Deutsche Bank Polska S.A.
Capital Group

Annual Report 2014

Passion to Perform

Deutsche Bank AG Group
three-year record

Balance Sheet

in EUR m.	Dec 31, 2014	Dec 31,2013	Dec 31,2012
Total assets	1,708,703	1,611,400	2,022,275
Loans	405,612	376,582	397,377
Total liabilities [1]	1,635,481	1,566,434	1,968,035
Total shareholders equity [1]	68,351	54,719	54,001
Noncontrolling interests	253	247	239
Tier 1 capital [2]	63,898	50,717	50,483
Total regulatory capital [2]	68,293	55,464	57,015

Income statement

in EUR m.	Dec 31, 2014	Dec 31,2013	Dec 31,2012
Net interest income	14,272	14,834	15,975
Provision for credit losses	1,134	2,065	1,721
Commissions and fee income [3]	12,409	12,308	11,809
Net gains (losses) on financial assets/ liabilities at fair value through profit or loss [3]	4,299	3,817	5,608
Other noninterest income (loss)	969	956	344
Total noninterest income	17,677	17,082	17,761
Compensation and benefits	12,512	12,329	13,490
General and administrative expenses	14,654	15,126	15,017
Policyholder benefits and claims	289	460	414
Impairment of intangible assets	111	79	1,886
Restructuring activities	133	399	394
Total noninterest expenses	27,699	28,394	31,201
Income before income taxes	3,116	1,456	814
Income tax expense	1,425	775	498
Net income	1,691	681	316
Net income (loss) attributable to noncontrolling interests	28	15	53
Net income attributable to Deutsche Bank shareholders	1,663	666	263

Key figures

Key figures	Dec 31, 2014	Dec 31,2013	Dec 31,2012
Basic earnings per share [4]	€ 1.34	€ 0.64	€ 0.27
Diluted earnings per share [4]	€ 1.31	€ 0.62	€ 0.26
Dividends paid per share in period	€ 0.75	€ 0.75	€ 0.75
Return on avreage shareholders' equity (post-tax)	2.7%	1.2%	0.5%
Pre-tax return on average shareholders' equity	5.0%	2.6%	1.3%
Cost/income ratio	86.7%	89.0%	92.5%
Common Equity Tier 1 capital ratio [2]	15.2%	12.8%	11.4%
Tier 1 capital ratio [2]	16.1%	16.9%	15.1%
Total regulatory capital ratio [2]	17.2%	18.5%	17.1%
Employees (full-time equivalent) [5]	98,138	98,254	98,219

[1] The initial acquisition accounting for ABN AMRO, which was finalized as of March 31,2011, resulted in a retrospective adjustment of retained earnings of €(24) million for December 31,2010.

[2] Figures presented for 2014 are based on the transitional rules of the CRR/CRD 4 framework. Figures presented for 2013, 2012 and 2011 are based on "Basel 2.5". Figures presented for 2010 are based on "Basel 2". The capital ratios relate the respective capital to risk-weighted assets. Until 2013 transtional items pursuant to the former Selection 64h (3) of the German Banking Act are excluded.

[3] Prior periods have been restated. For further details please refer to Note 1 "Significant Accounting Policies and Critical Accounting Estimates" of the Financial Report 2014.

[4] The number of average basic are diluted shares outstanding has been adjusted in order to reflect the effect of the bonus element of the subscription rights issue in connection with the capital increases in June 2014 and October 2010.

[5] Deutsche Postbank aligned its FTE definition to Deutsche Bank whet reduced the Group number as of December 31, 2011 by 260 (prior periods not restated).

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Our identity

Our identity

We are a leading global investment bank with a strong and profitable private Clients franchise. Our businesses are mutually reinforcing. A leader in Germany and Europe, we are powerful and growing in North America, Asia and key emerging markets.

Our mission

We compete to be the leading global provider of financial solutions for demanding Clients creating exceptional value for our shareholders and people.

A passion to perform

This is the way we do business. We pursue excellence, leverage unique insights, deliver innovative solutions and build long term relationships.

Close to our Clients.

Management bodies

SUPERVISORY BOARD

Peter Tils
Chairman
Deutsche Bank AG
Frankfurt/Main

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

Pedro Larena
Vice-Chairman
Deutsche Bank Sociedad Anómina Española
Madrid

Mary Campbell
Deutsche Bank AG
London

Kees Hoving
Deutsche Bank AG
Amsterdam

Zoltan Kurali
Deutsche Bank AG
Budapest

Rainer Rauleder
Deutsche Bank AG
Frankfurt/Main

MANAGEMENT BOARD

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

Leszek Niemycki
Business Clients Department, Marketing Department, PBC Liquidity Management Department, Strategy and Analysis Department, Quality Management Department, Credit Products Department, Retail and Investment Products Department, Regional Sales Region 1 Department, Regional Sales Region 2 Department, Regional Sales Region 3 Department, Remote Channels Department, Business Clients Sales Support Department, Direct Sales Office

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

Piotr Gemra
Corporate Clients Credit Risk Department, Business Clients Credit Risk Department, Individual Clients Credit Risk Department, Credit Risk Management Department, Credit Portfolio Management Department, Workout Department, Collection Department, Operational Risk Management Department

Tomasz Kowalski
Operations Department, Operational Support and Cost Management Department, IT Department, CRES Department, Outsourcing Management and Information Security Department, Contact Center Department, Individual Clients Service Department, Business Process Management Department, Individual and Business Clients Service Department, Security Office, HR Solution Office, Work Security and Hygiene Team

Radosław Kudła
Treasury Sales Department, Trading Department, Liquidity Management Office, Benchmark Submission Office, Financial Institutions Treasury Sales, Corporate Banking Coverage

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

Piotr Olendski
Investment Banking Department

Magdalena Rogalska
Global Network Banking Department, Investor Services Department, Institutional Cash Department, Implementation and Service Department, Cash Management Department, Product Management Office, Trade Finance Sales

02 -

Management Report on the Operations of Deutsche Bank Polska S.A. Capital Group in 2014

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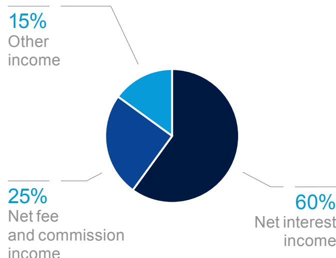
Management report
on the operations of Deutsche Bank Polska S.A. Capital Group in 2014

Overview of the Group's business in 2014

Profit /(loss) on banking activities
%



The Group's financial statements for 2014 are the first financial report prepared after the merger of the former Deutsche Bank PBC S.A. (acquirer) and Deutsche Bank Polska S.A. (acquiree).

The legal merger of the two banks was effected on January 31st 2014 using the pooling of interests method, i.e. based on book values, without recognising goodwill or excess of fair value of the acquiree's net assets over the cost of its acquisition. Since the merger, the Bank has continued to trade as Deutsche Bank Polska S.A.

The banks' operational merger took place on February 14th 2014 and since that date the Bank has operated as a combined single institution in the financial and payments sector.

The data contained in the financial statement for the 12 months ended December 31st 2014 presents the result of operations of the combined Bank (the parent) and of DB Securities (the only subsidiary in the Bank's Group), whereas the comparative data for the previous year has been prepared through aggregation of corresponding items from the pre-merger financial statements of the two banks and from the financial statement of DB Securities, after elimination of mutual transactions and harmonisation of the applied accounting policies.

The Group's financial highlights for 2014:
– net profit of PLN 277m, up 9% on the previous year,
– net interest income of PLN 716m, up 8% on 2013,
– net fee and commission income of PLN 292m, up 3% on the previous year,
– operating expenses of PLN 649m, down 2% year on year,
– impairment costs of PLN 144m, relative to PLN 86m in 2013,
– as at the end of 2014, the Group had total assets of PLN 36,289m, up 10% on the previous year.

In 2014, the Bank received a number of awards in recognition of the high quality of its retail, investment and corporate banking services. Deutsche Bank Polska ranked first in the Consumer Finance category of the 50 Largest Banks in Poland ranking prepared by the BANK monthly; it also came in third among leading providers of financing to property developers. Bloomberg Businessweek Polska named Deutsche Bank Polska the best bank for businesses in their Business Premium 2014 ranking. The distinction was granted in recognition of the Bank's comprehensive services for the SME sector. As part of the fourth edition of the CEE Investment & Green Building Awards competition, organised every year by the EuropaProperty magazine, Deutsche Asset & Wealth Management (DeAWM) received awards in as many as three categories, including the most important CEE Investor of the Year title. Deutsche Bank also received an award from the Warsaw Stock Exchange, for the largest value of equity offerings placed on the Polish stock market in 2014. Krzysztof Kalicki, Ph.D., the Bank's CEO, received an award in the Leaders of the Banking and Insurance World ranking, as the Banking World's Man of the Year (2014). Mr Kalicki collected the award at a gala event during the spring edition of the Banking Forum (in April 2015).

The Group's business environment

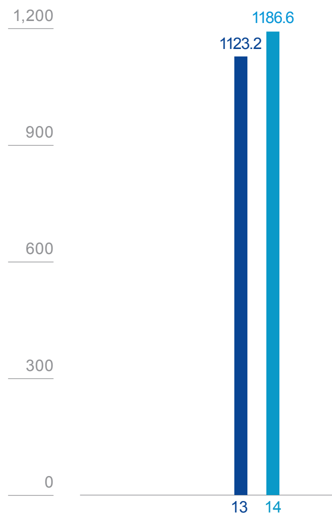
In 2014, Poland's GDP growth accelerated to 3.3%, from 1.7% in 2013. The economic growth was fuelled mainly by domestic demand, with increasing contribution to GDP from private consumption (1.9pp) and strongly positive contribution from investments (1.8pp). Two accelerating factors were consumption in the household sector and fixed asset investments. Growth based on domestic demand is structurally more stable and likely to continue into 2015. In 2014, public consumption contributed 0.5pp to the GDP growth, partially offsetting the negative contribution from net exports (-1.3pp), attributable to strong domestic demand. In all the four quarters of 2014, Poland's economy was developing at a rate of over 3.0% y/y, with a stable contribution to GDP growth from private consumption and growing contribution from investments.

In 2014, average annual inflation went down to 0.0%, compared with 0.9% in 2013, falling further below the lower limit of the inflation target range (2.5% +/-1%). Beginning from July 2014, each month saw annualised deflation, which dipped to -1.0% y/y in December 2014. In the second half of 2014 the deflation was due mainly to falling prices of fuels (in the wake of a drop in crude oil prices) and a decline in food prices (with one contributing factor being the embargo on exports of selected food categories to Russia). According to estimates by DB Polska S.A., annualised deflation should continue until November 2015. In December 2015, inflation will probably grow to 0.3% y/y.

In 2014, the PLN/EUR exchange rate averaged 4.1852, which represents a 0.3% year-on-year appreciation of złoty against euro. The average PLN/USD exchange rate was 3.1551, meaning that the Polish currency strengthened 0.2% against the U.S. dollar compared with 2013. Złoty proved to be relatively resilient to depreciation due to growing geopolitical risk following the outbreak of the military conflict in Ukraine. In January − November 2014, the złoty exchange rate against euro remained relatively stable, oscillating within the range of 4.0950-4.2500, and then weakened to 4.38 in December 2014 on expectations that the Fed would raise interest rates in the middle of 2015. The PLN/USD exchange rate remained very stable in January − July 2014, moving within the narrow range of 3.00-3.16. In August − December złoty quickly depreciated against US dollar, getting close to PLN 3.60 per USD 1 in December 2014, driven by a surge in the USD exchange rate against other major currencies.

The budget deficit in 2014 was PLN -29.0bn (61.5% of the 2014 target), compared with PLN -43.6bn (85% of the target) in 2013. The deficit in the state and local government sector in 2014 was -3.2% of the GDP, based on the ESA2010 methodology. The key factor driving down the state and local government's deficit in 2014 was the reform of open-ended pension funds (OFE), consisting in a transfer of the non-equity portion of OFEs' assets to the Social Insurance Institution (ZUS) and redemption of the portion of assets held in bonds, which resulted in a one-off reduction in the general government gross debt of PLN 130.2bn (7.5% of the GDP) in February 2014. Subsequent to the OFE reform, by the end of 2014 the general government gross debt rose by PLN 74.6bn (4.3% of the GDP), and in 2014 its ratio to GDP stood at 47.9%, while the ratio of the state and local government debt to GDP was 50.2% (53.1% and 55.7%, respectively, in 2013).

Net interest
and fee and commission
in PLN m.



In the first half of 2014, the Monetary Policy Council kept interest rates unchanged, despite a further slide in inflation. It was not until deflation deepened and prices of crude oil began to plummet that the Monetary Policy Council cut the National Bank of Poland's reference rate by 50bp, and the National Bank of Poland's lombard rate by 100 bp, to 2.0% and 3.0%, respectively, at its meeting in October 2014. The Monetary Policy Council pursued a highly conservative monetary policy throughout 2014. In March 2015, it cut interest rates by another 50bp and announced an end to the interest rate easing cycle, which is likely to drive appreciation of złoty against euro in the forthcoming future (due to the difference in official interest rates and the difference in monetary policy phases between Poland and the eurozone).

In 2014, current account deficit stood at EUR -5.8bn, compared with EUR -5.2bn in 2013. A trade deficit (in value terms) of EUR 1.6bn was reported, compared with a trade surplus of EUR 635m in 2013. Exports, expressed in the euro increased by 5.6% y/y in 2014, while imports grew by 7.1% y/y. The modest deterioration of the balance of trade was attributable to strong imports, driven by the growing domestic demand and the continuing relatively strong demand for Polish exported goods. In 2014, the current deficit represented -1.4% of the GDP and is expected to remain close to this value in 2015.

2014 saw a quick reduction in the unemployment rate, which dropped from 14.0% in January to 11.5% in December 2014. In H1 2014, this rapid fall contributed to a stronger increase in nominal earnings, but the deflation which started to push real earnings up in H2 2014 stabilised the nominal earnings dynamics at slightly over 3% (in year-on-year terms).

In December 2014, the M3 money supply was PLN 1,059.2bn (up 8.2% y/y), compared with a 6.2% y/y increase recorded in December 2013. In December 2014, household deposits totalled PLN 605.3bn (up 9.3% y/y), including PLN 560.4bn in PLN-denominated deposits (up 9.7% y/y) and PLN 44.9bn in foreign currency deposits (up 5.4% y/y). In December 2014, demand deposits placed by households with monetary financial institutions grew by 7.5% y/y (to PLN 300.8bn), with PLN-denominated deposits going up 7.6% y/y to PLN 272.6bn, and foreign currency deposits growing by 6.1% y/y to PLN 28.2bn. In the same month, households' term deposits increased by 11.2% y/y to PLN 304.5bn, of which PLN-denominated deposits went up 11.6% y/y to PLN 287.8bn, and foreign currency deposits increased by 4.3% y/y to PLN 16.7bn. The high growth dynamics of PLN-denominated term deposits in 2014 was attributable to the falling interest rates and households searching for deposits bearing higher interest.

In December 2014, corporate deposits placed with monetary financial institutions totalled PLN 226.7bn (up 9.0% y/y), including PLN 194.5bn in PLN-denominated deposits (up 10.9% y/y) and PLN 32.2bn in foreign currency deposits (down 1.6% y/y). In December 2014, corporate demand deposits placed with monetary financial institutions grew by 10.4% y/y to PLN 124.2bn, with PLN-denominated deposits up 12.4% y/y to PLN 99.6bn, and foreign currency deposits up 3.0% y/y to PLN 24.6bn. Term deposits of corporate clients grew by 7.3% y/y to PLN 102.5bn; PLN-denominated term deposits went up 9.4% y/y to PLN 94.9bn, and foreign currency term deposits contracted by 13.9% y/y to PLN 7.6bn. The higher dynamics of PLN-denominated demand deposits from corporate clients follows from the improving liquidity of businesses and increased domestic demand.

In December 2014, the value of loans and advances from monetary financial institutions to household clients was PLN 586.7bn (up 4.9% y/y), including PLN – denominated loans of PLN 413.7bn (up 8.3% y/y), and foreign currency loans of PLN 173.0bn (down 2.3% y/y). In December 2014, consumer loans increased by 4.1% y/y to PLN 144.1bn. In the same month, the value of housing loans grew by 5.1% y/y to PLN 352.8bn, with PLN-denominated loans at PLN 190.6bn (up 11.9% y/y), and foreign currency loans at PLN 162.2bn (down 1.9% y/y). In December 2014, the value of loans and advances from monetary financial institutions to corporate customers grew by 6.3% y/y to PLN 260.1bn, including PLN-denominated loans of PLN 188.9bn (up 2.5% y/y), and foreign currency loans of PLN 71.2bn (up 17.9% y/y). The high growth dynamics of foreign currency loans followed from the weakening of Polish złoty in Q4 2014 and the low interest rates prevailing on the base markets.

In terms of the macroeconomic outlook, we expect that in 2015 Deutsche Bank Polska S.A. will operate in an environment featuring stable economic growth in Poland, accompanied by a gradual fall in deflation, which will continue until November 2015. The GDP structure should be favourable in subsequent quarters, with strong domestic demand driven by private consumption and investments. For 2015, we project a 3.4% GDP increase and an average annual deflation of -0.9%. In 2015, the unemployment rate should go down slightly to 11.5% at the year's end.

The main risks in 2015 will be: (1) the continuing armed conflict in Ukraine, (2) the unstable fiscal situation of Greece, and (3) beginning of a rate raising cycle by the Fed, expected in September 2015. In Poland, the presidential election in May and, even more, the parliamentary election in October 2015, will add pressure to loosen fiscal policy, but following the 2014 reform of the open-end pension fund system both public debt and fiscal deficits remain at safe and relatively low levels. In 2016, the excessive deficit procedure against Poland is expected to be discontinued, which should open the way for an increase in Poland's rating (currently: A-/A2).

We expect the Monetary Policy Council to keep interest rates unchanged in 2015 if the deflation starts to decline in the following months (this is our central scenario). If Polish złoty continues to strengthen in the coming quarters, a corrective interest rate cut by 25−50 bp is possible in Q3 2015 (the likelihood of such scenario is estimated in the range 25−30%).

In 2015, the eurozone is expected to record a growth rate of 1.4%, while the German economy should expand at a rate of 2.0%. Poland's economy is likely to benefit from the German GDP growth, as was the case in 2014.

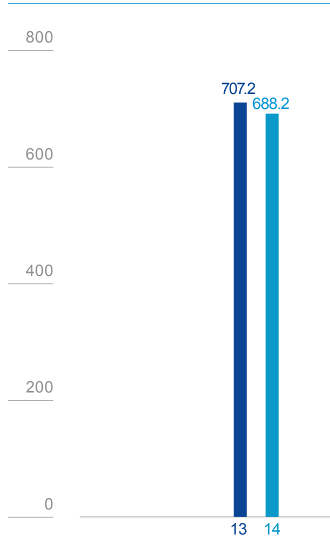
We expect Polish złoty to strengthen against euro in Q2 and Q3 2015, with the PLN/EUR exchange in the range of 3.90–4.10 and likely to stay close to the bottom of the range.

Financial standing

In 2014, the Group reported profit before tax of PLN 354m, up 7% y/y.

Consolidated statement of profit or loss for 2014 and 2013

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013	Change %
Net interest income	715,866	660,072	8.5%
Net impairment losses	(144,194)	(86,217)	67.2%
Net fee and commission income	291,792	282,418	3.3%
Net trading income	291,822	282,725	3.2%
Profit/(loss) on banking activities	1,036,198	1,028,315	0.8%
General and administrative expenses	(648,791)	(662,253)	(2.0)%
Depreciation and amortisation	(33,242)	(36,317)	(8.5)%
Profit before tax	354,165	329,745	7.4%
Income tax expense	(76,933)	(76,318)	0.8%
Net profit	277,232	253,427	9.4%



Profit /(loss) on banking activities

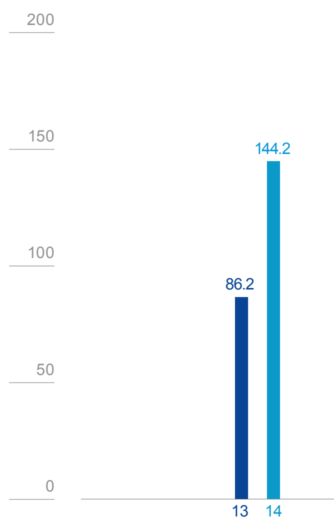
- In 2014, net interest income grew by PLN 55,794 thousand, or approximately 8%, y/y.
- Net fee and commission income increased by approximately 3% (PLN 9,347 thousand) y/y relative to 2013.
- Net income from instruments measured at fair value through profit or loss and revaluation stood at PLN 173.5m, up by PLN 68 thousand y/y.

The main challenge for the Group in 2014 was to achieve the revenue target through growth in new sales and optimised performance of the existing asset and liability portfolios. Net interest income and net fee and commission income were 6% higher than in 2013.

In the individual client business area, the key constraints to the achievement of the revenue target in line with the budget were related to the macroeconomic environment, falling interest rates, further restrictions on the interchange fee, and growing competition on the market of cash loans for individual clients. In personal and consumer finance products, the Group reported revenue at 86% of the target, with the revenue amount almost on a par with the previous year's figure, which should be viewed as good performance 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 3%, which was made possible by the Group maintaining its high share in the new sales market (cross-sell effect) and intense efforts to control margins and contract terms justifying margin adjustments.

In the business client area, the reported revenue was at 100% of the target and 17% up year on year. The main growth driver in this segment was the steady development of the product portfolio as well as improved profitability accompanied by a continued stable increase in the credit balance.

Revenue from deposit products was 14% over the target, and 36% over the previous year's figure. This year-on-year improvement was attributable to margin optimisation initiatives



implemented by the Group in 2014. Revenue optimisation measures also covered fees and commission for account maintenance and transactions.

Revenue from investment and insurance products (net of one-off events) was 6% higher y/y in 2014, and represented 83% of the target. The increase was mainly attributable to the higher share of private banking products.

Revenue reported in the Transaction Banking segment represented 96% of the target and was 5% higher than in 2013, with the growth resulting primarily from the larger institutional client deposit base and higher net interest income. Net fee and commission income on payment transactions of corporate clients grew as well.

Revenue in the Corporate and Investment Banking segment exceeded the target by 3%. Compared with 2013, it went up 26%. This high year-on-year growth was attributable to the larger client base of the combined bank and increased activity on the capital and money markets.

In 2014, loan loss provisions were 35% over the target. The increase followed from changes in the methodology of estimating impairment losses, which brought about a one-off effect but will not affect the long-term dynamics of impairment losses and provisions. The quality of the Group's portfolio is still high, and after factoring out the effect of the one-off remeasurement, impairment losses were below the target.

In 2014, the Group's costs went down 3% y/y. It should be noted that the cost reduction was achieved despite large-scale initiatives connected with business transformation and investments, including in particular in sales management (development of the Private Banking product portfolio) and credit risk (IRBA project and expenses related to the merger).

The good financial results reported by the Group were made possible by the year-on-year improvement in performance against the budget in terms of revenue, as well as maintenance of cost discipline and a stable base of high-quality credit assets.

Given the structure and flexibility of profit drivers, strengthening of the revenue base will be a priority for the Management Board in 2015. The revenue base needs to be developed in line with the strategic objectives, with a decrease in the share of mortgage products in total revenue and an increased share of investment, consumer finance and corporate banking products. The strategy provides for the growth of the revenue base in the Transaction Banking segment and continued intensified activity on capital and money markets.

Working assets

– Development of lending activities − compared with December 31st 2013, loans and advances to customers were up by PLN 1,702,984 thousand, or 6%; further growth of lending activities was achieved mainly through the expansion of the distribution network and partial automation of lending processes; the share of loans in total assets grew between the comparative periods (78% in 2014, 80% in 2013).

- Growth of the debt securities portfolio – over the year, debt securities held as investments grew by 250%, and their share in total assets increased from 3.3% as at December 31st 2013 to 10.4% as at December 31st 2014.
- Lower amount of deposits with other banks, and loans and advances to other banks − down by PLN 220,379 thousand, i.e. 22.5%, relative to 2013; the share of this item in total assets fell sharply from 3.0% as at December 31st 2013 to 2.1% as at December 31st 2014.
- Financial assets at fair value through profit or loss stood at PLN 1,648,880 thousand as at the end of 2014. Their share in the balance-sheet total dropped to 4.5%, from 9.8% in 2013.

Sources of financing

- The main component of the Bank's financing base (deposits from customers) grew by PLN 1,613,260 thousand in 2014. The share of customer deposits in the balance-sheet total changed from 44.6% in 2013 to 44.9% in 2014.
- Interbank deposits were up in 2014 by PLN 1,334,222 thousand, with their share in the balance-sheet total remaining unchanged from 2013 at 42%.

Assets

	Dec 31 2014		Dec 31 2013		Change
	in PLN thd	structure %	in PLN thd	structure %	%
Cash and transactions with Central Bank	1,543,105	4.3%	715,181	2.2%	116%
Deposits with other banks, and loans and advances to other banks	756,325	2.1%	976,704	3.0%	(23)%
Financial assets at fair value through profit or loss	1,648,880	4.5%	3,234,825	9.8%	(49)%
Loans and advances to customers	28,240,769	77.8%	26,537,785	80.6%	6%
Financial assets held as investments	3,779,815	10.4%	1,080,865	3.3%	250%
Investments in subsidiaries	-	-	-	-	-
Property and equipment	40,872	0.1%	53,689	0.2%	(24)%
Intangible assets	79,020	0.2%	80,349	0.2%	(2)%
Current tax assets	-	-	15,177	0.0%	(100)%
Deferred tax assets	28,496	0.1%	38,133	0.1%	(25)%
Other assets	171,336	0.5%	183,880	0.6%	(7)%
Total assets	36,288,618		32,916,588		10%

Equity and liabilities

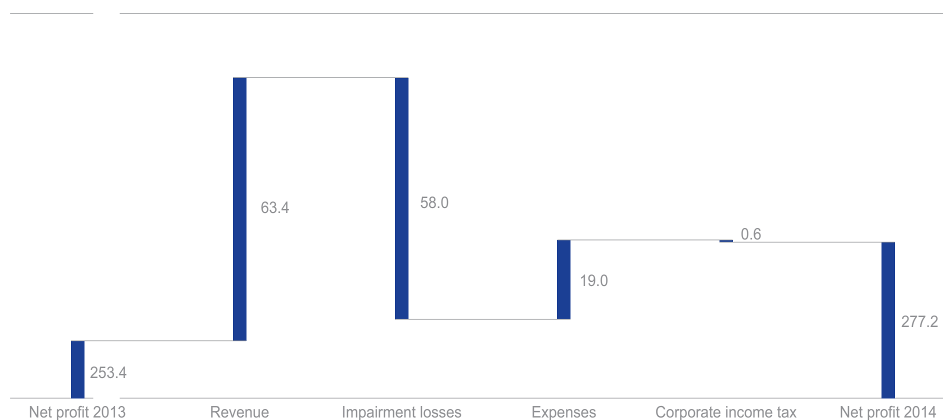
	Dec 31 2014		Dec 31 2013		Change
	in PLN thd	structure %	in PLN thd	structure %	%
Amounts due to other banks	15,235,442	42.0%	13,893,929	42.2%	10%
Financial liabilities at fair value through profit or loss	218,281	0.6%	69,002	0.2%	216%
Amounts due to customers	16,195,768	44.6%	14,589,799	44.3%	11%
Provisions	6,051	0.0%	7,592	0.0%	(20)%
Current tax liabilities	7,176	0.0%	-	-	n/a
Subordinated liabilities	235,622	0.6%	229,367	0.7%	3%
Other liabilities	348,185	1.0%	328,035	1.0%	6%
Total liabilities	32,246,525	88.9%	29,117,724	88.5%	11%
Share capital	2,651,449	7.3%	1,837,529	5.6%	44%
Share premium	525,366	1.4%	525,366	1.6%	0%
Revaluation reserve	112	0.0%	(1,567)	0.0%	(107)%
Retained earnings	865,166	2.4%	1,437,536	4.4%	(40)%
Total equity	4,042,093	11.1%	3,798,864	11.5%	6%
Total equity and liabilities	36,288,618		32,916,588		10%

Net profit

In 2014, the Group reported net profit of PLN 277,232 thousand, a significant improvement on the figure reported in 2013. Net profit in 2014 was driven by profit (loss) on banking activities as well as lower costs, which were offset by a one-off effect of higher impairment losses, with the high quality of the Group's loan portfolio maintained.

Revenue and expenses influence on net profit change

in PLN m.



Main ratios	2014	2013
Net ROE	7.60%	7.40%
Net ROA	0.80%	0.80%
CIR	57.80%	62.70%
Total capital ratio (%)*	14.01%	13.51%

* Pro-forma figures for 2013. The total capital ratio is an in-house estimate based on the banks' pre-merger figures. A consolidated ratio was not calculated in the previous years.

The Group expects its 2015 net profit to be roughly on a par with the 2014 result. Higher regulatory costs, including higher contributions to the Banking Guarantee Fund, and the natural increase in the cost of credit risk should be partially offset by cost optimisation measures and the expansion of revenue base across all areas of the Bank's operations.

In the next financial year, the Group will be forced to implement its business objectives in an environment marked by increased competition, resulting from falling interest rates and margins, and tightening supervisory and regulatory requirements.

Organisation and technologies

Organisation development

The banks' merger was the key strategic project of Deutsche Bank Group in Poland:

- the merger process required involvement and cooperation of multiple bank teams, clearing houses and IT suppliers, as well as legal and organisational support;
- the main project team was composed of 104 specialists representing both banks, all of the banks' business lines and infrastructure functions;
- the project included 1,510 individual tasks with numerous correlations and specific deadlines;
- 179 organisational changes were made;
- approximately 1,600 documents were reviewed, revised or created;
- major extensions were introduced to the financial data warehouse (Data Mart Finance, nTA analytical module and SAP user application).

The Group's ICT infrastructure was upgraded through five important development projects, implemented mainly at the parent in connection with the merger:

1. Ensuring integration of the Bank's transaction architecture while maintaining two transaction systems.
   - For the exchange of payment messages between the systems, the Bank decided to use a standard SWIFT payment message – MT103 (it is distinguishable at the system level and called an inter-branch payment (IBP)).
2. NOSTRO account cash reconciliation and management mechanisms were developed and implemented.
3. Transaction and e-banking systems were extended with new payment management functionalities:
   - New functions were added to the systems, enabling automatic recognition of transfers other than inter-branch (ELIXIR, SWIFT, SEPA, Sorbnet2) made to a clearing account in the other system. If an attempt is made to execute such a transfer, it is either blocked or the transfer is automatically converted into an inter-branch payment (identification based on the clearing number of the member of the KIR clearing network), depending on the source of payment generation and its type.
   - Separate accounting patterns dedicated to inter-branch payments were established in the transaction systems.
4. All systems of the former Deutsche Bank PBC S.A. (over 40), forms, printout forms, reports, etc. were updated with the new bank name, NIP (Tax Identification Number), REGON (Industry Identification Number), and KRS (National Court Register Number), and information on the share capital.
5. The financial reporting systems, data warehouses and reporting systems were integrated.

Capital expenditure and development of technologies

In 2014, the Group continued projects designed to maximise the use of its infrastructural, human and capital resources towards achieving financial and non-financial objectives. Particular attention was devoted to the further automation of processes and elimination of sources of unjustifiable costs (i.e. costs which are unnecessary or unjustifiable relative to the benefits).

One development area which has always had a broad impact on the Group's operations is IT projects relating to the launch and/or upgrades of products and services. In 2014, IT projects were under way at all major organisational units of the Group. Strategic initiatives included:

1. Consolidation Poland – a project of strategic changes implemented in the PBC business line to improve the quality of the advisory banking model and facilitate its application to boost sales and revenue.
2. OpEx (Operational Excellence) – an initiative consisting in the identification of processes and practices which can be improved to achieve long-term savings. A number of optimisation measures were implemented, which will bring benefits in the following years.
3. IRBA (Internal Ratings Based Approach) – an initiative aimed at achieving the organisation's compliance with the requirement for the Group to apply advanced client evaluation methods, consistent with the Basel II guidelines (the IRBA method). This project involved implementation of automated client evaluation processes, based on new information collection and processing tools, including workflow, data warehouse and a number of interfaces to decision-making, supporting and reporting systems. In 2014, phase 2 of the project was implemented, which related to financing products for individual clients (cash loans, credit cards).
4. Continuation of the PSP initiative – a project consisting in the migration of the Bank's technical architecture from the Bank's own locations to advanced IT infrastructure provided by IBM. Its purpose is to improve the reliability and safety of the IT architecture, which is critical given the growing scale of business.
5. FAB 4 (Fostering Activities In the Branches) – continuation of an initiative to improve the efficiency of sales activities and client service. In 2014, the FAB project focused on the development of SAS-based data warehouses and sales reporting systems, including in particular process data warehouses (DM BPM) and sales data warehouses (DM SALES). Concurrently, numerous optimisation projects were conducted in the area of sales performance management (SPM).
6. OLB (On-Line-Banking) – an initiative aimed at developing the electronic channel: the easyNet and powerNet applications enabling online access to the Bank's services. As part of this initiative, new functionalities and mechanisms were developed which improve the operation of client interfaces.

All the strategic projects enumerated above will be continued in 2015. Capital expenditure will be focused on further improvement of the efficiency and productivity of sales processes and post-sale support through the implementation of advanced IT tools and systematic work methods. A major portion of the planned expenditure on software and IT systems will be assigned to the development of data warehouses and reporting systems based on

the market-leading SAS solution. In addition to development initiatives, a part of expenditure on IT will be spent on maintaining compliance with the changing legal and regulatory requirements.

The physical infrastructure of the branch network will be further optimised with a view to improving client service configuration and tapping the business potential of local markets. As part of these activities, relocation and/or consolidation of selected branches are being considered.

Operations

Retail banking

Private and business Clients

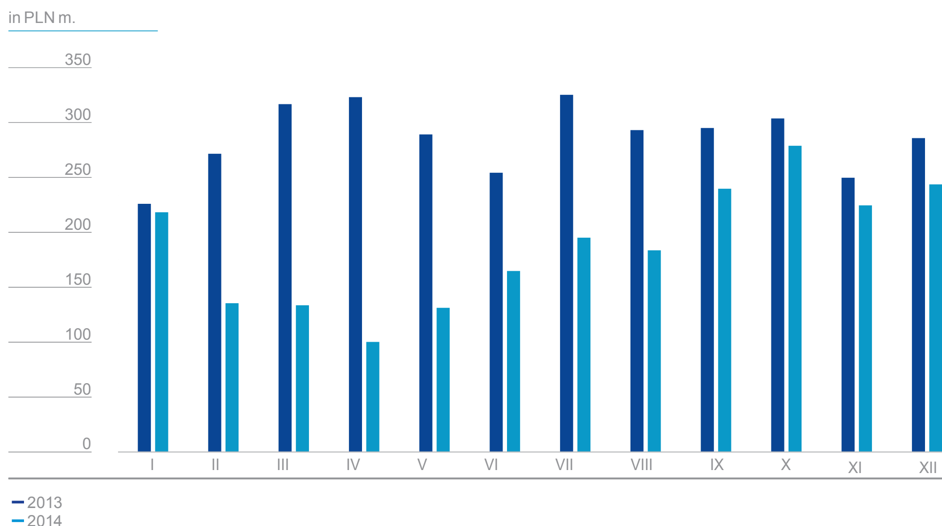
For the Private and Business Clients (PBC) segment, 2014 was a record-breaking year in terms of business development and financial performance. The PBC business line achieved the highest profit in the history of its operations in Poland, up by 13% on 2013 and by 57% on 2012. PBC's revenue was up 5%, its costs were reduced by 1%, and loan loss provisions increased by 7%. To note, in nominal terms the increase in loan loss provisions was PLN 9m, and this amount had no effect on PBC maintaining the highest loan portfolio quality parameters in the Polish market.

PBC's commercial activities in 2014 – lending products

In the area of lending products for individual clients, PBC was engaged in intense client acquisition activities focused on offering unsecured consumer loans to wealthy clients and professionals. Average monthly sales were 23% higher than in 2013, and the best month of 2014 (May) was 39% better than the month with the highest sales in 2013 (July). This high sales growth rate, combined with effective efforts to maintain the portfolio, enabled us to increase the balance of cash loans by 8%, despite fierce competition from most of the players in the Polish banking sector.

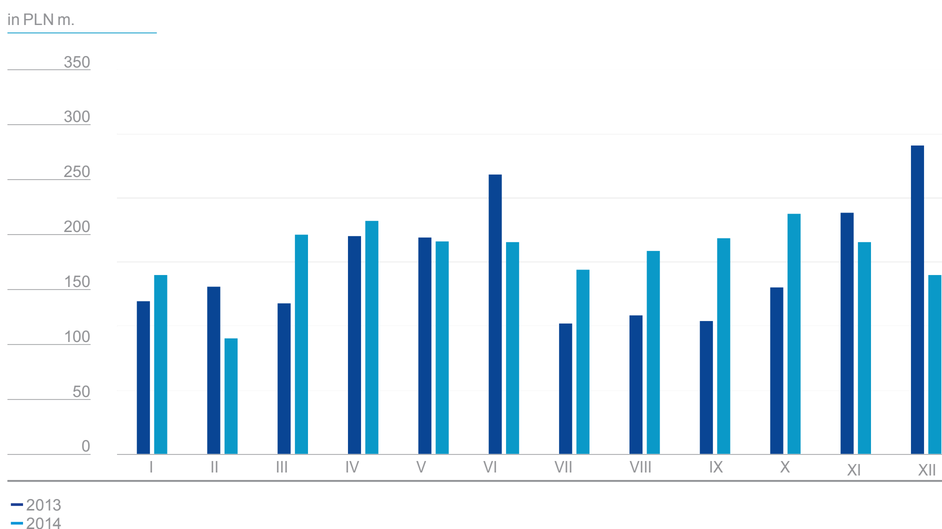
Mortgage products continued to be a material item in the PBC's product range, however, in line with the adopted strategy sales activities in this area were decelerated, while focus moved to cash products and corporate lending. In 2014, average monthly new sales represented 65% of the 2013 figure. Starting from the first quarter of 2014, the Group took steps to improve profitability of new sales by optimising prices and additional conditions, including those related to the monitoring of all revenue from the relationship with a client, i.e. taking into account cross-selling. Chart 1 shows the monthly sales figures rebounding at the end of the second quarter, following completion of the optimisation processes and adaptation of the sales network to the new conditions established through the profitability enhancement initiatives.

Chart 1. Monthly sales of mortgage products in PBC business line, 2013 vs. 2014



In 2014, PBC continued to develop its business clients segment, with a key focus on the small and medium-sized enterprises. Average monthly sales levels of loan products were higher by 4% than in 2013. A significant achievement (Chart 2) is the increased regularity and stability of new production, and consequently lower deviations from average sales (flattening out of differences between periods of low/high sales).

Chart 2. Monthly sales of products for business Clients in PBC business line, 2013 vs. 2014

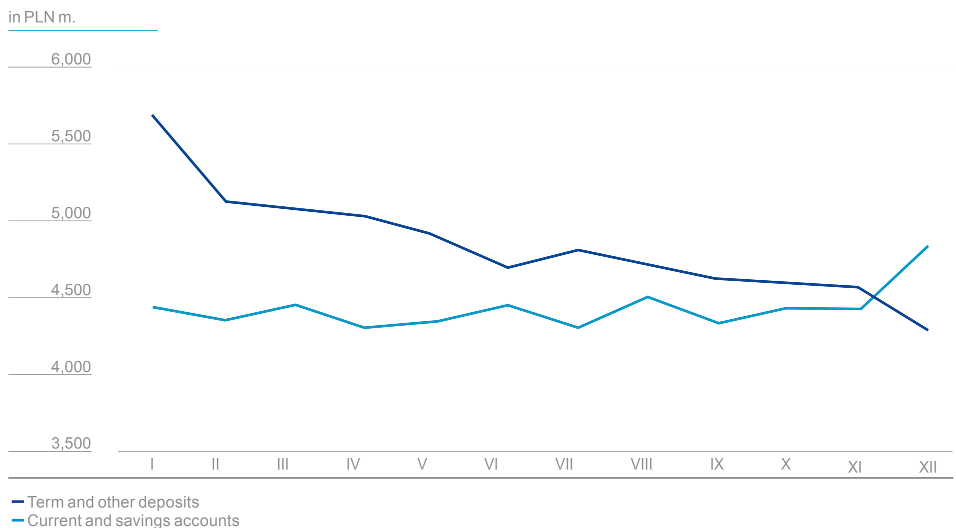


In 2014, corporate loan products were developed based on an advisory approach, with the pricing policy taking into account all commercial activity between the Bank and the client, in particular transactional and depositary services, in addition to creditworthiness as the main criterion.

PBC's commercial activities in 2014 – deposit and investment products

Significant optimisation measures were taken with respect to PBC's deposit products to adjust margin levels. Low-yielding deposits were terminated, and efforts were made to rebuild the current and savings account deposit base (Chart 3). However, the final deposit balance position showed an 8% reduction in the deposit base.

Chart 3 Changes in the deposit base in PBC business line in 2014

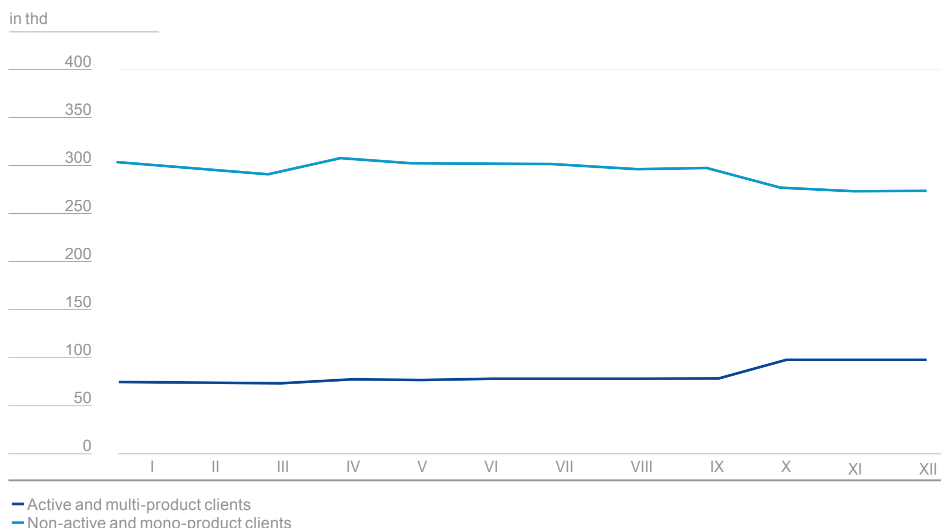


The progressive decline in interest rates in Poland and in Europe spurred a revival in the investment product market in 2014. PBC conducted intense sales activities involving conversion of deposits into investment fund subscriptions and acquisitions of structured products and investment linked insurance products. The success of these efforts is illustrated by the 23% increase in the balance of investment product assets. The highest increase was achieved in sales of investment fund units (TFI). PBC continues as market leader in terms of the range of distributed TFI units, covering all risk classes and all available fund types.

PBC's commercial activities in 2014 – development of the client base

The PBC business line pursued the strategic objective of focusing on wealthy individuals, professionals and financially stable small and medium enterprises (SMEs). Our success in the implementation of this strategy can be easily seen in the development of the particular client segments. The private client segment expanded by 28%, which is one of the highest growth rates seen in the Polish market in 2014. The wealthy client segment grew by 30%. Concurrently, there was a 10% drop in the number of non-target clients, resulting both from lower acquisition of dbNet online account customers and termination of non-active relationships. Incremental business was the largest in the segment of small enterprises and professionals (up 43%), with products such as the loan for professionals (KDP) and the dbNet Biznes company account enjoying great popularity among clients.

Chart 4 Development of the client base in PBC business line in 2014



The final effects of the commercial activities undertaken in relation to the PBC client segments are presented in Chart 4. The population of active clients using a number of the Bank's products has been growing, while the group of clients with only one product and inactive clients has been diminishing. The measures taken to optimise the client base involved mostly stimulating client activity and increasing the number of products bought by a client. A relationship is terminated only after it is found that there is no possibility of building a long-term advisory-based relationship with the client.

Transaction banking

Corporate cash management and trade finance

In 2014, transaction banking revenue exceeded EUR 26m.

2014 was another year that brought numerous macroeconomic challenges, mostly due to the continuing low interest rate environment, further regulatory changes and, additionally, uncertain geopolitical situation in the region.

In 2014, the Bank successfully expanded its client base, transaction volumes and loan exposure. Particular emphasis was placed on ensuring efficient implementation of the proposed solutions and ensuring the highest possible quality of day-to-day services. Those efforts once again met with appreciation from the Bank's clients, who rated the Bank's Implementation and Service Department as the best in Europe.

In August, we launched a comprehensive platform for the processing of transactions for Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House), after Deutsche Bank Polska was granted the mandate to act as the clearing house's payment bank. As part of the platform, we opened 160 accounts for the clearing house and its members.

Polish-held companies that are the Bank's clients were very active in their efforts to expand into foreign markets, as confirmed by numerous press publications. Deutsche Bank Polska supported this expansion by providing access to a well developed network of branches across all continents as well as the full range of account management and financing products, and custom-made supply chain financing solutions.

Working in collaboration with corporate clients (including both Polish- and foreign-held companies), we introduced a number of products related to liquidity and cash flow optimisation, and actively supported all supply chain financing solutions.

In the custody services segment, Deutsche Bank delivered growth in revenue and asset value, despite the pension system reform and a considerable decline in assets.

Our successes include a new relationship with an international company from the insurance sector and growth in the number of accounts operated for local investment funds.

Services to financial institutions

In 2014, the Financial Institutions Department focused mainly on the completion of a project to implement a new settlement model for Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) in connection with the Bank's acting as payment bank for the clearing house and its members who choose the Bank's services. The process of configuring clearance connections between the clearing house, its members, clearing house members' payment banks, and Deutsche Bank Polska SA as the clearing house's payment bank was finished successfully as planned, i.e. at the end of August 2014.

The Group also worked on further strengthening of its position in the financial institutions sector, being one of the key sectors for the Group. Our portfolio was expanded to include

new clients from the market of investment funds, pension funds and brokerage houses, who were offered comprehensive and custom-tailored cash settlement solutions.

In 2014, the number of main accounts operated by the Group for financial institutions rose to 445, and the number of client groups to whom the Bank provided services amounted to 98 (this number does not include insurance sector entities which are within the remit of the Bank's corporate arm).

The downward trend in interest rates which continued in 2014 brought about a further inflow of money into investment funds, resulting in intense activity of our clients, manifest in increased transaction volumes and growing assets of the investment funds using the Group's services. As a consequence, in 2014 we reported a further increase in the number of payments processed for financial institutions (up to nearly 3 million per year), with a high straight through processing rate. The aggregate value of these payment transactions was approximately PLN 3bn.

Despite low market interest rates, the Bank's deposit base grew considerably relative to 2013, which was attributable to the Bank's acting as payment bank for the commodity clearing house and some of its members, as well as its attractive offering addressed to other financial sector clients, and higher volumes of assets under the clients' management. All these factors had a material effect on the interest income figure and the volume of transactions processed, and consequently of the Bank's fee and commission income in the financial institutions segment.

The Financial Institutions Department is constantly working on adjusting and broadening its product range to meet client expectations and better respond to market conditions.

The strategy pursued by the Bank in the area of services for financial institutions has proved very effective and will be continued in the years to come.

Custody services

In 2014, the Bank acted as a custodian for 144 investment funds and 4 open-ended and voluntary pension funds, and provided custodian, clearance and settlement services for Polish and foreign financial institutions. Having rebounded to the pre-crisis level in 2013, the value of clients' assets in 2014 remained relatively stable, in spite of the outflow of a considerable portion of pension fund assets to the Social Insurance Institution (ZUS) in February last year. Thus Deutsche Bank Polska S.A. maintained its strong position as a custodian bank, providing services to nearly 20% of all domestic open-ended investment funds in Poland. Revenue from this business segment rose by 4% compared with 2013.

We were actively involved in initiatives aimed at adapting Poland's existing capital market regulatory framework to European requirements and the market's needs. Deutsche Bank Polska S.A. has a representative on the Presidium of the Council of Custodian Banks at the Polish Bank Association. In addition, the Bank takes part in the activities of the Advisory Committee at the National Depository for Securities and numerous other working groups under the auspices of the Polish Bank Association and the Polish NDS. In this capacity, the Bank's representative participated in work on amending the legal framework of the capital market. The Bank also issued opinions on a number of amendments to the Rules and

the Detailed Registration Rules and Procedures of the Polish NDS and the KDPW_CCP clearing house. Thanks to the Bank's involvement, the regulations and measures implemented took account of the experience of custodians and respected the interests of capital market participants.

Corporate and investment banking

Investment banking
Deutsche Bank has solidified its position in Poland, developing its services in the area of 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 2014, Deutsche Bank was engaged in the largest and most high-profile transactions on the Polish market.

One of the most important transactions involved acquisition of RSA Insurance Group's assets in the Baltic States by PZU S.A., in which Deutsche Bank acted as an adviser to the Management Board of PZU S.A. and prepared the fairness opinion. The transaction, announced in April 2014, was valued at EUR 258m.

In the equity market, Deutsche Bank carried out a series of equity sale transactions involving an accelerated bookbuilding process. The largest of these included sale of PGE S.A. shares with a value of PLN 1.3bn for the Polish State Treasury (July 2014), sale of PLN 1.0bn worth of Enea S.A. shares for Vattenfall AB (January 2014), sale of PLN 764m worth of shares in BZ WBK S.A. by Santander (October 2014), as well as transactions to sell EBRD's equity interests in Cyfrowy Polsat, BZ WBK and Enea, with a total value of PLN 0.7bn.

In the debt market, last year the Bank successfully completed a EUR 500m senior notes issue for PZU, as well as a EUR 350m senior unsecured notes issue for Synthos.

Deutsche Bank received a number of awards from prestigious institutions in recognition of the high quality of its services, including a distinction from the Warsaw Stock Exchange for the highest value of shares placed in 2014.

Money market and foreign exchange transactions
For Deutsche Bank Polska S.A. 2014 was a year of consolidation and stabilisation of its market position and revenue from foreign exchange, interest rate and money market transactions.

In 2014, just like in the previous years, Deutsche Bank Polska was one of the leading players in the Polish currency market. The Bank's transaction volumes and foreign exchange revenues stabilised at a high level, comparable to that seen in the record-breaking year 2012. In particular, there was a dynamic increase in revenue from FX4cash transaction platforms and from Autobahn Treasury for Corporates (ACT), a new solution implemented in 2014.

In 2014, the prestigious Euromoney magazine once again named Deutsche Bank AG one of the largest banks for foreign exchange transactions, which ultimately confirmed its lead-

ing position on the global FX market, attained with a contribution from Deutsche Bank Polska S.A.

The Bank was also active on the local money market, and in 2014 was awarded the status of Treasury Securities Dealer.

Brokerage Activities – DB Securities
DB Securities' operations were driven mainly by the situation and trends prevailing on the stock markets in Europe and globally. On the Warsaw Stock Exchange, in 2014 the WIG index climbed 0.3%, while the value of equity trading went down by 20.5% to PLN 205.3bn. DB Securities' share in the equity market grew to 4.8% in 2014 from 4.2% in 2013. Increased trading volumes drove up income from brokerage commissions by 12.3% and total revenue by 7%.

The Group's development directions

Strategy
In 2014, the Group implemented the strategy described in the Business Plan for the merger of Deutsche Bank PBC S.A. and Deutsche Bank Polska S.A. The merger plan was approved by the Polish Financial Supervision Authority on September 3rd 2014. The formal conditions of the merger were satisfied as planned and the merger was effected on January 31st 2014. Since then, Deutsche Bank has operated in Poland as a single universal bank, Deutsche Bank Polska S.A., offering a broad range of financial products in a multi-channel model, to different groups of individual, business and institutional clients.

The three key objectives of the merger, successfully achieved, were:

1. To improve financial ratios and operational stability of Deutsche Bank Group in Poland, especially with respect to:
   - capital,
   - liquidity,
   - balance sheet structure.

   The Group's achievements:
   - Capital Adequacy Ratio (CAR) > 13%,
   - compliance with the revised floors for capital requirements,
   - integrated management of the Bank's liquidity,
   - reduced mismatch between assets and liabilities in the balance sheet structure.

2. To increase the transparency of operations and management responsibility, in particular in the area of Deutsche Bank risk management on the Polish market, to:
   - regulators,
   - clients,
   - trading partners.

   The Group's achievements:
   - single banking licence – single bank,
   - integration of the responsibility for the Bank's strategy and risk – single Supervisory Board and single Management Board, organisational restructuring of management and supervisory committees,

– consolidation of risk management policies, methods, tools and IT systems.

3. To simplify the operating model through enhanced integration of organisational functions and harmonisation of organisational structure levels

   The Group's achievements:
   – optimised organisational structure,
   – consolidation of overlapping functions,
   – harmonisation of procedures and policies,
   – simplified SLA agreements between business units (converted into internal agreements),
   – direct cost synergies.

In the course of the merger, a detailed review of client segmentation was performed and a single consistent business area architecture was created:

The merger plan also provided for a review of the Bank's risk management systems architecture with respect to:
– credit risk,
– market risk,
– liquidity risk,
– operational risk,
– debt collection management,
– internal capital adequacy assessment process (ICAAP).

Revenue strategy

In 2014, the Group's main revenue sources remained unchanged and were provided by the three internal business units (Table S2):

Table S2: The Group's main internal business units

Business unit	Internal designation	External designation	Description
1. PBC	Private and Business Clients	Individual Client & SME Banking	1. Housing financing. 2. Banking services for SMEs. 3. Consumer finance. 4. Deposits and current accounts settlement and transaction products. 5. Investments and insurance.
2. GTB	Global Transaction Banking	Transaction Banking	1. Banking services for large corporations and financial institutions. 2. Trade Finance. 3. Cash management and cash collect services. 4. Custody services.
3. CB&S	Corporate Banking and Securities – Corporate Finance and Markets	Corporate and Investment Banking	1. Arrangement of equity/debt securities issues and equity/debt securities trading in the corporate and financial institution market services to government agencies. 2. M&A advisory and financing 3. FX products. 4. Interest rate risk products.
4. DB Securities	Global Markets	Brokerage Activities	1. Brokerage and custody services for individual clients. 2. International investment services to domestic and foreign investors. 3. Management of primary market transactions; accelerated book building (ABB) transactions.

The Group business units' revenue-generating activities were conducted in line with the applicable procedures and methodologies, in particular in the area of credit and business/transaction risk management. The activity areas of Deutsche Bank business lines, as well as their strategic assumptions and objectives, are presented below.

Key business development directions

The strategic objectives for 2015 include further organic growth across all business lines (PBC, GTB, CB&S), accompanied by an increase in revenue and net profit, which is expected to bring an improvement in key efficiency ratios, such as ROE, ROA, leverage ratio, and CIR, while allowing the Bank to maintain its strong equity and liquidity position.

Given the strategic processes at Detusche Bank AG (the parent holding 100% of equity and voting rights in Deutsche Bank Polska S.A.) and DB Group as a whole, the detailed strategy for 2015−2020 is currently in the preparation phase. The Group's general organic development plans will be concretised following a public presentation of DB Group's detailed targets and objectives and their effect on the business of DB companies in Poland.

Distribution channels

In 2014, Deutsche Bank used a multi-channel distribution model including:

- Advisory banking branches (149 branches),
- Business client advisory centres (18 branches),
- Individual client agents network (over 500 employees),
- Business client agents network (30 employees),
- Individual client intermediaries network (over 800 contact sources),
- Business client intermediaries network (150 contact sources),
- Treasury product dealing room,
- Central sales advisory teams:
  - Services to corporate and institutional customers and local governments,
  - Factoring,
  - Trade Finance,
- Internet (easyNet and powerNet e-banking systems, EBI-Faktor factoring system, DB Makler/ePromak on-line brokerage house),
- Call centre – incoming calls (55 FTEs),
- Remote sales centre – outbound calling campaigns (37),
- Mobile channel – authorisation of transactions through text messages (SMS).

In 2015, the Group plans to maintain the channels and take steps to optimise their effectiveness and efficiency. Special attention will be paid to remote channels (Internet/call centre) to improve service availability, including under the context model, as well as to increase the customers' use of self-service solutions.

The Group's growth prospects in 2015

In 2015, the Group will continue to operate in a highly competitive environment resulting from the consolidation of the financial sector in Poland. Conditions on the financial markets are expected to remain uncertain but the climate on the local and EU markets should improve, particularly in those countries which are Poland's import or export partners.

Factors supporting business development will include:

- Growing brand power, particularly following the merger of former Deutsche Bank PBC S.A. and Deutsche Bank Polska S.A. into a single universal Bank;
- Low-interest-rate environment, where customers 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 customer base, particularly through consistent creation of the added value offered by the Bank under the advisory model to wealthy individuals and small and medium-sized enterprises;
- Significant potential for business process optimisation (automation, digitalisation, archiving) with a focus on increasing the efficiency of sales activities and post-sale support;
- Positive economic outlook for Poland supported by the record-high amount from the EU budget allocated to growth (EUR 105.8bn in 2014-2020 vs EUR 102bn under the previous budget).

At the same time, the market share growth may be limited by a number of constraints, including:

– Intense competition (also in terms of prices) on the Group's core markets, particularly with respect to commercial banking and (unsecured) personal loans;
– Difficulties in building new customer base due to Poles' high loyalty to their banking services providers, especially in view of the fact that new acquisitions are largely dependent on the development of the mortgage business;
– Selective approach to spending on IT development;
– Strong impact of credit, insurance, financial and accounting regulations on the Group's ability to maintain current product models.

In 2015, the Group will place more focus on:

– Digitalising its sales channels;
– Increasing the size of and diversifying investment product assets sold or administered with the involvement of the Group;
– Commercial banking, with a particular focus on lower segments and credit exposure levels;
– Stimulating sales in transaction and corporate banking;
– Personal loans (non-mortgage);
– Acquiring new customers and deposits;
– Cross-sell activities and campaigns directed at the customer base.

Risk considerations for 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 yields and optimising capital allocation. In its activities, the Group incorporates the recommendations of the Polish Financial Supervision Authority, as well as the requirements of Deutsche Bank Group's regulator (BAFIN) and the European Consolidated Supervision at the European Central Bank, using the extensive experience and know-how of DB Group.

Effective credit risk management involves, inter alia, 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 in the Credit Risk organisational units, separation of sales function from credit risk analysis and assessment functions, internal debt concentration limits, as well as on-going 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 by the SMOK 2.0 application, which has been implemented at the Bank and 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 admissible risk parameters for individual customers, products and credit exposures, as well as principles for assessing customers' creditworthiness both before a loan is granted and throughout the lending term, allocating customers to the appropriate risk categories, and 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 customers' creditworthiness, their ability to repay liabilities, and transaction parameters in order to support the lending decision-making process and assess the risks when a new transaction is approved or an existing exposure is reviewed. The Group has also implemented a re-rating process allowing it to update customers' ratings on a monthly basis and use the updated results in the day-to-day credit portfolio management and the monitoring and calculation of risk parameters used to determine the consolidated capital requirements for Deutsche Bank Group.

Credit portfolio management depends both 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 separately for collectively valued exposures (homogeneous portfolio) and individually valued exposures (non-homogeneous portfolio). The homogeneous exposure portfolio is valued using statistical models in order to determine the amount of impairment losses. 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).

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 Group has in place a process of automatic reviews of credit exposures, which uses, inter alia, the results of the re-rating process whereby ratings are regularly updated based on information gathered in the systems. The purpose of exposure monitoring is to identify threats as early as possible in order to undertake preventive measures and mitigate the consequences of credit risk.

The merger of two stand-alone banks, Deutsche Bank Polska S.A. and Deutsche Bank PBC S.A., required the creation of an integrated credit risk management system for the merged institutions, which was completed in the first half of 2014, in line with the timeline set out in the Merger Plan.

In 2014, the Group consistently followed its lending strategy by focusing on retail borrowers with above-average income and in a stable financial situation. As its response to unstable macroeconomic environment, the Bank took steps to optimise acceptable credit risk by adjusting its risk appetite and modifying the relevant aspects of its processes and procedures accordingly. In each of the segments, the Bank maintained the organic growth strategy for its individual product portfolios:

– In the segment of mortgage lending, the Group continued its strategy of minimising the portfolio of foreign-currency loans and focusing its lending activities on loans denominated in Polish złoty.

- In the area of lending to small and medium-sized enterprises (SMEs), the Bank continued to develop its portfolio based on the type and sectors of customers to whom financing was provided in the previous years, while at the same increasing efforts directed at customers from the small business banking segment, i.e. customers with annual turnover in the range of PLN 0-3.2m, which is expected to contribute to a further diversification of loan portfolio in the future.
- 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 customers and financial institutions, the Group continued its policy of matching the structure and term of lending to the specific needs of individual customers and the purpose of financing.
- From the point of view of the quality of the existing loan portfolio and the management of individual client exposures, the Group consistently followed a policy of strict portfolio monitoring and debt restructuring and collection, which allowed it to maintain a stable loan portfolio and a risk profile matching its assumed risk appetite. The measures undertaken in this area were conducted mainly by a specialised organisational 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 individual customers. The Restructuring Department was also involved in the process of restructuring and debt collection from individual customers. In line with its powers assigned by the Management Board, the Restructuring Department focuses on customers whose total credit exposure, given the amount or nature of financing, generates higher risk and requires an individual approach.
- With respect to the loan portfolio and lending to business customers, the Bank continued its individual approach, designed to ensure early identification of threats and restructuring of the customer's exposure if any negative events occur. The above measures fall entirely within the scope of powers of the Restructuring Department operating within the Bank's credit risk structures. Concurrently, 2014 saw the completion of work on the implementation at the Group of a new tool supporting the process of restructuring and collection of credit exposures supervised by the Restructuring Department.

In 2014, work continued on the second stage of the project to implement credit risk management policies, processes, methodologies, and IT infrastructure necessary to use the advanced internal ratings-based (IRB) approach to assess capital adequacy requirements for credit risk at the consolidated level. Work under the project focuses on the consumer finance and credit card portfolio. It will be continued in 2015, and the project is expected to undergo an audit and receive certification by the European Consolidated Supervision in late 2015 or early 2016.

In 2014, 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 Group's credit risk assessment processes and methods.

Additionally, the Group's impairment loss estimation methodology was materially revised in 2014 to comply with the Polish Financial Supervision Authority's (PFSA) recommendations received following an inspection carried out in 2013 and 2014 European asset quality review, as well as directions in the form of individual interpretations addressed to the President of the Bank's Management Board in the course of 2014. The changes were implemented in

accordance with the schedule approved by the PFSA, and fully accounted for in the impairment losses disclosed in the full-year financial statements for 2014.

Market and liquidity risk

For the Group, market risk and liquidity risk are two key categories of risk managed, measured and monitored as part of the asset and liability management process. Although following the expansion of its product offering, in June 2008 the Bank satisfied the condition set out in Section 3.2.2 of Resolution No. 76/2010 of the Polish Financial Supervision Authority of March 10th 2010 (as amended), and thus the scale of its trading activities has been deemed significant as of July 2008, the Group's strategy consists primarily in banking book management. In view of the requirements specified in the Resolution, the following transactions are included in the Bank's trading book for the purpose of assessing capital adequacy: FX forwards with customers, currency options, IRS transactions with customers, and private placements. Currency options, trading book IRSs, and private placements are all transactions which do not generate open positions – transactions with customers are closed back-to-back on the interbank market, and therefore do not give rise to market risk. As a result, the only transactions in the trading book which generate market risk are FX forward contracts executed with customers, and interbank FX swaps executed to hedge those contracts Given the significantly limited scale of those transactions and the way they are managed, the Bank does not operate a special process to manage FX forward risk – the transactions are accounted for and managed as part of the Bank's global position.

The Bank has in place a complete risk management and control process based on Deutsche Bank Group's standards. A key role in this processes is played by the Bank's Supervisory Board and Management Board, while the Assets and Liabilities Committee (ALCO) exercises direct supervision. The Treasury Department is responsible for the operational management of assets and liabilities. Risk assessment, monitoring and reporting comes under the purview of the Financial Risk Department, which is completely independent from the business units.

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.

Trading Book

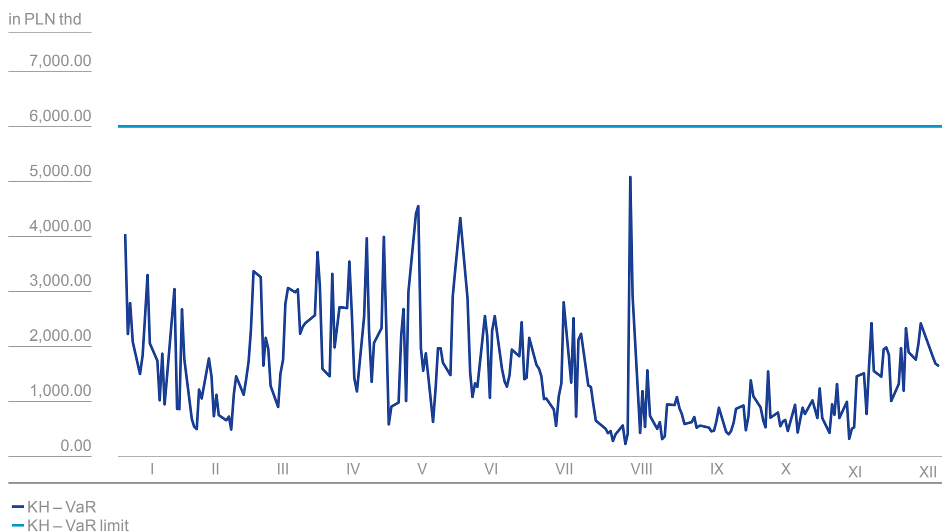
In 2014, the Proprietary Position Management Department (PPMD) actively managed the market risk for the trading book position, including primarily the interest rate position generated by Treasury bonds in the PPMD's portfolio and interest rate derivatives. An additional source of market risk was the Department's actively managed currency position.

Banking Book

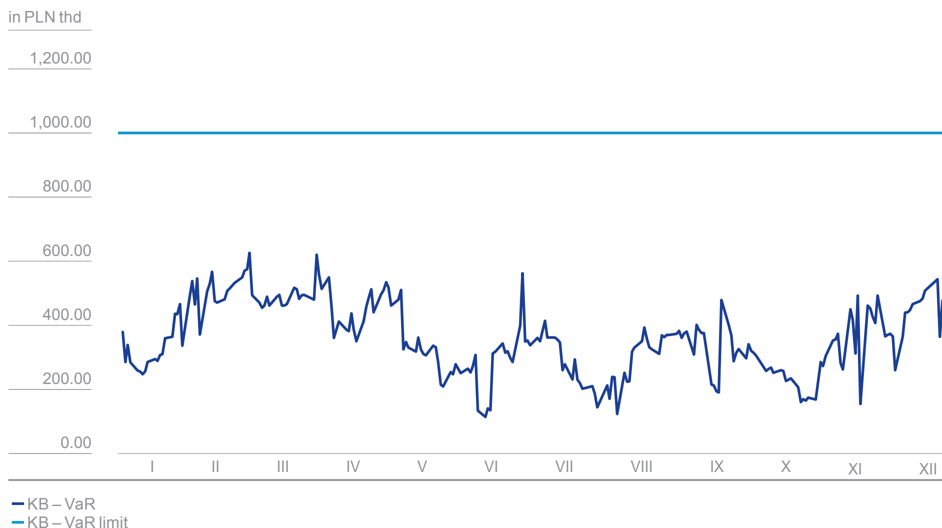
The banking book's market risk position comprised positions managed by the Liquidity Management Office (LMO), which is responsible for managing liquidity and market risk for business lines not involved in the Bank's trading operations. The interest rate position generated by the PBC line was the main contributor to the banking book's market risk. The position is transferred to the books managed by the LMO as part of a daily PBC line risk transfer process.

The Bank's exposure to market risk is limited by the risk appetite level set by its Supervisory Board and the limit system approved by the Management Board. The limits are calibrated by the Financial Risk Management Department. Actual exposure is monitored against those limits on a daily basis, and the findings are subsequently submitted for review by the Assets and Liabilities Committee (ALCO). The market risk analysis carried out by the Bank is based on the Value-at-Risk (VaR) method. The charts below present VaR values in 2014, separately for the trading book and the banking book.

VaR Trading Book



VaR Banking Book



For both portfolios, VaR values were well below the limits approved by the Bank's Management Board. The limits are lower than the Group's market risk appetite level approved by the Bank's Supervisory Board.

Liquidity risk

The overall objective behind liquidity risk management is to actively manage the Group's balance-sheet and off-balance-sheet liabilities with a view to ensuring uninterrupted ability to meet the Group's obligations as they fall due. To this end, the Group analyses its cash requirements and cash supply sources, appropriately structures the maturity of its positions, maintains an appropriate amount of liquid assets, and maintains a diversified deposit base. In case of unexpected liquidity problems, the Bank has in place contingency plans and carries out analyses of critical scenarios on an ongoing basis. The Bank also has the Declaration of Backing issued by its main shareholder – Deutsche Bank AG, published in Deutsche Bank AG's annual report.

In addition to supervisory liquidity measures, which are the most important liquidity risk measures, the Group also uses internal risk measures and limits restricting the level of risk in various time horizons. The limits correspond to the risk appetite specified 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 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 Bank 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 field branches of the Bank's distribution network), self-assessment of risks, and scenario analyses.

Structure and organisation of units managing operational risk at the Group

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

Methods used to compute the capital required to cover operational risk

The Group applies the standardised approach (TSA) to compute the capital required to cover operational risk.

Losses related to operational risk in 2013−2014 by type and event category

The table below sets forth gross operational losses incurred by the Group in 2013−2014 by event category.

Share in total gross operational losses for the year

Operational event category	2014	2013*
1. Internal fraud	0.00%	0.60%
2. External fraud	13.30%	30.40%
3. Employment related principles and workplace safety	4.00%	21.90%
4. Clients, products and operational practices	67.10%	20.00%
5. Losses related to property and equipment	0.70%	5.10%
6. Disruption to bank operations and system failures	0.00%	2.10%
7. Transaction execution, delivery and operational process management	14.90%	19.90%

* Consolidated data of Deutsche Bank PBC SA and Deutsche Bank Polska prior to the legal merger of the banks, in order to ensure comparability with the financial data for 2014 referring to the operations of the combined Bank.

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.

Human resources and corporate social responsibility

Human resources management

Organisational culture

In 2014, the global Deutsche Bank Group modified its set of corporate values, which were implemented also in the Group in Poland. In this connection, a number of meetings and other initiatives were conducted in Poland to familiarise the employees with the new values and facilitate their implementation in day-to-day work. The new value implementation programme was executed in close cooperation with and involvement of the management personnel of all tiers, from the Management Board members to line managers.

In November 2014, the fifth Diversity Week was organised, an initiative highlighting the role of tolerance and openness to diversity in the Group's culture. During the Diversity Week, employees had an opportunity to look at various aspects of diversity. Fourteen events and activities were organised, including training sessions, meetings and workshops devoted to such matters as generation management, inclusive management, personal branding, women in business, and inter-cultural issues. A total of 2005 people participated in those events and activities, which also included contests and crossword solving.

Employee relation management

At the end of March and at the beginning of April 2014, another opinion poll was conducted among Deutsche Bank Group's employees in Poland. The poll mainly focused on how

the corporate values are perceived and followed in day-to-day work. After the poll results were received, meetings of senior management with employees were organised to discuss the results and work out initiatives that would address the main areas where change was required. Since then, a number of bottom-up and top-down initiatives have been implemented, designed to reinforce attitudes and behaviour reflecting the corporate values and to enhance employee engagement.

Work efficiency management process

Following adoption of new values, the employee assessment process was modified accordingly. A number of training sessions were conducted to provide the participants with information on the new process and changes in the employee assessment system. The training had the form of webinars and was addressed to the Group's employees holding various positions or jobs.

We take care to reinforce commitment and pro-active attitudes of our employees. To this end, the Communications Department implemented the "Can Do" programme, under which a number or conferences, meetings and workshops were organised to promote such attitudes.

Training

Creating training and development programmes that ensure continuous and effective education of our employees is our priority. In 2014, 1,951 persons participated in our trainings and the time they devoted to gaining new competences totalled nearly 7.5 thousand days. Out of the aggregate number of 650 groups, 437 were trained by our internal coaches from the Human Resources Development Department and by representatives of the Bank's other departments specialising in employee training. The other trainings were conducted by external firms.

One of our largest development programmes is the Sales Academy, as part of which 926 employees received training. Each of our sales employees spent on average three days enhancing their sales skills. We give our employees the possibility to develop various skills and competencies, as reflected in the programmes we offer, including Coaching in Sales, Train the Trainer, Introduction of Small Business Banking at the Branches, Needs Analysis and Presentation of the Offering, Effective Telephone Conversation, EFPA Certified Financial Adviser or Referral Based Selling.

Our programmes are characterised by very high quality, which is best demonstrated by the average training score of 5.10 (on a 1 to 6 scale where 1 is the lowest and 6 is the highest mark).

As one of its essential and highly appreciated solutions, our Sales Academy features sales training sessions run by specially prepared Regional Heads and selected Branch Heads. In 2014, they conducted the following training modules: Introduction of Small Business Banking at the Branches, Needs Analysis and Presentation of the Offering, and Effective Telephone Conversation.

In 2014, the Bank continued in-service training of employees of the Private Banking Department, as a result of which 30 people obtained European Financial Planner (EFP) Certificates, confirming the highest professional competencies of financial advisers.

In 2014, the Bank launched also the Sales Academy for the Business Client Area, featuring two programmes: B2B Advisory Sales and B2B Sales Management, as part of which 149 employees received training.

Starting from the second quarter of 2014, employees of the Sales Network have the possibility to participate in the Best Performers at Training programme. The programme-winners have the option to choose an open training which they believe will best support their professional development. For 2014, 18 programme winners have been selected. Awards are granted to those who perform best in terms of sales results and quality in the given edition of the scheme.

In view of the considerable involvement of the Group's employees in conducting trainings as part of internal implementation and development programmes, in 2014 a scheme improving coaching skills, run by an experienced team of coaches from the Employee Training and Development Office, was introduced.

In 2012, the first team leaders from the Bank's Head Office were invited to participate in the Manager's Academy. The programme has been designed to develop management competences of our management staff through various forms of education (self-improvement, training, coaching). The initiative continued in 2014.

Corporate social responsibility
In terms of CSR, 2014 witnessed the Group's continued commitment to the arts and music, as it lent its support to a number of cultural initiatives. Our noteworthy CSR initiatives included the resumed sponsorship of an exhibition organised by the 'Our Gallery' Association of Disabled Artists, as well as continued financial support to the Malwa Foundation in connection with its project to build the Warsaw Centre for the Mentally Handicapped.

In 2014, the Bank also continued its cooperation with the Zachęta National Art Gallery by providing support to the organisation of an exhibition of works by a Romanian painter Victor Man, winner of Deutsche Bank's Artist of the Year award. Victor Man's paintings were exhibited at the Zachęta Gallery during the summer holidays.

As part of the Deutsche Bank Invites cycle, a number of exceptional concerts were held in 2014.

In October, the Polish audience was enchanted by Chris Botti, a jazz trumpeter who, together with an excellent group of other musicians, gave unforgettable concerts in Szczecin, Gdynia, Wrocław, Zabrze, Warsaw and Poznań. Deutsche Bank Polska provided its patronage for the musician's entire concert tour. Also as part of the Deutsche Bank Invites cycle, an excellent concert was given by a famous Portuguese fado singer, Ana Moura. The end of the year was marked by concerts in Warsaw and in Chorzów by Take 6, an American a cap-

pella gospel music sextet, 10-time winners of the Grammy award. In 2014, for the 8th consecutive time Deutsche Bank Polska sponsored the Szczecin Music Fest, one of the most interesting and most versatile music festivals in Poland.

However, it was the concert of the Berlin Philharmonic that turned out to be the biggest musical event in 2014. The orchestra, conducted by Sir Simon Rattle, performed at the National Philharmonic Hall on November 12th 2014, with Deutsche Bank Polska being its sole partner and the patron of the event. The musicians performed Stabat Mater, a thrilling piece by Karol Szymanowski, and Ludwig van Beethoven's Symphony No. 9, a masterpiece of classical music.

Another edition of Deutsche Bank Polish Masters tournament – finals of the European professional golf league and Poland's most important golf competition, was held in September 2014. For over 10 years, Deutsche Bank has lent its patronage to Pro-Am Tour tournament cycle. In 2012, thanks to the Bank's and the organizers' involvement, the tournament gained an international dimension (the Pro Golf Tour league). Concurrently, Deutsche Bank Group has been the title sponsor of the Deutsche Bank Championship games held in Boston, which are a part of the legendary US-PGA-Tour. A special international tournament for the Clients and Friends of Deutsche Bank who are amateur golf players is organised every year under the Deutsche Bank Invitational slogan.

Deutsche Bank Polska also acted as a partner for a number of prestigious business events. For the second time it was a partner to the Visionaries competition organised by 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. The Bank also became a strategic partner to the Polish Masters of Business competition, whose objective is to recognise and reward the most dynamically developing small and medium-sized enterprises in Poland. 140 best SMEs from all over Poland signed up to compete for the title.

Ownership structure

As at December 31st 2014, the Bank's sole shareholder was Deutsche Bank AG of Frankfurt am Main, Germany, which, in accordance with the information known to the Bank, held 100.00% of the share capital and total voting rights at the Bank's General Meeting (GM).

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

After the required approvals and permits were obtained, following the acquisition of Deutsche Bank Polska S.A. by Deutsche Bank PBC S.A., on January 31st 2014 the Bank issued 813,919,860 merger shares, which were all acquired by Deutsche Bank AG. In January 2014, directly prior to the merger, the existing shareholder of the Bank, Deutsche Bank Privat- und Geschäftskunden AG, sold all shares held in the Bank to Deutsche Bank AG.

Consequently, as at the merger date, that is January 31st 2014, Deutsche Bank PBC S.A. and Deutsche Bank Polska S.A. were both under joint control by their sole shareholder, Deutsche Bank AG.

Events subsequent to the reporting date

Following the Central Bank of Switzerland's decision of January 16th 2015, concerning a change in the approach to the EUR/CHF exchange rate, then maintained at 1.2, Swiss franc appreciated strongly against foreign currencies, including Polish złoty. The Central Bank of Switzerland also presented its expectations with respect to interest rate dynamics, which brought about a decrease in the LIBOR CHF rate from a value oscillating around 0% as at the end of 2014 to negative 0.8−0.9% at the end of January 2015.

The abrupt depreciation of złoty against CHF translated into an increase in PLN denominated assets and a temporary increase in repayment instalments under CHF denominated loans. The increase in instalments was for the most part offset by the change in LIBOR reference rate.

The Bank implemented a number of initiatives to minimise the adverse effect of the changes in CHF/PLN interest rate on the Bank's clients:
1) the negative LIBOR rate is taken into consideration when determining the interest rate for housing loans;
2) the currency spread has been reduced materially for the next six months, which will translate into markedly lower loan instalments payable by the clients;
3) upon a client's request, the final repayment date may be postponed or instalment payments may be suspended temporarily, so that the client's instalment is only slightly higher or not higher than it was before CHF/EUR exchange rate was freed. This option is available only to those clients who occupy the property financed with the housing loan;
4) no new collateral or loan insurance is requested from those borrowers who pay their instalments as scheduled;
5) borrowers may convert their housing loans from CHF into PLN at the exchange rate determined by the Bank in accordance with the loan agreement, without the currency spread (at the exchange rate prevailing on the redenomination date);
6) mortgage loan restructuring rules have been made more flexible for those clients who occupy the property financed with the loan.

It is the Bank's opinion that, given the current LIBOR CHF rate, those initiatives will mitigate to a large extent the adverse effect of the increase in CHF/PLN exchange rate on instalment amounts payable by the Bank's clients. The value of monthly instalments is close to 2014 levels. For the moment (May 2015), the empirical data on repayment rates for CHF denominated loans after CHF/EUR exchange rate was freed indicates that the risk of the portfolio quality deterioration has not materialised.

When compared with competitors', the Bank's portfolio of CHF mortgage loans has a low rate of past due (for 90 days or more) receivables: 1% against the market average of 3%. (Source: in-house analyses based on the Polish Financial Supervision Authority's publications on the banking sector). Additionally, given our consistent conservative credit pol-

icy providing for currency risk buffers, the clients' incomes are still sufficient for further debt service. The sale of CHF denominated mortgage loans was discontinued in 2010. Consequently, the value of the portfolio has been decreasing steadily. Currently, it is falling by approximately CHF 10m per month (CHF 120m pa), that is 8% pa.

The initiatives described above had no direct effect on the Group's capital adequacy ratios. The Group estimates that the change in CHF/PLN interest rate in January 2015 reduced its capital adequacy ratio by ca. 0.40%. Based on regularly performed stress tests, the Group's capital and capital ratios continue at adequate and safe levels.

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

Signatures of all Management Board Members

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

Warsaw, June 16th 2015

03 –

Consolidated financial statements

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Consolidated statement of profit or loss

Consolidated Income statement for 2014 and 2013

in PLN thd	Nota	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Interest income	[3]	1,029,219	1,110,742
Interest expense	[4]	(313,353)	(450,670)
Net interest income		715,866	660,072
Fee and commission income	[5]	372,357	357,056
Fee and commission expense	[6]	(80,565)	(74,638)
Net fee and commission income		291,792	282,418
Dividend income		30	52
Net gain/loss on instruments at fair value through profit or loss and revaluation	[7]	173,517	173,449
Net gain/loss on sale of financial instruments available for sale	[8]	734	(22)
Other income	[9]	4,640	6,982
Other income, net		178,921	180,461
Impairment losses on financial assets	[10]	(144,194)	(86,217)
Administrative expenses	[11]	(648,791)	(662,253)
Depreciation and amortisation	[12]	(33,242)	(36,317)
Other expenses	[13]	(6,187)	(8,674)
Operating expenses		(832,414)	(793,461)
Operating profit/(loss)		354,165	329,490
Profit/(loss) before tax		354,165	329,490
Income tax expense	[14]	(76,933)	(76,318)
Profit/(loss) for period		277,232	253,172
– attributable to owners of the Bank		277,232	253,172
– attributable to non-controlling interests		-	-

* Restated. Comparative data was prepared in accordance with the accounting policies described in Note 2g.

Consolidated statement of comprehensive income

Consolidated Statement of Comprehensive Income for 2014 and 2013

in PLN thd		Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Net profit for period		277,232	253,172
Other comprehensive income, including:		1,678	(3,285)
Items which will not be reclassified to profit or loss		-	-
Items which may be reclassified to profit or loss at a later date:		1,678	(3,285)
Net gain/loss on measurement of securities available for sale (net of deferred tax)		2,024	(3,312)
Other items of comprehensive income		(346)	27
Total comprehensive income		278,910	249,887
– attributable to owners of the Bank		278,910	249,887
– attributable to non-controlling interests		-	-

* Restated. Comparative data was prepared in accordance with the accounting policies described in Note 2g.

Consolidated statement of financial position
as at December 31st 2014 and December 31st 2013

Assets

in PLN thd	Note	Dec 31 2014	Dec 31 2013*
Cash and balances with Central Bank	[16]	1,543,105	715,181
Deposits with other banks, and loans and advances to other banks	[17]	756,325	976,704
Loans and advances to customers	[18]	28,240,769	26,537,785
Financial assets at fair value through profit or loss	[19]	1,648,880	3,234,825
Financial assets held as investments	[20]	3,779,815	1,080,865
Property and equipment	[21]	40,872	53,689
Intangible assets	[22]	79,020	80,349
Current tax assets	[24]	-	15,177
Deferred tax assets	[23]	28,496	38,133
Other assets	[25]	171,336	183,880
Total assets		36,288,618	32,916,588

Liabilities

in PLN thd	Note	Dec 31 2014	Dec 31 2013*
Amounts due to other banks	[26]	15,235,442	13,893,929
Amounts due to customers	[27]	16,195,768	14,589,799
Financial liabilities at fair value through profit or loss	[28]	218,281	69,002
Provisions	[29]	6,051	7,592
Current tax liabilities	[30]	7,176	-
Other liabilities	[31]	348,185	328,035
Subordinated liabilities	[32]	235,622	229,367
Total liabilities		32,246,525	29,117,724

Equity

in PLN thd	Note	Dec 31 2014	Dec 31 2013*
Share capital	[33]	2,651,449	1,837,529
Share premium	[34]	525,366	525,366
Revaluation reserve	[34]	112	(1,567)
Retained earnings	[34]	865,166	1,437,536
Total equity		4,042,093	3,798,864
Total equity and liabilities		36,288,618	32,916,588

* Restated. Comparative data was prepared in accordance with the accounting policies described in Note 2g.

Statement of changes in consolidated equity

Changes in the period January 1st 2014 – December 31st 2014

in PLN thd	Share capital	Share premium	Revaluation reserve	Retained earnings	Total equity
As at Jan 1 2014* − restated	1,837,529	525,366	(1,567)	1,437,536	3,798,864
Share issue	813,920	-	-	-	813,920
Elimination of the target bank's capital as at the merger date	-	-	-	(813,920)	(813,920)
Measurement of financial assets available for sale (net)	-	-	2,001	-	2,001
Other revaluation reserve	-	-	(322)	-	(322)
Profit/(loss) for the year	-	-	-	277,232	277,232
Dividends paid	-	-	-	(35,682)	(35,682)
As at Dec 31 2014	2,651,449	525,366	112	865,166	4,042,093

* Comparative data was prepared in accordance with the accounting policies described in Note 2g.

Changes in the period January 1st 2013 – December 31st 2013

in PLN thd	Share capital	Share premium	Revaluation reserve	Retained earnings	Total equity
As at Jan 1 2013* − restated	1,837,529	525,366	1,718	1,249,907	3,614,520
Share issue	-	-	-	-	-
Measurement of financial assets available for sale (net)	-	-	(3,327)	-	(3,327)
Other revaluation reserve	-	-	42	-	42
Profit/(loss) for the year	-	-	-	253,172	253,172
Dividends paid	-	-	-	(65,543)	(65,543)
As at Dec 31 2013* − restated	1,837,529	525,366	(1,567)	1,437,536	3,798,864

* Comparative data was prepared in accordance with the accounting policies described in Note 2g.

Consolidated statement of cash flows

Consolidated statement of cash flows

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Operating activities		
Net profit (loss)	277,232	253,172
Adjustments	3,458,996	(2,436,662)
Unrealised foreign exchange gains (losses)	-	-
Depreciation and amortisation	33,242	36,317
Interest on loans and advances from other banks	10,924	20,462
Gain/loss on investing activities	(3,940)	2,694
Total corporate income tax in the statement of profit or loss	76,933	76,318
Income tax expense	(45,400)	(69,397)
Change in deposits with other banks, and loans and advances to other banks	(177,942)	5,163
Change in financial assets at fair value through profit or loss	1,585,945	1,262,280
Change in financial assets held as investments	630,619	(711,764)
Change in loans and advances to customers	(1,702,984)	(2,242,209)
Change in other assets	12,544	28,268
Change in amounts due to other banks	1,259,289	1,208,750
Change in financial liabilities at fair value through profit or loss	149,279	(57,678)
Change in amounts due to customers	1,605,969	(1,954,431)
Change in provisions	(1,541)	(3,626)
Change in other liabilities	26,059	(38,003)
Other adjustments	-	194
Net cash from (used in) operating activities	3,736,228	(2,183,490)
Investing activities	-	-
Acquisition of intangible assets and property and equipment	(19,874)	(31,965)
Disposal of intangible assets and property and equipment	4,689	270
Acquisition of shares	-	-
Dividends received	30	52
Other capital expenditure	(94,703,528)	(32,214)
Redemption of and interest received on assets held as investments	(91,376,440)	167,700
Net cash from (used in) investing activities	(3,342,243)	103,843
Financing activities	-	-
Increase in loans	188,514	283,824
Interest paid	(10,924)	(20,462)
Dividends paid	(35,682)	(65,543)
Decrease in loans	(106,290)	-
Net cash from (used in) financing activities	35,618	197,819
Increase/decrease in net cash	429,603	(1,881,828)
Cash at beginning of period	1,687,287	3,569,115
Cash at end of period	2,116,890	1,687,287

* Comparative data was prepared in accordance with the accounting policies described in Note 2g.

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1. General information on the Capital Group

Deutsche Bank Polska Capital 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 (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
Registration: District Court for the Capital City of Warsaw, 12th Commercial Division, entry number in the National Court Register: KRS 0000022493
PKD: 6419 Z
(Polish Classification of Business Activities)

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"). For details of the merger, see Note 2f) Business combinations.

As at December 31st 2014, the Bank's parent was Deutsche Bank AG of Frankfurt am Main, Germany, which also acted as the ultimate parent.

As at December 31st 2013, the Bank's parent was Deutsche Bank Privat- und Geschäftskunden AG of Frankfurt am Main, Germany, while the higher-tier parent was Deutsche Bank A.G.

Following the merger, changes were made to the composition of the Management Board, which as at the date of these financial statements 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,
– Radosław Kudła – Member of the Management Board,
– Kamil Kuźmiński – Member of the Management Board,
– Piotr Olendski – Member of the Management Board,
– Magdalena Rogalska – Member of the Management Board.

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

The Bank was established for an indefinite term.

According to its Articles of Associations, the Bank's principal business activity includes:
- accepting deposits payable on demand or on a specified maturity date and operating related deposit accounts,
- operating other bank accounts,
- performing banking cash settlements,
- issuing payment cards and handling transactions executed with such cards,
- granting credit facilities and cash loans,
- cheque and bill-of-exchange transactions,
- purchasing and selling debt claims,
- issuing sureties and bank guarantees,
- foreign-exchange transactions,
- safekeeping of valuables and securities and renting safe deposit boxes,
- issuing bank securities and trading in bank securities,
- performing activities ordered by clients in connection with security issues ,
- executing forward and futures transactions,
- performing banking activities ordered by other banks.

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

DB Securities S.A. – the subsidiary

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

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

2. Significant accounting policies

a) Statement of compliance

These annual consolidated financial statements of 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 approved by the Bank's Management Board on June 16th 2015, and will be finally approved by the General Meeting of Shareholders.

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

These consolidated financial statements of the Group are the first consolidated statements prepared after the banks' merger referred to in Note 1; the Parent of the Group is Deutsche Bank Polska S.A., the former Deutsche Bank PBC S.A., (acquirer). In order to ensure financial data comparability to the readers of these financial statements, the Group presents comparative financial data based on the consolidated financial statements of Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. was the parent. (target bank), prepared for the financial year ended December 31st 2013, and the separate financial statements of Deutsche Bank PBC S.A. (acquirer), prepared for the financial year ended December 31st 2013.

The Group's consolidated financial statements for the period from January 1st to December 31st 2014 have been prepared in 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.

The 2013 comparative data is presented in accordance with the same accounting policies. The Group'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 2014 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

Standards and Interpretations endorsed during the financial year or awaiting endorsement by the EU

ENDORSED REGULATIONS			
Standards and Interpretations endorsed by the EU	Expected change to the accounting policies	Potential effect on the financial statements	Effective for periods beginning on or after:
IFRIC 21 Levies	IFRIC 21 provides guidance on the identification of obligating events giving rise to an obligation to pay a levy, and the time when the obligation is to be recognised. In accordance with IFRIC 21, an obligating event is an event which under relevant legislation triggers the payment of a specific levy and the necessity to recognise the related liability in the financial statements. The liability is recognised progressively if the obligating event occurs over a period of time. If the obligating event consists in reaching a certain minimum threshold, the liability is recognised when that minimum threshold is reached. The Interpretation clarifies that ‘economic compulsion’ to continue as a going concern in a future period does not create a constructive obligation to pay a levy that would be triggered by operating in that future period.	The amendment has no material effect on these financial statements.	June 17th 2014 (effective date set by IASB: January 1st 2014)
Amendments to IAS 19 (Employee Benefits) − Defined Benefit Plans: Employee Contributions	The amendments refer to the accounting for contributions from employees and third parties to defined benefit plans. The objective is to provide a more straightforward alternative to account for employee contributions that do not depend on the years of service, for example employee contributions calculated as a fixed percentage of salary.	The amendment has no material effect on these financial statements.	February 1st 2015 (effective date set by IASB: July 1st 2014)
Annual Improvements to IFRSs 2010−2012	Annual Improvements to IFRSs 2010−2012 Cycle comprises a collection of eight amendments to seven standards, along with relevant changes to other standards and interpretations. Key changes: – The definition of vesting conditions in Appendix A to IFRS 2 Share-Based Payment was clarified by separately defining service conditions and performance conditions. – Certain aspects of accounting for contingent consideration in a business combination were clarified. – Paragraph 22 of IFRS 8 Operating Segments was amended by including a requirement for entities to disclose the factors that are used to identify the entity’s reportable segments when operating segments have been aggregated, intended to supplement the existing disclosure requirements in paragraph 22(a) of IFRS 8.	The amendment has no material effect on these financial statements.	February 1st 2015 (effective date set by IASB: July 1st 2014)

	– Paragraph 28(c) of IFRS 8 Operating Segments was amended to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed if that amount is regularly provided to the chief operating decision maker. The amendment is consistent with the requirements in paragraphs 23 and 28(d) of IFRS 8. – The IASB's rationale for removing paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph OS79 of IAS 39 Financial Instruments: Recognition and Measurement was provided − the changes result from IFRS 13 Fair Value Measurement. – The requirements for the revaluation method in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets were clarified to address concerns about the calculation of the accumulated depreciation or amortisation as at the revaluation date. – An entity providing key management personnel services was made a related party of the reporting entity.		
Amendments to International Financial Reporting Standards 2011−2013	Annual Improvements to IFRSs 2011−2013 Cycle comprise a collection of four amendments to standards, along with relevant changes to other standards and interpretations. Key changes: – The meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1 First-time Adoption of IFRSs was clarified. – A clarification was provided that the exception in paragraph 2(a) of IFRS 3 Business Combinations: – excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and – the scope of the exception only applies to the financial statements of the joint venture or joint operation. – A clarification was provided that the portfolio exception under paragraph 48 of IFRS 13 applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement, or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. – A clarification was provided that judgement is needed to determine whether the acquisition of an investment property is the acquisition of an asset, a group of assets or a business combination within the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3.	The amendment has no material effect on these financial statements.	January 1st 2015 (effective date set by IASB: July 1st 2014)

AWAITING ENDORSEMENT			
Standards and Interpretations not yet endorsed by the EU	Expected change to the accounting policies	Potential effect on the financial statements	Expected effective date
IFRS 9 Financial Instruments (2014)	The new Standard replaces the guidance contained in IAS 39 Financial Instruments: Recognition and Measurement regarding classification and measurement of financial assets, including their impairment. IFRS 9 also eliminates the existing IAS 39 categories of financial assets held to maturity, available for sale and loans and receivables. In accordance with the new standard, financial assets should be classified at initial recognition into one of three categories: – financial assets measured at amortised cost; – financial assets at fair value through profit or loss; or – financial assets at fair value through other comprehensive income. After initial recognition a financial asset is measured at amortised cost if the following two conditions are met: – the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and – its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. If the above requirements are not met (as, for instance, in the case of equity instruments of other entities), the financial asset is measured at fair value. Gains and losses on remeasurement of financial assets at fair value are recognised in profit or loss, except for assets held within a business model whose objective is to hold assets in order to collect contractual cash flows or sell them, in which case the gains and losses on remeasurement are disclosed in other comprehensive income. Furthermore, if an investment in an equity instrument is not held for trading, IFRS 9 allows the entity to make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income. The election can be made on an instrument-by-instrument basis. No amount recognised in other comprehensive income in connection with such measurement may be reclassified to profit or loss of the current period at a later date. The standard retains almost all of the existing requirements of IAS 39 on the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability	It is expected that upon initial application the new standard will have a significant bearing on the financial statements, given the expected changes in the model used for measuring impairment losses, as well as its required retroactive application. However, until the first application of the standard, the Group is not able to make a full analysis of its impact on the financial statements.	January 1st 2018

	designated at initial recognition as measured at fair value through profit or loss be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss or if the financial liability relates to a loan commitment or a financial guarantee contract, then the whole fair value change is presented in profit or loss. As regards measurement of impairment of financial assets, IFRS 9 replaces the old "incurred loss" model introduced by the IAS 39 with the concept of "expected loss", which means that the event resulting in a loss does not have to precede its identification and recognition of impairment. The new rules are designed to prevent situations in which impairment on credit losses is recognised too late or its amount is insufficient. In short, the expected loss model provides for two measurement approaches, whereby the amount of loss can be determined in reference to: – 12-month expected credit losses; or – lifetime expected loss. The choice of the approach depends on whether the credit risk associated with an asset has increased significantly since its initial recognition. If the credit risk related to financial assets has not increased significantly since initial recognition, the impairment loss on those financial assets is measured at an amount equal to the 12-month expected credit losses. However, if the credit risk has increased materially, the impairment loss is equal to the lifetime expected loss and thus increases the amount of recognised impairment loss. The standard further introduces a rebuttable presumption that a delay in contractual payments exceeding 30 days is sufficient grounds for the recognition of credit loss.		
IFRS 14 Regulatory Deferral Accounts	IFRS 14 is an interim standard which: – permits an entity which is a first-time adopter of IFRS to continue to account for regulatory deferral account balances in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements; – requires that regulatory deferral account balances, and movements in them be presented separately in the financial statements; and – requires specific disclosures to identify clearly the nature of, and risks associated with, the rate regulation giving rise to the recognition of regulatory assets and liabilities under the interim standard.	The Group expects that the standard will have no material effect on the financial statements.	January 1st 2016

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)	The amendments to IFRS 11 contain guidance on the accounting for the acquisition of an interest in joint operations that constitutes a business. Entities acquiring an interest in joint operations that constitutes a business, as defined in IFRS 3 Business Combinations, are obliged to apply the relevant principles for recognising business combinations defined in IFRS 3 and other IFRSs, except for those contradictory to IFRS 11. Further, the acquirer is subject to disclosure requirements defined in IFRS 3 and other IFRSs concerning business combinations.	The standard will not apply to the Group.	January 1st 2016
Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)	The amendments clarify that revenue-based depreciation of property, plant and equipment is not appropriate because the revenue generated by an activity that includes the use of a given asset generally reflect factors other than the consumption of economic benefits embodied in the asset. The amendments also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. However, this presumption can be overcome in certain limited circumstances.	Until the first application of the standard, the Group is not able to analyse its impact on the financial statements.	January 1st 2016
IFRS 15 Revenue from Contracts with Customers	The standard contains rules which will replace most of the specific guidance on revenue recognition found in existing IFRSs. In particular, following the adoption of the new standard, the provisions of IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations will no longer apply. According to the new standard, entities will use a five-step model to determine the moment of revenue recognition and its amount. Under the model, revenue should be recognised when (or to the extent that) the entity transfers control of goods or services to a customer, at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised either: – over time, reflecting the contract performance by the entity, or – only once, at the point in time when control of goods or services is transferred to the customer. The standard contains new requirements for disclosures, both quantitative and qualitative, designed to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.	Until the first application of the standard, the Group is not able to analyse its impact on the financial statements.	January 1st 2017

Agriculture: Bearer Plants (Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture)	The amendments modify the method of accounting for bearer plants, such as grapevines, rubber trees and oil palms. Under IAS 41 Agriculture, all biological assets related to agricultural activity are to be measured at fair value less costs to sell. Pursuant to the new requirements, bearer plants are to be accounted for in the same manner as property, plant and equipment under IAS 16, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.	The standard will not apply to the Group.	January 1st 2016
Equity method in separate financial statements (Amendments to IAS 27 Separate Financial Statements)	Under the amended standard, an entity may account for its investments in subsidiaries, joint ventures, and associates in its separate financial statements using the equity method, in addition to the currently applied measurement methods (at cost or at fair value).	The standard will not apply to the Group.	January 1st 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates)	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 regarding the loss of control over a subsidiary contributed to an associate or joint venture. While IAS 28 limits the gain or loss resulting from the contribution of non-monetary assets to an associate or joint venture to the level of unrelated investors' interests in the associate or joint venture, IFRS 10 requires full recognition of the gain or loss from the loss of control over a ubsidiary. The amendments require that the gain or loss be recognised in full where the contributed assets satisfy the definition of a business within the meaning of IFRS 3 Business Combinations (irrespective of whether such business has the form of a subsidiary or not). Partial recognition of the gain or loss (to the extent of unrelated investors' interests) applies where a transaction involves assets which do not constitute a business, even if the assets were held by a subsidiary.	The standard will not apply to the Group.	January 1st 2016

Amendments to International Financial Reporting Standards 2012−2014	Annual Improvements to IFRSs 2012−2014 Cycle comprises a collection of four amendments to standards, along with relevant changes to other standards and interpretations. Key changes: – A clarification was provided that paragraphs 27-29 of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (describing how to recognise assets that cease to be classified as held for sale) will also apply to situations where assets cease to be classified as held for distribution. However, the provisions will not apply if the change in classification consists in transferring an asset (or disposal group) directly from assets held for sale to assets held for distribution or vice versa. In this case, the change does not constitute a change to a plan of sale or plan of distribution; – A clarification was provided on how an entity should apply the guidance in paragraph 42C of IFRS 7 Financial Instruments: Disclosures − Servicing Contracts in order to ascertain continuing involvement in an asset for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7; – A clarification was provided that the additional disclosures required by the amendments to IFRS 7 related to the offsetting of financial assets and liabilities are not specifically required in condensed interim financial statements for all interim periods. However, such additional disclosures should be included if so required under IAS 34 Interim Financial Reporting; – IAS 19 Employee Benefits was amended by clarifying that high-quality corporate bonds or government bonds used to determine the discount rate of post-employment benefit obligations should be consistent with the currency of such post-employment benefit obligations. Whether there exists a deep market in such bonds should be determined at a currency level rather than a country level. – Regarding disclosure of information elsewhere in the interim financial report referred to in IAS 34 – a clarification of the meaning of 'elsewhere in the interim financial report' was provided, and a requirement was added to include a cross-reference from the interim financial statements to the location of the required information.	The Group expects that the amendments will have no material effect on the financial statements.	January 1st 2016

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures)	Changes to the method of financial reporting in investment entities address three issues: – Consolidation of intermediate investment entities Prior to the amendment, it was unclear how to account for an investment entity's subsidiary that provides investment-related services and is itself classified as an investment entity. As a result of the amendment, intermediate investment entities may not be consolidated. The IASB has also clarified that entities providing 'investment-related services' are entities whose main purpose and activities are to provide services that relate to the activities of the parent which is an investment entity. – Consolidated financial statements exemption for intermediate parents owned by investment entities Intermediate holding entities have a long-standing exemption from preparing consolidated financial statements when they are themselves consolidated by a higher parent (and when other relevant criteria are met). The amendments also make this exemption available to an intermediate parent held by an investment entity, even though the investment entity does not consolidate the intermediate parent. – Policy choice for equity accounting for interests in investment entities Pursuant to the amendments, a non-investment entity may choose the accounting policy to be used in accounting for its interest in an equity accounted investment entity. In this case, when applying the equity accounting method a non-investment entity may choose measurement at fair value of interests in the investment entity's subsidiaries or, alternatively, measurement based on the value which would be recognised if the investment entity consolidated all of its subsidiaries.	The Group expects that the amendments will have no material effect on the financial statements.	January 1st 2016

Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	The main guidelines included in the amendments: Focus on materiality. Specific disclosures that are immaterial do not have to be presented even if they are part of the minimum content required under a given standard. Notes to financial statements do not have to be presented in a specific order. Instead, entities may use their preferred order or combine the description of accounting policies with notes on the related areas. Direct statement that entities: should disaggregate items of the statement of financial position and the statement of profit or loss and other comprehensive income when such presentation provides users of financial statements with useful information, and may aggregate items in the statement of financial position when items under IAS 1 are not individually material. Addition of detailed criteria for the presentation of subtotals in the statement of financial position and the statement of profit or loss and other comprehensive income, together with additional requirements relating to the reconciliation of items in the statement of profit or loss and other comprehensive income. Other comprehensive income attributable to joint ventures and associates accounted for with the equity method should be presented in the statement of other comprehensive income using the approach required under IAS 1, under which such items should be grouped on the basis of whether they will or will not be subsequently reclassified to profit or loss.	The Group expects that the amendments will have no material effect on the financial statements.	January 1st 2016

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) Accounting for common-control transactions

Combinations of entities under common control are not regulated by IFRSs. As recommended in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, given the absence of specific regulations in IFRSs, the Group adopted an accounting policy (applicable to all such transactions within the Deutsche Bank AG Group, of which the Group is a part) under which such combinations are accounted for based on the carrying amounts (book value) of the acquiree's net assets.

In accordance with this policy, the acquirer recognises the assets, equity and liabilities of the acquiree at their then current carrying amounts, adjusted to unify the acquiree's accounting policies with those of the acquirer's. Goodwill and negative goodwill are not recognised.

The resulting difference between the carrying amount of net assets acquired and the fair value of payment is recognised in the Group's equity. When the book value method is used, comparative data does not need to be restated. In order to guarantee full comparability of financial data to the readers of these financial statements, the Group resolved to restate the comparative data for 2013 for the combined Bank as described in Note 2g.

If a transaction involves the acquisition of non-controlling interests, such acquisition is recognised separately.

f) Business combinations

Transaction

On January 8th 2014, an agreement for the sale of Deutsche Bank PBC S.A. shares was signed between Deutsche Bank Privat- und Geschäftskunden AG and Deutsche Bank A.G. Consequently, as at the merger date, both Deutsche Bank PBC S.A. and Deutsche Bank Polska S.A. were under common control of Deutsche Bank AG.

Based on resolutions of the Management Boards of Deutsche Bank Polska S.A. and Deutsche Bank PBC S.A. dated March 22nd 2013, the submitted merger plan and the subsequent approval of the Financial Supervision Authority granted on September 3rd 2013, on January 31st 2014 the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered the merger of the two banks under Art. 492.1 and 492.2 of the Commercial Companies Code. The merger was effected by the transfer of all assets, equity and liabilities of Deutsche Bank Polska S.A. (target company) to Deutsche Bank PBC S.A. (acquier), in exchange for

813,919,860 new issue Series XXI shares in Deutsche Bank PBC S.A., delivered to Deutsche Bank AG, the then existing shareholder of Deutsche Bank Polska S.A.

The acquier was Deutsche Bank PBC S.A. and, since the merger date, the merged banks have been operating as a single bank under the name of Deutsche Bank Polska S.A., with their previous operations continued within the merged structures.

The combined Bank is also the sole shareholder of brokerege house DB Securities S.A.

Accounting policy applied to the transaction

Given that as at the merger date Deutsche Bank Polska S.A. and Deutsche Bank PBC S.A. were under common control of Deutsche Bank AG, the merger transaction was accounted for with the book value method. Deutsche Bank PBC S.A. recognised the assets, equity and liabilities of Deutsche Bank Polska S.A. at their respective carrying amounts determined as at the merger date, that is January 31st 2014. The carrying amount of Deutsche Bank Polska S.A.'s net assets as at January 31st 2014 was PLN 7,315,778 thousand.

As the book value method was used, neither goodwill nor any excess of the fair value of net assets over the business combination cost was recognised. The difference between the carrying amount of the net assets of Deutsche Bank Polska S.A. transferred to Deutsche Bank PBC S.A. (PLN 817,821 thousand) and the par value of the new shares issued by Deutsche Bank PBC S.A. (PLN 3,901 thousand) was recognised in equity of the combined Bank. Accordingly, the share capital of the combined Bank was increased by PLN 813,920 thousand.

The net profit of the target bank (Deutsche Bank Polska S.A.) for the period from January 1st 2014 to the merger date, that is January 31st 2014, was included in the net profit of the combined Bank for 2014. The statement of profit or loss of the target bank for the period from January 1st to January 31st 2014 is presented in 'Statement of profit or loss of the target bank' in this Note.

The merger had no effect on the measurement of the Bank's assets and liabilities as at December 31st 2013.

Equity instruments issued in relation to the transaction

On the day of the merger, Deutsche Bank PBC S.A. issued ordinary shares, which were then acquired by Deutsche Bank AG. As a result of this transaction, the share capital of the combined Bank was raised from PLN 1,837,529,524 to PLN 2,651,449,384, i.e. by PLN 813,919,860, and comprises 2,651,449,384 shares, including 2,469,260,809 registered shares and 182,188,575 bearer shares, with a par value of PLN 1 per share.

Assets and liabilities recognised as at the merger date

The following assets and liabilities, measured as at January 31st 2014, were transferred from Deutsche Bank Polska S.A. to Deutsche Bank PBC S.A.:

Assets

in PLN thd	Jan 31 2014
Cash and balances with Central Bank	515,415
Amounts due from banks	1,135,036
Loans and advances to customers	447,824
Financial assets at fair value through profit or loss	3,262,198
Financial assets held as investments	55,484
Investments in subsidiaries	20,426
Property and equipment	3,403
Intangible assets	-
Current tax assets	2,364
Deferred tax assets	17,786
Other assets*	1,855,842
Total assets	7,315,778

Liabilities

in PLN thd	Jan 31 2014
Amounts due to other banks	1,174,770
Amounts due to customers	4,786,970
Financial liabilities at fair value through profit or loss	57,286
Current tax liabilities	-
Deferred tax liabilities	-
Provisions	4,414
Other liabilities	465,023
Subordinated liabilities	-
Total liabilities	6,488,463

Equity

in PLN thd	Jan 31 2014
Share capital	813,920
Share premium	-
Revaluation reserve	174
Retained earnings	13,221
Total equity	827,315
Total equity and liabilities	7,315,778

* The item includes the balance of settlements with the surviving bank, totalling PLN 1,832,798 thousand.

Statement of profit or loss of the target bank

The table below presents information on profits generated by the target bank (Deutsche Bank Polska S.A.) in the period January 1st–January 31st 2014.

in PLN thd	Jan 1 – Jan 31 2014
Interest income	20,265
Interest expense	(6,476)
Net interest income	13,789
Fee and commission income	7,728
Fee and commission expense	(600)
Net fee and commission income	7,128
Income from shares in subsidiaries	-
Dividend income	-
Net gain/loss on instruments at fair value through profit or loss and revaluation	(4,677)
Net gain/loss on sale of financial instruments available for sale	-
Other income	620
Operating income	16,860
Impairment losses on financial assets	-
Administrative expenses	(8,080)
Depreciation and amortisation	(110)
Other expenses	(20)
Operating profit/(loss)	8,649
Profit before tax	8,649
Income tax expense	(758)
Net profit for period	7,891

g) Comparability with data from previous periods

As indicated in Note 2e), in order to ensure better presentation of financial data, the Group decided to present comparative financial data based on the consolidated financial statements of the Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. (target bank) was the parent, prepared for the financial year ended December 31st 2013, and the separate financial statements of Deutsche Bank PBC S.A. (acquiring), prepared for the financial year ended December 31st 2013. In addition, mutual transactions and the target bank's capital were eliminated, and selected items reclassified to ensure uniform presentation of comparative financial data.

The analysis of accounting policies and methods used for the valuation of assets, liabilities and equity revealed no material differences requiring adjustments.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31ST 2013

ASSETS

in PLN thd	DB Polska Capital Group	DB PBC	Total	Elimination of mutual transactions	Dec 31 2013*
Cash and balances with Central Bank	343,589	371,592	715,181	-	715,181
Amounts due from banks	2,688,018	155,461	2,843,479	(1,866,775)	976,704
Loans and advances to customers	591,269	25,946,516	26,537,785	-	26,537,785
Financial assets at fair value through profit or loss	3,205,669	34,263	3,239,932	(5,107)	3,234,825
Financial assets held as investments	58,350	1,022,515	1,080,865	-	1,080,865
Property and equipment	4,317	49,372	53,689	-	53,689
Intangible assets	890	79,459	80,349	-	80,349
Current tax assets	7,800	7,377	15,177	-	15,177
Deferred tax assets	27,938	22,117	50,055	(11,922)	38,133
Other assets	97,667	86,787	184,454	(574)	183,880
Total assets	7,025,507	27,775,459	34,800,966	(1,884,378)	32,916,588

EQUITY AND LIABILITIES

in PLN thd	DB Polska Capital Group	DB PBC	Total	Elimination of mutual transactions	Elimination of the target bank's share capital	Dec 31 2013*
Amounts due to other banks	1,283,775	14,431,772	15,715,547	(1,821,618)	-	13,893,929
Amounts due to customers	4,732,949	9,902,007	14,634,956	(45,157)	-	14,589,799
Financial liabilities at fair value through profit or loss	65,054	9,055	74,109	(5,107)	-	69,002
Provisions	4,634	2,958	7,592	-	-	7,592
Current tax liabilities	-	-	-	-	-	-
Deferred tax liabilities	11,922	-	11,922	(11,922)	-	-
Other liabilities	86,507	242,102	328,609	(574)	-	328,035
Subordinated liabilities	-	229,367	229,367	-	-	229,367
Total liabilities	6,184,841	24,817,261	31,002,102	(1,884,378)	-	29,117,724
Share capital	230,000	1,837,529	2,067,529	-	(230,000)	1,837,529
Share premium	195,000	525,366	720,366	-	(195,000)	525,366
Revaluation reserve	443	(2,010)	(1,567)	-	-	(1,567)
Retained earnings	415,223	597,313	1,012,536	-	425,000	1,437,536
Total equity	840,666	2,958,198	3,798,864	-	-	3,798,864
Total equity and liabilities	7,025,507	27,775,459	34,800,966	(1,884,378)	-	32,916,588

* Restated.

The value of mutual transactions was recognised based on the consolidated financial statements of Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. (target bank) was the parent, and the separate financial statements of Deutsche Bank PBC S.A. (acquiring bank), prepared for the financial year ended December 31st 2013.

For the purposes of presenting comparative financial data, the share capital and share premium of the target bank were disclosed under retained earnings. The hare capital and share premium of the acquiring bank − the Parent

of the Group (formerly DB PBC S.A.) − was disclosed as equity of the combined bank. The merger issue was disclosed in the share capital in 2014 (upon registration with the National Court Register).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD JANUARY 1ST − DECEMBER 31ST 2013

in PLN thd	DB Polska Capital Group	DB PBC	Total	Elimination of mutual transactions	Reclassifica-tions	Description of reclassifications	Jan 1 − Dec 31 2013*
Interest income	228,649	951,753	1,180,402	(69,660)	-	-	1,110,742
Interest expense	(138,464)	(381,866)	(520,330)	69,660	-	-	(450,670)
Net interest income	90,185	569,887	660,072	-	-	-	660,072
Impairment losses	(20,463)	-	(20,463)	-	20,463	(1)	-
Net interest income after impairment losses	69,722	569,887	639,609	-	-	-	660,072
Fee and commission income	98,034	266,557	364,591	(7,535)	-	-	357,056
Fee and commission expense	(18,909)	(60,485)	(79,394)	7,535	(2,779)	(6)	(74,638)
Net fee and commission income	79,125	206,072	285,197	-	-	-	282,418
Income from shares in subsidiaries	38	-	38	-	-	-	38
Dividend income	-	14	14	-	-	-	14
Net trading income	56,200	-	56,200	-	(56,200)	(2)	-
Net gain/loss on instruments at fair value through profit or loss and revaluation	-	117,249	117,249	-	56,200	(2)	173,449
Net gain/loss on sale of financial instruments available for sale	-	(22)	(22)	-	-	-	(22)
Other income	4,465	3,152	7,617	(635)	-	-	6,982
Other expenses	(144)	-	(144)	-	144	(5)	-
Other income, net	60,559	120,393	180,952	(635)	-	-	180,461
Profit/(loss) on banking activities	209,406	896,352	1,105,758	(635)	-	-	1,122,951
Impairment losses on financial assets				-	(86,217)	(1)	(86,217)
General and administrative expenses	(111,376)	-	(111,376)	-	111,376	(3)	-
Administrative expenses	-	(586,943)	(586,943)	635	(75,945)	(3) (4) (6)	(662,253)
Impairment losses	-	(65,754)	(65,754)	-	65,754	(1)	-
Depreciation and amortisation	(3,665)	-	(3,665)	-	(32,652)	(4)	(36,317)
Other expenses	-	(8,530)	(8,530)	-	(144)	(5)	(8,674)
Operating expenses	(115,041)	(661,227)	(776,268)	635	68,389	-	(793,461)
Operating profit/loss	94,365	235,125	329,490	-	-	-	329,490
Profit before tax	94,365	235,125	329,490	-	-	-	329,490
Income tax expense	(18,694)	(57,624)	(76,318)	-	-	-	(76,318)
Net profit for period	75,671	177,501	253,172	-	-	-	253,172

* Restated.

The value of mutual transactions was recognised based on the consolidated financial statements of Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. (target bank) was the parent, and the separate financial statements of Deutsche Bank PBC S.A. (acquiring bank), prepared for the financial year ended December 31st 2013.

Reclassification adjustments made to ensure consistency of presentation of the following items of the statement of profit or loss:
(1) impairment losses on financial assets,
(2) gain/loss on instruments measured at fair value through profit or loss,
(3) operating expenses and general and administrative expenses,
(4) depreciation of property, plant and equipment and amortisation of intangible assets,
(5) other expenses,
(6) fees and general and administrative expenses.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1ST TO DECEMBER 31ST 2013

in PLN thd	DB Polska Capital Group	DB PBC	Total	Elimination of mutual transactions	Jan 1 – Dec 31 2013*
Net profit for period	75,671	177,501	253,172	-	253,172
Other comprehensive income, including:	(345)	(2,940)	(3,285)	-	(3,285)
Items which will not be reclassified to profit or loss	-	-	-	-	-
Items which may be reclassified to profit or loss at a later date	(345)	(2,940)	(3,285)	-	(3,285)
Net gain/loss on measurement of securities available for sale (net of deferred tax)	(372)	(2,940)	(3,312)	-	(3,312)
Other items of comprehensive income	27	-	27	-	27
Total comprehensive income	75,326	174,561	249,887	-	249,887

* Restated.

The value of mutual transactions was recognised based on the consolidated financial statements of Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. (target bank) was the parent, and the separate financial statements of Deutsche Bank PBC S.A. (acquiring bank), prepared for the financial year ended December 31st 2013.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1ST 2013

ASSETS

in PLN thd	DB Polska Capital Group	DB PBC	Total	Elimination of mutual transactions	Jan 1 2013*
Cash and balances with Central Bank	410,050	2,215,389	2,625,439	-	2,625,439
Amounts due from banks	1,480,497	900,173	2,380,670	(1,427,233)	953,437
Loans and advances to customers	613,971	23,681,605	24,295,576	-	24,295,576
Financial assets at fair value through profit or loss	4,417,526	84,443	4,501,969	(4,864)	4,497,105
Financial assets held as investments	193,099	315,573	508,672	-	508,672
Property and equipment	5,056	64,870	69,926	-	69,926
Intangible assets	1,813	69,667	71,480	-	71,480
Current tax assets	196	-	196	-	196
Deferred tax assets	36,830	69,518	106,348	(22,143)	84,205
Other assets	145,602	67,084	212,686	(537)	212,149
Total assets	7,304,640	27,468,322	34,772,962	(1,454,777)	33,318,185

EQUITY AND LIABILITIES

in PLN thd	DB Polska Capital Group	DB PBC	Total	Elimination of mutual transactions	Elimination of the target bank's share capital	Jan 1 2013*
Amounts due to other banks	1,408,255	12,408,580	13,816,835	(1,415,480)	-	12,401,355
Financial liabilities at fair value through profit or loss	121,289	10,255	131,544	(4,864)	-	126,680
Amounts due to customers	4,740,579	11,815,404	16,555,983	(11,753)	-	16,544,230
Provisions	2,993	8,225	11,218	-	-	11,218
Current tax liabilities	3,616	21,133	24,749	-	-	24,749
Deferred tax liabilities	22,143	-	22,143	(22,143)	-	-
Other liabilities	174,881	194,986	369,867	(537)	-	369,330
Subordinated liabilities	-	226,102	226,102	-	-	226,102
Total liabilities	6,473,756	24,684,685	31,158,441	(1,454,777)	-	29,703,664
Share capital	230,000	1,837,529	2,067,529	-	(230,000)	1,837,529
Share premium	195,000	525,366	720,366	-	(195,000)	525,366
Revaluation reserve	788	930	1,718	-	-	1,718
Retained earnings	405,096	419,812	824,908	-	425,000	1,249,908
Total equity	830,884	2,783,637	3,614,521	-	-	3,614,521
Total equity and liabilities	7,304,640	27,468,322	34,772,962	(1,454,777)	-	33,318,185

* Restated.

The value of mutual transactions was recognised based on the consolidated financial statements of Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. (target bank) was the parent, and the separate financial statements of Deutsche Bank PBC S.A. (acquiring bank), prepared for the financial year ended December 31st 2013.

The restated data is based on data sourced from the consolidated financial statements of Deutsche Bank Polska Group, in which Deutsche Bank Polska S.A. (target bank) was the parent, and the separate financial statements of Deutsche Bank PBC S.A. (acquiring bank), prepared for the financial year ended December 31st 2013 and audited by an independent auditor. Restated comparative data has not been audited.

Following restatement of the comparative data for the purposes of the consolidated financial statements, the notes to the consolidated financial statements were presented accordingly, with individual items of the notes adjusted to ensure uniform presentation.

h) 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.

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.

i) Foreign currencies

Transactions in foreign currencies
The Group's functional currency (measurement currency) and the presentation currency of these financial statements is 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.

j) 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, equities and certificates. 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. Held-to-maturity financial assets include Treasury bonds and NBP bonds. 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 transaction 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 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:
a) loans and receivables, which are measured at amortised cost using the effective interest rate method;
b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate method;
c) 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 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 (with 10 thousand simulations made), 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 2014 and 2013, 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:
a) significant financial difficulty of the issuer or obligor,
b) breach of contract, such as a default or delinquency in interest or principal payments,
c) highly probable bankruptcy of the borrower or other financial reorganisation of the borrower,
d) 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.

k) 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.

l) 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.

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

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

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

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

n) 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).

o) 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 balances with Central Bank (other than restricted cash), loans and advances to other banks, amounts due from other banks, and short-term Treasury securities.

p) 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
In the case of other assets, the recoverable amount is equal to their net realisable value. 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.

q) 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.

r) 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.

s) 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.

t) 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. The recognised actuarial profits and losses include: ex post adjustments to actuarial assumptions, i.e. the differences between previous actuarial assumptions and actual figures, and the effects of changes in actuarial assumptions.

Share-based payment and deferred cash award schemes
The Parent's employees participate in share-based payment and deferred cash award schemes based on theshares of the DB AG Group. The schemes are treated as cash-settled schemes. A provision is established for future payments and recognised in liabilities under 'Other liabilities' and under 'Administrative expenses – salaries and wages' in the statement of profit or loss. The scheme cost is calculated using a valuation model. The fair value is initially calculated as at the day when the award is granted, and then as at each reporting date until it is fully accounted for.

Policy of variable components of remuneration for persons in management positions
Pursuant to Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011, the Parent has implemented the policy of variable components of remuneration for persons in management positions at the Deutsche Bank Polska Group who play a significant role in determining the Parent's risk profile.

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 Parent's risk exposure. The Parent 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 'Administrative expenses – salaries and wages'.

u) 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.

v) 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 finan-

cial 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.

w) 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 2014 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.

x) Dividend income

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

y) 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.

z) 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.

aa) 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.

bb) 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.

cc) 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.

dd) 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.

ee) 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

Interest income

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Loans and advances to other banks	31,541	37,083
Loans and advances to customers	904,052	885,215
Debt securities, including:	93,626	188,444
– held for trading	44,883	175,714
– available for sale	48,743	12,729
Total	1,029,219	1,110,742

* Restated.

Interest income earned in 2014 comprises income on financial assets, for which an impairment loss of PLN 10,602 thousand was recognised (2013: PLN 8,896 thousand).

4. Interest expense

Interest expense

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
On deposits from other banks	(112,457)	(103,480)
including subordinated liabilities	(5,269)	(5,272)
On deposits from customers	(200,896)	(347,190)
Total	(313,353)	(450,670)

* Restated.

In 2014, 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 30 thousand (2013: PLN 159 thousand).

5. Fee and commission income

Fee and commission income

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Income from:		
Opening and maintaining accounts and settlement transactions	70,416	71,251
Distribution of investment fund units	78,837	87,637
Intermediation in the sale of insurance	51,783	40,616
Loans and advances	45,037	40,735
Brokerage fees	33,368	29,676
Advisory/asset management services	29,426	28,080
Guarantees issued	14,280	14,608
Credit and payment cards	25,542	28,487
Intermediation in the sale of securities	6,771	9,065
Distribution of options	6,346	127
Other	10,551	6,775
Total	372,357	357,056

* Restated.

6. Fee and commission expense

Fee and commission expense

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Expenses on:		
Intermediation in the sale of banking and insurance products	(23,708)	(21,983)
Other expenses on intermediation in the sale of insurance	(17,155)	(19,459)
Brokerage services	(10,184)	(6,532)
Payment orders	(4,325)	(4,549)
Expenses to the Polish NDS (National Depository of Securities)	(3,169)	(2,191)
Transaction costs on other markets	(2,298)	(1,333)
Expenses to WSE (Warsaw Stock Exchange)	(6,342)	(5,471)
Credit and payment cards	(7,832)	(8,714)
Other	(5,551)	(4,406)
Total	(80,565)	(74,638)

* Restated.

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

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Foreign exchange gains/(losses)	130,058	172,456
Net gain/(loss) on debt instruments held for trading	27,061	(555)
Net gain/(loss) on equity instruments held for trading	(143)	4
Net gain/(loss) on derivative instruments, including:	16,264	984
Currency options	4,102	5,696
Deferred delivery fx transactions, including:	3,447	(5,471)
FX forwards	(187)	(3,701)
FX swaps	3,634	(1,770)
IRSs, FRAs	8,715	759
Other	277	560
Total	173,517	173,449

* Restated.

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

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Gain on sale of portfolio available for sale	734	-
Loss on sale of portfolio available for sale	-	(22)
Total	734	(22)

* Restated.

9. Other income

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Income from services	2,750	4,478
Other	1,891	2,504
Total	4,640	6,982

* Restated.

10. Impairment losses on financial assets

Increase in impairment losses

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Impairment losses on loans and advances to clients, including:	(448,223)	(439,231)
on impaired exposures	(272,472)	(290,858)
on unimpaired exposures (losses incurred but not reported)	(168,397)	(140,220)
debt collection costs	(7,354)	(8,153)
Other impairment losses	(10,336)	(8,971)
Total increase in impairment losses	(458,559)	(448,202)

Decrease in impairment losses

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Reversal of impairment losses on loans and advances to clients, including:	302,707	349,566
on impaired exposures	154,554	169,543
on unimpaired exposures (losses incurred but not reported)	144,345	167,347
recovery of uncollectible receivables	3,808	12,676
Other impairment losses	11,658	12,419
Total decrease in impairment losses	314,365	361,985
Net cost of impairment	(144,194)	(86,217)

* Restated.

Impairment losses on financial assets account for net gain/(loss) on sale of debt.

11. Administrative expenses

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Personnel costs:	(302,826)	(302,906)
Salaries and wages	(257,923)	(255,721)
Employee benefits	(44,903)	(47,186)
Other administrative expenses, including:	(345,965)	(359,347)
Maintenance and lease of buildings	(81,397)	(97,621)
Operation of IT systems	(69,902)	(73,681)
Other services	(73,058)	(77,269)
Advertising and sponsoring	(11,090)	(12,309)
Communication	(29,402)	(31,356)
Taxes and charges	(51,311)	(43,545)
Other	(29,805)	(23,566)
Total	(648,791)	(662,253)

* Restated.

12. Depreciation and amortisation

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Depreciation and amortisation:		
Depreciation of property and equipment	(12,173)	(15,300)
Amortisation of intangible assets	(21,069)	(21,017)
Total	(33,242)	(36,317)

* Restated.

13. Other expenses

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Cost of provisions for operational risk	(4,639)	(1,376)
Donations	(129)	(348)
Net gain/(loss) on sale/liquidation of property and equipment	(265)	(3,124)
Other	(1,154)	(3,826)
Total	(6,187)	(8,674)

* Restated.

14. Income tax expense

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Profit before tax	354,166	329,745
Current tax	(67,754)	(29,473)
Deferred tax	(9,179)	(46,845)
Total corporate income tax in the statement of profit or loss	(76,933)	(76,318)
Reconciliation of increases in loss/decreases in profit		
Profit before tax	354,166	329,745
Corporate income tax calculated at the tax rate of 19%	(67,292)	(62,652)
Non-tax-deductible expenses	(10,372)	(15,729)
Non-taxable income	98	1,230
Tax credit for expenditure on new technologies	313	994
Other items with an impact on the amount of tax expense	320	(162)
Total corporate income tax in the statement of profit or loss	(76,933)	(76,318)
Calculation of effective interest rate		
Income tax	(76,933)	(76,318)
Effective interest rate	22%	23%

* Restated.

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.

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Net profit for period	277,232	253,172
Weighted average number of ordinary shares	2,244,489	1,837,529
Basic earnings per share	0.12352	0.13778

* Restated.

16. Cash and balances with Central Bank

in PLN thd	Jan 1 – Dec 31 2014	Jan 1 – Dec 31 2013*
Cash **	124,624	121,555
Deposits with Central Bank	1,418,481	593,626
Total	1,543,105	715,181

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

The declared mandatory reserves to be maintained in the period including December 31st 2014 amounted to PLN 617,211 thousand, compared with PLN 551,206 thousand in the period including December 31st 2013. The reserves were set at the average balance of customers' assets in November 2014 (November 2013) (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 2014	Dec 31 2013*
Current account	573,785	972,105
Interbank deposits and loans and advances to other banks (including purchased debt)	181,317	3,795
Interest accrued	1,414	1,217
Discount on purchased debt	(72)	(39)
Gross amounts due from banks	756,444	977,079
Impairment losses, including:	(119)	(375)
– recognised individually	-	-
– recognised collectively	(119)	(375)
Net amounts due from banks	756,325	976,704

* Restated.

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

in PLN thd	Dec 31 2014	Dec 31 2013*
Payable on demand	573,785	972,105
With fixed maturities	181,317	3,795
– up to 1 month	4,135	0
– over 1 month to 3 months	40,095	1,403
– over 3 months to 1 year	137,087	2,392
– over 1 year to 5 years	-	-
– over 5 years	-	-
Interest accrued	1,414	1,217
Discount on purchased debt	(72)	(39)
Impairment losses	(119)	(375)
Net amounts due from banks	756,325	976,704

* Restated.

Change in impairment losses on amounts due from other banks

in PLN thd	Dec 31 2014	Dec 31 2013*
Impairment losses on amounts due from other banks at beginning of period	375	158
Recognition of impairment losses	-	217
Reversal of impairment losses	(256)	-
Written-off against provisions	-	-
Other changes	-	-
Impairment losses on amounts due from other banks at end of period	119	375

* Restated.

18. Loans and advances to customers

Amounts due from customers by type

in PLN thd	Dec 31 2014	Dec 31 2013*
Individuals	24,193,766	22,855,992
Business entities	4,677,192	4,241,498
Public sector	44,269	81,051
Interest	58,320	54,008
Effective interest rate adjustment	-	(1)
Discount	-	(58)
Gross amounts due from customers	28 973 547	27,232,490
Impairment losses	(732,778)	(694,705)
Net amounts due from customers	28,240,769	26,537,785

* Restated.

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	2014	2013*
Payable on demand	1,758,951	1,511,986
With fixed maturities	26,932,312	25,496,009
– up to 1 month	881,370	1,037,031
– over 1 month to 3 months	476,978	378,225
– over 3 months to 1 year	1,730,218	1,581,395
– over 1 year to 5 years	6,712,118	5,916,353
– over 5 years	17,131,628	16,583,005
Other	223,965	170,546
Interest	58,319	54,008
Effective interest rate adjustment	-	(1)
Discount	-	(58)
Total	28,973,547	27,232,490

* Restated.

Change in impairment losses

in PLN thd	Dec 31 2014	Dec 31 2013*
As at Jan 1	694,705	789,388
Change in impairment losses	38,073	(94,683)
Impairment losses on loans and advances to customers	440,869	430,862
Receivables written-off against provisions**	(93,612)	(179,756)
Decrease due to foreign exchange gains/(losses)	(10,541)	(8,634)
Reversal of impairment losses on loans and advances to customers	(298,643)	(336,892)
Other decreases	-	(262)
As at Dec 31	732,778	694,705

* Restated.
** The item includes PLN 60,286 thousand (2013: PLN 89,030 thousand) of receivables written down following the sale of non-performing loan portfolios with a gross carrying amount of PLN 79,646 thousand as at the transaction date (2013: PLN 101,857 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 2014	Dec 31 2013*
Impairment losses on impaired exposures	676,569	674,770
Impairment losses for losses incurred but not reported (IBNR)	56,209	19,935
Total impairment losses	732,778	694,705

* Restated.

in PLN thd	Dec 31 2014	Dec 31 2013*
Gross impaired receivables	973,944	1,028,783
Impairment losses on impaired exposures	(676,569)	(674,770)
Net impaired receivables	297,375	354,013
Gross unimpaired receivables	27,999,603	26,203,707
Impairment losses for losses incurred but not reported (IBNR)	(56,209)	(19,935)
Net unimpaired receivables	27,943,394	26,183,772
Total gross amounts due from customers	28,973,547	27,232,490
Total impairment losses	(732,778)	(694,705)
Total net amounts due from customers	28,240,769	26,537,785

* Restated.

In 2014, the Group changed the methodology of estimating impairment losses. For more information, see Note 43.

The changed methodology for estimating impairment losses resulted in higher impairment losses on homogeneous portfolios, which increased by PLN 26,292 thousand, with impairment losses on the collectively assessed portfolio of unimpaired receivables up by PLN 37,317 thousand, and impairment losses on the collectively assessed portfolio of impaired receivables down by PLN 11,025 thousand.

19. Financial assets at fair value through profit or loss

in PLN thd	Dec 31 2014	Dec 31 2013*
Treasury bills	-	-
NBP bills	-	1,800,000
Treasury bonds	1,456,390	1,340,449
Listed shares in other entities	9,512	-
Valuation of derivative financial instruments	182,978	94,375
Total	1,648,880	3,234,825

* Restated.

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 2014	Dec 31 2013*
Interest rate contracts	59,631	62,848
– IRSs	57,562	61,528
– Other interest rate contracts	2,069	1,320
Currency contracts	123,347	31,527
– FX spots/forwards	20,530	13,347
– FX swaps	71,579	13,273
– Currency options purchased	30,982	4,572
– Currency options embedded in deposits	256	335
Total	182,978	94,375

* Restated.

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

in PLN thd	Dec 31 2014	Dec 31 2013*
Balance at beginning of period	3,140,449	4,301,534
Increase	213,459,007	343,283,560
- purchase of debt securities**	213,347,648	343,272,478
- increase in the value of securities***	111,359	11,082
Decrease	(215,143,066)	(344,444,644)
- sale of debt securities**	(155,667,216)	(67,145,947)
- redemption of debt securities**	(59,475,850)	(277,264,560)
- decrease in the value of securities***	-	(34,137)
Balance at end of period	1,456,390	3,140,449

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

Financial assets at fair value through profit or loss by maturity

in PLN thd	Dec 31 2014	Dec 31 2013*
– up to 1 month	38,250	1,809,520
– over 1 month to 3 months	39,244	23,768
– over 3 months to 1 year	273,920	27,080
– over 1 year to 5 years	1,157,249	863,622
– over 5 years	130,705	510,834
Not applicable	9,512	-
Total	1,648,880	3,234,825

* Restated.

20. Financial assets held as investments

in PLN thd	Dec 31 2014	Dec 31 2013*
Securities available for sale:		
Treasury bonds	276,598	328,611
Treasury bills	-	-
NBP bills	3,500,000	-
NBP bonds	-	749,844
Shares**	3,217	2,410
Total	3,779,815	1,080,865

* Restated.
** The item 'Shares' includes VISA shares received in relation to the Group's membership in VISA International and shares in GPW S.A. and BondSpot S.A.

Change in securities available for sale:

in PLN thd	Dec 31 2014	Dec 31 2013*
Balance at beginning of period	1,080,865	508,672
Increase	94,747,239	832,080
– purchase of debt securities**	94,743,799	33,018
– increase in the value of securities***	3,440	799,062
Decrease	(92,048,289)	(259,887)
– sale of debt securities**	-	-
– redemption of debt securities**	(91,244,770)	(167,700)
– decrease in the value of securities***	(803,519)	(92,169)
– other	-	(18)
Balance at end of period	3,779,815	1,080,865

* Restated.
** 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 2014, the nominal value of the bonds was PLN 107,000.00 thousand (December 31st 2013: PLN 108,000.00 thousand).

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 2013 – restated	126,034	85,432	24,315	-	235,781
Increase (including)	52	1,422	291	-	1,765
Purchase	52	1,422	291	-	1,765
Decrease (including)	(5,045)	(6,479)	(962)	-	(12,486)
Disposal	-	(1,205)	-	-	(1,205)
Liquidation	(207)	(4,189)	(962)	-	(5,358)
Impairment	(4,838)	(1,085)	-	-	(5,923)
As at Dec 31 2013 – restated	121,041	80,375	23,644	-	225,060
As at Jan 1 2014 – restated	121,041	80,375	23,644	-	225,060
Increase (including)	17	987	223	-	1,227
Purchase	17	987	223	-	1,227
Decrease (including)	(4,443)	(10,429)	(3,456)	-	(18,328)
Disposal	(3,198)	(103)	-	-	(3,301)
Liquidation	(1,245)	(10,326)	(3,456)	-	(15,027)
Impairment	-	-	-	-	-
As at Dec 31 2014	116,615	70,933	20,411	-	207,959

Accumulated depreciation and impairment

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2013 – restated	66,668	75,137	23,938	-	165,743
Depreciation	9,704	5,379	329	-	15,412
Impairment	(2,493)	(1,078)	-	-	(3,571)
Sale/liquidation	(133)	(5,118)	(962)	-	(6,213)
As at Dec 31 2013 – restated	73,746	74,320	23,305	-	171,371
As at Jan 1 2014 – restated	73,746	74,320	23,305	-	171,371
Depreciation	9,375	2,554	243	-	12,172
Impairment	-	(100)	-	-	(100)
Sale/liquidation	(2,688)	(10,292)	(3,457)	-	(16,437)
Other changes	-	81	-	-	81
As at Dec 31 2014	80,433	66,563	20,091	-	167,087

Carrying amount

in PLN thd	Land and buildings	Plant and equipment	Fittings and furnishings	Assets under construction	Total
As at Jan 1 2013 – restated	59,366	10,295	377	-	70,038
As at Dec 31 2013 – restated	47,295	6,055	339	-	53,689
As at Jan 1 2014 – restated	47,295	6,055	339	-	53,689
As at Dec 31 2014	36,182	4,370	320	-	40,872

22. Intangible assets

Gross amount

in PLN thd	Formation expenses	Patents, licences	Capital expenditure	Total
As at Jan 1 2013 – restated	62	148,952	26,501	175,515
Purchase	-	1,240	22,757	23,997
Increase – allocation	-	-	7,975	7,975
Project settlement	-	23,357	-	23,357
Transfer from capital expenditure	-	-	(25,129)	(25,129)
Liquidation	-	(648)	-	(648)
As at Dec 31 2013 – restated	62	172,901	32,104	205,067
As at Jan 1 2014 – restated	62	172,901	32,104	205,067
Purchase	-	460	22,059	22,519
Increase/decrease – allocation	-	-	(2,095)	(2,095)
Project settlement	-	11,462	-	11,462
Transfer from capital expenditure	-	-	(13,239)	(13,239)
Liquidation	-	-	-	-
As at Dec 31 2014	62	184,823	38,829	223,714

Accumulated amortisation and impairment

in PLN thd	Formation expenses	Patents, licences	Capital expenditure	Total
As at Jan 1 2013 – restated	62	103,973	-	104,035
Amortisation	-	20,905	-	20,905
Provision for amortisation	-	112	-	112
Liquidation	-	(334)	-	(334)
As at Dec 31 2013 – restated	62	124,656	-	124,718
As at Jan 1 2014 – restated	62	124,656	-	124,718
Amortisation	-	21,069	-	21,069
Provision for amortisation	-	(723)	-	(723)
Liquidation	-	-	-	-
Other changes	-	(370)	-	(370)
As at Dec 31 2014	62	144,632	-	144,694

Carrying amount

in PLN thd	Formation expenses	Patents, licences	Capital expenditure	Total
As at Jan 1 2013 – restated	-	44,979	26,501	71,480
As at Dec 31 2013 – restated	-	48,245	32,104	80,349
As at Jan 1 2014 – restated	-	48,245	32,104	80,349
As at Dec 31 2014	-	40,191	38,829	79,020

23. Deferred tax assets

in PLN thd	Dec 31 2014	Dec 31 2013*
Deferred tax assets	91,225	94,728
Deferred tax liabilities	(62,729)	(56,595)
Total deferred tax assets, net	28,496	38,133

* Restated.

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 2014	Dec 31 2013*	Change in 2014
Accrued interest to be paid	35,099	50,372	(15,273)
Provisions for expenses	154,863	165,947	(11,084)
Premium on debt securities	-	32	(32)
Impairment losses on credit exposures and fair value of financial instruments	224,931	210,763	14,168
Paid costs related to option premium	522	1,343	(821)
Difference between the tax base and accounting value of property and equipment	3,159	4,153	(994)
Revenue due for current year, received in the following year, as remuneration for financial services	9,927	8,883	1,044
Valuation of financial assets – derivatives	48,752	50,491	(1,739)
Valuation of financial assets held for trading	245	170	75
Valuation of financial assets available for sale	2,634	4,882	(2,248)
Deductible tax loss	-	1,530	(1,530)
Total	480,132	497,036	(16,904)
Tax rate	19%	19%	-
Deferred tax assets	91,225	94,728	(3,503)
including taken to revaluation reserve	500	928	(428)
including taken to profit or loss	90,725	93,800	(3,075)

* Restated.

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 2014	Dec 31 2013*	Change in 2014
Accrued interest to be received	62,144	94,706	(32,562)
Unrealised discount on securities	252	1,161	(909)
Prepaid expenses	189,977	138,055	51,922
Valuation of financial assets – derivatives	65,546	43,559	21,987
Valuation of financial assets held for trading	11,372	589	10,783
Income on securities – received	(15,215)	4,236	(19,451)
Other accrued income	13,472	13,124	348
Valuation of financial assets available for sale	2,605	2,453	152
Total	330,153	297,883	32,270
Tax rate	19%	19%	-
Deferred tax liabilities	62,729	56,596	6,134
including taken to revaluation reserve	495	466	29
including taken to profit or loss	62,234	56,130	6,104

* Restated.

24. Current tax assets

No such item was recognised as at the end of the reporting period.

25. Other assets

in PLN thd	Dec 31 2014	Dec 31 2013*
Various debtors, net	65,299	74,691
Prepayments and accrued income	5,436	2,360
Public receivables	762	4,185
Other assets	1,726	745
Interbank settlements	899	5,483
Amounts due from clients under executed transactions	30,206	38,131
Amounts due from the National Depository for Securities	42,587	38,612
Accrued income	24,420	19,672
Total	171,336	183,880

* Restated.

Maturity structure of various debtors

in PLN thd	Dec 31 2014	Dec 31 2013*
Not past due	65,551	74,598
Past due – up to one year	-	67
Past due – from 1 year to 3 years	1,360	1,080
Past due – from 3 years to 5 years	-	110
Various debtors, gross	66,911	75,855
Impairment losses	(1,612)	(1,164)
Various debtors, net	65,299	74,691

* Restated.

26. Amounts due to other banks

Amounts due to banks by type

in PLN thd	Dec 31 2014	Dec 31 2013*
Current account	510,615	515,712
Term deposits	14,253,529	10,917,658
Loans received	449,694	2,441,984
Interest accrued	21,604	18,575
Total	15,235,442	13,893,929

* Restated.

Amounts due to banks by maturity

in PLN thd	Dec 31 2014	Dec 31 2013*
Payable on demand	510,615	515,712
With fixed maturities	14,703,236	13,359,615
– up to 1 month	93,935	480,180
– over 1 month to 3 months	63,935	82,944
– over 3 months to 1 year	1,541,474	1,250,863
– over 1 year to 5 years	8,246,509	6,496,221
– over 5 years	4,757,383	5,049,407
Other	(13)	27
Interest accrued	21,604	18,575
Total	15,235,442	13,893,929

* Restated.

27. Amounts due to customers

Amounts due to customers by type

in PLN thd	Dec 31 2014	Dec 31 2013*
Current account		
Individuals	3,109,344	3,068,032
Businesses	8,813,487	6,294,730
Public sector	33,616	38,105
Total current accounts	11,956,447	9,400,867
Term deposits		
Individuals	2,559,799	3,100,886
Businesses	1,641,100	1,978,225
Public sector	26,149	89,301
Total term deposits	4,227,048	5,168,412
Interest accrued	12,273	20,520
Total	16,195,768	14,589,799

* Restated.

Amounts due to customers by maturity

in PLN thd	Dec 31 2014	Dec 31 2013*
Payable on demand	11,956,447	9,400,867
With fixed maturities	4,227,029	5,168,463
– up to 1 month	1,653,439	2,131,006
– over 1 month to 3 months	1,137,522	1,130,253
– over 3 months to 1 year	1,419,441	1,865,022
– over 1 year to 5 years	12,526	38,261
– over 5 years	4,100	3,922
Other	19	(51)
Interest accrued	12,273	20,520
Total	16,195,768	14,589,799

* Restated.

28. Financial liabilities at fair value through profit or loss

Negative market value of unmatured derivative financial instruments

in PLN thd	Dec 31 2014	Dec 31 2013*
Interest rate contracts	45,626	39,597
– Securities with future settlement date	245	170
– IRSs	43,900	38,514
– Other interest rate contracts	1,481	913
Currency contracts	172,655	29,405
– FX spots/forwards	23,807	16,029
– FX swaps	117,611	8,469
– Currency options sold	31,237	4,907
Total	218,281	69,002

* Restated.

Financial liabilities at fair value through profit or loss by maturity

in PLN thd	Dec 31 2014	Dec 31 2013*
up to 1 month	48,488	8,043
over 1 month to 3 months	41,850	7,024
over 3 months to 1 year	77,409	10,695
over 1 year to 5 years	46,858	42,879
over 5 years	3,677	361
Total	218,281	69,002

* Restated.

Offsetting financial instruments

Dec 31 2014	Valuation of derivative finan-cial instruments	Notional offset amount	Margin (received/ provided)	Net amount
Financial assets at fair value through profit or loss	182,978	4,575	-	178,403
Financial liabilities at fair value through profit or loss	218,281	4,575	-	213,706

Dec 31 2013 – restated	Valuation of derivative finan-cial instruments	Notional offset amount	Margin (received/ provided)	Net amount
Financial assets at fair value through profit or loss	94,375	3,176	-	91,199
Financial liabilities at fair value through profit or loss	69,002	3,176	-	65,826

29. Provisions

in PLN thd	Provisions for retirement severance pay-ments	Provisions for off-balance-sheet liabilities	Provisions for disputes	Other provisions	Total
As at Jan 1 2014 – restated	652	5,973	967	-	7,592
Provisions recognised during the year	12	10,335	-	-	10,347
Provisions reversed during the year	-	(11,659)	(229)	-	(11,888)
Other	-	-	-	-	-
Reclassification of provision	-	-	-	-	-
As at Dec 31 2014	664	4,649	738	-	6,051
As at Jan 1 2013 – restated	581	6,763	3,417	457	11,218
Provisions recognised during the year	570	8,759	212	-	9,541
Provisions reversed during the year	(499)	(9,549)	(3,162)	(457)	(13,667)
Reclassification of provision	-	-	500	-	500
As at Dec 31 2013 – restated	652	5,973	967	-	7,592

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 33m as at December 31st 2014.

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 2014, provisions for legal claims arising from disputes in which the Group was a respondent totalled PLN 738 thousand.

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. In connection to the reduction, in 2013 the Parent reversed the provision of PLN 2,869 thousand. The Parent appealed against the ruling of the Regional Court in Warsaw, with the case still pending.

30. Tax liabilities

As at December 31st 2014, the Group recognised current tax liabilities of PLN 7,176 thousand. Current tax liabilities of Group companies for 2014 were paid by the statutory deadline.

31. Other liabilities

in PLN thd	Dec 31 2014	Dec 31 2013*
Interbank settlements	91,834	79,454
Various creditors	24,365	23,582
Public charges	11,360	11,182
Amounts due to brokerage houses and the NDS	18,491	3,455
Other payables	16,349	20,885
Provisions, including:	149,271	158,460
for awards and bonuses	40,170	41,231
for unpaid invoices	93,567	94,102
for unused holidays	9,332	8,281
other	6,202	14,845
Deferred income	36,515	31,016
Total	348,185	328,035

* Restated.

Deferred income includes provisions for the return of insurance commission on intermediation in the sale of insurance offered with consumer loans and distribution of investment-linked insurance products.

32. Subordinated liabilities

Financing provider: Deutsche Financial Services (Malta) Ltd.	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2014	Maturity date	Amount outstanding as at Dec 31 2014
Principal	55,000	EUR	2,111	Jul 4 2018	234,426
Interest	281	EUR	x	x	1,196
Total	55,281	EUR	x	x	235,622

Financing provider: Deutsche Financial Services (Malta) Ltd.	Nominal amount in loan currency	Currency	Interest rate as at Dec 31 2013	Maturity date	Amount outstanding as at Dec 31 2013
Principal	55,000	EUR	2,255	Jul 4 2018	228,096
Interest	307	EUR	x	x	1,271
Total	55,307	EUR	x	x	229,367

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.

33. Parent's share capital

Ordinary shares

in PLN thd	Dec 31 2014	Dec 31 2013
Shares outstanding as at Jan 1 2014 – fully paid-up	1,837,529,524	1,837,529,524
Shares outstanding as at Dec 31 2014 – fully paid-up	2,651,449,384	1,837,529,524

SHARE CAPITAL (STRUCTURE)

Series / issue	Type of shares	Number of shares	Series/issue at par value (in PLN thd)	Manner of payment for share capital	Registration date	Dividend right (since)
I	ordinary registered	1,000,000	1,000	cash	Nov 4 1991	Jan 1 1992
II	ordinary bearer	2,500,000	2,500	cash	Nov 24 1992	Jan 1 1993
III Series A	ordinary registered	250,000	250	cash	Aug 26 1993	Jan 1 1993
III Series B	ordinary registered	304,960	305	in-kind contribution	Nov 30 1993	Jan 1 1994
III Series C	ordinary bearer	189,465	189	cash	Nov 30 1993	Jan 1 1994
III Series D	ordinary registered	288,883	289	cash	Nov 30 1993	Jan 1 1993
III Series E	ordinary bearer	1,300,000	1,300	cash	Feb 16 1994	Jan 1 1994
III Series F	ordinary bearer	1,666,692	1,667	cash	Apr 13 1994	Jan 1 1994
IV	ordinary bearer	1,971,068	1,971	cash	Jun 16 1994	Jan 1 1994
V	ordinary bearer	3,031,014	3,031	cash	Dec 30 1994	Jan 1 1995
VI	ordinary registered	1,671,915	1,672	in-kind contribution	Jun 23 1997	Jan 1 1997
VII Series A	ordinary bearer	14,261,897	14,262	cash	Dec 22 1997	Jan 1 1998
VIII Series AA	ordinary bearer	235,000,000	235,000	cash	Mar 20 2000	Jan 1 2000
IX Series BB	ordinary bearer	34,620,975	34,621	cash	Jul 25 2000 Jul 28 2000	Jan 1 2000
X	ordinary bearer	38,215,967	38,216	cash	Dec 28 2001	Jan 1 2002
Cancellation of shares	ordinary bearer	(150,568,503)	(150,569)	voluntary cancellation, unpaid	Oct 27 2004	not applicable
XI	ordinary registered	89,000,000	89,000	cash	Aug 18 2005	Jan 1 2005
XII	ordinary registered	121,951,219	121,951	cash	Nov 29 2006	Jan 1 2007
XIII	ordinary registered	185,000,000	185,000	cash	Sep 26 2007	Jan 1 2008
XIV	ordinary registered	257,013,000	257,013	cash	Sep 7 2009	Jan 1 2010
XV	ordinary registered	193,000,000	193,000	cash	May 26 2010	Jan 1 2011
XVI	ordinary registered	167,000,000	167,000	cash	Dec 3 2010	Jan 1 2011
XVII	ordinary registered	121,860,972	121,861	cash	Aug 25 2011	Jan 1 2012
XVIII	ordinary registered	300,000,000	300,000	cash	Oct 25 2011	Jan 1 2012
XIX	ordinary registered	110,000,000	110,000	cash	Apr 27 2012	Jan 1 2013
XX	ordinary registered	107,000,000	107,000	cash	Jun 22 2012	Jan 1 2013
XXI	ordinary registered	813,919,860	813,920	acquisition under Art. 492.1.1 of the Commercial Companies Code	Jan 31 2014	Jan 1 2013
Total number of shares		2,651,449,384				
Total share capital			2,651,449			

Par value per share = PLN 1.00

The Group did not issue any preference shares. For more information on the change in the share capital amount, see Significant accounting policies, Note 2e).

34. Other components of equity

in PLN thd	Dec 31 2014	Dec 31 2013*
Share premium	525,366	525,366
Revaluation reserve, including	112	(1,567)
valuation of portfolio of financial assets available for sale	60	(2,420)
deferred tax	6	461
other revaluation reserve	46	392
Retained earnings	865,166	1,437,536
reserve funds	319,948	319,948
capital reserves	238,091	838,396
general risk fund	29,895	26,020
profit for period	277,232	253,172
Total	1,390,644	1,961,334

* Restated.

The share premium of PLN 525,366 thousand in the 2013 column represents equity of the Parent.

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 2014. The Management Board intends to recommend to the Supervisory Board a resolution to retain the profit for 2014 in order to increase capital reserves.

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

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:

Dec 31 2014

in PLN thd	Carrying amount	Fair value
Assets		
Deposits with other banks, and loans and advances to other banks	756,325	737,466
Loans and advances to customers	28,240,769	27,704,485
Equity and liabilities		
Amounts due to other banks	15,235,442	14,953,767
Amounts due to customers	16,195,768	17,095,010
Subordinated liabilities	235,622	252,539

Dec 31 2013 – restated

in PLN thd	Carrying amount	Fair value
Assets		
Deposits with other banks, and loans and advances to other banks	976,704	976,334
Loans and advances to customers	26,537,785	24,595,690
Equity and liabilities		
Amounts due to other banks	13,893,929	14,077,002
Amounts due to customers	14,589,799	14,598,998
Subordinated liabilities	229,367	246,989

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 2014.

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 2014. 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.

Securities held to maturity

As at the reporting date the Group did not hold any securities held to maturity.

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 2014 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.

The Group calculates fair value of financial instruments using one of the following valuation techniques:
1) 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.
2) 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.
3) 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.

The Group may reclassify its assets or liabilities between Level I and Level II if quotations from an active market cease to be available at the end of a reporting period, or between Level II and Level III if a valuation input which has a material effect on the valuation ceases to be observable. In the discussed reporting periods, there were no reclassifications between fair value levels.

In the case of derivative instrument assets, a valuation adjustment reflecting counterparty risk is calculated (credit value adjustment, CVA). The Group deems the effect of the CVA (which is an unobservable input) to be immaterial from the point of view of the total valuation. Accordingly, the derivative instrument assets are presented in Level II.

The table below presents a breakdown of financial assets and liabilities into the three levels presented above:

Dec 31 2014

in PLN thd	Carrying amount	Fair value	Level I	Level II	Level III
Assets					
Deposits with other banks, and loans and advances to other banks	756,325	737,466	-	737,466	-
Loans and advances to customers	28,240,769	27,704,485	-	-	27,704,485
Financial assets at fair value through profit or loss	1,648,880	1,648,880	1,465,902	182,978	-
Financial assets held as investments	3,779,815	3,779,815	276,598	3,503,217	-
Equity and liabilities					
Amounts due to other banks	15,235,442	14,953,767	-	14,953,767	-
Amounts due to customers	16,195,768	17,095,010	-	17,095,010	-
Financial liabilities at fair value through profit or loss	218,281	218,281	-	218,281	-
Subordinated liabilities	235,622	252,539	-	252,539	-

Dec 31 2013 − restated

in PLN thd	Carrying amount	Fair value	Level I	Level II	Level III
Assets					
Deposits with other banks, and loans and advances to other banks	976,704	976,334	-	976,334	-
Loans and advances to customers	26,537,785	24,595,690	-	-	24,595,690
Financial assets at fair value through profit or loss	3,234,825	3,234,825	1,340,449	1,894,375	-
Financial assets held as investments	1,080,865	1,080,550	330,706	749,844	-
Equity and liabilities					
Amounts due to other banks	13,893,929	14,077,002	-	14,077,002	-
Amounts due to customers	14,589,799	14,598,998	-	14,598,998	-
Financial liabilities at fair value through profit or loss	69,002	69,002	-	69,002	-
Subordinated liabilities	229,367	246,989	-	246,989	-

As at the end of 2013 and at the end of 2014, the Group held no assets or liabilities measured at fair value using valuation techniques based on material inputs other than sourced from an active market (Level III).

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 Group's clients. Guarantee and letter-of-credit agreements provide for specified limits and are made on average for periods of up to three years. The Group also issues loan promises.

The values of contingent liabilities under contracts, broken down into individual categories, are presented in the table below. The values of guarantees and letters of credit shown in the table below reflect the maximum possible loss which would be disclosed as at the end of the reporting period if clients defaulted on all of their obligations.

Value of commitments assumed

in PLN thd	Dec 31 2014	Dec 31 2013*
Credit facilities	2,681,794	2,966,637
Import/export letters of credit issued/confirmed	31,968	25,985
Guarantees	1,335,248	1,392,821
Other commitments, including:	269,165	361,364
Commitments under loan promises	43,379	174,825
Total	4,318,175	4,746,807

* Restated.

Value of commitments received

in PLN thd	Dec 31 2014	Dec 31 2013*
Financial commitments	222,465	921,278
Guarantee commitments	1,180,140	983,866
Total	1,402,605	1,905,144

* Restated.

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.

Customers' securities

in PLN thd	Dec 31 2014	Dec 31 2013*
Customers' securities (brokerage business)	1,224,915	1,070,480

* Restated.

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

in PLN thd	Dec 31 2014	Dec 31 2013*
Currency transactions	883,157	365,449
Derivative instruments	22,127,878	12,048,323
Total	23,011,035	12,413,772

Derivative instruments		
Currency forwards	2,179,983	2,204,482
Purchased	1,084,908	1,100,005
Sold	1,095,075	1,104,477
Currency swaps	9,015,048	3,279,785
Purchased	4,487,118	1,642,929
Sold	4,527,930	1,636,856
Interest rate swaps (IRS)	2,273,639	3,723,567
CAPs/FLOORs	-	248,832
FRAs	4,850,000	-
Transactions in equity securities	180,000	837,325
Currency options	3,610,990	1,618,052
Notional amount purchased	1,805,495	809,026
Notional amount sold	1,805,495	809,026
Options embedded in deposits	18,218	136,280
Notional amount purchased	9,109	68,140
Notional amount sold	9,109	68,140
Total derivative instruments	22,127,878	12,048,323

* Restated.

37. Hedging Assets

As at December 31st 2014, 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 2013: PLN 108,000.00 thousand), representing coverage of the Guaranteed Deposit Protection Fund in accordance with Art. 25 and Art. 26 of the Bank Guarantee Fund Act, and security in respect of deposits made by a subsidiary (PLN 25,000.00 thousand).

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 2014	Dec 31 2013*
Up to one year	63,631	58,875
From 1 year to 5 years	125,268	122,345
Over 5 years	22,184	9,846
Total	211,084	191,066

* Restated.

The Group mostly leases vehicles and computer hardware under operating leases. The lease agreements are usually made for periods of two to five years, with an option to prolong the lease thereafter. None of the lease agreements provides for contingent payments.

In 2014 and 2013, operating lease costs were PLN 11,757 thousand and PLN 16,657 thousand, respectively. The Group leases office space under operating lease agreements, which are usually made for five years. Cost of lease of office space in the financial year 2014 was PLN 65,816 thousand (2013: PLN 64,997 thousand; for the merged Bank: PLN 69,091 thousand); the average monthly cost of lease of office space was PLN 5,485 thousand (2013: PLN 5,417 thousand, for the merged Bank: PLN 5,758 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.

in PLN thd	Dec 31 2014	Dec 31 2013*
Cash and balances with Central Bank	1,543,105	715,181
Deposits with banks up to 3 months	573,785	972,106
Total	2,116,890	1,687,287

* Restated.

40. Remuneration of the Management Board, Supervisory Board and personnel

Remuneration of the Management Board, Supervisory Board and Group personnel in the financial year

	Dec 31 2014			Dec 31 2013*		
in PLN thd	Management Board	Supervisory Board	Personnel	Management Board	Supervisory Board	Personnel
Salaries and wages	19,405	395	266,258	13,412	668	271,440
Other short-term benefits	554	-	12,987	384	-	12,700
Termination benefits	630	-	1,886	-	-	2,094
Cost of share-based payment schemes	551	-	159	2,151	-	57
Total	21,140	395	281,291	15,947	668	286,291

* Restated.

The table above presents remuneration of members of the Management and Supervisory Boards of the Parent and its subsidiary and other Group employees (personnel).

The amounts include base salary, bonuses, social security contributions and additional benefits, such as benefits in kind, life insurance contracts and other insurance.

The item ‘Salaries and wages’ includes:

- provisions for awards and bonuses for 2014, including awards and bonuses to be distributed in 2015. The provision for awards and bonuses to employees amounts to PLN 24,744 thousand. The provision for employee awards and bonuses earned in 2013 and distributed in 2014 was PLN 19,693 thousand;
- variable remuneration components under the variable remuneration component programme for members of the Group’s management (“VRC Policy”), which amounts to PLN 12,549 thousand in 2014 (in 2013: PLN 5,602 thousand), of which PLN 9,895 thousand was attributable to Management Board members.

The cost of bonuses awarded as part of the Deutsche Bank AG Group’s bonus programmes for the group’s personnel (RIA/REA) is included in the cost of share-based payment schemes.

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

in PLN thd	Dec 31 2014	Dec 31 2013*
Management Board members	10,352	7,746
Supervisory Board members	-	16
Total	10,352	7,762

* Restated.

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, chiefly with respect to loans and deposits received, third-party, services, and derivatives.

The table below presents the value of material related-party transactions, the balances of individual items as at the year end, and the related income and expenses for the financial year.

Deutsche Bank AG – Parent

in PLN thd	Dec 31 2014	Dec 31 2013*
Amounts due from related party, including:	274,067	448,952
Current accounts, deposits	268,639	428,686
Financial assets at fair value through profit or loss	1,642	18,041
Other assets	3,785	2,225
Amounts due to related party, including:	8,269,747	1,229,682
Deposits	8,005,834	1,182,785
Loans	246,414	-
Interest	7,675	63
Financial liabilities at fair value through profit or loss	9,778	20,517
Other liabilities	46	26,317
Off-balance-sheet liabilities:	461,225	3,408,908
Guarantees issued	182,483	227,640
Financial commitments granted	-	14,450
FX spots/forwards	19,050	559,703
FX swaps	130,671	2,457,180
Interest rate swaps (IRS)	129,021	149,935
Income, including:	1,338	4,135
Interest income	1,338	1,490
Other income	-	2,645
Expenses, including:	(78,444)	(43,422)
Interest expense	(35,755)	(7,011)
Fee and commission expense	(1,257)	(994)
Other expenses, including:	(41,433)	(35,417)
Costs related to allocation of IT projects (BEN)	(15,935)	(9,522)
Costs related to use of HR systems	(4,136)	(810)
Other	(21,362)	(25,085)

* Restated.

Deutsche Bank AG London Branch

in PLN thd	Dec 31 2014	Dec 31 2013*
Amounts due from related party, including:	540,824	474,365
Current accounts, deposits	450,762	436,699
Fees and commissions receivable	2,666	1,484
Financial assets at fair value through profit or loss	82,568	26,527
Other assets	4,828	9,655
Amounts due to related party, including:	349,366	270,244
Deposits	171,781	186,361
Interest	1,216	1,405
Financial liabilities at fair value through profit or loss	164,212	29,458
Other liabilities	12,158	53,020
Income, including:	32,691	36,922
Fee and commission income	26,013	35,256
Other income	6,678	1,665
Expenses, including:	(68,959)	(50,714)
Interest expense	(9,362)	(4,041)
Other expenses – including net trading income	(59,597)	(46,673)
Off-balance-sheet liabilities:	15,491,054	4,655,831
Guarantees issued	72,183	67,335
FX spots/forwards	239,643	121,427
FX swaps	7,129,894	995,515
CAPs/FLOORs	-	124,416
FRAs	4,850,000	-
Interest rate swaps (IRS)	1,384,730	2,902,706
Currency options	1,814,604	444,431

* Restated.

Deutsche Bank Privat – und Geschäftskunden AG

in PLN thd	Dec 31 2014	Dec 31 2013*
Amounts due to related party, including:	340,788	4,881,032
Deposits	340,551	4,875,564
Interest	237	5,468
Other	-	-
Expenses, including:	(8,030)	(22,990)
Interest expense	(7,584)	(22,469)
Fee and commission expense	(329)	(445)
Other expenses	(117)	(76)
Income, including:	-	159
Other income	-	159

* Restated.

Deutsche Bank (Malta) Ltd

in PLN thd	Dec 31 2014	Dec 31 2013*
Amounts due to related party, including:	235,623	2,328,883
Subordinated loan	234,427	228,096
Other loans	-	2,094,336
Interest on loans	1,196	6,451
Expenses, including:	(11,040)	(26,579)
Interest on loans	(11,040)	(26,579)

* Restated.

Norisbank GmbH

in PLN thd	Dec 31 2014	Dec 31 2013*
Amounts due to related party, including:	5,961,936	5,138,520
Deposits	5,954,042	5,132,782
Interest	7,894	5,738
Expenses, including:	(44,529)	(39,459)
Interest expense	(44,529)	(39,459)

* Restated.

Other Group companies

in PLN thd	Dec 31 2014	Dec 31 2013*
Amounts due from related party, including:	2,160	72,806
Current accounts	2,160	72,806
Amounts due to related party, including:	7,203	8,251
Amounts in bank accounts	6,644	2,280
Other	559	5,971
Income, including:	2,915	56
Other income	2,915	56
Expenses, including:	(7,187)	(9,362)
Other expenses	(7,187)	(9,362)
Off-balance-sheet liabilities:	190,415	117,783
Guarantees issued	189,648	115,753
Credit facilities granted	-	2,030
Guarantees and sureties received	767	-

* Restated.

42. Events subsequent to the end of the reporting period

Following the Central Bank of Switzerland's decision of January 16th 2015, concerning a change in the approach to EUR/CHF exchange rate, then maintained at 1.2, Swiss franc appreciated strongly against foreign currencies, including Polish złoty. The Central Bank of Switzerland also presented its expectations with respect to interest rate dynamics, which brought about a decrease in LIBOR CHF rate from a value oscillating around 0% as at the end of 2014 to negative 0.8−0.9% at the end of January 2015.

The abrupt depreciation of złoty against CHF translated into an increase in PLN denominated assets and a temporary increase in repayment instalments under CHF denominated loans. The increase in instalments was for the most part offset by the change in LIBOR reference rate.

The Group implemented a number of initiatives to minimise the adverse effect of the changes in CHF/PLN interest rate on the Group's clients:
1) the negative LIBOR rate is taken into consideration when determining the interest rate for housing loans;
2) the currency spread has been reduced materially for the next six months, which will translate into markedly lower loan instalments payable by the clients;
3) upon a client's request, the final repayment date may be postponed or instalment payments may be suspended temporarily, so that the client's instalment is only slightly higher or not higher than it was before CHF/EUR exchange rate was freed. This option is available only to those clients who occupy the property financed with the housing loan;
4) no new collateral or loan insurance is requested from those borrowers who pay their instalments as scheduled;
5) borrowers may convert their housing loans from CHF into PLN at the exchange rate determined by the Group in accordance with the loan agreement, without the currency spread (at the exchange rate prevailing on the redenomination date);
6) mortgage loan restructuring rules have been made more flexible for those clients who occupy the property financed with the loan.

It is the Group's opinion that, given the current LIBOR CHF rate, those initiatives will mitigate to a large extent the adverse effect of the increase in CHF/PLN exchange rate on instalment amounts payable by the clients. The value of monthly instalments is close to 2014 levels. For the moment (May 2015), the empirical data on repayment rates for CHF denominated loans after CHF/EUR exchange rate was freed indicates that the risk of the portfolio quality deterioration has not materialised.

When compared with competitors', the Group's portfolio of CHF mortgage loans has a low rate of past due (for 90 days or more) receivables: 1% against the market average of 3% (source: in-house analyses based on the Polish

Financial Supervision Authority's publications on the banking sector). Additionally, given the Group's consistent conservative credit policy providing for currency risk buffers, the clients' incomes are still sufficient for further debt service. The sale of CHF denominated mortgage loans was discontinued in 2010. Consequently, the value of the portfolio has been decreasing steadily. Currently, the portfolio value decreases by approximately CHF 10m per month (CHF 120m pa), that is by 8% pa.

The initiatives described above had no direct effect on the Group's capital adequacy ratios. The Group estimates that the change in the CHF/PLN interest rate in January 2015 reduced its capital adequacy ratio by ca. 0.40%. Based on regularly performed stress tests, the Group's capital and capital ratios continue at adequate and safe levels.

The Group monitors changes in the regulatory and legal environment and market factors such as exchange rates and interest rates on an ongoing basis.

The table below presents CHF currency exposures by client categories and impairment loss amounts.

Real property loans denominated in CHF

in PLN thd stan as at Dec 31 2014	Private individuals	Sole traders	SMEs
Residential property loans denominated in CHF			
– gross carrying amount of unimpaired exposures	5,218,674	-	-
– gross carrying amount of impaired exposures	107,899	-	-
– impairment losses	53,390	-	-
Other real property loans denominated in CHF			
– gross carrying amount of unimpaired exposures	-	1,162	2,460
– gross carrying amount of impaired exposures	-	-	-
– impairment losses	-	-	-

No other 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 default or the risk of non-payment of the incurred liabilities within the contractual terms, 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 credit 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, for the purposes of securing the Group's claims, 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, the 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 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 the case of corporate clients, financial institutions and public sector clients, impaired exposures are managed by the Corporate Client Credit Risk Department.

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).

In addition, to support 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. Once the monitoring and payment reminder notice activities are completed (but not later than on the 70th day past due), 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 to recover the full amount of the debt.

Rules governing lending decisions and risk assessment

The rules for lending decisions 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 decisions, 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 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 delegated to the sales or operational units.

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).

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 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 concept 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 Deutsche Bank A.G. Group,

– validations done locally as part of revision processes or by specialised units of Deutsche Bank A.G. Group. The Group uses a 26 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 security settlement, 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 default.

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 effectively created for the benefit of the Group before the first loan disbursement, and must remain effective throughout the lending period.

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

Loan 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 on 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 current account,
- cash 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, 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. The Group has to be able to register and monitor security defined in the lending decision for a given exposure 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 lending decision.

In the case of financing provided to individual and business clients, the haircuts are reviewed on an annual basis, with the exception of financial collateral, which is reviewed every six months.

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 received security 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.

The issuer's rating is transposed to non-trading-book items based on the rating of the issuer's country. 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 Art. 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 assure 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 Art. 197 of the CRR Regulation:
1. cash on deposit with the Bank,
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 apply other financial collateral referred to in Art. 197 of the CRR Regulation.

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

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

As regards unfunded credit risk protection, guarantor 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 Art. 203 of the CRR Regulation:

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

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

The table below presents the exposure values as at December 31st 2014 before and after the application of risk mitigation techniques, by exposure class in accordance with the Standardised Approach.

Exposure class

in PLN thd	Exposure value before application of risk mitigation techniques	Exposure value after application of risk mitigation techniques
Exposures or contingent exposures to central governments and central banks	5,218,975	5,218,975
Exposures or contingent exposures to regional governments and local authorities	85,440	85,147
Exposures or contingent exposures to public administration bodies and non-business entities	2,930	2,829
Exposures or contingent exposures to institutions	1,403,805	545,000
Exposures or contingent exposures to businesses	3,507,309	3,414,377
Retail exposures or contingent exposures	6,033,056	5,949,063
Capital exposures	4,583	4,583
Exposures or contingent exposures secured with real estate	22,121,141	22,081,825
Past due exposures	990,153	450,489
Other	246,750	327,135
Total	39,614,144	38,079,422

Risk management

Risk is managed both at the level of individual credit exposures and at the portfolio level.

The process of credit risk management for individual credit exposures involves approving only those exposures for which risk indicators − calculated in accordance with the applicable procedures − are in the pre-defined ranges, as well as monitoring and internal reviews of individual exposures during the lending period. The purpose of exposure monitoring is to identify threats in order to undertake preventive measures and eliminate the consequences of credit risk. As the Group puts particular emphasis on effective monitoring of credit risk, it takes steps to improve its relevant procedures on an ongoing basis, adjusting them to the changing conditions. The Group has also implemented early warning criteria enabling early identification of impairment indications.

In the case of portfolio risk, risk management is performed by developing appropriate lending procedures, which includes setting the admissible risk parameters for individual customers and credit products, as well as principles for assessing customers' creditworthiness before a loan is granted, allocating customers to the appropriate risk categories, and setting concentration limits.

The Group also has in place a regularly-updated 'Industry list', which specifies the level of credit risk in individual industries based on external and internal data, enabling optimum management of industry-specific credit risk and appropriate structuring of the credit portfolio in terms of exposure to particular industries.

The Group also carries out regular stress testing of its credit portfolios to evaluate their sensitivity to changes in the macroeconomic environment.

Indications of impairment of individual material exposures are identified chiefly through quarterly monitoring. In the case of a portfolio of exposures, ongoing monitoring of the timeliness of debt service by customers is carried out to identify indications of impairment.

The method of valuation applied to a credit portfolio depends on the risk profile and the size of credit exposure. The homogeneous exposure portfolio is valued using collective methods based on statistical models. For the purposes of the valuation, exposure portfolios are grouped based on common characteristics. Individual material credit exposures (non-homogeneous portfolio) with evidence of impairment are assessed individually by experts, at least on a quarterly basis.

Credit risk for an exposure portfolio is measured by monitoring the level of exposures for which indications of impairment have been identified in relation to all credit exposures, distribution of risk classes (ratings), and regular monitoring of receivables past due by more than 90 days.

Identification of impairment

The methodology for identifying and estimating impairment is based on a breakdown of the Group's credit exposures into homogeneous and non-homogeneous portfolios. Each individual credit exposure has to be assigned to a specific portfolio and may only be included in this one portfolio for the duration of a given reporting period. However, an exposures may be transferred to another portfolio during a product's life if its amount changes. Exposures are assigned to the homogeneous and non-homogeneous portfolios by reference to a materiality threshold set at EUR 1m. Furthermore, non-homogeneous exposures include, irrespective of the financing amount, the exposure types indicated below in the section characterising the non-homogeneous exposure portfolio.

The homogeneous portfolio is defined as a collection of credit exposures of up to EUR 1m which are tested for impairment collectively due to the similar structure and characteristics of the products included in a given category. What is more, given their large number, agreements in the homogeneous portfolio cannot be tested for impairment individually. Six homogeneous portfolios have been defined based on such attributes as:

- product definition,
- product origination and administration process,
- presence/type of security,
- customer type,
- number of loan/credit facility agreements of similar size,
- amount of credit exposures of a given type.

The following homogeneous portfolios are currently distinguished:

- Retail Exposure Portfolio,
- Mortgage Loan Portfolio,
- 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 historic data observation of 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 or 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.

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.

In 2014, the Group changed the methodology of estimating impairment losses. Before the changes were made, the collective model used by the Group for estimating impairment loss parameters was based on the average exposure flows between delinquency baskets (net flow rates) in the successive months and on the loss severity ratio. Based on the above data, for each portfolio and each delinquency basket loan loss allowance ratio was determined. The loan loss allowance was computed for each of the homogeneous portfolios, based on vintage historical data, for exposures exceeding a pre-defined past-due threshold.

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, contrary to the previous methodology, the Group directly estimates the provisions for off-balance-sheet liabilities in the portfolio of homogeneous exposures. The Group decided to retain the segmentation of homogeneous portfolios as defined in the previous methodology, and added one more portfolio of unsecured restructured exposures to individual clients. The changed methodology for estimating impairment losses resulted in higher impairment losses on homogeneous portfolios, which increased by PLN 26,292 thousand, with impairment losses on the collectively assessed portfolio of unimpaired receivables up by PLN 37,317 thousand, and impairment losses on the collectively assessed portfolio of impaired receivables down by PLN 11,025 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:

$$Impairment\ losses = PD \cdot LGD \cdot EAD$$

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 fails to meet its obligations under the loan, i.e. payments are 90 or more days overdue,
- 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.
- 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.

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 provisions on losses incurred but not reported (IBNR) and costs of 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 release of impairment losses, are presented in Note 18 – Loans and advances to customers.

Maximum exposure to credit risk

in PLN thd	Dec 31 2014	Dec 31 2013*
On-balance sheet credit risk exposures are as follows:		
Loans and advances to banks	756,325	976,704
Loans and advances to customers:	28,240,769	26,537,785
Loans to individual customers:	23,519,308	22,215,236
Credit cards	117,540	117,340
Cash loans and other loans to individual customers	2,060,095	2,125,157
Mortgage loans	21,341,674	20,127,854
Loans to corporate customers	4,677,192	4,241,498
Loans to public sector customers	44,269	81,051
Financial assets at fair value	1,648,880	3,234,825
Financial assets held as investments	3,779,815	1,080,865
Debt securities	3,776,598	1,078,455
Shares and participation units	3,217	2,410
Off-blance sheet credit risk is as follows:	4,318,175	4,746,807
Guarantee commitments	1,335,248	1,392,821
Lending commitments and other commitments related to loans	2,982,927	3,353,986

* Restated.

Given that loans and advances to banks 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 2014, 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 115,393 thousand (as at December 31st 2013: PLN 142,788 thousand).

Breakdown of the credit portfolio into unimpaired and impaired exposures as at December 31st 2014 (in PLN thd)

in PLN thd	Individuals	Share	Businesses	Share	Total	Share
Unimpaired loans and advances, including:	23,639,928	97.5%	5,122,374	93.5%	28,762,302	96.7%
– not past due and unimpaired	23,125,746	95.4%	5,063,123	92.4%	28,188,869	94.8%
– past due but unimpaired	514,182	2.1%	59,251	1.1%	573,433	1.9%
Impaired loans and advances	610,264	2.5%	357,425	6.5%	967,689	3.3%
Total	24,250,192	100%	5,479,799	100%	29,729,991	100%

in PLN thd	Exposures	Impairment losses	Provision Coverage Ratio
Unimpaired loans and advances, including:	28,762,302	56,329	0.2%
Non-homogeneous portfolio	3,361,097	11,011	0.3%
Homogeneous portfolio	25,401,205	45,318	0.2%
Impaired loans and advances, including:	967,689	676,569	69.9%
Non-homogeneous portfolio	305,245	179,028	58.7%
Homogeneous portfolio	662,444	497,542	75.1%
Total	29,729,991	732,898	2.5%

Credit quality of unimpaired and not past due financial assets based on ratings as at December 31st 2014

in PLN thd

Not past due	Individuals	Businesses	Total
iAAA	-	2,264	2,264
iAA+	-	3	3
iAA	2,890	8,127	11,017
iAA-	82,080	2,842	84,922
iA+	259,291	63,646	322,937
iA	1,684,385	743,498	2,427,883
iA-	6,335,805	190,797	6,526,602
iBBB+	6,400,597	423,895	6,824,492
iBBB	3,406,974	174,446	3,581,420
iBBB-	1,540,568	289,275	1,829,843
iBB+	743,704	549,667	1,293,371
iBB	447,168	581,651	1,028,819
iBB-	258,503	645,671	904,174
iB+	178,839	451,119	629,958
iB	123,383	171,638	295,021
iB-	52,250	97,890	150,140
iCCC+	40,786	135,519	176,305
iCCC	39,511	22,007	61,518
iCCC-	19,131	41,155	60,286
iCC+	4,029	-	4,029
iCC	1,500	405	1,905
iCC-	1,420	-	1,420
iC+	-	-	-
iC	1,612	-	1,612
iC-	774	-	774
iD	38,032	12,595	50,627
None	1,462,512	455,015	1,917,527
Total	23,125,744	5,063,125	28,188,869

Past due but unimpaired loans as at December 31st 2014 (in PLN thd)

in PLN thd

Past due	Individuals	Businesses	Total
1-29	359,911	15,000	374,911
30-59	97,085	32,372	129,457
60-89	57,186	11,879	69,065
90-179	-	-	-
Total	514,182	59,251	573,433

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios as at December 31st 2014

in PLN thd	Exposures	Share
Non-homogeneous portfolio	3,666,341	12.3%
Homogeneous portfolio	26,063,650	87.7%
Total	29,729,991	100.0%

Breakdown of the credit portfolio into unimpaired and impaired exposures as at December 31st 2013*

in PLN thd	Individuals	Share	Businesses	Share	Total	Share
Unimpaired loans and advances, including:	22,215,480	97.0%	4,944,849	93.3%	27,160,329	96.3%
– not past due and unimpaired	21,816,067	95.2%	4,892,597	92.3%	26,708,664	94.7%
– past due but unimpaired	399,413	1.7%	52,252	1.0%	451,665	1.6%
Impaired loans and advances	692,070	3.0%	357,169	6.7%	1,049,239	3.7%
Total	22,907,550	100%	5,302,018	100%	28,209,568	100%

* Restarted

in PLN thd	Exposures	Impairment losses	Ratio of coverage with provision
Unimpaired loans and advances, including:	27,160,329	22,193	0.1%
Non-homogeneous portfolio	3,528,814	13,104	0.4%
Homogeneous portfolio	23,631,515	9,089	0.0%
Impaired loans and advances, including:	1,049,239	672,887	64.1%
Non-homogeneous portfolio	320,019	137,453	43.0%
Homogeneous portfolio	729,220	535,434	73.4%
Total	28,209,568	695,080	2.5%

Credit quality of unimpaired and not past due financial assets as at December 31st 2013*

in PLN thd

Not past due	Individuals	Businesses	Total
iAAA	-	-	-
iAA+	14,975	6	14,981
iAA	454,969	10,021	464,990
iAA-	1,229,465	6,291	1,235,756
iA+	1,910,286	62,251	1,972,537
iA	3,469,870	1,036,330	4,506,200
iA-	4,864,869	98,771	4,963,640
iBBB+	3,587,549	137,755	3,725,304
iBBB	2,083,771	102,873	2,186,644
iBBB-	1,152,576	261,273	1,413,849
iBB+	670,020	428,091	1,098,111
iBB	419,883	707,881	1,127,764
iBB-	249,927	562,510	812,437
iB+	134,486	402,465	536,951
iB	84,778	283,073	367,851
iB-	50,394	174,987	225,381
iCCC+	43,953	44,744	88,697
iCCC	34,978	20,713	55,691
iCCC-	35,329	45,632	80,961
iCC+	3,568	2	3,570
iCC	3,250	-	3,250
iCC-	969	-	969
iC+	578	7,871	8,449
iC	1,037	-	1,037
iC-	282	-	282
iD	27,388	17,506	44,894
None	1,286,917	481,551	1,768,468
Total	21,816,067	4,892,597	26,708,664

* Restarted

Past due but unimpaired loans as at December 31st 2013*

in PLN thd

Past due	Individuals	Businesses	Total
1-29	260,631	36,019	296,650
30-59	73,355	4,200	77,555
60-89	65,427	8,092	73,519
90-179	-	3,941	3,941
Total	399,413	52,252	451,665

* Restarted

Breakdown of credit exposures into homogeneous and non-homogeneous portfolios as at December 31st 2013*

in PLN thd	Exposures	Share
Non-homogeneous portfolio	3,848,834	13.6%
Homogeneous portfolio	24,360,734	86.4%
Total	28,209,568	100.0%

* Restarted

Unimpaired loans and advances

	Dec 31 2014		Dec 31 2013*	
in PLN thd	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
No evidence of impairment	27,777,231	756,443	25,967,251	977,078
Evidence of impairment, including:	228,628	-	216,000	-
– past due loans	4,454	-	22,909	-
– loans with other objective evidence of impairment	224,174	-	193,091	-
Gross	28,005,859	756,443	26,183,251	977,078
Impairment losses incurred but not reported (IBNR)	(56,209)	(119)	(19,293)	-
Net	27,949,650	756,324	26,163,958	977,078

* Restated.

Credit risk concentration

a) geographical concentration

in PLN thd	Dec 31 2014		Dec 31 2013*	
City	Exposure	Share	Exposure	Share
Warsaw	6,933,160	23.3%	6,650,258	23.6%
Kraków	1,684,632	5.7%	1,588,030	5.6%
Wrocław	1,731,144	5.8%	1,613,074	5.7%
Poznań	834,143	2.8%	805,336	2.9%
Gdańsk	796,394	2.7%	749,932	2.7%
Other	17,750,518	59.7%	16,802,938	59.6%
Total	29,729,991	100%	28,209,568	100.0%

* Restated.

b) sector concentration

	Dec 31 2014		Dec 31 2013*	
in PLN thd	Exposure	Share	Exposure	Share
Individuals:	24,250,192	81.6%	22,907,550	81.2%
Businesses:	5,479,799	18.4%	5,302,018	18.8%
Total	29,729,991	100.0%	28,209,568	100.0%
Manufacturing	1,662,782	5.6%	1,415,426	5.0%
Distribution	1,267,388	4.3%	1,134,920	4.0%
Real estate activities	541,118	1.8%	546,536	1.9%
Construction	263,243	0.9%	349,244	1.2%
Transport	96,256	0.3%	88,324	0.3%
Other	1,649,012	5.5%	1,767,568	6.3%
Total businesses:	5,479,799	18.4%	5,302,018	18.8%

* Restated.

Credit portfolio (balance sheet) by product

in PLN thd	Dec 31 2014		Dec 31 2013*	
Loan type	Exposure	Share	Exposure	Share
Mortgage loans	21,667,598	72.9%	20,371,576	72.2%
Consumer loans	2,281,705	7.7%	2,197,515	7.8%
Investment loans	2,279,180	7.7%	2,060,657	7.3%
Overdraft facilities**	965,469	3.2%	983,843	3.5%
Lombard loans	132,254	0.4%	155,229	0.6%
Working capital facilities	420,269	1.4%	551,729	2.0%
Factoring***	163,924	0.6%	186,640	0.7%
Other	1,684,773	5.7%	1,564,798	5.5%
Credit cards	134,819	0.5%	137,581	0.5%
Total	29,729,991	100.0%	28,209,568	100.0%

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

Top credit exposures as at December 31st 2014
(net of government and central bank exposures)

in PLN thd

	PKD (Polish Classification of Business Activities) code	Limit granted	Exposure	Concentration ratio
1	64.19.Z	661,639	457,757	3.40%
2	64.19.Z	460,730	272,287	5.10%
3	07.29.Z	350,720	346,802	9.19%
4	52.21.Z	117,186	-	3.07%
5	64.91.Z	106,558	87,084	2.79%
6	47.64.Z	96,045	1	2.52%
7	47.59.Z	66,336	-	1.74%
8	77.39.Z	61,534	34,656	1.61%
9	66.30.Z	60,018	-	0.08%
10	45.11.Z	59,288	51,215	1.55%

Top credit exposures as at December 31st 2013*
(net of government and central bank exposures)

in PLN thd

	PKD (Polish Classification of Business Activities) code	Limit granted	Exposure	Concentration ratio
1	64.19.Z	505,879	426,320	4.08%
2	64.19.Z	422,002	151,935	3.41%
3	07.29.Z	99,396	97,778	2.75%
4	64.19.Z	80,382	-	2.23%
5	66.30.Z	65,077	57,050	1.80%
6	64.19.Z	63,149	-	1.75%
7	77.39.Z	60,234	43,600	1.67%
8	47.59.Z	60,000	-	1.66%
9	64.19.Z	55,000	-	0.44%
10	12.00.Z	50,000	-	1.39%

* Restarted

Maturity structure of exposures
(in PLN thd; as at December 31st 2014)

Maturity

in PLN thd	Individuals	Businesses	Total
up to 1 year	738,234	3,104,479	3,842,713
1–5 years	992,758	636,852	1,629,610
5–10 years	2,388,111	869,375	3,257,486
10–20 years	10,058,624	869,011	10,927,635
over 20 years	10,072,465	82	10,072,547
Total	24,250,192	5,479,799	29,729,991

Total exposure at carrying amount, without accounting for effects of risk mitigation, and average exposure in the period by class
(in PLN thd; as at December 31st 2014)

Category

in PLN thd	Exposure	Average exposure
Individuals	24,250,192	131
Businesses	5,479,799	733
Total	29,729,991	155

Impaired exposures by key geographical areas
(in PLN thd; as at December 31st 2014)

in PLN thd City	Exposure	Provision
Warsaw	143,996	93,502
Kraków	60,522	50,274
Wrocław	50,177	23,679
Poznań	25,758	14,330
Gdańsk	9,969	7,292
Other	677,267	487,493
Total	967,689	676,569

Maturity structure of exposures
(in PLN thd; as at December 31st 2013*)

Maturity

in PLN thd	Individuals	Businesses	Total
up to 1 year	830,869	3,108,831	3,939,700
1–5 years	1,010,034	674,705	1,684,739
5–10 years	2,019,395	696,922	2,716,317
10–20 years	7,142,797	821,442	7,964,239
over 20 years	11,904,455	118	11,904,573
Total	22,907,550	5,302,018	28,209,568

* Restarted

Total exposure at carrying amount, without accounting for effects of risk mitigation, and average exposure in the period by class
(in PLN thd; as at December 31st 2013*)

Category

in PLN thd	Exposure	Average exposure
Individuals	22,907,550	119
Businesses	5,302,018	971
Total	28,209,568	150

* Restarted

Impaired exposures by key geographical areas
(in PLN thd; as at December 31st 2013*)

City

in PLN thd	Exposure	Provision
Warsaw	132,399	76,298
Kraków	60,654	49,371
Wrocław	55,689	17,460
Poznań	26,913	14,257
Gdańsk	10,592	9,097
Other	762,991	506,404
Total	1,049,238	672,887

* Restarted

Restructuring of receivables exposed to credit risk
The process of collection of receivables from clients is pursued sequencially at the loan monitoring stage, as well as prior to a repeated default in timely repayment, 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.

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

Standards and limits imposed under the Banking Law (Art. 71 of the Banking Law), and maximum authorised amounts under its regulations

1. In accordance with Art. 71 of the Banking Law, the aggregate amount of the Group’s debt claims, off-balance sheet liabilities and shares held by the Group directly or indirectly in another entity, additional contributions to the equity of a limited liability company, or the higher of limited partner contributions or sums in a limited

partnership or a limited joint-stock partnership (exposure), exposed to the risk associated with a single entity or entities interconnected with capital or organisational links, may not exceed an exposure concentration limit equal to 25% of the Group's own funds.

2. Pursuant to Art. 71.1a of the Banking Law, the Group's exposure towards another domestic bank, credit institution, foreign bank or a group of entities interconnected with capital or organisational links which includes at least one domestic bank, credit institution or foreign bank, may not exceed 25% of the Group's own funds.

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 150 million, whichever the higher, provided that the sum of exposures, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 of the CRR Regulation, to all connected clients that are not institutions does not exceed 25 % of the institution's eligible capital.

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

in PLN thd	Dec 31 2014	Dec 31 2013
Limit to exposure concentration (25% of own funds) in accordance with Art. 71 of the Banking Law and Art. 395 of the CRR	958,691	n/a
Limit to exposure concentration (25% of own funds) in accordance with Art. 71.1a of the Banking Law and Art. 395 of the CRR	958,691	n/a

As at December 31st 2014 and December 31st 2013, the Group did not exceed the limits applicable under Art. 71.1 of the Banking Law or Article 395 of the CRR Regulation.

As at December 31st 2013, compliance with the concentration limits imposed under Art. 71.1 of the Banking Law was checked separately for the two banks existing before the merger.

Art. 79a.4 of the Banking Act

As at December 31st 2014 and December 31st 2013, 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 2014	Dec 31 2013*
The Group's Common Equity capital	3,670,304	3,462,660
10% of the Group's Common Equity capital	367,030	346,266

* Restarted

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.

As at December 31st 2014, the following instances of exceeding the internal limits have been identified:

- limit for the maximum volume of the portfolio of exposures secured with mortgages – as at December 31st, performance against the limit was at 100.16%; non-compliance with the limit was caused by the rise in EUR and CHF exchange rates in December;
- limit for the maximum volume of the portfolio of exposures under real estate loans – as at December 31st, performance against the limit was at 100.03%, non-compliance with the limit was caused by the rise in EUR and CHF exchange rates in December;
- limit for derogations in the business client exposure portfolio – as at December 31st, derogations amounted to 31.57%, which represented 126.27% of the limit;
- limit for process derogations in the individual client credit card portfolio – as at December 31st, derogations amounted to 11.19%, which represented 111.87% 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 nr 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 loan 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.

Forborne loans and advances as at December 31st 2014

Exposure value in PLN thd	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)
	Gross amount	Impairment losses	Net amount	Impairment losses/gross amount	Gross amount	Impairment losses	Net amount	Impairment losses/gross amount	
Unimpaired exposures	28,762,303	(56,329)	28,705,974	0.2%	198,152	(2,085)	196,067	1.1%	
Central and local government institutions	44,325	(94)	44,231	0.2%	-	-	-	NA	NA
Credit institutions	751,023	(119)	750,904	0.0%	-	-	-	NA	NA
Businesses	4,327,027	(25,442)	4,301,585	0.6%	49,903	(1,166)	48,736	2.3%	1.1%
Households	23,639,928	(30,673)	23,609,255	0.1%	148,250	(919)	147,331	0.6%	0.6%
Impaired exposures	967,689	(676,569)	291,120	69.9%	425,597	(165,958)	259,639	39.0%	
Central and local government institutions	-	-	-	NA	-	-	-	NA	NA
Credit institutions	-	-	-	NA	-	-	-	NA	NA
Businesses	357,425	(176,777)	180,648	49.5%	168,471	(79,127)	89,344	47.0%	49.5%
Households	610,264	(499,793)	110,471	81.9%	257,125	(86,831)	170,295	33.8%	154.2%

In accordance with the draft Technical Standards, the Bank uses the following criteria for exit from the forbearance category (exposure restructuring):
– the exposure is not classified as non-performing (as defined by EBA);
– a two-year watch period has lapsed since the forbearance exposure lost the non-performing status, and the exposure has been regularly repaid over that period;
– in the watch period, no delay of more than 30 calendar days has occurred, and no further forbearance measures been applied to the exposure.

44. Market and liquidity risk

Risk management in the asset and liability management process focuses mainly on the following two risks:
– liquidity risk,
– 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. Six 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.

Responsibility for the management of the trading book market risk rests with the Proprietary Position Management Department (PPMD).

While the 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,
– developing and implementing management methodologies for each risk,
– preparing risk analyses, computing the individual risk metrics, and controlling performance against limits,
– calculating economic capital for market risk.

Liquidity and market risk management process
The liquidity and market risk management process at the Group is divided into the following stages:
1) Risk identification (responsibility of the Financial Risk Department);
2) Implementation and use of appropriate risk management tools, including:
   (a) defining the risk management strategy and risk appetite (the risk management strategy is prepared by the Supervisory Board);
   (b) defining risk limits (the internal limit system is approved by the Parent's Management Board after it has been approved by the ALCO Committee);
   (c) ensuring an appropriate organisational structure within the Group responsible for maintenance of the appropriate asset and liability structure; at the Bank, the market and liquidity risk management is centralised at the Proprietary Position Management Department in the case of the trading book, and at the Liquidity Management Office in the case of the banking book.
3) Risk measurement and monitoring (responsibility of the Financial Risk Department). In addition to the regulatory metrics for market and liquidity risks, the Group has implemented its own risk monitoring measures.
4) Control of the market and liquidity risk management system (the Parent's Management Board supervises the risk control system at the Group and reports on it to the Supervisory Board; the ALCO Committee is responsible for the day-to-day control).

Liquidity risk
Liquidity risk is a risk arising from inability to meet all payment obligations as they fall due. Liquidity is a state when the Group has the ability to meet its current and future obligations in the satisfactory and timely manner, without incurring a loss in the ordinary course of business or under other predictable conditions. Liquidity risk is inherent in the operations of any bank. It is not connected with any individual product but it follows from the overall structure of the balance sheet, as a very important aspect of the Group's operations is its exposure to maturity mismatches which may result, inter alia, from the Group taking short-term deposits and extending relatively long-term loans. As a consequence, the Group is exposed to a risk that depositors' demands to pay out funds may exceed the Group's ability to convert its assets into cash. Therefore, maintaining adequate liquidity means an ability to immediately cover all payments related to maturing deposits, lending activities, early terminations of deposits, increased demand for loan products, and other obligations of the Group.

The main objective of liquidity management is to finance cash-flow shortfalls or appropriately manage any cash-flow surpluses. This objective is achieved through a constant analysis of the cash requirement and funding sources.

Liquidity risk management strategy

The Liquidity Management Office strives to maintain availability of a sufficient amount of liabilities acquired at acceptable cost and expected to cover potential outflows under the Group'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 Group's other key financing sources are equity, as well as interbank loans and deposits. The Group'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. The support from Deutsche Bank Group is an important factor contributing to the security of the Group's operations.

Liquidity risk reporting

The Financial Risk Department responsible for reporting on liquidity risk prepares daily reports in which it presents, based on the data from the previous business day, regulatory liquidity standards together with information on performance against regulatory limits 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 with maturities above one year, on a nominal basis), and liquidity stress tests carried out to examine the Group's liquidity in crisis situations and certain crashes (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 Group manages liquidity risk through:
- providing information on the current and structural liquidity position;
- analysing maturity structure of the Group'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 at the Group level 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 Group. 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 Group (including off-balance sheet transactions).

The tables below present assets and liabilities by their contractual maturity dates as at December 31st 2014 and 2013.

Assets (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2014

in PLN thd	Total	<1 month	>1–3 months	>3–6 months	>6 months–1 year	>1–5 years	>5 years
Cash and balances with Central Bank	1,543,105	1,543,105	-	-	-	-	-
Deposits with other banks, and loans and advances to other banks*	756,301	579,119	40,095	5,657	131,429	-	-
Loans and advances to customers*	28,691,289	2,639,926	476,615	595,862	1,134,842	6,712,416	17,131,627
Financial assets held as investments	3,779,815	3,502,873	-	-	-	57,468	219,475
Financial instruments at fair value throgh profit and loss	1,648,880	47,762	39,244	26,117	247,803	1,157,249	130,705
Off-balance-sheet guarantee commitments received	1,180,140	784,160	-	860	131	-	394,990
Off-balance-sheet financial commitments received	221,466	2,600	5,133	213,733	-	-	-
Off-balance-sheet instruments – long position	6,074,421	3,028,550	1,402,385	737,514	634,824	263,794	7,354
Total	43,895,417	12,128,094	1,963,472	1,579,743	2,149,029	8,190,927	17,884,151

* At nominal value.

Liabilities (on-balance sheet and off-balance sheet items) by maturity as
as at December 31st 2014

in PLN thd	Total	<1 month	>1–3 months	>3–6 months	>6 months–1 year	>1–5 years	>5 years
Amounts due to other banks	15,254,234	644,933	63,935	755,368	786,107	8,246,509	4,757,383
Amounts due to customers*	16,200,547	13,626,957	1,137,522	995,963	423,479	12,526	4,100
Financial instruments at fair value througth profit and loss	218,281	48,488	40,770	44,147	34,342	46,858	3,677
Subordinated liabilities*	234,427	-	-	-	-	234,427	-
Off-balance-sheet financial commitments assumed	2,974,738	193,576	420,714	668,730	894,191	444,266	353,262
Off-balance-sheet guarantee commitments assumed	1,344,358	153,320	111,559	192,685	329,929	504,048	52,817
Off-balance-sheet instruments – short position	6,109,348	3,037,928	1,410,088	754,525	641,068	259,554	6,185
Total	42,335,931	17,705,201	3,184,588	3,411,416	3,109,115	9,748,187	5,177,424

* At nominal value.

Liquidity gap
as at December 31st 2014

in PLN thd	Total	<1 month	>1–3 months	>3–6 months	>6 months–1 year	>1–5 years	>5 years
Liquidity gap (assets − liabilities)	1,559,485	(5,577,107)	(1,221,116)	(1,831,673)	(960,086)	(1,557,260)	12,706,727

Assets (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2013 – restarted

in PLN thd	Total	<1 month	>1–3 months	>3–6 months	>6 months– 1 year	>1–5 years	>5 years
Cash and balances with Central Bank	715,81	715,181	-	-	-	-	-
Deposits with other banks, and loans and advances to other banks*	975,900	972,105	1,403	2,392	-	-	-
Loans to customers*	27,007,996	2,549,017	378,225	524,253	1,057,142	5,916,354	16,583,005
Financial assets held as investments	1,080,865	784,827	-	-	-	47,894	248,144
Financial instruments at fair value through profit and loss	3,234,825	1,809,520	23,768	27,080	-	863,622	510,834
Off-balance-sheet guarantee commitments received	983,866	548,142	1,057	350,782	685	-	83,200
Off-balance-sheet financial commitments received	921,276	833,612	4,720	-	-	82,944	-
Off-balance-sheet instruments – long position	5,105,939	2,098,916	641,060	451,068	505,607	1,407,518	1,770
Total	40,025,848	10,311,320	1,050,233	1,355,575	1,563,434	8,318,332	17,426,953

* At nominal value.

Liabilities (on-balance sheet and off-balance sheet items) by maturity
as at December 31st 2013 – restarted

in PLN thd	Total	<1 month	>1–3 months	>3–6 months	>6 months– 1 year	>1–5 years	>5 years
Amounts due to other banks*	13,875,326	995,892	82,944	345,860	905,003	6,496,220	5,049,407
Amounts due to customers*	14,569,330	11,531,873	1,130,253	1,253,603	611,418	38,261	3,922
Financial instruments at fair value through profit and loss	69,004	8,143	6,954	12,036	1,482	39,784	605
Subordinated liabilities*	228,096	-	-	-	-	228,096	-
Off-balance-sheet financial commitments assumed	3,343,834	216,552	432,006	586,010	967,337	582,335	559,594
Off-balance-sheet guarantee commitments assumed	1,402,973	148,900	110,034	159,871	280,795	689,770	13,603
Off-balance-sheet instruments – short position	5,325,134	2,346,769	629,636	440,505	498,987	1,407,467	1,770
Total	38,813,697	15,248,129	2,391,827	2,797,885	3,265,022	9,481,933	5,628,901

* At nominal value.

Liquidity gap
as at December 31st 2013 – restarted

in PLN thd	Total	<1 month	>1–3 months	>3–6 months	>6 months– 1 year	>1–5 years	>5 years
Liquidity gap (assets − liabilities)	1,212,150	(4,936,809)	(1,341,594)	(1,442,310)	(1,701,588)	(1,163,601)	11,798,052

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 tenor;
– 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 overpay-ments 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 tenors 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 30 days are projected based on the historical analysis.

In 2014, 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).

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 Group.

The most important of those measures and limits include:
– Liquid Asset Ratio – a short-term liquidity ratio covering a period of up to 7 days, expressed as a ratio of the value of the portfolio of liquid assets to be sold within 7 days to the potential outflow of funds over the same period,
– Liquidity Mismatch Ratio – a medium-term liquidity ratio, expressed a percentage of the deposit base needed to fund the cumulative gap up to 3 months,
– 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.

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 Group.

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 trading book exposures and banking book exposures.

The Group's trading book transactions include:
1) the Group's proprietary trading transactions executed with a view to realising a gain on a change in the price of a given financial instrument in a short time horizon;
2) transactions concluded by the Group acting as a market maker, including in particular trade in Treasury bonds and FX instruments;
3) transactions hedging positions taken in the course of the Group's trading activities;
4) process of the transfer and management of the risk exposure related to the instruments in Deutsche Bank Polska S.A.'s banking book.

The other activities are classified as non-trading and primarily include:
1) branch transactions with clients: deposits, loans, payments in foreign currencies from PLN accounts, repayments and disbursements under currency loans;
2) transactions with corporate clients: deposits, credit facilities, payments, transactions financing foreign trade, and guarantees;
3) interbank transactions securing appropriate liquidity to the Group;
4) maintaining a pool of liquid assets securing appropriate liquidity to the Group;
5) process of the transfer of the risk exposure related to the instruments in Deutsche Bank Polska S.A.'s banking book to trading book and management of that exposure.

Market risk measurement
The main method used by the Group to measure and monitor the market risk is the Value at Risk (VaR) method. VaR is calculated with the historical simulation method, based on data covering the last 250 days, with the confidence level of 99%, in a one-day horizon. The Supervisory Board has defined the Group's appetite for market risk as the VaR for the trading and banking books.

Below are presented the limits and values of VaR for the banking and trading books:

in PLN thd	Limit	As at Dec 31 2014	Minimum in 2014	Maximum in 2014	Average in 2014
VaR – banking book	1,000.00	476.41	118.73	717.89	359.02
VaR – trading book	6,000.00	1,659.28	230.94	5,090,48	1,551.82

Apart from VaR, depending on the type of market risk, the Group uses additional risk measurement and monitoring methods as described below.

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 the Proprietary Position Management Department (PPMD). The interest rate risk relating to transactions made by individual business line sales teams (e.g. the Treasury Product Sales Department) is transferred to PPMD on a daily basis.

The Liquidity Management Office (LMO) is responsible for the banking book interest rate risk; 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 PPMD.

The VaR limit for the trading book interest rate risk is higher than the VaR limit for the banking book interest rate risk. In 2014, the limits were PLN 5.5m and PLN 0.85m, respectively.

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 2014	Minimum in 2014	Maximum in 2014	Average in 2014
IR VaR − banking book	850.00	470.86	111.55	643.77	345.85
IR VaR − trading book	5,500.00	1,351.90	190.92	4,831.28	1,354.39

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 for the following scenarios:
1. a scenario based on historical data analysis and providing for the largest curve movements (given a forty-day window);
2. hypothetical scenarios of yield curve shifts;
3. abrupt change in interest rates (irrespective of the date) by 200 basis points up or down.

To estimate the economic capital for interest rate risk, the Group uses the stress tests referred to above and additionally:
1. calculates 10-day VaR for the trading book and banking book positions;
2. 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:
1. foreign-currency transactions executed with the Group clients,
2. transactions executed by the Proprietary Position Management Department in managing the Group's proprietary position,
3. 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 the Proprietary Position Management Department (PPMD). The currency risk relating to transactions made by individual business line sales teams (e.g. the Treasury Product Sales Department) is transferred to PPMD on a daily basis.

The Liquidity Management Office (LMO) is responsible for the banking book currency risk; the risk generated by products of the GTB and PBC business lines is transferred to LMO. LMO may close a currency risk exposure with PPMD.

The VaR limit for the trading book currency risk is higher than the VaR limit for the banking book currency risk. In 2014, the limits were PLN 1.2m and PLN 0.3m, respectively.

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 2014	Minimum in 2014	Maximum in 2014	Average in 2014
FX VaR − banking book	300.00	71.70	35.97	1,552.27	92.21
FX VaR − trading book	1,200.00	45.78	5.22	764.47	209.76

Currencies used in the Group's FX operations

as at December 31st 2014

Assets

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Cash and balances with Central Bank	12,159	847	2,661	19,996	-	35,662
Deposits with other banks, and loans and advances to other banks	450,240	10,784	59,487	136,267	69,626	726,404
Loans and advances to customers	559,935	534	5,400,078	9,073,233	-	15,033,780
Financial assets held as investments	575	-	-	-	-	575
Other assets	219	-	-	14,076	-	14,296
Total	1,023,129	12,165	5,462,225	9,243,571	69,626	15,810,716

Equity and liabilities

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Amounts due to other banks	7,382	182	5,411,303	8,300,773	21,219	13,740,859
Amounts due to customers	519,523	23,197	56,803	2,014,047	43,109	2,656,680
Other liabilities	1,697	11,795	7	34,951	-	48,450
Subordinated liabilities	-	-	-	235,622	-	235,622
Total	528,602	35,174	5,468,113	10,585,394	64,328	16,681,611

As at Dec 31 2013 – restarted

Assets

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Cash and balances with Central Bank	6,858	1,966	2,994	22,370	-	34,188
Deposits with other banks, and loans and advances to other banks	555,677	18,536	371,312	322,479	87,753	1,355,757
Loans and advances to customers	239,420	3	6,157,889	9,245,438	4	15,642,754
Financial assets held as investments	509	-	-	-	-	509
Other assets	179	-	16	9,454	-	9,649
Total	802,644	20,505	6,532,211	9,599,740	87,757	17,042,858

Equity and liabilities

in PLN thd

Item	USD	GBP	CHF	EUR	Other	Total
Amounts due to other banks	626	(61)	4,746,364	7,421,210	5,630	12,173,768
Amounts due to customers	612,529	30,274	70,683	1,989,901	87,561	2,790,947
Other liabilities	5,300	10,789	3,118	66,118	681	86,006
Subordinated liabilities	-	-	-	226,102	-	226,102
Total	618,454	41,001	4,820,166	9,703,330	93,872	15,276,823

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 and the scale of its business. The measure used to determine the capital adequacy is the total capital ratio. Pursuant to the capital-adequacy decision issued for the Parent, the Polish Financial Supervision Authority (PFSA) expects that the Parent will meet the total capital adequacy ratio (CAR) requirement at a minimum level of 12% and the Tier 1 (T1) capital ratio requirement at a level of at least 9%.

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

The approach used by the Group in risk and capital management is based on the following general principles:

- The Management Board of the Bank exercises overall supervision over the risk and capital management process;
- The Group manages individual risks and capital through coordinated processes, implemented at the relevant organisational units;

– The units involved in the risk control process are organisationally and functionally independent from the business units.

As at December 31st 2014, 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 (the CRR Regulation) and the Commission Implementing Regulation (EU) No. 680/2014 of April 16th 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, as amended (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 trading operations of the Group 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 Group 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 2014, the total risk exposure amount was PLN 27,282,686 thousand and comprised the following:
– risk-weighted exposure amounts for credit risk, counterparty risk, dilution risk and free deliveries – PLN 25,075,466 thousand;
– exposure amount for settlement/delivery risk − PLN 0;
– exposure amounts for position risk, currency risk and commodity risk − PLN 178,489 thousand;
– exposure amount for operational risk − PLN 2,025,358 thousand;

– additional risk exposure amount related to fixed overheads – PLN 0;
– exposure amount for credit value adjustment risk − PLN 3,376 thousand;
– exposure amount for risk relating to debt exposures in the trading book − PLN 0;
– other risk exposure amounts − 0 PLN.

The Group's own funds

Rules of computing own funds

In accordance with the provisions of the Banking Law and Regulation 575/2013, the Group's own funds comprise:
– common Equity Tier 1 capital,
– additional Tier 1 capital,
– Tier 2 capital.

The 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; capital reserve;
4) general risk fund;
5) reserve capital.

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 2014, the Parent used a subordinated loan 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.

in PLN thd	Amount on the disclosure date	(B) Reference to Articles of the Regulation (EU) No. 575/2013
Common Equity Tier 1 (CET 1) capital: instruments and reserves		
1 Capital instruments and the related share premium accounts	3,176,815	Art. 26.1, Art. 27, Art. 28 and Art. 29, EBA's list referred to in Art. 26.3
including: type 1 instrument	3,176,815	Art. 26.1, Art. 27, Art. 28 and Art. 29, EBA's list referred to in Art. 26.3
2 Retained earnings	427	Art. 26.1.c)
3 Accumulated other comprehensive income (and other reserves)	553,514	Art. 26.1
3a Funds for general banking risk	29,895	Art. 26.1.f)
6 Common Equity Tier 1 capital before regulatory adjustments	3,760,651	
Common Equity Tier 1 capital: regulatory adjustments		
7 Additional value adjustments (negative amount)	(3,777)	
8 Intangible assets (net of related tax liabilities) (negative amount)	(79,020)	Art. 36.1.b), Art. 37l, Art. 472.4
18 Direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	(5,274)	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to Art. 467 and 468 CRR;	(2,276)	Art. 467 and 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 (CET 1) capital	(90,347)	
29 Common Equity Tier 1 (CET 1) capital	3,670,304	
Additional Tier 1 (AT1) capital: instruments		
Additional Tier 1 (AT1) capital: regulatory adjustments		
Tier 2 (T2) capital: instruments and provisions		
46 Capital instruments and the related share premium accounts	164,458	Art. 62-65
51 Tier 2 (T2) capital before regulatory adjustments	164,458	
Tier 2 (T2) capital: regulatory adjustments		
57 Total regulatory adjustments to Tier 2 (T2) capital		
58 Tier 2 (T2) capital	164,458	
59 Total capital (TC = T1 + T2)	3,834,762	
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)	27,282,686	
60 Total risk-weighted assets	27,282,686	
Capital ratios and buffers		
61 Common Equity Tier 1 capital ratio (as a percentage of total risk exposure amount)	13.45%	Art. 92.2.a), Art. 465
62 Tier 1 capital ratio (as a percentage of total risk exposure amount)	13.45%	Art. 92.2.b), Art. 465
63 Total capital ratio (as a percentage of total risk exposure amount)	14.06%	Art. 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)	3,217	
73 Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below10% threshold and net of eligible short positions)	-	Art. 36.1.i), Art. 45, Art. 48, Art. 470, Art. 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 Art. 38.3 of CRR are met)	28,496	Art. 36.1.c), Art. 38, Art. 48, Art. 470, Art. 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 I: Shares comprising CET 1 capital	Instrument II: Subordinated loan
1	Issuer	Deutsche Bank Polska S.A.	Deutsche Bank (Malta) Ltd
2	Unique ID code (e.g. CUSIP, ISIN or Bloomberg code of non-public offerings)	Series I – XXI shares	Subordinated loan agreement
3	Governing law(s) for the instrument	Polish	Maltese
	Disclosed under regulatory capital	Yes	Yes
4	Transitional rules set out in the CRR	Common Equity Tier 1 capital Partial reclassification of the issue to lower category of capital – not applicable	Tier 2 (T2) capital
5	Rules set out in the CRR applicable after the transitional period	Common Equity Tier 1 (CET 1) capital	Tier 2 (T2) 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
7	Type of instrument (types specified in compliance with the legal system)	Ordinary shares. Classification – Common Equity Tier 1 instrument in accordance with Art. 28 of the Regulation (EU) No. 575/2013	Subordinated loan
8	Amount recognised under regulatory capital (PLN '000, as at the end of the most recent reporting period)	PLN 3,176,815 thousand	PLN 164,458 thousand
9	Par/nominal value of the instrument	PLN 2,651,449 thousand	EUR 55,000 thousand
9a	Issue price	PLN 3,176,815 thousand	not applicable
9b	Redemption price	Not applicable	EUR 55,000 thousand
10	Classification for accounting purposes	Equity	Subordinated loan
11	Original issue date	November 4th 1991	July 4th 2008
12	Issued for indefinite or definite period	Indefinite	Definite
13	Original maturity	No maturity	July 4th 2018
14	Option to be redeemed at the issuer's request if approved by supervisory bodies	No	No
	Coupons / dividend	Dividend	Coupon
17	Floating or fixed dividend / coupon	Floating	Floating
18	Interest rate and any related ratio	Not applicable	Not applicable
19	Existence of recorded rights not to pay dividend	Yes	Not applicable
20a	Fully discretionary, partially discretionary or mandatory (with respect to term)	Partially discretionary; reasons: – Shareholder decisions; – performance; – administrative decisions	Not applicable
20b	Fully discretionary, partially discretionary or mandatory (with respect to amount)	Partially discretionary; reasons: – Shareholder decisions; – performance; – administrative decisions	Not applicable
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Impairment losses reducing value	No	No
36	Incompatible transitional features	No	No

Capital adequacy in 2013 – 2014

in PLN thd	Dec 31 2014	Dec 31 2013*
Common Equity capital	3,761,525	3,546,788
Decrease in Common Equity capital	(91,220)	(84,128)
Additional capital	164,458	184,223
Own funds	3,834,762	3,646,883
Short-term capital	-	26,295
Total own funds and short-term capital	3,834,762	3,673,179
Capital adequacy of the Bank		
Capital requirements for credit risk, counterparty risk, dilution risk and free deliveries	2,006,037	1,980,463
Capital requirements for settlement/delivery risk	-	-
Capital requirements for position risk, currency risk and commodity risk	14,279	19,478
Capital requirements for operational risk	162,029	163,460
Capital requirements for fixed overheads	-	-
Capital requirements for credit value adjustment	270	-
Capital requirements for debt exposure in the trading book	-	-
Requirements for other risk exposures	-	-
Total capital requirement	2,182,615	2,163,401
Total capital ratio (%)**	14.06%	13.58%

* Restated.
** Since January 1st 2014, the CRR Regulation has applied to own funds calculation and capital adequacy calculation. The total capital ratio (formerly: solvency ratio) as at December 31st 2014 was computed in accordance with guidelines provided for in the CRR Regulation. The total capital ratio presented as at December 31st 2013 was computed in accordance with the regulations applicable until the end of 2013, stipulated in Resolution No. 76/2010 of the Polish Financial Supervision Authority (PFSA) of March 10th 2010 on the scope and detailed rules for the calculation of capital requirements for individual types of risk, and Resolution No. 325/2011 of the PFSA of December 20th 2011 on other deductions from Tier 1 capital, other items of a bank's balance-sheet included in Tier 2 and Tier 3 capital, and deductions from Tier 2 and Tier 3 capital.

in PLN thd	Dec 31 2014
Tier 1 (T1) capital	3,670,304
Common Equity Tier 1 (CET 1) capital	3 670 304
Additional Tier 1 (AT1) capital	-
Tier 2 (T2) capital	164,458
Total own funds	3,834,762
Total capital requirement	2,182,615
CET1 capital ratio	13.45%
T1 capital ratio	13.45%
Total capital ratio (%)	14.06%

As at December 31st 2014, the capital adequacy ratio was materially affected by the inclusion of the 2013 net profit into the Group's own funds, in accordance with a relevant resolution of the General Meeting of Shareholders.

Calculation of capital requirement for credit risk

To calculate capital requirement for credit risk as at December 31st 2014, the Group used the Standardised Approach.

Exposure class

in PLN thd	Total exposure	Average exposure
Exposures or conditional exposures to central governments and central banks	5,218,975	4,111,551
Exposures or conditional exposures to regional governments and local authorities	85,440	90,933
Exposures or conditional exposures to public administration bodies and non-business entities	2,930	2,886
Exposures or conditional exposures to institutions	1,403,805	1,855,055
Exposures or conditional exposures to businesses	3,507,309	3,517,593
Retail exposures or conditional exposures	6,033,056	5,928,372
Capital exposures	4,583	2,359
Exposures or contingent exposures secured with property	22,121,141	21,712,688
Past due exposures	990,153	1,006,163
Other	246,750	267,063
Total	39,614,144	38,494,664

Calculation of capital requirement for credit risk (*)
As at Dec 31 2014

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%	69,164	5,533
II. Regional governments and local authorities	20%	11,096	888
III. Public administration bodies and non-business entities		2,217	177
	50%	20	2
	100%	2,197	176
IV. Multilateral development banks		-	-
V. International organisations		-	-
VI. Institutions − banks		103,134	8,251
	2%	849	68
	20%	43,116	3,449
	50%	8,049	644
	100%	48,138	3,851
	150%	2,983	239
VII. Businesses	100%	2,131,991	170,559
VIII. Retail		3,946,385	315,711
	75%	2,788,095	223,048
	100%	1,158,290	92,663
IX. Secured with property		17,989,880	1,439,190
	20%	-	-
	35%	1,556,464	124,517
	75%	2,343,803	187,504
	100%	14,089,613	1,127,169
X. Past due		530,677	42,454
	75%	-	-
	100%	252,648	20,212
	150%	278,029	22,242
XI. Exposures classified in high-risk supervisory categories		-	-
XII. Secured bonds		-	-
XIII. Short-term exposures to banks and businesses		-	-
XIV. Exposures under membership in collective investment institutions		-	-
XV. Capital exposures		10,941	875
	100%	344	28
	250%	10,597	848
XVI. Other exposures		120,959	9,692
	20%	-	15
	100%	120,959	9,677
Total		**24,916,445**	**1,993,331**

* 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 2014

Geographical structure of exposures
as at Dec 31 2014

Exposure class

in PLN thd	PL	DE	GB	ES	NL	Other	Total
1. Exposures or conditional exposures to central governments and central banks	5,218,975	-	-	-	-	-	5,218,975
2. Exposures or conditional exposures to regional governments and local authorities	85,440	-	-	-	-	-	85,440
3. Exposures or conditional exposures to public administration bodies and non-business entities	2,930	-	-	-	-	-	2,930
7. Exposures or conditional exposures to institutions	142,953	590,038	526,550	67,104	30,681	46,478	1,403,804
8. Exposures or conditional exposures to businesses	3,445,993	16,058	10,047	-	8,906	26,305	3,507,309
9. Retail exposures or conditional exposures	6,017,012	3,141	3,351	986	150	8,415	6,033,055
10. Exposures or conditional exposures secured with property	22,020,992	26,345	21,552	2,483	3,077	46,693	22,121,142
11. Past due exposures	988,909	130	742	-	310	62	990,153
14. Capital exposures	4,583	-	-	-	-	-	4,583
15. Other exposures	246,754	-	-	-	-	-	246,754
Total	38,174,541	635,712	562,242	70,573	43,124	127,953	39,614,145

Structure of exposures by client type
as at Dec 31 2014

Exposure class

in PLN thd	Individuals	Businesses	Banks	Central banks	Other	Total
1. Exposures or conditional exposures to central governments and central banks	-	-	-	4,914,981	303,995	5,218,976
2. Exposures or conditional exposures to regional governments and local authorities	-	-	-	-	85,440	85,440
3. Exposures or conditional exposures to public administration bodies and non-business entities	-	-	-	-	2,930	2,930
7. Exposures or conditional exposures to institutions	-	-	1,269,918	-	133,887	1,403,805
8. Exposures or conditional exposures to businesses	196,637	3,308,930	-	-	1,743	3,507,310
9. Retail exposures or conditional exposures	4,979,145	1,053,911	-	-	-	6,033,056
10. Exposures or conditional exposures secured with property	19,847,977	2,260,944	-	-	12,220	22,121,141
11. Past due exposures	658,007	331,940	206	-	-	990,153
14. Capital exposures	-	-	-	-	4,583	4,583
15. Other exposures	-	-	4	-	246,747	246,751
Total	25,681,766	6,955,725	1,270,128	4,914,981	791,545	39,614,145

Residual maturities for individual exposure classes
as at Dec 31 2014

Exposure class

in PLN thd	<1 month	>1–3 months	>3–6 months	>6 months–1 year	>1–5 years	>5 years	Total
1. Exposures or conditional exposures to central governments and central banks	4,942,647	-	-	-	57,417	218,911	5,218,975
2. Exposures or conditional exposures to regional governments and local authorities	14,254	595	23,445	7,665	11,818	27,663	85,440
3. Exposures or conditional exposures to public administration bodies and non-business entities	-	200	-	1,715	1,015	-	2,930
7. Exposures or conditional exposures to institutions	667,091	130,955	128,905	292,210	175,421	9,222	1,403,804
8. Exposures or conditional exposures to businesses	1,007,138	284,880	616,642	838,922	497,719	262,008	3,507,309
9. Retail exposures or conditional exposures	140,815	246,132	307,175	535,495	1,208,070	3,595,368	6,033,055
10. Exposures or conditional exposures secured with property	107,708	105,516	210,892	370,561	631,630	20,694,835	22,121,142
11. Past due exposures	830,112	55,818	7,518	12,228	10,151	74,326	990,153
14. Capital exposures	4,583	-	-	-	-	-	4,583
15. Other exposures	246,445	-	-	309	-	-	246,754
Total	7,960,793	824,096	1,294,577	2,059,105	2,593,241	24,882,333	39,614,145

Impaired and past-due exposures by client type
as at Dec 31 2014

Customer type / industries

in PLN thd	Individuals	Businesses	Banks	Total
Impaired exposures	610,264	357,425	-	967,689
Past due exposures	1,107,056	318,964	-	1,426,020
Specific credit risk adjustment	393,624	108,618	19	502,261

Geographical structure of impaired and past-due exposures by country and province
as at Dec 31 2014

Country

in PLN thd	Poland	Great Britain	Germany	The Netherlands	Other	Toal
Impaired exposures	966,459	742	130	310	48	967,689
Past due exposures	1,422,609	1,050	683	1,135	544	1,426,020
Specific credit risk adjustment	501,815	280	29	127	9	502,261

Reconciliation of changes in impairment losses for impaired exposures

		Increase		Decrease				
in PLN thd	As at Dec 31 2013	Recognition of impairment loss	Other*	Derecognition of assets from the statement of financial position	Release of impairment losses	Other**	As at Dec 31 2014	Change in the period
Amounts due from banks	375	-	-	-	(356)	-	19	(356)
Loans and advances to businesses	694,705	-	-	-	(192,463)	-	502,242	(192,463)
Total	695,080	-	-	-	(192,819)	-	502,261	(192,819)

Calculation of capital requirement for operational risk

To calculate capital requirement for operational risk in 2014, the Group used the Standardised Approach, in accordance with the regulations of Part Three, Title III, Chapter 3 of the CRR Regulation.

Profit/loss by business line for the purposes of calculating capital requirement for operational risk

in PLN thd

Risk weight	Business line	2013*	2012*	2011*
18%	Corporate finance	3,176	4,171	3,777
18%	Sale and trading	66,080	237,577	196,671
12%	Retail brokerage	86,769	53,283	55,329
15%	Commercial banking	303,376	221,849	235,747
12%	Retail banking	630,292	666,616	713,603
18%	Payment and settlement	26,945	24,997	22,959
15%	Agency services	3,928	2,023	4,000
12%	Asset management	238	198	1,212
	Total	1,120,804	1,210,714	1,233,298

* Restated data includes the aggregated data of the Deutsche Bank Polska Group and Deutsche Bank PBC S.A. prior to the legal merger of the banks to provide the basis for the calculation of the 2014 capital requirement for the Bank's post-merger operations.

Capital requirement for operational risk

in PLN thd

Risk weight	Business line	2014
18%	Corporate finance	667
18%	Sale and trading	30,020
12%	Retail brokerage	7,815
15%	Commercial banking	38,049
12%	Retail banking	80,420
18%	Payment and settlement	4,494
15%	Agency services	498
12%	Asset management	66
	Total	162,029

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 (reduction, 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 2014 and 2013 by type and event category

The table below sets forth operational losses incurred by the Group in 2013−2014 by event category.

Share in total gross operational losses for 2014 and 2013

Operational event category	2014	2013*
Internal fraud	0.0%	0.6%
External fraud	13.3%	30.4%
Employment related principles and workplace safety	4.0%	21.9%
Clients, products and operational practices	67.1%	20.0%
Losses related to property and equipment	0.7%	5.1%
Disruption to bank operations and system failures	0.0%	2.1%
Transaction execution, delivery and operational process management	14.9%	19.9%

* Restated data includes the aggregated data of the Deutsche Bank Polska Group and Deutsche Bank PBC S.A. prior to the legal merger of the banks to provide the basis for the calculation of the 2014 capital requirement for the Bank's post-merger operations.

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

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

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

Capital buffers

Not applicable as at the date of these financial statements.

Leverage

Not applicable as at the date of these financial statements.

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.

At the Group, given its business profile, internal capital represents the sum of regulatory capital requirements plus capital requirements for material risks measured using qualitative and quantitative methods and not covered, fully or partially, by the minimum regulatory capital requirement.

Therefore, in line with the adopted process, the Group identified all risks to which it is exposed and determined their materiality.

Given the specific characteristics of the applied internal capital model, the additional, non-regulatory, capital covers the capital requirement for general interest rate risk and currency risk.

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 2014, the amount of own funds significantly exceeded the internal capital amount, providing a substantial safety margin.

46. Variable component remuneration policy

Qualitative information

Pursuant to Resolution No. 258/2011 of the Polish Financial Supervision Authority of October 4th 2011, in 2012 the Parent of the Deutsche Bank Polska Group implemented (using support of an external consultant), and the Supervisory Board approved, a policy of variable components of remuneration for persons in management positions at Deutsche Bank Polska S.A. („the Policy") who play a significant role in determining the Parent's risk profile.

All positions at the Parent were reviewed in relation to the key risks managed at the Parent. Based on the review, management positions that play a significant role in determining the Parent's risk profile were identified. The list of management positions with a significant bearing on the risk profile was approved by the Supervisory Board and forms Appendix 3 to the Policy.

In 2012, the Remuneration Committee was established at the Parent 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 2012, pursuant to the Regulation of the Minister of Finance of December 2nd 2011 (Dz.U. of 2011, No. 263, item 1569) on the rules for the establishment of a policy for variable remuneration components for persons holding management positions at brokerage houses, the subsidiary implemented a variable remuneration component policy for its management staff. A description of the rules is published on the subsidiary's website, in the Documents section, in a document entitled Policy of variable remuneration components at DB Securities S.A. In the 2014 financial statements, the subsidiary presented quantitative information on the cost of variable remuneration components.

In the period from January 1st to January 21st 2014, the Remuneration Committee consisted of:
– Mr Peter Tils,
– Mr Hubert A. Janiszewski, PhD,
– Mr Guido Heuveldop.

On January 22nd 2014, following the merger of Deutsche Bank Polska S.A. and Deutsche PBC S.A. (the „combined Bank"), a new Remuneration Committee was appointed by virtue of a Supervisory Board resolution, consisting of the following persons:
– Mr Peter Tils,
– Mr Hubert A. Janiszewski, PhD,
– Mr Pedro Larena.

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 Parent, 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 Parent and the interests of the Parent's shareholders;
– monitoring and issuing opinions on variable remuneration components for persons holding management positions at the Parent 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 Parent. In 2014, the Remuneration Committee of the combined Bank held three meetings.

Performance-based remuneration

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

The policy of variable components of remuneration for 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 combined 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 Parent. 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. 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 Parent's business which are under their control.

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 Parent. Individual evaluation is performed on the basis of the employee evaluation procedure in place at the Parent. 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, which are of particular importance to the Parent's risk profile, serves as an incentive to exercise special care in promoting the Parent'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 Parent.

At least 40% of the variable remuneration of persons holding management positions enumerated in Section 1 of Appendix 3 to the Policy, which are of particular importance to the Parent'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 Parent 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 variable remuneration components for persons holding management positions at the Parent, as defined in Resolution No. 258/2011, which are of particular importance to the Parent'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 2014 to the Parent's employees covered by the variable remuneration component policy, by business line

in PLN thd

Business line

in PLN thd	Total remuneration (fixed + variable*)
Retail and business banking	4,547
Corporate banking	13,119
Bank management	11,330
Total	28,996

* including payment of the deferred portion of remuneration for previous years

Summary quantitative information on remuneration paid in 2014 to the Parent's employees covered by the variable remuneration component policy
in PLN thd

in PLN thd	The Parent's Management Board	Other management staff at the Parent
Number of FTEs	9	38*
Fixed remuneration	7,153	11,348
Variable remuneration**	6,254	4,241
Total	13,407	15,589

* One person employed until January 31st 2014.
** Including payment of the deferred portion of remuneration for previous years.

Summary quantitative information on variable remuneration awarded for 2014 to the Parent's employees covered by the variable remuneration component policy, broken down into cash payments and financial instruments
in PLN thd

in PLN thd	The Parent's Management Board	Other management staff at the Parent
Variable remuneration in cash	2,940	3,441
Variable remuneration in financial instruments	2,940	299
Total	5,880	3,740

The value of deferred units is estimated on the date they are awarded (calculation as at December 31st 2014), 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 the Parent's employees covered by the variable remuneration component policy, broken down into the vested and non-vested portion
in PLN thd

in PLN thd	The Parent's Management Board	Other management staff at the Parent
Deferred variable remuneration - vested*	1,006	30
Deferred variable remuneration - non-vested**	5,238	793
Total	6,245	824

* Of deferred variable remuneration awarded for 2012.
** Part of deferred variable remuneration awarded for 2012 and 2013.

Summary quantitative information on deferred remuneration paid in 2014 to the Parent's employees covered by the variable remuneration component policy
in PLN thd

in PLN thd	The Parent's Management Board	Other management staff at the Parent
Deferred variable remuneration for 2012*	1,006	30
Share-based payment and cash award scheme **	1,198	-
Total	2,204	30

* Part of deferred variable remuneration awarded for 2012.
** Remuneration for 2011 under the Deutsche Bank AG Group's share-based payments and cash awards programme.

In 2014, one payment was recorded at the Parent, related to termination of employment (PLN 630 thousand).

In 2014, there were no payments at the Parent in connection with employment of new persons covered by the Policy.

In the reporting period, there were no performance-related reductions of the variable remuneration awarded as part of the variable remuneration component policy.

In 2014, none of the persons employed at the Parent received total remuneration in excess of EUR 1m.

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	Radosław Kudła Member of the Management Board
(signature)	(signature)	(signature)
Kamil Kuźmiński Member of the Management Board	Piotr Olendski Member of the Management Board	Magdalena Rogalska Member of the Management Board

Warsaw, June 16th 2015

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Further Information

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Opinion of the Independent Auditor

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purpose of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

To the General Meeting of Deutsche Bank Polska S.A.

Opinion on the Consolidated Financial Statement

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Deutsche Bank Polska S.A. with its registered office in Warsaw, Al. Armii Ludowej 26 (“”the Group”), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting polices and other explanatory information.

Management’s and Supervisory Board’s Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group’s activities. Management of the Parent Entity is also responsible for such internal control as management determines in necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statement and the report on the Group’s activities are in compliance with the requirements set forth in the Accounting Act.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain responsible 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 our judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation 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 entity’s internal control. An audit also includes evaluation the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management, al 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 opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Deutsche Bank Polska S.A. Group have been prepared and presented fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities
As required under the Accounting Act, we report that the accompanying report in the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
Ul. Chłodna 51
00-867 Warszawa

(Signed on the Polish original)

Magdalena Grzesik
Key Certified Auditor
Registration No. 12032

(Signed on the Polish original)

Stacy Ligas
Member of Management Board of KPMG Audyt Sp. z o.o., entity which is the General Partner of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

16 June 2015

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