Translation from the Ukrainian original

# JOINT STOCK COMPANY
# "DEUTSCHE BANK DBU"

## Management report for 2021

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# General Information About the Bank

Joint Stock Company "Deutsche Bank DBU" (hereinafter referred to as the Bank) is a part of a bank group under foreign control. All shares in the Bank (100%) are owned by Deutsche Bank AG, a corporation established and operating in accordance with the laws of the Federal Republic of Germany. Deutsche Bank AG is a direct parent company of the Bank and its ultimate controlling party. The Bank has not bought or sold any shares during the year.

The Bank has an office in Kyiv, Ukraine. As of 31 December 2021, the Bank employed 36 employees, of which 19 men and 17 women.

According to Deutsche Bank Group's global classification, the Bank is represented in Ukraine by Corporate Bank and by Investment Bank divisions, which serve corporate clients and provides a wide range of services, in particular:
- Cash flow management
- Trade financing
- Foreign exchange transactions
- Overdrafts and fixed-term financing
- Fixed-term deposits, etc.

In order to support B2B segment, the Bank also carries out transactions in the interbank market, in particular:
- Foreign exchange transactions
- Interbank lending
- Swaps
- Debt securities of the National Bank of Ukraine (NBU), Ministry of Finance, etc.

The business sector is supported by the following core business units:
- Operations
- Finance
- Risk Management
- Compliance and Anti Financial Crime
- HR
- Treasury
- IT security.

All the revenues and expenses retained in the core business units are redistributed among the business units in accordance with the approved global allocation methods.

The Bank's parent company and its subsidiaries make one of the major bank groups in the world. The Bank's business is deeply integrated into the general group structure, which explains its regular interaction with the shareholder regarding a wide range of financial transactions and services. For instance, the Bank conducts transactions to borrow and lend funds in the foreign currency, currency exchange transactions, trade financing transactions etc. directly with the parent company and its branches. The pricing of such transactions is formed based on the arm's length principle.

Also, the highly-qualified professionals of the group provide a number of services to the Bank, including management, IT, compliance, risk management, audit, etc. The pricing of such services is formed based on the principle of allocation of costs pursuant to the methodologies approved at the level of the parent company for all the subsidiaries of the banking group.

The impact upon the financial result of the transactions with the shareholder is disclosed by the Bank in the annual financial statement in Note 28 "Related-Party Transactions".

**Membership of the Executive Body of the Financial Institution**

The members of the Management Board of the Bank are as follows:

1. Bernd Wurth, Chairman of the Management Board
2. Oleksii Viktorovych Rybenko, Deputy Chairman and Member of the Management Board, Chief Accountant
3. Anastasiia Oleksandrivna Neroshchyna, Operations Director, Member of the Management Board
4. Yevhen Dmytrovych Kharchenko, Member of the Management Board, Risk Management Head
5. Oleksandra Vasylivna Kostiana, Member of the Management Board, Compliance and Anti Financial Crime Head.

# Basic Principles of Corporate Governance

The Bank's corporate governance principles underpin everyday work and are integral part of changes in the corporate culture of Deutsche Bank Group. They regulate cooperation between the Bank's governing bodies and other decision makers in order to achieve the Bank's overall goals. In addition, the corporate governance principles ensure the establishment and allocation of roles, competences, and responsibilities within the regulatory framework governing the Bank's activities, and helps to clearly define responsibilities and duties.

The Bank's corporate governance functions also include compliance with the corporate governance principles of Deutsche Bank Group. Employees regularly review, improve and support compliance with Deutsche Bank Group's corporate governance principles and the Bank's corporate governance principles. Each representative or employee of the Bank takes into account and adheres to the corporate governance principles to the extent that they affect, directly or indirectly, his/her corresponding duties.

The corporate governance principles system is based on the principles of trust and cooperation between the Bank management, the Supervisory Board, shareholders, supervisory authorities regarding compliance with local laws, as well as delegation of powers and responsibilities.

The members of the Management Board and the heads of the structural units are responsible for taking necessary measures to assist the management in complying with these requirements.

The human, technical and financial resources constitute elements of the defined strategy and appropriate risk control means:

- Each representative of the management evaluates whether the unit he/she represents has adequate resources to achieve the unit's strategic goals.
- Human resources should have the appropriate knowledge, skills and experience to perform the relevant tasks, as well as receive effective training; diverse background of team members generate diverse opinions.
- Drawbacks should be analysed to unsure effective use of the resources; the consequences thereof should be evaluated and reported in a transparent way.

Ensuring general awareness of the organization structure:

- The organization structure should be transparent and clear for internal stakeholders and be in line with the business strategy and risk profile.
- The senior management should foster a structure reducing any difficulties, where necessary.

Proper documentation enables fact reconstruction, where necessary:

- Solutions and processes should be properly documented without creating an unnecessary formality burden.
- Decisions taken at committees' meetings should allow for meaningful dialogue and exchange of ideas, be recorded and provided to all interested committee members in a timely manner for review, and then to the

persona that have delegated authority. In addition, all internal and external potential stakeholders should be properly informed of the decisions taken.
- Decisions taken outside the committees should be properly communicated to stakeholders, ensuring that the latter clearly understand what needs to be done, taking into account the matrix structure.

Ensuring adequate and effective information flow and reporting, especially on the risk issues:
- It is crucial to address the problem of disaggregated data and provide relevant information to other structural units of the Bank that need such information to respond effectively and comply with the information provision rules on the need-to-know principle.
- The decision-making procedures should be transparent and adequately and effectively recorded in internal reports.
- IT management systems should provide support to the Management Board.
- Risk sensitive information should be immediately communicated to the management and responsible functions so that they can take the appropriate actions at the initial stages.
- In particular, the risks arising within the same area should be addressed. Information about them should be communicated and transferred to the management for the departments to learn useful practices.

The Management Board and each senior executive should give a lead in compliance with the Code of Business Conduct and Ethics:
- "Giving a lead" means being responsible for accurate formulation of the corporate strategy and risk levels, creation of a culture promoting honesty and accountability in order to protect clients' and shareholders' interests and support responsibility for the proper conduct of activities while being aware of risks and adhering to the corporate values.
- Proper behaviour should be acknowledged and rewarded. Inappropriate behaviour, on the contrary, should be made public and eliminated by countermeasures.

Proper business organization underpins each entity:
- Proper business organization is based on efficient and reliable administration and requires clear written organizational and operational principles, as well as clear definition and monitoring of processes, tasks, competencies, responsibilities, and controls.
- Responsibilities should be clearly defined within the organizational and operational framework. Incompatible tasks leading to conflicts of interest should not be performed by the same employees.
- Any possible drawbacks threatening the proper business organization should be resolved appropriately.

A culture of compliance and control is important for all organization activities:
- Such culture means compliance with the laws, on the one hand, and internal regulations, policies and procedures, on the other hand.
- It is very important that each employee contributes to and supports a culture of compliance.
- The appropriate code of conduct and relevant controls should be provided.

IT systems should match the organizational, operational and supervisory structures:
- Each senior executive should be informed of the IT systems needed to ensure support to organizational, operational and supervisory structures within his/her responsibilities.
- Potential drawbacks should be analysed and evaluated, and the consequences should be transparently communicated.

The corporate governance principles of Deutsche Bank Group are applied to the entire Bank, including the relevant governing bodies (i.e. the Management Board, the Supervisory Board, etc.), while ensuring the structure used to set the Bank's goals and determining the means of their achievement and performance controls. Good corporate governance should create incentives for the Bank management to achieve goals that are in line with the Bank's business strategy, shareholders' interests, and contribute to effective monitoring of work.

The Bank adheres to the global corporate governance principles set by Deutsche Bank Group, namely:

Principle 1: Obligation to Act Lawfully. This obligation, being one of the key obligations of the Management Board, defines the actions of all representatives and employees of the Bank. It comprises of two elements:

- Know your regulations, i.e. building and maintaining awareness of the regulations and provisions at the Board level.
- The company should ensure organization transparency by defining, distributing and measuring responsibilities at an employee's or a committee's level, transferring certain definitions of links and interfaces, and eliminating gaps or cases of overlapping responsibilities or duties. In addition, it includes risk prevention and mitigation mechanisms in order to avoid or minimise violations.

Principle 2: Business Decision Rule:

- Business decisions (which may be subject to freedom of action as opposed to Principle 1) are taken in the Bank's interests based on the relevant information and should not be affected by conflicts of interest or personal interests.

Principle 3: Values and Principles Adherence:

- The Bank adheres to the corporate culture, acquires and develops talents, promotes teamwork and partnership, supports independent thinking, respect for other people's ideas, and courage to express opinions.

According to the Deutsche Bank Group's global approach, the Bank's compliance with these standards is reflected in six core values:

Integrity

- We live up to the highest integrity standards in everything we say or do.
- We do what is right, not just what is allowed.
- We speak openly; we congratulate, express and respect opposite views.

Continuous Effectiveness

- We provide value to shareholders, because we prefer long-term success to short-term benefits.
- We support the entrepreneurial spirit balancing risks and profits.
- We achieve long-term performance by developing, cultivating and investing in the best talents and by guiding them based on the merits of each.

Focus on Clients' Needs

- We deserve to be trusted by our clients who are in the heart of our organization.
- We provide true value by understanding and satisfying the needs of our clients in the best possible way.
- We strive to develop mutually beneficial relations with our clients and share their value.

Innovation

- We support innovation and appreciate intellectual curiosity of our staff.
- We enable our clients to succeed by constantly searching for solutions suitable to their tasks.
- We are constantly improving our processes and platforms by introducing new and more effective ways of doing business.

Discipline

- We protect corporate resources, always thinking and acting as owners.
- We observe rules and are responsible for our promises –no excuses.
- We achieve high expertise, striving to "do everything right from the very beginning".

Partnership

- We build different teams to create the best ideas and make more informed decisions.
- We put corporate goals over "individual" loyalty by trusting, respecting and working with each other.
- We act as responsible partners with all our stakeholders and regulatory authorities, as well as meet the wider public interests.

Monitoring Obligation:

- Monitoring of the effectiveness of power delegation chains and escalation of relevant issues to the management, as well as vesting with powers and ensuring regular and timely exchange of information in order to timely identify critical issues and make necessary adjustments.

When adhering to Principle 1, the management should ensure that it has the necessary skills and experience to perform the function assigned, can devote enough time and efforts to perform its work, and make decisions being sufficiently informed and weighing possible consequences.

The Management Board and the Supervisory Board (hereinafter referred to as the Corporate Bodies) interact on the basis of trust and cooperation in order to meet the best interests of the Bank, employees and other stakeholders, taking into account their tasks and responsibilities. The tasks and responsibilities of the Management Board and the Supervisory Board complement each other and form a solid corporate governance system:

- Performance of own tasks and responsibilities – each corporate body consistently performs its tasks and responsibilities.
- Prohibition of excess of powers – each corporate body should not exceed its powers and interfere with internal affairs and responsibilities of other corporate bodies.
- Mutual trust – cooperation of corporate bodies with each other, as well as among its members, is based on mutual trust. Members of the Management Board should act in good faith for the benefit of the Bank.
- Good faith – members of the Management Board are obliged to act reasonably in respect of the Bank.
- Open debate and maintenance of confidentiality – both corporate bodies openly debate with each other, but always maintain confidentiality.
- Sufficient information – the Management Board is responsible to ensure adequate, accurate and timely information. The Management Board regularly informs the Supervisory Board of all material issues related to strategies, planning, business development, risk levels, risk management, compliance with the established requirements, structural mechanisms and culture in a timely manner. The Management Board indicates deviations from the previously formulated plans and goals, and provides the relevant reasons. The Supervisory Board should ensure that it is properly informed.
- Effective interaction – all members of corporate bodies should have enough time to fully perform their duties.

Relations with supervisory authorities. The Bank ensures cooperation with relevant supervisory authorities based on the following principles:

- Trust-based relations – the Management Board is committed to building and maintaining relations with supervisory authorities on the basis of trust and communicating with them openly.
- Available experience – the Management Board has members with experience and expertise in the relevant field to ensure interaction with supervisory authorities of the appropriate level.
- Supervision of the relations between the management and supervisory authorities – the Management Board monitors the Bank's relations with supervisory authorities and supports the exchange of knowledge among all executives.
- Commitment to implementation – the Management Board ensures that all relevant regulations are properly performed.
- Active interaction with supervisory authorities – the Management Board ensures active interaction with supervisory authorities, and communicates with them not only in response to their inquiries.

Know your structure / Know your business

- The Bank internal management system is represented by the organizational structure. The full transparency principle of the Bank structure is applied in all areas of its activity and corresponds to the changes in the laws, prevents conflicts of interest (including the division of functions), and ensures the effective operation of the Bank.
- The Bank recognises that the maximum transparency and understanding of the organizational and operational structure, business activity and related risks, ensuring the correspondence of the Bank's structure and activity with the approved business strategy, is crucial for the management.

Delegation of powers. The Management Board also adheres to a set of corporate governance principles in the context of delegation of powers and duties of the Bank under the relevant corporate governance principles, in particular:

- Prohibition to delegate duties not subject to delegation. Some duties are assigned to certain persons/units in accordance with the applicable laws and are not subject to delegation.
- One duty is one delegation. One duty may be delegated to "one person" only – either an individual or a committee.
- Delegation of powers to committees in case of reasonable diversification. If a duty may be fulfilled by an individual, this duty should be delegated to such individual, rather than to a committee. However, an individual may consult with others.
- Delegation within one vertical only. A delegating person may delegate a duty only to his/her direct subordinate.
- Prohibition of delegation of powers to other legal entities. Delegation of duties to legal entities is possible only within specific contractual obligations (for example, outsourcing), which allows the principal responsible party to control its service provider.
- Delegation of basic organizational duties. Heads of business units and infrastructure support functions shall assist the Management Board and its members in fulfilling their basic (core) duties within their own duties.

# Bank Performance Indicators

***Bank's Key Performance Indicators as of the year-end 2021.***

Net income — UAH 161.1 mln (UAH 119.4 mln for 2020)
Profit before tax — UAH 15.8 mln (UAH 5.2 mln for 2020)
Return on Equity (ROE) — 2.0% (0.4% in 2020)
Risk-weighted assets — UAH 585.7 mln (UAH 519.5 mln for 2020)
Capital adequacy ratio — 45.6% (69.8% in 2020)
Liquidity coverage ratio LCR (all currencies) — 301% (235% in 2020).

***Financial results***

In 2021, the Bank kept expanding its customer and resource base. As the National Bank of Ukraine increased the discount rate during the year from 6.0% to 9.0% in pursuance the inflation targeting strategy, the interest margin of the Bank grew, and the net interest income went up by UAH 26.7 mln or 30.1%.

The Bank disbanded some of the allowance for expected credit losses in amount of UAH 1.3 mln being primarily caused by partial decrease in the credit portfolio.

The net fee and commission income and the trading income grew by UAH 6.9 mln and UAH 5.0 mln accordingly. The main share of the increase pertained to forex transactions, namely growth of their scope and spreads.

In 2021, the staff costs grew by UAH 8.8 mln or by 16.5%. The main factors were revision of the staff salaries based on the results of operations during the previous year and increase in the bonus accrued based on the results of operations during the current year.

The administrative and other operating expenses grew by UAH 22.2 mln or by 36.6%. The largest increase took place in expenses for the consulting services and expenses for the services of compliance and counteraction to financial crime, by UAH 7.6 mln and UAH 6.4 mln accordingly, due to considerably bigger amounts of allocation of the internal group expenses. The tax expenses, except for the income tax, also grew considerably, by UAH 4.7 million.

As a result, the profit before tax grew by UAH 10.6 mln or 204.0%.

As a result of growth of the base and effective tax rate, the income tax went up by UAH 5.2 mln or 134.2%.

The Bank's net profit went up by UAH 5.4 mln or more than four times.

| (In UAH thousand) | 2021 | 2020 | Deviation, UAH thousand | Deviation, % |
|---|---|---|---|---|
| Interest income | 235,989 | 185,395 | 50,594 | 27.3% |
| Interest expenses | (120,429) | (96,548) | (23,881) | 24.7% |
| **Net interest income** | **115,560** | **88,847** | **26,713** | **30.1%** |
| Expected credit loss result | 1,308 | (1,983) | 3,291 | -166.0% |
| **Net interest income after allowance for impairment** | **116,868** | **86,864** | **30,004** | **34.5%** |
| Net fee and commission income | 24,838 | 17,893 | 6,945 | 38.8% |
| Net trading income | 19,111 | 14,127 | 4,984 | 35.3% |
| Other operating income | 233 | 507 | (274) | -54.0% |
| **Total non-interest income** | **44,182** | **32,527** | **11,655** | **35.8%** |
| Staff expenses | (62,345) | (53,524) | (8,821) | 16.5% |
| Other administrative and operating expenses | (82,886) | (60 663 ) | (22,223) | 36.6% |
| **Total non-interest expenses** | **(145,231)** | **(114,187)** | **(31,044)** | **27.2%** |
| **Profit before tax** | **15,819** | **5,204** | **10,615** | **204.0%** |
| Income tax expenses | (9,139) | (3,902) | (5,237) | 134.2% |
| **Profit for the year** | **6,680** | **1,302** | **5,378** | **413.1%** |

***Balance sheet***

By the end of 2021, the Bank's balance increased by UAH 1,092.1 mln or by 25.7% compared to 2020. The increase was due to the net inflow of client funds; the funds on current accounts grew by UAH 1,453.1 million whereas the fixed-term deposits went down by UAH 326.0 million hryvnias.

The highly liquid assets increased owing to the growth of liabilities. While the cash and cash equivalents went down by UAH 229.3 million, the funds in other banks went up by UAH 1,078.3 million or 106.8%. The contributions into the domestic government bonds also grew by UAH 345.9 mln or 57.7%.

The client loans and debt went down by UAH 100.9 mln or 25.1%. The changes were caused by the seasonal nature of the borrowers' demand for circulating assets.

The Bank's capital went down by UAH 36.0 mln or 9.7%, which was connected with the Bank's payment of dividends for 2019-2020 in the amount of UAH 43.7 mln.

| (in UAH thousand) | 31 December 2021 | 31 December 2020 | Deviation, UAH thousand | Deviation, % |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | 1,981,577 | 2,210,922 | (229,345) | -10.4% |
| Funds in other banks | 2,087,524 | 1,009,238 | 1,078,286 | 106.8% |
| Client loans and debts | 301,302 | 402,171 | (100,869) | -25.1% |
| Investment into securities | 945,957 | 600,030 | 345,927 | 57.7% |
| Derivative financial assets | 1,429 | 60 | 1,369 | n/a* |
| Accounts payable on current income tax | - | 40 | (40 ) | n/a* |
| Deferred tax asset | 1,420 | 1,058 | 362 | 34.2% |
| Fixed assets and right of use assets | 22,766 | 28,482 | (5,716) | -20.1% |
| Intangible assets | 625 | 989 | (364) | -36.8% |
| Other assets | 3,739 | 1,291 | 2,448 | 189.6% |
| Total assets | **5,346,339** | **4,254,281** | 1,092,058 | 25.7% |
| Liabilities and equity: | | | | |
| Customer accounts | 4,966,599 | 3,839,445 | 1,127,154 | 29.4% |
| Liabilities for current income tax | 2,736 | 0 | 2,736 | n/a* |
| Derivative financial liabilities | 69 | 80 | (11) | -13.8% |
| Deferred tax liabilities | 143 | 101 | 42 | 41.6% |
| Provision for liabilities | 11 | 67 | (56) | -83.6% |
| Leasing obligations | 14,424 | 20,483 | (6,059) | -29.6% |
| Other liabilities | 27,377 | 23,152 | 4,225 | 18.2% |
| Total liabilities | **5,011,359** | **3,883,328** | 1,128,031 | 29.0% |
| Authorised capital | 301,839 | 301,839 | 0 | 0.0% |
| Retained earnings and other reserves | 32,491 | 69,505 | (37,014) | -53.3% |
| Revaluation reserves | 650 | (391) | 1,041 | -266.2% |
| Total shareholder's equity | **334,980** | **370,953** | (35,973) | -9.7% |
| Total liabilities and equity | **5,346,339** | **4,254,281** | 1,092,058 | 25.7% |

* n/a – not applicable

# Economic Environment in 2021

***External economic environment***

According to the inflation report of the National Bank of Ukraine (January 2022) the global economy recovered rapidly in 2021 owing to the gradual lifting of the quarantine restrictions, establishment of the supply chains and more active global trade.

The global manufacturing industry demonstrated stable growth during the year. The significant factor in such dynamics was gradual establishment of the supply chains. For instance, growth of the sea carriage prices decelerated, the delivery terms started to shorten, and the scope of failed orders started to decrease. Against the background of higher demand, the countries kept cancelling the trading restrictions associated with the pandemic. The scope of the global trade in commodities went up by 10.8% in 2021. The uneven recovery of the developed and developing countries remained due to the difference in the vaccination pace and the scope of fiscal and monetary drivers.

The US economy recovered stably, but the consumer inflation rate reached the high levels. According to the FRS, the economy was close to the maximum employment, and the household income grew owing to the higher salaries and social benefits from the government. Growth of the Eurozone decelerated at the end of the year, mostly due to less business activity in the service industry as a result of the worse epidemic situation. However, the industrial sector kept increasing the production capacity. The high prices of raw materials, the stable demand of the developed countries and relatively low global interest rates encouraged growth of the economies of the developing countries despite the new waves of the disease.

***Balance of payments***

In 2021, the current account was consolidated with a minor shortfall (USD 2.3 bln or 1.1% of the GDP). The return to the shortfall during the post-crisis period was expected. However, contrary to the previous periods, it was formed as a result of the considerable volumes of the reinvested income and record-breaking payments of dividends, especially in quarter IV.

Instead, the shortfall in trade in commodities remained almost at the level of the previous year (USD 6.7 billion) despite the stable domestic demand. The common factor that caused both considerable return on investment and moderate trade shortfall was the favourable trading conditions. On the one hand, it provided for high profit of the enterprises with foreign investment and considerable reinvested income and dividends. On the other hand, it maintained the high export growth pace alongside with the record-breaking crop yield. The expansion of the current account shortfall was also constrained by monetary transfers by the labour migrants. They grew up by 25% during the year owing to the opening of the borders and recovery of the economies of the receiving countries. The current account shortfall was rapidly expanded during the second half. In particular, the balance of trade in commodities was deteriorated as a result of higher prices of the energy carriers and decline in the domestic demand for the MMC products. Despite further growth of export of the IT services, the surplus of the trade in commodities was narrowed due to gradual recovery of travel abroad. The high global prices of raw materials had more impact upon export than import. It was connected with the higher volatility of prices of raw materials in comparison with the commodities with the higher added value, the considerable foreign demand for raw materials against the recovery of the global economic activity and disruptions in the global supply chains as well as the higher share of raw materials in the structure of the Ukrainian export in comparison with the import. In general, export of the commodities during the year went up by 39.8% p.p., due to the growth of prices in the first place. Thus, the value volumes of export of the iron ore broke the historical record for the second year running whereas the export of metallurgic products almost reached the level of 2013. However, in quarter IV, the adjustment of the global prices caused by the narrower demand by China resulted in reduction of export of the iron ore and slower growth of export of the metallurgic products. Moreover, the supplies of the latter at the end of the year constrained the repair works at the metallurgic plants and shortage of the coking coal. The significant factor in export support during the second half of the year was the record-breaking yield of cereal crops. In quarter IV, the supplies of cereal crops and overall export of food products reached the highest values in history owing to wheat and barley. However, growth of exports of the food products was constrained at the end of the year by more competition at the global soya market and railway carriage difficulties. Export of the chemical products grew quickly owing to the high prices. Moreover, export of the machine building products was increased due to supplies of the specific equipment, mostly to the CIS countries. In 2021, import of commodities recovered dynamically (34.5% p.p.) due to the energy and non-energy elements. Higher investment activity of enterprises ensured rapid recovery of import of the machine building products during the year. In particular, more industrial equipment, agricultural machines and cargo vehicles were purchased. The stable consumer demand maintained the high volumes of import of food and industrial products, household appliances during the year although growth of import of the consumer goods decelerated at the end of the year, namely due to harsher quarantine restrictions. The higher economic activity resulted in more purchase of the intermediate consumer goods: specific food, machine building and chemical industrial products. Another factor in higher import of the chemical products was more expensive energy carriers. The rapid growth of prices of energy carriers was the key factor to maintain the high import growth pace during the second half of the year.

Although the investors were less interested in assets at the developing markets at the end of 2021, there was a significant inflow of capital on the financial account in Ukraine in quarter IV, which ensured maintenance thereof based on the annual results. Thus, the government obtained the official funding from the international partners and raised other loans. At the end of the year, another tranche was received from the IMF, the macrofinancial aid was obtained from the EU, and the loan was granted by the World Bank. It compensated for the outflow of capital as a result of the non-residents' withdrawal from the government securities in UAH during the second half of the year. The private sector placed the euro bonds and increased the debt in trading loans. Also, in 2021, reinvestment of income was one of the principal sources of inflow of capital into the private sector although the scope thereof was considerably lower at the end of the year.

***Banking sector***

According to the bank sector overview (February 2022) by the National Bank of Ukraine, the number of the banks operating in Ukraine as of the end of 2021 was 71 financial institution. The net assets of the private banks grew the fastest so their share in the net assets of the bank system went up since the beginning of the years, by 4.9 p.p. (up to 22.1%). However, the specific weight of the state-owned banks went down during the year by 5.8 p.p. (down to 46.7%). The sector concentration level kept going down as a result of the fast growth of assets of the smaller financial institutions.

In 2021, the bank sector gained the historically highest profit of UAH 77.5 bln (+95.4% p.p.), in the first place, owing to the quick increase in the operating income and reduction of allocations to the provisions. In addition to the material income growth pace, it was influenced by the disbanding of the allowance for legal risks and by the allocations to the allowance for expect losses that were 71.1% lower than the previous year. The number of loss-making banks went down in a quarter from seven to five, and their aggregate losses were insignificant. The return on capital grew up to 35% in comparison with 19% last year. The operating income grew faster than the operating costs. The ratio between the operating costs and the operating income (CIR) made 54.8% against 65.3% last year. Growth of the net interest income accelerated during the year. The principal factors of such growth included active lending and short-term consumer deposit rates lower than last year. The interest income also grew rapidly whereas the interest costs remained moderate. Further growth of the scope of cashless transactions, namely card ones, increased the fee and commission income of the banks.

The state-owned banks were leaders in lending in UAH in 2021. Alongside with implementation of the strategy for reducing non-performing loans, it materially reduced the share of non-performing loans. Such actions increase the investment attractiveness and bring the banks closer to their strategic purpose, privatisation.

## Bank Development Strategy

Being an integral part of the global group, the Bank plays an important role in relations between Deutsche Bank Group and its key strategic global clients by providing its services in management in cash flows, trade financing and lending at the Ukrainian market. The unit of the Global Investment Banking Division conducts forex transactions for clients, which lets satisfy the principal needs of corporate clients in Ukraine. Being a member of one of the leading global bank groups, the Bank helps its clients optimise their circulating assets and liquidity, manage global supply chains and sales channels as well as risk management.

In connection with the military aggression of the Russian Federation against Ukraine, the strategic development goals of the Bank for 2022, which had been approved at the end of 2021, ceased to be applicable. The country in general and the banking system in particular will be operating in the state of the martial law, with all the security and regulatory restrictions, at least until the end of the hostilities. The main efforts of the senior executives are focused on the routine control over all the types of risks faced by the Bank in its operations.

By focusing on the physical security of its staff and clients and by mitigating potential losses as a result of the rapid economic decline because of the war, the Bank actively supports its clients by providing liquidity and mobilising resources of the global network of Deutsche Bank Group.

- In consideration of the degree of uncertainty, further strategic initiatives will correlate to the progress of events at the battle field, adaptation of the economy to the new environment as well as expected social and political changes and integration initiatives after the war.

# Compensation Report

***Report on Compensation to Members of the Management Board***

The Supervisory Board is responsible for structuring the compensation system for members of the Management Board, as well as for defining their individual compensation.

The compensation package consists of the fixed and variable parts; the latter consists of the group and individual components.

Fixed compensation is a component not related to performance. When determining the appropriate level of basic salary, various factors are taken into account. Firstly, the salary is paid for appointment of a member of the Management Board and his/her corresponding general duties. In addition, the basic salary size is adjusted for the current level of remuneration in the competitive market.

Fixed compensation not related to the achievement of goals also includes additional benefits. Additional benefits are the monetary value of non-cash benefits, such as company cars and driver's services, insurance premiums, costs of social functions associated with a company, and security measures, including taxes on these benefits, if any, and taxable reimbursement costs.

Variable compensation is a component related to performance. This part primarily depends on the performance of the short- and mid-term plans and corporate goals of the Bank. Yet not only financial success is assessed. Attitude toward employees or clients who underpin the cultural and business environment in the Bank has a significant impact on the variable part.

The goals used to determine the variable compensation part are divided into group or individual ones for each member of the Management Board. Accordingly, the variable part of the compensation package was divided into two components: group and individual components.

Compensation for the Management Board for 2021 fiscal year is as follows:
- Fixed part – UAH 10.8 million
- Variable part – UAH 1.5 million.

***Bank Employee Compensation Report***

Regulatory environment. Compliance is a comprehensive point in the compensation strategy. The Bank seeks to be at the forefront of regulatory changes regarding compensation and will continue to work closely with regulatory authorities to meet all existing and new requirements.

Compensation strategy. The Bank recognises that the compensation system plays an important part in supporting its strategic goals. This allows the Bank to attract and retain the individuals needed to achieve the goals. The compensation strategy is in line with the strategic goals of Deutsche Bank Group and its corporate values and principles. The Group Compensation Policy informs employees about the compensation strategy, compensation management processes, as well as reimbursement practices and structures.

General compensation system. The compensation system coordinates incentives for sustainable development at all levels of the Bank, while enhancing the transparency of compensation decisions and their effect on shareholders or employees. The compensation structure ensures a balance between its fixed and variable parts, which together constitute the "total compensation".

Deutsche Bank Group introduced a conceptual idea of the "total compensation". Each employee has the right to an approximate total compensation in accordance with his/her role in the Bank. This reference information provides the Bank employees with a benchmark for fixed and variable compensation parts.

The actual total compensation may be larger or smaller than a reference amount. It is set by the Bank at its own discretion subject to regulatory constraints, depending on the achievement of goals at the individual and units' and Deutsche Bank Group's levels.

Fixed payment is used to compensate employees for their skills, experience, and competencies. It should be competitive and match the labour market level, as well as consistent with other roles at the Bank and comply with regulations. It plays a key role in achieving the Bank's strategic goals by acquiring and retaining the most talented staff. Most of our employees receive this fixed part in the form of salary, the proportion of which far exceeds 50% of total compensation.

The variable compensation allows the Bank to differentiate individual indicators and employees' conduct through the appropriate incentive system, which also has a positive impact on business culture. The variable part also provides the flexibility of the cost base and increases the Bank's resistance to market crises.

The group component of the variable compensation is based on one of the main goals of the compensation system, namely: strengthening the link between the variable compensation and the results of Deutsche Bank Group. The group component is directly aligned with achievement of the strategic goals of Deutsche Bank Group, including the following four key goals: Total Tier 1 Capital, Total Capital Ratio, Leverage Ratio, and Return on Capital. These four indicators measure the capital, risk, cost and yield of the group, and determine its stability in the long run.

The individual component of the variable compensation takes into account a number of financial and non-financial factors, including an employee's individual performance and conduct, comparison with a group of employees at the similar positions. Payments for high achievements acknowledge and reward outstanding achievements of the support staff. They are paid twice a year based on the review of nominations at the Deutsche Bank Group units' level.

***Supervisory Board Compensation Report***

In 2021, the Supervisory Board consisted of 5 members. Two members of the Supervisory Board, including the Chairman of the Supervisory Board, represented Deutsche Bank Group and performed their functions within the framework of duties of Deutsche Bank Group and did not receive a separate compensation from the Bank. Three members of the Supervisory Board were independent and received only fixed compensation in 2021.

The total payments to the members of the Supervisory Board in 2021 amounted to UAH 4.6 million. They were paid on a quarterly basis. The total cost of the Supervisory Board amounted to UAH 5.3 million.

# Risk Management System

The Bank has a comprehensive, adequate and efficient risk management system that meets the following principles:

- efficiency — ensure objective evaluation of the bank's risks size and completeness of risk management activities with optimal usage of financial resource, personnel and information systems in respect of the bank's risk management;
- timeliness — ensure timely (at an early stage) identification, measurement, monitoring, control, reporting and mitigation of all types of risks at all organisational levels;
- structuring — clear roles, duties and powers related to risk management between all departments and employees of the bank and their relevant liability;
- segregation of duties (separation of control roles from performance of bank transactions) — avoiding a situation where the same person performs bank transactions and has a control role at the same time;
- integrity and comprehensiveness — coverage of all types of Bank's activities at all organisational levels and in all of its departments, as well as assessment of mutual influence of risks;
- adequacy — relevance of the risk management system to the bank's business model, its systemic importance, as well as the complexity of transactions carried out by the bank;
- independence — freedom from circumstances that threaten unbiased execution of functions by the Risk Management Department and the Compliance and Financial Crime Prevention Department (i. e. Compliance);
- confidentiality — restricted access to information which is to be protected from unauthorised display;
- transparency — disclosure of information on the risk management system by the bank;
- risk management and risk profile.

The Bank conducts the complex assessment of the following types of risks:

- credit risk;
- liquidity risk;
- interest rate risk of the banking book;
- foreign exchange risk;
- operational risk;
- compliance risk;
- reputation risk.

The Bank's risk management system ensures ongoing risk analysis for the purposes of timely and adequate managerial decision-making regarding mitigation of risks and reduction of related losses (damages).

The risk management system grounds on segregation of duties between the bank's departments and uses three lines of defence model:

- The first line covers business and support departments of the Bank. These departments take risks and bear responsibility for them;
- The second line includes risk management and compliance departments;
- The third line covers internal audit unit in respect of check-up and assessment of efficiency of the risk management system.

The organisational structure of the risk management system in the Bank ensures clear division of roles, duties and powers in respect of risk management among all risk management system subjects.

The risk management system subjects are:

- Supervisory Board;
- Management Board;

- Credit Committee;
- Asset and Liability Committee;
- Information Security Management Committee;
- Risk Management Committee;
- Compliance Department;
- Internal Audit Unit;
- business and support departments (first line of defence).

The risk management strategy is developed in conjunction with the Bank's business development strategy. The Strategy development and adoption is in sole competence of the Supervisory Board of the Bank which identifies the purposes, principles, tools of the risk management and the risk appetite for various risk areas.

The Bank Management Board, the Bank committees assigned by the Management Board, Risk Management department as well as managers of other departments of the Bank are responsible for implementing the Strategy.

Development of internal risk management procedures, as well as the distribution of duties between the roles shall be conducted in full concordance with the Bank's internal policies. Following the Strategy provisions and risk management policies is mandatory for all management bodies, departments and employees of the Bank.

The Risk Management System is an integral part of the decision making process in the Bank which allows paying the necessary attention to the main banking risks in line with the policies and procedures of risks identification, assessment and to further application of the methodologies designed for risk reduction, informing about risks and monitoring of the results.

The strategy aims to reduce the Bank's losses from various banking risks and to address the following issues:
- implement the Bank business development strategy;
- maintain the best risk-income ratio;
- align risks to the scale of the Bank's transactions;
- fulfil all Bank's obligations to all contractors, creditors and depositors.

The Strategy defines:
- the Bank's risk appetite in respect of every risk mentioned below;
- respective risk thresholds/limitations which the Bank must observe in the course of its operation so that the risk on the Bank's transactions stays within the total risk appetite.

The Bank's system of limits is subject to review from time to time or in case of material changes in the Bank's external or internal environment.

The risk management in the Bank rests on such principles:
- 3-level risk management system;
- participatory decision making;
- adequacy of the information used for decision making in respect of a risk;
- relevance of risk management processes which involves review of policies, methods, approaches and procedures according to requirements of the regulator and economic environment.

The risk management in the Bank involves:
- documenting of banking service (product) provision procedures and handling transactions in concordance with the Bank's internal policies;
- qualitative and quantitative assessment of all significant banking risks and identification of acceptable risk levels;
- employing of the system of limits that limit the size of portfolios and positions, as well as decision making powers;

- employing credit rating for clients and contractors;
- regular monitoring of levels of risks taken by the Bank.

Risk management structure and allocation of responsibilities.

The following falls within the sole competence of the Supervisory Board of the Bank:
- approval of the Bank's development strategy in accordance with main areas of activity;
- definition and approval of the risk management strategy and policy, risk appetite as well as the list of risks and risk ceilings;
- ensure functioning and efficiency control of the Bank's internal control system;
- control over the efficiency of the risk management system;
- approval of risk reports and stress test results.

The following falls within the competence of the Management Board:
- ensure preparation of strategy projects and a business plan for Supervisory Board's approval, their further post-approval realisation;
- implementation of risk management strategy and policy approved by the Bank Supervisory Board, ensure implementation of risk identification, assessment, control and monitoring procedures;
- informing the Supervisory Board of the Bank's performance indicators, identified breaches of law and internal Bank's regulations, and any potential or actual deterioration of the Bank financial position, level of risks arising in the course of the Bank's activity;
- establish special-purpose committees involved in the risk management system, namely: Credit Committee, Asset and Liability Committee etc.

The following falls within the competence of the special-purpose committees established by the Bank:
- assessment of risks inherent to the Bank's operations;
- decision-making regarding loan transactions (and/or any significant changes to them) with the Bank's borrowers, and, (i) except for the cases where the decisions regarding certain loan transactions are taken by the other body of the Bank, according to the Bank's effective by-laws and/or statutes and regulations of Ukraine in effect, or (ii) subject that such decision is approved by the other body of the Bank;
- decision-making regarding setting and revision of the limits;
- risk model approval.

The following falls within the competence of the Risk Management Department:
- involvement in elaborating the Bank's strategy and the business plan for further Bank's development;
- involvement in development and implementation of the strategy, policy and other intra-bank regulations relating to the risk management that delineate arrangement and functioning of the risk management system and keep them up to date;
- risk appetite calculation;
- ensure functioning of the risk management system by timely detection, identification, assessment, monitoring, control, reporting and minimization of all types of risks inherent to the Bank's activities, as well as assessment of internal capital adequacy and the Bank's liquidity level with respect to the Bank's risk profile, market and macroeconomic environment;
- ensure ongoing analysis of all types of risks to which the Bank is exposed in its activities, for the purpose of managerial decision-making to minimise certain types of risk and/or losses under certain types of the Bank's activity for which such risks are inherent;
- qualitative and quantitative assessment of risks inherent to the Bank operations;
- stress testing;
- reporting on risk management system functioning by preparing regular quarterly risk management reports and their submission to the Supervisory Board and monthly reports — to the Bank Management Board.

The following falls within the competence of Compliance Department:

- arrange control over Bank's compliance with the laws, intra-bank documents and relevant applicable standards of professional associations;
- monitor changes in the legislation and relevant standards of professional associations applicable to the Bank and assess effect of such changes on the Bank's processes and procedures, as well as ensure relevant intra-bank documents are amended accordingly;
- control over the relations between the Bank and its clients and contractors to preclude the Bank's involvement in illegal transactions;
- manage risks related to the conflict of interest, ensure control over personal data protection in accordance with the law of Ukraine;
- arrange trainings and awareness of the Bank employees regarding commitment to the statutes of the law, appropriate standards of professional associations applicable to the Bank, risk management culture, taking into account the code of conduct (code of ethics);
- submit compliance risk reports to the Supervisory Board of the Bank at least quarterly and to the Management Board at least monthly.

The following falls within the competence of managers of the Bank's departments:

- routine monitoring of the Bank's transactions and risks;
- observe established procedures, rules and limits;
- escalate breaches of limits, operations-related events and any significantly increased risks.

The Bank's risk management strategy includes qualitative provisions on acceptable risk parameters which are in line with acceptable risk parameters for the Deutsche Bank Group and setting the limits within which the Bank's business functions and infrastructure should operate, and it should be guaranteed that every risk taken by the Bank will be appropriately compensated and subjected to assessment and control.

Qualitative provisions on acceptable risk parameters are set for every significant type of risk relating to the bank activities.

**Credit risk**

Credit risk covers all operations that may lead to actual, unforeseen or possible lawsuits against any adversary party, any person that has taken liability or any loan recipient, including those claims that the Bank plans to distribute in case where the Bank will bear the risk of losses should the recipient not fulfil his liabilities. This includes the contractor risk, relevant country-related risk, product-related risk and industry risk.

Credit risk management involves strict application of the range of qualitative principles and quantitative metric parameters with attraction of skilled risk management expert services and set system of restrictions. Contractor quality, transaction scheme and aspects associated with securing obligations and portfolios with consideration of the size of a country, product and industry are of particular concern.

Types of risk covered:

- contractor risk
- specific country-related risk
- product-specific risk
- industry-related risk

Qualitative provisions on acceptable risk parameters:

- to accept credit risk only with creditworthy clients, based on appropriate client's due diligence;
- to manage concentration risk at the level of contractor, product, country and industry. to actively reduce concentration risk by fulfilling loan obligations, hedging and/or by means of allocation;
- to define parameters of acceptable risk considering risk/profit stability;

- to use IFRS 9 principles and requirements of the Resolution #351 of the National Bank of Ukraine when calculating the size of credit exposure;
- to control impact of non-liquid assets and/or assets difficult to price;
- to act prudently in respect of unsecured money risk and impact of long-term bills.

Practical aspects of credit risk management

In accordance with IFRS 9, the Bank has the right to hold that, where the credit risk of a financial asset at the moment of its recognition is assessed as low, the expected credit loss is to be calculated for a 12-month term.

The concept of general approach for calculating expected losses is used to recognise allowance for credit losses in the P&L statement for financial assets recognised in the Bank's statements. Provision for impairment of assets to cover expected losses is defined as the reduced amount of a financial asset shown in the Bank balance sheet.

General approach for expected losses regulates both assets with properly executed contract terms and those with improper fulfilment of contract terms. This approach does not govern the originated or purchased financial instruments which are impaired at the moment of their recognition by the Bank.
In accordance with the concept of expected losses, provision for impairment of assets is measured as:
- expected credit losses for 12 months, or
- expected credit losses for the entire term of an asset.

Which of the above to choose depends on whether there is significant increase of credit risk from the moment of primary recognition of the financial asset. If such significant increase occurred after the primary recognition of the financial asset, the impairment should be measured as an expected credit losses for the entire term of asset. Thus, the general underlying principle of IFRS 9 is recognition of expected credit losses in line with changes in financial asset credit quality during its entire term.

The Bank uses the following method to identify the actual provision for credit losses:
1. In respect of financial assets for which no negative changes in credit risk occurred since the moment of primary recognition (origination or purchase), 12 months of expected credit losses approach shall apply (Stage 1);
2. In respect of financial assets for which negative changes in credit risk occurred since the moment of primary recognition (origination or purchase), the approach of expected credit losses for the entire term of asset shall apply (Stage 2).
3. For assets defined by the Bank's risk management as defaulted/non-performing assets, the approach of expected credit losses for the entire term of asset shall apply as well (Stage 3).

The following reserves have been formed by the Bank according to IFRS 9 as at 31.12.2021:

| **Type of asset** | **Loan loss provisions, UAH thousands** |
|---|---|
| Nostro accounts | 846 |
| Corporate loans | 94 |
| Off-balance-sheet financial liabilities | 11 |
| Accrued commissions | 11 |
| Accounts receivable from the Bank's commercial operations | 355 |
| **Total** | **1,317** |

The credit risk provision amount is small due to such factors:
- high credit rating of clients
- clients' liabilities are covered by warranties from parent companies

– revocable liabilities of the Bank

In accordance with the Resolution #351 of the National Bank of Ukraine, the following credit exposures have been calculated by the Bank as per the statistical reporting as at 31.12.2021:

| Type of asset | Credit exposure, UAH thousands |
|---|---|
| Nostro accounts | 2,924 |
| Corporate loans | 3,353 |
| Off-balance-sheet financial liabilities | 229 |
| Derivatives | 85 |
| Financial accounts receivable | 22 |
| Accounts receivable from the Bank's commercial operations | 1,820 |
| **Total** | **8,433** |

**Interest rate and foreign exchange risks**

Both risks occur as a consequence of uncertainty in respect of changes in market prices and interest/exchange rates (e. g.: interest rates, stock pricing, exchange rates, commodity prices), their inter-relation and their volatility levels.

Market risk values acceptable for the Bank are set with account to the Bank's purposes and the allocation, starting from the level of risks acceptable for the Group. When setting acceptable risks, the following shall be considered:

- avoid concentration risk and risk of loss of liquidity in the markets, with the issuers and at the emissions. These risks are identified, monitored and managed with consideration of their absolute and relative size, as well as liquidity at normal and complicated market conditions;
- ensure sustainable potential for reduction of the market risk which may occur due to certain events and the main risks. They are analysed via measures that include stress resistance of the Bank where progression of events under macroeconomic scenario or the scenario typical for commercial activity, is assessed;
- control of percentage gaps and maximum size of foreign exchange positions;
- ensure that the Bank's market activities are in line with its strategy;
- ensure product complexity limitation via monitoring and recognition of risks existing for the Bank.

There is the limit calculation procedure approved in the Bank that involves a complex of inter-related actions aimed at calculation, assessment, monitoring and control over the effects of changes in the interest rate and currency rate to prevent and reduce losses that may occur at unfavourable changes.

The Bank has the following limits in force as at 31.12.2021:

| Risk index | Limit, EUR thousands | Actual risk size, EUR thousands | Utilisation, % |
|---|---|---|---|
| *Interest rate risk* | | | |
| Net sensitivity | 20 | 10.5 | 53% |
| VaR | 20 | 8 | 40% |
| Stress | 5,000 | 1,948 | 39% |
| *Foreign exchange risk* | | | |
| VaR | 20 | 0.3 | 1% |
| Stress VaR | 100 | 1.1 | 1% |
| IR Delta | 15 | 0 | 0% |
| FX Delta | 1,000 | 30 | 3% |

**Liquidity risk**

Risk of liquidity loss is the risk resulting from our potential failure to perform all payment obligations when due or as a consequence of failure to fulfil these obligations due to excessive expenses.

Qualitative provisions on acceptable risk parameters:

- The Bank pays particular attention to the operational management of liquidity loss risk which is grounded on the cash flow plotting with consideration of highly liquid assets, as well as to fulfilling the current requirement criterion for the liquidity coverage ratio (LCR);
- With all currencies, the Bank must be able to survive in severe combined market conditions and to outlast the specific stress event associated with the liquidity during minimum initial period of up to 8 weeks, while keeping the rational net liquidity buffer;
- The Bank shall monitor excessive concentrations and has the right to limit them with the prospect of their liquidity and financing;
- The internal transfer pricing limit is used as a tool that ensures that prices for commercial operations are formed considering basic liquidity loss risks to which the Bank is exposed in the course of such commercial operations.

The Bank uses the following tools to manage liquidity risk:
1. Calculation of cash flows for one month. Calculation includes liquid assets and current liabilities (current accounts of the clients are divided into stable and unstable), 100% of cash flows under term loans and deposits; the overdrafts are included to be repaid at the 30th day.

2. Liquidity coverage ratio — LCR.
Actual arithmetic average of the ratio as at 31.12.2021:
- for all currencies — 301%
- for foreign currencies — 256%

3. Net stable funding ration within 1 year – NSFR.
Actual ratio as at 31.12.2021 for all currencies – 708%

**Operational risk**

Operating risk means risk of losses occurring as a result of undue or erroneous internal processes, staff incompetence and faulty functioning of the systems or as a consequence of external events; legal risk belongs to such risks. Operational risk includes business risk and reputation risk.

Operational risk occurs due to a range of basic risk types identified in the Risk classification. The types of risk listed below are viewed as significant in the context of risk identification and its significance assessment:

- Internal fraud
- External fraud
- Staff management and labour protection
- Customers, products, and business practices
- Damaging or destruction of assets
- Disabling the systems activity and functioning
- Money transfers, issue of money orders to make transfers and manage processes

Qualitative provisions on acceptable risk parameters:

Unified scheme

- The Bank uses the scheme of operational risks management which is single for the entire organisation. All departments shall observe risk acceptance and management standards available for every risk type in the risk classification.
- Control environment
- To reach the desired discipline of internal control, the Bank has established the control over the following:
- ensure continued operation in case of any events that influence business processes and systems serving these processes;
- comprehensive observance of information security;
- ensure relevant measures are taken to resume IT and other infrastructures to allow the Bank to continue its operation and fulfil its obligations to the clients, as well as market and regulatory obligations during unforeseen events that destabilise the Bank's operation;
- ensure that the Legal Department is responsible solely for interpretation of the laws, decrees and rules in the Bank, for the legal contents of any and all documentation, and for handling any and all disputable matters;
- support monitoring and management system to identify and prevent significant misrepresentation of information in financial reports and financial information, as well as management of internal risk, liquidity and capital;
- support of comprehensive monitoring system to ensure that the Bank observes relevant laws and regulations, including preclusion and identifying potential money laundering, fraud, bribery and corruption or non-observance of sanctions and embargo;
- identify and prevent untimely, inaccurate or incomplete processing of transactions and reduce frequency and overall severity of such events.
- develop modalities to cooperate with the outsourcers;
- identify and monitor key risk indicators;
- archive documentation in relevant repositories in order to provide timely, full and accurate answers to authorised information requests, as well as to store any and all documentation and to manage it as prescribed by the law, regulations and business operations;

Operational risk management system is a complex and sequence of steps to identify, assess, further monitor, report and calculate economic indicators of operational risk, and is implemented via the following:

1. Arranging of and methodological support in mapping the Bank's operational risks;
2. Identifying operational risk appetite;
3. Setting the internal controls system including the Bank's control plan update and its methodological support;
4. Arranging of and methodological support of the data collection system for operational events;
5. Arranging of, methodological support and maintenance of the roadmap database;
6. Initiating and methodological support for trainings to promote risk management (including fraud risks) culture among the Bank employees.

Identifying operational risk appetite for 2021

The Bank uses the Group's model of cascading global tolerance to operational risks up to the level of a specific country. The risk appetite of the Bank for the current year is considered and approved by the Supervisory Board at the beginning of the year or at the end of the previous year.

Current losses and other operational risk related events shall be monitored daily within the defined risk appetite level. Any actual or potential breach of the risk appetite shall be escalated as needed.

Potential losses are calculated as the arithmetical average of absolute value of actual losses (exclusive of pending lawsuits) for the recent five years. Global operational risk tolerance shall be allocated across the Bank with due regard of its size.

Global tolerance allocation (EUR 40 mln) to the Bank level with due regard of its size is EUR 40 thousand. Tolerance level is EUR 60 thousand.

Actual risk appetite at the year-end:

| **Operational risk appetite for 2021, EUR thousand** | | **Q1** | **Q2** | **Q3** | **Q4** | **2021** |
|---|---|---|---|---|---|---|
| Financial losses from operational incidents | 60 | 0 | 30 | 5 | 0 | 35 |
| Number of incidents per quarter | 10 | 0 | 3 | 4 | 6 | |

**Reputation risk**

The risk of potential damage to the Bank's brand and reputation, as well as related risk for profits, capital or liquidity, which occurs as a result of any association, acts or lack of action which could be perceived by the stakeholders as improper, unethical or contradictory to the Bank's values and principles.

The Bank strives to create environment where reputation risk is "as low as it is reasonably possible". Since it is impossible to eliminate the reputation risk and, besides, it occurs due to any unpredictable changes in the practices of our various stakeholders (e.g.: general public/clients, shareholders, regulators), the Group strives to have consistent standards in place which will ensure higher profits and reduced risk that stakeholders might treat any association, acts or lack of action as improper, unethical or contradictory to the Bank's values and principles.

Internal control system

The Bank has efficient internal control system in place in order to achieve the following objectives:
- efficient bank transactions, protection against potential errors, breaches, losses, damages in the Bank's operation;
- efficient risk management;
- adequate, comprehensive, complete, reliable, available, timely provision of information to users for proper decision-making, including submission of financial, statistical, managerial, tax and other reporting;
- complete, timely and correct presentation of the bank transactions in accounting records;
- compliance;
- efficient staff management;
- avoid the use of Bank services for illegal purposes, identify and prevent financial transactions aimed to legalize of proceeds from crime (laundering) or to finance terrorism.

To achieve the above and ensure functioning of internal control system, the Bank ensures the following:
- the Bank's management monitors compliance with Ukrainian laws and the Bank's by-laws;
- distributes duties for bank operations;
- monitors functioning of the risk management system;
- monitors information security and information exchange;
- has internal control procedures in place;
- monitors internal controls;
- internal audit.

The Bank's internal control includes the following:
- managerial control over the Bank's arrangements;
- control over the risk assessment and management system of the Bank;
- control over the allocation of powers for transactions and agreements;
- control over information flows (acceptance and transfer of information) and information security;

- monitoring of internal control system to assess its relevance to the objectives and operations of the Bank, identifying weaknesses, development of recommendations and control over the solutions aimed to improve the Bank's internal control system.

Control over the risk assessment and management system of the Bank.
The Bank controls the risk management system on an ongoing basis and as per its internal documents.

The Bank's risk assessment involves identifying and analysis of internal factors (complex organisational structure, level of skills of its employees, organisational changes, personnel turnover etc.) and external factors (change in the economic environment of the Bank etc.) affecting the Bank's operation.

The Bank has the following procedure to escalate identified factors that may increase bank risks:
- Bank employees who learnt about the facts of illegal and breached transactions (agreements) of the Bank, as well as facts of causing damage to the Bank, depositors, clients, must inform thereof their direct manager, Risk Management Department and the Department of Corporate and Legal Standards (Compliance). Managers of relevant departments of the Bank are responsible for cover-ups.
- In case of any illegal, breached transactions, power abuse, violated decision making and risk assessment procedures, as well as any other acts (lack of action) which may cause both direct damage to the Bank and imposition of sanctions on the Bank, are identified in operations of any department, Risk Management, Compliance and Internal Audit departments of the Bank must timely inform the Bank management thereof so that they could decide on measures to be taken to eliminate identified violations.
- Managers of departments where violations were identified must timely take measures to eliminate such violations.

Internal control system is monitored on an ongoing basis by the management and employees of different departments, including departments involved in bank transactions and other agreements, accounting and reporting of such transactions, as well as by internal audit department.

The Bank takes measures necessary to improve internal control, ensure its proper functioning, with due account of changing internal and external factors that affect the Bank's operation.

# Ongoing Operations During The War

On 24 February 2022, the Russian Federation started its military aggression against Ukraine, which was an unprecedented event in Europe after the Second World War. The martial law was imposed in Ukraine by Decree of the President No. 64/2022 dated 24.02.2022.

The hostilities caused the enormous numbers of victims among the civilians and military men and major destruction of the country's infrastructure. The economy of Ukraine was also affected at the large scale. A considerable number of companies suspended their operations while others were physically destroyed.

The fall of income alongside with the current dramatic growth of defence expenditures resulted in the quick growth of the shortfall of the state budget in March and April 2022, which is financed with the loans at the domestic and external markets as well as grants from international organisations and governments of the other countries.

In response to the military invasion, the National Bank of Ukraine fixed the exchange rate and introduced the control over capital flows. Investment and repatriation of corporate income abroad have been officially banned since 24 February 2022.

After the hostilities had started, the senior executives of the Bank activated the operational recovery plan made in advance based on the potential threat of the military intervention by the Russian Federation. The priorities of the plan were to ensure security of the Bank's clients and staff, to maintain operations and to facilitate the adequate liquidity level. All the tasks were performed. The Bank conducts all the transactions for its clients within the regulatory restrictions set by the National Bank of Ukraine. The staff were mostly evacuated to the safe regions, with remote access to the corporate resources and systems of the Bank; the records management is mostly in electronic format. The Bank's IT infrastructure provides for duplication of all the information on the backup services both in Ukraine and abroad. Following the approval by the National Bank of Ukraine, the channel for data exchange with the Bank's services in Germany was set up in order to ensure the ongoing operations in the electronic payment system even if the infrastructure in Ukraine is physically damaged.

In 2021 and at the beginning of 2022, the Bank operated based on the conservative risk approach. The strategy had the dominant influence during the most critical first weeks after the invasion. In particular, the liquidity buffer of the balance on the nostro account with the National Bank of Ukraine and short-term deposit certificates allowed to finance material outflows of the clients' funds and to concurrently increase the corporate lending portfolio upon the clients' requests. As of the date of publication of the report, the situation has stabilised, and the clients' balance tends to increase.

The market risks are of a very limited nature for the Bank and do not pose a hazard for its financial stability. As of the date of publication of the report, there is some uncertainty as to evaluation of the fair value of the forex assets and liabilities due to introduction of the fixed exchange rate for the US dollars as well as securities (DGLB) in the Bank's portfolio. However, the limited open currency position within 10% of the regulatory capital as well as the intention to hold the securities in the Bank's portfolio until the maturity date, with account of the option of use of such securities as the collateral for the refinancing transactions, brings the risks of potentially inaccurate determination of the fair value down to the acceptable level.

The corporate lending portfolio is mostly guaranteed by the parent companies of the investment companies from outside Ukraine, including the country's risk coverage. Such security enables the senior executives to claim that the evaluation of the expected credit losses has been quite accurate, and the credit risk is under control and does not threaten the Bank's financial condition.

The Bank does not own premises in Ukraine, and its head and backup office are in operational lease. The risk of depreciation of the assets are a result of their physical destruction is limited and is approximately equal to the book value of the fixed assets, as disclosed in the financial statements of the Bank.

The Bank has full support of the parent company as to continued operations in Ukraine. Such support was expressed by the members of the Board of Deutsche Bank Group, CFO James von Moltke and President of the Group Karl von Rohr, at the meetings with the staff and senior executives. The group also renders invaluable support to the Bank's staff and their family members and donates to the funds that help Ukraine.

Despite the unprecedented nature of the uncertainties, the aggregate of the factors described above gives the Bank's senior executives confidence in further ongoing operations in Ukraine provided that the military conflict will be geographically limited to certain areas, and the political regime of the state will remain unaltered.

June 29, 2022

Roman Topolnytskyi
Chairman of the Management Board
JSC "Deutsche Bank DBU"