



Annual report 2020

Exploiting growth opportunities together

We are securties services

Key figures

		2020	2019
Operating business			
Member institutions	Number	1,210	1,250
Securities accounts	Number (millions)	4.9	4.8
Transactions	Number (millions)	45.5	27.8
Results			
Net fee and commission income	EUR (millions)	310.8	245.3
Administrative expense	EUR (millions)	228.4	210.4
Result from ordinary activities	EUR (millions)	69.3	24.5
Net income for the financial year	EUR (millions)	47.4	15.7
Total assets	EUR (millions)	702.8	611.4

Annual report 2020

Deutsche WertpapierService Bank AG

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Letter from the Board of Management



Left to right:

Thomas Klanten,
Member of the
Board

Dr. Heiko Beck,
CEO

Markus Neukirch,
Member of the
Board

Ladies and gentlemen,

In many respects, 2020 was an exceptional year. The coronavirus pandemic brought many changes to everyday working lives, but together with the low interest rate environment it also brought about major growth in dwpbank's business. Heavy technical and personal burdens were countered by great economic success.

The slump on the equity markets in spring 2020 was followed by a rapid recovery over the rest of the year, which the DAX closed up roughly 3.5%. This resulted in 45.5 million transactions settled at dwpbank, an increase

of roughly 62% on the figure for the previous year. We recorded approximately 5.3 million transactions in March alone, which set an all-time monthly record for our Company.

These developments were driven by various factors: Interest rates remain low, causing ever more investors to turn to securities in search of returns. Securities savings plans experienced a veritable boom as a result, with our clients recording 703,000 existing savings plans in 2020, up some 63% year on year. In addition, more and more investors are managing their securities via the online

channels offered by their bank or savings bank – another effect of the pandemic.

There was more money available than before the pandemic: the savings ratio of German households rose to 16.3% in 2020 following 10.9% in the previous year. This market situation did not just result in more securities accounts in the past year – the number of securities held in them also rose, climbing by some 10%. We believe that this trend is here to stay.

The rush in demand for our systems in the spring caused isolated setbacks as IT failures temporarily halted trading. Nevertheless, the usual level of operational stability was quickly restored thanks to steps taken in the short and medium term. To additionally make our infrastructure fit for future challenges, we are using MoveWP3 to continuously refine our system platform. The goal is greater flexibility, efficiency and quality.

As well as amendments of a technical nature, we also successfully set in motion further organisational changes in 2020: there is now closer cooperation between IT and Operations to further improve products and services. There is a notable increase in agile working at dwpbank. These changes are supported by

our HR development programme, under which we are fostering promising employees.

With respect to new product launches, in the past year we laid the key groundwork to be able to offer several new savings plan products in 2021. The securities savings product family will grow. We also made significant progress in our blockchain project, finledger: in 2020 we successfully deployed one of the key technologies of the future to make the settlement of promissory note loans quicker, more secure and fully digital.

Developments on the securities market remain a source of suspense and a challenge. It may well be that the tasks were never so interesting, the opportunities never so great. Market participants are taking stock of the situation differently, and the risks in the market are not to be ignored. Nevertheless, we see major opportunities in the market's considerable momentum, the many technological innovations and the trend towards securities as a basis to make financial provisions. For this reason, we will continue to work hard in 2021 to affirm and expand our position as market leader. We are securities service!

Yours,



Dr. Heiko Beck



Thomas Klanten



Markus Neukirch



“With the WP3 platform we are offering our clients IT architecture that is fit for the future and combines a high level of stability with increased flexibility. The Move-WP3 programme is making a key contribution to expanding our strong market position.”

Christina Krämer,
MoveWP3 Programme
Lead

Fit for future challenges

Today and in the future, dwpbank aspires to offer its clients up-to-the-minute securities services of the highest calibre. For this reason we place great value on further developing our technologies, optimise our architecture and processes on an ongoing basis and foster up-and-coming talent to become the managers, experts and project leaders of the future.

MoveWP3: modular platform takes shape

MoveWP3 is a programme to further develop our tried and tested WP2 software platform. The goal is a hybrid model that combines the platform's current strengths with the potential for innovation and efficiency of decentralised modules. This gradual technological shift dispenses with the need for a sudden software migration – a significant benefit for the platform's roughly 220,000 users.

The transition to the modular WP3 platform is slated for completion by 2024. Once completed, our clients will then benefit from forward-looking IT infrastructure as the basis for what remain high-quality and stable securities services – from order management to securities custody.

MoveWP3 ensures long-term stability and security, enables applications to be implemented more flexibly and quickly, and improves the touch, feel and usability of the platform for all users. Last but not least, MoveWP3 serves as a gateway to new technologies, enabling us to roll out future innovations such as cloud services rapidly and flexibly.

We progressed with the platform upgrade as scheduled in 2020, investing EUR 14.4 million. More than 60 of the total of 370 MoveWP3 micro-services are already in production. The infrastructure was expanded, including in preparation for the use of cloud services. Individual components (central counterparties and depositories, correspondence for AGMs in other EU member states, pre-matching for securities account deposits) successively went live in 2020.



60

**MoveWP3
micro-services
have already
gone live.**

Project Refresh: permanently enhancing operational stability

At the beginning of the pandemic in spring 2020 there were significant price movements on the stock exchange that went hand in hand with a massive increase in securities transactions. For the rest of the year, too, the burden on our systems was considerably higher than in the previous years. On the back of this experience and in the wake of isolated interruptions to trading, we kicked off a review process in March and subsequently launched Project Refresh in August 2020. This project optimises our customer input channels and permanently safeguards the operational stability of securities settlement. To achieve this, we are implementing long-term improvements in architecture, processes and organisation in two phases.

Specifically, we have expanded our monitoring of client input channels and extended the load and performance tests in the past few months. We have also built up reserve capacities to absorb peaks in demand. The newly created capabilities already stood the test as the year went on: as activity again peaked on the capital markets in the run-up to the US presidential election and as the results of the study on the BioNTech/Pfizer vaccine were announced, our clients benefited from full availability and a fully functional order chain. We thus already succeeded in implementing a majority of the activities aimed at increasing stability and quality, which include Refresh and in which we invested a total of EUR 14.2 million in 2020.

“We used the extraordinary market situation in spring 2020 as a trigger to permanently strengthen our WPIO client interface. The project is being driven forward as part of MoveWP3 to make the process chain fit for future requirements.”

Markus Neukirch, Board member for IT and Operations





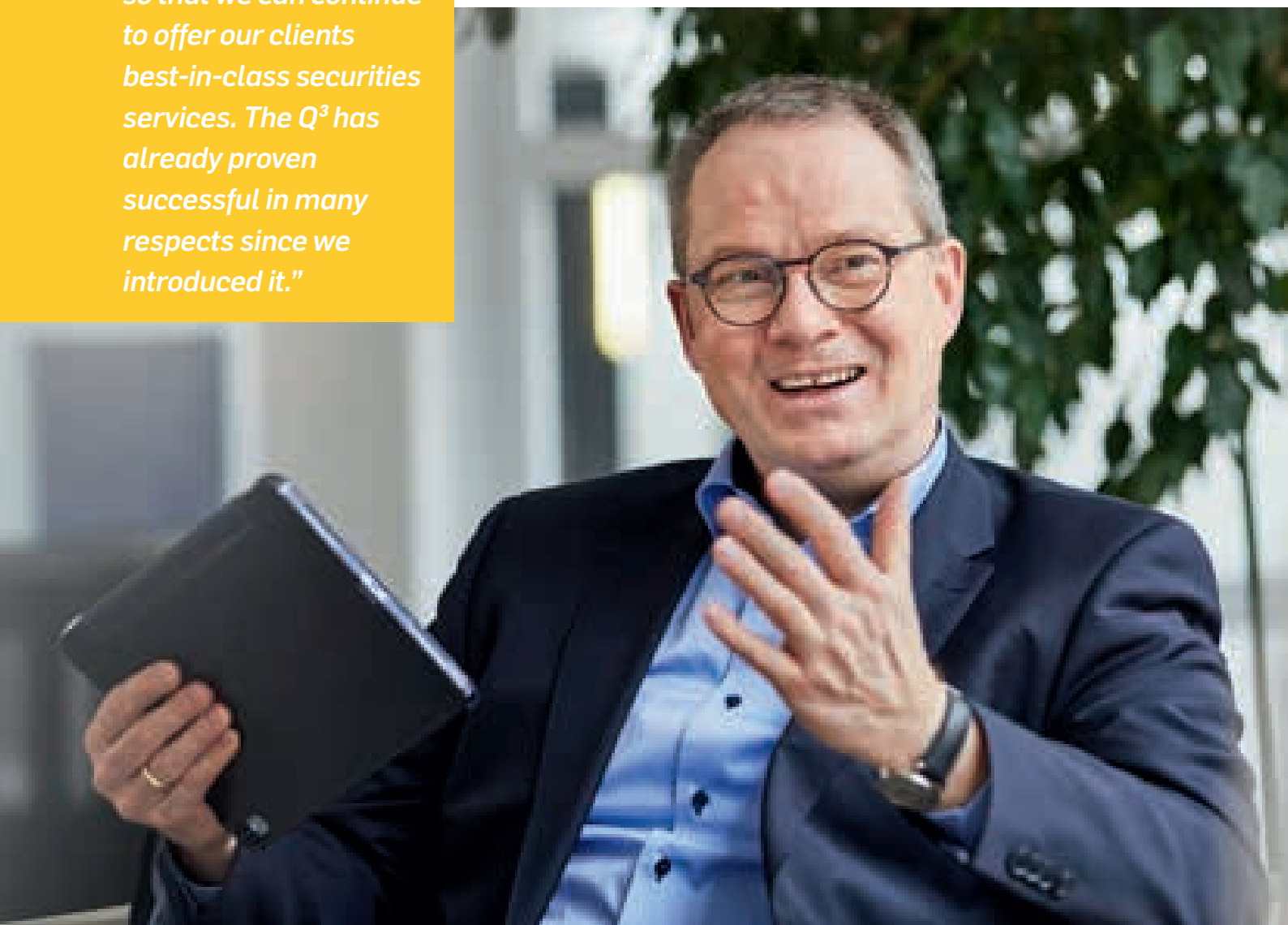
Markus Neukirch,
Board member for IT
and Operations

Q³ – HR planning in the shadow of the pandemic

We are making great efforts to comprehensively foster talent at an early stage. In 2018, we introduced “Q³ – Qualification, Quality and Quantity”, a centralised tool for forward-looking HR planning that we use to match talented people with functions critical to success and ensure long-term succession planning. Q³ comprises the elements of analysis, planning and development. The Bank’s executives follow a structured process to address the situation at the organisational units, identify positions critical to success and promising individuals, and formulate overall succession planning.

Q³ is cyclical in nature and entered its third phase in 2020. As in 2020, the development programme for the talented individuals identified began at the start of year, this time with general and personalised training modules.

“We are continuously training our employees – both professionally and personally – so that we can continue to offer our clients best-in-class securities services. The Q³ has already proven successful in many respects since we introduced it.”





The HR development focused on fostering up-and-coming talent and further developing specialists and managers. The centralised offerings had to be re-planned as a result of the pandemic. The online offerings took place as planned and were further expanded, meaning that even with conditions as they were we could still offer many training initiatives. Face-to-face meetings were held in significantly reduced groups and a large share of the offerings were held in digital form.

Content-wise, the training focused on soft skills, methodological competency and leadership ability. Furthermore, the topics of agile methods and use of technologies were added. A training programme spanning several months and a joint project manager day focused on strengthening

Thomas Klanten,
Board member for
Finance and Risk
Management

dwpbank team shines in Google competition

Approximately 11,000 international teams took part in the Google Hash Code Challenge in February 2020, among them Christian Niehoff, Andreas Gondek and Abdullah Sahin, three young IT specialists from dwpbank. The task: the teams had just four hours to develop solutions for the Google Books digital library. Our team passed with flying colours – they finished in the top 10% just shy of the winners. “The task leant itself to us,” reflected Christian Niehoff. “The experience of having to solve problems under pressure is a benefit in our day-to-day work.”



Dr. Albrecht Reihlen,
Head of Client
Management & Sales

Targeted steps to enhance efficiency

Our state-of-the-art solutions streamline processes and ensure efficient internal and external communication. We leverage the benefits of automation to save time for our clients. We are modernising our sales management, linking our internal expertise in IT and operations, and ensuring a closer dialogue with our clients in difficult conditions.

Integrating price, product and client management

We are working continuously in a number of areas to achieve an improvement for our clients. To do so, we integrated product management within the client management and sales unit in 2020. This unit also handles price management. In bringing together responsibility for clients and pricing and a broad base of product expertise, our aim is to more rapidly tailor our portfolio of products and services to our clients' changing requirements.

We developed new standard services for our clients in 2020: finledger, WP-Cockpit and Withholding Tax Premium Service. We also made a number of additions to existing services to meet the specific needs of individual clients. Our motto is: as standardised as possible, as customised as necessary.

In addition, we launched a new sales management system and implemented more efficient sales controlling to optimally support our clients in developing their businesses. In requirements management, we put more than 200 client requirements into production in 2020 and in doing so achieved a significant improvement in efficiency, with the average processing time for individual requirements (measured in the man-days required) decreasing by 39%.

To bolster our client management, we continuously work to bring key tasks such as product development, requirements management, sales management and client support into line with our clients' changing needs.

39%

Significant reduction in average processing time for our clients' individual requirements.

“The securities business is an increasingly important source of income for our clients. This increases the demands on our products and services. In 2020, we combined the previously separate product and client management units, and since then we have been generating synergies that will enable our clients to benefit from a notable increase in efficiency going forward. Lead times will also be shorter.”

Dr. Albrecht Reihlen, Head of Client Management & Sales

iTops project enters its next phase

We are integrating our IT and Operations departments far more closely than ever before with the aim of enhancing flexibility, streamlining service scalability and boosting efficiency. Launched in 2019, the "iTops" project bundles our securities expertise in the three domains of transaction service, securities account and tax service, and cash and custody service.

The heads of IT and processes in each domain form a leadership duo. In parallel, a management and services division is being established to support the three domains in shared tasks such as governance and managing projects and performance.

The first pilot project was launched in transaction service in March 2020 and completed at the end of the year. We have successfully introduced new models and forms of cooperation and ironed out weaknesses in the architecture. Our

employees are reporting a positive cultural learning curve that helps them better understand their colleagues' professional and technical challenges and turn mutual contact into seamless interaction. The next phase will be to roll the iTops transformation out to the other two domains and in doing so make a structural investment in the future.

"Our working group functions very well, and the advantage is that even in difficult situations we can quickly come up with constructive, pragmatic and feasible proposals and solutions that are backed by all involved. This level of trust is invaluable, especially now during the pandemic."

Uwe Riehl, Operations/Securities Account Service,
Landesbank Hessen-Thüringen
(member of the Custody, Securities Accounts and Cash working group)

Client dialogue in challenging times

We have established two working groups focusing on "market and transactions" and "custody, securities accounts and cash" to strengthen the partnership with our clients and seek

solutions to shared challenges. These working groups met in virtual form in 2020 because of the pandemic, and thus despite the difficult circumstances we succeeded in maintaining the valuable dialogue with our clients.



**Center:**

Raik Hering, Head of Custody
and Cash Services

In times such as these, it is important to survey client views on relevant topics and to use the client boards for the purposes of information and process adjustments. Our activities this year included improving the client requirements process. Discussions addressed established topics such as regulatory matters and current issues such as tokenisation.

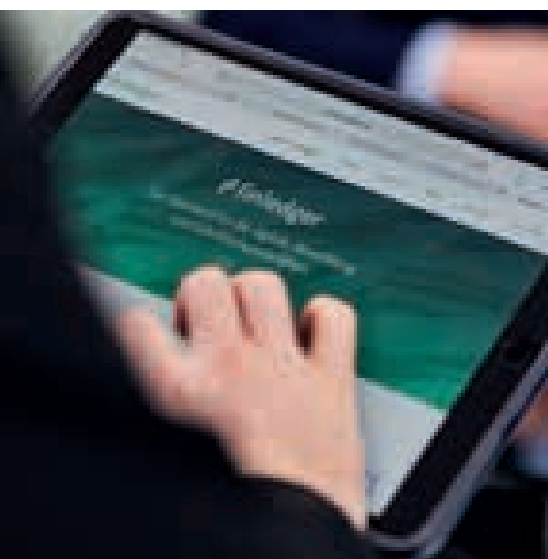
We will continue to put our clients' needs and expectations at the forefront. Direct dialogue with clients in a number of bodies such as the Client Advisory Board has proven to be an important and effective instrument, including on issues such as regulatory requirements or our new product, WPCockpit.

“Together, IT and Operations form the core of dwpbank. By improving our organisational structure here, we can be more efficient and versatile in implementing the solutions and initiatives we use to provide secure and stable services for our clients.”

Markus Neukirch, Board member for IT and Operations

Continually expanding the service portfolio

In keeping with the requirements of a dynamic market environment, we are constantly expanding the portfolio of services we offer to our clients. We and four partner institutions are pioneering the use of blockchain technology to settle promissory notes, and we assist the institutions in approaching and signing up (potential) securities account customers and offer a broad range of reliable back office services.



finledger: milestone for a technology of the future

finledger is a blockchain-based platform to settle promissory note loans that has been developed as part of a joint project by dwpbank, DZ Bank, Helaba, DekaBank and NRW.BANK. finledger can perform all settlement steps on a purely digital basis, including confirming the transaction and issuing the certificate. For participants, this makes the process a lot simpler and quicker and reduces process risks and costs.

After a first pilot transaction in May 2019, the project reached a new milestone last year, with NRW.BANK using finledger to settle the issuance of its own promissory note loan on a fully digital and legally compliant basis in September 2020, thus becoming the first development bank to do so. NRW.BANK issued the promissory note loan to DekaBank, which ceded the promissory note to DZ Bank. The same-day, paper-free transaction demonstrates the potential that blockchain technology and its use via finledger offers for banks.

With finledger now live, dwpbank's tasks include technical support for the app and helping future node operators link their infrastructure. We also issue the requisite contractual documents. In the current transaction, we were also responsible for coordinating and communicating NRW.BANK's requirements.

In the second phase of the project, we are now focusing on expanding our product range. The aim is for finledger to move beyond bank promissory notes in 2021 and also settle corporate promissory notes. Further improvements will also be made to the visual effects and user interface to make finledger even more appealing.

"Blockchain is the secure technology of the future. Settling our first promissory note loan via finledger is another systematic step for us in keeping up to speed with the technological developments taking place in the banking sector."

Michael Stölting, Member of the Managing Board of NRW.BANK

"Settling the transaction is a milestone for our project. The response we are currently getting from the market shows the keen interest in our innovation and spurs us on to further expand finledger."



Sebastian Seibert,
finledger Project Lead

Dr. Heiko Beck,
CEO



"In Wertpapier-Cockpit we have launched a new product that helps our clients make more out of their securities businesses. In this way we are leveraging data capture and analysis in the securities business to expand our data intelligence line of business."

Wertpapier-Cockpit: pinpointing potential securities clients

For banks and savings banks in Germany, the securities business currently represents a wealth of untapped sales potential. Cultivating the market intelligently enables them to unlock this potential and secure fee and commission income. We have therefore developed Wertpapier-Cockpit, a new product offering aimed at supporting our client institutions' securities sales activities.

Wertpapier-Cockpit is a tool that automatically analyses the data of securities customers. It systematically evaluates existing data so that this can be used for further business development, for example by enhancing the specific focus of product sales activities or for targeted campaign planning. This enables the institutions to identify securities account customers who may be interested in securities investments and to approach them in a targeted manner. An interface to the CRM system means that target customers' contact details can be used directly to approach them electronically or by post.

For this product we are cooperating with specialist financial services consultancy Investors Marketing. On behalf of the financial institutions, Investors Marketing advises on how to optimally use the new tool, facilitates systematic analysis for the local advisers and thus boosts efficiency and effectiveness. Wertpapier-Cockpit went live in late 2020.



60,000 new securities accounts in the BOSC

dwpbank's Back Office Service Centre (BOSC) covers a wide range of back office securities services. For example, we offer our clients support in saving costs and meeting their regulatory obligations.

Despite delays in the client acquisition process due to the pandemic, interest in this product offering is growing: we onboarded 15 savings banks with a total of 60,000 securities accounts as new BOSC users in 2020. At the end of the year we had thus chalked up a total of some 523,000 securities accounts acquired for our BOSC offering since 2017. We also welcomed Germany's biggest savings bank, Hamburger Sparkasse (Haspa), as a BOSC client to go live in late summer 2021.

523.000

securities accounts acquired for BOSC services between 2017 and the end of the year.

We are continuously working to expand our BOSC offering. We have piloted the compliance support module, a new service to carry out substantive checks on voice recordings that is currently already in use as a special service at seven institutions. In the first half of 2021 we plan to offer this as a standard service to all savings banks.

In addition, a BOSC securities accounts A/SCD service working group was set up in the past year. The focus is on SimcorpDimension, the risk management system of the savings banks that we are including as part of BOSC controls.

"After our clients initially had to place the focus of their efforts primarily on responding to the corona-virus crisis in 2020, we are now starting to notice resurgent interest in our BOSC offering. As in previous years, there was continuing interest in the additional BOSC modules, which was mainly reflected in demand for A securities account services and WpHG controls in the compliance support module."

Dr. Albrecht Reihlen, Head of Client Management & Sales



Center:
Stephan Langmaack, Head of
Management Control

dwp Service GmbH offers flexible back office services

dwp Service GmbH is a wholly owned subsidiary based in Halle (Saale) that has provided back office services for dwppbank since 2017. Since being established, the young company's workforce has risen from seven to the current level of 180 employees. Over this period, dwp Service has assumed further processes in non-BOSC and corporate functions for dwppbank.

dwp Service strives to quickly and efficiently implement creative solutions and to continually improve processes and workflows. Self-managed teams and the latest management approaches enable it to respond rapidly to change, both internal and external. A focus on working independently and mutual trust pays off, particularly in times of mobile working. Results are assured thanks to reliable quality management.

dwp Service GmbH managed approximately 1.1 million securities accounts (BOSC services) in 2020, up from 870,000 in the previous year. Revenue has risen by more than a third since 2019.

1,1 Mio.

**securities accounts managed
by dwp Service GmbH as part of
BOSC services in financial
year 2020.**



Financial Statement 2020

Deutsche WertpapierService Bank AG

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1 General information

1.1 Business model

The business model of Deutsche WertpapierService Bank AG (dwpbank) is based on the provision of securities services for banks with a focus on financial brokerage and on securities custody and management.

The focus of dwpbank's business model lies on supporting banks and savings banks by providing their private and institutional end clients with stable, secure and efficient securities services dwpbank delivers product solutions along the entire securities service value chain. It offers a modular portfolio of services ranging from commission through securities settlement and safe custody down to back office functions.

By bundling large securities account, transaction and custody volumes, dwpbank's objective is to realise a cost advantage through economies of scale and scope relating to products, services and expertise. At the same time, it aims to reduce the burden on its clients by assuming operational risks. Regulatory requirements affecting the securities business are implemented for all member banks centrally. dwpbank's leading market position enables it to set standards in the German market and implement these at an operational level on its securities settlement platform.

1.2 Objectives and strategies

dwpbank's motivation and aspiration is to be the number one choice for securities services in Germany. To that end, dwpbank provides banks from all pillars of the German finance industry with a comprehensive portfolio of products and services that it continuously refines to keep pace with client requirements and market developments.

The end of 2019 saw the completion of "dwpbank 4.0", a strategy programme that had been launched in 2016 to secure and further develop the profitability and market coverage of the business model. Building on this, in 2020, dwpbank defined "dwpbank 2024" – the next development step in its strategic journey. This is aimed at taking into account the dynamic market environment (not least given the consequences of the pandemic) and will be used for dwpbank to prioritise its initiatives. It defines the implementation framework for the coming years, which is to be achieved by means of a programme structure.

dwpbank's strategic priorities are derived from "dwpbank 2024" and, beginning in 2021, they will form part of the following three target dimensions in order to secure the future viability of dwpbank's business activities:

1. Quality and stability for future growth, covering the aspects of further strengthening operating processes to secure a robust operating model, further developing the technological infrastructure under the "MoveWP3" programme, and expanding the employee and skills profile in the context of technological and demographic change;
2. Efficiency for our clients, with continuous process and service refinements made by leveraging the potential of automation and digitalisation, and systematically achieving further process efficiencies together with clients;
3. Further development of the securities service offering to secure more growth in existing and new business; targeted expansion of the product portfolio and investments in digital products and infrastructure. This encompasses adopting a clear position on the development of crypto-assets, amended trading and custody structures, and data-driven services.

1.3 Equity investments

dwp Service GmbH (Halle (Saale))

dwpbank is the sole shareholder of dwp Service GmbH, which was formed in financial year 2017. dwp Service GmbH specialises in providing back office securities services for dwpbank's savings bank and bank clients. It performs its tasks on behalf of dwpbank.

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

In 2020, dwpbank moved steadily forward with the process launched in the previous years to transfer (sub-)processes screened for this purpose to dwp Service GmbH.

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

- **Number of employees:** 176 (previous year: 130)
- **Other operating income:** EUR 5,564 thousand (previous year: EUR 4,086 thousand)
- **Total assets:** EUR 1,372 thousand (previous year: EUR 834 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.

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 363.89 as at 31 December 2020):

- **Number of employees:** 48 (previous year: 41)
- **Sales:** HUF 1,803,534 thousand (EUR 4,956 thousand, previous year: HUF 1,396,440 thousand)
- **Total assets:** HUF 582,568 thousand (EUR 1,601 thousand, previous year: HUF 434,145 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 securities system family deployed at dwpbank. It secures the long-term licence to Dynamic AI and continues the long-term 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 7.4409 as at 31 December 2020):

- **Number of employees:** 1 (previous year: 1)
- **Sales:** DKK 1,876 thousand (EUR 252 thousand, previous year: DKK 2,000 thousand)
- **Total assets:** DKK 2,052 thousand (EUR 276 thousand, previous year: DKK 1,750 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 and Munich.

2 Economic report

2.1 Macroeconomic and sector environments

2.1.1 Market environment and development of market-driven figures

On the stock markets, 2020 was overshadowed by the pandemic and volatility was extremely high. The DAX, Germany's blue chip stock index, closed the year up 3.5%, its second-weakest performance since 2015. On 2 January 2020, the DAX opened slightly above its closing level from the previous year, at roughly 13,385.9 points (Xetra closing price). During the first quarter of 2020 it became apparent that the coronavirus pandemic, which had begun in Asia, would have a massive impact on Europe and on global trade flows. As the first lockdown measures were imposed in response to the pandemic in the spring, the DAX dropped to its low for the year of 8,441.7 points on 18 March 2020. Despite the uncertain macroeconomic situation and tensions globally, the second quarter of 2020 saw the DAX stage a steady recovery to close at 12,310.9 points (Xetra) on 30 June 2020. After trending sideways in the third quarter, which it closed at 12,760.7 points in Xetra trading, the index held out against the imminent "second wave" of the pandemic in the fourth quarter to hit its all-time peak of 13,810.4 points (Xetra) on 28 December 2020. This record high was down to increasing optimism among market participants about the global economic outlook, in particular following the conclusion of the Brexit negotiations and the first vaccinations in the industrialised western nations. The DAX closed its last trading day of the year just shy of that peak, at 13,781.7 points in Xetra trading. Faced with a very challenging market environment, the DAX chalked up a healthy overall performance during the year to achieve record levels in terms of points.

From dwpbank's perspective, the difficult and volatile market environment in the securities business in 2020 – especially as a result of the pandemic – led to a sharp increase in transactions initiated by dwpbank's clients. The number of transactions rose by roughly 63.9% year on year to approximately 45.5 million (previous year: approximately 27.8 million transactions). What was clearly noticeable here was the pandemic-related sharp upswing in the use of online channels and the burgeoning interest in securities as an investment on the back of the (partial) lockdown measures imposed in response to said pandemic. This was buoyed at the secular level by the low interest rate environment and changes in investment behaviour, including growth in the savings plan business. The number

of end client securities accounts managed increased slightly over the same period, from 4.8 million as at the end of 2019 to 4.9 million as at the end of 2020, despite an offsetting effect stemming from the loss of Deutsche Apotheker und Ärztebank eG (apoBank) as a client in 2020. The average number of items per securities account rose from approximately 4.2 in the previous year to 4.5.

2.1.2 Growing regulatory and market infrastructure-driven requirements

As in previous years, regulatory requirements and requirements driven by market infrastructure had an impact on dwpbank's business model. This affected dwpbank directly as a CRR bank but also particularly in its capacity as a service provider for the bundled implementation of requirements for its clients. In total, dwpbank invested some EUR 23.5 million in this area in 2020 – roughly 41% of its overall investments in projects.

Implementation of the Central Securities Depositories Regulation (CSDR)

Financial year 2020 was marked by preparations and projects related to the European Central Securities Depositories Regulation (CSDR). The focus of activity rested on compliance with requirements ensuring timely settlement of securities transactions, including any potential penalty payments (settlement discipline), which must be observed as they will be mandatory going forward. Increased requirements for central securities depositories have required Clearstream Banking AG to make sweeping changes to its business policy on granting lines of credit. dwpbank and its clients have taken steps to mitigate this massive reduction in credit lines, including by transferring securities portfolios to other depositories.

Implementation of the Shareholders' Rights Directive

The requirements stemming from the German Act Implementing the Second Shareholders' Rights Directive (ARUG II) were implemented on schedule for dwpbank's clients on 3 September 2020 as part of the "ARUG II" project. These relate to the communication between listed companies and their shareholders, transparency requirements, facilitation of cross-border information flows and the exercise of shareholder rights.

Changes in tax law

Financial year 2020 saw the Federal Ministry of Finance on 29 October 2020 publish its final application guidance for further sections (27–29, 32, 40, 48, 51–54) of the German Investment Tax Act (Investmentsteuergesetz, "InvStG") and resolve new provisions resulting from the 2020 Annual Tax Act (Jahressteuergesetz 2020), which have necessitated further analysis and adjustments. Implementation work also addressed the amended calculation logic for distributions of capital from funds in liquidation (section 17 InvStG), the new provisions on the loss offset restriction under section 20 (6) sentences 5 and 6 of the German Income Tax Act (Einkommensteuergesetz, "EStG") and the temporary reduction in VAT rates introduced under the Second Coronavirus Relief Act (Zweites Corona-Steuerhilfegesetz). Amendments and supplements were also implemented as a result of the application guidance issued by the Federal Ministry of Finance on 11 November 2020 regarding the issue of tax certificates in dwpbank's systems.

In relation to tax law outside Germany, financial year 2020 saw the registration and implementation of the new withholding tax process in Finland based on the OECD's standardised Treaty Relief and Compliance Enhancement (TRACE) system. Spain has joined France and Italy in laying the groundwork to introduce a national financial transaction tax (ES-FTT), and in October 2020 published a draft bill to that effect. The implementation in dwpbank's systems was completed in time for its entry into force on 16 January 2021.

2.2 Course of the business

2.2.1 Production in the shadow of the pandemic

During the pandemic, dwpbank acted in accordance with official requirements and recommendations and put in place comprehensive measures to safeguard the health and safety of its employees and the stability of its ongoing production. For example, since the spring of 2020 the majority of staff have been working from home. Extensive safety measures have been implemented for cases where dwpbank employees have to work from its offices. A crisis management team has been holding regular meetings since March 2020, at the beginning on a daily basis and from the summer of 2020 at least weekly. The actions taken and rules resolved by the crisis management team are documented and tracked by contingency management. Overall, they ensured that only a small number of infections could be connected to an employee having

physically been at dwpbank's premises in 2020. There were no restrictions on the delivery of critical business processes.

2.2.2 Implementation, continuation and successful completion of key projects

"Securities savings" product family

dwpbank had bundled client-related services for regular savings in securities investments in its securities savings product family. This range has been expanded with the implementation of equities savings plan functionality. The product was rolled out to the first pilot clients and entered production in selected asset classes in mid-2020, after which it has seen increasing use. Further additions – such as capital-forming savings schemes and saving plans with automatic deposits – are planned as part of the development cycle spread out over several years. By the end of 2020, the number of savings plans had risen by more than 64% to over 700 thousand.

Acquiring and migrating new clients

Negotiations with Hamburger Sparkasse (Haspa) and S Broker to switch to dwpbank reached a successful conclusion in 2020. The migration projects initiated in 2020 with both clients are set to be completed in 2021.

finledger – expanding the platform to settle digitally issued promissory note loans

DekaBank, DZ BANK AG and Helaba have joined forces to create Germany's first blockchain-based platform to settle promissory note loans. The offering for corporate promissory notes was expanded in 2020 by adding bank promissory note functionality. The platform is operated by dwpbank, which is thereby staking out a position as a servicer of digital financial products.

Connection with multi-channel savings banks sales platform OSPlus_neo

The implementation of OSPlus_neo with strategic relevance for the German Savings Banks Financial Services Network (Sparkassen-Finanzgruppe) is aimed at strengthening the savings banks' multi-channel securities business by expanding the online offering to include functions relevant to competition. A key benefit of the OSPlus_neo processes is that they are interlinked with branch-based offerings. Savings bank customers can therefore take advantage of all channels and meet their adviser face-to-face at their branch, for instance to make changes to their securities account or obtain product recommendations. dwpbank plays a supporting role by implementing the associated web services. Advisory

functions for securities processes, for instance the order process, were newly designed and implemented in financial year 2020.

Launch of primedex (switching the derivatives system)

In financial year 2020, the primedex settlement system was refined and tailored to the needs of dwpbank and its clients. Hamburg Commercial Bank AG, ODDO BHF Aktiengesellschaft and DZ BANK AG were the first existing clients to migrate to primedex. BayernLB and Helaba are now slated to migrate in financial year 2021.

“MoveWP3” programme

dwpbank is pushing ahead with modernising its IT platform to guarantee a securities settlement platform that is fit for the future as part of the “MoveWP3” programme. The objectives are to improve product cost management, boost flexibility and ensure that the IT systems can be further developed well into the future. Approximately EUR 14.4 million was invested in the programme in 2020. Other focal points of the implementation activities rest on the further automation of technical processes and customer support with digitalisation and technical integration. In 2020, MoveWP3 covered implementing both technical transformation activities for functional processes in securities account services and securities account transfers, as well as regulatory issues (e.g. the international AGM correspondence under ARUG II). The WP3 microservice platform has been in production for roughly two years and its operation is stable and trouble-free. The project set a definitive course for development and test processes to be transferred permanently to the public cloud. The decision made in 2020 in favour of an AWS / hybrid cloud solution forms the medium-term basis for the WP3 technical infrastructure to be used flexibly and with optimal costs. Extensive management and control features ensure that risk management and data protection requirements in particular are met.

The aim is for the key objectives of MoveWP3 to be fulfilled by developing and switching to a new order system and further expanding the securities account service in 2022 and 2023. Furthermore, in 2020, the MoveWP3 technology stack was also used for the development of client requirements and set as the applied standard for new developments at dwpbank.

“Refresh client input interface”

On the basis of an architecture and process review of the client input interfaces, prioritised measures were launched in 2020 to ensure technological optimisation and secure the operational stability of securities settlement, in particular

the WPIntegratorOnline client input interface. In a first wave, these include, among other things, expanding monitoring, load testing and performance tests for clients, flexibly expanding technical capacities, documenting failure scenarios and improving communication. The aim is to complete the activities planned as part of the project in 2021.

“TestFirst!”

Launched in 2018, the objectives of this project are to optimise test and test data management, boost test automation and optimise the test infrastructure. In 2020, the requirements and objectives defined in the project were expanded and updated based on the outcome of a test assessment and the action points identified in the 2019 special IT audit pursuant to section 44 of the German Banking Act (Kreditwesengesetz, “KWG”). With the new test policy as part of the written regulation at dwpbank, the test procedures, roles and documentation, including control processes, were updated, expanded and fleshed out. The procedure for load and performance testing was decided on and a tool-based decision assigned. Further key focuses of the project are planned for 2021, such as test data anonymisation and implementation of test environment management.

Implementation of “apollo” programme initiated to remedy findings of the 2019 special IT audit

The work to rectify the findings identified by the Financial Supervisory Authority (BaFin) in the 2019 audit pursuant to section 44 KWG was systematically planned and comprehensively implemented beginning at the start of financial year 2020. The programme was named “apollo” (a German acronym derived from its objectives, namely to organise the remediation of audit findings pro-actively with a view to the long term and improving performance) and its task is to work through the entire action plan by financial year 2022. The measures planned for completion in financial year 2020 were implemented on schedule. dwpbank expects the implementation of the requirements to result in a further strengthening of its IT governance and quality in particular.

ICOM (Implementation of CSDR/OneClearstream/Market infrastructure)

The ICOM project, launched in 2018, bundles the measures to implement requirements stemming from the Central Securities Depositories Regulation (CSDR) and the introduction of OneClearstream, as well as the follow-up activities relating to the TARGET2-Securities market infrastructure. Based on regulatory and market changes, the scope of the project was modified in 2020 and aligned with the changing overall conditions, particularly in the field of settlement

discipline, and with changes in the business policy framework at Clearstream Banking Frankfurt and modifications to the settlement processes derived therefrom. The activities are expected to be completed in 2022.

Reform of the Investment Tax Act (implementation of the Investment Tax Reform Act)

In 2020, the comprehensive project to implement the modifications of the German Investment Tax Reform Act (Investmentsteuerreformgesetz) was completed for dwpbank and its clients. New and subsequent regulatory requirements relating to the overall framework for investment taxation were bundled for joint consideration and implementation in 2020 as part of a new project.

2.2.3 Stable development in the client base

As at the 31 December 2020 reporting date, dwpbank had a total of 369 direct clients (previous year: 381). The decrease was due primarily to targeted efforts by individual smaller banks to discontinue their own legal custody management and securities procurement activities, and to the ongoing trend towards consolidation in the German banking industry (mergers and integration within groups).

dwpbank's client structure is as follows:

German Cooperative Financial Services Network (Genossenschaftliche FinanzGruppe)

The most significant client from the German Cooperative Financial Services Network is DZ BANK AG. A further total 841 (previous year: 869) local credit cooperatives and private banks in total are linked to dwpbank's securities system via DZ BANK AG. dwpbank also has a direct contractual relationship with Bank für Sozialwirtschaft AG.

German Savings Banks Financial Services Network (Sparkassen-Finanzgruppe)

By the end of the year, four (previous year: four) state banks (Bayerische Landesbank, Landesbank Hessen-Thüringen Girozentrale, Norddeutsche Landesbank – Girozentrale -, and SaarlB) and 338 (previous year: 348) savings banks from all 16 German states were making use of services offered by dwpbank. In 2020, system services were also performed for Landesbank Baden-Württemberg. dwpbank also provides a variety of back office services for DekaBank and custody services for Hamburger Sparkasse (Haspa). This business relationship was expanded significantly during 2021 by migrating Haspa's customer securities accounts to dwpbank's systems.

Private / commercial banking

The number of clients in the private and commercial banking sector amounted to 23 (previous year: 24) institutions as at 31 December 2020, including ODDO BHF Aktiengesellschaft, Postbank as a branch of Deutsche Bank AG, Santander Consumer Bank AG, Deutsche Kreditbank Aktiengesellschaft (DKB), Hamburg Commercial Bank AG and MLP Banking AG.

In 2020, Deutsche Bank decided to bring all of the systems, processes and products used at Postbank (which it manages as a branch) in line with their standard equivalents at Deutsche Bank and to integrate them within the group. DSK Hyp (formerly SEB) discontinued its German securities business for strategic reasons in 2020 and has consequently terminated its cooperation with dwpbank.

2.2.4 Cooperation with our clients

dwpbank maintains regular dialogue with its clients. For this purpose, dwpbank had established various client boards.

The Advisory Board, dwpbank's most important client board, held two meetings in 2020. It met to discuss with dwpbank forward-looking, market-driven matters such as the presentation of the new WPCockpit data product or the digitalisation / tokenisation strategy, as well as regulatory challenges and other activities mandated by law and prioritising certain sales issues such as further developing and making available securities savings products.

The "Service Advisory Board – Retail" and "Service Advisory Board – Institutional" are subordinate to the Advisory Board. The Service Advisory Boards support dwpbank in expanding the value chain by reflecting on issues in the market and competition, trends and regulatory developments, holding a preliminary dialogue on sales opportunities and preparing recommendations for the Advisory Board.

2.3 Financial position

2.3.1 Results of operations

Key non-financial factors influencing dwpbank's results of operations include in particular the volume of securities transactions settled and the securities accounts managed. (Table on the top right)

The overall volume of securities transactions settled by dwpbank increased by 63.9% year on year to 45.5 million. The year-on-year growth in the securities savings product segment was even greater, at 73%. As well as the persistently low interest rate environment, the rise was due in particular to the pandemic that has been ongoing since the beginning of 2020 and has increased the level of volatility on the markets. This hastened the effects of strategic decisions made in recent years to opt for securities savings. Overall, the observations were of a significant revival in the securities business and a quickening in the pace of growth seen in recent years. The number of managed securities accounts rose slightly year on year to 4.9 million.

Since 2018, dwpbank has published a separate annual "non-financial statement" for the preceding financial year in accordance with the German Act Implementing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz). This report presents further non-financial performance metrics. No connection between the non-financial performance metrics reported in the non-financial statement and the amounts published in this management report has been found to exist in the current year under review. The non-financial statement is published on dwpbank's website (<https://www.dwpbank.de/aktuell/publikationen/>), within the deadline stipulated by law.

The primary financial 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: (Table at the bottom right)

- the annual planning and budgeting process,
- the monthly balanced scorecard, and
- projections and quarterly reports.

dwpbank's earnings before taxes rose by EUR 44.8 million from EUR 24.5 million in the previous year to EUR 69.3 million in 2020. This rise resulted primarily from a EUR 65.5 million increase in fee and commission income. This was partly offset by a EUR 18.0 million rise in general and administrative expenses and a EUR 4.0 million decline in net other operating income.

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 (Central Securities Depositories, Deutsche Bundesbank) as part of securities services. Income from coupons declined significantly due to a reallocation made with respect to the target duration of the asset portfolio at the end of 2019.

Fee and commission income improved due to significantly higher income from core services – in particular transaction income, which saw strong growth due to the persistently low interest rates, the pandemic that has been ongoing since the beginning of 2020 and the volatility this has caused on the markets. There was also higher income from add-on services (portfolio commissions and BOSC services).

The decline in **net other operating income** was due to slightly lower other operating income and higher other operating expenses. The net other operating income was negative overall.

The decrease in other operating income was due to lower income from the IT service business (down EUR 2.1 million year on year) and a significant decline in income from the reversal of provisions (down EUR 7.4 million year on year). The latter was mainly because EUR 4.5 million in tax provisions for prior periods had been reversed in financial year 2019 following the completion of a tax audit. This was partly offset by the foreign exchange result (up EUR 3.8 million due to higher conversion volumes) and VAT refunds for prior periods (plus of EUR 3.0 million).

The main reasons for the rise in other operating expenses were a non-recurring item in the context of funding the portion of pension obligations due to beneficiaries, which was outsourced to the BVV pension fund (expense of EUR 5.8 million) and a EUR 3.6 million increase in expenses for losses due to errors in the settlement of securities transactions and isolated technical faults in production. By contrast, expenses were reduced by the EUR 6.0 million decline in additions to restructuring provisions.

Non-financial indicators	2020	2019	Delta
Transactions (millions)	45.5	27.8	+17.7
Securities accounts managed (millions)	4.9	4.8	+0.1
Average number of items per securities account	4.5	4.2	+0.3
Number of clients (credit institutions) ¹	369 (+841)	381 (+869)	-12 (-28)

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

1 The figure in parentheses includes the number of local credit cooperatives and cooperation banks connected to dwpbank's client DZ BANK.

Financial management indicators (EUR million)	2020	2019	Delta
Interest income	3.2	4.0	-0.7
Interest expense	-2.7	-2.7	+0.0
Net interest income	0.6	1.3	-0.7
Fee and commission income	400.5	321.1	+79.4
Fee and commission expense	-89.7	-75.8	-13.9
Net fee and commission income	310.8	245.3	+65.5
Other operating income	39.4	40.7	-1.3
Other operating expenses	-41.5	-38.7	-2.7
Net other operating income	-2.1	1.9	-4.0
Personnel expenses	-106.6	-107.3	+0.8
Other administrative expenses	-121.8	-103.1	-18.8
Total general and administrative expenses	-228.4	-210.4	-18.0
Depreciation, amortisation and write-downs	-11.6	-13.6	+2.0
Earnings before taxes	69.3	24.5	+44.8
Taxes on income	-21.9	-8.8	-13.1
Net income for the financial year	47.4	15.7	+31.7

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

General and administrative expenses were up significantly year on year, due among other things to the strong growth in the business. The slight decrease in personnel expenses resulted from higher project activation than in the previous year for the creation of software projects. Absent these effects, personnel expenses would have risen year on year by EUR 0.4 million. In line with the procedure used in previous years, EUR 6.5 million in personnel expenses were capitalised in 2020 in connection with the development of software components. The slight decrease in personnel expenses was countered by significantly higher other administrative expenses, which were due in particular to increases in purchased services (by EUR 14.0 million) and IT operating costs (by EUR 6.7 million). The rise in purchased services reflected higher demand for external capacities to implement the significantly expanded project portfolio in the areas of stability, process optimisation and regulatory issues. The increase in IT operating costs resulted from greater utilisation of data centre services due to the significantly higher transaction volumes and associated expansions in capacity.

Depreciation and amortisation mainly included higher amortisation in connection with the recognition of internally generated and purchased software (expense of EUR 1.2 million). Depreciation and amortisation was reduced overall by the balance of write-downs and reversals of write-downs on the Bank's own portfolio of fixed-income securities (net gain of EUR 3.3 million).

The **tax expense** increased by EUR 13.1 million as against 2019 to EUR 14.5 million, which was due to the significantly higher result from ordinary activities. Deferred taxes had a marginal offsetting effect of EUR 1.4 million.

2.3.2 Net assets and financial position

As at 31 December 2020, dwpbank had total assets of EUR 702.9 million (previous year: EUR 611.4 million). Total assets consist of current receivables of EUR 228.6 million (previous year: EUR 187.8 million) from the settlement of payments in association with securities, which are offset by similar amounts of liabilities. The increase in total assets is mainly due to these items and higher own cash and cash equivalents on the back of increased revenues.

The Bank does not conduct any active lending business. Formal lending relationships result primarily 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 110.3 million; previous year: EUR 109.8 million), which serve as collateral for the settlement of the operating activities in the securities business. On the other hand, cash and cash equivalents amounting to EUR 115.0 million (previous year: EUR 115.0 million) were invested in a German institutional fund (Spezialfonds).

The capitalisation of internally generated software resulted in intangible fixed assets of EUR 32.9 million (previous year: EUR 33.3 million), reflecting the creation of additional functionalities within the securities system. 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 2020, dwpbank had a surplus of deferred tax assets amounting to EUR 26.3 million (previous year: EUR 22.1 million). This surplus resulted from 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 2020 annual financial statements, dwpbank's equity amounted to EUR 258.8 million, incl. net retained profits (previous year: EUR 211.4 million). The Bank's liable capital in the amount of EUR 170.6 million (previous year: EUR 146.4 million) continues to consist solely of core (common equity tier 1) capital. As at 31 December 2020, the tier 1 capital ratio amounted to 21.3%, well in excess of the minimum capital requirements for dwpbank prescribed by the regulatory authorities. These increased by 2.2 percentage points from 18.4% to 20.6%, including the regulatory net target equity ratio determined in the updated SREP notification issued in December 2020. In calculating own funds, intangible assets are recognised as deduction items after application of the exceptions under CRR II that are permitted from 31 December 2020 onwards in the context of the CRR "quick fix".

As at the balance sheet date, the Bank reported pension obligations totalling EUR 117.1 million (previous year: EUR 132.2 million). The decrease is due to the partial outsourcing of pension obligations to the BVV pension fund. Furthermore, current provisions and liabilities from operating activities total EUR 84.7 million (previous year: EUR 68.8 million).

dwpbank was able to meet its financial commitments at all times throughout the 2020 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 2020 financial year

As in the previous years, the primary factors shaping dwpbank's financial result in financial year 2020 were market developments and client activities. While things initially got off to a good start in 2020 with a continuation of the trend observed in 2019, the rest of the year was marked by significant effects attributable to the market volatility triggered by the pandemic and the resulting year-on-year increase in transaction volumes. As a result, the Bank recorded significant year-on-year growth in its bottom line in financial year 2020 to post its best ever earnings figure.

Fee and commission income was well in excess of the prior-year level due to the significantly higher income. This more than offset the higher other administrative expenses and other operating expenses.

Project activities continued to concentrate on modernising the IT platform (MoveWP3), implementing client requirements, investing in process and system optimisation (focus on stability, quality and efficiency) and implementing statutory and regulatory requirements.

dwpbank's net assets and financial position were stable and balanced at all times. Business developments at dwpbank were positive against the backdrop of the developments described above.

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 1,174¹ staff² at the end of 2020 (previous year: 1,206).

In December, 570 staff members worked in Frankfurt (previous year: 592), 432 in Düsseldorf (previous year: 440) and 172 in Munich (previous year: 174), of which 52 were trainees (previous year: 44).

The Bank employs 526 women (45%) and 648 men (55%). The share of part-time employees was lower than in the previous year at 30.2% or 355 people (previous year: 31.2%). The average age of employees was 47.8 (previous year: 47.6).

3.1.2 Human resources development

The focus of human resources development activities rested on furthering new talent and continuing to develop technical and leadership expertise. The pandemic affected various aspects of HR development and the Q³ development programme. In-person meetings had to be held in significantly smaller groups or postponed all together. The online offerings took place as planned and were further expanded, meaning that a large number of training initiatives could still be offered even with conditions as they were.

The focus was on soft skills, methodological competency and leadership, in particular by means of coaching. Managers were also supported in their work by formats such as the Lernraum³ online platform that is managed together with corporate communications.

There were also activities to strengthen project management and train project leads, with a series of training sessions over several months and a joint project manager day at which all project leads took part. Offerings to expand expertise in agile methods and use new technologies were extended.

As well as training, opportunities for internal dialogue and networking were organised and offered to those participating in the Q³ development programme (see section 3.1.3).

3.1.3 Q³ – Qualification, Quality and Quantity

dwpbank introduced the Q³ – Qualification, Quality and Quantity (hereinafter "Q³") tool in 2018, which it imple-

mented for the third time during the past financial year. The tool offers executives the opportunity to examine the current and target status of the organisational units, identify mission-critical positions and employees with high potential, and carry out overarching succession planning in a structured process. A first survey was carried out in 2020 into the views of divisional heads on the topic of succession planning. In financial year 2020, the development programme was launched with comprehensive and custom qualification models for identified employees with high potential, and a further group of talented individuals will also start on the programme at the beginning of 2021.

3.1.4 Trainee programme

In December 2020, dwpbank was certified for a third time as a "Fair trainee programme" by Absolventa GmbH in cooperation with trendence Institut GmbH for its trainee programme established in 2010, which has now had nine trainee cohorts. Since its introduction, the 18-month training programme has been implemented in many units. Alongside the practical twin-track study programme and chamber of commerce and industry (IHK) training, it represents a key building block for avoiding a shortage of specialists and managers, addressing demographic change, supporting skill restructuring, and ensuring target-oriented specialist training geared to the Bank's strategic orientation and the requirements of the market.

Four trainees started the programme in 2020, and three former trainees from the 2018 intake transitioned to employment.

3.1.5 Twin-track course of study

Since 2014, dwpbank has cooperated with FOM Hochschule für Oekonomie & Management to offer twin-track Bachelor's courses in Banking and Finance, Business Administration, Business Informatics and Digitalisation Management. In August 2020, six students began their seven-semester twin-track professional studies at the Düsseldorf, Frankfurt and Munich locations in the fields of transaction service and securities account service, and in the issuer service and physical securities department. All four of the students who had started in the 2016/17 winter semester successfully graduated with Bachelor's degrees from FOM in the spring of 2020. Three of the graduates were hired on permanent contracts in transaction and securities account service.

¹ Excluding members of the Board of Management and employees on leave such as those on maternity or paternity leave or on leave of absence.

² In the following, "staff" shall be taken to mean both male and female members of staff.

3.1.6 CIC training

In October 2020 dwpbank was named "Best Trainer in Germany" by the business magazine Capital (Issue 11 / 2020) for its twin-track study course and IHK training courses. WELT (November 2020) also featured dwpbank as one of Germany's top employers in the employer appeal category.

IHK training courses to become an Office management assistant and an Applications Development IT Specialist has been a core element of targeted efforts to recruit trained staff since 2006.

3.1.7 Employee satisfaction

The employee survey is carried out every other year, most recently in September 2020 with a participation rate of 78%. It focused on the following topics: "Healthy and safe working conditions", "Personal development and team needs", "Strategy and cultural change" and "Corporate management (Board of Management and divisional heads)". It included both standardised questions and free text fields, for instance on dwpbank's handling of the pandemic, on employer branding and on client focus. Employees gave comprehensive and varied feedback in more than 3,000 comments. The results for the Bank as a whole were available in November 2020 and again demonstrated a significant upward trend that among other things is visible in the "Organisational readiness for change" index (growth from 65 to 73 points). At 88%, satisfaction with dwpbank as an employer was at an all-time high, and employees' identification with dwpbank (which was measured for the first time) was also very high, at 81%.

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 head positions and 30% of women in departmental head positions by the established deadline of 30 June 2022. The Supervisory Board resolved a target of 0% for the Board of Management and a target of 10% for the Supervisory Board, also as at the 30 June 2022 reporting date.

As at 31 December 2020, the proportion of women in divisional head positions remained unchanged at 15.4% due to a lack of employee turnover, and the figure for departmental head positions declined slightly to 31.7% (previous year: 33.3%). The percentage of women serving on the Supervisory Board remained the same year on year at 6.7%. As previously, no women serve on the Board of Management.

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. Overall, dwpbank has suitable systems in place to identify, assess, manage, monitor and communicate 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 2020 resulted primarily from the defined corporate objectives, the inclusion of sustainability risks, 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 as a function within the second line of defence. In addition, clear roles and responsibilities have been defined for its operative implementation (first line of defence). The centralised information security function is part of Risk and Permissions Management, and the contingency management and centralised outsourcing management functions are included in 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. Activities in 2020 included implementing the requirements set out in the BaFin guidelines on internal capital adequacy concepts and their integration into processes of integrated performance and risk management (ICAAP) at dwpbank.

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 (first line of defence). They serve as multipliers and their knowledge and experience make them a key element of operative risk management (including serving as a first port of call for central risk management, offering support and assistance in quantifying identified risks). 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 comprehensive quarterly report on the findings of the analysis of risk-bearing capacity is also prepared. All information relating to aggregate risk cover and elements sensitive to interest rates is also updated on a monthly basis. In addition, the annual risk report also covers risk developments and measures implemented in the past year.

The annual report and the quarterly reports are discussed in detail at the quarterly meetings of the Risk Committee that are attended by all members of the Board of Management. An operating risk committee meets in months when the risk report is not discussed at a meeting of the Board of Management. Furthermore, a monthly report is prepared on the outcome of internal capital adequacy analysis, risk and recovery indicators, IT incidents and losses.

The Supervisory Board receives reports on the risk situation of dwpbank on a quarterly or ad hoc basis, as necessary. The Risk and Audit Committee holds an in-depth discussion in each case in advance.

3.3.3 Application of the AMA to quantify operational risks

dwpbank applies an approved Advanced Measurement Approach (AMA) to quantify operational risks for the analysis of risk-bearing capacity and calculate the relevant own funds requirement. 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 2020 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, the appointment of departmental risk officers, 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 Ongoing management of risk-bearing capacity

dwpbank's risk-bearing capacity (internal capital adequacy) is calculated in accordance with the requirements of the "Guidelines on the supervisory assessment of banks' internal capital adequacy concepts and their integration into processes of integrated performance and risk management (ICAAP)" issued by BaFin and Deutsche Bundesbank on 24 May 2018. This takes into account ensuring capital adequacy from both a normative and an economic perspective.

The approach to internal capital adequacy in the normative perspective is based on a multi-year assessment of dwpbank's ability to meet all quantitative regulatory and supervisory capital requirements. The requirements are met if the regulatory minimum requirement of 20.6% (minimum capital adequacy ratio of 8% + SREP add-on of 6.7% + capital conservation buffer of 2.5% + target equity ratio of 3.4%) is maintained. The total capital ratio is calculated by comparing common equity tier one capital (CET 1) with the own funds requirements for counterparty credit, market and operational risks in accordance with the supervisory reporting form. The total capital ratio amounted to 21.28% as at the end of 2020. For the capital planning period to 2024, it is envisaged that own funds will be further

significantly strengthened by retention actions, with the regulatory minimum requirement met at all times in the forecasts for development under the normative perspective and with sufficient leeway for the business to grow. (Table at the bottom)

The normative perspective furthermore comprises an adverse scenario to be designed by dwpbank itself that is considered to be a negative deviation from the base scenario. As a result, a more noticeable impact on own funds / capital planning becomes apparent on occurrence of the adverse scenarios. Even under the adverse scenarios, the minimum capital and stress capital requirements (total SREP capital requirements – TSCR) of 14.7% can be met at all times.

The economic perspective indicates whether the internal capital is adequate to cover all of the key economic risks to which dwpbank is exposed (as determined using the Bank's internal methods). As part of the risk-bearing capacity (internal capital adequacy) analysis, dwpbank initially determines its risk cover assets using adjusted accounting figures and compares these to the risks. The analysis of risk-bearing capacity is supplemented regularly by comparing expected losses with existing provisions and loss budgets and by stress tests.

The recognition of own funds and hidden reserves as risk coverage potential in the analysis of risk-bearing capacity is adjusted for intangible assets and tax effects when leveraging hidden reserves and for deferred tax assets in accordance with HGB accounting regulations, thereby reducing the overall risk cover assets recognised separately from liable capital. In addition, the difference between the carrying amount and the economic value of dwpbank's pension obligations – representing a hidden liability – is deducted, primarily reflecting the impact of the existing low interest rate environment. While planned or expected profits are not recognised as risk coverage potential, profits already received are recognised.

Operational risks	EUR 661.2 million	
Counterparty risks	EUR 140.2 million	
Market risks	EUR 0.0 million	
Total risks	EUR 801.4 million	CET 1 EUR 170.6 million

(as at 31 December 2020)

A moderate drop in interest rates was observed in 2020. The interest rate risk from pension obligations and from dwpbank's asset portfolio is measured jointly. As part of ongoing management, the level of interest rate risk was kept within the specified tolerances. A portion of dwpbank's direct pension obligations were outsourced to the BVV pension fund at the end of 2020. The requisite portfolio adjustments to manage interest rate risk were made at the same time.

3.3.5 Risk categories and their significance to risk-bearing capacity

As at the end of the fourth quarter of 2020, the profit received (earnings before tax) amounted to EUR 69.3 million. Together with adjusted hidden reserves and adjusted own funds, and after deducting the hidden liability relating to pension obligations amounting to EUR 22.0 million (previous year: EUR 34.7 million), the risk cover assets amounted to EUR 197.4 million as at 31 December 2020 (previous year: EUR 111.6 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 2020, operational risks, counterparty risks, market price risks, pension risks and business risks produced a total risk amount of EUR 106.8 million (previous year: EUR 92.7 million), which utilised risk cover assets by 54.1% (previous year: 83.1%). The risk cover margin or buffer amounted to EUR 90.7 million (previous year: EUR 18.9 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. At the end of 2020, the operational risk was EUR 54.2 million (previous year: EUR 50.1 million).

For counterparty, market price, pension and business 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 10.4 million (previous year: EUR 10.9 million) for counterparty risk and EUR 23.3 million (previous year: EUR 19.0 million) for market price risk and EUR 6.9 million (previous year: EUR 8.7 million) for pension risks. The amount for business risks was EUR 43.0 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 12.0 million (previous year: EUR 4.0 million) in the 2021 financial year, based on budgeting assumptions. (Table on the right)

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. In addition, 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 22 scenarios. It revealed that a loss of information (data) integrity in the context of information security and the possibility of erroneous corporate actions represent the highest risk amount.

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 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

Operational risks	EUR 54.2 million	
Counterparty risks	EUR 10.4 million	
Market risks	EUR 23.3 million	
Pension risks	EUR 6.9 million	
Business risks	EUR 12.0 million	
Total risks	EUR 106.8 million	Risk cover assets EUR 197.4 million

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 taken into account. dwpbank may use the risk amount and, if necessary, the supporting analyses as impetus for risk controlling measures.

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

Market risks

As dwpbank does not conduct proprietary securities trading and its business model is not geared to taking market risks (dwpbank does not have a trading book), market risks only arise as interest rate and credit spread risks. Price and currency risks are currently excluded given the strategy pursued to invest cash funds (direct investments and the investments by the special fund are made exclusively in fixed-income securities with very good credit ratings). The jointly measured interest rate risk arising from dwpbank's asset portfolio on the one hand and the pension obligations on the other is calculated based on the difference between the present values of the asset portfolio and pension obligations, respectively, which are calculated by discounting them using the current "expected interest rate" and the determined "risk premium".

At the end of 2019, dwpbank extensively converted its asset portfolio (special funds and direct investments) to longer durations in order to better manage its interest rate risks from pension obligations in light of the current low interest rate level. In the context of outsourcing a portion of the pension obligations to the BVV pension fund, portfolio adjustments were made simultaneously to manage interest rate risk.

The long duration of the asset portfolio gives rise to credit spread risks. The above-mentioned outsourcing greatly reduces the credit spread risks. These also constituted the majority of market risks as at the end of 2020.

Pensions risks

With respect to pension obligations, within dwpbank's risk management system a distinction is made between the hidden liability from pension obligations, interest rate risks stemming from pension obligations and pension risks. The hidden liability from pension obligations results from the difference between the carrying amount of dwpbank's pension obligations and their economic value, which reduces dwpbank's risk coverage potential in the context of the risk-bearing capacity calculation (see section 3.3.4). The interest rate risk from pension obligations takes into account the interest rate risk of the pension obligations resulting from the change in the discount rate and is factored into the risk category market price risk as part of the joint measurement of interest rate risks from the asset portfolio and pension obligations (see market price risks). Changes in the biometric factors pension trend and mortality are used to determine pension risks, as these have a significant influence on the amount of the obligation in the future. Potential fluctuations in these influencing factors and the resulting changes in the economic value of the obligation are included in the analysis of risk-bearing capacity as a pension risk.

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 43.0 million as at 31 December 2020. 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 31.1 million, the possible loss in this case for the 2021 financial year amounts to EUR 12.0 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).

Liquidity risks

In accordance with GS 4.1(4) MaRisk, liquidity and insolvency 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 cover ratio (LCR) (as at 31 December 2020: 1,491.0%; previous year: 1,335.0%) is integrated into dwpbank's monthly risk report as a risk indicator and is subject to internal floors. The ratio was above the limits throughout 2020. In addition, dwpbank monitors compliance with risk tolerance thresholds and liquidity reserves and the occurrence of possible liquidity shortages.

3.3.6 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(7) MaRisk by way of an updated risk analysis. Based on these updates, Central Outsourcing 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. 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.

dwpbank's centralised outsourcing management was further refined as part of the "apollo" programme in the financial year. The action taken serves to optimise consistency and efficiency in outsourcing management, such as by implementing a software solution to conduct preliminary checks on contracts and analyse risks, as well as to work through the findings from the 2019 special audit of IT.

3.3.7 Continuous action management

Action management 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 2020.

In dwpbank's 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 and recovery indicators, 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.

3.3.8 Trend development and forecast

The number of risk events reported in 2020 was at the already low level observed in recent years. Generally, there had previously been a highly positive correlation between the number of settlements and transactions and the number of risk events reported in a year. However, this trend was no longer evident in 2020 given the significant increase in transactions with the same number of risk events.

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 overall number of losses in 2020 was primarily marked by one major loss of approximately EUR 2 million. The annual loss total is well above the average for the last four years and just about average in the long-term trend.

Indicators for Production revealed a positive overall situation in 2020, with the exception of the first quarter. The first quarter was marked by reduced system availabilities on individual trading days, which impacted clients. An analysis of the amber and red indicators does not indicate any systemic weaknesses. For the most part, these are dealt with as soon as possible by taking action.

For the first time there was no significant increase in the number of sick days taken in the autumn and winter months. The figure was on a downward trend from the spring onwards, and was at a significantly lower level than in the previous year. This was caused by the significantly stricter health and safety rules and the fact that so many staff were working from home due to the pandemic.

In 2020, the liquidity coverage ratio (LCR) was at a good level. The overall ratio (as at 31 December 2020: 21.28%) improved again as compared to the figure at the end of 2019; the ratio was above the required minimum.

At the Client Support Centre, availability exceeded the prior-year level with the same volume of calls. The number of open external tickets and the number of tickets that required more time to be resolved were both higher than in the previous year, but their level remained uncritical.

WP2 system availability was lower than in the previous year but remained high overall; the risk indicator "online availability of WP2" averaged 99.38% (previous year: approximately 100%). The availability indicators for WPDirect and WPIO averaged 99.66% and 99.42%, respectively, and were thus below the prior-year figures of

99.74% and 99.84%. The reduced availability was mainly caused by disruptions with high or very high criticality in the first quarter of 2020 in infrastructure components and systems relating to the client input interface. As a result, dwpbank conducted a comprehensive review into the future viability of its client input interface and drew up an action plan. The optimisation measures planned for 2020 were implemented on schedule. Further implementation is taking place as part of the MoveWP3 programme.

In 2020, there were five highly critical IT disruptions and two with very high criticality (previous year: six and zero, respectively). Of these, three disruptions with high criticality and two with very high criticality occurred in the first quarter of 2020, most of which adversely affected online availability for dwpbank's clients.

The high degree of software quality for the securities system family achieved in recent years was maintained in all but the first quarter of 2020 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 99.69% in 2020 (previous year: 99.85%) and was thus at a good qualitative level. Taking into consideration the reduced system availabilities on individual trading days in the first quarter of 2020, the "operational stability" was slightly lower than in the previous year.

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

Securities issues (information security indicator) resulted among other things from DDoS attacks and software bugs. There are no expectations that the number of security issues will decrease.

The contingency management risk indicators were at a higher level than in the previous year due to the reduced system availabilities on individual trading days in the first quarter.

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

Expectations-based simulations of risk-bearing capacity for each of the four quarters of 2021 revealed a total annual average risk amount of EUR 102.8 million across all observed risk categories and an expected average risk cover assets of EUR 185.2 million.

The Bank-wide risk management system will continue to be further developed in 2021 to take account of market trends resulting from market participants' intensified trading activities, regulatory requirements, new technologies, and the increasing significance of IT issues in the banking sector.

3.4 Outlook and report on opportunities

3.4.1 Outlook for the economy and financial markets

Over the course of 2021, the economy in the eurozone will remain heavily dependent on developments in and the steps taken to overcome the pandemic. In its 2020/2021 annual report, the German Council of Economic Experts forecasts GDP growth of 4.9% for the eurozone, while the ECB assumes growth of 3.9% for the year as a whole. Both forecasts expect the economic recovery to be considerably stronger in the second half of the year. It is expected that the recovery will also be achieved by means of fiscal support such as the temporary expansion in M3 monetary supply and the Pandemic Emergency Purchase Programme (PEPP) for sovereign and corporate bonds, which was expanded again at the end of 2020 and now totals EUR 1.85 trillion. These complement the likewise comprehensive fiscal measures taken by the EU to mitigate the effects of the pandemic on the economy and society. The eurozone's benchmark interest rate will likely remain at its current level of 0.0%. It is thus expected that the low interest rate environment will remain the key driver for developments on the capital market. It is anticipated that the medium-term inflation rate of just under 2% – one of the main stabilising goals of the ECB's monetary policy – will just be missed again in 2021. The German Council of Economic Experts forecasts that consumer prices in the eurozone will grow at roughly 1.1% (previous year: 0.6%) over 2021 as a whole, with relatively moderate energy prices continuing to contribute.

Action to address the pandemic aside, the core challenges to economic policy at the EU level remain many and varied, and will impact the markets in 2021. These include tensions in global trade, moves to clarify the long-term economic and geopolitical relationship between the EU and UK following Brexit, the situation between the United States and China, efforts to drive forward the EU's climate goals formulated in the "Green Deal", and digitalisation initiatives such as the "Digital Finance Strategy".

Economic development in Germany will remain heavily dependent on successfully overcoming the pandemic. Adjusted for calendar effects, the economy contracted by

5% in 2020 and thus fell far short of the low prior-year growth figure of 0.6%. With a comparatively high 27% of GDP accounted for by the manufacturing industry, Germany nevertheless emerged relatively unscathed from the restrictions on economic activity imposed in response to the pandemic in 2020 in comparison with other leading industrialised nations that have a higher share of service industries. On the one hand, GDP growth in 2021 will be heavily dependent on how long it takes to permanently overcome the pandemic, however the economic upswing in China and the likely easing of trade tensions with the United States could have a positive effect on Germany's export-heavy economy. The growth forecasts for GDP growth in Germany vary, with the OECD expecting 2.8%, the German Institute for Economic Research (DIW Berlin) 3.5% and ifo Institute 4.2%. The general expectation is that GDP will not return to its pre-crisis level until the end of 2021 at the earliest. We believe that disposable incomes will not increase significantly due to at best moderate collective wage agreements and growth in partial furloughs and unemployment (at least temporarily) due to the pandemic. The general consensus is also that there will be an increase in bankruptcies in mid-2021. The sharp upswing in the pace of growth described above, which is expected at least in the second half of 2021, will improve the revenue and earnings outlooks for businesses across the board.

We believe it likely that in 2021 the market will continue to be torn between higher valuations (some of which anticipated) and the lack of investment alternatives. With growth prospects expected to improve, investors are likely to favour the search for high-yield investments over risk. For 2021, the economists and analysts from German and foreign banks expect that Germany's benchmark DAX index will climb to roughly 14,500 points on average. On this basis it is assumed that the securities business will remain lively in 2021.

3.4.2 Regulatory and market requirements affecting dwpbank's line of business

Regulatory and market infrastructure-driven requirements will also impact dwpbank's business activities in 2021. 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. Furthermore, the pandemic has brought about regulatory delays and deferrals that are continuing to have an effect.

In cooperation with Clearstream Banking AG (CBF), the CBF project OneClearstream will see the transfer of securities settlement activities for additional markets to the T2S platform in 2021. In doing so, dwpbank successively links its clients to the standardised European post-trade infrastructure on various markets.

In financial year 2021, the first requirements aimed at aligning the financial sector with sustainable, as well as environmentally and socially responsible, investments are expected, along with further legislative proposals in this regard. In this context, it is currently planned that existing investment advising processes will need to be amended.

Given the restriction on offsetting losses in accordance with section 20 (6) sentences 5 and 6 of the German Income Tax Act and the new provisions resulting from the 2020 Annual Tax Act, it is also expected that dwpbank will have to implement further legislative changes for 2021. New requirements are also expected with regard to the German Investment Tax Act since the Federal Ministry of Finance has not yet issued final application guidance for all sections. The application guidance on definitive withholding tax is still only in a second draft (version dated 18 June 2020), and as such publication of the final application guidance is expected to require modifications to be made in this area, too, in 2021. Further effort is also expected in connection with legislation to modernise relief from withholding tax (Abzugsteuerentlastungsmodernisierungsgesetz), which is still a draft bill that lawmakers are expected to enact in 2021.

In the context of US withholding tax services, dwpbank expects that the Internal Revenue Service (IRS) will publish a new annex (or at least an annex to the current QI agreement) in 2021 due to the inclusion of new rules on the tax treatment of US publicly traded partnerships ("PTPs"). Further work is also expected in connection with the potential introduction of a European financial transaction tax, which came back into focus last year.

The various regulatory developments at the national, European and international levels regarding blockchain as an innovative option and base technology in the securities business mean that further dynamic change is expected here too in 2021. The expectation in Germany is that the draft bill on electronic securities presented at the end of 2020 will be passed into law, while at the European level developments include a regulation on markets in crypto-assets that was presented as part of the package on digitalising the financial sector. In order to ensure future viability and growth, dwpbank is examining suitable digital

service offers for innovative types of assets (crypto-assets) using new technological possibilities such as blockchain technology.

The activities to implement settlement discipline based on Regulation (EU) No 909/2014 on improving securities settlement in the European Union will continue in 2021. This will affect dwpbank, its clients and their customers and will be bundled in an internal implementation project that was launched in 2018: ICOM (Implementation CSDR/OneClearstream/Market infrastructure).

In addition, myriad regulatory measures in relation to outsourcing arrangements and operational risks are expected in financial year 2021, each of which will involve work to implement. At the end of 2020, BaFin published reworked versions of the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, "MaRisk") and the Supervisory Requirements for IT in Financial Institutions (Bankaufsichtliche Anforderungen an die IT, "BAIT") for consultation. The German government is introducing further regulation relevant to outsourcing relationships with a draft bill on strengthening financial market integrity (Gesetz zur Stärkung der Finanzmarktintegrität, "FISG"). At the European level, the proposal for a regulation on the operational stability of digital systems in the financial sector includes far-reaching actions to harmonise the IT and communications systems at financial services firms.

European legislative measures from the package to support the economic recovery from the pandemic, in particular the amendments to the financial markets directive in the "MiFID quick fix" and their upcoming transposition into national law will involve further need for modification, in particular to processes in investment advisory.

dwpbank is also further developing activities to support its clients in complying with the requirements as custodians (KAGB services) and is offering a regular custodian assessment, ongoing monitoring of markets and depositories, and a tool providing newsflashes, ratings and market reports.

The implementation of regulatory requirements will continue to represent a not inconsiderable burden on the overall banking sector and dwpbank. By bundling implementation of regulatory and market requirements, dwpbank intends to continue easing the burden on its clients going forward and create value added in securities service. 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.

3.4.3 Opportunities for dwpbank's long-term economic development

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

In 2021, dwpbank expects that the pandemic will be overcome successively and that in parallel transaction numbers will remain high. The increase in transactions is expected to go hand in hand with slight growth in the number of securities accounts and items per securities account, with a corresponding effect on earnings. The anticipation is that the savings plan business (estimated transaction growth of approximately 60%) and the further increase in clients' use of online channels will be the key long-term drivers for further growth.

dwpbank continues to see additional income potential in acquiring new clients and in particular in expanding cross selling activities with existing clients. Among other things, this will be achieved by extending the securities savings product family, expanding back-office processing as part of BOSC services, the first data-driven product offerings and the institutional services offering, for instance by expanding the custody and derivatives services for exchange traded derivatives.

Steadily rising investments in regulatory issues and further development of the infrastructure to strengthen technical and operational resilience mean that cost management will remain an utmost priority. Cost reductions are expected by continually developing and – where it makes sense – digitalising processes, both internally and in cooperation with clients, by streamlining change processes and by enhancing efficiency in production. Additional cost effects will be generated by outsourcing (sub-)processes screened for this purpose to dwp Service GmbH and dwp Software Kft.

The regulatory developments in Germany and at the EU level in respect of financial services based on distributed ledger technology (DLT) and blockchain are noticeably hastening the pace of development in crypto-currencies and crypto-securities. In 2021, dwpbank will begin designing and implementing the first use cases in this area.

dwpbank is pushing ahead with modernising its IT platform to guarantee a securities settlement platform that is fit for the future as part of the "MoveWP3" programme. 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 2023.

In the view of the Board of Management, the initiatives outlined will be systematically implemented in the pursuit of dwpbank's corporate strategy and will lay a solid foundation for further business development. "dwpbank 2024" defines the further path for growth, which will be pursued with a strategy programme set to commence in 2021. On the basis of the activities presented above and the associated planning, dwpbank expects to generate earnings before taxes for 2021 at a level that we believe will be significantly below the figure for 2020 – a year marked by exceptional influences – but again well in excess of the 2019 level on the back of positive market developments.

Assets

from 31. Dezember 2020

Assets	EUR	31 Dec.2020 EUR	31 Dec.2019 EUR thousand
1. Cash			
a) Central bank balances of which with Deutsche Bundesbank EUR 42,342,900.01 (previous year: EUR 0 thousand)	42,342,900.01		0
		42,342,900.01	
2. Loans and advances to other banks			
a) Payable on demand	321,695,352.29		288,301
		321,695,352.29	
3. Loans and advances to clients		15,954,310.47	2,221
4. Bonds and other fixed-income securities			
a) Bonds and notes			
aa) Of public-sector issuers of which: eligible at Deutsche Bundesbank EUR 92,227,434.54 (previous year: EUR 92,038 thousand)	92,227,434.54		92,038
ab) Of other issuers of which: eligible at Deutsche Bundesbank EUR 18,058,124.50 (previous year: EUR 17,762 thousand)	18,058,124.50		17,762
		110,285,559.04	
5. Equities and other non-fixed-income securities		114,999,906.87	115,000
6. Equity investments		320,000.00	320
7. Shares in affiliated companies		651,697.32	652
8. Trust assets of which fiduciary loans: EUR 0.00		8,049,667.56	4,966
9. Intangible fixed assets			
a) Internally generated industrial and similar rights and assets	32,946,473.53		33,332
b) Purchased concessions, industrial and similar rights and assets and licences in such rights and assets	3,229,535.39		2,513
		36,176,008.92	
10. Tangible fixed assets		5,577,569.12	6,170
11. Other assets		7,782,736.16	11,409
12. Prepaid expenses		2,187,501.93	3,967
13. Deferred tax assets		36,830,024.00	32,732
Total assets		702,853,233.69	611,383

Equity and liabilities		31 Dec.2020 EUR	31 Dec.2019 EUR thousand
1. Liabilities to other banks			
a) Payable on demand	215,565,817.17		167,926
		215,565,817.17	
2. Liabilities to clients			
a) Other			
aa) Payable on demand	3,773,030.16		10,247
		3,773,030.16	
3. Trust liabilities of which fiduciary loans: EUR 0.00		8,049,667.56	4,966
4. Other liabilities		11,229,217.69	9,544
5. Deferred income		244,676.03	271
5a. Deferred tax liabilities		10,480,932.34	10,604
6. Provisions			
a) Provisions for pensions and similar obligations	117,059,488.60		132,155
b) Provisions for taxes	15,499,913.98		2,023
c) Other provisions	62,158,940.95		62,210
		194,718,343.53	
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	81,019,391.78		65,364
d) Net retained profits	47,355,531.76		15,656
		258,791,549.21	
Total equity and liabilities		702,853,233.69	611,383

Income statement

for the period from 1 January 2020 to 31 December 2020

	EUR	EUR	2020 / EUR	2019 EUR thousand
1. Interest income from				
a) Lending and money market transactions	2,479,744.29			2,722
b) Fixed-income securities and debt register claims	767,729.59	3,247,473.88		1,248
2. Interest expense		-2,682,422.25		-2,698
			565,051.63	1,272
3. Current income from				
a) Equities and other non-fixed-income securities		134,271.94		0
b) Equity investments		25,315.99		45
c) Shares in affiliated companies		130,548.00		138
			290,135.93	183
4. Income from profit pooling, profit and loss transfer, or partial profit transfer agreements			681,739.29	189
5. Fee and commission income	400,484,451.88			321,051
6. Fee and commission expense		-89,682,935.71		-75,773
			310,801,516.17	245,278
7. Other operating income			38,402,326.98	40,309
8. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-89,656,145.34			-89,342
ab) Social security, post-employment and other employee benefit costs of which: in respect of old-age pensions EUR 4,196,153.64 (previous year: EUR 5,060 thousand)	-16,927,980.84	-106,584,126.18		-17,997
b) Other administrative expenses		-121,839,552.27		-103,060
			-228,423,678.45	-210,399

	EUR	EUR	2020 / EUR	2019 EUR thousand
9. Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets			-12,756,153.34	-11,478
10. Other operating expenses of which: interest on longer-term provisions: EUR 13,593,693.04 (previous year: EUR 16,151 thousand)			-41,450,541.69	-38,736
11. Write-downs of and allowances on loans and advances and certain securities and additions to provisions for credit risks			-142,195.90	-2,308
12. Income from reversals of write-downs of loans and advances and certain securities and reversals of provisions for credit risks			1,326,284.73	166
13. Result from ordinary activities			69,294,485.35	24,476
14. Taxes on income				
a) Current taxes on income	-26,159,777.59			-11,644
b) Deferred taxes	4,220,824.00			2,824
			-21,938,953.59	-8,820
15. Net income for the financial year			47,355,531.76	15,656
16. Net retained profits			47,355,531.76	15,656

Notes to the 2020 annual financial statements

General information

The annual financial statements of dwpbank AG for the 2020 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 2018 G Heubeck mortality tables and a matched-term interest rate of 2.30% (10-year average). Furthermore, wage and salary increases of 2.50% and a pension trend of 1.50% to 2.00% were assumed. Other provisions take into account all identifiable risks and uncertain obligations as at 31 December 2020.

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 2020 in accordance with section 340h HGB.

The Bank presents deferred tax assets and liabilities separately under assets and under liabilities (section 274 (1) HGB). The calculation is based on a tax rate of 31.81%.

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.

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

II. Notes to the balance sheet

1. Cash

The central bank balances of EUR 42,340 thousand (previous year: EUR 0 thousand) reported as cash relate exclusively to loans and advances payable on demand from securities settlement as part of operating activities.

2. Loans and advances to other banks

The carrying amount (EUR 321,695 thousand) relates exclusively to loans and advances payable on demand (previous year: EUR 288,302 thousand). Of this amount, EUR 177,835 thousand (previous year: EUR 183,457 thousand) is attributable to the Bank's operating activities in the securities business.

Loans and advances include foreign currency amounts of EUR 43,055 thousand (previous year: EUR 46,732 thousand). Loans and advances to banks in which dwpbank

holds an equity investment totalled EUR 140,685 thousand (previous year: EUR 124,828 thousand).

3. Loans and advances to clients

Of the EUR 15,954 thousand in loans and advances reported (previous year: EUR 2,221 thousand), EUR 10,000 thousand was due to collateral posted for securities settlement and EUR 4,328 thousand (previous year: EUR 937 thousand) was due to outstanding invoices as at the balance sheet date. This includes loans and advances to affiliated companies of EUR 774 thousand (previous year: EUR 300 thousand). Receivables amounted to EUR 1,626 thousand (previous year: EUR 1,284 thousand); these related 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 758 thousand (previous year: EUR 820 thousand).

4. Bonds and notes

This item consists entirely of fixed-income, listed securities. These relate primarily to bonds issued by the Federal Republic of Germany and the Kreditanstalt für Wiederaufbau, foreign government bonds, and Pfandbriefe issued by banks. 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. None of the securities reported as part of this item mature in 2021.

5. 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 18,725 thousand below market value, which was EUR 133,724 thousand as at the end of the year.

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

6. 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 574 thousand (EUR 77 thousand); in financial year 2020, net income for the financial year of DKK 618 thousand (EUR 83 thousand) was generated.

7. 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 dwp Service GmbH, Halle/Saale, 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.

Shares in affiliated companies

EUR thousand	Equities and other non-fixed-income securities	Equity investments	Shares in affiliated companies
Historical cost	100,000	320	652
Additions in the financial year	0	0	0
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. 2020	115,000	320	652
Carrying amount at 31 Dec. 2019	115,000	320	652
Depreciation, amortisation and write-downs in the financial year	0	0	0

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

8. 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.

9. Intangible fixed assets

This item consists primarily of software developed internally by the Bank. The Bank identified EUR 10,521 thousand (previous year: EUR 8,130 thousand) of its project work as additions 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.

10. Tangible fixed assets

Tangible fixed assets are finite-lived operating assets and business equipment, as well as technical equipment and machinery. The useful life of a tangible fixed asset takes account of the asset's physical life, technical obsolescence and contractual and statutory restrictions.

11. Other assets

The carrying amount of EUR 7,783 thousand (previous year: EUR 11,409 thousand) includes loans and advances from the Bank's operating activities in the securities

business in the amount of EUR 200 thousand (previous year: EUR 540 thousand).

This item also includes EUR 4,387 thousand in receivables from advance salary payments for January 2021 and EUR 135 thousand in supplier credits.

The reinsurance claims from insolvency insurance for partial retirement obligations 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 2020 was EUR 213 thousand.

12. Prepaid expenses

This item includes EUR 2,188 thousand in prepaid advance payments by dwpbank only.

13. Deferred tax assets

Deferred tax assets amounting to EUR 36,830 thousand resulted from differences in the measurement of balance sheet items in the tax accounts and in the financial accounts. This relates primarily to the recognition of a tax adjustment item in accordance with section 4e of the German Income Tax Act (Einkommensteuergesetz, "EStG"), 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 4,098 thousand results pro rata from the effects in income of 2020.

14. Liabilities to other banks

The EUR 215,566 thousand in liabilities payable on demand (previous year: EUR 167,926 thousand) resulted almost exclusively from the Bank's operating activities in the

Changes in fixed assets are presented in the statement of changes in fixed assets

EUR thousand	Intangible fixed assets	Tangible fixed assets
Historical cost	168,956	26,769
Additions in the financial year	12,027	577
Disposals in the financial year	99,690	1,870
Depreciation, amortisation and write-downs on disposal	99,582	1,868
Depreciation, amortisation and write-downs (cumulative)	45,117	19,899
Carrying amount at 31 Dec. 2020	36,176	5,578
Carrying amount at 31 Dec. 2019	35,845	6,170
Depreciation, amortisation and write-downs in the financial year	11,588	1,168

Provisions

EUR thousand	31 Dec. 2020	31 Dec. 2019
Provisions for pensions	117,059	132,155
Other employee-related provisions	25,006	25,036
Restructuring provisions	14,771	19,141
Provisions for taxes	15,500	2,023
Holiday leave and flexitime	3,303	2,616
Other provisions	19,079	15,417

securities business and included EUR 42,939 thousand (previous year: EUR 37,292 thousand) denominated in foreign currency.

Liabilities to banks in which dwpbank holds an equity interest totalled EUR 30,815 thousand (previous year: EUR 41,732 thousand).

15. Liabilities to clients

Liabilities to non-banks amounted to EUR 3,773 thousand (previous year: EUR 10,247 thousand); these related almost exclusively to liabilities from the Bank's operating activities in the securities business. This included EUR 1,687 thousand in liabilities denominated in foreign currency.

16. Other liabilities

The carrying amount of EUR 11,229 thousand (previous year: EUR 9,544 thousand) includes liabilities from the Bank's operating activities in the securities business amounting to EUR 4,354 thousand (previous year: EUR 4,697 thousand). This item also includes outstanding VAT of EUR 2,007 thousand (previous year: EUR 0 thousand), outstanding payroll and church tax of EUR 1,598 thousand (previous year: EUR 1,675 thousand) and trade payables amounting to EUR 556 thousand (previous year: EUR 1,490 thousand). Other liabilities includes items denominated in foreign currencies amounting to EUR 9 thousand (previous year: EUR 50 thousand).

17. Deferred tax liabilities

All of the deferred tax liabilities (EUR 10,481 thousand) relate to the capitalisation of internally generated intangible fixed assets. In 2020, deferred tax liabilities decreased by EUR 123 thousand through profit or loss.

18. Provisions

Provisions totalled EUR 194,718 thousand as at 31 December 2020 (previous year: EUR 196,388 thousand).

The difference in pension provisions in accordance with section 253 (6) HGB amounts to EUR 19,779 thousand.

The reduction in the pension provisions was due to outsourcing a portion of the pension obligations to a pension fund.

Under other employee-related provisions, the provision for partial retirement was offset against the corresponding plan assets of EUR 213 thousand in accordance with section 246 (2) HGB.

The increase in provisions for taxes was due primarily to higher provisions for corporate income tax (EUR 7,296 thousand) and trade tax (EUR 7,803 thousand) due to the significant year-on-year increase in net profit.

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 9,032 thousand), provisions for IT and consulting expenses (EUR 6,648 thousand) and other administrative expenses (EUR 3,399 thousand).

19. Equity

Subscribed capital amounted to EUR 20,000,000 and is divided into 20,000,000 registered voting shares with restricted transferability. The share capital is fully paid in as follows: DZ BANK AG 50.00%; Sparkassenverband Westfalen-Lippe 20.00%; Rheinischer Sparkassen- und Giroverband 20.00%; Bayerische Landesbank 3.74501%; Landesbank Hessen-Thüringen Girozentrale 3.74499%; Hamburg Commercial Bank AG 2.51%. The Bank did not hold any treasury shares.

In the financial year, EUR 15,656 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 2,480 thousand (previous year: EUR 2,721 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 almost exclusively to EUR 2,680 thousand in current account interest (previous year: EUR 2,693 thousand) on accounts used in the operating activities of the securities business.

3. Current income

The current income from equities and other non-fixed-income securities includes payout of the equity investment and profit distribution due to the liquidation of EDD AG. The current income from affiliated companies (EUR 131 thousand) related exclusively to the dividends from dwp Software Kft. The current income from equity investments consisted mainly of the dividend from CINTAC A/S (EUR 25 thousand).

4. Fee and commission income

At EUR 400,484 thousand, fee and commission income was significantly higher than in the previous year (EUR 321,051 thousand).

Fee and commission income during the financial year amounting to EUR 378,652 thousand (previous year: EUR 305,815 thousand) resulted from full-service securities services. The increase resulted in particular from higher transaction income due to the global coronavirus pandemic that has been ongoing since the beginning of 2020 and the market volatility associated with it. Brokerage fees and expenses amounted to EUR 17,364 thousand (previous year: EUR 10,483 thousand). Additional income amounting to EUR 1,197 thousand (previous year: EUR 2,538 thousand) resulted from depositories' transaction fees passed on to clients.

5. Fee and commission expense

Fee and commission expenses amounted to EUR 89,683 thousand (previous year: EUR 75,773 thousand) and can be broken down as follows:

EUR thousand	31 Dec. 2020	31 Dec. 2019
Securities account and transaction fees	68,199	61,313
Other fee and commission expense	21,484	14,461

Other fee and commission expense relates primarily to brokerage fees and expenses of EUR 14,749 thousand (previous year: EUR 9,108 thousand).

6. Other operating income

Other operating income of EUR 38,402 thousand (previous year: EUR 40,309 thousand) can be broken down as follows:

EUR thousand	31 Dec. 2020	31 Dec. 2019
IT services (incl. migrations)	14,684	16,772
Foreign exchange result	13,030	9,191
Miscellaneous other operating income	9,480	5,769
Reversal of provisions	1,208	8,577

The miscellaneous other operating income primarily includes income from VAT refunds for prior periods (EUR 2,951 thousand), postage (EUR 1,744 thousand), damages (EUR 450 thousand), discounts (EUR 397 thousand) and leasing (EUR 267 thousand).

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. This 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 121,840 thousand (previous year: EUR 103,060 thousand) related to IT operation and development expenses in the amount of EUR 66,808 thousand (previous year: EUR 54,252 thousand). Consulting fees in the amount of EUR 25,886 thousand (previous year: EUR 17,393 thousand) and building management expenses in the amount of EUR 13,644 thousand (previous year: EUR 14,254 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 6,859 thousand (previous year: EUR 6,813 thousand), and non-labour costs relating to personnel, which amounted to EUR 3,182 thousand (previous year: EUR 4,598 thousand).

8. Other operating expenses

Other operating expenses amounted to EUR 41,451 thousand (previous year: EUR 38,736 thousand), of which EUR 13,594 thousand (previous year: EUR 16,151 thousand) resulted from the interest cost in relation to longer-term personnel provisions. Furthermore, this item includes non-deductible input tax of EUR 9,529 thousand (previous year: EUR 8,332 thousand), expenses for losses of EUR 4,611 thousand (previous year: EUR 1,050 thousand) and an addition to an existing restructuring provision amounting to EUR 3,459 thousand (previous year: EUR 9,494 thousand). A non-recurring item of EUR 5,773 thousand related to funding in the context of outsourcing a portion of the pension obligations to a pension fund.

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 26,456 thousand of reported current taxes related to the operating profit from the past financial year. EUR 296 thousand resulted from tax refunds for prior years. Total income of EUR 4,221 thousand (previous year: EUR 2,824 thousand expense) 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 6.74%. 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 1,172. Of that number, 799 were employed full-time and 373 part-time. On 31 December 2020, the Bank had 1,174 active employees, of which 807 were full-time and 367 part-time. Additionally, the Bank employed three members of the Board of Management as at 31 December 2020, as well as 25 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 1,728 thousand. Remuneration of EUR 405 thousand was paid to former members of the Board of Management. Additionally, provisions for pensions totalling EUR 21,608 thousand were also recognised for this group of people. Provisions of EUR 178 thousand were recognised for the remuneration of dwpbank's Supervisory Board for the past financial year.

3. Total fee for auditor

Expenses of EUR 604 thousand were incurred for the activities of the auditor in the financial year. Of this figure, EUR 600 thousand was attributable to audit services and EUR 4 thousand to other assurance services.

4. Development expenses

During the financial year, the Bank incurred a total of EUR 59,381 thousand (previous year: EUR 42,909 thousand) in expenses for development activities. These development activities were reviewed with respect to capitalisation and, if the conditions were met, were recognised in the balance sheet. EUR 10,521 thousand was capitalised as intangible assets in the financial year.

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

Lease collateral in the form of a bank guarantee was provided to the lessor on behalf of dwp Service GmbH, Halle (Saale).

6. Amounts excluded from distribution

A total of EUR 79,074 thousand was excluded from distribution. That amount comprised EUR 19,779 thousand in accordance with section 253 (6) HGB and EUR 59,296 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 26,349 thousand) and capitalised internally generated intangible assets (EUR 32,946 thousand).

7. Proposal for the appropriation of profits

The Board of Management proposes the following appropriation of profits: "The net retained profits for the 2020 financial year amounting to EUR 47,355,531.76 shall be appropriated as follows:

1. Transfer to revenue reserves amounting to EUR 31,571,933.02.
2. Retained profits carried forward amounting to EUR 15,783,598.74."

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, Corporate Management and Client Management
- Thomas Klanten, Bottrop, Finance and Risk Management
- Markus Neukirch, Oberursel, IT and Operations

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

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:

- **Dr. Klaus Tiedeken**
Chairman, Member of the Board of Management, Kreissparkasse Köln, Cologne
- **Thomas Ullrich**
Deputy Chairman, Member of the Board of Management of DZ BANK AG, Frankfurt am Main
- **Ebrahim Boulehia,**
Employee representative, dwpbank, Frankfurt am Main
- **Dr. Christian Brauckmann**
Member of the Board of Management of DZ BANK AG, Frankfurt am Main
- **Ulrich Eschert**
Employee representative, dwpbank, Frankfurt am Main
- **Dr. Detlef Hosemann** (until 22 October 2020)
Member of the Board of Management, Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main
- **Axel Jungen**
Employee representative, dwpbank, Düsseldorf
- **Johannes Koch** (since 1 January 2021)
Head of Strategy & Group Development, DZ BANK AG
- **Dr. Peter Neu** (until 31 December 2020)
Oberursel
- **Dr. Claudia Nowak**
Employee representative, dwpbank, Frankfurt am Main
- **Thomas Pennartz**
Managing Director, Rheinischer Sparkassen- und Giroverband, Düsseldorf
- **Markus Schabel**
Chairman of the Board of Management, Sparkasse Münsterland-Ost, Münster
- **Peter Tenbohlen**
Head of Operations, DZ BANK AG, Düsseldorf
- **Christoph Ulm**
Employee representative, dwpbank, Munich / Deutscher Bankangestellten-Verband, Düsseldorf
- **Dr. Ulrich Walter**
Head of Capital Markets and Trading, DZ BANK AG, Frankfurt am Main
- **Jürgen Wannhoff**
Vice President, Sparkassenverbands Westfalen-Lippe, Münster
- **Dr. Markus Wiegmann** (since 23 October 2020)
Member of the Board of Management of Bayerische Landesbank, Munich

Frankfurt am Main, 9 March 2021



Dr. Heiko Beck



Thomas Klanten



Markus Neukirch

Country-by-Country-Reporting

Disclosure in accordance with section 26a (1) sentence 2 KWG as at 31 December 2020

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 2020 to 31 December 2020 and the number of employees on a full-time equivalent basis as at 31 December 2020 are presented in the table below:

Profit before tax amounted to EUR 69.3 million; the tax expense amounted to EUR 21.9 million.

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

Turnover in EUR million	309.3
Interest income	3.2
Interest expense	-2.7
Net interest income	0.6
Fee and commission income	400.5
Fee and commission expense	-89.7
Net fee and commission income	310.8
Other operating income	39.4
Other operating expenses	-41.5
Net other operating income	-2.1
Number of employees on a full-time equivalent basis	1,079
Profit before tax in EUR million	69.3
Taxes on income in EUR million	-21.9
Public subsidies received in EUR	0.00

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 2020 and the income statement for the financial year from 1 January 2020 to 31 December 2020, 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 2020 to 31 December 2020. 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 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020 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 2020 to 31 December 2020. 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:

During the period under review, significant development costs were capitalised in connection with the creation of additional functionalities in the WP2 system and the other systems used to provide securities services. 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.

As a consequence, the decision whether to recognise these assets is at the discretion of dwpbank's Board of Management. 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.

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 were key matters 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. Other information includes 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, and the non-financial, which we obtained a copy of prior to the date of this auditor's report and which is published on the website of dwpbank. The other information also includes further components of the annual report, copies of which we obtained prior to the date of this auditor's report, in particular the letter from the Board of Management, the report of the Supervisory Board

and the 2020 Country-by-country reporting (disclosure pursuant to section 26a (1) sentence 2 KWG). However, it does not include the annual financial statements, the disclosures in the management report that were included in the substantive audit, or our associated 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 22 April 2020. We were engaged by the Supervisory Board on 22 April 2020. 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: 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, 11 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Heist
German Public Auditor

Meier
German Public Auditor

Report of the Supervisory Board

Composition of the Supervisory Board and committee work

In accordance with the Articles of Association, dwppbank's Supervisory Board consisted of a total of fifteen members in financial year 2020: ten shareholder representatives and five employee representatives.

During financial year 2020, the Chairman of the Supervisory Board was Dr Klaus Tiedeken, until 31 December 2020 member of the Board of Management, Kreissparkasse Köln, Cologne, and his deputy was Thomas Ullrich, member of the Board of Management, DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

In accordance with the statutory provisions and section 9 of its Rules of Procedure, in 2020, 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) of the German Banking Act (Kreditwesengesetz, "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 meetings, the committees performed the tasks allocated to them in accordance with section 25d KWG and the by-laws of the Supervisory Board. 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 total of two times in 2020. The particular focus of the Remuneration Control Committee in 2020 was on performing the tasks assigned to it in accordance with the Regulation Governing Remuneration at Institutions (Instituts-Vergütungsverordnung – InstitutsVergV), including monitoring the appropriate design of the remuneration system for the Board of Manage-

ment and employees, assessing the achievement of targets by Board of Management members, and identifying risk-takers. It met a total of three times in 2020. The Risk and Audit Committee in 2020 carried out the preliminary review of the documents relating to the 2019 annual financial statements, the evaluation of the findings of the audit in accordance with section 89 of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") and the audit of securities accounts, and advised the Board of Management on issues relating to risk management and its further development, and the appropriateness and effectiveness of the internal control system. The Risk and Audit Committee met a total of seven times in 2020. The strategy committee advises the Board of Management in particular on reviewing and refining the business strategy. The Strategy Committee met once in 2020.

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

In 2020, 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 provisions set out in the Articles of Association, the Supervisory Board held five meetings during the financial year and 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 and strategic focus 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. The topics discussed by the Supervisory Board included in particular measures in the context of dwppbank's strategic development, for instance the new dwppbank 2024 medium-term strategy, the key sales activities, and continuing efforts to systematically align dwppbank's processes and IT to ensure quality, future viability, effectiveness and efficiency. Other topics included the action needed in response to the pandemic, the further development of services to enable dwppbank's clients meet the applicable regulatory requirements, discussions surrounding the progress made in project apollo to remedy the findings of the special audit of IT carried out in 2019, ensuring risk-bearing capacity at all times, capital

planning, assessing the appropriateness of risk controlling, the reorganisation of the operations and IT units by domain and action points and findings from the architecture and process review of the client input interface.

Annual financial statements for the year ended 31 December 2020

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, which was elected auditor by the Annual General Meeting, audited dwpbank's annual financial statements for 2020, as prepared by the Board of Management, comprising the balance sheet as at 31 December 2020, the income statement for the 2020 financial year, the notes to the financial statements, including the accounting policies presented in them, and dwpbank's management report for 2020. In accordance with German legal requirements, the corporate governance declaration pursuant to section 289f (4) of the German Commercial Code (Handesgesetzbuch, "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 19 April 2021 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 1 April 2021, 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 2020, 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 2020 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 statement as at 31 December 2020

Furthermore, meetings of the Risk and Audit Committee (1 April 2021) and the Supervisory Board (19 April 2021) discussed the separate non-financial statement of dwpbank as at 31 December 2020, as prepared by the Board of Management. AGIMUS GmbH Umweltgutachterorganisation & Beratungsgesellschaft performed a limited assurance engagement on the separate non-financial report of dwpbank, i.e. on the basis of activities similar to review procedures and of 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 2020.

Frankfurt am Main, 19 April 2021

Deutsche WertpapierService Bank AG
The Supervisory Board



Dr. Klaus Tiedeken,
Chairman

Members of the Advisory Board (as at 31 December 2020)

- **Marcus Vitt**
Chairman of the Advisory Board, Spokesman of the Board of Management, DONNER & REUSCHEL AG
- **Dr. Detlef Schmidt**
Deputy Chairman of the Advisory Board, Chairman of the Board of Management, Kreissparkasse Böblingen
- **Hans-Heinrich Bernhardt**
Member of the Board of Management, Volksbank Mittelhessen eG
- **Thomas Fischer**
Member of the Board of Management, ODDO BHF Aktiengesellschaft
- **Matthias Frentzen**
Member of the Board of Management, Dortmunder Volksbank eG
- **Stefan Grunwald,**
Chairman of the Board of Management, Stadt-Sparkasse Solingen
- **Tilo Hacke**
Member of the Board of Management, Deutsche Kreditbank AG
- **Daniel Keller**
Member of the Board of Management, Berliner Volksbank eG
- **Wolfgang Kirschbaum**
Chairman of the Board of Management, Sparkasse Minden-Lübbecke
- **Axel Kodlin**
Member of the Board of Management, Hamburger Sparkasse AG
- **Thomas Leicher**
Head of Capital Markets, Landesbank Hessen-Thüringen Girozentrale
- **Jörg Lindemann**
Member of the Board of Management, Volksbank Darmstadt-Südhessen eG
- **Juan Alberto Puentes Puertas**
Head of Business Management & Operations, Norddeutsche Landesbank
- **Wolfgang Reinhart**
Head of Operations & Services, Bayerische Landesbank
- **Markus Reitmeier**
Head of Capital Markets Retail Customers, DZ BANK AG
- **Jürgen Wagenländer**
Member of the Board of Management, Sparkasse Mainfranken Würzburg

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