MANAGEMENT BOARD REPORT

DATED 23 FEBRUARY 2018

prepared by the Management Board of Bank Zachodni WBK S.A.

in accordance with Art. 536 of the Commercial Companies Code

justifying the demerger of

Deutsche Bank Polska S.A.

DEFINITIONS USED IN THE MANAGEMENT BOARD REPORT

The following terms shall have the following meaning in this Management Board Report:

Acquiring Bank	Bank Zachodni WBK S.A., with its registered seat in Wrocław, address: ul. Rynek 9/11, 50-950 Wrocław, entered into the Register of Business Entities maintained by the District Court in Wrocław for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, under KRS No. 0000008723, NIP: 8960005673, REGON: 930041341, with a fully paid-up share capital amounting to PLN 993,334,810;
Act on trading in financial instruments....	the Act of 29 July 2005 on trading in financial instruments (consolidated text: Journal of Laws of 2017, item 1768, as amended);
Antimonopoly Clearance	decision issued by the President of the Office of Competition and Consumer Protection consenting to a concentration involving the acquisition of control over Demerged Business pursuant to the respective competition law;
Bank Being Divided, DB Polska	Deutsche Bank Polska S.A., with its registered seat in Warsaw, address: ul. Armii Ludowej 26, 00-609 Warszawa, entered into the Register of Business Entities maintained by the District Court in Warsaw, XII Commercial Division of the National Court Register, under KRS No. 0000022493, NIP 6760107416, with a fully paid-up share capital amounting to PLN 2,651,449,384;
Banking Law..	the Act of 29 August 1997 on the banking law (consolidated text: Journal of Laws of 2016, item 1988, as amended);
Banks...	DB Polska and the Acquiring Bank;
Brokerage Business.....................................	All of the rights and obligations as well as the receivables and liabilities related to the brokerage activity of the Bank Being Divided, conducted based on the brokerage license of the Bank Being Divided;
CCC..	the Commercial Companies Code dated 15 September 2000 (consolidated text: Journal of Laws of 2017, item 1577, as amended);
DB AG..	Deutsche Bank AG with registered office in Frankfurt am Main, Germany;
DB Securities	means DB Securities S.A. with its registered seat in Warsaw, address: Al. Armii Ludowej 26, 00-609

Warsaw, entered into the Register of Business Entities maintained by the District Court in Warsaw, XIII Commercial Division of the National Court Register under KRS No. 0000066290, NIP: 6370118719, with a fully paid-up share capital amounting to PLN 15,000,000;

DB Securities Shares.................................. means 150,000 (one hundred and fifty thousand) ordinary registered shares with a nominal value of PLN 100 (one hundred zlotys) each, representing 150,000 (one hundred and fifty thousand) votes at the general meeting of shareholders of DB Securities (i.e. 100% of the votes at the general meeting of shareholders of DB Securities);

Demerged Business .... means an organised part of the business of the Bank Being Divided consisting of (i) the Transferred PCC Business and (ii) the DB Securities Shares, the composition of which is established pursuant to Schedule 1 to the Demerger Plan;

Demerger .... the demerger of DB Polska pursuant to the terms and conditions presented in the Demerger Plan;

Demerger Effective Date .... the date on which the Demerger becomes effective, i.e. the date of registration of the share capital increase of the Acquiring Bank by way of the issuance of the Demerger Shares as a result of the Demerger;

Demerger Shares... 2,754,824 (two million seven hundred and fifty four thousand and eight hundred and twenty four) of series N ordinary bearer shares in the Acquiring Bank with a nominal value of PLN 10 (ten zlotys) each issued in connection with the Demerger and subject to adjustments set out in Sections 3.1 and 3.2, if any;

Demerger Plan.. Demerger Plan of DB Polska;

FX Retail Mortgage Lending Business...... means the retail mortgage lending business of DB Polska in any currency other than PLN, including for the avoidance of doubt (i) any mortgage loans and borrowings in any currency other than PLN as part of the retail banking business of DB Polska and (ii) any retail mortgage loans and borrowings in PLN which have been converted from retail mortgage loans and borrowings in any other currency, including in all cases the rights of DB Polska in collateral securing such mortgage loans and borrowings;

NDS .... the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*);

PCC Business.. means the retail banking, business banking and private banking business of DB Polska, including, for

	the avoidance of doubt, the Brokerage Business;
PFSA	the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*);
Retained Business..	means an organised part of the business of DB Polska consisting of all assets and liabilities which are not the Demerged Business;
Reference Shares...	has the meaning ascribed to it in Section 4.3.2;
Share Capital Increase	has the meaning ascribed to it in Section 3.1;
Share Exchange Ratio.................................	has the meaning ascribed to it in Section 3.1;
Transaction Agreement..............................	has the meaning ascribed to it in Section 2;
Transferred PCC Business.........................	means the PCC Business excluding the DB Securities Shares and excluding the FX Retail Mortgage Lending Business, as set out in more detail in <u>Schedule 1</u> to the Demerger Plan;
WSE..	Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*).

INTRODUCTION

On 23 February 2018, the Management Board of the Bank Being Divided and the Management Board of the Acquiring Bank resolved to adopt the Demerger Plan and agreed the Demerger Plan setting out, in accordance with Art. 529 § 1 Item 4, Art. 533 § 1 and Art. 534 of the CCC, among others, the manner in which the Demerger will be effected and the Share Exchange Ratio, and therefore the Management Board of the Acquiring Bank, acting under Art. 536 of the CCC, has prepared this Management Board Report justifying the Demerger.

1. DESCRIPTION OF THE INTENDED DEMERGER

1.1. Legal Basis of the Demerger

The Demerger will be effected in accordance with the procedure specified in Article 529 § 1 item 4 of the CCC. Under the Demerger, a part of the business of DB Polska, i.e. the Demerged Business, will be demerged to the Acquiring Bank, while the remaining part of the business of DB Polska, i.e. the Retained Business, will remain in DB Polska.

Pursuant to Article 530 § 2 of the CCC, the Demerged Business will be demerged to the Acquiring Bank on the date of registration of the share capital increase of the Acquiring Bank by way of the issuance of the Demerger Shares as a result of the Demerger (the "**Demerger Effective Date**").

As a result of the Demerger, pursuant to Article 531 § 1 of the CCC, the Acquiring Bank will on the Demerger Effective Date assume all of the rights and obligations of DB Polska connected with the Demerged Business. Consequently, immediately following the Demerger Effective Date, DB Polska will retain rights and obligations relating to the Retained Business. DB Polska's business will be limited to the Retained Business and the Acquiring Bank's business will be enlarged by the Demerged Business.

1.2. Required regulatory consents or permits

The Demerger will be executed subject to obtaining the following regulatory approvals:

- obtaining a decision issued by the PFSA in accordance with Article 25h, section 4 of the Banking Law confirming that there is no objection to the acquisition by the parent company of the Acquiring Bank with the intermediation of the Acquiring Bank of more than 10% of the share capital and the votes in the Bank Being Divided, or the lapse of the statutory time period for the PFSA to raise objections to the acquisition by the parent company of the Acquiring Bank with the intermediation of the Acquiring Bank of more than 10% of the share capital and the votes in the Bank Being Divided;
- obtaining a decision from the PFSA permitting the Demerger in accordance with Article 124c, section 2 of the Banking Law;
- obtaining a decision from the PFSA permitting the amendments to the Acquiring Bank's statute to be made in connection with the Demerger as provided for in Schedule 4 to the Demerger Plan in accordance with Article 34, section 2 and in connection with Article 31, section 3 of the Banking Law;
- obtaining a decision from the PFSA permitting the amendments to DB Polska's statute to be made in connection with the Demerger in accordance with Article 34, section 2 and in connection with Article 31, section 3 of the Banking Law;
- obtaining a decision issued by the PFSA in accordance with Article 106h, section 4 of the Act on trading in financial instruments confirming that there is no objection to the acquisition through the Demerger by the parent company of the Acquiring Bank with the intermediation of the Acquiring Bank of more than 50% of the share capital and the votes

in DB Securities or the lapse of the statutory time period for the PFSA to raise objections to the acquisition by the parent company of the Acquiring Bank with the intermediation of the Acquiring Bank of more than 50% of the share capital and the votes in DB Securities; and

- obtaining the Antimonopoly Clearance.

1.3. Resolutions of the general meetings of the Banks

The Demerger will require resolutions of the general meetings of the Banks, including resolutions regarding:

(i) consent to the Demerger Plan;

(ii) consent to the amendments to the Acquiring Bank's statute to be made in relation to the Demerger as provided for in Schedule 4 to the Demerger Plan; and

(iii) consent to the amendments to the statute of the Bank Being Divided to be made in relation to the Demerger.

1.4. Increase in the Acquiring Bank's share capital in connection with the Demerger

In connection with the Demerger, the Acquiring Bank's share capital will be increased by PLN 27,548,240 (twenty seven million five hundred and forty eight thousand two hundred and forty zlotys) through the issuance of the Demerger Shares, subject to the adjustments set out in Sections 3.1 and 3.2 below, which will be granted and allocated to DB AG based on the rules presented herein in Sections 3 and 4 below. The Demerger Shares will be the shares of the same type as the shares of the Acquiring Bank registered with the NDS under ISIN number PLBZ00000044 and the Demerger Shares will grant the same rights as these shares.

The Acquiring Bank will take actions to procure the admission and introduction of the Demerger Shares to trading on the regulated market operated by the WSE. To that end, the Acquiring Bank will file a motion for the registration of the Demerger Shares with the NDS along with an annex to the shares' issue letter (*aneks do listu księgowego akcji*) containing the indication of the issue agent for the purpose of the allotment of the Demerger Shares referred to in Section 4.3 below as well as a motion with the WSE for the introduction of the Demerger Shares to trading on the regulated market.

1.5. Decrease in the share capital of the Bank Being Divided in connection with the Demerger

In connection with the Demerger, the share capital of the Bank Being Divided will be decreased through redemption of all shares held in the Bank Being Divided by the Acquiring Bank. The share capital of the Bank Being Divided will be further decreased through redemption of shares held in the Bank Being Divided by DB AG, if any, to the extent that the own capitals of the Bank Being Divided other than the share capital cannot be used in accordance with applicable laws to adjust the own capitals to the perimeters of the spin-off of the Demerged Business.

2. ECONOMIC JUSTIFICATION OF THE DEMERGER

On 14 December 2017 the sole shareholder of the Bank Being Divided, i.e., DB AG as well as the Acquiring Bank and its strategic shareholder, i.e., Banco Santander S.A., entered in a Transaction Agreement (the "**Transaction Agreement**") concerning the acquisition of the Demerged Business by the Acquiring Bank, comprising retail banking, including private banking, and business banking comprising Small and Medium Enterprises of the Bank Being Divided, as well as its network of branches, agencies and partners and the DB Securities Shares. As a result of the transaction, the network of branches along with external sales channels, i.e., the agents and intermediaries of the Bank Being Divided, will be incorporated into the current structure of the Acquiring Bank. There will also be a transfer of asset management agreements, which in turn will make it possible to transfer the open architecture of investment funds.

The Transaction Agreement does not include the sale of the Retained Business, i.e. related to mortgage loans and borrowings denominated currently or in the past in currencies other than the Polish zloty of the Bank Being Divided or the business areas of Corporate and Investment banking of the Bank Being Divided. Such activity will be continued by the Bank Being Divided. The Acquiring Bank informed on the execution of the Transaction Agreement in the current report No. 29/2017 of 14 December 2017.

The demerger of the Demerged Business to the Acquiring Bank is in line with DB AG's strategy to continue to sharpen its focus and reduce complexity. The decision to sell the retail business is not dependent upon performance of Deutsche Bank in Poland but serves to achieve a simpler and more efficient organisation. The Demerged Business has a solid financial basis thanks to a strong growth in the gross value of loans, gross deposits and assets under management since 2014, a very high quality of assets and strong capitalization. Low interest rates and a very strong competition in the market have, however, limited the ability of the Demerged Business to expand substantially.

From the point of view of the Acquiring Bank, the takeover of the Demerged Business will constitute the Acquiring Bank's strategic response to the consolidation trends in the Polish banking sector and will make it possible for the Acquiring Bank to consolidate its leading market position thanks to a 12% increase in the value of its assets, an 11.7% growth in the share of the consumer loan and credit market and an 11% increase in client deposits. Additionally, the Acquiring Bank assumes that the takeover of the Demerged Business will produce meaningful synergies and savings for the Acquiring Bank. Furthermore, the Acquiring Bank will enrich its business with additional competences and skills in relations with affluent clients, as well as in private banking and business banking.

From the perspective of the Acquiring Bank, the principal business and operational objectives of the transaction of taking over the Demerged Business include:

- broadening of the Acquiring Bank's product offer, improvement in the quality of customer service and of client satisfaction with their cooperation with the Acquiring Bank;
- increase of the client base and the volume of business of the Acquiring Bank (the value of loans to clients will increase by 16% and that of client deposits by 9%);
- growth of the sales network of the Acquiring Bank;
- improved operational efficiency thanks to using the potential of both Banks, and the implementation of the Acquiring Bank's best practices and economies of scale; and
- high growth in value combined with a limited impact on capital indices.

The Acquiring Bank expects that the takeover of the Demerged Business will produce a significant return on investment, estimated at 15.5% (net of integration costs) by 2021, above the cost of own equity of the Acquiring Bank, which, together with the projected 5% growth in profit per share after 2021 (net of integration costs) and the growth in the free float of shares in the wake of the issuance of new shares, will be beneficial for the shareholders of the Acquiring Bank.

The integration of the Demerged Business into the Acquiring Bank should be beneficial for the clients of both Banks. The current retail and corporate clients of the Bank Being Divided will obtain access to one of Poland's largest network of branches and access to innovative sales channels, including mobile banking. At the same time, the clients of the Acquiring Bank will have an opportunity to use a broad range of private banking products and will obtain access to an unparalleled network of financial agents, intermediaries and partners with which the Bank Being Divided cooperated with to date.

From the legal and economic perspective, the transferring of the Demerged Business to the Acquiring Bank through Demerger is the most effective way of ensuring the operational continuity of the Bank Being Divided, which at the same time secures the legal interests of the Bank Being Divided.

3. SHARE EXCHANGE RATIO

3.1. Exchange ratio of the shares in DB Polska for the shares in the Acquiring Bank

The ratio based on which the Demerger Shares will be granted, subject to Article 550 § 1 of the CCC, is as follows: for 1,000,000 (one million) Reference Shares (as defined in Section 4.3.2 below), DB AG will be granted and allocated 1,836.54933333333 Demerger Shares (the "**Share Exchange Ratio**").

If before the registration of the Demerger there is a registration of the share capital increase in the Acquiring Bank such share capital increase will be referred to hereinafter as the "**Share Capital Increase**" and the above-mentioned Share Exchange Ratio will be adjusted by dividing it by the dilution adjustment ratio (RF) determined in accordance with the Dilution Adjustment Formula described in Section 3.2 below. If there is any spilt of the shares of the Acquiring Bank or any other change to the structure of the share capital of the Acquiring Bank, the Share Exchange Ratio will be adjusted accordingly.

3.2. Dilution Adjustment Formula

The dilution adjustment will be calculated based on the following formula:

$$RF = ((SR * PR) + (SI * PI)) / (PR * (SR + SI))$$

where:

RF – means the dilution adjustment ratio

SR – means the number of the Acquiring Bank shares on the record date for the Share Capital Increase

PR – means the closing price for the Acquiring Bank shares on the record date for the Share Capital Increase

SI – means the final number of the shares of the Acquiring Bank issued as part of the Share Capital Increase

PI – means the issue price for the shares of Acquiring Bank as part of the Share Capital Increase

3.3. The methods applied to determine the Share Exchange Ratio

For the purposes of the calculation of the Share Exchange Ratio, the number of Demerger Shares to be allotted to DB AG in respect of all Reference Shares has been calculated by dividing:

(i) 80% of the aggregate preliminary purchase price in respect of the Transferred PCC Business and DB Securities agreed in the Transaction Agreement, i.e. a sum of PLN 1,031,839,200 (one billion thirty one million eight hundred and thirty nine thousand two hundred Polish Zloty);

by

(ii) the arithmetic average of the daily volume weighted average prices of shares of the Acquiring Bank traded on the WSE during the period starting on 14 November 2017 and ending on 13 December 2017.

In calculating the Share Exchange Ratio it has been taken into account that according to the Transaction Agreement 20% of the initial sale price of the Demerged Business should be paid to DB AG before the Demerger Effective Date, in the form of Acquiring Bank's payment of a price for shares of the Demerged Bank representing 10% of its share capital plus one share.

The initial sale price of the Demerged Business was determined as a result of the negotiations.

4. PRINCIPLES OF ALLOCATING THE SHARES IN THE ACQUIRING BANK

4.1. Shares in DB Polska following the Demerger

As a result of the Demerger:

(i) after the decrease of the share capital of DB Polska, the Acquiring Bank will cease to be a shareholder of DB Polska as the result of redemption of all shares in DB Polska held by the Acquiring Bank; and

(ii) DB AG will remain the only shareholder of DB Polska holding 100% of the shares in and 100% of the votes at the General Meeting of DB Polska.

4.2. Shares in the Acquiring Bank following the Demerger

Pursuant to Article 550 § 1 of the CCC, no Demerger Shares will be issued to the Acquiring Bank in exchange for the shares held by the Acquiring Bank in DB Polska, if any.

On the Demerger Effective Date, DB AG will become a shareholder of the Acquiring Bank and will be granted and allocated Demerger Shares. The number of Demerger Shares granted and allotted to DB AG will be calculated based on the Share Exchange Ratio and pursuant to the rules indicated below.

4.3. Rules for the calculation of the number of the Demerger Shares and the additional cash payments

4.3.1 The Demerger Shares will be allotted to DB AG through the intermediation of the NDS.

4.3.2 The number of Demerger Shares to be allotted to DB AG will be determined by multiplying the number of the Reference Shares (as defined below) by the Share Exchange Ratio and by rounding the product thereof down to the nearest integer (if the product is not an integer). The "**Reference Shares**" shall mean the following shares of the Bank Being Divided held by DB AG: 1,500,000,000 shares, i.e. all shares issued in issues from I to XVII and 28.901.973 shares of issue XVIII.

4.3.3 No additional cash payments for DB AG are foreseen. When as a result of the rounding down referred to in Section 4.3.2 DB AG has not been allotted a fraction of the Demerger Share it was entitled to according to the Share Exchange Ratio, DB AG will not receive any additional cash payment.

5. PARTICULAR PROBLEMS RELATED TO THE VALUATION OF THE BANKS

No particular problems arose in the course of the valuation of the DB Polska's assets and shares.

6. ADDITIONAL INFORMATION

6.1. Date from which the Demerger Shares will participate in the Acquiring Bank's profit

If the Demerger Shares are registered for the first time on the securities account of DB AG by the dividend date (*dzień dywidendy*), referred to in Article 348 § 2 of the CCC, established in 2019 including that date, the Demerger Shares will participate in the profits distributed after the end of the fiscal year lapsing on 31 December 2018. However, if the Demerger Shares are registered for the first time on the securities account of DB AG after the dividend date established in 2019, the Demerger Shares will participate in the profits distributed after the end of the fiscal year lapsing on 31 December 2019.

6.2. Rights granted by the Acquiring Bank to the shareholders and other persons with special rights in the Bank Being Divided

It is not planned to grant any special rights to DB AG as the shareholder of DB Polska and/or to other persons holding special rights in DB Polska.

6.3. Special benefits for the members of the corporate bodies of the Banks and for other persons who participated in the Demerger

In connection with the Demerger the Bank Being Divided has introduced of an award scheme for continued employment, addressed to a selected group of employees of key importance to the Bank Being Divided (including Members of the Management Board). Under the scheme, discretionary retention bonuses will be awarded to such employees for their continued employment relationship with the Bank Being Divided when the terms and conditions provided for in the scheme are satisfied. The cost of the scheme is currently estimated to be no more than PLN 45,000,000 (forty five million zlotys) and will be economically borne by the Bank Being Divided.

In connection with the Demerger the Acquiring Bank, in coordination with the Bank Being Divided, will introduce an additional retention award scheme addressed to a selected group of employees of the Bank Being Divided and of key importance to the Acquiring Bank. Under the scheme, six months after the Demerger, bonuses will be awarded to such employees for the achievement of specified goals after the transfer to the Acquiring Bank. The cost of the scheme is currently estimated to be no more than PLN 10,000,000 (ten million zlotys) and will be economically borne by the Acquiring Bank.

7. SUMMARY AND RECOMMENDATION

The economic and financial advantages, both for the Banks themselves and for their shareholders, allow to conclude that the Demerger is justified in strategic, operating and cost terms.

Therefore, the Management Board of the Acquiring Bank recommends to the general meeting of the Acquiring Bank to adopt the resolutions consenting to effecting the Demerger Plan, and the amendments to the Acquiring Bank’s statute resulting from the Demerger.