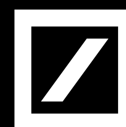
Deutsche Bank Polska S.A.
Capital Group

Annual Report 2017



Deutsche Bank AG Capital Group
two-year record

in EUR m.

Key financial information	2017	2016
Post-tax return on average shareholders' equity	(1.2)%	(2.3)%
Post-tax return on average tangible shareholders' equity	(1.4)%	(2.7)%
Cost/income ratio[1]	93.4%	98.1%
Compensation ratio[2]	46.3%	39.6%
Noncompensation ratio[3]	47.0%	58.5%
Total net revenues, in € m.	26,447	30,014
Provision for credit losses, in € m.	525	1,383
Total noninterest expenses, in € m.	24,695	29,442
Adjusted Costs, in € m.	23,891	24,734
Income (loss) before income taxes, in € m.	1,228	(810)
Net income (loss), in € m.	(735)	(1,356)
Basic earnings per share	€ (0.53)	€ (1.08)
Diluted earnings per share	€ (0.53)	€ (1.08)
Share price at period end	€ 15.88	€ 15.40
Share price high	€ 17.82	€ 19.72
Share price low	€ 13.11	€ 8.83

	Dec 31 2017	Dec 31 2016
Fully loaded CRR/CRD 4 Leverage Ratio	3.8%	3.5%
CRR/CRD 4 Leverage Ratio (phase in)	4.1%	4.1%
CRR/CRD 4 leverage exposure, in € bn.	1,395	1,348
Common Equity Tier 1 capital ratio (fully loaded)	14.0%	11.8%
Common Equity Tier 1 capital ratio (phase in)	14.8%	13.4%
Risk-weigted assets, in € bn.	344	358
Total assets, in € bn.	1,475	1,591
Total Shareholders' equity, in € bn.	63	60
Book value per basic share outstanding	€ 30.16	€ 38.14
Tangible book value per basic share outstanding	€ 25.94	€ 35.42

Other Information		
Branches	2,425	2,656
thereof in Germany	1,570	1,776
Employees (full-time equivalent)	97,535	99,744
thereof in Germany	42,526	44,600
Long-term preferred senior debt rating		
Moody's Investors Service	A3	A3
Standard & Poor's	A-	-
Fitch Ratings	A-	A
Long-term non-preferred senior debt rating		
Moody's Investors Service	Baa2	Baa2
Standard & Poor's	BBB-	BBB+
Fitch Ratings	BBB+	A-
DBRS Ratings	A (low)	A (low)

1 Total noninterest expenses as a percentage of total net interest income before provision for credit losses plus noninterest income.
2 Compensation and benefits as a percentage of total net interest income before provision for credit losses plus noninterest income.
3 Noncompensation noninterest expenses, which are defined as total noninterest expenses less compensation and benefits, as a percentage of total net interest income before provision for credit losses plus noninterest income.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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Values and Beliefs

INTEGRITY
We live by the highest standards of integrity in everything we say and do.
We will do what is right – not just what is allowed.
We communicate openly; we invite, provide and respect challenging views.

SUSTAINABLE PERFORMANCE
We drive value for shareholders by putting long-term success over short-term gain.
We encourage entrepreneurial spirit which responsibly balances risk and returns.
We pursue lasting performance by developing, nurturing and investing in the best talent and by managing based on merit.

CLIENT CENTRICITY
We earn our Clients' trust by placing them at the core of our organisation.
We deliver true value by understanding and serving our Clients' needs best.
We strive to pursue mutually beneficial Client relationships in which the value created is shared fairly.

INNOVATION
We foster innovation by valuing intellectual curiosity in our people.
We enable our Clients' success by constantly seeking suitable solutions to their problems.
We continuously improve our processes and platforms by embracing new and better ways of doing things.

DISCIPLINE
We protect the firm's resources by always thinking and acting like owners.
We live by the rules and hold ourselves accountable to deliver on our promises – no excuses.
We achieve operational excellence by striving to 'get it right the first time'.

PARTNERSHIP
We build diverse teams to generate better ideas and reach more balanced decisions.
We put the common goals of the firm before 'silo' loyalty by trusting, respecting and working with each other.
We act as responsible partners with all our stakeholders and regulators, and in serving the wider interests of society.

Management bodies

SUPERVISORY BOARD

Peter Tils
Chairman
Deutsche Bank AG Frankfurt/Main

Dr. Hubert A. Janiszewski
Vice-chairman
Deutsche Bank Polska S.A. Warsaw

Mary Campbell
Deutsche Bank AG London

Philipp Gossow
Deutsche Bank AG Frankfurt/ Main

dr Tobias Kampmann
Deutsche Bank AG Frankfurt/ Main

Lothar Meenen
Deutsche Bank AG Frankfurt/ Main

Hubert Pandza
(Member of the Supervisory Board since the date of May 23rd, 2017)

Rainer Rauleder
(Member of the Supervisory Board till the date of May 23rd, 2018)
Deutsche Bank AG Frankfurt/ Main

Wiesław Thor
(Member of the Supervisory Board since October 19th, 2017)

MANAGEMENT BOARD

Dr. Krzysztof Kalicki
Chairman
Group Audit Department, Legal Department, Corporate Communication Department, Human Resources Department, Compliance and Regulatory Affairs Department, Management Board Office, Chief Economist

Leszek Niemycki
Vice-chairman
Strategy and Analysis Department, Business Clients Department, Marketing Department, Retail and Investment Products Department, Credit Product Department, Financial Markets Department, South Regional Sales Department, North Regional Sales Department, Business Clients Sales Support Department, Quality Management Department, Remote Sales Department, Direct Sales Office, Regulations Projects Specialist

Zbigniew Bętkowski
Financial Analysis Department, Tax Department, Accountancy Department, Financial Risk Department, Financial Reporting Department, Internal Reporting Office, Corporate and Investment Banking Finance, Procurement and Vendor Management Office

Piotr Gemra
Debt Collection Receivables Department, Credit Portfolio Management Department, Restructuring Department, Credit Risk Management Department, Operational Risk Management Department, Individual and Business Clients Credit Risk Department, Credit Processes Optimization and Support Office

Tomasz Kowalski
Client Contact Center Department, CRES Department, IT Department, Operations Department, Clients Service Department, Customer Relations Management Departament, Operational Support and Cost Management Department, Outsourcing Management and Information Security Department, Security Office, Work Security and Hygiene Team

Kamil Kuźmiński
Indirect Sales Department, Private Banking Department, Development and Sales Support Department, Small Business Banking Department, Corporate Customer Departament, Private Clients Credit Analysis Office, Branch Distribution Network Macroregion N-E Department, Branch Distribution Network Macroregion S-W Department

Piotr Olendski
Investment and Corporate Banking Department (Member of the Management Board till the date of June 27th, 2018)

Magdalena Rogalska
International Banking Corporation Department, Custody Department, Implementation and Clients Service Department, Product Development Office, Treasury Product Sales Department

Piotr Pawłowski
Liquidity Management Office,Reference Rates Office

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Management Report on the operations of the Deutsche Bank Polska Capital Group in 2017

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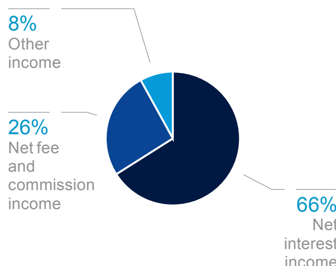
Management Report
on the operations of the Deutsche Bank Polska Capital Group in 2017

Net profit/(loss) on banking activities
%



Overview of the Group's business in 2017

The Group's financial highlights for 2017:
- net profit of PLN 5.6m, a decrease of 94% year on year,
- net interest income of PLN 703m, an increase of 0.6% on 2016,
- net fee and commission income of PLN 278m, an increase of 1.2% on the previous year,
- operating expenses of PLN 816m, an increase of 3.2% year on year,
- impairment costs of PLN 59m, relative to PLN 167m in 2016,
- as at the end of 2017, the Bank had total assets of PLN 39,994m, an increase of 1% on the previous year.

In terms of total assets, the Group ranked 12th in the Polish banking sector, with a market share of nearly 3%[1].

Last year's performance was significantly impacted by effects of the transaction agreement of December 14th 2017 concerning the planned acquisition of a spun-off part of Deutsche Bank Polska S.A. by Bank Zachodni WBK S.A. The agreement entailed considerable costs of preparing the Bank for the spin-off, as well as costs of revaluation of its non-current assets in connection with the planned transaction. Ultimately, the Bank's financial result in 2017 was also affected by the fiscal changes introduced in 2016, which led to a marked increase in the parent's tax expense last year.

In 2017, Deutsche Bank Polska S.A.'s products and services received a number of awards and took high positions in a number of rankings. In a private banking services ranking by Forbes, published at the beginning of 2018, Deutsche Bank Polska S.A. was again awarded five stars, the highest score, demonstrating that its private banking offering and the quality of the services it offers in the private banking segment are among the best in Poland. Justifying the awarded score, Forbes emphasised that "over the years, Deutsche Bank has built one of the most comprehensive private banking offerings. The planned acquisition of the Bank by Bank Zachodni WBK should not have any negative implications for the quality of its proposition." The aspects of the offering for which the Bank was recognised included investment recommendations offered free of charge, open product architecture, attractive insurance products and investment-linked insurance policies, assistance and concierge packages, overdrafts, private placement, private broker, succession and tax planning, as well as participation in prestigious events offered to the Bank's clients (such as the "series of excellent Teachings of the Masters meetings" or patronage of the Deutsche Bank Invites artistic event series).

The parent was also honoured with the Institution of the Year 2017 title, and received a statuette in the Best Remote Channel Service Quality category. The Institution of the Year 2017 ranking was compiled on the basis of a research by the mojebankowanie.pl. website, covering availability and ease of contact, including clients' ability to select their preferred channel of communication with the Bank. Assessment covered the website and the available contact channels, contact by email and contact with the call centre.

In 2017, the parent's products took top positions in a number of independent rankings. The Konto db Makler account proved to be the best brokerage account in a ranking of

[1] With BGK included in the ranking, DB Polska ranked 13th, but if the list is narrowed to commercial banks only, DB was the 12th largest bank in the country (based on PFSA data, knf.gov.pl).

brokerage accounts compiled by editors of the Bankier.pl, Kontomaniak.pl (twice) and eKontoBankowe.pl websites. The dbNET Premium account came in as the winner in rankings compiled by Bankier.pl and TotalMoney.pl. The Bank was also recognised for its dbNET Biznes account for business customers (a runner-up in a ranking by Kontomaniak.pl) and the db Konto Oszczędnościowe Plus savings account (third place in a ranking by Bankier.pl).

Business environment

In 2017, Poland's GDP growth accelerated to 4.6%, from 2.9% in 2016. The growth was driven mainly by domestic demand, which generated 4.8 percentage points of the GDP growth, with a negative net contribution of exports. In 2017, households' consumption generated 2.8 percentage points of the GDP growth (an increase of 0.5 pp on 2016), mainly on a strong increase in labour income (as a result of a rapid growth of employment and a significant real increase in wages) and transfers to households (including under the government's Family 500+ programme). In 2017, there was also an increase in the contribution to GDP from public consumption, which generated 0.5 percentage points of the GDP growth. Gross fixed capital formation in 2017 generated 1.0 percentage points of the growth (in 2016, the contribution from gross fixed capital formation was negative at -1.6 pp), while investments in inventory added a further 0.5 percentage point. The improvement of the GDP structure, attributable to a strong recovery of investments (mainly public spending), was clearly visible in the fourth quarter of 2017. This improvement is likely to continue into the first quarter of 2018 as further recovery of investments, both public and private, is expected.

In 2017, inflation stabilised at around 2%: the average annualised inflation rate was 2.0%, compared with the average annualised deflation of -0.6% in 2016. Last year, inflation did not fall below the lower limit of the inflation target (1.5%) and did not exceed the middle point of the target (2.5%). The drop in inflation to 1.3% y/y in March 2018 has led to the lowering of the inflation path for the whole year; most probably, inflation will be growing slowly in the current year, to 2% in the third quarter of 2018.

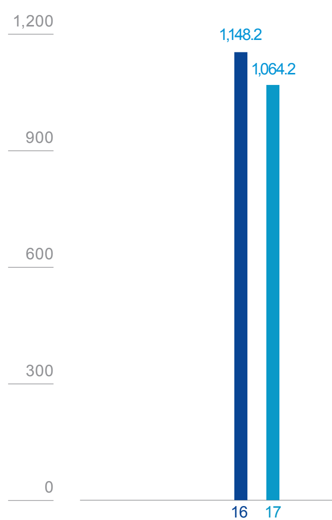
In 2017, base inflation (excluding food and electricity prices) was rising, from 0.2% y/y in January to 0.9% y/y in December, and was very low, which indicates an absence of internal inflationary pressures in the Polish economy in the coming quarters.

In 2017, the PLN/EUR exchange rate[1] averaged 4.2576, which means a 2.4% y/y appreciation of the Polish currency against the euro. The average PLN/USD exchange rate was 3.7777, which means that the Polish currency appreciated 4.2% against the U.S. dollar compared with 2016. The PLN/CHF exchange rate averaged 3.8349, which means a 4.2% y/y appreciation of the złoty against the Swiss franc.

On the currency market, in 2017, the Polish złoty appreciated against the euro from 4.40 at the beginning of the year to 4.1750 in May and 4.18 in December. The PLN/EUR exchange rate fluctuated within the 4.1750-4.40 band, whose width represented approximately 5% of the average exchange rate in 2017. Fluctuations of the złoty against the US dollar were significantly stronger, and represented 19.5% of the average PLN/USD exchange rate –

[1] Average exchange rate published by the National Bank of Poland.

Revenue
in PLN m



a result of the steady weakening of the US dollar during the first three quarters of 2017, and the strengthening of the złoty at the end of the year. Fluctuations of the PLN/CHF exchange rate represented 14.5% of the average PLN/CHF exchange rate.

The public budget deficit in 2017 was PLN -25.4bn (42.7% of the 2017 target), compared with PLN -46.2bn (84.3% of the target) in 2016. According to preliminary estimates based on the ESA2010 methodology, the deficit in the state and local government sector in 2017 was -1.5% of GDP, compared with -2.3% of GDP in 2016. In 2017, the ratio of state and local government debt to GDP was 50.6%, relative to 54.2% in 2016.

Last year, the Monetary Policy Council did not change interest rates, and maintained the main reference rate at 1.50% throughout 2017. In 2017, as inflation rose to or above 1.5% while the Monetary Policy Council kept the interest rates unchanged, real interest rates were zero (for the first time since 2009) or were negative (for the first time since the short periods of negative real interest rates in 2011 and 2012).

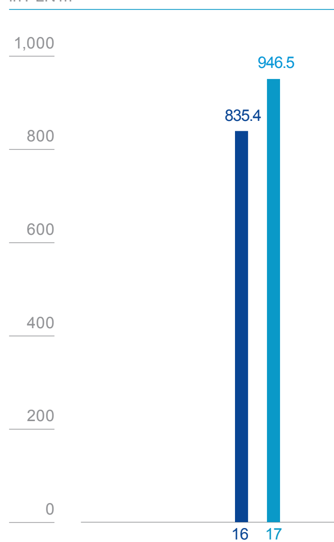
In view of the fact that in 2017 real interest rates persisted at or below zero, the Monetary Policy Council pursued an excessively slack monetary policy. Given the drop of inflation to 1.3% in March 2018 and the absence of internal inflationary pressures in the Polish economy, the Monetary Policy Council is currently inclined to maintain interest rates at unchanged levels in 2018 and potentially also in 2019.

In 2017, there was a current account surplus of EUR 1.443bn, compared with a current account deficit of EUR -1.253bn in 2016. In 2017, for the third consecutive time, Poland reported a trade surplus (in value terms) of EUR 799m (0.2% of GDP), compared with a trade surplus of EUR 2.9bn (0.7% of GDP) in 2016. In euro terms, exports of goods increased by 12.0% y/y in 2017, to EUR 198.8bn, while imports grew by 13.4% y/y, to EUR 198.0bn. The services trade surplus in 2017 was EUR 18.6bn (4.0% of GDP), compared with EUR 14.1bn (3.3% of GDP) in 2016, following an increase in exports of services by 16.2% y/y, to EUR 52.3bn, and an increase in imports of services by 8.9% y/y, to EUR 33.7bn. Current account surplus was 0.3% of GDP in 2017, compared with -0.3% of GDP in 2016.

2017 was another year of a rapid decline in the unemployment rate, which fell from 8.5% in January to 6.6% in December 2017.

In December 2017, the M3 money supply was PLN 1,324.4bn (an increase of 4.6% y/y, compared with a 9.6% y/y increase in December 2016). The ratio of the M3 money supply to GDP in 2017 was 66.8%, against 68.1% in 2016.

In December 2017, household deposits held with monetary financial institutions totalled PLN 753.8bn (up 4.0% y/y), including PLN 682.4bn in PLN-denominated deposits (up 2.6% y/y) and PLN 71.3bn in foreign currency deposits (up 19.2% y/y). In December 2017, demand deposits held by households with monetary financial institutions grew by 12.7% y/y, to PLN 453.2bn, with PLN-denominated demand deposits going up 11.3% y/y, to PLN 400.9bn, and foreign currency demand deposits growing by 15.7% y/y, to PLN 52.3bn. At the end of 2017, households' term deposits fell by 6.9% y/y, to PLN 300.6bn, of which PLN-denominated deposits decreased by 7.6% y/y, to PLN 281.5bn, and foreign currency deposits increased by 4.5% y/y to PLN 19.1bn. Low interest rates on PLN-denominated



term deposits continued to limit their relative attractiveness and so in 2017 households tended to opt for demand deposits.

In December 2017, corporate deposits held with monetary financial institutions totalled PLN 276.2bn (an increase of 2.4% y/y), including PLN 217.4bn in PLN-denominated deposits (a decrease of 1.4% y/y) and PLN 58.8bn in foreign currency deposits (an increase of 19.4% y/y). In December 2017, corporate demand deposits placed with monetary financial institutions grew by 10.2% y/y, to PLN 187.2bn, with PLN-denominated demand deposits increasing by 3.8% y/y, to PLN 135.6bn, and foreign currency demand deposits increasing by 31.5% y/y, to PLN 51.5bn. In December 2017, corporate term deposits declined by 11.0% y/y, to PLN 89.1bn, of which PLN-denominated term deposits fell 9.1% y/y, to PLN 81.8bn, and foreign currency term deposits dropped by 27.5% y/y, to PLN 7.3bn.

In December 2017, the amount of loans and advances from monetary financial institutions to households was PLN 667.6bn (an increase of 1.8% y/y), including PLN-denominated loans of PLN 528.3bn (an increase of 9.1% y/y), and foreign currency loans of PLN 139.3bn (a decrease of 18.8% y/y). In December 2017, consumer loans increased by 6.3% y/y, to PLN 174.1bn. At the end of 2017, the amount of housing loans decreased by 1.6% y/y, to PLN 388.9bn, with PLN-denominated loans at PLN 257.9bn (an increase of 10.4% y/y), and foreign currency loans at PLN 131.1bn (a decrease of 18.9% y/y). In December 2017, the amount of loans and advances from monetary financial institutions to corporate clients increased by 6.0% y/y, to PLN 313.2bn, including PLN-denominated loans of PLN 236.2bn (an increase of 11.3% y/y), and foreign currency loans of PLN 77.0bn (a decrease of 7.6% y/y).

The key risk factors in 2017 included: (1) the political conflict around the reform of the judiciary, resulting in increased political tensions between Poland and the EU as a result of the launch of the procedure under the Rule of Law Framework; (2) the tax burden on the banking sector under the bank tax; and (3) the long-term economic risk related to Brexit. In 2018, the conflict caused by the reform of the judiciary started to subside, but a new risk of protectionism on a global scale emerged, initiated by the trade conflict between the US, China and Russia, and to a lesser extent – the EU.

In 2018, we expect the Deutsche Bank Polska S.A. Group to operate in a macroeconomic environment characterised by a strong growth of the Polish economy, with inflation staying below 2% y/y. Domestic demand should remain strong, supported by rising employment and wages, and a continued high level of benefit transfers to households. For 2018, we project a 4.2% GDP growth and an average annual inflation rate of 1.7%. In 2018, the unemployment rate is expected to down to 5.9% at the year's end.

In 2018, the main risks include: (1) possible introduction of an act on restructuring of foreign-currency loans (in a less restrictive version), (2) slower-than-expected economic growth in the euro zone, (3) increased risk of regulatory and institutional changes in Poland, and (4) geopolitical risks, among other things relating to the growing protectionism.

The Monetary Policy Council has indicated its preference for keeping interest rates flat in 2018 and most likely also in 2019, which means that real interest rates will continuing at around zero in 2018. The ECB's monetary policy in 2018 should be neutral to the Polish

economy, while the impact of rate hikes in the US is expected to be moderate this year, similarly as in 2017.

In 2018, the eurozone is expected to deliver economic growth of 2.4%, while the German economy should expand by 2.2%. The real GDP growth in 2018 is likely to be 2.8% in the US and 6.2% in China. In 2018, economic growth in the emerging markets of Europe, Africa and the Middle East will be close to last year's levels, i.e. at 3.0%. We expect the złoty to strengthen in 2018 by approximately 3.5% against the EUR-USD currency basket.

Financial condition

In 2017, the Group reported profit before tax of PLN 59.6m, a decrease of 59% y/y.

Statement of profit or loss for 2017 and 2016

in PLN thd	Jan 1 2017 – – Dec 31 2017	Jan 1 2016 – – Dec 31 2016	Change %
Net interest income	703,424	698,972	0.6%
Impairment losses	(58,932)	(167,244)	(64.8)%
Net fee and commission income	278,459	275,087	1.2%
Net trading income	76,048	116,298	(34.6)%
Net profit/(loss) on banking activities	906,235	970,235	(6.6)%
General and administrative expenses	(816,377)	(791,068)	3.2%
Depreciation and amortisation	(30,298)	(33,647)	(10.0)%
Profit before tax*	59,560	145,520	(59.1)%
Income tax expense	(53,911)	(53,464)	0.8%
Net profit	5,649	92,056	(93.9)%

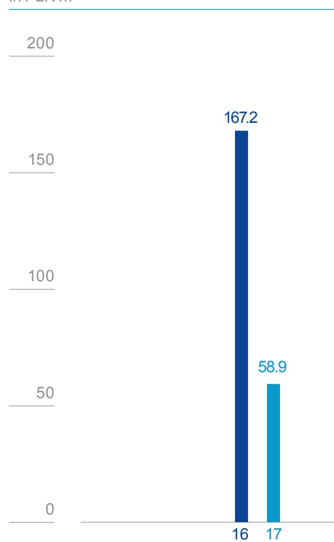
* including PLN 110m one-off costs related to the transaction of December 14th 2017.

Net profit/(loss) on banking activities

- In 2017, net interest income increased by PLN 4.4m, or approximately 0.6%, y/y.
- Net fee and commission income rose by approximately 1.2% (PLN 3.4m) relative to 2016.
- Net income from instruments measured at fair value through profit or loss and from revaluation was PLN 76m in 2017, a decrease of PLN 40m y/y.

The main challenge for the Group in 2017 was to achieve its revenue target through growth in new sales and optimised performance of the existing asset and liability portfolios. The Group's performance in terms of actual revenue against the target was 7% lower than in 2016 and represented 93% of the 2016 target.

In the Private Client area, the main constraints to achieving the revenue target were related to the macroeconomic environment, falling interest rates, and growing competition on the market of cash loans for private clients. In personal and consumer finance products, the parent reported total revenue at 86% of the target, which should be viewed as a solid performance given the fierce competition and the resulting pressures on interest margins. In the mortgage loan segment, the Group delivered 99% of the budgeted target, on the back



of its continued high share in the new sales market (cross-sell effect) and intensive efforts to control margins and contract terms of any margin adjustments.

In the Business Client area, the reported revenue was at 90% of the target. The main objective in the segment was to develop the product portfolio and improve profitability with a continued stable increase in the lending volume.

Revenue from deposit products represented 95% of the target, with a 14% increase over the previous year's figure.

Revenue from investment and insurance products increased 36% on 2017, and came in at 89% of the target. The increase was mainly attributable to improved sentiment in the financial market and the transfer of funds from unprofitable deposits.

Revenue in the Corporate and Investment Banking segment represented 111.8% of the target, and exceeded the previous year's figure (105.1% of the previous year's figure, i.e. an increase of more than 5%). Th increase was mainly attributable to higher revenue from the agency and advisory services in the Investment Banking segment, where revenue rose by more than 312% (from PLN 2.06m to over PLN 8.51m in 2017). In addition, Transaction Banking also delivered a revenue increase, with the revenue exceeding both the year's target and the previous year's revenue by more than 24% (an increase of PLN 36.5m in nominal terms). Transaction Banking's performance was mainly attributable to foreign exchange transactions on the Autobahn and FX4Cash platforms and over the telephone; to a certain extent, higher revenue from Transaction Banking was due to the closing of the Global Market business line and transfer of a part of the business to other divisions, though a revenue increase (by more than 23% year on year) was also noticeable. Interest income also increased owing to a premium for a stable client deposit base. Fee and commission income remained at a similar level (a slight year-on-year increase), with a decrease in fees and commissions from loans, guarantees, letters of credit and payments, and an increase in fee and commission income from custody services and services to financial institutions. Also, as a result of the parent's strategy, in 2017 the Bank changed the manner of provision of services to financial institutions, in particular third-party banks. As a result, relationships with some of the clients were terminated, entailing loss of the related income, including mainly interest and commissions.

In 2017, loan loss provisions were 108.3m below the target and 64.8% lower than a year earlier. This positive trend confirms the high quality of the parent's loan portfolio.

In 2017, the Group's costs were 20% higher than the target, having increased 13% on 2016.

Working assets

— Development of lending activities − compared with December 31st 2016, loans and advances to customers decreased by PLN 275.4m, or 1%; the decrease was caused mainly by a decrease in sales of mortgage products; in both periods, the share of loans in total assets was 75.6%.

— Growth of the investment securities portfolio – over the year, investment securities grew by PLN 825.0m, and their share in total assets increased from 17.1% as at December 31st 2016 to 19.1% as at December 31st 2017.
— Lower amount of deposits with other banks, and loans and advances to other banks – a decrease of PLN 78,8m; the share of this item in total assets decreased from 2.7% as at December 31st 2016 to 2.4% as at December 31st 2017.

Sources of financing

— In 2017, the main component of the Bank's financing base (deposits from clients) increased by PLN 2,543m. The share of client deposits in total equity and liabilities changed from 44.8% in 2016 to 50.9% in 2017.
— Deposits from other banks were down in 2017 by PLN 2,295m; the share of this item in total equity and liabilities decreased from 39.4% in 2016 to 33.3% in 2017.

Assets

	Dec 31 2017		Dec 31 2016		
	in PLN thd	% share	in PLN thd	% share	Change %
Cash and balances with central bank	974,588	2.4%	1,053,417	2.7%	(7)%
Deposits with other banks, and loans and advances to other banks	820,379	2.1%	851,847	2.1%	(4)%
Financial assets at fair value through profit or loss	30,236,599	75.6%	30,512,017	76.9%	(1)%
Loans and advances to clients	67,203	0.2%	138,674	0.3%	(52)%
Financial assets held as investments	7,624,159	19.1%	6,799,137	17.1%	12%
Property, plant and equipment	16,090	0.0%	35,912	0.1%	(55)%
Intangible assets	60,481	0.2%	105,198	0.3%	(43)%
Current tax assets	1,231	0.0%	9,333	0.0%	(87)%
Deferred tax assets	25,267	0.1%	18,764	0.0%	35%
Other assets	167,946	0.4%	163,467	0.4%	3%
Total assets	39,993,943	100%	39,687,766	100%	1%

Equity and liabilities

	Dec 31 2017		Dec 31 2016		
	in PLN thd	share %	in PLN thd	share %	Change %
Amounts due to other banks	13,327,508	33.3%	15,622,115	39.4%	(15)%
Financial liabilities at fair value through profit or loss	20,340,663	50.9%	17,797,700	44.8%	14%
Amounts due to clients	112,227	0.3%	89,532	0.2%	25%
Provisions	25,463	0.1%	25,750	0.1%	(1)%
Current tax liabilities	30,779	0.1%	-	0.0%	n/a
Subordinated liabilities	1,493,155	3.7%	1,583,873	4.0%	(6)%
Other liabilities	455,248	1.1%	358,019	0.9%	27%
Total liabilities	35,785,043	89.5%	35,476,989	89.4%	1%
Share capital	2,651,449	6.6%	2,651,449	6.7%	0%
Share premium	525,366	1.3%	525,366	1.3%	0%
Revaluation capital reserve	10,624	0.0%	(2,031)	0.0%	n/a
Retained earnings	1,021,461	2.6%	1,035,993	2.6%	(1)%
Total equity	4,208,900	10.5%	4,210,777	10.6%	0%
Total equity and liabilities	39,993,943	100%	39,687,766	100%	1%

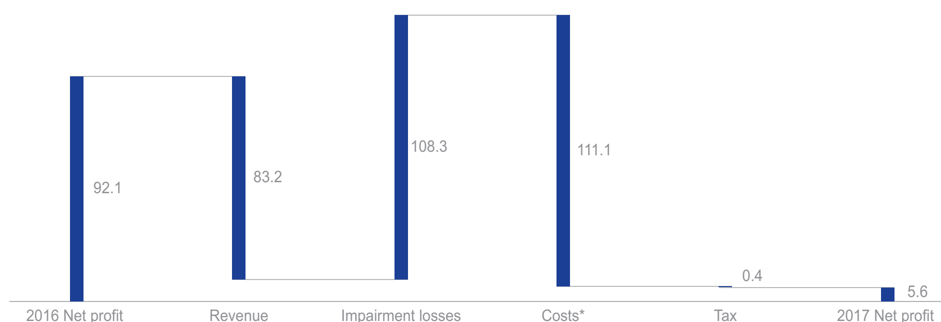
Net profit and its drivers

In 2017, the Group earned a net profit of PLN 5.6m, which represented a decrease on 2016. The net profit in 2017 was driven by profit on banking activities, higher costs (chiefly due to the regulatory requirements applicable to the Group), and the one-off cost associated with the planned demerger of the Bank.

As mentioned in the introduction to this report, Deutsche Bank Polska S.A. will be subject to a demerger process in the course of 2018, following the agreement concluded on December 14th 2017 under which the sole shareholder of Deutsche Bank Polska S.A., i.e. DB AG, Bank Zachodni WBK S.A. and its strategic shareholder, i.e. Banco Santander S.A., agreed to acquire a part of the Deutsche Bank Polska S.A.'s business, including retail banking, private banking, and business banking (small and medium-sized enterprises), the network of branches, agent offices, intermediaries and partners cooperating with Deutsche Bank Polska S.A., as well as shares in DB Securities S.A., a subsidiary of the Bank. As a result of the transaction, the branch network of Deutsche Bank Polska S.A. and the external sales channels (agents and intermediaries) will be incorporated into the Acquiring Bank. Therefore, in order to implement the demerger process and to accommodate the implications of the agreement, in 2017 Deutsche Bank Polska S.A. incurred a one-off cost of PLN 110m.

Revenue and expenses influence on net profit change

in PLN m.



* including PLN 110m one-off costs related to the transaction of December 14th 2017.

Main ratios	2017	2016
Net ROE	0.1%	2.3%
Net ROA	0.0%	0.2%
CIR	87.7%	72.5%
Total capital ratio (%)	17.15%	19.19%

Organisation and technologies

Development of the organisation
In 2017, the Group's organisation was stable and properly operated given the developments on its market and in the regulatory environment. Owing to the due diligence process in 2017, followed by negotiations to sell an organised part of business (retail banking), the parent did not take any significant reorganisation measures.

As part of the annual assessment process, there was another significant increase in the number of managers, with their qualifications confirmed with a DB corporate title. Among the 65 promoted employees, there were two Directors (Director of the CIB Business Line's Product Development Office and Director of Corporate Services), four Vice Presidents, 41 Assistant Vice Presidents, and 18 Associates. Once more, the large number of promoted employees attests to the quality of the Bank's staff and the organisation's potential to achieve its future business and regulatory objectives.

The Group's Employee Council in 2017 focused on improving the quality of working conditions and building positive employer-staff relations. The Council established a direct confidential interface for employees, through which they can safely share their suggestions of any required organisational changes. The Council intensified its activities in the last quarter of the year, after Deutsche Bank A.G., and Bank Zachodni BZ WBK S.A. and Banco Santander executed an agreement whereby BZ WBK is to acquire an organised part of Deutsche Bank Polska S.A.'s business, namely the Bank's retail business (PCC Business Line), excluding retail foreign currency loans. During this period, the Council focused on ensuring proper communication of the transaction to the Group employees and on preparation of redundancy payment solutions for employees, both in the course of the transaction and after it is finalised in the fourth quarter of 2018.

Capital expenditure and development of technologies
In 2017, the Group continued projects designed to maximise the use of its infrastructure, human and capital resources towards achieving both financial and non-financial objectives. Particular attention was paid to compliance and implementation of internal and external audit recommendations. At the same time, the Group continued to invest in further process automation and cost optimisation.

IT projects
One development area which has always widely affected the Group's operations is that of IT projects related to the launch and/or upgrades of products and services. In 2017, the Parent was running more than 50 development and regulatory compliance projects. The key projects are listed below.

1. Business projects
    a. Automated Trade Monitoring in accordance with contractual provisions in corporate banking
    b. E-banking 'soft token' for businesses: application token for mobile devices
    c. New functionalities of cash loan sale
    d. Dealing platform for 'today' foreign currency transactions.

2. Regulatory Compliance (support of):
   a. General Data Protection Regulation (GDPR)
   b. MIFID[1] – modification of transaction and settlement systems to present costs and commissions, a new risk and adequacy assessment survey, changes in documentation
   c. EMIR[2] – (clearing and margining, collateral management, new forms of documents)
   d. BGF Act (documentation review procedures, collection and delivery of inspection data and reports to BGF)
   e. PSD[3] II, adaptation of processes, procedures, and systems to handle relationships with third-party providers (TPP)
   f. PRIIPSs[4] (standardisation of client information in line with technical standards)
   g. recommendation H and recommendation Z
   h. VAT split payments
   i. FATCA guidelines[5], including the Common Reporting Standard (CRS) EURO-FATCA.
3. Digitalisation:
   a. further enhancement of a new e-banking platform for retail clients and businesses
4. Process streamlining:
   a. automated interface to support factoring transaction accounting
5. Technological enhancements:
   a. up-grade of workflow platform for loan servicing
6. Data management and reporting:
   a. functional extensions to data mart finance (DMF),
   b. further improvement of efficiency and stability of the SAS reporting environment.

In light of the decision to sell an organised part of business, the Bank prioritised project-related activities in 2017. The project plan for subsequent years now focuses on the following tasks:

1. REGULATORY COMPLIANCE
2. PORTLAND/OPE – spin-off of organised part of business (“OPB”)
3. PORTLAND – preparation of the transfer of the OPB to the buyer (migration upon transfer of ownership)
4. PORTFEL FX – servicing the foreign currency mortgage loan portfolio, which remains at Deutsche Bank Polska S.A.

Branch and head office infrastructure

In 2017, the Group maintained its branch and infrastructure resources, with optimisation in selected areas only, in particular related to the expiry of office space lease contracts and the consolidation of selected business client advisory centres. These initiatives included the launch of a new flagship branch in the Andersia Business Centre in Poznań, with all segments of the Retail Business Line (private clients, private banking and business banking) in one location.

[1] Markets in Financial Instruments Directive (MIFID).
[2] European Market Infrastructure Regulation (EMIR).
[3] Payment Services Directive (PSD).
[4] Packaged retail investment and insurance products (PRIIPs).
[5] Foreign Account Tax Compliance Act (FATCA).

Operations

Retail Banking

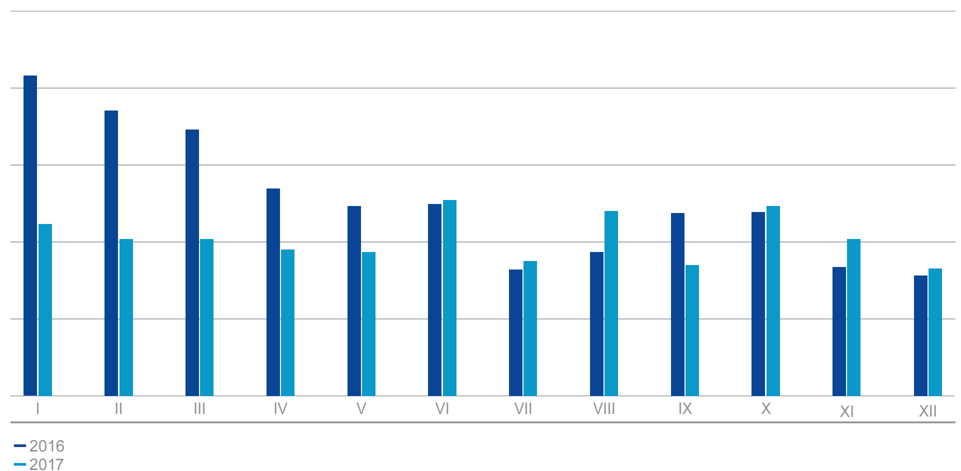
Private and business Clients

In 2017, the Group's retail banking operations focused on higher-margin products (unsecured cash loans, business loans) and on products offering greater potential to build extensive, long-term client relationships (deposits and investments).

PBC's commercial activities in 2017 – loan products

As regards loans for private clients, in 2017 the Parent continued with its strategic plan of reducing the share of mortgage loans in new products. Compared with 2016, there was a significant reductions in sales in the first and second quarters of 2017, followed by stabilisation in subsequent quarters (chart PBC1). Higher production levels in the second half of the year were attributable to a high demand for mortgage products and the need to meet the expectations of clients building extensive relationships with the Bank.

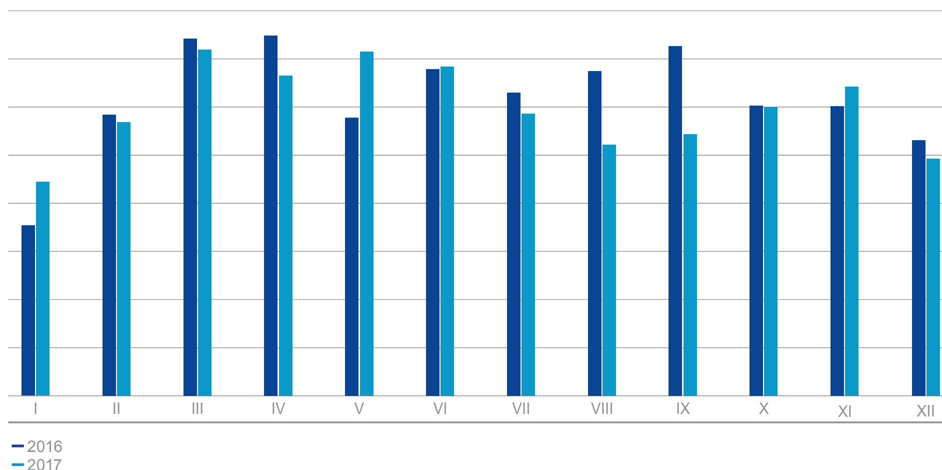
Chart PBC.1 Monthly sales of mortgage products, 2016 vs. 2017



Note: The value range has been withheld from publication.

In 2017, PBC continued to be engaged in intensive client acquisition activities focused on offering unsecured consumer loans to wealthy clients and professionals. As a result, the high monthly sales figures recorded in 2016 were maintained (chart PBC.2).

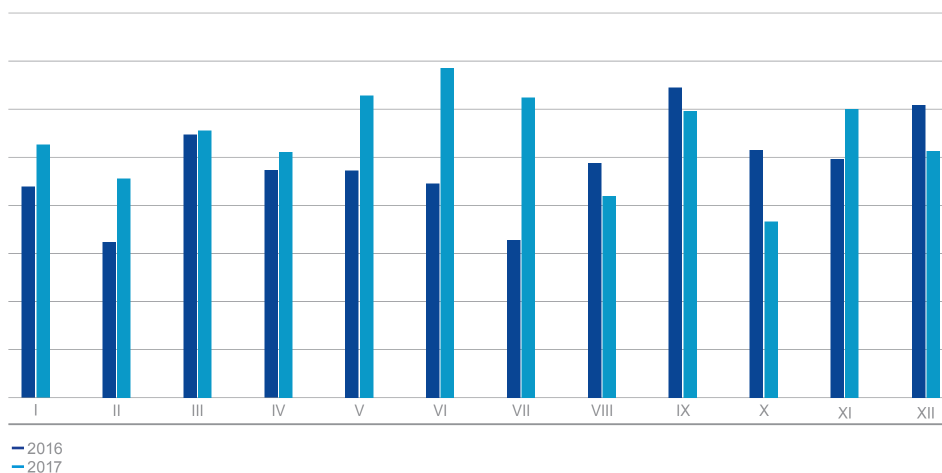
Chart PBC.2 Monthly sales of consumer loans, 2016 vs. 2017



Note: The value range has been withheld from publication.

PBC's great success in the area of loan products was further development of its banking segment for businesses, with a focus on SMEs and services dedicated to a growing number of mid-cap clients. In June, PBC delivered a record high of new product sales in recent years (Chart PBC.3), and after the first eight months of the year the sales were higher than in 2016.

Chart PBC.3. Monthly sales of corporate loans, 2016 vs. 2017



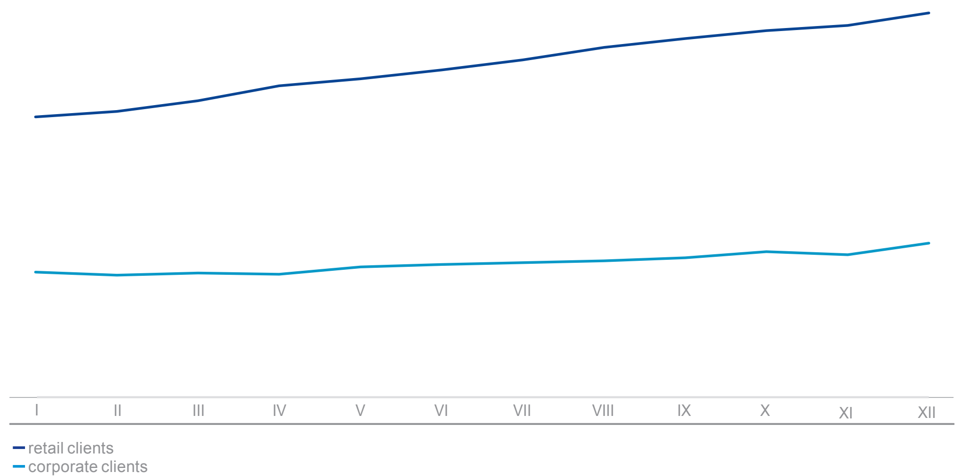
Note: The value range has been withheld from publication.

Corporate loan products were consistently developed based on an advisory approach, with the pricing policy taking into account all commercial activity between the Bank and a client, in particular transactional and depositary services, in addition to the main criterion of creditworthiness.

PBC's commercial activities in 2017 – deposit and investment products

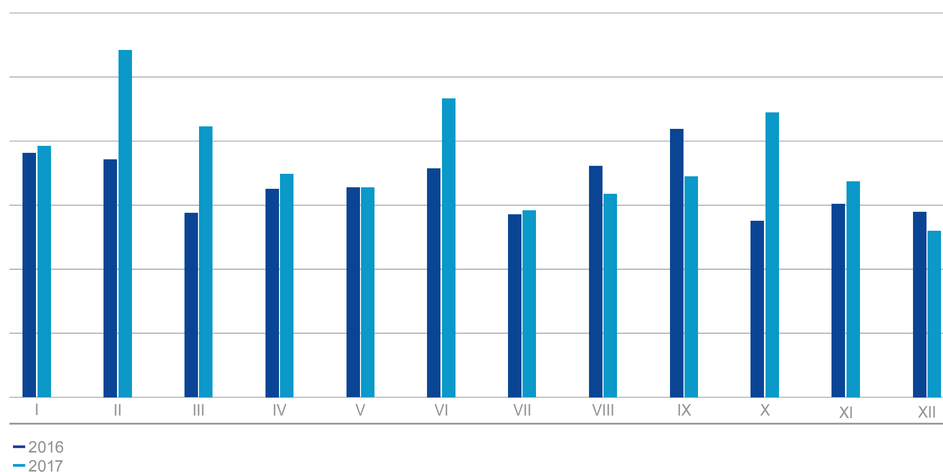
In 2017, the Parent increased deposit balances, mainly due to the acquisition of new clients and development of relationships with the existing clients interested in building diversified savings and investment portfolios (chart PBC.4).

Chart PBC.4 Growth of the deposit base in 2017



In 2017, PBC remained strongly focused on sales of investment products (Chart PBC.5), in particular to private banking clients. Except August and September, sales increased on a year-on-year basis in each month. The Bank's offering of structured products, including those focusing on dynamically developing digital technologies, were highly popular.

Chart PBC.5 Monthly sales of investment products, 2016 vs. 2017



Note: The value range has been withheld from publication.

Corporate and Investment Banking

Corporate cash management and trade finance

In 2017, transaction banking revenue grew 24% year on year, to more than PLN 186m. Net profit was close to PLN 115m, with a headcount of 23.

The Transaction Banking segment continued focusing on services for corporate clients, principally subsidiaries of Deutsche Bank AG's clients. A decision was made to discontinue offering correspondent banking products to financial institutions, and thus the portfolio of services offered to this client group was limited to custody products.

The year-on-year increase in revenue was mainly attributable to the organic increase of our clients.

The most interesting transactions with clients' subsidiaries included the establishment of relationship with a major textile group in Spain and a FinTech client in Sweden. Subsidiaries of German and US groups continue to account for the largest share of revenue.

Trade Finance was the only business line of the Transaction Banking segment which did not report any growth, a result of withdrawal from transactions with numerous banks based in high-risk countries. In the area of services for corporate clients, we signed significant contracts for guarantee lines for two US-held clients. We continued to support Polish companies' international expansion through both simple and more structured products.

The sale of the retail business did not directly affect development of the corporate business, while extensive press coverage of DB in Poland discouraged potential clients from

switching their current banks. To emphasise the importance of the Polish market for corporate business, a conference for clients was organised, attended by representatives of both the Management Board and the Supervisory Board.

Custody services

The revenue from custody products increased by 27% year on year, driven by clients' greater activity, new business relationships, and the takeover of servicing bank accounts for financial institutions.

In 2017, the Parent invested in further development of services for remote participants of the stock exchange, by launching solutions for settlement and clearance of aggregated transactions. The Parent also maintained a leading position on the market of services for investment and pension funds.

The amount of client assets held in custody increased by 8% year on year. At the end of 2017, the Parent kept in custody assets worth ca. PLN 69bn for both Polish and foreign clients.

Representatives of the Custody Department were elected to the Presidium of the Council of Custodian Banks at the Polish Bank Association and to the Advisory Committee at the Central Securities Depository of Poland (CSDP). Bank employees were also actively involved in a number of working groups set up under the auspices of the Polish Bank Association and the CSDP.

Investment banking

The Deutsche Bank Polska Group solidified its position in Poland, developing its services in M&A transactions, arrangement of domestic and international public offerings, transactions on the equity, bank loan and bond markets, and financial advisory for large investment projects. In 2017, the Group was engaged in the largest and the most high-profile transactions on the Polish market.

One of the major transactions on was the offering bonds by Bank Gospodarstwa Krajowego. The EUR 750m transaction was carried out in October 2017. The Parent has acted as the Lead Co-Manager and a Joint Bookrunner.

Another important transaction was a EUR 230m refinancing for Autostrada Wielkopolska S.A. (Nowy Tomyśl-Konin section of the A2 motorway), carried out in June 2017.

In 2017, Deutsche Bank Polska participated in the financing of acquisition of Uniwheels by Superior Industries International Germany. The transaction, worth almost EUR 550m, was carried out in May 2017.

Banking services on financial markets

In 2017, the banking book management process did not change materially and the Liquidity Management Office continued to manage the banking book, maintaining high levels of liquidity ratios. The Group invested free funds mainly in treasury securities and NBP bills. Throughout the year, the Parent maintained its status of the NBP Money Market Dealer.

Directions of the Group's development

Strategy
On December 6th 2016, the Parent's Supervisory Board approved the 2017–2020 Strategy. The main objectives of the strategy are to continue stable organic growth while maintaining the current client segmentation, channel architecture and the product and service offering. In 2017, the Parent pursued the strategy. The business model worked well in all dimensions:
- in terms of segments − focus on international and Polish corporations, financial institutions, small and medium-sized enterprises and wealthy individuals; continued downscaling of relations with clients with smaller assets, generating limited number of transactions;
- in terms of products − maintaining a broad range of transaction, deposit, loan, insurance and investment products; with respect to credit risk: engaging in relations with clients that guarantee a high level of security;
- in terms of distribution channels − operations based on a balanced model of four distribution channels: 1. branches and advisers, 2. central sales, 3. remote channels (Internet and call centre) and 4. external networks of intermediaries and agents.

The main strategic change introduced in 2017 was the decision of Deutsche Bank A.G., as the owner of the Parent, to sell an organised part of the Parent's business, comprising the retail banking and the DB Securities brokerage office. Foreign currency mortgage loans were excluded from the transaction. The decision having been made, steps were taken to find a potential purchaser, followed by the due diligence process and the final selection of the winning bidder. Negotiations led to Deutsche Bank A.G. signing, on December 14th 2017, a transaction agreement on the planned acquisition of the spun-off part of Deutsche Bank Polska S.A. by Bank BZ WBK S.A. The transaction is planned to be closed in the fourth quarter of 2018.

Main directions of business development adopted in the strategy
The 2017–2020 Strategy is a continuation of earlier strategic plans and provides for continued organic growth of the business, while maximising margins on overall client relations, in particular where the Bank's capital resources have been employed. Steps taken by the Group are expected to bring an improvement in its key efficiency ratios, such as ROE, ROA, leverage ratio, and CIR, while allowing the Bank to maintain a robust equity and liquidity position as well as high quality of the loan portfolio.

Prospects for the Group's growth in 2018

Although the transaction agreement to sell the spun-off part of Deutsche Bank Polska S.A. was signed, until the transaction is closed in the fourth quarter of 2018, the Parent will continue its activities in line with the 2017–2020 Strategy. The Strategy is being updated in 2018 to outline the key objectives post transaction, in particular with respect the foreign currency mortgage loans left at Deutsche Bank Polska S.A.

In 2018, the Parent is expected to face strong competition, especially in high-margin banking products. Factors supporting the Parent's business development will include:
- continuing positive economic outlook for Poland;
- stable strength of the DB brand, supported by the global position of Deutsche Bank A.G., as well as the fact that the Bank locally enjoys the opinion of the best investment bank and leading bank for wealthy and private banking clients, especially because of its broad and open offering of investment products;
- continuing low-interest-rate environment, where clients look for investment products and are increasingly interested in the advisory banking model;
- significant potential for business process optimisation (automation, digitalisation, archiving) with a focus on enhancing sales activities and post-sale support.

At the same time, market share expansion may be limited by a number of constraints, including:
- strong competition (including price competition) in market areas where the Group has the strongest presence, especially with respect to:
  - large investment transactions, due to decreasing investment activity of companies and financial institutions,
  - corporate banking,
  - unsecured personal loans;
- difficulties in acquiring new clients;
- strong impact of credit, insurance, financial and accounting regulations on the Group's ability to maintain current product models;
- growing fiscal and regulatory burdens;
- uncertain economic and political situation.

In 2018, the Parent will intensify efforts related to the following aspects of its operations:
- development of the revenue base, particularly in relation to corporate banking, investment and cash products,
- encouraging innovation at all units of the organisation and in relations with the external environment: clients, trading partners and government institutions;
- improving service quality;
- increasing the size of and diversifying investment product assets sold or administered with the Bank's involvement;
- personal loans (non-mortgage);
- acquiring new clients and deposits;
- cross-sell activities and campaigns targeted at the client base and prospects.

In 2018, a significant challenge will be to conduct day-to-day operations in parallel to the spin-off of an organised part of business and preparations for its migration to Bank BZ WBK S.A.

Risks faced by the Group

The Group is exposed to the following risks:
- credit risk,
- market risk,
- liquidity risk,
- operational risk.

Credit risk

The main objective of credit risk management is to protect the Group's capital by ensuring that the quality of its loan portfolio matches its risk appetite, while maintaining sufficient profitability and optimising capital allocation. In its activities, the Group incorporates recommendations of the Polish Financial Supervision Authority, as well as the requirements of the Deutsche Bank Group's regulator – the European Consolidating Supervisor at the European Central Bank, drawing on the extensive experience and know-how of the DB Group.

Effective credit risk management involves, among other things, a transparent lending process, risk identification, measurement, control and acceptance tools, a lending decision-making powers system based on the 'four eyes principle' and concentrating most decision-making powers at the Credit Risk organisational units, separation of sales from credit risk analysis and assessment functions, internal debt concentration limits, as well as ongoing monitoring of the loan portfolio and effective management of high-risk credit exposures. Exposure management at the stage of granting new or changing existing loans is supported in the area of Private and Business Clients by the IRBA SMOK application implemented at the Bank, which is supervised by the Credit Risk units with respect to risk parameters, algorithms, collateral valuation rules and management of lending decision-making powers.

In the case of portfolio risk, credit risk management is performed by developing appropriate lending procedures, which includes setting the acceptable risk parameters for individual clients, products and exposures, as well as principles for assessing clients' creditworthiness both before the grant of financing and throughout the lending term. Accurate credit assessment depends additionally on the allocation of risk exposure to the appropriate risk category, and on setting concentration limits and stress testing of the credit exposure portfolio.

In the case of most of its portfolios, the Parent applies a rating process for assessing clients' creditworthiness, their ability to repay liabilities, and transaction parameters to support the lending decision-making process and assess risks when a new transaction is approved or existing exposure is reviewed.

Credit portfolio management depends on the risk profile and valuation method, as well as the size of the credit exposure. The valuation of credit exposures at the Parent is performed either for collectively valued exposures (homogeneous portfolio) or individually valued exposures (non-homogeneous portfolio). The homogeneous and non-homogeneous (unimpaired) exposure portfolio is valued using statistical models in order to determine the amount of impairment losses. Individual material credit exposures (non-homogeneous portfolio) with indications of impairment are assessed individually, at least on a quarterly basis, using the discounted future cash flows method (the DCF method).

The process of credit risk management for individual credit exposures involves approving only those exposures for which risk indicators are within pre-defined ranges, as well as monitoring and internal reviews of each exposure during the lending period. With regard to defined credit exposures to Private and Business Clients, the Parent has in place a process of automatic exposure reviews, which uses, among other things, the results of a re-rating

process whereby ratings are regularly updated based on information gathered in the systems. The purpose of exposure monitoring is to identify threats at an early stage in order to undertake preventive measures and mitigate the consequences of credit risk.

In 2017, the Group consistently followed its adopted lending strategy by focusing on retail borrowers with above-average incomes and stable financial standing. As its response to the unstable macroeconomic environment, the Parent took steps to optimise acceptable credit risk by adjusting its acceptable risk appetite and modifying the relevant aspects of its processes and procedures. In each of the segments, the Parent maintained the organic growth strategy for its individual product portfolios:

- in mortgage financing, the Group focused on selective lending activity in PLN;
- with respect to financing for SMEs, the Group continued to develop its portfolio based on the client types and industries financed in the previous years. In addition, there was a considerable increase (in percentage terms) in the Small Business Banking segment, which comprises clients with annual revenues ranging from PLN 0 to PLN 5m;
- in the segment of other retail lending, the strategy of organic growth was continued mainly by increasing the volume of consumer finance loans and credit card lending;
- in the segment of lending to Corporate Clients and Financial Institutions, the Group continued its policy of matching the structure and tenors of lending to specific client needs and the purpose of financing;
- from the point of view of the existing loan portfolio quality and management of Private Client and Small Business Banking Client exposures, the Group consistently followed a policy of strict monitoring of its debt collection portfolio, which allowed it to maintain portfolio stability and a risk profile matching its stated risk appetite. Measures in this area were undertaken mainly by a dedicated unit − the Debt Collection Department. The unit is equipped with the necessary tools, systems and staff that are responsible for ensuring timely debt service by the Group's private clients and Small Business Banking clients.

  The Restructuring Department is involved in more complex aspects of the private clients' and business clients' debt restructuring and collection processes. In line with its remit assigned by the Management Board, the Restructuring Department focuses on clients whose total credit exposure, given its amount or nature of financing, generates higher risks and requires an individualised approach;
- with respect to the loan portfolio and lending to Business Clients (with the exception of Small Business Banking), Corporate Clients, Financial Institutions and Public Sector Clients, the Group continued its individualised approach, designed to ensure early identification of threats and restructuring of a client's exposure if any negative developments occur. The above measures fall entirely within the scope of powers of the Parent's Restructuring Department operating within the credit risk structures.

In 2017, an annual comprehensive review and update of credit policies and procedures was also carried out to ensure their compliance with changes in the regulatory environment and in the Bank's credit risk assessment processes and methods.

Throughout 2017, the Group also fine-tuned its model risk management in accordance with the requirements of the PFSA'a Recommendation W.

Market and liquidity risk

The Group's liquidity management model is to ensure that the Bank is able to meet its liabilities. To that end, the Group needs to maintain adequate levels of liquid assets and an optimum liquidity profile to guarantee secure liquidity management under normal market conditions. To make sure the Group performs well also in times of turbulence, the Group holds regular liquidity stress tests.

Almost all of the Group's business generates market risks, defined as a potential change in performance driven by changes in certain market parameters; these risks include foreign exchange and interest rate exposures.

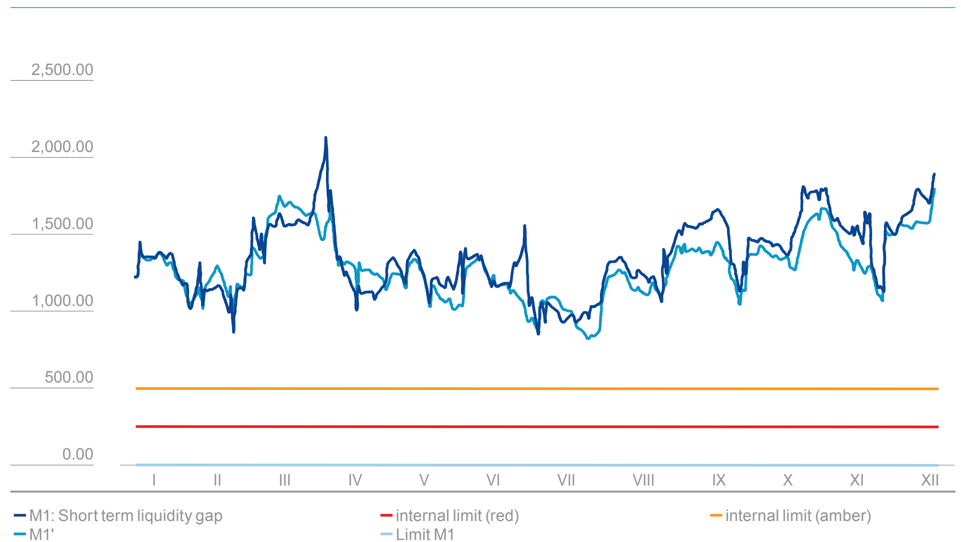
In both cases, the risk profiles are defined by the Supervisory Board based on risk appetite, as well as by the regulatory and internal market risk limits. Management and control of the Group's liquidity and market risks are grounded in existing regulations and market practice. The key role in this process is played by the Parent's Supervisory Board and Management Board, while the Assets and Liabilities Committee (ALCO) exercises direct supervision. Operational asset and liability management is handled by the Liquidity Management Office, while risk assessment, monitoring and reporting comes under the purview of the Financial Risk Department. This organisational structure ensures that the control units are fully independent of the business unit.

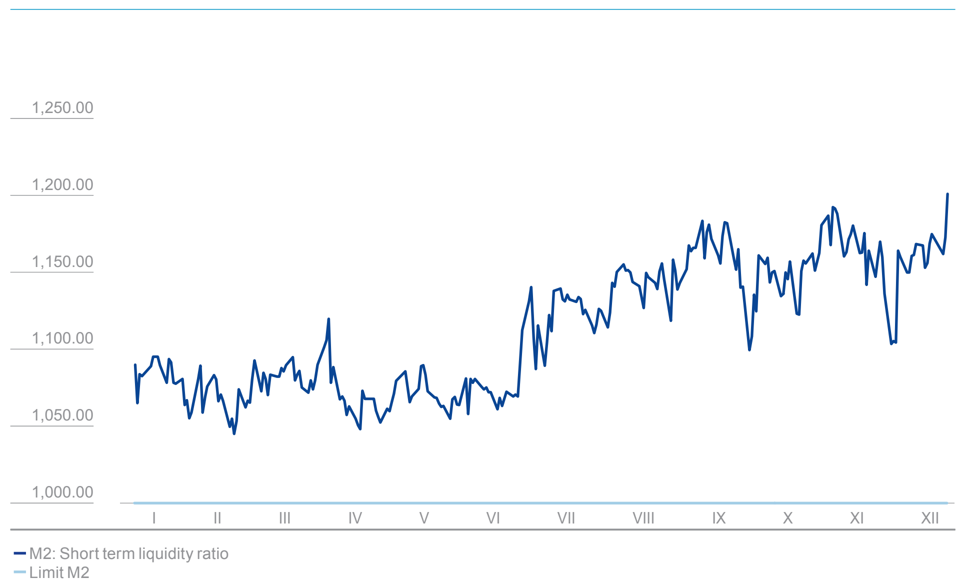
Liquidity risk

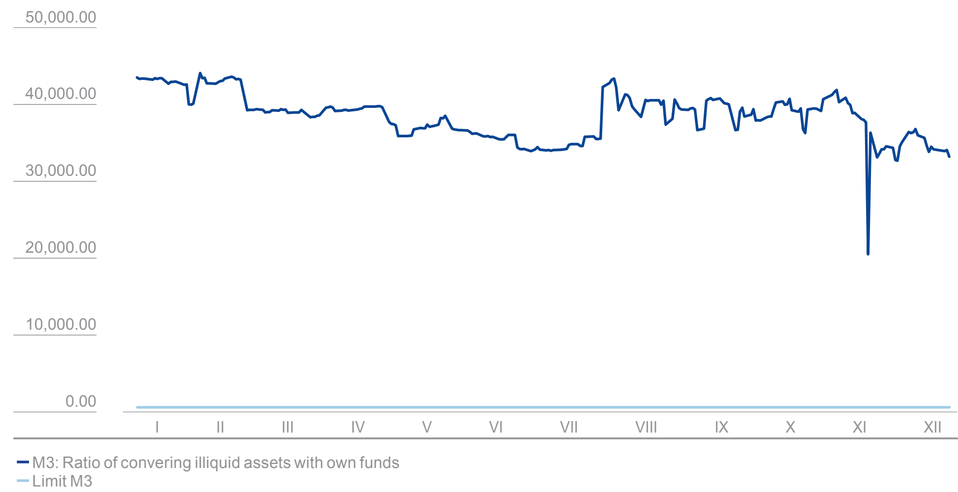
To guarantee its ability to meet liabilities on an ongoing basis, the Group analyses its cash requirements and cash supply sources, appropriately structures the maturity of the Bank's positions, holds an appropriate amount of liquid assets, and maintains a diversified deposit base. In case of unexpected liquidity problems, the Group has in place contingency plans and carries out analyses of critical scenarios on an ongoing basis. The Group also has the Declaration of Backing issued by its main shareholder – Deutsche Bank AG, Published in Deutsche Bank AG's annual report.

In addition to supervisory liquidity measures, which are the most important liquidity risk measures, the Group also uses internal risk measures and limits restricting the level of risk in various time horizons. These limits correspond to the risk appetite stated by the Supervisory Board.

The charts below show the evolution of the regulatory liquidity measures at the Parent in 2017.







M3: Ratio of convering illiquid assets with own funds
Limit M3

M4: Ratio of convering illiquid assets and assets of limited liquidity with own founds and stable part of liabilities
Limit M4

Market risk

Market risk management at the Group consists in the management of interest rate and currency risks relating to the trading and banking books.

As in recent years, the market risk remained low in 2017. The market risk was generated primarily by interest rate positions, while the Group's currency risk exposures were limited.

Trading book

As in 2016, the Parent's trading book was limited to sales of FX products (FX spot, FX forwards, FX swaps, FX options) and IRS. The Parent would close exposures arising from transactions with Group clients by entering into reverse transactions with DBAG Group entities.

Banking book

The banking book's risk position is driven primarily by the balance of PCB operations, which offers mainly mortgage loans, cash loans, corporate loans, current accounts, term deposits and savings accounts.

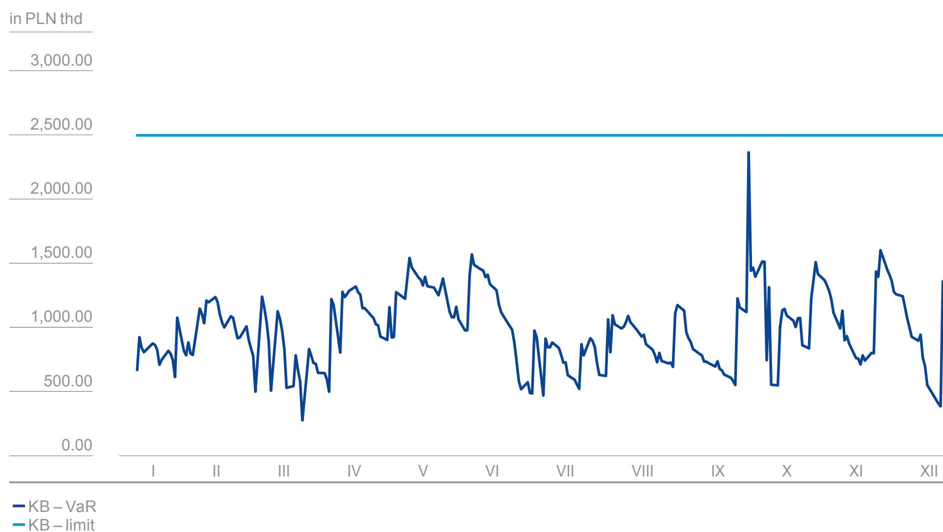
The second major contributor to the banking book's risk exposure is the GTB line, which generates mainly client deposits and, only to a limited extent, certain products that affect the Bank's asset balance.

The banking book's market risk is managed centrally by the Liquidity Management Office (LMO), which is responsible for managing liquidity and market risk for business lines not involved in the Bank's trading operations.

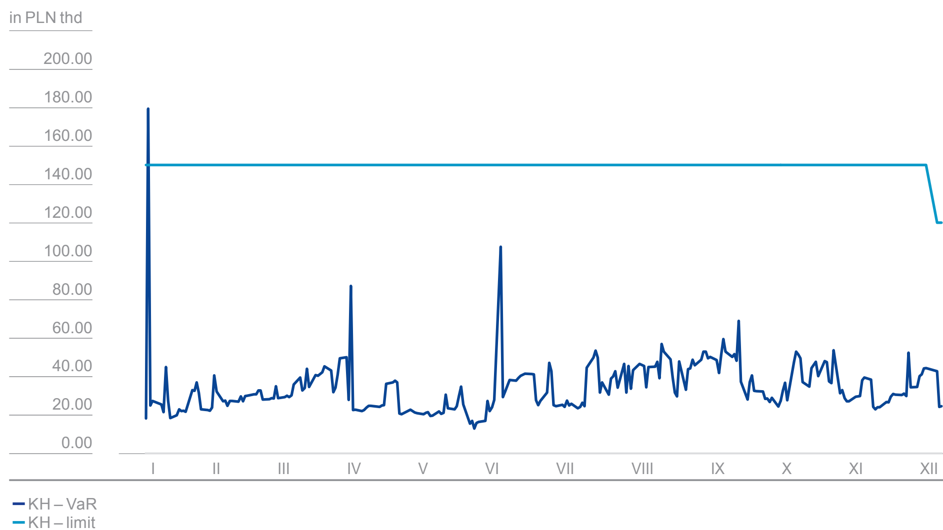
A considerable portion of the Group's balance sheet classified into the banking book is represented by a portfolio of treasury bonds used as the Group's liquidity buffer. Managed by the LMO, the portfolio consists of zero-coupon bonds, coupon-bearing bonds, treasury bills and money-market bills. According to the findings of the Assets and Liabilities Committee (ALCO), the portfolio does not generate any interest rate risks covering a period longer than two years.

The Group's exposure to market risk is limited by the risk appetite level set by the Supervisory Board and the limit system approved by the Management Board. The limits are calibrated by the Financial Risk Department, and actual exposure is monitored against those limits on a daily basis, with findings submitted to ALCO for review. The market risk analysis carried out by the Group is based on the Value-at-Risk (VaR) method and simulation of the Net Interest Income (NII). The charts below present the VaR levels at the Parent in 2017, separately for the trading book (TB) and the banking book (BB).

VaR – banking book in 2017



VaR – trading book in 2017

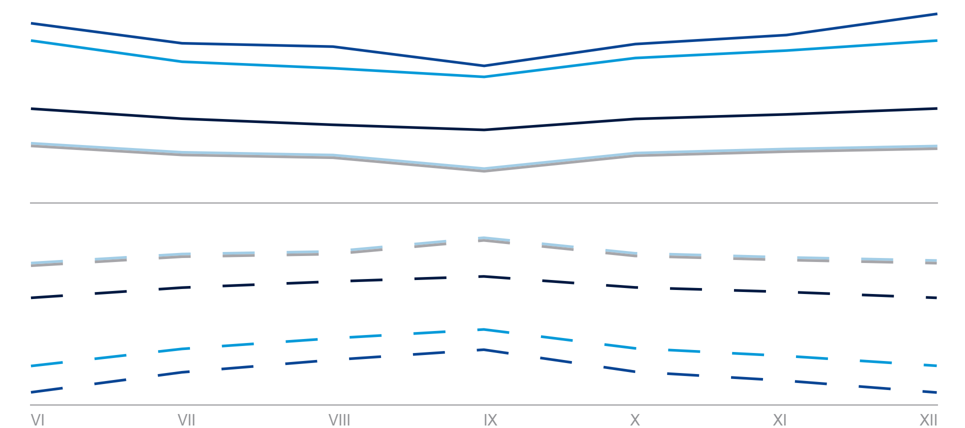


The VaR limits are lower than the Parent's market risk appetite level approved by the Supervisory Board.

In the fourth quarter of 2017, the Parent's Management Board approved the implementation of the NII measure for monitoring the interest rate risk of the banking book. The chart below presents the NII values under various scenarios. The Parent's Management Board set at a PLN 80m NII limit for the scenario of interest rate movement by 100 bps. In 2017, NII was around 60% of the limit.

NII under various interest rate scenarios

in PLN m



	VI	VII	VIII	IX	X	XI	XII
100 up	46.51	41.56	38.52	36.00	41.42	43.67	46.55
100 down	(46.51)	(41.56)	(38.52)	(36.00)	(41.42)	(43.67)	(46.55)
200 up	88.51	78.62	77.03	67.50	78.24	82.68	93.10
200 down	(93.03)	(83.13)	(77.03)	(71.99)	(82.84)	(87.34)	(93.10)
parallel up	80.01	69.53	66.41	62.08	71.35	75.11	79.99
parallel down	(80.01)	(71.62)	(66.41)	(62.08)	(71.35)	(75.11)	(79.99)
steepener	(29.47)	(25.03)	(23.70)	(17.03)	(24.62)	(26.64)	(28.17)
flattener	29.47	25.03	23.70	17.03	24.62	26.64	28.17
short up	29.47	25.03	23.70	17.03	24.62	26.64	28.17
short down	(29.47)	(25.03)	(23.70)	(17.03)	(24.62)	(26.64)	(28.17)

Operational risk

Operational risk management strategy and process at the Group

Operational risk is understood as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risk. The definition of operational risk does not cover business risk and reputational risk.

The Group's operational risk management strategy defines the key processes necessary to manage operational risk. The degree of the strategy's formalisation and complexity is adjusted to the specific character of the Group's operations and its current and target risk profile.

The Group manages operational risk in accordance with applicable laws, including resolutions and recommendations of the Polish Financial Supervision Authority.

In order to align the risk management process with the types and scale of its operations, the Group has implemented an integrated operational risk management process comprising the following components:
— risk identification,
— risk analysis and assessment to evaluate exposure,
— response, i.e. choosing and taking measures appropriate to the exposure (limitation, transfer, acceptance, avoidance),
— risk monitoring,
— reporting risk analysis and assessment results in a systematic manner,
— defining process participants and their functions, duties and scopes of responsibility.

Using appropriate procedures, an analysis is carried out to identify and assess operational risks involved in products, banking processes and outsourced activities, both before they are implemented and throughout their life or duration.

While identifying areas of increased operational risk, the Group gathers information on operating losses, monitors specific key risk indicators serving as an early warning system, and uses other elements of the process (enabling efficient risk management), such as: regular operational risk inspections (primarily at the field branches of the Bank's distribution network), self-assessment of risks, and scenario analyses.

Structure and organisation of units managing operational risk at the Group

The Group's operational risk management structure has been approved by the Management Board of the Bank, and implemented throughout the organisation to build all employees' (at various organisational levels) awareness of their responsibilities regarding operational risk. As part of the risk management process, each of the Group's operating units is responsible for actively managing operational risk in its respective area of operations.

In addition to a division of responsibilities among employees, the Group also applies the 'four eyes principle', both in its procedures and IT systems, with access to such systems being controlled and depending on the employee's scope of responsibilities.

To ensure efficient management of operational risk, the Group has established the Operational Risk Management Department as a dedicated unit responsible for implementation of the operational risk management strategy.

Scope and type of risk reporting and measurement systems

The Group has defined rules for escalation, reporting and monitoring of operational risk. The identified mitigation measures are monitored until fully implemented.

Operational risks are identified within all areas and then evaluated in terms of potential losses and the possible frequency of such losses. Results obtained in the process of operational risk identification and assessment are monitored on an ongoing basis, analysed and periodically reported to the Parent's governing bodies.

The Group annually calculates its operational risk appetite for a given year, representing the level of risk which, given its structure, is acceptable to the Group. Specific limits are defined based on the calculated risk appetite, and compliance with the limits is subject to regular monitoring and quarterly reporting.

Methods used to compute the capital required to cover operational risk

The Deutsche Bank Polska Group applies the Standardised Approach to compute the capital required to cover operational risk.

Losses related to operational risk in 2016−2017 by type and incident category

The table below sets forth gross operational losses incurred by the Parent in 2016−2017 by incident category.

Operational incident category

	2017	2016
Internal fraud	1.2%	0.0%
External fraud	9.4%	23.4%
Employment related principles and workplace safety	1.8%	37.7%
Clients, products and operational practices	80.9%	9.8%
Losses related to property and equipment	0.7%	7.4%
Disruption to bank operations and system failures	0.1%	9.0%
Transaction execution, delivery and operational process management	5.9%	12.7%

Rules of operational risk mitigation; strategies and processes for monitoring the effectiveness of operational risk mitigation methods

In line with the applied structure of operational risk management, the Group implements the operational risk management model in which all employees, in particular organisational unit managers, are responsible for day-to-day risk management, in accordance with their respective scopes of duties and responsibilities. In the course of day-to-day operations, they take measures to mitigate the identified operational risks in their respective areas of responsibility.

Material risks identified at the Group are subject to mitigation measures with specified implementation deadlines, taking into consideration the residual risk remaining after the mitigation measures are applied.

Optimisation of credit risk

The borrower's creditworthiness and probability of default within a specified time horizon are the key factors taken into account in the lending decision-making process. Moreover, entering into a credit transaction by the Group may be contingent on the provision of security, consistent with the parameters and definitions of credit products offered by the Group. Whether security is required is determined by the assessment of credit risk associated with a particular client and with the requested transaction; this does not apply to products which by definition require no security. When accepting any specific security, the Group makes an objective assessment of such security in accordance with its conservative internal criteria.

Security provided to the Group in respect of its credit claims is of key importance to minimising unforeseen risks that may materialise in the future in the lending process. The principal objective of taking security is to mitigate the risk of loss by the Group in case of the borrower's insolvency. As a rule, security must be created for the benefit of the Group and perfected before the first disbursement under the loan can be made, and must remain effective throughout the lending period.

At the stage of credit analysis, the Group always assumes that potential sale of the security is substantially tantamount to liquidation of the asset serving as security (collateral), therefore any security is valued a priori exclusively in respect of its liquidation value or LGD adjustment.

The liquidation value, which the Group understands as average expected proceeds from forced sale of the security, is estimated based on minimum standard percentage deductions from market value (haircuts), consistent with the type of the security and indicated in the credit approval decision. Deduction levels are verified on an annual basis.

Credit security may take the form of various legal instruments. It may be provided in the form of assets, but also in the form of the security provider's personal liability for repayment of the debt, with the objective of reducing the Bank's risk of loss under granted loans once it comes to debt collection.

Key criteria for evaluating the quality of security taken by the Group include its market value, liquidity, the time and cost required to complete the potential debt collection process, as well as the effectiveness of that process. If an asset is to be used as security defined in the credit approval decision for a given exposure, the Group has to be able to register and monitor it in line with separate procedures.

The Group has defined a catalogue of security forms acceptable in the process of approval of credit exposures. Only some of them can be used as a credit risk mitigation technique.

Security forms acceptable to the Group include:

- Personal security, based on personal liability of the security provider, including:
  - surety under civil law,
  - promissory note,
  - aval,
  - assignment of claims,
  - accession to debt,
  - assumption of debt,
  - bank guarantee,
  - loan insurance,
  - power of attorney over an account,
  - declaration of voluntary submission to enforcement.
- Security interests in assets, where an entity's liability is limited to the value of individual items of its property, including:
  - security transfer of title,
  - pledge over rights,
  - registered pledge,

– financial pledge,
– hold on securities in a securities account or on investment fund units in the unitholder's register,
– hold on cash in a bank account,
– security deposit,
– mortgage

In choosing a specific form of security, the Group takes into account such factors as loan repayment period, the borrower's legal status, the borrower's financial standing and feasibility of disposal of the security.

If the security is a mortgage on property, a senior mortgage status in the relevant land and mortgage register is preferred.

The Group monitors the security received (its value, and loan to value ratio) on an ongoing basis. Security may be monitored even daily, depending on its form and the type of financing provided to the client. If the Group becomes aware that the security it received is inadequate in relation to the secured credit exposure, the client will be required to provide additional security or repay a part of funds owed to the Group.

With respect to capital requirements, the Group uses external credit ratings assigned by the following reputable rating agencies to calculate exposure risk weights and required security levels in accordance with the rules adopted for the Standardised Approach:
1. Fitch Ratings,
2. Moody's Investors Service,
3. Standard and Poor's Ratings Services.

To this end, the country ratings from the three agencies are compared, and the lowest one is used for the purposes of evaluation.

When calculating capital requirements, the Group uses long-term ratings (including country ratings), representing the debtor's general ability to meet financial obligations (creditworthiness). Borrower ratings are used with respect to exposures to institutions. The Group uses external credit assessments in line with Article 138 of Regulation No. 575/2013 of the European Parliament and of the Council of June 26th 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the CRR Regulation).
In relation to its use of risk mitigation techniques in the calculation of capital requirements for credit risk, the Group divides security into the following categories in line with the CRR Regulation:
1. funded credit protection; and
2. unfunded credit protection.

In addition, to determine the value of security and account for it when calculating the credit risk capital requirement using the Standardised Approach, the Group uses the Financial Collateral Comprehensive Method.

In the case of funded credit protection used by the Group, the assets serving as credit risk mitigation are sufficiently liquid (i.e. their net selling price would be similar to their market price), and their long-term value is stable enough to guarantee effective credit protection.

In the Group's opinion, the correlation (the effect of a deterioration of the debtor's creditworthiness on the quality of security) between the value of assets used as credit protection and the creditworthiness of the debtor is not material.

Because the Group uses the Standardised Approach to calculate capital requirements for credit risk, it considers the following types of security as funded credit protection under Article 197 of the CRR Regulation:
1. cash on deposit with the Group;
2. cash on deposit in a third-party bank (included in the calculation as unfunded credit protection);
3. debt securities;
4. shares;
5. units in collective investment undertakings.

The Group does not use other financial collateral referred to in Article 197 of the CRR Regulation.

The Group divides mortgage on property into:
1. mortgage over residential property;
2. mortgage over commercial property.

Exposures secured with mortgages on property are classified under the Standardised Approach as a separate class of exposures secured with mortgages on property, irrespective of whether the security is effective (under Chapter 2 Title II of the CRR Resolution). Consequently, security in the form of a mortgage on property is, strictly speaking, not considered a credit risk mitigation technique.

As regards unfunded credit risk protection, the party assuming the obligation is accepted based on its credibility, whereas credit protection agreements are accepted based on their legal effectiveness in relevant jurisdictions.

Because the Group uses the Standardised Approach to calculate capital requirements for credit risk, it considers the following guarantees and sureties as unfunded credit protection under Article 203 of the CRR Regulation:

The Group does not apply any other unfunded credit protection, as defined in Chapter 4 Title II of the CRR Regulation.

Under Art. 501 of the CRR Regulation, the Group applies a supporting factor for exposures meeting the following criteria:
1. the exposure is classified as retail exposure, or exposure to corporates, or as exposure secured with mortgages on property;
2. the exposure relates to a business entity with annual turnover of less than EUR 50m;
3. to the Bank's knowledge, the total amount owed by the obligor client or a group of clients towards the Bank, its parents and their subsidiaries, including any exposure in default,

except for receivables or contingent receivables secured over residential property, does not exceed EUR 1.5m.

The supporting factor is used for exposures classified as retail exposures, exposures to corporates, or exposures secured with mortgages on property. Exposures in default are excluded.

The table below presents the value of credit exposures before and after the application of risk reducing techniques, by exposure class.

Exposure class

	Exposure value before application of risk mitigation techniques	Exposure value after application of risk mitigation techniques
Exposures or conditional exposures to central governments and central banks	8,578,286	8,481,838
Exposures or conditional exposures to regional governments and local authorities	33,812	33,759
Exposures or conditional exposures to public administration bodies and non-business entities	326	160
Exposures or conditional exposures to institutions	1,883,406	1,169,158
Exposures or conditional exposures to businesses	6,540,362	6,441,051
Retail exposures or conditional exposures	10,083,084	10,000,636
Exposures or contingent exposures secured with property	17,607,308	17,564,134
Past-due exposures	841,664	426,641
Equity exposures	9,723	9,723
Other exposures	435,292	253,605
Total	46,013,263	44,380,705

Concentration limits provided for in the Capital Requirements Regulation (CRR) and in the Banking Law

Limits to large exposures under the Capital Requirements Regulation (Article 395 of the CRR):
The Group's exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 387 to 403 of the CRR Regulation, to a client or group of connected clients may not exceeds 25% of its eligible capital.

Where a client is an institution or where a group of connected clients includes one or more institutions, the Group's exposure may not, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the CRR Regulation, exceed 25% of the Group's eligible capital or EUR 150m, whichever the higher, provided that the sum of exposures, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the CRR Regulation, to all connected clients that are not institutions does not exceed 25% of the institution's eligible capital.

The values subject to maximum authorised limits as at the dates stated were as follows:

in PLN thd	Dec 31 2017	Dec 31 2016
Large exposure limit in accordance with Article 395 of CRR (to non-institutional clients)	1,351,858	1,351,551
Large exposure limit in accordance with Article 395 of CRR (to institutional clients)	1,351,858	1,351,551

As at December 31st 2016 and December 31st 2017, the Group did not exceed the limits applicable under Article 395 of the CRR Regulation.

Art. 79a.4 of the Banking Act

As at December 31st 2016 and December 31st 2017, the Group did not exceed the limits applicable under Art. 79a.4 of the Banking Law, stipulating that the aggregate amount of loans, cash advances, bank guarantees and sureties granted to members of governing bodies and persons holding managerial positions at the bank, or to an entity having equity or organisational links to a member of the bank's governing bodies or a person holding a managerial position at the bank, may not exceed 10% of the bank's total required capital.

in PLN thd	Dec 31 2017	Dec 31 2016
The Group's Common Equity capital	4,132,920	4,005,713
10% of the Group's Common Equity capital	413,292	400,571

Internal concentration limits

Moreover, as part of managing its retail credit portfolio, the Group applies the following internal concentration limits:

- Sector limits − to manage the risk of excessive concentration of the credit portfolio in a specific sector of the economy/group of sectors
- Geographical limits − to manage the risk of excessive concentration of the individual client credit portfolio in any specific province of Poland
- Currency limits − to manage the risk of excessive portfolio concentrations in terms of the share of loans denominated in foreign currencies
- Product limits − to manage the risk of excessive concentration of certain products (e.g. loans for the financing of commercial properties) in the credit portfolio
- Limits concerning the credit portfolio quality (e.g. limit for past due loan exposures, limit for migration between delinquency classes (periods of delay), limit for early defaults)
- Limits for non-standard transactions − to manage the risk related to transactions made on non-standard terms
- Limits for the retail credit portfolio
- Limits for the portfolio of exposures secured with mortgages
- Limits for the portfolio of exposures under loans provided to finance property
- Limits for treasury products.

As at December 31st 2017, the following instances of exceeding the internal limits were identified:

- Limit for derogations in the business client exposure portfolio – as at December 31st, derogations amounted to 47.81%, which represented 191% of the limit.
- Limit for derogations in the portfolio of the property lease and management segment – as at December 31st, derogations amounted to 11.06%, which represented 111% of the limit.

Equity management

In accordance with the applicable laws, the Group is required to maintain own funds at a level adequate to its risk exposure and scale of business. The measure used to determine capital adequacy is the total capital ratio.

Pursuant to the capital-adequacy decisions issued for the Deutsche Bank Group, the Polish Financial Supervision Authority expects the Group to meet the total capital ratio (TCR) requirement of at least 13.50% (with a safety buffer of 1.25% and buffer for another systemically important institution of 0.25%), and the Tier 1 (T1) capital ratio requirement at a level of at least 10.50% (with a safety buffer of 1.25% and buffer for another systemically important institution of 0.25%). In addition, the Group is obliged to maintain own funds in excess of the level required in accordance with the CRR Regulation in order to mitigate the risk arising from foreign-currency mortgage loans provided to households, i.e. at a level of 1.62% for the total capital ratio (TCR), at a level of 1.22% for the Tier 1 (T1) capital ratio, and at a level of 0.91% for the common equity Tier 1 (CET1) ratio.

The Group manages risk and capital by applying a set of rules and using a specific organisational structure and processes of measurement, control and allocation adjusted to the profile of its business.

The approach used by the Group in risk and capital management is based on the following general principles:
— the Management Board of the Bank exercises overall supervision over the risk and capital management process;
— the Group manages individual risks and capital through coordinated processes, implemented at the relevant organisational units;
— the units involved in the risk control process are organisationally and functionally independent from the business units.

As at December 31st 2017, the capital adequacy ratio was calculated in accordance with the principles set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26th 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended, (the CRR Regulation) and the Commission Implementing Regulation (EU) No 2016/1702 of August 18th 2016 amending the Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council (the ITS Regulation).

The Group allocates its operations to the trading book and the non-trading (banking) book, in accordance with the provisions of the CRR Regulation, in particular Article 4 and Chapter 3 of Title I of Part Three of the CRR Regulation.

The scale of the Group's trading operations is significant. Thus, in accordance with Article 94 of the CRR Regulation, the exemption relating to small-scale operations included in the trading portfolio does not apply.

Given the above, the total risk exposure amount, in accordance with the provisions of Article 92 of the CRR Regulation, represents the sum of:
1. the risk-weighted exposure amounts for credit risk, calculated in accordance with Chapter 2 of Title II of Part Three of the CRR Regulation, in respect of all the business activities of the Bank, excluding risk-weighted exposure amounts from the trading book business of the institution;

2. the own funds requirements multiplied by 12.5, determined in accordance with Title IV of Part Three of the CRR Regulation, for the trading-book business of the institution, for the following:
   - position risk;
   - large exposures exceeding the limits specified in Articles 395 to 401, to the extent the institution is permitted to exceed those limits;
3. the own funds requirements multiplied by 12.5, determined in accordance with Title IV or Title V with the exception of Article 379, as applicable, for the following:
   - currency risk (including risks other than the delta risk associated with options) – determined in accordance with Chapter 3 of Title IV of Part Three of the CRR Regulation;
   - commodity risk (including risks other than the delta risk associated with options) – determined in accordance with Chapter 4 of Title IV of Part Three of the CRR Regulation;
   - settlement/delivery risk – determined in accordance with Title V of Part Three of the CRR Regulation;
4. the own funds requirements for credit valuation adjustment risk of derivative instruments multiplied by 12.5 – determined in accordance with Title IV of Part Three of the CRR Regulation;
5. the own funds requirements for operational risk multiplied by 12.5 – determined in accordance with Title III of Part Three of the CRR Regulation;
6. the risk weighted exposure amounts, determined in accordance with Chapter 6 of Title II of Part Three of the CRR Regulation, for counterparty risk arising from the trading book business of the Bank for the following types of transactions and agreements:
   - contracts listed in Annex II to the CRR Regulation and credit derivatives;
   - repurchase transactions, securities or commodities lending or borrowing transactions based on securities or commodities;
   - margin lending transactions based on securities or commodities;
   - long settlement transactions.

As at December 31st 2017, the total risk exposure amount was PLN 31,535,526 thousand and comprised the following amounts:

- risk-weighted exposure amounts for credit risk, counterparty risk, dilution risk and free deliveries − PLN 29,580,927 thousand;
- exposure amount for settlement/delivery risk − PLN 0;
- exposure amounts for position risk, currency risk and commodity risk – PLN 32,700 thousand;
- exposure amount for operational risk − PLN 1,921,324 thousand;
- additional risk exposure amount related to fixed overheads − PLN 0;
- exposure amount for credit value adjustment risk − PLN 575 thousand;
- exposure amount for risk relating to debt exposures in the trading book − PLN 0;
- other risk exposure amounts − 0 PLN.

The Group’s own funds

Rules of computing own funds

In accordance with the provisions of the Banking Law and Regulation 575/2013, the Group’s own funds comprise:

- common Equity Tier 1 capital;

— additional Tier 1 capital;
— Tier 2 capital.

The Bank's Common Equity Tier 1 capital comprises:
1. capital instruments, provided that the conditions stipulated in Article 28 of the CRR Regulation are met, together with the related share premium accounts;
2. retained earnings.
   Profit for the current period or profit for the year is included in Common Equity Tier 1 capital exclusively if:
   — the profit has been approved by the Bank's General Meeting, or
   — The Bank has obtained the Polish Financial Supervision Authority's consent for including the profit in the Bank's own funds, having met the conditions stipulated in Article 26.2 of CRR Regulation.
3. accumulated other comprehensive income, including unrealised gains/losses on remeasurement of the portfolio of financial instruments available for sale (AFS) measured at fair value;
4. capital reserve;
5. general risk fund.

The Bank's Additional Tier 1 capital comprises:
— capital instruments, provided that the conditions stipulated in Article 52.1 of the CRR Regulation are met, together with the related share premium accounts, after deductions required under Article 56 of the CRR Regulation and after the application of Article 79 of the CRR Regulation. Those instruments do not qualify as Common Equity Tier 1 (CET1) or Tier 2 capital.

Currently, the Group holds no instruments which would qualify as Additional Tier 1 (AT1) capital.

The Group's Tier 2 capital comprises:
— capital instruments and subordinated loans, together with the related share premium accounts, provided that the conditions stipulated in Article 63 of the CRR Regulation are met.

The extent to which Tier 2 instruments qualify as Tier 2 items during the final five years of maturity of the instruments is calculated in accordance with Article 64 of CRR Regulation by multiplying the result derived from the calculation in point (a) by the amount referred to in point (b) as follows:
a) par/nominal value of the instruments or subordinated loans on the first day of the final five-year period of their contractual maturity divided by the number of calendar days in that period;
b) the number of remaining calendar days of contractual maturity of the instruments or subordinated loans.

As at December 31st 2017, the Group used subordinated loans meeting all the criteria defined in Art. 63 of the CRR Regulation and maturing in less than five calendar years. Accordingly, the loans qualify as Tier 2 instruments, in amounts defined in accordance with Art. 64 of CRR Regulation.

in PLN thd		Amount on the disclosure date	(B) Reference to Articles of Regulation (EU) No. 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1	Equity instruments and related share premium accounts	3,176,815	Article 26.1, Article 27, Article 28 and Article 29, EBA's list referred to in Article 26.3
	including: Type 1 instrument	3,176,815	Article 26.1, Article 27, Article 28 and Article 29, EBA's list referred to in Article 26.3
2	Retained earnings	-	Article 26.1.c
3	Accumulated other comprehensive income (and other reserves)	967,955	Article 26.1
3a	General risk fund	56,419	Article 26.1.f
6	Common Equity Tier 1 capital before regulatory adjustments	4,201,189	
Common Equity Tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(7,614)	
8	Intangible assets (net of related deferred tax liability) (negative amount)	(60,481)	Article 36.1.b, Article 371 and Article 472.4
18	Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and Article 468;	(174)	Article 467 and Article 468
	including: ...filter for unrealised loss 1		
	including: ...filter for unrealised loss 2		
	including: ...filter for unrealised gain 1		
	including: ...filter for unrealised gain 2		
28	Total regulatory adjustments to Common Equity Tier 1 capital	(68,270)	
29	Common Equity Tier 1 capital	4,132,920	
Additional Tier 1 capital Instruments			
Additional Tier 1 capital: regulatory adjustments			
Tier 2 Capital: instruments and provisions			
46	Equity instruments and related share premium accounts	1,274,511	Article 62-65
51	Tier 2 capital before regulatory adjustments	1,274,511	
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital		
58	Tier 2 capital	1,274,511	
59	Total Capital (Total Capital = Tier 1 + Tier 2)	5,407,431	
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. residual amounts specified in CRR)	31,535,526	
60	Total risk-weighted assets	31,535,526	
Capital ratios and buffers			
61	Common Equity Tier 1 capital ratio (as a percentage of total risk exposure amount)	13.11%	Article 92.2.a and Article 465
62	Tier 1 capital ratio (as a percentage of total risk exposure amount)	13.11%	Article 92.2.b and Article 465
63	Total capital ratio (as a percentage of total risk exposure amount)	17.15%	Article 92.2.c
Capital ratios and buffers			
Amounts below the thresholds for deduction			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	9,723	
73	Direct and indirect holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	Article 36.1.i, Article 45, Article 48, Article 470 and Article 472.11
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related deferred tax liability where the conditions set out in Article 38.3 are met)	25,267	Article 36.1.c, Article 38, Article 48, Article 470 and Article 472.5
Applicable caps on the inclusion of provisions in Tier 2 capital		-	
Capital instruments subject to phase-out arrangements (applicable exclusively from January 1st 2014 to January 1st 2022)		-	

		Instrument 1: Shares comprising CET 1 capital	Instrument 2: Subordinated loan	Instrument 3: Subordinated loan
1	Issuer	Deutsche Bank Polska S.A.	Deutsche Bank AG	Deutsche Bank AG
2	Unique ID code (e.g. CUSIP, ISIN or Bloomberg code of non-public offerings)	Series I−XXI shares	Subordinated loan agreement	Subordinated loan agreement
3	Law(s) governing the instrument	Polish	Polish	Polish
	Disclosed under regulatory capital	Yes	Yes	Yes
4	Transitional CRR rules	Common Equity Tier 1 capital Partial reclassification of the issue to lower category of capital – not applicable	Tier 2 capital	Tier 2 capital
5	Rules set out in CRR applicable after the transitional period	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
6	Eligible at a separate or (sub-consolidated) / at a separate and (sub-consolidated) level	Eligible at a separate and consolidated level	Eligible at a separate and consolidated level	Eligible at a separate and consolidated level
7	Type of instrument (types specified in accordance with the legal system)	Ordinary shares Classification – Common Equity Tier 1 instrument in accordance with Article 28 of Regulation (EU) No. 575/2013	Subordinated loan	Subordinated loan
8	Amount recognised under regulatory capital (PLN '000, as at the most recent reporting date)	PLN 3,176,815 thousand	PLN 23,241 thousand	PLN 1,251,270 thousand
9	Par/nominal value of the instrument	PLN 2,651,449 thousand	EUR 55,000 thousand	EUR 300,000 thousand
9a	Issue price	PLN 3,176,815 thousand	Not applicable	Not applicable
9b	Redemption price	Not applicable	EUR 55,000 thousand	EUR 300,000 thousand
10	Classification for accounting purposes	Equity	Subordinated loan	Subordinated loan
11	Original issue date	Nov 4 1991	Jul 4 2008	Apr 29 2016
12	Perpetual or issued for definite period	Perpetual	Definite	Definite
13	Original maturity	No maturity	Jul 4 2018	Apr 29 2026
14	Option to be redeemed at the issuer's request if approved by regulatory bodies	No	No	No
	Coupon/dividends	Dividends	Coupon	Coupon
17	Fixed or floating dividends/coupon	Floating	Floating	Floating
18	Coupon and any related ratio	Not applicable	Not applicable	Not applicable
19	Existence of recorded rights not to pay dividends	Yes	Not applicable	Not applicable
20a	Fully discretionary, partly discretionary or mandatory (with respect to term)	Partially discretionary; reasons: – decisions of Shareholder; – financial results; – administrative decisions	Not applicable	Not applicable
20b	Fully discretionary, partly discretionary or mandatory (with respect to amount)	Partially discretionary; reasons: – decisions of Shareholder; – financial results; – administrative decisions	Not applicable	Not applicable
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Impairment losses reducing value	No	No	No
36	Non-compliant transitional features	No	No	No

Capital adequacy 2017 – 2016

in PLN thd	Dec 31 2017	Dec 31 2016
Tier 1 (T1) capital	4,132,920	4,131,690
Common Equity Tier 1 (CET1) capital	4,132,920	4,131,690
Additional Tier 1 (AT1) capital	-	-
Tier 2 capital	1,274,511	1,274,511
Total own funds	5,407,431	5,406,202
Capital requirements for credit risk, counterparty risk, dilution risk and free deliveries	2,366,474	2,092,844
Capital requirements for settlement/delivery risk	-	-
Capital requirements for position risk, currency risk and commodity risk	2,616	5,432
Capital requirements for operational risk	153,706	155,056
Capital requirements for fixed overheads	-	-
Capital requirements for credit value adjustment	46	235
Capital requirements for debt exposure in the trading book	-	-
Requirements for other risk exposures	-	-
Total capital requirement	2,522,842	2,253,568
CET1 capital ratio	13.11%	14.67%
T1 capital ratio	13.11%	14.67%
Total capital ratio (%)	17.15%	19.19%

* The total capital ratio as at December 31st 2016 and December 31st 2017 was computed in accordance with the relevant guidelines provided in the CRR Regulation.

As at December 31st 2017, the capital adequacy ratio was materially affected by the inclusion of a subordinated loan received by the Parent under an agreement executed on April 27th 2016 (pursuant to the Polish Financial Supervision Authority's decision to approve the qualification of the subordinated loan as a Tier 2 instrument) and of the net profit for 2016 (pursuant to a relevant decision adopted by the General Meeting) in the Parent's own funds, as well as changes in the RWA calculation method for residential mortgage loans – including the introduction of 150% risk weights for residential mortgage-backed exposures where the amount of a principal or interest payment was dependent on fluctuations in exchange rates of a currency or currencies other than the currency in which the debtor's income was denominated.

Calculation of capital requirement for credit risk

To calculate capital requirement for credit risk as at December 31st 2017, the Group used the Standardised Approach.

Exposure class

in PLN thd	Exposure value before application of risk mitigation techniques	Exposure value after application of risk mitigation techniques
Exposures or conditional exposures to central governments and central banks	8,578,286	8,119,184
Exposures or conditional exposures to regional governments and local authorities	33,812	36,624
Exposures or conditional exposures to public administration bodies and non-business entities	326	304
Exposures or conditional exposures to institutions	1,883,406	1,796,068
Exposures or conditional exposures to businesses	6,525,009	6,110,124
Retail exposures or conditional exposures	10,083,084	13,885,386
Exposures or contingent exposures secured with property	17,607,308	14,167,479
Past-due exposures	857,017	874,846
Equity exposures	9,723	8,981
Other exposures	435,292	410,148
Total	46,013,263	45,409,144

Calculation of capital requirement for credit risk (*) as at December 31st 2017

Exposure by class: in PLN thd		Weight of risk corresponding to exposure class	Risk-weighted amount	Capital requirement
I	Central governments and central banks	250%	63,167	5,053
II	Regional governments and local authorities	20%	6,239	499
III	Public administration bodies and non-business entities		40	3
		50%	40	3
		100%	-	-
IV	Multilateral development banks		-	-
V	International organisations		-	-
VI	Institutions – banks		389,488	31,159
		2%	154	12
		20%	105,051	8,404
		50%	143,104	11,448
		100%	141,097	11,288
		150%	82	7
		250%	-	-
VII	Corporates		4,867,027	389,362
		100%	4,867,027	389,362
		150%	-	-
VIII	Retail		4,056,827	324,546
		75%	4,056,827	324,546
		100%	-	-
IX	Secured with property		19,502,743	1,560,219
		20%	-	
		35%	3,123,619	249,889
		75%	-	-
		100%	1,586,407	126,913
		150%	14,792,718	1,183,417
X	Past due		514,016	41,121
		75%	-	-
		100%	209,126	16,730
		150%	304,890	24,391
XI	Exposures classified in high-risk supervisory categories		-	-
XII	Secured bonds		-	-
XIII	Exposures under receivables from institutions and corporates with short-term credit ratings		-	-
XIV	Exposures under membership in collective investment institutions		-	-
XV	Equity exposures		9,722	778
		100%	9,722	778
		250%	-	-
XVI	Other exposures		113,134	9,051
		0%	-	-
		20%	87	7
		100%	112,751	9,020
		150%	297	24
Total			29,522,404	2,361,792

* The amounts include neither risk-weighted assets nor counterparty credit risk requirements.

Calculation of capital requirement for credit risk (*) as at December 31st 2016

Exposure by class: in PLN thd	Weight of risk corresponding to exposure class	Risk-weighted amount	Capital requirement
I Central governments and central banks	250%	46,911	3,753
II Regional governments and local authorities	20%	5,964	477
III Public sector entities		100	8
	20%	60	5
	50%	40	3
	100%	-	-
IV Multilateral development banks		-	-
V International organisations		-	-
VI Institutions – banks		354,054	28,324
	2%	659	53
	20%	91,671	7,334
	50%	114,343	9,147
	100%	147,294	11,784
	150%	87	7
	250%	-	-
VII Corporates	100%	3,643,295	291,464
VIII Retail		12,520,217	1,001,617
	75%	5,761,263	460,901
	100%	6,758,954	540,716
IX Secured by mortgages on property		8,765,829	701,266
	20%	-	-
	35%	2,148,046	171,844
	75%	-	-
	100%	6,617,783	529,423
X Exposures in default		613,591	49,087
	75%	-	-
	100%	245,294	19,624
	150%	368,297	29,464
XI Exposures associated with particularly high risk		-	-
XII Secured bonds		-	-
XIII Exposures under receivables from institutions and corporates with short-term credit ratings		-	-
XIV Exposures associated with collective investment undertakings		-	-
XV Equity exposures		6,877	550
	100%	6,877	550
	250%	-	-
XVI Other exposures		108,829	8,706
	20%	106	8
	100%	108,607	8,689
	150%	115	9
Total		26,065,667	2,085,253

* The amounts include neither risk-weighted assets nor counterparty credit risk requirements.

Quantitative data on the structure of initial gross exposures as at December 31st 2017

Geographical structure of gross exposures as at December 31st 2017

Exposure class

in PLN thd	PL	DE	GB	IT	CH	Other	Total
Exposures to central governments or central banks	8,578,286	-	-	-	-	-	8,578,286
Exposures to regional governments or local authorities	33,812	-	-	-	-	-	33,812
Exposures to public sector entities	326	-	-	-	-	-	326
Exposures to institutions	300,005	1,020,381	164,459	121,182	6,531	270,849	1,883,407
Exposures to corporates	6,331,619	33,875	49,013	-	20,003	90,499	6,525,009
Retail exposures	10,038,671	12,133	8,171	756	5,917	17,436	10,083,084
Exposures secured by mortgages on property	17,515,780	32,681	14,893	2,760	6,594	34,600	17,607,308
Exposures in default	855,281	212	239	7	-	1,277	857,016
Other exposures	435,292	-	-	-	-	-	435,292
Equity exposures	329	-	-	-	-	9,394	9,723
Total	44,089,401	1,099,282	236,776	124,705	39,045	424,055	46,013,263

Structure of exposures by client type as at December 31st 2017

Exposure class

in PLN thd	Private individuals	Corporates	Banks	Central banks	Other	Total
Exposures to central governments or central banks	96,573	-	-	2,590,229	5,891,484	8,578,286
Exposures to regional governments or local authorities	-	-	-	-	33,812	33,812
Exposures to public sector entities	-	-	-	-	326	326
Exposures to institutions	2,569	11	1,823,464	-	57,363	1,883,407
Exposures to corporates	560,989	5,941,819	404	-	21,797	6,525,009
Retail exposures	8,318,141	1,764,705	-	-	238	10,083,084
Exposures secured by mortgages on property	15,925,979	1,674,397	-	-	6,932	17,607,308
Exposures in default	515,769	341,247	-	-	-	857,016
Other exposures	-	-	35	-	435,257	435,292
Equity exposures	-	-	-	-	9,723	9,723
Total	25,420,020	9,722,179	1,823,903	2,590,229	6,456,932	46,013,263

Residual maturities for individual exposure classes as at December 31st 2017

Exposure class

in PLN thd	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Total
Exposures to central governments or central banks	3,010,737	-	1,315,480	2,193,153	2,058,916	-	8,578,286
Exposures to regional governments or local authorities	-	-	-	2,556	7,629	23,627	33,812
Exposures to public sector entities	166	-	-	-	160	-	326
Exposures to institutions	967,479	271,537	95,704	192,187	241,382	115,118	1,883,407
Exposures to corporates	142,142	477,174	1,184,351	1,380,697	1,121,455	2,219,190	6,525,009
Retail exposures	153,802	186,515	282,430	547,344	1,693,683	7,219,310	10,093,084
Exposures secured by mortgages on property	37,537	76,713	169,884	202,851	539,518	16,580,805	17,607,308
Exposures in default	546,280	18,560	19,569	25,212	86,116	161,279	857,016
Other exposures	435,292	-	-	-	-	-	435,292
Equity exposures	-	-	-	-	-	9,723	9,723
Total	5,293,435	1,030,499	3,067,418	4,544,000	5,748,859	26,329,052	46,013,263

Impaired and past-due exposures by client type as at December 31st 2017

Client type/industries

in PLN thd	Private individuals	Corporates	Banks	Total
Impaired exposures	451,755	359,604	-	811,359
Past-due exposures	873,059	400,636	9	1,273,704
Specific credit risk adjustment	301,676	285,621	516	587,813

Geographical structure of impaired and past-due exposures by country and province

Country/Province

in PLN thd	Poland	Germany	The Netherlands	United Kingdom	France	Other	Total
Impaired exposures	810,152	207	697	239	-	64	811,359
Past-due exposures	1,270,776	272	697	763	819	377	1,273,704
Specific credit risk adjustment	599,150	633	422	243	70	192	600,710

Reconciliation of changes in impairment losses for impaired exposures

		Increase		Decrease				
in PLN thd	As at Dec 31 2016	Recognition of impairment losses	Other	Derecognition of assets from the statement of financial position	Reversal of impairment losses	Other	As at	Zmiana w okresie
Amounts due from banks	574	2,409	-	-	(2,466)	-	516	(57)
Loans and advances to corporates	606,070	759,029	-	(61,617)	(702,127)	(1,162)	600,193	(5,877)
Total	606,644	761,438	-	(61,617)	(704,593)	(1,162)	600,710	(5,934)

Capital buffers

As at December 31st 2017, capital buffers were calculated in accordance with the rules laid down in Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV), in the Act of August 5th 2015 on Macro-Prudential Supervision of the Financial System and Crisis Management in the Financial System, and in Commission Delegated Regulation (EU) No 1152/2014 of June 4th 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer.

In December 2017, the Polish Financial Supervision Authority, acting pursuant to Article 39 of the Act of August 5th 2015 on Macro-Prudential Supervision of the Financial System and Crisis Management in the Financial System, and having consulted the Financial Stability Committee, identified Deutsche Bank Polska S.A. as other systemically important institution and imposed an O-SII buffer on the Bank (on a separate and consolidated basis).

In accordance with the regulations and the PFSA decision, as at December 31st 2017, the Group was required to maintain:

1. a capital conservation buffer of 1.25% of the total risk exposure amount calculated in accordance with Article 92(3) CRR. As at December 31st 2017, the amount was PLN 394,194 thousand;
2. a countercyclical capital buffer which was PLN 0 as at December 31st 2017 – in view of the fact that as at 31st December 2017, the Group's foreign exposures did not exceed 2% of the total overall credit exposure, trading book exposure and securitisation exposure, and thus were assigned to the institution's home country (Poland) and, accordingly, received the 0% countercyclical capital buffer rate applicable to credit exposures located in the Republic of Poland in 2017;
3. an O-SII buffer at a level equivalent to 0.25% of the total risk exposure amount calculated in accordance with Article 92(3) CRR. As at December 31st 2017, the amount was PLN 78,839 thousand.

As at December 31st 2017, the Group met the combined buffer requirement.

Leverage

The Group calculates its leverage ratio (LR) in line with the definition included in Part Seven of the CRR Regulation as the institution's capital measure divided by its total exposure measure. The ratio is expressed as a percentage.

In accordance with Art. 429.3 of the CRR, the capital measure used for the purposes of calculation of the leverage ratio is the Bank's Tier 1 capital, as defined in Art. 25 of the CRR.

In the transition period from January 1st 2014 to December 31st 2021, in line with the derogation specified in Article 499.1 of the CRR Regulation, the Group calculates and reports the leverage ratio by using both of the following as the capital measure:
— Tier 1 capital – fully implemented definition,
— Tier 1 capital – transitional definition (calculated taking into account the transition periods described in Chapter 1 and 2 of Title I of Part Ten of the CRR Regulation).

In accordance with Article 429.4 of the CRR Regulation, the total exposure measure for the purposes of calculating the leverage ratio is the sum of the values of:
— assets (excluding items reducing the Bank's Tier 1 capital),
— derivatives,
— add-ons for counterparty risk of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions,
— off-balance sheet positions.

The CRR Regulation does not specify any minimum allowable level of the leverage ratio. Until relevant official guidelines are implemented, the Bank will apply its internal leverage ratio limit. The limit is not lower than the 3% proposed for the leverage ratio by the Basel Committee.

As at December 31st 2017, the leverage ratio calculated in accordance with the above method was:
— using a fully phased-in definition of Tier 1 capital: 9.74%,
— using a transitional definition of Tier 1 capital: 9.73%.

Rules for computing internal capital

The Group defines internal (economic) capital as the amount estimated by the Bank as necessary to cover all the identified material risks (measured quantitatively and qualitatively) inherent in its operations and changes in the economic environment, taking into account the forecast risk levels.

That is why, the Group applies annually the Internal Capital Adequacy Assessment Process (ICAAP) to identify all risks it is exposed to and then determines their materiality.

Given the profile of the Group's operations, its internal capital is the sum of requirements to cover quantitatively measured risks taken into account in the calculation of economic capital covering the following risks:
— credit and market risks (both measured using internal methods complemented with those risk components that are not covered by model amounts of the minimum regulatory capital requirement, if any),
— operational risk (measured using the regulatory method).

At the same time, aside from the management of material qualitative risks through risk measurement and monitoring, in order to include other risks measured qualitatively in the Group's overall equity position, the internal capital amount is additionally increased by the total capital requirement for the coverage of those risks in the amount equal to the weighted average of risk weights for all business lines used in the calculation of

the capital requirement for operational risk multiplied by the amount of the operational risk requirement.

In the course of 2017, the amount of own funds significantly exceeded the internal capital amount, providing a substantial safety margin. As at December 31st, 2017, the ratio of own founds to internal capital was 214%.

Human resources and non-financial statement

Human resources management

As at December 31st 2017, headcount at the Deutsche Bank Polska Group was 2,302 (including employees on maternity leaves, unpaid parental leaves, and employees absent from work for other justified reasons).

Headcount at Deutsche Bank Polska S.A.

Business areas	Dec 31 2017
Corporate Client and Financial Markets area	50
Retail and Business Client area	1,827
Other areas	425
Total	2,302

Recruitment process and talent acquisition

The Deutsche Bank Polska Group pursues an active recruitment policy, designed to acquire qualified management and specialist personnel who are crucial to the achievement of the Group's business objectives. The recruitment process is conducted both within and outside the Group. The internal recruitment process is implemented to provide our employees with opportunities to develop through both vertical and horizontal promotion. Candidates for managerial or specialist positions are first searched for within the organisation. In 2017, 12.5% of the recruitment processes were closed through internal recruitment. The recruitment process is carried out in a transparent manner, using various tools depending on our needs (an interview, a mini AC session, tests, problems). We look for people dedicated to the Bank's values. We place a continued emphasis on networking (referrals, recommendations, social media) as a tool in candidates recruitment.

Remuneration policy

The Deutsche Bank Polska Group pursues a sound, balanced and verifiable remuneration policy, and it keeps it consistent with the strategy, acceptable risk levels, standards, and the Group's key values. The remuneration policy reflects the Group's client-oriented approach combined with a focus on the achievement of the organisation's long-term objectives.

The base salary is the key component of employee remuneration at the Deutsche Bank Polska Group. The amount of the base salary depends in particular on the scope of duties assigned to a given position, the type of work performed, the employee's qualifications, the amount and quality of work performed, the scope of responsibility, and the budget of the employee's organisational unit. The Human Resources Development Department

together with function heads perform evaluations of each individual job, taking care to maintain competitive salary levels based on best market practice.

The amount of the base salary results from the employee's pay grade and the corresponding monthly pay rate based on the table of jobs, required qualifications and base salary rates, contained in the appendix to the remuneration rules.

Additional incentive tools used to improve the performance and quality of work are discretionary bonuses granted to individual employees for outstanding performance in carrying out their tasks in line with the corporate values of Deutsche Bank Polska Group, its ethical principles and policies.

An important aspect of remuneration management is the Parent's Remuneration Policy comprising Fixed and Variable Remuneration Components for persons holding management positions, including members of the Management Board, approved by the Supervisory Board in December 2017, which represents the alignment of the previous Policy of Fixed and Variable Remuneration Components of the Bank for persons holding management positions, including members of the Management Board, at Deutsche Bank Polska S.A. to the Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy, and detailed rules for internal capital adequacy assessment at banks, dated March 6th 2017.

Additionally, pursuant to Article 94 of Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, the Parent applies a maximum ratio of the variable to fixed remuneration components for persons covered by the Remuneration Policy of up to 200%, with the exception of control functions, for which the ratio may not exceed 100%.

Furthermore, the Parent uses a 4-year deferral period for payment of variable remuneration components to persons covered by the Policy who have a particularly significant influence on the Parent's risk profile.

The Parent's policy is also aligned with the amendments introduced to the Banking Law under the Act on Macro-Prudential Supervision of the Financial System and Crisis Management in the Financial System.

The policy supports conservative and stable risk, capital and liquidity management, and plays a special role in promoting the long-term interests of the Parent, its shareholders, investors and other stakeholders. It is addressed to the management staff who have a particularly significant or significant influence on the Parent's risk profile.

The variable portion of the remuneration of persons holding management positions depends on the results of their individual evaluation, as well as the performance of their organisational unit and of the Parent. Assessment of employees is based on performance review procedures operated by the Parent. The variable remuneration component amounts

are reviewed every year by the Remuneration Committee, a consulting and advisory body supporting the Supervisory Board.

Training and professional advancement programmes

In 2017, the Deutsche Bank Polska Group pursued a training and professional advancement policy designed to support the achievement of its strategic objectives. The Group's policy in this area was aimed at:

1. Helping new employees to adapt to the Group's organisational culture and proficiently use the knowledge and skills required to perform their daily duties;
2. Consistent development of the Sales Network staff supporting the achievement of revenue targets and promoting behaviours aligned with the Group's Values and applicable external and internal regulations;
3. Achieving a high level of skill of the Sales Network and Head Office Managers, fostering the effective management of employees and teams as well as alignment of attitudes and behaviours with the Group's Values;
4. Developing professional expertise and competencies of employees of the Group's Head Office.

The training and professional advancement activities were carried out in accordance with the 70:20:10 model adopted by the Group.

In 2017, 165 group training sessions were held, attended by 1,716 persons (4,387 man-days); a further 247 persons participated in individual training sessions (473 man-days). The average number of classroom training and professional development hours per FTE was 18.5. Almost half of the group training sessions were conducted by in-house trainers: employees of the Human Resources Development Department as well as support unit and business representatives. The rest of the training, in particular one-on-one sessions and language courses, was delivered by third party providers. The training programmes were of high quality and received very good ratings from participants. The average overall score given by respondents was 5.33, similarly to 2016 (on a 1 to 6 scale, where 1 is the lowest and 6 is the highest score).

As planned, professional advancement initiatives covered four key areas:

1. introductory training,
2. The Sales Academy for Sales Network employees and managers,
3. Development of management skills at the Bank's Head Office,
4. Development of specialist expertise and professional competencies of the employees of the Bank's Head Office.

In 2017, 27 introductory training courses were held, attended by 396 employees, who devoted a total of 2,027.5 man-days to the training. The training was designed for the employees of the Sales Network of the Retail and Business Client Areas and the Head Office – each group took part in a tailor-made course. On a 1 to 6 scale, the average score given to introductory training in 2017 was 5.05.

In 2017, 53 sessions of the Sales Academy were organised, attended by 565 employees. The time they devoted to advancing their skills was 1,088 man-days. The Sales Academy

sessions held in 2017 covered subjects corresponding to the market requirements and business needs, and they included, in particular, the following courses:

1. For the Business Client Area: Financial analysis, advanced sales negotiations.
2. For the Retail Client Area: Strategy design, Sales coaching, Private Banker as a Client's Partner. Private Banking managers and executives additionally participated in the prestigious EFA EFPA programme.

As part of the Sales Academy, a pilot managerial development programme preparing for the Branch Manager role was also launched for the Retail Client Area. The programme was delivered in-house and it included Line Manager mentoring, training at head office units, people management skills development workshops, self-learning and a number of induction assignments. 6 individuals took part in the pilot programme, of whom 3 were promoted to Branch Managers already during the same year. In view of the success of the programme, a decision was made to continue over the next year.

The Sales Academy training was rated very high, with an average score of 5.6 (based on submitted questionnaires) on a 1 to 6 scale.

In addition, in 2017 training sessions in management skills were attended by another 54 managers of the Parent's Head Office teams. In an effort to implement global standards and best practices, two training groups were set up as part of the Management Fundamentals professional advancement programme directed to new managers from the entire DB Group. On a 1-to-5 scale, the average score given to that programme in 2017 was 4.5. Further three groups of experienced Head Office managers participated in the "Improving partnership relations through coaching-based management style" programme. The programme was given an average score of 5.3 on a 1-to-6 scale.

In 2017, employees of the Parent's Head Office participated primarily in training sessions and conferences where they could develop their specialist skills and expertise, mainly by updating their knowledge of law and the market, and honing their technical skills, including IT skills. A total of 283 employees attended the specialist training. Employees of the Parent's Head Office were also invited to participate in the 'Academy of Skills' programme, enabling them to develop professional skills in the area of self-management in time and stress handling (initiative continued from the previous year). In 2017, the programme was attended by 184 people. The Academy of Skills was given a score of 5.1 on a 1-to-6 scale. Sixty-three employees of the Head Office also participated in English courses to develop their business English skills.

Classroom trainings were supplemented with webinars and e-learning courses. As soon as the execution of the agreement for the sale to Bank Zachodni WBK S.A. of a part of the retail and business banking business in Poland had been announced, all Bank team managers and HR advisers were invited to participate in the 'Change Management. Practical guidance for Managers' webinar. The purpose of the training was to support management staff in facing the management challenges of the planned transaction. In 2017, seven sessions of the training were held, participated by a total of 100 employees. The initiative continued in January 2018.

In 2017, employees of the Parent participated in 28,283 e-learning courses (on average, 13.5 training per FTE), mainly in the following areas:
- Mortgage loan and ancillary services – training introduced in connection with the Act on Mortgage Loan, Supervision of Mortgage Loan Intermediaries and Agents, effective as of July 22nd 2017;
- Compliance, OHS, information security, counteracting money laundering, risk awareness, DB products and processes;
- MiFID II and sales process – training organised as part of the implementation at the Bank of the MiFID II Directive and ESMA Guidelines.

Variable remuneration component policy

Qualitative information

Information on the decision-making process used for determining the remuneration policy, as well as the number of meetings held during the financial year by the main body in charge of supervision of the remuneration policy, including, where applicable, information on the composition and scope of responsibilities of the remuneration committee, external consultant whose services were used in determining the remuneration policy, as well as the roles of any parties concerned.

Pursuant to Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011, in 2012 Deutsche Bank Polska S.A. (“Bank”) implemented (with the support of an external consultant), and the Supervisory Board approved, a Variable Remuneration Component Policy applicable to persons in managerial positions at Deutsche Bank Polska S.A. (“Policy”) who determine and have significant influence on the Bank’s risk profile.

All positions were reviewed in relation to the key risks managed at the Bank. Based on the review, management positions with significant influence on the Bank’s risk profile were identified. The list of management positions with significant influence on the Bank’s risk profile was approved by the Supervisory Board and forms Appendix 3 to the Policy.

In 2012, the Remuneration Committee was established at the Bank pursuant to Par. 6 of Resolution No. 258/2011 of the Polish Financial Supervision Authority. The Remuneration Committee is an advisory body of the Supervisory Board and its members perform their duties pursuant to Art. 390 of the Polish Commercial Companies Code.

In 2015, the Policy was revised to meet the regulatory requirements arising as a result of:
a) implementation of the Corporate Governance Standards at the Bank;
   Following implementation of the Corporate Governance Standards, the Policy was amended by adding provisions on:
   - remuneration for work and other employee benefits;
   - sources of financing for variable remuneration components;
   - definition of the scope or powers and responsibilities of bodies supervising the Bank’s remuneration policy.

   Following the introduction of these amendments, the Variable Remuneration Component Policy was converted into the Policy of Fixed and Variable Remuneration Components

applicable to persons in managerial positions, including members of the Management Board of Deutsche Bank Polska S.A.

b) amendments introduced to the Banking Law under the Act on Macro-Prudential Supervision over the Financial System and on Crisis Management in the Financial System.

Where it refers to the remuneration policy, the Act in particular stipulates that the Bank's remuneration policy should also cover its subsidiaries and take into consideration the remuneration policy of the Bank's parent.

Further, pursuant to Article 94 of Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, the Bank introduced for use at the Bank a maximum ratio of the fixed remuneration components to the variable components for persons covered by the "Policy of Fixed and Variable Remuneration Components applicable to persons in managerial positions, including members of the Management Board of Deutsche Bank Polska S.A." of up to 200%, with the exception of control functions, for which the ratio may not exceed 100%. The deferral period for payment of variable remuneration components was lengthened, too, from three to four years with respect to persons covered by the policy who have particularly significant influence on the Bank's risk profile.

In 2017, in connection with the required alignment of the internal regulations to the Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy, and detailed rules for internal capital adequacy assessment at banks, dated March 6th 2017, the previous Policy of Fixed and Variable Remuneration Components for persons holding management positions, including members of the Management Board, at Deutsche Bank Polska S.A. was transformed into the Remuneration Policy comprising Fixed and Variable Remuneration Components for persons holding management positions, including members of the Management Board.

In 2017, the Remuneration Committee was composed of:
— In the period January 1st−June 13th 2017
  1) Mr Peter Tils
  2) Mr Hubert A. Janiszewski
  3) Mr Filip Gossow
— In the period June 14th−December 31st 2017:
  1) Mr Peter Tils
  2) Mr Hubert A. Janiszewski
  3) Mr Filip Gossow

The responsibilities of the Remuneration Committee include:
— defining the terms and conditions of employment for Management Board members to be set out in their employment contracts, managerial contracts or other agreements;
— issuing opinions on the remuneration system in place at the Bank, including in particular monitoring of the amounts and components of remuneration;
— monitoring and issuing opinions on the variable remuneration component policy, including the amounts and components of remuneration for persons holding management

positions at Deutsche Bank Polska S.A., based on the principles of prudent and stable risk, capital and liquidity management and with particular attention paid to the long-term interests of the Bank and of the Bank's shareholders;
- monitoring and issuing opinions on variable remuneration components for persons holding management positions at the Bank which are involved in risk management and ensuring compliance of Deutsche Bank Polska S.A.'s activities with applicable laws and internal regulations.

Meetings of the Remuneration Committee are held at least once a year. The meetings are convened by the Committee Chairperson, or on the initiative of a Supervisory Board member, or at the request of the Management Board of the Bank. In 2017, the Remuneration Committee held six meetings.

Performance-based remuneration

Deutsche Bank Polska S.A. pursues a local remuneration policy, in conjunction with the DB Group's general remuneration policy, to ensure consistent risk management at the DB Group and reduce the risk of conflicts of interest.

The Remuneration Policy comprising Fixed and Variable Remuneration Components for persons holding management positions, including members of the Management Board, at Deutsche Bank Polska S.A. supports conservative and stable risk, capital and liquidity management, and plays a special role in promoting the long-term interests of the Bank, its shareholders, investors and other stakeholders.

Total remuneration comprises fixed and variable components. The fixed components should represent a sufficiently large portion of the entire remuneration amount to enable the Bank to pursue a flexible policy with respect to the variable portion.

The variable remuneration amount is determined on the basis of an evaluation of the performance of each person to whom the Policy applies, of the relevant organisational unit (in a three-year horizon) and of the Bank. Individual performance is evaluated on the basis of financial and non-financial criteria, in the context of the level of risk associated with this performance. The criteria should be objective and should reflect the quality of the Bank management, long-term aspects of its operations, and the manner of the implementation of strategic objectives. Moreover, the variable remuneration of managers at the internal audit unit, the compliance risk management unit, and other risk management and HR units, is independent of the economic effects achieved in the areas of the Bank's business which are under their control.

The variable remuneration components are financed and paid from the Bank's funds and do not depend on the performance of the Bank's parent or the parent's Group.

Key information on the remuneration policy

The variable portion of the remuneration of persons holding management positions depends on the results of their individual evaluation, as well as the performance of their organisational unit and of the Bank as a whole. Assessment of employees is based on performance review procedures operated by the Bank. The variable remuneration component amounts

are reviewed every year by the Remuneration Committee, a consulting and advisory body supporting the Supervisory Board.

At least 50% of the variable remuneration of persons holding management positions enumerated in Section 1 of Appendix 3 to the Policy, who have particularly significant influence on the Bank's risk profile, serves as an incentive to exercise special care in promoting the Bank's interests in the long-term, and is paid in financial instruments. Persons to whom the Policy applies may not dispose of those instruments earlier than permitted under the relevant rules defined by the Bank.

At least 40% of the variable remuneration of persons holding management positions enumerated in Section 1 of Appendix 3 to the Policy, who have particularly significant influence on the Bank's risk profile, is paid after the end of the evaluation period for which this remuneration is payable, and the payment is deferred − it is paid in four equal tranches over the four years immediately following the grant of the discretionary award.

The possibility to actually receive the deferred payment in a given year depends on fulfilment of the following conditions:
— the Bank has generated a profit for the previous year;
— the individual performance of a given person holding a management position in a three-year horizon has been assessed positively.

Quantitative information

Summary quantitative information on remuneration paid in 2017 and 2016 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy, by business line

Business line in PLN thd	2017 Total remuneration (fixed** + variable***)	2016 Total remuneration (fixed + variable*)
Retail and business banking	6,332	4,453
Corporate Banking	6,344	9,178
Bank management	15,275	12,605
Total	27,951	26,236

* Fixed remuneration includes the compensation paid for unused holidays, but does not include additional benefits.
** For 2017: a portion of the variable remuneration due for 2016 and paid in 2017 in cash and:
— a portion of the variable remuneration due for 2015 in the form of financial instruments and paid in 2017,
— The first tranche of deferred cash payment and the first tranche of deferred remuneration in the form of financial instruments due for 2015 and paid in 2017;
— The second tranche of deferred cash payment and the second tranche of deferred remuneration in the form of financial instruments due for 2014 and paid in 2017;
— The third tranche of deferred cash payment and the third tranche of deferred remuneration in the form of financial instruments due for 2013 and paid in 2017.
** For 2016: a portion of the variable remuneration due for 2015 and paid in 2016 in cash and:
— The first tranche of deferred cash payment and the first tranche of deferred remuneration in the form of financial instruments due for 2014 and paid in 2016;
— The second tranche of deferred cash payment and the second tranche of deferred remuneration in the form of financial instruments due for 2013 and paid in 2016;
— The third tranche of deferred cash payment and the third tranche of deferred remuneration in the form of financial instruments due for 2012 and paid in 2016.

Summary quantitative information on remuneration paid in 2017 and 2016 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy

	2017		2016	
in PLN thd	Bank's Management Board	Other persons holding managerial positions	Bank's Management Board	Other persons holding managerial positions
Headcount (number of FTEs)	11*	44	11**	29
Fixed remuneration***	8,315	15,928	8,321	10,519
Variable remuneration****	4,172	839	4,767	2,629
Total	12,487	16,767	13,088	13,148

* Including employees – members of the Management Board in previous years and employees holding positions approved as management positions during 2017;

** Including one employee who was Management Board Member until April 4th 2016, one employee who was Management Board Member in the period April 4th−December 6th 2016 and one employee who has been Management Board Member since July 1st 2016,

*** Fixed remuneration includes the compensation paid for unused holidays, but does not include additional benefits.

**** For 2017: a portion of the variable remuneration due for 2016 and paid in 2017 in cash and:
- a portion of the variable remuneration due for 2015 in the form of financial instruments and paid in 2017;
- The first tranche of deferred cash payment and the first tranche of deferred remuneration in the form of financial instruments due for 2015 and paid in 2017;
- The second tranche of deferred cash payment and the second tranche of deferred remuneration in the form of financial instruments due for 2014 and paid in 2017;
- The third tranche of deferred cash payment and the third tranche of deferred remuneration in the form of financial instruments due for 2013 and paid in 2017.

**** For 2016: a portion of the variable remuneration due for 2015 and paid in 2016 in cash and:
- The first tranche of deferred cash payment and the first tranche of deferred remuneration in the form of financial instruments due for 2014 and paid in 2016;
- The second tranche of deferred cash payment and the second tranche of deferred remuneration in the form of financial instruments due for 2013 and paid in 2016;
- The third tranche of deferred cash payment and the third tranche of deferred remuneration in the form of financial instruments due for 2012 and paid in 2016.

Summary quantitative information on variable remuneration awarded for 2017 and 2016 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy, broken down into cash payments and financial instruments

	2017		2016	
in PLN thd	Bank's Management Board	Other persons holding managerial positions	Bank's Management Board	Other persons holding managerial positions
Variable remuneration in cash*	2,162	6	333	552
Variable remuneration in the form of financial instruments**	1,562	0	317	27
Total	3,724	6	650	579

* A portion of the variable remuneration for a given year payable in cash.

** A portion of the variable remuneration for a given year payable in the form of financial instruments.

The value of deferred units is estimated on the date they are awarded (calculation as at December 31st 2017), while their final value for the purpose of payment of relevant tranches is calculated on the basis of approved financial statements in the year is which a tranche is paid. A decision on the calculation of the value of deferred units is made by the Remuneration Committee.

Summary quantitative information on deferred remuneration of Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy, broken down into the vested and non-vested portion

	2017		2016	
in PLN thd	Bank's Management Board	Other persons holding managerial positions	Bank's Management Board	Other persons holding managerial positions
Deferred variable remuneration − vested*	2,698	39	3,453	46
Deferred variable remuneration − not yet vested*	2,680	86	6,142	122
Total	5,378	125	9,595	168

* The item comprises:
For 2017
— A portion of the variable remuneration for 2015 (the first tranche of deferred cash payment and the first tranche of deferred variable remuneration in the form of financial instruments due for 2015 and paid in 2017);
— A portion of the variable remuneration for 2014 (the second tranche of deferred cash payment and the second tranche of deferred variable remuneration in the form of financial instruments due for 2014 and paid in 2017);
— A portion of the variable remuneration for 2013 (the third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments due for 2013 and paid in 2017).
For 2016
— A portion of the variable remuneration for 2014 (the first tranche of deferred cash payment and the first tranche of deferred variable remuneration in the form of financial instruments due for 2014 and paid in 2016);
— A portion of the variable remuneration for 2013 (the second tranche of deferred cash payment and the second tranche of deferred variable remuneration in the form of financial instruments due for 2013 and paid in 2016);
— A portion of the variable remuneration for 2012 (the third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments due for 2012 and paid in 2016).

** The item comprises:
For 2017
— A portion of the variable remuneration not granted for 2016 (four tranches of deferred cash payment, four tranches of deferred variable remuneration in the form of financial instruments and a portion of the variable remuneration granted for 2016 in the form of financial instruments);
— A portion of the variable remuneration not granted for 2015 (the second, third and fourth tranches of deferred cash payment and the second, third and fourth tranches of deferred variable remuneration in the form of financial instruments);
— A portion of the variable remuneration not granted for 2014 (the third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments).
For 2016
— A portion of the variable remuneration not granted for 2015 (four tranches of deferred cash payment, four tranches of deferred variable remuneration in the form of financial instruments and a portion of the variable remuneration granted for 2015 in the form of financial instruments);
— A portion of the variable remuneration not granted for 2014 (the second and third tranches of deferred cash payment and the second and third tranches of deferred variable remuneration in the form of financial instruments);
— A portion of the variable remuneration not granted for 2013 (the third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments).

Summary quantitative information on remuneration paid in 2017 and 2016 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy − deferred remuneration

	2017		2016	
in PLN thd	Bank's Management Board	Other persons holding managerial positions	Bank's Management Board	Other persons holding managerial positions
Deferred variable remuneration for 2012, 2013 and 2014*	-	-	3,453	46
Deferred variable remuneration for 2013, 2014 and 2015**	2,698	39	-	-
Total	2,698	39	3,453	46

* The item comprises:
— The first tranche of deferred cash payment and the first tranche of deferred variable remuneration in the form of financial instruments due for 2015 and paid in 2017.
— The second tranche of deferred cash payment and the second tranche of deferred variable remuneration in the form of financial instruments due for 2014 and paid in 2017;
— The third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments due for 2013 and paid in 2017.

** The item comprises:
— The first tranche of deferred cash payment and the first tranche of deferred variable remuneration in the form of financial instruments due for 2014 and paid in 2016.
— The second tranche of deferred cash payment and the second tranche of deferred variable remuneration in the form of financial instruments due for 2013 and paid in 2016;
— The third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments due for 2012 and paid in 2016.

Summary quantitative information on deferred remuneration granted in 2017 under retention programmes

in PLN thd	Bank's Management Board	Other persons holding managerial positions
Headcount (number of FTEs)	5	25
Variable remuneration granted in the form of retention programmes	9,549	8,471
Total	9,549	8,471

In 2017, payments were made at Deutsche Bank Polska S.A. in connection with the termination of an employment relationship with persons covered by the Policy; the total amount of the payments was PLN 1,583 thousand.

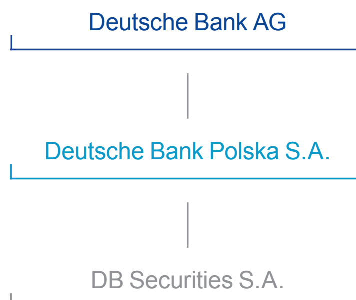
In 2017, there were no payments at Deutsche Bank Polska S.A. in connection with employment of new persons covered by the Policy.

In 2017, none of the persons employed at Deutsche Bank Polska S.A. received total remuneration in excess of EUR 1m.

Non-financial statement

Business model

Deutsche Bank Polska S.A. is part of the Deutsche Bank Group (the "Group"), whose parent and the sole shareholder is Deutsche Bank AG ("DB AG"). In Poland, the local group comprises the Bank and the brokerage house DB Securities S.A.



Deutsche Bank Polska S.A.

Deutsche Bank Polska is wholly owned by DB AG as the sole shareholder. Deutsche Bank Polska conducts banking activities in accordance with the Banking Law and the Commercial Companies Code, under the supervision of the Polish Financial Supervision Authority ("PFSA"). In its activities, Deutsche Bank Polska S.A. follows the 'Principles of Corporate Governance for Supervised Institutions' issued by the PFSA in July 2014.

Deutsche Bank Polska S.A.'s activities cover a wide range of products and services for corporate and retail clients, including investment services. Deutsche Bank Polska S.A. provides customers with access to the Bank's products and services through nearly 113 branches and local business centres located throughout the country as well as via electronic communications channels, including the internet and Teleserwis. At the date of this statement, Deutsche Bank Polska S.A. employed around two thousand employees.

The Bank has two main business lines in Poland, i.e.:
— Private and Commercial Banking ("PCB") business line, offering predominantly banking products and services for retail clients, including sole traders, as well as small and medium-sized enterprises; the business line also include investment activities;
— Commercial and Investment Banking ("CIB") business line, offering mainly banking products and services for large international corporations; the business line also include custody services.

In its activities, Deutsche Bank Polska S.A. puts the client in the centre of interest. Therefore, it strives to serve best its shareholders by prioritising the needs of clients and creating a network of sustainable businesses supported by a strong capital base and liquidity. The Bank puts enormous emphasis on shared values by creating a culture which balances risks and benefits, attracts and develops talented people, fosters team work and partnership, and supports the communities in which it operates. These values are: credibility, sustainable development, innovation, discipline and partnership.

One of the key values is the sustainable development, which Deutsche Bank S.A. defines as sustainable business effectiveness which balances economic success with corporate environmental and social responsibility. The values and beliefs, including the proper understanding of sustainable development, are included in, inter alia, the 'Code of Conduct and Ethics for the Deutsche Bank Group', as well as in other internal policies and processes.

The Group also assumes obligations contained in internationally recognised sets of standards and rules. These are in particular:
— Ten Principles of the United Nations (UN) Global Compact,
— UN Principles for Responsible Investment,
— UN Guiding Principles on Business and Human Rights,
— G20/OECD Principles of Corporate Governance,
— OECD Guidelines for Multinational Enterprises.

As a continuation of the Millennium Development Goals, the UN has established a new programme for sustainable development for 2030. The guidance contained therein also affects the operations of and value understanding at the Group.

The Group has for a number of years been conducting business and social responsibility initiatives and projects. They aim to enhance the perception of the Bank as a socially active and credible partner. They also help build confidence, employees' and clients' loyalty, as well as strengthen a positive reputation of the organisation. During the last decade, the Group has consistently been strengthening initiatives primarily targeting education, development of businesses and small communities. The 2017 indicators show that the Group reached almost 5.2m people with its projects, including 2.1m with CSR programmes and 3.1m with other (artistic, cultural or sports) projects. The Group invested EUR 64.2m in these initiatives. 17,177 Group employees (22% of the Group's headcount) participated in various initiatives as volunteers all over the world.

In Poland, in terms of CSR, in 2017 the Deutsche Bank Polska Group continued its commitment to arts and music, lending support to a number of cultural initiatives. The Group's other CSR projects included establishment of an apiary with the intention of strengthening the local ecosystem highly dependent on honeybees. The hives were installed on the initiative of Deutsche Bank Polska S.A. employees on the roof of the Focus office building, where the Group is headquartered. With the building having as many as 13 overground floors, the apiary is among the highest located ones in Warsaw, having collected an impressive total of almost 300 kg of honey over two seasons.

In 2017, Deutsche Bank Polska S.A. continued to work with the Warsaw Banking Institute on the 'Bakcyl' project, where volunteers from banks teach practical finance at selected junior high schools. The project aims to bring together the entire banking sector around the idea of promoting the image of banks as institutions of public trust, which support the concept of sustainable development and contribute to educating young people about finance.

In 2017, we also held the tenth edition of the annual "Christmas Presents for Children's Homes" initiative, where Deutsche Bank Polska S.A. employees prepare gifts for more than 200 children from seven children's homes. Deutsche Bank Polska S.A. continued its sponsorship of the Malwa Foundation, aiding in the construction of the Warsaw Centre for People with Intellectual Disabilities.

The Group also continued its long-standing support of arts and music, sponsoring many cultural events. Deutsche Bank Polska S.A. has for ten years been organising the Deutsche Bank Invites concert cycle; three concerts were organised in 2017 as part of the initiative. First two in May, one featuring Suzanne Vega, who sang for Warsaw audience in Palladium,

and one featuring Ive Mendes, who performed in the NOSPR concert hall in Katowice. In October, in the Warsaw Philharmonic Hall, the Raz Dwa Trzy band performed songs from their cult album Raz Dwa Trzy – Młynarski, a tribute to recently deceased Wojciech Młynarski. In recent years, artist performing under the Deutsche Bank Invites banner included Branford Marsalis, Chick Corea, Herbie Hancock, Marcus Miller, Chis Botti, Michael Bublé, Leonard Cohen, Joe Cocker, Ana Moura and Mariza. Almost 50 concerts have been organised under the Deutsche Bank Invites initiative to date.

In 2017, at the National Art Gallery Zachęta, for the eighth time, one of the most important prizes for Polish contemporary art was awarded. Ms Honorata Martin was the first-prize winner of the Spojrzenia 2017 – Nagroda Deutsche Bank (Views – Deutsche Bank Award) competition. The second prize went to Przemek Branas. The project, since 2003 under the Bank's patronage, supports the development of the young Polish art, by selecting the best artistic attitudes and promoting the best young artists in Poland and abroad.

In 2017, the Deutsche Bank Polska Group launched a new series of events: Deutsche Bank Nauki Mistrzów (Deutsche Bank – Masters' Teachings), designed as interviews with prominent representatives of the academic, cultural, sports and politics communities. Two meetings, devoted to 'Youth' and 'Success', were attended by almost 600 Bank clients and partners. The interviewees included Professor Magdalena Środa, Dr Ewa Woydyłło, Czesław Lang, Robert Biedroń and Jerzy Owsiak. The media partner of the event was the Forbes magazine.

In 2017, the Deutsche Bank Polska Group continued sponsoring a series of golf tournaments played since 2004. Initially, tournaments were organised as Deutsche Bank Pro-Am Tour. In 2012, they acquired an international dimension under the auspices of Pro Golf Tour. In 2013–2014, the final event of that European series was the Deutsche Bank Polish Masters, bringing together the best European golfers of the Pro Golf Tour series. Since 2015, Deutsche Bank Polska has returned to the format under which best Polish amateurs compete for an invitation to foreign tournaments. Ten qualifying events, more than 1,200 players, 500 viewers at the final event, transmissions on Golf Channel and Polsat News – these figures summarise the last year's Deutsche Bank Polish Masters. Deutsche Bank Polska S.A. also acted as a partner for a number of prestigious business events. For the fifth time it was a partner to the Visionaries competition organised by the Dziennik Gazeta Prawna daily, which rewards leading polish and international business figures who bravely implement innovative ideas. The official Wizjonerzy (Visionaries) statuettes award ceremony takes place during the European Economic Forum in Katowice.

In 2017, Deutsche Bank Polska S.A. was involved in the SME Development Support Academy, the project which was carried out jointly with the media partner (Puls Biznesu) and expert patrons (the BGK and BIG banks, and the National Centre for Research and Development). Conferences in various Polish cities took place under the project. The objective of the project was to familiarise entrepreneurs with opportunities to finance growth and with instruments supporting optimisation of various intra-company processes.

DB Securities S.A.

DB Securities S.A. is a brokerage house, wholly owned by Deutsche Bank Polska S.A. The brokerage house conducts its activities pursuant to the Act on Trading in Financial Instruments, and is supervised by the PFSA. DB Securities S.A. is a member of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), as well as a member of the Polish Chamber of Brokerage Houses, which represents the interests of its members (brokerage houses and offices), before various stakeholder groups. It also develops ethical standards in the form of the Code of Best Practice for Brokerage Houses.

The business of DB Securities S.A. includes:
- accepting and transferring orders to buy and sell financial instruments, and execution of the orders on behalf and for the account of the client,
- operating securities accounts and the related cash accounts,
- offering financial instruments.

According to the communication published by Deutsche Bank Polska S.A. on December 14th 2017, DB AG announced the conclusion of the agreement for the sale to Bank Zachodni WBK S.A. ("BZ WBK") of a part of the retail and business banking in Poland, including DB Securities S.A. The portfolio of housing and mortgage loans denominated in foreign currencies was excluded from the transaction. The purpose of the transaction is for the Bank to continue to focus on selected business areas and simplify the organisational structure. BZ WBK is a company of the Santander Group, whose strategic shareholder is Banco Santander S.A. The transaction is conditional upon approval by the PFSA, other regulatory approvals, corporate approvals and the fulfilment of other conditions precedent. The parties plan to finalise the transaction in the fourth quarter of 2018.

Having sold its PCB business line, Deutsche Bank Polska S.A. will continue to operate in the CIB business line in Poland. Thus, the Bank will continue to provide banking services to polish and foreign corporate clients, financial institutions and government agencies. It will also continue to provide services to customers with housing and mortgage loans denominated in foreign currencies.

Deutsche Bank Polska S.A. will cooperate with clients, regulators, employees and other stakeholders towards efficient execution of the transaction.

Key non-financial indicators related to the operations of the Deutsche Bank Polska Group

Presented below is a set of key non-financial indicators related to the Group's current operations. These indicators are classified according to the risks regarded as relevant to the Group's operations.

risk	description of the performance indicator
credit risk	defined criteria for counterparty risk assessment
credit risk	identification of exposures at risk of impairment
credit risk	regular review and approval of the institution's risk appetite
credit risk	regular monitoring of the portfolio to ensure an appropriate level of diversification, with particular focus on large exposures
credit risk	regular review and validation of concentration limits set for a counterparty or a group of connected counterparties
credit risk	regular review and approval of contingency plans and stress testing scenarios
credit risk	regular review and approval of the internal capital estimation methodology
operational risk	ensuring regular reporting of any irregularities identified to the competent governing bodies of the Bank
operational risk	regular review and approval of the process of recording events which may cause potential financial losses
operational risk	review and approval of new product initiatives
operational risk	regular review and assessment of the controls in place, in particular controls in the area of on-going verification and testing
operational risk	ensuring that the Bank operates in the three line of defence model
operational risk	regular review and approval of the institution's risk appetite for operational risk
operational risk	having a standardised record of operational events, including resolution methods and lessons learned
operational risk	regular review and verification of key risk indicators (KRIs) and key performance indicators (KPIs)
operational risk	regular risk self-assessment process
market risk	regular assessment and validation of the value at risk (VaR) model for interest rate and foreign exchange risks
market risk	regular review and approval of stress test scenarios in place for interest rate and foreign exchange risks
market risk	regular review and validation of the interest rate risk analysis process for banking book exposures
liquidity risk	regular review and approval of stress test scenarios for liquidity risk
liquidity risk	regular review and assessment of financing sources to ensure proper time configuration of cash flows
liquidity risk	maintaining a stable level of liquid assets, adjusted to the market and financial position of the Bank
liquidity risk	maintaining liquidity at a level allowing the Bank to pay its liabilities in a timely manner
liquidity risk	regular review and approval of the institution's risk appetite for liquidity risk
liquidity risk	regular review and validation of liquidity position reporting systems, monitoring limits, liquidity stress tests and early warning indicators
liquidity risk	regular review and approval of the liquidity contingency plan
reputational risk	verification of solutions proposed to clients, so that they are acceptable to both parties of the relationship
reputational risk	analysis of the appropriateness of solutions supporting foreign currency borrowers
reputational risk	analysis and regular reporting of clients' complaints, in particular with regard to the identification of the most problematic areas, together with proposed solutions

reputational risk	ensuring that clients and stakeholders are promptly notified about important events related to the Bank
reputational risk	regular and timely publication of financial statements on the Bank's website
reputational risk	ensuring that corporate communication takes place through a designated unit of the Bank
reputational risk	recording approvals granted by the Bank's designated unit for public appearances as a speaker or panelist
strategic and business risk	regular review and assessment of macroeconomic information through a designated function at the Bank
strategic and business risk	ensuring regular reporting of key macroeconomic information to the competent governing bodies of the Bank
strategic and business risk	ensuring regular reporting and monitoring of the Bank's performance by the competent governing bodies of the Bank, in particular by the Management Board and theSupervisory Board
strategic and business risk	regular review and approval of stress test scenarios in place, with particular focus on changing macroeconomic conditions
strategic and business risk	review and approval of new product initiatives
strategic and business risk	monitoring and regular assessment of human resources in order to define the Bank's staffing needs
strategic and business risk	monitoring and assessment of the Bank's IT environment in order to determine the need for system changes and updates
model risk	regular review and validation of models applied by particular units of the Bank
model risk	ensuring that models are reviewed and assessed by a specialised committee of the Bank
collateral residual risk	regular review and assessment of the model contracts used for the establishment of collateral
collateral residual risk	ensuring approval by competent units (including the legal unit) of the use of a non-standard model contract to establish collateral
collateral residual risk	ensuring the process of regular monitoring and valuation of collateral held
bancassurance risk	regular verification and assessment of compliance with the PFSA guidelines on insurance products
risk of excessive leverage	ensuring the process of regular reporting on the Bank's leverage

Description of social, employee, environmental, human rights and anti-corruption policies followed by the Group, and description of outcomes of the implementation of those policies

The Deutsche Bank Polska S.A. Capital Group manages various risks, in particular those which are deemed material in its operations. The assessment of the materiality of risks is a formalised process, carried out with the participation of competent units of the Bank at least once a year. In considering the materiality of a specific risk, various factors are taken into account, including, but not limited to, the impact of that risk on the Group's operations.

The following risks have been identified as material in the Group's operations: credit risk, operational risk, market risk, business risk, liquidity risk, model risk, reputational risk, bancassurance risk, risk of excessive leverage and collateral residual risk.

The Group manages the aforementioned risks taking into account both social and environmental aspects. Key risks associated with these aspects include:
— non-compliance of products or services offered by the Bank with the applicable laws, including misselling,
— mislabelling of products or services,
— unauthorized access to clients' funds through the electronic banking system,
— outsourcing.

However, an analysis confirmed that the Group's impact on the environment is negligible, primarily due to the object of the Group's business.

As regards social aspects, the Group already has solutions in place to ensure that they are taken into account in its operations on an ongoing basis, mainly through:
— a transparent and clear complaint process – anyone who is not satisfied with the way Deutsche Bank Polska S.A. operates may file a complaint through various channels of communication, including the Deutsche Bank Polska S.A. website or by telephone. The Bank is deeply committed to providing its clients with complete and comprehensive information, sent within the statutory deadlines. In addition, the client has the option to resolve any disputes out of court.

  The identification of key issues raised in the complaints, as well as the manner in which they are handled, are regularly discussed by the competent committees of Deutsche Bank Polska S.A.

  Complaint statistics for 2017 are presented in the table below.

Total number of complaints	13,730
Number of appeals against replies to complaints	1,433
Number of appeals to regulatory authorities (including in particular: the Polish Financial Supervision Authority, Financial Ombudsman, Polish Office of Competition and Consumer Protection)	144
Percentage of accepted complaints (28.72%)	3,943

— commitment to employee ethics – Deutsche Bank Polska S.A. has implemented and followed the "Code of Conduct and Ethics for the Deutsche Bank Group". This regulation first points to the guiding principle that should be followed by Deutsche Bank Polska S.A. and all its employees, i.e. putting the customer first. This is followed by a discussion of all values and beliefs that are key to ethical conduct: credibility, sustainability, innovation, discipline and partnership. Each of these rules is described in detail, along with a description of responsibilities arising from it. Since these rules are very general by nature, the regulation also contains a set of questions that all employees should ask themselves in order to determine whether their acts or omissions violate these rules in any way.

To ensure that these rules are applied as fully and effectively as possible, the Parent has implemented additional solutions and mechanisms, such as:

- reporting of infringements – Deutsche Bank Polska S.A. has a policy in place under which an employee, if they become aware of an infringement of the Code, but also of any applicable laws, regulations, policies or procedures of Deutsche Bank Polska S.A., may report the infringement through a special, independent and autonomous communication channel for anonymous reporting,
- validation process – Deutsche Bank Polska S.A. has implemented a dedicated tool in which an employee must confirm, at least once a year (and in the case of new employees – upon taking up employment), that they are familiar with the duties and limitations related to personal transactions and additional operations (activities),
- training – Deutsche Bank Polska S.A. attaches great importance to constantly raising employee awareness which is reflected in its intensified training activities. Employees are regularly enrolled in the training sessions on ethics and compliance in general, held mainly as e-learning sessions. Each training session ends with an aptitude test to ensure that the participants understand and comprehend the learning content.

— anti-corruption measures – anti-corruption matters have been delegated to a dedicated unit reporting directly to the President of the Bank's Management Board. Within its area of responsibility, the unit develops appropriate regulations and has access to appropriate IT tools to support this process. One of these tools focuses on the subject of gifts, business events and promotional events. Before attending any such event, as well as before giving or receiving any gift, all employees are required to submit an appropriate report for review and approval. This helps to ensure that no action taken by Deutsche Bank Polska S.A. is aimed at achieving a direct short-term financial gain and that its operations are not used by third parties for activities that could expose Deutsche Bank Polska S.A. to regulatory or reputational risks.

An important change in the area of counteracting corruption will be the Act on Transparency of Public Life, which is currently in the drafting phase. Deutsche Bank Polska S.A. monitors the progress of its implementation on an ongoing basis and is preparing for its provisions, in particular as regards the protection of whistleblowers and implementation of relevant anti-corruption clauses in its agreements with existing and future counterparties.

Ownership structure

Ownership structure

As at December 31st 2017, the Bank's sole shareholder was Deutsche Bank AG of Frankfurt am Main, Germany, which, in accordance with the information known to the Bank, held 100.00% of the share capital and total voting rights at the Bank's General Meeting.

Shareholder	Number of shares held	Interest in the share capital (%)	Number of voting rights at GM	Share in total voting rights at GM
Deutsche Bank AG	2,651,449,384	100%	2,651,449,384	100%

On April 20th 2018, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, recorded an entry concerning the increase of the share capital by PLN 40 million as a result of the XXII issue of 40,000,000 ordinary shares with a par value of PLN 1 per share and issue price of PLN 5 per share. The shares were acquired by the existing shareholders, i.e. Deutsche Bank AG.

Signatures of all Management Board Members

(Signature)	(Signature)	(Signature)
Krzysztof Kalicki President of the Management Board	Leszek Niemycki Vice President of the Management Board	Zbigniew Bętkowski Member of the Management Board
(Signature)	(Signature)	(Signature)
Piotr Gemra Member of the Management Board	Tomasz Kowalski Member of the Management Board	Kamil Kuźmiński Member of the Management Board
(Signature)	(Signature)	(Signature)
Piotr Olendski Member of the Management Board	Piotr Pawłowski Member of the Management Board	Magdalena Rogalska Member of the Management Board

Warsaw, June 15th 2018

03 -

Consolidated financial statements

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Consolidated statement of profit or loss

Consolidated statement of profit or loss for 2017 and 2016

in PLN thd	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Interest income	[4]	994,637	944,320
Interest expense	[5]	(291,213)	(245,348)
Net interest income		703,424	698,972
Fee and commission income	[6]	333,217	342,092
Fee and commission expense	[7]	(54,758)	(67,005)
Net fee and commission income		278,459	275,087
Dividend income		12	13
Net gain/loss on instruments at fair value through profit or loss and revaluation	[8]	76,048	116,298
Net gain/loss on sale of financial instruments available for sale	[9]	-	44,395
Other income	[10]	7,038	13,405
Impairment losses on financial assets	[11]	(58,932)	(167,244)
Administrative expenses	[12]	(816,377)	(791,068)
Depreciation and amortisation	[13]	(30,298)	(33,647)
Other expenses	[14]	(99,814)	(10,691)
Operating profit/loss		59,560	145,520
Profit before tax		59,560	145,520
Income tax	[15]	(53,911)	(53,464)
Net profit for period		5,649	92,056
– attributable to owners of the Bank		5,649	92,056
– attributable to non-controlling interests		-	-

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2017 and 2016

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Net profit for period	5,649	92,056
Other comprehensive income, including:	12,655	(32,227)
Items which will not be reclassified to profit or loss	-	-
Items which may be reclassified to profit or loss at a later date:	12,655	(32,227)
Net gain/loss on measurement of securities available for sale	15,623	(39,786)
Deferred tax on securities available for sale	(2,968)	7,559
Other items of comprehensive income	-	-
Total comprehensive income	18,304	59,829
– attributable to owners of the Bank	18,304	59,829
– attributable to non-controlling interests	-	-

The notes on pages 77-176 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

Assets

in PLN thd	Note	Dec 31 2017	Dec 31 2016
Cash and transactions with Central Bank	[17]	974,588	1,053,417
Deposits with other banks, and loans and advances to other banks	[18]	820,379	851,847
Loans and advances to customers	[19]	30,236,599	30,512,017
Financial assets at fair value through profit or loss	[20]	67,203	138,674
Financial assets held as investments	[21]	7,624,159	6,799,137
Property and equipment	[22]	16,090	35,912
Intangible assets	[23]	60,481	105,198
Current tax assets	[24]	1,231	9,333
Deferred tax assets	[25]	25,267	18,764
Other assets	[26]	167,946	163,467
Total assets		39,993,943	39,687,766

Liabilities

in PLN thd	Note	Dec 31 2017	Dec 31 2016
Amounts due to other banks	[27]	13,327,508	15,622,115
Amounts due to customers	[28]	20,340,663	17,797,700
Financial liabilities at fair value through profit or loss	[29]	112,227	89,532
Provisions	[30]	25,463	25,750
Current tax liabilities	[31]	30,779	-
Other liabilities	[32]	455,248	358,019
Subordinated liabilities	[33]	1,493,155	1,583,873
Total liabilities		35,785,043	35,476,989

Equity

in PLN thd	Note	Dec 31 2017	Dec 31 2016
Share capital	[34]	2,651,449	2,651,449
Share premium	[35]	525,366	525,366
Revaluation reserve	[35]	10,624	(2,031)
Retained earnings	[35]	1,021,461	1,035,993
Total equity		4,208,900	4,210,777
Total equity and liabilities		39,993,943	39,687,766

Statement of changes in consolidated equity

Changes in the period January 1st 2017 – December 31st 2017

in PLN thd	Share capital	Share premium	Revaluation reserve	Retained earnings	Total equity
As at Jan 1 2017	2,651,449	525,366	(2,031)	1,035,993	4,210,777
Share issue	-	-	-	-	-
Other increases	-	-	-	-	-
Measurement of net financial assets available for sale	-	-	12,655	-	12,655
Other revaluation reserve	-	-	-	-	-
Profit/(loss) for the year	-	-	-	5,649	5,649
Dividends paid	-	-	-	(20,181)	(20,181)
Other changes	-	-	-	-	-
As at Dec 31 2017	2,651,449	525,366	10,624	1,021,461	4,208,900

Changes in the period January 1st 2016 – December 31st 2016

in PLN thd	Share capital	Share premium	Revaluation reserve	Retained earnings	Total equity
As at Jan 1 2016	2,651,449	525,366	30,196	1,023,122	4,230,133
Share issue	-	-	-	-	-
Other increases	-	-	-	-	-
Measurement of net financial assets available for sale	-	-	(32,227)	-	(32,227)
Other revaluation reserve	-	-	-	-	-
Profit/(loss) for the year	-	-	-	92,056	92,056
Dividends paid	-	-	-	(78,842)	(78,842)
Other changes	-	-	-	(343)	(343)
As at Dec 31 2016	2,651,449	525,366	(2,031)	1,035,993	4,210,777

The change in the Revaluation reserve column results from the settlement of the Visa Europe Limited acquisition transaction by Visa Inc.

Consolidated statement of cash flows

Consolidated statement of cash flows

in PLN thd	Note	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Operating activities			
Net profit		5,649	92,056
Adjustments		792,775	16,981
Depreciation and amortisation		30,298	33,647
Interest on loans and advances from other banks		54,020	22,845
Gain/loss on investing activities		(86,185)	(171,962)
Total corporate income tax in the statement of profit or loss		53,911	53,464
Income tax expense		(32,602)	(70,272)
Change in deposits with other banks, and loans and advances to other banks		5,391	300,911
Change in financial assets at fair value through profit or loss		71,471	201,547
Change in financial assets held as investments		40,622	(147,663)
Change in loans and advances to customers		275,418	(851,810)
Change in other assets		3,623	7,214
Change in amounts due to other banks		(2,285,791)	(293,964)
Change in financial liabilities at fair value through profit or loss		22,695	(27,058)
Change in amounts due to customers		2,542,963	918,077
Change in provisions		(287)	(9,036)
Change in other liabilities		97,228	67,406
Other adjustments		-	894
Net cash from (used in) operating activities		798,424	109,037
Investing activities			
Acquisition of intangible assets and property and equipment		(41,573)	(47,017)
Disposal of intangible assets and property and equipment		213	269
Dividends received		12	13
Other investment expenditure		(59,443,835)	(73,671,673)
Redemption of and interest received on assets held as investments		58,755,588	72,923,910
Net cash from (used in) investing activities		(729,595)	(794,498)
Financing activities			
Increase in loans		-	1,581,800
Interest paid		(54,020)	22,845
Dividends paid		(20,181)	(78,842)
Decrease in loans		(99,534)	(505,466)
Net cash from (used in) financing activities		(173,735)	991,906
Increase/decrease in net cash		(104,906)	306,445
incl. exchange gains/(losses) on cash and cash equivalents		(34,826)	13,014
Net increase in cash and cash equivalents		(104,906)	306,445
Cash at beginning of period	[40]	1,899,873	1,593,428
Cash at end of period	[40]	1,794,967	1,899,873
Additional disclosures on operating cash flows			
Interests received		1,041,293	843,391
Interests paid		(253,350)	(228,266)

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The notes on pages 77-176 form an integral part of these consolidated financial statements.

1. General information on the Group

The Deutsche Bank Polska Group (the Group) comprises Deutsche Bank Polska S.A. (the Bank) as the Parent and DB Securities S.A. as the Bank's strategic subsidiary whose operations are complementary to the Bank's business profile (as specified in the Articles of Association). The parent and the ultimate parent of the Bank is Deutsche Bank AG, which prepares consolidated financial statements of the DB AG Group (the DB AG Group).

Deutsche Bank Polska S.A. – the Parent of the Group

Bank's name: Deutsche Bank Polska S.A. (dawniej Deutsche Bank PBC S.A.)
Registered office: ul. Lecha Kaczyńskiego 26, 00-609 Warszawa
PKD (Polish Classification of Business Activities): 6419 Z
Registration: District Court for the Capital City of Warsaw, 12th Commercial Division, entry number in the National Court Register: KRS 0000022493

Deutsche Bank PBC S.A. (the Bank) was established pursuant to Decision No. 62 by the President of the National Bank of Poland on the establishment of Bank Współpracy Regionalnej Spółka Akcyjna of Kraków, dated July 26th 1991. The Bank was entered in the National Court Register (KRS) in Kraków on June 23rd 2001 by the District Court for Kraków-Śródmieście, 11th Commercial Division of the National Court Register, under the name of Bank Współpracy Regionalnej S.A. of Kraków.

On January 31st 2014, the District Court for the Capital City of Warsaw registered the merger of Deutsche Bank Polska S.A. and Deutsche Bank PBC S.A. in the National Court Register. Since February 1st 2014, the merged Bank has continued to operate as Deutsche Bank Polska S.A. (formerly Deutsche Bank PBC S.A., hereinafter referred to as „the Bank").

As at December 31st 2017 and as at the end of the preceding year, the Parent's parent was Deutsche Bank AG of Frankfurt am Main, Germany, which acted as the ultimate parent.

In the period covered by these financial statements and as at the date of signing these financial statements the Management Board of the Parent consisted of the following members:
— Krzysztof Kalicki – President of the Management Board
— Leszek Niemycki – Vice-President of the Management Board
— Zbigniew Bętkowski – Member of the Management Board
— Piotr Gemra – Member of the Management Board
— Tomasz Kowalski – Member of the Management Board
— Kamil Kuźmiński – Member of the Management Board
— Magdalena Rogalska – Member of the Management Board
— Piotr Olendski – Member of the Management Board
— Piotr Pawłowski – Member of the Management Board.

According to its Articles of Association, the Bank's principal business activity is the provision of banking services in domestic and foreign transactions and, to the extent permitted by law, other services to natural persons, legal persons, as well as corporations and unincorporated organisational units and international organisations. The Bank also engages in investment banking activities.

The Bank was established for an indefinite term.

According to its Articles of Associations, the Bank's principal business activity includes:
— Accepting deposits payable on demand or on a specified maturity date and operating related deposit accounts,
— Operating other bank accounts,
— Performing banking cash settlements,

- Issuing payment cards and handling transactions executed with such cards,
- Granting credit facilities and cash loans,
- Cheque and bill-of-exchange transactions,
- Purchasing and selling debt claims,
- Issuing sureties and bank guarantees,
- Foreign-exchange transactions,
- Safekeeping of valuables and securities and renting safe deposit boxes,
- Issuing bank securities and trading in bank securities,
- Performing activities ordered by clients in connection with security issues ,
- Executing forward and futures transactions,
- Performing banking activities ordered by other banks.

Deutsche Bank Polska S.A. also conducts brokerage activities through a separate organisational unit, the Brokerage Office, and as an agent of DB SECURITIES S.A., an investment firm. The brokerage activities conducted by Deutsche Bank Polska S.A. involve in particular accepting and forwarding orders to buy or sell financial instruments, offering financial instruments, as well as investment advisory services in the area of securities trading and discretionary management of financial instrument portfolios.

DB Securities S.A. – the subsidiary

As at the reporting date, the Bank held 100% of shares in its subsidiary DB Securities S.A. and consolidated it with the full method.

Under the terms of an authorisation issued by the Polish Securities and Exchange Commission (received on August 7th 2001), DB Securities S.A.'s principal business activity includes:
- Offering securities in primary trading or initial public offerings,
- Purchasing and selling securities for third party's account,
- Operating securities accounts and the related cash accounts,
- Intermediation in buying and selling securities traded on foreign regulated markets,
- Undertaking actual and legal actions related to services to investment fund management companies, investment funds, pension management fund companies and pension funds
- Undertaking actions related to trading in property rights.

2. Transaction agreement regarding the purchase by Bank Zachodni WBK S.A. a separate part of Deutsche Bank Polska S.A. and DB Securities S.A. shares

On December 14, 2017, Deutsche Bank AG (DB AG) signed with Bank Zachodni WBK S.A. and with Banco Santander S.A. transactional agreement regarding the acquisition by Bank Zachodni WBK SA of a separated part of Deutsche Bank Polska S.A. (DBPL), consisting of retail banking, private banking, business banking, SMEs and shares of DB Securities S.A. The scope of the transaction excludes corporate and investment banking as well as currency mortgage loans that will remain in the DBPL (non-separated part).

On the same day, Deutsche Bank AG (DB AG) together with DBPL concluded with Bank Zachodni WBK S.A. and with Banco Santander S.A. the preliminary split agreement (pre-demerger agreement) defining the terms of cooperation between BZ WBK and DBPL in order to execute the transaction.

Before the division, Bank Zachodni WBK S.A. will acquire DBPL shares from DB AG representing 10% of votes at the General Meeting of Shareholders of DBPL. After purchasing the shares, BZWBK and DBPL will submit applications for the registration of the division to the appropriate registration courts.

The demerger will be based on the following principles:
— DBPL will be a divided company and BZ WBK will be the acquiring company,
— The share capital of DBPL will be reduced by an amount equal to at least the total nominal value of the shares acquired by Bank Zachodni WBK S.A. On the day of registration of the above reduction of share capital all shares acquired by BZ WBK will cease to exist, and DB AG will become the sole shareholder of DBPL.
— In exchange for the transfer to Bank Zachodni WBK S.A. business separated by way of division, DB AG will receive a specified number of the Bank's shares (shares from the demerger) as at the split day, calculated in accordance with the agreed formula, which will be the basis for determining the parity in the demerger plan. The demerger day will be the day of registration of the Bank's capital increase through the issue of shares from the demerger.
— On the day of the split, the separated business will be transferred to BZ WBK, and the non-separated business will remain in the DBPL. Assets and liabilities of DBPL will be appropriately allocated between separated and non-separated business based on the distribution principles specified in the transaction agreement and the division plan.

The initial price for the separated part is PLN 1 289 799 000. It was determined in relation to the capital requirement for the risk-weighted assets of the separated business assets (excluding DB Securities SA shares), based on financial forecasts on a day close to the date of signing the transaction agreement. Price for DB Securities S.A. (included in the above-mentioned amount) was determined in relation to the net asset value of the company.

The payment of the transaction price will be made in part:
— in cash by paying the price for purchased shares (equivalent to 20% of the initial price for a separate business);
— in the form of newly issued BZWBK shares as part of the division representing approximately 2.7% of the share capital of BZWBK (equivalent to 80% of the initial price for separated business).

After signing the transaction agreement the initial purchase price will be adjusted based on changes in the value of relevant assets and liabilities arising between the date of signing the transaction agreement and the division day.

The transaction is conditional on obtaining required regulatory approvals (including the Polish Financial Supervision Authority and the President of the Office of Competition and Consumer Protection) and adopting relevant resolutions by the Bank's GM and DBPL, signing the Demerger Plan and meeting certain operational conditions. It is assumed that the transaction will be completed in the fourth quarter of 2018. Migration of IT systems is expected immediately after closing the transaction.

The conclusion of the contract does not result in the acquisition of control or significant influence on Deutsche Bank Polska S.A., nor does it create obligations that would require disclosure.

Estimated values of the main balance sheet items of the separated part of the Parent Entity in the pro-forma system are as follows:

in PLN m	
Loans and advances to customers	19,304.10
Liabilities	12,024.10
Equity	2,011.50
Financing from the parent company	5,268.40

3. Significant accounting policies

a) Statement of compliance

These annual consolidated financial statements of the Deutsche Bank Polska Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union and other applicable regulations.

The financial year comprises 12 months ending December 31st.

These financial statements of the Group were authorised by the Bank's Management Board on June 15th 2018, and will be finally approved by the General Meeting.

b) Going concern assumption

These financial statements of the Group have been prepared under the assumption that the Group companies will continue as going concerns, without any material limitation to the scope of their operations, in the foreseeable future, that is for at least 12 months from the reporting date.

After the settlement of the transaction referred to in note 2, the Parent Company will continue its operations in the area of corporate and investment banking as well as servicing the remaining portfolio of foreign currency mortgage loans.

c) Basis of preparation

The Group's consolidated financial statements for the period from January 1st to December 31st 2017 have been prepared in the Polish złoty (PLN), rounded off to the nearest thousand złoty.

In these financial statements, the fair value concept was applied to financial assets and financial liabilities at fair value through profit or loss, including derivative instruments and financial assets classified as available for sale, other than those for which the Group is unable to make a reliable estimate of the fair value. The other financial assets and financial liabilities (including loans and advances) are disclosed at amortised cost determined with the use of the effective interest rate less impairment losses or at cost less impairment losses.

In the period covered by these financial statements, the Group did not make any material changes to the accounting policies compared with those applied in the previous reporting period. The Bank's accounting policies account for the requirements under all of the EU-endorsed International Accounting Standards, International Financial Reporting Standards and the related interpretations.

In these financial statements, the Group has not applied changes to the standards and interpretations which await endorsement by the European Union, or have been endorsed by the European Union but are or will be effective after the reporting date. The Group has not used the option of early application of these standards and interpretations.

The new standards and amendments to standards and interpretations listed below are not yet effective for annual periods ended December 31st 2017 and have not been applied in these financial statements. The Group intends to apply them to the respective periods for which they will be effective for the first time.

Standards and Interpretations endorsed by the EU
Application of new and amended standards and interpretations:
In these consolidated financial statements, the following new and amended standards and interpretations effective as of January 1st 2017 were applied for the first time:

1. Amendments to IAS 7: Disclosure initiative
   The amendment to IAS 7 is effective for annual periods beginning on January 1, 2017 and introduces an obligation to disclose the reconciliation of changes in liabilities arising from financing activities.

   Reconciliation of changes in liabilities resulting from financing activities were presented in Notes 27 and 33.

2. Amendments to IAS 12 regarding the recognition of deferred tax assets from unrealized losses
   The amendment to IAS 12 clarifies the requirements for recognition of deferred tax assets from unrealized losses related to debt instruments. The entity is required to recognize deferred tax assets against unrealized

losses when they result from discounting the cash flows related to the debt instrument using the market interest rate; also when it intends to keep the debt instruments up to maturity, and when it receives a nominal amount there will be no obligation to pay taxes. Economic benefits reflected in the deferred tax asset result from the possibility of obtaining by the holder of the above-mentioned tax. instruments of future profits (by reversing the effect of discounting) without having to pay taxes.

The change did not have a material impact on the financial statements.

3. Annual IFRS Improvements 2014 – 2016

The International Accounting Standards Board published in December 2016 "Annual Changes to IFRS 2014-2016", which change, among others, IFRS 12 "Disclosure on interests in other entities". The amendments contain explanations regarding the scope of disclosures and are valid for annual periods beginning on January 1st, 2017.

The application of the changes did not have a significant impact on this financial.

Published standards and interpretations which are not yet effective and have not been adopted by the Group early

In these consolidated financial statements, the Group did not opt for early application of the following published standards, interpretations or amendments to existing standards prior to their effective date:

1. IFRS 9, Financial Instruments

IFRS 9 replaces IAS 39. The standard is effective for annual periods beginning on January 1st, 2018 or after that date.

The standard introduces one model providing for only two categories of classification of financial assets: measured at fair value and measured at amortized cost. The classification is made at the moment of initial recognition and depends on the financial instruments management model adopted by the entity and the characteristics of contractual cash flows from these instruments.

IFRS 9 introduces a new model in the area of determining impairment losses – a model of expected credit losses.

Most of the requirements of IAS 39 regarding the classification and measurement of financial liabilities have been transferred to IFRS 9 in an unchanged form. The key change is the requirement for entities to present in other comprehensive income the effects of changes in own credit risk from financial liabilities designated for measurement at fair value through profit or loss.

In the area of hedge accounting, the changes were aimed at adjusting the hedge accounting to risk management more closely.

The Group has applied IFRS 9 from January 1st, 2018.

Area of changes

The IFRS 9 approved by the Regulation of the European Commission No. 2016/2067 / EU of 22 November 2016 is mandatory for financial statements drawn up for financial periods beginning on and after January 1, 2018 with the exception of insurance companies that may apply the standard from January 1st, 2021. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", however, giving reporting entities the option to stick to the provisions regarding hedge accounting under IAS 39.

The main areas of the new standard, changing the previously applied accounting principles are:
— classification and measurement of financial instruments,
— recognition and calculation of impairment and
— hedge accounting.

While the first two apply to Deutsche Bank Polska SA, hedge accounting is not subject to the Bank's policy and has no impact on the accounting policy or reporting methods.

`In the Group, the project ensuring compliance with the IFRS 9 standard was established in February 2016. The project on the part of the Parent Entity involved the departments responsible for accounting policy, credit risk policy, reporting, management information, taxes, revaluation write-offs for financial instruments and IT systems. In addition, sales and operational departments, as well as credit process support departments or monitoring client credit situations, including restructuring and debt collection departments, were also involved in the project.

Classification and measurement of financial instruments

IFRS 9 changes the categories appearing in IAS 39 until the end of 2017, in particular it removes the categories of instruments held to maturity and available for sale and replaces them with new ones.

The classification of financial assets in accordance with IFRS 9 is dependent on the business model of financial asset management and the result of the SPPI (Solely Payments of Principle and Interest) test. According to the standard, financial instruments are classified, based on the above tests, into three groups:
— financial assets at fair value through profit or loss (FVPL),
— financial assets measured at fair value through other comprehensive income (FVOCI) or
— financial assets measured at amortized cost (AC).

The business model defines the adopted strategy of the Parent Company describing how Deutsche Bank Polska S.A. manages its financial assets, in particular what is the intention of the Bank when purchasing these assets or selling credit products. The categories adopted in accordance with IFRS 9 may be as follows:
— assets held to sell;
— held to collect & sell assets;
— assets held to collect.

Because the valuation category depends on the business model, the held-to-sale business model results in the classification of assets into the FVPL category, while the mixed model, when the Bank intends to both receive contractual cash flows from a given asset and make its sale, leads to classification of assets to the FVOCI category. Finally, assets held to receive contractual cash flows may be measured at amortized cost (AC), if the sale of such assets is incidental and this is not the main intention and the assets pass the SPPI test.

Therefore, the Group analyzed its products for cash flow tests (SPPI) at the time of application of IFRS 9 for the first time. This test assumes a number of questions, about contractual provisions or practices used in relation to such issues as interest rate formation, commission charged, and use of collateral. The test is carried out only for assets originally classified in the held-to-collect business model, and the positive test result entitles you to classify an asset measured at amortized cost.

At Deutsche Bank Polska S.A., most of the assets were classified as assets measured at amortized cost. Sales analysis has shown that it is incidental and small-sized, and is made for optimal risk management and as part of the debt collection policy. The Bank's strategy assumes keeping assets to maturity and receiving benefits from cash flows.

The exceptions are debt securities and treasury bills, which were classified by the Bank as a group of assets valued at fair value through other comprehensive income (FVOCI).

Assets in the Deutsche Bank Polska portfolio were also positively tested by the SPPI test, without showing any negative claims that only the proceeds from cash flows would be obtained from these assets.

The exception here are two products, which due to the multipliers in the construction of interest rates did not pass the test: credit card and overdraft. However, the Bank considers these assets at amortized cost. Due to the continuous process of shaping the market practice, as to the interpretation of the standard for products with

multiplier records, the above approach may change in the future, which may require the valuation of credit card portfolios and overdraft limits offered to retail banking customers in value fair value by the financial result.

The IFRS 9 standard also introduces a new approach to calculating exposure values – the so-called Gross Carrying Amount. According to the standard, it is the sum of capital (required / not required) and interest (accrued / due) together with the adjustment of the effective interest rate. It is significant that Gross Carrying Amount includes interest in its value, irrespective of whether the exposure has an identified impairment or not, whereas in the IAS 39 standard, by the end of 2017, interest was included in the exposure value only until the exposure was identified loss of value, and after this period, interest accrued by the Bank did not constitute either the Bank's income or increase the exposure itself.

Recognition and calculation of impairment losses

The IFRS 9 standard introduced a new approach to estimating losses due to credit exposures measured at amortized cost. This approach is based on the determination of expected losses as opposed to the model applied so far resulting from IAS 39, which is based on the concept of incurred losses.

In addition, the new standard makes the method of recognizing losses expected from changing the level of risk dependent on the moment the exposure is recognized. Impairment is measured as 12-month or lifetime-expected losses, and the horizon of measuring the expected loss depends on whether there has been a significant increase in credit risk. And so the standard lists the three stages (in which it can be found):

1) Assets, the credit risk of which has not increased significantly since the day of the initial recognition – credit losses are counted within a 12-month horizon (Stage 1);
2) Assets for which a significant increase in risk has occurred since the recognition, but the event of default has not yet become probable. For such exposures, expected losses are recognized within the horizon of the remaining exposure time (Stage 2);
3) Assets with impairment triggers – assets for which default events have materialized (there are indications of impairment); credit losses are calculated over the entire life expectancy of the exhibition (Stage 3).

In order to identify the remaining premises of a significant increase in credit risk, Deutsche Bank Polska S.A. checks whether one of the following occurred:

- restructuring measures introducing for the debtor amenities facilitated by his difficult financial situation (forbearance),
- delay in repayment of principal or interest over 30 days,
- identified early warning signals as part of the monitoring process, indicating a significant increase in credit risk (the so-called Watchlist),
- a significant increase in the risk for a given exposure based on a comparison of probability curves of default in the horizon of the exposure to the date of the initial recognition and the reporting date.

The premise for the impairment of a credit exposure is, in particular:

- delay in repayment of materially significant amount of capital or interest longer than 90 days,
- deterioration in the crediting period of the debtor's economic and financial situation, expressed by being classified to a rating class or a risk class indicating a significant threat to debt repayment,
- concluding a restructuring agreement or applying a relief in repayment of debts, forced due to economic or legal reasons resulting from financial difficulties of the client (until the claim is recognized as healed),
- applying for the declaration of the debtor's bankruptcy, putting him in liquidation or initiating enforcement proceedings against him.

Deutsche Bank Polska S.A. for the purpose of estimating impairment losses, it continues to use its own estimates of risk parameters based on internal models, but has modified them to reflect the requirements of IFRS 9 (such as estimating parameters over the exposure life span or including future macroeconomic conditions). Expected credit losses are the product of the individual for each exposure of estimated PD, LGD and EAD parameters (expected value of exposure at the moment of impairment, taking into account the CCF parameter, i.e. the change of off-balance sheet exposure) and the final value of expected losses is the sum of losses expected in individual periods (depending on the basket in the horizon of 12 months or lifetime) discounted by the effective interest rate.

Impact of IFRS 9 on the financial position

The impact of the implementation of IFRS 9 on the classification and valuation of financial assets as at January 1st, 2018 is presented below (in PLN thousand):

Financial assets

Item in PLN thd	Measurement: – IAS 39	Measurement: – IFRS 9	Net carrying amount according to IAS 39	Impact of the adjustments resulting from the implementation of IFRS 9* Classification and measurement	Impact of the adjustments resulting from the implementation of IFRS 9* Impairment– impairment losses on interest on impaired exposures	Impact of the adjustments resulting from the implementation of IFRS 9* Impairment – other adjustments	Net carrying amount according to IFRS 9
Cash and cash balances with the Central Bank	Amortized cost	Amortized cost	974,588	-	-	(127)	974,461
Amounts due from banks	Amortized cost	Amortized cost	820,379	-	-	163	820,542
Loans and advances to customers	Amortized cost	Amortized cost	30,236,599	197,611	(165,597)	(72,468)	30,196,145
Available-for-sale investment securities	Fair value through OCI	Fair value through profit or loss	9,394	-	-	-	9,394
Available-for-sale investment securities	Fair value through OCI	Fair value through OCI	329	-	-	-	329
Available-for-sale investment securities	Fair value through OCI	Fair value through OCI	7,614,436	-	-	(542)	7,613,894
Total financial assets			39,655,725	197,611	(165,597)	(72,974)	39,614,764

* without the effect of deferred tax

The value of other items of financial assets presented in the statement of financial position did not change significantly as a result of the implementation of IFRS 9.

The impact of the implementation of IFRS 9 on the value of liabilities as at January 1st, 2018 (in PLN thousand) is presented below:

Liabilities

Item in PLN thd	Measurement IAS 37	Measurement IFRS 9	Net carrying amount according to IAS 37	"Impact of the adjustments resulting from the implementation of IFRS 9* Classification and measurement"	Impact of the adjustments resulting from the implementation of IFRS 9* Impairment	Net carrying amount according to IFRS 9
Provisions			18,102		2,718	20,820
Liabilities			18,102	-	2,718	20,820

* without the effect of deferred tax

As indicated in the classification and measurement section, the presented impact of the change in the principles of classification and measurement of financial assets should be treated as an overview due to the discrepancies at the moment of publication of this report regarding the impact of multiplier construction on the classification and measurement of financial assets other than instruments for marketing. In the case of valuation of financial asset portfolios containing a multiplier, the cumulative impact could differ from the impact presented above.

Impact of IFRS 9 on financial situation and capital adequacy

On the basis of Deutsche Bank Polska S.A. asset classification, changes in the method of calculating the exposure basis (WBB), as well as the modification of the calculation model for expected credit losses, the amount of write-downs increased from PLN 600.7 million as at December 31st, 2017, to PLN 839.3 million as at January 1st, 2018, out of which the effect of creating provisions for interest (change in the basis calculation method – Gross Carrying Amount) corresponds to PLN 165.6 million. Other changes are changes due to a change in the standard, calculation of expected losses in a 12-month or lifetime horizon, and taking into account the probability of default in future macroeconomic conditions when calibrating.

The Group decided that for the purposes of assessing capital adequacy, based on Article 1 paragraph 9 of Regulation (EU) 2017/2395 of the European Parliament and the Council of December 12th 2017 amending Regulation (EU) No. 575/2013, it will not apply a transitional period and it will recognize once the impact on capital related to the implementation of IFRS 9.

2. Amendments to IFRS 9: Right of early repayment with negative remuneration

The amendment to IFRS 9 is effective for annual periods beginning on or after January 1st, 2019, with the possibility of its earlier application. As a result of the amendment to IFRS 9, entities will be able to price financial assets with the so-called right to early repayment with negative remuneration at amortized cost or at fair value through other comprehensive income, if a specified condition is met – instead of making fair value through profit or loss .

The Group will apply the above changes from January 1st, 2019.

The Group is in the process of analyzing the change in the Standard and assessing the impact of the change.

As at the date of preparation of these separate financial statements, this change has not yet been approved by the European Union.

3. IFRS 15 Revenues from contracts with customers

IFRS 15 Revenues from contracts with customers is effective for annual periods beginning applies to an annual reporting period beginning on or after January 1st, 2018.

The principles set out in IFRS 15 will apply to all contracts resulting in revenue. The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the transaction price must generally be allocated to the separate elements. When the value of revenues varies for any reason, under the new standard the variable amounts must be recognized as revenues providing that it is highly probable that the recognition of the revenues will not be reversed in the future as a result of remeasurement. Additionally, according to IFRS 15 costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

The Group has applied IFRS 15 from January 1st, 2018.

The impact of the implementation of IFRS 15 on the financial position and own funds of the Group is not material due to the fact that it primarily offers financial instruments in the form of loans, whose revenue is recognized on the basis of the effective interest rate and the method of recognition and recognition of types of revenues covered the scope of IFRS 15 and the related costs, due to the contractual terms with clients, have not changed.

4. Clarifications to IFRS 15, Revenue from Contracts with Customers

Explanations to IFRS 15 "Revenue from contracts with customers" were published on April 12th, 2016 and apply to financial statements prepared after January 1st, 2018.

The amendments clarify main assumptions provided by the IFRS 15, among others: how to identify a separate obligation; how to determine whether a company is a principal (the provider of a good or service) or an agent; and how the revenue from granting a licence should be recognised.

In addition to the clarifications, the amendments include additional reliefs for a company when it first applies the new Standard.

The Group has applied Clarifications to IFRS 15 starting from January 1st, 2018.

5. IFRS 16 "Leases"

IFRS 16 „Leases” is effective for annual periods beginning on or after January 1st, 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset and liability due to payment obligation. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 largely repeats the provisions of IAS 17 regarding the accounting treatment of leasing by the lessor. Consequently, the lessor continues classification according to operational leasing and financial leasing and accordingly differentiates the accounting treatment.

The Group will apply IFRS 16 from January 1st, 2019.

6. IFRS 17 "Insurance Contracts"

IFRS 17 "Insurance Contracts" was issued by the International Accounting Standards Board on May 18th, 2017 and is effective for annual periods beginning on January 1st, 2021 or after that date.

The new IFRS 17 Insurance Contracts will replace the current IFRS 4, which allows for a variety of practices in the field of settlement of insurance contracts. IFRS 17 will fundamentally change the accounting for all entities that deal with insurance contracts and investment contracts.

The Group will apply IFRS 17 after its approval by the European Union.

The change will not have a material impact on the financial statements.

7. Amendments to IFRS 2: Classification and measurement of Share-based Payment

The amendments are effective for annual periods beginning on or after January 1st, 2018. The change introduces, among others guidelines for fair value measurement of liabilities for transactions based on shares settled in cash, guidelines for changing the classification from transactions based on shares settled in cash into equity-based transactions accounted for in equity instruments, as well as guidelines on the recognition of tax liabilities employee on account of transactions based on shares.

The Group will apply the above changes from January 1st, 2018.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

8. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

Amendments to IFRS 4 "Insurance Contracts" address the issue of the application of the new IFRS 9 "Financial Instruments". The published amendments to IFRS 4 supplement the options existing in the standards and aim to prevent temporary fluctuations in the performance of insurance sector entities in connection with the implementation of IFRS 9.

The Group has applied above amendments starting from January 1st, 2018.

The change will not have a material impact on the financial statements.

9. Applying Annual Improvements to IFRS 2014-2016

International Accounting Standards Board published in December 2016 “Annual Improvements to IFRSs 2014-2016” changing three standards: IFRS 12 – Disclosure of Interests in Other Entities, IFRS 1 – First-time Adoption of International Financial Reporting Standards and IAS 28 – Investments in Associates.

The amendments include clarifications and changes to the scope of standards, recognition and valuation and include terminology and editorial changes.

Amendments to IFRS 12 are effective for annual periods beginning on January 1st, 2017. Other changes are obligatory from January 1st, 2018.

The change will not have a material impact on the financial statements.

10. Amendments to IAS 40: Reclassification of investment properties

Amendments to IAS 40 specify the reclassification requirements for investment properties. The amendment is effective for annual periods beginning on or after January 1st, 2018.

The Group has applied above amendments starting from January 1st, 2018.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

11. Amendments to IAS 28 "Investments in Associates and Joint Ventures"

The change applies to annual periods beginning on January 1st, 2019 or after that date. Amendments to IAS 28 "Investments in associates and joint ventures" explain that in relation to long-term shares in an associate or joint venture that do not apply equity method, companies apply IFRS 9. In addition, the Board also published an example illustrating the application the requirements of IFRS 9 and IAS 28 for long-term shares in an associate or joint venture.

The Group will apply above amendments starting from January 1st, 2019.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

12. IFRIC 22: Foreign Currency Transactions and Advance Payments

IFRIC 22 provides accounting rules for transactions in which the entity receives or transmits advance payment in foreign currency. The guidelines are effective for annual periods beginning on or after January 1st, 2018.

The Group has applied above amendments starting from January 1st, 2018.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

13. IFRIC 23: Uncertainty related to the recognition of income tax

IFRIC 23 clarifies the recognition and measurement requirements in IAS 12 in a situation of uncertainty related to the recognition of income tax.The guidelines are effective for annual periods beginning on or after January 1st, 2019.

The Group will apply above amendments starting from January 1st, 2019.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

14. Annual changes to IFRS 2015–2017

In December 2017, the International Accounting Standards Board published "Annual changes to IFRS 2015–2017", which introduce changes to four standards: IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 12 "Income taxes" and IAS 23 "Costs of external financing".

The amendments contain explanations and clarify the guidance on recognition and measurement. The Group will apply above amendments starting from January 1st, 2019.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

15. IAS 19 "Employee benefits"

Amendments to IAS 19 are effective for annual periods beginning on January 1st, 2019 or after that date. The amendments to the standard define requirements related to the accounting treatment of modifications, limitations or settlements of a defined benefit plan.

The Group will apply above amendments starting from January 1st, 2019.

The change will not have a material impact on the financial statements.

As at the day of preparation of these consolidated financial statements, the Amendment was not endorsed by the European Union.

16. IFRS 14 "Regulatory accruals"

This standard allows entities that prepare financial statements in accordance with IFRS for the first time (as of January 1st, 2016 or after that date) to recognize amounts resulting from regulated-price operations in accordance with the accounting principles applied so far. To improve comparability with entities that already apply IFRS and do not show such amounts, according to published IFRS 14, amounts resulting from regulated activity should be presented in a separate item in the statement of financial position as well as in the profit and loss account and the financial statements. other total income.

By the decision of the European Union, IFRS 14 will not be approved.

17. Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28. The accounting recognition depends on whether non-monetary assets sold or contributed to an associate or joint venture meet the definition of a business.

If the non-monetary assets meet the definition of a business, the investor will recognise the full gain or loss on the transaction. In case when a transaction involves assets that do not constitute a business, a partial gain or loss is recognised (excluding the part representing the interests of other investors).

The amendments were published on September 11th, 2014, but effective data has not been set by IAS Board.

At the date of these consolidated financial statements, endorsement of aforementioned amendments have been postponed by the European Union.

d) Consolidation

Subsidiaries are entities controlled by the Group, that is entities with respect to which the Group has the power to govern their financial and operating policies through holding all voting rights at the General Meeting, which in practice translates into the power to really affect the key operating decisions of subsidiaries.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control is lost. Acquisitions of subsidiaries are accounted for with the acquisition method.

Acquisition cost is measured as the fair value of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus any direct costs of the acquisition. The identifiable assets acquired, as well as the liabilities and contingent liabilities assumed as part of a business combination are initially measured at their respective acquisition-date fair values, irrespective of the value of any non-controlling interests. Any excess of the acquisition cost over the fair value of the Group's interest in the identifiable net assets acquired is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the acquiree, the difference is recognised directly in profit or loss.

Any receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of an asset transferred.

e) Business mergers

In the period covered by these financial statements no business mergers occurred.

f) Estimates

Preparation of financial statements in accordance with the International Financial Reporting Standards requires the management to make subjective judgements, estimates and assumptions which affect the applied accounting policies and the values of assets, equity and liabilities, as well as income and expenses. The estimates and assumptions are based on available historical data and a number of other factors considered relevant in given circumstances. The results provide a basis for estimating the carrying amounts of assets, equity and liabilities whose value cannot be reliably measured based on other sources. The actual values may therefore differ from the estimates.

Estimates and assumptions are reviewed on an ongoing basis. Adjustments to estimates are recognised in the period in which the estimate was revised, if the adjustment relates to that period only, or in the current and future periods, if the estimate change relates to both the current and future periods.

Main assumptions and judgements made by the Group for the purposes of making estimates relate chiefly to:

Impairment of financial assets
As at the end of each reporting period, the Group assesses whether there is objective evidence of impairment of a financial asset or group of financial assets. A financial asset or a group of financial assets is deemed impaired, and impairment loss is recognised, if − and only if − there is objective evidence of impairment as a result of one or more events which took place after the initial recognition of such asset ("a loss event"), and if the event (events) has (have) an adverse effect on the estimated future cash flows related to the asset or group of assets. However, it is not necessary to identify a single event which has triggered the impairment, as impairment may follow from a cumulative effect of several events. The Group assesses whether there are any indicators of objective evidence of impairment as a result of one or more events that occurred after the initial recognition of an asset.

If there is objective evidence that the value of loans and receivables or investments held to maturity and measured at amortised cost has been impaired, impairment loss is recognised in the amount equal to the difference between

the carrying amount of the assets and the present value of estimated future cash flows discounted at the effective rate of return for financial assets used at the time of initial recognition. The methodology and assumptions used to estimate the amount and the timing of future cash flows are reviewed regularly and updated as needed. In addition, historical data is tested in order to compare the actual values with the estimated impairment losses on loans.

The tables below present changes in impairment losses for two scenarios:

Scenario name | Factor	Exchange rate	Security	Portfolio quality	Outflows
TWS_1 financial market disruption	appreciation of other currencies against PLN by 30%	decrease in the value of security: → by 5% in the case of real property → by 20% in the case of securities	no change	
TWS_2 economy and labour market disruption	appreciation of other currencies against PLN by 10%	decrease in the value of security: → by 20% in the case of real property → by 5% in the case of securities	exposure to assets overdue by 60–90 days treated as overdue by more than 90 days	maximum use of available non-balance-sheet items by clients – unconditional

Scenario 1 – financial market disruption

Portfolio in PLN m	Increase in impairment losses and provisions	including:		
		change in exchange rate	change in PD	change in LGD
All portfolios in aggregate	147.28	62.62	64.95	19.72
Portfolio				
Mortgage-backed exposures in line with Recommendation R including	137.68	59.26	58.73	19.69
Individual clients	136.03	57.61	58.75	19.67
Business clients	1.65	1.65	0.00	0.00
Retail exposures in line with Recommendation T	6.32	0.11	6.21	0.00
Other business clients	2.23	2.23	0.00	0.00
Corporate clients	1.05	Individually assessed portfolio		

Scenario 2 – economy and labour market disruption

Portfolio in PLN m	Increase in impairment losses and provisions	including:			
		change in exchange rate	change in PD	change in LGD	change in CCF
All portfolios in aggregate	76.57	20.86	28.14	16.19	10.96
Portfolio					
Mortgage-backed exposures in line with Recommendation R including	63.73	19.76	25.11	16.22	2.52
Individual clients	55.78	19.21	20.27	16.25	0.00
Business clients	7.95	0.56	4.82	0.00	2.53
Retail exposures in line with Recommendation T	4.06	0.03	2.37	0.00	1.51
Other business clients	8.43	0.75	0.64	0.00	6.94
Corporate clients	0.35	Individually assessed portfolio			

Impairment of assets other than financial assets

In line with IAS 36, at the end of each reporting period the Group assesses whether there is any indication (external or internal) that a non-current asset (or cash-generating unit) may be impaired. If any such indication is identified, the Group calculates the asset's recoverable amount. Estimating the value in use of a non-current asset (or cash-generating unit) requires adoption of assumptions concerning future cash flows which could be generated by the Group from the asset (unit), potential changes in the amount or timing of such cash flows, as well as other factors, for instance lack of liquidity. Impairment is identified when the carrying amount of an asset is higher than its recoverable amount. Impairment loss is therefore calculated as the excess of the carrying amount of an asset over its recoverable amount, and is recognised in the statement of profit or loss. Adoption of different valuation assumptions could have an effect on the carrying amount of certain non-current assets.

In 2017, the Parent Company significantly revalued non-financial assets. Details are provided in Note 14.

Classification of assets and liabilities as intended for distribution to owners

In accordance with the requirements of IFRS 5, the Group analyzed the classification of assets and liabilities to be separated as intended for distribution to owners. Under the transaction agreement, the separation of the retail business and its sale by the shareholder of the Parent will only occur if the contractual conditions are met, including in particular:

— obtaining regulatory approvals;
— obtaining by Bank Zachodni WBK S.A. agreement of a certain proportion of shareholders;
— operational readiness,
— fulfillment of other conditions provided for in the contract.

In the Group's opinion as at December 31st, 2017, it was probable, but not highly probable, that these conditions will be met within 12 months of the balance sheet date. Therefore, in accordance with IFRS 5, the Group did not classify assets and liabilities covered by the planned transaction as intended for distribution to owners.

g) Foreign currencies

Transactions in foreign currencies

The Group's functional currency (measurement currency) and the presentation currency of these financial statements is the Polish złoty (PLN).

Transactions denominated in foreign currencies are initially recognised at the exchange rate of the functional currency effective as at the transaction date. Foreign-currency monetary assets and liabilities resulting from such transactions are disclosed at their historical cost and translated at the exchange rate effective as at the end of the relevant reporting period. All foreign exchange gains and losses are posted to profit or loss. Foreign-currency non-monetary assets and liabilities are disclosed at their historical cost and translated at the exchange rate effective as at the transaction date.

The NBP's mid-rate quoted for the last day of the reporting period is the Group's closing exchange rate.

h) Financial assets and liabilities

Classification

Financial instruments are classified by the Group into the following categories:

— loans and receivables;
— financial assets available for sale;
— financial assets held to maturity;
— financial assets and liabilities at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are created when the Group provides money to a debtor other than with the intention of short-term profit taking. Loans and receivables comprise loans and advances to other banks and loans and advances to customers, including purchased debts. Loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses.

Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that have been designated as available for sale and have not been classified as (a) loans and receivables, (b) investments held to maturity, or (c) financial assets at fair value through profit or loss. Available-for-sale financial assets include Treasury bills, Treasury bonds and equities. Such instruments are measured as at the last day of each calendar month, based on the prevailing market (bid) rates. Any revaluation differences are posted to the revaluation reserve. Changes in the revalua-

tion reserve are presented in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses on financial assets, until the financial asset is derecognised, when accumulated gains or losses previously recognised in the revaluation reserve are recognised in profit or loss.

Assets held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Such assets are measured at amortised cost, using the effective interest rate method, less impairment losses. In the event of sale or reclassification of assets held to maturity (other than assets whose value is insignificant relative to the total value of the entire category of held-to-maturity assets) before their maturity date, the whole asset category is reclassified as assets available for sale. In such a case, for the next two financial years the Group cannot classify any financial assets as held to maturity. The above does not apply when the sale or reclassification referred to above occurs so close to the maturity (redemption) date that changes in market interest rates would have no effect on the financial asset's fair value, or is attributable to an isolated event that is beyond the Group's control, is non-recurring and could not be reasonably anticipated.

Financial assets and financial liabilities at fair value through profit or loss

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions:

a) It is classified as held for trading.

A financial asset or financial liability is classified as held for trading if it is:
- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- 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 classified as held for trading, except for derivatives that are financial guarantee contracts or have been designated as hedging instruments and are effective hedges. The Group classifies FX forwards, FX swaps, IRS swaps and currency options to this category.

Forward contracts are contracts to purchase or sell a specific currency on a future date at an exchange rate agreed by the Group on the forward contract date. Forward contracts are entered into for periods ranging from three days to one year from the transaction date to the settlement date. Forward contracts for a period of more than one year are subject to the Group's decision made on a case-by-case basis.

A swap transaction is a two-legged transaction combining a spot transaction with a forward transaction. Swaps are entered into on the interbank market.

The Group also classifies currency options under this category. The Group does not hold any options executed for its own account. Transactions with customers are closed back-to-back on the interbank market.

Interest rate swaps (IRS) are instruments in which two parties agree to exchange interest cash flows based on different types of interest rates. Typically, the cash flows being exchanged are calculated based on a fixed and floating rate. Currency Interest Rate Swap contracts are IRS transactions where payments are made in two different currencies.

FRA contracts are contracts that are negotiated individually and are settled on a specific future date through a cash payment of the difference between the interest rate set out in the agreement and the current market rate, on the basis of the notional amount of the contract.

b) Following initial recognition, they were designated by the Group as measured at fair value through profit or loss.

No financial instruments were designated by the Group as measured at fair value through profit or loss on initial recognition.

Financial liabilities
Financial liabilities are carried at amounts due, measured at amortised cost, using the effective interest rate method. This category includes amounts due to banks, amounts due to customers, and loans received.

Recognition
A regular-way purchase or sale of financial assets at fair value through profit or loss, held-to-maturity financial assets and available-for-sale financial assets, is recognised off balance-sheet using trade date accounting, and subsequently is disclosed on the balance sheet using settlement date accounting. This does not apply to derivative instruments, which unlike other instruments are recognised on the balance sheet on the trade date rather than on the settlement date.

This method is applied consistently to all purchases and sales of financial assets.

Loans and advances are recognised upon the transfer of cash to borrowers.

Derecognition
A financial asset is derecognised from the statement of financial position upon expiry of contractual rights to cash flows from the asset or upon transfer by the Group of contractual rights to cash flows generated from the asset following a transaction whereby the Group transfers substantially all risks and rewards related to that financial asset, or whereby the Group neither transfers nor retains substantially all risks and rewards related to the financial assets and does not retain control over the financial asset.

Regular-way sale transactions of financial assets are derecognised from the statement of financial position as at the transaction settlement date. This method is applied consistently to all purchases and sales of financial assets. A financial liability (or a part of a financial liability) is derecognised by the Group from the statement of financial position when and only when it is extinguished – that is when the obligation specified in the contract is discharged or cancelled or expires.

Measurement
On initial recognition, financial assets and liabilities are measured at fair value increased, in the case of financial assets and liabilities not classified as measured at fair value through profit or loss, by transaction costs which may be directly attributed to the acquisition or issue of a given financial asset or liability.

After the initial recognition, the Group measures all financial assets at fair value, without reducing it by transaction costs which may be incurred in relation to the sale or other disposal of an asset, except for:
— loans and receivables, which are measured at amortised cost using the effective interest rate method;
— held-to-maturity investments, which are measured at amortised cost using the effective interest rate method;
— investments in equity instruments that do not have a quoted market price on an active market, whose fair value cannot be reliably measured.

If the market price is not available, the fair value of the instrument is estimated using valuation models or discounted cash flow models.

Financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities measured at fair value through profit or loss.

If there is an active market for a financial instrument, fair value is established by reference to current purchase prices.

Fair value of financial instruments not quoted in active markets is determined using valuation models. Valuation models are also used for measuring option instruments. In the case of non-option instruments and debt securities not quoted in active markets, the valuation is made based on discounted cash flows models. The main estimate parameter used for financial instrument measurement is the counterparty risk adjustment.

FX forward, FX swap, IRS and FRA transactions are measured using the discounted future cash flows model.

The DBXSV (DBX Stochastic Volatility) model used by the DB Group is applied for the valuation of option contracts. The model relies on a Monte Carlo simulation, assuming a stochastic variability of the FX rate with a tendency for mean-reverting.

Offsetting financial instruments
Financial assets and financial liabilities are offset only if the Group has a legally enforceable right of set-off and intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously. The Group is party to ISDA (International Swap Dealer Association) agreements, which enable offsetting financial assets and liabilities (except for securities) upon fulfilment of certain conditions (the same settlement date and currency). In 2017 and 2016, there were no events enabling the Group to offset financial assets and financial liabilities.

Hedge accounting
The Group does not apply hedge accounting.

Impairment of financial assets

Financial assets measured at amortised cost
As at the end of each reporting period, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets is deemed impaired, and an impairment loss is recognised, if − and only if −there is objective evidence of impairment as a result of one or more events which took place after the initial recognition of such asset (“a loss event”), and the loss event (events) has (have) an adverse effect on the estimated future cash flows related to the asset or group of assets, which can be reliably estimated. Identifying a single event which triggered the impairment may not be possible, as impairment may be caused by a cumulative effect of several events. Expected losses related to future events are not recognised, irrespective of their likelihood. Objective evidence that a financial asset or a group of assets is impaired includes data that comes to the holder’s attention about the following loss events:
— significant financial difficulty of the issuer or obligor;
— breach of contract, such as a default or delinquency in interest or principal payments;
— highly probable bankruptcy of the borrower or other financial reorganisation of the borrower;
— disappearance of an active market for that financial asset because of financial difficulties.

The most common impairment evidence is breach of contract, such as a default or delinquency in interest or principal payments. If there is objective evidence that the value of loans and receivables or investments held to maturity and measured at amortised cost has been impaired, impairment loss is recognised in the amount equal to the difference between the carrying amount of the assets and the present value of estimated future cash flows. The carrying amount of the asset is reduced by recognising the impairment loss. The amount of the impairment loss is taken to profit or loss.

If in a subsequent period the amount of impairment loss decreases and the decrease can be objectively attributed to an event that occurred after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the balance of provisions. The amount of the reversed loss is taken to profit or loss.

The balance of the Group’s impairment losses consists of impairment losses recognised following assessment of individual assets and impairment losses resulting from evaluation of risk on homogeneous exposure groups.

As regards assessment of individual assets, the Group first determines whether objective evidence of impairment exists individually for financial assets that are individually significant, or that are considered non-homogeneous given the specific nature of the product. The Group applies individual assessment to credit exposures exceeding the equivalent of EUR 1m, as well as to loans granted for the purchase of securities or lombard loans, guarantees, margin facilities and multi-purpose facilities.

For the purposes of calculating aggregate impairment losses, financial assets are grouped based on the type of their credit risk, which indicates the borrower's ability to repay the liability as per the agreement (determined for instance on the basis of the Group's credit risk assessment policy or a scale-based assessment process accounting for the asset's type, segment, geographical location, security type, delays in repayment and other material factors). Certain features of the assets are material for the assessment of future cash flows, as they indicate the borrowers' capacity to repay the amounts due in accordance with the terms of the agreement relating to the assessed asset.

The homogeneous exposure portfolio is valued using statistical models.

Individual material credit exposures (non-homogeneous portfolio) with evidence of impairment are assessed individually, at least on a quarterly basis, using the discounted future cash flows method (the DCF method).

To ensure that the model reflects actual conditions in all material respects, the Group periodically reviews the methodology and assumptions used to estimate all material factors affecting the value of current impairment loss indicators.

The Group analyses impairment of credit exposures for which no indication of impairment was found using the concept of loss incurred but not yet reported, related to impairment of loans (IBNR/GVA) and estimated based on historical data on losses incurred in connection with loans with similar risk profiles. The General Value Adjustment (GVA) provision is estimated for all non-homogeneous loans (balance-sheet items) for which no indication of impairment was found and no provisions were recognised based on individual assessment. Furthermore, while determining the GVA provision, the Group accounts for off-balance-sheet items such as guarantees or letters of credit issued. Credit exposures in the homogeneous portfolios which are less than 90 days past due are treated as exposures for which no indication of impairment occurred. The Group therefore includes them in its impairment analysis based on loss incurred, but not yet reported.

For more information on the methodology used to estimate impairment losses related to credit risk, see Note 44.

Financial assets available for sale

In the case of financial assets classified as available for sale, if a reduction in the fair value of an asset has been recognised directly in equity and there is objective evidence of the asset's impairment, the accumulated losses thus far posted directly to equity are removed from equity and taken to profit or loss, even though the asset has not been derecognised. The amount of accumulated losses removed from equity and posted to profit or loss is the difference between the cost of the asset (less any principal repayments and amortisation) and its current fair value, reduced by any impairment losses previously recognised in profit or loss. Impairment losses on investments in equity instruments classified as available for sale are not reversed through profit or loss. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event that occurred after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the reversal amount is recognised in profit or loss.

Financial assets at fair value

When identifying impairment of financial assets measured at fair value, the Group takes into consideration the same indicators as in the case of assets measured at amortised cost, and additionally identifies events which imply a long-term loss of liquidity of a given asset in the market, or which are indicators of disappearance of the market in which a given financial asset was traded.

In the case of financial instruments whose carrying amount is based on prevailing market prices or valuation models, in justified cases the Group takes into account the necessity to recognise an additional fair value adjustment on account of counterparty risk.

i) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment. Depreciation is recognised in the statement of profit or loss based on the straight-line method. Depreciation rates are determined taking

into consideration estimated useful lives of items of property and equipment. Land and property and equipment under construction are not depreciated.

Estimated useful lives of key items of property and equipment are as follows:

Leasehold improvements	10 years
Buildings	40 years
Computer hardware	3-4 years
Vehicles	5 years
Other property and equipment	5-10 years

Subsequent expenditure

The cost of replacement of parts of an item of property and equipment is capitalised as it is incurred if it is probable that future economic benefits associated with the asset will flow to the Group, and the cost can be reliably estimated. Other costs are expensed as incurred.

j) Intangible assets

Intangible assets, including intangible assets developed by the Group, having a determinable useful life, are amortised in the statement of profit or loss using the straight-line method and presented at cost less accumulated amortisation. Amortisation rates are determined taking into consideration estimated useful lives of intangible assets, ranging from 2 to 10 years.

Expenditure on intangible assets

Expenditure incurred subsequent to the initial recognition of an acquired intangible asset is capitalised only if it increases the future economic benefits from the asset. In all other cases, such expenditure is expensed as incurred.

k) Non-current assets held for sale and discontinued operations

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on non-current assets held for sale are taken to profit or loss.

Discontinued operations are a part of the Group's operations which represents a separate major line of business or a geographical area of operations and has been disposed of or classified as held for sale, or which comprises a subsidiary acquired exclusively for resale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

In accordance with IFRS 5, the Group did not classify assets and liabilities covered by the planned transaction (Note 2) as intended for distribution to owners. The description of the premises is included in Note 2d.

l) Other items of the statement of financial position

Trade and other receivables

Trade and other receivables are recognised at amounts receivable less impairment.

Liabilities

Liabilities other than financial liabilities are recognised at amounts payable.

Other liabilities

Items recognised under other liabilities include interbank settlements, receivables and payables under public charges, revenue accounted for over time (e.g. fees and commissions for services recognised in profit or loss in proportion to the service progress).

m) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include items due within three months of their acquisition date, including cash and transactions with Central Bank (other than restricted cash), loans and advances to other banks, amounts due from other banks, and short-term Treasury securities other than those used in investing activities.

n) Impairment of assets other than financial assets

The Group's assets, other than tax assets, are tested to determine whether there are any indications of impairment. If such indications are found, the Group carries out periodic impairment measurements at least once a year. Impairment is identified when the carrying amount of an asset is higher than its recoverable amount, and is recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount in the case of other assets is the higher of the net realisable value less costs to sell or the value in use. The net realisable value calculation may be based on valuations prepared by independent expert appraisers.

Reversal of an impairment loss

An impairment loss is reversed if the estimates used to calculate the recoverable amount change.

An impairment loss may only be reversed to the level at which the carrying amount of the asset is not higher than the carrying amount which would have been determined (allowing for amortisation or depreciation charges) if such impairment loss had not been recognised.

o) Brokerage activities

The Group is engaged in brokerage activities, in particular consisting in offering securities in primary trading or initial public offerings, purchasing or selling securities for a third party's account, intermediating in buying or selling securities traded on foreign regulated markets, and services to investment fund management companies, investment funds, pension fund management companies, and pension funds.

p) Custody services

The Group offers custody services for domestic and foreign securities, and investment and pension funds.

The assets have not been disclosed in these financial statements, as the Group has no control over them.

q) Equity

Equity includes the Parent's share capital and other capitals, funds and accounts created by the Group companies in accordance with applicable laws and articles of association.

Share capital

Share capital comprises only the Parent's capital disclosed at par value, in the amount specified in the Parent's Articles of Association and the entry in the commercial register.

Share premium
Share premium account includes any premiums received on issue of the Parent's shares (excess of the issue price over the par value of the shares) less direct expenses incurred in connection with the issue.

Revaluation reserve
The revaluation reserve includes differences in the valuation of financial assets available for sale less any relevant charges on account of deferred tax. The revaluation reserve is not distributable.

Retained earnings
Retained earnings comprise profits from previous years (including their portion allocated to the general risk fund and dividend fund) and/or undistributed profits from previous years and the net profit/loss for the period.

The general risk fund is created from profit after tax, in accordance with the Banking Law of August 29th 1997, as amended.

The dividend fund is created from profit after tax, in accordance with a resolution of the Parent's General Meeting.

The net profit/loss for the period is the profit or loss for the year less corporate income tax.

r) Employee benefits

Current employee benefits
Current employee benefits at the Group, including salaries, discretionary bonuses, holiday entitlements, and medical benefits, are recognised in the statement of profit or loss as costs of the period.

Non-current employee benefits
The Group's liabilities under non-current employee benefits are recognised in the amount of benefits that will be received by the employees in the future in exchange for their services in the current and earlier periods. These include provisions for retirement severance payments, estimated based on an actuarial valuation, which is updated annually. Actuarial valuation is performed by a third-party firm.

Variable component remuneration policy applicable to persons in management positions at the Parent
Pursuant to Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011, the Parent has implemented a variable remuneration component policy applicable to persons in management positions at Deutsche Bank Polska S.A. who determine and have an important influence on the Bank's risk profile.

In 2015, the Parent implemented Corporate Governance Rules issued by the Polish Financial Supervision Authority on July 22nd 2014. Under the Rules (Section 27), the Parent is required to follow a transparent remuneration policy with respect to Management Board members and key managers. Accordingly, the Variable Remuneration Component Policy was converted into the Policy for Fixed and Variable Remuneration Components applicable to persons in management positions, including members of the Management Board of Deutsche Bank Polska S.A. (the „Policy") The Policy includes the rules of determining remuneration for service and other benefits for persons to whom the Policy applies.

In 2017, due to the need to adjust internal regulations to the Regulation of the Minister of Finance and Development of March 6th, 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks, the current Policy of Fixed and Variable Remuneration Components of persons holding managerial positions, including Members of the Management Board, in Deutsche Bank Polska S.A. was transformed into Remuneration Policy including Fixed and Variable Remuneration Components of persons holding managerial positions, including members of the Management Board, in Deutsche Bank Polska S.A. Moreover, the Policy was adjusted to reflect the amendments introduced to the Banking Law under the Act on Macro-Prudential Supervision over the Financial System and on Crisis Management in the Financial System.

The variable remuneration amount is determined on the basis of an evaluation of the performance of each person to whom the Policy applies, of the relevant organisational unit (in a three-year horizon) and of the Bank. Individual performance is evaluated in terms of financial and non-financial criteria, in the context of the level of risk associated with this performance. The criteria are objective and reflect the quality of the Bank management, long-term aspects of its operations, and the manner of the implementation of strategic objectives. Moreover, the variable remuneration of managers in the internal audit unit, in the compliance unit, and in other risk management and HR units, is independent of the economic effects achieved in the areas of the Bank's business which are under their control.

At least 50% of the variable remuneration of persons to whom the Policy applies and who have a particularly important influence on the Parent Entity risk profile, serves as an incentive to exercise special care in promoting the Parent Entity interests in the long-term, and is paid in financial instruments. The persons to whom the Policy applies may not dispose of those instruments earlier than permitted under the relevant rules defined by the Parent Entity.

The determination of the value of these financial instruments is based primarily on the Net Asset Value of the Parent Entity as at December 31th of a given year.

At least 40% of the variable remuneration of persons to whom the Policy applies and who have a particularly important influence on the Bank's risk profile, is paid after the end of the evaluation period for which this remuneration is payable, and the payment is deferred − it is paid in at least four equal tranches over a minimum period of four years immediately following the grant of the discretionary award.

Payment of the remuneration referred to above depends on the performance of the person covered by the Policy in the evaluated period, and takes account of the Bank's risk exposure. The variable remuneration components are financed and paid from the Bank's funds and do not depend on the performance of the Bank's parent or the parent's Group.

A provision for variable remuneration components is recognised in the statement of profit or loss under 'Operating expenses and general and administrative expenses'.

The remuneration policy applicable to the Bank Management Board members is supervised by the Supervisory Board and the Remuneration Committee, while the remuneration policy covering persons holding management positions is supervised by the Bank's Management Board.

s) Provisions

The Group recognises provisions for future liabilities which can be reliably estimated and for contingent liabilities.

The Group recognises a provision if it has a present obligation, legal or constructive, resulting from a past event, and if it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation. Where the effect is material, the provision is calculated using expected cash flows discounted at a pre-tax rate, which reflects the current market assessment of the time value of money and, where applicable, the risk relating to a given liability.

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

A detailed formal plan 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. A restructuring provision does not include future operating expenses.

t) Net interest income

Interest income and expenses are recognised on an accrual basis at amortised cost using the effective interest rate method, taking into account IAS 39, including in respect of receivables under threat of impairment. Interest income is accrued as long as it is likely to be received. Accrued interest due to the Group and payable by the Group is presented under relevant items in the statement of financial position.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability (or a group of financial assets or liabilities) and of allocating interest income or interest expense to the relevant periods. The effective interest rate is a rate that discounts estimated future cash inflows and outflows over the expected life of a given financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates its cash flows, taking into account all provisions of the financial instrument contract, but does not factor in potential future losses from non-performing loans. The calculation takes into account all fees and commission forming an integral part of the effective interest rate, paid or received by the parties, transaction costs, and any other premiums and discounts.

u) Fee and commission income and expense

Fee and commission income is generated from the provision of financial services offered by the Group and is classified in the following categories:
- Commission forming an integral part of the effective interest rate;
- Commission for the provision of banking or brokerage services;
- Commission for specific transactions.

Commission forming an integral part of the effective interest rate is accounted for under net interest income.

Commission for the provision of banking services is included in net fee and commission income pro rata to the service progress. In the case of credit facilities and loans which do not have defined instalment payment dates (e.g. overdraft facilities, credit cards, revolving facilities, factoring facilities) and off-balance-sheet liabilities, commission is accounted for using the straight line method over the product life (effective period of the credit limit).

The following are recognised by the Group on a one-off basis, at the time of the execution of a specific transaction: income from the distribution of investment fund units, investment-linked insurance products and securities, as well as the other fees and commissions for banking activities, for instance for bank transfers, international orders, payment card transactions and other one-off transactions. Under net fee and commission income, the Group recognises costs related to intermediation in the sale of banking products and insurance products, costs of insuring credit products paid by the Group, and direct costs of executing banking services and activities.

Bancassurance income

The Group offers bancassurance products, that is insurance products (individual and group insurance policies, insurance and investment products) sold through the Group's distribution channels.

The Group may act as either an insurer or an insurance intermediary, but never acts in both roles under a single insurance contract.

The accounting policy used for the recognition and accounting for income and expenses relating to insurance products follows directly from the economic substance of these products and applies to the fees received by the Group and representing:
- an integral part of the fee for the financial instrument offered together with the insurance product,
- intermediary fee,
- fee for the execution of additional activities after the insurance product is sold.

Fees received by the Group for the sale of insurance products are included, in whole or in part, in the fee for the financial instrument offered when the insurance product sale transaction is directly connected with the financial instrument sale transaction. The Group verifies whether the terms of the sale of a financial instrument and insurance product meet the criteria for being considered connected transactions on a case-by-case basis. The Group deems two or more transactions connected if certain criteria are met, including in particular:
- The Group does not offer the given financial instrument without the insurance product.
- The Group offers the given insurance product only with the financial instrument, that is there is no possibility of purchasing an insurance product which is identical in terms of the legal form, terms and conditions and economic substance from the Group other than by purchasing the product together with the financial instrument.
- The Group also analyses the connection between products when the conclusion of an insurance contract may be conditional upon the purchase of another financial instrument shown on the balance sheet. If no clear answer can be arrived at based on the key criteria described in the previous paragraph, the Group applies supplementary criteria, such as: penetration rate of insurance products in credit portfolios, interest rates for loan products offered with and without the insurance, number of insurance cancellations, etc.

If two or more transactions prove to be connected based on those criteria, the Group allocates the total amount receivable under those transactions to individual components of the transaction, after reducing it by the amount of estimated provision for the part of the fee which may have to be returned (for instance if the client cancels the insurance, the loan is prepaid, etc.). The provision estimate is based on an analysis of historical data on returns and projected future return trends.

The fee allocation referred to in the previous paragraph is based on the relative fair value method, which involves dividing the total fee into parts proportional to the share of the fair value of the fee for the financial instrument and the fair value of the fee for the intermediary service in their aggregate fair value. To the largest extent possible, the determination of those fair values is based on market data, in particular, with respect to:
- Intermediary service − based on the market approach, which consists in using prices and other market data for most similar market transactions;
- Fee for the financial instrument − based on the income approach, under which future amounts are discounted to their present values based on information on interest rates and other fees applicable to identical or most similar financial instruments offered separately, that is without the insurance product.

The following income recognition principles apply to the individual separated elements of a transaction or a series transactions considered jointly:
- Commission of an insurance agency – to the extent it relates to the charge for a specific transaction, it is disclosed under fee and commission income on the effective date of the insurance policy or its novation. If it is probable that the Group will be obliged to provide further services during the effective period of the policy, the commission, or its part, is deferred and recognised as income over the effective period of the policy.
- Fees/commission being an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate and recognised under interest income.

In accordance with this accounting policy, with respect to connected products in the financial year ended December 31st 2017 the Group recognised 12% of bankassurance income relating to cash loans as income recognised on a one-off basis in the form of commission for specific transactions. In the same period, the balance of bancassurance commission charged, primarily under insurance connected with mortgage loans, was as a rule accounted for as interest income or, when justified, as fee and commission income, over the effective period of the policy.

On a day-to-day basis, the Group estimates a provision for commission returns; the estimated provision is expressed as a percent share of returns in the total gross commission. In calculating this ratio, the Group takes into consideration all insurance renouncements and cancellations as well as prepayments and terminations of loan agreements triggering the termination of the insurance contract. Data on commission returns is regularly collected and verified, and ultimately it affects the amount of the provision. When a new product is added to the offering for which there is no sufficient historical data on commission returns, the Group uses provision rates estimated for products which are most similar to the new one in terms of the offering and sales processes.

v) Dividend income

Dividend income is recognised when the Group becomes entitled to receive dividend.

w) Net gain/loss on sale of financial instruments available for sale

Net trading income includes gains and losses on sale of available-for-sale financial assets.

x) Net gain/loss on instruments at fair value through profit or loss and revaluation

Net gain/loss on instruments at fair value through profit or loss and revaluation comprises:
— gains and losses on the revaluation of assets and liabilities denominated in foreign currencies in relation to the mid rates quoted by the National Bank of Poland for the individual currencies (unrealised gains/losses),
— realised net gain or loss on foreign currency transactions,
— net gain or loss from changes in the fair value of assets and liabilities at fair value through profit or loss,
— realised net gain or loss on derivative instruments.

y) Other income and expenses

Other income and expenses include income and expenses not directly related to the Group's core business (as set out in the Articles of Association). These include in particular income and expenses related to:
— sale or liquidation of non-current assets and assets for disposal,
— remeasurement of non-current assets and assets for disposal,
— sale of other services,
— compensations, penalties and fines received and paid,
— court fees, notary fees or debt collection costs.

z) Operating lease payments

Payments under operating leases are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

aa) Income tax expense

Corporate income tax comprises current and deferred tax. Current tax is calculated on the basis of accounting profit before tax, adjusted for non-taxable income and non-deductible expenses. Accounting profit before tax is also adjusted for tax purposes for income and expenses brought forward which have been realised for tax purposes in a given reporting period, and for deductions from income. The Group recognises deferred tax liabilities for all taxable temporary differences and deferred tax assets for all deductible temporary differences to the extent it is probable that taxable income will be available in the future against which such deductible temporary differences or tax losses carried forward could be offset.

Deferred tax is calculated by applying the tax rate as stipulated in the applicable tax regulations. The carrying amount of deferred tax assets is reviewed at the end of each reporting period, and is reduced to the extent it is no longer probable that the related tax benefits will be realised.

bb) Off-balance-sheet commitments assumed and received

Off-balance-sheet commitments assumed

As part of its operations, the Group enters into transactions that are not recognised as assets or liabilities at the moment of their execution, but give rise to contingent liabilities.

A contingent liability is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group;
- a present obligation that arises from past events but is not recognised, because it is not probable that an outflow of cash or other assets will be required to settle the obligation, or the amount of the obligation (liability) cannot be measured with sufficient reliability.

The key items of off-balance-sheet commitments assumed are credit facilities granted and guarantees issued by the Group.

Obligations assumed under credit facilities granted by the Group, in the amount corresponding to the amount undrawn by the clients, and commitments assumed under guarantees issued to clients are recognised as off-balance-sheet commitments in the amounts specified in the relevant agreements.

Provisions for the estimated risk are recognised by the Group under 'Provisions'. Credit risk resulting from off-balance sheet commitments is estimated in line with the requirements of IAS 37 and IAS 39.

Off-balance-sheet commitments received
As part of its operations, the Group also receives security for credit exposures. These are typically guarantees or sureties issued by other banks or non-banking entities. Such guarantees or sureties are recognised as off-balance-sheet commitments received in the amounts specified in the relevant agreements.

Transactions in derivative instruments
The Group enters into transactions in derivative instruments – in currencies (spot, forward, currency swap, currency option, CIRS contracts), interest rates (FRA, IRS, CAP contracts), and securities. The nominal value of the contracts until their settlement is carried off-balance sheet and presented in these financial statements.

cc) Clients' securities held as part of the Group's brokerage business

Clients' financial instruments registered in securities accounts maintained by the Group or held by the Group in safekeeping in certificated form are disclosed as off-balance sheet items by value and volume.

Clients' financial instruments registered in their securities accounts maintained by the Group as part of its brokerage operations and traded on the regulated secondary market are measured at market price on each business day. If it is impossible to measure the clients' financial instruments by reference to current market prices, the instruments are measured at fair value which reliably reflects their value.

4. Interest income

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Loans and advances to other banks	37,091	41,397
Loans and advances to customers	854,488	812,579
Debt securities, including:	103,058	90,344
– held for trading	-	208
– available for sale	103,058	90,136
Total	994,637	944,320

Interest income earned in 2017 comprises income on financial assets, for which an impairment loss of PLN 1,764 thousand was recognised (2016: PLN 9,221 thousand).

5. Interest expense

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
On deposits from other banks	(142,554)	(125,469)
including subordinated liabilities	(53,152)	(34,660)
On deposits from customers	(148,659)	(119,879)
Total	(291,213)	(245,348)

6. Fee and commission income

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Income from:		
Opening and maintaining accounts and settlement transactions	69,236	71,060
Distribution of investment fund units	44,885	48,775
Intermediation in the sale of insurance	19,424	44,798
Loans and advances	83,012	60,338
Brokerage fees	17,616	22,698
Advisory/asset management services	31,291	24,136
Guarantees issued	13,192	13,656
Credit and payment cards	13,191	13,193
Intermediation in the sale of securities	17,535	7,252
Distribution of options	-	5,706
Other	23,835	30,480
Income from DB AG Group entities	21,938	21,880
Total	333,217	342,092

Commission income on loans and borrowings derive from such credit products as overdrafts, investment loans and factoring.

7. Fee and commission expense

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Expenses on:		
Intermediation in the sale of banking and insurance products	(21,849)	(21,810)
Other expenses on intermediation in the sale of insurance	(9,100)	(14,624)
Brokerage services	(5,778)	(5,959)
Payment orders	(4,683)	(4,838)
Expenses to the CSDP	(950)	(1,412)
Transaction costs on other markets	(164)	(772)
Expenses to WSE	(2,580)	(6,030)
Credit and payment cards	(3,194)	(5,379)
Private Placement	(2,028)	-
Other	(4,432)	(6,181)
Total	(54,758)	(67,005)

8. Net gain/loss on instruments at fair value through profit or loss and revaluation

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Foreign exchange gains/(losses)	321,990	(41,751)
Net gain/(loss) on debt instruments held for trading	-	836
Net gain/(loss) on derivative instruments, including:	(263,635)	145,832
Currency options	710	2,288
Fx transactions, including:	(266,368)	134,848
FX forwards	(9,866)	43,895
FX swaps	(256,502)	90,953
IRSs, FRAs	2,023	8,696
Other	17,693	11,381
Total	76,048	116,298

9. Net gain/loss on sale of financial instruments available for sale

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Gain on sale of portfolio available for sale	-	44,395
gain on sale of VISA shares	-	44,395
Total	-	44,395

The description of transaction settlement is included in Note 21.

10. Other income

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Income from services	2,807	2,030
Net gain/loss on sale /liquidation of fixed assets	68	-
Other	4,163	11,375
Total	7,038	13,405

11. Impairment losses on financial assets

Increase in impairment losses

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Impairment losses on loans and advances to clients, including:	(763,528)	(654,851)
on impaired exposures	(436,682)	(366,649)
on unimpaired exposures (losses incurred but not reported)	(324,756)	(277,671)
debt collection costs	(2,090)	(10,531)
Other impairment losses	(30,588)	(16,528)
Total increase in impairment losses	(794,116)	(671,379)

Decrease in impairment losses

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Reversal of impairment losses on loans and advances to clients, including:	710,604	491,627
on impaired exposures	375,692	223,611
on unimpaired exposures (losses incurred but not reported)	328,901	264,941
recovery of uncollectible receivables	6,011	3,075
Other impairment losses	24,580	12,508
Total decrease in impairment losses	735,184	504,135
Net cost of impairment	(58,932)	(167,244)

Impairment losses on financial assets includes net gain/(loss) on sale of debt in the amount of PLN 8,400 thousand PLN in 2017 and PLN 31,400 thousand PLN in 2016.

12. Administrative expenses

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Personnel costs:	(309,911)	(277,899)
Salaries and wages	(262,525)	(236,741)
Employee benefits	(47,386)	(41,158)
Other administrative expenses, including:	(506,466)	(513,169)
Maintenance and lease of buildings	(79,510)	(82,296)
Operation of IT systems	(89,946)	(100,029)
Other services	(96,888)	(81,063)
Advertising and sponsoring	(20,718)	(13,684)
Communication	(13,173)	(14,714)
Payments to the Banking Guarantee Fund	(45,379)	(70,464)
Taxes and charges	(22,582)	(20,312)
Tax on certain financial institutions	(108,948)	(98,008)
Other	(29,322)	(32,599)
Total	(816,377)	(791,068)

As of February 1st, 2016, the Act of January 15th, 2016 on tax on certain financial institutions came into force, which covered, among other things, banks and insurance companies. The tax basis is the surplus of an entity's total assets above PLN 4 billion in the case of banks arising from the trial balance as at the end of each month. Banks are entitled to reduce the tax basis, i.a. by the value of own funds and the value of Treasury securities. Additionally, banks reduce the tax basis by the value of assets acquired from the NBP, constituting collateral of a refinancing loan granted by the NBP. The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th of the month following the month to which it relates. The tax was paid for the first time for February 2016. The tax paid is not tax-deductible for the purpose of corporate income tax.

13. Depreciation and amortisation

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Depreciation and amortisation:		
Depreciation of property and equipment	(11,813)	(12,194)
Amortisation of intangible assets	(18,485)	(21,453)
Total	(30,298)	(33,647)

14. Other expenses

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Cost of provisions for operational risk	(4,169)	(1,475)
Donations	(15)	(232)
Impairment of non-financial assets - impairment losses and writing down abandoned investments	(88,414)	-
Other	(7,216)	(8,984)
Total	(99,814)	(10,691)

In connection with the concluded agreement dated December 14th, 2017 between DB AG, Banco Santander S.A. and Bank Zachodni WBK S.A. regarding the sale of a separated part of Deutsche Bank Polska S.A. for the benefit of Bank Zachodni WBK S.A. (closing of the transaction is planned for the 4th quarter of 2018), the Group has updated the value of non-financial assets that will not be used by the Group after closing the above-mentioned transactions. As a result of the update, the Group created write-downs updating the value of WNiP by a total of PLN 48,905 thd PLN (Note 23) and the value of fixed assets by PLN 18,079 thd PLN (Note 22).

In addition, as a result of the change in the decision on the final implementation of the provisions of the Mifid Directive, the Group decided to discontinue ongoing development works related to the implementation of the advisory model and wrote down so far incurred expenditure of total value PLN 21,431 thd PLN.

15. Income tax expense

in PLN thd	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Profit before tax	59,560	145,520
Current tax	(63,381)	(53,134)
Deferred tax	9,470	(330)
Total corporate income tax in the statement of profit or loss	(53,911)	(53,464)
Reconciliation of increases in loss/decreases in profit		
Profit before tax	59,560	145,520
Corporate income tax calculated at the tax rate of 19%	(11,316)	(27,649)
Non-tax-deductible expenses	(39,226)	(27,289)
State Fund for Rehabilitation of Persons with Disabilities	(465)	(462)
Tax on certain financial institutions	(20,700)	(18,621)
Prudential payment to the BGF	(8,622)	(4,160)
Costs of contributions	(16)	(77)
Intragroup costs – 2014 and earlier	-	(1,497)
Social insurance costs of holiday benefits – part of the Employee	-	(490)
Other operating costs	(362)	(1,180)
Other material costs and depreciation	(2,187)	(645)
Costs of write off of non-loan receivables	-	(157)
Impairment of non-financial assets	(276)	-
Receivables; Impairment losses and loss on sale	(6,598)	-
Non-taxable income	1,556	1,293
Revenues from refund prudential payment to the BGF	-	510
Release of impairment allowances, other than loan provisions	1,247	235
Other operating income	-	548
Valuation of derivative financial instruments	309	-
Remitted mortgage loans	-	178
Tax on debt securities	(5,878)	-
Fees and commissions settled under effective interest rate	266	-
Other items with an impact on the amount of tax expense	687	3
Total corporate income tax in the statement of profit or loss	(53,911)	(53,464)
Calculation of effective interest rate		
Income tax	(53,911)	(53,464)
Effective interest rate	91%	37%

16. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit attributable to the Parent's shareholders by the weighted average number of ordinary shares outstanding in the period.

	Jan 1 – Dec 31 2017	Jan 1 – Dec 31 2016
Net profit for period (PLN '000)	5,649	92,056
Weighted average number of ordinary shares (pc.)	2,651,449,384	2,651,449,384
Basic earnings per share (PLN)	0.00213	0.03472

17. Cash and transactions with Central Bank

in PLN thd	Dec 31 2017	Dec 31 2016
Cash*	122,142	107,749
Deposits with Central Bank	852,446	945,668
Total	974,588	1,053,417

* Cash means the Polish and foreign currencies (banknotes and coins)

The declared mandatory reserves to be maintained in the period including December 31st 2017 amounted to PLN 717,357 thousand, compared with PLN 610,755 thousand in the period including December 31st, 2016. The reserves were set at the average balance of customers' assets in October 2017 (October 2016) (Art. 38.2 of the Act on the National Bank of Poland).

18. Amounts due from banks

Deposits with other banks, and loans and advances to other banks by type

in PLN thd	Dec 31 2017	Dec 31 2016
Current account	634,583	846,456
Interbank deposits and loans and advances to other banks (including purchased debt)	186,312	5,965
Gross amounts due from banks	820,895	852,421
Impairment losses, including:	(516)	(574)
– recognised individually	-	-
– recognised collectively	(516)	(574)
Net amounts due from banks	820,379	851,847

Deposits with other banks, and loans and advances to other banks by maturity

in PLN thd	Dec 31 2017	Dec 31 2016
Payable on demand	634,583	846,456
Definite	186,312	5,965
– up to 1 month	186,312	5,522
– over 1 month to 3 months	-	441
– over 3 months to 1 year	-	-
– over 1 year to 5 years	-	-
– over 5 years	-	2
Impairment losses	(516)	(574)
Net amounts due from banks	820,379	851,847

Change in impairment losses on amounts due from other banks

in PLN thd	2017	2016
Impairment losses on amounts due from other banks at beginning of period	574	160
Recognition of impairment loss	2,409	414
Reversal of impairment losses	(2,466)	-
Write-off against provisions	-	-
Other changes	-	-
Impairment losses on amounts due from other banks at end of period	516	574

19. Loans and advances to customers

Amounts due from customers by type

in PLN thd	Dec 31 2017	Dec 31 2016
Natural persons	23,092,667	25,070,682
Businesses	7,714,996	6,017,706
Public sector	29,129	29,699
Gross amounts due from customers	30,836,792	31,118,087
Impairment	(600,193)	(606,070)
Net amounts due from customers	30,236,599	30,512,017

For a detailed description of the Group's credit risk management and more information on credit risk concentration, see Note 44.

Amounts due from customers by maturity

in PLN thd	Dec 31 2017	Dec 31 2016
Payable on demand	1,092,160	1,138,893
Definite	29,744,632	29,979,194
– up to 1 month	352,257	238,777
– over 1 month to 3 months	398,345	402,553
– over 3 months to 1 year	3,431,145	2,942,794
– over 1 year to 5 years	8,575,377	8,523,450
– over 5 years	16,987,508	17,871,620
Total	30,836,792	31,118,087

Change in impairment losses

in PLN thd	2017	2016
As at Jan 1	606,070	744,949
Change in impairment losses	(5,877)	(138,879)
Impairment losses on loans and advances to customers	759,029	643,906
Receivables written-off against provisions*	(61,617)	(285,690)
Decrease due to foreign exchange gains/(losses)	-	-
Reversal of impairment losses on loans and advances to customers	(702,127)	(488,553)
Other decreases	(1,162)	(8,542)
As at Dec 31	600,193	606,070

* The item includes PLN 31,229 thousand (2016: PLN 87,242 thousand) of receivables written down following the sale of non-performing loan portfolios with a gross carrying amount of PLN 53,959 thousand as at the transaction date (2016: PLN 132,282 thousand).

Net gain/(loss) on sale of debt is accounted for in impairment losses.

Impairment losses on amounts due from customers include the following categories:

in PLN thd	Dec 31 2017	Dec 31 2016
Impairment losses on impaired exposures	526,796	545,122
Impairment losses for losses incurred but not reported (IBNR)	73,397	60,948
Total impairment losses	600,193	606,070

in PLN thd	Dec 31 2017	Dec 31 2016
Gross impaired receivables	811,358	838,847
Impairment losses on impaired exposures	(526,796)	(545,122)
Net impaired receivables	284,562	293,725
Gross unimpaired receivables	30,025,434	30,279,240
Impairment losses for losses incurred but not reported (IBNR)	(73,397)	(60,948)
Net unimpaired receivables	29,952,037	30,218,292
Total gross amounts due from customers	30,836,792	31,118,087
Total impairment losses	(600,193)	(606,070)
Total net amounts due from customers	30,236,599	30,512,017

In 2017, the Group did not make any material changes to the methodology of estimating impairment losses.

This note corrects the comparable data concerning gross receivables from customers and impairment losses, which concerned the package of receivables sold in 2016. In the financial statement for 2016, the Group showed gross receivables from clients in the amount of PLN 31,204,124 thd, whereas impairment losses accounted for PLN 692,107 thd.

20. Financial assets at fair value through profit or loss

in PLN thd	Dec 31 2017	Dec 31 2016
Valuation of derivative financial instruments	67,203	138,674
Total	67,203	138,674

For more information on financial assets at fair value through profit or loss, see Note 36 and Note 44.

Positive market value of unmatured derivative financial instruments

in PLN thd	Dec 31 2017	Dec 31 2016
Interest rate contracts	19,657	23,044
– IRSs	19,657	23,044
Currency contracts	47,546	115,630
– FX spots/forwards	32,830	22,304
– FX swaps	14,716	69,405
– Currency options purchased	-	23,840
– Currency options embedded in deposits	-	81
Total	67,203	138,674

Change in debt securities at fair value through profit or loss (held for trading)

in PLN thd	2017	2016
Balance at beginning of period	-	198,435
Increase	-	14,185,300
– purchase of debt securities*	-	14,185,300
– increase in the value of securities**	-	-
Decrease	-	(14,383,735)
– sale of debt securities*	-	(13,858,726)
– redemption of debt securities*	-	(499,700)
– decrease in the value of securities**	-	(25,309)
Balance at end of period	-	-

* nominal value
** including market valuation, interest and discount

Financial assets at fair value through profit or loss by maturity

in PLN thd	Dec 31 2017	Dec 31 2016
up to 1 month	14,591	58,051
over 1 month to 3 months	15,947	18,595
over 3 months to 1 year	15,270	27,114
over 1 year to 5 years	5,049	15,991
over 5 years	16,346	18,923
Total	67,203	138,674

21. Financial assets held as investments

in PLN thd	Dec 31 2017	Dec 31 2016
Securities available for sale:		
Treasury bonds	5,874,914	5,042,629
NBP bills	1,739,522	1,749,631
Equities	9,723	6,877
Total	7,624,159	6,799,137

The line ‘Equities’ includes VISA shares received in relation to the Group’s membership in VISA International in amount of PLN 9,394 thousand as at December 31st, 2017 (VISA Europe shares in the amount of PLN 6,597 thousand as at December 31st, 2016 accordingly) and shares in GPW S.A. and BondSpot S.A., of which value amounted PLN 329 thousand as at December 31st, 2017 and PLN 280 thousand as at December 31st, 2016.

VISA Inc. shares are indexed to Visa Common A Shares. As of the date of settlement of the Visa Europe Limited acquisition by Visa Inc. value derived from the stock exchange value of series A, index 13,952 and EUR/PLN exchange rate as at the balance sheet date was booked.

In June 2016, the Parent Company received information about the finalization of Visa Europe Limited's acquisition by Visa Inc. As a result of the transaction settlement, the Bank recognised in its financial statements for 2016:
— cash received in the amount of EUR 10 million, equivalent to PLN 44.4 million at the average exchange rate of the NBP dated June 21st, 2016.

As a result of the settlement of the transaction, the Parent recognized in 2016 year in the profit and loss account a pre-tax profit of PLN 44.4 million.

Change in securities available for sale:

in PLN thd	2017	2016
Balance at beginning of period	6,799,137	5,769,466
Increase	59,459,109	73,781,952
– purchase of debt securities*	59,443,835	73,671,673
– increase in the value of securities**	15,274	110,279
Decrease	(58,634,087)	(72,752,281)
– sale of debt securities*	(185,000)	(84,395)
– redemption of debt securities*	(58,408,814)	(72,665,484)
– decrease in the value of securities**	(40,273)	(2,402)
Balance at end of period	7,624,159	6,799,137

* nominal value
** including market valuation, interest and discount

As a member of the Banking Guarantee Fund, the Group maintains Treasury bonds as coverage for the Guaranteed Deposit Protection Fund. As at December 31st 2017, the nominal value of the bonds was PLN 107,000.00 thousand (December 31st 2016: PLN 107,000.00 thousand). The carrying values of these bonds were as follows: PLN 107,963.0 thousand PLN as at December 31st, 2017 and PLN 106,499.5 thousand as at December 31st, 2016.

The Group adopted to calculate the amount of the guaranteed funds protection fund resulting from the regulations, a percentage rate of 0.55% (in 2016 the percentage rate was 0.55%) of the sum of cash accumulated in the bank on all accounts, constituting the basis for calculating the required reserve amount. In connection with the amendment of the BFG act and the introduction of contributions to the Guarantee Fund and the Forced Restructuring Fund, the Group maintains bonds that are a liability for payment of contribution. As at December 31st, 2017, the value of the liability to be paid to the Guarantee Fund was PLN 3,063 thd, while for the Forced Restructuring Fund, PLN 10,550 thd. The bonds covering the payment obligations for contribution had a nominal value of PLN 3,490 thd, respectively PLN 12,000 thd.

22. Property and equipment

Gross amount

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2016	116,865	81,377	20,399	4,116	222,757
Increase (including)	3,540	5,521	188	-	9,249
Purchase	3,540	5,521	188	-	9,249
Decrease (including)	(11,436)	(5,205)	(1,113)	(3,458)	(21,212)
Disposal	(7)	(1,366)	-	-	(1,373)
Liquidation	(11,429)	(3,839)	(1,113)	-	(16,381)
Impairment	-	-	-	-	-
Transfers from capital expenditure	-	-	-	(3,458)	(3,458)
Other changes	-	-	-	-	-
As at Dec 31 2016	108,969	81,693	19,474	658	210,794
As at Jan 1 2017	108,969	81,693	19,474	658	210,794
Increase (including)	2,512	4,773	694	4,466	12,445
Purchase	309	4,743	596	4,466	10,114
Transfers from capital expenditure	2,203	30	98	-	2,331
Decrease (including)	(298)	(2,445)	(506)	(2,331)	(5,580)
Disposal	(58)	(430)	(32)	-	(520)
Liquidation	(240)	(2,015)	(474)	-	(2,729)
Impairment	-	-	-	-	-
Transfers from capital expenditure	-	-	-	(2,331)	(2,331)
Other changes	-	-	-	(62)	(62)
As at Dec 31 2017	111,183	84,021	19,662	2,731	217,597

Accumulated depreciation and impairment

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2016	91,004	69,538	20,392	-	180,934
Depreciation	6,935	5,064	195	-	12,194
Impairment	(2,135)	(709)	-	-	(2,844)
Sale/liquidation	(9,371)	(4,918)	(1,113)	-	(15,402)
Other changes	-	-	-	-	-
As at Dec 31 2016	86,433	68,975	19,474	-	174,882
As at Jan 1 2017	86,433	68,975	19,474	-	174,882
Depreciation	5,570	5,549	694	-	11,813
Impairment	10,180	7,777	-	-	17,957
Sale/liquidation	(232)	(2,407)	(506)	-	(3,145)
Other changes	-	-	-	-	-
As at Dec 31 2017	101,951	79,894	19,662	-	201,507

Carrying amount

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2016	25,861	11,839	7	4,116	41,823
As at Dec 31 2016	22,536	12,718	-	658	35,912
As at Jan 1 2017	22,536	12,718	-	658	35,912
As at Dec 31 2017	9,232	4,127	-	2,731	16,090

23. Intangible assets

Gross amount

in PLN thd	Software	Capital expenditure	Total
As at Jan 1 2016	206,495	47,241	253,736
Purchase	1,635	38,063	39,698
Project settlement	26,213	-	26,213
Transfer from capital expenditure	-	(28,144)	(28,144)
Other changes	-	(673)	(673)
As at Dec 31 2016	234,343	56,487	290,830
As at Jan 1 2017	234,343	56,487	290,830
Purchase	130	31,329	31,459
Project settlement	20,158	-	20,158
Transfer from capital expenditure	-	(20,172)	(20,172)
Liquidation	(12,324)	-	(12,324)
Other changes	-	11,207	11,207
Writing down abandoned investments	-	(21,431)	(21,431)
As at Dec 31 2017	242,307	57,420	299,727

Accumulated amortisation and impairment

in PLN thd	Software	Capital expenditure	Total
As at Jan 1 2016	164,180	-	164,180
Amortisation	21,452	-	21,452
Provision for amortisation	-	-	-
Liquidation	-	-	-
Other changes	-	-	-
As at Dec 31 2016	185,632	-	185,632
As at Jan 1 2017	185,632	-	185,632
Amortisation	18,485	-	18,485
Impairment	35,182	13,723	48,905
Provision for amortisation	-	-	-
Liquidation	(12,323)	-	(12,323)
Other changes	(1,453)	-	(1,453)
As at Dec 31 2017	225,523	-	239,246

Carrying amount

in PLN thd	Software	Capital expenditure	Total
As at Jan 1 2016	42,315	47,241	89,556
As at Dec 31 2016	48,711	56,487	105,198
As at Jan 1 2017	48,711	56,487	105,198
As at Dec 31 2017	16,784	57,420	60,481

24. Current tax assets

As at December 31st, 2017, there are current corporate tax receivables of PLN 1,231 thousand (as at December 31st, 2016 – PLN 9,333 thousand) representing the difference between the sum of monthly advances paid by the Parent Entity advance payments made in accordance with the simplified procedure under Art. 25.6 of the Corporate Income Tax Act of February 15th 1992 and the tax due on that day on income earned since the beginning of the tax year. This amount refers to the overpayment from 2015.

25. Dererred tax assets

in PLN thd	Dec 31 2017	Dec 31 2016
Deferred tax assets	119,041	90,832
Deferred tax liabilities	(93,774)	(72,069)
Total deferred tax assets, net	25,267	18,764

Deferred tax assets relate to the following items:

Deductible temporary differences between the tax base and accounting value of assets and liabilities

in PLN thd	Dec 31 2017	Dec 31 2016	Change in 2017
Accrued interest to be paid	65,835	52,085	13,750
Accrued interest due to banks	19,548	37,972	(18,424)
Effective rate adjustment – bank's deposits	-	(4)	4
Accrued interest – subordinated loans	12,486	1,040	11,446
Accrued interest due to clients	30,946	12,352	18,594
Provision for interest expenses on a working deposit	-	225	(225)
Accrued interest – IRS	2,855	511	2,344
Effective rate adjustment – clients deposits	-	(11)	11
Provisions for expenses	116,987	101,284	15,703
Premium on debt securities	-	-	-
Impairment losses on credit exposures and fair value of financial instruments	294,521	309,314	(14,793)
Paid costs related to option premium	72,880	-	72,880
Difference between the tax base and accounting value of property and equipment	68,404	2,685	65,719
Revenue due for current year, received in the following year, as remuneration for financial services	7,613	4,029	3,584
Valuation of financial assets – derivatives	292	5,264	(4,972)
Valuation of financial assets available for sale	-	3,398	(3,398)
Total	626,532	478,059	148,473
Tax rate	19%	19%	-
Deferred tax assets	119,041	90,832	28,209
including taken to revaluation reserve	-	646	(646)
including taken to profit or loss	119,041	90,187	28,854

Deferred tax liabilities relate to the following items:

Taxable temporary differences between the tax base and accounting value of assets and liabilities

in PLN thd	Dec 31 2017	Dec 31 2016	Change in 2017
Accrued interest to be received	64,756	67,743	(2,987)
Unrealised discount on securities	63,785	-	63,785
Prepaid expenses	334,371	256,886	77,485
Valuation of financial assets – derivatives	17,623	24,007	(6,384)
Income on securities – accrued	-	26,506	(26,506)
Other accrued income	-	3,379	(3,379)
Valuation of financial assets available for sale	13,010	786	12,224
Total	493,545	379,307	114,238
Tax rate	19%	19%	-
Deferred tax liabilities	93,774	72,068	21,706
including taken to revaluation reserve	2,472	149	2,323
including taken to profit or loss	91,302	71,919	19,383

26. Other assets

in PLN thd	Dec 31 2017	Dec 31 2016
Various debtors, net	75,825	62,696
Receivables for card settlement	49,474	46,099
Receivables from insurers	3,748	1,896
Prepayments and accrued income	15,122	5,603
Public receivables	594	2,244
Other assets	-	2,898
Interbank settlements	22,546	5,654
Amounts due from clients under executed transactions	11,272	18,861
Amounts due from the Central Securities Depository of Poland	8,004	33,222
Accrued income	34,583	32,289
Receivables from DB Group entities	33,602	21,197
Total	167,946	163,467

Maturity structure of various debtors

in PLN thd	Dec 31 2017	Dec 31 2016
Not past due	75,917	62,615
Past due − up to one year	113	45
Past due − from 1 year to 3 years	660	721
Past due − from 3 years to 5 years	12	24
Past due – over 5 years	789	793
Various debtors, gross	77,491	64,198
Impairment losses	(1,666)	(1,502)
Various debtors, net	75,825	62,696

27. Amounts due to other banks

Amounts due to banks by type

in PLN thd	Dec 31 2017	Dec 31 2016
Current account	149,535	464,108
Term deposits	13,116,831	14,985,194
Loans received	61,142	172,813
Total	13,327,508	15,622,115

Amounts due to banks by maturity

in PLN thd	Dec 31 2017	Dec 31 2016
Payable on demand	149,535	464,108
Definite	13,177,973	15,158,007
– up to 1 month	273,363	398,044
– over 1 month to 3 months	331,907	335,320
– over 3 months to 1 year	2,525,578	2,038,115
– over 1 year to 5 years	8,599,646	8,958,327
– over 5 years	1,447,479	3,428,201
Total	13,327,508	15,622,115

Changes in loans received from banks

in PLN thd	2017	2016
Balance at beginning of period	172,813	426,595
Increases due to:	-	13,752
– loans received	-	-
– interest on loans received	-	222
– currency translation differences	-	13,530
Decreases due to:	(111,671)	(267,534)
– repayment of loans	(99,534)	(267,134)
– repayment of interest	-	(400)
– currency translation differences	(12,137)	-
Balance at the end of period	61,142	172,813

28. Amounts due to customers

Amounts due to customers by type

in PLN thd	Dec 31 2017	Dec 31 2016
Current account		
Individuals	4,517,991	4,051,887
Businesses	9,316,854	9,825,652
Public sector	83,580	76,417
Total current accounts	13,918,425	13,953,956
Term deposits		
Individuals	3,531,769	2,030,168
Businesses	2,817,124	1,757,958
Public sector	39,667	39,870
Total term deposits	6,388,560	3,827,996
Deposits securing derivative transactions		
Individuals	-	-
Businesses	33,678	15,748
Public sector	-	-
Total deposits securing derivative transactions	33,678	15,748
Total	20,340,663	17,797,700

Amounts due to customers by maturity

in PLN thd	Dec 31 2017	Dec 31 2016
Payable on demand	13,918,425	13,953,956
Definite	6,422,238	3,843,744
- up to 1 month	2,226,753	1,206,939
- over 1 month to 3 months	546,113	780,820
- over 3 months to 1 year	3,299,276	1,620,008
- over 1 year to 5 years	339,468	230,171
- over 5 years	10,628	5,806
Total	20,340,663	17,797,700

29. Financial liabilities at fair value through profit or loss

Negative market value of unmatured derivative financial instruments

in PLN thd	Dec 31 2017	Dec 31 2016
Interest rate contracts	3,148	4,127
– IRSs	3,148	4,127
FX contracts	109,079	85,405
– FX spots/forwards	26,651	22,516
– FX swaps	82,428	38,768
– Options embedded in deposits	-	81
– Currency options sold	-	24,040
Total	112,227	89,532

Financial liabilities at fair value through profit or loss by maturity

in PLN thd	Dec 31 2017	Dec 31 2016
– up to 1 month	50,288	33,229
– over 1 month to 3 months	21,116	18,998
– over 3 months to 1 year	35,527	24,648
– over 1 year to 5 years	3,007	10,019
– over 5 years	2,289	2,638
Total	112,227	89,532

Offsetting financial instruments

Dec 31 2017 in PLN thd	Valuation of derivative finan-cial instruments	Notional offset amount	Margin (received/ provided)	Net amount
Financial assets at fair value through profit or loss	67,203	38,171	-	29,032
Financial liabilities at fair value through profit or loss	112,227	38,171	3,718	70,338

Dec 31 2016 in PLN thd	Valuation of derivative finan-cial instruments	Notional offset amount	Margin (received/ provided)	Net amount
Financial assets at fair value through profit or loss	138,674	3,791	-	134,883
Financial liabilities at fair value through profit or loss	89,532	3,791	-	85,741

30. Provisions

in PLN thd	Provisions for retirement severance payments	Provisions for off-balance-sheet liabilities	Provisions for disputes	Restructuring provision	Provision for expenses related to the Bank's oper-ating activities	Total
As at Jan 1 2017	1,556	12,561	992	10,641	-	25,750
Provisions recognised during the year	1,715	30,156	432	-	-	32,303
Provisions reversed during the year	(1,463)	(24,580)	-	(6,510)	-	(32,553)
Reclassification of provision	-	(34)	(2)	-	-	(36)
As at Dec 31 2017	1,808	18,102	1,422	4,131	-	25,463
As at Jan 1 2016	1,146	8,762	771	12,590	11,518	34,787
Provisions recognised during the year	1,463	16,231	297	-	-	17,991
Provisions reversed during the year	(1,053)	(12,432)	(76)	(1,949)	(11,518)	(27,028)
Reclassification of provision	-	-	-	-	-	-
As at Dec 31 2016	1,556	12,561	992	10,641	-	25,750

Provisions for off-balance-sheet liabilities

Provisions for off-balance-sheet liabilities comprise provisions for losses incurred but not reported related to off-balance-sheet exposures.

Provisions for disputes

The total value of litigation in court disputes in which the Group acted as the respondent was PLN 71m as at December 31st 2017 and PLN 32m as at December 31st 2016.

Where the Group believed that the likelihood of an outflow of resources embodying economic benefits was higher than 50%, the Group recognised provisions for such disputes. As at December 31st 2017, provisions for legal claims arising from disputes in which the Group was a respondent totalled PLN 1,420 thousand, and PLN 992 thousand as at December 31st 2016.

The Group is involved in proceedings brought against it by the President of the Office for Competition and Consumer Protection ("President of UOKiK"), related to the use of monopoly practices with respect to credit cards by the Parent and other Polish banks. On December 29th 2006, the President of UOKiK issued a decision. Following an appeal against that decision, in 2013 the Regional Court in Warsaw reduced the penalty imposed on the Parent from PLN 2,894 thousand to PLN 25 thousand. However, in response to a number of appeals filed, the Court of Appeals in Warsaw changed the above decision of the Regional Court by dismissing in whole all appeals filed by banks, including the parent, against the decision of the President of UOKiK and against the ruling of the

Regional Court. The Parent paid PLN 2,894 thousand under the decision of the President of UOKiK. The Bank has the right to file a cassation appeal against the ruling of the Court of Appeals.

Restructuring provisions

As at the reporting date, the Parent recognised restructuring provisions, including PLN 3,105 thousand for employment restructuring and PLN 1,026 thousand for restructuring of the branch network, as at December 31st 2016 restructuring provisions amounted: PLN 2,754 thousand for employment restructuring and PLN 7,887 thousand for restructuring of the branch network.

31. Tax liabilities

As at December 31st 2017, the Group recognised current tax liabilities of PLN 30,779 thousand, representing the difference between the tax payable as at that date on income generated from the beginning of the financial year and total advance payments made in accordance with the simplified procedure under Art. 25.6 of the Corporate Income Tax Act of February 15th 1992. Current tax liabilities of Group companies for 2017 were paid by the statutory deadline.

32. Other liabilities

in PLN thd	Dec 31 2017	Dec 31 2016
Interbank settlements	197,698	141,925
Various creditors	49,327	42,368
Public charges	17,994	22,626
Amounts due to brokerage houses and the CSDP	82	5,123
Other payables	33,663	23,020
Provisions, including:	132,659	103,495
for awards and bonuses	22,215	14,957
for unpaid invoices	96,768	70,559
for unused holidays	9,755	8,311
other	3,921	9,668
Deferred income	23,825	19,462
Total	455,248	358,019

Deferred income includes provisions for the return of insurance commission on intermediation in the sale of insurance offered with consumer loans and distribution of investment-linked insurance products.

33. Subordinated liabilities

Subordinated liabilities include as at the balance sheet date two subordinated loans received from Deutsche Bank AG.

Financing provider: Deutsche Bank AG	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2017	Maturity date	Amount outstanding as at Dec 31 2017
Principal	55,000	EUR	1.701	Jul 4 2018	229,399
Interest	231	EUR	x	x	965
Total	55,231	EUR	x	x	230,364

Financing provider: Deutsche Bank AG	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2016	Maturity date	Amount outstanding as at Dec 31 2016
Principal	55,000	EUR	1.729	Jul 4 2018	243,320
Interest	235	EUR	x	x	1,040
Total	55,235	EUR	x	x	244,360

Financing provider: Deutsche Bank AG	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2017	Maturity date	Amount outstanding as at Dec 31 2017
Principal	300,000	EUR	3.81	Apr 29 2026	1,251,271
Interest	2,762	EUR	x	x	11,520
Total	302,762	EUR	x	x	1,262,791

Financing provider: Deutsche Bank AG	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2016	Maturity date	Amount outstanding as at Dec 31 2016
Principal	300,000	EUR	3.839	Apr 29 2026	1,327,200
Interest	2,783	EUR	x	x	12,313
Total	302,783	EUR	x	x	1,339,513

Subordinated liabilities include:

1) A loan received from Deutsche Bank (Malta) Ltd (formerly Deutsche Financial Services (Malta) Ltd.) on July 4, 2008 with a 10-year maturity period. The funds obtained from the loan were used to develop the business. On September 2, 2008, the Bank obtained the PFSA's consent to credit the amount from the supplementary capital loan for the purpose of calculating the capital adequacy ratio. In 2016, as a result of organizational changes in the Deutsche Bank Group, a subordinated loan was transferred from Deutsche Bank (Malta) to Deutsche Bank AG, without changing the terms of the loan itself. In March 2016, the parent company obtained the PFSA's renewed consent to include the amount from the supplementary capital loan for the purpose of calculating the capital adequacy ratio.
2) The loan was obtained from Deutsche Bank AG on April 29th, 2016 with a 10-year maturity. On May 24th, 2016, the parent company obtained the PFSA's consent to credit the amount from the supplementary capital loan for the purpose of calculating the capital adequacy ratio.

Changes in subordinated loans received from banks

in PLN thd	2017	2016
Balance at beginning of period	1,583,873	235,521
Increases due to:	53,152	1,370,797
– loans received	-	1,314,600
– interest on loans received	53,152	34,660
– currency translation differences	-	21,537
Decreases due to:	(143,870)	(22,445)
– repayment of loans	-	-
– repayment of interest	(54,020)	(22,445)
– currency translation differences	(89,850)	-
Balance at the end of period	1,493,155	1,583,873

34. Parent's share capital

In PLN	Dec 31 2017	Dec 31 2016
Shares outstanding as at Jan 1 2017 – fully paid-up	2,651,449,384	2,651,449,384
Shares outstanding as at Dec 31 2017 – fully paid-up	2,651,449,384	2,651,449,384

Share capital (structure)

Series / issue	Type of shares	Number of shares	Series/issue at par value (In PLN thd)	Manner of payment for share capital	Registration date	Dividend right (since)
I	ordinary registered	1,000,000	1,000	cash	Nov 4 1991	Jan 1 1992
II	ordinary bearer	2,500,000	2,500	cash	Nov 24 1992	Jan 1 1993
III Series A	ordinary registered	250,000	250	cash	Aug 26 1993	Jan 1 1993
III Series B	ordinary registered	304,960	305	in-kind contribution	Nov 30 1993	Jan 1 1994
III Series C	ordinary bearer	189,465	189	cash	Nov 30 1993	Jan 1 1994
III Series D	ordinary registered	288,883	289	cash	Nov 30 1993	Jan 1 1993
III Series E	ordinary bearer	1,300,000	1,300	cash	Feb 16 1994	Jan 1 1994
III Series F	ordinary bearer	1,666,692	1,667	cash	Apr 13 1994	Jan 1 1994
IV	ordinary bearer	1,971,068	1,971	cash	Jun 16 1994	Jan 1 1994
V	ordinary bearer	3,031,014	3,031	cash	Dec 30 1994	Jan 1 1995
VI	ordinary registered	1,671,915	1,672	in-kind contribution	Jun 23 1997	Jan 1 1997
VII Series A	ordinary bearer	14,261,897	14,262	cash	Dec 22 1997	Jan 1 1998
VIII Series AA	ordinary bearer	235,000,000	235,000	cash	Mar 20 2000	Jan 1 2000
IX Series BB	bearer	34,620,975	34,621	cash	Jul 25 2000 Jul 28 2000	Jan 1 2000
X	ordinary bearer	38,215,967	38,216	cash	Dec 28 2001	Jan 1 2002
Cancellation of shares	ordinary bearer	(150,568,503)	(150,569)	voluntary cancellation, unpaid	Oct 27 2004	not applicable
XI	ordinary registered	89,000,000	89,000	cash	Aug 18 2005	Jan 1 2005
XII	ordinary registered	121,951,219	121,951	cash	Nov 29 2006	Jan 1 2007
XIII	ordinary registered	185,000,000	185,000	cash	Sep 26 2007	Jan 1 2008
XIV	ordinary registered	257,013,000	257,013	cash	Sep 7 2009	Jan 1 2010
XV	ordinary registered	193,000,000	193,000	cash	May 26 2010	Jan 1 2011
XVI	ordinary registered	167,000,000	167,000	cash	Dec 3 2010	Jan 1 2011
XVII	ordinary registered	121,860,972	121,861	cash	Aug 25 2011	Jan 1 2012
XVIII	ordinary registered	300,000,000	300,000	cash	Oct 25 2011	Jan 1 2012
XIX	ordinary registered	110,000,000	110,000	cash	Apr 27 2012	Jan 1 2013
XX	ordinary registered	107,000,000	107,000	cash	Jun 22 2012	Jan 1 2013
XXI	ordinary registered	813,919,860	813,920	acquisition under Art. 492.1.1 of the Commercial Companies Code	Jan 31 2014	Jan 1 2013
Total number of shares		2,651,449,384				
Total share capital			2,651,449			

Par value per share = PLN 1.00

The Group did not issue any preference shares.

On April 20th, 2018, the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, registered an increase of share capital by PLN 40 million as a result of the XXII issue of 40,000,000 ordinary shares with a nominal value of PLN 1 each, at a price 5 PLN per issue. The shares were taken by the current shareholder, ie Deutsche Bank AG. The surplus of the issue price over the nominal value increased the Bank's share premium capital.

35. Other components of equity

in PLN thd	Dec 31 2017	Dec 31 2016
Share premium	525,366	525,366
Revaluation reserve, including	10,624	(2,031)
valuation of portfolio of financial assets available for sale	13,011	(2,612)
deferred tax	(2,472)	496
other revaluation reserve	85	85
Retained earnings	1,021,461	1,035,993
reserve funds	319,948	319,948
capital reserves	639,445	572,615
general risk fund	56,419	51,374
profit for period	5,649	92,056
Total	1,557,195	1,559,328

As at the date of signing these financial statements, the Management Board of the Parent did not resolve on the recommended allocation of profit for 2017. The Management Board intends to recommend to the Supervisory Board a resolution to retain 100% of the profit for 2017 in order to increase capital reserves.

As at the end of the reporting period, the Group had no commitments relating to any dividends that were declared but not paid.

36. Fair value

Fair value of financial assets and liabilities

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction other than a compulsory sale or liquidation, and is best reflected by a market price, if available.

Below is presented a summary of the carrying amounts and fair values for those groups of assets and liabilities which are not presented at fair value in the statement of financial position:

Dec 31 2017

in PLN thd	Carrying amount	Fair value
Assets		
Deposits with other banks, and loans and advances to other banks	820,379	819,852
Loans and advances to customers	30,236,599	28,505,550
Factoring	641,442	641,442
Credit cards	114,687	114,687
Mortgage loans	19,811,330	18,131,982
Investment loans	4,543,820	4,504,763
Revolving loans	418,463	418,463
Overdrafts	1,255,472	1,255,472
Other	585,592	585,592
Consumer loans	2,801,552	2,788,948
Lombard loans	64,241	64,201
Liabilities		
Amounts due to other banks	13,327,508	13,564,508
Current deposits	149,535	149,535
Term deposits and loans	13,177,973	13,414,972
Amounts due to customers	20,340,663	20,354,625
Current deposits	13,918,370	13,918,370
Term deposits	6,422,293	6,436,255
Subordinated liabilities	1,493,155	1,640,453

Dec 31 2016

in PLN thd	Carrying amount	Fair value
Assets		
Deposits with other banks, and loans and advances to other banks	851,847	846,767
Loans and advances to customers	30,512,017	28,082,031
Factoring	394,389	394,389
Credit cards	114,507	114,507
Mortgage loans	22,116,068	19,670,582
Investment loans	3,492,995	3,470,976
Revolving loans	393,662	393,662
Overdrafts	1,004,640	1,004,640
Other	526,735	531,812
Consumer loans	2,403,274	2,435,646
Lombard loans	65,747	65,815
Liabilities		
Amounts due to other banks	15,622,115	15,819,724
Current deposits	464,108	464,108
Term deposits and loans	15,158,007	15,355,616
Amounts due to customers	17,797,700	17,784,513
Current deposits	13,953,956	13,953,956
Term deposits	3,843,744	3,830,557
Subordinated liabilities	1,583,873	1,583,496

Determination of fair value

Below is presented a summary of the key methods and assumptions used in estimating fair value of financial instruments.

Amounts due from other banks:
The fair value of deposits with other banks has been defined by discounting future cash flows to their present value using market interest rates. Margins used in the discounting comprise the liquidity premium curve quoted by the Deutsche Bank A.G. Group at the end of 2017 and 2016 respectivly.

Loans and advances to customers:
The fair value of loans and advances to customers has been determined by discounting future cash flows related to main loan product groups to their present value using current interest rates applicable to an adequate portfolio, that is interest rates applicable to loans granted in the last quarter of 2017 and 2016. In the case of other amounts due from customers, their fair value is represented by their carrying amount.

The fair value of mortgage loans advanced to customers has been determined as the present value of future cash flows calculated using current interest rates, taking into account the margin changes from the time the loan was granted. The interest rates used in the calculation account for the liquidity premium that the Group would have to pay in transactions made to finance its lending activity. The regulatory risk discount for possible changes to the legislation on the conversion of mortgages is not included. As at the date of preparation of the financial statements, it is not possible to reasonably estimate.

Amounts due to other banks:
The fair value of the entire portfolio of term deposits has been determined by discounting future cash flows to their present value using market interest rates. For other amounts due from banks, the carrying amount has been used as an approximation of their fair value.

Amounts due to customers
The fair value of fixed rate deposits from customers has been determined by discounting future cash flows related to main deposit product groups to their present value using current interest rates applicable to an adequate portfolio. Interest rates for deposits made in December 2017 and 2016 were assumed to be the current interest rates. Fair value of floating rate deposits from customers is equal to their carrying amount.

Subordinated loan:
In the case of the subordinated loan, the fair value has been determined by discounting future cash flows to their present value using market interest rates and the indicative premiums for such instruments at 2017 and 2016 respectively.

The Group calculates fair value of financial instruments using one of the following valuation techniques:
- Level I – financial instruments whose fair value is determined on the basis of direct quotations available in the market. In this category, the Group has classified its debt securities quoted in active markets.
- Level II – financial instruments measured at fair value using valuation models in which all material inputs are observable in an active market (either directly or indirectly). In this category, the Group classified its National Bank of Poland bills and derivatives transactions measured on the basis of discounted cash flow models using inputs which are observable in the market or on the basis of option valuation models. Level II financial instruments are measured using yield curves. The yield curves are built based on market quotations of the following instruments: IRS (to measure IRSs), FRA (to measure IRSs for up to one year), swap points (to measure fx swap and fx forward transactions).
- Level III – financial instruments measured at fair value on the basis of valuation models in which material inputs are not observable in an active market. In this category the Group presents VISA INC series C shares. The shares are indexed to Visa Common A Shares. As of the date of settlement of the Visa Europe Limited acquisition transaction by Visa Inc. value derived from the stock exchange value of series A, index 13,952 and EUR / PLN exchange rate as at the balance sheet date was adopted.

The Group may reclassify its assets or liabilities between Level I and Level II if quotations from an active market cease to be a vailable at the end of a reporting period, or between Level II and Level III if a valuation input which has a material effect on the valuation ceases to be observable. In the discussed reporting periods, there were no reclassifications between fair value levels.

In the case of derivative instrument assets, a valuation adjustment reflecting counterparty risk is calculated (credit value adjustment, CVA). The Group deems the effect of the CVA (which is an unobservable input) to be immaterial from the point of view of the total valuation. Accordingly, the derivative instrument assets are presented in Level II.

The table below presents a breakdown of financial assets and liabilities into the three levels presented above:

Dec 31 2017

in PLN thd	Carrying amount	Fair value	Level I	Level II	Level III
Assets					
Cash and transactions with Central Bank	974,588	974,588	-	974,588	-
Deposits with other banks, and loans and advances to other banks	820,379	819,852	-	819,852	-
Loans and advances to customers	30,236,599	28,505,550	-	-	28,505,550
Factoring	641,442	-	-	-	641,442
Credit cards	114,687	-	-	-	114,687
Mortgage loans	19,811,330	-	-	-	18,131,982
Investment loans	4,543,820	-	-	-	4,504,763
Revolving loans	418,463	-	-	-	418,463
Overdrafts	1,255,472	-	-	-	1,255,472
Other	585,592	-	-	-	585,592
Consumer loans	2,801,552	-	-	-	2,788,948
Lombard loans	64,241	-	-	-	64,201
Financial assets at fair value through profit or loss	67,203	67,203	-	67,203	-
Financial assets held as investments	7,624,159	7,624,159	5,875,243	1,739,522	9,394
Other financial assets	117,647	117,647	-	117,647	-
Equity and liabilities					
Amounts due to other banks	13,327,508	13,564,508	-	13,564,508	-
Current deposits	149,535	149,535	-	149,535	-
Term deposits and loans	13,177,973	13,414,972	-	13,414,972	-
Amounts due to customers	20,340,663	20,354,625	-	20,354,625	-
Current deposits	13,918,370	13,918,370	-	13,918,370	-
Term deposits and loans	6,422,293	6,436,255	-	6,436,255	-
Financial liabilities at fair value through profit or loss	112,227	112,227	-	112,227	-
Subordinated liabilities	1,493,155	1,640,453	-	1,640,453	-
Other financial liabilities	280,770	280,770	-	280,770	-

Dec 31 2016

in PLN thd	Carrying amount	Fair value	Level I	Level II	Level III
Assets					
Cash and transactions with Central Bank	1,053,417	1,053,417	-	1,053,417	-
Deposits with other banks, and loans and advances to other banks	851,847	846,767	-	846,767	-
Loans and advances to customers	30,512,017	28,082,031	-	-	28,082,031
Factoring	394,389	394,389	-	-	394,389
Credit cards	114,507	114,507	-	-	114,507
Mortgage loans	22,116,068	19,670,582	-	-	19,670,582
Investment loans	3,492,995	3,470,976	-	-	3,470,976
Revolving loans	393,662	393,662	-	-	393,662
Overdrafts	1,004,640	1,004,640	-	-	1,004,640
Other	526,735	531,812	-	-	531,812
Consumer loans	2,403,274	2,435,646	-	-	2,435,646
Lombard loans	65,747	65,815	-	-	65,815
Financial assets at fair value through profit or loss	138,674	138,674	-	138,674	-
Financial assets held as investments	6,799,137	6,799,137	5,042,909	1,749,631	6,597
Other financial assets	123,331	123,331	-	123,331	-
Equity and liabilities					
Amounts due to other banks	15,622,115	15,819,724	-	15,819,724	-
Current deposits	464,108	464,108	-	464,108	-
Term deposits and loans	15,158,007	15,355,616	-	15,355,616	-
Amounts due to customers	17,797,700	17,784,513	-	17,784,513	-
Current deposits	13,953,956	13,953,956	-	13,953,956	-
Term deposits and loans	3,843,744	3,830,557	-	3,830,557	-
Financial liabilities at fair value through profit or loss	89,532	89,532	-	89,532	-
Subordinated liabilities	1,583,873	1,583,496	-	1,583,496	-
Other financial liabilities	212,436	212,436	-	212,436	-

As at the end of 2017 and 2016, the Group held assets measured at fair value using valuation techniques based on material inputs other than sourced from an active market (Level III). For a description of the measurement, see Note 21.

The table below presents changes in the fair value of instruments measured using measurement methods based on inputs other than data sourced from the market in 2017 and 2016:

in PLN thd	Shares
Opening balance – Jan 1 2017	6,597
Gain/loss	2,797
Recognised in the statement of profit or loss	-
Recognised in equity	2,797
Conversion in shares	-
Disposal	-
Repayment/maturity	-
Impairment losses	-
Closing balance – Dec 31 2017	9,394

in PLN thd	Shares
Opening balance – Jan 1 2016	37,930
Gain/loss	6,984
Recognised in the statement of profit or loss	44,395
Recognised in equity	(37,411)
Conversion in shares	6,080
Disposal	(44,397)
Repayment/maturity	-
Impairment losses	-
Closing balance – Dec 31 2016	6,597

37. Contingent and off-balance-sheet liabilities

The Group has commitments to provide loans. These commitments include approved loans that have not yet been disbursed and current account overdrafts.

The Group issues guarantees and letters of credit which secure discharge of liabilities towards third parties by the Group's clients. Guarantee and letter-of-credit agreements provide for specified limits and are made on average for periods of up to three years. The Group also issues loan promises.

The values of contingent liabilities under contracts, broken down into individual categories, are presented in the table below. The values of guarantees and letters of credit shown in the table below reflect the maximum possible loss which would be disclosed as at the end of the reporting period if clients defaulted on all of their obligations.

Value of conditional commitments assumed

in PLN thd	Dec 31 2017	Dec 31 2016
Credit facilities	2,959,071	2,738,877
Import/export letters of credit issued/confirmed	35,073	28,128
Guarantees	1,562,942	1,529,212
Other commitments, including:	577,059	511,267
Commitments under loan promises	137,850	211,246
Total	5,134,145	4,807,484

Many of the assumed contingent liabilities will expire before they are fully or partly paid, therefore their values do not reflect anticipated future cash flows.

As part of its operations, the Bank receives security for credit exposures. These are typically guarantees or sureties issued by other banks or non-banking entities. Such guarantees or sureties are recognised as conditional commitments received in the amounts specified in the relevant agreements.

Value of conditional commitments received

in PLN thd	Dec 31 2017	Dec 31 2016
Financing commitments	530,000	451,668
Guarantee commitments	1,261,968	818,470
Total	1,791,968	1,270,138

The nominal values of current transactions related to currency exchange operations and derivative transactions are presented below.

in PLN thd	Dec 31 2017	Dec 31 2016
Customers' securities (brokerage business)	2,133,200	1,747,434

Liabilities related to the settlement of currency transactions and notional amounts of derivative transactions

in PLN thd	Dec 31 2017	Dec 31 2016
Current transactions related to currency exchange	577,466	2,135,352
Derivative transactions	13,300,923	18,833,605
Total	13,878,389	20,968,957
Derivative transactions		
Currency forwards	4,159,248	3,295,774
Purchased	2,080,695	1,646,605
Sold	2,078,553	1,649,169
Currency swaps	8,126,862	12,177,192
Purchased	4,028,170	6,099,301
Sold	4,098,692	6,077,891
Interest rate swaps (IRS)	1,014,813	1,006,979
Currency options	-	2,346,262
Notional amount purchased	-	1,173,131
Notional amount sold	-	1,173,131
Options embedded in deposits	-	7,398
Notional amount purchased	-	3,699
Notional amount sold	-	3,699
Total derivative transactions	13,300,923	18,833,605

38. Assets serving as security

As at December 31st 2017, the Group held assets which secured its liabilities and contingent liabilities, in the form of Treasury bonds with a par value of PLN 107,000.00 thousand (December 31st 2016: PLN 107,000.00 thousand), representing coverage of the Guaranteed Deposit Protection Fund in accordance with Art. 369 of Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution as well as security for deposits placed by a subsidiary – in the amount of PLN 25,000.00 thousand PLN (December 31st, 2016 – PLN 25,000.00). In connection with the amendment of the BFG act and the introduction of contributions to the Guarantee Fund and the Forced Restructuring Fund, the Group also maintains bonds covering the obligations to pay contribution. As at December 31, 2017, the value of the liability to be paid to the Guarantee Fund was PLN 3,063 thd, while for the Forced Restructuring Fund, PLN 10,550 thd. The bonds constituting the coverage of payment obligations were worth PLN 3,490 thd, respectively PLN 12,000 thd.

39. Operating leases

Deutsche Bank Polska S.A. Group as a lessee

Lease payments under irrevocable operating leases are specified below:

in PLN thd	Dec 31 2017	Dec 31 2016
Up to one year	47,595	53,378
From 1 year to 5 years	123,413	125,275
Over 5 years	22,230	41,358
Total	193,238	220,011

The Group mostly leases vehicles under operating leases. The lease agreements are usually made for periods of three and half years, with an option to prolong the lease thereafter. None of the lease agreements provides for contingent payments.

In 2017 and 2016, operating lease costs were PLN 6,125 thousand and PLN 6,586 thousand, respectively.

The Group leases office space under operating lease agreements, which are usually made for five to ten years. Cost of lease of office space in the financial year 2017 was PLN 54,058 thousand (2016: PLN 61,317 thousand); the average monthly cost of lease of office space was PLN 4,505 thousand (2016: PLN 5,110 thousand).

40. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows include deposits with maturities of less than three months, excluding instruments held for investment purposes.

in PLN thd	Dec 31 2017	Dec 31 2016
Cash and transactions with Central Bank	974,588	1,053,417
Short-term deposits made at other banks	607,276	846,314
Placements in other banks with a maturity of up to three months	213,103	142
Total	1,794,967	1,899,873

41. Remuneration of the Management Board, Supervisory Board and personnel

Remuneration of the Management Board and Supervisory Board of the Parent in the financial year and in the previous financial year

	2017		2018 – awards for 2017		2016		2017 – awards for 2016	
in PLN thd	Management Board	Supervisory Board	Management Board	Supervisory Board	Management Board	Supervisory Board	Management Board	Supervisory Board
Salaries and wages	12,758	632	1,489	-	12,845	412	206	-
Other short-term benefits	99	-	-	-	216	-	-	-
Long-term benefits	60	-	-	-	504	-	-	-
Termination benefits	-	-	-	-	1,281	-	-	-
Total	12,917	632	1,489	-	14,846	412	206	-

The amounts include base salary, bonuses, social security contributions and additional benefits, such as benefits in kind, life insurance contracts and other insurance.

The parent company created a provision for the payment of variable remuneration components of the Management Board for 2017 in the amount of PLN 1,323 thousand (without social contributions). The planned payment regarding the part of cash paid out without deferring amounts to PLN 1,489 thousand (without social contributions) and was paid in March 2018, while the remaining part of the planned payments in the amount of PLN 2,234 thousand (without social contributions) will be postponed and paid out over the next 4 years, provided that the conditions underlying payment are met, partly directly in cash, and partly by reference to the value of a hypothetical instrument based on a formula relating to the carrying amount Bank's shares. In addition, the Parent Company created a provision for retention benefits for Management Board Members related to the transaction of sale of the Bank's retail part to BZWBK S.A. in the amount of PLN 6,985 thousand.

The provision created on December 31st, 2016 amounted to PLN 6,078 thousand, of which PLN 2,698 thousand was paid in 2017.

Loans, guarantees and other advances granted by the Group to the management

in PLN thd	Dec 31 2017	Dec 31 2016
Management Board members	12,213	13,667
Supervisory Board members	-	9
Total	12,213	13,676

42. Related party transactions

The following entities are related to the Group:
Parent – Deutsche Bank AG,
Other DB Group companies

As part of its operations, the Group executed a number of banking transaction with related parties, mainly with respect to loans and deposits received, services, and transactions in derivatives. Transactions with related parties are executed on arm's length terms.

The table below presents the value of material related-party transactions, the balance of individual items as at the year end, and the related income and expenses for the financial year.

DB Securities – subsidiary

in PLN thd	2017	2016
Amounts due from related party, including:	323	551
Fees and commissions receivable	264	495
Other receivables	59	56
Investments in subsidiaries	20,426	20,426
Amounts due to related party, including	202,511	137,259
Amounts in bank accounts	202,255	137,149
Amounts due under fees and commissions	256	110
Income, including:	5,955	10,256
Interest income	-	7
Fee and commission income	5,367	4,453
Other income	492	529
Dividends received	-	5,267
Net gain/loss on instruments at fair value through profit or loss and revaluation	96	-
Expenses, including:	(1,899)	(2,175)
Interest expense	(353)	(872)
Fee and commission expense	(1,546)	(1,303)
Off-balance-sheet liabilities:	25,000	25,000
Securities transfer of title	25,000	25,000

Deutsche Bank AG – Parent

in PLN thd	2017	2016
Amounts due from related party, including:	785,925	822,256
Current accounts, deposits	770,779	807,331
Financial assets at fair value through profit or loss	956	451
Other assets	14,190	14,474
Amounts due to related party, including:	10,790,699	11,515,414
Deposits	9,218,360	9,751,598
Loans	61,142	172,814
Subordinated loan	1,493,155	1,583,873
Financial liabilities at fair value through profit or loss	704	798
Other liabilities	17,338	6,331
Off-balance-sheet liabilities:	333,150	437,829
Guarantees issued	229,009	324,797
Guarantees received	751	-
FX spots/forwards	-	-
Interest rate swaps (IRS)	103,390	113,032
Income, including:	257,555	14,059
Interest income	8,457	15,120
Other income	(1,337)	(1,061)
Net gain/loss on instruments at fair value through profit or loss and revaluation	250,435	-
Expenses, including:	(158,842)	(136,006)
Interest expense	(128,362)	(99,402)
Fee and commission expense	(1,139)	(1,260)
Result on write-offs and provisions	18	-
Other administrative expenses, including:	(29,530)	(32,315)
Costs related to use of global business systems, global HR systems and projects participating	(29,530)	(32,315)
Net gain/loss on instruments at fair value through profit or loss and revaluation	171	(3,029)

Deutsche Bank AG London Branch

in PLN thd	2017	2016
Amounts due from related party, including:	63,167	97,135
Current accounts, deposits	1,747	10,375
Fees and commissions receivable	466	651
Financial assets at fair value through profit or loss	22,715	73,479
Other assets	38,239	12,630
Amounts due to related party, including:	106,067	199,642
Deposits	16,048	132,876
Financial liabilities at fair value through profit or loss	82,199	60,508
Other	7,820	6,258
Income, including:	(197,765)	15,524
Fee and commission income	2,452	16,296
Interest income	1,125	2,440
Net gain/loss on instruments at fair value through profit or loss and revaluation	(200,918)	(3,631)
Other	(424)	419
Expenses, including:	(7,364)	(14,755)
Interest expense	(1,588)	(2,988)
Other expenses	(5,803)	(11,767)
Result on write-offs and provisions	27	-
Off-balance-sheet liabilities:	9,487,683	14,549,175
Guarantees issued	57,310	83,846
FX spots/forwards	1,395,918	1,927,768
FX swaps	7,561,884	10,912,725
Interest rate swaps (IRS)	472,571	448,006
Currency options	-	1,176,830

Deutsche Bank Privat – und Geschäftskunden AG

in PLN thd	2017	2016
Amounts due from related party, including:	294	352
Current accounts, deposits	294	352
Amounts due to related party, including:	214,081	247,038
Deposits	214,032	247,038
Other	49	-
Expenses, including:	182	-
Other expense	182	-
Income, including:	1,236	1,440
Other income	1,236	1,440

Norisbank GmbH

in PLN thd	2017	2016
Amounts due from related party, including:	21	10
Current accounts, deposits	18	10
Other assets	3	-
Amounts due to related party, including:	3,714,307	5,033,370
Deposits	3,714,307	5,033,370
Expenses, including:	(11,003)	(16,950)
Interest expense	(11,003)	(16,950)
Income, including:	60,646	17
Interest income	74	17
Net gain/loss on instruments at fair value through profit or loss and revaluation	60,572	-

Other Group companies

in PLN thd	2017	2016
Amounts due from related party, including:	16,942	26,762
Current accounts	9,604	26,549
Other receivables	7,338	213
Amounts due to related party, including:	160,979	332,372
Amounts in bank accounts	143,417	332,326
Other liabilities	17,562	46
Income, including:	90,917	1,273
Interest income	83	161
Other income	(557)	1,112
Net gain/loss on instruments at fair value through profit or loss and revaluation	91,391	-
Expenses, including:	(16,981)	(18,465)
Interest expenses	(824)	(2,464)
Other expenses	(16,168)	(16,001)
Result on write-offs and provisions	11	-
Off-balance-sheet liabilities	353,216	249,600
Guarantees issued	353,216	248,804
Guarantees and sureties received	-	796

43. Events subsequent to the end of the reporting period

On April 20th 2018, the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, registered an increase of share capital by PLN 40 million as a result of the XXII issue of 40,000,000 ordinary shares with a nominal value of PLN 1 each, at a price 5 PLN per one. The shares were taken by the current shareholder, ie Deutsche Bank AG. The surplus of the issue price over the nominal value was increased by the Bank's share premium capital.

44. Credit risk

The Group incurs credit risk in relation to balance-sheet credit exposures such as loans granted, as well as off-balance sheet liabilities, which include instruments such as bank guarantees and undrawn credit facilities.

The main objective of credit risk management is to protect the Group's capital by ensuring that the quality of its credit portfolio matches its risk appetite, while maintaining sufficient yields and optimising capital allocation.

The Group defines credit risk as the risk of the borrower's insolvency or the risk of non-payment of the incurred liabilities within the contractual deadline, following from the borrower's inability to repay amounts due to the Group in part or in full.

The Group seeks to mitigate the risk of loss by reviewing the financial standing of borrowers and the likelihood of default before granting the loan and during the lending period, taking adequate security, and monitoring the timeliness of principal and interest repayments.

Credit process organisation

The Parent has isolated sales functions (related to customer procurement), credit approval functions and administration functions related to the preparation and monitoring of loan agreements and collateral, and separated them from other functions in the lending process. The Departments involved in the credit risk management process are organisational units that are independent from sales functions and report directly to the Management Board Member responsible for risk. The Departments involved in the credit risk management process have separate units responsible for approving credit exposures for individual clients, business clients as well as corporate clients, financial institutions and public sector clients, which serves to ensure the highest quality of the decisions.

As a way of responding to the regulatory requirements and with a view to implementing its strategy, the Group created the Property Valuation Office within its risk management structures. The Property Valuation Office employs professional property surveyors and specialists with adequate knowledge and experience, who verify the usefulness of third-party estimate surveys and written opinions on property value (valuation information) prepared by expert appraisers of third-party companies, critically assess the estimated property values, and monitor the property market in Poland on an on-going basis. The Property Valuation Office is also engaged in the process of periodic revision of the valuations of property used to secure credit exposures.

The Parent credit risk structures include dedicated units responsible for the implementation of credit processes, procedures and policies, and for the analysis and monitoring of the credit portfolio risks. In addition, an independent control function has also been created within the credit risk structures, which is performed by the Data Quality and Integrity Office.

A specialised unit, Rating and Projects Office, operating within the structures of the Credit Portfolio Management Department, creates, develops and validates rating models in cooperation with the relevant entities of the Deutsche Bank AG Group.

The credit risk structures also include the Restructuring Department. In order to effectively manage credit exposures showing evidence of impairment or meeting early warning criteria, the Restructuring Department assumes responsibility for high-risk exposures and makes every effort to help customers to overcome economic and financial difficulties, while minimising losses. The Restructuring Department assumes responsibility for all exposures with respect to business clients which are past due by more than 30 days or in respect of which impairment indicators have been identified. A restructuring process initiated at such an early stage ensures quick reaction to any deterioration in the borrower's financial standing or exposure quality, and thus minimises losses. The Restructuring Department is also responsible for the individual client restructuring and collection process, where it focuses on significant-value exposures as part of the pre-defined division of tasks.

In addition, to support the individual client restructuring and collection processes, the Group has created a separate, specialised unit responsible for that area, i.e. the Debt Collection Department. It is equipped with the necessary tools, systems and staff that are responsible for ensuring timely debt service by the Group's individual customers and some business clients. Once the monitoring and payment reminder notice activities are completed (no later than 70 days past due date), the portfolio is divided between the Restructuring Department and the Debt Collection Department based on a set of pre-defined criteria, to effectively manage the debt recovery process by applying appropriate collection strategies, depending on the exposure amount and the type of customer, utilising specialised bank services and professional IT tools.

In the case of receivables which require restructuring, the Restructuring Department and the Debt Collection Department undertake joint activities with a view to recovering the full amount of the debt.

The structures of the Bank's credit risk management units also include the Credit Portfolio Management Department, which is responsible for management information related to credit risk, analyses of the Group's credit portfolios.

Rules governing lending decision making and risk assessment

The rules for lending decision making as well as credit risk procedures and policies form the framework for the lending activities conducted by the Group and for credit risk management both with respect to individual exposures and with respect to exposure portfolios. The collection of these policies and procedures is subject to approval by the Bank's Management Board, and in some cases also by its Supervisory Board, with a view to ensuring that the policies and procedures are consistent with the Group's strategy and follow the evolution of the banking system and changes in the economic environment. The regulations in place at the Group cover all stages of the lending process, including lending decision making, credit analysis and risk assessment, monitoring of exposures and of borrowers through internal credit exposure reviews (covering entire portfolios or focused on individual exposures), identification of impairment indicators, security management, and the restructuring and debt collection processes. In order to ensure that the regulations are up to date and comply with the law, they are subject to periodic revision.

As a rule, lending decisions are made in compliance with the 'four eyes principle'. With the IT infrastructure, dedicated rating tools and computation engines in place at the Group, the lending process for individual and business clients is supported by IT tools, which allows decision-making powers to be partially de-escalated to the sales or transactional level.

Lending decision-making competencies relate in each case to the Group's total exposure towards a client or a group of clients having capital or organisational relations, and to the quality of the credit exposure associated with client or transaction risk (higher-risk exposures may be approved exclusively by employees having appropriate lending decision authority).

The Group follows a principle whereby the collateral offered may not on its own constitute the basis for granting a loan, therefore before a credit decision is made (whether with respect to any new commitment or extension or alteration of an existing one) borrowers must be evaluated in terms of their creditworthiness or ability to fully and timely perform their obligations towards the Group. The loan amount, type, lending period, repayment schedule and purpose for which it is granted must be properly matched with the client's risk profile and the type of business activity conducted by the client.

To quantify credit risk and improve the efficiency of the decision-making process, the Group uses rating tools. The Group has in place:
- IT applications supporting the assignment of ratings to individual and business clients,
- a rating process allowing it to assign ratings in the lending decision process using up-to-date information on the client derived from various sources,
- a re-rating process dedicated to individual and business clients whereby the ratings are regularly updated based on information collected by the Group,
- a system for periodic reviews of credit exposures, depending on client type and the size of the Group's exposure, as part of which client ratings are updated.

The rating methodology depends on the client segment and on the data required by the Group to perform risk assessment. In cooperation with specialised units of the Deutsche Bank A.G. Group, the Group develops rating models which take into account all material information on a client derived from internal sources (e.g. from a data warehouse) and from external sources (e.g. from credit reference agency Biuro Informacji Kredytowej S.A.), provided that the information collected by these sources is applicable to a given type of client.

With respect to individual and business clients, our overall rating philosophy envisages adopting such an approach to customer evaluation that ensures precise measurement of risk and high flexibility in combining rating components. Correctness, transparency and recurrence of rating assignment is achieved by:
- managing workflow systems and the tools that support assignment of ratings,
- portfolio reviews done by the Bank and independent reviews performed by specialised units of the Deutsche Bank A.G. Group,
- validations done locally as part of revision processes or by specialised units of the Deutsche Bank A.G. Group. The Group uses a 21 point rating scale to evaluate client credit risk, where the „iAAA" class designates clients with the lowest risk of default. The Group may re-calibrate its rating models once a year on the basis of current portfolio data.

Optimisation of credit risk

The borrower's creditworthiness and the probability of the borrower's default within a specified time horizon are the key factors taken into account in the decision-making process. Moreover, entering into a credit transaction by the Group is conditional on the provision of security, consistent with the parameters and definitions of the credit products offered by the Group. Whether security is required is determined by the assessment of credit risk associated with the client and with the requested transaction; this does not apply to products which by definition require no security. When accepting any specific security, the Group makes an objective assessment of such security in accordance with its internal criteria.

Collaterals provided to the Group in respect of its credit claims is of key importance to minimising unforeseen risks that may materialise in the future in the lending process. The principal objective of taking security is to mitigate the risk of loss by the Group in the case of the borrower's insolvency.

At the stage of credit analysis, the Group always assumes that the sale of collateral is substantially tantamount to liquidation of the asset serving as collateral, therefore any security is valued a priori exclusively from the point of view of its liquidation value.

As a rule, security must be created for the benefit of the Group and perfected before the first disbursement under the loan can be made, and must remain effective throughout the lending period.

The Group has defined a catalogue of forms of collaterals acceptable in the process of approval of credit exposures. Only some of them can be used as credit risk mitigation techniques.

Credit security may take the form of various legal instruments. It may be provided in the form of assets, but also in the form of the security provider's personal liability for repayment of the debt, with the objective of reducing the Bank's risk of loss under granted loans once it comes to debt collection.

Collaterals acceptable to the Group include:
- Personal security, based on personal liability of the security provider, including:
  - surety under civil law,
  - promissory note,
  - aval,
  - assignment of claims,
  - accession to debt,
  - assumption of debt,
  - bank guarantee,
  - loan insurance,

  - power of attorney over an account,
  - representation on submission to enforcement.
- Security interests in assets, where an entity's liability is limited to the value of individual items of its property, including:
  - security transfer of title,
  - pledge over rights,
  - registered pledge,
  - financial pledge,
  - blocking securities registered in a securities account or blocking investment fund units in the unitholder's register,
  - blocking cash in a bank account,
  - security deposit,
  - mortgage.

In choosing a specific form of collateral, the Bank takes into account such factors as loan repayment period, borrower's legal status, borrower's financial standing and feasibility of disposal of the security.

If the security is a mortgage over property, a senior mortgage status in the relevant land and mortgage register is preferred.

The basic criteria for evaluating the quality of collateral include its market value, liquidity, the time and cost required to complete the potential debt collection process, as well as the effectiveness of that process. If an asset is to be used as security defined in the credit approval decision for a given exposure, the Group has to be able to register and monitor it in line with separate procedures.

While estimating the value of collateral, the Group uses liquidation value, which allows it to realistically asses the amount recoverable in the event of the borrower's default.

The liquidation value, which is equal to average expected proceeds from forced sale of the security, is estimated based on minimum standard percentage deductions from market value (haircuts), consistent with the type of the security and indicated in the credit approval decision.

In the case of financing provided to individual and business clients, the haircuts are reviewed on an annual basis.

The Group monitors collaterals received (its value, and loan to value ratio) on an ongoing basis. Collateral may be monitored even daily, depending on its form and the type of financing provided to the client. If the Group becomes aware that the collateral it received is inadequate to the secured credit exposure, the client will be required to provide additional collateral or repay a part of funds owed to the Group.

With respect to capital requirements, the Group uses external creditworthiness assessments made by the following reputable rating agencies to calculate exposure risk weights and required security levels in accordance with the rules adopted for the Standardised Approach:
1. Fitch Ratings,
2. Moody's Investors Service,
3. Standard and Poor's Ratings Services.

For this purpose, the country's ratings from the three rating agencies are compared and the lowest of the three ratings is selected.

In the process of calculating capital requirements, the Group uses long-term debtor ratings (including country ratings), which is a current assessment of the debtor's overall financial capacity (creditworthiness) for repayment of financial liabilities. Debtors' ratings are applied to exposures to institutions. By applying external credit ratings, the Group respects guidelines of Article 138 of Regulation (EC) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648 / 2012 (hereafter CRR).

With respect to the use of risk mitigation techniques for the calculation of capital requirements for credit risk under the CRR, the eligible collaterals are divided by the Group into:
— funded credit protection and
— unfunded credit protection.

In addition, the Group applies a financial collateral comprehensive method for the purposes of determining the value of collateral and their inclusion in the calculation of the capital requirement for credit risk using the Standardized Approach. In case of funded credit protection applied in the Group, risk reduction assets are adequately liquid (ie, if they are sold they can obtain a net price that does not deviate from the market price) and their long-term value stable enough to ensure the effectiveness of applied credit protection. The degree of correlation, understood as the effect of deterioration of the credit rating of the debtor on the quality of the collateral, between the value of the assets used for the protection and the creditworthiness of the debtor is not significant.

The Group, using the Standardized Approach for the purpose of calculating capital requirements for credit risk, treats it as funded credit protection in accordance with Art. 197 CRR, the following financial collaterals:
— cash deposited at the Bank
— cash deposited with a third party bank (included in the calculation process as unrecoverable credit protection)
— debt securities
— shares
— units in CIUs

The Group does not use any other financial collateral as defined in art. 197 CRR.

The Group divides mortgage over property into:
— mortgage over residential property;
— mortgage over commercial property.

Exposures secured by mortgages on immovable property are classified under the Standardized Approach to a separate class of exposures secured by mortgages on immovable property – regardless of whether real estate collateral is effective (in accordance with Chapter 2, Title II of the CRR). Therefore, collateral in the form of mortgages on real estate is not strictly meaning by the technique of mitigating credit risk.

In the case of unfunded credit protection, the condition to recognize the party making the undertaking is its credibility and the credit protection agreement – its legal effectiveness in the relevant jurisdictions. The Group uses the Standardized Approach for the purpose of calculating capital requirements for credit risk as unfunded credit protection Guarantees and sureties in compliance with Art. 203 CRR. The Bank does not use other forms of unfunded credit protection as defined in Chapter 4 Title II of the CRR.

According to Art. 501 CRR The Group uses a supporting factor for exposures that meet the following criteria collectively:
— Exposure is a retail or business category, or category of exposure secured by mortgages on immovable property,
— Exposure is an exposure to an enterprise whose annual turnover does not exceed EUR 50 million,
— The aggregate amount of debtor's or group of related clients' liabilities towards the Bank and its parent companies and their subsidiaries, including any defaults, but excluding receivables or contingent receivables with collateral in the form of residential real estate, does not exceed according to the knowledge of the Bank – EUR 1.5 million.

The supporting factor is used for exposures belonging to the exposure classes "Retail Exposures", "Exposures to Entrepreneurs" or "Exposures secured with mortgages on immovable property "; Exposures in default are excluded.

Risk management

Risk is managed both at the level of individual credit exposures and at the portfolio level.

The process of credit risk management for individual credit exposures involves approving only those exposures for which risk indicators − calculated in accordance with the applicable procedures − are in the pre-defined ranges, as well as monitoring and internal reviews of individual exposures during the lending period. The purpose of exposure monitoring is to identify threats in order to undertake preventive measures and eliminate the consequences of credit risk. As the Group puts particular emphasis on effective monitoring of credit risk, it takes steps to improve its relevant procedures on an ongoing basis, adjusting them to the changing conditions. The Group has also implemented early warning criteria enabling early identification of impairment indications.

In the case of portfolio risk, risk management is performed by developing appropriate lending procedures, which includes setting the admissible risk parameters for individual customers and credit products, as well as principles for assessing customers' creditworthiness before a loan is granted, allocating customers to the appropriate risk categories, and setting concentration limits.

The Group also has in place a regularly-updated 'Industry list', which specifies the level of credit risk in individual industries based on external and internal data, enabling optimum management of industry-specific credit risk and appropriate structuring of the credit portfolio in terms of exposure to particular industries.

The Group also carries out regular stress testing of its credit portfolios to evaluate their sensitivity to changes in the macroeconomic environment.

Indications of impairment of individual material exposures are identified chiefly through quarterly monitoring. In the case of a portfolio of exposures, ongoing monitoring of the timeliness of debt service by customers is carried out to identify indications of impairment.

The method of valuation applied to a credit portfolio depends on the risk profile and the size of credit exposure. The homogeneous exposure portfolio is valued using collective methods based on statistical models. For the purposes of the valuation, exposure portfolios are grouped based on common characteristics. Individual material credit exposures (non-homogeneous portfolio) with evidence of impairment are assessed individually by experts, at least on a quarterly basis.

Credit risk for an exposure portfolio is measured by monitoring the level of exposures for which indications of impairment have been identified in relation to all credit exposures, distribution of risk classes (ratings), and regular monitoring of receivables past due by more than 90 days.

Identification of impairment

The methodology for identifying and estimating impairment is based on a breakdown of the Group's credit exposures into homogeneous and non-homogeneous portfolios. Each individual credit exposure has to be assigned to a specific portfolio and may only be included in this one portfolio for the duration of a given reporting period. However, an exposures may be transferred to another portfolio during a product's life if its amount changes. Exposures are assigned to the homogeneous and non-homogeneous portfolios by reference to a materiality threshold set at EUR 1m. Furthermore, non-homogeneous exposures include, irrespective of the financing amount, the exposure types indicated below in the section characterising the non-homogeneous exposure portfolio.

The homogeneous portfolio is defined as a collection of credit exposures of up to EUR 1m which are tested for impairment collectively due to the similar structure and characteristics of the products included in a given category. What is more, given their large number, agreements in the homogeneous portfolio cannot be tested for impairment individually. Six homogeneous portfolios have been defined based on such attributes as:
— product definition,
— product origination and administration process,

— presence/type of security,
— customer type,
— number of loan/credit facility agreements of similar size,
— amount of credit exposures of a given type.

The following homogeneous portfolios are currently distinguished:
— Retail Exposure Portfolio with small exposures (up to PLN 25 thousand)
— Retail Exposure Portfolio with large exposures (over PLN 25 thousand)
— Mortgage Loan Portfolio with small exposures (up to PLN 1 milion)
— Mortgage Loan Portfolio with large exposures (over PLN 1 milion)
— Business Loan Portfolio
— CF Loan Portfolio
— Credit Card Portfolio
— Restructured CF Exposure Portfolio

If a collection of credit facilities/loans is to be considered homogeneous (uniform), it is important that the risk profile indicating the customer's ability to meet their obligations and the losses incurred in connection with a specific credit facility/loan should be similar. In the case of homogeneous portfolios, impairment testing consists in monitoring past exposures/limits, relevant provisions, losses incurred, amounts written-off against provisions without derecognition, and the quality of the relevant portfolio which is determined through the transfer of credit exposures to successive delinquency baskets.

Past experience concerning losses generated by a specific portfolio is adjusted on the basis of the observation of homogeneous portfolio data to reflect the current conditions which did not affect historic data.

Collective analysis of the credit portfolio
As prescribed by the adopted methodology, for a given homogeneous portfolio the Group computes impairment losses reflecting the estimated amount of losses incurred on that homogeneous portfolio as at the reporting date. Based on the homogeneous characteristic of such portfolios, the Group developed an automatic process for recognition of adequate impairment losses and provisions.

If there is objective evidence of impairment of a credit exposure recognised at amortised cost, the amount of impairment loss is estimated as the difference between the amortised cost of the exposure and the present value of future cash flows discounted using the effective interest rate.

The Group identifies the following impairment indications for homogeneous portfolios:
— significant financial difficulties experienced by the borrower;
— defaulting on the agreement by delaying or discontinuing repayments.

Because of the application of the collective approach to the homogeneous portfolios, the impairment indications are observed based on the following variables:
— a loan/credit facility agreement has been terminated or interest accrual has been discontinued;
— credit exposure is past due 90 days of more,
— for economic or legal reasons related to the counterparty's financial difficulties, the counterparty has been granted a concession which would not have been granted otherwise. All restructuring actions undertaken against the Client are treated as a prerequisite of impairment,
— measurable criteria indicating significant financial difficulties of the borrower were identified during the Business Clients credit review (excluding those operating on the basis of simplified accounting).

Exposures in respect of which at least one of the above indications has been identified are treated as impaired exposures regardless of any existing collateral arrangements. Identifying a single event which triggered the impairment may not be possible, and the impairment may result from the coincidence of a number of the above indications.

The main objective of the collective approach is to replace complex characteristics of individual agreements by selecting common, average characteristics reflecting the behaviour of a given portfolio segment. Such an approach makes it possible to correctly value the entire portfolio as well as its individual segments. Impairment losses are recognised on both impaired exposures and non-impaired exposures in respect of which, as required by IAS 39, the Group recognises impairment losses for losses incurred but not reported (IBNR), as the historical data shows that such losses were incurred, but such exposures are not treated as impaired because no impairment indications have been identified or it is not possible to allocate incurred losses to individual exposures. In accordance with IAS 37, the Group also tests for impairment off-balance-sheet credit exposures by assessing whether there is objective evidence of any circumstances potentially changing the probability of the exposure materialisation, and determines the probability that a given exposure will be used in the future. The Group recognises provisions for that part of an off-balance-sheet exposure for which it is probable that an outflow of resources will occur, unless no reliable estimate can be made.

For the purposes of impairment measurement, the Group uses a statistical model that offers a consistent approach and allows it to calculate impairment losses and IBNR losses for credit exposures showing specific characteristics. The changes to the methodology introduced in 2014 involved replacing the model based on net flow rates with an approach based on calibrating each component of the impairment loss rate as a separate item. Based on historical data, the PD, LGD and CCF parameters presented below are calibrated at regular intervals. In addition, the Group directly estimates the provisions for off-balance-sheet liabilities in the portfolio of homogeneous exposures. In addition, the Group in 2016 decided to introduce changes in the methodology for calculating write offs and GVA reserves, ie IBNR write-offs for non-homogeneous exposures. As part of the above changes, 2 additional homogenous portfolios were also allocated - Retail Exposure Portfolio with large exposures and Mortgage Loan Portfolio with large exposures.

The components of the impairment measurement model are:
— the PD model that assesses the value at risk of impairment in the Loss Identification Period (LIP);
— the LGD model that assesses the amount of losses if impairment is identified, taking into account the effective interest rate for the purposes of estimating the time value of money;
— the EAD model that assesses the expected value of an exposure at the moment when impairment is identified. In the case of on-balance sheet exposures, EAD is equal to the exposure's gross carrying amount. In the case of off-balance sheet liabilities, EAD is equal to the off-balance sheet liability amount multiplied by CCF. The CCF specifies what portion of an off-balance sheet exposure is expected by the Group to be converted into an on-balance sheet exposure in the Loss Identification Period.

The general model of impairment loss measurement is as follows:

$$\textit{Impairment loss} = PD \cdot LGD \cdot EAD$$

In 2015, changes were made to account for the modification of the LGD parameter as a result of changes in the LTV level. That relationship was applied to the mortgage portfolio with respect to both unimpaired and impaired exposures. The new solution makes it possible to reflect market changes potentially affecting the mortgage portfolio in the portfolio impairment loss measurement without undue delay; in particular, it facilitates taking into account exchange rate movements and changes in the value of security.

The parameters of the collective impairment loss measurement model for homogeneous portfolios are calibrated on a quarterly basis. The impairment loss measurement model has a point-in-time (PIT) character, which is ensured, inter alia, by using the most up-to-date information to calibrate parameters and assigning higher weights to the most recent observations. The model as well as its component parameters are historically tested on a regular basis. Incurred losses are verified against expected losses at least once a year. The verification of incurred losses is performed in such a manner as to ensure that the effects of verification are accounted for as at the last day of the financial year.

Individual analysis of impairment of credit exposures

The following exposure types are allocated to the non-homogeneous portfolio:

- all credit exposures administered by the corporate client, financial institution and public sector areas,
- exposures which are non-homogeneous due to the nature of financing, customer type and collateral type, including:
  - exposures to local government institutions,
  - bank guarantees,
  - loans granted to finance the purchase of securities and loans secured with securities or other liquid assets, i.e. lombard loans and loans granted for purchase of shares,
- credit exposures in the corporate client (small and medium-sized enterprises) and individual client areas, where the exposure amount exceeds the defined materiality threshold.

If an indication of impairment occurs and is observed for a non-homogeneous exposure, an impairment loss is recognised in the amount equal to the difference between the current exposure amount measured at amortised cost and the present value of estimated future cash flows.

Non-homogeneous loans are tested for impairment if there is objective indication of impairment. Credit exposures must be reviewed in a number of cases, including the following situations:

- the borrower defaults on the loan agreement, i.e. payments are overdue by 90 or more days; in the case of financial sector entities the delinquency period implying an impairment is 45 days,
- the loan agreement has been terminated,
- for economic or legal reasons related to the counterparty's financial difficulties, the counterparty has been granted a concession which would not have been granted otherwise. A concession means changes that have significantly modified cash flows resulting from the balance-sheet credit exposure (a drop in NPV).
- the borrower has challenged the credit exposure and initiated court proceedings,
- the borrower has declared or is likely to declare bankruptcy,
- recovery proceedings have been instituted,
- as a result of a periodic review of the credit exposure, factors indicating increased risk have been identified, and assessment of the borrower's financial standing has led to a downgrading of its rating to a specific class,
- as part of such review, the borrower's financial standing has been assessed negatively, which entailed the necessity to submit the exposure to the Restructuring Department,
- liquidation of the company has been announced,
- a third party has initiated enforcement of claims against security,
- the debtor has been deleted from the register of businesses,
- the whereabouts of the borrower and the borrower's assets are unknown,
- the client's credit rating by a recognised and generally accepted external rating institution has been downgraded, for instance from investment-grade to speculative-grade, the rating of the client's home country has been downgraded from investment-grade to speculative-grade, or the rating of any debt securities issued by the client has been downgraded,
- an application has been filed requesting initiation of enforcement proceedings against the client,
- an active market in which a given on-balance-sheet credit exposure was quoted is disappearing due to financial difficulties.

In the case of non-homogeneous credit exposures, it is not necessary that multiple indicators of impairment are observed.

In addition, in respect of unimpaired non-homogeneous credit exposures, a provision is recognised in respect of losses incurred but not reported, called the General Value Adjustment (GVA). The GVA is calculated on the basis of probability of default by the client (PD), expected exposure value in the case of default, and loss given default (LGD).

Non-homogeneous exposures in the case of which impairment indicators have been identified are not always impaired exposures. If additional compensation, for instance interest on overdue debt, has been received, or the loan is extended at the current interest rate, than such additional income may be taken into account in the estimate of the present value of future cash flows.

If the impairment loss decreases in the next period when credit exposure is estimated, and the decrease can be objectively associated with an event which occurred subsequent to the impairment estimate, the loss is reversed (i.e. an appropriate amount of a previously recognised impairment loss is reversed). Impairment losses may be reversed in full only if the present value of expected future cash flows is equal to the carrying amount of the credit exposure.

Valuation models, including the assumptions on the basis of which the Group estimates impairment losses, are subject to periodic reviews with a view to reducing differences between the estimated and actual value of the losses.

Policies for writing-off receivables against provisions without derecognition

The methodology for writing-off receivables against provisions depends on the type of the portfolio to which a given credit exposure is allocated.

In accordance with the methodology for recognising impairment losses on a homogeneous portfolio, after a specific number of months have passed after an exposure was found to be impaired (60 months), this exposure, unless it has been recovered (repaid), is subject to a simulated write-off against provisions, with an automatic recognition of a charge equal to 100% of the exposure value. This period is cyclically backtested by the Group to meet the conditions for the removal of financial assets from the balance sheet in accordance with IAS 39.

In the case of non-homogeneous exposures, a decision to transfer an exposure to off-balance sheet records is made on a case-by-case basis if the Group decides that in view of the borrower's financial standing, the receivable cannot be recovered.

With respect to non-homogeneous exposures and secured homogeneous portfolios, any decision to write off receivables against provisions may be made only by employees of the Restructuring Department and of the Debt Collection Department, having appropriate credit discretions and authorities. The process of writing-off receivables against provisions is triggered automatically after an exposure reaches a certain delinquency status only in the case of homogeneous exposures. However, in each case a decision may be made by the Restructuring Department or the Debt Collection Department to make an early write-off or to withhold writing off an exposure against provisions, provided that any such decision must be documented and reflect the financial situation of the borrower.

The Group's results with respect to impairment losses, including information on costs of losses incurred but not reported (IBNR) and debt collection are presented in Note 11 – Impairment losses on financial assets.

Changes in impairment losses, including a specification of items such as amounts written off against provisions, foreign exchange differences, and reversal of impairment losses, are presented in Note 19 – Loans and advances to customers.

Maximum exposure to credit risk

in PLN thd	Dec 31 2017	Dec 31 2016
Credit risk exposures related to on-balance sheet assets are as follows:		
Loans and advances to banks	820,895	851,847
Loans and advances to customers:	30,836,792	31,118,087
Loans to individual customers:	23,092,667	25,070,682
Credit cards	120,255	122,657
Cash loans and other loans to individual customers	3,007,118	2,829,098
Mortgage loans	19,965,294	22,118,927
Loans to corporate customers	7,714,996	6,017,706
Loans to public sector customers	29,129	29,699
Financial assets at fair value	67,203	138,674
Financial assets held as investments	7,624,159	6,799,137
Debt securities	7,614,436	6,792,260
Shares and participation units	9,723	6,877
Credit risk related to off-balance sheet items is as follows:	5,134,145	4,807,484
Guarantee commitments	1,598,015	1,557,340
Lending commitments and other commitments related to loans	3,536,130	3,250,144

Given that loans and advances to banks and securities held by the Group are not subject to impairment and no impairment indications are identified in respect of them, they are not included in the tables presenting impaired and/or past due exposures.
The amount that best reflects the maximum exposure to credit risk is influenced by the security taken by the Group. As at December 31st 2017, the financial effect of the value of security received by the Group on the amount of impairment losses recognised on impaired portfolios in the case of which impairment losses were estimated through individual assessment, was PLN 110,589 thousand (as at December 31st 2016: PLN 131,254 thousand).

In the tables below (which adjustment concerned), the comparable data concerning gross receivables and impairment losses were corrected, which concerned the package of receivables sold in 2016. In the report for 2016, the Group showed gross receivables from clients in the amount of PLN 31,204,124 thousand PLN, whereas impairment losses accounted for PLN 692,107 thousand PLN.

Breakdown of financial assets into unimpaired and impaired exposures as at December 31st 2017

Individuals

in PLN thd	Credit cards	Mortgage loans	Other	Consumer loans	Lombard loans	Derivatives	Total	Share
Unimpaired financial assets, including:	112,560	19,723,188	149	2,740,584	64,432	-	22,640,913	98.0%
not past due and unimpaired	103,704	19,433,836	114	2,581,982	63,352	-	22,182,988	96.1%
past due but unimpaired	8,856	289,352	35	158,602	1,080	-	457,925	2.0%
Impaired financial assets	7,695	242,107	1,524	198,740	1,688	-	451,754	2.0%
Total	120,255	19,965,295	1,673	2,939,324	66,120	-	23,092,667	100.0%

Businesses, incl. Banks

in PLN thd	Factoring	Credit cards	Mortgage loans	Investment loans	Revolving loans	Overdrafts	Other	Derivatives	Total	Share
Unimpaired financial assets, including:	644,005	485	763	4,525,087	392,357	1,236,261	1,406,459	67,203	8,272,620	95.8%
not past due and unimpaired	643,733	485	754	4,462,753	388,746	1,162,101	1,405,794	67,203	8,131,568	94.2%
past due but unimpaired	272	-	9	62,334	3,611	74,160	666	-	141,052	1.6%
Impaired financial assets	17,206	-	-	108,881	91,365	89,790	52,362	-	359,604	4.2%
Total	661,211	485	763	4,633,968	483,722	1,326,051	1,458,821	67,203	8,632,224	100.0%

in PLN thd	Central banks and governments				Other financial assets				Financial assets total	
	Securities	Cash and current account with NBP	Total	Share	Shares	Other	Total	Share	Total	Share
Unimpaired financial assets, including:	7,614,436	974,588	8,589,024	100.0%	9,723	117,739	127,462	98.8%	39,630,019	98.0%
not past due and unimpaired	7,614,436	974,588	8,589,024	100.0%	9,723	117,739	127,462	98.8%	39,031,042	96.5%
past due but unimpaired	-	-	-	0.0%	-	-	-	0.0%	598,977	1.5%
Impaired financial assets	-	-	-	0.0%	-	1,574	1,574	1.2%	812,932	2.0%
Total	7,614,436	974,588	8,589,024	100.0%	9,723	119,313	129,036	100.0%	40,442,951	100.0%

Breakdown of financial assets into homogeneous and non-homogeneous portfolios
as at December 31st 2017

in PLN thd	Factoring		Credit cards		Mortgage loans		Investment loans		Revolving loans	
	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses
Unimpaired loans and advances, including:	644,005	4,509	113,045	263	19,723,950	12,364	4,525,087	33,027	392,358	2,978
Non-homogeneous portfolio	450,767	3,402	-	-	79,204	300	1,989,981	13,962	138,100	1,160
Homogeneous portfolio	193,238	1,107	113,045	263	19,644,746	12,064	2,535,106	19,065	254,258	1,818
Impaired loans and advances, including:	17,206	15,261	7,695	5,790	242,107	142,363	108,881	57,121	91,364	62,281
Non-homogeneous	7,055	7,049	-	-	13,472	8,112	32,571	10,645	40,692	33,469
Homogeneous portfolio	10,151	8,212	7,695	5,790	228,635	134,251	76,310	46,476	50,672	28,812
Total	661,211	19,770	120,740	6,053	19,966,057	154,727	4,633,968	90,148	483,722	65,259

in PLN thd	Overdrafts		Other		Consumer loans		Lombard loans		Loans and advances		Ratio of coverage with provision
	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	
Unimpaired loans and advances, including:	1,236,261	11,407	1,406,608	1,723	2,740,584	7,451	64,432	191	30,846,330	73,913	0.2%
Non-homogeneous portfolio	638,411	5,203	1,406,171	1,623	5,988	15	64,432	191	4,773,054	25,856	0.5%
Homogeneous portfolio	597,850	6,204	437	100	2,734,596	7,436	-	-	26,073,276	48,057	0.2%
Impaired loans and advances, including:	89,790	59,172	53,886	52,800	198,741	130,321	1,688	1,688	811,358	526,797	64.9%
Non-homogeneous portfolio	39,238	17,658	47,562	47,558	12,382	11,061	1,688	1,688	194,660	137,240	70.5%
Homogeneous portfolio	50,552	41,514	6,324	5,242	186,359	119,260	-	-	616,698	389,557	63.2%
Total	1,326,051	70,579	1,460,494	54,523	2,939,325	137,772	66,120	1,879	31,657,688	600,710	1.9%

Credit quality of unimpaired and not past due financial assets based on ratings
as at December 31st 2017

in PLN thd						Individuals
Rating	Credit cards	Mortgage loans	Consumer loans	Lombard loans	Other	Total
iAAA	-	-	-	-	-	-
iAA+	11	-	-	-	-	11
iAA	-	1,258	25	-	-	1,283
iAA-	1	109,195	2,416	-	-	111,612
iA+	21	691,610	5,791	4	-	697,427
iA	545	3,347,970	22,575	279	-	3,371,369
iA-	2,649	5,659,183	47,452	5,835	-	5,715,120
iBBB+	3,621	4,184,509	51,073	13,930	8	4,253,141
iBBB	4,570	2,540,675	63,231	3,730	6	2,612,212
iBBB-	12,728	1,355,215	111,780	4,491	26	1,484,241
iBB+	18,970	661,419	590,202	23,259	-	1,293,850
iBB	19,990	333,373	1,095,010	2,593	3	1,450,968
iBB-	20,317	187,430	354,187	4,229	6	566,169
iB+	10,472	127,022	142,618	5,003	-	285,115
iB	4,236	68,494	49,260	-	2	121,991
iB-	2,197	57,190	21,070	-	16	80,473
iCCC+	2,019	43,546	12,190	-	13	57,768
iCCC	722	23,958	5,044	-	12	29,735
iCCC-	547	23,722	7,726	-	14	32,010
iCC+	4	3,867	34	-	8	3,913
iD	82	14,200	297	-	-	14,580
None	2	-	-	-	-	2
Total	103,704	19,433,836	2,581,982	63,352	114	22,182,988

in PLN thd									Businesses, incl. Banks
Rating	Factoring	Credit cards	Mortgage loans	Investment loans	Revolving loans	Overdrafts	Other	Derivatives	Total
iAAA	-	(1)	-	-	-	-	943	-	942
iAA+	-	1	-	7,000	-	-	48,394	16	55,411
iAA	-	2	-	20,658	-	2,876	44,269	-	67,805
iAA-	-	7	-	11,959	1,496	244	-	40	13,746
iA+	-	4	-	21,815	-	-	181,704	207	203,730
iA	7,437	8	-	31,823	655	2,080	63,886	941	106,830
iA-	3,851	7	-	145,548	11,613	28,169	110,313	2,079	301,580
iBBB+	10,318	21	-	286,969	8,728	14,890	817,277	25,393	1,163,597
iBBB	32,170	47	-	421,235	18,716	46,609	59,607	1,888	580,272
iBBB-	51,926	22	-	562,694	12,252	101,196	54,845	6,807	789,742
iBB+	89,904	30	-	540,670	58,743	149,045	2,249	8,779	849,421
iBB	83,168	54	-	485,577	53,912	150,268	13,509	2,954	789,442
iBB-	111,028	56	-	663,166	41,593	176,411	8,111	2,144	1,002,509
iB+	59,619	60	-	441,612	77,903	206,097	7	7,509	792,808
iB	123,190	71	-	338,483	67,392	167,615	663	2,147	699,561
iB-	23,105	18	-	205,400	10,836	33,989	2	1,831	275,181
iCCC+	40,437	35	-	179,263	8,178	39,042	-	2,252	269,207
iCCC	5,057	15	-	40,524	10,460	32,982	-	24	89,062
iCCC-	2,523	19	-	45,959	6,269	10,589	1	957	66,316
iCC+	-	-	-	-	-	-	-	314	314
iD	-	(1)	-	385	-	-	-	655	1,039
None	-	10	754	12,013	-	-	13	266	13,056
Total	643,733	485	754	4,462,753	388,746	1,162,101	1,405,794	67,203	8,131,569

in PLN thd	Central banks and governments			Other financial assets			Financial assets total
Rating	Securities	Cash and current account with NBP	Total	Shares	Other	Total	Total
iAAA	-	-	-	-	-	-	942
iAA+	-	-	-	-	-	-	55,422
iAA	-	-	-	-	-	-	69,088
iAA-	-	-	-	-	-	-	125,358
iA+	7,614,436	974,588	8,589,024	-	-	-	9,490,180
iA	-	-	-	-	-	-	3,478,199
iA-	-	-	-	-	-	-	6,016,699
iBBB+	-	-	-	-	-	-	5,416,738
iBBB	-	-	-	-	-	-	3,192,483
iBBB-	-	-	-	-	-	-	2,273,982
iBB+	-	-	-	-	-	-	2,143,270
iBB	-	-	-	-	-	-	2,240,410
iBB-	-	-	-	-	-	-	1,568,678
iB+	-	-	-	-	-	-	1,077,922
iB	-	-	-	-	-	-	821,553
iB-	-	-	-	-	-	-	355,654
iCCC+	-	-	-	-	-	-	326,975
iCCC	-	-	-	-	-	-	118,797
iCCC-	-	-	-	-	-	-	98,326
iCC+	-	-	-	-	-	-	4,227
iD	-	-	-	-	-	-	15,619
None	-	-	-	9,723	117,739	127,462	140,520
Total	7,614,436	974,588	8,589,024	9,723	117,739	127,462	39,031,042

Past due but unimpaired loans
as at December 31st 2017

Past due

in PLN thd	Individuals	Businesses	Total
1-29	330,333	95,400	425,733
30-59	97,197	32,325	129,522
60-89	30,394	13,326	43,720
90-179	-	-	-
Total	457,924	141,051	598,975

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios
as at December 31st 2017

in PLN thd	Exposures	Share
Non-homogeneous portfolio	4,967,715	15.7%
Homogeneous portfolio	26,689,973	84.3%
Total	31,657,688	100.0%

Breakdown of the financial assets into unimpaired and impaired exposures
as at December 31st 2016

in PLN thd	Individuals							
	Credit cards	Mortgage loans	Other	Consumer loans	Lombard loans	Derivatives	Total	Share
Unimpaired financial assets, including:	112,720	22,037,328	10	2,339,168	65,811	-	24,555,036	97.9%
not past due and unimpaired	104,982	21,691,922	-	2,194,073	64,242	-	24,055,219	95.9%
past due but unimpaired	7,738	345,406	10	145,094	1,569	-	499,817	2.0%
Impaired financial assets	9,938	293,464	1,112	209,416	1,715	-	515,646	2.1%
Total	122,657	22,330,792	1,122	2,548,584	67,526	-	25,070,682	100.0%

									Businesses, incl. Banks	
in PLN thd	Factoring	Credit cards	Mortgage loans	Investment loans	Revolving loans	Overdrafts	Other	Derivatives	Total	Share
Unimpaired financial assets, including:	395,371	421	849	3,447,873	368,537	982,747	1,380,827	138,674	6,715,299	95.4%
not past due and unimpaired	392,443	421	843	3,414,016	360,307	953,167	1,379,023	138,674	6,638,895	94.3%
past due but unimpaired	2,928	-	6	33,857	8,230	29,579	1,804	-	76,405	1.1%
Impaired financial assets	7,190	-	-	112,697	75,164	73,724	54,426	-	323,201	4.6%
Total	402,561	421	849	3,560,571	443,701	1,056,471	1,435,253	138,674	7,038,501	100.0%

			Central banks and governments				Other financial assets		Financial assets total	
in PLN thd	Securities	Cash and current account with NBP	Total	Share	Shares	Other	Total	Share	Total	Share
Unimpaired financial assets, including:	6,792,260	1,053,417	7,845,677	100.0%	6,877	123,250	130,127	98.8%	39,246,139	97.9%
not past due and unimpaired	6,792,260	1,053,417	7,845,677	100.0%	6,877	123,250	130,127	98.8%	38,669,918	96.5%
past due but unimpaired	-	-	-	0.0%	-	-	-	0.0%	576,221	1.4%
Impaired financial assets	-	-	-	0.0%	-	1,583	1,583	1.2%	840,430	2.1%
Total	6,792,260	1,053,417	7,845,677	100.0%	6,877	124,833	131,710	100.0%	40,086,569	100.0%

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios
as at December 31st 2016

		Factoring		Credit cards		Mortgage loans		Investment loans		Revolving loans
in PLN thd	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses
Unimpaired loans and advances, including:	395,371	1,395	113,141	217	22,038,176	32,435	3,447,873	12,346	368,537	1,823
Non-homogeneous portfolio	228,606	1,024			129,329	613	1,436,748	5,875	119,143	437
Homogeneous portfolio	166,765	371	113,141	217	21,908,847	31,822	2,011,125	6,472	249,394	1,385
Impaired loans and advances, including:	7,190	6,777	9,938	8,354	293,464	183,137	112,697	55,229	75,164	48,216
Non-homogeneous portfolio	-	-	-	-	20,540	13,414	62,244	21,340	29,545	16,914
Homogeneous portfolio	7,190	6,777	9,938	8,354	272,924	169,723	50,453	33,889	45,619	31,302
Total	402,561	8,172	123,078	8,571	22,331,688	215,620	3,560,571	67,575	443,701	50,038

		Overdrafts		Other		Consumer loans		Lombard loans		Loans and advances	Ratio of coverage with provision
in PLN thd	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	Exposures	Impairment losses	
Unimpaired loans and advances, including:	982,747	3,819	1,380,695	2,638	2,339,168	6,785	65,811	64	31,131,519	61,521	0.2%
Non-homogeneous portfolio	462,277	1,850	1,380,630	2,555	12,452	10	65,811	64	3,834,997	12,428	0.3%
Homogeneous portfolio	520,469	1,968	65	82	2,326,716	6,775	-	-	27,296,522	49,093	0.2%
Impaired loans and advances, including:	73,724	48,012	55,538	55,158	209,416	138,525	1,715	1,715	838,847	545,123	65.0%
Non-homogeneous portfolio	23,766	7,002	51,050	51,199	14,333	7,652	1,715	1,715	203,194	119,236	58.7%
Homogeneous portfolio	49,958	41,010	4,487	3,959	195,084	130,873	-	-	635,653	425,887	67.0%
Total	1,056,471	51,830	1,436,233	57,795	2,634,574	231,300	67,526	1,779	31,970,366	606,644	1.9%

Credit quality of unimpaired and not past due financial assets
as at December 31st 2016

in PLN thd	Individuals				
Rating	Credit cards	Credit cards	Consumer loans	Lombard loans	Total
iAAA	-	-	-	-	-
iAA+	-	-	-	-	-
iAA	-	1,021	-	-	1,021
iAA-	-	118,957	4,430	-	123,388
iA+	8	846,532	2,937	378	849,855
iA	634	4,009,859	22,455	1,643	4,034,591
iA-	2,912	6,575,481	49,400	6,607	6,634,399
iBBB+	3,334	4,537,309	59,589	27,735	4,627,966
iBBB	4,626	2,591,079	56,471	3,099	2,655,276
iBBB-	13,613	1,385,778	104,576	24,358	1,528,324
iBB+	18,116	633,095	490,523	125	1,141,859
iBB	21,081	375,927	890,789	297	1,288,095
iBB-	21,143	210,266	328,533	-	559,942
iB+	9,547	137,295	121,102	-	267,944
iB	4,360	70,323	39,030	-	113,714
iB-	2,158	60,147	20,268	-	82,572
iCCC+	1,738	48,194	14,938	-	64,870
iCCC	931	35,117	4,964	-	41,012
iCCC-	694	23,304	1,585	-	25,584
iCC+	2	3,063	118	-	3,182
iD	82	28,799	756	-	29,636
None	3	375	(18,390)	-	(18,012)
Total	104,982	21,691,922	2,194,073	64,242	24,055,219

in PLN thd	Businesses, incl. Banks							
Rating	Factoring	Credit cards	Mortgage loans	Investment loans	Revolving loans	Overdrafts	Other	Derivatives	Total
iAAA	-	6	-	-	-	-	-	-	6
iAA+	-	2	-	-	-	-	863	-	866
iAA	-	-	-	-	-	-	13,670	-	13,670
iAA-	-	-	-	-	-	-	66	-	66
iA+	-	2	-	-	-	-	240,487	-	240,489
iA	7,453	1	-	6,333	-	9,293	64,574	52	87,705
iA-	-	2	-	943	-	-	56,219	249	57,413
iBBB+	579	8	-	53,348	2,070	28,586	839,895	70,714	995,200
iBBB	13,274	4	-	120,083	16,821	44,082	96,767	557	291,591
iBBB-	29,345	25	-	433,934	57,347	106,085	16,745	6,576	650,059
iBB+	56,912	39	-	722,478	45,880	181,471	2,170	15,246	1,024,197
iBB	98,475	37	-	890,702	97,138	228,799	5,550	21,495	1,342,196
iBB-	97,900	53	-	538,883	70,540	177,302	28,254	3,378	916,311
iB+	81,408	72	-	318,304	39,509	94,174	3	595	534,064
iB	4,228	74	-	184,400	11,915	60,474	554	542	262,187
iB-	-	29	-	58,518	8,509	15,616	3	-	82,675
iCCC+	2,569	45	-	21,333	276	4,857	1	-	29,081
iCCC	300	(1)	-	11,817	168	724	-	-	13,009
iCCC-	-	9	-	12,743	-	26	2	-	12,780
iCC+	-	-	-	1,968	-	-	-	-	1,968
iD	-	-	-	-	10,132	-	-	-	10,132
None	-	16	843	38,228	-	1,676	13,198	19,269	73,231
Total	392,443	421	843	3,414,016	360,307	953,167	1,378,881	138,674	6,638,895

in PLN thd	Central banks and governments			Other financial assets			Financial assets total
Rating	Securities	Cash and current account with NBP	Total	Shares	Other	Total	Total
iAAA	-	-	-	-	-	-	6
iAA+	-	-	-	-	-	-	866
iAA	-	-	-	-	-	-	14,692
iAA-	-	-	-	-	-	-	123,454
iA+	6,792,260	1,053,417	7,845,677	-	-	-	8,936,021
iA	-	-	-	-	-	-	4,122,297
iA-	-	-	-	-	-	-	6,691,812
iBBB+	-	-	-	-	-	-	5,623,165
iBBB	-	-	-	-	-	-	2,946,867
iBBB-	-	-	-	-	-	-	2,178,383
iBB+	-	-	-	-	-	-	2,166,056
iBB	-	-	-	-	-	-	2,630,292
iBB-	-	-	-	-	-	-	1,476,253
iB+	-	-	-	-	-	-	802,007
iB	-	-	-	-	-	-	375,901
iB-	-	-	-	-	-	-	165,247
iCCC+	-	-	-	-	-	-	93,951
iCCC	-	-	-	-	-	-	54,020
iCCC-	-	-	-	-	-	-	38,364
iCC+	-	-	-	-	-	-	5,151
iD	-	-	-	-	-	-	39,769
None	-	-	-	6,877	123,250	130,127	185,345
Total	6,792,260	1,053,417	7,845,677	6,877	123,250	130,127	38,669,918

Past due but unimpaired loans
as at December 31st 2016

Past due

in PLN thd	Individuals	Businesses	Total
1-29	353,839	57,086	410,925
30-59	92,253	14,817	107,070
60-89	53,724	4,502	58,226
90-179	-	-	-
Total	499,816	76,405	576,221

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios
as at December 31st 2016

in PLN thd	Exposures	Share
Non-homogeneous portfolio	4,038,333	12.6%
Homogeneous portfolio	27,932,175	87.4%
Total	31,970,508	100.0%

Credit risk concentration

a) geographical concentration

City

in PLN thd	Dec 31 2017 Exposure	Dec 31 2017 Share	Dec 31 2016 Exposure	Dec 31 2016 Share
Warsaw	15,890,731	39.3%	15,363,899	38.3%
Kraków	1,672,329	4.1%	1,770,013	4.4%
Wrocław	1,876,604	4.6%	1,905,922	4.8%
Poznań	768,285	1.9%	828,904	2.1%
Gdańsk	821,642	2.0%	859,944	2.1%
Other	19,413,361	48.1%	19,357,888	48.3%
Total	40,442,951	100.0%	40,086,569	100.0%

b) sector concentration

in PLN thd	Dec 31 2017 Exposure	Dec 31 2017 Share	Dec 31 2016 Exposure	Dec 31 2016 Share
Individuals	23,092,667	57.1%	25,070,682	62.6%
Businesses	8,632,223	21.3%	7,038,500	17.6%
Central banks and governments	8,589,024	21.3%	7,845,677	19.6%
Unclassified	129,037	0.3%	131,710	0.3%
Total	40,442,951	100.0%	40,086,569	100.1%
Manufacturing	2,038,242	5.0%	1,671,750	4.2%
Distribution	1,714,769	4.2%	1,355,776	3.4%
Real estate activities	1,047,139	2.6%	693,306	1.7%
Construction	206,468	0.5%	390,940	1.0%
Transportation	514,427	1.3%	159,229	0.4%
Other	3,111,178	7.7%	2,767,357	6.9%
Total businesses:	8,632,223	21.3%	7,038,358	17.6%

Breakdown of financial assets by product

Loan type

in PLN thd	Dec 31 2017 Exposure	Dec 31 2017 Share	Dec 31 2016 Exposure	Dec 31 2016 Share
Mortgage loans	19,966,059	49.3%	22,331,641	55.7%
Consumer loans	2,939,324	7.3%	2,548,584	6.4%
Investment loans	4,633,968	11.5%	3,560,571	8.9%
Overdraft facilities*	1,326,050	3.3%	1,056,471	2.6%
Lombard loans	66,120	0.2%	67,526	0.2%
Revolving loans	483,722	1.2%	443,701	1.1%
Factoring**	661,211	1.6%	402,561	1.0%
Other	1,460,494	3.6%	1,436,375	3.6%
Credit cards	120,740	0.3%	123,078	0.3%
Total	31,657,688	78.3%	31,970,508	79.8%
Derivative instruments	67,203	0.2%	138,674	0.3%
Securities	7,614,436	18.8%	6,792,260	16.9%
Other financial assets	1,103,624	2.7%	1,185,127	3.0%
Total	40,442,951	100.0%	40,086,569	100.0%

* current account overdraft facilities, credit facilities in current account, overdraft facilities for companies;
** recourse factoring facilities, purchase of debt claims.

Largest credit exposures
as at December 31st 2017 (excl. of government and central bank exposures)

PKD (Polish Classification of Business Activities) code

in PLN thd	Limit granted	Exposure	Concentration ratio
1 64.19.Z	985,186	754,112	5.04%
2 64.91.Z	185,629	161,772	3.21%
3 64.19.Z	162,887	34,017	3.01%
4 64.30.Z	145,501	-	1.35%
5 64.19.Z	121,182	-	2.23%
6 33.10.Z	92,255	-	1.70%
7 64.19.Z	74,632	-	1.38%
8 46.90.Z	72,387	-	1.34%
9 52.10.B	70,820	-	1.17%
10 47.59.Z	65,579	19,927	0.84%

Largest credit exposures
as at December 31st 2016 (excl. government and central bank exposures)

PKD (Polish Classification of Business Activities) code

in PLN thd	Limit granted	Exposure	Concentration ratio
1 64.19.Z	1,060,062	818,244	4.42%
2 64.19.Z	242,002	17,866	4.50%
3 64.91.Z	196,877	144,918	3.18%
4 64.19.Z	121,237	-	2.25%
5 33.10.Z	98,243	6	1.83%
6 64.19.Z	74,632	-	1.39%
7 47.59.Z	66,702	-	0.68%
8 41.20.Z	60,068	39,715	1.12%
9 29.32.Z	57,688	39,297	0.90%
10 64.19.Z	55,000	-	1.02%

Maturity structure of exposures
at December 31st 2017

Maturity

in PLN thd	Individuals	Businesses	Central banks and govern-ments	Unclassified	Total
up to 1 year	471,888	3,413,390	6,528,080	119,313	10,532,671
1–5 years	1,087,214	1,216,827	2,060,944	-	4,364,985
5–10 years	3,707,578	1,743,669	-	-	5,451,247
10–20 years	10,907,620	2,258,295	-	-	13,165,915
over 20 years	6,918,367	43	-	9,723	6,928,133
Total	23,092,667	8,632,224	8,589,024	129,036	40,442,951

Total exposure at carrying amount, without accounting for effects of risk mitigation,
and average exposure in the period by class as at December 31st 2017

Category

in PLN thd	Exposure	Average exposure
Individuals	23,092,667	138
Businesses	8,632,224	773
Central banks and governments	8,589,024	780,820
Unclassified	129,036	406
Total	40,442,951	-

Impaired exposures by key geographical areas
as at December 31st 2017

City

in PLN thd	Exposure	Provision
Warsaw	129,491	78,863
Kraków	47,069	34,458
Wrocław	45,280	29,312
Poznań	20,662	16,628
Gdańsk	11,279	6,859
Other	557,577	360,675
Total	811,358	526,795

Maturity structure of exposures
as at December 31st 2016

Maturity

in PLN thd	Individuals	Businesses	Central banks and governments	Unclassified	Total
up to 1 year	480,025	3,029,896	6,696,650	124,833	10,331,404
1–5 years	1,130,589	1,173,494	1,149,027	-	3,453,110
5–10 years	3,168,755	1,450,557	-	-	4,619,312
10–20 years	12,581,199	1,384,491	-	-	13,965,690
over 20 years	7,710,114	62	-	6,877	7,717,053
Total	25,070,682	7,038,500	7,845,677	131,710	40,086,569

Total exposure at carrying amount, without accounting for effects of risk mitigation,
and average exposure in the period by class as at December 31st 2016

Category

in PLN thd	Exposure	Average exposure
Individuals	25,070,682	151
Businesses	7,038,500	707
Central banks and governments	7,845,677	713,243
Unclassified	131,710	315
Total	40,086,569	-

Impaired exposures by key geographical areas
as at December 31st 2016

City

in PLN thd	Exposure	Provision
Warsaw	148,963	88,497
Kraków	40,452	28,742
Wrocław	52,214	36,161
Poznań	28,719	17,051
Gdańsk	9,354	6,041
Other	559,146	368,629
Total	838,847	545,123

Restructuring of receivables exposed to credit risk

The process of collection of receivables from clients is pursued at various stages of an exposure's life, including at the loan monitoring stage, prior to a repeated default in timely repayment, as well as at the debt restructuring and debt collection stages. The process comprises general standards for active intervention as well as the measures to be taken and the deadlines by which they must be taken; the overriding objective is to achieve immediate repayment of matured liabilities by clients.

In order to effectively manage credit exposures showing evidence of impairment or meeting early warning criteria, or where there has been a default in timely repayment, specialised units assume responsibility for such high-risk exposures and make every effort to help customers overcome their economic and financial distress while minimising losses.

The decision-making and exposure monitoring are based on standardised processes approved within the Group (which vary depending on the exposure amount and the type of client), supported by a specialised IT system dedicated to managing non-performing receivables.

The purpose of loan restructuring is to agree such debt settlement terms and conditions which are acceptable to the Group. The process includes: defining a schedule for repayment of the client's entire debt, obtaining additional legal security (where required), and – in the case of exposures which are due and payable in whole – entering into relevant settlement agreements. Any debt restructuring involves a client's application containing a debt repayment proposal, some basic documents confirming that the client earns revenue/income that enables the client to repay the debt, as well as a decision made at an appropriate decision-making level.

If an exposure is identified as impaired while the restructuring process is in progress, an appropriate impairment loss is recognised.

The debt collection process comprises debt collection activities undertaken by the Bank's internal units or by specialised external debt collection agencies. Such interventions are undertaken both with respect to exposures which are due and payable in whole and ones which are partially due and payable, before the agreement is terminated, with a view to recovering the highest possible amount of matured debt and carrying out the required enforced collection process.

Standards and limits imposed under the Banking Law (Art. 71 of the Banking Law), and Art. 395 of the CRR

The Group's exposure to a customer or a group of related customers after taking into account the effect of credit risk mitigation under Art. 387-403 CRR may not exceed 25% of the Group's eligible capital.

The Group's exposure to a customer that is an institution or group of related clients if one or more institutions are included in the group, after taking into account the effect of credit risk mitigation in accordance with art. 399-403 CRR can not exceed 25% of the Group's eligible capital or EUR 150 million, whichever is higher, provided that the sum of the exposures of all related non-institutional clients, after taking into account the credit risk mitigation effect according to art. 387-403 CRR does not exceed 25% of the eligible capital of the institution.

The exposure is calculated according to Article 71 of the Banking Law Act, with taking into account the exclusions listed in Art. 400 sec. 2 and Art. 493 par. 3 and Regulations of the Minister of Finance.

The values subject to maximum authorised limits as at the dates stated were as follows:

in PLN thd	Dec 31 2017	Dec 31 2016
Limit to exposure concentration (25% of own funds) in accordance with Art. 71 of the Banking Law and Art. 395 of the CRR	1,351,858	1,351,551
Limit to exposure concentration (25% of own funds) in accordance with Art. 71.1a of the Banking Law and Art. 395 of the CRR	1,351,858	1,351,551

As at December 31st 2017 and December 31st 2016, the Group did not exceed the limits applicable under Art. 395 of the CRR nor Art. 71.1 of the Banking Law.

Art. 79a.4 of the Banking Act

As at December 31st 2017 and December 31st 2016, the Group did not exceed the limits applicable under Art. 79a.4 of the Banking Law, stipulating that the aggregate amount of loans, cash advances, bank guarantees and sureties granted to members of governing bodies and persons holding managerial positions at the bank, or to an entity having capital or organisational links to a member of the bank's governing bodies or a person holding a managerial position at the bank, may not exceed 10% of the bank's total required capital.

in PLN thd	Dec 31 2017	Dec 31 2016
The Group's Common Equity capital	4,132,920	4,005,713
10% of the Group's Common Equity capital	413,292	400,571

Internal concentration limits

Moreover, as part of managing its retail credit portfolio, the Group applies the following internal concentration limits:
- Sector limits − to manage the risk of excessive concentration of the credit portfolio in a specific sector of the economy/group of sectors
- Geographical limits − to manage the risk of excessive concentration of the individual client credit portfolio in any specific province of Poland
- Currency limits − to manage the risk of excessive portfolio concentrations in terms of the share of loans denominated in foreign currencies
- Product limits − to manage the risk of excessive concentration of certain products (e.g. loans for the financing of commercial properties) in the credit portfolio
- Limits concerning quality of the credit portfolio (e.g. limit for past due loan exposures, limit for migration between delinquency classes (periods of delay), limit for early defaults)
- Limits for non-standard transactions − to manage the risk related to transactions made on non-standard terms
- Limits for the retail credit portfolio
- Limits for the portfolio of exposures secured with mortgages
- Limits for the portfolio of exposures under loans provided to finance property
- Limits for treasury products

As at December 31st 2017, the following instances of exceeding the internal limits were identified:
- Limit for derogations in the business client exposure portfolio. Utilization of the limit − as at December 31st, is 47.81%, which is 191% of the limit.
- Limit for derogations in the exposures secured with mortgages portfolio. Utilization of the limit − as at December 31st, is 11.06%, which is 111% of the limit.

Forbearance exposures

The Group reports consolidated data on forbearance exposures based on the draft Technical Standards, in accordance with the EBA Final draft Implementing Technical Standards on Supervisory reporting on forbearance and non performing exposures under article 99(4) of Regulation No 575/2013 no EBA/ITS/2013/03/rev1 dated July 24th 2014. After the final wording of the standards is published by ABA, the regulations applicable at the Group will be verified for compliance with the published standards and adjusted where necessary.

In line with the adopted definition, forbearance occurs when all of the following conditions are met:
- the client is in financial difficulties which may result in the client's inability to service debt in accordance with the conditions stipulated in the credit agreement;

— a resolution has been made to grant forbearance to the client in order to enable the client to meet contractual obligations or to prevent difficulties in debt service, i.e. to modify the terms of the agreement or to refinance the exposure in part or in whole, where such modification or refinancing is not driven by commercial reasons and was granted in the course of a debt collection/restructuring process on terms deviating from the standard market terms.

The table below shows the structure of loans and advances granted with the forbearance facility as at 31 December 2017.

	Total loans and advances to customers				including forborne loans and advances				Share of forborne loans and advances in total loans and advances (at net value)
Exposure value in PLN thd	Gross amount	Impairment losses	Net amount	Impairment losses/gross amount	Gross amount	Impairment losses	Net amount	Impairment losses/gross amount	
Unimpaired exposures	30,846,329	(73,913)	30,772,416	0.2%	310,998	(3,772)	307,226	1.2%	
Central and local government institutions	29,128	(105)	29,024	0.4%	-	-	-	NA	NA
Credit institutions	820,896	(516)	820,380	0.1%	-	-	-	NA	NA
Businesses	7,355,393	(53,016)	7,302,377	0.7%	36,075	(1,201)	34,874	3.3%	0.4%
Households	22,640,912	(20,277)	22,620,635	0.1%	274,923	(2,571)	272,352	0.9%	1.2%
Impaired exposures	811,358	(526,813)	284,545	64.5%	386,154	(236,915)	149,239	61.4%	
Central and local government institutions	-	-	-	NA	-	-	-	NA	NA
Credit institutions	-	-	-	NA	-	-	-	NA	NA
Businesses	359,604	(245,413)	114,190	68.2%	165,554	(113,972)	51,582	68.8%	46.1%
Households	451,755	(281,399)	170,355	62.3%	220,600	(122,943)	97,657	55.7%	57.3%

The table below shows the structure of loans and advances granted with the forbearance facility as at December 31st, 2016.

	Total loans and advances to customers				including forborne loans and advances				Share of forborne loans and advances in total loans and advances (at net value)
Exposure value in PLN thd	Gross amount	Impairment losses	Net amount	Impairment losses/gross amount	Gross amount	Impairment losses	Net amount	Impairment losses/gross amount	
Unimpaired exposures	31,131,519	(61,521)	31,193,040	0.2%	382,363	(6,131)	388,494	1.6%	
Central and local government institutions	29,699	(54)	29,645	0.2%	-	-	-	NA	NA
Credit institutions	852,421	(575)	852,996	0.1%	1	-	1	0.0%	0.0%
Businesses	5,694,505	(21,391)	5,715,896	0.4%	59,285	(887)	58,398	1.5%	1.0%
Households	24,555,036	(39,502)	24,594,538	0.2%	323,077	(5,244)	317,833	1.6%	1.3%
Impaired exposures	924,884	(631,160)	293,724	68.2%	456,032	(281,237)	174,795	61.7%	
Central and local government institutions	-	-	-	NA	-	-	-	NA	NA
Credit institutions	-	-	-	NA	-	-	-	NA	NA
Businesses	307,227	(200,248)	106,979	65.2%	165,778	(55,422)	110,356	33.4%	103.2%
Households	515,646	(330,539)	185,107	64.1%	204,217	(35,484)	168,733	17.4%	91.2%

In accordance with the draft Technical Standards, the Bank uses the following criteria for exit from the forbearance category (exposure restructuring):

— the exposure is not classified as non-performing (as defined by EBA);
— a two-year watch period has lapsed since the forbearance exposure lost the non-performing status, and the exposure has been regularly repaid over that period;
— in the watch period, no delay of more than 30 calendar days has occurred, and no further forbearance measures been applied to the exposure.

45. Market and liquidity risk

Risk management in the asset and liability management process focuses mainly on the following two risks:
— liquidity risk, and
— market risk.

Division of competencies and responsibilities

A key role in the asset and liability management process is played by the Bank's Supervisory Board and Management Board, while the Asset-Liability Committee (ALCO) exercises direct supervision.

The Supervisory Board defines the strategy, as well as the liquidity and market risk appetite. The Supervisory Board supervises the Group's risk taking policy for its consistency with the strategy, and approves plans for acquiring and maintaining third-party funds considered stable financing sources.

The Management Board's responsibilities include the implementation and supervision of the entire risk management system, supervision of the implementation of the asset and liability management policy, approval of internal limit systems, methodologies used to compute individual risk metrics, and contingency plans for market and liquidity risks.

With a view to streamlining the asset and liability management process, the ALCO Committee was appointed to provide opinion and advice to the Management Board. Five members of the Management Board were appointed to the Committee, whose key responsibilities include:
— controlling and monitoring of the risk level;
— approving the current strategy for asset and liability management;
— recommending to the Management Board a methodology for calculating individual risk metrics, setting risk limits, and defining long-term strategies for the market and liquidity risks.

The Liquidity Management Office (LMO) is responsible for operational management of the liquidity risk. Its key task is to manage the current, medium- and long-term liquidity.

LMO is also responsible for the management of market risk of those business lines whose exposures are classified in the banking book.

Financial Risk Department (FRD) is responsible for risk identification, measurement, monitoring and reporting. FRD is independent of business units and its primary responsibilities include:
— identifying the market and liquidity risks,
— preparing a part of the market risk and liquidity risk measurement and monitoring strategy with taking into consideration the assumptions of business line strategies,
— developing and implementing management methodologies for each risk,
— preparing risk analyses, computing the individual risk metrics, and controlling performance against limits,
— calculating economic capital for market risk.

Liquidity and market risk management process
The liquidity and market risk management process at the Group is divided into the following stages:
1) Risk identification (responsibility of the Financial Risk Department);
2) Implementation and use of appropriate risk management tools, including:
   (a) defining the risk management strategy and risk appetite (the risk management strategy is prepared by the Supervisory Board);
   (b) defining risk limits (the internal limit system is approved by the Parent's Management Board after it has been approved by the ALCO Committee);
   (c) ensuring an appropriate organisational structure within the Group responsible for maintenance of the appropriate asset and liability structure; at the Bank, the market and liquidity risk management is centralised at

the Proprietary Position Management Department in the case of the trading book, and at the Liquidity Management Office in the case of the banking book.

3) Risk measurement and monitoring (responsibility of the Financial Risk Department). In addition to the regulatory metrics for market and liquidity risks, the Group has implemented its own risk monitoring measures;
4) Control of the market and liquidity risk management system (the Parent's Management Board supervises the risk control system at the Group and reports on it to the Supervisory Board; the ALCO Committee is responsible for the day-to-day control).

Liquidity risk

Liquidity risk is a risk arising from inability to meet all payment obligations as they fall due. Liquidity is a state when the Group has the ability to meet its current and future obligations in the satisfactory and timely manner, without incurring a loss in the ordinary course of business or under other predictable conditions. Liquidity risk is inherent in the operations of any bank. It is not connected with any individual product but it follows from the overall structure of the balance sheet, as a very important aspect of the Group's operations is its exposure to maturity mismatches which may result, inter alia, from the Group taking short-term deposits and extending relatively long-term loans. As a consequence, the Group is exposed to a risk that depositors' demands to pay out funds may exceed the Group's ability to convert its assets into cash. Therefore, maintaining adequate liquidity means an ability to immediately cover all payments related to maturing deposits, lending activities, early terminations of deposits, increased demand for loan products, and other obligations of the Group.

The Group identifies the following types of liquidity risk:
— Risk of maturity mismatch between assets and liabilities – the risk of failure to meet current liabilities as they fall due because of differences in the amounts and timing of cash flows expected when assets and liabilities reach maturity.
— Settlement risk – the risk of failure to meet current liabilities as they fall due because of limitations in transfer of funds.
— Concentration risk – the risk of failure to meet current liabilities as they fall due because of dependence on, or excessive exposure to, a single entity or a group of related entities.
— Option risk – the risk of failure to meet current liabilities as they fall due because of the counterparty's right to change the amounts and timing of the cash flows.

The main objective of liquidity management is to finance cash-flow shortfalls or appropriately manage any cash-flow surpluses.

Therefore, liquidity management is accomplished through:
— maintaining an appropriate financing structure to ensure an appropriate time configuration of the cash flows;
— maintaining an appropriate level of liquid assets;
— maintaining the ability to meet payment obligations;
— identifying the Bank's desired and acceptable liquidity risk level by defining risk appetite and a set of internal liquidity limits to mitigate the liquidity risk;
— ongoing analysis of the liquidity position, monitoring of the Bank's performance against relevant limits, performing regular liquidity stress tests, and monitoring of early warning indicators (triggers);
— having in place a liquidity contingency plan.

Roles and duties

The Bank's Management Board is responsible for liquidity risk management. The Supervisory Board, which is responsible for exercising supervision over the Management Board, approves the liquidity risk management strategy adopted by the Management Board. The Bank has an Asset-Liability Committee (ALCO), which provides the Management Board with opinions and advice and whose duties include monitoring of the current liquidity risk level by analysing the liquidity profile and the assets financing structure, as well as evaluation of the measures taken as part of liquidity risk management. The Committee recommends relevant regulations for approval by the Bank's Management Board, which makes binding decisions as to implementation of such regulations. Responsibility for direct liquidity management and implementation of the Bank's liquidity strategy at the operating level, as well as for maintaining liquidity within supervisory limits and the Bank's internal limits is fully centralized and rests with the

Liquidity Management Office, while the Financial Risk Department is responsible for the identification, measurement and monitoring of positions, as well as for controlling performance against the limits. Such an organisational structure guarantees separation of the risk management functions from the accounting functions, and from risk monitoring, measurement and control.

Liquidity risk management strategy
The Liquidity Management Office seeks to maintain availability of a sufficient amount of liabilities acquired at acceptable cost and expected to cover potential outflows under the Bank's liabilities. Therefore, the liquidity management policy consists in maintaining and acquiring diversified and stable financing sources (the most important of which is a diversified deposit base), resistant to seasonal phenomena. The Bank's other key financing sources are equity, as well as interbank loans and deposits. The Bank's policy with respect to the interbank deposit market provides for both investing surplus funds on the interbank market and contracting loans to control the liquidity level or finance lending activity.

Financing strategy:
The Bank's financing strategy takes into consideration the currency structure of its assets and varies depending on the currency.

— PLN
  A stable and diversified client deposit base is the main and the most important source of funding for the Bank's złoty-denominated assets, followed by the equity base and non-current interbank deposits (as the balance of clients' deposits with initial maturities exceeding one year is small, the Bank accepts long-term interbank deposits for the purpose of partial financing of its lending operations (especially financing of its mortgage loans)).
— CHF and EUR
  Given a shortage of local, stable sources of financing for assets denominated in the euro and the Swiss franc, the Bank finances such assets with liquidity it obtains within its Group by accepting deposits and contracting loans denominated in CHF and EUR for periods of up to 10 years.

Excess liquidity
To ensure sufficient liquidity to cover any increased current outflows, the Bank maintains an appropriate volume of current assets by:

— investing in NBP money-market bills and Treasury securities (with a rating corresponding to the rating of the Polish government), in order to guarantee sufficient liquidity of the Bank's securities portfolio,
— investing in current interbank deposits,
— managing the balance in nostro accounts.

As at December 31st 2017, liquid assets stood at PLN 8.5bn, accounting for 21.3% of the Bank's total assets. To ensure availability of liquid assets that can serve as additional liquidity buffer in the event of potential downgrading of the Bank's credit rating and the consequent potential outflow of funds, the Bank has set a limit whereby its liquid assets may not fall below 15% of its total assets.

Also, a crucial element of the Bank's liquidity risk management strategy is support from the Bank's strategic investor, provided by means of:

— contingent credit facilities granted to the Bank, under which the Bank may at any time obtain medium-term and long-term financing up to the available limit,
— a Declaration of Backing,
— cooperation with the DBAG Treasury Department in the liquidity management process.

Liquidity risk reporting
The Financial Risk Department, responsible for reporting on liquidity risk, prepares daily reports presenting, based on previous business-day data, regulatory liquidity levels together with information on the Bank's performance against supervisory and internal limits (serving as warning signals). Additional analyses of the stability and concentration of the deposit base, the funding matrix (maturity mismatch analysis of assets and liabilities with maturities above one year, on a nominal basis), adjusted liquidity gap and liquidity stress tests carried out to exam-

ine the Group's liquidity in crisis situations (together with information on performance against the related internal limits) are presented at the meetings of the Asset-Liability Committee (ALCO).

Liquidity risk measurement

The Bank manages liquidity risk through:
— providing information on the current and structural liquidity position;
— analysing maturity structure of the Bank's positions;
— developing adequate risk metrics;
— calibrating risk limits designed to mitigate liquidity risk;
— analysing liquid assets and sources of financing;
— performing contingency stress tests − in order to obtain information on the liquidity position in a crisis situation.

An important tool used in liquidity risk management is the analysis of the liquidity gap (maturity mismatch of assets and liabilities) based on contractual and adjusted maturity dates analysis. The liquidity gap analysis helps to monitor the liquidity position across the organisation in the short-term, medium-term and long-term perspective. The objective of the liquidity gap method is to provide early warning of a maturity mismatch of assets and liabilities that could be dangerous to the Bank. The warning function allows the Group to react in advance or plan the use of an appropriate financial instrument to bridge the negative gap. The liquidity gap analysis is performed based on data on positions of the entire Bank (including off-balance sheet transactions).

The tables below present assets and liabilities by their contractual maturity dates as at December 31st 2017 and 2016.

Assets (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2017

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Cash and transactions with Central Bank	973,712	973,712	-	-	-	-	-
Deposits with other banks, and loans and advances to other banks*	817,590	817,590	-	-	-	-	-
Loans to customers*	30,501,306	1,423,083	581,773	1,115,065	2,089,467	8,503,915	16,788,002
Financial assets held as investments	7,624,159	2,063,053	-	1,316,797	2,173,641	2,060,944	9,723
Financial instruments at fair value	67,203	14,591	15,947	7,487	7,783	5,049	16,346
Other financial assets	117,647	117,348	-	-	-	299	-
Conditional guarantee commitments received	1,261,968	1,010,875	-	251,093	-	-	-
Conditional financing commitments received	-	-	-	-	-	-	-
Off-balance-sheet instruments – long position	6,530,460	3,358,328	1,398,850	874,711	708,741	153,695	36,135
Total	47,894,046	9,778,581	1,996,570	3,565,153	4,979,632	10,723,902	16,850,206

* at nominal value

Liabilities (on-balance sheet and off-balance sheet items) by maturity
at December 31st 2017

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Amounts due to other banks*	13,326,453	438,549	331,110	798,690	1,724,821	8,587,071	1,446,212
Amounts due to customers*	20,343,126	16,357,912	824,043	1,120,144	1,694,565	335,874	10,588
Financial instruments at fair value	112,227	50,288	21,116	27,053	8,474	3,007	2,289
Other financial liabilities	280,770	280,770	-	-	-	-	-
Subordinated liabilities*	1,480,670	-	-	-	229,400	-	1,251,270
Conditional financing commitments assumed	3,564,738	353,187	684,390	763,623	1,121,106	642,432	-
Conditional guarantee commitments assumed	1,569,408	101,861	112,725	200,343	362,773	622,097	169,609
Off-balance-sheet instruments – short position	6,580,728	3,394,924	1,404,975	895,220	707,460	145,533	32,616
Total	47,258,119	20,977,491	3,378,359	3,805,071	5,848,598	10,336,015	2,912,584

* at nominal value

Liquidity gap
as at December 31st 2017

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Liquidity gap (assets – liabilities)	635,927	(11,198,910)	(1,381,789)	(239,918)	(868,966)	387,888	13,937,622
Accumulated liquidity gap		635,927	11,834,837	13,216,626	13,456,544	14,325,510	13,937,622

Assets (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2016

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Cash and transactions with Central Bank	1,052,671	1,052,671	-	-	-	-	-
Deposits with other banks, and loans and advances to other banks*	875,346	874,900	442	-	-	4	-
Loans to customers*	30,783,943	1,346,373	583,235	959,341	1,778,906	8,456,977	17,659,111
Financial assets held as investments	6,799,110	2,599,877	-	1,389,032	1,654,324	1,149,027	6,849
Financial instruments at fair value	131,603	50,053	20,783	11,378	15,321	15,563	18,504
Other financial assets	123,331	113,694	9,359	-	-	278	-
Conditional guarantee commitments received	818,050	729,503	199	243	88,104	-	-
Conditional financing commitments received	1,637	1,135	503	-	-	-	-
Off-balance-sheet instruments – long position	8,966,792	6,606,646	1,241,065	342,437	459,577	281,355	35,711
Total	49,552,483	13,374,852	1,855,587	2,702,431	3,996,233	9,903,204	17,720,176

* at nominal value

Liabilities (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2016

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Amounts due to other banks*	15,615,429	870,991	337,004	1,097,532	938,219	8,948,790	3,422,893
Amounts due to customers*	17,809,247	15,325,477	1,123,922	553,893	572,354	227,947	5,653
Financial instruments at fair value	82,631	25,514	20,442	10,445	13,809	9,454	2,968
Subordinated liabilities*	1,570,520	-	-	-	-	243,320	1,327,200
Other financial liabilities	212,436	206,072	-	6,304	60	-	-
Conditional financing commitments assumed	3,270,447	226,511	537,039	946,330	1,045,282	515,285	-
Conditional guarantee commitments assumed	1,537,038	78,351	163,378	135,434	346,610	698,342	114,923
Off-balance-sheet instruments – short position	8,925,678	6,580,838	1,239,935	341,789	457,263	272,001	33,852
Total	49,023,425	23,313,754	3,421,720	3,091,726	3,373,596	10,915,139	4,907,489

* at nominal value

Liquidity gap
as at December 31st 2016

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Liquidity gap (assets – liabilities)	529,058	(9,938,902)	(1,566,134)	(389,295)	622,637	(1,011,935)	12,812,687
Accumulated liquidity gap		529,058	10,467,960	12,034,094	12,423,389	11,800,752	12,812,687

To obtain a more realistic view of the liquidity position, the Group applies in the liquidity gap analysis adjustments based on customer behaviour modelling.

In the case of assets, adjustments are applied to:
— revolving credit facilities, for which the actual repayment date cannot be determined (customers may also make multiple drawdowns under the facility limit) – the most probable trajectory of repayment and drawdown cash flows is determined based on historical data, with the use of the Monte Carlo simulation;
— transfers of lost and doubtful loan balances (based on the classification used for the purpose of corporate income tax calculations) to the last time bucket;

— accounting for mortgage loan prepayments with a significant effect on the actual maturity profile, which is shorter than the maturity specified in the agreement;
— accounting for overpayments under mortgage loans, credit cards and cash loans by deducting such overpayments from the maturity profile;
— transfers of liquid securities (Treasury bonds and bills) to the category of „from 7 days up to 1 month" in order to reflect the possibility of their sale (for the same reason in the adjusted liquidity gap analysis securities are disclosed at current market value).

In the case of liabilities, adjustments are applied to deposits − they take account of the fact that the actual period of holding deposits is longer than declared. The Group adjusts the balances on the basis of historical data on deposit withdrawals, renewals, terminations and new placements. In the case of current accounts and overnight deposits, the maximum cash outflow recorded in the individual time windows is taken into account. Adjustments to savings accounts are based on the results of an analysis of renewals of original deposits in those accounts.

For the GTB business line, for balances on all current accounts and term deposits, which do not exceed PLN 100 million, adjustments are made. The adjustment is made on the basis of the maximum outflows that took place in individual time windows.

In the case of off-balance sheet items, adjustments are applied to undrawn funds available under loan and credit facility agreements (except for the free cash amount that is already accounted for in the adjustments to revolving facilities). Potential balance increases within the next 6 months are projected based on the historical analysis.

In 2017, the Group complied with the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority (PFSA) concerning the establishment of mandatory liquidity standards for banks (M1 – M4 regulatory liquidity measures).

As at December 31st 2017 and as at December 31st 2016, the supervisory liquidity measures were as follows:

	Dec 31 2017	Dec 31 2016
M1 − short-term liquidity gap (PLN thd)	1,861,239.40	1,430,479.50
M2 − short-term liquidity ratio	1.19	1.11
M3 − coverage of illiquid assets with regulatory capital	35.38	43.45
M4 − coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.11	1.08

Also, in accordance with the currently effective new provisions of EU Regulation No. 575/2013 and Commission Delegated Regulation of 10 October 2014 to supplement Regulation (EU) 575/2013 with regard to liquidity coverage requirement for credit institutions, the Bank's net outflow coverage ratio was above the required level.

The data on LCR is presented below - the table presents data in accordance with EBA / GL / 2017/01 - Guidelines on LCR disclosure to the EU Regulation (EU) No. 575/2013:

Currency and unit (PLN million)	Total unweighted value (average)				Total weighted value (average)			
Quater ending on	2017-03-31	2017-06-30	2017-09-30	2017-12-31	2017-03-31	2017-06-30	2017-09-30	2017-12-31
Number of data points used in the calculation of averages	2	2	2	2	2	2	2	2
High–quality liquid assets								
1 Total high-quality liquid assets (HOLA)					6,657.37	6,699.07	6,944.02	7,330.50
Cash outflows								
2 Retail deposits and deposits from small business customers, of which:	5,645.92	6,028.32	6,316.37	6,943.67	379.08	408.78	448.47	509.56
3 Stable deposits	4,457.05	4,491.92	4,504.44	4,649.53	222.85	224.60	225.22	232.48
4 Less stable deposits	1,188.86	1,446.35	1,811.94	2,294.15	156.23	184.18	223.25	277.08
5 Unsecured wholsale funding	11,292.68	11,369.68	11,455.79	11,663.03	6,805.09	6,904.31	6,896.97	6,741.29
6 Operational depoits (all counterparties) and deposits in networks of cooperative banks	-	-	-	472.16	-	-	-	114.17
7 Non-operational depoits (all counterparties)	11,292.68	11,369.68	11,455.79	11,190.86	6,805.09	6,904.31	6,896.97	6,627.12
8 Unsecured debt	-	-	-	-	-	-	-	-
9 Secured wholesale funding					-	-	-	-
10 Additional requirements'	2,391.47	2,408.97	2,514.00	2,627.30	560.02	540.38	524.41	494.4
11 Outflows related to derivative-exposures and other collateral requirements	221.47	225.43	223.76	204.78	221.47	225.43	223.76	204.78
12 Outflows related to loss of funding on debt product	-	-	-	-	-	-	-	-
13 Credit and liquidity facilities	2,170.00	2,183.54	2,290.24	2,422.52	338.55	314.95	300.65	289.63
14 Other contractual funding obligations	204.96	235.98	275.26	292.24	142.86	174.99	213.28	227.66
15 Other contingent funding obligations	2,649.16	2,699.66	2,647.14	2,576.09	-	-	-	-
16 total cash outflows	**22,184.19**	**22,742.61**	**23,208.55**	**24,102.33**	**7,887.04**	**8,028.45**	**8,083.13**	**7,972.92**
Cash inflows								
17 Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18 Inflows from fully performing exposures	1,093.38	1,184.40	1,113.48	1,076.34	898.52	975.39	911.28	878.88
19 Other cash inflows	52.79	45.27	42.65	13.74	52.79	45.27	42.65	13.74
EU-19a (Difference between total weighted inflows and total weighted outflows arising from transactiones in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19a (Excess inflows from a related specialised credit institution)					-	-	-	-
20 Total cash inflows	**1,146.16**	**1,229.67**	**1,156.13**	**1,090.09**	**951.31**	**1,020.65**	**953.93**	**892.62**
EU-20a Fully exenpt inflows	-	-	-	-	-	-	-	-
EU-20b Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c Inflows subject to 75% cap	1,146.16	1,229.67	1,156.13	1,090.09	951.31	1,020.65	953.93	892.62
21 Liquid buffer					**6,657.37**	**6,672.18**	**6,944.02**	**7,330.50**
22 Total net cash outflows					**6,935.74**	**7,007.80**	**7,129.20**	**7,080.30**
23 Liquid coverage ratio (%)					**96%**	**95%**	**97%**	**104%**

In November 2017 a model was introduced and accepted by means of which from the balance of deposits of customers of the GTB line were separated operational deposits. Since the balances of these deposits receive a preferential weight of outflows, the implementation of this model resulted in an increase in the LCR ratio. Due to the presentation of average annual data in the table, this is not fully reflected. As at December 31, 2017, the net outflow coverage ratio was 132.38%.

It should be noted that due to the very limited fiscal activity, exposure to derivative transactions and the potential call to increase collateral has no significant effect on liquidity ratios (including LCR). In addition, the margining process is only performed for transactions concluded with DB A.G. Nevertheless, in August 2017 the Bank exceeded the materiality threshold of the institution's operations under derivative transactions (calculated in accordance with Commission Delegated Regulation (EU) 2017/208 of 31 October 2016 supplementing Regulation (EU) No 575 of the European Parliament and of the Council / 2013 with respect to regulatory technical standards regarding additional liquidity outflows corresponding to the security needs resulting from the adverse market conditions scenario on the institution's operations in derivative transactions) and from that date includes in the LCR calculations an additional outflow corresponding to the security needs arising from the impact of the unfavorable market scenario on the operations of the institution in the transactions on derivatives.

LCR in significant currencies

The Bank has identified three significant currencies: PLN, EUR and CHF. The last two currencies result from mortgage portfolio in those currencies. In accordance with the strategy described above, these portfolios are financed mainly from long-term interbank deposits received from entities belonging to the DB Group. These deposits are concluded within available free funds from the line, the amount of which is determined by, among others based on the financing needs. Therefore, liquid assets in these currencies may be insignificant and fluctuations in the LCRa ratio are largely dependent on maturing interbank deposits (in particular, this is evident in CHF where there is a very limited amount of customer deposits). In order to reduce LCR fluctuations, maturing interbank deposits are renewed for new dates so as to avoid excessive concentration in particular time intervals. In addition, the Bank has been introduced in 2017 to support the evergreen structure - interbank deposit without maturity but with a fixed notice period, Since the main position is in PLN, so changes in the LCR index calculated separately for PLN are related to changes in the combined ratio (excluding fluctuations related to maturing interbank deposits mentioned above and derivative instruments).

In addition, appropriate internal measures and limits for short-term, medium-term and long-term liquidity risk have been introduced to facilitate the monitoring of liquidity risk at the Bank.

The most important of those measures and limits include:
- stress-testing results,
- asset-liability mismatch ratios, calculated on the basis of adjusted liquidity gap for time horizons of 6 months and 1 year − measures based on reported adjusted liquidity gap, applicable to time horizons of 6 months and 1 year (cumulatively) and presenting coverage with assets maturing by a specific date of the sum of liabilities maturing by that date and net outflow from off-balance sheet items taken into account in the adjusted liquidity gap report,
- Maximum Cash Outflow (MCO) analysis − used to monitor liquidity over time horizons of up to 8 weeks in order to identify any excessive liquidity gaps and excessive dependence on short-term funding. Expected cash flows for defined products are monitored to project future funding requirements, and maximum cash outflow limits are set. An MCO report includes contractual cash flows under deposit transactions executed in the interbank market and with other DB Group members,
- Coverage Ratio – a long-term liquidity ratio that shows what percentage of assets with maturities longer than T is covered with liabilities with maturities longer than T.
- Mortgage Coverage Ratio – a long-term liquidity ratio that shows what percentage of mortgage-backed loans with maturities longer than T is covered with liabilities with maturities longer than T.

The market (product) liquidity risk is reflected in the above measures through a continuous analysis of the market and use of appropriate haircuts in the analysis. In addition, any market liquidity changes (no possibility to execute transactions) or growth of spreads trigger the launch of contingency plans.

An additional tool used to monitor liquidity risk is the study of deposit base stability because a diversified and stable deposit base is the basic source of financing in the Bank. Due to different characteristics, the deposit base of the PCB and GTB lines is examined separately. Deposits of PCB lines (private persons and small and medium enterprises) are characterized by low concentration considering a single deposit or a single client (the largest unit deposit does not exceed 0.8% and the sum of single client deposits - 1.4% of the total deposit base of the PCB line) and large diversification due to products (current accounts, savings accounts, term deposits). In the case of GTB business line, a large concentration of deposits is observed, therefore, when calculating local liquidity ratios, a very conservative measurement of the stability of the deposit base is used, which largely invests in liquid assets.

Stress tests

Stress-testing results are a crucial element of the liquidity risk management process, as they demonstrate that the Bank has the ability to withstand certain defined stress scenarios over an 8-week time horizon (inflows and outflows are compared in periods of 1, 2, 3, 4, 5 days and 2, 3, 4, 5, 6, 7, 8 weeks). The purpose of such analyses is to identify any liquidity shortfalls and to define appropriate remedies, taking into account major liquidity risk factors such as turmoil in the financial markets, deposit run, drawdown of funds available under credit facilities, or assessment of the available counterbalancing capacity, e.g. from liquid assets.

According to the local stress testing methodology, the Bank analyzes the tests in three variants:
- Internal scenario - this scenario illustrates DB AG downgraded rating, liquidity crisis in DB Polska S.A. or the liquidity crisis in the DB Group
- Systematic Market Risk − this scenario assumes a general crisis of the banking system, economic crisis in developing countries, general economic crisis;
- Simultaneous Combined − this scenario combines the above two scenarios.

Within each variant, two types of tests are analyzed:
- severe short-term conditions (up to two weeks)
- less severe conditions but persistent over time (up to two months)

Stress testing results are compared with internal limits and the appetite for medium-term liquidity risk is defined. Additionally, liquidity stress-testing results are used as a liquidity deterioration criterion in the liquidity contingency plans. Triggers for 1st degree liquidity maintenance include one or more negative results of the stress test scenario analysis (for any time horizon).

All the above-mentioned elements of the liquidity risk monitoring and control process, in particular the determination of risk measures and checking the use of the internal and supervisory limits imposed, are designed to warn about the emergence of a situation that is dangerous for the Bank and to check the effectiveness of liquidity risk management. Every major change in the daily rate (in the case of daily counts) is explained and described. This allows for a quick reaction of the Bank if the activities and transactions carried out did not bring the expected results. Additionally, once a year, the Bank's Management Board evaluates the adopted liquidity risk policy in terms of its method of application and the possible need for changes. This assessment consists of an assessment of the strategy and changes in individual Bank's positions and their impact on the level of liquidity risk and from the quality assessment of the liquidity risk management and control process is presented at the Risk Committee of the Supervisory Board. In addition, every year, when working on the document "Plan for obtaining and maintaining funds recognized in the Bank as a stable source of financing", the previous year's verifications are verified together with a comparison to the actual changes in individual items. This allows you to observe changes in position over a longer time horizon and - if necessary - to notice disturbing trends.

Market risk

Market risk is the risk of assets losing their value, liabilities increasing, or profit/loss changing adversely as a result of the sensitivity of the Group’s portfolio to the volatility of market parameters (prices).

In its operations, the Group identifies the following market risks:
- interest rate risk and
- currency risk.

The target profile of market risk reflects the nature of the Group's operations and the adopted risk taking strategy. The Group subdivides its market risk exposures into the trading book exposures and banking book exposures.

The Group's trading activities include only FX trading (fx spot, fx forward, fx swap) and interest rate products (IRS). The risk positions resulting from offering the above products to customers are immediately closed through opposite transactions with DBAG Group entities.

The other activities are classified as non-trading and primarily include:
— branch transactions with clients: deposits, loans, payments in foreign currencies from PLN accounts, repayments and disbursements under currency loans;
— transactions with corporate clients: deposits, credit facilities, payments, transactions financing foreign trade, and guarantees;
— interbank transactions securing appropriate liquidity to the Group;
— maintaining a pool of liquid assets securing appropriate liquidity to the Group;
— process of the transfer of the risk exposure related to the instruments in the Deutsche Bank Polska S.A.'s banking book to the trading book and management of that exposure.

Market risk measurement
The main method used by the Group to measure and monitor the market risk is the Value at Risk (VaR) method. VaR is calculated with the historical simulation method, based on data covering the last 250 days, with the confidence level of 99%, in a one-day horizon. The Supervisory Board has defined the Group's appetite for market risk as the VaR for the trading and banking books.

Below are presented the limits and values of VaR for the banking and trading books:

in PLN thd	Limit	As at Dec 31 2017	Minimum in 2017	Maximum in 2017	Average in 2017
VaR – banking book	2.50	1,361.51	274.73	2,366.59	979.51
VaR – trading book	120.00	24.56	12.94	179.37	34.69

Apart from VaR, depending on the type of market risk, the Group uses additional risk measurement and monitoring methods as described below.

As a result of Management Board of the Bank's decision to restrain trading activity, the VaR limits changed. The VaR limit for the trade book was reduced from 0.15 mPLN to 0.12 mPLN.

Interest rate risk

Interest rate risk is the risk of assets losing their value, liabilities increasing, or profit/loss changing adversely as a result of the sensitivity of the Group's portfolio to interest rate movements.

The interest rate risk of the banking book refers to the current or future risk of reduction of the bank's capitals and revenues resulting from changes in the interest rate that affect the value of the banking book position. The change in interest rates has a direct impact on the current value and future cash flows of the banking book products and on the Group's net interest income presented in the financial statements. As a consequence, in market practice, the approach to interest rate risk can be distinguished by two classes of methods for measuring the interest rate risk of the banking book:
— simulation of the result change - EM (Earnings Measure),
— simulation of economic value change (Economic Value - EV).

Both approaches are complementary - both reflect the impact of changes in the interest rate on the Bank's result.

Definition of Earnings Measure (EM)
EM is defined as the accounting result of the Group. This result reflects revenues on products offered to clients as well as costs of obtaining financing and securing bank's risk.

Definition of Economic Value (EV)
EV is defined as the theoretical net change in the current value (fair value) of the banking book. EV is thus a change in the present value of all flows resulting from banking book products.

To determine the EM, the Bank uses the net interest result measure (NII). The simulations assume a static structure and size of the balance sheet. N1 balances with no defined maturity are treated separately for the NII designation. For some NMD balances based on the rate managed by the Group, appropriate assumptions are made regarding the flexibility of interest rates on these products to changes in market interest rates.

Bank uses the VaR measure to estimate the EV.

The Group identifies the following interest rate risks:

- Risk of mismatch of remeasurement dates, related to mismatches between the values of assets, liabilities and off-balance-sheet items remeasured at a given time. The risk is monitored and hedged based on the results of the interest rate gap analysis, as well as the computed PV01 and VaR values;
- Client option risk, related to the client's options embedded in banking products and exercisable as a result of changes in interest rates. The Group identifies client option risk in the following products:
  - credit facilities and loans whose terms provide for the borrower's option of full or partial prepayment, maturity date postponement, change of the repayment schedule, change of the currency, or change of the interest rate (from a fixed rate to a floating rate);
  - term deposits whose terms provide for the client's right to withdraw the funds at any time.

  The Group mitigates and offsets client option risk through a commission system in respect of prepayments, the application of zero or reduced interest rates in respect of deposit terminations, as well as through ON transfer rate in respect of certain products;

- Base risk, related to imperfect match between the interest rates applicable to income-generating instruments and expense-generating instruments that have the same remeasurement periods. This risk is monitored through additional analyses of net interest income, assuming asset remeasurement on different dates and to different extents.
- Yield curve risk, related to a change in the relation between interest rates applicable to different maturities but to the same index or market. The risk is analysed and reported based on the VaR method.

The unit with primary responsibility for interest rate risk management is Liquidity Management Office (LMO) – the risk generated by products of the GTB and PBC business lines is transferred to LMO on a daily basis. LMO may close an interest rate risk exposure with Proprietary Position Management Department (PPMD).

Due to the lack of typical commercial activities in 2017, the VaR limit on the interest rate risk of the trading book was limited to 0.08 mPLN (0.1 m PLN earlier). The VaR limit of the banking book interest rate remained unchanged at PLN 2.3m.

The NII measurement was introduced in the Parent in the fourth quarter of 2017. The Management Board of the Parent Entity approved the limit of PLN 80m for net interest income in the case of the parallel rate shift scenario by 100 basis points.

Interest rate risk reporting
The Financial Risk Department reports on interest rate risk metrics in daily reports and monthly reports (discussed at the ALCO Committee's meeting), which include information on changes in positions, risk levels and exceeded limits.

Metrics used to measure/monitor interest rate risk

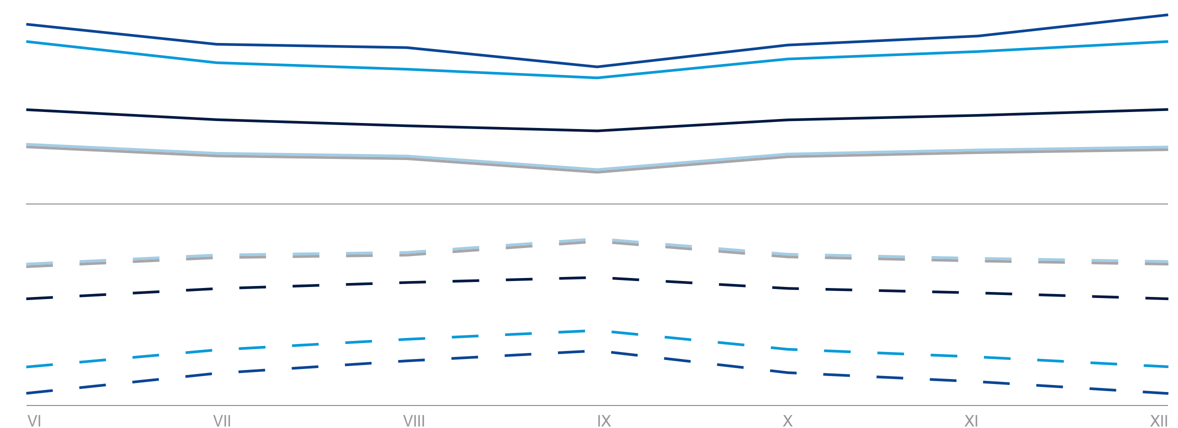
The Group uses the following methods to measure/monitor interest rate risk:

— VaR method;
— net interest income (NII),
— stress tests;
— economic capital for interest rate risk;

Two basic measures of the interest rate risk of the banking book are net interest income (NII) and the Value at Risk (VaR) method. The result of NII simulations in all the scenarios analyzed in the period from June to December 2017 is shown in the chart below:

NII under various interest rate scenarios

in PLN m



	VI	VII	VIII	IX	X	XI	XII
100 up	46.51	41.56	38.52	36.00	41.42	43.67	46.55
100 down	(46.51)	(41.56)	(38.52)	(36.00)	(41.42)	(43.67)	(46.55)
200 up	88.51	78.62	77.03	67.50	78.24	82.68	93.10
200 down	(93.03)	(83.13)	(77.03)	(71.99)	(82.84)	(87.34)	(93.10)
parallel up	80.01	69.53	66.41	62.08	71.35	75.11	79.99
parallel down	(80.01)	(71.62)	(66.41)	(62.08)	(71.35)	(75.11)	(79.99)
steepener	(29.47)	(25.03)	(23.70)	(17.03)	(24.62)	(26.64)	(28.17)
flattener	29.47	25.03	23.70	17.03	24.62	26.64	28.17
short up	29.47	25.03	23.70	17.03	24.62	26.64	28.17
short down	(29.47)	(25.03)	(23.70)	(17.03)	(24.62)	(26.64)	(28.17)

in PLN thd	Limit	As at Dec 31 2017	Minimum in 2017	Maximum in 2017	Average in 2017
IR VaR – banking book	2,300.00	1,359.16	279.09	2,364.49	979.69
IR VaR – trading book	80.00	24.54	12.11	54.70	32.34

In order to estimate the effects of interest rate shocks, the Group runs stress tests with the following assumptions:

— hypothetical scenarios of yield curve shifts based on the historical volatility of particular interest rates (point on the yield curve),
— parallel change in interest rate by 200 basis points
— scenario based on historical market events. This scenario applies to the whole yield curve (eg. events based on the Argentinean crisis, Russian crisis, etc.).

To estimate the economic capital for interest rate risk, the Group uses the stress tests referred to above and additionally:
— calculates 10-day VaR for the trading book and banking book positions;
— performs a stress test consisting in the calculation of the effect of interest rate changes equal to the first and ninety-ninth centiles of the observed historical annual changes.

The economic capital is equal to the difference between: (i) the larger of the deviation of the change in the value of the trading book portfolio or banking book portfolio resulting from running interest rate shock scenarios and VaR 10, and (ii) Pillar 1 capital.

Currency risk

Currency risk is the risk of assets losing their value, liabilities increasing, or profit/loss changing adversely as a result of the sensitivity of the Group's portfolio to currency exchange rate movements.

Currency risk results from:
— foreign-currency transactions executed with the Group clients,
— transactions executed by the Proprietary Position Management Department in managing the Group's proprietary position,
— execution of transactions other than currency transactions, which generate a foreign currency position for the Group (e.g. interest on deposits in foreign currencies).

The unit with primary responsibility for currency risk management is LMO. The currency risk positions relating to transactions made by individual business line sales teams (GTB, PCC) is immediately closed through opposite transactions with DBAG Group entities. The other currency risk is transferred to LMO on a daily basis.

Due to the lack of typical commercial activities, VaR limits of currency risk were further limited at the end of 2017. The trading book limit was reduced from 0.1 mPLN to 0.08 mPLN. In the case of the bank book, the limits was reduced from 0.3 mPLN to 0.2 mPLN.

Currency risk measurement
The key metrics used in the assessment of currency risk are:
— VaR,
— currency position of the Group, and
— analysis of stress scenarios.

Currency risk reporting
The Financial Risk Department prepares daily reports presenting VaR for currency risk, open foreign currency positions (as at the close of the previous day) and, on that basis, the calculated risk metrics, stress-test analyses, and information on performance against limits. In addition, at ALCO meetings, apart from summary presentations of performance against limits and the results of stress tests, the ongoing currency risk management strategies are discussed.

Currency risk limits
The key limit for currency risk is the Value at Risk (VaR) limit. Foreign-exchange VaR together with the current limit is presented in the table below.

in PLN thd	Limit	As at Dec 31 2017	Minimum in 2017	Maximum in 2017	Average in 2017
FX VaR − banking book	200.00	7.63	1.08	132.12	11.40
FX VaR − trading book	80.00	2.50	0.01	192.07	9.41

VaR is calculated using the historical simulation method with a 99% confidence level and 250 days' historical market data.

Currencies used in the Group's FX operations

as at Dec 31 2017

Assets

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Cash and transactions with Central Bank	13,237	1,014	2,472	21,303	-	38,026
Deposits with other banks, and loans and advances to other banks	151,232	23,276	2,838	550,329	82,098	809,773
Loans and advances to customers	295,518	43,066	3,931,258	7,734,115	2	12,003,959
Financial assets held as investments	-	-	-	9,394	-	9,394
Other assets	1	-	1	9,451	-	9,452
Total	459,988	67,356	3,936,568	8,324,592	82,100	12,870,604

Liabilities

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Amounts due to other banks	13,797	1,295	3,872,193	6,641,532	1,561	10,530,378
Amounts due to customers	655,339	68,458	64,496	2,563,964	92,672	3,444,929
Other liabilities	61	-	-	9,247	-	9,308
Subordinated liabilities	-	-	-	1,481,634	-	1,481,634
Total	669,197	69,753	3,936,689	10,696,377	94,233	15,466,249

as at Dec 31 2016

Assets

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Cash and transactions with Central Bank	12,165	1,251	2,231	22,222	-	37,869
Deposits with other banks, and loans and advances to other banks	13,833	11,637	11,743	649,563	169,735	856,511
Loans and advances to customers	307,017	26,330	5,082,831	8,528,327	-	13,944,505
Financial assets held as investments	-	-	-	6,597	-	6,597
Other assets	32	-	1,016	32,222	-	33,270
Total	333,047	39,218	5,097,821	9,238,931	169,735	14,878,752

Liabilities

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Amounts due to other banks	9,105	175	5,167,426	7,180,577	865	12,358,148
Amounts due to customers	541,077	78,396	60,008	2,279,574	172,315	3,131,370
Other liabilities	725	1	21,064	70,268	42	92,100
Subordinated liabilities	-	-	-	1,571,560	-	1,571,560
Total	550,907	78,572	5,248,498	11,101,979	173,222	17,153,178

46. Equity management

In accordance with the applicable laws, the Group is required to maintain own funds at a level adequate to its risk exposure the scale of its business. The measure used to determine capital adequacy is the capital adequacy ratio.

In accordance with capital decisions for the Deutsche Bank Group, the Polish Financial Supervision Authority expects that the Bank will meet the total capital requirement (TCR) - taking into account the buffer (amounting to 1.25%) and the buffer of another systemically important institution (in the amount of 0.25%) - at the minimum level of 13.50% and Tier 1 capital ratio (T1) - taking into account the buffer (amounting to 1.25%) and the buffer of another systemically important institution (amounting to 0.25%) - on at least 10.50%.In addition, the Bank was required to maintain an additional requirement for own funds above the CRR requirement to hedge the risk arising from foreign currency mortgages for households at a level of 1.62% for the aggregate capital ratio (TCR), 1.22% for Tier 1 capital ratio (T1) and 0.91% for Tier 1 capital ratio (CET1).

The Group manages risk and capital by applying a set of rules and using a specific organisational structure and processes of measurement, control and allocation adjusted to the profile of its business.

The approach used by the Group in risk and capital management is based on the following general principles:
- The Management Board of the Bank exercises overall supervision over the risk and capital management process;
- The Group manages individual risks and capital through coordinated processes, implemented at the relevant organisational units;
- The units involved in the risk control process are organisationally and functionally independent from the business units.

The Group's own funds

Rules of computing own funds

In accordance with the provisions of the Banking Law and Regulation 575/2013, the Group's own funds comprise:
- Common Equity Tier 1 capital
- Additional Tier 1 capital
- Tier 2 capital

The Group's Common Equity Tier 1 capital is composed of:
1) capital instruments, provided that the conditions stipulated in Art. 28 of the CRR Regulation are met, together with the related share premium accounts;
2) retained earnings;

   Profit for the current period or profit for the year is included in Common Equity Tier 1 capital exclusively if:
   - the profit has been approved by the Bank's General Meeting of Shareholders, or
   - the Group has obtained the Financial Supervision Authority's approval for including the profit into the Group's own funds, having met the conditions stipulated in Art. 26.2 of CRR Regulation.

3) accumulated other comprehensive income, including unrealised gains/losses on remeasurement of the portfolio of financial instruments available for sale (AFS) measured at fair value;
4) capital reserve;
5) general risk fund.

The Group's Additional Tier 1 capital is composed of:

capital instruments, provided that the conditions stipulated in Art. 52.1 of the CRR Regulation are met, together with the related share premium accounts, after deductions required under Art. 56 of the CRR Regulation and after the application of Art. 79 of the CRR Regulation. Those instruments do not qualify as Common Equity Tier 1 (CET1) or Tier 2 capital.

Currently, the Group holds no instruments which would qualify as Additional Tier 1 (AT1) capital.

The Group's Tier 2 capital is composed of:
- capital instruments and subordinated loans, together with the related share premium accounts, provided that the conditions stipulated in Art. 63 of the CRR Regulation are met.

The extent to which Tier 2 instruments qualify as Tier 2 items during the final five years of maturity of the instruments is calculated in accordance with Art. 64 of CRR Regulation by multiplying the result derived from the calculation in point (a) by the amount referred to in point (b) as follows:
a) par/nominal value of the instruments or subordinated loans on the first day of the final five year period of their contractual maturity divided by the number of calendar days in that period;
b) the number of remaining calendar days of contractual maturity of the instruments or subordinated loans.

As at December 31st 2017, the Parent used subordinated loans meeting all the criteria defined in Art. 63 of the CRR Regulation and maturing in less than five calendar years. Accordingly, the loan qualifies as Tier 2 instrument, in an amount defined in accordance with Art. 64 of CRR Regulation.

Capital adequacy in 2017–2016

in PLN thd	Dec 31 2017	Dec 31 2016
Tier I capital	4,132,920	4,131,690
Common Equity Tier I capital (CET1)	4,132,920	4,131,690
Additional Tier I capital (AT1)	-	-
Tier II capital	1,274,511	1,274,511
Total own funds	5,407,431	5,406,202
Capital requirement for credit risk, for the settlement, supplier and counterparty risk	2,366,474	2,092,844
Capital requirements for settlement / delivery risk	-	-
Capital requirements for position risk, currency risk and commodity price risk	2,616	5,432
Capital requirement for operational risk	153,706	155,056
Capital requirements for fixed indirect costs	-	-
Capital requirement for credit valuation adjustments	46	235
Capital requirements for large exposures in the trading book	-	-
Requirements for other exposures to risk	-	-
The total capital requirement	2,522,842	2,253,568
Capital ratio CET1	13.11%	14.67%
Capital ratio T1	13.11%	14.67%
Total capital ratio (%)	17.15%	19.19%

Operational risk

Operational risk management strategy and process at the Group

Operational risk is understood as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risk. The definition of operational risk does not cover business risk and reputational risk.

The Group's operational risk management strategy defines the key processes necessary to manage operational risk. The degree of the strategy's formalisation and complexity is adjusted to the specific character of the Group's operations and its current and target risk profile.

The Group manages operational risk in accordance with applicable laws, including Resolutions and Recommendations of the Polish Financial Supervision Authority.

In order to align the risk management process with the types and scale of its operations, the Group has implemented an integrated operational risk management process comprising the following components:
— risk identification,
— risk analysis and assessment to evaluate exposure,
— response, i.e. choosing and taking measures appropriate to the exposure (limitation, transfer, acceptance, avoidance),
— risk monitoring,
— reporting risk analysis and assessment results in a systematic manner,
— defining process participants and their functions, duties and scopes of responsibility.

Using appropriate procedures, an analysis is carried out to identify and assess operational risks involved in products, bank processes and outsourced activities, both before they are implemented and throughout their life or duration.

While identifying areas of increased operational risk, the Group gathers information on operating losses, monitors specific key risk indicators serving as an early warning system, and uses other elements of the process

(enabling efficient risk management), such as: regular operational risk inspections (primarily at the field branches of the Group's distribution network), self-assessment of risks, and scenario analyses.

Structure and organisation of units managing operational risk at the Group

The Group's operational risk management structure has been approved by the Management Board of the Bank, and implemented throughout the organisation to build all employees' (at various organisational levels) awareness of their responsibilities regarding operational risk. As part of the risk management process, each of the Group's operating units is responsible for actively managing operational risk in its respective area of operations.

In addition to observing division of responsibilities among employees, the Group also applies the 'four eyes principle', implemented both in its procedures and IT systems, with the access to such systems being controlled and depending on the employee's scope of responsibilities.

To ensure efficient management of operational risk, the Group has established the Operational Risk Management Department as a dedicated unit responsible for the implementation of the operational risk management strategy.

Scope and type of risk reporting and measurement systems

The Group has defined rules for escalation, reporting and monitoring of operational risk. The identified mitigation measures are monitored until fully implemented.

Operational risk identification takes place at all of the Group's operating areas. The identified risks are then evaluated in terms of potential losses and the possible frequency of such losses. The results obtained in the process of operational risk identification and assessment are monitored on an ongoing basis, analysed and periodically reported to the Group's governing bodies.

The Group annually calculates its operational risk appetite for a given year, representing the level of risk which, given its structure, is acceptable to the Group. Specific limits are defined based on the calculated risk appetite, and compliance with the limits is subject to regular monitoring and quarterly reporting.

The methods used to calculate capital to cover operational risk

The Deutsche Bank Polska SA Group applies a standard (TSA - Standardized Approach) method for calculating the regulatory requirement for operational risk.

Losses related to operational risk in 2017 and 2016 by type and event category

The table below sets forth gross operational losses incurred by the Group in 2016−2017 by event category.

Share in total gross operational losses for 2017 and 2016

Operational event category	2017	2016
Internal fraud	1.2%	0.0%
External fraud	9.4%	23.4%
Employment related principles and workplace safety	1.8%	37.7%
Clients, products and operational practices	80.9%	9.8%
Losses related to property and equipment	0.7%	7.4%
Disruption to bank operations and system failures	0.1%	9.0%
Transaction execution, delivery and operational process management	5.9%	12.7%

Rules of operational risk mitigation; strategies and processes for monitoring the effectiveness of operational risk mitigation methods

In line with the applied structure of operational risk management, the Group implements the operational risk management model in which all employees, in particular organisational unit managers, are responsible for day-to-day risk management, in accordance with their respective scopes of duties and responsibilities. In the course of day-to-day operations, they perform actions mitigating the identified operational risks in their respective areas of responsibility.

Material risks identified at the Group are subject to mitigation measures with specified implementation deadlines, taking into consideration the residual risk remaining after the mitigation measures are applied.

Capital buffers

As at December 31, 2017, capital buffers were calculated in accordance with the principles set out in Directive 2013/36 / EU of the European Parliament and of the Council of 26 June 2013 on the conditions for the admission of credit institutions to activities and prudential supervision of credit institutions and investment firms (CRD) IV), Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system and in the Delegated Regulation of the Commission (EU) No. 1152/2014 of 4 June 2014 supplementing the Directive of the European Parliament and of the Council 2013 / 36 / EU with regard to regulatory technical standards for determining the geographical location of relevant credit exposures for the purpose of calculating institution-specific countercyclical buffer rates.

In December 2017, the Polish Financial Supervision Authority, pursuant to art. 39 of the Act on macro-prudential supervision of the financial system and crisis management in the financial system, after consulting the Financial Stability Committee, identified Deutsche Bank Polska SA as another systemically significant institution and imposed a buffer (on an individual and consolidated basis) of another institution of systemic significance.

Pursuant to the above-mentioned regulations and the PFSA decision, as at December 31st, 2017, the Group was required to maintain:
1) a buffer of 1.25% of the total risk exposure amount calculated in accordance with Art. 92 par. 3 CRR. As at December 31, 2017, this amount was PLN 394,194 thousand PLN.
2) countercyclical buffer, which as at December 31st, 2017 amounted to PLN 0 - due to the fact that as at December 31st, 2017, the Bank's foreign exposures did not exceed 2% of the total overall credit exposures, exposures included in the trading book and securitization exposures in relation to these exposures were assigned to the institution's country of origin (Poland), thus obtaining the countercyclical buffer rate in force in 2017 for credit exposures located on the territory of the Republic of Poland, i.e. 0%.
3) buffer of another systemically important institution in the amount equivalent to 0.25% of the total risk exposure amount calculated in accordance with art. 92 par. 3 CRR. As at December 31, 2017, this amount amounted to PLN 78,839 thousand PLN.

As at December 31, 2017, the Group met the combined buffer requirement.

47. Variable component remuneration policy

Qualitative information

Information on the decision-making process used for determining the remuneration policy, as well as the number of meetings held during the financial year by the main body in charge of supervision of the remuneration policy, including, where applicable, information on the composition and scope of responsibilities of the remuneration committee, external consultant whose services were used in determining the remuneration policy, as well as the roles of any parties concerned

Pursuant to Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011, in 2012 Deutsche Bank Polska S.A. ("Bank") implemented (using support of an external consultant, Ernst & Young Polska), and the Supervisory Board approved, a Variable Remuneration Component Policy applicable to persons in management positions at Deutsche Bank Polska S.A. ("Policy") who determine and have an important influence on the Bank's risk profile.

All positions at the Bank were reviewed in relation to the key risks managed at the Bank. Based on the review, management positions that have an important influence on the Bank's risk profile. The list of management positions that have an important influence on the Bank's risk profile was approved by the Supervisory Board and forms Appendix 3 to the Policy.

In 2012, the Remuneration Committee was established at the Bank pursuant to Par. 6 of Resolution No. 258/2011 of the Polish Financial Supervision Authority. The Remuneration Committee is an advisory body of the Supervisory Board and its members perform their duties pursuant to Art. 390 of the Polish Commercial Companies Code.

In 2015, the Remuneration Policy was revised to meet the regulatory requirements arising as a result of:

a) implementation of the Corporate Governance Standards at the Bank;
   Following implementation of the Corporate Governance Standards, the Policy was amended by adding provisions on:
   - remuneration for work and other employee benefits;
   - sources of financing for variable remuneration components;
   - definition of the scope or powers and responsibilities of bodies supervising the Bank's remuneration policy.

   Following the introduction of these amendments, the Variable Remuneration Component Policy was converted into the Policy for Fixed and Variable Remuneration Components applicable to persons in management positions, including members of the Management Board of Deutsche Bank Polska S.A.

b) amendments introduced to the Banking Law under the Act on Macro-Prudential Supervision over the Financial System and on Crisis Management in the Financial System.

   Where it refers to the remuneration policy, the Act in particular stipulates that the Bank's remuneration policy should also cover its subsidiaries and take into consideration the remuneration policy of the Bank's parent.

In 2017, due to the need to adjust internal regulations to the Regulation of the Minister of Finance and Development of March 6th, 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks, the current Policy of Fixed and Variable Remuneration Components of persons holding managerial positions, including Members of the Management Board, in Deutsche Bank Polska S.A. was transformed into Remuneration Policy including Fixed and Variable Fee Components of persons holding managerial positions, including members of the Management Board, in Deutsche Bank Polska S.A.

In the year 2017, the Remuneration Committee consisted of:
— in the period from 01.01.2017 to 13.06.2017
    1) Mr Peter Tils
    2) Mr Hubert A. Janiszewski, PhD, and
    3) Mr Filip Gossow
— in the period from 14.06.2017 to 31.12.2017
    1) Mr Peter Tils
    2) Mr Hubert A. Janiszewski, PhD, and
    3) Mr Filip Gossow

The responsibilities of the Remuneration Committee include:
— defining the terms and conditions of employment for Management Board members to be set out in their employment contracts, managerial contracts or other agreements;
— issuing opinions on the remuneration system in place at the Bank, including in particular monitoring of the amounts and components of remuneration;
— monitoring and issuing opinions on the variable remuneration component policy, including the amounts and components of remuneration for persons holding management positions at Deutsche Bank Polska S.A., based on the principles of prudent and stable risk, capital and liquidity management and with particular attention paid to the long-term interests of the Bank and of the Bank's shareholders;
— monitoring and issuing opinions on variable remuneration components for persons holding management positions at the Bank which are involved in risk management and ensuring compliance of the Deutsche Bank Polska S.A.'s activities with applicable laws and internal regulations.

Meetings of the Remuneration Committee are held at least once a year. The meetings are convened by the Committee Chairperson, or on the initiative of a Supervisory Board member, or at the request of the Management Board of the Bank. In 2017, the Remuneration Committee held six meetings.

Performance-based remuneration
Deutsche Bank Polska S.A. pursues a local remuneration policy, in conjunction with the DB Group's general remuneration policy, to ensure consistent risk management at the DB Group and reduce the risk of conflicts of interest.

The variable remuneration component policy applicable to persons holding management positions at Deutsche Bank Polska S.A. supports conservative and stable risk, capital and liquidity management, and plays a special role in promoting the interests of the Bank, its shareholders, investors and other stakeholders, in the long-term horizon.

Total remuneration comprises fixed and variable components. The fixed components should represent a sufficiently large portion of the entire remuneration amount to enable the Bank to pursue a flexible policy with respect to the variable portion.

The variable remuneration amount is determined on the basis of an evaluation of the performance of each person to whom the Policy applies, of the relevant organisational unit (in a three-year horizon) and of the Bank. Individual performance is evaluated on the basis of financial and non-financial criteria, in the context of the level of risk associated with this performance. The criteria should be objective and should reflect the quality of the Bank management, long-term aspects of its operations, and the manner of the implementation of strategic objectives. Moreover, the variable remuneration of managers in the internal audit unit, in the compliance risk management unit, and in other risk management and HR units, is independent of the economic effects achieved in the areas of the Bank's business which are under their control.

The variable remuneration components are financed and paid from the Bank's funds and do not depend on the performance of the Bank's parent or the parent's Group.

Key information on the remuneration policy
The variable portion of the remuneration of persons holding management positions depends on the results of their individual evaluation, as well as the performance of their organisational unit and of the Bank as a whole. Individual evaluation is performed on the basis of the employee evaluation procedure in place at the Bank. The variable remuneration component amounts are reviewed every year by the Remuneration Committee, a consulting and advisory body supporting the Supervisory Board.

At least 50% of the variable remuneration of persons holding management positions enumerated in Section 1 of Appendix 3 to the Policy, who have a particularly important influence on the Bank's risk profile, serves as an incentive to exercise special care in promoting the Bank's interests in the long-term, and is paid in financial instruments. The persons to whom the Policy applies may not dispose of those instruments earlier than permitted under the relevant rules defined by the Bank.

At least 40% of the variable remuneration of persons holding management positions enumerated in Section 1 of Appendix 3 to the Policy, who have a particularly important influence on the Bank's risk profile, is paid after the end of the evaluation period for which this remuneration is payable, and the payment is deferred - it is paid in four equal tranches over the four years following the grant of the discretionary award.

The possibility to actually receive the deferred payment in a given year depends on the fulfilment of the following conditions:
— the Bank has generated a profit for the previous year;
— the individual performance of a given person holding a management position in a three-year horizon has been assessed positively.

48. Brokerage activity

Deutsche Bank Polska S.A. conducts brokerage activities from March 13, 2007, which is carried out as part of the Brokerage House, being a separate organizational unit of the Bank, based on the decision of the Polish Financial Supervision Authority PW / DDM / M / 4040/10/1 / KNF26 / 2006 of October 13, 2006 , decision of the Polish Financial Supervision Authority DFL / 4040/51/34 / I / 10/47/09/10 / KW of July 15, 2010 and the decision of the Polish Financial Supervision Authority DFL / 4040/4/5 / I / 10/78 / 10 / KW of 10 November 2010. The bank, acting also as an agent of the investment firm DB SECURITIES S.A., was entered on the list of agents kept by the Polish Financial Supervision Authority - Decision DPF / 4024/36/12 / U / 07 / KE-K dated 29 August 2007.

Brokerage activity of Deutsche Bank Polska S.A. it consists in particular in accepting and transferring orders to purchase and sell financial instruments, offering financial instruments, investment advisory in the field of trading in securities and managing portfolios of financial instruments on commission.

Signatures of all Management Board Members

(Signature)	(Signature)	(Signature)
Krzysztof Kalicki President of the Management Board	Leszek Niemycki Vice-President of the Management Board	Zbigniew Bętkowski Member of the Management Board Person in charge of keep-ing the Bank's accounting books
(Signature)	(Signature)	(Signature)
Piotr Gemra Member of the Management Board	Tomasz Kowalski Member of the Management Board	Kamil Kuźmiński Member of the Management Board
(Signature)	(Signature)	(Signature)
Piotr Olendski Member of the Management Board	Piotr Pawłowski Member of the Management Board	Magdalena Rogalska Member of the Management Board

Warsaw, June 15th 2018

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Other Information

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Independent Registered Auditor's Report

To the Shareholders' Meeting and the Supervisory Board of Deutsche Bank Polska S.A.

Translators' explanatory note
The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

Report on the audit of consolidated financial statements

Our opinion

In our opinion, the attached annual consolidated financial statements of Deutsche Bank Polska S.A. Group ("the Group"), in which Deutsche Bank Polska S.A. is the parent entity ("the Parent Company", "the Bank"):
- give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Group and the Parent Company's Articles of Association.

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report on 26 June 2018.

What we have audited

We have audited the annual consolidated financial statements of the Group which comprise:
- the consolidated statement of financial position as at December 31st, 2017;
  and the following prepared for the financial year from January 1st, to December 31st, 2017:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows, and
- additional information comprising a description of the adopted accounting policies and other explanations.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors ("NSA") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered Auditors" – Journal of Laws of 2017, item 1089 as amended) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific

requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158). Our responsibilities under those NSA are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and ethics

We are independent of the Group in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview

The overall materiality threshold adopted for the purposes of our audit was set at PLN 15,300 thousand, which represents 5% of adjusted profit before tax.

We have audited the consolidated financial statements of the Group for the period ended December 31st, 2017.

Impairment of loans and advances
IFRS 9 Financial Instruments related disclosures
Valuation and presentation of assets held for distribution to owners and impairment of non-financial assets.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Parent Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operated.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall Group materiality	PLN 15,300 thousand (PLN 12,500 thousand in 2016)
Basis for determination	5% of profit before tax adjusted by the tax on financial institutions and the effects of one-off events, i.e. impairment of non-financial assets and costs related to the planned demerger of the Bank.
Rationale for the materiality benchmark applied	We have adopted profit before tax as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Group's operations and is a generally adopted benchmark. We adjust profit before tax by the tax on financial institutions which represents a specific tax burden as well as by the one-off events related to the planned demerger of the Bank, i.e. cost of the planned demerger and impairment of non-financial assets. We adopted the materiality threshold at 5% because based on our professional judgement it is within the acceptable quantitative materiality thresholds.

We agreed with the Parent Company's Audit Committee that we would report to them of misstatements identified during our audit of the consolidated financial statements above PLN 1,530 thousand, as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Impairment of loans and advances

During our audit we focused on the valuation and completeness of impairment allowances because Management's judgements in this respect have a significant impact on the financial statements and are complex and subjective.

Impairment allowances are calculated both for loan portfolios with similar characteristics and for individually significant exposures. As at December 31st, 2017 the balance of impairment provisions on Loans and advances to customers amounted to PLN 600,193 thousand, including those calculated on the portfolio basis of PLN 437,614 thousand, i.e. 73%.

Due to the fact that the structure of the Bank's loan portfolio covers mostly receivables analyzed for the purpose of estimating impairment using the portfolio method, during our audit we paid particular attention to the calculation of collective allowances for portfolios of loan receivables with similar characteristics.

Collective impairment calculation requires a significant degree of judgement to determine the timing and amount of impairment. It is performed using statistical models based on historical data, which estimate possible recoveries for each of the homogeneous portfolios identified by the Bank. Assumptions used in the models (such us the emergence period, the probability of default and the loss given default) are subject to Management judgement. They may be affected by specific events, like portfolio sales, that would not be captured by historical data.

In the case of individual approach to impairment calculation, professional judgement is required to determine the timing of default and the estimation of future cash flows related to a particular loan exposure. Future cash flows are estimated on the basis of financial results of the debtor and the probability of continuing operations, valuation of collateral and other factors as determined by the Management.

How our audit addressed the key audit matter

We started our audit with updating our understanding of the policies and procedures related to impairment. These include, among others, assessment of key elements of impairment identification and measurement, such as timing, completeness, consistency, accuracy, collateral assessment, early warning system and validation.

Additionally, we assessed the design and tested operating effectiveness of key controls to identify loss events and determine the extent to which impairment should be recognised considering the potential for management override of controls.

Moreover, we analysed the results of backtesting, including impact of expert adjustments. Finally, we recalculated the impairment allowances on the whole loan portfolio.

We analysed the adjustments introduced to the impairment models to reflect the changes in estimates pertaining to the recoveries used in the process of calculating loan loss provisions and their rationale.

In the case of individually significant exposures from the working portfolio, we analyzed whether impairment triggers exist in the selected sample of exposures in accordance with IAS 39.

In the case of impaired exposures, for a selected sample of clients we analyzed the valuation of collateral and assumptions regarding other future cash flows prepared by the Management.

In addition to that, we assessed the reasonableness of estimates regarding the planned dates of adopted cash flows.

We also reviewed customer classification changes and impairment provisions created after the end of the audited year in order to assess the correctness of determining when the impairment occurred.

Our work in this area did not result in significant adjustments.

IFRS 9 Financial Instruments related disclosure

IFRS 9 Financial Instruments is effective for annual reporting periods beginning on or after January 1st, 2018.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires disclosure in the financial statements of the "known or reasonably estimable information relevant to assessing the possible impact" of new standards issued but not yet effective. This is expected to include a discussion of the impact that initial application of the IFRS is expected to have on the financial statements.

In Note 2c of the accompanying consolidated financial statements the Group disclosed quantitative and qualitative information that would be helpful for the users in understanding the impact of IFRS 9 on classification and valuation of financial instruments as well as the Group's equity.

Given the complexity of IFRS 9 requirements and significance of the disclosure in assessing the Group's financial position as at December 31st, 2017, we paid a particular attention to auditing of the relevant disclosures.

How our audit addressed the key audit matter

Despite the fact that it is a disclosure, not yet recognised on the face of the primary financial statements, we have performed audit work related to disclosure presented by the Group in Note 2c of the accompanying financial statements as it is required by NSA.

We have obtained an understanding of Group's implementation process for determining the possible impact of adoption, including understanding of the credit risk modelling methodologies.

We have performed substantive audit procedures with respect to the classification of financial instruments and staging.

While testing how Management made the accounting estimates and the data on which these were based, we have verified the appropriateness of the methods and completeness and accuracy of data used, as well as the correctness of applied formulae and assumptions.

We have not identified material misstatements in disclosures pertaining to IFRS 9 implementation.

Valuation and presentation of assets intended for distribution to owners Impairment of non-financial assets	How our audit addressed the key audit matter
In December 2017, the Bank's shareholder announced a plan to sell retail operations of Deutsche Bank Polska S.A. (except for mortgage loans denominated in foreign currencies) to Bank Zachodni WBK S.A. It is expected that assets and liabilities related to this activity are distributed to the owner, who will exercise a transaction with Bank Zachodni WBK S.A. The transaction is conditional upon meeting certain criteria, including the approval of the Polish Financial Supervision Authority (KNF) and the Office of Competition and Consumer Protection (UOKiK). As a result of the planned transaction, the Group carried out an analysis of IFRS 5 and IAS 36 to ensure a proper accounting treatment. IFRS 5 requires identification of assets and liabilities held for sale/distribution to owners and determines their valuation and disclosure. The Group analyzed the criteria of IFRS 5 in respect of assets and liabilities covered by the potential demerger and sale of a part of the Bank. According to the Group's assessment the conditions provided for in IFRS 5 were not met as at December 31st, 2017, therefore the Management did not classify the assets and liabilities covered by the planned transaction as held for distribution to owners. Based on the provisions of IAS 36, as at each balance sheet date, the Group assesses the existence of impairment triggers (external or internal), which indicate whether impairment of any non-current assets or cash generating units occurred. Due to the fact that the recoverable amounts of cash-generating units in the form of retail business to be demerged and the retail activity to remain in the Bank's structures were lower than their carrying amounts, the Management recognized impairment of non-financial assets related to the business to be demerged and sold by the Bank's shareholder as well as retail operations remaining with the Bank.	Due to the materiality of the planned transaction and significant judgments exercised by the Management, during our audit we paid special attention to auditing the correctness of the Management's identification of and accounting for the effects of the planned demerger of the Bank. As a first step, we focused on confirming that the IFRS 5 criteria are not met and that it is appropriate not to classify the assets and liabilities as held for distribution to owners. We did it on the basis of information and documents presented to us by the Management. Due to, among other matters, uncertainty as to obtaining the required regulatory and internal approvals, as well as the complex operating aspects of the transaction assuming direct migration of customer data to the buyer's IT systems, we considered the Management's argumentation reasonable. As the next step, we analyzed the assumptions under which the Group recognized the impairment of non-financial assets related to the business to be demerged and sold by the Bank's shareholder as well as retail operations to remain in the Bank. With respect to both types of activity, on the basis of information provided by the Group we concluded that the recoverable amount is lower than the book value of cash-generating units and therefore it was relevant to recognize impairment and allocate it to tangible fixed assets and intangible assets subject to IAS 36. In addition, we confirmed the adequacy of disclosures made by the Group, including, in particular, the description of the impact of the planned transaction on the appropriateness of adopting the going concern principle and significant judgments made by the Management. Adjustments relating to impairment of non-financial assets identified as a result of our audit have been introduced to the consolidated financial statements. We have not identified material misstatements in the adjusted consolidated financial statements.

Responsibility of the Management and Supervisory Board for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of annual consolidated financial statements that give a true and fair view of the Group's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the laws and Articles of Association applicable to the Group, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent Company's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent Company's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements comply with the requirements specified in the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2018, item 395, as amended). Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not cover an assurance on the Group's future profitability or the efficiency and effectiveness of the Parent Company's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's Management Board.
— Conclude on the appropriateness of the Parent Company's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company Group to cease to continue as a going concern.
— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Report on the operations

Other information
Other information comprises a Report on the Group operations for the financial year ended December 31st, 2017 ("the Report on the operations") and the statement on non-financial information referred to in Article 55 (2b) of the Accounting Act which is a separate part of the Report on the operations.

Responsibility of the Management and Supervisory Board
The Management Board of the Parent Company is responsible for preparing the Report on the operations in accordance with the law.

The Parent Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the Group's operations including its separate parts complies with the requirements of the Accounting Act.

Registered auditor's responsibility
Our opinion on the audit of the consolidated financial statements does not cover the Report on the operations.

In connection with our audit of the financial statements, our responsibility is to read the Report on the operations and, in doing so, consider whether it is materially consistent with the information in the consolidated financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in the Report on the operations, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual consolidated financial statements.

Moreover, we are obliged to inform whether the Parent Company prepared a statement on non-financial information.

We obtained the Report on the Group's operations before the date of this audit report.

The financial information included in the Report on the operations has been audited in accordance with the scope described in this audit report and the requirements of the Banking Law.

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the Report on the Group's operations:

— has been prepared in accordance with the requirements of Article 49 of the Accounting Act and Article 111a (1–2) of the Banking Law of 29 August 1997 ("the Banking Law" – Journal of Laws of 2017, item 1876, as amended);
— is consistent with the information in the consolidated financial statements.

Moreover, based on the knowledge of the Group and its environment obtained during our audit, we have not identified any material misstatements in the Report on the Group's operations.

Information on non-financial information

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Group has prepared a statement on non-financial information referred to in Article 55 (2b) of the Accounting Act as a separate section of the Report on the operations.

We have not performed any assurance work relating to the statement on non-financial information and we do not provide any assurance with regard to it.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent Company is responsible for complying with the applicable prudential regulations set out in separate legislation, and in particular, for correct determination of the capital ratios.

The capital ratios as at December 31st, 2017 have been presented in Note 46 of the consolidated financial statements and include Common Equity Tier 1 capital ratio, Tier 1 capital ratio and the total capital ratio.

We are obliged to inform in our report on the audit of the consolidated financial statements whether the Group entities have complied with the applicable prudential regulations set out in separate legislation, and in particular, whether the Group has correctly determined its capital ratios. For the purposes of the said information, the following legal acts are understood as separate legislation: Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended ("CRR"), the Banking Law and the Act of 5 August 2015 on macro-prudential supervision over the financial system and on crisis management in the financial system ("the Act on macro-prudential supervision" – Journal of Laws of 2017, item 1934 as amended).

It is not the purpose of an audit of the financial statements to present an opinion on compliance with the applicable prudential regulations specified in the separate legislation specified above, and in particular, on the correct determination of the capital ratios, and therefore, we do not express such an opinion.

Based on the work performed by us, we inform you that we have not identified:
— any cases of non-compliance by the Group with the applicable prudential regulations set out in separate legislation referred to above, in the period from January 1st, to December 31st, 2017;
— any irregularities in the determination by the Group of the capital ratios as at December 31st, 2017 in accordance with the separate legislation referred to above; which would have a material impact on the consolidated financial statements.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Parent Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

During the audited period, we provided to the Parent Company, and its controlled entities in the European Union, the following non-audit services which were not disclosed in the Report on the Group's operations or in the consolidated financial statements:
— advisory services, including IT advisory;
— non-audit assurance services related to holding of the clients' assets.

Appointment

We have been appointed to audit the annual consolidated financial statements of the Group by resolution of the General Shareholder's Meeting dated 30 June 2016 and re-appointed by the resolution of 30 June 2017. We have been auditing the Group's financial statements without interruption since the financial year ended December 31st, 2015, i.e. for three consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company entered on the list of Registered Audit Companies with the number 144, is Marta Dzięcioł.

(Signature)

Marta Dzięcioł
Key Registered Auditor
No. 11674

Warsaw, 26 June 2018

Bank's Head Office

ul. Lecha Kaczyńskiego 26
00-609 Warsaw, Poland
tel. (+48 22) 579 90 00
fax (+48 22) 579 90 01
www.db-polska.pl
e-mail: db.komunikacja@db.com