

Translation from the Ukrainian original

**JOINT STOCK COMPANY
“DEUTSCHE BANK DBU”**

Management report for 2020

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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 2020, the Bank employed 36 employees, of which 20 men and 16 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), 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.

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.

During the year Shlyepakova Svitlana Romanivna resigned from the Management Board.

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 ensure 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 three 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 2020.

Net income — UAH 119.4 mln (UAH 166.6 mln for 2019)
Profit before tax — UAH 5.2 mln (UAH 58.1 mln for 2019)
Return on Equity (ROE) — 0.4% (13.2% in 2019)
Risk-weighted assets — UAH 519,5 mln (UAH 288.1 mln for 2019)
Capital adequacy ratio — 69.8% (131.5% in 2019)
Liquidity coverage ratio LCR (all currencies) — 235% (269% in 2019).

Financial results

In 2020, the Bank kept expanding its customer and resource base. However, after the National Bank of Ukraine had abruptly decreased the discount rate from 13.5% down to 6.0% within the inflation targeting strategy and in order to support the economic activity during the pandemic of the coronavirus COVID-19, there was material reduction of the interest margin of the Bank and net interest income by UAH 47.2 mln or 34.7%.

The bank formed allowances for the expected credit losses in the amount of UAH 2.0 mln, which was caused, in the first place, by an increase in the portfolio of loans to clients with the lowest credit rating.

The net fee and commission income did not change significantly. In 2020, it went down by UAH 0.1 mln or by 0.5%.

The net trading income increased by UAH 4.5 mln or 46.0% in the environment of the significant market volatility during the first half of 2020. The main share of the increase pertained to forex transactions, namely growth of their scope and spreads.

In 2020, the staff costs grew by UAH 5.2 mln or by 10.8%. The main factors were revision of the staff salaries based on the results of operations during the previous year and increase in the headcount in pursuance of the regulatory requirements of the National Bank of Ukraine.

The administrative and other operating expenses did not change materially and grew by UAH 0.5 mln or by 0.9%. The largest increase took place in IT expenses and expenses for the services of compliance and counteraction to financial crime, by UAH 3.8 mln and UAH 3.4 mln accordingly, due to considerably bigger amounts of allocation of the internal group expenses. At the same time, the allocation of the internal group expenses for the management services was considerably reduced, namely by UAH 6.3 mln.

As a result, the profit before tax fell by UAH 52.9 mln or 91.0%.

As a result of the base decline against the background of the growing effective tax rate, the income tax went down by UAH 9.5 mln or 71.0%.

The Bank's net profit went down by UAH 43.4 mln or 97.1%.

(In UAH thousand)	2020	2019	Deviation, UAH thousand	Deviation, %
Interest income	185,395	301,075	(115,680)	-38.4%
Interest expenses	(96,548)	(165,070)	68,522	-41.5%
Net interest income	88,847	136,005	(47,158)	-34.7%
Expected credit loss result	(1,983)	2,085	(4,068)	-195.1%
Net interest income after allowance for impairment	86,864	138,090	(51,226)	-37.1%
Net fee and commission income	17,893	17,991	(98)	-0.5%
Net trading income	14,127	9,674	4,453	46.0%
Other operating income	507	852	(345)	-40.5%
Total non-interest income	32,527	28,517	4,010	14.1%
Staff expenses	(53,524)	(48,328)	(5,196)	10.8%
Other administrative and operating expenses	(60,663)	(60,150)	(513)	0.9%
Total non-interest expenses	(114,187)	(108,478)	(5,709)	5.3%
Profit before tax	5,204	58,129	(52,925)	-91.0%
Income tax expenses	(3,902)	(13,437)	9,535	-71.0%
Profit for the year	1,302	44,692	(43,390)	-97.1%

Balance sheet

By the end of 2020, the Bank's balance increased by UAH 1,505.9 mln or by 54.8% compared to 2019. The increase was mainly caused by the net inflow of the clients' fixed-term deposits in December 2020 in the amount of UAH 1,219.8 mln. Such considerable increase in the balance currency is of short-term nature, and the considerable amount of fixed-term deposits is expected to be repaid in February and March 2021.

Growth of the liabilities resulted in the increase in highly liquid UAH assets, such as cash funds and funds in the National Bank of Ukraine, which went up by UAH 458.7 mln or 26.2%, and the investment into securities, namely into domestic government bonds, was financed for the amount of UAH 600.0 mln.

The funds in other banks are balances on nostro accounts. This item in the balance sheet grew by UAH 529.6 mln or 110.4%, which conformed to an increase in the clients' liabilities in the foreign currency.

The clients' loans and debt went down by UAH 73.2 mln or 15.4%. The changes were caused by the seasonal nature of the borrowers' demand for circulating assets.

Due to revision of the terms for lease of the Bank's main premises and as a result of settlement of liabilities for 2020, the lessee's liability was decreased by UAH 5.8 mln or 21.9%. The assets with the right to use the leased premises and vehicles and other fixed assets were depreciated during the year. As new assets had been purchased, the balance sheet item "fixed assets and right of use assets" was decreased by UAH 8.7 mln or 23.3%.

The Bank's equity grew insignificantly, by UAH 0.9 mln or 0.2%, mostly owing to the net profit for 2020. The Bank did not pay dividends during the year.

(In UAH thousand)	31 December 2020	31 December 2019	Deviation, UAH thousand	Deviation, %
Assets:				
Cash and cash equivalents	2,210,922	1,752,218	458,704	26.2%
Funds in other banks	1,009,238	479,610	529,628	110.4%
Clients' loans and debt	402,171	475,450	(73,279)	-15.4%
Investment into securities	600,030	0	600,030	n/a*
Derivative financial assets	60	0	60	n/a*
Accounts payable on current income tax	40	0	40	n/a*
Deferred tax asset	1,058	1,087	(29)	-2.7%
Fixed assets and right of use assets	28,482	37,150	(8,668)	-23.3%
Intangible assets	989	1,400	(411)	-29.4%
Other assets	1,291	1,440	(149)	-10.3%
Total assets	4,254,281	2,748,355	1,505,926	54.8%
Liabilities and equity:				
Customer accounts	3,839,445	2,328,163	1,511,282	64.9%
Liabilities for current income tax	0	2,286	(2,286)	-100.0%
Derivative financial liabilities	80	0	80	n/a*
Deferred tax liabilities	101	0	101	n/a*
Provision for liabilities	67	110	(43)	-39.1%
Leasing obligations	20,483	26,243	(5,760)	-21.9%
Other liabilities	23,152	21,511	1,641	7.6%
Total liabilities	3,883,328	2,378,313	1,505,015	63.3%
Share capital	301,839	301,839	0	0.0%
Retained earnings and other reserves	69,505	68,204	1,301	1.9%
Revaluation reserves	(391)	0	(391)	n/a*
Total shareholder's equity	370,953	370,042	911	0.2%
Total liabilities and shareholder's equity	4,254,281	2,748,355	1,505,926	54.8%

* n/a – not applicable

Economic environment

External economic environment

According to the inflation report of the National Bank of Ukraine (January 2021), following the abrupt decline during the first half of 2020, the global economy starting to recover in the third and fourth quarters despite the overall deterioration of the epidemic situation and lockdowns in some countries. The industrial indicators improved in the first place while recovery of the service industry, which is more sensitive to social distancing measures, remained weak and unstable. The level of business optimism as of the end of the year practically reached the six-year maximum value owing to recovery of trade flows and successful trials of COVID-19 vaccines. According to the WTO report, 39% of the trading restrictions introduced during the most intense period of the pandemic were removed. The global service trade remained inactive. Its recovery is expected in 2021 only

provided that all the quarantine restrictions are removed, and there is large-scale vaccination.

Weakness of the global service sector, where more than half of the employed population works, keeps affecting the labour market negatively. The global unemployment level as of the end of the year remained much higher than before the pandemic. Uncertainty as to further development of the epidemic situation also restrains recovery of the consumer demand. As a result, despite growth of utility prices and inflation in some of the countries, the overall inflation pressure in the countries that were the main trading partners of Ukraine remained weak. It increased at the end of 2020 mostly owing to the effects of devaluation of currencies in some countries (Russia, Turkey and Belarus). The global economy is expected to keep recovering on the forecast horizon owing to the large-scale monetary and fiscal support, and inflation will resume growth in 2021. However, weakness of the service industry will restrain increased inflation pressure from the partnering countries, so the inflation will be lower than before the pandemic.

Rapid growth of liquidity at the global financial markets owing to the large-scale programmes for quantitative easing and additional lending, first of all, by the Federal Reserve System and the European Central Bank against the background of almost-zero interest rates encouraged growth of the investors' demand for risk assets. The market also felt more optimistic due to the news about the successful trials of COVID-19 vaccines and start of the vaccination, completion of the election and new fiscal support in the US. The risk premium for the assets of the developing countries went down, and most currencies of this group grew stronger against the US dollar. Under the given conditions, most central banks of the developing countries continued their mild monetary policy against the moderate inflation pressure.

Balance of payments

The surplus of the current account of the balance of payments in 2020 made USD 6.2 bln in comparison with the deficit of USD 4.1 bln in 2019. The pandemic of COVID-19 had the most material impact upon import of the goods and services: the reduction made 17.9% (it grew by 7.8% in 2019) whereas the export went down by 4.5% only (it went up by 7.4% in 2019).

The export of goods went down by 2.0% (it grew by 6.3% in 2019) and made USD 45.2 bln. The import of goods went down by 14.2% (it grew by 7.7% in 2019) and made USD 51.8 bln. The energy import went down 1.6 times while the scope of the non-energy import was reduced by 7.9%.

The surplus of trade in services reached USD 4.8 bln (it made USD 1.8 bln in 2019) owing to the higher pace of reduction of service import (1.5 times) than export thereof (by 11.2%) owing to the pandemic of COVID-19. The main factor causing reduction of service import was a decrease in expenditures of the persons travelling abroad and short-term migrants (1.8 times). Also, the import of transfer services and other business services went down (1.4 times and 17.4% accordingly). The service export was reduced mainly at the expense of the persons travelling around Ukraine (4.3 times), transportation services (by 19.5%) and export of the services of processing physical resources owned by other parties (by 18.0%). At the same time export of computer services kept growing: by 20.4% (1.3 times in 2019).

The volumes of private money transfers in 2020 remained at the level of the previous year and made USD 11.9 bln. However, their structure changed: the volume of the transfers made via official channels increased by 22.7%. First and foremost, it was related to an increase in the salaries received by the Ukrainians from abroad, by 27.4%. This component had been growing fast for the least three years, which caused an increase in its share in the total volume of private money transfers up to 31.6% against 21.1% in 2018. Another cause of the increase in transfers via banks and international payment systems was refocus on use of official channels in the environment of the pandemic of COVID-19. At the same time, the volume of transfers via unofficial channels went down by 23.9% as a result of the quarantine restriction and temporary closure of borders.

The deficit of the capital transactions account made USD 3 mln (in 2019, the surplus made USD 38 mln). In 2020, the outer world net lending (common balance of the current account and the capital transactions account) made USD 6.2 bln (in 2019, the net borrowing made USD 4.1 bln).

The capital outflow from the financial account made USD 4.2 bln (in comparison with the net inflow of USD 10.1 bln in 2019) and was preconditioned by the private-sector transactions. The net inflow within the governmental-sector transactions made USD 884 mln (it made USD 5.2 bln in 2019).

In general, the net liquidity balance in 2020 had the surplus of USD 2.0 bln (it made USD 6.0 bln in 2019). The surplus of the net liquidity balance with net borrowings from the IMF (USD 975 mln) caused growth of international reserves up to USD 29.1 bln, which facilitates financing of the future-period import for 4.8 months.

Banking sector

According to the banking sector overview (February 2021) made by the National Bank of Ukraine, two banks were declared insolvent due to their failure to satisfy the equity ratio in 2020. Thus, there were 73 solvent banks as of the end of the year. Although the share of state-owned banks in the net assets was reduced in favour of the private ones during the year, more than half of the sector's assets are still held by the state-owned banks. At the end of the year, twenty major banks had more than 90% of the assets in the sector.

The aggregate profit of the banking sector in 2020 was almost one third lower than in 2019 and made UAH 41.3 bln. Eight financial institutions were loss-making in 2020, the same way as the year before. In 2020, the operating income and operating profit went up although the ratio between operating costs and operating income (CIR) at the end of the year grew moderately and made 53.6% against 50.8% in 2019. Thus, the operating performance deteriorated slightly.

During the first six months of 2020, the National Bank of Ukraine decreased the discount rate four times, by 7.5 percentage points in aggregate and down to the historically low level of 6.0% per annum. During the year, the deposit interest rates and the value of UAH loans to business entities were considerably reduced and achieved the same range.

Net UAH loans to business entities grew notably in the third and fourth quarters following the decline during the first half of the year as a result of the crisis. Growth of the net UAH loan portfolio of individuals in 2020 was decelerated abruptly due to the quarantine restrictions during the first half of the year. Accommodation lending became much more active in the second half of the year.

The banks' liabilities grew due to clients' funds and with the liquidity support from the National Bank of Ukraine. The funds of business entities and individuals remained the main source of the banks' funding and made 84.6% of the liabilities. In 2020, the UAH deposits grew quickly. The capital outflow at the beginning of the coronacrisis lasted less than two months. However, in the uncertain environment caused by the pandemic, the growth was driven by deposits repayable on demand: their volume went up by 49.0% percentage points.

The credit risk remains the principal one for banks in 2021. Despite the considerable improvement of the economic situation in the second half of the year, certain borrowers of the banks still have financial difficulties, which may negatively affect the loan service quality and, therefore, cause the need of additional bank provisions.

In January 2021, the National Bank of Ukraine obliged the banks to gradually deduct the value of non-core assets from their fixed capital. The net stable funding ratio (NSFR) will be in effect from April, thus making the banks reduce gaps in the terms of assets and liabilities. Its initial minimum value will be established at 80% and will be gradually increased up to 100% until April 2022.

Bank Development Strategy

As integral part of Deutsche Bank's Group global footprint, JSC Deutsche Bank DBU plays a vital role in the partnership with our key-strategic global clients, by making available our capabilities in cash management, trade finance and lending, as well as foreign exchange, the latter delivered in close collaboration with the investment bank, enable us to serve core needs of our corporate clients in Ukraine. As a leading bank serving international corporates domestically and abroad, JSC Deutsche Bank DBU will help clients in optimizing their working capital and liquidity, securing global supply chains and distribution channels and managing their risks.

We aim to further develop our market position in accordance with the highest standards of Deutsche Bank's Group strategy and philosophy by

- utilizing international standard market practices
- achieving a top ten ranking in certain segments of the Ukrainian banking market,
- ongoing transformation of our bank through improving the experience for clients and employees, while concentrating on our high-quality business.

Emerging from a crisis battered economy in 2020, our realigned targets are focused on moving us from "transformation" to "noticeable market participant" by ramping up our combined strengths in

- Network Banking, strengthened client relationships through realizing opportunities of anti-globalization sentiments on a global scale, taken into consideration the "near-shoring-trend" of European Markets, the emergence of complex logistical chains combined with new forms of cooperation, such as the EU association agreement, the silk road initiative, and new bilateral trade agreements with various countries, opening global market access, shoulder to shoulder with our existing and prospect clients, by mobilizing Deutsche Bank's global network.
- Sustainability, as central component of the bank's strategy, through leveraging climate risk management to support clients in mastering climate risk challenges, social contribution and governance development, by identifying transition opportunities, integration of sustainable finance as core component of our customer value proposition and ongoing promotion of economic inclusion.
- Innovation, through utilizing opportunities that over time can ensure a sustainable income, by monetizing group-wide activities in developing and scaling up ventures markets across our footprint, improving client perception about the bank as a leading innovator, and accelerating the pace of introduction of innovative products by adopting new ways of working in all aspects of digital and product delivery.
- People and culture, through creating an environment of trust and enablement, investing into wellbeing to improve productivity and performance (incl. management tools and mental health support) and accelerating post COVID-19 ways of working, utilizing the full flexibility of the recently established new Labor Law of Ukraine, implementing alternatives for remote work or office presence.

The Bank's major priorities are:

- Sustainable growth through understanding of customer development plans, providing reliable advice, and building leadership in future solutions.
- Maintenance of profitability
- Maintenance of a sustainable risk management, building on a reliable assessment process of inherent risks on a macro- as well as micro level, to foster the "zero loss mentality", control all risk levels, and to comply with all the regulations.
- Managing the balance sheet to increase profitability of operating activities while constantly monitoring potential risks.
- To increase efficiency, introduce innovation to expand consumer experience.
- Monitoring of key economic industries.

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 2020 fiscal year is as follows:

- Fixed part – UAH 9.6 million
- Variable part – UAH 1.0 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 2020, 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 2020.

The total payments to the members of the Supervisory Board in 2020 amounted to UAH 4.4 million. They were paid on a quarterly basis. The total cost of the Supervisory Board amounted to UAH 5.0 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 of the Board;
- 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 31.12.2020:

Type of asset	Credit exposure, UAH thousands
Nostro accounts	636
Corporate loans	1,906
Off-balance-sheet financial liabilities	-
Financial accounts receivable	17
Accounts receivable from the Bank's commercial operations	66
Total	2,625

The credit risk size 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 reserves have been formed by the Bank as per the statistical reporting as at 31.12.2020:

Type of asset	Credit exposure, UAH thousands
Nostro accounts	4,948
Corporate loans	7,425
Off-balance-sheet financial liabilities	1,125
Derivatives	1
Financial accounts receivable	33
Accounts receivable from the Bank's commercial operations	240
Total	13,592

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 31.12.2020:

Risk index	Limit, EUR thousands	Actual risk size, EUR thousands	Utilisation, %
<u>Interest rate risk</u>			
Net sensitivity	15	4.16	73%
Stress	5,000	1,287	55%
<u>Foreign exchange risk</u>			
VaR	20	0.7	3%
Stress VaR	100	5.8	3%
IR Delta	15	0	0%
FX Delta	1,000	9	14%

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.

The following operational liquidity limits have been set as at 31.12.2020:

Term	Limit, UAH thousands	Actual position, UAH thousands
Overnight	-175,000	419,880
week	-100,000	1,683,680
month 1	-100,000	824,030

2. Liquidity coverage ratio — LCR.

Actual arithmetic average of the ratio as at 31.12.2020:

- for all currencies — 235%
- for foreign currencies — 238%

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 2020

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 60 thousand. Tolerance level is EUR 90 thousand.

Actual risk appetite at the year-end:

Operational risk appetite for 2020, EUR thousand		Q1	Q2	Q3	Q4
Financial losses from operational incidents	60	-	-	4	12
Number of incidents per quarter	5	2	2	4	5

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.

19 April 2021



Bernd Wurth
Chairman of the Management Board