M.M.WARBURG & CO
BANK

Press Release

Warburg Bank well positioned

- **Strategic focus and structural changes made in recent years continue to prove their worth in pandemic**
- **Net fee and commission income, net interest income, and assets under management up tangibly in 2019**
- **Net income for 2019 dominated by portfolio streamlining and one-time special costs**
- **Risks from tax demands and confiscation order are fully covered**
- **Good start to 2020**

Hamburg, April 30, 2020 – Developments in recent weeks have shown that independent private bank M.M.Warburg & CO (AG & Co.) Kommanditgesellschaft auf Aktien (Warburg Bank) is well prepared to meet the exceptional challenges posed by the global corona crisis. The hard work by all employees has allowed the Bank to continue providing all services as usual. All income, expense, liquidity, and capital performance indicators for the first quarter of 2020 were in line with its positive planning.

Warburg Bank's stability in this environment is also due to its focus on business in Germany in the period since 2017. This has reduced the risks from cross-border activities involving other regulatory requirements. The Bank's headquarters in Hamburg and nine other locations in Germany offer strong regional coverage. The absence of a far-flung branch network and foreign locations, and the merger of the previously legally independent banking subsidiaries with the parent company have significantly cut strategic and operating risks. The Bank's deliberate policy of using in-house technical specialists to model its core banking processes allow it to largely avoid domestic and foreign outsourcing risks.

In addition, Warburg Bank's clearly focused financing activities mean that it will very probably only be impacted to a limited extent by the risks associated with the current pandemic. At the same time, it can work closely together with clients to take advantage of the opportunities offered by the present situation. High net worth Private Banking clients particularly appreciate the Bank's proactive, personal advice during challenging market periods, and benefit from Warburg Asset Management's above-average track record, as demonstrated once again in 2019 by excellent external rankings. The Bank's seasoned experts took defensive positions early in 2020, limiting losses in value as a result. Systematic implementation of the Bank's digitalization strategy in the past means that customers are already able to access proven

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online offerings. Warburg Navigator offers end-to-end digital asset management from initial information down to online reporting. OWNLY, the multibanking and asset management app, allows customers to obtain a full overview of their assets anytime, anywhere, manage them as well as providing additional information.

Precisely in a global crisis such as this, business owners and enterprises can rely on the middle-market expertise provided by Warburg Bank's Corporate Finance and Corporate Banking operations.

Joachim Olearius, Spokesman for the Partners: "*Long-term, trusting relationships prove their worth in crises. Businesspeople who treat each other as partners can communicate and take decisions transparently and rapidly at such times.*"

Clear structure created

Warburg Bank completed the process of integrating its former banking subsidiaries, which then became branches, at the end of 2019. The previously independent banks now operate uniformly as local offices under the M.M.Warburg & CO name in Berlin, Braunschweig, Bremen, Frankfurt, Hanover, Cologne, Munich, Osnabrück, and Stuttgart, while still continuing to preserve their history. Clients have a wide range of services at their disposal in the form of the Private Banking, Asset Management, Capital Markets, and Corporate Banking divisions, flanked by the Bank's subsidiaries – Marcard, Stein & Co (family office bank), M.M.Warburg & CO Hypothekenbank AG (real estate finance), Warburg Invest AG and WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH (asset management), and Warburg Research GmbH. In particular, German middle-market companies and institutional clients find this mix offers them the full range of relevant, complementary banking services that they need.

One major milestone in the Warburg Group's development in the past fiscal year was the acquisition in full of Warburg Invest AG, following the purchase of 75.1 percent of the latter's shares from NORD/LB in 2018. In addition, the reconsolidation of M.M.Warburg & CO Hypothekenbank AG – in which Warburg Bank now holds 60.0 percent again as of December 31, 2019 – has strengthened the Bank's property financing services, which form part of a comprehensive and appropriate overall offering.

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Handover by principal shareholders to new Supervisory Board

After nearly four decades of successful work for the Bank, principal shareholders Dr. Christian Olearius and Max Warburg resigned as Chairman and Deputy Chairman of the Supervisory Board respectively as of the end of 2019. Dr. Bernd Thiemann, who was already a member of M.M. Warburg & CO's Supervisory Board, was elected as the Bank's new Supervisory Board Chairman. Prof. Burkhard Schwenker and Dr. Claus Nolting were elected as new members of the Supervisory Board.

Business performance in figures

- **Warburg Bank**

Warburg Bank's total assets as at the 2019 year-end amounted to EUR 4.49 billion, a planned decrease compared to the figure for the previous year (EUR 5.49 billion). This was due among other things to changes in asset-liability management, the reduction in trust assets resulting from payments made in connection with the liquidation of investment funds, and reporting date effects.

Warburg Bank recorded an encouraging performance in terms of income, lifting operating income appreciably. Net fee and commission income climbed 11 percent from EUR 79.4 million in 2018 to EUR 88.1 million in 2019. Net interest income also improved by a significant 23.7 percent year-on-year, from EUR 36.6 million to EUR 45.2 million. The Bank's interest income and expenses are largely generated from traditional lending and deposit-taking activities and securities investments, areas in which the low yield opportunities offered by the interest rate and market environment continued to have a negative effect. Conversely, the dividend income and profit transfers from the subsidiaries contained in the net interest income item made a positive contribution. Net trading income rose from EUR 3.6 million to EUR 6.4 million.

Warburg Bank's administrative expenses were largely in line with its planning, rising from EUR 127.0 million in 2018 to EUR 135.7 million in 2019. Remeasurement gains and losses in the lending business primarily reflected the systematic risk shield for shipping finance dating from the period before the crisis in the shipping industry. The write-down on the equity interest in M.M.Warburg Bank (Schweiz), which is in liquidation, and the effects of the reconsolidation of M.M.Warburg & CO Hypothekenbank also impacted earnings. After adjustment for one-time factors, operational net income for the reporting period amounted to EUR 16.2 million – in excess of expectations and of the prior-year figure (EUR 7.1 million). Including the one-time factors, net income for the reporting period before the loss transfer was EUR –24.6 million.

The cost-income ratio – the ratio of administrative expenses to aggregate net interest income, net fee and commission income, and net trading income – was 97.1 percent (previous year: 106.2 percent). Although this represents a year-on-year improvement, it was still in excess of the desired target figure.

Following the adoption of the annual financial statements for 2019, Warburg Bank's Tier 1 capital ratio is 15.8 percent (previous year: 14.1 percent), while the Common Equity Tier 1 capital ratio is 14.1 percent (previous year: 12.6 percent).

A total of 664 (previous year: 681) staff were employed as of the 2019 year-end. The Bank strengthened its workforce in its client-facing areas and in the key areas relevant for enhancing its banking operations, while simultaneously leveraging potential efficiencies. These moves were also associated with further consolidation of its business processes at its central location in Hamburg.

- **Increase in assets under management and administration, and in total assets held in custody**

Total assets under management and administration at the Warburg Group grew by an encouraging 12.2 percent, climbing from EUR 62.2 billion in the previous year to EUR 69.8 billion. Total assets held in custody by Warburg Bank in its capacity as a depositary rose from EUR 25.1 billion to EUR 30.2 billion, an increase of 20.2 percent.

- **The Warburg Group**

Total assets at the Warburg Group (the group whose parent company is M.M.Warburg & CO Gruppe GmbH) rose to EUR 6.30 billion as of December 31, 2019 (previous year: EUR 5.76 billion); this was largely due to the reconsolidation in 2019 of M.M.Warburg & CO Hypothekenbank AG. In addition, M.M.Warburg & CO Gruppe GmbH assumed credit risks of EUR 35.0 million at Warburg Bank.

Consolidated net income after taxes amounted to EUR –61.8 million in 2019 (previous year: EUR –14.6 million), largely as a result of the loan loss provisions and tax back payments.

Following the approval of the consolidated financial statements for 2019, the Warburg Group's Tier 1 capital ratio is 10.6 percent (previous year: 11.5 percent), while its Common Equity Tier 1 capital ratio is 9.1 percent (previous year: 10.2 percent).

A total of 929 people (previous year: 952) were employed in the Warburg Group at the end of 2019.

Outlook

The key thing in this period of economic uncertainty unleashed by the coronavirus is to be a reliable partner for clients and employees, and to develop the Warburg Group sustainably and judiciously in line with the wishes of the shareholder families. This is only possible if the Group is not obliged to meet external investors' expectations regarding returns. Consequently, maintaining the Group's independence continues to be the top priority in 2020.

An increase in net fee and commission income, coupled with net trading income on a par with the previous year, can still be expected at present despite current developments. In contrast, the interest-bearing business is not expected to provide any positive momentum.

Personnel expenses will remain at roughly the prior-year level, while non-personnel operating expenses will be significantly higher than in 2019, largely as a result of upgrades to the IT systems, projects to implement statutory requirements and improve processes, and mandatory contributions. A slight decline in depreciation, amortization and writedowns is to be expected. Given the trend in operating income, a slight year-on-year improvement in the cost-income ratio is forecast.

At present, the Bank sees continued risks associated with the performance of the Shipping segment, due among other things to the corona crisis. These have been taken into consideration to the extent that they can be identified. Net loan loss provisions in this segment are expected to be significantly lower than in 2019.

All in all, 2020 earnings are expected to improve significantly compared to the previous year, and to roughly break even. The ability to achieve these goals depends decisively on the shutdown and the resulting decline in economic output in Germany, Europe and the world being overcome in the second half of the year.

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Background information: operational risk

Between 2007 and 2011, Warburg Bank executed transactions involving German shares over the dividend date for which a domestic custodian bank acted on behalf of the seller of the shares. The profits generated from the futures and, in individual cases, as a result of the purchase and sale of the shares totaled approximately EUR 68 million (EUR 46 million after taxes) over these five years.

Since 2016, the public prosecutors' office in Cologne has been investigating current and former senior executives and employees of Warburg Bank on the grounds of an initial suspicion of tax evasion in connection with these transactions. The company was interviewed as a potential accessory in accordance with the Ordnungswidrigkeitengesetz (OWiG – German Administrative Offenses Act). The tax authorities have revoked the Warburg Group's investment income tax credits for 2007 to 2011. Legal action is being taken against these notices.

In the transactions concerned, the Warburg Group paid the full purchase price for the shares, including the relevant portion of the investment income tax in the amount of EUR 169 million, to Deutsche Bank AG (Frankfurt) in the latter's capacity as the seller's domestic custodian bank. The reason given for issuing the relevant tax notices was that Deutsche Bank AG did not retain and remit the investment income tax. However, it had a legal duty to do so under section 44(1) sentence 3 of the Einkommensteuergesetz (EStG – German Income Tax Act) (old version). Therefore, in December 2018, the Warburg Group and Warburg Bank sued Deutsche Bank AG, asserting claims to disclosure, declaratory judgment, and damages. The claims that have been asserted have not been recognized on the balance sheet.

On March 18, 2020, the Regional Court in Bonn passed judgment in the criminal case against two London-based share traders who were accused of aggravated tax evasion in connection with "cum/ex" transactions. The two men were given suspended prison sentences and, in addition, the confiscation of the value of the proceeds of the crime was ordered. A confiscation order for EUR 176.6 million was issued in the case of M.M.Warburg & CO Gruppe GmbH, which was classed as a "potential person with an interest in the confiscation of gains" (Einziehungsbeteiligte). An appeal has been lodged with the Federal Court of Justice against the judgment of the Regional Court in Bonn.

As the consolidated tax group parent, Warburg Bank's parent company, M.M.Warburg & CO Gruppe GmbH, has recognized provisions of EUR 62.6 million for operational risks. With respect to the 2007 to 2009 tax assessment periods, the principal shareholders have undertaken to indemnify the company for the risks up to a maximum amount of EUR 140.0 million; as a result, no provision for this amount needed to be recognized. The confiscation order for the value of the proceeds of the crime issued in the course of the criminal proceedings and the tax demands asserted directly by the fiscal authorities at the same time both relate to the same investment income tax credits of EUR 169 million for 2007 to 2011. Given that the issue is identical, a demand for investment income tax can only be enforced once – either by way of the confiscation order or via the tax notices. The claims asserted under the confiscation order/the tax notices are covered in full by the provisions and the assumption of liability.

At no point did the Warburg Group or Warburg Bank intend to engage in or facilitate share transactions contravening tax law, or to participate in any collusion to this effect. In particular, there was never any intention of making incorrect declarations to the tax authorities or of asserting unjustified claims for tax refunds.

Overview

M.M.Warburg & CO Gruppe GmbH

M.M.Warburg & CO (AG & Co.) KGaA

Hauptsitz: *Hamburg*
Geschäftsstellen: *Berlin, Bremen, Braunschweig, Frankfurt, Hannover, Osnabrück, Köln, München, Stuttgart*

Tochtergesellschaften

Banken
MARCARD, STEIN & CO AG, *Hamburg*
M.M.Warburg & CO Hypothekenbank AG, *Hamburg*

Kapitalverwaltungsgesellschaften
WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, *Hamburg*
Warburg Invest AG, *Hannover*

Research
Warburg Research GmbH, *Hamburg*

Private Client Partners AG, *Zürich*

Warburg Konzern

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