M. M. WARBURG & CO
1798

Press Release

Warburg Group merges banking subsidiaries and strengthens position

- **Support for merger of banking subsidiaries from clients and staff**
- **Encouraging rise in assets under management to EUR 54.1 billion**
- **Capital increase of EUR 53.0 million**
- **Healthy income structure and strong net fee and commission income**
- **Unsatisfactory trend in net interest income and costs, in line with business environment**

Hamburg, May 16, 2017—In October 2016, the Warburg Group (the companies held by M.M.Warburg & CO Gruppe GmbH) merged its subsidiaries Bankhaus Hallbaum, Bankhaus Löbbecke, Bankhaus Plump and Schwäbische Bank with Warburg Bank (M.M.Warburg & CO (AG & Co.) KGaA). The traditional institutions—some of which have been in existence for centuries—have kept their names and, as branches of M.M.Warburg & CO, are preserving their identities as independent private banks with a local presence. The response of clients and staff alike to the mergers has been extremely positive. The high level of trust could be seen from the increase in assets under management, which rose from EUR 51.1 billion in the previous year to EUR 54.1 billion. The headcount was up by 2.58% to 1,232 (previous year 1,201). Income before taxes amounted to EUR 29.7 million (previous year: EUR 16.0 million).

With the mergers, Warburg Bank is continuing its focus on ensuring easy regional accessibility in Germany while reacting to the increasing regulatory requirements, which make it almost impossible for credit institutions to do business independently as small organizational units. The branches can support clients in their regions by offering the full range of all Warburg Group services without restriction.

The second key measure taken in fiscal year 2016 was the resolution by the partner base—which continues to be independent and is unchanged in terms of its composition—to perform a capital increase by way of a cash contribution in the amount of EUR 53.0 million. As a result, the Warburg Group's Common Equity Tier 1 capital rose from EUR 272.8 million to EUR 325.5 million, while its own funds including Tier 2 capital totaled EUR 423.7 million. Following the approval of the consolidated financial statements, the Common Equity Tier 1 capital ratio amounted to 9.7%, while the own funds ratio was 12.5%. As a result, the Warburg Group meets all supervisory capital requirements.

The high quality of the income structure could be seen from the net fee and commission income, which at EUR 161.0 million was almost at the strong prior-year level of EUR 163.9 million. The ratio of fee and commission income to interest income is now almost two-thirds to one-third. In past years, the Bank generated more than half of its income from the interest rate business.

Joachim Olearius, Spokesman for the Partners: *"2016 has shown that our clients put their trust in us and are looking for long-term partnerships with us. Particularly in these eventful times, there is strong demand for an independent, reliable banking partner. Our end-to-end range of services means we have a lot to offer discerning private clients, business owners, and institutional clients. The capital increase underlines our determination to put traditional banking at the heart of our business activities."*

Net interest income and costs performed less satisfactorily. In the case of the interest rate business, this is due to the dysfunctional interest rate environment with its zero and negative interest rates that has been produced by state intervention, and to the fierce pressure on margins from competitors who are pitching for business with unprofitable bids. Although the increase in the cost ratio is partly due to one-off factors, it also reflects a higher IT spend, which is largely attributable to repeated new regulatory requirements. Loan loss provisions recognized in the area of shipping finance had a negative effect; the Group used its own resources here, with income from the sale of a real estate portfolio being one contributory factor here.

The Warburg Group's total assets rose by EUR 892.6 million to EUR 8.4 billion. Growth was mainly due to the takeover in a fiduciary capacity of a real estate fund that Warburg Bank, as the Depositary, is liquidating in accordance with the "Kapitalanlagegesetzbuch" (German Investment Code).

Last year in particular, a large number of banks were publicly accused of unlawfully obtaining tax benefits by performing share transactions around the dividend record date. Such accusations were also leveled against Warburg Bank as from the beginning of 2016. Following an in-depth examination, which also drew on the assistance of external auditors, Warburg Bank's partners and Supervisory Board are able to reiterate the statements they made at the beginning of the investigations: Warburg Bank and its banking subsidiaries were not party to transactions involving multiple or unlawful investment income tax credits or refunds. Consequently, the accusations are unfounded.

The Bank saw a good start to the current year. Business in most units is brisk on the back of the continuing improvement in the economic data. The only factors having a dampening effect at present are political uncertainty and state intervention in the markets. A stabilization of the political situation following the key elections in Europe, at national level in Germany, and in a number of federal states could help to overcome this, as could a return to tried-and-tested regulatory principles that would then hopefully occur. However, if the interest rate environment remains unchanged, banks will have to charge institutional clients a margin on the Central Bank's negative deposit rate. This means that net interest income will stabilize.

The Warburg Group will start to benefit from the effects of the mergers in 2017. Additional savings will be made in the back office areas of its former banking subsidiaries in the course of the year. The associated human resources measures are limited in nature and will be implemented in a socially responsible manner in the period up to 2018. The Warburg Group's front office areas are performing extremely well. Organic growth and increased staffing levels in the Fixed Income, International Shipping, and Private Banking units are having an increasingly noticeable effect this year. Investments in client-facing technological solutions will further enhance and extend the Group's broad range of services.

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Attachments:
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About M.M.Warburg & CO
2016 and 2015 figures; Overview of the Warburg Group
Corporate Finance 2016—Summary

Business Segment Update

Private Banking staff significantly extended the volume of assets under management. This was due to successful investment management and the acquisition of additional assets from both existing and new clients. In the pure-play investment advisory area, the volatile nature of 2016 and the substantial uncertainties it brought—such as those caused by Brexit—led to a decline in the number of client portfolio transactions. Portfolios were structured relatively cautiously overall, while the need for advice rose considerably in view of events. Particularly in the area of bond investments, the need to switch to lower-rated issues for yield reasons became apparent. Clients benefited here from M.M.Warburg & CO's bond research expertise.
In the asset management area, conservative strategy mandates in particular were clearly in positive territory and generally beat conventional benchmarks. Longer-dated bonds and supplementary investments in specialty bond segments recorded an above-average performance. In the equities area, the strong closing rally produced a positive end to the year.

Asset Management had an extremely successful fiscal year. The total volume of investment funds and mandates managed by Warburg Invest Kapitalanlagegesellschaft mbH rose to EUR 7.4 billion (previous year: EUR 6.6 billion) and was broken down into 126 portfolios. The volume of retail funds as of the end of the year amounted to EUR 2.3 billion (previous year: EUR 2.1 billion), while the volume of special AIFs was EUR 3.6 billion (previous year: EUR 3.5 billion). The remaining funds are attributable to 31 discretionary mandates with an aggregate volume of EUR 1.5 billion (previous year: EUR 1.0 billion)—an area that is becoming substantially more important for the Company. Investment management concepts that comply with strict sustainability criteria are another area that recorded a significant increase in volume, rising to EUR 850 million as of the end of the year. Warburg Invest Luxembourg S.A. saw a slight decline in assets under management in the Luxembourg fund structures segment to EUR 14.4 billion (previous year: EUR 14.7 billion). By contrast, the volume of alternative investments rose, lifting assets under management in the reporting period to approximately EUR 22 billion.

Investment Banking, which comprises the Corporate Finance, Sales and Trading, and Relationship Management functions, again recorded an above-average result in the reporting period.
Corporate Finance successfully completed a large number of transactions in the final quarter of the reporting period in particular. All in all, the 24 staff in this area can look back on an encouraging fiscal year with 20 transactions and advisory mandates (see the attachment entitled "Corporate Finance 2016—Summary"). The close cooperation with the branches was intensified following the merger of

the banking subsidiaries. Qualified staff are available in Stuttgart, Frankfurt, Cologne, Berlin, Bremen, and Hanover to answer questions on all aspects of Corporate Finance.
Sales and Trading recorded strong net fee and commission income in the area of interest rate and currency advisory services. Unexpected political events such as the Brexit vote resulted in increased volatility, especially in the leading currencies of the euro, the US dollar, and sterling. This market environment led to increased client hedging requirements. In the Bonds unit, higher staffing levels among other things allowed the unit to further expand both its advisory services and its business with existing and new institutional clients. Continued brisk issuance by international issuers—fueled among other things by the ongoing low level of interest rates—led to strong business results.

Banking subsidiaries **Marcard, Stein & Co AG** and **M.M.Warburg & CO Hypothekenbank AG** turned in an extremely positive performance. At family office bank Marcard, Stein & Co, real estate asset management activities again proved particularly successful. Directly held commercial and residential real estate worth more than EUR 100 million euros was bought and sold, despite a tight transaction environment. The main focus of purchasing activities was on value investments—i.e., undervalued properties in good locations that are in need of optimization.
Hypothekenbank is facing considerably stronger competition. Nevertheless, at EUR 252 million, new real estate finance commitments (excluding loan extensions) were only slightly below the prior-year level despite the mortgage bank’s traditionally conservative business strategy. The client base was selectively expanded in cooperation with other Warburg Group companies.

W&Z FinTech GmbH, which was founded in the summer of 2015, launched its OWNLY app for Apple devices in November 2016. OWNLY provides clients with an end-to-end overview of their assets, covering not only accounts and securities holdings at different banks but also real estate and other physical assets. Indicative prices for properties can be obtained by performing just a few short steps. In addition, OWNLY offers regular market analyses and capital market reports that are relevant for private asset management. The goal for 2017 is to extend the app’s analysis functionality.

About M.M.Warburg & CO

Founded in 1798, M.M.Warburg & CO is an independent German private bank. As a universal bank, it provides sophisticated banking services to discerning private clients, corporate clients, and institutional investors in its core business segments of Private Banking, Asset Management, and Investment Banking.

The Warburg Banking Group operates as a financial services provider under the holding company M.M.Warburg & CO Gruppe GmbH KGaA. It has own funds of EUR 423.7 million, assets under management of EUR 54.1 billion, and 1,232 employees (as of December 31, 2016). The Warburg Banking Group comprises M.M.Warburg & CO, which is both an operating company and the parent institution; the latter's branches (Bankhaus Löbbecke, Bankhaus Hallbaum, Bankhaus Carl F. Plump & CO, and Schwäbische Bank) and the subsidiaries Marcard, Stein & Co, M.M.Warburg & CO Hypothekenbank, Warburg Invest, M.M.Warburg & CO Luxembourg, and M.M.Warburg Bank (Schweiz).

The breadth and depth of the business model can be seen from the wide range of specialist focus areas offered to clients. The parent bank is active in three main business areas—Private Banking, Asset Management, and Investment Banking, including lending services. As part of the Warburg Banking Group, Marcard, Stein & Co, M.M.Warburg & CO Hypothekenbank, and M.M.Warburg & CO Luxembourg each have their own specialist focus—family office banking, real estate financing, and fund administration. In addition to this wide range of specializations, the breadth of the business model is underlined by the Warburg Banking Group's extensive regional presence in Germany, Luxembourg, and Switzerland.

Carl F. Plump & CO, Löbbecke, Hallbaum, and Schwäbische Bank are regionally rooted and highly client-oriented branches. Their long tradition as independent institutions means they still have their own identity—an expression of cultural diversity that is shaped not least by their home regions. Thanks to the mergers, the Warburg Banking Group can efficiently offer a high degree of flexibility and a wide range of services at local level.

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Fiscal years 2016 and 2015, overview of the Warburg Group

Due to the mergers, business performance information is now provided in the form of cumulative figures from a consolidated perspective, rather than by adding the figures for the individual units as was previously the case. The prior-year figures have been adjusted.

The Warburg Group	2016	2015
Income before taxes	EUR 29.7 million	EUR 16.0 million
Net interest income	EUR 56.4 million	EUR 66.1 million
Net fee and commission income	EUR 161.0 million	EUR 163.9 million
Own funds	EUR 423.7 million	EUR 379.2 million
Total assets	EUR 8.4 billion	EUR 7.5 billion
Assets under management	EUR 54.1 billion	EUR 51.1 billion
Cost/income ratio	94.4%	84.9%

M.M.Warburg & CO Gruppe GmbH

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

Warburg Bank

Branch offices	Bankhaus Hallbaum Bankhaus Löbbecke Bankhaus Carl F. Plump & CO Schwäbische Bank
Banking subsidiaries	Marcard, Stein & Co AG M.M.Warburg & CO Hypothekenbank AG M.M.Warburg Bank (Schweiz) AG M.M.Warburg & CO Luxembourg S.A.
Asset management companies	Warburg Invest Kapitalanlagegesellschaft mbH Warburg Invest Luxembourg S.A.

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Corporate Finance 2016—Summary of transactions and services

Among other things, the M&A Advisory segment closed the sales of ecom Instruments GmbH to Pepperl + Fuchs GmbH, of Zabel Property AG to Jones Lang LaSalle Holdings GmbH & Co. KG, and of the Tivoli Malz Global Malt Group to Anglia Maltings (Holdings) Ltd. The Venture Capital unit successfully supported the initial financing round for Flaschenpost GmbH.

Particularly noteworthy in the Equity Capital Markets segment was the support provided for Medios AG during its reverse IPO. In addition, the segment was involved in two capital increases by MPC Münchmeyer Petersen Capital AG, once as co-lead manager and once as joint lead manager, and one capital increase each at Adesso AG (lead manager), SFC Energy AG (lead manager), Nanogate AG (lead manager), and GxP German Properties AG (placement agent). It also sold a large block of existing shares in bet-at-home.com AG. All these transactions demonstrated the unit's ability to place shares in the small and mid-cap segment.

Support was provided for IMW Immobilien AG, which implemented a public share buyback offer and SFC Energy AG, which issued a bond with warrants. Additionally, a fairness opinion was provided in connection with a debt-equity swap for Singulus Technologies AG.

The focus of the Debt and Mezzanine Markets segment's activities was on providing support for Prokon Regenerative Energien GmbH. This involved issuing a bond as part of a restructuring plan. In addition, the segment advised Hochtief PPP Solutions GmbH on restructuring its equity interest in Herrentunnel Lübeck GmbH & Co KG.