Deutsche Bank
Aktiengesellschaft

Inclusion of sustainability risks in the scope of investment advice, financial portfolio management and insurance advice

1 May 2024 (supersedes the statement dated 10 March 2021)

Introduction / Summary

On March 10, 2021 the Regulation (EU) 2019/2088 of November 27, 2019 on sustainability-related disclosures in the financial sector (Disclosure Regulation) has entered into force. This regulation aims to support sustainable investments by requiring financial market participants and financial advisers to disclose information regarding sustainability risks to investors and clients.

Article 3 of this regulation requires information to be shared with regard to the integration of sustainability risks within investment decision-making processes and investment advice. The approach taken by Deutsche Bank AG is further detailed below.

Deutsche Bank AG applies an overarching approach to the management of sustainability that is set out in a number of group level policies and procedures. These delineates our main sustainability principles as well as the key requirements and responsibilities in connection with sustainability-related enquiries, non-financial sustainability reporting and ratings, environmental and social due diligence in the context of reputational risk management, and, together with relevant risk frameworks and broader commitments, provides relevant context regarding the Bank's view on sustainability topics.

The following sections set out how the bank manages sustainability risks in investment decisions-making and advisory processes.

Definition of sustainability risks

Sustainability risks ("ESG risks") are designated as incidents or conditions in the areas of the Environment, Social or Corporate Governance, whose occurrence could have actual or potential significantly negative effects on the value of the investment. These risks can occur both separately and cumula- tively; they can affect individual companies or also entire sectors/branches or regions and can have very different characteristics.

The following examples can help to clarify sustainability risks:

— As a result of the occurrence of extreme weather events as a consequence of climate change (known as physical risks), for example, production locations of individual companies or entire regions can be impaired or destroyed, leading to production stoppages, rising costs to restore the production locations, and higher insurance costs. Furthermore, extreme weather events as a consequence of climate change, such as long periods of low water during droughts, can impair the transport of goods or even make it impossible.

— There are also risks in connection with the changeover to a low-carbon economy (known as transition risks): for example, political measures can lead to fossil fuels becoming more expensive and/or scarcer (examples: fossil-fuel phase-out, CO_2 tax) or to high investment costs as a result of requirements to renovate buildings and plant. New technologies can displace familiar technologies (for example electric mobility), and changes in customer preferences and expectations in society can endanger companies' business models if they do not react in time and take counter measures (by adjusting their business model, for example).

— A substantial increase in physical risks would require a more abrupt changeover in the economy, which in turn would lead to higher transition risks.

— Social risks arise from aspects such as non-compliance with labour law standards (for example, child labour and forced labour) and compliance with occupational health and safety regulations.

— Examples of risks that arise within the scope of corporate management due to inadequate corporate governance and that can lead to high fines include non-compliance with taxpayer honesty and corruption.

Sustainability risks affect the following traditional risks of investments in particular, and if they occur, could have a significantly negative effect on the yields of an investment:

— Sector risk
— Price change risk
— Issuer/Credit risk
— Dividend risk
— Liquidity risk
— Currency risk

Method of including sustainability risks for financial markets participants and financial advisors

In order to evaluate sustainability risks, Deutsche Bank AG uses information such as that from external service providers that have specialised in the qualitative evaluation of ESG factors.

Because sustainability risks can have different effects on individual companies, sectors, investment regions, currencies, and investment classes (for example, equities or bonds), when recommending financial instruments, the Bank follows the approach of diversifying investments as broadly as possible in order to reduce the effects of the occurrence of sustainability risks on the client´s portfolio. When selecting insurance products, Deutsche Bank AG is considering whether the insurance partners are ensuring a broad diversification of investments and are also taking into account sustainability risks, when investing client assets; this applies with regard to the security assets of the insurance partner as well as to rule based or managed fund investments. The Bank generally recommends distribution across a variety of investment classes in order to establish an individual client opportunity/risk profile. In addition, investment advice pursues a policy of a broad spread of investment classes in a variety of branches/sectors, investment regions and currencies.

In addition to diversification, for Financial Market Participants, sustainability risks are taken into account at various points in the investment process when making investment decisions

Inclusion of sustainability risks in the scope of investment advice, financial portfolio management and insurance advice (Continued)

1 May 2024 (supersedes the statement dated 10 March 2021)

within the framework of financial portfolio management. Sustainability risks are taken into account during the macro-economic consideration and development of market opinion, when allocating assets to individual investment strategies and when selecting individual financial instruments.