

Translation from the Ukrainian original

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

**Management report for 2019**

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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 2019, the Bank employed 37 employees, of which 19 men and 18 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, Acting Risk Management Head
5. Oleksandra Vasylivna Kostiana, Member of the Management Board, Compliance and Anti Financial Crime Head.
6. Shlyepakova Svitlana Romanivna, Member of the Management Board, Risk Management Head (on a long-term vacation)

The membership of the Management Board has not changed during the year.

## 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 2019.*

Net income — UAH 166.6 mln (UAH 159.6 mln for 2018)  
 Profit before tax — UAH 58.1 mln (UAH 54.2 mln for 2018)  
 Return on Equity (ROE) — 13.2% (12.6% in 2018)  
 Risk-weighted assets — UAH 288.1 mln (UAH 414.6 mln for 2018)  
 Capital adequacy ratio — 131.5% (85.1% in 2018)  
 Liquidity coverage ratio LCR (all currencies) — 269% (197% in 2018).

### *Financial results*

(In UAH thousand)	2019	2018	Deviation, UAH thousand	Deviation, %
Income interest	301,075	278,161	22,914	8.2%
Interest expense	(165,070)	(141,760)	(23,310)	16.4%
<b>Net interest income</b>	<b>136,005</b>	<b>136,401</b>	<b>(396)</b>	<b>-0.3%</b>
Expected credit loss result	2,085	(2,389)	4,474	-187.3%
<b>Net interest income after allowance for impairment</b>	<b>138,090</b>	<b>134,012</b>	<b>4,078</b>	<b>3.0%</b>
Net fee and commission income	17,991	18,165	(174)	-1.0%
Net trading income	9,674	7,454	2,220	29.8%
Other operating income	852	0	852	n/a*
<b>Total non-interest income</b>	<b>28,517</b>	<b>25,619</b>	<b>2,898</b>	<b>11.3%</b>
Staff costs	(48,328)	(47,421)	(907)	1.9%
Other administrative and operating expense	(60,150)	(58,056)	(2,094)	3.6%
<b>Total non-interest expense</b>	<b>(108,478)</b>	<b>(105,477)</b>	<b>(3,001)</b>	<b>2.8%</b>
<b>Profit before tax</b>	<b>58,129</b>	<b>54,154</b>	<b>3,975</b>	<b>7.3%</b>
Income tax expense	(13,437)	(11,867)	(1,570)	13.2%
<b>Profit for the year</b>	<b>44,692</b>	<b>42,287</b>	<b>2,405</b>	<b>5.7%</b>

\* n/a — not applicable

Due to customer base development, and, respectively, to increase of resources available for investment, the Bank has ramped up the interest income by UAH 22.9 mln or by 8.2% in 2019.

In the meantime, increased competition in the market entailed growth in the ratio of term deposits at the clients' accounts and, respectively, rise in interest expenses by 16.4% or UAH 23.3 mln.

Due to faster interest expense growth compared to interest income growth net interest income has shown a slight decrease by UAH 0.4 mln or by 0.3%.

The Bank has disbanded the allowance for expected credit losses in amount of UAH 2.1 mln being primarily caused by significant decrease in the amount of credits provided to the borrowers. At the year end 2019, such credits constituted UAH 475 mln, compared to UAH 1,849 mln at the year end 2018.

The net fee and commission income did not change significantly. In 2019, it went down by UAH 0.2 mln or by 1.0%.

Net trading income increased by UAH 2.2 mln or 29.8% — mainly at the expense of rise in currency exchange



volumes.

In 2019, the staff costs have grown by UAH 0.9 mln or by 1.9%. Major factor of this was salary rise due to high competition at the personnel market.

The administrative and other operating expenses have grown by UAH 2.1 mln or by 3.6%. The largest increase by UAH 5.0 mln has occurred in IT costs due to significantly higher amounts of intra-group IT costs allocation. Meanwhile, there was a significant cut down in costs for fixed assets leasing and maintenance — by UAH 2.0 mln, as well as expenses for consulting, legal and other professional services — by UAH 1.9 mln.

Thus, increase in non-interest income was offset by increase in non-interest expenses whereas disbanding of allowance for expected credit losses has brought to raise of profit before tax by UAH 4.0 mln or by 7.3%.

Thanks to growth of the tax base and of the efficient income tax rate from 21.9% in 2018 to 23.1% in 2019, the tax rate increased by UAH 1.6 mln or by 13.2%.

As a result, the Bank's net income for 2019 has increased by UAH 2.4 mln or by 5.7% compared to 2018.

### Balance Sheet

(In UAH thousand)	31 December 2019	31 December 2018	Deviation, UAH thousand	Deviation, %
<b>Assets:</b>				
Cash funds and funds in NBU	1,752,218	726,361	1,025,857	141.2%
Funds in other banks	479,610	928,521	(448,911)	-48.3%
Loans and debts from customers	475,450	1,848,792	(1,373,342)	-74.3%
Accounts payable on current income tax	0	10	(10)	-100%
Deferred tax asset	1,087	1,278	(191)	-14.9%
Fixed assets	37,150	11,514	25,636	222.7%
Intangible assets	1,400	554	846	152.7%
Other assets	1,440	2,909	(1,469)	-50.5%
<b>Total assets</b>	<b>2,748,355</b>	<b>3,519,939</b>	<b>(771,584)</b>	<b>-21.9%</b>
<b>Liabilities and equity:</b>				
Customer accounts	2,328,163	3,132,954	(804,791)	-25.7%
Liabilities for current income tax	2,286	3,937	(1,651)	-41.9%
Provision for off-balance sheet liabilities	110	54	56	103.7%
Leasing obligations	26,243	0	26,243	n/a*
Other liabilities	21,511	17,471	4,040	23.1%
<b>Total liabilities</b>	<b>2,378,313</b>	<b>3,154,416</b>	<b>(776,103)</b>	<b>-24.6%</b>
Share capital	301,839	301,839	0	0.0%
Retained earnings and other reserves	68,204	63,684	4,519	7.1%
<b>Total shareholder's equity</b>	<b>370,042</b>	<b>365,523</b>	<b>4,519</b>	<b>1.2%</b>
<b>Total liabilities and shareholder's equity</b>	<b>2,748,355</b>	<b>3,519,939</b>	<b>(771,584)</b>	<b>-21.9%</b>

By the end of 2019, the Bank's balance has decreased by UAH 771.6 mln or by 21.9% compared to 2018. Such reduction has occurred mainly due to outflow of short-term deposits attracted by the Bank in the end of 2018.

Significant decrease of demand for corporate loans as of December 31, 2019 by UAH 1,373.3 mln or by 74.3% has lead to redirection of liquid assets in hryvnia into cash funds and in funds in NBU which have grown by UAH 1,025.9 mln or by 141.2% respectively.

Funds in other banks are presented by balances on nostro accounts and cash cover of trade financing transactions. Due to termination of part of contracts with trade finance raising, the cash cover has been used to pay out the credit obligations and funds in other banks have decreased by UAH 448,9 mln or by 48,3%.

Starting from 2019, with IFRS 16 coming into effect, the Bank began to recognise the long term lease agreements in the balance sheet, which resulted in the correspondent rise of the Fixed Assets item and occurrence of a new type of obligation, leasing obligation.

The Bank Capital growth was immaterial — by UAH 4.5 mln or by 1.2%. The dividend pay-out for 2018 in amount of UAH 40.2 mln has been countered at the expense of profit generation in current year of 2019.

## **Economic environment**

### ***External economic environment***

According to the National Bank of Ukraine's inflation report (January 2020), there have been signs of business and world trade revival at the end of 2019. Main reasons for that were energisation of trade negotiations between the USA and China and anticipated signing of the trade agreement between the countries.

The optimistic expectations of market players as of the end of 2019 backed the prices at world commodity markets. The investors' interest in financial assets of emerging countries persisted on the background of mild financial conditions.

In October 2019, the USA has suspended the surcharges on Chinese import which in return resulted in partial restoration of the American agricultural produce purchases by China. Negotiation process step-up and statements of both countries' high-ranking officials had encouraged the optimism in respect of possible signing of the trade agreement between the USA and China which realized at the beginning of 2020. Consequently, the business confidence indicator started to grow.

Risk premiums for sovereign borrowers continued to fall in the Q4 2019. In the meantime, the yield of sovereign obligations remained attractive which contributed to significant capital inflow to the assets of the emerging countries.

However, the beginning of 2020 has hit the world with significant geopolitical and social events: escalation in the Middle East and drastic expansion of the atypical pneumonia (coronavirus disease) in China and further globally. The latter has provoked panic in the stock markets due to potential more significant business activity slow down throughout the world. Estimating the scale and duration of the pandemic impact on the world economy currently seems impossible.

### ***Balance of payments***

In 2019, the current account deficit has narrowed significantly at the account of both fundamental and one-off factors. Despite the Ukrainian hryvnia strengthening and the largest in the last five years volume of gas purchase, the trade in products deficit has increased only slightly in absolute terms due to better conditions of trade and increased economy productivity; at the same time, it has decreased in relation to GDP.

Further increase of inflow of labour remuneration from abroad, lower amounts of dividend pay-out and the extended surplus from trade in services has contributed to the reduction of the negative current account balance.

The deficit of the trade in products in absolute terms after the deduction of temporary effect from the clearing of earlier imported vehicles with foreign registration has just slightly surpassed the last year level, despite significant purchases of energy products and high internal demand.

The yearly export of products has increased by 6.4%, initially due to increase in agricultural sector which overweighted the worsening of price conditions for exporters. Increased demand for food products on the side of China, driven by its trade confrontation with the US has become an extra factor of the export ramp-up. As a result of this, for the first time in history, China has become the largest trade partner of Ukraine, having gone on ahead of Russia, Germany and Poland.

Significant fall in energy prices has entailed the lowering of energy import cost for 2019 despite the largest for the last five years gas purchase volumes. Besides, lower world prices have affected the cost of chemical industry products, that has caused the slowdown of import growth in the second half of the year. In general, due to a deeper fall in world prices for goods prevailing in Ukrainian import compared to the exported goods prices, the trading conditions for Ukraine in total has bettered.

Instead, non-energy import grew at a stable pace during the year, backed by high investment and consumer demand. Import of new and used cars grew at high rates and, according to the results of the year, has hit record high. The investment import has grown up by 12 percentage points in general for the year.

Despite the Ukrainian hryvnia strengthening and steady internal demand, the import of consumer goods, as in previous year, rose at a stable pace (by 20 percentage points) during the year.

During 2019, the financial account showed the inflow of capital, primarily, the debt capital. High non-residents' demand for hryvnia T-bills ensured capital inflow to the state sector.

In 2019, the net inflow of direct foreign investment (DFI) has constituted \$ 2.5 bln. The inflow of DFI to Ukraine constituted \$3.2 bln whereas \$0.7 bln has been invested out of Ukraine. Wholesale and retail trade, as well as real estate transactions remained the main recipient industries of direct foreign investment; in the year-end, the investments in the mining industry grew significantly.

Net liquidity balance surplus favoured to an essential ramp-up of international reserves, particularly in the year-end. At the year-end, the reserves have reached the seven-year maximum of \$25.3 bln or 3.8 months of the future imports. The increase occurred at the account of net international reserves which strengthens Ukraine's international position.

### ***Banking sector***

According to the banking sector review (February 2020) prepared by the National Bank of Ukraine, 2019 was a successful year with several historical records hit. The banking sector profit for 2019 was 2.7 times higher than in 2018 and amounted to UAH 59.6 bln. Return on capital in the sector has reached 34%. This became possible due to both sharp rise in operating income and the lowest deductions to provisions for assets. Last year, due to inflation slowing, the NBU's key interest rate lowering cycle has been initiated. Commercial rates for deposits and loans in hryvnia also started dropping. At the same time, the rates for deposits and loans in foreign currency for corporate borrowers in 2019 have been already the lowest in history. However, this did not contribute to the banks' foreign currency loan portfolio which evidences the lack of high-quality borrowers.

During 2019, the number of solvent banks has reduced to 75. The share of state-owned banks' assets increased by 1.0 percentage point to 55.2%; the share of deposits from individuals has diminished by 1.0 percentage point to 61.6%. Both private and foreign bank groups have increased share of retail deposits by 0.5 percentage points each.

At the beginning of 2020, the bank system perspectives looked quite optimistically. However, the COVID pandemic that swept through the world in early March 2020 and caused total unloading of financial assets at the background of significant worsening of the world economy, has fully negated the positive expectations for 2020. At the moment, a significant degree of uncertainty regarding the scale and the time frame of potential economy shrinking is observed.

## Bank Development Strategy

The Bank's activity in the Ukrainian market plays an important part for Deutsche Bank Group, creating a point of presence in Eastern Europe. The Bank has its competitive advantages, which allow it to forecast sustainable development and achievement of positive financial performance.

According to the Bank's strategy, its main goal is to use the existing opportunities in order to grow in the domestic market, develop deep long-term relationships with clients, and assist them in using the full range of services and benefits offered by Deutsche Bank Group.

Due to coronavirus epidemics and its impact on the global economy, the Bank is currently assessing the need to review its strategy. As of early 2020 it remained unchanged and was based on five main trends, which largely shape the economic environment and banking market.

### 1. Domestic Market Recovery

The Ukrainian market is recovering through:

- Changing the inherited business culture
- Creating new markets
- Offering an updated range of products
- Evolving from the tied-up one to a reliable target market of FDI
- Occupying advantageous ground in the close proximity of the Western European markets
- Having the developed infrastructure
- Having the dynamic labour market
- Having the cleared financial market
- Having the prospect of sustainable economic growth under the EU Association Agreement.

**Strategic goal:** to increase the market share of international corporations and engagement of the Bank into work with leading domestic companies.

### 2. Digital Revolution

By the pace of IT technology, the Ukrainian market is often ahead of other more developed Western markets. The introduction of IT technology enables the Bank to provide clients with more convenient and efficient solutions and, as a result, increase the number of clients at the lowest cost.

**Strategic goal:** to accelerate the IT product introduction.

### 3. Regional Communication Enhancement

Despite the growth of anti-globalization sentiments in some countries, the mid-term perspective shows 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. As part of Deutsche Bank Group, we have unique opportunities to capitalise on the momentum using our extensive experience in international markets.

**Strategic goal:** to use the benefits of Deutsche Bank Group.

#### 4. Financial Market Strengthening and Regulatory Framework Development

Bank customers are searching for innovative solutions for international financing, cash flow management and investment, as well as local hedging tools for more effective risk management. Along with the increasing complexity of the financial services sector, the regulations on risk management and ongoing reforms by the Government and the National Bank of Ukraine lead to a steady development of local financial markets.

**Strategic goal:** to strengthen market opportunities through the introduction of new products and their proper market positioning.

#### 5. Inherent Risks

The Bank applies the natural growth strategy, given the risks inherent in banking activities, such as credit risk, market risk, foreign exchange risk, interest rate risk, liquidity risk, reputation risk, etc. The Bank has a transparent and clear risk management system and adheres to the established risk limits. Strong financial position allows it to use the local market capabilities with continuous monitoring of potential threats. The Bank takes into account external risk factors and ensures maximum readiness to them. These include macro- and geopolitical changes in Ukraine and the world, lower business profitability, and incidents related to the use of new technology.

**Strategic goal:** to reduce credit losses to zero, control risk level, and to comply with all the regulations.

The Bank constantly monitors the goals and objectives, analyses the status of their implementation, works on error correction and improvement of services. The Bank's clients include large corporations headquartered in Europe, America and the Middle East or operating/investing in these regions. Significant local presence in these markets allows the Bank to meet international clients' needs in trading activity financing, cash management, and provision of working capital, taking into account the special features of domestic markets.

The Bank's priorities are as follows:

- To ensure sustainable growth through understanding of customer development plans, providing reliable advice, and building leadership in current solutions.
- To administer the balance sheet to increase profitability of operating activities while constantly monitoring potential risks.
- To increase efficiency, introduce innovation to expand consumer experience.

## 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 2019 fiscal year is as follows:

- Fixed part – UAH 10.8 million
- Variable part – UAH 0.7 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".

In 2016, 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 2019, 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 fixed compensation in 2019.

The total payments to the members of the Supervisory Board in 2019 amounted to UAH 4.0 million. They were paid on a quarterly basis. The total cost of the Supervisory Board amounted to UAH 4.5 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;
- 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 31.12.2019:

Type of asset	Credit exposure, UAH thousands
Nostro accounts	302
Corporate loans	136
Off-balance-sheet financial liabilities	110
Financial accounts receivable	61
Accounts receivable from the Bank's commercial operations	33
<b>Total</b>	<b>642</b>

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 31.12.2019:

Type of asset	Credit exposure, UAH thousands
Nostro accounts	23,516
Corporate loans	4,755
Off-balance-sheet financial liabilities	556
Financial accounts receivable	75
Accounts receivable from the Bank's commercial operations	373
<b>Total</b>	<b>29,275</b>

### 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 31.12.2019:

Risk index	Limit, EUR thousands	Actual risk size, EUR thousands	Utilisation, %
<u>Interest rate risk</u>			
Net sensitivity	10	7.33	73%
Stress	5,000	2,747	55%
<u>Foreign exchange risk</u>			
VaR	3	0.08	3%
Stress VaR	15	0.42	3%
IR Delta	3	0	0%
FX Delta	50	4.48	14%
Total foreign exchange position	35	78	8%
Stress	17	27	5%

### 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 31.12.2019:

Term	Limit, UAH thousands	Actual position, UAH thousands
Overnight	-100,000	677,782
week	-100,000	633,172
month 1	-100,000	808,372

## 2. Liquidity coverage ratio — LCR.

Actual arithmetic average of the ratio as at 31.12.2019:

- for all currencies — 269%
- for foreign currencies — 261%

## 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 2019

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 8 thou. The Bank's risk appetite for 2019 is EUR 8 thou which is the average between the global tolerance and historical losses.

Actual risk appetite at the year-end:

Operational risk appetite for 2019, EUR		Q1	Q2	Q3	Q4
Year level	8,000	-	58	4,825	21,412
Quarter level	2,000	-	58	4,767	16,587

At the year-end, the Bank has exceeded the risk appetite by EUR 13 thousands. This exceeding has been escalated to the level of the risk management system subjects in accordance with the Bank's internal documents.

#### 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.

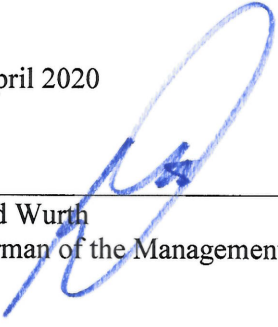


- Managers of departments where violations were identified must timely take measures to eliminate such violations.

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.

14 April 2020



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Bernd Wurth  
Chairman of the Management Board