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

Millennium bank

FINANCIAL HIGHLIGHTS

	Amount '000 PLN		Amount '000 EUR	
	period from 1.01.2013 to 31.12.2013	period from 1.01.2012 to 31.12.2012	period from 1.01.2013 to 31.12.2013	period from 1.01.2012 to 31.12.2012
Interest income	2 672 170	3 120 385	634 569	747 648
Fee and commission income	697 600	655 666	165 661	157 098
Operating income	2 080 135	2 008 152	493 976	481 156
Operating profit / (loss)	682 707	593 756	162 125	142 265
Profit /(loss) before taxes	680 563	595 954	161 616	142 791
Profit /(loss) after taxes	535 795	472 181	127 237	113 135
Total comprehensive income of the period	538 963	237 925	127 989	57 007
Net cash flows from operating activities	2 965 573	3 856 571	704 244	924 039
Net cash flows from investing activities	(2 118 436)	(1 073 371)	(503 072)	(257 181)
Net cash flows from financing activities	(388 722)	(131 840)	(92 311)	(31 589)
Net cash flows, total	458 415	2 651 360	108 861	635 269
Total assets	57 016 715	52 742 499	13 748 243	12 901 154
Liabilities to banks and other monetary institutions	2 348 562	2 491 745	566 301	609 497
Liabilities to customers	45 305 121	41 434 077	10 924 267	10 135 042
Total equity	5 363 133	4 824 170	1 293 194	1 180 023
Share capital	1 213 117	1 213 117	292 515	296 736
Number of shares	1 213 116 777	1 213 116 777	1 213 116 777	1 213 116 777
Book value per share (in PLN/EUR)	4.42	3.98	1.07	0.97
Diluted book value per share (in PLN/EUR)	4.42	3.98	1.07	0.97
Capital adequacy ratio	14.54%	14.45%	14.54%	14.45%
Basic earnings (losses) per ordinary share (in PLN/EUR)	0.44	0.39	0.10	0.09
Diluted earnings (losses) per ordinary share (in PLN/EUR)	0.44	0.39	0.10	0.09
Pledged or paid dividend per share (in PLN/EUR)	-	-	-	-

Rates used for conversion of financial data to EURO

Following rates were used to calculate values in EURO:

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

QUARTERLY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	1.01.2013 - 31.12.2013	1.10.2013 - 31.12.2013*	1.01.2012 - 31.12.2012	1.10.2012 - 31.12.2012*
Interest income	2 672 170	645 051	3 120 385	801 209
Interest expense	(1 452 119)	(300 436)	(1 959 202)	(519 048)
Net interest income	1 220 051	344 615	1 161 183	282 161
Fee and commission income	697 600	175 274	655 666	162 314
Fee and commission expense	(108 863)	(27 917)	(109 629)	(29 602)
Net fee and commission income	588 737	147 357	546 037	132 712
Dividend income	1 641	3	4 013	0
Result on investment financial assets	20 721	637	25 362	16 454
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	184 414	39 028	214 461	81 673
Other operating income	64 571	21 090	57 096	12 440
Operating income	2 080 135	552 730	2 008 152	525 440
General and administrative expenses	(1 035 244)	(261 255)	(1 065 259)	(271 577)
Impairment losses on financial assets	(232 531)	(62 259)	(238 042)	(67 142)
Impairment losses on non-financial assets	(1 571)	(948)	(179)	(157)
Depreciation and amortization	(54 332)	(12 557)	(55 388)	(13 720)
Other operating expenses	(73 750)	(29 449)	(55 528)	(9 281)
Operating expenses	(1 397 428)	(366 468)	(1 414 396)	(361 877)
Operating profit / (loss)	**682 707**	**186 262**	**593 756**	**163 563**
Share in net profit of associated companies	(2 144)	(403)	2 198	(1 600)
Profit / (loss) before taxes	**680 563**	**185 859**	**595 954**	**161 963**
Corporate income tax	(144 768)	(42 826)	(123 773)	(36 098)
Profit / (loss) after taxes	**535 795**	**143 033**	**472 181**	**125 865**
Attributable to:				
Owners of the parent	535 795	143 033	472 181	125 865
Non-controlling interests	0	0	0	0

* - quarterly financial information has not been audited

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	1.01.2013 - 31.12.2013	1.10.2013 - 31.12.2013*	1.01.2012 - 31.12.2012	1.10.2012 - 31.12.2012*
Profit / (loss) after taxes	535 795	143 033	472 181	125 865
Other elements of total comprehensive income:				
Effect of valuation of available for sale debt securities	(44 482)	15 817	46 046	42 316
Effect of valuation of available for sale shares	18	24	263	16
Hedge accounting	48 375	12 338	(335 514)	(13 200)
Other elements of total comprehensive income before taxes	3 911	28 179	(289 205)	29 132
Corporate income tax on other elements of total comprehensive income	(743)	(5 354)	54 949	(5 535)
Other elements of total comprehensive income after taxes	3 168	22 825	(234 256)	23 597
Total comprehensive income of the period	538 963	165 858	237 925	149 462
Attributable to:				
Owners of the parent	538 963	165 858	237 925	149 462
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 12-month period ending 31st December 2013

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1. CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

Amount '000 PLN	Note	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Interest income	1	2 672 170	3 120 385
Interest expense	2	(1 452 119)	(1 959 202)
Net interest income		1 220 051	1 161 183
Fee and commission income		697 600	655 666
Fee and commission expense		(108 863)	(109 629)
Net fee and commission income	3	588 737	546 037
Dividend income	4	1 641	4 013
Result on investment financial assets	5	20 721	25 362
Result on financial instruments valued at fair value through profit and loss and foreign exchange result	5	184 414	214 461
Other operating income	6	64 571	57 096
Operating income		2 080 135	2 008 152
General and administrative expenses	7	(1 035 244)	(1 065 259)
Impairment losses on financial assets	8	(232 531)	(238 042)
Impairment losses on non financial assets	9	(1 571)	(179)
Depreciation and amortization	10	(54 332)	(55 388)
Other operating expenses	11	(73 750)	(55 528)
Operating expenses		(1 397 428)	(1 414 396)
Operating profit / (loss)		**682 707**	**593 756**
Share in net profit of associated companies		(2 144)	2 198
Profit / (loss) before taxes		**680 563**	**595 954**
Corporate income tax	12	(144 768)	(123 773)
Profit / (loss) after taxes		**535 795**	**472 181**
Attributable to:			
Owners of the parent		535 795	472 181
Non-controlling interests		0	0
Basic earnings per ordinary share (in PLN)	13	0.44	0.39
Diluted earnings (losses) per ordinary share (in PLN)	13	0.44	0.39

2. CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amount '000 PLN	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Profit / (loss) after taxes	535 795	472 181
Other elements of total comprehensive income		
Effect of valuation of available for sale debt securities	(44 482)	46 046
Effect of valuation of available for sale shares	18	263
Hedge accounting	48 375	(335 514)
Other elements of total comprehensive income before taxes	3 911	(289 205)
Corporate income tax on other elements of total comprehensive income	(743)	54 949
Other elements of total comprehensive income after taxes	3 168	(234 256)
Total comprehensive income of the period	538 963	237 925
Attributable to:		
Owners of the parent	538 963	237 925
Non-controlling interests	0	0

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

3. CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET

ASSETS

Amount '000 PLN	Note	31.12.2013	31.12.2012
Cash, balances with the Central Bank	14	3 412 175	2 465 879
Deposits, loans and advances to banks and other monetary institutions	15	1 519 614	1 392 424
Financial assets valued at fair value through profit and loss (held for trading) and adjustment from fair value hedge	16	850 732	662 404
Hedging derivatives	17	211 395	277 812
Loans and advances to customers	18	41 765 680	40 232 240
Investment financial assets	19	8 241 517	6 751 104
- available for sale		8 241 517	6 751 104
- held to maturity		0	0
Investments in associates	19	3 009	13 352
Receivables from securities bought with sell-back clause (loans and advances)	20	242 061	17 469
Property, plant and equipment	21	163 158	184 642
Intangible assets	22	41 006	43 694
Non current assets held for sale	23	3 466	24 954
Receivables from Tax Office resulting from current tax		63 949	16 270
Deferred income tax assets	24	185 456	165 206
Other assets	25	313 497	495 049
Total Assets		**57 016 715**	**52 742 499**

LIABILITIES AND EQUITY

Amount '000 PLN	Note	31.12.2013	31.12.2012
LIABILITIES			
Liabilities to banks and other monetary institutions	26	2 348 562	2 491 745
Financial liabilities valued at fair value through profit and loss (held for trading)	27	575 098	467 573
Hedging derivatives	17	930 345	1 115 202
Liabilities to customers	28	45 305 121	41 434 077
Liabilities from securities sold with buy-back clause	29	114 801	174 788
Debt securities	30	701 352	900 016
Provisions	31	66 616	44 805
Deferred income tax liabilities	32	0	0
Current tax liabilities		11 269	2 484
Other liabilities	33	977 833	674 029
Subordinated debt	34	622 585	613 610
Total Liabilities		51 653 582	47 918 329
EQUITY			
Share capital	35	1 213 117	1 213 117
Share premium	35	1 147 502	1 147 502
Revaluation reserve	35	(131 223)	(134 391)
Retained earnings	35	3 133 737	2 597 942
Total Equity		5 363 133	4 824 170
Total equity attributable to owners of the parent		5 363 133	4 824 170
Non-controlling interests		0	0
Total Liabilities and Equity		**57 016 715**	**52 742 499**

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total consolidated equity	Share capital	Share premium	Revaluation reserve	Retained earnings
Equity at the beginning of the period 01.01.2013	4 824 170	1 213 117	1 147 502	(134 391)	2 597 942
- total comprehensive income of 2013	538 963	0	0	3 168	535 795
Equity at the end of the period 31.12.2013	5 363 133	1 213 117	1 147 502	(131 223)	3 133 737

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

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

5. CONSOLIDATED CASH FLOW STATEMENT

A. CASH FLOWS FROM OPERATING ACTIVITIES

Amount '000 PLN	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Profit (loss) after taxes	535 795	472 181
Adjustments for:	2 429 778	3 384 390
Non-controlling interests	0	0
Interests in net profit /(loss) of associated companies	2 144	(2 198)
Depreciation and amortization	54 332	55 388
Foreign exchange gains /(losses)	24 591	(145 502)
Dividends	(1 641)	(1 929)
Changes in provisions	21 811	9 378
Result on sale and liquidation of investing activity assets	(34 711)	(39 066)
Change in financial assets valued at fair value through profit and loss (held for trading)	(76 881)	(456 834)
Change in loans and advances to banks	(14 851)	1 037 146
Change in loans and advances to customers	(1 533 801)	1 095 759
Change in receivables from securities bought with sell-back clause	(224 592)	(15 260)
Change in liabilities valued at fair value through profit and loss (held for trading)	(77 332)	(1 289 539)
Change in liabilities to banks	82 315	625 819
Change in deposits from customers	3 871 044	4 006 242
Change in liabilities from securities sold with buy-back clause	(59 987)	(1 431 840)
Change in debt securities	(66 234)	73 016
Change in income tax settlements	144 299	207 787
Income tax paid	(204 186)	(122 068)
Change in other assets and liabilities	507 206	(238 836)
Other	16 252	16 927
Net cash flows from operating activities	**2 965 573**	**3 856 571**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Amount '000 PLN	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Inflows:	284 513 178	177 729 112
Proceeds from sale of property, plant and equipment and intangible assets	18 877	15 538
Proceeds from sale of shares in associates	0	2 084
Proceeds from sale of financial assets valued at fair value through profit and loss	0	0
Proceeds from sale of investment financial assets	284 492 660	177 709 561
Other	1 641	1 929
Outflows:	(286 631 614)	(178 802 483)
Acquisition of property, plant and equipment and intangible assets	(28 315)	(27 066)
Acquisition of shares in associates	0	0
Acquisition of financial assets valued at fair value through profit and loss	0	0
Acquisition of investment financial assets	(286 603 299)	(178 775 417)
Other	0	0
Net cash flows from investing activities	**(2 118 436)**	**(1 073 371)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Amount '000 PLN	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Inflows:	60 000	298 750
Long-term bank loans	60 000	298 750
Issue of debt securities	0	0
Increase in subordinated debt	0	0
Net proceeds from issues of shares and additional capital paid-in	0	0
Other	0	0
Outflows:	(448 722)	(430 590)
Repayment of long-term bank loans	(281 960)	(140 844)
Redemption of debt securities	(132 430)	(244 193)
Decrease in subordinated debt	0	0
Issue of shares expenses	0	0
Redemption of shares	0	0
Dividends paid and other payments to owners	0	0
Other	(34 332)	(45 553)
Net cash flows from financing activities	**(388 722)**	**(131 840)**

D. NET CASH FLOWS, TOTAL (A+B+C)	458 415	2 651 360
E. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	6 294 360	3 643 000
F. CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD (D+E)	6 752 775	6 294 360

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

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

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

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

The Bank is a parent company of a Capital Group (the Group) with almost 5,900 employees with core business comprising banking, leasing, factoring, brokerage, capital operations, and investment fund management.

Supervisory Board and Management Board of Bank Millennium S.A. as at 31 December 2013

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

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

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

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

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

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

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

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

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

The Group's parent entity is Bank Millennium S.A. The companies that belong to the Capital Group as at 31 December 2013, are presented by the table below:

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

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

7. ACCOUNTING POLICY

1) Statement of compliance with the International Financial Reporting Standards

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 2013, item 330, with amendments) and the respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. This financial statement meets the reporting requirements described in the Decree of the Council of Ministers dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, item 209).

This financial report was approved for publication by the Management Board on 28 February 2014.

2) Standards and interpretations not binding as of the balance sheet day

A number of new Standards (IFRS), amendments to Standards and Interpretations are not yet mandatorily effective for annual periods ending on 31 December 2013 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following have been chosen as they may potentially have an impact on the consolidated financial statements due to Group's activity. The Group plans to adopt these pronouncements when they become effective.

Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods ending on 31 December 2013.

IFRS 10 Consolidated Financial Statements

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

Nature of changes:

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

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

Possible impact on financial statements:

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

IFRS 12 Disclosure of Interests in Other Entities

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

Nature of changes:

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

Possible impact on financial statements:

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

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

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

Nature of changes:

The amendments:

• define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees,

• limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged,

• requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required),

• will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

Possible impact on financial statements:

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

IAS 28 Investments in Associates and Joint Ventures (2011)

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

Nature of changes:

There are limited amendments made to IAS 28 (2011):

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

Possible impact on financial statements:

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

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

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

Nature of changes:

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

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

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

Possible impact on financial statements:

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

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

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

Nature of changes:

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

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

Possible impact on financial statements:

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

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

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

Nature of changes:

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

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

- the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised;
- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it;
- for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

Possible impact on financial statements:

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

STANDARDS AND INTERPRETATIONS NOT YET ENDORSED BY THE EU

IFRS 9 Financial Instruments (2009)

Effective date: not available yet

Nature of changes:

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

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

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

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

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

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

Possible impact on financial statements:

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

Additions to IFRS 9 Financial Instruments (2010)

Effective date: not available yet

Nature of changes:

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

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

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

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

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

Possible impact on financial statements:

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

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

Effective date: not available yet

Nature of changes:

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

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

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

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

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

Possible impact on financial statements:

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

IFRIC Interpretation 21 Levies

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

Nature of changes:

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

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

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

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

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

Possible impact on financial statements:

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

Improvements to IFRS (2010-2012)

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

Nature of changes:

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

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

Possible impact on financial statements:

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

Improvements to IFRS (2011-2013)

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

Nature of changes:

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

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

Possible impact on financial statements:

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

3) ADOPTED ACCOUNTING PRINCIPLES

Basis of Financial Statements Preparation

Consolidated financial statements of the Group prepared for the financial year from 1 January 2013 to 31 December 2013 includes financial data of the Bank and its subsidiaries forming the Group, and data of associates accounted under the equity method.

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

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

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

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

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

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

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

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

Basis of Consolidation

Purchase method

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

Subsidiaries

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

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

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

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

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

Associates

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

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

Functional currency and presentation currency

Functional currency and presentation currency

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

Transactions and balances

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

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

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

Application of Estimates in connection with Accounting Policies

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

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

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

- Impairment of loans and advances

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

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

- Fair value of financial instruments

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

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

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

- Prices quoted on the active market for identical instruments for following financial instruments:
  Treasury fixed-coupon, zero-coupon debt securities and floating interest debt securities;
- Techniques of measurement based on parameters coming from the market for following financial instruments:
  Treasury floating interest debt securities,
  Derivatives:
    - FRA, IRS, CIRS,
    - FX Swap, FX Forward,
    - Embedded derivatives,
  Bills issued by the Central Bank;
- Techniques of measurement with use of significant parameters not coming from the market:
  Debt securities of other issuers (e.g. municipalities),
  Derivatives:
    - FX Options acquired by the Group,
    - Indexes options acquired/placed by the Group.

The most important parameter not coming from an active market and used by the Group for measurement of financial instruments is the component of credit risk on account of transactions concluded by the Group on derivatives, taking into account both: counterparty risk (credit value adjustment – CVA) and own Group's risk (debit value adjustment - DVA). Aforementioned factors (CVA, DVA) are taken into account when there is non-performance risk of the counterparty (or Group), with respect to future settlement of the transaction, thus exposing the Group (counterparty) to potential loss.

- Impairment of other non current assets

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

- Other Estimate Values

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

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

Financial assets and liabilities

Classification

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

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

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

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

- Held to maturity investments

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

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

- Loans and advances

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

- Financial assets available for sale

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

- Other financial liabilities

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

Recognition of financial instruments in the balance sheet

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

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

De-recognition of financial instruments from the balance sheet

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

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

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

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

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

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

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

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

- Held to maturity investments and loans and advances

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

- Financial assets available for sale

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

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

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

- Other financial liabilities

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

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

Hedge Accounting and Financial Derivatives

Valuation at fair value

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

An additional element of the valuation of derivatives is a component of credit risk including both the risk of the counterparty (credit value adjustment - CVA) and own Group's risk (debit value adjustment - DVA). Aforementioned factors (CVA, DVA) are taken into account when there is non-performance risk of the counterparty (or Group), with respect to future settlement of the transaction, thus exposing the Group (counterparty) to potential loss.

Recognition of embedded derivative instruments

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

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

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

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

Derivative instruments designated as hedging instruments – hedge accounting

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

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

Hedge accounting criteria

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. It documents also, at the inception of the hedge and through the period of hedge relationship, the assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in fair value or cash flows of the hedged item.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship (prospective effectiveness test);
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss (high probability test);
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated (backward-looking effectiveness test).

Cash flow hedge

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

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

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

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

Fair value hedge

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

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

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

Termination of hedge accounting

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

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

Derivative instruments not qualifying as hedging instruments

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

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

- FX forward

  Forward transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FX forward transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

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

- FX SWAP

  FX SWAP transactions are measured at fair value based on the discounted future cash-flow method with use of interest rate curves based on spread reflecting current market conditions and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of FX SWAP transactions are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ in the Profit and Loss Account.

- Interest Rate SWAP (IRS)

  IRS transactions are valued at fair value on discounted future cash flows basis, taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of IRS transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account.

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

- Cross – Currency Swap (CCS)

  CCS transactions are measured at fair value based on the discounted future cash-flows method with use of interest rate curves adjusted with market spread reflecting its term structure and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Changes of fair value of CCS transactions are reported in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’.

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

- IRS transactions with embedded options

  The transactions are valued at fair value: the swap component is valued with use of the future cash flows discounting method taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal, while the option component is valued with use of the option valuation models. The swap transactions are valued at fair value on discounted future cash flows basis. Any changes in fair value of the above transactions are recorded in ‘Result on financial instruments valued at fair value through profit and loss and foreign exchange result’ of the Profit and Loss Account. The option component hedges options embedded in securities or deposits offered by the Group.

- FX and Index options

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

- Forward Rate Agreement (FRA)

  FRA transactions are valued at fair value on discounted future cash flows basis and with taking into account the credit risk of the counterparty (and the Group) as long as there is non-performance risk of the transaction parties with respect to future settlement of the deal. Any changes in fair value of FRA transactions are recorded in 'Result on financial instruments valued at fair value through profit and loss and foreign exchange result' of the Profit and Loss Account.

- Commodity futures

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

- Commodity options

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

Impairment of financial assets

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

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

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

Assets valued at amortized cost

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

If there is evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

For the purpose of collective evaluation of impairment, the credit exposures are grouped on a basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

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

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

Financial assets available for sale

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

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

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

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

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

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

Offsetting of financial instruments

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

Transactions with sell/buy-back clauses

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

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

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

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

Receivables from leasing contracts

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

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

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

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

Property, plant and equipment and Intangible Assets

Own property, plant and equipment and intangible assets

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

Depreciation and amortization charges

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

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

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

Selected categories of property, plant and equipment:

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

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

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

Non current assets held for sale

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

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

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

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

Impairment of non current assets

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

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

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

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

Prepayments, Accruals and Deferred Income

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

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

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

Provisions

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

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

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

Employee Benefits

Short-term employee benefits

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

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

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

Long-term employee benefits

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

In accordance with the Employees Remuneration By-laws and the Labour Code employees having worked a specific number of years and attained the required age are entitled to receive a pension severance payment. Retirement pension severance payments provision is calculated using an actuarial method by an independent actuary as the present value of the Group's future liabilities due to employees according to the headcount and wages as at the date of revaluation. Valuation is done using the projected unit credit method. Under this method, each period of service gives power to an additional unit of benefit entitlement and each unit of benefit is calculated separately. Computation takes into account that the base salary of each employee will vary over time according to certain assumptions. The provision is updated on an annual basis. The parameters that have a significant impact on the amount of current liabilities are: the rate of mobility (rotation), the discount rate, the rate of wage growth. The nominal discount rate for the calculation for 2013 has been set at 4.3%. The calculation of the commitments is made for employees currently employed and do not apply to persons who will start working in the future.

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

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

Policy details are presented in **Chapter 14.9).**

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

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

Group's Equity

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

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

Share Capital

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

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

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

Share Premium

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

Revaluation Reserve

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

Retained Earnings

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

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

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

Financial guarantee

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

Financial guarantees granted are measured at the higher of:

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

Interest result

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

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

Net interest income comprises of interest income and costs on designated derivatives being a result of effective hedge instruments in hedge accounting (detailed information on active hedge accounting relationships is presented in **note (17)**.

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

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

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

Fee and commission income/ Fee and Commission Costs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividend Income

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

Result on Investment Financial Instruments

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

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

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

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

Other Operating Income and Expenses

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

Income Tax

Corporate income tax comprises current and deferred tax.

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

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

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

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

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

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

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

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

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.

8. FINANCIAL RISK MANAGEMENT

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

1) GROUP'S RISK MANAGEMENT MISSION

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

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

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

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

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

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

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

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

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

- The Corporate Recovery Department develops specific strategies with respect to each debtor, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. 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 Group'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;
- The Models Validation Office has responsibility for qualitative and quantitative models validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs.

2) Capital Management

Regulatory Own Funds

The management of the 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 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.

On the 3rd of January, 2013, Banco de Portugal (as the consolidating Supervisor) and Polish Financial Supervision Authority granted a consent from 31.12.2012 to the use of the Internal Rating Based (IRB) approach by Bank Millennium to calculate the capital requirements for credit risk relatively to the following sub-portfolios: (i) Retail exposures to individual persons secured by residential real estate collateral (RRE), (ii) Qualifying revolving retail exposures (QRRE).

The capital requirements calculated using the IRB approach must be temporarily maintained at no less than 80% of the respective capital requirements calculated using the Standardized approach and this constraint will be applied until the fulfillment of the conditions defined by Banco de Portugal and Polish Financial Supervision Authority are confirmed by both regulators, but will not cease before 30 June 2014.

Internal Capital

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

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

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

In 2013 – similarly as in the previous years – the Group's aggregate risk (internal capital) was fully covered with funds that could be used for its safety. The internal capital is allocated to specific business areas/product groups.

3) Credit risk

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

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

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

(3a) Measurement of Credit Risk

Loans and advances

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

(i) Probability of Default (PD) of a customer or counterparty as regards their liability;
(ii) amount of Exposure At Default (EAD) and
(iii) the ratio of Loss Given Default (LGD) regarding the customer's liability.

(i) The Group assesses the probability of default (PD) of individual counterparties, using internal rating models adapted to various categories of customers and transactions. Models were developed in-house or at the level of the BCP Group, 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

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

(ii) EAD – amount of exposure at default – concerns amounts which according to the Group's predictions will be the Group's receivables at the time of default against liabilities. Liabilities are understood by the Group to mean every amount disbursed plus further amounts, which may be disbursed until default, if such occurs.
(iii) LGD – loss given default is what the Group expects will be its losses resulting from actual cases of default, with the consideration of internal and external costs of recovery and the discount effect.

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

Master scale	Description	31.12.2013		31.12.2012	
		Loans and advances (%)	Impairment charges (%)	Loans and advances (%)	Impairment charges (%)
1-3	Highest quality	41.42%	2.50%	42.71%	3.18%
4-6	Good quality	14.70%	1.15%	15.80%	1.44%
7-9	Medium quality	17.82%	2.52%	17.42%	3.30%
10-12	Low quality	10.37%	1.90%	7.78%	1.88%
13-14	Watched	1.49%	3.14%	1.59%	3.18%
15	Default	5.60%	86.53%	5.73%	84.12%
Without rating(*)		8.60%	2.26%	8.97%	2.90%
Total		100.00%	100.00%	100.00%	100.00%

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

Debt Securities

The portfolio of debt securities, other than those issued by the State Treasury or the Central Bank, is relatively small (see point 3f).

Derivatives

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

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

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

Credit risk-based off-balance sheet liabilities

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

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

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

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

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

(3b) Limits control and risk mitigation policy

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

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

Management of credit risk exposure is also performed through regular monitoring of customers' economic and financial situation and/or track record of their relationship with the 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 its 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.

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

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

(3c) Policy with respect to impairment and creation of revaluation charges

Organisation of the Process

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

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

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

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

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

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

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

Individual analysis of impairment for credit receivables

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

Principal elements of the process of individual analysis:

(1) Identification of impairment triggers;

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

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

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

(2) Estimating future flows;

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

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

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

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

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

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

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

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

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

Collective analysis of the credit portfolio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PLN '000	Maximum exposure	
	31.12.2013	31.12.2012
Exposures exposed to credit risk connected with balance sheet assets	**52 834 007**	**49 068 993**
Loans and advances to banks	1 519 614	1 392 424
Loans and advances to customers:	41 765 680	40 232 240
Loans to private individuals:	30 511 707	30 226 297
- Credit cards	665 292	707 539
- Cash loans and other loans to private individuals	3 043 648	2 283 444
- Mortgage loans	26 802 767	27 235 314
Loans to companies	10 638 618	9 174 658
Loans to public entities	615 355	831 285
Trading securities:	433 048	46 929
- Debt securities	432 822	46 791
- Shares	226	138
Derivatives and adjustment from fair value hedge	629 078	615 475
Financial assets valued at fair value	0	0
Investment financial assets	8 244 526	6 764 456
- Debt securities	8 240 418	6 749 758
- Shares	4 108	14 698
Receivables from securities bought with sell-back clause	242 061	17 469
Credit risk connected with off-balance sheet items	7 815 492	6 909 180
Financial guarantees	1 123 212	1 298 458
Credit commitments and other commitments connected with loans	6 692 280	5 610 721

The table above presents the structure of the Group's exposures to credit risk as at 31st December 2013 and 31st December 2012, not taking into account risk-mitigating instruments. As regards balance-sheet assets, the exposures presented above are based on net amounts presented in the balance sheet.

(3e) Loans

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

Gross exposure in '000 PLN

	31.12.2013		31.12.2012	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Not overdue and without impairment	39 904 157	1 519 630	37 997 694	1 392 424
Overdue(*), but without impairment	1 270 808	0	1 361 569	0
Total without impairment (IBNR)	41 174 965	1 519 630	39 359 263	1 392 424
With impairment	1 903 046	0	2 110 563	0
Loans and advances, gross	**43 078 011**	**1 519 630**	**41 469 826**	**1 392 424**
Impairment write-offs together with IBNR	(1 312 331)	(16)	(1 237 586)	0
Loans and advances, net	**41 765 680**	**1 519 614**	**40 232 240**	**1 392 424**
Loans with impairment / total loans	4.42%	0.00%	5.09%	0.00%

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

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

	31.12.2013		31.12.2012	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without identified triggers	40 646 749	1 519 630	38 908 826	1 392 424
With identified triggers, incl.	528 216	0	450 437	0
- expected cash flows from collateral, incl.	528 216	0	450 437	0
- overdue(*)	54 004	0	88 075	0
Loans and advances without impairment, gross	**41 174 965**	**1 519 630**	**39 359 263**	**1 392 424**
Impairment for BNR portfolio	(198 877)	(16)	(192 021)	0
Loans and advances without impairment, net	**40 976 088**	**1 519 614**	**39 167 242**	**1 392 424**

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

Loans and advances not past due(*) and not impaired

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

Master scale	Description	31.12.2013	31.12.2012
		Credits and Loans PLN ths.	Credits and Loans PLN ths.
1-3	Highest quality	17 806 844	17 684 265
4-6	Good quality	6 222 984	6 460 879
7-9	Medium quality	7 492 106	6 914 256
10-12	Low quality	4 297 621	3 027 703
13-14	Watched	149 891	202 248
15	Default (**)	443 723	209 001
Without rating (***)		3 490 988	3 499 342
Total		39 904 157	37 997 694

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

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

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

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

Loans and advances past due but without impairment

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

Gross exposure in ‘000 PLN

	31.12.2013				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5-30 days(*)	332 640	491 036	114 150	0	937 826
Delay 31-60 days	91 253	90 118	43 165	0	224 536
Delay 61-90 days	22 153	27 947	18 682	0	68 782
Delay above 90 days(**)	36 521	1 700	1 443	0	39 664
Total	482 567	610 801	177 440	0	1 270 808

Gross exposure in ‘000 PLN

	31.12.2012				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
Delay 5-30 days(*)	391 600	503 664	91 108	0	986 372
Delay 31-60 days	121 563	84 579	42 308	0	248 450
Delay 61-90 days	35 612	28 781	17 413	0	81 806
Delay above 90 days(**)	43 465	3	1 473	0	44 941
Total	592 240	617 027	152 302	0	1 361 569

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

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

Impaired loans and advances

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

Gross exposure in ‘000 PLN

	31.12.2013				
	Loans and advances to customers			Loans and advances to banks	Total
	Companies	Mortgages	Other retail		
By type of analysis					
Case by case analysis	814 622	69 971	1 475	0	886 068
Collective analysis	233 931	290 998	492 049	0	1 016 978
Total	1 048 553	360 969	493 524	0	1 903 046

Gross exposure in ‘000 PLN

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

Loans and advances covered by case-by-case analysis

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

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

- By products

Loans and advances to customers

	31.12.2013			31.12.2012		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
Investment loans	82 744	9.3%	49.7%	313 123	27.8%	18.6%
Working capital loans	111 659	12.6%	57.7%	74 360	6.6%	45.3%
Current account loans	86 241	9.7%	62.4%	160 843	14.3%	70.0%
Guarantees and sureties realised	35 659	4.0%	99.8%	34 540	3.1%	99.8%
Mortgage loans	70 440	8.0%	32.9%	47 984	4.3%	25.0%
Factoring	30 836	3.5%	76.4%	79 708	7.1%	22.5%
Leasing	196 428	22.2%	36.7%	233 590	20.8%	38.3%
Other*	272 061	30.7%	75.5%	180 883	16.1%	62.0%
Total	886 068	100.0%	58.6%	1 125 031	100.0%	41.8%

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

- By currency

Loans and advances to customers

	31.12.2013			31.12.2012		
	Amount in '000 PLN	Share %	Coverage by impairment write-offs	Amount in '000 PLN	Share %	Coverage by impairment write-offs
PLN	804 375	90.8%	62.6%	807 158	71.7%	52.9%
CHF	39 770	4.5%	14.3%	18 963	1.7%	21.0%
EUR	32 426	3.7%	27.7%	44 286	3.9%	21.7%
USD	9 240	1.0%	9.9%	250 516	22.3%	11.5%
JPY	257	0.0%	11.3%	4 072	0.4%	17.5%
GBP	0	0.0%	n/a	36	0.0%	100.0%
Total	886 068	100.0%	58.6%	1 125 031	100.0%	41.8%

- By coverage ratio

Loans and advances to customers

	31.12.2013		31.12.2012	
	Amount in '000 PLN	Share %	Amount in '000 PLN	Share %
Up to 20%	199 274	22.5%	409 914	36.4%
20% - 40%	113 277	12.8%	229 821	20.4%
40% - 60%	159 361	18.0%	138 611	12.3%
60% - 80%	57 679	6.5%	52 941	4.7%
Above 80%	356 477	40.2%	293 744	26.1%
Total	886 068	100.0%	1 125 031	100.0%

At the end of 2013, the financial impact from the established collaterals securing the Group's receivables with impairment recognised under individual analysis amounted to PLN 186 million (in 31/12/2012: PLN 236 million). It is the amount, by which the level of required provisions assigned to relevant portfolio would be higher if flows from collaterals were not to be considered in individual analysis.

Restructured loans and advances

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross exposure in '000 PLN

	31.12.2013	31.12.2012
Loans and advances to private individuals	436 481	397 626
Loans and advances to companies	233 621	431 538
Total	670 102	829 164

Bank execution titles

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

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

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

(3f) Debt and equity securities

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

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	432 822	5 134 748	22	5 567 592
Central Bank	0	2 999 792	0	2 999 792
Other	0	105 935	21 759	127 694
- listed	0	0	517	517
- not listed	0	105 935	21 242	127 177
Total	**432 822**	**8 240 475**	**21 781**	**8 695 078**

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

Issued by	Trading debt securities	Investment debt securities	Shares	Total
State Treasury	46 791	3 037 456	22	3 084 269
Central Bank	0	3 598 724	0	3 598 724
Other	0	113 578	32 344	145 922
- listed	0	0	138	138
- not listed	0	113 578	32 206	145 784
Total	**46 791**	**6 749 758**	**32 366**	**6 828 915**

(3g) Collateral transferred to the Group

In 2013 there were no major seizures by the Bank or sale of fixed assets constituting loan collateral. The above situation was caused by the implementation of other more cost-effective paths of satisfying oneself from transfers of title (more effective in terms of time and money with the limitation of costs), i.e. leading to the sale of the object of collateral under the Bank's supervision and with the allocation of obtained sources for repayment. A variety of such action is concluding agreements with official receivers on the basis of which the receiver for an agreed fee secures and stores objects of collateral and in agreement with the Bank puts them up for sale and actually sells them (also as part of selling organized parts of the debtor's whole enterprise).

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

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

(3h) Policy for writing off receivables

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

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

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

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

Industry sectors

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

31.12.2013	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	1 519 630	0	0	0	0	0	0	0	1 519 630
Loans and advances to customers	253 164	4 173 352	3 083 582	1 478 948	420 382	26 993 293	4 099 859	2 575 431	43 078 011
Trading securities	24	31	55	0	432 822	0	0	116	433 048
Derivatives and adjustment from fair value hedge	594 597	15 836	547	5 752	0	0	0	12 346	629 078
Investment securities	1 929	16 539	0	27	8 240 497	0	0	3 038	8 262 030
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	242 061	0	0	0	0	0	0	0	242 061
Total	2 611 405	4 205 758	3 084 184	1 484 727	9 093 701	26 993 293	4 099 859	2 590 931	54 163 858

31.12.2012	Financial intermediation	Industry and constructions	Wholesale and retail business	Transport and communication	Public sector	Mortgage loans	Consumer loans*	Other sectors	Total
Loans and advances to banks	1 392 424	0	0	0	0	0	0	0	1 392 424
Loans and advances to customers	372 908	3 751 990	2 225 179	1 257 807	590 688	27 392 947	3 411 458	2 466 850	41 469 827
Trading securities	22	27	0	0	46 791	0	0	89	46 929
Derivatives and adjustment from fair value hedge	863 393	14 832	1 020	10 187	0	0	0	3 855	893 287
Investment securities	1 930	16 539	6 910	27	6 749 780	0	0	6 800	6 781 986
Financial assets valued at fair value	0	0	0	0	0	0	0	0	0
Receivables from securities bought with sell-back clause	17 469	0	0	0	0	0	0	0	17 469
Total	2 648 146	3 783 388	2 233 109	1 268 021	7 387 259	27 392 947	3 411 458	2 477 594	50 601 922

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

4) MARKET RISK

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

Market-risk evaluation measures

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

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

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

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

According to the adopted methodology, the volatility associated with each market risk vertex considering in the model (and respective correlation between them) is estimated by the exponentially weighted moving average method (EWMA) using the historical data of one year and a time weighting factor (lambda) of 0.94.

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

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

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

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

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

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

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

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

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

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

VaR is used as a measure in assessing the risks incurred by the positions both for Group in consolidated terms and separately for the Trading and Banking Book. In addition, each Book is divided into the risk management areas. Limit for the Group is expressed as a fraction of the consolidated Own Funds and then limit is divided into the books, risk management areas and various types of risk, which enables the Group for full measurement, monitoring and control of market risk. The market risk exposure (VaR) together with the limit utilization is reported daily to all areas responsible for management and control of market risk in the Group. In 3Q2013, the market risk limits were revised. Limit revison took into account amount of the consolidated Own Funds, current and projected balance sheet structure as well as the current market environment. The new limits have been valid since 1st August 2013.

Within the market environment of 2013, the Group continued to act very prudently. In spite of the relatively high fluctuation of the market volatility, mainly observed in polish interest rates and the Polish Public debt, the VaR indicators in the period under consideration for the Group remained at moderate levels, that is on average approx. PLN 27.2 million (25% of the limit) and approx. PLN 17.3 million (10% of the limit) as of the end of December 2013. The VaR indicators presented in the table below reflect joint exposures to market risk in the Group, that is Trading Book and the Banking Book. The diversification effect applies to the generic risk and reflects correlation between its constituents. The low level of diversification effect is connected with the fact that the Group's market risk is mainly the interest rate risk. The figures in the Table include also the exposures to market risk generated in subordinated companies, as the Bank manages market risk at central level.

The market risk in terms of VaR for the Group ('000 PLN):

VaR measures for market risk ('000 PLN)	VaR (from 31st December 2012 to 31st December 2013)				
	End of 2012	Average	Maximum	Minimum	End of 2013
Total risk	11 419	27 202	60 812	11 419	17 316
Generic risk	8 399	24 270	57 907	8 399	14 506
Interest Rate VaR	8 397	24 282	57 915	8 397	14 503
FX Risk	18	184	5 077	13	132
Equity risk	0	0	0	0	0
Diversification Effect	0,2%				0,9%
Non-linear risk	0	0	0	0	0
Commodities risk	0	0	0	0	0
Specific risk	3 020	2 932	3 037	2 810	2 810

The corresponding exposures as of 2012 respectively amounted to ('000 PLN):

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

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

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

Trading Book:

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

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

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

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

Open positions mostly included interest-rate instruments and FX risk instruments. The FX Risk covers all the foreign exchange exposures of the Group. According to the Risk Strategy approved in the Group, the FX open position is allowed, however should be kept at low levels. For this purpose, the Group has introduced a system of conservative limits for FX open positions (both Intraday and Overnight limits) and allows to keep FX open positions mainly in Trading Book. In 2013, the risk management area which generated FX risk was Trading area in the Trading Book. The FX Total open position (Intraday as well Overnight) remained below the maximum limits in place.

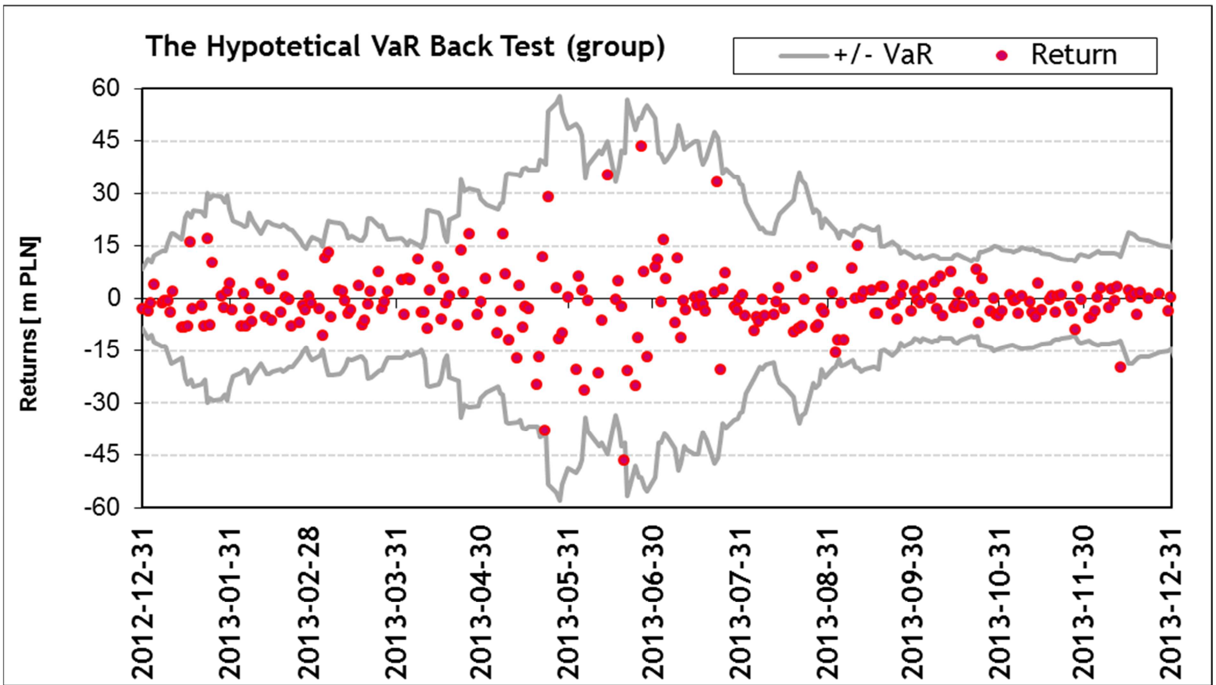
Evolution of the total FX open position (Overnight) in Trading Portfolio (PLN thousand):

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

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

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

Market risk – The hypothetical VaR Back Testing for the Group



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

In keeping with principles adopted by the Group the limits for stress test results based on the probability of the scenario materialization are triple as high as limits for daily management of market risk.

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

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

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

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

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

5) LIQUIDITY RISK

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

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

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

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

Concentration of the deposits base, based on the share of top 5 and 20 depositors, at the end of 2013 was relatively higher in comparison to the end of 2012, amounting respectively to 5,8% and 10,7% (in December 2012 it was respectively 3.4% and 9.6%). The level of deposit concentration is regularly monitored and did not have any negative impact on the stability of the deposit base in 2013. In case of significant increase of the share of the largest depositors, the additional funds from the depositors are not treated as stable. Despite of that, in order to prevent deposit base fluctuations, the Group maintains the reserves of liquid assets in the form of securities portfolio. Additionally, in February 2013 the Bank prolonged for one additional year the agreement with BCP for the unconditional and irrevocable off-balance sheet commitment which gives the Bank right for withdrawal of 200 million EUR. This Stand-by Facility is treated as an additional liquidity buffer which can be used in case of need and has been never utilized yet.

The increase of deposits in 2013, at the faster pace than loans, allowed to keep the Group's Loan-to-Deposit ratio below 100% (as of end of December 2013 the ratio dropped significantly and was equal to approx. 92.2%). The liquidity surplus was invested in the portfolio of liquid assets, especially in the securities with low specific risk (Polish Government Bonds, Treasury and NBP Bills) – since end of December 2012 this portfolio's nominal value grew by 30%

The 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 Group has signed a Credit Support Annex to the master agreements. As a result, in case of unfavourable changes of FX rates (PLN depreciation), the Group 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 Group 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 with the use of the internal indicators, for which exposure limits were 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.

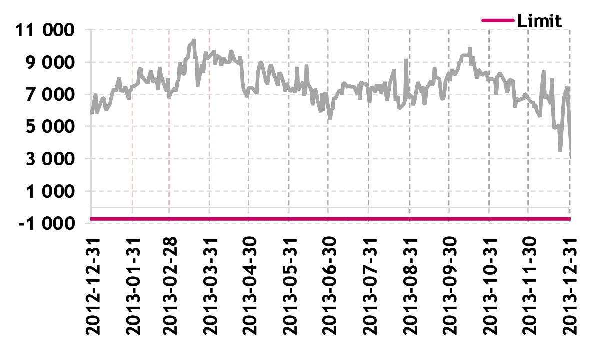
These figures are reported daily to the areas responsible for the management of the liquidity position and are compared with the exposure limits in force. During 2013, all internal liquidity indicators were well above minimum limits. In 3Q2013, the internal limits were revised. Limit revision took into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

Current Liquidity indicators PLN million

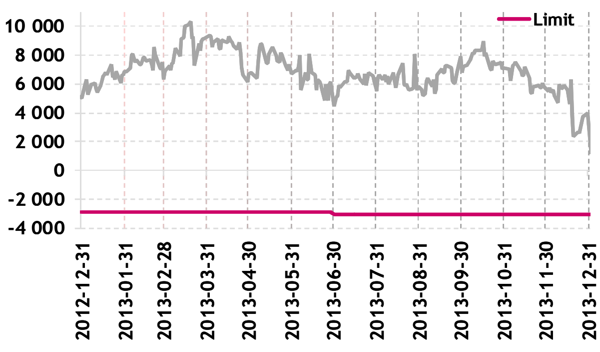
	31.12.2013		
	Immediate liquidity ratio	Quarterly liquidity ratio	Liquid assets for coverage of sources of financing volatility
Exposure	4 943	3 154	7 611
Minimum limit	(753)	(3 012)	2 000

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

Immediate Liquididity Indicator [m PLN]



Quartely Liquidicity Indicator [m PLN]



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

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

In 2013 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).

31.12.2013						
Adjusted Liquidity Gap (m PLN)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	17 928	3 661	5 507	4 885	6 963	32 274
Adjusted balance liabilities	11 292	1 396	1 469	891	1 913	49 932
Balance-Sheet Gap	6 635	2 265	4 037	3 994	5 050	(17 658)
Cumulative Balance-Sheet Gap	6 635	8 900	12 938	16 932	21 982	4 324
Adjusted off-balance assets	207	140	251	183	306	206
Adjusted off-balance liabilities	(914)	(126)	(161)	(131)	(202)	(149)
Off-Balance Sheet Gap	(707)	15	90	51	104	57
Total Gap	5 929	2 280	4 127	4 045	5 154	(17 601)
Total Cumulative Gap	5 929	8 208	12 336	16 381	21 535	3 934

31.12.2012						
Adjusted Liquidity Gap (m PLN)	up to 6M	6M to 12M	1Y to 2Y	2Y to 3Y	3Y to 5Y	over 5Y
Adjusted balance assets	14 412	3 359	5 209	4 498	6 340	30 878
Adjusted balance liabilities	7 401	1 401	1 372	1 103	1 770	47 694
Balance-Sheet Gap	7 011	1 958	3 837	3 395	4 570	(16 817)
Cumulative Balance-Sheet Gap	7 011	8 969	12 806	16 201	20 771	3 954
Adjusted off-balance assets	339	286	260	214	287	297
Adjusted off-balance liabilities	(885)	(219)	(273)	(157)	(277)	(319)
Off-Balance Sheet Gap	(546)	67	(13)	57	10	(22)
Total Gap	6 464	2 025	3 824	3 452	4 580	(16 838)
Total Cumulative Gap	6 464	8 490	12 314	15 766	20 346	3 507

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

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

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

6) OPERATIONAL RISK

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

In the year 2013 there could be observed a continuous use of standards implemented for the purpose of efficient management of operational risk, which are in line with the best practice of national and international financial institutions. The adopted risk management structure describes the various management levels and scopes of their duties and responsibilities. Owners of defined business and support processes play a key role in the day-to-day operation of the Group. Process owner, basing on thorough knowledge about the process, accurately identifies and mitigates recognized risks. Every decision regarding optimising operational risk is preceded by cost-benefit analysis.

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

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

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

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

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

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

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

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

9. OPERATIONAL SEGMENTS

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

a) Retail Customers Segment

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

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

b) Corporate Customers Segment

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

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

c) Treasury, ALM (assets and liabilities management) and Other

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.

Income tax charge has been presented on Group level only.

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

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

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

INCOME STATEMENT 1.01.2013 - 31.12.2013 In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total Consolidated
Net interest income	636 429	116 848	466 774	1 220 051
Interest income	1 412 553	568 983	690 633	2 672 170
Interest cost	(776 125)	(452 135)	(223 859)	(1 452 119)
Net fee and commission income	453 146	126 604	8 987	588 737
Dividends, other income from financial operations and foreign exchange profit	101 468	48 465	56 842	206 776
Other operating income and cost	7 654	(21 892)	5 060	(9 178)
Operating income	1 608 157	474 455	(76 227)	2 006 385
Staff costs	(392 421)	(126 597)	(28 003)	(547 021)
Administrative costs	(391 058)	(68 061)	(29 104)	(488 223)
Impairment losses on assets	(121 817)	(110 725)	(1 560)	(234 102)
Depreciation and amortization	(48 121)	(5 356)	(855)	(54 332)
Operating expenses	(953 417)	(310 739)	(59 522)	(1 323 678)
Operating profit / (loss)	**654 740**	**163 716**	**(135 749)**	**682 707**
Share in net profit of associated companies	0	0	(2 144)	(2 144)
Profit / (loss) before taxes	**654 740**	**163 716**	**(137 893)**	**680 563**
Income taxes	0	0	0	(144 768)
Profit / (loss) after taxes	**0**	**0**	**0**	**535 795**

BALANCE SHEET 31.12.2013 In '000 PLN	Retail Banking	Corporate Banking	Treasury, ALM & Other	Total Consolidated
ASSETS				
Segment assets	31 885 777	15 732 333	9 398 605	57 016 715
Assets allocated to segment	2 845 883	1 780 902	(4 626 785)	0
Total	34 731 660	17 513 235	4 771 820	57 016 715
LIABILITIES				
Segment liabilities	30 685 583	15 866 979	5 101 020	51 653 582
Liabilities allocated to segment	2 474 450	122 706	(2 597 156)	0
Equity allocated to segment	1 571 627	1 523 550	2 267 956	5 363 133
Total	34 731 660	17 513 235	4 771 820	57 016 715

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

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

10. TRANSACTIONS WITH RELATED ENTITIES

All and any transactions between entities of the Group in 2013 and 2012 resulted from the current operations.

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

1) Description of the transactions with the Parent Group

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

	31.12.2013	31.12.2012
ASSETS		
Loans and advances to banks – accounts and deposits	4 058	2 605
Financial assets valued at fair value through profit and loss (held for trading)	0	0
Hedging derivatives	0	0
Other assets	38	45
LIABILITIES		
Deposits from banks	223 424	206 150
Debt securities	0	0
Financial liabilities valued at fair value through profit and loss (held for trading)	0	63
Hedging derivatives	127 058	133 578
Other liabilities	167	165

	1.01-31.12.2013	1.01-31.12.2012
Income from:		
Interest	18 212	100 390
Commissions	161	143
Derivatives net	0	0
Other net operating income	499	877
Expense from:		
Interest	3 873	24 693
Commissions	2 648	2 831
Derivatives net	412	5 785
General and administrative expenses	4 029	4 339

	31.12.2013	31.12.2012
Conditional commitments	933 909	933 638
- granted	100 345	105 448
- obtained	833 564	828 190
Derivatives (par value)	1 225 020	1 740 865

2) Transactions with the Managing and Supervising Persons

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

	The managing persons	The supervising persons
Total debt limit	345.0	158.0
- including an unutilized limit	265.9	110.4
Mortgage loans and credits	2 890.7	-
Active guarantees	-	-

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

Information on total exposure towards companies and groups personally related as at 31.12.2013:

Entity	Amount (PLN'000)	Relation
Company No 1	2 513	Personal with a supervising person
Company No 2	419	Personal with a supervising person
Group No 1	83 502	Personal with a supervising person
Group No 2	4 323	Personal with a supervising person

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

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

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

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

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

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

Year	Salaries and bonuses	Benefits	Total
2013	18 868.4	1 830.8	20 699.2
2012	19 582.4	1 598.1	21 180.5

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

In 2013 the Members of the Management Board received no salaries or any fringe benefits from Subsidiaries.

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

Period	Short term salaries and benefits
2013	1 745.9
2012	1 980.1

In 2013, the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

11. FAIR VALUE

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

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

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

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

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

Financial instruments not recognized at fair value in the balance sheet

All estimation models are arbitrary to some extent and this is why they reflect only the value of those instruments for which they were built. In these circumstances the presented differences between fair values and balance-sheet values cannot be understood to mean adjustments of the economic value of 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 specified repayment schedule, 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 maturity is estimated by discounting related cash flows on contractual dates and under contractual conditions with the use of current zero-coupon rates and credit risk margins.

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

Liabilities to customers

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 cash flows from principal and interest (including the current average margins by major currencies and time periods) using current interest (including the current average margins by major currencies and time periods) in contractual terms.

Liabilities from the issuance of structured debt securities

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

Subordinated liabilities and medium term loans

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

The table below presents results of the above-described analyses as at 31.12.2013 (data in PLN thousand):

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 519 614	1 562 373
Loans and advances to customers *	18	41 765 680	39 991 327

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 348 562	2 393 988
Amounts due to customers	28	45 305 121	45 308 196
Debt securities	30	701 352	705 382
Subordinated debt	34	622 585	615 720

* The negative impact of fair value valuation of the loans portfolio is largely attributable to growth of loan spreads due to the refinancing cost increase of those positions. The methodology, which the Bank uses for valuation of the loans portfolio, assumes that current spreads best reflect existing market conditions and economic situation. A corresponding rule is applied for valuation of debt securities, which are not quoted on active markets. In result, paradoxically whenever the Bank raises spreads, fair value of the "old" loans portfolio falls.

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

The table below presents data as at 31 December 2012 (data in PLN thousand):

ASSETS

	Note	Balance sheet value	Fair value
Loans and advances to banks	15	1 392 424	1 446 903
Loans and advances to customers	18	40 232 240	38 686 940

LIABILITIES

	Note	Balance sheet value	Fair value
Amounts due to banks	26	2 491 745	2 549 452
Amounts due to customers	28	41 434 077	41 445 995
Debt securities	30	900 016	910 707
Subordinated debt	34	613 610	607 159

Financial instruments recognized at fair value in the balance sheet

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

Data in ‘000PLN, as at 31.12.2013

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			331 090	75 273
- debt securities		432 822		
- shares and interests		227		
Hedging derivatives	17		211 395	
Financial assets available for sale	19			
- debt securities		5 134 748	2 999 792	105 878
- shares and interests		291		808
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities		173 641	326 616	74 932
Hedging derivatives	17		930 345	

Data in '000PLN, as at 31.12.2012

	note	Quoted market prices	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs
ASSETS				
Financial assets valued at fair value through profit and loss (held for trading)	16			
- derivatives			520 540	76 520
- debt securities		46 791		
- shares and interests		138		
Hedging derivatives	17		277 812	
Financial assets available for sale	19			
- debt securities		3 037 728	3 598 724	113 578
- shares and interests				1 074
LIABILITIES				
Financial liabilities valued at fair value through profit and loss (held for trading)	27			
- derivatives and short sale of securities			389 792	77 781
Hedging derivatives	17		1 115 202	

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

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

Changes of fair values of instruments measured on the basis of valuation techniques with use of significant parameters not derived from the market in 2013 are presented in the table below:

	Indexes options	Options embedded in securities issued and deposits	FX options	Municipal bonds	Shares and interests
Balance on 1 January 2013	63 379	(64 640)	0	113 578	1 074
Settlement/sell/purchase	(40)	83	0	(8 185)	(266)
Change of valuation recognized in P&L account (including interests)	(2 561)	4 120	0	485	0
Balance on 31 December 2013	60 778	(60 437)	0	105 878	808

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

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

12. CONDITIONAL LIABILITIES AND ASSETS

The total value of lawsuits as at 31 December 2013, in which Group companies acted as claimants or defendants before courts and arbitration bodies, was PLN 589.8 million. The total value of lawsuits, in which Group companies acted as defendants, was PLN 329.4 million and the total value of lawsuits, in which Group companies acted as claimants was PLN 260.4 million.

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

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

The amount of claims for which:	PLN million
probability of resources outflow is negligible	0.3
outflow of resources is possible	325.8
outflow of resources is probable	18.3
TOTAL	344.4

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

As at 31 December 2013 the volume of claims in the court proceedings for which outflow of resource is considered to be possible amounted to PLN 325.8 million. In the Group's opinion probability of winning cases included in this category is high, in effect the Group has not created provisions for these proceedings. The most important group of lawsuits for which an outflow of resources is possible are proceedings connected with derivatives with total value in dispute amounted to PLN 262.9 million.

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

CONSOLIDATED OFF-BALANCE ITEMS

	31.12.2013	31.12.2012
Off-balance conditional commitments granted and received	**8 710 455**	**7 821 938**
Commitments granted:	7 815 492	6 909 179
a) financial	6 692 280	5 610 721
b) guarantee	1 123 212	1 298 458
Commitments received:	894 963	912 759
a) financial	850 558	817 640
b) guarantee	44 405	95 119

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	31.12.2013	31.12.2012
financial sector	60.9	95.1
non-financial sector (companies)	1 052.8	1 189.4
public sector	8.4	9.5
private individuals	1.1	4.4
Total	1 123.2	1 298.4

Guarantees and sureties granted to Clients

Liabilities granted - guarantee in PLN million	31.12.2013	31.12.2012
Active guarantees and sureties	706.1	917.5
Sureties for loans granted through EFRWP*	1.4	1.7
Lines for guarantees and sureties	429.0	395.7
Total gross	1 136.5	1 314.9
Impairment write offs	(13.3)	(16.5)
Total net	**1 123.2**	**1 298.4**

* European Development Fund of the Polish countryside

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

By currency	31.12.2013	31.12.2012
PLN	566 379	759 960
Other currencies	139 763	157 538
Total:	706 142	917 498

By type of commitment	31.12.2013		31.12.2012	
	Number	Amount	Number	Amount in
Guarantee	2 880	689 308	2 779	904 186
Surety	1	57	2	79
Re-guarantee	36	16 777	38	13 233
Total:	2 917	706 142	2 819	917 498

By object of the commitment	31.12.2013			31.12.2012		
	Number	% share	Amount in	Number	% share	Amount in
good performance of contract	2 094	64.18%	453 214	2 006	71.16%	619 094
rent payment	255	5.75%	40 627	251	8.90%	37 652
punctual payment for goods or services	237	15.93%	112 506	222	7.88%	110 514
bid bond	242	3.79%	26 719	247	8.76%	68 602
other	33	1.36%	9 609	24	0.85%	5 779
advance return	29	7.10%	50 167	40	1.42%	60 619
customs	22	1.51%	10 628	23	0.82%	10 898
payment of bank loan	5	0.38%	2 672	6	0.21%	4 340
Total:	2 917	100.00%	706 142	2 819	100.00%	917 498

13. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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

1) Interest income

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balances with the Central Bank	45 302	61 429
Loans and advances to banks	3 751	10 183
Loans and advances to customers	1 831 548	2 038 076
Transactions with repurchase agreement	10 749	12 008
Hedging derivatives	417 904	684 714
Financial assets held for trading (debt securities)	15 709	17 557
Investment securities	347 207	296 418
Total	2 672 170	3 120 385

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 2013 contains interest accrued on impaired loans in the amount of PLN 86,762 thous. (for corresponding data in the year 2012 the amount of such interest stood at PLN 105,303 thous.). This interest income is calculated on the basis of net exposure amounts, which take into account the posted impairment charges.

2) Interest expense

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Banking deposits	(29 837)	(17 227)
Loans and advances from banks	(55 774)	(60 400)
Transactions with repurchase agreement	(64 256)	(58 445)
Deposits from customers	(1 253 554)	(1 767 244)
Subordinated debt	(15 178)	(17 880)
Debt securities	(32 593)	(36 877)
Other	(927)	(1 128)
Total	(1 452 119)	(1 959 202)

3) Fee and commission income

3a. Fee and commission income

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Resulting from accounts service	87 206	92 852
Resulting from money transfers, cash payments and withdrawals and other payment transactions	40 815	39 650
Resulting from granted credits and loans	70 537	68 293
Resulting from guarantees and sureties granted	13 642	16 934
Resulting from payment and credit cards	206 765	210 597
Resulting from sale of insurance products	94 870	73 059
Resulting from distribution of investment funds units and other savings products	68 515	52 210
Resulting from brokerage and custody service	20 578	18 852
Resulting from investment funds managed by the Group	80 527	68 681
Other	14 145	14 538
Total	697 600	655 666

3b. Fee and commission expense

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Resulting from accounts service	(1 937)	(1 832)
Resulting from money transfers, cash payments and withdrawals and other payment transactions	(1 399)	(1 437)
Resulting from granted credits and loans	(15 320)	(16 525)
Resulting from payment and credit cards	(77 915)	(76 384)
Resulting from brokerage and custody service	(3 946)	(4 136)
Resulting from investment funds managed by the Group	(3 686)	(3 806)
Other	(4 660)	(5 509)
Total	(108 863)	(109 629)

4) Dividend income

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Securities valued at fair value through profit and loss (held for trading)	3	1
Investment securities	1 638	4 012
Total	1 641	4 013

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

5) Result on financial instruments and foreign exchange result

5a. Result on investment financial assets

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

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Operations on securities	(7 550)	4 222
Operations on derivatives	31 589	53 487
Fair value hedge accounting operations, including:	364	(337)
- result from hedging derivatives	3 966	(7 896)
- result from items subjected to hedging	(3 602)	7 559
Foreign exchange result	162 194	159 879
Costs of financial operations	(2 183)	(2 790)
Total	**184 414**	**214 461**

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

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

6) Other operating income

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Profit on sale and liquidation of property, plant and equipment, intangible assets	21 981	19 951
Profit on sale of non current assets held for sale	288	126
Indemnifications, penalties and fines received	4 215	12 361
Revenues from billing adjustments of tax on goods and services	8 736	1 310
Income from sale of other services	745	1 423
Income from collection service	2 249	1 611
Income from leasing business	4 620	3 384
Other	21 737	16 930
Total	64 571	57 096

7) General and administrative expenses

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Staff costs:	(547 021)	(558 278)
Salaries (including bonuses)	(456 748)	(467 736)
Social security contributions	(73 366)	(73 435)
Employee benefits, including:	(16 907)	(17 107)
- provisions for retirement benefits	(2 164)	(1 567)
- provisions for unused employee holiday	123	(1 055)
- other	(14 866)	(14 485)
General administrative costs	(488 223)	(506 980)
Costs of advertising, promotion and representation	(50 020)	(41 392)
Costs of software maintenance and IT services	(22 025)	(22 428)
Costs of renting	(183 569)	(187 198)
Costs of buildings maintenance, equipment and materials	(25 719)	(25 253)
ATM and cash costs	(17 526)	(21 791)
Costs of communications and IT	(50 459)	(58 303)
Costs of consultancy, audit and legal advisory and translation	(16 300)	(16 929)
Taxes and fees	(16 753)	(19 390)
KIR costs	(3 742)	(3 362)
PFRON costs	(4 272)	(5 793)
BFG costs	(33 872)	(34 450)
Financial Supervision costs	(1 603)	(4 458)
Other	(62 363)	(66 231)
Total	**(1 035 244)**	**(1 065 258)**

8) Impairment losses on financial assets

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Impairment losses on loans and advances to customers	(221 295)	(237 804)
- Impairment charges on loans and advances to customers	(668 938)	(671 795)
- Reversal of impairment charges on loans and advances to customers	437 189	408 005
- Amounts recovered from loans written off	2 887	1 837
- Result on sale of receivables	7 567	24 149
Impairment losses on investments securities	32	0
- Impairment charges on investments securities	(57)	0
- Reversal of impairment write-offs for investment securities	89	0
Impairment losses on off-balance sheet liabilities	(11 268)	(238)
- Impairment charges on off-balance sheet liabilities	(23 655)	(17 149)
- Reversal of impairment charges on off-balance sheet liabilities	12 387	16 911
Total	**(232 531)**	**(238 042)**

9) Impairment losses on non-financial assets

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Fixed assets	0	46
Other assets	(1 571)	(224)
Total	(1 571)	(179)

10) Depreciation and amortization

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Property, plant and equipment	(43 298)	(45 857)
Intangible assets	(11 034)	(9 531)
Total	(54 332)	(55 388)

11) Other operating expense

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Loss on sale and liquidation of property, plant and equipment, intangible assets	(9 287)	(9 271)
Loss on sale of non current assets held for sale	0	(49)
Indemnifications, penalties and fines paid	(2 631)	(2 348)
Provisions for contentious claims	(15 993)	(10 462)
Costs of leasing business	(1 356)	(10 234)
Donations made	(1 182)	(370)
Costs of collection service	(17 588)	(18 432)
Prudential fee for Banking Guarantee Fund	(3 365)	0
Costs of payments to compensation system	(38)	(304)
Other	(22 310)	(4 059)
Total	(73 750)	(55 528)

12) Income tax

12a. Income tax reported in income statement

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Current tax	(165 757)	(144 749)
Current year	(167 123)	(147 019)
Adjustment of previous years	1 366	2 270
Deferred tax	20 995	20 977
Appearance and reversal of temporary differences	20 452	19 941
Appearance and utilisation of tax loss	543	1 036
Adjustment resulted from Article 38a of CIT	(5)	(2)
Total income tax reported in income statement	**(144 768)**	(123 773)

12b. Effective tax rate

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Gross profit / (loss)	680 563	595 954
Statutory tax rate	19%	19%
Income tax according to obligatory income tax rate of 19%	(129 307)	(113 231)
Impact of permanent differences on tax charges:	**(15 264)**	**(12 811)**
- Non taxable income	1 305	1 288
Dividend income	311	362
Release of other provision	914	431
Other	80	495
- Cost which is not a tax cost	(16 569)	(14 099)
Loss on sale of receivables	(1 893)	(4 099)
PFRON fee	(811)	(1 101)
Prudential fee for Banking Guarantee Fund	(639)	0
Receivables written off	(1 659)	(1 695)
Costs of litigations	(5 602)	(1 330)
Depreciation and insurance costs of cars (in excess of EUR 20,000)	(1 366)	(1 133)
Cost of provisions for factoring receivables	(1 710)	(1 479)
Other	(2 889)	(3 262)
Amendments in declaration CIT 8 for previous years	1 366	2 270
Adjustment resulted from Article 38a of CIT	(5)	(2)
The amount of deductible temporary differences for which deferred income tax asset has not been recognized in the balance sheet	(1 558)	0
Total income tax reported in income statement	**(144 768)**	**(123 773)**

12c. Deferred tax reported directly in equity

	31.12.2013	31.12.2012
Valuation of available for sale securities	300	(8 147)
Valuation of cash flow hedging instruments	30 480	39 671
Deferred tax reported directly in equity	30 780	31 524

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

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

Tax Inspection Office control procedures

Millennium Leasing Sp. z o.o. tax control

As a result of findings of the tax inspection carried out in 2011 in Millennium Leasing Sp. z o.o. the correctness of income tax settlements for 2006 has been challenged in the total amount of PLN 11.4 million, including namely; PLN 4.8 million due to underestimation of tax liability for the period 1.01 - 31.08.2006 and PLN 6.6 million due to an overestimation of tax loss for the period 1.09 - 31.12.2006. Company paid the tax arrears of PLN 16.7 million. Of that amount the Tax Office returned PLN 9.8 million to the Company until completion of proceedings. The Company did not agree with the decision and appealed to the Administrative Court. In Q2'2012 the Company created a provision of PLN 2.97 million to cover potential tax liabilities. On 13 November 2012, the Regional Administrative Court ruling upheld the application of the company and annulled the contested decisions about tax period 01.01.-31.08.2006. On 15 March 2013, the Regional Administrative Court ruling upheld the application of the company and annulled the contested decisions about tax period 1.09.-31.12.2006. At 4 October 2013 the Company received a letter from the Director of the Tax Chamber of the repeal the contested decision (in connection with the judgment of the Regional Administrative Court of 13 November 2012 mentioned above) and returning the case to the Tax Office for reconsideration. 19.11.2013, the Tax Office returned PLN 8.97 million (tax paid with interest), while at 20.12.2013, the Company received a letter from the Tax Office, which defines the limit for completion of the inspection till 28.02.2014. As of December 31, 2013, the Board of Millennium Leasing continues to support its evaluation of the income tax settlement for 2006 as correct, while maintaining the balance of the provision at the same level.

Bank Millennium S.A. tax control procedures

As a result of the tax inspection carried out in the Bank in 2011 the Tax Control Office questioned the correctness of income tax calculation for 2005, having its consequences for subsequent tax years. The Bank fully supports the correctness of its tax calculation, nonetheless several procedural steps have been undertaken, such as: (i) adjusting tax settlements for the period 2005-2010; (ii) paying (in November 2011) the tax arrears of PLN 69 million (to avoid the risk of penalty interest burden); and (iii) raising a claim against the Tax Office for the above mentioned amount. In 2013, the Bank re-paid to the account of the Tax Authorities an amount of PLN 58.6 million (based on the decision of the Tax Chamber in Warsaw, on which see below), and part of that amount has been paid to the Bank in the amount of PLN 1.8 million. As a result of these proceedings on 30 January 2012 the Tax Office returned to the Bank a substantial part of the amount paid (PLN 66 million).

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

1) Proceedings in front of the Tax Chamber resulting from the Bank's appealing against the decision of the Director of the Tax Control Office (first instance) determining a tax loss in the CIT for 2005. On 27.06.2013 the Director of the Tax Chamber issued a decision upholding the decision of the first instance. On 22 July 2013 the Bank submitted a complaint to the Regional Administrative Court. Originally the court ordered a hearing on February 6, 2014 and then postponed it to 8th April, 2014.
2) Appeal proceedings against the decision of the Head of Second Mazovian Tax Office determining CIT for the year 2006. On the 22nd of August 2013 the appellate authority – the Director of the Tax Chamber issued the decision which upheld the decision of the tax office and determine Bank's income which did not cause the obligation to pay additional tax burden to the tax office. On the 25th of September 2013 Bank lodged the complaint to the Regional Administrative Court. The Court set the hearing date on the 14th of April 2014.
3) Appeal proceedings against the decisions of the Head of Second Mazovian Tax Office – determining tax liabilities for 2007 and 2008, and refusing confirmation of tax overpayment for 2007 and 2008. On the 27th of August 2013 the Director of Tax Chamber issued the decision which upheld the decision of the tax office and determine Bank's income for 2007. On the 30th of September 2013 the Bank lodged the complaint to the Regional Administrative Court. Court set the trial date 19 March 2014.
   On the 29th of August 2013 Director of the Tax Chamber issued a decision setting new deadline for examining an appeal regarding refusing the statement of overpayment in CIT for the year 2007 and corresponding decision regarding 2008 year (determining liability and refusing the statement of overpayment) for 31st of October 2013.
   On the 18th of September 2013 the Director of the Tax Chamber issued the decision which upheld the decision of the tax office refusing the statement of overpayment in CIT for 2007. On 23 October 2013 the Bank submitted a complaint to the Regional Administrative Court. The Court set the hearing date on the 14th of April 2014.

On the 18th of September 2013 the Director of Tax Chamber issued the decision which upheld the decision of the tax office and determine Bank's income for 2008. On 23 October 2013 Bank submitted a complaint to the Regional Administrative Court. The Court set the hearing date on the 9th of April 2014.
On the 30th of September 2013 the Director of Tax Chamber issued the decision which upheld the decision of the tax office refusing the statement of overpayment in CIT for 2008. On 25 October 2013 the Bank submitted a complaint to the Regional Administrative Court. The Court set the hearing date on the 9th of April 2014. The both cases regarding 2008 tax year will be judged jointly.

In summary, the Bank paid all of the claimed obligations and interest in the amount of PLN 60 million (not reflected in the Profit and Loss Account), at the same time the Management Board continues to fully support the correctness of originally made tax calculation. In the opinion of the Bank the control proceedings of the Tax Office are unfounded and the Bank expects the positive outcome of the proceedings. The positive final outcome is supported by the Bank's external tax advisor. The final outcome of the case depends of results of the ongoing proceedings.

13) Earnings per share

Earnings per share (PLN)

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Earnings after taxes	535 795	472 181
Weighted average number of shares in the period	1 213 116 777	1 213 116 777
Earnings per share	0.44	0.39

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

14) Cash, balances with the central bank

14a. Cash, balances with the central bank

	31.12.2013	31.12.2012
Cash	706 520	664 891
Cash in Central Bank	2 705 380	1 800 709
Other funds	275	278
Total	3 412 175	2 465 879

In the period from 31 December 2013 to 30 of January 2014 the Bank was obliged to keep on its current account with NBP (the central bank) an average balance of PLN 1,593,745 thousand (arithmetic average of balances on the NBP current account on all days of the deposit-holding period).

The interest rate on funds on the mandatory deposit account constitutes 0.9 of the central bank's rediscount rate and in the above-mentioned period of time was 2.475 %.

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

	31.12.2013	31.12.2012
in Polish currency	2 979 642	1 991 304
in foreign currencies (after conversion to PLN)	432 533	474 575
- currency: USD	43 137	39 006
- currency: EUR	288 265	327 074
- currency: CHF	35 621	26 390
- currency: GBP	30 264	34 239
- other currencies	35 246	47 866
Total	**3 412 175**	**2 465 879**

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

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

	31.12.2013	31.12.2012
Current accounts	283 703	211 004
Deposits granted	760 622	741 452
Loans	471 976	435 657
Other	0	0
Interest	3 329	4 311
Total (gross) deposits, loans and advances	1 519 630	1 392 424
Impairment write-offs	(16)	0
Total (net) deposits, loans and advances	**1 519 614**	**1 392 424**

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

	31.12.2013	31.12.2012
Current accounts	283 703	211 004
to 1 month	715 622	741 452
above 1 month to 3 months	40 000	0
above 3 months to 1 year	5 000	0
above 1 year to 5 years	471 976	435 657
above 5 years	0	0
past due	0	0
Interest	3 329	4 311
Total (gross) deposits, loans and advances	1 519 630	1 392 424

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

	31.12.2013	31.12.2012
in Polish currency	594 222	452 182
in foreign currencies (after conversion to PLN)	925 408	940 242
- currency: USD	94 191	115 776
- currency: EUR	720 509	739 760
- currency: CHF	31 839	22 828
- currency: JPY	20 546	20 657
- currency: GBP	11 142	16 187
- other currencies	47 181	25 034
Total	**1 519 630**	**1 392 424**

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

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

16) Financial assets 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

	31.12.2013	31.12.2012
Debt securities	**432 822**	**46 791**
Issued by State Treasury	432 822	46 791
a) bills	0	436
b) bonds	432 822	46 355
Equity instruments	**227**	138
Quoted on the active market	227	138
a) financial institutions	55	0
b) non-financial institutions	172	138
Adjustment from fair value hedge	11 321	18 414
Positive valuation of derivatives	406 362	597 060
Total	**850 732**	**662 404**

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

	31.12.2013	31.12.2012
Trading financial assets	839 411	643 989
Adjustment from fair value hedge	11 321	18 414
Financial assets valued at fair value when initially recognized	0	0
Total	850 732	662 404

Information on financial assets securing liabilities is presented in Chapter 14.3).

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

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

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

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

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	46 929	318 246
Increases (purchase and accrual of interest and discount)	52 686 313	46 344 982
Reductions (sale and redemption)	(52 299 660)	(46 616 813)
Differences from valuation at fair value	(533)	514
Balance at the end of the period	433 049	46 929

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

	Par value of instruments with future maturity				Fair values	
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	2 996 000	5 338 458	10 948 133	(2 684)	292 044	294 728
Forward Rate Agreements (FRA)	500 000	0	0	(281)	0	281
Interest rate swaps (IRS)	2 496 000	5 336 515	10 845 733	(2 403)	291 164	293 567
Other interest rate contracts: options	0	1 943	102 400	0	880	880
2. FX derivatives *	5 039 383	944 433	344 828	7 248	39 045	31 797
FX contracts	936 002	537 784	150 463	(6 434)	5 974	12 408
FX swaps	4 103 381	406 649	112 393	20 699	33 071	12 372
Other FX contracts (CIRS)	0	0	81 972	(7 017)	0	7 017
FX options	0	0	0	0	0	0
3. Embedded instruments	230 548	511 203	1 335 438	(60 437)	0	60 437
Options embedded in deposits	218 906	451 509	1 059 454	(44 773)	0	44 773
Options embedded in securities issued	11 642	59 694	275 984	(15 664)	0	15 664
4. Indexes options	276 672	715 514	1 436 816	60 778	75 273	14 495
Valuation of derivatives, TOTAL	**8 542 603**	**7 509 608**	**14 065 215**	**4 905**	**406 362**	**401 457**
Valuation of balance-sheet items resulting from fair value hedge					11 321	
Liabilities from short sale of securities						173 641

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

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

	Par value of instruments with future maturity				Fair values	
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities
1. Interest rate derivatives	5 253 878	14 894 030	10 709 220	85 712	439 378	353 666
Forward Rate Agreements (FRA)	1 800 000	3 800 000	0	(1 733)	4 101	5 834
Interest rate swaps (IRS)	3 424 475	11 055 974	10 602 237	89 075	434 244	345 169
Other interest rate contracts: option, volatility swap, swap with FX option	29 403	38 056	106 984	(1 630)	1 033	2 663
2. FX derivatives *	8 363 571	8 401 420	467 352	45 036	81 162	36 126
FX contracts	894 160	437 792	185 403	3 848	13 468	9 620
FX swaps	6 360 172	10 804	136 404	21 645	40 551	18 906
Other FX contracts (CIRS)	1 109 239	7 952 825	145 546	19 543	27 143	7 600
FX options	0	0	0	0	0	0
3. Embedded instruments	288 498	1 178 541	272 117	(64 640)	0	64 640
Options embedded in deposits	235 798	1 021 048	62 346	(38 725)	0	38 725
Options embedded in securities issued	52 700	157 493	209 771	(25 915)	0	25 915
4. Indexes options	301 325	1 308 071	337 510	63 379	76 520	13 141
Valuation of derivatives, TOTAL	**14 207 272**	**25 782 062**	**11 786 200**	**129 487**	**597 060**	**467 573**
Valuation of balance-sheet items resulting from fair value hedge					18 414	
Liabilities from short sale of securities						0

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

17) Derivative hedging instruments

The Group as at the end of 2013 uses the following types of hedge accounting:
1. Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate;
2. Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans;
3. Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them;
4. Cash flow volatility hedge for the flows generated by future revenues and expenditures denominated in foreign currency

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

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

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

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

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

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

17a. Hedge accounting

As at 31.12.2013	Par value of instruments with future maturity			Fair values			Adjustment to fair value of hedged items for hedged risk (*)
	below 3 months	from 3 months to 1 year	above 1 year	Total	Assets	Liabilities	
1. Fair value hedging derivatives connected with interest rate risk							
CIRS contracts	0	0	900 825	(74 363)	0	74 363	2 432
2. Cash flows hedging derivatives connected with interest rate and/or FX rate							
CIRS contracts	6 120 245	13 746 108	22 755 806	(639 134)	201 964	841 097	x
IRS contracts	150 000	230 000	255 000	7 095	7 095	0	x
Forward contracts	42 148	190 271	114 807	(12 549)	2 336	14 885	x
3. Total hedging derivatives	6 312 393	14 166 379	24 026 438	(718 951)	211 395	930 345	x

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

17b. Hedge accounting for cash flows

Hedge relationship	Maximum period in which cash flows with hedged value are expected to occur
Hedge of the fair value of the portfolio of fixed rate FX liabilities and FX receivables portfolio of floating rate	24.03.2020
Hedge of volatility of the cash flows generated by the portfolio of PLN mortgage loans	02.04.2015
Hedge of volatility of the cash flows generated by the portfolio of FX mortgage loans and the PLN deposits financing them	08.06.2022
Cash flow volatility hedge for the flows generated by future revenues and expenditures denominated in foreign currency	15.06.2015

Ineffective part of valuation of hedging instrument recognised in Profit and loss account for 2013 amounted to PLN – 9.6 million (respectively in 2012 amounted to PLN -24.7 million).

18) LOANS AND ADVANCES TO CUSTOMERS

18a. Loans and advances to customers

	31.12.2013	31.12.2012
Loans and advances	38 258 194	36 843 032
- to companies	7 463 382	6 159 590
- to private individuals	30 184 384	29 869 616
- to public sector	610 428	813 826
Receivables on account of payment cards	725 564	777 919
- due from companies	37 581	38 110
- due from private individuals	687 983	739 809
Purchased receivables	154 703	146 214
- from companies	150 687	130 859
- from public sector	4 016	15 355
Guarantees and sureties realised	36 373	35 005
Debt securities eligible for rediscount at Central Bank	12 874	13 235
Financial leasing receivables	3 571 325	3 367 716
Other	1 276	2 288
Interest	317 702	284 417
Total gross	**43 078 011**	**41 469 827**
Impairment write-offs	(1 312 331)	(1 237 586)
Total net	**41 765 680**	**40 232 240**

18b. Quality of loans and advances to customers portfolio

	31.12.2013	31.12.2012
Loans and advances to customers (gross)	43 078 011	41 469 826
- impaired	1 903 046	2 110 563
- not impaired	41 174 965	39 359 263
Impairment write-offs	(1 312 331)	(1 237 586)
- for impaired exposures	(1 113 454)	(1 045 565)
- for incurred but not reported losses (IBNR)	(198 877)	(192 021)
Loans and advances to customers (net)	**41 765 680**	**40 232 240**

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

	31.12.2013	31.12.2012
Loans and advances to customers (gross)	43 078 011	41 469 826
- case by case analysis	886 068	1 125 031
- collective analysis	42 191 943	40 344 795
Impairment write-offs	(1 312 331)	(1 237 586)
- on the basis of case by case analysis	(519 289)	(470 393)
- on the basis of collective analysis	(793 042)	(767 193)
Loans and advances to customers (net)	**41 765 680**	**40 232 240**

18d. Loans and advances to customers portfolio by customers

	31.12.2013	31.12.2012
Loans and advances to customers (gross)	43 078 011	41 469 826
- corporate customers	11 984 859	10 665 421
- private individuals	31 093 152	30 804 405
Impairment write-offs	(1 312 331)	(1 237 586)
- for receivables from corporate customers	(730 886)	(659 478)
- for receivables from private individuals	(581 445)	(578 108)
Loans and advances to customers (net)	**41 765 680**	**40 232 240**

18e. Loans and advances to customers by maturity

	31.12.2013	31.12.2012
Current accounts	2 843 684	2 385 812
to 1 month	474 277	492 116
above 1 month to 3 months	1 378 603	1 179 947
above 3 months to 1 year	3 751 344	3 365 337
above 1 year to 5 years	10 760 364	9 801 824
above 5 years	22 529 542	23 083 177
past due	1 022 495	877 195
Interest	317 702	284 417
Total gross	43 078 011	41 469 826

18f. Loans and advances to customers by currency

	31.12.2013	31.12.2012
in Polish currency	23 121 080	20 728 689
in foreign currencies (after conversion to PLN)	19 956 931	20 741 137
- currency: USD	276 756	317 980
- currency: EUR	1 539 379	1 086 917
- currency: CHF	18 119 629	19 276 623
- currency: JPY	21 069	59 346
- other currencies	98	271
Total gross	**43 078 011**	**41 469 826**

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

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	1 237 586	1 217 369
Change in value of provisions:	74 745	20 217
Impairment write-offs created in the period	668 922	671 795
Amounts written off	(136 213)	(158 742)
Impairment write-offs released in the period	(437 189)	(408 005)
Sale of receivables	(20 691)	(70 545)
Changes resulting from FX rates differences	(302)	(15 407)
Other	218	1 121
Balance at the end of the period	**1 312 331**	**1 237 586**

18h. Financial leasing receivables

	31.12.2013	31.12.2012
Financial leasing receivables (gross)	3 924 762	3 826 536
Unrealised financial income	(353 437)	(458 820)
Financial leasing receivables (net)	3 571 325	3 367 716
Financial leasing receivables (gross) by maturity		
Under 1 year	1 485 847	1 480 379
From 1 year to 5 years	2 124 428	1 925 618
Above 5 years	314 487	420 539
Total	3 924 762	3 826 536
Financial leasing receivables (net) by maturity		
Under 1 year	1 347 077	1 311 467
From 1 year to 5 years	1 937 616	1 671 871
Above 5 years	286 632	384 378
Total	3 571 325	3 367 716

19) Investment financial assets

19a. Investment financial assets available for sale

	31.12.2013	31.12.2012
Debt securities	**8 240 418**	**6 749 758**
Issued by State Treasury	5 134 748	3 037 456
a) bills	0	0
b) bonds	5 134 748	3 037 456
Issued by Central Bank	2 999 792	3 598 724
a) bills	2 999 792	3 598 724
b) bonds	0	0
Other securities	105 878	113 578
a) listed	0	0
b) not listed	105 878	113 578
Shares and interests in other entities	1 099	1 346
Total financial assets available for sale	**8 241 517**	**6 751 104**
Available for sale instruments listed on the stock exchange	5 134 748	3 037 749
Available for sale instruments not listed on the stock exchange	3 106 770	3 713 355

19b. Debt securities available for sale

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

19c. Debt securities available for sale by maturity

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

19d. Change of investment financial assets available for sale

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	6 751 104	3 133 585
Increases (purchase and accrual of interest and discount)	286 603 299	181 255 403
Reductions (sale and redemption)	(285 068 454)	(177 684 199)
Difference from measurement at fair value	(44 464)	46 309
Impairment write-offs	32	0
Other	0	6
Balance at the end of the period	8 241 517	6 751 104

19e. Investments in associates

	31.12.2013	31.12.2012
Investments in associates	3 009	13 352

19f. Change of investments in associates

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	13 352	11 155
- sale	(8 199)	0
- equity method valuation	(2 144)	2 197
Balance at the end of the period	**3 009**	**13 352**

20) Receivables from securities bought with sell-back clause

Receivables from securities bought with sell-back clause

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

21) Property, plant and equipment

21a. Property, plant and equipment

	31.12.2013	31.12.2012
Land	1 275	1 300
Buildings, premises, civil and hydro-engineering structures	82 705	93 281
Machines and equipment	38 745	47 060
Vehicles	24 615	22 520
Other fixed assets	4 484	7 049
Fixed assets under construction	11 334	13 432
Total	**163 158**	**184 642**

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 300	347 836	212 049	32 268	99 381	13 433	706 267
b) increases (on account of)	0	9 294	6 407	11 228	1 935	16 163	45 027
- purchase	0	0	69	11 228	10	10 100	21 407
- transfer from fixed assets under construction	0	9 294	6 264	0	1 919	0	17 477
- investment provisions	0	0	0	0	0	5 807	5 807
- other	0	0	74	0	6	256	336
c) reductions (on account of)	25	7 819	7 647	8 334	3 149	18 262	45 236
- sale	25	7 084	3 117	8 316	1 050	24	19 616
- liquidation	0	66	4 521	0	2 074	0	6 662
- settlement of fixed assets under construction	0	0	0	0	0	17 736	17 736
- other	0	669	9	18	25	502	1 222
d) gross value of property, plant and equipment at the end of the period	**1 275**	**349 312**	**210 808**	**35 162**	**98 167**	**11 334**	**706 058**
e) cumulated depreciation (amortization) at the beginning of the period	0	235 386	164 988	9 747	90 957	0	501 078
f) depreciation over the period (on account of)	0	11 653	7 075	800	2 725	0	22 254
- current write-off (P&L)	0	18 083	14 531	4 839	5 845	0	43 298
- reductions on account of sale	0	(5 734)	(3 122)	(4 039)	(1 021)	0	(13 916)
- reductions on account of liquidation	0	(28)	(4 343)	0	(2 073)	0	(6 444)
- other	0	(669)	9	0	(25)	0	(685)
g) cumulated depreciation (amortization) at the end of the period	**0**	**247 039**	**172 063**	**10 547**	**93 682**	**0**	**523 332**
h) impairment write-offs at the beginning of the period	0	19 169	0	0	1 376	0	20 545
- increase	0	1 375	0	0	(1 375)	0	0
- reduction	0	976	0	0	0	0	976
i) impairment write-offs at the end of the period	**0**	**19 568**	**0**	**0**	**1**	**0**	**19 569**
j) net value of property, plant and equipment at the end of the period	**1 275**	**82 705**	**38 745**	**24 615**	**4 484**	**11 334**	**163 158**

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

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	fixed assets under construction and advances	TOTAL
a) gross value of property, plant and equipment at the beginning of the period	1 285	353 790	238 493	33 292	98 440	18 983	744 283
b) increases (on account of)	15	5 438	12 365	7 227	2 717	13 864	41 626
- purchase	0	0	304	7 227	3	7 647	15 181
- transfer from fixed assets under construction	15	4 634	11 807	0	2 714	0	19 170
- investment provisions	0	0	0	0	0	5 844	5 844
- other	0	804	254	0	0	373	1 431
c) reductions (on account of)	0	11 393	38 810	8 251	1 776	19 415	79 643
- sale	0	9 545	917	8 099	106	0	18 667
- liquidation	0	1 550	37 838	0	605	0	39 993
- settlement of fixed assets under construction	0	0	0	0	0	19 214	19 214
- other	0	297	55	152	1 065	201	1 769
d) gross value of property, plant and equipment at the end of the period	**1 300**	**347 836**	**212 049**	**32 268**	**99 381**	**13 433**	**706 266**
e) cumulated depreciation (amortization) at the beginning of the period	0	222 947	188 902	11 432	83 785	0	507 066
f) depreciation over the period (on account of)	0	12 439	(23 914)	(1 685)	7 172	0	(5 988)
- current write-off (P&L)	0	18 615	14 674	3 647	8 921	0	45 856
- reductions on account of sale	0	(4 584)	(879)	(5 241)	(97)	0	(10 801)
- reductions on account of liquidation	0	(1 351)	(37 679)	0	(587)	0	(39 617)
- other	0	(241)	(30)	(90)	(1 065)	0	(1 426)
g) cumulated depreciation (amortization) at the end of the period	**0**	**235 386**	**164 988**	**9 747**	**90 957**	**0**	**501 078**
h) impairment write-offs at the beginning of the period	0	23 494	0	0	1 376	0	24 870
- increase	0	0	0	0	0	0	0
- reduction	0	4 325	0	0	0	0	4 325
i) impairment write-offs at the end of the period	**0**	**19 169**	**0**	**0**	**1 376**	**0**	**20 545**
j) net value of property, plant and equipment at the end of the period	**1 300**	**93 281**	**47 060**	**22 520**	**7 049**	**13 433**	**184 642**

22) Intangible assets

22a. Intangible assets

	31.12.2013	31.12.2012
- concessions, patents, licenses, know-how and similar assets, including:	41 001	43 592
- computer software	40 388	43 592
- other intangible assets	0	97
- advances for intangible assets	5	5
Total intangible assets	41 006	43 694

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

	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	450 182	240 062	101	5	450 311
b) increases (on account of)	0	9 902	9 031	0	121	10 023
- purchase	0	1 978	1 978	0	5	1 983
- provision	0	1 956	1 956	0	0	1 956
- expenditures on intangible assets	0	5 006	4 759	0	0	5 006
- transfer from investments and advances	0	258	258	0	0	258
- adoption of copyright	0	624	0	0	0	624
- other	0	80	80	0	116	196
c) reductions (on account of)	0	1 466	1 469	97	121	1 684
- liquidation	0	7	7	0	0	7
- settlement of costs	0	519	519	0	0	519
- transfer to copyright	0	624	624	0	0	624
- other	0	316	319	97	121	534
d) gross value of intangible assets at the end of the period	**23**	**458 618**	**247 624**	**4**	**5**	**458 650**
e) cumulated depreciation (amortization) at the beginning of the period	23	402 602	192 482	4	0	402 629
f) depreciation over the period (on account of)	0	11 027	10 766	0	0	11 027
- current write-off (P&L)	0	11 034	10 773	0	0	11 034
- liquidation	0	(7)	(7)	0	0	(7)
g) cumulated depreciation (amortization) at the end of the period	**23**	**413 629**	**203 248**	**4**	**0**	**413 656**
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**	**41 001**	**40 388**	**0**	**5**	**41 006**

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

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

23) Non-current assets held for sale

23a. Change of balance of non current assets held for sale in the period 01.01.2013 – 31.12.2013

	land	buildings, premises, civil and hydro-engineering structures	machines and equipment	vehicles	other fixed assets	TOTAL
a) value at the beginning of the period	3 282	21 684	33	142	0	25 141
b) impairment write-offs at the beginning of the period	(67)	(86)	(33)	0	0	(186)
c) net value of non current assets held for sale at the beginning of the period	3 215	21 598	0	142	0	24 955
d) change of value in the period, including:	(2 218)	(19 177)	0	(142)	0	(21 537)
- sale of non current assets held for sale	(2 470)	(19 720)			(788)	(22 978)
e) value at the end of the period	1 064	2 507	33	0	0	3 604
f) change of impairment write-offs in the period, including:	3	47	0	0	0	50
- sale of non current assets held for sale	3	47	0	0	0	50
g) impairment write-offs at the end of the period	(64)	(39)	(33)	0	0	(136)
h) net value of non current assets held for sale at the end of the period	**999**	**2 467**	**0**	**0**	**0**	**3 466**

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

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

24) Deferred income tax assets

24a. Deferred income tax assets

	31.12.2013			31.12.2012		
	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset	Deferred income tax asset	Deferred income tax provision	Net deferred income tax asset
Difference between tax and balance sheet depreciation	78 772	(6 830)	71 942	67 211	(11 488)	55 723
Balance sheet valuation of financial instruments	250 040	(244 473)	5 567	359 735	(354 906)	4 829
Unrealised receivables/ liabilities on account of derivatives	61 138	(69 120)	(7 982)	87 170	(117 650)	(30 480)
Interest on deposits and securities to be paid/ received	43 182	(96 791)	(53 609)	65 197	(79 150)	(13 953)
Interest and discount on loans and receivables	99	(27 370)	(27 271)	98	(24 771)	(24 673)
Income and cost settled at effective interest rate	23 800	(1 481)	22 319	2 230	(1 304)	926
Provisions for loans presented as temporary differences	102 916	0	102 916	105 026	0	105 026
Employee benefits	15 080	0	15 080	12 736	0	12 736
Provisions for future costs	21 663	0	21 663	18 116	0	18 116
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	30 834	(54)	30 780	39 671	(8 147)	31 524
Tax loss deductible in the future	1 708	0	1 708	1 165	0	1 165
Other	7 413	(5 070)	2 343	7 570	(3 303)	4 267
Net deferred income tax asset	636 645	(451 189)	185 456	765 925	(600 719)	165 206

24b. Change of temporary differences

	31.12.2012	Changes to financial result	Changes to equity	31.12.2013
Difference between tax and balance sheet depreciation	55 723	16 219		71 942
Balance sheet valuation of financial instruments	4 829	738		5 567
Unrealised receivables/ liabilities on account of derivatives	(30 480)	22 498		(7 982)
Interest on deposits and securities to be paid/ received	(13 953)	(39 656)		(53 609)
Interest and discount on loans and receivables	(24 673)	(2 598)		(27 271)
Income and cost settled at effective interest rate	926	21 393		22 319
Provisions for loans presented as temporary differences	105 026	(2 110)		102 916
Employee benefits	12 736	2 344		15 080
Provisions for future costs	18 116	3 547		21 663
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	31 524		(744)	30 780
Tax loss deductible in the future	1 165	543		1 708
Other	4 267	(1 924)		2 343
Total	165 206	20 994	(744)	185 456

24c. Change of temporary differences

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

* reclassification between deferred and current income tax

24d. Change of deferred income tax

	1.01.2013 - 31.12.2013	1.01.2012 - 31.12.2012
Difference between tax and balance sheet depreciation	16 219	62 888
Balance sheet valuation of financial instruments	738	(24 856)
Unrealised receivables/ liabilities on account of derivatives	22 498	(3 810)
Interest on deposits and securities to be paid/ received	(39 656)	12 539
Interest and discount on loans and receivables	(2 598)	(4 709)
Income and cost settled at effective interest rate	21 393	(528)
Provisions for loans presented as temporary differences	(2 110)	(26 966)
Employee benefits	2 344	1 048
Provisions for future costs	3 547	2 407
Tax loss deductible in the future	543	1 036
Other	(1 924)	1 928
Change of deferred income tax recognized in financial result	20 994	20 977
Valuation of investment assets and cash flows hedge recognized in revaluation reserve	(744)	54 949

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

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

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.

	31.12.2013	31.12.2012
Net deferred income tax assets	185 456	165 206
Net deferred income tax provision	-	-
TOTAL	185 456	165 206

25) Other assets

	31.12.2013	31.12.2012
Expenses to be settled	25 048	31 819
Income to be received	25 658	14 746
Interbank settlements	22	28 726
Settlements of financial instruments transactions	21 520	63 772
Receivables from sundry debtors	92 826	236 635
Settlements with the State Treasury	34 450	6 692
Settlements for activities of Millennium Dom Maklerski S.A.	39 073	31 544
Other	92 345	88 489
Total other assets (gross)	330 942	502 423
Provisions	(17 444)	(7 374)
Total other assets (net)	**313 498**	**495 049**

26) Liabilities to banks and other monetary institutions

26a. Liabilities to banks and other monetary institutions

	31.12.2013	31.12.2012
In current account	232 679	210 646
Term deposits	716 014	709 997
Loans and advances received	1 397 789	1 567 995
Interest	2 080	3 107
Total	2 348 562	2 491 745

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

	31.12.2013	31.12.2012
Current accounts	232 679	210 646
- to 1 month	544 499	403 904
- above 1 month to 3 months	189 041	305 851
- above 3 months to 1 year	216 930	242
- above 1 year to 5 years	878 006	1 240 121
- above 5 years	285 327	327 874
Interest	2 080	3 107
Total	2 348 562	2 491 745

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

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

	31.12.2013	31.12.2012
in Polish currency	1 172 064	950 949
in foreign currencies (after conversion to PLN)	1 176 498	1 540 796
- currency: USD	28 544	30 045
- currency: EUR	978 868	1 371 677
- currency: CHF	169 086	136 298
- other currencies	0	2 776
Total	**2 348 562**	**2 491 745**

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

	31.12.2013	31.12.2012
Negative valuation of derivatives	401 457	467 573
Short sale of securities	173 641	0
Financial liabilities valued at fair value through profit and loss	575 098	467 573

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

28) LIABILITIES TO CUSTOMERS

28a. Structure of liabilities to customers by type

	31.12.2013	31.12.2012
Amounts due to private individuals	26 433 646	26 017 955
Balances on current accounts	13 181 014	9 910 438
Term deposits	13 012 235	15 747 647
Other	108 104	116 399
Accrued interest	132 293	243 471
Amounts due to companies	16 054 269	13 189 987
Balances on current accounts	3 721 816	3 449 535
Term deposits	12 034 345	9 439 749
Other	223 245	245 143
Accrued interest	74 863	55 561
Amounts due to public sector	2 817 206	2 226 136
Balances on current accounts	873 511	851 063
Term deposits	1 912 101	1 322 798
Other	28 164	45 858
Accrued interest	3 430	6 417
Total	**45 305 121**	**41 434 077**

28b. Liabilities to customers by maturity

	31.12.2013	31.12.2012
Current accounts	17 776 341	14 211 035
to 1 month	13 088 834	11 987 276
above 1 month to 3 months	8 113 886	7 958 514
above 3 months to 1 year	4 745 016	6 107 200
above 1 year to 5 years	1 370 458	864 052
above 5 years	0	552
Interest	210 586	305 449
Total	45 305 121	41 434 077

28c. Liabilities to customers by currency

	31.12.2013	31.12.2012
in Polish currency	42 305 194	38 667 027
in foreign currencies (after conversion to PLN)	2 999 927	2 767 050
- currency: USD	994 695	953 510
- currency: EUR	1 819 891	1 644 339
- currency: GBP	131 310	117 067
- currency: CHF	38 811	36 874
- other currencies	15 220	15 260
Total	**45 305 121**	**41 434 077**

29) LIABILITIES FROM SECURITIES SOLD WITH BUY-BACK CLAUSE

	31.12.2013	31.12.2012
a) to the Central Bank	0	0
b) to banks	46 319	0
c) to customers	68 427	174 370
d) interest	55	418
Total	114 801	174 788

30) LIABILITIES FROM DEBT SECURITIES

30a. Debt securities

	31.12.2013	31.12.2012
Outstanding bonds and bills	359 114	551 264
Bank Securities	339 351	344 374
Interest	2 887	4 378
Total	701 352	900 016

30b. Debt securities by final legal maturity

	31.12.2013	31.12.2012
- to 1 month	17 745	21 775
- above 1 month to 3 months	0	69 744
- above 3 months to 1 year	58 454	209 895
- above 1 year to 5 years	622 266	594 224
- above 5 years	0	0
Interest	2 887	4 378
Total	701 352	900 016

30c. Change of debt securities

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	900 016	1 071 193
Increases, on account of:	230 219	1 611 420
- issue of Banking Securities	211 182	156 836
- issue of bonds by the Bank	0	350 000
- issue of bonds by subsidiary company	0	1 095 017
- interest accrual	19 037	9 566
Reductions, on account of:	(428 883)	(1 782 596)
- repurchase of bonds in leasing portfolio securitization transaction	(132 430)	(244 325)
- repurchase of bonds by subsidiary company	0	(1 400 000)
- repurchase of Banking Securities	(216 205)	(53 375)
- repurchase of bonds by the Bank	(59 852)	(84 897)
- interest payment	(20 396)	0
Balance at the end of the period	**701 352**	**900 016**

30d. Debt securities by type

Bonds and Banking Securities issued by Bank:

As at 31.12.2013	Balance sheet value	Final legal maturity	Market
BM_2014/01,A	6 187	2014-01-06,07	-
BM_2014/04	2 927	2014-04-04	-
BPW_2014/01,A	11 558	2014-01-03,31	-
BPW_2014/04,A	8 999	2014-04-02,30	-
BPW_2014/05	526	2014-05-02	-
BPW_2014/06	10 939	2014-06-02	-
BPW_2014/07,A,B	19 575	2014-07-03,30,31	-
BPW_2014/09,A,B,C	15 488	2014-09-03	-
BPW_2015/01	572	2015-01-05	-
BPW_2015/03	5 716	2015-03-04	-
BPW_2015/04,A,B,C,D	25 837	2015-04-01,29	-
BPW_2015/06,A	4 010	2015-06-03	-
BPW_2015/07	15 663	2015-07-01	-
BPW_2015/09,A	10 288	2015-09-30	-
BPW_2015/11	6 326	2015-11-30	-
BPW_2015/12,A,B,C	27 294	2015-12-02,31	-
BPW_2016/02,A	9 832	2016-02-03	-
BPW_2016/03,A	26 898	2016-03-02,30	-
BPW_2016/04,A	19 017	2016-04-29	-
BPW_2016/05,A	7 589	2016-05-31	-
BPW_2016/06,A	10 898	2016-06-29	-
BPW_2016/07	13 531	2016-07-29	-
BPW_2016/08	9 875	2016-08-31	-
BPW_2016/09,A	34 458	2016-09-29	-
BPW_2016/10,A	25 296	2016-10-31	-
BPW_2016/12,A,B	19 166	2016-12-02,30	-
BKMO_051015B	252 840	2015-10-05	Catalyst (ASO BondSpot)
BKMO_281215A	100 047	2015-12-28	-
TOTAL:	701 352		

In the case of Bonds (BM) and Banking Securities (BPW) issued by the Bank the formula of interest calculation is based on balances of underlying indexes in maturity date. For the remaining bonds (BKMO) interest shall be calculated from the value of bonds and paid semi-annually. As of 31.12.2013 the balance amounted to PLN 2,887 thousand.

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

30e. Debt securities by type

Bonds and Banking Securities issued by Bank:

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

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

Bonds issued in leasing portfolio securitization process:

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

31) PROVISIONS

31a. Provisions

	31.12.2013	31.12.2012
Provision for off-balance sheet commitments	33 738	22 463
Provision for contentious claims and others	32 878	22 342
Total	66 616	44 805

31b. Change of provisions

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Provision for off-balance sheet commitments		
Balance at the beginning of the period	22 463	22 271
Charge of provision	23 655	17 149
Release of provision	(12 387)	(16 911)
FX rates differences	7	(46)
Balance at the end of the period	33 738	22 463
Provision for contentious claims and others		
Balance at the beginning of the period	22 342	13 156
Charge of provision	15 992	10 462
Release of provision	(4 811)	(2 316)
Utilisation of provision	(645)	(88)
Reclassification	0	1 128
Balance at the end of the period	32 878	22 342

32) PROVISION FOR DEFERRED INCOME TAX

	31.12.2013	31.12.2012
Deferred income tax provision	0	0

33) Other liabilities

33a. Other liabilities

	31.12.2013	31.12.2012
Short-term	936 157	637 676
Accrued costs - bonuses, salaries	55 050	47 967
Accrued costs - other	113 093	103 136
Interbank settlements	125 735	173 211
Other creditors	399 705	121 293
Liabilities to public sector	13 058	19 624
Deferred income	71 718	67 446
Provisions for unused employee holiday	9 149	9 810
Provisions for retirement benefits	1 047	1 043
Settlement accounts for activities of Millennium Dom Maklerski S.A.	31 018	25 479
Other	116 584	68 667
Long-term	41 676	36 353
Provisions for retirement benefits	10 864	9 308
Accrued costs	4 411	218
Other	26 401	26 827
Total	**977 833**	**674 029**

33b. Change of provisions for unused employee holiday

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	9 810	9 119
Charge of provisions/ reversal of provisions	(123)	1 055
Utilisation of provisions/ reclassification of provision	(538)	(364)
Balance at the end of the period	9 149	9 810

33c. Change of provisions for retirement benefits

	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
Balance at the beginning of the period	10 351	9 192
Charge of provisions/ reversal of provisions	2 164	1 567
Utilisation of provisions/ reclassification of provision	(604)	(408)
Balance at the end of the period	11 911	10 351

34) SUBORDINATED DEBT

34a. Subordinated debt

	31.12.2013	31.12.2012
Currency of the liability	EUR	EUR
Value of the liability in foreign currency	150 000	150 000
Value of the liability in PLN	622 080	613 230
Interest rate	2,393%	2.318%
Maturity	20.12.2017	20.12.2017
Interest	505	380
Balance sheet value of subordinated debt	622 585	613 610

34b. Change of subordinated debt

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

During 2012 and 2013 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.

35) Shareholders' Equity

35a. 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			05.12.1994	
I	bearer ordinary		65 000 000	65 000 000	cash	12.08.1997	01.10.1996
J	bearer ordinary		196 120 000	196 120 000	capitals of Bank Gdański S.A.	12.09.1997	01.10.1996
K	bearer ordinary		424 590 872	424 590 872	cash	31.12.2001	01.01.2001
L	bearer ordinary		363 935 033	363 935 033	cash	26.02.2010	01.01.2009
Total number of shares			1 213 116 777				
Total share capital				1 213 116 777			

In the reporting period there was a conversion of 80 registered shares into the bearer shares. As a consequence number of registered shares decreased and as of 31.12.2013 amounted to 109 236, of which 62 200 are founders' shares, privileged so that one share entitles to two votes at the Annual General Meeting.

Because the Bank is a public company whose shares are traded on the WSE primary market, the Bank has no detailed information about the shareholding structure as of December 31, 2013. Information on the shareholder - Banco Comercial Portugues S.A. presented in the table below, is provided on the basis of data collected in connection with the registration of shareholders entitled to participate in the Bank's General Shareholders Meeting held on 11 April 2013. In case of ING OFE and AVIVA OFE BZ WBK the number of shares and their participation in the Bank's share capital were calculated on the basis of annual asset structure, published as at 31 December 2013 (respectively: www.ingofe.pl i www.aviva.pl). For the purpose of the above calculation, the average Bank's share price as at the above dates was assumed to amount to 7.23 PLN for 2013 and 4,41 PLN for 2012.

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

Shareholders as at 31.12.2013

Shareholder	Number of shares	% share in share capital	Number of votes	% share in votes at Shareholders' Meeting
Banco Comercial Portugues S.A.	794 751 136	65.51	794 751 136	65.51
ING Otwarty Fundusz Emerytalny	90 560 790	7,47	90 560 790	7,47
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	65 923 565	5,43	65 923 565	5,43

Shareholders as at 31.12.2012

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

35b. Revaluation 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

	31.12.2013	31.12.2012
Effect of valuation (gross)	(162 004)	(165 915)
Deferred income tax	30 781	31 524
Net effect of valuation	(131 223)	(134 391)

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

Revaluation reserve on available for sale financial assets 1.01.2013 - 31.12.2013

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	42 880	(8 147)	34 733
Transfer to income statement of the period as a result of sale	(20 140)	3 826	(16 314)
Change of capitals connected with maturity of securities	0	0	0
Profit/loss on revaluation of available for sale financial assets, recognized in equity	(24 324)	4 622	(19 702)
Revaluation reserve at the end of the period	(1 584)	301	(1 283)

Revaluation reserve on available for sale financial assets 1.01.2012 - 31.12.2012

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(3 429)	652	(2 778)
Transfer to income statement of the period as a result of sale	(25 361)	4 819	(20 542)
Change of capitals connected with maturity of securities	(1 221)	232	(989)
Profit/loss on revaluation of available for sale financial assets, recognized in equity	72 891	(13 849)	59 042
Revaluation reserve at the end of the period	42 880	(8 147)	34 733

Revaluation reserve on cash flows hedge financial instruments 1.01.2013 - 31.12.2013

	Gross value	Deferred tax	Total
Revaluation reserve at the beginning of the period	(208 795)	39 671	(169 124)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period – for instruments designated for hedge in the reporting period	(5 276)	1 002	(4 274)
Profit/loss on valuation of hedging instrument, recognized in revaluation reserve during the period - for instruments designated for hedge before the reporting period	53 651	(10 193)	43 458
Revaluation reserve at the end of the period	(160 420)	30 480	(129 940)

Revaluation reserve on cash flows hedge financial instruments 1.01.2012 - 31.12.2012

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

35c. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2013	502 977	1 261 085	228 902	604 978	2 597 942
appropriation of profit, including:					
- transfer to supplementary capital	1 445			(1 445)	0
- transfer to reserve capital		474 990		(474 990)	0
net profit/ (loss) of the period				535 795	535 795
Retained earnings at the end of the period 31.12.2013	504 422	1 736 075	228 902	664 338	3 133 737

35d. Retained earnings

	Supplementary capital	Reserve capital	General banking risk fund	Retained earnings	TOTAL
Retained earnings at the beginning of the period 01.01.2012	502 511	819 831	228 902	574 517	2 125 761
appropriation of profit, including:					
- transfer to supplementary capital	466			(466)	0
- transfer to reserve capital		441 254		(441 254)	0
net profit/ (loss) of the period				472 181	472 181
Retained earnings at the end of the period 31.12.2012	502 977	1 261 085	228 902	604 978	2 597 942

36) LIQUIDITY GAP BY MATURITY

31 December 2013

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other	TOTAL
Cash, balances with the Central Bank	3 412 175	0	0	0	0		3 412 175
Deposits in other banks and loans and advances to banks	1 002 538	40 031	5 070	471 976	0		1 519 614
Trading debt securities	1 812	0	57 195	269 607	104 208		432 822
Derivatives and adjustment from fair value hedge	36 703	44 001	99 789	217 568	19 622		417 683
Hedging derivatives	45 464	16 603	75 497	32 708	41 123		211 395
Loans and advances to customers	3 658 029	1 363 163	3 695 434	10 623 704	22 425 350		41 765 680
Debt securities available for sale	3 002 212	0	209 786	4 828 727	199 693		8 240 418
Receivables from securities bought with sell-back clause	242 061	0	0	0	0		242 061
Shares and interests						4 334	4 334
Other non-financial assets						770 533	770 533
TOTAL	11 400 993	1 463 798	4 142 771	16 444 290	22 789 996	774 867	57 016 715
LIABILITIES							
Deposits from banks	778 031	189 698	217 500	878 006	285 327		2 348 562
Deposits from customers	30 948 854	8 192 920	4 791 670	1 371 677	0		45 305 121
Trading derivatives and liabilities from short sale of securities	199 324	39 953	90 177	229 373	16 270		575 098
Hedging derivatives	904	2 695	147 898	110 019	668 829		930 345
Liabilities from securities sold with buy-back clause	114 801	0	0	0	0		114 801
Debt securities, by final legal maturity	17 745	0	61 341	622 266	0		701 352
Subordinated debt	0	0	505	622 080	0		622 585
Other non-financial liabilities						1 055 718	1 055 718
Equity						5 363 133	5 363 133
TOTAL	32 059 659	8 425 266	5 309 091	3 833 422	970 426	6 418 851	57 016 715
OFF-BALANCE SHEET LIABILITIES							
Liabilities from opened credit lines	6 846 863						6 846 863
Liabilities from sureties and guarantees	721 801						721 801
Balance sheet Gap	(20 658 666)	(6 961 468)	(1 166 320)	12 610 868	21 819 570	(5 643 984)	0
Total Gap	(28 227 330)	(6 961 468)	(1 166 320)	12 610 868	21 819 570	(5 643 984)	(7 568 664)

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 2012

ASSETS	below 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years	Other	TOTAL
Cash, balances with the Central Bank	2 465 879	0	0	0	0		2 465 879
Deposits in other banks and loans and advances to banks	956 767	0	0	435 657	0		1 392 424
Trading debt securities	3 893	1 265	4 970	25 648	11 016		46 791
Derivatives and adjustment from fair value hedge	41 495	86 455	203 157	253 349	31 019		615 475
Hedging derivatives	23 932	51 355	131 198	33 287	38 040		277 812
Loans and advances to customers	3 183 849	1 155 027	3 273 629	9 655 591	22 964 144		40 232 240
Debt securities available for sale	3 598 725	0	10 641	2 186 724	953 669		6 749 758
Receivables from securities bought with sell-back clause	17 469	0	0	0	0		17 469
Shares and interests						14 836	14 836
Other non-financial assets						929 815	929 815
TOTAL	10 292 009	1 294 101	3 623 595	12 590 255	23 997 888	944 651	52 742 499
LIABILITIES							
Deposits from banks	615 780	307 011	960	1 240 121	327 874		2 491 745
Deposits from customers	26 322 499	8 044 514	6 178 111	888 399	554		41 434 077
Trading derivatives and liabilities from short sale of securities	27 405	43 839	118 841	252 294	25 194		467 573
Hedging derivatives	102 558	38 184	10 583	272 768	691 109		1 115 202
Liabilities from securities sold with buy-back clause	154 715	20 073	0	0	0		174 788
Debt securities, by final legal maturity	21 907	69 744	214 141	594 224	0		900 016
Subordinated debt	0	0	380	613 230	0		613 610
Other non-financial liabilities						721 318	721 318
Equity						4 824 170	4 824 170
TOTAL	27 244 864	8 523 365	6 523 016	3 861 035	1 044 731	5 545 488	52 742 499
OFF-BALANCE SHEET LIABILITIES							
Liabilities from opened credit lines	5 505 827						5 505 827
Liabilities from sureties and guarantees	965 768						965 768
Balance sheet Gap	(16 952 855)	(7 229 264)	(2 899 421)	8 729 220	22 953 157	(4 600 837)	0
Total Gap	(23 424 450)	(7 229 264)	(2 899 421)	8 729 220	22 953 157	(4 600 837)	(6 471 595)

14. SUPPLEMENTARY INFORMATION

1) 2013 DIVIDEND

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

2) DATA ABOUT ASSETS, WHICH SECURE LIABILITIES

As at 31 December 2013 following assets of the Bank constituted security of liabilities (PLN'000):

No.	Type of assets	Portfolio	Secured liability	Par value of assets	Balance sheet value of assets
1.	Treasury bonds WZ0118	available for sale	Lombard credit granted to the Bank by the NBP	130 000	130 689
2.	Treasury bonds OK0114	available for sale	Initial security deposit for bond futures	500	499
3.	Treasury bonds WZ0115	available for sale	Loan agreement	202 000	204 384
4.	Treasury bonds WZ0117	available for sale	Loan agreement	377 000	380 167
5.	Treasury bonds WZ0115	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	15 000	15 177
6.	Treasury bonds WZ0118	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	200 000	201 060
7.	Treasury bonds WZ0117	available for sale	Security of Guaranteed Monies Protection Fund under the Bank Guarantee Fund	55 000	55 462
8.	Cash		Payment to the Futures Settlement Guarantee Fund	100	100
9.	Deposits	Deposits in other banks	Settlement on transactions concluded	715 622	715 622
			Total	1 695 222	1 703 160

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

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

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

As at 31 December 2013 following securities (presented in the Group's balance-sheet) were underlying Sell-buy-back transactions:

Type of security	Par value	Balance sheet value
Treasury bonds	114 624	116 778
TOTAL	114 624	116 778

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

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

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

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

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

5) Additional explanations to 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.

	31.12.2013	31.12.2012
Cash and balances with the Central Bank	3 412 175	2 465 879
Receivables from interbank deposits (*)	336 577	224 599
Debt securities issued by the State Treasury (*)	3 004 023	3 603 882
of which available for sale	3 002 211	3 598 725
of which trading	1 812	5 157
Total	**6 752 775**	**6 294 360**

(*) 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 2013 include an adjustment of PLN 15 million (PLN 18 million in 2012) on account of accrual of interest on subordinated loans, the outflow of these funds has been presented in the part concerning cash flows on financial operations. In addition 'other flows' from financing activities includes the payment of interest on loans of PLN 19 million (27 million respectively for the year 2012).

6) Information on custody activity

As of 31.12.2013 the Custody Department maintained 11,643 accounts (representing an increase of 5.39% compared to the year 2012), in which Customers' assets were kept with the total value of PLN 30.25 billion (including assets of the Group's companies in the amount of PLN 0.17 billion). Net revenue from the custody business for 2013 amounted to PLN 6.48 million (of which PLN 0.06 million falls on Group's companies). The Custody Department serves as a depositary bank for 62 mutual funds including 11 of Millennium TFI S.A.

7) Operating leasing

The Group has lease agreements for office space, which according to IAS 17 are posted under operating leasing. As a standard, the Group's companies usually make agreements of lease of commercial property for a specified period of maximum 5 years' time, with a clause providing the right of the lessee to extend the term of the lease for another 5 years upon presentation of a statement. The Bank (parent company) made in the past also other agreements with no time limitation, which may be terminated with adequate notice, usually 3 to 6 months.

Balance as at:	31.12.2013	31.12.2012
- to 1 year	138 454	107 067
- above 1 year to 5 years	368 406	273 713
- above 5 years	38 578	68 254
TOTAL	545 438	449 034

8) Securitisation

In December 2007 Millennium Leasing Sp. z o.o. ("ML"), carried out a transaction of securitisation of the portfolio of leasing receivables with value remaining within the defined limit of up to PLN 850 million ("securitisation", "transaction"). The concluded transaction was a traditional securitisation, i.e. it consisted 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.

Entities that participated in financing of Orchis were as follows:

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

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

In December 2013, Orchis redeemed all debt securities issued to the external entities involved in the financing of the transaction. As at 31 December 2013 the only remaining securitisation balances are mutual transactions between ML and Orchis that due their nature (intra-group transactions) are eliminated in the consolidation process.

9) SHARE BASED PAYMENTS

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

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

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

Variable Remuneration - Phantom Shares for:	2013	2012
Kind of transactions in the light of IFRS 2	Cash-settled share-based payments	
Commencement of vesting period	1 January 2013	1 January 2012
The date of announcing the program	30 July 2012	
Starting date of the program in accordance with the definition of IFRS 2	Date of the Personnel Committee meeting taking place after closing of financial year.	
Number of granted instruments	Determined at the grant date of the program in accordance with the definition of IFRS 2	
Maturity date	3 years since the date of granting program	
Vesting date	31 December 2013	31 December 2012
Vesting conditions	Employment in the Group 2013, results of the Group unit and individual performance	Employment in the Group 2012, results of the Group unit and individual performance
Program settlement	On the settlement date, the participant will be paid the amount of cash being equal to the amount of held by a participant phantom shares multiplied by arithmetic mean of the Bank's share price at the closing of last 10 trading sessions on the Stock Exchange in Warsaw, preceding the settlement date. Aforementioned value cannot be greater or less than 20% compared to the original value of the deferred share pool. Phantom shares are settled in three equal annual instalments starting from the date of the Personnel Committee which decides about assignment.	
Program valuation	The fair value of the program is determined at each balance sheet date according to the rules adopted for determining the value of the program on the settlement date.	

Phantom shares granted to Group's employees who are not members of the Management Board of the Bank	
Date of shares assigning for 2012	15.02.2013
Number of shares	161 681
- granted	0
- deferred	161 681
Value as at assigning date (PLN)	764 105
- granted	0
- deferred	764 105
Fair value as at 31.12.2013 (PLN)	916 926
Date of shares assigning for 2013	13.02.2014
Number of shares	126 342
- granted	0
- deferred	126 342
Value as at assigning date (PLN)	1 120 901
- granted	0
- deferred	1 120 901

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

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

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

10) Essential events between the date, for which the financial report was prepared and its publication date

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

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