2017 Annual Report

Deutsche WertpapierService Bank AG

Key figures

		2017	2016
Operating business			
Clients	Number	1,344	1,420
Securities accounts	Number (millions)	4.8	5.0
Transactions	Number (millions)	24.4	22.7
Results			
Net fee and commission income	EUR thousand	222,435	222,107
Administrative expense	EUR thousand	204,657	208,169
Result from ordinary activities	EUR thousand	27,018	12,749
Net income for the financial year	EUR thousand	22,115	8,725
Total assets	EUR thousand	952,924	582,493

2017 Annual Report

Deutsche WertpapierService Bank AG

Ladies and gentlemen,

In financial year 2017, Deutsche Wertpapier-Service Bank AG (dwpbank) continued its successful development as a leading securities services provider in the German market. We assisted our clients' efforts to implement regulatory requirements and supported them with our service offering. The market environment in the financial sector remains challenging, with rising regulatory requirements, dwindling fee and commission income, and the growing importance of digitalisation. The persistently low interest rate environment also exposes the banks to increasing cost and earnings pressure. Against this background and as a proactive partner, dwpbank has aligned its service offering even more closely with its clients' business models, making the securities business more secure, efficient and cost-effective.

Markus Neukirch Member of the Board of Management | Dr. Heiko Beck Chairman of the Board of Management | Thomas Klanten Member of the Board of Management

And this has paid off: dwpbank generated very encouraging results for financial year 2017 in a market environment marked by profound change. The key figures again benefited from the volatile market environment in the securities business. The number of transactions processed rose by 7.5% year on year to 24.4 million. The number of end-client securities accounts managed as at the end of the year was 4.8 million, down somewhat as compared to the 5.0 million accounts managed as at the end of 2016. This illustrates that dwpbank was not spared from the general trend towards a reduction in the number of securities accounts in Germany. Earnings before taxes grew significantly, climbing by EUR 14.3 million to EUR 27.0 million in 2017. On the bottom line, net income for the financial year amounted to EUR 22.1 million against EUR 8.7 million in 2016. This is primarily attributable to the increase in transaction volumes on the securities market and strict cost management.

In 2017, we were again able to ease the burden on our clients in meeting a wide range of regulatory obligations, enabling them to focus on their core operations in an increasingly fierce competitive environment. Our work again focused on projects of major significance for the capital markets: implementing the requirements of the EU Markets in Financial Instruments Directive (MiFID II) and the corresponding regulation (MiFIR), the investment tax reform, and implementing the TARGET2-Securities market infrastructure project.

Since MiFID II was published in 2014, dwpbank has been working hard to implement it successfully to ensure that institutions across the three pillars of the German banking industry are optimally placed to meet the new investor protection requirements on time. In one of the largest projects ever undertaken at dwpbank, we were actively involved as a partner for legislators, supervisory authorities and industry associations, and were effective in implementing the regulatory requirements in the interests of our clients. There were challenges along the way but the outcome was a success: the requirements had to be analysed and implemented in parallel to an as-yet uncompleted legislative process, including the drafting of final regulatory technical standards. This required modifications to be made on an ongoing basis. On 3 January 2018 the time had come: dwpbank implemented the new MiFID II functionality on time for all 401 direct clients and a further 943 connected institutions.

TARGET2-Securities (TS2) was also launched successfully. On 6 February 2017, Deutsche Börse's Clearstream central securities depository was migrated to the European Central Bank's TARGET2-Securities settlement platform. This boosted the efficiency and security of clearing and settling cross-border securities transactions. In total, 20 central securities depositories and the markets they serve have now been migrated to T2S since it went live on 22 June 2015. The migration of the German market, which accounts for 40% of expected T2S transaction volume, was of particular significance.

In order to further improve the service offering for our clients, we have deepened our relationship with Clearstream and agreed a strategic partnership for securities clearing. This collaboration follows the successful launch of T2S. By partnering with one of the world's largest providers of clearing and custody services for domestic and foreign securities, our clients can now fully benefit from the T2S advantages that Clearstream offers.

In addition to embarking upon the strategic partnership with Clearstream, expanding our services and implementing regulatory requirements, we remain resolved to not rest on our laurels. With our "dwpbank Vision 2021" strategy, we are pursuing the goal of continuing to be the leading partner for developing and providing innovative services. The aim is to systematically expand our market position. Against this backdrop, we are focusing on systematically expanding our catalogue of services, establishing further standardised and automated process, and optimising our operations and IT units for securities services across the entire German financial market. To this end, we maintain a close and constructive dialogue with our clients.

Our new catalogue of services represents a key milestone in efforts to successfully achieve our goals for 2021. By structuring our standard services in relation to the current level of roughly 70 products, and thanks to our new service and pricing model, we have tailored our service offering to our clients' respective needs in a more transparent, straightforward and targeted manner. In developing dwpbank's custody services, we have also moved from merely providing custody services to playing an active role in shaping the custody of securities for our clients.

We offer tailor-made solutions. Our extensive regulatory expertise is one of our key strengths and enables our clients to meet requirements optimally and on time. To that end, we will continue to optimise processes, technologies and structures going forward and will further raise our already high standard of quality.

This financial year, too, we will continue to focus on quality, efficiency and standardisation in securities services and custody. By restructuring our Back-Office Service Center (BOSC), we can already offer centralised services that are not only more flexible, but also more attractively priced.

As a proactive partner to our clients, we would like to express our gratitude to our employees for their hard work. It is thanks to their commitment that dwpbank is a modern and strong institution. We would also like to thank our clients for their support and their trust. We look forward to maintaining a close dialogue with them to further systematically develop dwpbank as a leading securities services provider.

Kind regards,

Dr. Heiko Beck | Thomas Klanten | Markus Neukirch

Client focus and strategic partnership

Stronger client focus, enhanced efficiency and expanded services – the dwpbank 4.0 initiative

As a leading securities services provider in the German financial market, dwpbank made further progress in systematically improving its service offering in financial year 2017 with its dwpbank 4.0 initiative. The catalogue of standard services and the associated pricing model, which took effect on 1 January 2018, represent a key milestone in efforts to achieve an even greater focus on client needs.

The standards, which were defined in close dialogue with clients, cover the bundling of large transaction volumes, securities settlement, entry and custody, and the integrated implementation of regulatory requirements. For banks, the schedule of prices and services offers greater transparency while reducing operational risks. dwpbank was able to further optimise costs in financial year 2017 despite the even greater abundance of reporting, documentation and other regulatory requirements.

dwpbank leverages extensive expertise to support custodians

The further development of custody services was a key topic in financial year 2017. The challenge for custodians and their partners is to ensure that regulatory requirements are implemented on time. To that end, dwpbank has driven forward processes and structures and, as a stable partner for its clients, has set standards. For instance, it has pointed out potential solutions and worked systematically to implement them. The advantage for clients is that they are spared the need to build up their own regulatory expertise and KAGB services – i.e., services mandated under the German Investment Code (Kapitalanlagegesetzbuch, "KAGB") – leaving them to focus on their core competencies. For dwpbank, the basis for a long-lasting and successful partnership is obvious: close and regular consultation with its clients.

»We achieved a lot with our initiative in 2017. We enhanced processes, cut costs, streamlined structures and invested in further developing our client-focused services. We will continue to systematically pursue this strategy in 2018.«

Dr. Heiko Beck Chairman of the Board of Management

A strategic partner with extensive regulatory expertise

Regulatory requirements in the financial sector have been increasing steadily for years. These and the growing importance of digitalisation pose major challenges for all banks. Against a background of greater cost and earnings pressure, dwpbank offers significant advantages to its clients as a strategic partner. Despite the proliferation of legal requirements, dwpbank enables them to reduce the burden while offering securities services tailored to their business models. As a leading securities service provider, dwpbank has many years of experience in processes relating to the further development of services, improving systems security and developing comprehensive solutions for banks outsourcing their activities. As a strategic partner, dwpbank also argues in the interests of its clients in favour of better regulation where outsourcing is concerned. There is a risk that excessive regulation of outsourcing will nullify the added potential and adversely impact the German banking industry's competitiveness and ability to innovate.

dwpbank focuses on innovation and digitalisation

As a key partner to the German Savings Banks Financial Services Network (Sparkassen-Finanzgruppe), dwpbank was involved in modernising the functionalities for this client group's securities business and online brokerage in financial year 2017. The new platform, "OSPlus_neo", aligns the savings banks' online services more closely with customer requirements. It was commissioned by the governing bodies of the German Savings Banks Association and developed by Finanz Informatik in cooperation with dwpbank. dwpbank implemented various functions that were already compliant with MiFID II. OSPlus_neo will be expanded by the end of 2018 to include other functions such as sell orders, an improved securities account overview, the option to display and change savings plans, off-market direct trading and instructions for corporate actions.

dwpbank focuses on its clients. In 2017 the service offerings, which are systematically aligned with client needs, continued to centre on automated digital asset management via robo-advisory.

The priority is to create a solution that enables dwpbank's clients to quickly and flexibly integrate their selected robo-advisory providers into their infrastructure. Going forward, the offering aims to enable clients to expand their digital product ranges, attract new customer groups and retain their role as custodian bank for existing customers. dwpbank will handle transaction clearing via the existing structures and standard services.

Fit for 2021 – systematic further development of the service offering

By expanding the value chain, dwpbank aims to enhance efficiency, drive forward standardisation and tailor the comprehensive service offering more closely to its clients' business models. The dwpbank 4.0 initiative, which was launched in the second half of 2016, laid the foundation to implement new products and services aimed at expanding dwpbank's leading role and competitiveness in the period up to 2021.

In financial year 2017, dwpbank brought key areas of responsibility such as strategy, controlling and product management together under Corporate Management, enabling it to react quicker to market developments, regulatory changes and client requirements. In addition to continuously optimising process workflows, structural development remained a key topic in 2018. As a strategic partner and innovative service provider, dwpbank intends to further build on its position as Germany's leading securities services provider in the period to 2021.

Developing and providing new services together as partners

dwpbank's advantage – technology and operational excellence

Increasing regulatory requirements, growing cost pressure and the digitalisation of customer relationships pose mounting challenges for the banking industry, and specific efforts are needed to stay in the competition. Against this background, Deutsche Wertpapier-Service Bank AG (dwpbank) has aligned its processes and services even more closely with its clients' business models. As a leading securities services provider in the German market, it can leverage its technology and operational excellence to gain significant advantages.

Successful together – optimising services to boost revenue

Rising to challenges in partnership: this is what dwpbank stands for. With 401 clients and approximately 943 connected institutions in total, three-quarters of all banks in Germany rely on dwpbank's services. dwpbank's broad regulatory expertise and extensive service offering allow clients to focus on their core business so that they can offer a high standard of quality, efficiency and low risk. The services offered by dwpbank make a significant contribution to increasing revenue from the securities business.

dwpbank pushed through a further optimisation of its service offering in financial year 2017 in addition to implementing complex regulatory requirements on time. One focus here was on improving the back office services. The further development of these BOSC services centred on two issues: firstly, the standardisation of processes and thus more streamlined execution, making it possible to increase cost advantages. And secondly, a new modular structure allowing clients to book only those services that they intend to use going forward. By bundling the BOSC services and offering them on a modular basis, dwpbank is able to offer central services that are not only more flexible, but also more attractively priced and less prone to errors. In doing so, it opens up further synergy effects for its clients in a difficult market environment.

»As a proactive provider of the right solutions, we offer our clients support in developing and rendering services for the entire German financial market as a partner in a difficult market environment.«

Markus Neukirch Member of the Board of Management

dwpbank strengthens its business model with dwp Service GmbH – cost advantages for clients

The aim behind realigning the service offering was to be able to offer clients a suitable range of services depending on their requirements and business operations. dwpbank thus offers a "standard" service package comprising those services which are required by all of its clients. By contrast, "standard plus" services are more closely aligned with the individual features and needs of the respective business.

dwpbank formed subsidiary dwp Service GmbH at the end of September 2017 to secure its own long-term competitiveness and to offer its clients back office services at a significantly reduced cost. Since commencing operations on 1 December 2017, the wholly owned subsidiary based in Halle an der Saale has processed cost-effective back office services for banks and savings banks.

dwpbank is systematically working to further optimise the synergies achieved from bundling and is pursuing the goal of migrating BOSC activities for further clients in phases. At the turn of 2017/2018, five savings banks with some 94,000 securities accounts in total were acquired as new BOSC clients. The second phase will be migrated in May 2018.

Reinvestment management – advantages for institutions and securities clients

On the DAX alone, listed firms are expected to pay out more than EUR 35 billion in dividends to their shareholders in 2018. The majority will likely end up once more in clearing accounts. dwpbank's automated reinvestment management offers clients an attractive alternative for investment income and the opportunity to generate significant revenue in the long term.

The first phase of dwpbank's automated reinvestment management was launched in early 2018. For savings banks and private banks, reinvestment management offers the opportunity to automatically reinvest not just all of their customers' income from funds, but also the interest and dividends received. Fund income can be invested in the fund of origin, and interest and dividends in a new target asset class. In the second stage of expansion, which is planned for June 2018, it will be possible to reinvest fund income in new target asset classes. The service gives securities clients the opportunity to generate further wealth through reinvesting, while the portfolio effect means that the banks can generate above-average revenue growth.

Success through compelling solutions in the custodian business

In 2017, dwpbank continued in its role as strategic partner for custodians in the German market, achieving synergies and economies of scale by further developing the respective services centrally. The bundling effects achieved by dwpbank, which have created cost advantages for custodians, have also helped in new client acquisition and have bolstered their competitiveness.

In addition to developing a new custodian pricing model that enables pricing per market and asset class, the KAGB service offering enables markets and depositories to be monitored. The custodians and dwpbank worked in partnership to successfully overcome regulatory hurdles and challenging market conditions.

Facing the future together – our clients‘ partner for strategy and innovation

In 2018, dwpbank is continuing to work with its clients to refine its service portfolio, implement regulatory requirements early and on time, and develop the necessary system extensions. Thanks to an outstanding team, dwpbank offers its clients compelling, tailored and innovative solutions.

dwpbank will continue to maintain a close dialogue with its clients in 2018 to keep them abreast of key developments. As an active partner for legislators, supervisory authorities and industry associations in developing the securities business, dwpbank appreciates its role and responsibility as market leader in Germany and is an advocate for its clients‘ interests.

Regulatory expertise and prompt implementation of legal requirements

dwpbank's expertise enables major regulatory projects like MiFID II and TARGET2 Securities (T2S) to be implemented on time

As well as the low interest rate environment and increasing competitive pressure, the banking industry was faced with a fresh increase in regulatory requirements in 2017. Since the financial crisis, legislators have passed a wide range of regulatory initiatives aimed at better protecting investors and stabilising the financial system. For the banking industry in Germany, the legal requirements present a major challenge and, in some cases, a lengthy and difficult implementation process. MiFID II, MaRisk and TARGET2-Securities (T2S) were only some of the regulatory requirements facing the banking industry in 2017.

The growing cost pressure and the complexity of the legal requirements demand a reliable and strategic partner that can offer high standards to support clients in fulfilling their regulatory obligations, and help maintain their competitiveness. In 2017, dwpbank worked hard to implement a considerable number of regulatory requirements on time, and formulated key working hypotheses early on as a basis for implementation.

MiFID II – dwpbank successfully implements requirements after extensive preparations

As an active partner for legislators, supervisory authorities and industry associations, since 2014 dwpbank has brought its extensive regulatory expertise to bear in implementing the EU Markets in Financial Instruments Directive (MiFID II) in the interests of its clients. The MiFID II project was one of the largest ever undertaken at dwpbank, with roughly 400 project staff working some 27,600 hours and project costs running to roughly EUR 22 million. Complex and time-consuming preparations were needed before the implementation of MiFID II and the associated regulation (MiFIR) could begin on 3 January 2018, including comprehensive testing to preclude risks. As a partner for developing and providing services for the entire German financial market, dwpbank ensured timely implementation with the help of its clients.

dwpbank's new MiFID services constitute a full service offering and enable automated and timely transfer of the required data to the German Federal Financial Supervisory Authority (BaFin). Thanks to dwpbank's operational excellence, extensive regulatory expertise and services, the banks can meet their regular documentation and disclosure requirements with respect to execution rates and the top five execution venues.

»In our clients‘ interests we drive forward regulatory issues, bring market participants together and, as an active partner, take a pragmatic approach to seeking out solutions.“«

Thomas Klanten Member of the Board of Management

All markets migrated to T2S

One of the two other highly complex major projects was the timely launch of the European TARGET2-Securities (T2S) settlement platform. Following more than three years of intensive preparations, on 6 February 2017 dwpbank successfully assisted in the migration of the German market to the TARGET2-Securities settlement platform for its clients. In the fourth wave of the migration, the central securities depository of the Deutsche Börse Group, Clearstream, was linked up with the European Central Bank's T2S platform. As the central bundler for securities services, dwpbank implemented regulatory requirements on a centralised basis and contributed to enhancing efficiency and mitigating risk in the settlement of securities transactions.

In September 2017, the Spanish and Baltic central securities depositories were migrated to T2S in the fifth regular wave. This marks the final wave of migration to the European securities settlement platform after the T2S project was launched by the Governing Council of the European Central Bank on 17 July 2008. A total of 20 European central securities depositories now conduct their entire securities settlement in central bank money via T2S.

dwpbank implements investment tax reform

In light of the fundamental reform of investment taxation, dwpbank was already acting ahead of time in the interests of its clients and exchanged views with key market participants. It has analysed the impact for its clients and entered into discussions with representatives of banking associations, fund managers, banks and data centres. The reform, which entered into force on 1 January 2018, affects virtually every key area of securities services, and many issues still remain unresolved months after the effective date. The reform simplifies some issues but also presents new problems for investors and custodians alike. dwpbank is currently working hard with its clients and in industry associations to clarify the large number of unresolved practical issues.

Revised version of MaRisk – dwpbank is well prepared

The advance of digitalisation and the growing number of cyberattacks worldwide have occupied both banking regulators and banks for years, making investments in IT security a priority in the banking industry. The Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, "MaRisk") for banks were further expanded in 2017. In practical terms, this addresses topics such as IT strategy, IT governance, IT projects and application development, as well as the outsourcing and other external procurement of IT services. Financial year 2017 saw the establishment of centralised Outsourcing Management. dwpbank considers itself well prepared to implement the growing regulatory requirements in good time, both for its clients and for itself.

Focus on further development of services and follow-up activities for major projects

The increasing density of regulation, growing competitive and earnings pressure and the digitalisation of products and processes will continue to demand enhanced efficiency on the part of all market participants in the banking industry in 2018. With its unique expertise in securities services, dwpbank will continue to work closely with its clients as a strategic and reliable partner to ensure the timely implementation of both existing and new regulatory requirements. In addition to follow-up activities for major projects such as TARGET2-Securities (T2S), MiFID II and the investment tax reform, dwpbank already has its sights set on preparing new implementation and test activities for regulatory requirements.

2017 Management report

Deutsche WertpapierService Bank AG

1 General information

1.1 Business model

The object of the Bank is to provide securities services for banks with a focus on financial brokerage and on securities custody and management.

dwpbank's business model focuses on providing stable, secure, highly automated and thus efficient services to support banks and savings banks in settling securities transactions for their private and institutional end customers. In doing so, dwpbank supplies product solutions covering the entire securities service value chain, from its role as commission agent, through business process outsourcing (BPO) in securities settlement and custody, to providing back office services.

By bundling large transaction and management volumes, dwpbank generates a cost advantage through economies of scale and economies of scope relating to products, services and expertise. It also helps its clients to reduce costs by assuming operational risks. Regulatory requirements affecting the securities business are implemented for all member banks centrally, reducing costs. dwpbank's extensive expertise in the securities business enables it to set standards in the German market and implement these at an operational level on its WP2 securities settlement platform.

1.2 Objectives and strategies

dwpbank's mission is to be its clients' first choice for securities services in Germany. In order to achieve this goal, which has been set out in the "dwpbank Vision 2021" strategy, dwpbank provides a comprehensive service portfolio and highly standardised and automated processes to credit institutions in all three pillars of the German banking industry. These services focus on the retail and institutional business. dwpbank provides all key services along the securities settlement value chain. The aim is to further increase client penetration in the securities business through selectively expanding the value chain.

With its newly structured schedule of prices and services in force from 2018, dwpbank offers its clients competitive prices and services and a transparent pricing model.

dwpbank sees itself as an innovative service provider, to be underscored for example through implementing new products and digitalisation with the aim of enhancing efficiency in production processes to the benefit of its clients.

dwpbank also continued to focus closely on quality, efficiency and standardisation in 2017. The "dwpbank 4.0" initiative was launched in the second half of 2016 and forms the framework for implementing dwpbank's Vision 2021 strategy. The aim is to implement the identified business and cost reduction potential in the business model, operational excellence, and technology & personnel sub-programmes. Issues are managed and processed in line with the "dwpbank 4.0" strategy.

1.3 Equity investments

dwp Service GmbH (Halle (Saale))

In 2017, dwpbank established a subsidiary, dwp Service GmbH, in Halle (Saale). dwp Service GmbH specialises in providing back office services for dwpbank's savings bank and bank clients. It performs its tasks on behalf of dwpbank. Operations commenced on 1 December 2017.

A control and profit and loss transfer agreement has been entered into with dwp Service GmbH.

Its key figures were as follows as at the balance sheet date:

- Number of employees: 15
- Sales: EUR 48 thousand
- Total assets: EUR 506 thousand

dwp Software Kft. (Budapest, Hungary)

dwpbank is the sole shareholder of dwp Software Kft., which was founded in 2001 and provides IT services in the banking sector. Under the terms of an agency agreement, this subsidiary performs IT consulting services and develops software solutions for dwpbank and third parties.

Its key figures were as follows as at the balance sheet date (translated into EUR on the basis of the reference rate published by the ECB of EUR 1 = HUF 310.33 as at 29 December 2017):

- Number of employees: 29 (previous year: 28)
- Sales: HUF 1,200 million (EUR 3,867 thousand, previous year: HUF 1,042 million)
- Total assets: HUF 392,905 thousand (EUR 1,266 thousand, previous year: HUF 350,309 thousand)

Cintac A/S (Roskilde, Denmark)

dwpbank acquired a 26% stake in the Danish software company Cintac A/S (stock corporation incorporated under Danish law) in 2012. The company serves to strategically secure software expertise, which is used as the basis for two core products of the WP2 system family deployed at dwpbank. It secures the long-term licence to Dynamic AI and increases the options for cooperation with Cintac A/S.

Its key figures were as follows as at the balance sheet date (translated into EUR on the basis of the reference rate published by the ECB of EUR 1 = DKK 7.4449 as at 29 December 2017):

- Number of employees: 1 (previous year: 1)
- Sales: DKK 2,262 thousand (EUR 304 thousand, previous year: DKK 2,056 thousand)
- Total assets: DKK 3,038 thousand (EUR 408 thousand, previous year: DKK 2,836 thousand)

1.4 Branch offices

dwpbank offers its services from its headquarters in Frankfurt am Main as well as from its branch offices in Düsseldorf, Munich and Troisdorf.

2 Economic report

2.1 Macroeconomic and sector environments

2.1.1 Market environment and development of market-driven figures

2017 was marked by high volatility and rising prices on the stock markets. The Deutsche Aktienindex (DAX) stood at 11,598 points (Xetra closing price) on 2 January 2017. As in previous years, the course of 2017 was characterised by numerous fluctuations. From 11,598 points at the beginning of the year, the DAX climbed to 12,890 points on 19 June 2017. It lost almost 950 points up to the end of August (standing at 11,946 points on 29 August 2017) before gaining new momentum to break through the 13,000-point mark for the first time on 16 October 2017. The DAX reached its all-time high of 13,525 points on 3 November 2017. It lost steam towards the end of the year and closed the last trading day of the year at 12,917 points. At +11.35%, the DAX recorded a positive performance over the course of the year.

The volatile market environment for the securities business had a positive effect on dwpbank. The number of transactions executed by dwpbank's clients increased significantly in 2017, climbing by roughly 7.5% year on year to approximately 24.4 million transactions (previous year: approximately 22.7 million transactions). The number of managed end-client securities accounts fell during the same period from 5.0 million as at the end of 2016 to 4.8 million as at the end of 2017.

2.1.2 Expanded regulatory and market infrastructure-driven relevance

As in previous years, regulatory requirements and requirements driven by the TARGET2-Securities (T2S) market infrastructure project had an impact on dwpbank's business model. This affected dwpbank directly as a bank but particularly in its capacity as a service provider for the bundled implementation of requirements for its clients.

MiFID II/MiFIR

In financial year 2017, there were continued efforts to implement the requirements resulting from the EU Markets in Financial Instruments Directive (MiFID II) and the corresponding regulation (MiFIR) on issues surrounding investor protection and market infrastructure. The key action areas were implemented as part of a project, and included the newly designed best execution regime, transparency aspects of products and infrastructure, and transaction reporting. dwpbank provided its clients with MiFID II/MiFIR-compliant systems and support services as at the effective date of MiFID II on 3 January 2018.

TARGET2-Securities

In February 2017, dwpbank successfully assisted its 1,300+ connected institutions in the fourth wave of migration to the TARGET2-Securities (T2S) platform. In preparation for the fourth wave of migration on 6 February 2017, which saw the transfer of the functions of Germany's central securities depository, Clearstream Banking Frankfurt, to T2S, dwpbank implemented comprehensive adjustments and carried out internal and external testing activities. Based on these testing activities, dwpbank successfully made the modifications to its systems for the implementation of T2S. Led by the Deutsche Bundesbank and Clearstream Banking AG, the German market was migrated to the pan-European settlement platform for an EU single market in securities settlement. T2S is the Eurosystem's integrated settlement service for securities transactions, enabling highly efficient real-time settlement of securities transactions in safe central bank money. This consequently harmonises national and cross-border securities settlement, boosting the efficiency and security of clearing and settling securities transactions and minimising risk in cross-border settlement. In the market, other initiatives are in place to use the new structures to further enhance the efficiency of cross-border securities settlement going forward.

Investment tax reform

The key elements of the investment tax reform, which entered into force on 1 January 2018, were implemented in the securities settlement system in financial year 2017. By abolishing the principle of tax transparency, the German Investment Tax Act

(Investmentsteuergesetz, "InvStG") has now introduced a second taxation level at fund input that is compensated for by a partial tax exemption at fund output on distribution to fund investors. Further elements of the reform will be implemented as scheduled in 2018.

International exchange of information to prevent tax evasion through financial relations by non-residents (AEOI/CRS)

Following on from the implementation and preparation work carried out in 2015 and 2016, the primary focus in 2017 was on project activities to complete the successful first-time notification for the 2016 reporting period. This necessitated adjustments and additions to processes within the tax reporting system and an increase in the scope of the tax reporting procedure. Minor modifications of the now-established reporting regime are expected in 2018.

2.1.3 Improved security for clients with respect to dwpbank's systemic importance

Update to the recovery plan resolved

dwpbank's recovery plan, which was first drafted in 2014, must generally be updated annually or on an ad-hoc basis where necessary. The focus of the revision in 2017 was on updating financial figures as at the balance sheet date, presenting the amended organisational structure and a comprehensive substantive revision of the recovery plan in consideration of the current supervisory requirements. After discussion by the Supervisory Board halfway through 2017, the updated recovery plan was submitted to BaFin.

Work to remedy the findings from the audit pursuant to section 44 of the German Banking Act

The findings of the audit of dwpbank's business operations ordered by BaFin in 2015 pursuant to section 44 (1) of the German Banking Act (Kreditwesengesetz, "KWG") were all remedied as planned in financial year 2016, with the exception of one finding relating to "AMA calibration ex-post". This finding was remedied on time with the supervisory disclosure of the capital requirement for operational risk at the end of the third quarter of 2017, using the newly calibrated AMA model in consultation with BaFin.

In accordance with section 44 (1) sentence 2 KWG, BaFin has also ordered an audit of dwpbank's business operations for 2018. In addition to the propriety of the business organisation pursuant to section 25a (1) KWG, the audit will focus on assessing the appropriateness of the actions taken to remedy the findings of the 2015 MaRisk audit.

Compliance with regulatory requirements increases the security, quality and stability of the outsourcing chain for dwpbank clients.

2.2 Course of the business

2.2.1 Introduction of a new schedule of prices and services

The new service and pricing model was largely finalised in 2017 by structuring our standard services to the current level of approximately 70 standard products and the associated reduction in complexity and increase in transparency. Of particular note is the evolution of dwpbank's custody services, transforming dwpbank from merely supplying custody services to being a service provider for its clients' custody services and a partner for custodians.

Based on a differentiated survey of client-specific service configurations, discussions were held with all affected clients to implement a usage model optimised for our clients.

As part of the further activities, the standard service and standard supplemental agreements and the new schedule of prices and services were published at the beginning of October 2017.

The standard services were summarised in 116 specialist standard service agreements and standard supplemental agreements. The new standard service agreements and standard supplemental agreements were drafted on the basis of the service agreements already published and consulted in the client boards in 2015 and 2016, and the service specifications for the new service portfolio. The service agreements valid from 1 January 2018 were finalised in close consultation with the client boards.

The new schedules of assets, which were rolled out at the end of 2017/beginning of 2018, form the legal framework for the change to the new service and pricing model valid from 1 January 2018.

The billing system was simultaneously modified to ensure that invoices could be issued under the new schedule of prices and services. This mainly involved converting the service counters, launching a centralised database to administer service data, and implementing the digitised individual service configuration per dwpbank client. The measures are effective as from the entry into force of the new schedule of prices and services in financial year 2018.

2.2.2 Number of clients follows consolidation trend in German banking sector

As at the 31 December 2017 reporting date, dwpbank had a total of 401 direct clients (previous year: 417). The decline, which resulted primarily from mergers, reflects the trend in the German banking market. The German banking industry can be divided into the following groups of client institutions:

German Cooperative Financial Services Network (Genossenschaftliche FinanzGruppe)

The most significant client from the German Cooperative Financial Services Network is DZ BANK AG. A further 943 (previous year: 1,003) local credit cooperatives and private banks in total are linked to the WP2 system via DZ BANK. dwpbank also had a direct contractual relationship with Deutsche Apotheker- und Ärztebank eG (apoBank) and Bank für Sozialwirtschaft AG, both of which use the WP2 system in the securities system services.

Public-sector banks, including the German Savings Banks Financial Services Network (Sparkassen-Finanzgruppe)

Following the merger of Bremer Landesbank and Norddeutsche Landesbank - Girozentrale -, 5 state banks (Bayerische Landesbank, HSH Nordbank AG, Landesbank Hessen-Thüringen Girozentrale, Norddeutsche Landesbank - Girozentrale -, and SaarLB) and 365 (previous year: 379) savings banks from all 16 German states made use of services offered by dwpbank as at the end of the year.

In 2017, system services were also performed for Landesbank Baden-Württemberg.

Private/commercial banking

The number of clients in the private and commercial banking sector amounted to 26 (previous year: 27) institutions as at 31 December 2017, including ODDO BHF Aktiengesellschaft, Deutsche Postbank AG, Santander Consumer Bank AG, Deutsche Kreditbank Aktiengesellschaft and SEB AG.

2.2.3 Prompt and competent client support

Training centre

Seminars offered by the training centre in the year under review focused on securities-related issues and on transferring systems expertise to dwpbank clients. The securities-related seminars covered "definitive withholding tax" and "QI compliance" and the seminars on systems technology covered "WP-Dynamik" and "WP2 basics" and were highly popular. The newly offered events on regulatory requirements – MiFID II or the investment tax reform – also enjoyed very high demand nationwide.

dwpbank's experts held a total of approximately 180 seminars lasting one or several days with more than 2,400 participants.

In addition to the seminars organised by dwpbank itself, the training catalogue also included a large number of events at the in-house academies of the German Savings Banks Financial Services Network and the German Cooperative Financial Services Network. There was also increased demand for in-house training, where trainers can optimally address clients' individual needs.

Furthermore, the training centre informed and thereby prepared all client groups for forthcoming system changes in WP2 in advance using WPUpdate. Versions of WPUpdate were created and published for individual clients for the four WP2 releases in 2017. This information is also available in WP2 manuals for specific client groups and could therefore be used in day-to-day business by WP2 users.

Client Support Centre

The Client Support Centre provides an interface between dwpbank and the clients for all questions or problems relating to day-to-day securities settlement. Aside from telephone support, the centre also provides assistance for issues received via written entry channels, tickets and e-mail.

The volume of calls to the Client Support Centre in the reporting year fell by some 9% year on year in 2017 to approximately 168,300 calls. In addition, roughly 56,000 client tickets (previous year: 55,500) and more than 10,000 e-mail inquiries (previous year: 10,500) were processed.

Client boards

In 2017, the board events continued to focus on dialogue and an exchange of experience with clients, current reporting, and the further development of the service portfolio. The Advisory Board, dwpbank's most important client board, held two meetings in 2017. The major issues discussed were the introduction of the new service and pricing model, an exchange of information and ideas on key project activities such as MiFID II, T2S or the further development of custody services, and market issues, competition and trends. Further focuses were the reports on regulatory challenges and other activities in response to statutory considerations and the reports from other dwpbank client boards.

The reports and discussions at the meetings of the Project Committee and Wholesale Committee focused on the new service categories and their content, as well as on introducing the new schedule of prices and services. Further agenda items included updates on project activities to implement the requirements of MiFID II and the investment tax reform. The Wholesale Committee also addressed market developments and regulatory issues affecting institutional clients, as well as reporting on various projects and developments in dwpbank's lines of business of an institutional nature.

At the meetings of the "WPDirect", "BOSC", "Communication and Processes", "Compliance" and "Internal Audit" working groups as well as in the Savings Bank and Private Bank Forums, representatives of clients and dwpbank discussed issues relating to further development in the securities business and dwpbank's client support solutions. The outcomes of the discussions and recommendations made a contribution to adequately supporting the regulatory requirements affecting client institutions, strengthening the position of dwpbank clients among their competitors and increasing the appeal of the securities business.

2.3 Financial position

2.3.1 Results of operations

Non-monetary performance indicators

Key factors influencing dwpbank's results of operations include in particular the volume of securities transactions settled and the volume of securities accounts managed.

Non-monetary performance indicators	2017	2016	Change
Sales-driven transactions (millions)	24.4	22.7	+ 1.7
Securities accounts managed (millions)	4.8	5.0	- 0.2
Number of employees at year-end [1]	1,265	1,319	- 54
Number of clients (credit institutions) [2]	401 (+ 943)	417 (+ 1,003)	- 16 (- 60)

[1] Excl. Board of Management and inactive employees.
[2] The figure in parentheses includes the number of local credit cooperatives and cooperation banks connected to dwpbank's client DZ BANK.

The overall volume of securities transactions settled by dwpbank increased by 7.5% year on year to 24.4 million. In contrast to the structurally stable development of transaction volumes, the number of securities accounts managed fell in line with the trend seen in previous years, decreasing by 4% to 4.8 million securities accounts.

The ongoing human resources optimisation measures were systematically implemented in 2017. As a result, the number of people employed at the end of the year fell year on year to 1,265 active employees[1].

Beginning in 2018, dwpbank publishes an annual non-financial statement for the preceding financial year in accordance with the German Act Implementing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz). The non-financial statement is published on dwpbank's website (http://www.dwpbank.de/aktuell/publikationen/) within the deadline stipulated by law.

Monetary performance indicators

The primary monetary performance indicator at dwpbank is earnings before taxes, which are calculated using the key income and expense items. The corresponding management tools used by dwpbank are:

- the annual planning and budgeting process,
- monthly management reports and balanced scorecards,
- extrapolations and quarterly reporting (quarterly report)

[1] In the following, "staff" shall be taken to mean both male and female members of staff.

Monetary performance indicators (EUR million)	2017	2016	Change
Interest income	3.8	3.6	+ 0.2
Interest expense	- 1.4	- 1.3	- 0.1
Net interest income	**2.4**	**2.3**	**+ 0.1**
Fee and commission income	873.5	761.7	+ 111.8
Fee and commission expense	- 651.0	- 539.6	- 111.4
Net fee and commission income	**222.4**	**222.1**	**+ 0.3**
Other operating income	50.5	51.1	- 0.6
Other operating expenses	- 34.1	- 46.5	+ 12.4
Net other operating income	**16.4**	**4.7**	**+ 11.7**
Personnel expenses	- 105.5	- 111.8	+ 6.3
Other administrative expenses	- 99.2	- 96.3	- 2.9
Total general and administrative expenses	**- 204.7**	**- 208.2**	**+ 3.5**
Depreciation, amortisation and write-downs	**- 9.5**	**- 8.2**	**- 1.3**
Earnings before taxes	**27.0**	**12.7**	**+ 14.3**
Taxes on income	- 4.9	- 4.0	- 0.9
Net income for the financial year	**22.1**	**8.7**	**+ 13.4**

Computational rounding differences may appear in the tables, so that the figures included therein may deviate from the precise figures.

dwpbank's reported financial result increased significantly year-on-year. While earnings before taxes increased by EUR 14.3 million to EUR 27.0 million, net income for the financial year rose by EUR 13.4 million to EUR 22.1 million. The increase in earnings is attributable to factors including higher transaction volumes in the securities market and a rise in capitalisation of internally generated intangible assets. In addition, the redress procedure on the VAT treatment of securities transactions outside of the brokerage business at the former TxB Transaktionsbank GmbH was decided in favour of dwpbank (other operating income of EUR 9.1 million).

The development of net fee and commission income reflected the aforementioned changes in volume. The higher transaction figures resulted in a EUR 3.6 million revenue increase, which continued to be partly offset by decreasing revenues from add-on services. It should be noted that income recognised as part of fee and commission income also includes components recognised directly in equity, such as sales commissions and settlement fees for other service providers, which are offset by similar amounts of expenses (EUR 650.0 million; previous year: EUR 538.8 million).

Net interest income primarily reflects income from coupons on the Bank's own portfolio of fixed-income securities, which are made available as collateral for third-party institutions as part of securities services.

As in the previous years, other operating income includes non-recurring items such as the tax reimbursement on WIS products and HR restructuring measures. Income from tax reimbursements amounted to EUR 9.1 million, including interest income of EUR 4.5 million. Additional provisions amounting to EUR 7.3 million were recognised to implement further optimisation measures (e.g., end-to-end process optimisation and BOSC optimisation) under the "dwpbank 4.0" initiative (previous year: EUR 21.8 million under the "dwpbank 2018" partial reconciliation of interests). Operating activities generated lower project revenue due to the central bank merger in financial year 2016 and higher expenses from the remeasurement of non-deductible input tax.

General and administrative expenses were down slightly year on year to EUR 204.7 million. While personnel expenses fell by EUR 6.3 million, other administrative expenses increased by EUR 2.8 million.

Without factoring in the effects from project capitalisation, current personnel expenses fell by EUR 3.7 million. In line with the procedure used in previous years, EUR 8.7 million in personnel expenses were capitalised in 2017 in connection with the development of software components.

The increase in other administrative expenses by an overall amount of EUR 2.8 million was chiefly the result of IT operating costs amounting to EUR 2.3 million. This was due in particular to higher usage in production and testing due to new functionalities connected with regulatory and market requirements (including T2S and MiFID II). In addition, increased expenses arose due to HR development measures (IT skills conversion, project manager development) corresponding to strategic development.

Depreciation and write-downs reflected the EUR 7.1 million reduction in tangible fixed assets and the EUR 2.4 million decrease in the fixed-income securities held in the Bank's own portfolio. Amortisation of internally generated software components resulted in expenses totalling EUR 5.1 million (previous year: EUR 4.6 million).

2.3.2 Net assets and financial position

As at 31 December 2017, dwpbank had total assets of EUR 952.9 million (previous year: EUR 582.5 million). Total assets consist of current receivables of EUR 551.9 million (previous year: EUR 214.5 million) from the settlement of payments in association with securities, which are offset by similar amounts of liabilities. The significant year-on-year change was due to higher business volumes as at the 31 December 2017 reporting date caused by internal and external processes along the entire securities settlement chain.

The Bank does not conduct any active lending business. Formal lending relationships result exclusively from bank transactions pursuant to section 1 (1) sentence 2 no. 2 KWG in which instructions from the securities seller relating to the selling price are already permitted on the expected settlement date.

As at the balance sheet date, dwpbank's primary assets on the one hand included direct investments in interest-bearing securities (EUR 118.9 million), which are available as collateral for the settlement of the operating activities in the securities business.

On the other hand, cash and cash equivalents amounting to EUR 100 million were invested in a German institutional fund (Spezialfonds).

The capitalisation of internally generated software resulted in intangible fixed assets of EUR 32.8 million (previous year: EUR 21.9 million), reflecting the creation of additional functionalities within the WP2 settlement system. The increase as against the previous year was due to comprehensive developments to implement regulatory requirements such as MiFID II. Other assets consist primarily of tangible fixed assets (operating and office equipment), software and licences, and receivables from services billed to clients.

As at 31 December 2017, dwpbank had a surplus of deferred tax assets amounting to EUR 18.4 million. This resulted from temporary differences in the measurement of balance sheet items in the tax accounts versus the financial accounts, and from the tax treatment of the loss carryforward. This resulted from a corporate income tax carryforward and temporary differences in the measurement of balance sheet items in the tax accounts versus the financial accounts.

As at the date of adoption of the 2017 annual financial statements, dwpbank's equity amounted to EUR 171.6 million. The Bank's liable capital in the amount of EUR 127.7 million continues to consist solely of core (common equity tier 1) capital. As at 31 December 2017, the tier 1 capital ratio amounted to 18.87%, well in excess of the minimum capital requirements prescribed by the regulatory authorities. The figure is lower than in the previous year (33.10%) due to an increase in the recognition of operational risk, which was caused in particular by the newly calibrated AMA model.

As at the balance sheet date, the Bank reported pension obligations totalling EUR 103.0 million (previous year: EUR 92.6 million). Furthermore, current provisions and liabilities from operating activities total EUR 96.1 million (previous year: EUR 90.1 million).

dwpbank was able to meet its financial commitments at all times throughout the 2017 financial year. Through its clearing service providers, dwpbank has ample opportunity to refinance peak volumes of securities-related payment transactions. The structure and maturity of cash and cash equivalents and payment obligations are monitored on a daily basis and managed using corresponding planning tools.

2.3.3 Summary of dwpbank's financial position in the 2017 financial year

Overall, the expected significant increase in earnings forecast for financial year 2017 was achieved. Compared to the previous year, the Bank's results of operations in 2017 were marked by growth in transaction volumes and non-recurring items (increased project capitalisation and tax reimbursements).

The trends in costs in financial year 2017 reflect the systematic continuation of activities aimed at optimising processes and expenditures. One-off expenses were incurred in connection with the implementation of further personnel restructuring measures and initiatives relating to strategic business development.

Project activities again focused on implementing statutory and regulatory requirements, and on the technical realisation of process and system optimisation.

dwpbank's net assets and financial position were stable and balanced at all times. Business developments at dwpbank in 2017 can be described as positive against the backdrop of the specified internal and external factors.

3 Staff and welfare, risk report and report on expected developments

3.1 Staff and welfare

3.1.1 Number of employees and staff structure

dwpbank employed 1,265[2] staff at the end of 2017 (previous year: 1,319).

In December, 632 staff members worked in Frankfurt (previous year: 664), 450 in Düsseldorf (previous year: 454), 178 in Munich (previous year: 185) and 5 in Troisdorf (previous year: 6). The divisional staff breakdown at the various locations throughout the Bank was as follows: 106 staff in Corporate and Client Management, 421 in IT, Finance and Risk Management, and 738 in Operations. Of that headcount, 39 staff were trainees (previous year: 26).

The Bank employs 594 women (47%) and 671 men (53%). The share of part-time employees was up somewhat on the previous year at 30.6% or 387 people (previous year: 30.1%). The average age of employees was 46.9 (previous year: 46.6).

At the level of department heads, who report directly to the Board of Management, there were 12 executives, to whom 70 heads of department were assigned as at the end of the year (including one head of department employed at dwpbank as part of a secondment from a savings bank).

3.1.2 Changed organisation

In the course of optimising the Bank's business and operating model through the "dwpbank 4.0" initiative, the organisational structure was changed with effect from 1 January 2017. The organisational change was made with the following objectives in mind: reduction of number of divisions in order to optimise interfaces, definition of clear responsibilities and increased focus on processes by the organisation (emphasis on taking into account the end-to-end process view).

3.1.3 Reconciliation of interests: dwpbank 2018

Based on the "dwpbank 2018" reconciliation of interests resolved in 2016, a further supplement on the workforce reduction and a protocol note on the progress made in implementing the organisational HR measures were resolved in 2017. In addition, staff reductions in the cross-divisional functions from 1 January 2019 were discussed with the employee representatives.

3.1.4 Remuneration

As a significant institution pursuant to the definition criteria set out in the Regulation Governing Remuneration at Institutions (Instituts-Vergütungsverordnung – InstitutsVergV) in the version dated 25 July 2017, dwpbank must comply with both the general and the specific requirements of the InstitutsVergV.

The members of the Board of Management of dwpbank, all divisional heads, the "dwpbank 4.0" project manager and a further six named employees are classified as risk takers. These persons are subject to remuneration rules resolved in compliance with the requirements of the InstitutsVergV in the version that entered into force as at 4 August 2017. The variable remuneration of the risk takers is determined based on targets which are set each year, with corporate targets accounting for 70% and individual targets and targets relating to the specific risk taker's organisational unit accounting for 30% of variable remuneration. These targets are set for either a three-year period or for the respective financial year. In no instance does the paid variable remuneration ever exceed the fixed remuneration of the respective risk taker. If the paid variable re-

[2] Excluding members of the Board of Management and inactive employees such as those on maternity or paternity leave or on leave of absence.

muneration of a risk taker exceeds the threshold of EUR 50,000 stipulated in the InstitutsVergV, the variable remuneration is disbursed over several years.

In accordance with section 16 InstitutsVergV, dwpbank is required to disclose information concerning its remuneration policy and practices. The disclosure duties are defined for dwpbank as a CRR institution solely in accordance with Article 450 of Regulation (EU) No 575/2013 (CRR). The variable remuneration paid in 2017 for the 2016 financial year is disclosed in the Disclosure Report published for financial year 2016. The variable remuneration of risk takers for the 2017 financial year will be disbursed after the Supervisory Board meeting to discuss the annual financial statements, which will be held in May 2018 at the earliest. Therefore, the remuneration report ("Disclosure Report") for the remuneration paid for financial year 2017 will be prepared after the Supervisory Board meeting to discuss the annual financial statements, and will be published on dwpbank's website.

3.1.5 Human resources development

The range of HR development offerings for employees and executives was further expanded. One focus in financial year 2017 was to push forward with the IT skills conversion. The systematic implementation of executive development initiatives continued. The offering comprised not only interdisciplinary, structural management seminars, but also individual measures. The focus also remained on project management qualifications. The nine-month series of workshops "Project support learning and improvement programme" was held for the third time in 2017. Supplementary events such as "Project manager days" were organised to improve networking and optimise the project culture.

In order to safeguard dwpbank's position and make it fit for the future, dwpbank also launched initiatives to bring about cultural change at the Bank in 2016. These form part of the change management workflow, which is a key component of the "dwpbank 4.0" strategy initiative. Significant measures in 2017 related to the topics of "leadership", "project culture" and "employee retention". In the reporting period, 23 employees acted as "change agents" to bring about the requisite cultural change at dwpbank.

The "Q^3 – Qualifications, Quality and Quantity" project was launched in 2017 to secure the Bank's future HR viability. The objective is to ensure the permanent availability of employees with the "right" qualifications to follow through on dwpbank's strategic orientation. "Q^3" comprises various segments to support executives, as well as a demand-driven (development) concept. This focuses on succession planning for mission-critical key positions and the use of targeted qualification modules to promote the development of promising employees. A dialogue was held with the employee representatives for this purpose.

3.1.6 "dialogue" – a new employee communication tool

A new tool to communicate with employees – "dialogue" – was launched in 2017, replacing the previous assessment process. The new employee dialogue is part of dwpbank's cultural development and is aimed at achieving a deep exchange of views and clarification of mutual expectations and needs, fostering or deepening mutual trust, increasing motivation and ensuring needs-driven planning for HR development measures. The key success factors are mutual openness, appreciation and acceptance, the fact that the process is carried out regularly – once to twice per year, and the certainty that the issues discussed will be acted on. The dialogue focuses on the future and on the cooperation between manager and employee.

3.1.7 Trainee programme

In 2017, five trainees joined the established 18-month training programme in Frankfurt and Düsseldorf, spread across the Corporate Management, Transaction Service, Internal Services and IT divisions.

3.1.8 Twin-track course of study

The twin-track course of study in cooperation with FOM Hochschule für Ökonomie & Management was initially launched as a pilot programme at the Düsseldorf offices in 2014. Its success meant that it was expanded to Munich in the summer of 2016 and Frankfurt in the summer of 2017. On 1 August 2017, two young people in Düsseldorf and two in Frankfurt began their studies in "Business Informatics“, two started "Business Administration“ in Munich, and one twin-track student began her "Banking & Finance“ course in Düsseldorf. Including the 2017 intake, a total of 15 twin-track students are employed at dwpbank in the above-mentioned courses of study, all of whom are achieving above-average results. The six students taken on in 2014 completed their twin-track studies with Bachelor‘s degrees in the spring of 2018 and transitioned to permanent employment after graduation.

3.1.9 CIC training

For the 2017 training year, one trainee began the three-year "Office Management Assistant“ course in Munich and one began the two-and-a-half-year "Applications Development IT Specialist“ course in Düsseldorf; both were hired on a temporary basis for the duration of the training.

One "Applications Development IT Specialist“ trainee at the Düsseldorf offices completed his training in January 2017 and was subsequently hired on a temporary basis. He transitioned to permanent employment at the beginning of 2018.

3.1.10 Employee survey

Following the employee survey in September 2016, the focus in 2017 was on targeted efforts to improve the ability to implement and handle changes. The Bank‘s action areas fall under three categories: "Further fostering trust in the system“, "Tapping potential to improve performance“, and "Further improving working conditions“. The departments are mainly focusing on these areas to develop improvements that will be reviewed for effectiveness as part of the 2018 employee survey.

3.2 Corporate governance declaration

In accordance with the Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), dwpbank has undertaken to achieve a target of 25% of women in divisional and department head positions by the established deadline of 30 June 2017. These targets were either reached or exceeded, with a 25% share of women in divisional head positions and 28.5% in department head positions. There are currently no female members of the Board of Management or the Supervisory Board. dwpbank has not undertaken to increase the proportion of female members of the Supervisory Board since it is impossible to influence this by the established deadline. dwpbank has established a figure of 0% for the Board of Management.

dwpbank has established future targets of 25% for divisional head positions and 30% for department head positions as at the 30 June 2022 reporting date. The Supervisory Board resolved an unchanged target of 0% for the Board of Management and a target of 10% for the Supervisory Board as at the 30 June 2022 reporting date.

3.3 Risk report

dwpbank has initiated the measures set out in section 25a (1) of the German Banking Act (Kreditwesengesetz, "KWG“) and section 91 (2) of the German Stock Corporation Act (Aktiengesetz, "AktG“) requiring it to establish a risk early warning system. dwpbank has suitable systems in place to manage, monitor and control risks and possesses appropriate means to determine the Bank‘s financial position at any time with sufficient accuracy. The existing risk management tools and risk-bearing capacity analysis methods were further refined during the year under review.

3.3.1 Risk strategy: the foundation for the risk management system

The risk strategy constitutes the framework for the organisation of risk management and risk reporting, under which risks are categorised and described. It defines the risk management and controlling processes, risk-bearing capacity, the allocation of risk capital and incentive systems. The further refinements in 2017 resulted primarily from the defined corporate objectives, an adjustment of tolerances as part of the annual review of the process to determine risk tolerances, and consideration of the current regulatory requirements. The risk strategy is geared towards supporting the sustainable attainment of the targets formulated in the corporate strategy.

Responsibility for risk management lies with the Board of Management, which established the centralised and independent risk management organisational unit. In addition, clear roles and responsibilities have been defined for its operative implementation. The information security and contingency management functions have been integrated into the Risk Management department. The Risk Management department sets the general conditions for a Bank-wide risk management system and develops methods and processes for measuring and controlling risks. The risk management system is adjusted on an ongoing basis in line with changing legal and regulatory requirements and using the latest scientific methods.

3.3.2 Risk management: consistent responsibility

All executives at dwpbank are responsible for identifying, reporting, controlling and managing the risks which arise in their respective areas of responsibility. Risk management officers are also appointed in each of the Bank‘s units. They serve as multipliers and their knowledge and experience make them a key element of operative risk management. This also includes centralised monthly reporting on indicators that is included in the Bank-wide risk report.

In addition to ad-hoc risk and recovery reports and IT disruption reports, the monthly risk report regularly covers analyses from the loss database and risk indicators. In it, critical matters from the month under review are presented and causes, effects and measures are explained. Moreover, a quarterly report on the findings of the analysis of risk-bearing capacity is also prepared.

In addition, the annual risk report also covers risk developments and measures implemented in the past year. These reports are discussed at the quarterly meetings of the Risk Committee, which all Board of Management members attend. An operating risk committee meets in months when the risk report is not discussed at a meeting of the Board of Management. In addition, risk indicators are included in the monthly management report.

The Supervisory Board receives reports on the risk situation of dwpbank on a quarterly or ad-hoc basis, as necessary.

3.3.3 Application of the AMA to quantify operational risks

dwpbank uses an advanced measurement approach (AMA) to quantify capital requirements for operational risks. The key elements of the AMA model at dwpbank consist of an internal loss database, external risk data, risk assessments, scenario analyses and business environment and internal control factors. The internal loss database is used to capture and compile losses and has been implemented since 1 January 2004. The data is used to determine historical loss distributions. The evaluations performed using the database enable the systematic analysis of events, losses and causes and a description of the Bank's risk situation in addition to evidencing risk management measures.

Data on actual and expected losses from the occurrence of events are supplemented by the findings of an annual risk assessment. After the risk assessment, a scenario analysis is carried out to more closely analyse serious risk scenarios and scenarios of particular Bank-wide relevance and to achieve the best possible assessment of the risk profile. The two instruments combined make it possible to analyse risks and prioritise measures on a statistical basis.

dwpbank performs special assessments during the year if it has launched new products or entered new business areas. Near-miss losses or the implementation of risk-reducing measures can also trigger a review of prior assessments.

As a component of the risk management early warning system, risk indicators guarantee early risk identification thanks to the definition of objective limits. If an indicator is seen to be developing critically, monitoring is promptly increased and risk management measures are triggered. The regular monitoring of the specified indicators and risk scores enables the early identification of indications of pending risks. Risk indicator reporting is a dynamic process. Key indicator limits were updated in 2017 with the aim of increasing risk sensitivity, and existing indicators were reviewed and adjusted. In addition to risk indicators, dwpbank uses other ratios as part of its risk management system. These are business environment and internal control factors that are relevant to dwpbank's risk profile. They form a key basis of measurement for the purpose of risk assessment and scenario analysis. In addition the system of indicators includes recovery-related indicators.

The risk management framework has been published throughout the Bank in a risk management manual that is binding for all employees. The provisions set out in the manual are taken into account in the department-specific process documentation and work instructions.

The Risk Management department initiates measures aimed at promoting a healthy risk culture. These include Bank-wide risk management events, loss database training and internal publications. Furthermore, a code of conduct is in place to raise employee awareness of the need for risk-compliant behaviour.

The annual audit of dwpbank's risk management system forms part of Internal Audit's audit plan.

3.3.4 Risk categories and their significance to risk-bearing capacity

As part of the risk-bearing capacity analysis, dwpbank initially determines its risk cover assets using adjusted accounting figures and compares these to the risks seen from a liquidation approach. The analysis of risk-bearing capacity is supplemented regularly by comparing expected losses with provisions and loss budgets and by stress tests.

The recognition of own funds and hidden reserves as risk coverage potential is adjusted for intangible assets and tax effects when leveraging hidden reserves, for any applicable outstanding replenishment amount for pension provisions and for deferred tax assets in accordance with HGB accounting regulations, thereby reducing the overall risk cover assets recognised. While planned or expected profits are not recognised as risk coverage potential, profits already received are recognised. As at the end of the fourth quarter of 2017, the profit received before the decision on the profit appropriation amounted to EUR 27.0 million. Together with adjusted hidden reserves and adjusted own funds, the risk cover assets amounted to EUR 138.2 million as at 31 December 2017 (previous year: EUR 138.0 million).

The risk cover assets are compared against the risks at dwpbank. Risk amounts are added up using a conservative approach. As at the end of 2017, operational risks, counterparty risks, market price risks and business risks produced a total risk amount of EUR 74.4 million (previous year: EUR 52.9 million), which utilised risk cover assets by 53.8% (previous year: 38.3%). The risk cover margin or buffer amounted to EUR 63.8 million (previous year: EUR 85.1 million).

Operational risks are quantified at dwpbank as part of the advanced measurement approach (AMA) and incorporated into the risk-bearing capacity analysis at their annual value-at-risk (VaR) in the 99.9% quantile. As at the end of 2017, the operational risk was EUR 49.8 million. The figure recognised for operational risk rose year on year (figure as at 31 December 2016: EUR 23.5 million), due primarily to the newly calibrated AMA model.

For business, counterparty and market price risks, respective plausible risk amounts are included in the risk-bearing capacity analysis on the basis of materiality assessments and expert estimates in accordance with Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, MaRisk, General Section 4.1(5)). These risk amounts are also scaled to the 99.9% quantile on a yearly basis and amount to EUR 9.2 million (previous year: EUR 10.4 million) for counterparty risk and EUR 7.8 million (previous year: EUR 8.5 million) for market price risk. The plausible amount for business risks was EUR 30.3 million and describes the risk that realised profit will be lower than expected profit. If these business risks occur, the risk cover consumption would amount to EUR 7.5 million (previous year: EUR 10.5 million) in the 2018 financial year, based on budgeting assumptions.

Operational risks

dwpbank classifies process, employee, technology and external risks under operational risk, with explicit reference to legal risk. Operational risk relating to project work is referred to as project risk. At dwpbank, projects are a central component for implementing corporate strategy and business decisions. Potential risks from projects are identified and assessed indicatively as part of an established project management process. Losses incurred are entered in the internal loss database.

The scenario analysis has a significant influence on the quantitative amount recognised for operational risk. At present, this tool has been used to assess 19 scenarios. It revealed that the possibility of erroneous corporate actions represents the highest risk amount, followed by the risk of errors in project work.

Business risks

dwpbank includes strategic and economic risks in business risks on the basis of a single year. Business risks manifest in net income and their effect describes the risk that actual results deviate from planned results. At the beginning of each year, the potential deviation from projected net income is calculated to the 99.9% quantile p.a. based on empirical observations of deviations between projected and realised figures for net income for the year. This unlikely negative deviation amounted to EUR 30.3 million as at 31 December 2017. If this potential plan deviation would lead to a negative result for the year for dwpbank, the amount of the possible loss represents risk cover consumption in the risk-bearing capacity analysis. Based on profit planning of EUR 22.8 million, the possible loss in this case for the 2018 financial year amounts to EUR 7.5 million.

The business risks subject to empirical identification include for instance adverse developments pursuant to the medium-term planning such as the possibility of adverse variations in revenues (transaction volumes, new business) and expenses (project portfolio, staff downsizing).

Counterparty risks

By counterparty risks, dwpbank generally means the risk that receivables cannot be realised because obligors (counterparties) are no longer solvent or they default. dwpbank does not conduct active commercial lending business. It maintains client relationships with banks. Given this, the counterparty risk does not usually relate to the risk of loan losses.

In particular, the receivables categories in the ledger (invoices, time and sight deposits, bonds and fund units) are examined to quantify the risk amount for counterparty risk. Positions from the settlement of payments in association with securities for dwpbank clients (operating business) have a comparatively very small share in the risk amount. They are only relevant in certain case configurations in which dwpbank acts as a commission agent.

The starting point for calculating the risk amount for counterparty risks is the receivables holdings and exposures of the counterparties concerned. Probabilities of default are derived from the available rating information. Starting from the 99.9% probability level of the risk-bearing capacity analysis, the counterparties are included in the calculation of the risk amount whose rating induces a probability of default p.a. greater than or equal to 0.1%. The necessary backing by risk cover assets which is expressed by the risk amount is essentially oriented towards the amount of potential defaults by the three counterparties with the highest default or risk amounts in the stated probability interval.

Insolvency recovery rates that reduce the extent of a default are also taken into account. dwpbank may use the risk amount and the supporting analyses as impetus for risk controlling measures.

The risk amount for counterparty risks reflects the possibility of counterparty defaults within its overall receivables portfolio. The counterparties within the receivables portfolio feature high ratings, which is due in particular to the restrictions on investment strategy.

Operational risks	EUR 49.8 million		
Business risks	EUR 7.5 million		
Market price risks	EUR 7.8 million		
Counterparty risks	EUR 9.2 million		
Total risks	**EUR 74.4 million**	**Risk cover assets**	**EUR 138.2 million**

Market price risks

As dwpbank does not conduct proprietary securities trading and its business model is not geared to taking market price risks (dwpbank does not have a trading book), market price risks relate primarily to the investment of cash and cash equivalents in line with the investment strategy (bonds, funds). Market price risks could primarily occur in the context of the unscheduled liquidation of holdings.

The bonds used as collateral in the securities settlement process are examined for interest rate sensitivity and a risk amount is derived using empirically observed interest rate diversification. The determination of the market price risk for the German institutional fund (Spezialfonds) managed by dwpbank is based on the regular reporting of the fund company's risk indicators. Exchange rate risks are determined using publicly available information on exchange rate fluctuations and correlations, where applicable, to derive the risk amount. The analyses of market price risk can serve as impetus for risk controlling measures, such as in terms of investor conduct or process design.

Market price risk is shaped by interest rate risk in dwpbank's investment portfolio.

Liquidity risks

In accordance with GS 4.1(4) MaRisk, liquidity risks are not included in the risk-bearing capacity analysis at dwpbank as they cannot generally be reasonably limited or covered by risk coverage potential such as capital.

dwpbank has only limited exposure to liquidity risk as, in line with its business model, it is not subject to call risk due to unexpected payment obligations. Payment claims and obligations in respect of clients resulting from securities processing and financial brokerage operations are usually offset by obligations and claims payable on demand in the same amount.

Liquidity planning instruments with different time-frames ensure that dwpbank is able to meet its payment obligations at all times.

The liquidity ratio in accordance with the German Liquidity Regulation (Liquiditätsverordnung) (as at 31 December 2017: 3.22) and the liquidity cover ratio (LCR) (as at 31 December 2017: 408.67%) are integrated into dwpbank's monthly risk report as risk indicators and subject to internal floors. The ratios were clearly and stably above the limits throughout 2017. In addition, dwpbank monitors compliance with risk tolerance thresholds and liquidity reserves and the occurrence of possible liquidity shortages.

3.3.5 Outsourcing and risk communication

The value chains in industrial banking are characterised by outsourcing chains. In the case of securities transactions, outsourcing relationships exist between clients and dwpbank as well as between dwpbank and its providers.

In addition to competitive, cost and quality benefits, outsourcing also results in a transfer the risk outsourced. While a bank itself was exposed to the operational risks of settlement before outsourcing, it outsources these risks to the insourcer. A new factor is the risk emerging from the outsourcing relationship, referred to as the outsourcing risk. MaRisk requires this outsourcing risk to be managed, monitored and controlled. The risk management and controlling processes must guarantee that the material risks – including those of outsourced activities and processes – are detected early on, tracked in full and can be appropriately presented. The role of the insourcer is to manage, monitor and control its own risk. This is done based on its risk preference and business considerations.

For all outsourcing activities, the service and quality standards agreed with the client for the outsourced processes and activities must be observed in accordance with the respective service level agreements.

dwpbank has adopted an internal policy on outsourcing dwpbank services within the meaning of section 25b KWG. It provides regulations for specific activities and duties with regard to outsourcing relationships and measures for uniform provider management.

In line with the requirements of MaRisk (GS 9(2)), dwpbank has established a uniform risk analysis for determining the materiality of outsourcing. The relevant organisational units are included in the preparation of this risk analysis, as is Internal Audit within the scope of its responsibility.

All outsourced dwpbank operations are mapped, including data centre services in particular. These outsourcing relationships are assigned to outsourcing officers who ensure the management, monitoring and controlling of the contractual performance and reporting. They report annually on compliance with the requirements set forth under section 25b KWG and GS 9(6) MaRisk by way of an updated risk analysis. Based on these updates, Central Risk Management prepares a summary outsourcing report for the Board of Management. The objective of this outsourcing report is to provide an overview of relevant insourcer information against the backdrop of applicable legal requirements so as to assess the quality of the relationship and the outsourcing risk to which dwpbank is exposed. Outsourcing relationships are taken into account in the risk management system of dwpbank, particularly when quantifying operational risks using the AMA.

dwpbank provides its clients with extensive outsourcing and risk information during the year. dwpbank bundles this information in an annual outsourcing and risk report, which is made available to clients. An electronic version is also available on dwpbank's extranet. This documentation facilitates information research and assists clients in the provider management. The report and its content are updated each year and developed further. The outsourcing and risk report is complemented in electronic form by quarterly information on the risk map and on outsourcing management.

3.3.6 Continuous action management

Action management enjoys a high priority at dwpbank and primarily represents the risk control and monitoring functions based on the identification, evaluation and communication of risks within the risk management cycle. Action management consists of a number of risk management instruments and reports. Risk mitigation and risk transfer are the main options for controlling risks. Risk reduction activities were also implemented in 2017.

In dwpbank's advanced risk management system, operational risks are systematically measured in order to ensure that they can be objectively compared and controlled, particularly on the basis of value-at-risk (VaR).

Significant risk is generally countered through avoidance or measures to mitigate or transfer risks. Business aspects, such as the cost of risk mitigation or transfer and the earnings contributions of the divisions affected, are taken into account.

Stimuli for risk controlling activities are also derived from the comparison of risk amounts and the risk cover assets.

Based on the results of risk analyses, the available options for risk avoidance, mitigation, transfer and acceptance are discussed at the meetings of the Risk Committee.

Changes in the risk situation are monitored within the risk management system. Follow-up processes have been established for critical changes in the risk situation, risk events involving significant losses and ad hoc risk reports.

dwpbank has also taken out insurance for operational risks as an instrument for risk mitigation and transfer in addition to establishing business continuity planning that allows an appropriate response to disruptions in business processes at all times.

3.3.7 Trend development and forecaste

The number of risk events reported in 2017 was at the already low level observed in recent years. Statistically, there is a highly positive correlation between the number of settlements and transactions and the number of risk events reported in a year.

By contrast, there is no statistical correlation between the number of events reported annually and the annual loss total. As is typical for operational risks, annual loss totals are characterised not by the frequency of losses but rather by unsystematic occurrences of large losses. The total of realised losses for 2017 was below average.

Indicators for Production revealed a positive overall situation in 2017. An analysis of these indicators does not indicate any systemic weaknesses. For the most part, the events which triggered indicators were dealt with in a timely manner.

In the autumn and winter months, the number of sick days taken was significantly higher; the number was virtually at the same low level as in the previous year.

The liquidity ratio and liquidity coverage ratio (LCR) were at a healthy level in 2017; the total ratio (as at 31 December 2017: 18.87%) declined due to an increase in the amount recognised for operational risk, which was due in particular to the newly calibrated AMA model (see section 2.1.3).

At the Client Support Centre, availability fell short of the prior-year level while at the same time the volume of calls declined. The overall number of tickets issued in 2017 was up year on year. The reasons for this included the provider migration and disruption tickets generated by the system.

WP2 system availability remained virtually constant year on year and the risk indicator "online availability of WP2" was constantly at 100%. The systems availability indicators for WPDirect and WPIO were at the same high level of the prior years, with availability averaging 99.65% and 99.89%, respectively. The number of IT disruptions classified as highly critical was again low. The high degree of overall system availability for the WP2 system family achieved in recent years was maintained in financial year 2017 with respect to disruptions affecting clients.

The overall "operational stability" indicator, which comprises weighted individual indicators from IT and securities settlement (including system availabilities and cancellation rates), stood at 99.49% in 2017 (previous year: 99.80%) and was thus at a good qualitative level. For 2018, the figure for "operational stability" is expected to remain at the level of the two previous years.

Over the course of the year, the provider management indicators remained at a good level.

Security issues (IT security indicator) primarily resulted from security breaches that were discovered in the form of bugs in software and external attacks. There are no expectations that the number of security issues will decrease.

The contingency management risk indicators were at a non-critical level, roughly unchanged year on year.

These effects are also reflected in the evaluation of the risk assessments and scenario analyses.

The risk capital requirement for operational risks rose sharply as expected on the back of the calibration of the AMA model completed in 2017 to remedy an audit finding pursuant to section 44 KWG.

The risk strategy is regularly reviewed and updated as appropriate, in compliance with the business strategy. The risk-bearing capacity concept was modified for 2018 with respect to risk tolerances and accepted quantitative ratios between the risk categories.

In order to determine the quantitative ratios, expected risk amounts in the risk categories were calculated for 2018, taking into account empirical development and other factors. Particular attention was paid to aspects concerning the ability to manage risk amounts, and methodological adjustments in connection with the most recent audit pursuant to section 44 KWG (AMA calibration). The determinations express dwpbank's evaluation of the accepted risk ratios with which it can operate in 2018.

The accepted ratios give rise to an expected risk total of EUR 87 million for 2018 across all four risk categories. In comparison, a minimum risk cover margin of EUR 149.1 million is expected, corresponding to utilisation factor of 58.3%.

3.4 Outlook and report on opportunities

3.4.1 Positive outlook for the economy and financial markets

Market analysis indicates that the eurozone is continuing to experience an upswing. In its "Markets and Trends 2018" capital market outlook, for example, Helaba forecasts that gross domestic product (GDP) in the eurozone will grow by 2.2% in 2017 and 2.0% in 2018. However, populism, protectionism and separatist movements may prove detrimental to growth.

Populism and eurosceptic attitudes may herald a return to insecurity at any time, for instance in the context of the Italian elections. Separatist movements, for example in Catalonia, could give rise to further crises with adverse knock-on effects for the economy. Last but not least is the uncertainty surrounding the outcome of the Brexit negotiations. This poses risks for Germany in particular, since the United Kingdom is the third-largest export market for German businesses.

With the economy on a surer footing, inflation looks set to rise. As oil prices are unlikely to increase further in 2018 and the growth in food prices is expected to slow somewhat, we anticipate only a slight rise in the inflation rate from 1.5% in 2017 to between roughly 1.6% and 1.7% in 2018. This remains within the ECB's defined price stability target of 2.0% in the eurozone.

In our judgment, the German economy remains on stable ground. Adjusted for calendar effects, economic growth amounts to 2.5% for 2017, exceeding the prior-year figure of 1.9%. Strong domestic demand remains a key growth driver. Foreign trade has failed to keep pace, as imports have grown faster than exports. For 2018, we expect the strong momentum to ease off somewhat. Nevertheless, GDP growth of 2.0% is anticipated in 2018.

Despite the continuing positive earnings expectations for DAX companies, the outlook for further share price gains appears to be limited. For 2018, the 32 economists and analysts from German and foreign banks surveyed by business newspaper Handelsblatt expect that the DAX will climb only moderately to 14,000 points. Volatility during the year influences the transaction behaviour of securities clients, and it remains to be seen how this will pan out.

3.4.2 Expanding the leading market position in securities servicee

dwpbank's goal is to further expand on its leading market position in the period up to 2021. To this end, dwpbank is striving to expand its comprehensive service portfolio, drive forward the creation of standardised and automated process, and align operational and IT units with future needs. The aim is to ensure that we can react quickly to market opportunities, client requirements and regulatory changes and, last but not least, achieve a greater level of client loyalty in the banking networks.

The "dwpbank 4.0" strategy initiative addresses the challenges arising from the market and competitive environment in compliance with regulatory requirements, and continues to form the implementation framework for the goals formulated under dwpbank's Vision 2021 strategy.

3.4.3 Regulatory conditions affecting dwpbank's line of business

Regulatory and market infrastructure-driven requirements will also impact dwpbank's business activities in 2018 and 2019. Added to this are specific requirements for the core business area of securities services; these are already discernible from today's perspective and will need to be implemented in the coming years.

Following the migration of the German market to Europe's integrated securities settlement platform, TARGET2-Securities (T2S), the size and scope of the T2S project mean that dwpbank will continue to support the resulting post-launch tasks in financial year 2018 and implement new functions with respect to the custody types and on the payments and physical delivery sides. In doing so, dwpbank links its clients to the standardised European post-trade infrastructure.

Financial year 2018 will see the scheduled implementation of follow-up activities to the MiFID II requirements that entered into force as at 3 January 2018. These include adjusted processes and improved technical solutions in cooperation with banking associations and client institutions.

Further elements of the investment tax reform will have to be implemented in 2018, in particular the pre-determined tax base to be levied at the beginning of 2019 for 2018 and an investment unit portfolio certificate to be used for certain investors to receive tax reimbursement at the fund input level from 2019 onwards. There may also be further issues to be implemented under the outstanding application guidelines from the tax authorities.

Over the course of 2019, new regulatory requirements for settlement discipline and internalisation will become due for implementation pursuant to the Securities Settlement and Delivery Regulation (Verordnung über Wertpapierliefer- und -abrechnung), which will affect dwpbank and its clients. Consequently, 2018 will be marked by preparations, conceptual design, consultation with clients and industry associations, and implementation and test activities. The aim is for dwpbank to comply with its own statutory obligations, and to develop a catalogue of services to support its clients comply with their statutory obligations.

dwpbank will also step up its efforts to support its clients in complying with the requirements as custodians (KAGB services). For this purpose, dwpbank offers a regular custodian assessment, ongoing monitoring of markets and depositories, and a tool providing newsflashes, ratings and market reports.

dwpbank leverages the bundled implementation of regulatory and market requirements for its clients to strengthen its position as an innovative securities services provider. This opens up opportunities for dwpbank to work more closely with its existing client base and to gain new clients, including by expanding the product and service portfolio.

3.4.4 Opportunities for dwpbank's long-term economic development

As in previous years, quantitative developments on the securities market are a key factor shaping dwpbank's financial results.

dwpbank expects a slight increase in transaction volumes and a slight decrease in the number of securities accounts. The anticipated stable market environment opens up opportunities for dwpbank to leverage additional potential for implementing optimisation initiatives in subsequent years. The requisite activities to enhance workflow efficiency and realise additional revenue potential are being prepared and put in place as part of the "dwpbank 4.0" strategy initiative.

dwpbank sees particular additional revenue potential in acquiring defined new clients and in expanding cross-selling activities within the German Savings Banks Financial Services Network and the German Cooperative Financial Services Network. Among other things, this will be achieved by expanding back-office processing as part of BOSC services, launching reinvestment management and in expanding the institutional services offering.

On the cost side, finalising the implementation of the staff restructuring measures set out in the "dwpbank 2018" partial reconciliation of interests will have a lasting positive effect. Further cost reductions will be achieved by systematically developing workflows, streamlining change processes and enhancing efficiency within the staff functions and facility management.

dwpbank is pushing ahead with modernising its IT platform to guarantee a securities settlement platform that is modern, efficient, scalable and fit for the future. The specific value added is in ensuring the long-term operation of WP2 as a high-performance IT platform. The aim is to establish the technical conditions for the requisite reduction in costs and increase in flexibility, as well as the long-term development capability of the IT systems. The aim is for the further technical development of the settlement systems to be achieved in several stages, with the core advances being realised by the end of 2021.

In the view of the Board of Management, the initiatives outlined will be systematically implemented in the pursuit of dwpbank's long-term goals and will lay a solid foundation for further business development. On the basis of the activities presented above and the associated planning, dwpbank expects to generate earnings before taxes at a level slightly below the results for 2017.

2017 Annual financial statements

Deutsche WertpapierService Bank AG

BALANCE SHEET

as at 31 December 2017

Assets	EUR	31 Dec. 2017 EUR	31 Dec. 2016 EUR thousand
1. Cash			
a) Cash in hand	0.00		5
b) Central bank balances of which: with Deutsche Bundesbank EUR 0.00 (previous year: EUR 0 thousand)	0.00		0
		0.00	
2. Loans and advances to other banks			
a) Payable on demand	629,211,552.24		289,965
		629,211,552.24	
3. Loans and advances to clients		5,792,317.95	7,341
4. Bonds and other fixed-income securities			
a) Bonds and notes			
aa) Of public-sector issuers of which: eligible at Deutsche Bundesbank EUR 118,897,060.15 (previous year: EUR 84,631 thousand)		118,897,060.15	84,631
5. Equities and other non-fixed-income securities		99,999,930.27	100,000
6. Equity investments		320,000.00	320
7. Shares in affiliated companies		651,697.32	113
8. Trust assets of which fiduciary loans: EUR 0.00		4,307,573.09	13,568
9. Intangible fixed assets			
a) Internally generated industrial and similar rights and assets	32,794,697.31		21,934
b) Purchased concessions, industrial and similar rights and assets and licences in such rights andassets	1,350,527.00		1,348
		34,145,224.31	
10. Tangible fixed assets		7,210,129.04	7,878
11. Other assets		17,779,285.19	22,178
12. Prepaid expenses		5,773,284.83	5,816
13. Deferred tax assets		28,836,395.00	27,396
Total assets		952,924,449.40	582,493

Equity and liabilities	EUR	31 Dec. 2017 EUR	31 Dec. 2016 EUR thousand
1. Liabilities to other banks			
a) Payable on demand	531,974,821.30		193,507
		531,974,821.30	
2. Liabilities to clients			
a) Other			
aa) Payable on demand	8,422,544.24		32
		8,422,544.24	
3. Trust liabilities of which fiduciary loans: EUR 0.00		4,307,573.09	13,568
4. Other liabilities		25,247,224.23	17,139
5. Deferred income		447,304.39	1,047
5a. Deferred tax liabilities		10,411,175.34	6,982
6. Provisions			
a) Provisions for pensions and similar obligations	103,029,915.00		92,598
b) Provisions for taxes	0.00		850
c) Other provisions	75,381,595.61		76,582
		178,411,510.61	
7. Equity			
a) Subscribed capital	20,000,000.00		20,000
b) Capital reserves	108,416,625.67		108,417
c) Revenue reserves			
ca) Legal reserves	2,000,000.00		2,000
cb) Other revenue reserves	41,171,157.78		41,046
d) Net retained profits	22,114,512.74		8,725
		193,702,296.19	
Total equity and liabilities		952,924,449.40	582,493

INCOME STATEMENT

for the period from 1 January 2017 to 31 December 2017

	EUR	EUR	2017 EUR	2016 EUR thousand
1. Interest income from				
a) Lending and money market transactions	1,564,957.09			1,351
b) Fixed-income securities and debt register claims	2,242,426.93	3,807,384.02		2,254
2. Interest expense		-1,408,532.02		-1,318
			2,398,852.00	2,287
3. Current income from				
a) Equities and other non-fixed-income securities		11,753.40		163
b) Equity investments		30,158.82		40
c) Shares in affiliated companies		146,460.54		144
			188,372.76	348
4. Fee and commission income		873,468,978.78		761,662
5. Fee and commission expense		-651,033,591.92		-539,555
			222,435,386.86	222,107
6. Other operating income			50,280,842.80	50,787
7. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-87,395,943.04			-93,033
ab) Social security, post-employment and other employee benefit costs, of which: in respect of old-age pensions EUR 5,801,406.31 (previous year: EUR 5,697 thousand)	-18,072,197.63			-18,796
		-105,468,140.67		-111,829
b) Other administrative expenses		-99,188,362.10		-96,340
			-204,656,502.77	-208,169

	EUR	EUR	2017 EUR	2016 EUR thousand
8. Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets			-7,101,152.75	-6,871
9. Other operating expenses, of which: interest on longer-term provisions: EUR 10,351,337.58			-34,078,269.65	-46,459
10. Write-downs of and allowances on loans and advances and certain securities and additions to provisions for credit risks			-2,409,342.26	-1,340
11. Income from reversals of write-downs of loans and advances and certain securities and reversals of provisions for credit risks			0.00	60
12. Expenses for loss absorption			-39,737.96	0,00
13. Result from ordinary activities			**27,018,449.03**	**12,749**
14. Taxes on income				
a) Current taxes on income		-2,915,020.29		-7,332
b) Deferred taxes		-1,988,916.00		3,308
			-4,903,936.29	-4,024
15. Net income for the financial year			22,114,512.74	8,725
16. Net retained profits			**22,114,512.74**	**8,725**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

General information

The annual financial statements of dwpbank for the 2017 financial year were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, "HGB“), including sections 340 et seq. in particular, and the German Regulation on Accounting by Banks (Kreditinstituts-Rechnungslegungsverordnung, "RechKredV“).

I. Accounting policies

Assets and liabilities have been accounted for in accordance with German generally accepted accounting principles as set out in sections 252 et seq. HGB unless dictated otherwise by the special provisions of sections 340 et seq. HGB. The provisions of the RechKredV were observed.

In accordance with section 286 (3) sentence 1 HGB, the information on subsidiaries pursuant to section 285 no.11 HGB has not been disclosed.

The individual assets were measured conservatively. Loans and advances to other banks and to clients were measured at their principal amounts. Liabilities are carried at their settlement amounts.

Receivables and liabilities from the performance of payments in association with securities were recognised by the Bank as trust assets and trust liabilities respectively, provided the appropriate contractual bases exist.

Bonds held in the proprietary portfolio are allocated to the liquidity reserve and are measured using the strict lower of cost or market principle. Non-fixed-income securities allocated to the investment portfolio are recognised in accordance with the less strict lower of cost or market principle. Equity investments and shares in affiliated companies are carried at cost less write-downs.

Finite-lived items of tangible fixed assets are carried at cost and reduced by depreciation reflecting their expected useful lives. These useful lives are generally based on the depreciation tables published by the tax authorities. Low-value assets are treated in accordance with the relevant tax provisions.

The bank has exercised the option provided under section 248 (2) HGB to capitalise internally generated intangible assets.

Provisions were recognised at their settlement amount; longer-term provisions were discounted accordingly.

Pension and early retirement provisions were calculated in line with actuarial principles, applying the projected unit credit method. The settlement amount was calculated using the 2005 G Heubeck mortality tables and a matched-term interest rate of 3.68 %. Furthermore, wage and salary increases of 2.50% and a pension trend of 1.5% to 2.00% were assumed. Other provisions take into account all identifiable risks and uncertain obligations as at 31 December 2017.

In accordance with section 246 (2) HGB, the Bank offset assets and liabilities to the necessary extent. These relate to the provisions for partial retirement and the corresponding plan assets.

Foreign currency receivables and liabilities were translated at the ECB reference rates of 31 December 2017 in accordance with section 340h HGB.

The Bank presents deferred tax assets and liabilities separately under assets and under liabilities (section 274 (1) HGB). Deferred taxes were calculated using tax rates of 15.83 % for the tax loss carryforward and 31.82 % for differences in balance sheet line items.

The proposal for the appropriation of profits was prepared taking into account the restrictions on distribution set out in section 253 (6) and section 268 (8) HGB.

II. Notes to the balance sheet

1. Loans and advances to other banks

The carrying amount (EUR 629,212 thousand) relates exclusively to loans and advances payable on demand (previous year: EUR 289,965 thousand). Of this amount, EUR 544,888 thousand is attributable to the Bank's operating activities in the securities business. The significant year-on-year increase is due to a very high volume of securities transactions by clients not delivered as at 31 December 2017. Delivery was effected on a timely bases as at 2 January 2018.

Loans and advances include foreign currency amounts of EUR 15,431 thousand (previous year: EUR 38,908 thousand). Loans and advances to banks in which dwpbank holds an equity investment totalled EUR 516,613 thousand (previous year: EUR 123,414 thousand).

2. Loans and advances to clients

Of the EUR 5,792 thousand in loans and advances to clients (previous year: EUR 7,341 thousand), EUR 3,670 thousand related to outstanding invoices as at the balance sheet date. This includes loans and advances to affiliated companies of EUR 53 thousand (previous year: EUR 15 thousand). EUR 2,122 thousand is attributable to the Bank's operating activities in the securities business. These are loans and advances to counterparties. The loans and advances in this item denominated in a foreign currency amount to EUR 368 thousand (previous year: EUR 2,154 thousand).

3. Bonds and notes

This item consists entirely of fixed-income, listed securities. These relate primarily to bonds issued by the Federal Republic of Germany. These securities are allocated to the liquidity reserve.

Bonds and notes serve as collateral for dwpbank's participation in Xetra trading as a CCP of EUREX Clearing AG and in trading on the Frankfurt Stock Exchange, as well as to secure the domestic transactions settled via the regional Bundesbank office (Landeszentralbank) account. They are deposited in a pledged securities account with Clearstream. A nominal EUR 26,820 thousand of the securities reported as part of this item matures in 2018.

4. Equities and other non-fixed-income securities

The carrying amount of this item relates to the unlisted units of a German institutional fund (Spezialfonds) launched for dwpbank AG. The fund serves to generate returns in excess of the money market interest rate and can be liquidated at short notice. It is carried at EUR 4,350 thousand below market value, which was EUR 104,350 thousand as at the end of the year.

As at year-end, the fund predominantly contains highly rated securities issued by euro area governments and German and European institutions.

5. Equity investments

dwpbank holds a 26% interest in CINTAC A/S, Roskilde, Denmark, which it carries at a value of EUR 320 thousand. The shares are not listed. The company's share capital amounts to DKK 568 thousand (EUR 76 thousand); in the last full financial year (2017), net income for the financial year of DKK 1,003 thousand (EUR 135 thousand) was generated.

6. Shares in affiliated companies

dwpbank holds a 100% interest in dwp Software Kft., Budapest, carried at the original cost of EUR 113 thousand. In addition, dwpbank holds a 100% interest in subsidiary dwp Service GmbH, Halle/Saale, formed in 2017, which is carried at cost in the amount of EUR 539 thousand. The shares of neither company are listed.

In accordance with section 290 (5) HGB, consolidated financial statements were not prepared since the subsidiaries need not be included in consolidated financial statements on account of them being insignificant in accordance with section 296 (2) HGB.

The long-term financial assets described in items 4 to 6 developed as follows in the year under review.

7. Trust assets

The trust assets reported separately here relate entirely to loans and advances to other banks resulting from payments associated with securities settlement. This item is offset by trust liabilities to other banks in the same amount.

8. Intangible fixed assets

This item consists primarily of software developed internally by the Bank. The Bank identified EUR 15,942 thousand of its project work as eligible for capitalisation in the financial year and recognised this amount as internally generated intangible assets.

Purchased intangible assets relate exclusively to software. Software is carried at cost less amortisation. The amortisation period is four years.

9. Tangible fixed assets

Tangible fixed assets relate primarily to finite-lived assets (operating and office equipment).

The useful life of a tangible fixed asset takes account of the asset's physical life, technical obsolescence and contractual and statutory restrictions.

Changes in fixed assets are presented in the statement of changes in fixed assets [see table].

EUR thousand	Equities and other non-fixed-income securities	Equity investments	Shares in affiliated companies
Historical cost	100,000	320	113
Additions in the financial year	0	0	539
Disposals in the financial year	0	0	0
Depreciation, amortisation and write-downs on disposal	0	0	0
Depreciation, amortisation and write-downs (cumulative)	0	0	0
Carrying amount at 31 Dec. 2017	100,000	320	652
Carrying amount at 31 Dec. 2016	100,000	320	113
Depreciation, amortisation and write-downs in the financial year	0	0	0

10. Other assets

The carrying amount of EUR 17,779 thousand (previous year: EUR 22,179 thousand) includes loans and advances from the Bank's operating activities in the securities business in the amount of EUR 537 thousand.

The Bank also has receivables from tax prepayments and credits in the amount of EUR 3,034 thousand (previous year: EUR 100 thousand) and from VAT transfers for the years 2004 to 2010 amounting to EUR 866 thousand (previous year: EUR 9,663 thousand). In the reporting period, the tax authorities issued a binding ruling on the tax treatment of settlement products offered by the former TxB, and reimbursed the majority of the outstanding receivable to dwpbank. The recognised outstanding amount was likewise refunded in January 2018.

EUR thousand	Intangible fixed assets	Tangible fixed assets
Historical cost	135,570	25,017
Additions in the financial year	16,775	521
Disposals in the financial year	0	0
Depreciation, amortisation and write-downs on disposal	0	0
Depreciation, amortisation and write-downs (cumulative)	118,200	18,328
Carrying amount at 31 Dec. 2017	34,145	7,210
Carrying amount at 31 Dec. 2016	23,283	7,878
Depreciation, amortisation and write-downs in the financial year	5,912	1,189

In addition, the receivables item also includes EUR 6,558 thousand in receivables from depositary fees not yet charged on to clients for December 2017 and EUR 4,455 thousand in advance salary payments for January 2018.

The reinsurance claims from insolvency insurance for partial retirement obligations reported were offset against the corresponding provisions for partial retirement in accordance with section 246 (2) HGB. The amount of cover assets as at 31 December 2017 was EUR 557 thousand.

11. Prepaid expenses

This item includes prepaid advance payments by dwpbank only.

12. Deferred tax assets

Of the EUR 28,836 thousand in deferred tax assets, EUR 1,763 thousand resulted from a tax loss carryforward and EUR 27,073 thousand from differences in the measurement of balance sheet items in the tax accounts and in the financial accounts. This relates primarily to the Spezialfonds (tax recognition of retained income) and the difference in the recognition of individual provisions under tax law, in particular pension and restructuring provisions. A further EUR 1,440 thousand results pro rata from the effects in income of 2017.

13. Liabilities to other banks

The EUR 531,975 thousand in liabilities payable on demand (previous year: EUR 193,507 thousand) resulted almost exclusively from the Bank's operating activities in the securities business and included EUR 16,429 thousand (previous year: EUR 40,753 thousand) denominated in foreign currency. As is the case with loans and advances to other banks, the overall item is significantly higher due to securities transactions not delivered as at the balance sheet date.

Liabilities to banks in which dwpbank holds an equity interest totalled EUR 4,283 thousand (previous year: EUR 62,770 thousand).

14. Liabilities to clients

Liabilities to non-banks amounted to EUR 8,423 thousand (previous year: EUR 32 thousand); these related almost exclusively to liabilities from the Bank's operating activities in the securities business. This included EUR 59 thousand in liabilities denominated in foreign currency.

15. Other liabilities

The carrying amount of EUR 25,247 thousand (previous year: EUR 17,139 thousand) includes liabilities from the Bank's operating activities in the securities business amounting to EUR 4,540 thousand (previous year: EUR 4,470 thousand). This item also includes trade payables of EUR 15,363 thousand (previous year: EUR 6,897 thousand), outstanding payroll and church tax of EUR 1,915 thousand (previous year: EUR 1,198 thousand) and outstanding VAT amounting to EUR 1,400 thousand (previous year: EUR 2,160 thousand). Other liabilities include items denominated in foreign currencies amounting to EUR 20 thousand. Liabilities to banks in which dwpbank holds an equity investment totalled EUR 75 thousand (previous year: EUR 473 thousand).

16. Deferred tax liabilities

All of the deferred tax liabilities (EUR 10,411 thousand) relate to the capitalisation of internally generated intangible fixed assets. In 2017, deferred tax liabilities were increased by EUR 3,429 thousand through profit or loss.

17. Provisions

Provisions totalled EUR 178,412 thousand as at 31 December 2017 (previous year: EUR 170,031 thousand).

The difference in pension provisions in accordance with section 253 (6) HGB amounts to EUR 19,539 thousand.

Under other employee-related provisions, the provision for partial retirement was offset against the corresponding plan assets of EUR 557 thousand in accordance with section 246 (2) HGB.

Other provisions include provisions for outstanding invoices in the Bank's operating activities in the securities business, including the settlement of interest and fees (EUR 7,748 thousand), provisions for IT and consulting expenses (EUR 2,667 thousand) and other administrative expenses (EUR 8,721 thousand). Of the latter, EUR 7,124 thousand is attributable to tax matters.

EUR thousand	31 December 2017	31 December 2016
Provisions for pensions	103,030	92,599
Other employee-related provisions	27,044	25,054
Restructuring provisions	24,882	30,382
Holiday leave and flexitime	2,519	2,310
Other provisions	20,937	19,686

18. Equity

Subscribed capital relates exclusively to dwpbank's subscribed capital of EUR 20,000,000, which is divided into 20,000,000 registered voting shares with restricted transferability. The share capital is fully paid in as follows: DZ BANK 50.00%; Sparkassenverband Westfalen-Lippe 20.00%; Rheinischer Sparkassen- und Giroverband 20.00%; BayernLB 3.74501%; Landesbank Hessen-Thüringen 3.74499%; HSH Nordbank 2.51%. The Bank did not hold any treasury shares.

In the financial year, EUR 125 thousand was transferred from the net retained profits of the previous year to other revenue reserves.

III. Notes to the income statement

1. Interest income

Interest income from lending and money market transactions amounting to EUR 1,561 thousand (previous year: EUR 1,348 thousand) relates to the operating activities in the securities business and results from interest on the balances of clients' current accounts used for this purpose, depositories and payment service providers.

Interest from fixed-income securities results from the securities deposited as collateral.

2. Interest expense

Interest expenses relate exclusively to EUR 1,409 thousand in current account interest (previous year: EUR 1,318 thousand) on accounts used in the operating activities of the securities business.

3. Current income

Current income from equities and other non-fixed-income securities results primarily from a dividend received from the Düsseldorf Stock Exchange. Income from equity investments consisted exclusively of the dividend from CINTAC A/S, and the income from affiliated companies consisted exclusively of the dividend from dwp Software Kft.

4. Fee and commission income

Fee and commission income amounted to EUR 873,469 thousand (previous year: EUR 761,662 thousand), with EUR 223,431 thousand (previous year: EUR 222,864 thousand) of that amount resulting from full-service securities services. This item also includes sales commission income of EUR 567,632 thousand (previous year: EUR 467,586 thousand), which is offset by corresponding fee and commission expenses. A further EUR 65,130 thousand (previous year: EUR 55,574 thousand) in income resulted from depositories' transaction and account fees passed on to clients, and EUR 14,860 thousand (previous year: EUR 13,629 thousand) related to brokerage fees and expenses.

5. Fee and commission expense

Fee and commission expenses amounted to EUR 651,034 thousand (previous year: EUR 539,555 thousand) and can be broken down as follows [see table]:

Other fee and commission expense relates primarily to brokerage fees and expenses of EUR 12,677 thousand (previous year: EUR 11,541 thousand).

EUR thousand	2017	2016
Sales commissions paid	567,630	467,586
Securities account and transaction fees	66,928	56,976
Other fee and commission expense	16,476	14,993

6. Other operating income

Other operating income of EUR 50,281 thousand (previous year: EUR 50,787 thousand) can be broken down as follows [see table].

Miscellaneous other operating income includes rent income in the amount of EUR 1,105 thousand and income from discounts in the amount of EUR 1,522 thousand.

A further EUR 4,485 thousand in income resulted from a VAT matter which was attributable to the previous year (WIS products). In the reporting period, the tax authorities issued a binding ruling on the tax treatment of settlement products offered by the former TxB, and reimbursed both the majority of the outstanding receivable and the accrued interest in the above-mentioned amount to dwpbank.

The remaining miscellaneous other operating income essentially results from the invoicing of services. In accordance with section 246 (2) HGB, income of EUR 5 thousand was offset against other operating expenses.

Contrary to the requirements of section 277 (5) sentence 2 HGB, dwpbank reports its foreign exchange result on a net basis under this item. The is due to the fact that, for technical reasons, foreign exchange gains and losses are overstated in the income statement and recognising these on a gross basis in other operating income and other operating expenses would give an incorrect view.

7. Other administrative expenses

Other administrative expenses totalling EUR 99,188 thousand (previous year: EUR 96,340 thousand) related to IT operation and development expenses in the amount of EUR 49,602 thousand (previous year: EUR 43,232 thousand). Consulting fees in the amount of EUR 18,120 thousand (previous year: EUR 22,369 thousand) and building

EUR thousand	2017	2016
IT services (incl. migrations)	23,646	30,154
Foreign exchange result	8,353	6,968
Reversal of provisions	6,089	3,981
Miscellaneous other operating income	12,193	9,684

management expenses in the amount of EUR 13,878 thousand (previous year: EUR 13,609 thousand) were also incurred in the reporting period. Further components of this item include expenses relating to information gathering (market data services), which amounted to EUR 6,479 thousand (previous year: EUR 6,654 thousand), and other personnel expenses and non-labour costs relating to personnel, which amounted to EUR 6,635 thousand (previous year: EUR 6,374 thousand).

8. Other operating expenses

Other operating expenses amounted to EUR 34,078 thousand (previous year: EUR 46,459 thousand). Of this figure, EUR 7,263 thousand (previous year: EUR 21,846 thousand) resulted from additions to an existing provision for restructuring measures. Furthermore, this item includes non-deductible input tax of EUR 9,812 thousand (previous year: EUR 8,183 thousand) and the effect from the reversal of discounting on longer-term personnel provisions amounting to EUR 10,351 thousand (previous year: EUR 1,875 thousand).

In accordance with section 246 (2) HGB, expenses of EUR 5 thousand were offset against other operating income.

9. Write-downs of and allowances on loans and advances and certain securities and additions to provisions for credit risks

The expenses reported under this item relate exclusively to write-downs of securities held in the liquidity reserve, where such write-downs were recognised in accordance with the strict lower of cost or market principle.

10. Taxes on income

EUR 3,498 thousand of reported current taxes related to the result from ordinary activities of the past financial year. A further EUR 583 thousand resulted from tax reimbursements for previous years. A total expense of EUR 1,989 thousand (previous year: EUR 3,308 thousand) resulted from deferred taxes.

11. Return on capital

The return on capital, which under section 26a of the German Banking Act (Kreditwesengesetz, "KWG") is calculated as net income for the financial year divided by total assets, amounted to 2.32%. The meaningfulness of the return on capital is limited since dwpbank's total assets are heavily dependent on the volume of settled securities transactions and thus cannot be actively controlled by the Bank.

IV. Report on post-balance sheet date events

No significant events or transactions occurred after the balance sheet date.

V. Other disclosures

1. Employees

The average number of people employed by the Bank (full-time equivalents) in the financial year was 1,278. Of that number, 879 were employed full-time and 399 part-time. On 31 December 2017, the Bank had 1,265 active employees, of which 867 were full-time and 398 part-time. Additionally, the Bank employed three members of the Board of Management as at 31 December 2017, as well as 47 inactive employees.

2. Total remuneration of executive bodies and recognised provisions for pensions

The total remuneration paid to members of the Board of Management in the year under review was EUR 1,435 thousand. Remuneration of EUR 1,035 thousand was paid to former members of the Board of Management. Additionally, provisions for pensions totalling EUR 17,175 thousand were also recognised for this group of people. Provisions of EUR 170 thousand were recognised for the remuneration of dwpbank's Supervisory Board for the past financial year.

3. Total fee for auditor

Expenses of EUR 242 thousand were incurred for the activities of the auditor in the financial year. Of this figure, EUR 235 thousand was attributable to audit services and EUR 7 thousand to other assurance services.

EUR 70 thousand was also incurred for further audit services relating to an audit focusing on IT permissions management. In addition, EUR 33 thousand was incurred for other assurance services, which related primarily to the limited assurance audit of the non-financial statement pursuant to sections 289b et seq. HGB. Both items were billed for the first time in 2018.

4. Development expenses

During the financial year, the Bank incurred a total of EUR 49,908 thousand (previous year: EUR 43,577 thousand) in expenses for development activities. These development activities were reviewed to ascertain whether they were subject to capitalisation and, if the conditions were met, were recognised on the balance sheet. EUR 15,942 thousand was capitalised as intangible assets in the financial year.

5. Contingent liabilities not shown on the face of the balance sheet

dwpbank has issued a letter of comfort on behalf of dwp Software Kft., Budapest, to the lessor of the company's premises. Lease collateral in the form of a bank guarantee was provided to the lessor on behalf of dwp Service GmbH, Halle.

6. Amounts excluded from distribution

A total of EUR 70,759 thousand was excluded from distribution. That amount comprised EUR 19,539 thousand in accordance with section 253 (6) HGB and EUR 51,220 thousand in accordance with section 268 no. 8 HGB. The amounts excluded from distribution pursuant to section 268 HGB consisted of net deferred tax assets and liabilities (EUR 18,425 thousand) and capitalised internally generated intangible assets (EUR 32,795 thousand).

Given the amount of the available reserves, there were no restrictions on the distribution of the net income for financial year 2017.

7. Proposal for the appropriation of profits

The Board of Management proposes the following appropriation of profits:

"The net retained profits for the 2017 financial year amounting to EUR 22,114,512.74 shall be appropriated as follows:

1. Distribution to shareholders in the form of a EUR 0.75 dividend per no-par value share (a total of EUR 15,000,000.00 for 20 million no-par value shares).
2. Transfer to revenue reserves amounting to EUR 7,114,512.74.
3. No profit shall be carried forward."

8. Members of the Board of Management

The following people were members of the Board of Management of dwpbank in the year under review:

- Dr Heiko Beck, Bensheim, Chairman, Corporate Management and Client Management
- Thomas Klanten, Bottrop, IT, Finance and Risk Management
- Markus Neukirch, Oberursel (since 1 February 2017), Operations

9. Positions held by members of the Board of Management in supervisory bodies of other companies

Dr Heiko Beck is a member of the Advisory Board of Clearstream International.

Thomas Klanten is a member of the Exchange Council of the Düsseldorf Stock Exchange.

10. Members of the Supervisory Board

In accordance with the Articles of Association, the Bank's Supervisory Board comprises 15 members; the following people were members of the Supervisory Board:

- **Thomas Ullrich, Chairman**
  Member of the Board of Management of DZ BANK AG, Frankfurt am Main
- **Dr Klaus Tiedeken, Deputy Chairman**
  Member of the Board of Management, Kreissparkasse Köln, Cologne
- **Sven Breidenbach**
  Employee representative, dwpbank, Düsseldorf
- **Wilfried Groos**
  Chairman of the Board of Management, Sparkasse Siegen, Siegen
- **Lars Hille (until 9 June 2017)**
  Member of the Board of Management of DZ BANK AG, Frankfurt am Main
- **Dr Detlef Hosemann**
  Member of the Board of Management, Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main
- **Marc Höttemann**
  Employee representative, dwpbank, Düsseldorf
- **Axel Jungen**
  Employee representative, dwpbank, Düsseldorf
- **Christoph Moers**
  Employee representative, dwpbank, Munich
- **Dr Peter Neu (since 28 April 2017)**
  Head of Group Strategy and Controlling, DZ BANK AG, Frankfurt am Main
- **Gregor Roth**
  Head of Transaction Management, DZ BANK AG, Frankfurt am Main
- **Helmut Schiffer**
  Managing Director, Rheinischer Sparkassen und Giroverband, Mühlheim
- **Peter Tenbohlen**
  Head of Operations, DZ BANK AG, Düsseldorf
- **Christoph Ulm**
  Employee representative, dwpbank, Munich/Deutscher Bankangestellten-Verband, Düsseldorf
- **Dr Ulrich Walter (since 20 June 2017)**
  Head of Capital Markets and Trading, DZ BANK AG, Frankfurt am Main
- **Jürgen Wannhoff**
  Vice President, Sparkassenverbands Westfalen-Lippe, Münster
- **Frank Westhoff (until 27 April 2017)**
  Member of the Board of Management of DZ BANK AG, Frankfurt am Main

Frankfurt am Main, 6 March 2018

Dr. Heiko Beck   Thomas Klanten   Markus Neukirch

Disclosure in accordance with section 26a (1) sentence 2 KWG as at 31 December 2017

Country-by-country reporting 2017

Deutsche WertpapierService Bank AG, with registered office in Frankfurt am Main, has no foreign branches that conduct banking operations. All disclosures within the meaning of section 26a (1) sentence 2 KWG presented in the annual financial statements relate solely to the Federal Republic of Germany.

The Bank's turnover for the period from 1 January 2017 to 31 December 2017 and the number of employees on a full-time equivalent basis as at 31 December 2017 are presented in the table below:

Turnover in EUR million	241.2
Interest income	3.8
Interest expense	-1.4
Net interest income	**2.4**
Fee and commission income	873.4
Fee and commission expense	-651.0
Net fee and commission income	**222.4**
Other operating income	50.5
Other operating expenses	-34.1
Net other operating income	**16.4**
Number of employees on a full-time equivalent basis	**1,200**
Profit before tax in EUR million	**27.0**
Taxes on income in EUR million	**-4.9**
Public subsidies received in EUR	**0.00**

Profit before tax amounted to EUR 27.0 million; the tax expense amounted to EUR 4.9 million.

The Bank did not receive any public subsidies in the financial year.

Independent auditor's report

To Deutsche WertpapierService Bank AG, Frankfurt am Main

Report on the audit of the annual financial statements and of the management report

Audit opinions

We have audited the annual financial statements of Deutsche WertpapierService Bank AG, Frankfurt am Main, which comprise the balance sheet as at 31 December 2017 and the income statement for the financial year from 1 January 2017 to 31 December 2017, and the notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Deutsche WertpapierService Bank AG, Frankfurt am Main, for the financial year from 1 January 2017 to 31 December 2017. We have not audited the corporate governance declaration pursuant to section 289f (4) of the German Commercial Code (Handelsgesetzbuch, "HGB"), as contained in section 3.2 of the management report (disclosures on the proportion of women in management positions), in accordance with German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January 2017 to 31 December 2017 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the above-mentioned corporate governance declaration pursuant to section 289f (4) HGB (disclosures on the proportion of women in management positions).

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as the "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, "IDW"). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

The section below describes what we consider to be the key audit matter:

Recognition and measurement of internally generated intangible fixed assets

Grounds for identification as a key audit matter:

The WP2 central settlement platform constitutes the technical foundation for the products and services that Deutsche WertpapierService Bank AG (subsequently referred to as "dwpbank") offers to its clients under its business model as an infrastructure provider in securities services. To safeguard the future viability of the securities settlement platform, dwpbank continuously invests in further developing the WP2 system and takes steps to expand or materially improve the software.

Section 248 (2) sentence 1 HGB provides for the option to recognise internally generated intangible fixed assets, which dwpbank exercised. A production process in accordance with section 248 (2) sentence 1 HGB exists if custom software is created by a software user using its own material and human resources (internal production). Significant development costs were capitalised in the reporting period, in particular in light of the project activities to implement MiFID II as at 3 January 2018 and the dwpbank 4.0 strategy initiative to create additional functionalities in the WP2 system. dwpbank amortises internally generated intangible fixed assets over a period of four years.

Internally generated intangible fixed assets can only be recognised if the costs give rise to an asset. This presupposes the existence or probable origination of an individually realisable asset. Pursuant to section 255 (2a) sentence 1 HGB, only those costs arising during development may be capitalised. The criteria for capitalisation include the entity's intention, ability and resources, and the technical feasibility of completing the intangible fixed asset and using or selling it. The way in which the intangible fixed asset is expected to generate future economic benefits must be documented. It must also be possible to reliably measure the costs attributable during development.

As a consequence, the decision whether to recognise these assets is at the discretion of dwpbank. This discretion arises in particular when deciding the extent to which a project can be capitalised and the scope of the costs to be capitalised. The reasons why it is assumed that an intangible fixed asset will be generated internally in the future must be sufficiently documented. Since the recognition of internally generated intangible fixed assets reduces expenses recognised on the income statement and results in a corresponding improvement in net profit for the year, section 268 (8) HGB stipulates a restriction on distribution.

The recognition and measurement of internally generated intangible assets was a key matter in the context of our audit due to the significance of internally generated software for the presentation of dwpbank's net assets, financial position and results of operations, and given the discretion inherent in its recognition and measurement.

Audit approach:

Our audit included gaining an understanding of the process used to select all relevant dwpbank projects with respect to recognising internally generated intangible fixed assets.

We applied substantive audit procedures to review, on a test basis, the Bank's assessment with respect to capitalising project costs as internally generated intangible fixed assets. For this purpose, we obtained documentation relating to the recognition decisions taken for carefully selected projects, and assessed whether the criteria to capitalise the project costs within the meaning of section 248 (2) HGB were met. We also assessed the capitalised cost elements to judge whether these met the requirements of section 255 (2) and (2a) HGB (production costs). In addition, we methodically verified the recognised amortisation.

We also used project status reports to assess, on a test basis, whether the corresponding recognition requirements were still met as at the balance sheet date and hence the recoverability of the internally generated intangible fixed assets as at the balance sheet date.

Finally, we assessed the disclosures made in the notes to the financial statements and in the management report with respect to recognising internally generated intangible fixed assets.

Our audit procedures did not give rise to any reservations with respect to the recognition and measurement of internally generated intangible fixed assets.

Reference to related disclosures:

For details of the accounting policies applied with respect to intangible fixed assets, please refer to sections I. and II.8. of the notes to the annual financial statements.

Information on intangible fixed assets (section 284 (3) HGB) is contained in section II.9 of the notes.

The mandatory disclosures pursuant to section 285 no. 28 HGB (amounts subject to restrictions on distribution including recognition of internally generated intangible fixed assets) are contained in section V.6 of the notes. Since dwpbank does not conduct research within the meaning of section 255 (2a) sentence 3 HGB, it is not necessary to differentiate between research and development at dwpbank. The disclosures pursuant to section 285 no. 22 HGB on development costs are contained in section V.4 of the notes.

Other information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, management is responsible for the other information. The other information comprises the corporate governance declaration pursuant to section 289f (4) HGB (disclosures on the proportion of women in management positions) obtained up to the date of this auditor's report and contained in section 3.2 of the management report, the country-by-country reporting 2017 (disclosure pursuant to section 26a (2) sentence 2 of the German Banking Act (Kreditwesengesetz, "KWG"), the members of the Advisory Board, and the other parts of the annual report expected to be provided to us after this date (key figures, letter from the Board of Management, report of the Supervisory Board), with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the annual financial statements and the management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as it, in accordance with German Legally Required Accounting Principles, has determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the forward-looking statements presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate audit opinion on the forward-looking statements and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 27 April 2017. We were engaged by the Supervisory Board on 27 April 2017. We have been the auditor of Deutsche WertpapierService Bank AG without interruption since financial year 2011.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to auditing the financial statements of the audited company and/or company controlled by it, we have or will provide the following services that are not disclosed in the annual financial statements or in the management report: voluntary audit of the annual financial statements of dwp Service GmbH as at 31 December 2017, review of the non-financial report pursuant to section 289b HGB as at 31 December 2017, agreed investigative activities in connection with Deutsche WertpapierService Bank AG's membership of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V., Berlin (National Association of German Cooperative Banks).

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Oliver Heist.

Eschborn/Frankfurt am Main, 8 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Heist	Meier
German Public Auditor	German Public Auditor
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)

Report of the Supervisory Board

Composition of the Supervisory Board and committee work

In accordance with the Articles of Association, dwpbank's Supervisory Board consisted of a total of fifteen members in financial year 2017: ten shareholder representatives and five employee representatives.

The Chairman of the Supervisory Board in financial year 2017 was Thomas Ullrich, member of the Board of Management of DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main. The Deputy Chairman was Dr Klaus Tiedeken, member of the Board of Management of Kreissparkasse Köln.

In accordance with the statutory provisions and section 9 of its Rules of Procedure, in 2017, the Supervisory Board was advised and assisted by committees formed from amongst its ranks. Based on a resolution of the Supervisory Board adopted in 2014 in accordance with section 25d (10) KWG, these comprise a joint Risk and Audit Committee, a joint Nominating and Executive Committee, a Remuneration Control Committee and a Strategy Committee. The Nominating and Executive Committee, Remuneration Control Committee and Risk and Audit Committee each consist of two shareholder representatives and one employee representative. The Strategy Committee consists of four shareholder representatives.

At their respective meetings, the Committees carried out the tasks assigned to them by the Supervisory Board's Rules of Procedure, which were revised on 18 June 2014. The Nominating and Executive Committee is responsible for tasks including preparing the financial statements; amending and terminating contracts of service with the members of the Managing Board; regularly assessing the structure, size, composition and performance of management and the Supervisory Board, which must be carried out at least once per year; regularly assessing the knowledge, skills and experience of both the individual managing directors and the members of the Supervisory Board, as well as those of the respective bodies in their entirety, which must be carried out at least once per year; and supervising the preparation and organisation of Supervisory Board meetings. The Nominating and Executive Committee met a twice in total in 2017. The Remuneration Control Committee performed the tasks assigned in accordance with the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung, "InstitutsVergV"). It met a total of three times in 2017. The Risk and Audit Committee is responsible for the preliminary review of the documents relating to the annual financial statements, the evaluation of the findings of the audit in accordance with section 36 of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") and the audit of securities accounts, as well as issues relating to risk management and the internal control system. The Risk and Audit Committee met a total of four times in 2017. The Strategy Committee is responsible in particular for assisting the Board of Management with issues relating to reviewing the business strategy in line with the strategic requirements of the shareholders' associations and advising on the implementation of such strategy. It met once in 2017.

Supervising the Bank's management and advising the Board of Management

In 2017, the Supervisory Board again continuously supervised the activities of the Board of Management and advised it on the management of the bank. In accordance with its statutory obligations and the responsibilities set out in the Articles of Association, the Supervisory Board held three meetings during the financial year; in addition, it regularly received detailed written and oral reports from the Board of Management concerning the position and performance of the Bank and took actions to ensure that the Bank's management was due and proper. The Chairman and Deputy Chairman of the Supervisory Board also ensured that they were kept apprised of the Bank's current development throughout the year under review by way of regular, comprehensive and timely briefings by the Chairman of the Board of Management. The Supervisory Board was directly involved in all decisions of fundamental importance to the Bank at an early stage. In particular, the topics discussed by the Supervisory Board included supervision of the strategic measures in the context of developing dwpbank into the leading services provider in the securities services sector, for instance systematically aligning dwpbank's processes to ensure quality, effectiveness and efficiency, introducing a transparent and uncomplicated schedule of prices and services, and developing the IT infrastructure to render it fit for the future and cost-efficient. Other topics included supervising the decision to establish subsidiary dwp Service GmbH in Halle (Saale), discussing implementation activities under the successfully completed major projects, Target2-Securities and MiFID II/MiFIR, discussing the status of a final measure to fully remedy the findings of the audit pursuant to section 44 KWG carried out in 2015, and supervision of the periodic update of the recovery plan pursuant to the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz, "SAG").

Annual financial statements for the year ended 31 December 2017

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which was elected auditor by the Annual General Meeting, audited dwpbank's annual financial statements for 2017, as prepared by the Board of Management, comprising the balance sheet as at 31 December 2017, the income statement for the 2017 financial year, the notes to the financial statements, including the accounting policies presented in them, and dwpbank's management report for 2017. In accordance with German legal requirements, the corporate governance declaration pursuant to section 289f (4) HGB (disclosures on the proportion of women in management positions), as contained in section 3.2 of the management report, was not subject to a substantive audit. In its unqualified audit opinion on the annual financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft stated that its audit did not lead to any reservations. In the opinion of Ernst &Young GmbH, the annual financial statements comply with the statutory provisions and give a true and fair view of the net assets, financial position and results of operations of dwpbank in accordance with German principles of proper accounting. Ernst & Young GmbH believes that the management report is consistent with the annual financial statements and, as a whole, provides a suitable view of the Bank's position and accurately presents the opportunities and risks of future development.

The meeting of the Supervisory Board on 23 April 2018 to review the annual financial statements was attended by the auditors of Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, who signed the audit report. In addition, the auditors attended the meeting of the Risk and Audit Committee on 13 April 2018, at which the preliminary review of the documents relating to the annual financial statements took place. They reported in detail on the audit of the annual financial statements and answered questions from the members of the Supervisory Board. dwpbank's annual financial statements, the management report, the proposal by the Board of Management for the appropriation of net retained profits and the auditors' reports were made available to all members of the Supervisory Board.

The Supervisory Board reviewed the annual financial statements and the management report in detail and received the corresponding report by the Risk and Audit Committee. There were no objections. Accordingly, the Supervisory Board approved the annual financial statements of dwpbank for the year ended 31 December 2017, which have therefore been adopted.

In addition, the Supervisory Board reviewed the Board of Management's proposal for the appropriation of net retained profits for the 2017 financial year. It supports the proposal by the Board of Management, which will therefore be submitted for resolution by the Annual General Meeting as a joint proposal by the Supervisory Board and the Board of Management.

Non-financial report as at 31 December 2017

Furthermore, meetings of the Risk and Audit Committee (13 April 2018) and the Supervisory Board (23 April 2018) discussed the separate non-financial report of dwpbank as at 31 December 2017, as prepared by the Board of Management. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft carried out a limited assurance audit, i.e., restricted to activities similar to a basis review and example sampling. The Board of Management explained the documents in detail at the meetings, and representatives of the auditor reported on the key findings of their audit and answered the additional questions posed by the members of the Supervisory Board. The Supervisory Board's review did not give rise to any objections.

The Supervisory Board would like to express its thanks and its gratitude to the members of the Board of Management and all employees and employee representatives for their hard work and commitment in 2017.

Frankfurt am Main, 23 April 2018

Deutsche WertpapierService Bank AG

The Supervisory Board

Thomas Ullrich,
Chairman

Members of the Advisory Board (as at 31 December 2017)

Ralf Fleischer
Chairman of the Advisory Board,
Chairman of the Board of Management,
Stadtsparkasse München

Peter Tenbohlen
Deputy Chairman of the Advisory Board,
Head of Operations, DZ BANK AG

Marcus Vitt
Deputy Chairman of the Advisory Board,
Spokesman of the Board of Management,
DONNER & REUSCHEL AG

Kerstin Berghoff-Ising
Member of the Board of Management,
Sparkasse Hannover

Hans-Heinrich Bernhardt
Member of the Board of Management,
Volksbank Mittelhessen eG

Uwe Didwischus
Director for Corporate Services, NORD/LB

Edwin Echl
Member of the Board of Management, SEB AG

Heiko Fischer
Head of Operations Financial Markets,
Deutsche Postbank AG

Lanna Idriss
Head of Operations,
ODDO BHF Aktiengesellschaft

Carsten Jung
Deputy Chairman of the Board of Management,
Berliner Volksbank eG

Jochen Kerschbaumer
Member of the Board of Management,
Wiesbadener Volksbank eG

Ernst-Josef Lehrer
Deputy Chairman of the Board of Management,
Sparkasse Koblenz

Dr Andreas Martin
Member of the Board of Management,
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR)

Yoram Matalon
Head of Transaction Banking, HSH Nordbank AG

Klaus Oberliesen
Member of the Board of Management,
Sparkasse Hagen

Wolfgang Reinhart
Head of Operations & Services,
Bayerische Landesbank

Dr Joachim Schmalzl
Executive Member of the Board of Management,
Deutscher Sparkassen- und Giroverband

Dr Detlef Schmidt
Deputy Chairman of the Board of Management,
Kreissparkasse Böblingen

Helmut Schmidt
Chairman of the Board of Management,
Kreissparkasse Saale-Orla

Rainer Virnich
Deputy Member of the Board of Management,
Sparkasse Köln/Bonn

Ewald Wesp
MLP Finanzdienstleistungen AG

Dr Jürgen Wiedmann
Head of Settlements/Custody Services,
Landesbank Hessen-Thüringen Girozentrale

Published by:
Deutsche WertpapierService Bank AG
Wildunger Straße 14
60487 Frankfurt am Main
Tel: +49 69 5099 0
E-Mail: info@dwpbank.de

This Annual Report is also available in German.

www.dwpbank.de

Design and copy: edicto GmbH, Frankfurt
Board of Management portraits: Markus Hintzen Photography
Photography: ©cranach/thinkstockphotos.de,
©monsitj/istock.com, ©nadla/istock.com