Non-Group Policy

Risk Management Strategy - JSC «Deutsche Bank DBU»

Breaches of provisions within this document will be viewed as a violation of your terms of employment and may result in disciplinary action, up to termination of employment, in line with DB Group's integrated Consequence Management Framework (iCMF), as well as local law and practice.

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0. Key Data

Summary

This Policy sets the framework for strategic goals of the Risk Management function in the Deutsche Bank DBU according to current Business model, Deutsche Bank Group Risk Strategy and to fulfil regulatory and legislative requirements.

Document category

Group Policy	☐	Non-Group Policy	☒
Group Procedure	☐	Non-Group Procedure	☐

Applicability

DB Group	☐	Restricted to	JSC Deutsche Bank DBU/Ukraine

Issuing unit	Risk management

Risk type	Non-Financial Risk Framework, Credit Risk Framework, Market Risk Framework, Liquidity Risk Framework, Compliance risk types

Risk type authorisation

(i)	Risk type control function, as per DB Group’s risk type taxonomy; and / or	☒
(ii)	Approval by the relevant risk type controller / RTC contact / issuing unit	☐
(iii)	Management Board resolution	☐
(iv)	Business allocation plan of DB AG	☐

Addressees

All employees

Supervisory Board approval	☒	Date of approval	03.03.2023

Implementation date	27.12.2023

1. Introduction

The Risk Management Strategy - Joint Stock Company Deutsche Bank DBU (hereinafter - the Strategy) defines the strategic approach to manage the main banking risks in Joint Stock Company Deutsche Bank DBU (hereinafter - the Bank).

The Strategy was developed on the basis of and in accordance with the Regulation on Organization of the Risk Management System in Ukrainian Banks and Banking Groups approved by the Resolution of the Board of the National Bank of Ukraine No. 64 as of June 10, 2018, the Law of Ukraine On Banks and Banking Operations and internal risk management policies of Deutsche Bank Group (hereinafter the Group).

The Strategy defines the objectives of the risk management system in the Bank, as well as the main principles and approaches to achieve these objectives. The Strategy bears fundamental importance in a volatile and uncertain environment and necessity to maintain the optimal "risk- return" ratio.

2. Risk Management Strategy Framework

The risk management strategy is developed in conjunction with the business strategy of the Bank. Development and approval of the Strategy is the exclusive competence of the Supervisory Board of the Bank, which defines the objectives, principles, risk management tools of the Bank's, and risk appetite for different areas of risk.

The implementation of the Strategy is the responsibility of the Management Board, the committees of the Bank appointed by the Management Board, the Risk Management Department, AFC/Compliance department and Heads of Departments of the Bank.

The definition of internal procedures as well as the organization and responsibility of functions are subject to relevant internal policy adherence, and must be fully compliant. Adherence to the Strategy 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 taking into account the major banking risks based on the procedures for their identification, evaluation, and subsequent use of risk mitigation techniques, exchange of information about the risks and monitoring of the results.

The Strategy aims at reducing losses from various types of banking risks while targeting the following objectives:

- implementation of the Bank's business strategy;
- maintenance of the optimal 'risk – return' ratio;
- assuring the levels of risks are adequate to the scale and scope of the Bank's operations;
- adherence to meet all of the Bank's obligations to all counterparts, creditors and depositors;
- adherence to regulatory requirements.

The Strategy defines:

- The Bank's Risk Appetite → All Risks, definition see below;

- all relevant thresholds / limit caps that the Bank must observe in the course of its activities to make sure the level of risk of its operations does not exceed its overall risk appetite.

The system of limits at the Bank is reviewed on a periodic basis or in case of significant changes in external or internal conditions.

Risk Management in the Bank is based on the following principles:

- 3 LoD risk management structure, involving different levels of the Bank's organizational structure into the risk management process;
- collegiate decision making process;
- adequacy of information for risk decision making;
- relevancy of risk management processes, involving updating policies, methodologies, approaches and risk management procedures in accordance with changes in regulatory requirements and business environment.

Risk Management in the Bank is achieved through the following procedures:

- documenting the procedures for provisioning of banking services (products) and conducting operations in line with the Bank's internal policies;
- quantitative and qualitative evaluation of all significant risks and determination of acceptable levels of risk;
- use of risk limits system limiting the size of portfolios and positions, as well as decision-making authority;
- use of credit ratings for customers and counterparties;
- regular monitoring of levels of risks assumed by the Bank.

3. Risk Management structure and main responsibilities

The exclusive competence of the Supervisory Board of the Bank includes:

- approval of the Bank's development strategy in line with the business profile of the Bank;
- determination and approval of the risk management strategy and policy, risk management procedures as well as the list of risks and maximum amounts thereof;
- ensuring the functioning of the Bank's internal control and monitoring of its effectiveness;
- control over the risk management system operation efficiency;
- determination of the Bank's credit policy.

The competence of the Management Board of the Bank includes:

- implementation of the principle strategy and the execution through the development of the adequate business-plan of the Bank;
- implementation of the risk management strategy and policy approved by the Supervisory Board of the Bank, provision for the implementation of risk detection, assessment, control and monitoring procedures;
- information of the Supervisory Board of the Bank on the Bank performance indicators, identified instances of non-compliance with law, internal regulations of the Bank, and on any erosion of the Bank's financial standing or on any threat of the erosion, and on the level of risks evolving in the course of the Bank's operation;
- creation of special committees which are involved in the risk management system, namely, the Credit Committee, the Assets and Liabilities Management Committee, Information Security Committee etc.

The competence of the special committees created in the Bank includes:

- assessment of risks inherent in the operations/processes of the Bank;
- taking decisions on credit transactions (and/or any significant changes thereto) with borrowers of the Bank,
    - (i) except for instances when decisions on separate credit transactions is taken by another body of the Bank according to internal regulations and/or Ukrainian law, or
    - (ii) when the relevant decisions of the Committee are subject to agreement with another body of the Bank.

The competence of the Risk Management Department of the Bank includes:

- contribution to the definition of the Bank’s strategy and business plan for further of development of the Bank;
- participation in the development and implementation of strategies, policies and other internal documents on risk management, establishing the procedure for organization and function of risk management at the Bank, and keeping such documents up-to-date;
- maintaining the risk management system through early detection, identification, assessment, monitoring, control, reporting and mitigation of all types of risks inherent in the Bank, and evaluation of the adequacy of internal capital and liquidity of the Bank, taking into account the risk profile of the Bank, market and macroeconomic conditions;
- ensuring continuous analysis of all types of risks faced by the Bank in the normal course of business, for taking management decisions to minimize certain types of risks and / or losses on certain activities of the Bank, in which such risks are inherent;
- performing quantitative and qualitative assessment of the risks inherent in the operations of the Bank;
- submission of reports related to the system of risk management through regular preparation and submission of reports on risk management to the Supervisory Board on quarterly basis and the Management Board on monthly basis.

The competence of the AFC/Compliance Department of the Bank includes:

- provision for organization of control over compliance with local legislation, internal banking documents and the relevant standards of professional associations applied to the Bank;
- provision for management of risks related to the conflict of interests that may arise at all levels of the Bank’s organizational structure, transparency of implementation of the bank’s processes, and notification of the bank’s Supervisory board/ Management board in the event of revelation of any facts indicating a conflict of interest in the Bank;
- provision for coordination of work on the compliance risk management between structural units of the Bank;
- provision for the functioning of the risk management system by means of timely identification, measurement, monitoring, control, reporting and provision of recommendations on mitigation of compliance risk;
- adoption of all possible measures aimed at preventing adoption of decisions exposing the Bank to a substantial compliance risk, and proper notification of the bank’s executives;
- preparation and submission of compliance risk reports to the bank’s Supervisory board at least once a quarter, to the Bank’s Management board at least once a month, and, in case of identification of situations requiring urgent notification of the Bank’s Supervisory board, no later than on the next business day;
- calculation of the compliance risk profile;
- participation in the development of quality of Bank’s internal banking documents and

monitoring of compliance therewith.

The internal audit unit shall assess the effectiveness of the operational risk management system by the units of the first and second lines of defense, including assessment of the effectiveness of the internal control system.

The competence of the heads of the structural units of the Bank includes:

- ongoing monitoring of operations and the Bank's risks;
- adherence to established procedures, rules and limits;
- escalation of limit breaches, operational incidents and any evidence of a significant risk increase

4. Risk Management Strategy for essential risk types

The Risk management strategy of the Bank is expressed via qualitative risk appetite statements, which are aligned with the Group risk appetite and set the boundaries within the Bank's business and infrastructure functions must operate and ensure that every risk taken is adequately compensated, measured and controlled.

Qualitative risk appetite statements are defined for each material type of risk inherent in the Bank's activity.

The bank shall perform a comprehensive assessment of the following essential types of risks:

- credit risk;
- liquidity risk;
- interest rate risk of the banking book;
- market risk;
- operational risk;
- compliance risk;
- money laundering/terrorism financing/sanctions risks.

4.1. Credit risk

a) Definition:

Credit risk comprises all transactions giving rise to actual, contingent or potential claims against any counterparty, obligor or borrower, including those claims which the Bank plans to distribute when the Bank bears the risk of loss if the borrower defaults. In scope are counterparty risk, country risk, product risk and industry risk.

Credit risk management involves consistently applying a set of qualitative principles and quantitative metrics using experienced risk managers and an established limit framework. Key areas of focus are quality of counterparties, transaction structure and collateral as well as portfolio considerations along the dimensions of country, product and industry.

b) Included Risk Types:

- Counterparty Risk
- Country Risk
- Product Risk
- Industry Risk
- Transfer Risk

c) Qualitative Risk Appetite Statements:

- accept credit risk only with creditworthy clients based on proper client due diligence;
- manage concentration risk at counterparty, product, country and industry level. Actively mitigate concentration risk through collateralization, hedging and/or distribution;
- allocate credit risk appetite by considering sustainable risk/return;
- use IFRS9 standards and requirements of local Regulation #351 under calculation of credit risk provisions;
- control exposure to illiquid and/or difficult to price assets;
- take a conservative approach towards unsecured cash risk and long tenor exposures.

4.2. Interest rate and market risks

a) Definition:

IR and Market risk arises from the uncertainty concerning changes in market prices, IR and FX rates (e.g. interest rates, equity prices, FX rates, commodity prices), the correlations among them and their levels of volatility.

b) Included Risk Types:

- Interest Rate Risk in the Banking Book
- FX Risk

c) Qualitative Risk Appetite Statements:

The Bank’s market risk appetite is set by taking into account the risk objectives of the Bank. Risk appetite setting takes into consideration the following:

- avoid concentration and liquidity risk in markets, issuers and issues. These risks are identified, monitored and managed considering absolute and relative size, and liquidity under normal and distressed market conditions;
- ensure sustainable market risk loss potential that may arise from idiosyncratic events and basis risks. They are analyzed using measures such as stress tests, in which scenarios relating either to macro-economic or business-specific developments are assessed;
- identify and control gap risks (e.g. non-recourse finance, deal contingent swaps);
- ensure that the bank’s market activity is aligned to its strategy;
- ensure product complexity is constrained by DB’s risk monitoring and measurement capabilities.

4.3. Liquidity risk

a) Definition:

Liquidity Risk is the risk arising from our potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive cost.
b) Included Risk Types:

- Liquidity Risk

c) Qualitative Risk Appetite Statements:

- The Bank pays special attention to operational risk management of liquidity risk, which is based on the construction of a cash flow schedule, taking into account highly liquid assets and current regulatory requirements in terms of the Liquidity Coverage Ratio and Net Stable Funding Ratio;
- across all currencies, Bank shall be able to survive a severe combined market and idiosyncratic liquidity stress event for a minimum initial period up to 8 weeks, while still maintaining a prudent net liquidity buffer;
- Bank shall monitor and may restrict excessive concentrations from a liquidity and funding perspective;
- Bank's internal transfer pricing framework is used as a mechanism to ensure that business activities are priced in accordance with the underlying liquidity risks they pose.

4.4. Operational risk

a) Definition:

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes business and reputational risk.

b) Included Risk Types:

Operational Risk is driven by a variety of underlying risk types that are defined in the Risk Type Taxonomy. The following risk types have been considered as material as part of the Risk identification and materiality assessment:

- Theft, Fraud and Bribery & Corruption
- Employment Practices
- Governance & Regulatory
- Product Governance
- Accounting, Financial Reporting & Tax
- Information Security & Technology
- Data & Records
- Business Continuity & Physical Safety
- Transaction Processing
- Third Party

c) Qualitative Risk Appetite Statements:

Consistent Framework
- Bank applies a consistent Operational risk management framework throughout the organization. All structural units need to adhere to risk tolerances and control standards specified for each risk type of the risk taxonomy.

Control Environment

To achieve the desired strength of internal controls, Bank has specified controls to:

- ensure business continuity in the event of any occurrence that affects business processes and systems serving these processes;
- maintain a comprehensive protection level for information security;
- maintain appropriate IT and other infrastructure resiliency arrangements to assure the Bank can continue to function and meet its client, market and regulatory obligations during unforeseen disruptive events;
- ensure Legal exclusively responsible for interpretation of law, regulation and rules in the Bank; legal content of all documentation; and the management of all contentious matters;
- maintain control frameworks and governance to detect and prevent material misstatement in financial reporting and disclosures, and in internal risk, liquidity and capital management;
- maintain a comprehensive control framework to ensure the Bank adheres to relevant law & regulation including prevention and detection of potential money laundering, fraud, bribery & corruption or non-adherence to sanctions & embargoes;
- detect and prevent untimely, inaccurate or incomplete transaction processing events and reduce the frequency of occurrence and aggregate severity of events;
- determine the procedure for cooperation with vendors;
- identify and monitor Key Risk Indicators;
- archive records in appropriate repositories to support timely, complete and accurate responses to authorized data requests, and retain and dispose all records in compliance with legal, regulatory and business requirements.

Cost of Control

- Bank recognizes that certain operational risks cannot be completely mitigated, and evaluates the risk and severity of potential loss against the cost of control;
- minimum control standards are defined by independent control functions and must be complied with across all activities.

No Tolerance

- Bank has no tolerance for breaches of legislation, regulation or associated rules, or for misconduct that could have a material impact to the Bank, its clients and/or the financial markets;
- Bank also has no tolerance for involvement in financial crime, including internal fraud, bribery and corruption, or conducting business with any counterparts that may be known, or suspected, to be involved in criminal activity;
- failure of the Bank's employees to comply with any provision of the Bank's Code of Conduct is a serious violation and may result in disciplinary action, up to and including termination of employment.

Conservative Capital

- Bank maintains a conservative approach to operational risk capital modelling and seeks to drive behavior through the allocation of this capital to business areas.

4.5. Compliance risks

a) Definition:

Compliance risk shall mean the probability of occurrence of losses/sanctions, additional losses or lack of planned revenue or loss of reputation due to the Bank's failure to comply with requirements of the legislation, regulations, market standards, rules of fair competition, rules of corporate ethics, to the emergence of a conflict of interest, as well as Bank's internal banking documents.

b) Included Risk Types:

Compliance Risk is driven by a variety of underlying risk types that are defined in the Risk Type Taxonomy. Compliance risk types include the below mentioned groups:

- Duties to Customers;
- Market Participation and Banking Rules;
- Conflict of interest;
- Market Abuse;
- Unauthorised Trader Activity;
- Supervisory Oversight;
- Anti-trust
- Regulatory.

c) Qualitative Risk Appetite Statements:

The Bank seeks to ensure that there are zero compliance risks in bank's activities, in particular by:

- preventing conflicts of interest and their timely management;
- preventing violations of the local legislation [tax legislation, consumer protection laws, labour, antimonopoly legislation, AML/CTF legislation, other laws, regulations of the National Bank of Ukraine] and internal banking policies and procedures in banking activities;
- preventing violations of the Code of Conduct (Ethics) by the bank's employees;
- preventing the Bank or its employees from engaging in illegal activities, including internal fraud, bribery and corruption, money laundering and the financing of terrorism;
- taking appropriate measures when providing services to customers (fair customer relations, professional communication, proper information disclosure, complaint handling, etc.);
- react timely on changes in legislation and control their implementation etc.

Therefore the Compliance risk management strategy is aimed on ensuring employee's awareness of regulatory and internal policies requirements, implementation of respective controls, identification of compliance risks and their mitigation.

4.6. Money-laundering /terrorism financing/sanctions risks

a) Definition:

Money laundering/terrorist financing risks (ML/TF risks) mean a hazard (threat, vulnerability) for the bank to be used for the purpose of money laundering, terrorist financing and/or financing of proliferation of weapons of mass destruction when bank provides the services pertaining to the scope of its activities.
Sanctions risk – risk of products & services to be used wholly or partially to breach or circumvent sanctions as well as knowingly or with reasonable suspicion engaging in sanctioned financial activity, including sectoral sanctions. Risk includes scenario when DB services are be used by sanctioned clients.

b) Risk types included

- the risk of legalization of proceeds of crime;
- the risk of terrorist financing;
- the risk of proliferation financing; the risk of sanctions and embargoes

c) Qualitative Risk Appetite Statements

The process of ML/TF risk assessment and definition of risk appetite is clearly defined in the Bank's separate internal documents on AML/CTF.

5. Risk management strategy for other risk types

The strategy of managing other types of risk which are unessential for the is to use the "low as possible" approach and does not require additional risk management policies and procedures.

5.1. Reputational risk

a) Definition:

The risk of possible damage to the Bank’s brand and reputation, and the associated risk to earnings, capital or liquidity, arising from any association, action or inaction, which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Bank’s values and beliefs.

b) Included Risk Types:

- Reputational Risk

c) Qualitative Risk Appetite Statements:

Bank seeks to ensure that reputational risk is as “low as reasonably possible”. As reputational risk cannot be precluded, and is also driven by any unforeseeable change in reception of practices by our various stakeholders (e.g. public/ clients; shareholders; regulators), Deutsche Bank strives to promote sustainable standards that will enhance profitability and minimize the risk that any association, action or inaction is perceived by stakeholders to be inappropriate, unethical or inconsistent with the Banks’s values and beliefs.

5.2. Legal risk

a) Definition:

Legal risk is the likelihood of losses or additional losses, or of failure to meet planned revenues as a result of the parties failing to comply with the terms of the contracts due to their non-compliance with legal requirements.

b) Qualitative Risk Appetite Statements:

The Bank seeks to ensure that legal risk is as "low as possible".

APPROVED by
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