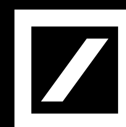
Deutsche Bank Polska S.A.
Capital Group

Annual Report 2016



Deutsche Bank AG Capital Group
two-year record

Key financial information	2016	2015
Post-tax return on average shareholders' equity	(2.3)%	(9.8)%
Post-tax return on average tangible shareholders' equity	(2.7)%	(12.3) %
Cost/income ratio [1]	98.1%	115.3%
Compensation ratio [2]	39.6%	39.7%
Noncompensation ratio [3]	58.5%	75.7%
Total net revenues, in € m.	30,014	33,525
Provision for credit losses, in € m.	1,383	956
Total noninterest expenses, in € m.	29,442	38,667
Adjusted Costs, in € m.	24,734	26,451
Income (loss) before income taxes, in € m.	(810)	(6,097)
Net income (loss), in € m.	(1,356)	(6,772)
Basic earnings per share	€ (1.21)	€ (5.06)
Diluted earnings per share	€ (1.21)	€ (5.06)
Share price at period end	€ 17.25	€ 22.53
Share price high	€ 22.10	€ 33.42
Share price low	€ 9.90	€ 20.69

	Dec 31 2016	Dec 31 2015
Fully loaded CRR/CRD 4 Leverage Ratio	3.5%	3.5%
CRR/CRD 4 leverage exposure, in € bn.	1,348	1,395
Common Equity Tier 1 capital ratio (fully loaded)	11.8%	11.1%
Common Equity Tier 1 capital ratio (phase in)	13.4%	13.2%
Risk-weigted assets, in € bn.	358	397
Total assets, in € bn.	1,591	1,629
Total Shareholders' equity, in € bn.	60	63
Book value per basic share outstanding	€ 42.74	€ 45.16
Tangible book value per basic share outstanding	€ 36.33	€ 37.90

Other Information		
Branches	2,656	2,790
thereof in Germany	1,776	1,827
Employees (full-time equivalent)	99,744	101,104
thereof in Germany	44,600	45,757
Long-term rating		
Moody's Investors Service	Baa2	A3
Standard & Poor's	BBB+	BBB+
Fitch Ratings	A-	A-
DBRS Ratings	A(low)	A

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

RADA NADZORCZA

Peter Tils
Chairman
Deutsche Bank AG Frankfurt/Main

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

Pedro Larena
(Member of the Supervisory Board till the date of July 29th, 2016)
Vice-Chairman
Deutsche Bank Sociedad Anómina Española Madrid

Mary Campbell
Deutsche Bank AG London

Philipp Gossow
(Member of the Supervisory Board since the date of May 23th, 2017) Deutsche Bank AG Frankfurt/ Main

Kees Hoving
(Member of the Supervisory Board till the date of May 11th, 2016) Deutsche Bank AG Amsterdam

dr Tobias Kampmann
(Member of the Supervisory Board since the date of June 1st, 2016) Deutsche Bank AG Frankfurt/ Main

Zoltan Kurali
(Member of the Supervisory Board till the date of April 5th, 2016) Deutsche Bank AG Budapest

Lothar Meenen
(Member of the Supervisory Board till the date of May 23rd, 2017) Deutsche Bank AG Frankfurt/ Main

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

Angela Potter
(Member of the Supervisory Board since June 1st, 2016 r. till May 23rd, 2017) Deutsche Bank AG London

Rainer Rauleder
Deutsche Bank AG Frankfurt/ Main

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, Regional Sales Region 1 Department, Regional Sales Region 2 Department, Regional Sales Region 3 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, Individual Clients Service Department, Individual and Business Clients Service Department, Operational Support and Cost Management Department, Outsourcing Management and Information Security Department, Business Process Management 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, 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, Treasury Product Sales Department,

Piotr Pawłowski
Liquidity Management Office,Reference Rates Office

Magdalena Rogalska
International Banking Corporation Department, Custody Department, Implementation and Clients Service Department, Product Development Office, Financial Institutions Director

Łukasz Barwicki
(Member of the Management Board till the date of December 6th, 2016)

Radosław Kudła
(Member of the Management Board till the date of April 6th, 2016)

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Management Report on the operations of the Deutsche Bank Polska S.A. Capital Group in 2016

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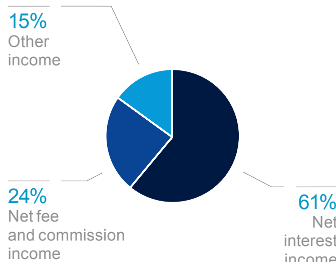
Management Report
on the operations of the Deutsche Bank Polska Capital Group in 2016

Overview of the Group's business in 2016

Net profit /(loss) on banking activities
%



Activities of the Deutsche Bank Polska Group in 2016 were geared towards its business objectives across all areas of the Group's operations. In 2016, the parent was restructuring and profiling its activities in Investment and Corporate Banking, which led to limiting the scale of its trading business. Its financial performance in 2016 was also affected by the newly enacted fiscal changes, resulting in a marked increase in tax payable on the parent's operating activities in 2016.

The Group's financial highlights for 2016:
— net profit of PLN 92m, down 41.7% year on year,
— net interest income of PLN 698m, down 2.4% on 2015,
— net fee and commission income of PLN 275m, down 1.8% year on year,
— operating expenses of PLN 791m, up 4.1% year on year,
— impairment costs of PLN 167m, relative to PLN 124m in 2015,
— as at the end of 2016, the Group had total assets of PLN 39,688m, up 4% on the previous year.

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

The Group's business environment

In 2016, GDP growth declined to 2.8% from 3.6% in 2015. Just like in 2015, economic growth was fuelled mainly by domestic demand, with an increasing contribution to GDP from private and public consumption (2.1pp and 0.7pp, respectively). On the other hand, the contribution from investment in fixed assets was strongly negative (-1.2pp), but largely offset by an increase in inventories. In 2016, net exports contributed a mere 0.1pp to GDP growth, which means that GDP in 2016 was generated primarily by household and public consumption. In 2016, increased transfers to citizens under the 'Family 500+' benefit programme and improved conditions on the labour market helped sustain the strong momentum in household consumption.

2016 was the second consecutive year of deflation, with an average annual inflation rate of -0.6% compared with -0.9% in 2015, far below the lower end of the inflation target range (2.5% +/-1%). In the period January−October 2016, there was a deflation of consumer prices, which hit its lowest point in April (-1.1% year on year). The deflation ceased in October, and in December 2016 the consumer price index rose to 0.7% year on year.

In 2016, the PLN/EUR exchange rate averaged 4.3625, which means a 4.3% year-on-year depreciation of the złoty against the euro. The PLN/USD exchange rate averaged 3.9431, which means a 4.6% year-on-year depreciation of the złoty against the US dollar. The PLN/CHF exchange rate averaged 4.0021, which means a 2.1% year-on-year depreciation of the złoty against the Swiss franc. In 2016, the PLN/EUR exchange rate fluctuated within the 4.24−4.50 range, representing approximately 6% of the year's average exchange rate. Fluctuations of the PLN/USD exchange rate were within a much wider range, amounting to approximately 13.4% of the average exchange rate, which resulted from appreciation

[1] With BGK included in the ranking of banks, the DB Polska Group ranks 13th in terms of the value of total assets, but if the list is narrowed to commercial banks only, it moves up to the 12th place (data from a survey run by Interia.pl).

of the US dollar at the year's end. Fluctuations of the PLN/CHF exchange rate represented 7.2% of the 2016 average.

The public budget deficit in 2016 was PLN -27.6bn (50.4% of the 2016 target), compared with PLN -42.6bn (85.2% of the target) in 2015. According to preliminary estimates based on the ESA2010 methodology, deficit in the state and local government sector in 2016 was -2.4% of GDP, compared with -2.5% of GDP in 2015. In 2016, the ratio of state and local government debt to GDP was 54.4%, relative to 51.5% in 2015. In January 2016, due to increased political and institutional risks, S&P downgraded Poland's rating from A- to BBB+, while Moody's and Fitch kept their ratings for Poland unchanged, at A2 and A-, respectively.

In 2016, a new NBP Governor was appointed and nine out of ten members of the Monetary Policy Council (MPC) were replaced. In 2016, the Monetary Policy Council did not change interest rates, maintaining the main reference rate at 1.50% throughout 2016. In 2016, the MPC pursued a moderately conservative monetary policy.

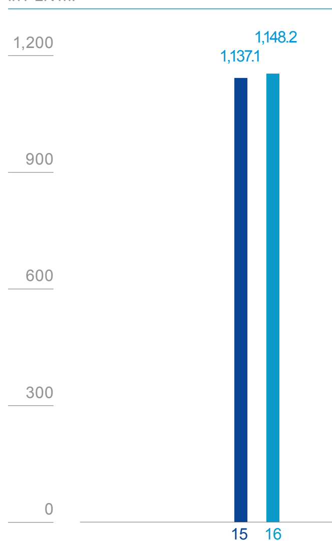
In 2016, current account deficit stood at EUR -1.273bn, compared with EUR -967m in 2015. In 2016, for the second consecutive time, Poland reported a trade surplus (in value terms) of EUR 1.949bn (0.5% of GDP), compared with a trade surplus of EUR 2.1bn (0.5% of GDP) in 2015. Expressed in the euro, exports increased by 2.7% y/y in 2016, to EUR 176.8bn, while imports grew by 2.9% y/y, to EUR 174.8bn. Current account deficit was -0.3% of GDP in 2016, compared with -0.2% of GDP in 2015.

2016 was another year of a rapid decline in the unemployment rate, which fell from 10.2% in January to 8.3% in December 2016.

In December 2016, the M3 money supply was PLN 1,265.7bn (up 9.5% y/y, compared with a 9.1% y/y increase recorded in December 2015). The ratio of the M3 money supply to GDP in 2016 was 68.3%, against 64.2% in 2015. In December 2016, household deposits totalled PLN 724.7bn (up 9.4% y/y), including PLN 664.9bn in PLN-denominated deposits (up 9.0% y/y) and PLN 59.8bn in foreign currency deposits (up 13.7% y/y). In December 2016, demand deposits placed by households with monetary financial institutions grew by 17.8% y/y (to PLN 402.0bn), with PLN-denominated deposits going up 17.8% y/y to PLN 360.4bn, and foreign currency deposits growing by 18.2% y/y to PLN 41.6bn. At the end of 2016, households' term deposits increased by 0.4% y/y to PLN 322.7bn, of which PLN-denominated deposits went up 0.2% y/y to PLN 304.5bn, and foreign currency deposits increased by 4.6% y/y to PLN 18.2bn. Low interest rates on PLN-denominated term deposits limited their relative attractiveness and so in 2016 households tended to opt for demand deposits.

In December 2016, corporate deposits placed with monetary financial institutions totalled PLN 269.8bn (up 7.9% y/y), including PLN 220.5bn in PLN-denominated deposits (up 4.6% y/y) and PLN 49.2bn in foreign currency deposits (up 25.8% y/y). In December 2016, corporate demand deposits placed with monetary financial institutions grew by 16.3% y/y to PLN 169.8bn, with PLN-denominated demand deposits up 13.8% y/y to PLN 130.6bn, and foreign currency demand deposits up 25.6% y/y to PLN 39.2bn. In December 2016, term deposits of corporate Clients declined by 3.9% y/y to PLN 100.0bn, of which PLN-denominated term

deposits went down 6.5% y/y to PLN 89.9bn, and foreign currency term deposits rose by 27.8% y/y to PLN 10.1bn.



In December 2016, the value of loans and advances from monetary financial institutions to household Clients was PLN 656.6bn (up 5.3% y/y), including PLN-denominated loans of PLN 485.1bn (up 8.5% y/y), and foreign currency loans of PLN 171.6bn (down 2.6% y/y). In December 2016, consumer loans increased by 7.3% y/y to PLN 164.5bn. At the end of 2016, the value of mortgage loans grew by 5.2% y/y to PLN 395.1bn, with PLN-denominated loans at PLN 233.6bn (up 11.0% y/y), and foreign currency loans at PLN 161.5bn (down 2.3% y/y). In December 2016, the value of loans and advances from monetary financial institutions to corporate Clients grew by 5.0% y/y to PLN 295.6bn, including PLN-denominated loans of PLN 212.3bn (up 4.6% y/y), and foreign currency loans of PLN 83.3bn (up 6.0% y/y).

In 2016, the main risk factors included: (1) the political conflict over the Constitutional Tribunal, which triggered the Rule of Law Framework procedure, (2) an increase in the banking sector's tax burden following introduction of the bank tax in Poland and (3) the UK's decision to leave the EU, which has increased risk aversion in the region. All these risks have been absorbed by the market, while the risks of: (1') enactment of an act on restructuring foreign-currency denominated loans, unfavourable to the banking sector and currency market and (2') downgrade of Poland's rating by other rating agencies (Moody's, Fitch) have not materialised.

For 2017, we expect the Deutsche Bank Polska S.A. Capital Group to operate in a macroeconomic environment characterised by moderately accelerating economic growth in Poland, with an inflation rate slightly above 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 2017, we project a 3.3% GDP growth and an average annual inflation rate of 2.1%. In 2017, the unemployment rate should go down to 7.6% at the year's end.

In 2017, the main risks include: (1) possible introduction of an act on restructuring foreign-currency loans (in a softened version), (2) slower-than-expected recovery of private investment, (3) increased risk of regulatory and institutional changes in Poland and (4) geopolitical risks.

The Monetary Policy Council has indicated preference for maintaining interest rates unchanged in 2017, which means maintaining negative real interest rates as of January 2017. The policy of unchanged interest rates in a deflationary environment in 2016 was relatively conservative, while unchanged interest rates during a period of stabilising inflation in 2017 will mean a loose monetary policy, aimed at stimulating economic growth. The ECB's monetary policy in 2017 should be neutral to the Polish economy, while the impact of rate hikes in the US should be moderate this year.

In 2017, the eurozone is expected to record a growth rate of 1.3%, while the German economy should expand at a rate of 1.1%.

For 2017, we project the Polish złoty to remain relatively stable against the EUR-USD currency basket, appreciating against the euro and depreciating against the US dollar.

Financial condition

In 2016, the Group reported profit before tax of PLN 146m, down 28% y/y.

Statement of profit or loss for 2016 and 2015

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015	Change %
Net interest income	698,972	716,311	(2.4)%
Impairment losses	(167,244)	(124,287)	34.6%
Net fee and commission income	275,087	280,136	(1.8)%
Net trading income	275,100	280,149	(1.8)%
Net profit/(loss) on banking activities	970,235	994,972	(2.5)%
General and administrative expenses	(791,068)	(759,970)	4.1%
Depreciation and amortisation	(33,647)	(31,526)	6.7%
Profit before tax	145,520	203,476	(28.5)%
Income tax expense	(53,464)	(45,520)	17.5%
Net profit	92,056	157,956	(41.7)%

Net profit /(loss) on banking activities

- In 2016, net interest income went down by PLN 17m, or approximately 2%, y/y.
- Net fee and commission income decreased by approximately 2% (PLN 5m) relative to 2015.
- Net income from instruments measured at fair value through profit or loss and revaluation was PLN 116m, down by PLN 12,650 thousand year on year.

The main challenge for the Group in 2016 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 1% higher than in 2015 and represented 95% of the 2016 target.

In the Private Client area, key constraints to achieving the revenue target in line with the budget 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 Group reported total revenue at 88% of the target, which should be viewed as solid given the fierce competition and the resulting pressure on interest margins. The Group's performance in the segment of mortgage loans exceeded the budget target by 7%, on the back of its maintained high share in the new sales market (cross-sell effect) and intensive efforts to control margins and contract terms justifying margin adjustments.

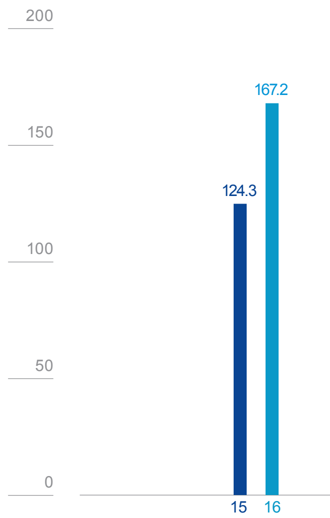
In the Business Client area, the reported revenue was at 84% of the target, 7% down year on year. The main objective in the segment was to develop the product portfolio and improve profitability with a continued stable increase in the loan balance.

Revenue from deposit products came in at 99% of the target, having dropped by 12% y/y due to low interest rates.

Revenue from investment and insurance products was 29% lower y/y in 2016, representing 54% of the target. The revenue decrease was mainly due to deteriorated climate on the financial market and aversion to risk.

In the Corporate and Investment Banking area, revenue reached 92% of the target, as it did a year earlier, which translates into an almost 8% decrease. The main reason for the decrease was the close-down of the Global Markets (Trading) business line, where revenue dropped 48% y/y, while in Investment Banking it increased by 26%. In Transaction Banking, revenue was almost 12% above the target, having grown by PLN 20.9m, which represents close to 14% of Corporate and Investment Banking's total revenue. The increase recorded in Transaction Banking was mainly attributable to foreign exchange transactions, carried out both on the Autobahn and FX4Cash platforms and over the telephone. 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 recorded in the case of loans, guarantees, letters of credit and payments made, and an increase in fee and commission income from custody activities and services to financial institutions.

Impairment losses
in PLN m.



In 2016, loan loss provisions were 4% below the target and 23% higher than in 2015. This positive trend confirms the high quality of the Group's loan portfolio.

In 2016, the Group's costs were 27% higher than the target, having risen 3% on the 2015 figure.

Given the structure and flexibility of profit drivers, strengthening of the revenue base will be a priority for the Management Board in 2017. The revenue base needs to be developed in line with strategic objectives to reduce the share of mortgage products in total revenue and increase the share of investment, consumer finance and corporate banking products. The strategy provides for a growth of the revenue base in the transaction banking segment and continued intensified activity on the capital and money markets.

Working assets

- Development of lending activities − compared with December 31st 2015, loans and advances to Clients were up by PLN 851,810 thousand, or 3%; the growth in lending activities was achieved mainly on the back of partial process automation. The share of loans in total assets was similar in the compared periods, at 77%.
- Growth of the portfolio of financial assets held as investments – over the year, financial assets held as investments grew by PLN 1,029,671 thousand, and their share in total assets went up from 15.2% as at December 31st 2015 to 17.1% as at December 31st 2016.
- Lower amount of deposits with other banks, and loans and advances to other banks − down by PLN 144,089 thousand; the share of this item in total assets fell from 2.6% as at December 31st 2015 to 2.1% as at December 31st 2016.

Sources of financing

- The main component of the Bank's financing base (deposits from Clients) grew by PLN 918,077 thousand in 2016. The share of Client deposits in total equity and liabilities changed from 44.4% in 2015 to 44.8% in 2016.
- Deposits from other banks were down in 2016 by PLN 565,982 thousand; the share of this item in total equity and liabilities decreased from 42% in 2015 to 39.4% in 2016.

Assets

	Dec 31 2016		Dec 31 2015		
	in PLN thd	Percent share %	in PLN thd	Percent share %	Change %
Cash and balances with central bank	1,053,417	2.7%	903,794	2.4%	17%
Deposits with other banks, and loans and advances to other banks	851,847	2.1%	995,936	2.6%	(14)%
Financial assets at fair value through profit or loss	138,674	0.3%	340,221	0.9%	(59)%
Loans and advances to Clients	30,512,017	76.9%	29,660,207	78.1%	3%
Financial assets held as investments	6,799,137	17.1%	5,769,466	15.2%	18%
Property, plant and equipment	35,912	0.1%	41,823	0.1%	(14)%
Intangible assets	105,198	0.3%	89,556	0.2%	17%
Current tax assets	9,333	0.0%	-	0.0%	n/a
Deferred tax assets	18,764	0.0%	11,484	0.0%	63%
Other assets	163,467	0.4%	171,911	0.5%	(5)%
Total assets	39,687,766	100%	37,984,398	100%	4%

Equity and liabilities

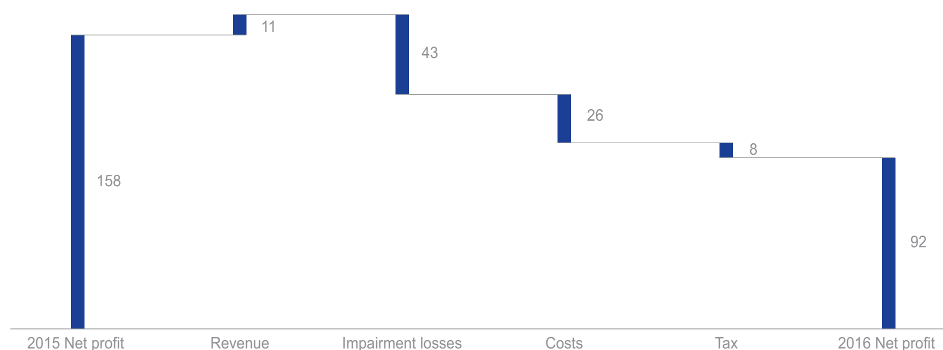
	Dec 31 2016		Dec 31 2015		
	in PLN thd	Percent share %	in PLN thd	Percent share %	Change %
Amounts due to other banks	15,622,115	39.4%	16,188,097	42.6%	(3)%
Financial liabilities at fair value through profit or loss	89,532	0.2%	116,590	0.3%	(23)%
Amounts due to Clients	17,797,700	44.8%	16,879,623	44.4%	5%
Provisions	25,750	0.1%	34,786	0.1%	(26)%
Current tax liabilities	-	0.0%	9,035	0.0%	(100)%
Subordinated liabilities	1,583,873	4.0%	235,521	0.6%	572%
Other liabilities	358,019	0.9%	290,613	0.8%	23%
Total liabilities	35,476,989	89.4%	33,754,265	88.9%	5%
Share capital	2,651,449	6.7%	2,651,449	7.0%	0%
Share premium	525,366	1.3%	525,366	1.4%	0%
Revaluation capital reserve	(2,031)	0.0%	30,196	0.1%	(107)%
Retained earnings	1,035,993	2.6%	1,023,122	2.7%	1%
Total equity	4,210,777	10.6%	4,230,133	11.1%	0%
Total equity and liabilities	39,687,766	100%	37,984,398	100%	4%

Net profit and its drivers

In 2016, the Group reported PLN 92,056 thousand in net profit, down on the figure reported in 2015. Net profit in 2016 was driven by profit on banking activities as well as higher costs, related chiefly to regulatory requirements applicable to the Group.

Revenue and expenses influence on net profit change

in PLN m.



Main ratios	2016	2015
Net ROE	2.20%	4.00%
Net ROA	0.20%	0.40%
CIR	72.50%	70.70%
Total capital ratio (%)	19.19%	14.59%

The Group expects its 2017 net profit to be roughly on a par with the 2016 result. High regulatory costs, including payments under the bank tax and a natural increase in the cost of credit risk, should be partially offset by cost optimisation measures and revenue base expansion across all areas of the Group's business. In the next financial year, the Group will be forced to pursue its business objectives in an environment marked by increased competition, resulting from low interest rates and margins, and tightening supervisory and regulatory requirements.

Organisation and technologies

Organisation development

In 2016, the Group's organisation was stable and properly operated given the developments on its market and in the regulatory environment. The Supervisory Board and the Management Board undertook a number of initiatives aimed at:

- increasing the Group's ability to meet the increasingly stringent regulatory burden,
- improving the efficiency of management and control structures,
- reducing the cost base.

The major changes involved:

1. Establishment of an Integrated Risk Assessment Office, to which all activities related to internal assessment of capital adequacy and model risk were transferred.

2. Liquidation of one macro-region and 14 regions from the sales and retail Client service management structure.
3. The Management Board Member in charge of Liquidity Management was entrusted with supervision of the operations of the Proprietary Position Management Department, Liquidity Management Office, and Reference Rates Office.
4. Improving debt collection capabilities of the fast-growing small enterprises segment by establishing a Small Enterprise Restructuring and Collection Team.
5. Enhancement of control functions with respect to investment products distribution, including the establishment of a Supervision Team and operational risk position.
6. Establishment of a new position responsible for regulatory projects.
7. Transformation of fragmented new Client adoption services into a dedicated regulatory requirements management unit.
8. Streamlining of the Marketing Department's organisational structure, in particular with respect to eCommerce and internet communication management.

As part of the annual assessment process, impressively more Group managers received the DB corporate title in recognition of their improved qualifications. Among the 91 promoted persons, there were four 4 Directors (Director of the Banking Transactions Department, Directors of the Debt Collection Department's Development Office, Director of the Retail Clients Sales Support, and Director of Factoring Products Sales), 16 Vice Presidents, 54 Assistant Vice Presidents, and 17 Associates. Once more, the large number of promoted employees attests to the quality of the Group's staff and the organisation's potential to achieve its future business and regulatory objectives.

The Group's Employee Council in 2016 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.

Capital expenditure and development of technologies

In 2016, 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.

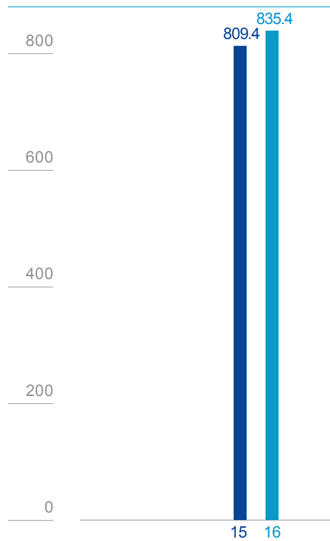
IT projects

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 2016, the Group was running more than 60 development projects. Work was completed and new IT solutions were launched in the following areas (selected key examples):

1. Regulatory Compliance:
    a. implementation of a wide range of requirements imposed by the BGF Act: disclosure obligations with respect to Clients, cancellation of restrictions, restructuring plan assumptions,
    b. implementation of requirements for EMIR[1], FATCA[2], MIFID[3] purposes.
    c. e-Declaration.

[1] European Market Infrastructure Regulation (EMIR).
[2] Foreign Account Tax Compliance Act (FATCA).
[3] Markets in Financial Instruments Directive (MIFID).

Costs
in PLN m.



2. Digitalisation:
   a. full implementation of a new e-banking platform for private Clients (new EasyNet), including a mobile version,
   b. integration of the EasyNet platform with a tool supporting the selection and acquisition of investment fund units,
   c. extension and upgrade of applications supporting stock-exchange trades.
3. Settlements: features facilitating settlements with agents and intermediaries.
4. Process streamlining: opening of dbNet Business accounts, automated derivatives accounting.
5. Technological enhancements:
   a. elimination of old data centres and transfer of all data to a technology partner,
   b. transfer of all critical functions to a technology partner.
6. Data management and reporting:
   a. functional extensions to data mart finance (DMF),
   b. process reporting in lending business (BPM[1])
   c. improved efficiency and stability of SAS reporting.

Concurrently, the Group began preparations for complete or initial implementation of the following solutions (selected items) in 2017:

1. ensuring regulatory compliance with another set of requirements (continuation of earlier work) with respect to:
   a. MIFID – modification of transaction and settlement systems to present costs and commissions, a new risk and adequacy assessment survey, changes in documentation
   b. EMIR – clearing and margining, collateral management, new forms of documents,
   c. amended BGF Act – documentation review procedures, collection and delivery of data and inspection reports to BGF,
   d. PSD[2] II – adaptation of processes, procedures, and systems to handle relationships with third party providers (TPP),
   e. PRIIPSs[3] – standardisation of Client information in line with technical standards,
   f. recommendation H and recommendation Z,
   g. VAT split payments,
   h. FATCA guidelines, including the Common Reporting Standard (CRS) EURO-FATCA.
2. functional extensions of e-banking: transaction notifications, limit management, reporting,
3. new products for businesses: multi-purpose (multi-currency) facility, automated transaction monitoring (ATM),
4. e-banking soft token for businesses: application token for mobile devices.

Branch and head office infrastructure

In 2016, the Group implemented a number of infrastructure optimisation measures with a view to improving Client service configuration and tapping the business potential of local markets. As part of these measures, the Group relocated and/or consolidated 34 branches, reducing their number from 147 in 2015 to 113. Additionally, work began to reduce the cost base of head office locations by transferring some workplaces to buildings with lower maintenance and rental costs (e.g. in Warsaw − from the Focus to the Blue Office building).

[1] Business Process Management (BPM).
[2] Payment Services Directive (PSD).
[3] Packaged Retail Investment and Isurance Products (PRIIPs).

Optimisation of the branch network's physical infrastructure is planned to be completed in 2017, with a focus on branches serving business Clients. Plans also include the opening of a new flagship branch in Poznań (Andersia Business Center), which will accommodate teams from other locations.

Operations

Retail Banking

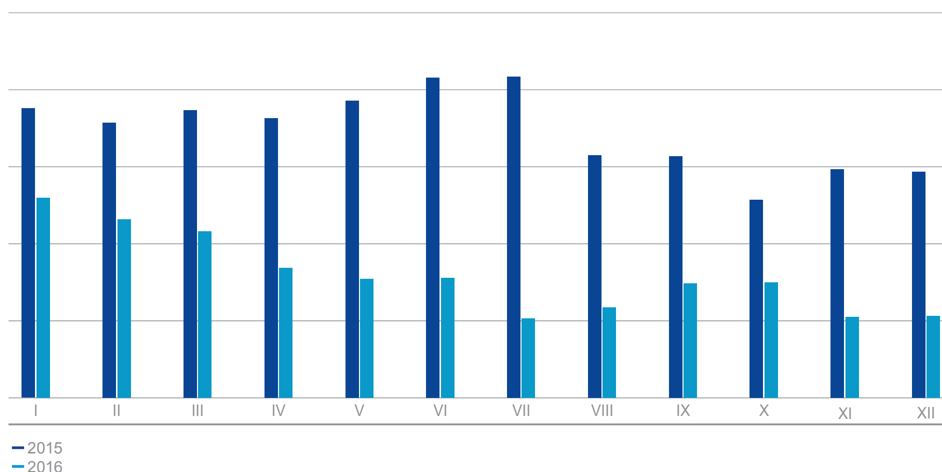
Private and business Clients

In Private and Business Clients (PBC) banking, 2016 saw the business model revamping to keep up with the evolving market reality and regulatory system. One of the key drivers of further changes was the imposition of the new bank tax, which seriously eroded profitability of the adopted lending model. In 2016, the Group focused on higher-margin products (unsecured cash loans, business loans) and on products offering greater potential to build extensive, long-term Client relationships.

PBC's commercial activities in 2016 – loan products

As regards loans for private Clients, in 2016 the Group continued with its strategic plan of reducing the share of mortgage loans in new products. In each month of the year, the volumes of mortgage products sold were significantly lower than in the corresponding months of 2015 (Chart PBC1).

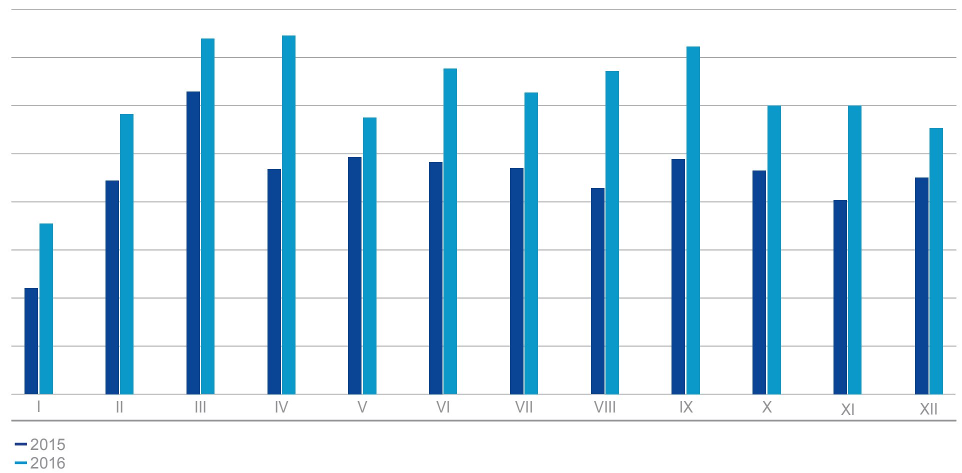
Chart PBC.1 Monthly sales of mortgage products, 2015 vs 2016



Note: The value range has been withheld from publication.

In 2016, PBC was engaged in intensive Client acquisition activities focused on offering unsecured consumer loans to wealthy Clients and professionals. As a result, monthly sales volumes were higher year on year (chart PBC.2)

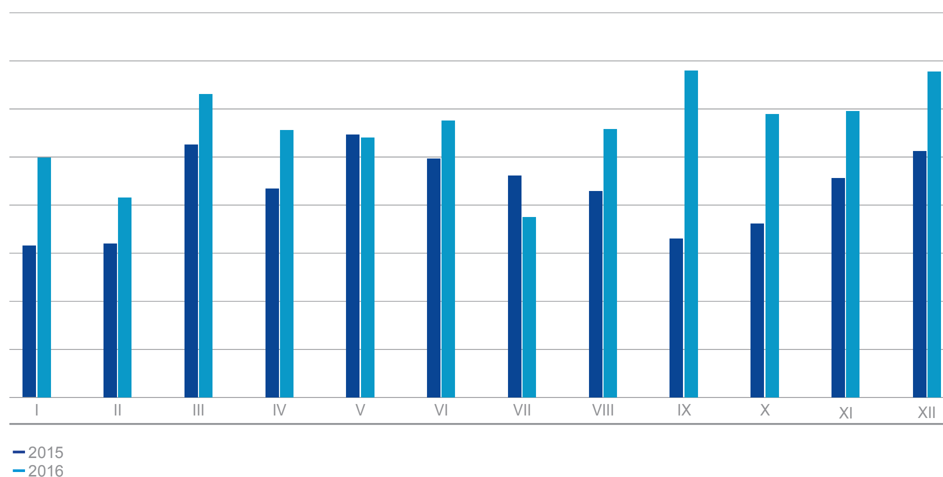
Chart PBC.2. Monthly sales of consumer loans, 2015 vs 2016



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. Average monthly sales of loan products topped the 2015 figures, and the third and fourth quarters of the year saw marked acceleration in new production (chart PBC.3).

Chart PBC.3. Monthly sales of corporate loans, 2015 vs 2016



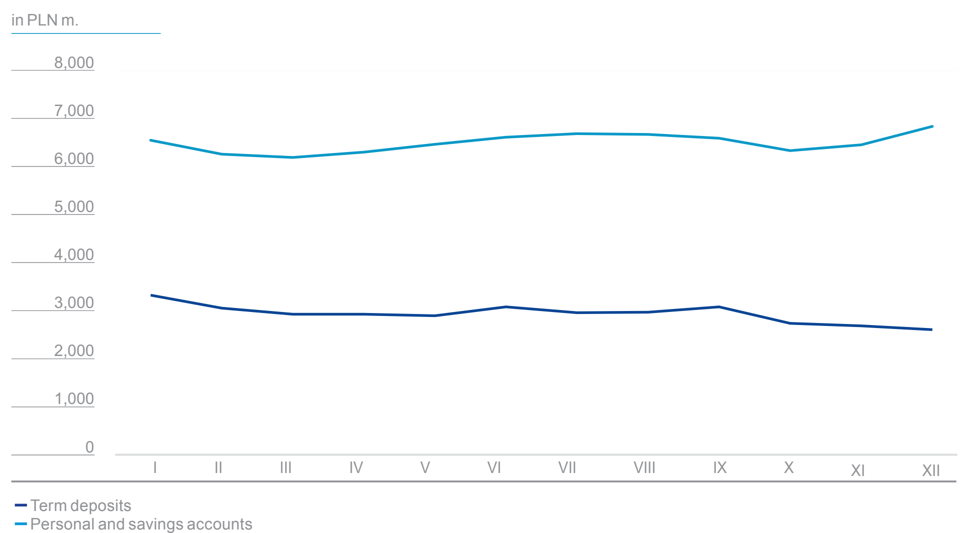
Note: The value range has been withheld from publication.

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 2016 – deposit and investment products

As regards deposits, the Group's position in 2016 was stable (chart PBC.4), despite continuing efforts to optimise margins. Strong restrictions were imposed on deposit price negotiations, especially in the case of business Clients, to remain within the price range limited by internal transfer rates. The outflow of term deposits was offset by higher deposits in savings accounts.

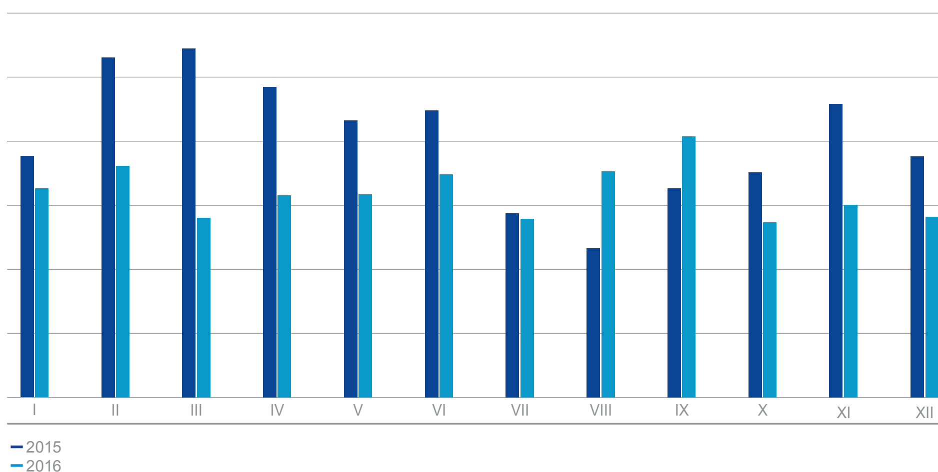
Chart PBC.4 Growth of the deposit base in 2016



In 2016, PBC remained strongly focused on sales of investment products (chart PBC.5). With the exception of August and September, sales levels were down on the previous year, mainly due to:
— uncertainty and turmoil in the financial markets associated with perception of the DB Group,
— lower spending on promotional campaigns on cost-cutting efforts.

It should be noted that the Group rolled out a successful communication and retention campaign, largely offsetting the damage to its brand reputation and allowing it to resume successful sales, especially of structured products.

Chart PBC.5 Monthly sales of investment products, 2015 vs 2016



Note: The value range has been withheld from publication.

In the following years, the Group plans to maintain a strong focus on developing its investment, insurance and deposit products. In line with its mission and vision, it intends to participate in building the wealth of private and business Clients by responding to their growing affluence with top quality services.

Corporate and Investment Banking

Corporate cash management and trade finance

In 2016, transaction banking revenue grew 19% year on year, to more than PLN 102m. Net profit was close to PLN 67m, with a headcount of 17.

To continue the strategy adopted in previous years, the Transaction Banking segment focused on services to corporate Clients, including subsidiaries of Deutsche Bank AG's Clients, the largest Polish enterprises, and financial institutions.

In the area of Cash Management products, we introduced a unique solution for a tobacco industry Client, launching an SMS-based incentive scheme for distributors. The new solution attracted considerable interest both from other companies of the Client's group and other Polish corporate Clients representing various industries, which should drive up revenue in coming months.

In 2016, we implemented a complex Cash Management system for an American cosmetics group, which also included liquidity management products.

Other major transactions included the launch of a business partnership with an international France-based group involving high-value Treasury trades.

As regards product development, our Clients were successfully migrated to an upgraded version of the Cash Manager web platform. At the same time, additional functionalities were launched on the FX4Cash platform, which is currently used by over 100 corporate Clients.

The Deutsche Bank Polska S.A. Capital Group also enhanced its portfolio of trade finance products. In 2016, we signed contracts for the provision of guarantees to new subsidiaries of international groups.

We also continued the roll-out of comprehensive supply chain financing solutions for an international retail chain and a foodstuffs producer. In 2016, we focused mainly on the financing of our Clients' suppliers.

Another important development in 2016 was a transfer of the ownership of currency exchange products to the Transaction Banking line. The change had no direct impact on our Clients, but was important from the Group's perspective, with income from currency transactions shown in the trading book of Transaction Banking as of October 2016.

Despite a number of changes in the banking sector, including new burdens and requirements imposed on banks and further regulations extending the account opening procedure and agreement signing processes, we made every effort to remain a reliable and credible partner for our Clients. Our long-established Client relations model has always been built on partnership and mutual trust. In a Client satisfaction survey, our approach to the Client-Group relations again received very high ratings.

To meet the expectations of our Clients, we organised cyber threat workshops to show how our products help minimise such risks.

Services to financial institutions and custody services

Revenue in the Financial Institutions segment (custody services and cash management for financial institutions) grew by 10% year on year, mainly on interest income, while fee and commission income (on transfers) fell by less than 9%. Revenue from custody services grew by 8% in 2016 vs 2015, mainly due to higher revenue from services provided to investment and pension funds.

In 2016, as in recent years, the Group consistently expanded its custody services, consolidating its footing in the market of services provided to investment and pension funds.

The value of Client assets held in custody grew by more than 30% year on year, also through signing a contract with Poland's fourth largest open-end pension fund. At the end of 2016, the Group kept in custody assets worth ca. PLN 65bn for both Polish and foreign Clients.

Revenue from this business segment rose again, by 5% year on year.

The head of the Custody Services Department was a member of the executive committee of the Council of Custodian Banks at the Polish Bank Association, and also as a team head on the Advisory Committee of the Central Securities Depository of Poland (CSDP) Group

employees have also been actively involved in many working groups set up under the auspices of the Polish Bank Association and CSDP.

The Group was involved in work to align the Polish capital market regulations with European standards and market needs, including implementation of the AIFMD and UCITS V Directives, which both have direct bearing on the business of custodian banks and investment funds in Poland.

Investment activities

The Deutsche Bank 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 2016, the Group was engaged in the largest and the most high-profile transactions on the Polish market.

One of Poland's top transactions, announced in December 2016, was the joint acquisition of a 32.8% stake in Bank Pekao S.A. by PZU S.A. and the Polish Development Fund. The transaction worth PLN 10.6bn, in which the Group acted as a financial advisor to PZU S.A., was one of the largest acquisitions recently closed in Poland.

The PLN 5.1bn take-over of Allegro by a consortium comprising the Cinven, Permira and Mid Europa Partners funds was another high-profile transaction, in which the Group participated as a joint book runner arranging guaranteed financing.

In the debt market, the Group acted as the agent of the USD 1,750m bond issue for the State Treasury, and conducted the first issue of covered bonds for PKO Bank Hipoteczny S.A. worth EUR 500m.

Banking services on financial markets

2016 saw a major shift in the Deutsche Bank Polska S.A. Capital Group's trading strategy, meant to mitigate market risks across the Group. As a result of organisational changes, the Bank discontinued proprietary trading in treasury bonds, interest rate derivatives and currency transactions, closing down its Proprietary Position Management Department.

The Group's Client service did not change much, only the organisational structure was adjusted so as to have corporate Clients and financial institutions served by the transaction banking line, while retail Clients are covered by the retail banking line.

In 2016, the Liquidity Management Office continued to manage the banking book, maintaining high levels of current and long-term liquidity ratios. Throughout the year, the Group remained the NBP's Money Market Dealer, while the Treasury Securities Dealer status was transferred to Deutsche Bank AG London as the Group's activity on the treasury market had been largely downscaled.

DB Securities

DB Securities will no longer serve institutional investors, focusing instead on development of the retail Client business in close partnership with DB Polska as the investment agent.

The Group's development directions

Strategy
In 2016, the Group continued to implement the strategy adopted in the Business Plan, providing for merger of Deutsche Bank PBC S.A. and Deutsche Bank Polska S.A., approved by the Polish Financial Supervision Authority on September 3rd 2014.

The business model operated stably 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.

Over the year, the Group carried out a strategic planning process for 2017-2020, addressing current challenges driven by regulatory changes as well as competitive and market developments. The new strategy was approved by the Bank's Supervisory Board at its meeting held on December 6th 2016.

Key business development directions
The 2017-2020 strategy is a continuation of earlier strategic plans, with no radical changes in the development directions. The strategy provides for continued organic growth of the business, while maximising margins on overall Client relations, in particular where the Group's capital resources have been employed:
— The distribution model based on physical and electronic channels will be retained
— The product model, including selected limitations on high-risk products (such as currency options for retail Clients), remains in effect
— The Group will continue to serve a broad range of Clients, covering the existing market segments.

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 2017

In 2017, the Group is expected to face stiff competition, especially in high-margin banking products. Conditions on the financial markets are expected to remain uncertain but the climate on the local and EU markets should improve moderately, particularly in the countries which are Poland's import or export partners. One of the key drivers of adjustments to banks' operating models will continue to be the growing fiscal and regulatory burdens, having a material effect on returns generated in the Polish market.

Factors supporting the Group's business development will include:
- stable and growing power 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;
- low market share with a range of options for further expansion of the Client base, particularly through consistent creation of added value offered by the Group under the advisory model to wealthy individuals and small/medium-sized enterprises;
- significant potential for business process optimisation (automation, digitalisation, archiving) with a focus on enhancing sales activities and post-sale support;
- continuing positive economic outlook for Poland.

At the same time, market share expansion may be limited by a number of constraints, including:
- fierce 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 winning new Clients due to Poles' considerable loyalty to their banking services providers, especially in view of the fact that new acquisitions are largely dependent on development of the mortgage business;
- 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 2017, the Group 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 (the IQ initiative);
- digitalisation of sales, post-sale and internal processes;
- increasing the size of and diversifying investment product assets sold or administered with the Bank's involvement;
- implementation of the MIFID II standard;
- stimulating sales in the Transaction and Corporate Banking areas;
- personal loans (non-mortgage);
- acquiring new Clients and deposits;
- cross-sell activities and campaigns targeted at the Client base and prospects.

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 Group, 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 Group 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 Group 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 Group 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 2016, 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 Group 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 Group 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 3.2m;
- 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.
  The Restructuring Department is involved in more complex aspects of the private 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. These measures fall entirely within the remit of the Restructuring Department, operating within the Group's credit risk structures.

In 2016, 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 2016, 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 the Group's ability to meet its liabilities on an ongoing basis. 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 market 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.

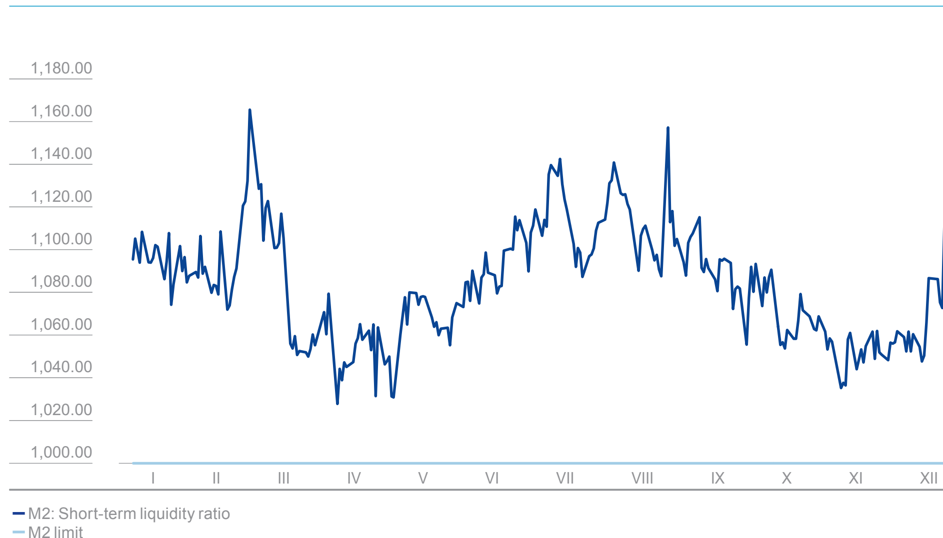
In both cases, the risk profiles are defined by the Supervisory Board based on risk appetite, as well as by the regulatory and internal market risk limits. Management and control of the Bank's liquidity and market risks are grounded in existing regulations and the Deutsche Bank Group's standards. The key role in this process is played by the Bank'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.

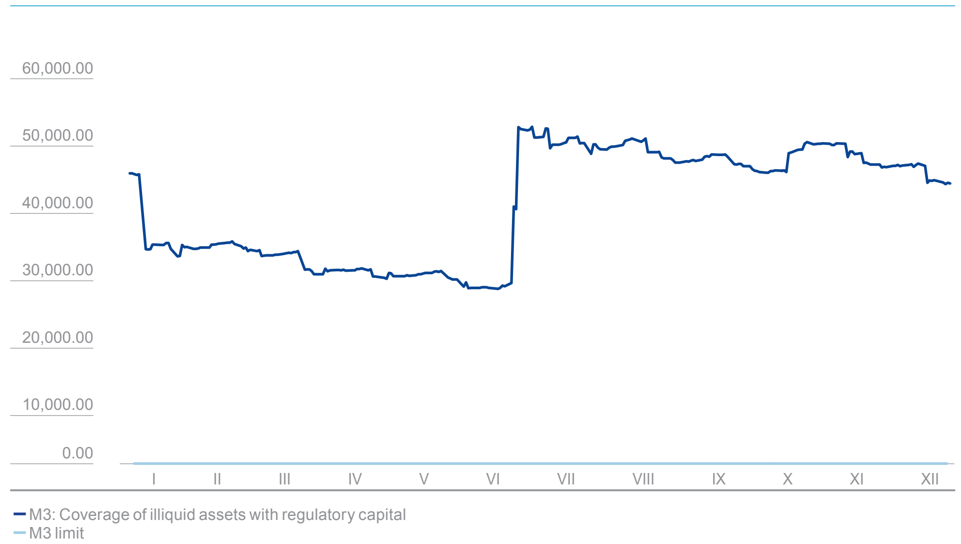
Liquidity risk

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 its 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 a Declaration of Backing issued by its main shareholder – Deutsche Bank AG, published in Deutsche Bank AG's annual report.

In addition to regulatory liquidity measures, which are key measures of liquidity risks, the Group also relies on internal risk measures and limits restricting the level of risk over various time spans. These limits correspond to the risk appetite stated by the Supervisory Board.

The charts below show the evolution of the regulatory liquidity measures in 2016.

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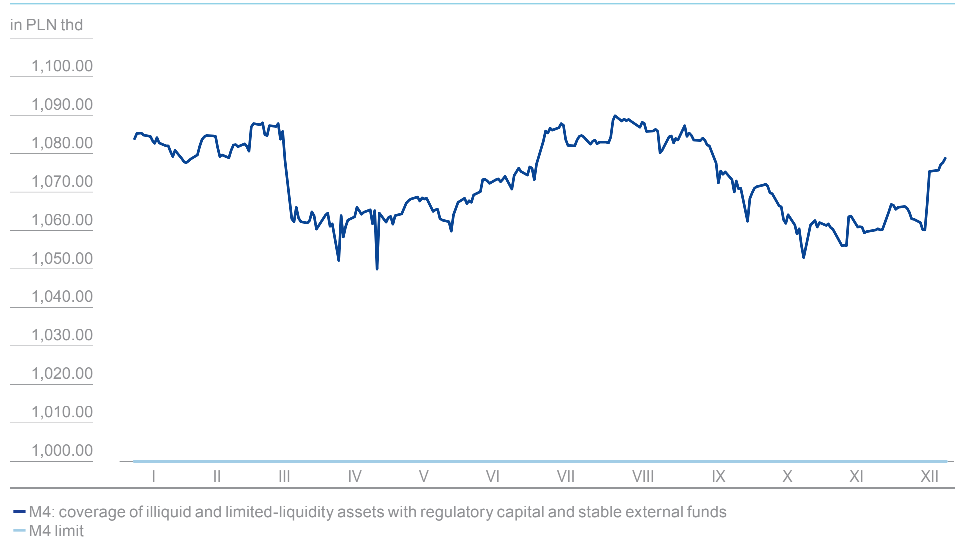
M3: Coverage of illiquid assets with regulatory capital
M3 limit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M4: coverage of illiquid and limited-liquidity assets with regulatory capital and stable external funds
M4 limit

The Bank's surplus liquidity

in PLN thd	Dec 31 2016	Dec 31 2015
– cash (excluding cash held in connection with daily business, i.e. cash in hand)	45,287	43,997
– banks' current accounts and interbank deposits granted maturing in up to 7 days	851,217	715,595
– cash with the National Bank of Poland (NBP) (net of the required reserve balance)	334,167	190,247
– Treasury bonds, treasury bills, money-market bills maturing within 7 days, classified as liquid assets	6,660,543	5,797,894

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.

Strategic changes initiated by the Bank's Management Board in 2015 significantly reduced the level of the Group's market risk exposure. In 2016, market risk was generated primarily by interest rate positions, while the Group's currency risk exposures were limited.

Trading book

Following decisions taken by the Management Board in 2015, the Group's activities associated with trading book exposures were further reduced in 2016. At the beginning of the year, the portfolio of treasury bonds of the Group's trading book managed by the Proprietary Position Management Department (PPMD) was closed. The Group also decided to discontinue active management of the trading book's currency position. As a result of the measures taken towards the end of the year, the Group's trading book was limited to sales of FX products (FX spot, FX forwards, FX swaps, FX options) and IRS. Near the end of 2016, the Bank's Management Board also decided to discontinue sales of option products to its Clients.

Banking book

Following the Management Board's decisions, the share of banking book exposures in the Group's balance sheet increased even further in 2016. The banking book's risk position is driven primarily by the balance of PCC operations, which offers mainly mortgage loans, cash loans, corporate loans, current accounts, term deposits and savings accounts.

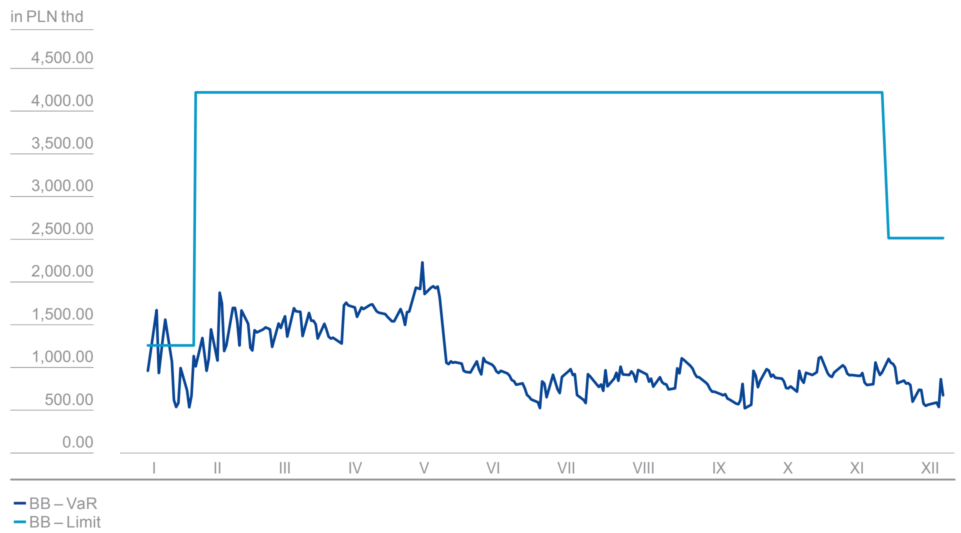
The second major contributor to the banking book's risk exposure is the GTB line, which generates mainly Client deposits and, only to a limited extent, certain products that affect the Group's asset balance.

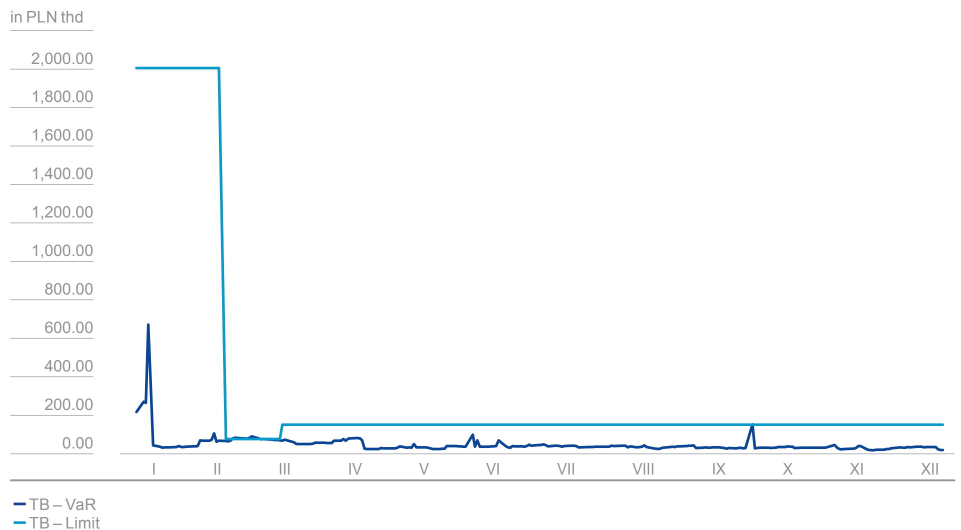
The banking book's market risk is managed centrally by the Liquidity Management Office (LMO), which is responsible for managing the liquidity and market risk of other business lines, not involved in the Group's trading operations.

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 floating-rate bonds, coupon-bearing bonds, treasury bills and money-market bills. According to the arrangements 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 Bank's 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. The charts below present the VaR levels in 2016, separately for the trading book (TB) and the banking book (BB).





VaR limit at the beginning of the year stood at PLN 6m.

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

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 Group's distribution network), self-assessment of risks, and scenario analyses.

Structure and organisation of units managing operational risk at the Group

The operational risk management structure has been approved by the Group's Management Board 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.

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 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.

Methods used to compute the capital required to cover operational risk

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

Losses related to operational risk in 2015−2016 by type and incident category

The table below sets forth gross operational losses incurred by the Group in 2015−2016 by incident category.

Share in total gross operational losses

Operational incident category	2016	2015
1. Internal fraud	0.00%	0.10%
2. External fraud	23.40%	15.50%
3. Employment rules and workplace safety	37.70%	5.60%
4. Clients, products and operational practices	9.80%	66.30%
5. Losses related to property and equipment	7.40%	2.00%
6. Disruption to bank's operations and system failures	9.00%	0.30%
7. Transaction execution, delivery and operational process management	12.70%	10.20%

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 an 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 a loan, 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.

For the Group's purposes, the liquidation value, equal to average expected proceeds from forced sale of the collateral, 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.

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,
  - 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,
  - 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 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 Article 501 of the CRR Regulation, the Bank 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.

Exposure value before and after using risk reduction techniques by exposure class as at December 31st 2016

Exposure class	Exposure value before application of risk mitigation techniques	Exposure value after application of risk mitigation techniques
Retail exposures	15,955,765	15,859,767
Equity exposures	6,877	6,877
Exposures to institutions	1,864,006	1,041,423
Exposures to public sector entities	458	458
Exposures to corporates	5,156,826	5,043,146
Exposures to central governments or central banks	7,823,659	7,749,409
Exposures to regional governments or local authorities	31,198	31,168
Exposures secured by mortgages on property	13 072 615	13 056 739
Exposures in default	971,862	500,350
Other exposures	675,431	322,163
Total	45,558,697	43,611,500

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.

Exposure is calculated in accordance with Art. 71 of the Banking Law, taking into account the exemptions enumerated in Article 400.2 and Article 493.3 of the CRR Regulation and in 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 2016	Dec 31 2015
Large exposure limit in accordance with Article 395 of CRR (to Clients, which are not Institutions)	1,351,551	1,018,831
Large exposure limit in accordance with Article 395 of CRR (to Clients , which are Institutions)	1,351,551	1,018,831

As at December 31st 2016 and December 31st 2015, the Group did not exceed the limits applicable under Article 395 of the CRR Regulation or Art. 71 of the Banking Law.

Art. 79a. 4 of the Banking Act
As at December 31st 2016 and December 31st 2015, 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 2016	Dec 31 2015
The Group's Common Equity capital	4,005,713	4,041,947
10% of the Group's Common Equity capital	400,571	404,195

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 2016, the following instances of exceeding the internal limits were identified:

— Limit for migrations from the delinquency class of [0-89] days to the delinquency class of [90-119] days in the portfolio of consumer loans. As at December 31st, migrations amounted to 1.48%, which represented 296% of the limit. This instance of exceeding the limit resulted from a default under one secured consumer loan of PLN 1.5m.
— Early default limit for the portfolio of credit cards for private individuals. As at December 31st, the defaults amounted to 13.5%, or 169% of the limit, and represented defaults under 11 cards, totalling PLN 30 thousand. The majority of past due amounts were repaid after the report date.
— Limit for derogations in the business Client exposure portfolio – as at December 31st, such derogations amounted to 50.02%, which represented 200% of the limit.
— Limit for other derogations in the portfolio of mortgage loans. As at December 31st, such derogations amounted to 22.08%, which represented 110% 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 decision issued for the Deutsche Bank Group, the Polish Financial Supervision Authority expects the Group to meet the total capital ratio (TCR) requirement with a safety buffer at a level of at least 13.25%, and the Tier 1 (T1) capital ratio requirement with a safety buffer at a level of at least 10.25%. 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 1.73% for the total capital ratio (TCR), at a level of

1.30% for the Tier 1 (T1) capital ratio, and at a level of 0.97% 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 Group exercises overall supervision of 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 2016, 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 Group, 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 2016, the total risk exposure amount was PLN 28,169,568 thousand and comprised the following amounts:
- risk–weighted exposure amounts for credit risk, counterparty risk, dilution risk and free deliveries − PLN 26,231,136 thousand;
- exposure amount for settlement/delivery risk − PLN 0;
- exposure amounts for position risk, currency risk and commodity risk − PLN 67,901 thousand;
- exposure amount for operational risk − PLN 1,867,622 thousand;
- additional risk exposure amount related to fixed overheads − PLN 0;
- exposure amount for credit value adjustment risk − PLN 2,939 thousand;
- exposure amount for risk relating to debt exposures in the trading book − PLN 0;
- other risk exposure amounts – PLN 0.

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 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 Group has obtained the Polish Financial Supervision Authority's approval for including the profit into the Group'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 Group's Additional Tier 1 capital is composed of:
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 is composed of:

— 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 2016, the Group used subordinated loans which met all the conditions stipulated in Article 63 of the CRR Regulation, thus qualifying as Tier 2 instruments in an amount determined in accordance with Article 64 of the 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)	889,789	Article 26.1
3a General risk fund	51,374	Article 26.1.f
6 Common Equity Tier 1 capital before regulatory adjustments	4,117,978	
Common Equity Tier 1 capital: regulatory adjustments		
7 Additional value adjustments (negative amount)	(6,792)	
8 Intangible assets (net of related deferred tax liability) (negative amount)	(105,198)	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;	(274)	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	(112,264)	
29 Common Equity Tier 1 capital	4,005,713	
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	1,400,489	Article 62−65
51 Tier 2 capital before regulatory adjustments	1,400,489	
Tier 2 capital: regulatory adjustments		
57 Total regulatory adjustments to Tier 2 capital		
58 Tier 2 capital	1,400,489	
59 Total Capital (Total Capital = Tier 1 + Tier 2)	5,406,202	
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)	28,169,598	
60 Total risk-weighted assets	28,169,598	
Capital ratios and buffers		
61 Common Equity Tier 1 capital ratio (as a percentage of total risk exposure amount)	14.22%	Article 92.2.a and Article 465
62 Tier 1 capital ratio (as a percentage of total risk exposure amount)	14.22%	Article 92.2.b and Article 465
63 Total capital ratio (as a percentage of total risk exposure amount)	19.19%	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)	6,877	
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)	18,764	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 73,289 thousand	PLN 1,327,200 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)	Partly discretionary; reasons: – Shareholder decisions; – performance; – administrative decisions	Not applicable	Not applicable
20b	Fully discretionary, partly discretionary or mandatory (with respect to amount)	Partly discretionary; reasons: – Shareholder decisions; – performance; – 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 in 2016–2015

in PLN thd	Dec 31 2016	Dec 31 2015
Common Equity capital	4,120,752	4,041,947
Deductions from Common Equity capital	(115,450)	(96,529)
Additional capital	1,400,900	129,908
Own funds	5,406,202	4,075,326
Total capital ratio (%)	19.19%	14.59%
Group's capital adequacy		
Capital requirements for credit risk, counterparty risk, dilution risk and free deliveries	2,092,844	2,069,458
Capital requirements for settlement/delivery risk	-	-
Capital requirements for position risk, currency risk and commodity risk	5,432	6,685
Capital requirements for operational risk	155,056	157,647
Capital requirements for fixed overheads	-	-
Capital requirements for credit value adjustment	235	134
Capital requirements for debt exposure in the trading book	-	-
Requirements for other risk exposures	-	-
Total capital requirement	2,253,568	2,233,923
Total capital ratio (%)*	19.19%	14.59%

* The total capital ratio as at December 31st 2015 and December 31st 2016 was computed in accordance with the relevant guidelines provided in the CRR Regulation.

in PLN thd	Dec 31 2016	Dec 31 2015
Tier 1 (T1) capital	4,005,713	3,957,750
Common Equity Tier 1 (CET1) capital	4,005,713	3 957 750
Additional Tier 1 (AT1) capital	-	-
Tier 2 capital	1,400,489	117,576
Total own funds	5,406,202	4,075,326
Total capital requirement	2,253,568	2,233,923
CET1 capital ratio	14.22%	14.17%
T1 capital ratio	14.22%	14.17%
Total capital ratio (%)	19.19%	14.59%

As at December 31st 2016, the capital adequacy ratio was materially affected by the inclusion of a new subordinated loan received by the Group 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 50% of the net profit for 2015 (pursuant to a relevant decision issued by the General Meeting) in the Group's own funds.

Calculation of capital requirement for credit risk

To calculate capital requirement for credit risk as at December 31st 2016, the Group used the Standardised Approach.

Exposure value by exposure class as at December 31st 2016

Exposure class in PLN thd	Total exposure amount	Average exposure amount
Retail exposures	15,955,765	20,278,818
Equity exposures	6,877	2,803
Exposures to institutions	1,864,006	1,914,511
Exposures to public sector entities	458	458
Exposures to corporates	5,156,826	4,388,652
Exposures to central governments or central banks	7,823,659	7,224,730
Exposures to regional governments or local authorities	31,198	36,580
Exposures secured by mortgages on property	13 072 615	16,837,214
Exposures in default	971,862	1,051,471
Other exposures	675,431	274,402
Total	45,558,697	52,009,639

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.

Calculation of capital requirement for credit risk (*) as at December 31st 2015

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%	28,808	2,305
II Regional governments and local authorities	20%	7,542	603
III Public sector entities		20	2
	50%	20	2
	100%	-	-
IV Multilateral development banks		-	-
V International organisations		-	-
VI Institutions − banks		242,805	19,424
	2%	120,624	9,650
	20%	49,202	3,936
	50%	70,139	5,611
	100%	2,839	227
	150%	-	-
VII Corporates	100%	3,157,488	252,599
VIII Retail		10,950,953	876,076
	75%	5,419,870	433,590
	100%	5,531,083	442,487
IX Secured by mortgages on property		10,595,001	847,600
	20%	-	-
	35%	1,977,359	158,189
	75%	-	-
	100%	8,617,642	689,411
X Exposures in default		589,623	47,170
	75%	-	-
	100%	251,149	20,092
	150%	338,474	27,078
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		38,182	3,055
	100%	38,182	3,055
	250%	-	-
XVI Other exposures		112,417	8,993
	20%	949	76
	100%	111,468	8,917
Total		25,722,838	2,057,827

* 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 2016

Geographical structure of exposures as at December 31st 2016

Exposure class

in PLN thd	PL	DE	GB	IT	CH	Other	Total
Exposures to central governments or central banks	7,823,659	-	-	-	-	-	7,823,659
Exposures to regional governments or local authorities	31,198	-	-	-	-	-	31,198
Exposures to public sector entities	458	-	-	-	-	-	458
Exposures to institutions	186,395	1,061,594	204,672	121,237	6,703	283,405	1,864,006
Exposures to corporates	5,022,984	14,157	30,000	-	20,003	69,682	5,156,826
Retail exposures	15,890,748	19,157	9,974	1,983	10,640	23,263	15,955,765
Exposures secured by mortgages on property	13,010,254	21,437	11,599	2,544	4,428	22,352	13,072,614
Exposures in default	970,417	40	268	6	-	1,132	971,863
Other exposures	675,431	-	-	-	-	-	675,431
Equity exposures	6,877	-	-	-	-	-	6,877
Total	43,618,421	1,116,385	256,513	125,770	41,774	399,834	45,558,697

Structure of exposures by Client type as at December 31st 2016

Exposure class

in PLN thd	Private individuals	Corporates	Banks	Central banks	Other	Total
Exposures to central governments or central banks	92,699	-	-	2,692,804	5,038,156	7,823,659
Exposures to regional governments or local authorities	(1,604)	-	-	-	32,802	31,198
Exposures to public sector entities	-	-	-	-	458	458
Exposures to institutions	3,069	15	1,861,138	-	(216)	1,864,006
Exposures to corporates	467,526	4,681,910	266	-	7,124	5,156,826
Retail exposures	14,303,179	1,652,045	-	-	541	15,955,765
Exposures secured by mortgages on property	11,594,141	1,470,951	-	-	7,523	13,072,615
Exposures in default	663,097	308,765	-	-	-	971,862
Other exposures	-	-	18	-	675,413	675,431
Equity exposures	-	-	-	-	6,877	6,877
Total	27,122,107	8,113,686	1,861,422	2,692,804	5,768,678	45,558,697

Residual maturities for individual exposure classes as at December 31st 2016

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	3,635,436	-	1,387,643	1,652,677	1,147,903	-	7,823,659
Exposures to regional governments or local authorities	(1,604)	200	1,000	1,495	7,297	22,810	31,198
Exposures to public sector entities	298	-	-	-	160	-	458
Exposures to institutions	1,015,932	187,705	121,289	105,754	334,562	98,764	1,864,006
Exposures to corporates	128,899	396,902	1,129,509	1,116,514	934,469	1,450,533	5,156,826
Retail exposures	118,665	224,473	363,008	526,596	1,744,819	12,978,204	15,955,765
Exposures secured by mortgages on property	20,108	86,959	127,515	226,675	544,544	12,066,813	13,072,614
Exposures in default	622,679	17,104	31,378	7,592	83,472	209,638	971,863
Other exposures	675,431	-	-	-	-	-	675,431
Equity exposures	6,877	-	-	-	-	-	6,877
Total	6,222,721	913,343	3,161,342	3,637,303	4,797,226	26,826,762	45,558,697

Impaired and past-due exposures by Client type as at December 31st 2016

Client type/industries

in PLN thd	Private individuals	Corporates	Banks	Total
Impaired exposures	601,683	323,201	-	924,884
Past-due exposures	1,014,199	281,238	6	1,295,442
Specific credit risk adjustment	458,226	233,880	575	692,681

Geographical structure of impaired and past-due exposures by country as at December 31st 2016

Country/Province

in PLN thd	Poland	United Kingdom	Denmark	Germany	Other	Total
Impaired exposures	923,420	268	352	40	804	924,884
Past-due exposures	1,291,903	1,672	352	208	1,308	1,295,442
Specific credit risk adjustment	693,216	298	244	646	(1,723)	692,681

Reconciliation of changes in impairment losses for impaired exposures as at December 31st 2016

		Increase		Decrease				
in PLN thd	As at Dec 31 2015	Recognition of impairment losses	Other	Derecognition of assets from the statement of financial position	Reversal of impairment losses	Other	As at Dec 31 2016	Change in the period
Amounts due from banks	146	428	-	-	-	-	574	428
Loans and advances to corporates	738,623	643,906	-	(199,653)	(488,553)	(2,216)	692,107	(46,516)
Total	738,769	644,334	-	(199,653)	(488,553)	(2,216)	692,681	(46,088)

Capital buffers

As at December 31st 2016, 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.

Under these regulations, in 2016 the Group was required to maintain a safety buffer at a level of 1.25% of the total exposure amount calculated in accordance with Article 92.3 of the CRR Regulation. As at December 31st 2016, the amount was PLN 352,120 thousand and met the combined buffer requirement.

As at December 31st 2016, the Group's foreign exposures did not exceed 2% of the total overall credit exposure, trading book exposure and securitisation exposure, and thus was assigned to the institution's home country (Poland) and, accordingly, received a countercyclical buffer rate applicable to credit exposure located in the Republic of Poland (in 2016 – 0%). Therefore, as at December 31st 2016 the Deutsche Bank Polska Group's countercyclical buffer was 0.

In 2016, neither global nor any other buffer requirements for systemically important institutions applied to the Deutsche Bank Polska Group, as it was not classified by the Polish Financial Supervision Authority as a systemically important institution.

As at December 31st 2016, the Group was not required to maintain a systemic risk buffer.

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 Article 429.3 of the CRR Regulation, the capital measure used for the purposes of calculation of the leverage ratio is the Group's Tier 1 capital, as defined in Article 25 of the CRR Regulation.

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 Group'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 Group 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 2016, the leverage ratio calculated in accordance with the above method was:
- with the fully implemented Tier 1 capital definition applied: 9.49%,
- with the transitional Tier 1 capital definition applied: 9.49%.

Rules for computing internal capital

The Group defines internal (economic) capital as the amount estimated by the Group 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, apart 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.

In the course of 2016, the amount of own funds significantly exceeded the internal capital amount, providing a substantial safety margin. As at December 31st 2016, the ratio of own founds to internal capital was 261%.

Human resources and corporate social responsibility

Human resources management

As at December 31st 2016, headcount at the Deutsche Bank Polska Group was 2,012 (including employees on maternity leaves, unpaid parental leaves, and employees absent from work for other justified reasons).

Headcount at the Group by business areas as at December 31st 2016

Business areas	Dec 31 2016
Corporate Client and Financial Markets area	34
Retail Client area	810
Business Client area	218
Other areas	950
Total	2,012

Recruitment process and talent acquisition

The Group has 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 2016, 25% 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 Group's values. We place a continued emphasis on networking (referrals, recommendations, social media) as a tool in candidates recruitment.

Remuneration policy

The Group has in place a rational, balanced and verifiable remuneration policy, and keeps it consistent with the Group's strategy, acceptable risk levels, standards, and 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 key component of employee remuneration at the Group is the base salary. 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 estimates the remuneration payable in respect of each position, ensuring its competitiveness based on the best market practices (for instance, taking into consideration pay reports prepared by top consultancy firms).

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 efficiency and quality of work are discretionary bonuses granted to individual employees for outstanding performance.

Another aspect of remuneration management is the fixed and variable component remuneration policy applicable to persons holding management positions at the Group. The Policy, approved by the Supervisory Board in 2012, was implemented under Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011. Moreover, in 2016 the Policy was updated as follows:

- Acting in accordance with 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 Group introduced for use at the Group 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." at a level not exceeding 200%, with the exception of control functions, for which the ratio may not exceed 100%. The General Meeting of Deutsche Bank Polska S.A. approved the introduction of the ratio on February 29th 2016.
- The deferral period for payment of variable remuneration components was lengthened from three to four years with respect to persons covered by the policy who have particularly significant influence on the Group's risk profile.

The Policy supports conservative and stable risk, capital and liquidity management, and plays a special role in promoting the long-term interests of the Group, its shareholders, investors and other stakeholders. The Policy is addressed to management staff who have particularly significant influence on the Deutsche Bank Polska Group'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 the Group as a whole. The variable remuneration component amounts are reviewed every year by the Remuneration Committee, a consulting and advisory body supporting the Supervisory Board.

In 2015, the Group implemented the Corporate Governance Standards issued by the Polish Financial Supervision Authority on July 22nd 2014. Section 27 of the Corporate Governance Standards requires the Group to follow a transparent remuneration policy for Management Board Members and key managers. Accordingly, 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 the Group (hereinafter: the "Policy"). Its new provisions concern the rules for determining the remuneration for work and other employee benefits for persons covered by the Policy.

The Policy was also harmonised with 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.

Training and professional advancement programmes

In 2016, the Deutsche Bank Polska Group followed a training and professional advancement programme supporting the delivery of its strategic plans. 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. Continuously developing the Sales Network staff competencies, supporting the implementation of sales plans and targets;
3. Achieving a high level of the Sales Network and Head Office Managers' skills, which would translate into effective management of employees and teams, and consistency of attitudes and behaviour 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 2016, 169 group training sessions were held, attended by 2,184 persons (4,483.5 man-days); other 184 persons participated in individual training sessions (360 man-days). The average number of training and professional development hours per FTE was 22, as in 2015. Half of the group training sessions were conducted by in-house coaches, including employees of the Human Resources Development Department and banking professionals. The other training, in particular individual sessions, were conducted by external firms. As in the previous year, the training programmes were characterised by high quality, as evidenced by very good scores they received from the participants. The average overall score given by respondents was 5.33, having improved compared with the last year's figure (on a 1 to 6 scale where 1 is the lowest and 6 is the highest mark).

As planned, professional advancement initiatives covered four key areas:

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

In 2016, 29 introductory training courses were held, attended by 437 employees, who devoted a total of 2,325 man-days to the training. It was directed to employees of the Sales Network of the Private and Business Client Areas and the Head Office – each group taking part in a dedicated, specifically tailored course. On a 1 to 6 scale, the average score given to introductory training in 2016 was 5.13.

In 2016, 43 sessions of the Sales Academy were organised, attended by 581 employees. The time they devoted to advancing their skills was 1,200 man-days. The Sales Academy sessions held in 2016 covered subjects corresponding to the market requirements and business needs, including:

1. For the Private Client Area: Strategy building, Coaching in sales, Overcoming objections and closing sales, Instruction-based sales – mentoring, Branch-based decision

making. Private Banking managers also participated in the prestigious EFA EFPA programme.
2. For the Business Client Area: Selling skills development, Financial analysis, Currency strategies.

The Sales Academy training was given very high scores, with the average of 5.45 (based on submitted questionnaires) on a 1 to 6 scale.

In addition, 13 training sessions in management skills were organised, attended by 159 managers of the Head Office teams. In an effort to implement global standards and best practices, four training groups were set up as part of the Management Fundamentals professional advancement programme directed to new managers from the entire DB Group. Further nine groups of experienced Head Office managers participated in the "Improving partnership relations through coaching-based management style" programme (an initiative undertaken after the 2014 employee opinion poll to improve the quality of leadership and management at the Group). Development of coaching skills of Head Office managers is consistent with the coaching-based approach being implemented within the Sales Network. The programme will be continued next year. The average score given to these management training programmes was 5.37 on a 1 to 6 scale.

In 2016, a training session was also held for management personnel on the evolution of the Performance Management system (known as Total Performance) at the DB Group. The participants were informed of changes in the Performance Management system planned as of 2017 and enhanced their expertise in conducting important talks with employees. The meeting, conducted mainly by the Group's management, was attended by 289 people. Across the Group, all team managers were given an additional opportunity to participate in other educational activities supporting implementation of the Total Performance system, such as e-learning, educational videos, Webinars and self-study based on the provided training materials.

In 2016, employees of the Group'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. A total of 181 employees attended such specialist training. Further, after the results of the 2015 Employee Opinion Poll had been analysed, the 'Academy of Skills' programme was developed for Head Office employees, enabling them to develop their professional skills in the area of self-management in time and stress handling. In 2016, the programme was attended by 138 people, and will be continued in 2017. The Academy of Skills was given a score of 5.03 on a 1 to 6 scale.

In addition to face-to-face training sessions, e-learning courses were also provided to employees and associates of the Group. The online training covered such main subjects as Compliance, OHS, information security, combating money laundering, risk awareness, FATCA, DB products and processes, and disabled Client service. In 2016 Group's employees and associates participated in 7,480 e-learning courses.

Additional forms of employee development support included:
- Workshops, meetings and teleconferences conducted by in-house coaches and HR advisers;
- Individual coaching sessions for managers and parental coaching sessions;
- Special webinars supporting the effectiveness of professional advancement programmes.

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, Ernst & Young Polska), 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.

In 2016, the Policy was updated as follows:
— Acting in accordance with 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." at a level not exceeding 200%, with the exception of control functions, for which the ratio may not exceed 100%. The General Meeting of Deutsche Bank Polska S.A. approved the introduction of the ratio on February 29th 2016.
— The deferral period for payment of variable remuneration components was lengthened from three to four years with respect to persons covered by the policy who have particularly significant influence on the Bank's risk profile.

Additionally, the list of persons with significant influence on the Bank's risk profile was regularly reviewed.
In 2016, the Remuneration Committee was composed of:
— In the period January 1st−July 29th 2016:
  1. Mr Peter Tils,
  2. Mr Hubert A. Janiszewski,
  3. Mr Pedro Larena.
— In the period July 30th−December 31st 2016:
  1. Mr Peter Tils,
  2. Mr Hubert A. Janiszewski.

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 2016, 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 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. 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 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. Determination of the value of these financial instruments is based primarily on the value of the Bank's net assets as at December 31st of a given year.

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

The present analysis covers all persons covered by the Policy of Fixed and Variable Remuneration Components applicable to persons holding management positions, including Management Board members, at Deutsche Bank Polska S.A., as defined in Resolution No. 258/2011, who have particularly significant influence on the Bank's risk profile. The list of managerial positions covered by the Policy is attached as Appendix 3 to the Policy.

Summary quantitative information on remuneration paid in 2016 and 2015 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy, by business line

Business line in PLN thd	2016 Total remuneration (fixed** + variable***)	2015 Total remuneration (fixed + variable*)
Retail and business banking	4,453	4,828
Corporate Banking	9,178	11,801
Bank management	12,605	13,648
Total	26,236	30,277

* A portion of the variable remuneration due for 2014 and paid in 2015 in the form of financial instruments and:
— The first tranche of deferred cash payment and the first tranche of deferred remuneration in the form of financial instruments due for 2013 and paid in 2015;
— The second tranche of deferred cash payment and the second tranche of deferred remuneration in the form of financial instruments due for 2012 and paid in 2015;
— Remuneration for 2011 under the Deutsche Bank AG Group's share-based payment and cash award programme.

** Fixed remuneration of a Management Board member includes the compensation paid for unused holidays, but does not include additional benefits.

*** 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 2016 and 2015 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy

in PLN thd	2016 Bank's Management Board	2016 Other persons holding managerial positions	2015 Bank's Management Board	2015 Other persons holding managerial positions
Headcount (number of FTEs)	11**	29	9	34*
Fixed remuneration***	8,321	10,519	7,273	12,611
Variable remuneration****	4,767	2,629	6,264	4,129
Total	13,088	13,148	13,537	16,740

* Two persons employed until December 31st 2015.

** 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.

*** For 2015: a portion of the variable remuneration due for 2014 and paid in 2015 in the form of financial instruments and:
- The first tranche of deferred cash payment and the first tranche of deferred remuneration in the form of financial instruments due for 2013 and paid in 2015;
- The second tranche of deferred cash payment and the second tranche of deferred remuneration in the form of financial instruments due for 2012 and paid in 2015;
- Remuneration for 2011 under the Deutsche Bank AG Group's share-based payment and cash award programme.

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.

**** For 2016: fixed remuneration of a Management Board member includes the compensation paid for unused holidays, but does not include additional benefits.

Summary quantitative information on variable remuneration awarded for 2016 and 2015 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy, broken down into cash payments and financial instruments

in PLN thd	2016 Bank's Management Board	2016 Other persons holding managerial positions	2015 Bank's Management Board	2015 Other persons holding managerial positions
Variable remuneration in cash*	333	552	1,982	3,029
Variable remuneration in the form of financial instruments**	317	27	1,982	181
Total	650	579	3,964	3,210

* 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 2016), 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

in PLN thd	2016 Bank's Management Board	2016 Other persons holding managerial positions	2015 Bank's Management Board	2015 Other persons holding managerial positions
Deferred variable remuneration – vested*	3,453	46	2,186	281
Deferred variable remuneration − not yet vested**	6,142	122	5,756	758
Total	9,595	168	7,942	1,039

* The item comprises:
For 2015
— A portion of the variable remuneration for 2012 (the second tranche of deferred cash payment and the second tranche of deferred variable remuneration in the form of financial instruments due for 2012 and paid in 2015);
— A portion of the variable remuneration for 2013 (the first tranche of deferred cash payment and the first tranche of deferred variable remuneration in the form of financial instruments due for 2013 and paid in 2015).
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 2015
— A portion of the variable remuneration not granted for 2012 (the third tranche of deferred cash payment and the third tranche of deferred variable remuneration in the form of financial instruments);
— A portion of the variable remuneration not granted for 2013 (two tranches of deferred cash payment and two tranches of deferred variable remuneration in the form of financial instruments);
— A portion of the variable remuneration not granted for 2014 (three tranches of deferred cash payment and three tranches 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 2016 and 2015 to Deutsche Bank Polska S.A.'s employees covered by the variable remuneration component policy − deferred remuneration

in PLN thd	2016 Bank's Management Board	2016 Other persons holding managerial positions	2015 Bank's Management Board	2015 Other persons holding managerial positions
Deferred variable remuneration for 2012 and 2013*	-	-	1,006	30
Deferred variable remuneration for 2012, 2013 and 2014**	3,453	46	-	-
Scheme including share-based payments and cash awards***	-	-	1,198	-
Total	3,453	46	2,204	30

* The item comprises
— The second tranche of deferred cash payment and the second tranche of deferred variable remuneration in the form of financial instruments due for 2012 and paid in 2015;
— The first tranche of deferred cash payment and the first tranche of deferred variable remuneration in the form of financial instruments due for 2013 and paid in 2015.

** 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.

*** Remuneration for 2011 under the Deutsche Bank AG Group's share-based payment and cash award programme.

In 2016, one payment was made at Deutsche Bank Polska S.A. in connection with the termination of an employment relationship with a person covered by the Policy; the payment amount was PLN 268 thousand (2015: PLN 126 thousand).

Neither in 2016 nor in 2015 were there any payments at Deutsche Bank Polska S.A. in connection with employment of new persons covered by the Policy.

Neither in 2016 nor in 2015 were there any performance-related reductions of the variable remuneration awarded under the variable remuneration component policy.

Neither in 2016 nor in 2015 did any of the persons employed at Deutsche Bank Polska S.A. receive total remuneration in excess of EUR 1m.

Corporate social responsibility

In terms of CSR, in 2016 the Deutsche Bank Polska S.A. Capital Group continued its commitment to arts and music, lending support to a number of cultural initiatives. Its other CSR projects included establishment of a new apiary with the intention of strengthening the local ecosystem highly dependent on honeybees. In April 2016, on the initiative of Group employees, two hives were installed on the roof of the Focus office building in the centre of Warsaw, where the Group is headquartered. With the building having as many as 12 overground floors, the apiary is among the highest located ones in Warsaw. In autumn 2016, the Group celebrated the end of its first bee-keeping season, having collected an impressive total of more than 200 kg of honey over four abundant harvests.

Furthermore, the Deutsche Bank Polska S.A. Capital Group 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.

2016 also saw the fourth consecutive edition of the Initiative Plus volunteering programme, which consists in the Group sponsoring charitable and community support projects initiated by its employees. To date, the participants have completed 30 projects in three different areas (impact investing, arts and music, education).

In 2016, we also held the ninth edition of the annual "Christmas Presents for Children's Homes" initiative, where Group employees prepare gifts for more than 200 children from seven children's homes.

The Group continued its sponsorship of the Malwa Foundation, aiding in the construction of the Warsaw Centre for People with Intellectual Disabilities.

Deutsche Bank Group also continued its long-standing support of arts and music, sponsoring many cultural events. The Group was a patron of the 20th Ludwig van Beethoven Easter Festival and of a piano recital by Konrad Skolarski, an outstanding Polish musician. The well attended concert was performed on March 20th at the Chamber Music Hall of the Polish National Philharmonic.

In 2016, the Deutsche Bank Invites series comprised two musical events. In February, Warsaw's Fabryka Trzciny Artistic Centre hosted a concert by Jain, a French vocalist, while on September 26th various artists, including Kasia Kowalska, Czesław Mozil, Robert Brylewski and Tomek Lipiński, performed some of the greatest hits of pre-war era cinema music at the Witold Lutosławski Concert Studio of the Polish National Radio. Among the invited performers was Dariusz Makaruk, an electronic music and jazz producer and artist, as well as initiator of the Kino Mocne project.

2016 was the tenth year when the Deutsche Bank Polska S.A. Capital Group provided patronage to the Szczecin Music Fest, one of the most interesting and wide-ranging presentations of contemporary jazz and other music from around the world in Poland.

Another noteworthy event in 2016 was an exhibition of works by contemporary Polish artists held at Deutsche Bank KunstHalle in Berlin, in partnership with the Deutsche Bank Polska S.A. Capital Group. From early July to late October, the Deutsche Bank KunstHalle gallery in Berlin housed the Common Affairs exhibition comprising works by Polish artists who took part in the biennial Views – Deutsche Bank Award, initiated in 2003 by the Zachęta National Gallery of Art and Deutsche Bank, which is now a key event for Polish contemporary arts.

In 2016, the Deutsche Bank Polska S.A. Capital Group continued sponsoring a series of golf tournaments played since 2004. Comprising a series originally known as the Deutsche Bank Pro-Am Tour, the tournaments are open to qualifying professionals and amateurs alike. 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. A year later, in 2015, the Group resumed its commitment to the previous format, bringing together the best Polish amateur golfers. In 2016, as many as 1,260 golf players competed in nine qualifying events on the top Polish golf courses. Enjoying increasing popularity, the finals were simultaneously played on two courses near Warsaw and broadcast live by the Polish Public TV. The Group also sponsors Dr Irena Eris Ladies' Golf Cup, a prestigious women's golf championship. Last but not least, the Deutsche Bank Group is the title sponsor of the Boston-based Deutsche Bank Championship, part of the legendary PGA Tour played mainly in the US.

The Deutsche Bank Polska S.A. Capital Group also acted as a partner for a number of prestigious business events. For the fourth time it was a partner to the Visionaries competition organised by the Dziennik Gazeta Prawna daily, which rewards leading Polish and international business figures. Awards in this competition were handed in during the European Forum of New Ideas held in Sopot. In line with the idea behind the competition, it is to award leaders who have the courage to launch innovative business initiatives and groundbreaking projects.

Ownership structure

Ownership structure
As at December 31st 2016, the Group's sole shareholder was Deutsche Bank AG of Frankfurt am Main, Germany, which, in accordance with the information available to the Group, held 100.00% of the share capital and total voting rights at the Group'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%

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 Będkowski 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	Magdalena Rogalska Member of the Management Board	Piotr Pawłowski Member of the Management Board

Warsaw, June 9th 2017

03 –

Consolidated financial statements of the Deutsche Bank Polska S.A. Capital Group

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Consolidated statement of profit or loss

Consolidated statement of profit or loss for 2016 and 2015

in PLN thd	Note	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Interest income	[3]	944,320	938,912
Interest expense	[4]	(245,348)	(222,601)
Net interest income		698,972	716,311
Fee and commission income	[5]	342,092	358,163
Fee and commission expense	[6]	(67,005)	(78,027)
Net fee and commission income		275,087	280,136
Dividend income		13	13
Net gain/loss on instruments at fair value through profit or loss and revaluation	[7]	116,298	128,948
Net gain/loss on sale of financial instruments available for sale	[8]	44,395	2,717
Other operating income	[9]	13,405	8,991
Other operating income, net		174,111	140,669
Impairment losses on financial assets	[10]	(167,244)	(124,287)
Administrative expenses	[11]	(791,068)	(759,970)
Depreciation and amortisation	[12]	(33,647)	(31,526)
Other expenses	[13]	(10,691)	(17,857)
Operating expenses		(1,002,650)	(933,640)
Operating profit/loss		145,520	203,476
Profit before tax		145,520	203,476
Income tax	[14]	(53,464)	(45,520)
Net profit for period		92,056	157,956
– attributable to owners of the Bank		92,056	157,956
– attributable to non-controlling interests		-	-

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2016 and 2015

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Net profit for period	92,056	157,956
Other comprehensive income, including:	(32,227)	30,084
Items which will not be reclassified to profit or loss	-	-
Items which may be reclassified to profit or loss at a later date:	(32,227)	30,084
Net gain/loss on measurement of securities available for sale	(39,786)	37,114
Deferred tax on securities available for sale	7,559	(7,069)
Other items of comprehensive income	-	39
Total comprehensive income	59,829	188,040
– attributable to owners of the Bank	59,829	188,040
– attributable to non-controlling interests	-	-

Consolidated statement of financial position

Assets

in PLN thd	Note	Dec 31 2016	Dec 31 2015
Cash and transactions with Central Bank	[16]	1,053,417	903,794
Deposits with other banks, and loans and advances to other banks	[17]	851,847	995,936
Loans and advances to customers	[18]	30,512,017	29,660,207
Financial assets at fair value through profit or loss	[19]	138,674	340,221
Financial assets held as investments	[20]	6,799,137	5,769,466
Property and equipment	[21]	35,912	41,823
Intangible assets	[22]	105,198	89,556
Current tax assets	[24]	9,333	-
Deferred tax assets	[23]	18,764	11,484
Other assets	[25]	163,467	171,911
Total assets		39,687,766	37,984,398

Liabilities

in PLN thd	Note	Dec 31 2016	Dec 31 2015
Amounts due to other banks	[26]	15,622,115	16,188,097
Amounts due to customers	[27]	17,797,700	16,879,623
Financial liabilities at fair value through profit or loss	[28]	89,532	116,590
Provisions	[29]	25,750	34,786
Current tax liabilities	[30]	-	9,035
Other liabilities	[31]	358,019	290,613
Subordinated liabilities	[32]	1,583,873	235,521
Total liabilities		35,476,989	33,754,265

Equity

in PLN thd	Note	Dec 31 2016	Dec 31 2015
Share capital	[33]	2,651,449	2,651,449
Share premium	[34]	525,366	525,366
Revaluation reserve	[34]	(2,031)	30,196
Retained earnings	[34]	1,035,993	1,023,122
Total equity		4,210,777	4,230,133
Total equity and liabilities		39,687,766	37,984,398

Statement of changes in consolidated equity

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.

Changes in the period January 1st 2015 – December 31st 2015

in PLN thd	Share capital	Share premium	Revaluation reserve	Retained earnings	Total equity
As at Jan 1 2015	2,651,449	525,366	112	865,166	4,042,093
Share issue	-	-	-	-	-
Elimination of the acquired bank's capital as at the merger date	-	-	-	-	-
Measurement of net financial assets available for sale	-	-	30,045	-	30,045
Other revaluation reserve	-	-	39	-	39
Profit/(loss) for the year	-	-	-	157,956	157,956
Dividends paid	-	-	-	-	-
As at Dec 31 2015	2,651,449	525,366	30,196	1,023,122	4,230,133

Consolidated statement of cash flows

Consolidated statement of cash flows

in PLN thd	Note	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Operating activities			
Net profit		92,056	157,956
Adjustments		16,981	1,492,397
Unrealised foreign exchange gains (losses)		-	-
Depreciation and amortisation		33,647	31,526
Interest on loans and advances from other banks		5,586	5,589
Gain/loss on investing activities		(171,962)	(981)
Total corporate income tax in the statement of profit or loss		53,464	45,520
Income tax expense		(70,272)	(33,716)
Change in deposits with other banks, and loans and advances to other banks		300,911	(123,762)
Change in financial assets at fair value through profit or loss		201,547	1,308,659
Change in financial assets held as investments		(147,663)	146,462
Change in loans and advances to customers		(851,810)	(1,419,438)
Change in other assets		7,214	(575)
Change in amounts due to other banks		(293,964)	977,794
Change in financial liabilities at fair value through profit or loss		(27,058)	(101,691)
Change in amounts due to customers		918,077	683,855
Change in provisions		(9,036)	28,735
Change in other liabilities		67,406	(57,634)
Other adjustments		894	2,054
Net cash from (used in) operating activities		109,037	1,650,353
Investing activities			
Acquisition of intangible assets and property and equipment		(47,017)	(47,151)
Disposal of intangible assets and property and equipment		269	14
Acquisition of shares		-	-
Dividends received		13	13
Other investment expenditure		(73,671,673)	(223,576,810)
Redemption of and interest received on assets held as investments		72,923,910	221,480,847
Net cash from (used in) investing activities		(794,498)	(2,143,087)
Financing activities			
Increase in loans		1,581,800	102,350
Interest paid		(5,586)	(5,589)
Dividends paid		(78,842)	-
Decrease in loans		(505,466)	(127,489)
Net cash from (used in) financing activities		991,906	(30,728)
Increase/decrease in net cash		306,445	(523,462)
Incl. exchange gains/(losses) on cash and cash equivalents		13,014	3,072
Net increase in cash and cash equivalents		306,445	(523,462)
Cash at beginning of period	[40]	1,593,428	2,116,890
Cash at end of period	[40]	1,899,873	1,593,428
Additional disclosures on operating cash flows			
Interests received		843,391	991,550
Interests paid		(228,266)	(223,237)

Notes to the consolidated financial statements

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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. (formerly Deutsche Bank PBC S.A.)
Registered office: al. Armii Ludowej 26, 00-609 Warsaw, Poland
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 2016 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
- Radosław Kudła – Member of the Management Board – until April 6th 2016
- Łukasz Barwicki – Member of the Management Board – from April 6th 2016 until December 6th 2016
- Piotr Pawłowski – Member of the Management Board – from June 21st 2016.

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. 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 9th 2017, 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.

c) Basis of preparation

The Group's consolidated financial statements for the period from January 1st to December 31st 2016 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 2016 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 2016 were applied for the first time:

1. Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

   Amendments to IAS 19 "Employee Benefits" were published by the International Accounting Standards Board in November 2013. Changes make it possible to recognize employee contributions as a reduction in the cost of employment at the time when the work is performed by the employee, instead of allocating the contributions to the employment periods, if the contributions is independent of the employees' employment period.

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

2. Annual IFRS Improvements 2010-2012

   In December 2013, the International Accounting Standards Board published the Annual Improvements to IFRS 2010-2012 which affect 7 standards. amendments include changes in presentation, recognition and valuation, and include terminological and editable changes.

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

3. Amendments to IAS 16 and IAS 41, Agriculture: Bearer Plants

   Changes require the recognition of specific production plants such as vines, rubber trees or oil palm (ie, which produce many years and are not intended for sale in the form of cuttings or harvested during harvest) in accordance with IAS 16 Property, Plant and Equipment, because their cultivation is analogous to production.

As a result, these changes include such plants within the scope of IAS 16, rather than IAS 41. Agricultural products produced by bearer plants still remain within the scope of IAS 41.

These changes were not related to the Group's activities.

4. Amendments to IFRS 11, Acquisition of an Interest in a Joint Operation

The amended standard introduces a requirement that when accounting for purchases of shares in a joint operation in which the joint operation is a business as defined in IFRS 3, Business Combinations, an entity must apply all the principles of accounting for business combinations contained in IFRS 3 and in other standards, except for those principles that are contrary to the guidance included in this IFRS standard.

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

5. Amendments to IAS 16 and to IAS 38, Acceptable methods of depreciation and amortization

The amended IAS 16 prohibits the application of the revenue-based depreciation method for property, plant and equipment. Applying the revenue-based depreciation method is not appropriate because revenue generated from operations in which a given asset is used reflects factors other than the consumption of economic benefits generated by the asset.

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

6. Annual IFRS Improvements 2012 – 2014

The International Accounting Standards Board published in September 2014 "Annual Changes to IFRS 2012-2014", which amends 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

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

7. Amendments to IAS 1

In December 2014, in the framework of work related to the so-called Disclosure Initiative, The International Accounting Standards Board has published amendments to IAS 1. The purpose of the revised amendment is to clarify the materiality concept and to clarify that if an entity considers that the information is insignificant, it should not disclose it even if disclosure is required by another IFRS. The amended IAS 1 clarifies that the items presented in the statement of financial position and the statement of income and other comprehensive income may be aggregated or disaggregated depending on their materiality. Additional guidelines concerning the presentation of partial amounts in these financial statements have also been introduced.

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

8. Amendments to IAS 27, Equity method in separate financial statements

The amended standard IAS 27 restores the possibility of applying the equity accounting method in recording investments in subsidiaries, joint ventures and associates in separate financial statements.

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

9. Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception

Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Units: the exclusions from the consolidation specify the requirements for investment units and introduce some facilitation.

The Standard explains that an entity should measure at fair value through profit or loss all its subsidiaries, which are investment units. In addition, it was further clarified that exemption from the preparation of consolidated financial statements if the parent company prepares publicly available financial statements, concerns whether the subsidiaries are consolidated or measured at fair value through profit or loss in accordance with IFRS 10 in the medium or ultimate level parent company financial statements.

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

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 applies to financial statements that are prepared for financial periods beginning on or after 1 January 2018. The classification and valuation of financial instruments, impairment calculations and hedge accounting are changed.

Classification and valuation

The new reporting standard introduces a single model that provides for only three categories of financial assets classification:
— measured at fair value through other income (FVOCI, fair value through other comprehensive income),
— valued at fair value through profit or loss ("FVPNL", fair value through profit and loss),
— valued at amortized cost.

Classification is made at the time of initial recognition and depends on the entity's business model for financial asset management and the characteristics of contractual cash flows from these instruments.

For this purpose, the Group performs two tests: business model and cash flow characteristics.

The first test examines what kind of business model was adopted hold to collect, hold to collect and sell or trading.

The second test determines whether contractual cash flows are solely capital and interest payments, understood as time value money and other risks associated with the value of such time commitment (SPPI criterion).

If the tests fail, financial instruments are measured at fair value as "FVPNL". Financial instruments which are designeted to maintain and sell should be qualified for the "FVOCI" category.

Classification of financial instruments in accordance with the new IFRS 9 is made for the first time from the date of application of the standard, ie from 1 January 2018, and at the time of recognition of the financial instrument after that date. Qualification changes are only possible in the event of a significant change in the business model.

The "SPPI" tests initially indicated that there were no products that did not perform the test.

The business model also indicates the sale of financial instruments to hold them, and any sale of a portfolio is not a business objective and should be considered inmaterial.

As a result, the Group, based on the analysis of contractual cash flows and predefined business models, does not expect significant changes in the classification and valuation of financial assets:
— financial assets classified as "Loans and receivables" under IAS 39 will be measured at amortized cost assuming that the cash flow characteristics test is positive,
— debt instruments classified as available for sale will continue to be measured at fair value through other comprehensive income,
— available-for-sale equity instruments valued at cost less revaluation write-offs will be measured at fair value either through profit or loss or other comprehensive income, depending on the nature of the investment,
— financial instruments currently measured at fair value through profit or loss will continue to be measured at fair value through profit or loss.

Impairment

IFRS 9 introduces a new model for impairment write-offs – the model of expected credit losses, as opposed to the IAS 39, assuming losses incurred.

According to this rule, expected losses in the 12-month or lifetime horizon will be estimated, depending on the classification of the exposure to the relevant stages. The stage classification itself depends on whether there is a significant increase of credit risk (Stage 2) or even there is impairment ofa Stage 3 financial instrument. Other cases will be classified as non-significant (Stage 1) and the expected losses will be calculated for them within the 12-month horizon.

The expected loss for all determined stages is the sum of the individual losses expected in each period, discounted by the effective interest rate.

The Group expects an increase in write-offs, especially for financial instruments classified as Stage 2, due to the change in their method of calculating, in particular the expected probability of insolvency over the exposure horizon, compared to present 12-month horizon.

Hedge accounting

In the area of hedge accounting, the changes aimed to more closely align risk accounting to risk management. The Group does not expact any changes here.

The Group will apply IFRS 9 from 1st January 2018.

2. IFRS 14 Regulatory deferral accounts

This standard allows entities, that prepare their financial statements in accordance with IFRS for the first time (as of 1st January 2016 or after that date) to recognize amounts resulting from rate-regulated activities in accordance with the hitherto applied accounting policies. In order to improve comparability with entities that already use IFRS and do not show such amounts, according to published IFRS 14, the amounts resulting from rate-regulated activities should be presented in a separate position both in the statement of financial position, in profit or loss statement and the statement of other comprehensive income.

The European Union decided that IFRS 14 will not be approved.

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 1st January 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 will apply IFRS 15 starting from 1st January 2018.

The Group is in the process of analyzing the impact of IFRS15 on its financial statements.

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

Clarifications to IFRS 15, Revenue from Contracts with Customers were issued on 12nd April 2016 and are effective for annual periods beginning on or after 1st January 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 will apply Clarifications to IFRS 15 starting from 1st January 2018.

The Group is in the process of analyzing the impact of IFRS15 on its financial statements.

At the date of these consolidated financial statements, Clarifications to IFRS 15 have not yet been endorsed by the European Union.

5. 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 involves a business.

If the non-monetary assets meet the definition of a business the investor will show the full gain or loss on the transaction. In case 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 11th September 2014, but effective data has not been set by IAS Board.

The Group will apply the amendment as of the effective date of the provisions of the International Accounting Standards Board.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

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

6. IFRS 16 Leases

IFRS 16 „Leases" was issued in on 13th January 2016 by the International Accounting Standards Board and is effective for annual periods beginning on or after 1st January 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 substantially carries forward the lessor accounting requirements set out in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group will apply IFRS 16 after its approval by the European Union.

The impact of the application of the new rules by the Group has not yet been estimated.

As at the day of preparation of these consolidated financial statements, IFRS 16 was not endorsed by the European Union.

7. Amendments to IAS 12 – recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic

benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

The Amendment is effective for annual periods beginning on or after 1st January 2017.

The Group will apply amendments to IAS 12 starting from 1st January 2017.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

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

8. Disclosure Initiative – Amendments to IAS 7

Amendments to IAS 7 are effective for annual periods beginning on or after 1st January 2017. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The Group will apply above amendments to IAS 7 starting from 1st January 2017.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

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

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

The amendments are effective for annual periods beginning on or after 1st January 2018. The amendments introduce, among others, rules for recognition of liability due to cash-settled share-based payment transactions, clarify accounting for cash-settled share based payments that are modified to become equity-settled, as far as rules for recognition employee tax liability due to share based payments.

The Group will apply above amendments to IAS 7 starting from 1st January 2018.

The impact of the application of the new rules by the Group has not yet been estimated.

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

10. 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 will apply above amendments starting from 1st January 2018.

The impact of the application of the new rules by the Group has not yet been estimated.

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

11. Annual Improvements to IFRSs 2014–2016

International Accounting Standards Board published in December 2016 Annual Improvements to IFRSs 2014–2016 effective for covering improvements impact 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.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

The Group will apply the above changes as of 1st January 2017 (applicable to amendments to IFRS 12)/as of 1st January 2018 (relating to amendments to IFRS 1 and IAS 28).

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

12. Transfers of Investment Property – Amendments to IAS 40

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

The Group will apply above amendments starting from 1st January 2018.

The Group believes that the application of the standard will not have a material impact on the consolidated financial statements.

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

13. IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 provides accounting 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 1 January 2018.

The Group will apply above amendments starting from 1st January 2018.

The impact of the application of the new rules by the Group has not yet been estimated.

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

The accounting policies set out below have been applied to all reporting periods presented in these financial statements.

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 (PLNm):

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	Increase in impairment losses and provisions	including: change in exchange rate	change in PD	change in LGD
All portfolios in aggregate	109.06	63.68	24.18	21.20
Portfolio				
Mortgage-backed exposures in line with Recommendation R including	104.77	60.21	23.29	21.27
Individual Clients	101.54	57.82	23.29	20.43
Business Clients	3.23	2.39	0.00	0.84
Retail exposures in line with Recommendation T	1.82	0.96	0.86	0.00
Other business Clients	1.21	1.21	0.00	0.00
Corporate Clients	1.26	Individually assessed portfolio		

Scenario 2 – economy and labour market disruption

Portfolio	Increase in impairment losses and provisions	including: change in exchange rate	change in PD	change in LGD	change in CCF
All portfolios in aggregate	79.87	24.39	20.36	21.00	14.12
Portfolio					
Mortgage-backed exposures in line with Recommendation R including	63.73	22.46	18.02	20.99	2.26
Individual Clients	56.22	20.95	16.69	18.58	0.00
Business Clients	7.50	1.51	1.32	2.40	2.27
Retail exposures in line with Recommendation T	8.78	0.88	1.99	0.00	5.91
Other business Clients	6.74	0.40	0.32	0.00	6.02
Corporate Clients	0.62	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.

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 revaluation 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 2016 and 2015, 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 43.

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 ubsidiary 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.

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 work and other benefits for persons to whom the Policy applies.

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 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 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 three equal tranches over a minimum period of three 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.

The Bank carries out valuations of variable remuneration components in accordance with IAS 19. 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 2016 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.

3. Interest income

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Loans and advances to other banks	41,397	26,190
Loans and advances to Clients	812,579	813,612
Debt securities, including:	90,344	99,110
– held for trading	208	25,170
– available for sale	90,136	73,939
Total	944,320	938,912

Interest income earned in 2016 comprises income on financial assets, with impairment in amount of PLN 9,221 thousand was recognised (2015: PLN 11,019 thousand).

4. Interest expense

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
On deposits from other banks	(125,469)	(96,223)
including subordinated liabilities	(34,660)	(4,783)
On deposits from Clients	(119,879)	(126,378)
Total	(245,348)	(222,601)

In 2016, the total amount of interest expense calculated using the effective interest rate method with respect to financial liabilities which are not measured at fair value through profit or loss totalled PLN 3 thousand (2015: PLN 24 thousand).

5. Fee and commission income

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Income from:		
Opening and maintaining accounts and settlement transactions	71,060	73,266
Distribution of investment fund units	48,775	75,281
Intermediation in the sale of insurance	44,798	26,484
Loans and advances	60,338	56,672
Brokerage fees	22,698	36,545
Advisory/asset management services	24,136	17,956
Guarantees issued	13,656	13,781
Credit and payment cards	13,193	14,467
Intermediation in the sale of securities	7,252	4,729
Distribution of options	5,706	13,604
Other	30,480	25,378
– Income from DB AG Group entities	26,333	19,278
Total	342,092	358,163

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

6. Fee and commission expense

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Expenses on:		
Intermediation in the sale of banking and insurance products	(21,810)	(26,287)
Other expenses on intermediation in the sale of insurance	(14,624)	(10,855)
Brokerage services	(10,412)	(11,375)
Payment orders	(4,838)	(4,569)
Expenses to the CSDP	(1,412)	(3,517)
Transaction costs on other markets	(772)	(2,657)
Expenses to WSE	(6,030)	(8,617)
Credit and payment cards	(5,379)	(6,451)
Other	(1,728)	(3,699)
Total	(67,005)	(78,027)
Net fee and commission income	275,087	280,136

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

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Foreign exchange gains/(losses)	(41,751)	70,138
Net gain/(loss) on debt instruments held for trading	836	(7,334)
Net gain/(loss) on equity instruments held for trading	-	(30)
Net gain/(loss) on derivative instruments, including:	145,832	53,621
Currency options	2,288	778
Fx transactions, including:	134,848	42,255
FX forwards	43,895	33,585
FX swaps	90,953	8,670
IRSs, FRAs	8,696	10,588
Other	11,381	12,553
Total	116,298	128,948

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

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Gain on sale of portfolio available for sale	44,395	2,717
– gain on sale of VISA shares	44,395	2,586
Loss on sale of portfolio available for sale	-	-
Total	44,395	2,717

The description of transaction settlement is included in note 20.

9. Other income

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Income from services	2,030	7,118
Other	11,375	1,873
Total	13,405	8,991

10. Impairment losses on financial assets

Increase in impairment losses

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Impairment losses on loans and advances to Clients, including:	(654,851)	(634,723)
on impaired exposures	(366,649)	(347,792)
on unimpaired exposures (losses incurred but not reported)	(277,671)	(280,441)
debt collection costs	(10,531)	(6,490)
Other impairment losses	(16,528)	(17,926)
Total increase in impairment losses	(671,379)	(652,649)

Decrease in impairment losses

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Reversal of impairment losses on loans and advances to Clients, including:	491,627	516,781
on impaired exposures	223,611	261,112
on unimpaired exposures (losses incurred but not reported)	264,941	254,233
recovery of uncollectible receivables	3,075	1,436
Other impairment losses	12,508	11,581
Total decrease in impairment losses	504,135	528,362
Net cost of impairment	(167,244)	(124,287)

Impairment losses on financial assets includes net gain/(loss) on sale of debt in the amount of PLN 31,400 thousand in 2016 and PLN 1,600 thousand in 2015.

11. Administrative expenses

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Personnel costs:	(277,899)	(301,986)
Salaries and wages	(236,741)	(257,568)
Employee benefits	(41,158)	(44,418)
Other administrative expenses, including:	(513,169)	(457,984)
Maintenance and lease of buildings	(82,296)	(99,741)
Operation of IT systems	(100,029)	(87,501)
Other services	(81,063)	(67,818)
Advertising and sponsoring	(13,684)	(20,531)
Communication	(14,714)	(17,889)
Payments to the Banking Guarantee Fund	(70,464)	(112,838)
Taxes and charges	(20,312)	(19,215)
Tax on certain financial institutions	(98,008)	-
Other	(32,599)	(32,451)
Total	(791,068)	(759,970)

As of 1 February 2016, the Act of 15 January 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.

12. Depreciation and amortisation

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Depreciation and amortisation:		
Depreciation of property and equipment	(12,194)	(11,802)
Amortisation of intangible assets	(21,453)	(19,724)
Total	(33,647)	(31,526)

13. Other expenses

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Cost of provisions for operational risk	(1,475)	(5,267)
Donations	(232)	(260)
Net gain/(loss) on sale/liquidation of property and equipment	-	-
Other	(8,984)	(12,330)
Total	(10,691)	(17,857)

In 2015, the item „Other" includes PLN 11,518 on account of a recognised provision for identified risk of expenses related to the Bank's operating activities (see Note 29).

14. Income tax expense

in PLN thd	Jan 1 – Dec 31 2016	Jan 1 – Dec 31 2015
Profit before tax	145,520	203,476
Current tax	(53,134)	(35,576)
Deferred tax	(330)	(9,944)
Total corporate income tax in the statement of profit or loss	(53,464)	(45,520)
Reconciliation of increases in loss/decreases in profit		
Profit before tax	145,520	203,476
Corporate income tax calculated at the tax rate of 19%	(27,649)	(38,660)
Non-tax-deductible expenses	(27,289)	(8,266)
– State Fund for Rehabilitation of Persons with Disabilities	(462)	(463)
– Tax on certain financial institutions	(18,621)	-
– Prudential payment to the BGF	(4,160)	(2,588)
– Costs of contributions	(77)	-
– Intragroup costs – 2014 and	(1,497)	-
– Social insurance costs of holiday benefits – part of the Employee	(490)	-
– Other operating costs	(1,180)	(3,653)
– Other	(645)	-
– Costs of write off of non-loan receivables	(157)	(1,562)
Non-taxable income	1,293	284
– Revenues from refunf prudential payment to the BGF	510	-
– Release of loan impairment allowances in the part not covered with the deferred tax	235	-
– Revenues from other securities	-	-
– Other operating income	1,549	284
Tax credit for expenditure on new technologies	-	1,050
Remitted mortgage loans	178	-
Other items with an impact on the amount of tax expense	3	72
Total corporate income tax in the statement of profit or loss	(53,464)	(45,520)
Calculation of effective interest rate		
Income tax	(53,464)	(45,520)
Effective interest rate	37%	22%

15. 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 2016	Jan 1 – Dec 31 2015
Net profit for period (in PLN thd)	92,056	157,956
Weighted average number of ordinary shares (pc.)	2,651,449,384	2,651,449,384
Basic earnings per share (PLN)	0.03	0.06

16. Cash and transactions with Central Bank

in PLN thd	Dec 31 2016	Dec 31 2015
Cash*	107,749	111,071
Deposits with Central Bank	945,668	792,723
Total	1,053,417	903,794

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

The declared mandatory reserves to be maintained in the period including December 31st 2016 amounted to PLN 610 755 thousand, compared with PLN 602 475 thousand in the period including December 31st 2015. The reserves were set at the average balance of customers' assets in October 2016 (November 2015) (Art. 38.2 of the Act on the National Bank of Poland).

17. Amounts due from banks

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

in PLN thd	Dec 31 2016	Dec 31 2015
Current account	846,456	689,634
Interbank deposits and loans and advances to other banks (including purchased debt)	5,965	306,462
Gross amounts due from banks	852,421	996,096
Impairment losses, including:	(574)	(160)
– recognised individually	-	-
– recognised collectively	(574)	(160)
Net amounts due from banks	851,847	995,936

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

in PLN thd	Dec 31 2016	Dec 31 2015
Payable on demand	846,456	689,634
Definite	5,965	306,462
– up to 1 month	5,522	32,686
– over 1 month to 3 months	441	206,260
– over 3 months to 1 year	-	67,516
– over 1 year to 5 years	-	-
– over 5 years	2	-
Impairment losses	(574)	(160)
Net amounts due from banks	851,847	995,936

Change in impairment losses on amounts due from other banks

in PLN thd	2016	2015
Impairment losses on amounts due from other banks at beginning of period	160	119
Recognition of impairment loss	414	41
Reversal of impairment losses	-	-
Write-off against provisions	-	-
Other changes	-	-
Impairment losses on amounts due from other banks at end of period	574	160

18. Loans and advances to customers

Amounts due from customers by type

in PLN thd	Dec 31 2016	Dec 31 2015
Natural persons	25,156,719	25,116,181
Businesses	6,017,706	5,253,779
Public sector	29,699	35,196
Gross amounts due from customers	31,204,124	30,405,156
Impairment	(692,107)	(744,949)
Net amounts due from customers	30,512,017	29,660,207

For a detailed description of the Group's credit risk management and more information on credit risk concentration, see Note 43.

Amounts due from customers by maturity

in PLN thd	Dec 31 2016	Dec 31 2015
Payable on demand	1,138,893	1,620,783
Definite	30,065,231	28,784,373
– up to 1 month	324,813	261,735
– over 1 month to 3 months	402,553	489,829
– over 3 months to 1 year	2,942,794	2,735,527
– over 1 year to 5 years	8,523,450	7,660,154
– over 5 years	17,871,621	17,637,128
Total	31,204,124	30,405,156

Change in impairment losses

in PLN thd	2016	2015
As at Jan 1	744,949	732,778
Change in impairment losses	(52,842)	12,171
Impairment losses on loans and advances to customers	643,906	628,193
Receivables written-off against provisions*	(199,653)	(89,654)
Decrease due to foreign exchange gains/(losses)	-	(11,022)
Reversal of impairment losses on loans and advances to customers	(488,553)	(515,346)
Other decreases	(8,542)	-
As at Dec 31	692,107	744,949

* The item includes PLN 9,331 thousand (2015: PLN 68,136 thousand) of receivables written down following the sale of non-performing loan portfolios with a gross carrying amount of PLN 44,157 thousand as at the transaction date (2015: PLN 93,367 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 2016	Dec 31 2015
Impairment losses on impaired exposures	631,159	676,562
Impairment losses for losses incurred but not reported (IBNR)	60,948	68,388
Total impairment losses	692,107	744,950

in PLN thd	Dec 31 2016	Dec 31 2015
Gross impaired receivables	924,884	947,393
Impairment losses on impaired exposures	(631,159)	(676,561)
Net impaired receivables	293,725	270,832
Gross unimpaired receivables	30,279,240	29,457,763
Impairment losses for losses incurred but not reported (IBNR)	(60,948)	(68,388)
Net unimpaired receivables	30,218,292	29,389,375
Total gross amounts due from customers	31,204,124	30,405,156
Total impairment losses	(692,107)	(744,949)
Total net amounts due from customers	30,512,017	29,660,207

In 2016, the Group did not make any material changes to the methodology of estimating impairment losses.

19. Financial assets at fair value through profit or loss

in PLN thd	Dec 31 2016	Dec 31 2015
Treasury bonds	-	198,435
Valuation of derivative financial instruments	138,674	141,786
Total	138,674	340,221

For more information on financial assets at fair value through profit or loss, see Note 35 and Note 43.

Positive market value of unmatured derivative financial instruments

in PLN thd	Dec 31 2016	Dec 31 2015
Interest rate contracts	23,044	48,827
– IRSs	23,044	48,794
– Other interest rate contracts	-	33
Currency contracts	115,630	92,959
– FX spots/forwards	22,304	16,010
– FX swaps	69,405	31,838
– Currency options purchased	23,840	44,404
– Currency options embedded in deposits	81	707
Total	138,674	141,786

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

in PLN thd	2016	2015
Balance at beginning of period	198,435	1,456,390
Increase	14,185,300	153,036,157
– purchase of debt securities*	14,185,300	153,034,224
– increase in the value of securities**	-	1,933
Decrease	(14,383,735)	(154,294,112)
– sale of debt securities*	(13,858,726)	(154,165,760)
– redemption of debt securities*	(499,700)	(63,841)
– decrease in the value of securities**	(25,309)	(64,511)
Balance at end of period	-	198,435

* Nominal value.
** Including market valuation, interest and discount.

Financial assets at fair value through profit or loss by maturity

in PLN thd	Dec 31 2016	Dec 31 2015
up to 1 month	58,051	71,483
over 1 month to 3 months	18,595	24,710
over 3 months to 1 year	27,114	158,250
over 1 year to 5 years	15,991	46,660
over 5 years	18,923	39,118
Total	138,674	340,221

20. Financial assets held as investments

in PLN thd	Dec 31 2016	Dec 31 2015
Securities available for sale:		
Treasury bonds	5,042,629	532,896
NBP bills	1,749,631	5,198,388
Equities	6,877	38,182
Total	6,799,137	5,769,466

The line ‘Equities’ includes VISA shares received in relation to the Group’s membership in VISA International in amount of PLN 6,597 thousand as at 31.12.2016 (VISA Europe shares in the amount of PLN 37,930 thousand as at 31.12.2015 accordingly) and shares in GPW S.A. and BondSpot S.A., of which value amount-ed PLN 280 thousand as at 31.12.2016 and PLN 252 thousand as at 31.12.2015.

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 21, 2016.

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

Change in securities available for sale:

in PLN thd	2016	2015
Balance at beginning of period	5,769,466	3,779,815
Increase	73,781,952	223,615,361
– purchase of debt securities*	73,671,673	223,576,810
– increase in the value of securities**	110,279	38,551
Decrease	(72,752,281)	(221,625,710)
– sale of debt securities*	(84,395)	(144,222)
– redemption of debt securities*	(72,665,484)	(221,477,810)
– decrease in the value of securities**	(2,402)	(3,678)
Balance at end of period	6,799,137	5,769,466

* 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 2016, the nominal value of the bonds was PLN 107,000.00 thousand (December 31st 2015: PLN 107,000.00 thousand). The carrying values of these bonds were as follows: PLN 106,499.5 thousand PLN as at 31st December 2016 and PLN 106,605.7 thousand as at 31st December 2015.

21. 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 2015	116,615	70,933	20,411	-	207,959
Increase (including)	250	10,305	281	4,116	14,952
Purchase	250	10,305	281	4,116	14,952
Investment settlement	-	-	-	-	-
Decrease (including)	-	(221)	-	-	(221)
Disposal	-	(75)	-	-	(75)
Transfer from investment	-	-	-	-	-
Liquidation	-	(146)	-	-	(146)
Other decreases/corrections	-	-	-	-	-
Impairment	-	-	-	-	-
Other changes	-	360	(293)	-	67
As at Dec 31 2015	116,865	81,377	20,399	4,116	222,757
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
Investment settlement	-	-	-	-	-
Decrease (including)	(11,436)	(5,205)	(1,113)	-	(17,754)
Disposal	(7)	(1,366)	-	-	(1,373)
Transfer from investment	-	-	-	-	-
Liquidation	(11,429)	(3,839)	(1,113)	-	(16,381)
Other decreases/corrections	-	-	-	-	-
Impairment	-	-	-	-	-
Other changes	-	-	-	(3,458)	(3,458)
As at Dec 31 2016	108,969	81,693	19,474	658	210,794

Accumulated depreciation and impairment

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2015	80,433	66,563	20,091	-	167,087
Depreciation	9,084	2,417	301	-	11,802
Impairment	1,611	710	-	-	2,321
Sale/liquidation	-	(221)	-	-	(221)
Other changes	(124)	69	-	-	(55)
As at Dec 31 2015	91,004	69,538	20,392	-	180,934
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	(9,370)	(4,919)	(1,113)	-	(15,402)
Other changes	-	-	-	-	-
As at Dec 31 2016	86,434	68,974	19,474	-	174,882

Carrying amount

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2015	36,182	4,370	320	-	40,872
As at Dec 31 2015	25,861	11,839	7	4,116	41,823
As at Jan 1 2016	25,861	11,839	7	4,116	41,823
As at Dec 31 2016	22,535	12,719	-	658	35,912

22. Intangible assets

Gross amount

in PLN thd	Formation expenses	Software	Capital expenditure	Total
As at Jan 1 2015	62	184,823	38,829	223,714
Purchase	-	208	31,991	32,199
Project settlement	-	21,402	-	21,402
Transfer from capital expenditure	-	-	(21,402)	(21,402)
Other changes	(62)	62	(2,177)	(2,177)
As at Dec 31 2015	-	206,495	47,241	253,736
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	-	-	(28,143)	(28,143)
Other changes	-	-	(673)	(673)
As at Dec 31 2016	-	234,343	56,488	290,831

Accumulated amortisation and impairment

in PLN thd	Formation expenses	Software	Capital expenditure	Total
As at Jan 1 2015	62	144,632	-	144,694
Amortisation	-	19,724	-	19,724
Provision for amortisation	-	(238)	-	(238)
Liquidation	-	-	-	-
Other changes	(62)	62	-	-
As at Dec 31 2015	-	164,180		164,180
As at Jan 1 2016	-	164,180	-	164,180
Amortisation	-	21,453	-	21,453
Provision for amortisation	-	-	-	-
Liquidation	-	-	-	-
Other changes	-	-	-	-
As at Dec 31 2016	-	185,633		185,633

Carrying amount

in PLN thd	Formation expenses	Software	Capital expenditure	Total
As at Jan 1 2015	-	40,191	38,829	79,020
As at Dec 31 2015	-	42,315	47,241	89,556
As at Jan 1 2016	-	42,315	47,241	89,556
As at Dec 31 2016	-	48,710	56,488	105,198

23. Deferred tax assets

in PLN thd	Dec 31 2016	Dec 31 2015
Deferred tax assets	90,832	86,880
Deferred tax liabilities	(72,068)	(75,396)
Total deferred tax assets, net	18,764	11,484

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 2016	Dec 31 2015	Change in 2016
Accrued interest to be paid	52,085	34,638	17,447
Accrued interest due to banks	37,972	23,273	14,699
Effective rate adjustment – bank's deposits	(4)	(9)	5
Accrued interest – subordinated loans	1,040	1,138	(98)
Accrued interest due to Clients	12,352	9,969	2,383
Provision for interest expenses on a working deposit	225	225	-
Accrued interest – IRS	511	51	460
Effective rate adjustment – Clients deposits	(11)	(9)	(2)
Provisions for expenses	101,284	149,921	(48,637)
Premium on debt securities	-	-	-
Impairment losses on credit exposures and fair value of financial instruments	309,314	220,980	88,334
Paid costs related to option premium	-	514	(514)
Difference between the tax base and accounting value of property and equipment	2,685	2,824	(139)
Revenue due for current year, received in the following year, as remuneration for financial services	4,029	8,367	(4,338)
Valuation of financial assets − derivatives	5,264	39,001	(33,737)
Valuation of financial assets held for trading	-	21	(21)
Valuation of financial assets available for sale	3,398	996	2,402
Deductible tax loss	-	-	-
Total	478,059	457,262	38,244
Tax rate	19%	19%	-
Deferred tax assets	90,832	86,880	3,952
including taken to revaluation reserve	646	189	457
including taken to profit or loss	90,186	86,691	3,495

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 2016	Dec 31 2015	Change in 2016
Accrued interest to be received	67,743	57,668	10,075
Unrealised discount on securities	-	139	(139)
Prepaid expenses	256,886	233,922	22,964
Valuation of financial assets − derivatives	24,007	55,218	(31,211)
Valuation of financial assets held for trading	-	13,222	(13,222)
Income on securities − received	26,506	(11,637)	38,143
Other accrued income	3,379	10,117	(6,738)
Valuation of financial assets available for sale	786	38,169	(37,383)
Total	379,307	396,818	(17,511)
Tax rate	19%	19%	-
Deferred tax liabilities	72,068	75,396	(3,328)
including taken to revaluation reserve	149	7,252	(7,103)
including taken to profit or loss	71,919	68,144	3,775

24. Current tax assets

As at 31.12.2016, there are current corporate tax receivables of PLN 9,333 thousand (as at 31.12.2015 – PLN 0 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. Out of this amount PLN 8,102 thousand refers to the overpayment from 2016, while PLN 1,231 thousand refers to overpayment from 2015.

25. Other assets

in PLN thd	Dec 31 2016	Dec 31 2015
Various debtors, net	62,696	56,846
Receivables for card settlement	46,099	42,266
Receivables from insurers	1,896	4,087
Prepayments and accrued income	5,603	9,213
Public receivables	2,244	2,065
Other assets	2,898	5,620
Interbank settlements	5,654	4,880
Amounts due from Clients under executed transactions	18,861	25,749
Amounts due from the Central Securities Depository of Poland	33,222	34,005
Accrued income	32,289	33,533
Receivables from DB Group entities	21,196	21,471
Total	163,467	171,911

Maturity structure of various debtors

in PLN thd	Dec 31 2016	Dec 31 2015
Not past due	62,615	56,669
Past due − up to one year	45	636
Past due − from 1 year to 3 years	721	338
Past due − from 3 years to 5 years	24	272
Past due – over 5 years	793	526
Various debtors, gross	64,198	58,441
Impairment losses	(1,502)	(1,595)
Various debtors, net	62,696	56,846

26. Amounts due to other banks

Amounts due to banks by type

in PLN thd	Dec 31 2016	Dec 31 2015
Current account	464,108	288,439
Term deposits	14,985,194	15,473,063
Loans received	172,813	426,595
Total	15,622,115	16,188,097

Amounts due to banks by maturity

in PLN thd	Dec 31 2016	Dec 31 2015
Payable on demand	464,108	288,439
Definite	15,158,007	15,899,658
– up to 1 month	398,044	15,166
– over 1 month to 3 months	335,320	219,694
– over 3 months to 1 year	2,038,115	1,045,150
– over 1 year to 5 years	8,958,327	10,242,024
– over 5 years	3,428,201	4,377,624
Total	15,622,115	16,188,097

27. Amounts due to customers

Amounts due to customers by type

in PLN thd	Dec 31 2016	Dec 31 2015
Current account		
Individuals	4,051,887	3,645,336
Businesses	9,825,652	8,786,152
Public sector	76,417	45,079
Total current accounts	13,953,956	12,476,567
Term deposits		
Individuals	2,030,168	2,551,664
Businesses	1,757,958	1,793,618
Public sector	39,870	34,877
Total term deposits	3,827,996	4,380,159
Deposits securing derivative transactions		
Individuals	-	-
Businesses	15,748	22,897
Public sector	-	-
Total deposits securing derivative transactions	15,748	22,897
Total	17,797,700	16,879,623

Amounts due to customers by maturity

in PLN thd	Dec 31 2016	Dec 31 2015
Payable on demand	13,953,956	12,476,567
Definite	3,843,744	4,403,056
– up to 1 month	1,206,939	1,677,437
– over 1 month to 3 months	780,820	879,837
– over 3 months to 1 year	1,620,008	1,697,119
– over 1 year to 5 years	230,171	144,173
– over 5 years	5,806	4,490
Total	17,797,700	16,879,623

28. Financial liabilities at fair value through profit or loss

Negative market value of unmatured derivative financial instruments

in PLN thd	Dec 31 2016	Dec 31 2015
Interest rate contracts	4,127	33,022
– Securities with future settlement date	-	21
– IRSs	4,127	33,001
– Other interest rate contracts	-	-
Currency contracts	85,405	83,568
– FX spots/forwards	22,516	20,512
– FX swaps	38,769	17,446
– Options embedded in deposits	81	-
– Currency options sold	24,039	45,610
Total	89,532	116,590

Financial liabilities at fair value through profit or loss by maturity

in PLN thd	Dec 31 2016	Dec 31 2015
– up to 1 month	33 229	44,123
– over 1 month to 3 months	18 998	15,030
– over 3 months to 1 year	24 648	27,898
– over 1 year to 5 years	10 019	28,084
– over 5 years	2 638	1,455
Total	89,532	116,590

Offsetting financial instruments

Dec 31 2016	Valuation of derivative financial 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

Dec 31 2015	Valuation of derivative financial instruments	Notional offset amount	Margin (received/provided)	Net amount
Financial assets at fair value through profit or loss	141,786	4,233	-	137,553
Financial liabilities at fair value through profit or loss	116,590	4,233	-	112,357

29. 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 operating activities	Total
As at Jan 1 2016	1,145	8,762	771	12,590	11,518	34,786
Provisions recognised during the year	1,463	16,231	297	-	-	17,991
Provisions reversed during the year	(1,052)	(12,432)	(76)	(1,949)	(11,518)	(27,027)
Reclassification of provision	-	-	-	-	-	-
As at Dec 31 2016	1,556	12,561	992	10,641	-	25,750
As at Jan 1 2015	664	4,649	738	-	-	6,051
Provisions recognised during the year	482	15,630	-	12,590	11,518	40,220
Provisions reversed during the year	(1)	(11,517)	(88)	-	-	(11,606)
Reclassification of provision	-	-	121	-	-	121
As at Dec 31 2015	1,145	8,762	771	12,590	11,518	34,786

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 32m as at December 31st 2016 and PLN 24m as at December 31st 2015.

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 2016, provisions for legal claims arising from disputes in which the Group was a respondent totalled PLN 992 thousand, and PLN 771 thousand as at December 31st 2015.

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 2,754 thousand for employment restructuring and PLN 7,887 thousand for restructuring of the branch network, as at December 31st 2015 restructuring provisions amounted: PLN 1,786 thousand for employment restructuring and PLN 10,804 thousand for restructuring of the branch network.

30. Tax liabilities

As at December 31st 2016, there were no current tax liabilities.

As at December 31st 2015, the Group recognised current tax liabilities of PLN 9,035 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 2015 were paid by the statutory deadline.

31. Other liabilities

in PLN thd	Dec 31 2016	Dec 31 2015
Interbank settlements	141,925	62,357
Various creditors	42,368	29,120
Public charges	22,626	16,653
Amounts due to brokerage houses and the CSDP	5,123	5,138
Other payables	23,022	19,847
Provisions, including:	103,494	129,583
for awards and bonuses	14,957	35,222
for unpaid invoices	70,559	66,671
for unused holidays	8,311	9,904
other	9,667	17,786
Deferred income	19,461	27,915
Total	358,019	290,613

32. Subordinated liabilities

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	Jun 4 2018	243,320
Interest	235	EUR	x	x	1,040
Total	55,235	EUR	x	x	244,360

Financing provider: Deutsche Financial Services (Malta) Ltd.	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2015	Maturity date	Amount outstanding as at Dec 31 2015
Principal	55,000	EUR	1.987	Jun 4 2018	234,383
Interest	267	EUR	x	x	1,138
Total	55,267	EUR	x	x	235,521

Subordinated liabilities include a loan advanced by Deutsche Bank (Malta) Ltd (formerly Deutsche Financial Services (Malta) Ltd.) on July 4th 2008, repayable after 10 years.

Proceeds from the loan were used for business development. On September 2nd 2008, the PFSA approved the inclusion of the loan proceeds in the Parent's supplementary funds for the purposes of capital adequacy ratio calculation.

In 2016, as a result of organizational changes at 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. On March 2016 the PFSA approved the inclusion of the loan proceeds in the Parent's supplementary funds for the purposes of capital adequacy ratio calculation.

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

The subordinated liability comprises a loan received from Deutsche Bank AG on 29 April 2016 with a 10-year maturity. PFSA approved the inclusion of the loan proceeds in the Parent's supplementary funds for the purposes of capital adequacy ratio calculation.

33. Parent's share capital

in PLN	Dec 31 2016	Dec 31 2015
Shares outstanding as at Jan 1 2016 – fully paid-up	2,651,449,384	2,651,449,384
Shares outstanding as at Dec 31 2016 – 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 (PLN '000)	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	ordinary bearer	34,620,975	34,621	cash	Jul 25 2000	Jan 1 2000
X	ordinary bearer	38,215,967	38,216	cash	Jul 28 2000 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.

34. Other components of equity

in PLN thd	Dec 31 2016	Dec 31 2015
Share premium	525,366	525,366
Revaluation reserve, including	(2,031)	30,196
valuation of portfolio of financial assets available for sale	(2,612)	37,174
deferred tax	496	(7,063)
other revaluation reserve	85	85
Retained earnings	1,035,993	1,023,122
reserve funds	319,948	319,948
capital reserves	572,615	501,728
general risk fund	51,374	43,490
profit for period	92,056	157,956
Total	1,559,328	1,578,684

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 2016. The Management Board intends to recommend to the Supervisory Board a resolution to retain 80% of the profit for 2016 in order to increase capital reserves and to distribute the other 20% of the profit for 2016 to the sole shareholder as dividend.

As at the end of the reporting period, the Group had no commitments relating to any dividends that were declared but not paid.

35. 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:

As at 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

As at Dec 31 2015

in PLN thd	Carrying amount	Fair value
Assets		
Deposits with other banks, and loans and advances to other banks	995,936	971,854
Loans and advances to customers	29,660,207	28,524,301
Factoring	238,633	238,633
Credit cards	116,988	116,988
Mortgage loans	22,454,097	21,206,396
Investment loans	2,587,194	2,611,475
Revolving loans	423,538	423,538
Overdrafts	861,926	861,926
Other	910,073	934,153
Consumer loans	2,006,727	2,070,066
Lombard loans	61,031	61,126
Liabilities		
Amounts due to other banks	16,188,097	16,508,805
Current deposits	288,439	288,439
Term deposits and loans	15,899,658	16,220,366
Amounts due to customers	16,879,623	17,159,768
Current deposits	12,476,567	12,476,567
Term deposits	4,403,056	4,683,201
Subordinated liabilities	235,521	247,787

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 2016 and 2015 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 2016 and 2015. 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 2016 and 2015 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 2016 and 2015 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.

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 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	155,620	155,620	-	155,620	-
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	212,438	212,438	-	212,438	-

Dec 31 2015

in PLN thd	Carrying amount	Fair value	Level I	Level II	Level III
Assets					
Cash and transactions with Central Bank	903,794	903,794	-	903,794	-
Deposits with other banks, and loans and advances to other banks	995,936	971,854	-	971,854	-
Loans and advances to customers	29,660,207	28,524,301	-	-	28,524,301
Factoring	238,633	238,633	-	-	238,633
Credit cards	116,988	116,988	-	-	116,988
Mortgage loans	22,454,097	21,206,396	-	-	21,206,396
Investment loans	2,587,194	2,611,475	-	-	2,611,475
Revolving loans	423,538	423,538	-	-	423,538
Overdrafts	861,926	861,926	-	-	861,926
Other	910,073	934,153	-	-	934,153
Consumer loans	2,006,727	2,070,066	-	-	2,070,066
Lombard loans	61,031	61,126	-	-	61,126
Financial assets at fair value through profit or loss	340,221	340,221	198,435	141,786	-
Financial assets held as investments	5,769,466	5,769,466	533,148	5,198,388	37,930
Other financial assets	160,633	160,633	-	160,633	-
Equity and liabilities					
Amounts due to other banks	16,188,097	16,508,805	-	16,508,805	-
Current deposits	288,439	288,439	-	288,439	-
Term deposits and loans	15,899,658	16,220,366	-	16,220,366	-
Amounts due to customers	16,879,623	17,159,768	-	17,159,768	-
Current deposits	12,476,567	12,476,567	-	12,476,567	-
Term deposits and loans	4,403,056	4,683,201	-	4,683,201	-
Financial liabilities at fair value through profit or loss	116,590	116,590	-	116,590	-
Subordinated liabilities	235,521	247,787	-	247,787	-
Other financial liabilities	116,462	116,462	-	116,462	-

As at the end of 2016, the Parent 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 18.

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 2016 and 2015.

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

in PLN thd	Shares
Opening balance – Jan 1 2015	-
Gain/loss	37,930
Recognised in the statement of profit or loss	-
Recognised in equity	37,930
Conversion in shares	-
Disposal	-
Repayment/maturity	-
Impairment losses	-
Closing balance – Dec 31 2015	37,930

36. 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.

The table below shows nominal values of conditional commitments assumed.

Value of conditional commitments assumed

in PLN thd	Dec 31 2016	Dec 31 2015
Credit facilities	2,738,877	2,736,233
Import/export letters of credit issued/confirmed	28,128	22,109
Guarantees	1,529,212	1,482,866
Other commitments, including:	511,267	439,646
Commitments under loan promises	211,246	189,758
Total	4,807,484	4,680,854

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 2016	Dec 31 2015
Financing commitments	451,668	2,112
Guarantee commitments	818,470	994,488
Total	1,270,138	996,600

The nominal values of current transactions related to currency exchange operations and derivative transactions are presented below.

in PLN thd	Dec 31 2016	Dec 31 2015
Customers' securities (brokerage business)	1,747,434	1,391,663

Liabilities related to the settlement of currency transactions and notional amounts of derivative transactions

in PLN thd	Dec 31 2016	Dec 31 2015
Current transactions related to currency exchange	2,135,352	1,016,339
Derivative transactions	18,833,605	22,127,878
Total	20,968,957	23,144,217
Derivative transactions		
Currency forwards	3,295,774	2,578,517
Purchased	1,646,605	1,282,960
Sold	1,649,169	1,295,557
Currency swaps	12,177,192	11,534,543
Purchased	6,099,301	5,776,229
Sold	6,077,891	5,758,314
Interest rate swaps (IRS)	1,006,979	3,776,198
FRAs	-	-
Transactions in securities	-	87,500
Currency options	2,346,262	5,216,686
Notional amount purchased	1,173,131	2,608,343
Notional amount sold	1,173,131	2,608,343
Options embedded in deposits	7,398	117,552
Notional amount purchased	3,699	58,776
Notional amount sold	3,699	58,776
Total derivative transactions	18,833,605	22,127,878

37. Assets serving as security

As at December 31st 2016, 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 2015: 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.

38. 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 2016	Dec 31 2015
Up to one year	53,378	57,834
From 1 year to 5 years	125,275	144,922
Over 5 years	41,358	60,965
Total	220,011	263,722

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 2016 and 2015, operating lease costs were PLN 6,586 thousand and PLN 6,498 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 2016 was PLN 61,317 thousand (2015: PLN 66,246 thousand); the average monthly cost of lease of office space was PLN 5,110 thousand (2015: PLN 5,520 thousand).

39. 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 2016	Dec 31 2015
Cash and transactions with Central Bank	1,053,417	903,794
Short-term deposits made at other banks	846,456	689,634
Total	1,899,873	1,593,428

40. 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

in PLN thd	2016		2015	
	Management Board	Supervisory Board	Management Board	Supervisory Board
Salaries and wages	12,845	412	13,946	395
Other short-term benefits	246	-	1,282	-
Termination benefits	504	-	3,044	-
Cost of share-based payment schemes	1,281	-	-	-
Total	14,876	412	18,272	395

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 variable remuneration costs of the Management Board for 2016 in the amount of PLN 720 thousand with overheads. Out of this amount PLN 216 thousand (with overheads) will be paid in 2017, while the remainingg (PLN 504 thousand with overheads) will be deferred in time and paid over the next 4 years, partly directly in cash and partly by reference to the hypothetical value of the underlying instrument on a formula referring to the carrying amount of the Bank's shares.

The provision created on 31 December 2015 amounted to PLN 4,326 thousand, of which PLN 1 282 thousand was paid in 2016.

The cost of bonuses awarded as part of the Deutsche Bank AG Group's bonus programmes for the group's personnel (RIA/REA) did not take place in 2016.

Loans, guarantees and other advances granted by the Group to the management

in PLN thd	Dec 31 2016	Dec 31 2015
Management Board members	13,667	11,035
Supervisory Board members	9	-
Total	13,676	11,035

41. 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	2016	2015
Amounts due from related party, including:	551	309
Fees and commissions receivable	495	309
Other	56	-
Investments in subsidiaries	20,426	20,426
Amounts due to related party, including	137,259	113,592
Amounts in bank accounts	137,149	113,482
Amounts due under fees and commissions	110	110
Other	-	-
Income, including:	4,989	4,669
Interest income	7	8
Fee and commission income	4,453	4,107
Other income	529	554
Dividend received	-	-
Expenses, including:	(2,175)	(2,301)
Interest expense	(872)	(950)
Fee and commission expense	(1,303)	(1,326)
Other	-	(25)
Off-balance-sheet liabilities:	25,000	25,000
Securities transfer of title	25,000	25,000

Deutsche Bank AG – Parent

in PLN thd	2016	2015
Amounts due from related party, including:	822,246	946,495
Current accounts, deposits	807,321	933,226
Financial assets at fair value through profit or loss	451	57
Other assets	14,474	13,212
Amounts due to related party, including:	11,504,995	9,998,866
Deposits	9,741,127	9,715,325
Loans	172,814	273,002
Subordinated loan	1,583,873	-
Financial liabilities at fair value through profit or loss	850	1,232
Other liabilities	6,331	9,307
Off-balance-sheet liabilities:	437,829	416,052
Guarantees issued	324,797	279,091
FX spots/forwards	-	8,492
Interest rate swaps (IRS)	113,032	128,469
Income, including:	14,059	7,404
Interest income	15,120	5,533
Other income	(1,061)	1,871
Expenses, including:	(136,232)	(91,381)
Interest expense	(99,628)	(54,810)
Fee and commission expense	(1,260)	(1,208)
Other administrative expenses, including:	(32,315)	(28,635)
Costs related to use of global business systems, global HR systems and projects participating	(32,315)	(28,635)
Net gain/loss on instruments at fair value through profit or loss	(3,029)	(6,728)

Deutsche Bank AG London Branch

in PLN thd	2016	2015
Amounts due from related party, including:	101,997	70,622
Current accounts, deposits	15,691	8,866
Fees and commissions receivable	651	12,323
Financial assets at fair value through profit or loss	73,479	41,765
Other assets	12,176	7,668
Amounts due to related party, including:	204,873	281,170
Deposits	132,876	208,277
Financial liabilities at fair value through profit or loss	60,508	51,536
Other	11,489	21,357
Income, including:	19,236	96,345
Fee and commission income	20,954	32,638
Interest income	2,440	2,393
Net gain/loss on instruments at fair value through profit or loss	(3,631)	56,659
Other	(527)	4,655
Expenses, including:	(14,755)	(20,606)
Interest expense	(2,988)	(4,675)
Other expenses	(11,767)	(15,931)
Off-balance-sheet liabilities:	14,549,175	16,045,179
Guarantees issued	83,846	73,966
FX spots/forwards	1,927,768	235,137
FX swaps	10,912,725	10,416,490
Interest rate swaps (IRS)	448,006	2,645,869
Currency options	1,176,830	2,673,717

Deutsche Bank Privat – und Geschäftskunden AG

in PLN thd	2016	2015
Amounts due from related party, including:	352	328
Current accounts, deposits	352	328
Amounts due to related party, including:	247,038	236,364
Deposits	247,038	236,364
Other	-	-
Expenses, including:	-	393
Interest expense	-	398
Fee and commission expense	-	(5)
Income, including:	1,440	328
Other income	1,440	328

Deutsche Bank (Malta) Ltd

in PLN thd	2016	2015
Amounts due to related party, including:	-	235,521
Subordinated loan	-	235,521
Expenses, including:	(39)	(4,783)
Interest on loans	(39)	(4,783)

Norisbank GmbH

in PLN thd	2016	2015
Amounts due from related party, including:	10	-
Current accounts, deposits	10	-
Amounts due to related party, including:	5,033,370	5,443,199
Deposits	5,033,370	5,443,199
Expenses, including:	(16,950)	(32,261)
Interest expense	(16,950)	(32,261)
Income, including:	17	-
Interest income	17	-

Other Group companies

in PLN thd	2016	2015
Amounts due from related party, including:	27,045	593
Current accounts	27,014	593
Other receivables	31	-
Amounts due to related party, including:	333,218	163,525
Amounts in bank accounts	333,218	163,525
Income, including:	1,273	5,952
Interest income	161	-
Other income	1,112	5,952
Expenses, including:	(20,501)	(12,178)
Interest expenses	(4,500)	(1,272)
Other expenses	(16,001)	(10,906)
Off-balance-sheet liabilities	249,600	214,664
Guarantees issued	248,804	211,072
Guarantees and sureties received	796	767
Letters of credit	-	2,825

42. Events subsequent to the end of the reporting period

No material events occurred subsequent to the reporting date which should be included or disclosed in the financial statements.

43. 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.

Lending 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 Bank's 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, Quantitative Methods 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, and cooperation with third-party institutions, including Biuro Informacji Kredytowej s.a. (credit reference agency).

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 powers relate in each case to the Group's total exposure towards a Client or a group of Clients having capital or organisational links, 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, and thus decisions concerning such exposures are reserved for central units responsible for credit risk or units dedicated to handling the restructuring and debt collection process).

The Group follows a principle whereby the security 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.

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 the case of the borrower's insolvency.

At the stage of credit analysis, the Group always assumes that the sale of security is substantially tantamount to liquidation of the asset serving as security, 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 security 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.

Security acceptable to the Group includes:
- 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 security, 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 security 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 security, 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 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 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 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, 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 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 expo-

sure 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 to PLN 25 thousand),

— Mortgage Loan Portfolio with small exposures (up to PLN 1 milion),
— Mortgage Loan Portfolio with large exposures (over to 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. As a result of the introduced changes in the impairment methodology, the net impairment allowance was increased by PLN 8,468 thousand.

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 10 – 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 18 – Loans and advances to customers.

Maximum exposure to credit risk

in PLN thd	Dec 31 2016	Dec 31 2015
Credit risk exposures related to on-balance sheet assets are as follows:		
Loans and advances to banks	851,847	995,936
Loans and advances to customers:	30,512,017	29,660,207
Loans to individual customers:	24,698,492	24,371,232
Credit cards	114,086	116,603
Cash loans and other loans to individual customers	2,469,186	2,069,333
Mortgage loans	22,115,219	22,453,163
Loans to corporate customers	5,783,880	5,253,779
Loans to public sector customers	29,645	35,196
Financial assets at fair value	138,674	340,221
Financial assets held as investments	6,799,137	5,769,466
Debt securities	6,792,260	5,731,284
Shares and participation units	6,877	38,182
Credit risk related to off-balance sheet items is as follows:	4,807,484	4,658,745
Guarantee commitments	1,557,340	1,482,866
Lending commitments and other commitments related to loans	3,250,144	3,175,879

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 2016, 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 131,254 thousand (as at December 31st 2015: PLN 154,970 thousand).

Breakdown of financial assets into unimpaired and impaired exposures as at December 31st 2016

	Individuals							
in PLN thd	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	97.6%
not past due and unimpaired	104,982	21,691,922	-	2,194,073	64,242	-	24,055,219	95.6%
past due but unimpaired	7,738	345,406	10	145,094	1,569	-	499,817	2.0%
Impaired financial assets	9,938	293,511	1,112	295,406	1,715	-	601,683	2.4%
Total	122,657	22,330,839	1,122	2,634,574	67,526	-	25,156,719	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	138,769	6,715,394	95.4%
not past due and unimpaired	392,443	421	843	3,414,016	360,307	953,167	1,379,023	138,769	6,638,990	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	138,769	7,038,596	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	97.7%
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	96.3%
past due but unimpaired	-	-	-	0.0%	-	-	-	0.0%	576,221	1.4%
Impaired financial assets	-	-	-	0.0%	-	1,583	1,583	1.2%	926,467	2.3%
Total	6,792,260	1,053,417	7,845,677	100%	6,877	124,833	131,710	100.0%	40,172,606	100.0%

Breakdown of financial assets into homogeneous and non-homogeneous portfolios and impaired exposures 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	293,511	181,036	112,697	55,229	75,164	48,216
Non-homogeneous portfolio					20,540	11,266	62,244	21,340	29,545	16,914
Homogeneous portfolio	7,190	6,777	9,938	8,354	272,971	169,770	50,453	33,889	45,619	31,302
Total	402,561	8,172	123,078	8,571	22,331,688	213,472	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	295,406	224,515	1,715	1,715	924,884	631,160	68.2%
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	281,074	216,863	-	-	721,690	511,924	70.9%
Total	1,056,471	51,830	1,436,233	57,795	2,634,574	231,300	67,526	1,779	32,056,403	692,681	2.2%

Credit quality of unimpaired and not past due financial assets based on ratings as at December 31st 2016

in PLN thd					Individuals
Rating	Credit cards	Mortgage loans	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	6,638,894

in PLN thd	Central banks and governments			Other financial assets			Financial assets
Rating	Securities	Cash and current account with NBP	Total	Shares	Other	Total	Total
iAAA	-	-	-	-	-	-	6
iAA+	-	-	-	-	-	-	866
iAA	-	-	-	-	-	-	14,691
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	38,669,917

Past due but unimpaired loans as at December 31st 2016

in PLN thd Past due	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	28,018,212	87.4%
Total	32,056,545	100,0%

Breakdown of the credit portfolio into unimpaired and impaired exposures
as at December 31st 2015

	Individuals							
in PLN thd	Credit cards	Mortgage loans	Other	Consumer loans	Lombard loans	Derivatives	Total	Share
Unimpaired financial assets, including:	114,597	22,395,022	1,170	1,971,309	60,136	28	24,542,260	97.7%
not past due and unimpaired	107,115	22,021,962	1,157	1,829,555	58,728	28	24,018,545	95.6%
past due but unimpaired	7,482	373,059	13	141,754	1,407	-	523,715	2.1%
Impaired financial assets	16,350	213,788	821	334,783	8,208	-	573,949	2.3%
Total	130,946	22,608,809	1,991	2,306,092	68,344	28	25,116,209	100.0%

in PLN thd	Factoring	Credit cards	Mortgage loans	Investment loans	Revolving loans	Overdrafts	Other	Derivatives	Businesses, incl. Banks Total	Share
Unimpaired financial assets, including:	236,290	385	935	2,534,980	409,439	838,138	1,899,894	141,759	6,061,820	94.3%
not past due and unimpaired	236,113	385	935	2,508,546	403,394	830,381	1,899,802	141,759	6,021,315	93.7%
past due but unimpaired	177	-	-	26,433	6,046	7,757	92	-	40,505	0.6%
Impaired financial assets	13,334	-	-	101,776	100,625	89,377	59,896	-	365,009	5.7%
Total	249,624	385	935	2,636,756	510,065	927,515	1,959,790	141,759	6,426,829	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:	5,929,719	903,794	6,833,513	100.0%	38,182	126,923	165,105	98.9%	37,602,698	97.6%
not past due and unimpaired	5,929,719	903,794	6,833,513	100.0%	38,182	126,923	165,105	98.9%	37,038,478	96.1%
past due but unimpaired	-	-	-	0.0%	-	-	-	0.0%	564,220	1.5%
Impaired financial assets	-	-	-	0.0%	-	1,772	1,772	1.1%	940,731	2.4%
Total	5,929,719	903,794	6,833,513	100.0%	38,182	128,695	166,877	100.0%	38,543,428	100.0%

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios
as at December 31st 2015

	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:	236,290	1,504	114,981	246	22,395,957	24,538	2,534,980	11,528	409,439	11,984
Non-homogeneous portfolio	132,460	1,129	-	-	141,302	3,582	991,957	3,087	180,809	760
Homogeneous portfolio	103,830	375	114,981	246	22,254,655	20,956	1,543,023	8,441	228,630	11,224
Impaired loans and advances, including:	13,334	9,487	16,350	14,097	213,788	131,109	101,776	38,034	100,625	74,543
Non-homogeneous portfolio	-	-	-	-	15,959	5,772	54,197	5,533	46,067	30,896
Homogeneous portfolio	13,334	9,487	16,350	14,097	197,828	125,337	47,580	32,501	54,558	43,647
Total	249,624	10,991	131,331	14,343	22,609,745	155,647	2,636,756	49,562	510,065	86,526

	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:	838,138	8,231	1,901,441	893	1,970,931	9,599	60,136	5	30,462,293	68,527	0.2%
Non-homogeneous portfolio	337,020	2,324	1,900,064	827	42,148	28	60,136	5	3,725,766	11,742	0.3%
Homogeneous portfolio	501,118	5,907	1,377	65	1,928,783	9,571	-	-	26,676,397	56,785	0.2%
Impaired loans and advances, including:	89,377	57,358	60,717	55,258	334,783	289,389	8,208	7,308	938,058	676,583	72.1%
Non-homogeneous portfolio	25,300	10,580	57,494	52,455	22,602	14,486	8,208	7,308	228,927	127,029	55.5%
Homogeneous portfolio	64,077	46,778	3,223	2,803	312,181	274,903	-	-	709,132	549,554	77.5%
Total	927,515	65,589	1,960,008	56,151	2,305,715	298,988	68,344	7,313	31,400,352	745,110	2.4%

Credit quality of unimpaired and not past due financial assets
as at December 31st 2015

in PLN thd							Individuals
Rating	Credit cards	Mortgage loans	Other	Consumer loans	Lombard loans	Derivatives	Total
iAAA	-	-	-	-	-	-	-
iAA+	-	-	-	-	-	-	-
iAA	-	-	-	-	-	-	-
iAA-	11	2,439	-	-	-	-	2,450
iA+	3	41,572	-	-	-	-	41,575
iA	29	667,361	-	2,368	45	-	669,803
iA-	614	4,473,198	-	20,731	1,151	28	4,495,722
iBBB+	2,785	7,329,719	-	88,340	23,929	-	7,444,774
iBBB	4,033	4,887,381	-	63,453	6,607	-	4,961,474
iBBB-	7,638	2,373,333	-	114,553	1,459	-	2,496,984
iBB+	18,048	1,075,714	-	326,110	4,215	-	1,424,087
iBB	22,901	482,941	-	598,083	20,688	-	1,124,613
iBB-	22,550	264,013	-	384,289	580	-	671,432
iB+	14,756	131,405	-	138,877	-	-	285,039
iB	6,438	87,819	1	58,361	54	-	152,673
iB-	3,563	59,459	-	22,975	-	-	85,997
iCCC+	1,701	44,320	-	13,801	-	-	59,822
iCCC	1,273	31,715	-	11,385	-	-	44,373
iCCC-	618	25,775	-	2,632	-	-	29,025
iCC+	2	1,736	-	94	-	-	1,833
iD	82	40,607	-	1,258	-	-	41,946
None	69	1,453	1,156	(17,755)	-	-	(15,078)
Total	107,115	22,021,962	1,156	1,829,556	58,728	28	24,018,545

in PLN thd										Businesses, incl. Banks
Rating	Factoring	Credit cards	Mortgage loans	Investment loans	Revolving loans	Overdrafts	Other	Consumer loans	Derivatives	Total
iAAA	-	(2)	-	-	-	-	1,024	-	-	1,022
iAA+	(6)	-	-	-	-	-	1	-	-	(5)
iAA	-	-	-	-	-	-	11,277	-	-	11,277
iAA-	-	1	-	-	-	-	8	-	-	9
iA+	-	1	-	-	-	-	85,978	-	21	86,001
iA	8,683	4	-	-	-	-	64,146	-	414	73,248
iA-	-	-	-	4,959	-	-	953,394	-	43,479	1,001,831
iBBB+	17,399	1	-	10,712	-	8,596	175,775	-	235	212,719
iBBB	20,498	5	-	56,405	13,340	40,881	450,833	-	18,717	600,679
iBBB-	18,572	6	-	256,979	79,433	48,553	79,826	-	12,137	495,505
iBB+	21,188	44	-	444,150	61,483	154,870	23,609	-	27,177	732,523
iBB	57,599	112	-	519,181	67,908	162,628	2,901	-	15,770	826,099
iBB-	27,950	47	-	416,854	53,562	157,814	823	-	9,497	666,547
iB+	27,746	34	-	231,813	39,682	102,021	547	-	5,184	407,027
iB	33,126	46	-	167,166	25,899	69,202	834	-	1,654	297,926
iB-	1,250	10	-	35,171	27,469	33,538	6	-	1,708	99,152
iCCC+	126	25	-	68,385	11,661	36,837	43	-	2,602	119,679
iCCC	1,787	28	-	7,551	9,327	9,456	4	-	57	28,211
iCCC-	718	16	-	4,575	2,846	5,182	22	-	513	13,872
iCC+	-	-	-	-	-	-	-	-	-	-
iD	-	1	-	-	8,789	-	2	-	-	8,792
None	(524)	4	935	284,645	1,997	803	49,125	(377)	2,594	339,201
Total	236,113	385	935	2,508,546	403,394	830,381	1,900,179	(377)	141,759	6,021,315

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	-	-	-	-	-	-	1,022
iAA+	-	-	-	-	-	-	(5)
iAA	-	-	-	-	-	-	11,277
iAA-	-	-	-	-	-	-	2,459
iA+	5,929,719	903,791	6,833,510	-	-	-	6,961,086
iA	-	-	-	-	-	-	743,051
iA-	-	-	-	-	-	-	5,497,553
iBBB+	-	-	-	-	-	-	7,657,493
iBBB	-	-	-	-	-	-	5,562,153
iBBB-	-	-	-	-	-	-	2,992,489
iBB+	-	-	-	-	-	-	2,156,610
iBB	-	-	-	-	-	-	1,950,712
iBB-	-	-	-	-	-	-	1,337,979
iB+	-	-	-	-	-	-	692,065
iB	-	-	-	-	-	-	450,599
iB-	-	-	-	-	-	-	185,149
iCCC+	-	-	-	-	-	-	179,501
iCCC	-	-	-	-	-	-	72,584
iCCC-	-	-	-	-	-	-	42,897
iCC+	-	-	-	-	-	-	1,833
iD	-	-	-	-	-	-	50,738
None	-	-	-	38,182	126,926	165,108	489,231
Total	5,929,719	903,791	6,833,510	38,182	126,926	165,108	37,038,477

Past due but unimpaired loans
as at December 31st 2015

in PLN thd Past due	Individuals	Businesses	Total
1-29	364,116	8,716	372,832
30-59	97,915	28,963	126,878
60-89	61,684	2,826	64,510
90-179	-	-	-
Total	523,715	40,505	564,220

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios
as at December 31st 2015

in PLN thd	Exposures	Share
Non-homogeneous portfolio	4,015,724	12.8%
Homogeneous portfolio	27,385,528	87.2%
Total	31,401,252	100.0%

Credit risk concentration

a) geographical concentration

City

in PLN thd	Dec 31 2016 Exposure	Dec 31 2016 Share	Dec 31 2015 Exposure	Dec 31 2015 Share
Warsaw	15,369,468	38.3%	14,216,231	36.9%
Kraków	1,771,583	4.4%	1,780,437	4.6%
Wrocław	1,907,929	4.7%	1,844,606	4.8%
Poznań	830,634	2.1%	840,499	2.2%
Gdańsk	861,335	2.1%	836,490	2.2%
Other	19,431,657	48.4%	19,025,165	49.4%
Total	40,172,606	100.0%	38,543,428	100.0%

b) sector concentration

in PLN thd	Dec 31 2016 Exposure	Dec 31 2016 Share	Dec 31 2015 Exposure	Dec 31 2015 Share
Individuals	25,156,719	62.7%	25,116,209	65.2%
Businesses	7,038,500	17.5%	6,426,829	16.7%
Central banks and governments	7,845,677	19.5%	6,833,513	17.7%
Unclassified	131,710	0.3%	166,877	0.4%
Total	40,172,606	100.0%	38,543,428	100.0%
Manufacturing	1,671,750	4.2%	1,835,579	4.8%
Distribution	1,355,776	3.4%	1,235,969	3.2%
Real estate activities	693,306	1.7%	447,836	1.2%
Construction	390,940	1.0%	344,429	0.9%
Transportation	159,229	0.4%	197,595	0.5%
Other	2,767,499	6.9%	2,365,421	5.8%
Total businesses	7,038,500	17.5%	6,426,829	16.7%

Breakdown of the credit portfolio (balance sheet) by product

Loan type

in PLN thd	Dec 31 2016 Exposure	Dec 31 2016 Share	Dec 31 2015 Exposure	Dec 31 2015 Share
Mortgage loans	22,331,688	55.6%	22,609,743	58.7%
Consumer loans	2,634,574	6.6%	2,306,092	6.0%
Investment loans	3,560,571	8.9%	2,636,379	6.8%
Overdraft facilities*	1,056,471	2.6%	927,515	2.4%
Lombard loans	67,526	0.2%	68,344	0.2%
Revolving loans	443,701	1.1%	510,065	1.3%
Factoring**	402,561	1.0%	249,624	0.6%
Other	1,436,375	3.6%	1,962,158	5.1%
Credit cards	123,078	0.3%	131,331	0.3%
Total	32,056,545	79.8%	31,401,251	81.5%
Derivative instruments	138,674	0.3%	141,787	0.4%
Securities	6,792,260	16.9%	5,929,719	15.4%
Other financial assets	1,185,127	3.0%	1,070,671	2.8%
Total	40,172,606	100.0%	38,543,428	100.0%

* Current account overdraft facilities, credit facilities in current account, overdraft facilities for companies.
** Recourse factoring facilities, purchase of debt claims.

Major credit exposures
as at December 31st 2016 (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	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%

Major credit exposures
as at December 31st 2015 (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	1,222,778	942,112	10.79%
2 07.29.Z	426,150	411,731	10.53%
3 64.19.Z	212,460	13,255	5.25%
4 64.91.Z	189,637	134,607	4.69%
5 33.10.Z	124,209	11	3.07%
6 46.90.Z	105,098	-	2.60%
7 61.20.Z	70,289	27,007	1.74%
8 47.59.Z	66,614	-	1.65%
9 64.19.Z	59,612	-	1.47%
10 64.30.Z	56,570	2,252	1.40%

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	566,062	3,029,896	6,696,650	124,833	10,417,441
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	25,156,719	7,038,500	7,845,677	131,710	40,172,606

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
Natural persons	25,156,719	144
Businesses	7,038,500	707
Central banks and governments	7,845,677	713,243
Unclassified	131,710	315
Total	40,172,606	

Impaired exposures by key geographical areas
as at December 31st 2016

City

in PLN thd	Exposure	Provision
Warsaw	154,533	94,067
Kraków	42,022	30,312
Wrocław	54,221	38,168
Poznań	30,448	18,781
Gdańsk	10,745	7,433
Other	632,915	442,399
Total	924,884	631,160

Maturity structure of exposures
as at December 31st 2015

Maturity

in PLN thd	Natural persons	Businesses	Central banks and governments	Unclassified	Total
up to 1 year	626,642	3,561,982	6,257,681	128,695	10,575,000
1–5 years	1,083,839	843,167	476,473	-	2,403,479
5–10 years	2,658,724	1,182,702	95,776	-	3,937,202
10–20 years	12,404,577	838,943	3,583	-	13,247,103
over 20 years	8,342,399	63	-	38,182	8,380,644
Total	25,116,181	6,426,856	6,833,513	166,877	38,543,427

Total exposure at carrying amount,
without accounting for effects of risk mitigation, and average exposure in the period by class
as at December 31st 2015

Category

in PLN thd	Exposure	Average exposure
Individuals	25,116,209	140
Businesses	6,426,829	735
Central banks and governments	6,833,513	227,784
Unclassified	166,877	313
Total	38,543,427	

Impaired exposures by key geographical areas
as at December 31st 2015

City

in PLN thd	Exposure	Provision
Warsaw	127,548	77,933
Kraków	49,288	33,670
Wrocław	57,210	36,426
Poznań	29,888	18,881
Gdańsk	11,595	8,624
Other	654,702	494,687
Total	930,231	670,221

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 2016	Dec 31 2015
Limit to exposure concentration (25% of own funds) in accordance with Art. 71 of the Banking Law and Art. 395 of the CRR	1,351,551	1,018,831
Limit to exposure concentration (25% of own funds) in accordance with Art. 71.1a of the Banking Law and Art. 395 of the CRR	1,351,551	1,018,831

As at December 31st 2016 and December 31st 2014, the Group did not exceed the limits applicable under Art. 395 of the CRR nor Art. 71 of the Banking Law.

Art. 79a.4 of the Banking Act

As at December 31st 2016 and December 31st 2015, 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 2016	Dec 31 2015
The Group's Common Equity capital	4,005,713	4,041,947
10% of the Group's Common Equity capital	400,571	404,195

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 2016, the following instances of exceeding the internal limits were identified:

- Limit of migration between overdue class [0-89] and [90-119] days in the portfolio of consumer loans. Utilization of the limit for December 31st is 1.48%, which is 296% of the limit. The excess is due to overdue payment on 1 account secured consumer loan of PLN 1.5m.
- Early overdue limit for the portfolio of credit cards for natural persons. Utilization of the limit − as at December 31st, is 13,5%, which is 169% of the limit, and represented overdue payments under 11 cards, totalling PLN 30 thousand. The majority of past due amounts were repaid after the report date.
- Limit for derogations in the business Client exposure portfolio. Utilization of the limit − as at December 31st, is 50,02%, which is 200% of the limit.
- Limit for derogations in the exposures secured with mortgages portfolio. Utilization of the limit − as at December 31st, is 22,08%, which is 110% of the limit.

Forbearance exposures

The Parent 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 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)	31,069,997	0.2%	382,363	(6,131)	376,232	1.6%	1.2%
Central and local government institutions	29,699	(54)	29,645	0.2%	-	-	-	N\A	N\A
Credit institutions	852,421	(575)	851,847	0.1%	1	-	1	-	-
Businesses	5,694,505	(21,391)	5,673,114	0.4%	59,285	(887)	58,398	1.5%	1.0%
Households	24,555,036	(39,502)	24,515,533	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%	11.2%
Central and local government institutions	-	-	-	NA	-	-	-	N\A	N\A
Credit institutions	-	-	-	NA	-	-	-	N\A	N\A
Businesses	323,201	(212,436)	110,766	65.7%	165,778	(110,356)	55,422	66.6%	50.0%
Households	601,683	(418,724)	182,959	69.6%	290,254	(170,881)	119,373	58.9%	65.2%

The table below shows the structure of loans and advances granted with the forbearance facility as at 31 December 2015.

	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	36,533,799	(68,527)	36,463,122	0.2%	449,522	(18,503)	431,019	4.1%	1.2%
Central and local government institutions	5,964,914	(35)	5,964,878	-	-	-	-	N\A	N\A
Credit institutions	1,051,211	(146)	1,048,915	-	1	-	1	N\A	N\A
Businesses	4,975,414	(33,955)	4,941,459	0.7%	66,638	(4,705)	61,933	7.1%	1.30%
Households	24,542,260	(34,391)	24,507,869	0.1%	382,883	(13,798)	369,085	3.6%	1.50%
Impaired exposures	938,958	(676,583)	262,375	72.1%	305,906	(198,892)	107,014	65.0%	40.8%
Central and local government institutions	-	-	-	N\A	-	-	-	N\A	N\A
Credit institutions	-	-	-	N\A	-	-	-	N\A	N\A
Businesses	365,009	(233,891)	131,118	64.1%	145,935	(95,188)	50,747	65.2%	38.70%
Households	573,949	(442,692)	131,257	77.1%	159,971	(103,704)	56,267	64.8%	42.90%

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.

44. 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 powers 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 theSupervisory 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.
— Market liquidity risk – the risk of losing the ability to swap certain products on the market into cash at the required time, what can cause financial losses on these products. This is taken into account in the stress test analysis, which assumes limited opportunities to sell a portfolio of securities (no opportunity to sell any quantity of securities) and imposes an additional factor (haircut) that illustrates a sudden drop in its value below the current valuation level. In addition, the analysis takes into account the potential increase in liabilities resulting from higher exchange rates, with which FX swaps are rolled.

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.

Liquidity surplus

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 2016, liquid assets stood at PLN 7.9bn, accounting for 20% 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 examine 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 2016 and 2015.

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	1,052,672	1,052,672	-	-	-	-	-
Deposits with other banks, and loans and advances to other banks*	848,571	848,125	442	-	-	4	-
Loans to customers*	30,869,980	1,432,410	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	49,611,746	13,434,115	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*	15,618,571	874,133	337,004	1,097,532	938,219	8,948,790	3,422,893
Amounts due to customers*	17,805,782	15,322,012	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	212,438	206,074	-	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	49,023,104	23,313,433	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 – equity and liabilities)	588,642	(9,879,318)	(1,566,134)	(389,295)	622,637	(1,011,935)	12,812,687
Accumulated liquidity gap		588,642	10,467,960	12,034,094	12,423,389	11,800,752	12,812,687

Assets (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2015

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Cash and transactions with Central Bank	903,794	903,794	-	-	-	-	-
Deposits with other banks, and loans and advances to other banks*	991,222	719,027	204,914	8,765	58,517	-	-
Loans to customers*	30,100,339	2,668,709	452,830	633,415	1,282,321	7,522,961	17,540,104
Financial assets held as investments	5,763,913	5,198,388	-	32,376	-	458,444	74,704
Financial instruments at fair value	338,122	69,573	15,268	24,235	152,782	37,033	39,231
Other financial assets	127,100	125,254	-	1,373	-	473	-
Conditional guarantee commitments received	994,701	681,555	-	-	-	-	313,146
Conditional financing commitments received	1,538	45	227	1,266	-	-	-
Off-balance-sheet instruments – long position	7,710,431	5,714,820	798,204	315,766	552,591	305,558	23,490
Total	46,931,160	16,081,165	1,471,442	1,017,197	2,046,211	8,324,469	17,990,675

* At nominal value.

Liabilities (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2015

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Amounts due to other banks*	16,195,052	318,659	173,424	511,505	428,025	10,391,438	4,372,001
Amounts due to customers*	16,888,551	14,596,272	1,274,697	611,076	395,740	6,439	4,325
Financial instruments at fair value	114,447	19,631	13,875	15,158	44,821	16,622	4,340
Subordinated liabilities*	234,383	-	-	-	-	234,383	-
Other financial liabilities	116,462	116,462	-	-	-	-	-
Conditional financing commitments assumed	3,190,363	176,255	498,065	788,839	854,930	481,938	390,336
Conditional guarantee commitments assumed	1,490,491	66,241	137,226	175,517	300,496	716,417	94,593
Off-balance-sheet instruments – short position	7,681,354	5,708,790	799,820	303,618	552,664	295,474	20,989
Total	45,911,103	21,002,311	2,897,107	2,405,713	2,576,676	12,142,711	4,886,585

* At nominal value.

Liquidity gap
as at December 31st 2015

in PLN thd	Total	<1M	>1M-3M	>3M-6M	>6M-1Y	>1Y-5Y	>5Y
Liquidity gap (assets – equity and liabilities)	1,020,057	(4,921,146)	(1,425,664)	(1,388,517)	(530,465)	(3,818,242)	13,104,090
Accumulated liquidity gap		1,020,057	5,941,202	7,366,867	8,755,383	9,285,848	13,104,090

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.

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 2016, 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 2016 and as at December 31st 2015, the supervisory liquidity measures were as follows:

	Dec 31 2016	Dec 31 2015
M1 − short-term liquidity gap (PLN)	1,430,479,493.00	820,073,850.00
M2 − short-term liquidity ratio	1.11	1.07
M3 − coverage of illiquid assets with regulatory capital	43.45	32.77
M4 − coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.08	1.08

Also, in accordance with the currently effective new regulations 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. As at December 31st 2016, the net outflow coverage ratio was 96.8%.

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 analysis of the deposit base stability, as a diversified and stable deposit base is the main and the most important source of funding for the Bank.

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 1-5 days and 2-8 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). Moreover, stress-testing results are used for setting internal MCO limits.

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 confi-

dence 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 2016	Minimum in 2016	Maximum in 2016	Average in 2016
VaR – banking book	2,500	669.35	517.42	2,218.21	1,071.14
VaR – trading book	150	18.17	16.41	668.81	56.94

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 in 2016, the VaR limits changed. The VaR limit for the trade book was reduced from 6 mPLN to 0.15 mPLN, while the VaR limit for the banking book was increased from 1.25 mPLN to 2.5 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 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 decisions taken by the Bank's Management Board to limit trading activity, the limit on interest rate risk of the trading book was significantly reduced in 2016 and at the end of the year amounted to PLN 0.1 million. The interest rate risk limit for the banking book was adjusted in 2016 to the Group's business profile after the changes in the strategy and was PLN 2.3m at the end of the year.

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;
— analysis of the present value of one basis point (BPV, PV01);
— interest rate gap analysis;
— stress tests;
— economic capital for interest rate risk.

VaR is the basic metric of interest rate risk. Interest rate VaR values and limits are presented in the table below.

in PLN thd	Limit	As at Dec 31 2016	Minimum in 2016	Maximum in 2016	Average in 2016
IR VaR − banking book	2,300.00	700.17	502.00	2,215.27	1,066.58
IR VaR − trading book	100.00	18.08	15.62	395.68	53.31

Additionally, for the trading book exposures, the Parent's Management Board has established limits for the BPV sensitivity measure. BPV is a multidimensional vector showing (in money terms) relations between a change in the market value of a financial instrument and an increase or decrease of 1 basis point in the market interest rate, in all time intervals of the yield curve.

In addition to the VaR method, the interest rate gap analysis is another tool used to measure the interest rate risk of the banking book. This metric shows the sensitivity of interest income from banking book instruments to interest rate changes.

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 change in the Bank's strategy started in 2015, currency risk VaR limits were reduced in 2016. The trading book limit was reduced from 1.2 mPLN to 0.1 mPLN. In the case of the bank book, the limit remained unchanged at PLN 0.3m.

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 2016	Minimum in 2016	Maximum in 2016	Average in 2016
FX VaR − banking book	300.00	32.01	2.49	208.42	43.30
FX VaR − trading book	100,00	0.39	0.02	596.86	11.70

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 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

Equity and 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

as at Dec 31 2015

Assets
in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Cash and transactions with Central Bank	12,405	718	2,819	23,205	-	39,147
Deposits with other banks, and loans and advances to other banks	604,444	5,977	13,159	175,945	171,053	970,578
Loans and advances to customers	245,062	8,084	5,438,422	8,960,512	-	14,652,080
Financial assets held as investments	-	-	-	37,930	-	37,930
Other assets	76	-	1	29,679	-	29,756
Total	861,987	14,779	5,454,401	9,227,271	171,053	15,729,491

Equity and liabilities
in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Amounts due to other banks	5,043	339	5,141,963	8,390,012	605	13,537,962
Amounts due to customers	613,761	48,704	78,120	2,116,378	214,294	3,071,257
Other liabilities	1,749	6,972	7	14,546	183	23,457
Subordinated liabilities	-	-	-	235,521	-	235,521
Total	620,553	56,015	5,220,090	10,756,457	215,082	16,868,197

45. 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.

Pursuant to the capital-adequacy decision issued for the Parent, the Polish Financial Supervision Authority (PFSA) expects the Group willl meet the total capital requirement (TCR), with taking into account the capital conservation buffer at a minimum level of 13.25% and Tier 1 capital ratio (T1), with taking into account the capital conservation buffer at a level of at least 10.25%. 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 1.73% for the aggregate capital ratio (TCR), 1.30% for Tier 1 capital ratio (T1) and 0.97% 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 2016, 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 2015 – 2016

in PLN thd	Dec 31 2016	Dec 31 2015
Common Equity capital	4,120,752	4,041,947
Deductions from Common Equity capital	(115,450)	(96,529)
Additional capital	1,400,900	129,908
Own funds	5,406,202	4,075,326
Total capital ratio (%)	19.19%	14.59%

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.

Losses related to operational risk in 2016 and 2015 by type and event category

The table below sets forth gross operational losses incurred by the Group in 2015−2016 by event category.

Operational event category

	2016	2015
Internal fraud	0.00%	0.10%
External fraud	23.40%	15.50%
Employment related principles and workplace safety	37.70%	5.60%
Clients, products and operational practices	9.80%	66.30%
Losses related to property and equipment	7.40%	2.00%
Disruption to bank operations and system failures	9.00%	0.30%
Transaction execution, delivery and operational process management	12.70%	10.20%

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.

46. 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 2016, the Remuneration Policy was revised in the following scope:

- Bank acting in accordance with Article 94 of the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 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 introduced the maximum ratio of fixed components of remuneration to variable components for persons covered by the "Fixed Income and Compulsory Components of Remuneration of Persons in Management, including Members of the Management Board, at Deutsche Bank Polska S.A." At a level not exceeding 200%, excluding control functions for which the ratio of variable components can not

exceed 100%. General Meeting of Shareholders of Deutsche Bank Polska S.A. Approved the introduction of the aforementioned ratio on 29 February 2016.
— the deferral period of variable remuneration payments, paid to Policyholders with a particularly significant impact on the Bank's risk profile was the extended from 3 to 4 years.

Additionally, the list of persons who have an important influence on the Bank's risk profile underwent a regular verification.

In the year 2016, the Remuneration Committee consisted of:
— in the period from 01.01.2016 to 29.07.2016
  1) Mr Peter Tils
  2) Mr Hubert A. Janiszewski
  3) Mr Pedro Larena
— in the period from 30.07.2016 to 31.12.2016
  1) Mr Peter Tils
  2) Mr Hubert A. Janiszewski.

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 2016, 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 three equal tranches over the three years immediately 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.

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 keeping 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 9th 2017

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Other Information

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Independent Registered Auditor's Report

*To the General Shareholders' Meeting and the Supervisory Board of
Deutsche Bank Polska S.A.*

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Deutsche Bank Polska S.A. Group (hereinafter called "the Group"), having Deutsche Bank Polska S.A., Al. Armii Ludowej 26, Warsaw, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income for the year from 1 January 2016 to 31 December 2016, the statement of changes in consolidated equity, the consolidated statement of cash flows for the financial year and a summary of significant accounting policies and other explanatory notes.

Management and Supervisory Board's Responsibility

The Parent Company's Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and the Report on the Group's operations and for the correctness of the books of account in accordance with the applicable regulations. The Parent Company's Management Board is also responsible for internal controls as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board and Supervisory Board are obliged to ensure that the consolidated financial statements and the Report on the Group's operations meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2016, item 1047 as amended).

Auditor's Responsibility

Our responsibility was to express an opinion about the abovementioned consolidated financial statement based on the audit we have performed.

We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing adopted as the National Standards on Audit and Assurance adopted by the National Council of Certified Auditors in the resolution of 10 February 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's prepara-

tion and fair presentation of the consolidated financial statements 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. An audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements in all material respects:

a. give a true and fair view of the Group's financial position as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016, in accordance with the International Financial Reporting Standards as adopted by the European Union;
b. comply in terms of form and content with the applicable laws to the Group;
c. have been prepared on the basis of correctly maintained consolidation documentation.

Report on Other Legal and Regulatory Requirements

Opinion on the Report on the Group's operations

Our opinion on the consolidated financial statements, based on the audit we have performed, does not comprise the Report on the Group's operations.

The preparation of the Report on the Group's operations in accordance with the Accounting Act and the Banking Law of 29 August 1997 ("the Banking Law" – Journal of Laws of 2016, item 1988 as amended) is the role of the Parent Company's Management Board. Furthermore, the Management Board and the Supervisory Board are obliged to to ensure that the Report on operations meet the requirements of the Accounting Act.

It was our obligation, with regard to the performed audit of the consolidated financial statements, to be acquainted with the content of the Report on the Group's operations and to consider if the information included accomodates the requirements of the article 49 of the Accounting Act and is consistent with the information included by the accompanying consolidated financial statements. We were also obliged to consider, based on our knowledge about the Group and its environment obtained during the audit of the consolidated financial statements, if the Report on the Group's operations is free form material misstatements. Furthermore, it was our obligation to audit the financial information required by the article 111 a paragraph 2 of the Banking Law included in the Report on the Group's operations. We conducted the audit in accordance with the scope described in the paragraph Auditor's Responsibility above.

In our opinion, the information contained in the Report on the Group's operations for the year from 1 January 2016 to 31 December 2016 accommodates the requirements of article 49 of the Accounting Act and the Banking Law and is consistent with the information contained in the audited consolidated financial statements.

Furthermore, 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.

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

(Signature)

Anna Bączyk
Key Registered Auditor
No 11810

Warsaw, 14 June 2017

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