



Non-Group Policy

# Policy on the organization of the internal control system - JSC Deutsche Bank DBU

Breaches of provisions within this document may result in disciplinary action, up to termination of employment. Concerns regarding violations of the provisions are to be escalated according to the "Raising Concerns (including Whistleblowing) Policy – Deutsche Bank Group".

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# Policy on the organization of internal control system - JSC "Deutsche Bank DBU"

## Key Data

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# Policy on the organization of internal control system - JSC "Deutsche Bank DBU"

## 1. General Provisions

The Policy on the organization of the internal control system - Joint-Stock Company Deutsche Bank DBU (hereinafter, the Policy) was developed to identify the system, basic principles and standards for the organization of internal controls at Joint-Stock Company Deutsche Bank DBU (hereinafter, the Bank).

The Policy was developed with due consideration and on the basis of the Regulation on Organization of internal controls system at Ukrainian Banks and banking groups approved by the Resolution No. 88 of the Board of the National Bank of Ukraine dd. June 2, 2019, the Law of Ukraine "On Banks and Banking", other legislative acts of Ukraine and regulations of the National Bank of Ukraine, recommendations of the Basel Committee on Banking Supervision and standards of Deutsche Bank Group (hereinafter, the Group).

## 2. Goals and objectives of internal control

The Bank implements the efficient system of internal controls to achieve the following objectives:

- efficient bank operations, protection from potential errors, violations, losses and damages in Bank activities;
- efficient risk management;
- adequate, comprehensive, complete, reliable, available, and prompt information for decision makers including presentation of financial, statistical, management, tax and other reports;
- complete, prompt, and accurate representation in Bank's accounting records;
- AFC/compliance monitoring;
- efficient HR management;
- prevention of the use of the Bank's sources and/or services for illegal purposes, detection and prevention of financial transactions related to the legalization of proceeds acquired by criminal means (money laundering) or financing of terrorism.

In order to achieve these objectives and ensure the function of the internal control system, the Bank performs the following tasks:

- control how the Bank's management complies with Ukrainian laws and Bank internal procedures;
- division of responsibility for Bank's activities;
- control over the operation of the risk management system;
- control over information security and information sharing;
- implementation of internal control procedures;
- monitoring of the internal control system;
- implementation of internal audit procedures.

## 3. System of internal control bodies

Internal control is carried out in accordance with the powers and authority defined by the Bank's constituent and internal documents. The Bank's Charter and internal regulations contain information about the internal control system, the procedure for formation of this system and the respective powers.

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The subjects of Bank's internal control system are:

- The Bank's Supervisory Board;
- The Bank's Management Board;
- The Bank's Committees;
- The Risk Management department;
- The AFC/Compliance department;
- The Internal Audit Unit;
- The business and support units.

Internal controls implemented by management bodies, business units and staff involved in internal controls according to Bank's internal documents are described below:

The Bank's management bodies (Bank's Supervisory Board and Management Board) provide for:

- establishment and function of Bank's corporate culture and values which encourage full compliance with applicable current laws, regulations, standards and Bank's codes of conduct and ethics;
- involvement of all the Bank's staff in internal controls in accordance with their official duties;
- establishment and functioning of the compliance risk escalation process so all Bank staff could report compliance risks arising in their activities, including risks of violations of Ukrainian laws, the Bank's constituent and internal documents, abuses and failures to comply with business ethics standards, to their line managers and Bank's management bodies.
- assessment of the risks affecting the achievement of Bank's objectives and taking steps to respond to changing circumstances and conditions to ensure efficient assessment of banking risks;
- adoption of internal documents governing interaction of Internal Audit Unit and Bank's business units and staff and control of compliance with such documents;
- prevention of the adoption and/or implementation of practices that can encourage actions in violation of Ukrainian laws and internal control purposes.

With regard to internal control issues, the exclusive competence of the Bank's Supervisory Board includes:

- ensuring the function of the Bank's internal control system and monitoring of its efficiency;
- regular review of efficiency of internal controls at its meetings and discussion of organizational issues of internal controls and measures to improve its efficiency;
- timely check to ensure that the nature and the scope of transactions as well as the level and combination of risks accepted comply with internal controls;
- review and approval of policies for the organization of the internal control system at the Bank;
- determination and adoption of the risk management strategy and policy, risk management procedure and the list of risks including their limits; policy scenarios and the results of stress tests;
- determination of the Bank's credit policy;
- control over the efficient function of the risk management system;
- approval of the Bank's business recovery plan;
- appointment and dismissal of the head of Internal Audit Unit and approval of the regulation on the Bank's Internal Audit Unit;
- determination of the agenda and plans of Internal Audit Unit and control over operation of the unit;

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- approval of the terms and conditions for civil-law and labor contracts made with Management Board members and staff of Internal Audit Unit, Risk Management and AFC/Compliance departments determination of the amount of their remuneration, including incentives and compensations;
- review of other documents and reports related to internal control developed by members of the internal control system, Group's audit unit, and the audit organization which conducts (has conducted) audits;
- control how the Bank cures deficiencies found by the National Bank of Ukraine and other government authorities and administrative bodies competent to supervise Bank's activities, Internal Audit Unit or an audit firm based on the results of an external audit.

With regard to internal control, the competence of the Management Board includes:

- establishment of the responsibility for implementation of the decisions taken by the General Members Meeting and the Bank's Supervisory Board and implementation of Bank's internal control strategy and policy;
- delegation of authority to develop internal control rules and procedures among line managers of the respective units and control over implementation thereof;
- check of Bank's activities for compliance with its internal documents determining the internal control procedure and assessment of the contents of those documents for compliance with the nature and scope of Bank's activities;
- division of responsibilities among business units and staff members responsible for specific areas (forms, implementation methods) of internal control;
- review of materials and findings of regular assessments of efficiency of internal controls;
- establishment of the efficient communication and information exchange systems providing the necessary input to stakeholders. The information transfer and exchange systems include all documents defining the operating management (procedures) of Bank's activities;
- establishment of a system to control how violations and deficiencies found in internal controls are cured and how the measures taken to address them are implemented;
- assessment of the risks affecting the achievement of objectives and taking measures to respond to changing circumstances and conditions to ensure efficient assessment of banking risks. For efficient detection and monitoring of new banking risks, the Bank's internal control system should be subject regular review;
- ensuring that all Bank's staff members are involved in internal controls as required by their respective job descriptions;
- establishment of the procedure so all Bank staff members could report all violations of Ukrainian laws, constituent and internal documents, abuses and failures to comply with business ethics standards to the Board Chairman, the Management Board and their line managers.

The Bank has implemented the internal control system based on the "three lines of defence".

1. First line of defence – at the level of business and support units of the bank. These units shall assume risks and be responsibility for them, and shall report to the current management of such risks;
2. Second line of defence: at the level of the Risk Management and the AFC/Compliance departments;
3. Third line of defence: at the level of the internal audit unit for verifying and assessing

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First line of defence is responsible for the operation of systems and processes at the Bank, including the risk management system and internal controls. Based on the job descriptions and powers granted by Bank's internal documents, the competence includes the following:

- control of how the staff members of respective business units abide by the Ukrainian laws and Bank's internal documents in their activities, including transactions and operations;
- organization of the process of keeping the staff informed of compliance risks, so the staff of business units could notify the AFC/Compliance of compliance risks arising of their activities, including risks of violations of Ukrainian laws, Bank's constituent and internal documents, abuses and failures to comply with business ethics standards;
- organization of measures to eliminate violations and deficiencies found in the activities of subordinate units themselves and/or based on the results of inspections;
- assessment of risks affecting the achievement of objectives by units and taking measures in response to any circumstances and/or variable conditions to ensure efficient assessment of banking risks;
- organization of control on how staff of business units follow the relevant procedures set forth by standards of this business process;
- complete and timely collection and register of operational risk events to the internal operational risk event database
- follow Risk Appetite and risk limits;
- monitoring of changes in laws that can be applied to a particular business process (business area) and taking measures as may be necessary to ensure that the new requirements are implemented by the Bank in a timely manner; and
- control over the implementation of measures taken to prevent the use of Bank's assets and systems for legalization of proceeds acquired by criminal means and terrorist financing.

Risk Management and AFC/Compliance departments represent second line of defence – whose main function is to implement the appropriate control actions – operate under the regulations on the relevant business units and other internal documents of the Bank, including:

- Risk Management department is responsible for managing and monitoring credit risk, market risk, liquidity risk and operational risk.
- AFC/Compliance department is responsible for organization of the comprehensive compliance risk management, responsible for AML and combating the financing of terrorist acts under "Internal Control Rules at Deutsche Bank on Combating Legalization of Proceeds Acquired through Criminal Activities (Money Laundering)" developed in accordance with current laws.
- Advising the bank's structural units on organization of internal control system;
- Conducting training and ensuring awareness of the bank's employees in the area about risks;
- Coordinating or controlling the development of BCP plan for ensuring continuous activity depending on the chosen process management model.

Internal Audit Unit, the third line of defence, operates according to the respective job descriptions and internal regulations, and, in particular, checks, evaluates and presents objective information on the status and efficiency of internal controls and the efficiency of risk management and corporate management processes.

## 4. Internal Control System

4.1 The Bank's internal control system includes the following areas:

- control by management bodies over the organization of Bank's activities (under Section 3 above);
- control over the operation of the banking risk assessment and management system;
- control over the distribution of powers in operations and transactions;
- control over management of information flows (receipt and transmission of information) and information security; and
- regular monitoring of the internal control system to assess the degree of compliance with objectives and activities of the Bank, identification of gaps, development of proposals and control over the implementation of solutions aimed at improving the internal control system at the Bank.

4.2 Control over the operation of the banking risk assessment and management:

The Bank controls the operation of the risk management system on a regular basis in the manner prescribed by internal documents.

Assessment of banking risks involves the identification and analysis of internal factors (complexity of the organizational structure, staff qualifications, organizational changes, employee turnover, etc.) and external factors (change in economic conditions of the Bank, etc.) that affect Bank's business.

The Bank has established the following procedure to keep the Bank's management informed of identified factors which may increase banking risks:

- If a violation of a law or Bank's rules of operations (transactions) or a fact of damage caused to the Bank, depositors or customers comes to the knowledge of a Bank staff member, such staff member must immediately report this fact to his/her line manager, Risk Management Department, and Department of Corporate and Legal Risks (Compliance). Heads of relevant business units of the Bank are responsible for concealing violations.
- If the Bank's Risk Management Department, Compliance and Internal Audit Unit find violations of laws, rules of operations, exceeding of the limits of authority, violations of decision-making and risk assessment procedures or any other action (omission) that could cause direct losses to the Bank and can lead to sanctions against the Bank from regulatory authorities, they must promptly notify the Bank's management so the latter can make decisions on the measures to be taken to cure the violations found.
- Heads of departments whose activities are found to be non-compliant, must take measures to cure the deficiencies promptly.

4.3 Control over distribution of powers and authority in banking operations and transactions

The distribution of powers and authority between business units and staff members in banking operations and other transactions is set out by Bank's internal documents and includes the following forms (methods) of control:



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- checks initiated by management bodies by requesting reports and information on performance of business units, clarifications from heads of respective business units to identify deficiencies in controls, violations, or errors;
- control by the heads of business units by checking reports submitted by their respective staff;
- material (physical) control by checking limited access to property, revaluation of material values, distribution of responsibility for the storage and use of material values, security of premises used for storage of material values;
- check for compliance with established limits for banking transactions and other operations by requesting relevant reports and reconciliation with primary documents;
- a system of coordination (approval) of transactions (agreements) and the distribution of powers in carrying out banking operations and other transactions that exceed the set limits to keep the Bank's management informed of any current situation and to represent such operations in accounting records and reports in a timely manner; and
- check for compliance with banking operations (procedures) and other transactions, reconciliation of accounts, and keeping the respective Bank's managers of violations, errors and deficiencies.

The duties are distributed among Bank's officials to prevent conflicts of interest and any conditions which may result in a conflict of interest, a crime and other illegal actions in carrying out banking operations and other transactions, and to provide one unit or staff member with a right:

- to carry out and register and (or) record banking transactions and other operations in accounting;
- to authorize and to make cash payments;
- to make transactions on Bank customer accounts and Bank accounts reflecting its financial and economic activities;
- to provide advisory and information services to Bank clients and make transactions with the same clients;
- to assess the documents submitted in support of a loan for their authenticity and completeness and to monitor borrower's financial standing; and
- to take actions in any other areas where there may be a conflict of interest.

4.4 Control over information flow management (receipt and transmission of information) and information security.

Internal control over automated information systems and technical means consists of general controls and software controls.

The general control over automated information systems involves the control over computer systems (control over servers, network infrastructure and end users' workstations, etc.) to ensure the smooth and continuous operation.

The general control comprises Bank's data backup (copy) procedures and procedures for restoring functions of automated information systems, support during the period when automated information systems are in use, including the determination of rules of acquisition, development and

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maintenance (support) of software applications and the procedure for control over safety of physical access.

The Bank sets rules governing the rules for management of information activities, including procedures to protect confidential information against unauthorized access and dissemination and use for personal gain.

### 4.5 Ongoing monitoring of the internal control system

The internal control system is monitored on an ongoing basis by the management and staff members of various business units, including units that carry out and reflect banking operations and other transactions in accounting records and reports, and by Internal Audit Unit.

The Bank takes necessary steps to improve internal controls to ensure its efficient operation with due consideration of changing internal and external factors affecting the Bank's activities.

The monitoring of the internal control system includes "three lines of defence":

I. Managers and staff members of various business units, including the units that carry out and represent banking operations and other transactions in accounting records and reports. At this level, the internal control system is monitored in accordance with internal functional and technical documents:

- staff job descriptions;
- functional responsibilities of business units;
- policies and procedures to manage and assess various types of risk; and
- other approved internal documents.

This line of defence is responsible for implementation of the first level of efficient control procedures covering all areas of the Bank's activities.

II. The main function of business units comprising the second line of defence is to implement the appropriate control actions in their respective areas.

At this level, the internal control system is monitored in accordance with regulations governing operation of these business units and other internal documents of the Bank. This line of defence is responsible for implementing the efficient second-level control to coordinate control procedures of the first level (through monitoring and testing procedures) and identify weaknesses thereof.

III. Internal Audit Unit monitors the internal control system during audits and follow-up control over implementation of recommendations and controls how violations detected by inspections are resolved.

The monitoring of the internal control system includes:

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- Implementation and monitoring of Key Risk Indicators
- regular checks of operations for compliance with the established policies and procedures;
- daily monitoring of the most risky operations;
- analysis of Bank's operations by each type of risk; and
- keep the Bank management informed on identified deficiencies in a timely manner.

The frequency to observe various activities of the Bank is determined based on respective banking risks, frequency and nature of changes occurring in the Bank business and is recorded in Bank's internal documents.

Business units that exercise control over the management of certain types of risks promptly notify Compliance and Internal Audit Unit about violations found in Bank's internal documents.

Compliance and Internal Audit Unit notify the Supervisory Board and the Management Board of the Bank of the results of monitoring the internal control system on a regular basis.

The Bank takes necessary steps to improve internal controls to ensure their efficient operation with due consideration of changing internal and external factors affecting the Bank's activities. Proposals to amend the internal control system are reviewed by the Bank's Supervisory Board.

### 4.6 Ensuring stable operation of the Bank and restoration of the Bank operation in the event of non-standard situations and emergencies.

The Bank develops, and the Supervisory Board approves, the action plan to ensure business continuity and (or) restoration of the Bank operation in the event of non-standard situations and emergencies. This plan provides for the use of back-up automated systems and (or) devices, and restoration of critically important Bank's system which are supported by an external contractor (service provider) (hereinafter, Bank Crisis Management Plan).

The Bank Crisis Management Plan is developed based on an analysis of the following factors:

- types and nature of possible contingencies, related types and scope of impact on the Bank's activities that can disrupt daily operation of the Bank and its capacity to perform its obligations;
- Repository of internal banking processes (a system of consistent and completed steps to perform banking operations and transactions) which are crucial for Bank's daily operation and automated information systems used to ensure implementation of such banking processes; and
- indicators of recovery of internal banking processes, including the recovery period, allowable amount of material costs, allowable loss of information.

The Bank Crisis Management Plan provides for the use of backup systems and devices in the Bank and the restoration of critical systems and – in case of need, supported by external contractors (service providers)

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In addition, the Bank's internal regulation set out the procedure for and frequency of checks (testing) to verify the performance of the Bank's Crisis Management Plan, the procedure for and frequency of its revision, powers of Bank's management bodies and business units in implementing the Bank Crisis Management Plan and the procedure to inform the staff of the Crisis Management Plan.

### 5. Final provisions

This Policy shall enter into force upon approval by the Bank's Supervisory Board.

Any amendment or addition to this Policy may be made upon approval by the Bank's Supervisory Board.

Once a new version of the Policy has been approved, the previous version automatically ceases to be effective.

If any provision of this Policy is found to be incompliant with the applicable laws of Ukraine, including regulations of the National Bank of Ukraine, either due to the adoption of new regulations or making amendments to the current regulations, this Regulation shall apply to the extent it does not contradict the current laws of Ukraine including applicable regulations of the National Bank of Ukraine. Before the appropriate changes are made in this Policy, the Bank staff shall be guided by the current laws of Ukraine in their work.

### 6. Glossary

Term	Definition
Bank internal documents	regulations, instructions, methods, rules, resolutions, decisions, orders, job descriptions, descriptions of procedures and operational processes, and other documents regulating Bank activities, including the internal control procedure of the Bank
internal control	measures (procedures) taken by the Bank to ensure the efficiency and effectiveness of Bank operations, efficient asset and liability management, risk management, complete, prompt and fair representation of accounting records and execution and provision of financial, statistical, administrative, tax and other reports, fraud prevention, compliance, etc
information security	a multi-level complex of organizational measures at the Bank, software tools and hardware providing protection of information from accidental and intentional threats which, if implemented, may cause interruption of security services: availability, integrity, confidentiality and observability
compliance	means compliance by the Bank with laws, industry standards as well as Bank standards and internal documents including procedures
compliance risk	means the risk of legal sanctions, financial loss or loss of reputation as a result of the Bank's failure to abide by the laws, industry standards as well as Bank standards and internal documents including procedures
risk	a chance that events, either expected or unexpected, will have a negative impact on the Bank's capital and/or revenue. The main types of risks are defined by regulations of the National Bank of Ukraine
internal control system	a package of procedures, forms, methods, and areas of control to ensure that internal control objectives are implemented and achieved at the Bank

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Term	Definition
risk management	a systematic process of finding, identifying, assessing, monitoring and controlling the risks

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### APPROVED BY

Supervisory Board of JSC "Deutsche Bank DBU"

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