Insights into our sustainable finance governance and processes

#PositiveImpact

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Head of Group Sustainability

March 2, 2023
Group Sustainability is part of Chief Sustainability Office

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<th>Strategy and Regional Governance</th>
<th>Group Sustainability</th>
<th>Execution, Data and Regulatory</th>
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<td>ESG Transparency</td>
<td>ES Due Diligence(^1) and Sustainable Finance Classification</td>
<td>Frameworks and Policies</td>
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<tr>
<td></td>
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<td>Human Rights</td>
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- Establishes bank-wide standards and processes for environmental and social sustainability including Human Rights
- Oversees adherence to the standards
- Works on enhancing transparent reporting on sustainability management incl. with ESG ratings
- Engages with various internal and external stakeholders

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\(^1\) Environmental and Social Due Diligence
Group Sustainability is DB’s central standard setter

**Sustainable finance**
- We established the Sustainable Finance Framework\(^1\) and received a Second Party Opinion by ISS ESG\(^2\).
- We regularly review and update the Framework. Next update and the renewal of the Second Party Opinion are scheduled to go live ahead of DB’s annual general meeting in May 2023.

**Environmental and social due diligence**
- Well established environmental and social due diligence requirements.
- We regularly review and update these requirements; a summary (the ES Policy Framework\(^6\)) is available online.
- We communicate material advancements, such as for the coal and oil & gas sectors.

**Description**
- We established the Sustainable Finance Framework\(^1\) and received a Second Party Opinion by ISS ESG\(^2\).
- We regularly review and update the Framework. Next update and the renewal of the Second Party Opinion are scheduled to go live ahead of DB’s annual general meeting in May 2023.

**Methodology**
- We established classification criteria following the EU Taxonomy\(^3\) and international standards, such as the ones set up by ICMA\(^4\) and LMA\(^5\).
- We focus on economic activities material to our business and apply a case-by-case approach to allow and capture new, innovative developments.
- While classifying financial products and services we consider the contribution to the Sustainable Development Goals of the United Nations.

- We establish our requirements following a risk-based approach.
- We focus on sectors and geographies with elevated environmental and social challenges and material to Deutsche Bank’s business.
- We embed cross-sectoral (e.g., on human rights) and sector specific (e.g., oil & gas, mining, agriculture) provisions.
- We disclose our progress annually.

The frameworks are complementary, closely interlinked and the adherence is under the oversight of Group Sustainability.

1) Sustainable Finance Framework  
2) Institutional Shareholder Services group of companies  
3) EU Taxonomy  
4) International Capital Markets Association  
5) Loan Market Association  
6) Environmental and Social Policy Framework

Deutsche Bank  
Chief Sustainability Office
Sustainable Finance
The global taxonomy landscape is a patchwork

North American Taxonomies
- In use: 0
- In development: 3

South American Taxonomies
- In use: 1
- In development: 2

Asian Taxonomies
- In use: 9
- In development: 7

European Taxonomies
- In use: 1
- In development: 2

African Taxonomies
- In use: 1
- In development: 0

Oceanian Taxonomies
- In use: 0
- In development: 2

Varying objectives
- Environmental / green taxonomies
- Social taxonomies
- Transition taxonomies
- Sustainable taxonomies

Different eligibility approaches
- “Technical screening criteria” approach (EU Taxonomy)
- “Whitelist” approach (Chinese Taxonomy)
- “Principles based” approach (Japanese Taxonomy)

Heterogeneous Sustainable Finance taxonomy landscape, challenging alignment efforts

Source: Desk research as of December 2022
Our answer: one DB framework applied globally

Deutsche Bank’s Sustainable Finance Framework

- While the EU Taxonomy covers climate objectives only, our framework is much broader and includes a variety of environmental and social objectives:
  - 50 economic activities covered under Environmental ("E") pillar
  - 149 criteria defined for the "E" pillar
  - 56 out of the 149 criteria with quantitative thresholds
  - 7 socially eligible categories of activities captured
- Classification criteria for climate objectives are aligned on a best effort basis with the EU Taxonomy but remain flexible considering commonly used international standards
- Multiple environmental objectives beyond climate are supported by the Framework
- Social classification follows a principle-based approach
- Classification criteria applied are independently validated by ISS ESG. The next renewal of the Second Party Opinion is in progress and scheduled to go live ahead of our annual general meeting in May 2023

Sustainable Finance Framework is applied consistently across all regions, with the aim to ensure global compliance and process adherence amidst a rapidly evolving regulatory landscape.
Our framework covers environmental and social criteria

<table>
<thead>
<tr>
<th><strong>Environmental impact</strong></th>
<th><strong>Social impact</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td><strong>Affordable basic infrastructure</strong></td>
</tr>
<tr>
<td>Low carbon and high energy efficiency technologies, cement, aluminium, plastics, chemicals, iron and steel</td>
<td>Access to clean energy, water, sanitation and transport; development of telecommunication infrastructure</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td><strong>Access to essential services</strong></td>
</tr>
<tr>
<td>Production, transmission, storage of renewable energy (e.g. solar, wind, ocean, geothermal) and low-carbon gas combustion, bioenergy, incl. cogeneration heat / cooling</td>
<td>Improved access / affordability of healthcare and education; non-discriminating, inclusive access for all</td>
</tr>
<tr>
<td><strong>Water and waste</strong></td>
<td><strong>Affordable housing</strong></td>
</tr>
<tr>
<td>Energy-efficient water storage, treatment, distribution, bio waste, water recycling / reuse and material recovery, gas, ( \text{CO}_2 ) and other emission management</td>
<td>Building affordable or improved housing</td>
</tr>
<tr>
<td><strong>Real estate</strong></td>
<td><strong>Employment generation</strong></td>
</tr>
<tr>
<td>Construction, renovation, acquisition of energy efficient residential and commercial buildings, products and systems for energy efficiency</td>
<td>Prevention of unemployment stemming from socio-economic crises</td>
</tr>
<tr>
<td><strong>Transportation and storage</strong></td>
<td><strong>Small and medium entity financing and microfinance</strong></td>
</tr>
<tr>
<td>Private, public and freight transport on rail, road and inland water: zero tailpipe emission / electric / hydrogen, infrastructure for low carbon transport</td>
<td>Equal access to banking, financial advisory and other resources; overall socio-economic advancement</td>
</tr>
<tr>
<td><strong>Information and Communication Technology (ICT)</strong></td>
<td><strong>Food security</strong></td>
</tr>
<tr>
<td>Data infrastructure, ICT for climate change</td>
<td>Enhancement of agricultural productivity; extension of sustainable farming practices and land use</td>
</tr>
<tr>
<td><strong>Agriculture and forestry</strong></td>
<td><strong>Socio-economic advancement and empowerment</strong></td>
</tr>
<tr>
<td>Maintaining and improving carbon storage through crop cultivation and forestry with sustainable management practices</td>
<td>Overall socio-economic advancement of socially disadvantaged groups</td>
</tr>
</tbody>
</table>

Our dynamic Sustainable Finance Framework is broad in scope and updated regularly to remain consistent with the latest market developments.
Recent updates on our sustainable finance framework

149 Classification criteria reviewed and externally re-evaluated, also in reflection of the most recent version of the EU Taxonomy

23 Economic activities clarified e.g., hydrogen manufacturing, sea and coastal water transport and basic organic chemicals

11 Reporting categories updated and will be published clarifying the reporting methodology we apply to disclose progress against our sustainable finance volumes

9 Products classified as sustainable and added as product overview disclosure to the Framework

1 Sustainable Finance Training launched on DB’s Connect-To-Learn platform for client-facing employees across all business divisions

14 Sustainable finance topics resolved within the established Sustainable Finance Governance Forum

Robust governance processes have been put in place for sustainable finance classification and reporting, including regular training of our client-facing employees
Four-step sustainable finance classification process

1. **Sustainability strategy**
   - **Review** the client’s sustainability profile, objectives and targets

2. **Client dialogue**
   - **Evaluate** through structured client dialog how Deutsche Bank might support clients’ sustainability strategy

3. **Framework adherence**
   - **Ensure** that product / transaction adheres to one of three parameters of DB’s Sustainable Finance Framework:
     - **Parameter 1**: Sustainable use-of-proceeds
     - **Parameter 2**: Sustainable business model
     - **Parameter 3**: Sustainability-linked solutions

4. **External reporting**
   - **Report** eligible transactions as part of the sustainable finance volume
Example: sustainability-linked supply chain finance

Sustainability strategy

**Henkel** is an MSCI AAA-rated company with a publicly articulated *sustainability strategy* “2030+ Sustainability Ambition Framework.” As part of Henkel’s strategy, the company *commits to 100% responsible sourcing* together with their partners.

Client dialogue

Focus of the dialogue between Deutsche Bank and Henkel lies in understanding the challenges and main screening processes in Henkel’s supply chain – where ESG ratings are already used to screen select suppliers – and advising on incentives to improve suppliers’ ESG ratings and transparency.

Framework adherence

A structure has been developed which *links the supply chain financing to the ESG performance of Henkel suppliers with an EcoVadis rating*, thereby incentivizing a more sustainable supply chain. The structure is part of Deutsche Bank's Parameter 3.

External reporting

ESG Rating assessments are available on the platform of the respective ESG Rating provider. The structure contributes to Deutsche Bank’s sustainable finance volumes.

The role of Group Sustainability

- Supporting the business structuring team in conducting a review of client’s existing supply chain screening processes
- Supporting the business structuring team and the client in analysing the ESG rating requirements to ensure a holistic and reliable assessment by a recognized provider
- Engaging with the ESG rating provider on their methodology to ensure its suitability to the diverse supplier base
- Advising the business structuring team and the client on effective in-built requirements of the sustainability-linked supply chain finance product to ensure sufficient incentives for suppliers’ continuous ESG rating and performance improvement
- Review the transaction with regards to its contribution to Sustainable Development Goals (SDGs). In this case, it relates to SDG 12 - Responsible Consumption and Production

Parameter 3

Sustainability-linked solutions
Sustainability-linked KPIs for Henkel’s supply chain defined
Key outcomes of Group Sustainability review

<table>
<thead>
<tr>
<th>Year</th>
<th>Accepted transactions</th>
<th>Rejected transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>983</td>
<td>53</td>
</tr>
<tr>
<td>2022</td>
<td>722</td>
<td>163</td>
</tr>
</tbody>
</table>

Sustainable finance transactions, split in P1, P2 and P3

<table>
<thead>
<tr>
<th>Year</th>
<th>P1 - Sustainable use-of-proceeds</th>
<th>P2 - Sustainable company profile</th>
<th>P3 - Sustainability-linked</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>606</td>
<td>73</td>
<td>304</td>
</tr>
<tr>
<td>2022</td>
<td>472</td>
<td>70</td>
<td>180</td>
</tr>
</tbody>
</table>

Increase in number of rejected transactions reflects growth of opportunities in economic activities with less well-defined standards and definitions

Note: Sustainable financing and investment activities as defined in DB’s Sustainable Finance Framework and related documents, which are published on our website.
Environmental and Social Due Diligence
Navigating a complex due diligence landscape

1. Our internal Environmental & Social policies...
   - Introduced in 2011 and based on our commitment to conduct business responsibly
   - Self-regulation in alignment with best practices in the financial industry
   - Social is emphasized by public Human Rights Statement
   - Embedded in our Code of Conduct
   - Implemented following robust internal governance

2. ...are built on international standards and principles...
   - UN\(^1\) Global Compact: DB provides annual progress report
   - OECD\(^2\) Guidelines for Multinational Enterprises and underlying responsible business guidelines: DB joined the Advisory Group
   - UN Guiding Principles for Business and Human Rights: DB joined the Thun Group of banks
   - IFC\(^3\) Performance Standards: DB has access to learning community
   - Equator Principles: DB provides annual progress report

3. ...and will help us to adapt to more regulation on the horizon.
   - EU Taxonomy and embedded DNSH\(^4\) and MSS\(^5\)
   - Corporate Sustainability Reporting Directive
   - ECB\(^6\) Guide on Climate-Related and Environmental Risks
   - ECB thematic review and good practices compendium
   - Modern Slavery Act United Kingdom and German Supply Chain Act
   - Corporate Social Due Diligence Directive

Ongoing enhancements of our long-standing self-imposed environmental and social standards will help us to cope with immature, but quickly developing regulatory landscape

# Environmental and social requirements applied

## Cross-sectoral topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human rights</td>
<td>No engagement in business activities where DB has substantiated evidence of material adverse human rights impacts without appropriate mitigation e.g., child and forced labor</td>
</tr>
<tr>
<td>Deforestation</td>
<td>No direct involvement in deforestation of primary tropical forests</td>
</tr>
<tr>
<td>World heritage sites</td>
<td>No activity within or close proximity to World Heritage Sites, unless the respective government agrees that an operation would not adversely affect the sites outstanding universal value</td>
</tr>
</tbody>
</table>

## Industrial agriculture and forestry sector topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft commodities</td>
<td>Expectations around certification and ES(^1) management schemes for e.g. soy, beef, timber</td>
</tr>
<tr>
<td>Palm oil</td>
<td>Minimum requirements of time-bound plan for RSPO(^2) certification by latest 2025</td>
</tr>
</tbody>
</table>

## Fossil fuels and utilities sector topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>ES DD(^3) requirements; exclusions possible based on DD outcome</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>ES DD requirements; prohibitions relates to oil sands, hydraulic fracturing in extremely high water stress areas and Arctic</td>
</tr>
<tr>
<td>Thermal coal</td>
<td>Exclusion for financing of new thermal coal mining projects and new coal power plants incl. associated infrastructure. Transition plans required for companies in scope of the policy incl. phase-out from thermal coal for companies in OECD countries by 2030 and for companies in non-OECD countries by 2040</td>
</tr>
<tr>
<td>Nuclear and hydro</td>
<td>ES DD requirements; exclusions possible based on DD outcome</td>
</tr>
</tbody>
</table>

## Defense, adult entertainment, gaming industry sector topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controversial weapons</td>
<td>Full exclusion of Anti-Personnel Landmines, Cluster Munitions, Chemical, Biological, Radiological and Nuclear weapons</td>
</tr>
</tbody>
</table>
| Adult entertainment and gaming industry | ES DD requirements; exclusions possible based on DD outcome  
Exclusion of any business associated with adult entertainment  
Exclusion of online gambling B2C\(^4\) operators with exposure to markets where gambling is prohibited |
Environmental and social due diligence process

Transactions and clients that are subject to enhanced Environmental and Social Due Diligence based on our Environmental and Social Policy Framework follow a regular due diligence process with the following steps:

**Environmental and social management**
- **Evaluate** client's approach to managing environmental and social issues given its sectoral and geographic risks exposure; assess using international standards such as Equator Principles or industry specific standards

**Client dialogue / stakeholder dialogue**
- **Understand** potential stakeholders' concerns
- **Enhance** internal due diligence process by engaging with clients and directly discussing topics and concerns

**Setting terms and conditions**
- **Define** contractual details and post-closure monitoring approach

**Escalation of cases with moderate and high-risk profile to the reputational risk process**

**Binding decision**
- **Decide** on whether transaction can be executed under environmental and social considerations
Environmental and social due diligence – key facts

1) Environmental and Social Due Diligence
2) 2021: Out of 317 referrals, 248 were closed. 2022: Out of 461 referrals, 403 were closed, remaining ones are still in the review process

Overall growth in ES due diligence referrals driven by recovery of economies after Covid pandemic, in particular with increase of transactions for review in metals and mining sector driven by growing demand for metals
## Outlook

### Sustainable finance

- Expansion of **DB Green Financing Framework** to embed **social criteria**
- Regular update of **Sustainable Finance Framework** ahead of annual general meeting

### Environmental and social due diligence

- Review of **Oil and Gas policy**
- Review of **nature related policy requirements** with focus on ocean and forest protection

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Our environmental and social due diligence requirements as well as sustainable finance classification criteria are under ongoing review and are being amended in line with recent developments.
Key takeaways

- Processes for environmental and social due diligence and sustainable finance classification are well established.

- Active dialog to support clients on their transition pathways remains key component for both processes, due diligence and sustainable finance classification.

- With taxonomy landscape remaining fragmented, Deutsche Bank will continue to adapt its Sustainable Finance Framework to respond to clients’ needs globally.
Viktoriya has been Head of Group Sustainability at Deutsche Bank since November 2016. She joined the bank in 2010 and Group Sustainability in 2012.

Viktoriya is the Deutsche Bank representative for various international initiatives on Sustainability, including the Banking Environment Initiative convened by the Cambridge Institute for Sustainability Leadership; the Corporate Responsibility and Sustainability Council of the international Conference Board; and the Sustainable Business Roundtable at the European School of Management & Technology.

Before joining Deutsche Bank, Viktoriya was a Senior Advisor in the Financial Services Risk Management division at Ernst & Young. There, she worked with clients in the financial sector on the implementation of capital requirements under Solvency Regulation and Minimum Requirements for Risk Management.

Viktoriya holds a Master’s degree in Economics, with a minor in Finance, from Goethe-University in Frankfurt, Germany, as well as a Master’s degree in French, German and English from the State Linguistic Institute, Ukraine.
Disclaimer

There are currently no uniform criteria nor a common market standard for the assessment and classification of financial services and financial products as sustainable or green. This can lead to different parties assessing the sustainability of financial services and financial products differently. In addition, there are various new regulations on ESG (environment, social, and corporate governance) and sustainable finance, which need to be substantiated, and further draft legislation is currently being developed, which may lead to financial services and financial products currently classified as sustainable or green not meeting future legal requirements for qualification as sustainable. Harmonized standards and calculation methods are expected to be developed and will also improve data quality.

The transition to a sustainable economy is a long-term undertaking. In its current stage, we are confronted with the limited availability of reliable data, esp. climate related data. It is inevitable to use estimates and models until improved data will become available. Our expectations on the increase of data quality are based on reporting obligations as currently developed. New regulations on reporting will likely become effective in the coming years.

This presentation includes metrics that are subject to measurement uncertainties resulting from limitations inherent in the underlying data and methods used for determining such metrics. The selection of different but acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary. The information set forth herein is expressed as of end of December 2022 and we reserve the right to update its measurement techniques and methodologies in the future.

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