106	16 545
Interest Rate VaR	9 264	12 682	21 308	6 309	16 377
FX Risk	152	785	7 903	20	721
Diversification Effect	0	0	0	0	0
Non-linear risk	2%				3%
Commodities risk	22	12	34	0	0
Specific risk	0	0	0	0	0
Total risk	2 710	1 118	2 710	561	951

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

VaR measures for market risk	VaR (from 31st December 2009 to 31st December 2010)				
	End of 2010	Average	Maximum	Minimum	**End of 2009**
Total risk	**11 097**	**10 602**	**19 242**	**5 108**	**12 936**
Generic risk	8 389	9 484	18 433	4 194	11 987
Interest Rate VaR	8 389	9 484	18 433	4 194	11 987
FX Risk	0	0	79	0	0
Diversification Effect	0%				0%

Trading Book:

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

VaR measures for market risk	VaR (from 31st December 2009 to 31st December 2010)				
	End of 2010	Average	Maximum	Minimum	**End of 2009**
Total risk	**4 258**	**6 667**	**10 435**	**2 063**	**6 537**
Generic risk	4 235	6 654	10 431	2 044	6 534
Interest Rate VaR	4 248	6 525	11 238	2 019	6 391
FX Risk	152	784	7 903	20	721
Diversification Effect	4%				9%

In 2011, there were no total market risk limit excesses in any of the risk management area. All excesses of sublimits were reported and are documented. This includes an explanation of their causes and ratification of the excess at the proper competence level.

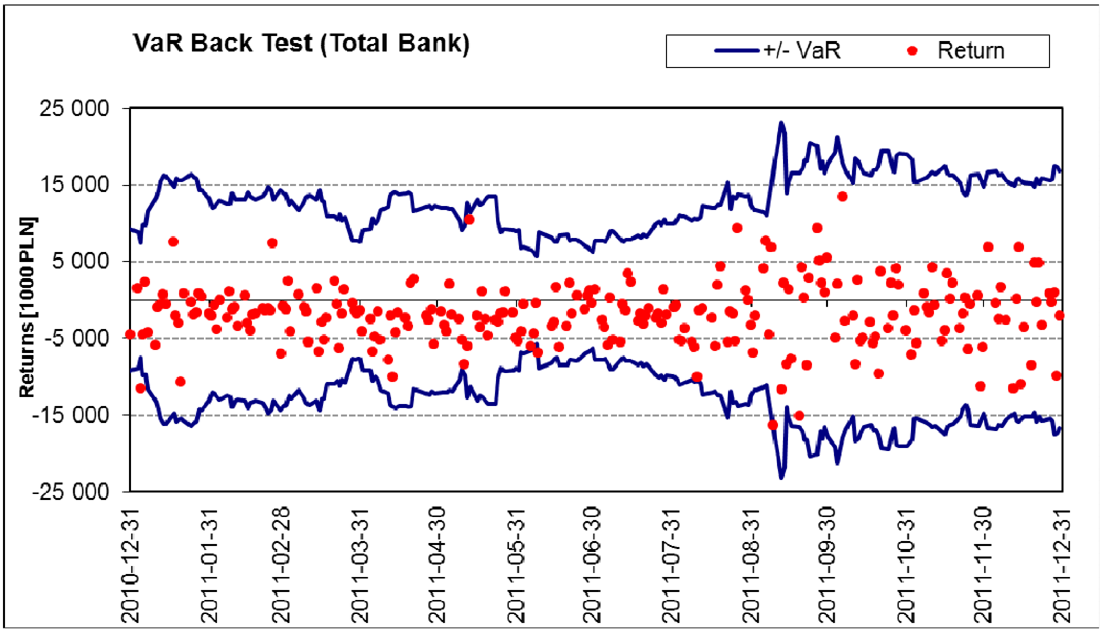
Open positions mostly included interest-rate instruments and FX risk instruments. The FX Risk covers all the foreign exchange exposures of the Group, as well as open positions allowed only in the Trading Portfolios.

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

Total position	Period Average	Period Minimum	Period Maximum	The Last Day of Period
2011	16 208	1 635	61 390	3 112
2010	26 181	5 837	119 526	16 162

The back testing proves that the applied VaR model is appropriate.

Market risk - VaR Back Testing



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

In keeping with principles adopted by the 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 transaction have a macro hedging character.

Bank performs hedging strategies against interest rate risk connected with the fixed rate loan portfolio, in particular with the portfolio of consumer loans and leasing portfolio. Cash loans portfolio was partially hedged with amortizing IRS transactions and incorporated into the hedge accounting. In the part not hedged by dedicated transactions, the portfolio is economically hedged with fixed rate deposits. The leasing fixed-rate portfolio is fully hedged by IRS transactions. In connection with the implementation of the risk transfer procedure, the Group run the process of calculation the hedged portfolios' market value changes in a series of additional stress tests carried out every month. Stress tests scenarios assumes the change of shape and location of yield curves and aims at verification of the hedge effectiveness.

As at end of December 2011 the value of BPV for the Banking Book was approx. PLN 5 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
2011	5 676	(16 698)	24 422	5 332
2010	15 021	(14 005)	37 027	22 618

(4) 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 assures over the risk from its subsidiaries and manages it centrally.

In 2011 the Bank prolonged EUR 200 million stand-by facility with Millennium BCP – the parent company. Moreover, during 2011 the Group issued additional structured bonds (about PLN 203 million) increasing the level of long-term stable sources of funding.
The large, diversified and stable funding from retail and corporate sectors remains the main source of financing. In 2011 the deposit grew to the level of approx. PLN 37 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 2011 remained almost unchanged compared to 2010, amounting respectively to 4,5% and 9.8% (in December 2010 it was respectively 4.4% and 11.1%
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.

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.

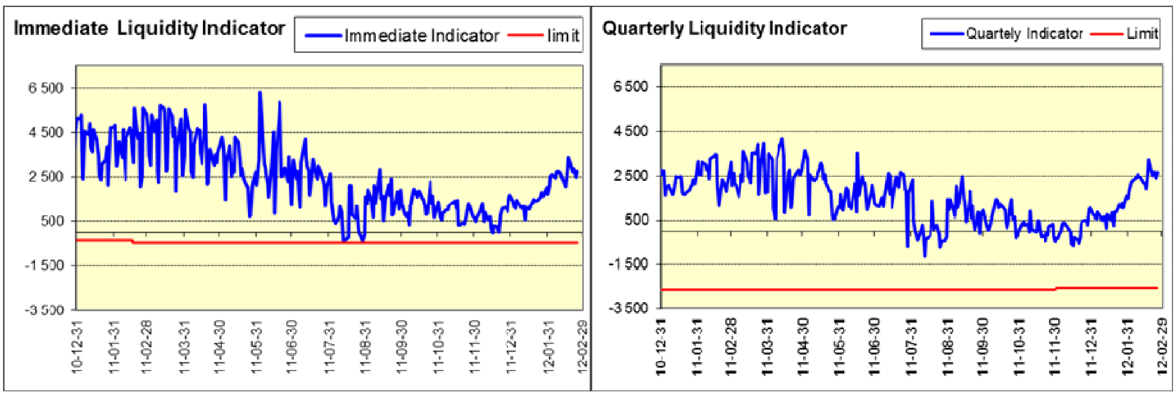
These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force. During the year, these indicators were above minimum limit.

Current Liquidity indicators

PLN million

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

31.12.2010	Highly liquid assets	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	4 231	5 143	2 547	5 007
Minimum limit		(657)	(2 623)	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. The PLN depreciation in the second half of 2011 year caused a temporary decrease in internal liquidity measures.

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 2011 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).

	31.12.2011					
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	13 138	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

31.12.2010						
Adjusted Liquidity Gap (m PLN)	**up to 6M**	**6M to 12M**	**1Y to 2Y**	**2Y to 3Y**	**3Y to 5Y**	**over 5Y**
Adjusted balance assets	13 532	3 363	4 645	4 408	5 988	29 904
Adjusted balance liabilities	7 567	1 573	1 176	1 011	2 674	42 651
Balance-Sheet Gap	5 966	1 790	3 469	3 397	3 314	(12 746)
Cumulative Balance-Sheet Gap	5 966	7 755	11 225	14 621	17 935	5 188
Adjusted off-balance assets	278	295	586	435	529	766
Adjusted off-balance liabilities	(1 170)	(391)	(608)	(445)	(504)	(997)
Off-Balance Sheet Gap	(892)	(96)	(22)	(10)	25	(230)
Total Gap	5 073	1 694	3 447	3 387	3 339	(12 977)
Total Cumulative Gap	5 073	6 767	10 214	13 601	16 940	3 963

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.

(5) Operational Risk

In the year 2011 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 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. Ongoing 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.

XVIII. LIQUIDITY GAP BY MATURITY

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 assets	TOTAL
Cash, balances with the Central Bank	2 017 798	0	0	0	0		**2 017 798**
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	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	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**

31 December 2011							PLN '000
OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	5 758 206						**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)**

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 2010 **PLN '000**

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other assets	TOTAL
Cash, balances with the Central Bank	2 050 736	0	0	0	0		**2 050 736**
Loans and advances to banks	1 114 645	0	0	371 164	0		**1 485 809**
Trading debt securities	0	63 587	569 631	321 597	25 545		**980 360**
Derivatives and adjustment from fair value hedge	20 857	184 816	145 229	63 482	34 145		**448 529**
Hedging derivatives	0	0	0	78 982	1 249		**80 231**
Loans and advances to customers	3 265 218	879 975	3 333 619	8 419 477	20 840 205		**36 738 493**
Debt securities available for sale	1 014 649	17 922	935 935	2 480 078	48 380		**4 496 964**
Receivables from securities bought with sell-back clause	55 085	0	0	0	0		**55 085**
Shares and interests						24 396	**24 396**
Other non-financial assets						623 814	**623 814**
TOTAL	**7 521 190**	**1 146 300**	**4 984 414**	**11 734 780**	**20 949 523**	**648 210**	**46 984 418**

LIABILITIES	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other liabilities	TOTAL
Deposits from banks	195 300	538	792 294	905 690	190 634		**2 084 456**
Deposits from customers	22 090 783	6 627 919	5 607 605	1 068 675	165		**35 395 147**
Trading derivatives and liabilities from short sale of securities	96 858	370 767	94 022	124 901	117 784		**804 331**
Hedging derivatives	76 250	132 966	307 353	446 795	351 958		**1 315 321**
Liabilities from securities sold with buy-back clause	670 691	0	0	0	0		**670 691**
Debt securities, by final legal maturity	0	13 804	76 830	313 936	736 437		**1 141 007**
Subordinated debt	0	0	317 943	0	594 045		**911 988**
Other non-financial liabilities						570 505	**570 505**
Equity						4 090 973	**4 090 973**
TOTAL	**23 129 881**	**7 145 994**	**7 196 046**	**2 859 996**	**1 991 022**	**4 661 478**	**46 984 418**

31 December 2010							PLN '000
OFF-BALANCE SHEET LIABILITIES	**below 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**above 5 years**	**Other liabilities**	**TOTAL**
Liabilities from opened credit lines	4 935 754						**4 935 754**
Liabilities from sureties and guarantees	1 239 652						**1 239 652**
Balance sheet Gap	**(15 608 691)**	**(5 999 694)**	**(2 211 633)**	**8 874 784**	**18 958 501**	**(4 013 267)**	**0**
Total Gap	**(21 784 097)**	**(5 999 694)**	**(2 211 633)**	**8 874 784**	**18 958 501**	**(4 013 267)**	**(6 175 406)**

XIX. CONDITIONAL LIABILITIES AND ASSETS

Total value of claims in the biggest court proceedings involving companies from the Group, either as a claimant or defendant, seen before courts, arbitration authorities of appropriate jurisdiction, amounted as at 31.12.2011 to PLN 579.5 million. Total value of claims in the biggest court proceedings, in which companies from the Group appeared as defendant was PLN 416.3 million, and the total value of claims in the biggest court proceedings, in which companies from the Group appeared as plaintiff was PLN 163.2 million.

Proceedings connected with derivatives

As of 31 December 2011 the Bank was party to 43 lawsuits connected with derivatives, where in 35 cases the Bank was the defendant, while in 8 as the plaintiff. Accordingly to the Bank's best knowledge the total disputed value in these lawsuits was PLN 314 million. The highest unit value of the dispute was PLN 71 million.

The largest lawsuits connected with derivatives in which Bank appears as the defendant:

1. **Plaintiff:** legal person

   Value of the object of the dispute: PLN 71,065,495

   Object: Claim for return of amounts due on account of settlement of FX options.

   Case status: On 10 January 2011 the lawsuit was formally received by an attorney of the Bank, who in cooperation with the Bank prepared and delivered on 24 January 2011 to the court a reply to the lawsuit. Currently procedural letters are being exchanged. The first hearing on November 23, 2011, was of the preparation nature. The Court obliged representatives of parties to make some actions to be completed within 14 days, under the threat of suspension of the proceedings. Dates for further hearings the Court appointed for 16.03.2012, and 30.03.2012.

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

2. **Plaintiff:** legal person

   Value of the object of the dispute: PLN 31,049,160

   Object: The plaintiff claims that the disputed transaction was not concluded effectively owing to failure to agree on essentials components. Additionally the plaintiff claims that he has evaded the legal effects of his statements of will, which had been made in error.

   Case status: The first hearing was held on 26 October 2010. During this hearing witnesses were questioned. Other witnesses were heard during hearings, which took place April 12 and 8 November 2011, the Next hearing has been fixed at 28 February 2012.

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

The other largest lawsuits in which Group companies are defendants except Proceedings with participation of the Chairman of UOKiK:

1. **Plaintiff:** joint stock company in bankruptcy

   Value of the subject matter of the dispute: PLN 159,461,349

   Re: 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.

   Description of the case: Currently the case is pending before the District Court in Gdańsk. The Court accepted as evidence the opinion of an expert in the matter of appraisal of the value of real estate as on 25 October 2002. The opinion was delivered to the parties. The plaintiff in the letter of 15 October 2010 questioned the calculations resulting from the opinion, petitioned for preparing an additional opinion and for expanding the team of court experts to include an expert on the fuels trading market. In a letter dated 2 November 2010 the Group petitioned for dismissal of the plaintiff's petitions to admit evidence of the additional opinion and to expand the team of experts as well as for summoning the expert for the next hearing for him to provide explanations to the opinion. On 21 February 2011 a hearing was held with participation of the expert. In the letter of 1 March 2011 the plaintiff's attorney-at-law petitioned for disclosure of the books of the premises for purposes of preparing a new opinion and for expanding the team of court experts to include an expert on the fuels trading market. In the letter of 29 March 2011 the attorney-at-law of the defendant petitioned for new questioning of the expert about his opinion and for dismissal of the petitions, contained in the plaintiff's letter of 1 March 2011.

   On 4 April 2011 another hearing was held, where the court dismissed the plaintiff's petitions as well as the defendant's petition for a supplementary questioning of the expert. On 29 April 2011 the District Court in Gdańsk dismissed all complaints of plaintiff, adjudging the amount of PLN 18 015 to the Millennium Leasing as return of incurred court fees. On 27 June 2011 the Court received the appeal of the plaintiff, which the attorney of company received on 9 September. Then, on 26 September 2011, was sent a reply, which sought to dismiss the appeal in its entirety.

   On 11 October 2011 Regional Court at the request of the Millennium Leasing amended obvious clerical error found in the judgment of 29 April (instead of defining the subject matter of the dispute as a matter "for recognition of the legal acts for the unsuccessful" indicated "payment"). The next date for hearing has not been designated yet.

   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 incurred court fees.

2. **Plaintiff:** natural person

Value of the subject matter of the dispute: PLN 2,263,894

Object: Claim aimed at depriving the feasibility of the Executive title

Case status: In the judgment of the Court of Appeal, case returned to the Court of first instance, in order to judge whether termination of the agreement was effective, the next hearing is scheduled for 2 March 2012.

Prospects: the Bank's attorney assesses probability of beneficial settlement for the Bank at about 50%

Proceedings with participation of the Chairman of UOKiK:

Proceedings before the Chairman of UOKiK concerning provisions of mortgage loans

The Bank is party of the case before the Chairman of UOKiK concerning provisions of mortgage loan agreements as regards the method of calculation of insurance contribution, used by the Bank.
In such proceedings, the Chairmen calls for recognition of the illegal provisions of a standard agreement concerning the rules for setting the exchange rate at which the loan is repaid, criteria allowing changes in the price list of fees and rules for amendments to the regulations; the conditions under which the Bank may demand additional collateral, rules for the reimbursement of insurance premium for the period during which there has been no mortgage registration (the so-called bridge insurance).
On 14 December 2010, there was the sentence of the Court of First Instance recognizing all the clauses used by the Bank to be illegal therefore on 9 February 2011 the Bank's attorney appealed against the verdict. The answer for aforementioned appeal was delivered to Bank's attorney on 7 April 2011, the trial was held on 7 October 2011, the sentencing was postponed until 21 October 2011. Eventually the Court of Appeal held in virtue the appealed judgment and the case is closed.

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

The Bank is a party in proceedings instituted by the Chairman of UOKiK against operators of the Visa and Europay systems as well as banks – issuers of Visa and Europay/Eurocard/Mastercard cards. The proceedings concern practices restricting competition on the card payments market in Poland, whereby interchange fees were said to be agreed jointly for transactions done with Visa and Europay/Eurocard/Mastercard cards and also access was restricted for entrepreneurs who did not belong to the association of card issuers against whom the proceedings were instituted.

On 29 December 2006 the Chairman of UOKiK deemed the practices consisting in jointly agreeing on interchange fees as restricting competition and ordered desisting from their use, at the same time imposing i.a. on the Bank a cash penalty of PLN 12,158,370 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 April 2010, the appeals hearing was held, after which the Court of Appeal overturned the verdict entirely, sending the case back to SOKiK. Next trial date has been appointed at 9 February 2012. 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, 2012.

OFF-BALANCE ITEMS

	31.12.2011	31.12.2010
Off-balance conditional commitments granted and received	**10 036 027**	**9 249 386**
1. Commitments granted:	8 695 495	7 977 715
a) financial	6 641 320	6 166 837
b) guarantee	2 054 175	1 810 878
2. Commitments received:	1 340 532	1 271 671
a) financial	883 360	794 880
b) guarantee	457 172	476 791

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	31.12.2011	31.12.2010
- financial sector	123.6	155.4
- non-financial sector (companies)	1 976.3	1 704.4
- public sector	25.5	21.7
- private individuals	1.0	2.5
Total	**2 126.4**	**1 884.0**

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

Subsidiary, amount in PLN million	31.12.2011	31.12.2010
- Millennium Leasing Sp. z o.o.	54.0	55.1
- Millennium Service Sp. z o.o.	18.1	17.9
- TBM Sp. z o.o.	0.1	0.1
Total	**72.2**	**73.1**

Guarantees, sureties and avals granted to Clients

Liabilities granted - guarantee in PLN million	31.12.2011	31.12.2010
Active guarantees, sureties and avals	1 289.8	1 239.7
Sureties for loans granted through EFRWP	2.8	4.5
Lines for guarantees and sureties	849.8	643.2
Total, gross	**2 142.4**	**1 887.4**
Impairment write offs	(16.0)	(3.4)
Total, net	**2 126.4**	**1 884.0**

In the period from 01.01.2011 do 31.12.2011 the Bank as the Group's parent entity granted 2,762 guarantees, sureties and avals totaling 1,343,122 thous. PLN.

The amount of aforementioned liabilities active as of 31.12.2011 stood at 1,289,768 thous. PLN. (2,823 items of active guarantees) which means an increase of their value by PLN 50,116 thous. PLN i.e. o 4.04% compared to 31.12.2010.

The value of guarantees, sureties and avals issued in PLN enlarged by 41,222 thous. PLN i.e. by 3.68% compared to the end of last year, as well as the value of such liabilities granted in foreign currency which increased by 8,894 thous. PLN, i.e. 7.44%.

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

1. By currency	31.12.2011	31.12.2010
PLN	1 161 312	1 120 090
Other currencies	128 456	119 562
Total:	**1 289 768**	**1 239 652**

2. By type of commitment	31.12.2011		31.12.2010	
	Number	Amount in '000 PLN	Number	Amount in '000 PLN
Aval	1	1 050	2	1 073
Guarantee	2 811	1 269 368	2 554	1 212 734
Surety	3	9 086	4	11 162
Re-guarantee	8	10 264	32	14 683
TOTAL	**2 823**	**1 289 768**	**2 592**	**1 239 652**

3. By object of the commitment	31.12.2011			31.12.2010		
	Number	% share	Amount in '000 PLN	Number	% share	Amount in '000 PLN
good performance of contract	1 945	68.90%	811 316	1 759	67.86%	838 289
rent payment	300	10.63%	55 873	314	12.11%	54 737
punctual payment for goods or services	231	8.18%	154 621	214	8.26%	124 415
bid bond	223	7.90%	48 268	176	6.79%	70 354
other	56	1.98%	10 250	72	2.78%	34 123
advance return	49	1.74%	196 600	40	1.54%	66 130
customs	17	0.60%	11 665	14	0.54%	50 260
payment of bank loan	2	0.07%	1 175	3	0.12%	1 344
TOTAL:	**2 823**	**100.00%**	**1 289 768**	**2 592**	**100.00%**	**1 239 652**

XX. SECURITISATION

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

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

Entities participating in financing of Orchis are the following:

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

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).***

XXI. 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:	**31.12.2011**	**31.12.2010**
- to 1 year	80 541	99 393
- above 1 year to 5 years	198 631	224 468
- above 5 years	103 079	127 665
TOTAL	**382 251**	**451 527**

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

Aforementioned events did not take place.

SIGNATURES:

Date	Name and surname	Position/Function	Signature
28.02.2012	Bogusław Kott	Chairman of the Management Board	....
28.02.2012	Joao Bras Jorge	Deputy Chairman of the Management Board	....
28.02.2012	Fernando Bicho	Member of the Management Board	....
28.02.2012	Julianna Boniuk-Gorzelańczyk	Member of the Management Board	....
28.02.2012	Maria Jose Campos	Member of the Management Board	....
28.02.2012	Andrzej Gliński	Member of the Management Board	....
28.02.2012	Wojciech Haase	Member of the Management Board	....
28.02.2012	Artur Klimczak	Member of the Management Board	....