M. M. WARBURG & CO
1798

Annual Report 2016

Overview of Business Development

Due to the merger of the banking subsidiaries with Warburg Bank effective January 1, 2016, the information about the Group's business development is now provided in the form of consolidated figures from a group perspective, rather than by adding the figures for the individual units. In this context, the prior-year figures for Warburg Bank have been adjusted for comparability purposes; the information on the reported regulatory capital has not changed.

Banking Group

(Companies held by M.M.Warburg & CO Gruppe GmbH)

in EUR million	2016	2015
Income before taxes	29.7	16.0
Net interest income	56.4	66.1
Net fee and commission income	161.0	163.9
Administrative expenses (including depreciation, amortization, and writedowns)	213.5	203.7
Total assets	8,398.7	7,506.1
Business volume	8,431.6	7,555.2
Own funds	423.7	379.2

Bank

in EUR million	2016	2015
Income before taxes	7.2	24.2
Net interest income	45.9	62.1
Net fee and commission income	87.3	87.7
Administrative expenses (including depreciation, amortization, and writedowns)	131.4	124.5
Total assets	5,109.2	4,507.9
Business volume	5,137.6	4,551.2
Own funds	346.2	356.4

M. M. Warburg & CO
1798

Annual Report 2016

Executive Bodies of M.M.Warburg & CO (AG & Co.) KGaA

SUPERVISORY BOARD

Dr. Christian Olearius	– *Chairman* –
Max Warburg	– *Deputy Chairman* –
Dr. Bernd Thiemann	

SHAREHOLDERS' COMMITTEE

Dr. Christian Olearius *Banker*	– *Chairman* –
Max Warburg *Banker*	– *Deputy Chairman* –
Dr. Bernd Thiemann *Management Consultant*	
Prof. Burkhard Schwenker *Management Consultant*	

PARTNERS

Joachim Olearius	– *Spokesman* –
Dr. Henneke Lütgerath	
Eckhard Fiene	
Dr. Peter Rentrop-Schmid	

EXECUTIVE DIRECTORS

Manfred Bruhn
Volker Hahnau
Dr. Jens Kruse
Dr. David Lohmann *from April 1, 2017*
Thomas Schult
Dominik Wilcken

CHIEF LEGAL COUNSEL

Dr. Christoph Greiner

DIRECTORS

Reinhold Albers
Dr. Jan-Frederik Belling
Regina Bendner
Uwe Boehmer
Joachim von Borstell
Kerstin von Bothmer
Ulf-Dieter Brandt
Rainer Brombach
Ralf Budinsky
Andreas Büttner
Detlev Clauss
Robert Czajkowski
Martin Dörscher
Jens Dose
Sandra Duttke
Barbara Effler
Klaus-Dieter Engel
Boris Fischer-Zernin
Richard Göbel
Silke Harms
Friedrich Bernhard Henne
Dr. Christian Hennig
Christoph Herms
Mirco Himmel
Thomas Hock
Daniel Hupfer
Dr. Christian Jasperneite
Helmut Katt
Ingrid Kindsmüller
Ken Kinscher
Carsten Klude
Thorsten Komm
Jutta Kuhn
Dominik Masson
Dr. Ulrike Lambardt-Mitschke
Rainer van der Meirschen
Oliver Merckel
Gerhard Müller
Sven-Michael Nareyka
Holger Nass
Markus Neumann
Marc Niemann
Sanjay Oberoi
Dr. Jörg Rahn
Roland Rapelius
Paul Recum
Dirk Rosenfelder
Klaus Schilling
Christian Schmaal
Joachim Schmidt
Rüdiger Seiffert
Andreas Siadak
Christian Lothar Speer
Klaus Sojer
Achim Urbschat
Jörn Voderberg
Henning Voigt
Erich Waller
Martin Wehrle
Daniel Wendig
Thomas Wieneke
Till Wrede

Branches

BRANCH MANAGERS

Hanover:	Nicolas Hoppe
	Dr. David Lohmann
Berlin:	Daniel Bresser
	Heinrich Wittig
Bremen:	Peter Klose
	Dr. Christian Lütke-Uhlenbrock
Stuttgart:	Marcus Ebert
	Thomas Haas

EXECUTIVE DIRECTORS

Berlin:	Alexander Föhre
Bremen:	Willem René Bezemer

DIRECTORS

Hanover:	Lars Jendrtzok
	Detlef Reinecke
	Martin Schilling
	Frank Thiele
Berlin:	Dr. Frank Geilfuß
	Frank Glagow
	Thomas Christian Plechtasch-Waterstradt
	Volkwin Seltmann
Bremen:	Rüdiger Steinfarz
Stuttgart:	Gerhard Baumeister
	Richard Josef Dreher
	Manfred Hölldorfer
	Jörg Alfred Meyer
	Hartmut Naujoks
	Wolfgang Raich
	Daniela Dana Richardson-Gertz
	Dr. Jochen Stiehle

Report of the Partners

Report of the Partners

Although the days following the 2016 New Year were dominated by optimistic forecasts, the financial market environment clouded over in the course of January with the stock markets in particular easing across the board. Starting in the summer, the vote in favor of Brexit, the elections in the USA, and the results of the Italian referendum on constitutional reform led to considerable political uncertainty. The ECB maintained its low interest rate policy despite a rise in core inflation towards the end of the year and a return to growth in the eurozone. The markets reacted to this: the introduction of negative interest rates on cash deposits by institutional investors meant that the consequences of the ECB's low interest rate policy were clearly felt by social security systems, foundations, insurance companies, and the banking sector.

In the past fiscal year, M.M.Warburg & CO (Warburg Bank) and its shareholders, along with many other banks in Germany, were hit by allegations relating to equity transactions around the time of the dividend date. Accusations of illicit tax gains were made – in some cases in public. Following an in-depth investigation, which also drew on the assistance of external auditors, Warburg Bank's partners and Supervisory Board are able to reiterate the

M.M.Warburg & CO Gruppe GmbH

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

Warburg Bank

Branches	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.

Warburg Banking Group

statements they made at the beginning of the investigations in February 2016: Warburg Bank and its subsidiaries were not party to transactions resulting in multiple or unlawful investment income tax credits or refunds. Consequently, the accusations are unfounded.

In addition to declining net interest income, all banks regardless of their size or systemic relevance are continuing to face an indiscriminate wave of regulatory activity that, by putting its faith in metrics and ratios, is leading to a shift in responsibility that is increasingly constraining entrepreneurial activity. Smaller institutions in particular are finding it increasingly difficult to remain independent and to strengthen their capital buffers as required by the regulators simply by retaining profits, without diluting their shareholder base.

The Warburg Banking Group has reacted to these challenges: The first major measure taken in the reporting period was to merge Warburg Bank's previously independent banking subsidiaries – Bankhaus Hallbaum AG in Hanover, Bankhaus Carl F. Plump & CO AG in Bremen, Bankhaus Löbbecke AG in Berlin, and Schwäbische Bank AG in Stuttgart – with the parent company with retroactive effect as of January 1, 2016. The main reason for this was that the increased regulatory requirements made it uneconomic to preserve their legal independence. The merger process was implemented successfully, swiftly, and in full by the Bank's internal units, working in an extremely focused manner. The previous banking subsidiaries are now being run as branches but have retained their own names. As part of the Warburg Bank they will be able to offer clients in their respective regions the full range of Warburg Banking Group services even in the current market environment. In addition, we now have the opportunity following the merger to leverage synergies and cut costs by streamlining workflows. The second key measure taken in the past fiscal year was the resolution by Warburg Bank's existing, independent partner base to perform a capital increase by way of a cash contribution in the amount of EUR 53.0 million, in order to increase the capital available to the Banking Group. As a result, the Group's Common Equity Tier 1 capital increased from EUR 272.8 million to EUR 325.5 million.

In the reporting period the Warburg Banking Group, its four subsidiary institutions in Germany, Luxembourg, and Switzerland, and the Group's asset management companies generated consolidated income before taxes of EUR 29.7 million (previous year: EUR 16.0 million). Since, in contrast to the previous year, net interest income did not contain any extraordinary items, the consolidated figure for this fell due to market conditions from EUR 66.1 million to EUR 56.4 million. Net fee and commission income amounted to EUR 161.0 million compared with EUR 163.9 million in the previous year.

Warburg Bank's broad-based operating profitability and extraordinary income enabled it to counter the ongoing lack of a recovery in the shipping markets by recognizing additional loan loss provisions. These measures were internally funded and did not dilute the ownership interests.

Mission and Strategy

Hamburg-based Warburg Bank has three business areas: Investment Banking (including lending services), Private Banking, and Asset Management. It has a nationwide network of branches and offices and forms the core of the Warburg Banking Group. This includes the following subsidiaries, which each have their own specialized focus: Marcard, Stein & Co AG (family office banking), M.M.Warburg & CO Hypothekenbank AG (real estate finance), M.M.Warburg Bank (Schweiz) AG (private banking unit outside the eurozone), and M.M.Warburg Luxembourg S.A. (custodian bank and fund administrator). In addition, the Warburg Banking Group has two asset management companies: Warburg Invest Luxembourg S.A. offers UCITS as well as specializing in alternative assets, while Warburg Invest Kapitalanlagegesellschaft mbH focuses on managing liquid assets. The Warburg Banking Group's regional coverage and broad range of services underscores its positioning as a private universal bank.

The Group's capital is held by a small number of private individuals. Taken together, the Olearius and Warburg families hold more than 80% of the shares and head both the Supervisory Board and the senior management. The stability and independence of this shareholder base are critical success factors for the Warburg Banking Group's strong performance. Additionally, its operating profitability, which is derived from its broad-based business model, is the key to preserving its continuing independence, which allows it to focus on the interests of its clients, employees, and owners alike and to ignore faddish trends.

Business Performance

Warburg Bank's total assets increased to EUR 5.11 billion as of the balance sheet date due to the merger of its former subsidiaries. Consolidated total assets for the companies held by M.M.Warburg & CO Gruppe GmbH rose to EUR 8.4 billion (previous year: EUR 7.5 billion). Due to the merger of the banking subsidiaries with Warburg Bank effective January 1, 2016, the information about the Group's business development is now provided in the form of consolidated figures from a group perspective, rather than by adding the figures for the individual units.

The total capital ratio from this consolidated perspective amounted to 11.6%. The Common Equity Tier 1 capital ratio amounted to 8.9%, while the Common Equity Tier 1 capital amounted to EUR 325.5 million. Own funds, which also include the Tier 2 capital, totaled EUR 423.7 million as of the balance sheet date. As a result, Warburg Bank meets all supervisory capital requirements.

Once again, the encouragingly high level of net fee and commission income in the reporting period came from a wide variety of sources. Particular mention should be made as in the past of the Bond Sales and Currency units, which made above-average contributions to income. Although Corporate Finance had no individual flagship transactions to report, it achieved a considerable more broadly based income structure than in previous years thanks to a large number of client mandates. Total assets under management also rose, climbing from EUR 51.1 billion in the previous year to EUR 54.1 billion. Total assets held in custody increased from EUR 40.7 billion to EUR 41.3 billion.

At EUR 56.4 million, consolidated net interest income was down on the figure of EUR 66.1 million recorded for the previous year, due to the flat yield curve and the absence of the one-off factors reported in the previous year. This negative trend in net interest income was partially offset by passing through negative interest rates for deposits to institutional clients.

Corporate Citizenship

Warburg Bank and the foundation Warburg-Melchior-Olearius-Stiftung provided significant support for social, cultural, and political causes. The focus in the past year was on support for academic and cultural projects. For example, the classical languages program that provides support for teaching Ancient Greek and Latin at schools in northern Germany was continued. The Warburg-Melchior-Olearius prize for outstanding dissertations and masters' theses in the Classics was awarded for the first time. Support for restoring historically important books at two schools teaching the Classics in Hamburg was continued. With respect to cultural sponsorship, we focused on supporting two state opera houses – Unter den Linden in Berlin and the Bavarian State Opera House in Munich – and the Elbphilharmonie concert hall in Hamburg.

This year's essay in the "Current Developments" series is entitled "Zur Freiheit befreit" ("Freed for freedom"); in it Helge Adolphsen, the retired chief pastor of St. Michaelis Church, Hamburg, looks back on the Reformation on its 500th anniversary.

Outlook

The financial sector in the eurozone has radically changed its approach to client deposits due to the ECB's ongoing low interest rate policy. Negative interest rates are now charged on short-term deposits by institutional clients in almost all cases. Equally, charging negative interest rates for private customers is no longer unthinkable and these are likely to become more and more of the standard in the course of the year for short-term deposits in excess of certain exemption limits. To date, the rate for customer deposits has frequently been -0.40% – the figure that banks pay to the central bank and then pass through to clients. This stabilizes banks' interest income, since it allows them to avoid deposits becoming a loss-making business although they should be part of banks' core business model. However, in this interest rate environment banks will only be able to increase interest income by charging a margin on the Central Bank's negative deposit rate. In turn, this increases the negative interest rate on deposits for clients. Since the income pressure that banks are experiencing will continue to increase, such moves can already be seen in the market and they will become increasingly common as a market-driven business condition in the case of institutional clients.

The income pressure on banks is due both to the collapse in net interest income and to the continued increase in regulatory expenses. National and European supervisory authorities are producing a never-ending stream of new regulations and reporting formats without clearly distinguishing between the ratio legis of the individual measures. The principle of double proportionality, under which the rules governing large banks should not be applied to smaller institutions that are not systemically important, has fallen by the wayside. The fact that capital requirements for banks are also increasing puts further pressure on income.

The Warburg Banking Group's broad business base and numerous sources of income, coupled with its stable and powerful partner base, will enable it to meet future capital requirements as well without placing an excessive burden on customers. Nevertheless, capital is becoming scarcer. We need to ask ourselves on an ongoing basis what business activities should be scaled back, discontinued, or expanded.

Non-interest-bearing business increased in importance throughout the entire Warburg Banking Group in the reporting period. Investment banking advisory services will continue to be a key source of fee and commission income. In line with this, we extended our services in the Bond Sales and Equity Sales areas. For the same reason, we increased Corporate Finance staffing levels at our Munich location and are also considering providing support for Corporate Finance mandates at other offices as well.

In our Private Clients business, the merger of our banking subsidiaries with Warburg Bank substantially broadened our range of clients. We intend to further boost our asset management activities and to retain our full range of investment advisory services for private clients despite the regulatory requirements set out in MiFID II. Although numerous competitors are withdrawing from this business area for high net worth clients, Warburg Bank intends to enhance its offering.

The Warburg Banking Group's steadily growing volume of client assets enables it to offer a single source for banking services such as trade order settlement, securities administration, payments processing, and custodian bank services without resorting to outsourcing partners. This is the precondition for reacting flexibly and with the necessary discretion to clients' wishes, as is the nature of internal solutions.

In addition to our constant adaptation of our existing range of services, FinTech W&Z GmbH – which was co-founded by Warburg Bank as part of its digital strategy and which has produced the first digital family office in the form of the "OWNLY" app – will continue to grow in the current year. Furthermore, a roboadvisor developed and supported by Warburg Bank will generate autonomous investment recommendations for private clients in the coming months, enabling them to make investments completely online. The focus of the Asset Management unit will be on further expanding Warburg Invest's sustainability products, which are highly popular with clients. Overall, we aim to continue the growth seen at Asset Management.

Following the merger of our banking subsidiaries, we shall be raising the profile of the Warburg Banking Group's brand identity in future.

The partners know that Warburg Bank can meet its competitors on equal terms and are looking forward with confidence to its 219th year of business as an independent private universal bank.

Hamburg, May 12, 2017

Joachim Olearius
Dr. Henneke Lütgerath
Eckhard Fiene
Dr. Peter Rentrop-Schmid

Overview of the Warburg Banking Group

Overview of the Warburg Banking Group

ECONOMIC ENVIRONMENT

Global economic development in 2016 did not yield any major surprises. In practice, this means that the global economy grew at merely a moderate pace for the fifth year in a row in 2016. However – and this is the good news – the fears of a recession that were seen at the start of 2016 and that led to a hefty slide in global stock market prices in the first weeks of the year did not materialize. As a result, the global economy continued to expand in 2016, recording growth of roughly 3%. This relatively disappointing overall figure is largely due to the low level of growth recorded in the emerging economies. Among other things, the recessions in Russia and Brazil continued (in somewhat less severe form). Equally, growth in many other countries was weaker year-on-year. China and India were positive exceptions to this trend. Overall, growth in the emerging economies slowed to approximately 4% in 2016. However, this should also be seen as a return to normal, since the growth rates are no lower than those seen in the 1980s and 1990s.

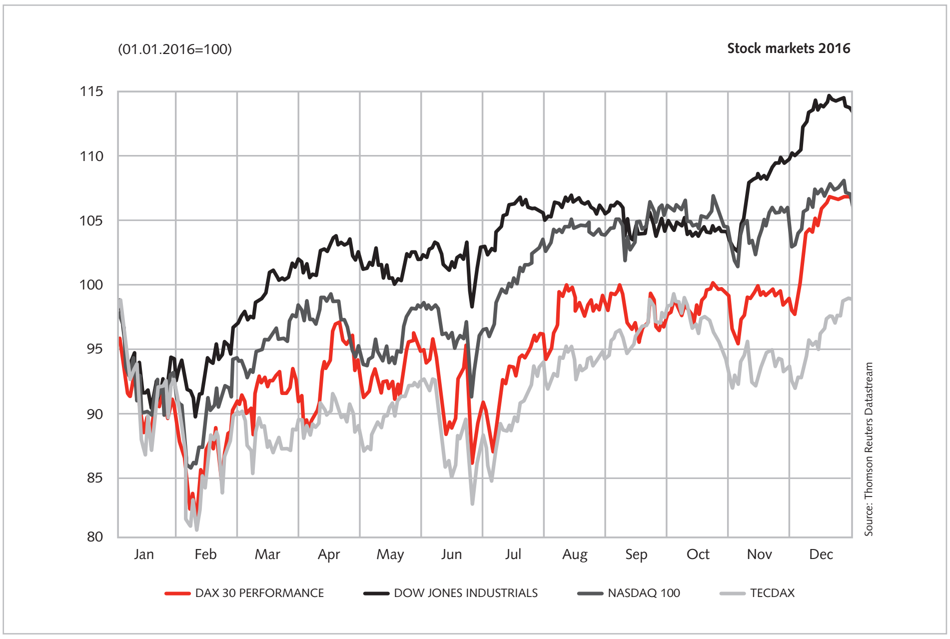
Economic growth in the industrialized nations in 2016 was also somewhat weaker than forecast. This was largely due to the USA, where growth will probably turn out to have been a mere 1.5% and hence to have clearly undershot the consensus forecasts of approximately 2.5%. The reasons for the sluggish growth in the United States were firstly the low oil price, which led to a drop in investment in the fracking industry, secondly the appreciation of the US dollar, which impacted competitiveness at exporters, and thirdly excessive inventory levels, which led to production being scaled back in the manufacturing sector. Economic developments in the other industrialized nations apart from the United States did not produce any major surprises. The eurozone economy proved relatively robust despite all the political uncertainty in 2016, expanding by 1.6%. The economies in Ireland, Spain, and Germany all acted as drivers for the upturn, while France, Italy, Portugal, and Greece were more of a brake. The main reason was that this second group of countries did not resolve any significant reforms, implemented them too slowly, or in some cases partially reversed them again, so that the eurozone as a whole remained bogged down in the economic midfield. The German economy grew by 1.9% in 2016, making it one of the eurozone's key economic powerhouses. This is due above all to the strong domestic economy, which profited from low unemployment, relatively strong growth in real wages, immigration-related expenditure, and a construction boom fueled by low interest rates.

Central banks in the industrialized nations maintained their highly expansionary monetary policies in 2016, although differences are increasingly being seen. In March, the European Central Bank eased its already expansionary monetary policy still further. Among other things, it cut its key rate to 0.0% and its deposit rate – which was already negative – to -0.4%. In addition, the ECB's Governing Council resolved to expand its bond buyback program from EUR 60 billion to EUR 80 billion. In line with this, the Bank has also been buying investment grade corporate bonds since June 2016. In the USA, the Fed was unable to implement a further interest rate rise in the first half of 2016 as planned given the low level of economic growth. Then, in December 2016, it raised the key rate by 25 basis points to between 0.5% and 0.75%, due to the economic upturn and the positive labor market trend.

Consumer prices in the eurozone rose by an average of 0.2% year-on-year in 2016. The low rate of inflation was mainly due to low energy prices. However, the inflation rate adjusted for food and energy prices was also sluggish and, at an average of 0.8% for the year, was well below the long-term average. All in all, there was almost no inflationary pressure during the reporting period. However, inflation picked up in the last three months of the year for baseline reasons due to the renewed increase in oil prices year-on-on-year. This trend will continue into the spring of 2017.

The stock markets experienced substantial volatility: The global markets saw their weakest-ever start to the year, while the DAX shed around 2,000 points in the first six weeks alone. There were a number of reasons for this slump of almost 20%: the poor economic data coming out of the USA, fears of a major slowdown in Chinese growth, and not least the persistent decline in commodities prices, which were seen as a negative indicator for economic growth in the emerging economies. However, stock prices stopped falling and subsequently rose slowly again from mid-February onwards, as oil prices first stabilized and then rallied. Then, in early summer, just when it looked like the stock markets might be in for better times political events took center stage. The surprise Brexit vote at the end of June sent prices into another tailspin, with the DAX shedding roughly 10% of its value within a very short space of time, although it subsequently recovered. By contrast, the markets shrugged off Donald Trump's election as the new President of the United States and the failure of the referendum on constitutional reform in Italy. Nevertheless, the eurozone recorded price gains in 2016 as a whole (DAX: 6.9%, MDAX: 6.8%, Euro Stoxx 50: 0.7%). The example of the USA shows that things could have been different. The S&P 500, the Dow Jones, and the Nasdaq all reached record highs as early as the summer. Although it was not yet completely clear what the new US administration's economic policy would look like in detail, the initial focus was on the positive aspects: an increase in government spending and lower taxes. The Dow Jones 30 gained 13.4% (17.1% in EUR) over the year, while the broad S&P 500 climbed 9.5% (13.5% in EUR).

After the ECB further eased monetary policy, yields for European government bonds fell well below zero at times in the course of 2016. Discussions about tapering, the Italian referendum, and Donald Trump's election as the new US president then led to yields in the eurozone picking up slightly in the last quarter of 2016. This is unlikely to represent a general trend, though. Since the ECB will continue its loose monetary policy in 2017, the phase of low interest rates is expected to continue. However, the low coupons for most government bonds and prime-rated corporate bonds offer almost no cushion against falling prices, meaning that yields may experience more pronounced volatility. In this environment, lower-rated corporate bonds and fixed-interest emerging market securities remain attractive, since they offer interesting spreads. Over the year as a whole, the value of ten- and five-year Bunds rose by 5.9% and 2.4% respectively, whereas two-year Bunds hardly changed at all, at 0.2%.


(01.01.2016=100)
Stock markets 2016
115
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Jan
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Source: Thomson Reuters Datastream
DAX 30 PERFORMANCE
DOW JONES INDUSTRIALS
NASDAQ 100
TECDAX

THE WARBURG BANKING GROUP

Following the merger of the previously independent Bankhaus Hallbaum AG in Hanover, Bankhaus Löbbecke AG in Berlin, Bankhaus Carl F. Plump & CO AG in Bremen, and Schwäbische Bank AG in Stuttgart with Warburg Bank, which took effect as of January 1, 2016, these independent banking subsidiaries took on the status of branches. However, they have retained their existing names. As a result, the Warburg Banking Group consists of Warburg Bank with its four branches and three offices, and the banking subsidiaries Marcard, Stein & Co AG (family office banking), M.M.Warburg & CO Hypothekenbank AG (real estate finance), M.M.Warburg Bank (Schweiz) AG (private banking unit outside the eurozone), and M.M.Warburg Luxembourg S.A. (custodian bank and fund administrator). In addition, the Warburg Banking Group has two asset management companies: Warburg Invest Luxembourg S.A. and Warburg Invest Kapitalanlagegesellschaft mbH. At a regional level, the Banking Group has 15 locations in German-speaking Europe.

The owner-managed, private universal bank has representatives of the owner families both chairing its Supervisory Board and among its management. This guarantees that the Warburg Banking Group is largely free of institutional influences, enabling it to maintain a balance between the interests of its clients, its employees, and its owners at all times.

The Warburg Banking Group is active in three business areas: Investment Banking (including lending), Private Banking, and Asset Management.

Investment Banking offers clients corporate finance, sales and trading, and lending services.

The Corporate Finance unit executes equity capital market transactions and provides support for mergers and acquisitions (M&A) and restructuring (debt mezzanine markets).

The Sales and Trading unit executes and settles equity, fixed-income, and currency transactions. Its currency business mainly consists of currency hedging transactions for corporate and institutional clients. The Bond Sales unit, which caters to institutional clients' demand for fixed-income securities, is particularly strong. Working together with Warburg Research GmbH, which covers more than 200 German securities, the Equity Sales unit is an established stock broker with an international clientèle for German small and mid-cap stocks. The unit is also used to execute large client orders without significantly disrupting market prices. Designated sponsoring is a core product.

The lending business is broken down into real estate, corporate, private client, and ship finance. Lending volumes grew moderately and make a major contribution to keeping net interest income levels stable in the ongoing low interest rate environment. The fact that capital requirements will continue to rise in the future is setting narrow limits for growth in the lending business. We shall use the room to maneuver that is left to us, as an independent private bank, to leverage opportunities that fit the Warburg Banking Group's risk profile.

The Warburg Banking Group's Private Banking division offers both asset management and personalized investment advisory services provided by securities specialists. As a result of the mergers, most private clients are now direct clients of Warburg Bank. This has considerably broadened our range of clients. The goal is to continue to strengthen our Asset Management unit in order to be able to provide all Warburg Bank clients throughout Germany with uniform products that meet the highest possible standards. This offering will be expanded despite the stiffer requirements for providing investment advisory services being introduced by MiFID II. There is no question of us copying the many competitors who are axing their investment advisory activities due to the difficult conditions. The aim is for investment advisory services to focus more strongly on the Bank's own opinions and on the professional preparation of concentrated investment universes, and in so doing to tailor this service even more precisely to client needs.

Asset management company Warburg Invest Kapitalanlagegesellschaft mbH is a classic asset manager for liquid products and has an increasing focus on sustainable investments, demand for which is growing continuously. Warburg Invest Luxembourg S.A. specializes in launching and managing Luxembourg UCITS and special AIFs. Alternative assets – one of Warburg Invest's strengths – are enjoying particularly encouraging ongoing growth. Depending on the asset classes and jurisdiction involved, custodian bank services are provided either by M.M.Warburg & CO Luxembourg S.A. or by Warburg Bank. Close cooperation with HIH Real Estate GmbH enables Warburg Bank's institutional clients to be supplied with the highly popular real estate investment products from HIH's product universe.

Due to the merger of the banking subsidiaries with Warburg Bank, the information about the Group's business development is now provided in the form of consolidated figures from a group perspective. In the reporting period, the Warburg Banking Group generated consolidated net income before taxes of EUR 29.7 million, compared with EUR 16.0 million in the previous year. This increase is due to extraordinary income. Net interest income declined from EUR 66.1 million in the previous year to EUR 56.4 million. Net fee and commission income was a solid EUR 161.0 million (previous year: EUR 163.9 million). Income from proprietary trading, which is deliberately kept at a manageable level for risk reasons, amounted to EUR 8.8 million compared with EUR 9.9 million in the previous year.

Administrative expenses in the reporting period rose again to EUR 213.5 million in the reporting period (previous year: EUR 203.7 million), due to the rise in non-personnel operating expenses resulting from new administrative and regulatory requirements.

The Warburg Banking Group's consolidated total assets increased from EUR 7.5 billion to EUR 8.4 billion. The great trust that clients place in the Group was reflected in the rise in assets under management from EUR 51.1 billion to EUR 54.1 billion.

The Warburg Banking Group's Business Areas

INVESTMENT BANKING

Warburg Bank's Investment Banking division is broken down into three areas: Corporate Finance, Sales and Trading, and Relationship Management.
Investment Banking again made an above-average contribution to net income for the reporting period. The Bond Sales units again proved its earnings power in relation to both key existing clients and significant new relationships. Currency Trading repeated its strong prior-year performance and made an encouraging contribution to the Bank's net fee and commission income. Corporate Finance successfully closed a large number of transactions, especially in the final quarter of the reporting period. Thanks to the mergers, the Warburg banks' lending business is diversified in terms of both regions and sectors, and offers bespoke financing solutions to private clients, institutional clients, and corporate clients at all locations. There are no cluster risks.

Relationship Management

Relationship Management for institutional clients sees encouraging net income from placements

Relationship Management serves institutional clients. This unit was further strengthened during the reporting period. Established and new contacts to institutional investors and sales partners led to extremely encouraging net income from placements, measured in terms of both volume and diversification. In line with the unit's twin sales and customer support functions, the result – which was in line with expectations – was also attributable more or less equally to new and existing clients. In addition to Warburg Invest's focus on special and retail funds, the sale of alternative strategies by the Group's asset management companies has almost doubled over the course of three years.

There have been links between Warburg Bank and commercial shipping in Hamburg ever since the Bank was founded in 1798 – and the latter has always succeeded in developing and maintaining long-term business relationships. Particularly in today's challenging times for the shipping sector, the Bank is standing by its clients for the long term. It continued the approach adopted two years ago of cutting back on syndicated loans and focusing on bilateral lending, thus guaranteeing the continuity and flexibility that clients need more than ever in a crisis.

In addition to the Bank's existing Relationship Management Shipping Loans Business unit, the establishment of the Relationship Management Shipping Industry function, which is staffed by experienced sales and sector experts, is a sign that Warburg Bank intends to continue providing long-term support at a local level for shipping in an environment in which more and more competitors are withdrawing from the sector. This sends a signal that Warburg Bank sees itself as a partner for the shipping industry in the future, too.

There is hardly a sector in which efficient settlement of international payments is as important as it is for shipping. Warburg Bank offers both national and international clients with cross-border operations one-stop shopping for the banking services they need to support their operational shipping business. In addition to making a substantial contribution to USD funding by increasing client deposits, the goal is to expand the profitable fee and commission business in the area of international payments and to develop it into a core product.

Stable lending business

The Relationship Management Corporate Clients unit and the Bank's lending operations provide support for north German trading firms, links to which have existed in some cases for decades. Stable income is generated from the provision of current account overdraft facilities and from involvement in the relevant currency and foreign transactions. This traditional business is supplemented by the support provided for companies and owner families seeking to revise their shareholder structures, in the form of individual bespoke financing. The Bank's support services for funds and asset management companies in the real estate sector performed encouragingly. A wide range of offerings were provided, from bridging finance through currency hedging to acting as a depositary.

The Relationship Management Banks unit manages cooperation with third-party institutions not belonging to the Warburg Banking Group. Our longstanding, sustainable banking links are the foundations for tried-and-trusted cooperation. In-depth monitoring of the market means that rating downgrades at other banks do not affect Warburg Bank. The same applies with regard to country risk.

To the extent that is possible, the Bank is taking advantage of the opportunities to increase its cooperation with other banks that are emerging as a result of political changes. This also applies to the suspension of the economic and financial sanctions against Iran that were originally imposed by the USA and the EU in the context of the nuclear dispute. However, fundamental efforts to turn the Warburg Bank's traditionally good links to banks with an Iranian background into stable working relationships are being severely impacted by the remaining legal uncertainties.

Corporate Finance

Encouraging fiscal year for Corporate Finance

Corporate Finance can look back on an encouraging year. The team, which comprises 24 employees in Hamburg and Munich, successfully implemented 20 transactions and advisory mandates in the fiscal year.

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 SE, 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. In addition to these mandates, Equity Capital Markets generated steady income from technical transactions and additional service mandates.

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.

Following the merger of the banking subsidiaries in the past fiscal year, initial steps were taken to intensify the close cooperation with the branches even further. From now on, qualified staff are available at Warburg Bank's locations in Berlin, Bremen, Frankfurt, Hanover, Cologne, and Stuttgart to answer questions on all aspects of Corporate Finance.

Sales and Trading

The Sales and Trading unit conducts Warburg Bank's stock market business. The level of proprietary trading is very low. Instead, activities center on advisory services for clients and on executing and providing support for client transactions involving equities, bonds, currencies, and structured investment solutions.

Currency and Interest Rate Advisory Services

The Currency and Interest Rate Advisory Services department made an encouraging contribution to net fee and commission income. Unexpected political events 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 proprietary trading area, these price movements were used successfully for a modest level of transactions.

Bonds

High levels of bond placements

Once again, the Bond unit's placement business was highly successful in 2016. The recruitment of additional specialists 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 by the ongoing low level of interest rates and a further drop in credit spreads – led to strong business results. The traditional and structured registered securities business again saw successful placement activity. The Bank's institutional clients are highly appreciative of its close client relationships and professional advice.

Equities

High-quality research and client-driven focus are key strengths of Equities unit

The Equities area, which comprises the equity research performed by the Bank's subsidiary, Warburg Research GmbH, and advisory services for institutional equity investors (Institutional Sales – Equities), further strengthened its competitive position last year in a challenging market environment, thanks to the continuous enhancement of the quality of the research provided and its client-driven approach. Its clear focus on German equities and the high quality of the advice provided by the sales team won it further awards from independent institutions.

The unit has steadily expanded its Frankfurt office, which it opened somewhat over two years ago, increased conferences and other marketing activities, and successfully demonstrated the sales team's ability to place shares in numerous transactions performed in 2016. Overall, it was able to significantly increase market awareness of its expertise in German equities. For example, the sales team slightly improved on its good prior-year rating in the major Extel survey, while Warburg Research significantly improved its ranking.

Institutional Sales – Equities

Institutional Sales – Equities again enhanced its market positioning in 2016. This development was based on a further increase in the support provided to its existing client base. The unit and its employees enjoy an excellent reputation among target clients.

It continued to lift its profile as an expert for German equities by increasing its marketing activities, devoting several hundred days to roadshows with company board members and analysts alike. Independent surveys confirm its successful positioning. In addition, the unit hosted the seventh "Warburg Highlights" meeting in Hamburg, a number of "German Small-Cap Selection" events in Frankfurt, and the third "Meet the Founders" function in Berlin. As well as providing purely advisory services, Institutional Sales – Equities successfully participated in numerous transactions.

Warburg Research GmbH

Coverage extended

Warburg Research GmbH can look back on a successful year. It continued to attend a large number of corporate roadshows, which it supplemented by a significant increase in the number of analyst events. The conferences in Hamburg, Berlin, and Frankfurt were expanded and client interactions intensified.

There was a further increase in the number of securities analyzed in 2016 and coverage of the key German indices (the DAX, MDAX, SDAX, and TecDAX) was again expanded. This is part of the unit's strategy of also producing research on small caps, since the added value offered by fundamental analysis in such cases is especially high.

In 2016, Warburg Research GmbH again won the Thomson Reuters Analyst Award as the "Top Award-Winning Broker" in Germany. No other research firm was able to beat its total of nine awards for German equities. Warburg Research also came third in the German small and mid-caps category of the Extel Survey, which polls institutional clients. This extremely strong performance is due to the high level of continuity with which staff – who have many years of expertise and service with the Bank – analyze enterprises and inform clients. Investors value their focus on German equities and their specialization on small and mid-caps.

PRIVATE BANKING

In the Private Banking segment, the Warburg Banking Group offers both asset management and bespoke investment advisory services from securities specialists. In addition, attractive opportunities for equity investment are offered for diversification purposes. The merger of the four banking subsidiaries means that most of the Warburg Banking Group's private clients are now direct clients of Warburg Bank, something that has broadened its client base considerably. The main challenges for the current fiscal year are to merge asset management activities at the various locations and to implement the changes to our investment advisory services that are required by MiFID II.

Information events with both actual and prospective clients continue to be highly popular, with a new record number of participants being recorded in the reporting period.

Investment Advisory Services

2016 was an eventful year and its uncertainties led to a decline in the number of transactions executed for client portfolios, which were structured relatively conservatively. In addition, the need to switch to lower-rated securities for yield reasons became apparent, especially with respect to investments in fixed-income securities. Clients benefited here from Warburg Bank's bond research expertise.

In the case of large estates, securities specialists constructed investment portfolios that serve as liquidity replacements. Overall, external conditions led to an increased need for advisory and structuring services for client investments.

Asset Management

Mixed performance

The various investment strategies saw an extremely mixed performance in 2016 – a turbulent year overall from an investor perspective. Conservative mandates were clearly in positive territory and generally outperformed conventional benchmarks, even though the low interest rate phase on the bond markets continued in exacerbated form. Above all, the focus on longer maturities and add-on investments in special bond segments led to above-average performance.

By contrast, investment strategies involving higher proportions of equities experienced substantial price volatility over the year. A more cautious exposure to equities subsequently turned out to be a disadvantage, as the capital markets proved robust despite – or recovered quickly from – a number of adverse political events. The strong closing rally on the international stock markets then ensured at least a positive end to the year.

Overall, the unit saw a further increase in both the number of clients served and assets under management in the course of the year. Its successful participation in beauty contests played a key role in this. The positive trend in volumes was due not only to increases by existing clients but also to a large number of new clients. The continuity of Asset Management's investment strategy made itself felt here.

Equity Investments

Demand for real estate remains strong. This allowed the firm's clients to benefit from the attractive performance generated by properties that had been placed ten years ago and that were now sold at an excellent price.

Investing in developing affordable new housing in central metropolitan districts and then quickly selling on the apartments to owner-occupiers remains highly profitable. In line with this, the unit again offered a private placement for semi-professional clients together with a well-known property developer.

The shipping business hit another new low in the ninth year – the longest crisis in its history, especially with respect to container shipping rates. At the same time, more banks exited the shipping business and turned down vital follow-on finance. By contrast, one positive development was that investor capital contributed voluntarily to prevent insolvencies in the tanker industry was serviced for the first time by high double-digit distributions from the operational business.

ASSET MANAGEMENT

Warburg Invest Kapitalanlagegesellschaft mbH

Warburg Invest Kapitalanlagegesellschaft GmbH, on the other hand, can look back on an extremely successful fiscal year. The total volume of investment funds and mandates under management rose to EUR 7.4 billion (previous year: EUR 6.6 billion) and was broken down into 126 portfolios. The volume of retail funds amounted to EUR 2.3 billion at the year-end (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 – both advisory mandates and discretionary financial portfolio management mandates. With an aggregate volume of EUR 1.5 billion (previous year: EUR 1.0 billion), these are 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.

Significant growth in sustainable investments

The company's development in 2017 will again largely be determined by the situation on the capital markets and the ongoing low interest rate phase in Europe. 2017 will be another volatile year given expectations of positive economic development and ongoing political uncertainty (elections in the Netherlands, France, and Germany). The company's enhanced expertise on the global interest rate markets is a strategic measure designed to adequately combat persistently low interest rates in Europe. In addition, classic long-only investments can be profitably complemented in a way that achieves excellent results by volatility strategies and by conceptual enhancements to total return strategies. Another clear increase in volumes under management and an improvement in earnings are expected for the current fiscal year.

Warburg Invest Luxembourg S.A.

Good basis for further growth in management of conventional and alternative asset classes

Luxembourg asset manager Warburg Invest Luxembourg S.A. provides a comprehensive range of services for the launch, structuring, and management of Luxembourg retail and special funds, as well as central administration of the full range of regulated Luxembourg fund structures. In addition, the company manages all the funds of its German sister institution, Warburg Invest Kapitalanlagegesellschaft mbH, whose share of the total volume rose considerably in the course of the current year. The Luxembourg fund structures segment recorded a slight decrease in volumes under management to EUR 14.4 billion (previous year: EUR 14.7 billion), which was mainly due to investors rebalancing their classic securities funds portfolios. By contrast, alternative investments again saw encouraging growth. Overall, the number of funds declined but the average fund size rose, further fueling the profitability of the administration business. Total volumes under management increased to approximately EUR 22 billion in the reporting period.

W&Z FinTech GmbH

W&Z FinTech GmbH, which was founded in 2015, launched its first app – which has been given the name OWNLY – in the Apple App Store 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.

M.M.Warburg & CO Branches

Bankhaus Hallbaum
A branch of M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

Bankhaus Hallbaum's business primarily focuses on the Hanover region and the regions around the Göttingen and Osnabrück offices. Its clients are high net worth families and individuals, business owners and owner-managed companies, insurers, foundations, and associations in their capacity as investors.

The bank continued to expand its client base in all business areas in 2016 and recorded encouraging growth in the number of mandates, particularly in asset management. Bankhaus Hallbaum remains one of the largest asset managers in Lower Saxony, with around 750 asset management mandates and total securities under management for private clients of approximately EUR 1 billion.

The bank continues to see itself well positioned in fiscal 2017 to consolidate its market position in Hanover and the region in which it is active, and to expand its business with high net worth individuals, owners of middle-market companies, corporate clients, and institutional investors.

Bankhaus Löbbecke
A branch of M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

Berlin branch with offices in Brunswick and Dresden

Formed in Brunswick in 1761, Bankhaus Löbbecke today provides services to clients in Berlin, the Brunswick region, and central Germany. The branch and its offices in Brunswick and Dresden are managed from the prestigious Behren Palais in the historic banking district of central Berlin.

Bankhaus Löbbecke's three main business activities are investment management for private and institutional clients, corporate banking and lending, and its KreditService offering, which for years has provided successful workout services for distressed debt receivables.

The KreditService unit has become the center of excellence within the Group for loan resolution and recovery. Attractive business opportunities led to mandates and portfolio purchases. Business partners include banks and financial investors in Germany and abroad. All in all, KreditService manages client receivables in excess of EUR 1 billion.

Business in eastern Germany also expanded

The past year saw a deliberate drive to acquire new clients for this area, while business with clients who had already placed their trust in the bank was intensified and extended. Increasing numbers of business owners and investors, especially in the new federal states and in major conurbations, value the particular benefits that a private bank can offer.

Bankhaus Carl F. Plump & CO
A branch of M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

Clear growth in securities business

Based in Bremen, Bankhaus Carl F. Plump & CO AG has been providing banking services in the Weser-Ems region since 1828. It focuses on the classic private client business, including bespoke securities advice and asset management. Its clients comprise high net worth families and individuals, business owners, and owner-managed companies. The bank's concentration on these areas, supplemented by access to the Warburg Banking Group's entire range of services, has proven its worth in recent years.

Assets under management saw a significant rise in 2016. Growth came both from numerous increases by existing clients and from a relatively large number of new clients. Despite the continuing difficult regulatory market environment for the classic securities advisory business, a 10% increase in the volume of assets in custody was achieved in this area.

In the area of equity investments, clients were offered two private placements for semi-professional clients following an in-depth due diligence process. There was strong demand both for a private equity fund of funds and for the opportunity to invest in real estate development projects.

The regional bank has a successful track record not only of providing lending services to selected clients but also in the field of foreign documentary and non-documentary business.

Schwäbische Bank
A branch of M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

Asset manager for institutional clients and municipalities

Corporate finance expertise for clients in southwestern Germany

Schwäbische Bank has been providing services to high net worth private clients, owner-managed middle-market companies, and foundations and institutional clients from its Königsbau building in downtown Stuttgart for more than 80 years. As a branch, Schwäbische Bank is Warburg Bank's core unit in Baden-Württemberg. The recruitment of additional advisory staff to serve high net worth private and institutional clients led to further successes in 2016: The bank's mandate business increased, as in previous years. Equally encouraging is the increase in institutional mandates in the high double-digit million euro range. Net fee and commission income saw another year-on-year increase. The interest rate business with corporate and private clients was maintained at a stable level. Together with the Corporate Finance unit, the bank successfully expanded the range of services available to clients at the Stuttgart location.

Report on the Banking Subsidiaries

MARCARD, STEIN & CO AG

Family office bank acts as an independent partner for wealthy families and foundations

As a family office, Marcard, Stein & Co AG specializes in end-to-end services for large family estates and ultra high net worth individuals. Its core business is providing strategic and operational support for clients across all asset classes, offering the full range of family office services. A team of 67 employees provides clients with expert knowledge, advising them with dedication and discretion.

Political uncertainty increased in the past year. As a result, clients want even more than before to protect their families and ensure their security. Marcard, Stein & Co caters to these needs by developing concepts for clients that offer comprehensive protection against life risks. In addition, its promotion of family governance measures helps reinforce cohesion and unanimous action by families and asset holders.

Marcard Stein & Co AG can look back on a successful fiscal year in which it lived up to its reputation as a family office for end-to-end asset management across all asset classes. Liquid assets are enjoying a particularly high level of interest from many clients thanks to their transparency and flexibility. In the Operating Family Office business area, this is in fact often the only asset class in which advisory services are provided. Asset administration in all areas is based on a common investment strategy aimed at long-term capital preservation. The surprises caused by Brexit and the results of the US election brought special challenges for 2016.

Another record year for real estate segment due to ongoing low interest rates and keen client interest

Real estate asset management continues to be a particularly successful business area within the Strategic Family Office function. For more than 11 years, this area has managed clients' real estate assets – both physical properties and properties held via funds. The services provided cover the entire range of real estate management tasks: acquisition, due diligence, asset management, financing, leasing, development, renovation, financial control/reporting, sale, workout services for directly held portfolios, asset management services for indirect fund investments, and structuring exclusive club deals in the real estate private equity sector.

Directly held commercial and residential real estate worth more than EUR 100 million euros was bought and sold, despite an extremely 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. Precision, strong execution, and sensitivity are among the critical success factors needed to successfully navigate the structured purchasing and selling processes that are typical today. The bank's broad range of investments and its in-depth knowledge of the real estate sector helped acquire both new family office clients and separate real estate asset management clients.

Despite this encouraging trend, we are not blind to the risks associated with the continuing rise in valuations. We are now recommending caution or even the sale of assets in some segments and locations.

Partnering with clients to support equity investments

As well as successfuly assisting clients with a series of direct and indirect new investments, we again partnered with them to provide support for key strategic decisions relating to their direct equity investments in the past year. We also executed a number of sales transactions on behalf of our clients. In the area of indirect equity investments, the focus was on classic buyout investments and on building expertise in the private debt asset class.

2017 is scheduled to see additional key turning points that may be of considerable importance for clients' asset strategies. Marcard, Stein & Co is well prepared for these thanks to its long track record, experience, and strength. A particular challenge is to always ensure that asset strategies are updated extremely rapidly and in full. This can only be achieved by working together in a skilled, trusting, and highly individual way. This is the fundamental advantage of the family office concept.

M.M.WARBURG & CO HYPOTHEKENBANK AG

M.M.Warburg & CO Hypothekenbank AG remains focused on providing bespoke finance above and beyond the standardized mass-market business for multi-use commercial and residential real estate in Germany's metropolitan areas. Loans for properties requiring management, such as hotels or social welfare facilities, are only extended in exceptional cases, and the same principle also continues to apply to properties abroad. Loans are primarily refinanced using Pfandbriefe. The mortgage bank turned in another very encouraging performance in fiscal year 2016.

At EUR 252 million, its new real estate finance commitments (excluding loan extensions) were only slightly below the prior-year level despite a clear increase in competition; the traditionally conservative business strategy did not change. Total real estate loans rose to EUR 1.67 billion at the end of the year due to very healthy levels of new business, despite continued substantial repayments.

Public-sector lending remains an insignificant element of the business, since in the bank's opinion there are still no business opportunities in this area with appropriate risk levels. New business was only entered into in connection with the maintenance of the cover pools and for liquidity management purposes.

Pfandbriefe are still the mortgage bank's main means of refinancing, making it possible to obtain funding for transactions with matching maturities. Demand, particularly for low-volume registered mortgage Pfandbriefe, was again very encouraging last year. Overall, refinancing sales rose to EUR 271 million.

The mortgage bank's pre-tax profit was up year-on-year. Its liable capital was further strengthened by issuing a subordinate loan in the amount of EUR 20 million. Warburg Bank's equity interest in the mortgage bank amounts to 60% and it is an integral part of the Warburg Banking Group's business strategy. The Group works together with its co-shareholder – Landeskrankenhilfe V. V. a. G.(Lüneburg) – in a close partnership and on the basis of a shared vision of the mortgage bank's strategy.

M.M.WARBURG & CO LUXEMBOURG S.A.

In Luxembourg, Warburg Bank specializes in providing custodian bank services for internationally diversified assets and in providing services to high net worth private clients. The clear focus on these two business areas again proved its worth in 2016. The bank's core business continues to be providing custodian bank services. In addition to the legally required custodianship of investment funds, asset pools, and securitization companies under Luxembourg law and associated monitoring activities, this includes complementary registrar and transfer agency, calculating agent, paying agent, brokerage, and cash and currency management services.

Custodian bank clients such as investment companies, asset managers, insurers, and pension funds value M.M.Warburg & CO Luxembourg S.A.'s independence, flexibility, and experience. Warburg Luxembourg is one of the few custodian banks in the financial center whose systems can still model practically all common asset classes in funds, both in the classic securities area and in the area of alternative investments, and that can provide custodian bank services for them. In the reporting period, the bank benefited from its expertise in alternative investments and participated in the growing demand for AIFM fund structures. However, encouraging volume increases in securities funds were also recorded. In individual cases mandates were lost as a result of client restructuring. The bank continued its investments in systems and employees in 2016, further reinforcing its position as an attractive and important alternative to the major international banks in the Luxembourg custodian bank business.

Its second business area is the international private clients business, which also consolidated its position in the past fiscal year. Clients in this area value the bank's independence, good asset allocation, and ability to cater to individual client needs. The lending business is only offered as a complement to the other services, with the focus being on Lombard loans and on prefinancing capital calls.

The successful expansion of the two core business areas – custodian bank services and the private client business – will continue in fiscal year 2017 and will be flanked by further investments in employee training and IT infrastructure.

M.M.WARBURG BANK (SCHWEIZ) AG

Further successful expansion of business areas

The Warburg Banking Group has had a presence in Switzerland for 25 years, which today takes the form of M.M.Warburg Bank (Schweiz) AG. Warburg Bank Switzerland continues to specialize in asset management and investment advisory and related services for high net worth private clients located primarily in Switzerland, Germany, and certain western European countries.

The bank's core competencies are providing personalized, individual, end-to-end services to high net worth private clients in Switzerland and abroad. It sees itself as a long-term partner for its clients. Independence of institutional influences, a personal approach, short decision-making channels, actively practiced discretion, and a bespoke service are advantages that only a private bank can offer. In addition to performance, the focus of all investments is on ensuring client asset security.

Warburg Value – A long track record of success

One example of this is the Warburg Value Fund, which is managed using a long-term value approach. The fund's portfolio of global equities recorded a performance of around 22% in 2016, outperforming its benchmark, the MSCI World Index, by more than 10%. This has allowed investors to generate above-average returns for more than 12 years, with Warburg Bank Switzerland offering this investment style not only via the fund but also in the form of separate investment mandates.

Compliance Functions

WpHG compliance

The Bank's independent compliance department, which reports directly to senior management, is responsible among other things for identifying, preventing, and managing conflicts of interest. The WpHG Compliance Function assesses the Bank's risk profile in relation to existing compliance risks as part of its regular risk analysis. Among other things, this include the results of previous monitoring and supervisory activities by Compliance itself and by Internal Audit, plus the results of the audits by external auditors, as well as all other relevant sources of information (e.g., insights from complaints management). In the opinion of the WpHG Compliance function, the principles, available resources, and procedures that have been introduced to comply with statutory obligations continue to be effective and appropriate.

MaRisk compliance

Under the "Mindestanforderungen an das Risikomanagement" (MaRisk – Minimum Requirements for Risk Management), the role of the Compliance function is to take steps to ensure the implementation of effective procedures to comply with the legal provisions and requirements that are material for the Bank and of corresponding checks, in order to minimize compliance risks resulting from failures to observe material rules and requirements. These risks can take the form of liability risk, sanction risk, and reputational risk. In addition to verifying the effectiveness of existing procedures, this also comprises ongoing monitoring of new and changed statutory provisions and of their effective implementation. Chief among these in 2016 were the implementation of European legal norms such as the EU's Market Abuse Regulation and Mortgage Credit Directive and the regulations governing the intergovernmental exchange of tax information. There is no let-up in regulatory initiatives in sight for 2017 and 2018.

Anti-Money Laundering

The Anti-Money Laundering department is responsible for preventing and combating money laundering, terrorism financing, and other criminal acts, and for ensuring that Group anti-money laundering and fraud prevention guidelines are complied with. The department aims to avoid potential risks (including reputational risk) relating to money laundering, terrorism financing, and other criminal acts to which the Bank might otherwise be exposed. At an organizational level, Anti-Money Laundering is an independent department that answers directly to the responsible partner; this ensures a direct reporting line.

Anti-money laundering and fraud prevention is based on a bank-specific risk analysis that assesses the threats to which the Bank is exposed in relation to money laundering, terrorism financing, and other criminal acts. In addition, the risk analysis serves as input for designing a bank-specific strategy for preventing and combating money laundering, terrorism financing, and other criminal acts. Current legislation (including the Geldwäschegesetz (GWG – German Anti-Money Laundering Act), the Kreditwesengesetz (KWG – German Banking Act), and the implementation of the EU's Fourth Anti-Money Laundering Directive) are taken into account when preparing the Bank's risk analysis, as are the findings of internal and external audits.

In view of recent media reports, Anti-Money Laundering worked together with Risk Control in the 2016 reporting period to perform supplementary analyses in addition to the risk analysis, and further preventive measures were taken.

Anti-money laundering will continue to be a highly important topic given the increased regulatory requirements, and in particular the forthcoming implementation of the EU's Fourth Anti-Money Laundering Directive and increased public awareness following recent media reports. It is a key function in the Bank's risk prevention activities in the areas of money laundering, terrorism financing, and other criminal acts.

In an environment characterized by increasing IT risks and regulatory requirements, the Data Protection and IT Security unit works together with the IT function and the specialist departments to ensure careful handling of client and Bank data as part of the IT security process, and that data protection requirements are complied with.

Employees

Employees

For 213 members of staff at four Warburg Group banking subsidiaries, the defining event of 2016 was the merger of their institutions with Warburg Bank. Many of these employees have spent almost their entire professional lives at these banks, which are now continuing to do business at their locations as Warburg Bank branches rather than as independent institutions. The hard work and dedication of the staff at the branches and the Bank's headquarters ensured the smooth transfer of the establishments in October 2016 as part of the mergers.

Following the transfers, the Warburg Banking Group had 737 employees as of the end of 2016, 225 more than in the prior year. Without the merger, the Bank would have seen slight growth of 12 employees (1.63%). The Warburg Banking Group and M.M.Warburg & CO Gruppe GmbH added 30 and 31 employees respectively, corresponding to growth of approximately 2.54% and 2.58%.

Number of employees

	M.M.Warburg & CO	Warburg Banking Group	M.M.Warburg & CO Gruppe GmbH
Dec. 31, 2014	497	1,275	1,296
Dec. 31, 2015	512	1,180	1,201
Dec. 31, 2016	737	1,210	1,232
Increase versus 2015	225	30	31
Increase in %	43.95%	2.54%	2.58%

The average age of Warburg Bank staff in 2016 was 44.52 years. This slight increase is due not only to the rise that was also seen in the average length of service (12.43 years), but also to the recruitment of experienced staff who are older than average. The average age for staff in the private banking sector as a whole was 44.3 years in 2015 – i.e., comparable with this figure.

Warburg Bank employees' ages and length of service

	Average age in years	Average length of service in years
Dec. 31, 2014	43.97	11.56
Dec. 31, 2015	43.73	11.12
Dec. 31, 2016	44.52	12.43

The turnover rate in 2016 was 5.16% – below the most recent average determined for the private banking sector (2015: 6.7%).

Employee turnover at Warburg Bank

	Turnover rate (employee resignations)	Turnover rate (total)
Dec. 31, 2014	3.32%	4.15%
Dec. 31, 2015	3.40%	4.80%
Dec. 31, 2016	3.26%	5.16%

Illness-related absences continued to be below the industry average and showed an encouraging improvement compared to the trend for previous years. We are investigating whether this is due to our increased health management activities and to the 2015 works agreement on workplace reintegration management; this will become clear in the course of the coming years.

Illness-related absences at Warburg Bank

	Illness-related absences	Illness-related absences excluding long-term illnesses
Dec. 31, 2011	4.31%	2.41%
Dec. 31, 2012	4.50%	2.54%
Dec. 31, 2013	4.08%	2.68%
Dec. 31, 2014	4.80%	2.37%
Dec. 31, 2015	5.17%	3.03%
Dec. 31, 2016	3.68%	2.84%

In the area of continuing professional development (CPD), we again offered a wide range of activities. CPD is planned on the basis of an annual needs assessment with the involvement of the specialist departments concerned. Organizing it at Group level enables a large number of seminars that have been tailored to the Bank's precise needs to be held. Unfortunately, the proportion of regulatory topics and formal requirements is increasing further and further, leaving less room for developing individual skills, such as in the areas of creativity and communication. Many of the statutory training requirements are being met using web-based training.

Once again, the number and quality of applications received by Human Resources was encouraging. Unfortunately, the readiness of applicants – and in some cases of employees as well – to be mobile declined. This trend has been growing in recent years and can be found surprisingly frequently even among people starting their careers; after many years of moving around in the course of their training, studies, and placements, new recruits often have quite definite ideas about where they want to work.

The partners would like to thank all employees for their hard work in 2016. Their loyalty to the firm is especially important in this challenging time for banks. Our work together with the employee representative bodies proved particularly important in the context of the mergers. We trust each other and cooperate in the best interests of the Company. The partners would like to sincerely thank all members of the works councils.

Report of the Supervisory Board of M.M.Warburg & CO (AG & Co.) KGaA

Report of the Supervisory Board of M.M.Warburg & CO (AG & Co.) KGaA

The Supervisory Board was informed regularly and in a timely manner by the general partner, M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft, about the position of the Bank and its subsidiaries, and their business development. The members of the Executive Board of M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft are both the managers of and the partners in M.M.Warburg & CO ("partners").

The Supervisory Board comprehensively performed the duties assigned to it by law and under the Articles of Association. At its four meetings in 2016, held together with the Shareholders' Committee, the Supervisory Board received detailed reports from the partners on the course of business, the Company's position, issues relating to business and risk policy, and other important matters, and took decisions on the items of business presented to it that required its approval.

Between meetings, the Spokesman for the Partners informed the Chairman of the Supervisory Board continuously of major developments and decisions. The partners fulfilled their reporting obligations to the Supervisory Board in accordance with the Mindestanforderungen an das Risikomanagement (MaRisk – Minimum Requirements for Risk Management) and the Mindestanforderungen an die Compliance-Funktion (MaComp – Minimum Requirements for Compliance), as well as in accordance with the Aktiengesetz (AktG – German Stock Corporation Act) and in particular with section 90 of the AktG.

Above and beyond this, all of the members of the Supervisory Board were promptly informed in all cases by the partners of all important and unusual events.

In addition to developments in the day-to-day business, the Supervisory Board's discussions focused on issues relating to business policy and strategy, and major individual transactions; banking supervision; supervisory law; and the effects of market developments and the low interest rate environment on the earnings and risk position of the Bank and its subsidiaries. Issues relating to the internal control system and accounting were also discussed.

The annual financial statements and the management report for fiscal year 2016 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) and found by the latter to be in accordance with the applicable statutory provisions. An unqualified audit opinion was issued.

The annual financial statements, the management report, and the auditors' report on the audit of the annual financial statements were made available to the Supervisory Board prior to its meeting on May 12, 2017. The Supervisory Board took note of and approved the findings of the audit. The auditor responsible participated in the discussions on the annual financial statements and the management report.

The management report by the partners and the annual financial statements prepared by them as of December 31, 2016, were examined by the Supervisory Board. The Supervisory Board did not raise any objections. Based on the results of its examination, the Supervisory Board approved the annual financial statements.

The Supervisory Board wishes to thank the partners and all the employees of the Bank for their work over the past fiscal year.

Hamburg, May 12, 2017

The Supervisory Board
– *Chairman* –

Condensed Annual Financial Statements of

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

as of December 31, 2016

The full annual financial statements and the management report in the version granted an audit opinion by the auditors are published in the electronic Bundesanzeiger (German Federal Gazette).

Balance Sheet as of December 31, 2016

Assets			EUR	EUR	EUR	Previous year EUR thou.
1. Cash reserve						
a) Cash-in-hand				3,818,075.68		1,389
b) Central bank balances				31,565,732.10		11
of which: with Deutsche Bundesbank	EUR	31,565,732.10				(11)
c) Postal giro balances				0.00		0
					35,383,807.78	
2. Public-sector debt instruments and bills eligible for refinancing with central banks						
a) Treasury bills, discounted treasury notes, and similar public-sector debt instruments				0.00		0
of which: eligible for refinancing with Deutsche Bundesbank	EUR	0.00				(0)
b) Bills				0.00	0.00	0
3. Loans and advances to other banks						
a) Payable on demand				991,653,038.09		426,423
b) Other				285,050,999.87		333,366
					1,276,704,037.96	
4. Loans and advances to customers					1,666,796,626.77	1,020,643
of which: secured by mortgages	EUR	398,765,493.15				(63,603)
Public-sector loans	EUR	77,444,125.85				(0)
5. Bonds and other fixed-income securities						
a) Money market securities						
aa) public-sector issuers			0.00			0
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	0.00				(0)
ab) other issuers			0.00	0.00		20,000
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	0.00				(20,000)
b) Bonds and notes						
ba) public-sector issuers			801,622,345.20			553,425
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	801,622,345.20				(553,425)
bb) other issuers			578,991,615.19	1,380,613,960.39		789,210
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	541,622,970.63				(777,828)
c) Own bonds and notes				0.00		0
at par	EUR	0.00				
					1,380,613,960.39	
6. Equities and other variable rate securities					7,738,270.58	16,992
6a. Trading portfolio					107,409,712.21	139,479
7. Shares in other investees and investors					33,867,645.44	24,829
of which: in banks	EUR	41,275.16				(41)
of which: in financial services institutions	EUR	145,783.02				(142)
8. Shares in affiliated companies					145,333,508.97	250,632
of which: in banks	EUR	117,249,875.19				(223,474)
of which: in financial services institutions	EUR	0.00				(0)
9. Fiduciary assets					220,602,960.91	56,318
of which: fiduciary loans	EUR	851,354.72				(0)
10. Equalization claims against the government including bonds and notes issued in substitution thereof					0.00	0
11. Intangible fixed assets						
a) Internally generated industrial rights and similar rights and assets				0.00		
b) Purchased concessions. industrial and similar rights and assets, and licenses in such rights and assets				2,698,672.00		
c) Goodwill				0.00		
d) Prepayments				459,222.73	3,157,894.73	3,981
12. Tangible fixed assets					121,826,592.42	150,012
13. Unpaid contributions to subscribed capital					0.00	0
of which: called	EUR	0.00				(0)
14. Other assets					108,899,546.12	86,788
15. Prepaid expenses and deferred income					845,615.16	676
16. Deferred tax assets					0.00	0
17. Excess of plan assets over pension liability					0.00	0
18. Deficit not covered by equity					0.00	0
			Total assets		**5,109,180,179.44**	**3,874,174**

Equity and liabilities			EUR	EUR	EUR	Previous year EUR thou.
1. Liabilities to other banks						
a) Payable on demand				100,860,265.20		202,996
b) With agreed maturities or periods of notice				400,354,197.34		581,734
					501,214,462.54	
2. Liabilities to customers						
a) Savings deposits						
aa) with agreed periods of notice of three months			50,900,796.94			15,337
ab) with agreed periods of notice of more than three months			13,997,938.77	64,898,735.71		14,973
b) Other liabilities						
ba) payable on demand			2,911,724,243.42			1,672,645
bb) with agreed maturities or periods of notice			839,951,299.13	3,751,675,542.55		784,000
					3,816,574,278.26	
3. Securitized liabilities						
a) Bonds issued				0.00		0
b) Other securitized liabilities				0.00	0.00	0
of which: money market securities	EUR	0.00				(0)
own acceptances and promissory notes outstanding	EUR	0.00				(0)
3a. Trading portfolio					86,704,654.57	75,798
4. Fiduciary liabilities					220,602,960.91	56,318
of which: fiduciary loans	EUR	851,354.72				(0)
5. Other liabilities					49,314,918.45	56,384
6. Prepaid expenses and deferred income					1,176,001.78	164
6a. Deferred tax liabilities					0.00	0
7. Provisions						
a) Provisions for pensions and similar obligations				36,770,755.00		23,157
b) Provisions for taxes				0.00		1,000
c) Other provisions				21,865,147.78		17,628
					58,635,902.78	
8. (repealed)					0.00	0
9. Subordinated liabilities					83,000,000.00	83,000
10. Profit participation capital					10,000,000.00	10,000
of which: maturing in less than two years	EUR	0.00				(0)
11. Fund for general banking risks					6,930,336.75	4,013
of which: special reserve (HGB s. 340e)	EUR	5,080,336.75				(4,013)
12. Equity						
a) Subscribed capital			125,000,000.00			125,000
b) Capital reserves			135,000,000.00			135,000
c) Revenue reserves						
ca) legal reserve			0.00			0
cb) reserve for shares in a parent or majority investor			0.00			0
cc) reserves provided for by the articles of association			0.00			0
cd) other revenue reserves			15,000,000.00	15,000,000.00		15,000
d) Net retained profits				26,663.40		27
					275,026,663.40	
			Total equity and liabilities		**5,109,180,179.44**	**3,874,174**

	EUR	EUR	Previous year EUR thou.
1. Contingent liabilities			
a) Liabilities on endorsed bills settled with customers	0.00		0
b) Liabilities from guarantees and indemnities	28,453,424.52		30,559
c) Liabilities from the granting of security for third-party liabilities	0.00	28,453,424.52	0
2. Other commitments			
a) Repurchase agreements under sales with an obligation to repurchase	0.00		0
b) Placement and underwriting commitments	0.00		0
c) Irrevocable loan commitments	164,464,585.53	164,464,585.53	225,824

Income Statement for the Period January 1 to December 31, 2016

Expenses			EUR	EUR	EUR	Previous year EUR thou.
1. Interest expense				33,224,840.19		40,818
less positive interest				-1,541,216.75	31,683,623.44	-109
2. Fee and commission expense					7,655,826.32	7,897
3. Net trading expense					0.00	0
4. General and administrative expenses						
a) Personnel expenses						
aa) wages and salaries			62,225,385.65			43,682
ab) social security, post-employment, and other employee benefit expenses			9,533,131.45	71,758,517.10		8,212
of which: post-employment benefit expenses	EUR	1,494,400.09				(2,867)
b) Other administrative expenses				45,184,298.53		30,395
					116,942,815.63	
5. Amortization and writedowns of intangible fixed assets and depreciation and writedowns of tangible fixed assets					14,471,763.39	13,585
6. Other operating expenses					11,837,808.74	11,038
7. Writedowns of and allowances on loans and advances and certain securities and additions to loan loss provisions					24,774,907.55	42,140
8. Additions to the fund for general banking risks					0.00	0
9. Writedowns of and allowances on shares in other investees and investors, shares in affiliated companies, and securities classified as fixed assets					0.00	0
10. Cost of loss absorption					862,389.09	0
11. (repealed)					0.00	0
12. Extraordinary expenses					21,737,515.92	0
13. Taxes on income					10,198.17	0
14. Other taxes not included in item 6					131,888.27	91
15. Profit transferred under profit pooling, profit transfer, or partial profit transfer agreements					7,030,607.34	24,054
16. Net income for the year					0.00	0
			Total expenses		**237,139,343.86**	**221,803**

Income	EUR	EUR	EUR	Previous year EUR thou.
1. Interest income from				
a) lending and money market operations	66,023,646.67			67,787
less negative interest	-3,274,073.32			-645
		62,749,573.35		
b) fixed-income securities and registered government debt	1,796,289.78			3,220
less negative interest	0.00			
		1,796,289.78		0
			64,545,863.13	
2. Current income from				
a) equities and other variable-rate securities		551,850.20		582
b) shares in other investees and investors		2,100,649.60		2,793
c) shares in affiliated companies		8,903,000.00		11,391
			11,555,499.80	
3. Income from profit pooling, profit transfer, or partial profit transfer agreements			2,340,091.29	7,225
4. Fee and commission income			94,917,401.34	75,467
5. Net trading income			8,298,496.04	10,422
6. Income from the reversal of writedowns of and allowances on loans and advances and certain securities and the reversal of loan loss provisions			0.00	0
7. Withdrawals from the fund for general banking risks			0.00	0
8. Income from the reversal of writedowns of and allowances on shares in other investees and investors, shares in affiliated companies and securities classified as fixed assets			107,511.65	19,802
9. Other operating income			55,374,480.61	23,759
10. (repealed)			0.00	0
11. Extraordinary income			0.00	0
12. Income from loss absorption			0.00	0
13. Net loss for the year			0.00	0
Total income			**237,139,343.86**	**221,803**

	EUR	EUR	Previous year EUR thou.
1. Net income/net loss for the year		0.00	0
2. Retained profits/accumulated losses brought forward from previous year		26,663.40	27
		26,663.40	27
3. Withdrawals from capital reserves		0.00	0
		26,663.40	27
4. Withdrawals from revenue reserves			
a) from the legal reserve	0.00		0
b) from the reserve for shares in a parent or majority investor	0.00		0
c) from reserves provided for by the articles of association	0.00		0
d) from other revenue reserves	0.00		0
		0.00	0
		26,663.40	27
5. Withdrawals from profit participation capital		0.00	0
		26,663.40	27
6. Transfers to revenue reserves			
a) to the legal reserve	0.00		0
b) to the reserve for shares in a parent or majority investor	0.00		0
c) to reserves provided for by the articles of association	0.00		0
d) to other revenue reserves	0.00		0
		0.00	0
		26,663.40	27
7. Replenishment of profit participation capital		0.00	0
8. Net retained profits/net accumulated losses		26,663.40	27

Notes to the Financial Statements

GENERAL DISCLOSURES

1. Basis of preparation

M.M.Warburg & CO (AG & Co.) Kommanditgesellschaft auf Aktien ("M.M.Warburg & CO"), which is domiciled in Hamburg, is entered in the commercial register of the Local Court in Hamburg under the number HRB 84168.

The annual financial statements of the Company for fiscal year 2016 have been prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV – German Accounting Regulation for Banks). The provisions of German stock corporation law were complied with.

Unless stated otherwise, prior-year figures are given in brackets.

2. Merger of banking subsidiaries with M.M.Warburg & CO

The merger of our subsidiaries

- Bankhaus Carl F. Plump & CO AG, Bremen,
- Bankhaus Hallbaum AG, Hanover,
- Bankhaus Löbbecke AG, Berlin, and
- Schwäbische Bank AG, Stuttgart

with M.M.Warburg & CO was implemented on October 4, 2016, effective January 1, 2016. M.M.Warburg & CO now operates branches at these locations.

This resulted in additions of assets and liabilities of the former subsidiary banks, which are reported in the balance sheet as of December 31, 2016. The income statement contains the income and expenses of the four former banking subsidiaries that were recognized retroactively as from January 1, 2016.

The effects of the mergers are presented in the following overviews.

Assets EUR thou.	Dec. 31, 2016	Dec. 31, 2015	Adjusted Dec. 31, 2015
1. Cash reserve	35,384	1,400	3,613
2. Public-sector debt instruments and bills eligible for refinancing with central banks	0	0	0
3. Loans and advances to other banks	1,276,704	759,790	758,745
4. Loans and advances to customers	1,666,797	1,020,643	1,514,110
5. Bonds and other fixed-income securities	1,380,614	1,362,635	1,584,801
6. Equities and other variable rate securities	7,738	16,992	16,992
6a. Trading portfolio	107,410	139,479	140,139
7. Shares in other investees and investors	33,868	24,829	25,449
8. Shares in affiliated companies	145,334	250,632	144,346
9. Fiduciary assets	220,603	56,318	57,254
10. Equalization claims against the government including bonds and notes issued in substitution thereof	0	0	0
11. Intangible fixed assets	3,158	3,981	4,299
12. Tangible fixed assets	121,827	150,012	169,874
13. Unpaid contributions to subscribed capital	0	0	0
14. Other assets	108,900	86,787	87,347
15. Prepaid expenses and deferred income	846	676	942
16. Deferred tax assets	0	0	0
17. Excess of plan assets over pension liability	0	0	0
Total assets	**5,109,180**	**3,874,175**	**4,507,912**

Equity and liabilities EUR thou.	Dec. 31, 2016	Dec. 31, 2015	Adjusted Dec. 31, 2015
1. Liabilities to other banks	501,214	784,730	556,593
2. Total liabilities to customers	3,816,574	2,486,956	3,345,141
3. Securitized liabilities	0	0	0
3a. Trading portfolio	86,705	75,798	75,798
4. Fiduciary liabilities	220,603	56,318	57,254
5. Other liabilities	49,315	56,384	36,908
6. Prepaid expenses and deferred income	1,176	164	344
6a. Deferred tax liabilities	0	0	0
7. Provisions	58,636	41,785	61,839
9. Subordinated liabilities	83,000	83,000	83,000
10. Profit participation capital	10,000	10,000	10,000
11. Fund for general banking risks	6,930	4,013	6,008
12. Equity	275,027	275,027	275,027
Total equity and liabilities	**5,109,180**	**3,874,175**	**4,507,912**
1. Contingent liabilities	28,453	30,559	43,297
2. Other commitments	164,465	225,824	266,152

Income Statement of M.M.Warburg & CO (AG & Co.) KGaA for the Period January 1 to December 31, 2016	**2016 EUR thou.**	**2015 EUR thou.**	**Adjusted 2015 EUR thou.**
Interest income	64,546	70,362	85,914
Interest expense	31,684	40,709	41,846
Current income	11,556	14,767	14,795
Income from profit pooling, profit transfer, or partial profit transfer agreements*	1,478	7,225	3,266
Net interest income	**45,896**	**51,644**	**62,129**
Fee and commission income	94,917	75,467	95,299
Fee and commission expense	7,656	7,897	7,571
Net fee and commission income	**87,261**	**67,570**	**87,728**
Net trading income	**8,298**	**10,422**	**10,463**
Personnel expenses	71,759	51,894	70,855
Other administrative expenses/depreciation, amortization, and writedowns	59,656	43,980	53,681
Administrative expenses	**131,415**	**95,874**	**124,536**
Net other operating income/expenses	**43,537**	**12,721**	**7,129**
Loan loss provisions	**-24,775**	**-42,140**	**-38,824**
Fund for general banking risks	**0**	**0**	**750**
Net income from long-term financial assets	**108**	**19,802**	**19,345**
Result from ordinary activities	**28,910**	**24,145**	**24,184**
Extraordinary expenses	**21,738**	**0**	**0**
Taxes	**141**	**91**	**130**
Profit transferred	**7,031**	**24,054**	**24,054**

*Cost of loss absorption is reported under income from profit pooling, etc.

ACCOUNTING POLICIES

3. Receivables

Loans and advances to other banks and to customers are recognized at their nominal amount or at cost and reduced by valuation allowances if necessary. Any differences between the nominal amount and the amount paid out that are similar in nature to interest are reported under prepaid expenses or deferred income (see notes 8 and 11).

4. Securities

Bonds and other fixed-income securities designed to be held for the long term and included in hedges are accounted for as long-term financial assets using the less strict principle of lower of cost or market value. Please refer to notes 16 and 41 for further details of their measurement.

Equities and other variable rate securities designed to be held for the long term are accounted for as long-term financial assets. The option in accordance with section 253(3) sentence 6 of the HGB has been exercised for these securities. Expenses from writedowns of certain securities are offset against income from reversals of such writedowns in accordance with section 340c(2) of the HGB.

Bonds and other fixed-income securities, as well as equities and other variable-rate securities that are neither designed to serve business operations for the long term nor allocated to the trading portfolio are accounted for as current assets and recognized at the lower of cost or quoted market price or fair value using the strict principle of lower of cost or market value in accordance with section 340e(1) sentence 2 of the HGB in conjunction with section 253(1) and (4) of the HGB. Writedowns are reversed in accordance with the requirement to reverse writedowns under section 253(5) of the HGB.

The measurement of bonds and other fixed-income securities, and of equities and other variable rate securities that are held for trading is described in the separate "Trading portfolio" section.

The Bank enters into securities lending transactions as a borrower. Since cash collateral is not furnished and beneficial ownership of the securities is retained by the lender, the borrowed securities are accounted for as off-balance-sheet transactions.

5. Trading portfolio

The definition of the trading portfolio is based on point (85) of Article 4 of the Capital Requirements Regulation (CRR). This defines "positions held with trading intent" as follows:

a. proprietary positions and positions arising from client servicing and market making;
b. positions intended to be resold short term;
c. positions intended to benefit from actual or expected short term price differences between buying and selling prices or from other price or interest rate variations.

The key criterion for allocation to the trading portfolio is the intention to generate profit for the Banks' own account with the financial instruments (and precious metals) concerned. The internal criteria for allocating financial instruments to the trading portfolio did not change in the fiscal year.

Trading portfolios are measured at their risk-adjusted fair value in accordance with section 340e(3) sentence 1 of the HGB. Calculation of the risk allowance, which represents the value at risk (VaR) estimated using mathematical models, reflects all recognized assets and liabilities in the trading portfolio. VaR is calculated on the basis of a ten-day holding period and a 99% confidence level over an observation period of 250 trading days. As a rule, VaR is deducted from the assets reported in the trading portfolio; in exceptional cases in which trading liabilities exceed the trading assets, an offsetting item is reported below the trading portfolio on the equity and liabilities side.

In accordance with the provisions of section 340e(4) sentence 1 of the HGB, 10% of net trading income is transferred to the "fund for general banking risks" special reserve in accordance with section 340g of the HGB. The special reserve may be released under the conditions specified in section 340e(4) sentence 2 of the HGB. In the past fiscal year a transfer was made from net trading income to the "fund for general banking risks" special reserve.

6. Shares in other investees or investors and shares in affiliated companies

Shares in other investees or investors and shares in affiliated companies are carried at the lower of cost or – in the event of permanent impairment – fair value in accordance with section 340e(1) sentence 1 of the HGB in conjunction with section 253(3) sentence 5 of the HGB. Unlisted companies are measured using an income approach. Writedowns are reversed in accordance with the requirement to reverse writedowns under section 253(5) of the HGB. Expenses from writedowns of certain securities are offset against income from reversals of such writedowns in accordance with section 340c(2) of the HGB.

7. Tangible and intangible fixed assets

Tangible fixed assets and purchased intangible fixed assets are carried at cost less depreciation or amortization, which is recognized on a straight-line basis over the standard useful life. The underlying useful life is based on the economic useful life. Writedowns are recognized if impairment is expected to be other than temporary. Low-value assets costing up to EUR 150 are written off in full in the year of their acquisition. Assets costing between EUR 150 and EUR 1,000 are pooled; this item is insignificant. The pool is depreciated/amortized on a straight-line basis over five years.

8. Prepaid expenses

The option to recognize prepaid expenses in accordance with section 340e(2) and section 250(3) of the HGB has been exercised; the relevant items will be amortized.

9. Other assets

The other assets not mentioned here are measured at the lower of cost or market.

10. Liabilities

Liabilities are recognized at their settlement or nominal amount (see note 8).

11. Deferred income

The option to recognize deferred income in accordance with section 340e(2) of the HGB has been exercised; the relevant items will be amortized. For the first time we have recognized an item for (processing) fees similar to interest expenses in the lending business (see note 36); this improves presentation of the economic utilization of amounts paid at the start of maturity.

12. Provisions

All provisions for pensions and similar obligations are measured at the settlement amount calculated using the projected unit credit method on the basis of biometric probabilities in accordance with the 2005 G mortality tables published by Klaus Heubeck. Provisions for pensions and similar obligations are discounted using the average market rate of interest for the past 10 fiscal years, assuming a general remaining maturity of 15 years, published by the Deutsche Bundesbank (section 253(2) of the HGB).

Direct pension obligations that meet the requirements of section 246(2) sentence 2 of the HGB are offset against plan assets. The fair value is determined using the capitalized surrender value of the existing defined benefit insurance. We exercised the option not to recognize a liability in the case of pension commitments within the meaning of article 28(1) of the Einführungsgesetz zum Handelsgesetzbuch (EGHGB – Introductory Act to the German Commercial Code).

Other provisions that are provisions for uncertain obligations or for expected losses from executory contracts are recognized in compliance with section 253(1) of the HGB at the required settlement amount, taking account of expected future price and cost increases in accordance with the principles of prudent business judgment. Material provisions with a remaining maturity of more than one year are discounted at the average market rate of interest of the past seven financial years corresponding to their maturity, as calculated and published by the Deutsche Bundesbank.

13. Loan loss provisions

Loan loss provisions comprise valuation allowances and provisions for all identifiable credit and country risks and for expected default risks, and the provision for general banking risks. The size of the loan loss provisions for individual counterparty credit risk exposures is based on the difference between the carrying amount of the receivables and the probable recoverable amount.

The transfer risk for loans to borrowers domiciled in third countries (country risk) is measured on the basis of a rating system that reflects the economic, political, and regional situation. Provisions are recognized for cross-border exposures involving certain countries in accordance with conservative policies.

Global valuation allowances are recognized to reflect expected credit risks. They are calculated on the basis of the circular from the Federal Ministry of Finance dated January 10, 1994.

14. Currency translation

Non-trading book assets, liabilities, and executory contracts denominated in foreign currencies are classified as specifically covered in each currency due to the decision not to enter into strategic currency positions. The total position per currency is managed in the trading book. All income and expenses arising from currency translation are therefore part of net trading income.

15. Fair value

The fair value of financial instruments is normally measured on the basis of quoted prices in an active market (marking-to-market). If no such prices are available, the Bank examines the extent to which prices can be obtained from business partners or price agencies or observable market data can be used (marking-to-matrix). If these approaches are not successful, suitable models are used to measure fair value (marking-to-model).

The amount, timing, and probability of future cash flows from derivatives are subject to uncertainties that have a corresponding effect on their fair value. The key determinants in this respect are:

- Future trends affecting market prices, and especially interest rates, exchange rates, and share prices;
- The volatility of those prices; and
- Counterparty default risk.

16. Hedge accounting

Hedged items (assets, liabilities, or executory transactions) are combined with hedging instruments to hedge offsetting changes in fair value or cash flows from the occurrence of comparable risks. The general measurement principles are not applied to hedges to the extent that, and for as long as, the changes in fair value or cash flows are offset.

17. Measurement of interest-related transactions in the banking book (interest rate book)

In accordance with IDW RS BFA 3 (Accounting Principle 3 issued by the Banking Committee of the Institute of Public Auditors in Germany), it was established that there is no net liability resulting from the interest-related transactions in the banking book (interest rate book) as at the reporting date, based on a present value analysis that considered risk and administrative costs still expected to be incurred. There was therefore no requirement to recognize a provision in accordance with section 340a in conjunction with section 249(1) sentence 1 (2nd alternative) of the HGB.

18. Negative interest income and expense

Negative interest from lending transactions and positive interest from borrowing transactions are recognized as a reduction in interest income or expense, respectively, and reported separately in the income statement.

NOTES TO THE BALANCE SHEET

19. Loans and advances to other banks

Balance sheet item 3a: Loans and advances to other banks	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
payable on demand	991,653	426,423
thereof to affiliated companies	4,016	6,829
thereof to other investees and investors	0	0

Balance sheet item 3b: Other loans and advances to other banks	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
with residual terms of		
a) up to three months	110,538	104,820
b) more than three months to one year	39,500	103,546
c) more than one year to five years	135,013	125,000
d) more than five years	0	0
Total:	285,051	333,366
thereof to affiliated companies	21,537	109,950
thereof to other investees and investors	0	0
thereof subordinated	15,913	17,916

As in the previous year, there were no repurchase agreements as of the balance sheet date.

20. Loans and advances to customers

Balance sheet item 4: Other loans and advances to customers	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
with residual terms of		
a) up to three months	581,868	215,252
b) more than three months to one year	150,921	183,981
c) more than one year to five years	494,558	349,098
d) more than five years	439,450	272,312
Total:	1,666,797	1,020,643
of which undated	241,424	155,069
thereof to affiliated companies	28,628	26,615
thereof to other investees and investors	11,600	0
thereof subordinated	0	2,197

As in the previous year, there were no repurchase agreements as of the balance sheet date.

21. Bonds and other fixed-income securities

Bonds and other fixed-income securities	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Due in the following year	296,241	431,733
Issued by affiliated companies	25,986	0
Listed	1,304,828	1,271,356
Unlisted	75,786	91,278
Subordinated	11,383	11,382

The following overview shows the changes in the carrying amounts of bonds and other fixed-income securities accounted for as long-term financial assets; amounts have been aggregated as permitted by section 34(3) of the RechKredV.

EUR thou.	Dec. 31, 2015 EUR thou.	Changes	Dec. 31, 2016 EUR thou.
Carrying amount	8,798	358	9,156

For information about bonds and other fixed-income securities included in hedges, see note 41.

22. Equities and other variable rate securities

Equities and other variable rate securities	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Subordinated	2,400	2,400
Marketable but unlisted	3,316	12,570

No listed equities or other variable rate securities were held as of December 31, 2016.

The following overview shows the changes in the carrying amounts of equities and other variable rate securities accounted for as long-term financial assets; amounts have been aggregated as permitted by section 34(3) of the RechKredV.

EUR thou.	Dec. 31, 2015 EUR thou.	Changes	Dec. 31, 2016 EUR thou.
Carrying amount	2,400	0	2,400

The following table shows the values of the German and foreign investment funds in which M.M.Warburg & CO held more than 10% as of the reporting date, broken down by category.

Investment funds

EUR thou. Dec. 31, 2016	Equity funds	Real estate funds	Total
Carrying amount	0	0	0
Fair value	0	0	0
Difference v. carrying amount	0	0	0
Distributions made	0	0	0

EUR thou. Dec. 31, 2015	Equity funds	Real estate funds	Total
Carrying amount	5,000	7,500	12,500
Fair value	5,144	7,883	13,027
Difference v. carrying amount	144	383	527
Distributions made	0	86	86

The real estate funds reported for the prior year, 2015, had a minimum holding period of 24 months and a notice period of 12 months. In 2016, our share of the real estate fund dropped to below 10% due to new fund units being issued.

23. Trading portfolio assets

The following table gives a breakdown of the trading portfolio assets.

Trading portfolio Assets	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Other assets	659	2,216
Bonds and other fixed-income securities	578	11,340
Equities and other variable rate securities	5,843	6,284
Derivative financial instruments	100,669	120,512
Total	107,749	140,352

A value-at-risk allowance of EUR 339 thousand (EUR 874 thousand) was deducted from the trading portfolio assets of EUR 107,749 thousand (EUR 140,353 thousand), resulting in a carrying amount of EUR 107,410 thousand (EUR 139,479 thousand).

24. Shares in other investees or investors and shares in affiliated companies

As of December 31, 2016, M.M.Warburg & CO had no listed shares in other investees or investors or shares in affiliated companies. This also applies to the prior year. The following table gives a breakdown of the marketable shares contained in the balance sheet items specified.

Balance sheet items		Unlisted	
		Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Balance sheet item 7:	Shares in other investees and investors	8,371	8,371
Balance sheet item 8:	Shares in affiliated companies	131,313	237,037

The following overview shows the changes in carrying amounts; amounts have been aggregated as permitted by section 34(3) of the RechKredV.

Balance sheet items		Dec. 31, 2015 EUR thou.	Changes EUR thou.	Dec. 31, 2016 EUR thou.
Balance sheet item 7:	Shares in other investees and investors	24,829	9,039	33,868
Balance sheet item 8:	Shares in affiliated companies	250,632	-105,298	145,334

The changes in the two balance sheet items are mainly due to the mergers (see note 2).

25. Fiduciary assets

Item	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Loans and advances to other banks	0	0
Loans and advances to customers	851	0
Shares in other investees and investors	2,626	0
Other assets	217,126	56,318
Total	220,603	56,318
of which: fiduciary loans	851	0

The change in the amounts reported in the overview above under "Loans and advances to customers" and "Shares in other investees and investors" is due to the mergers (see note 2). The change in the amounts reported in the "Other assets" item is primarily due to the takeover of investment funds in accordance with the provisions of section 100(1) and (2) of the KAGB.

26. Intangible and tangible fixed assets

Statement of changes in fixed assets EUR thou.	Intangible fixed assets	Tangible fixed assets
Historical cost Jan. 1, 2016	**41,048**	**220,119**
Additions from mergers	4,263	31,980
Additions	1,289	2,895
Disposals	0	61,010
Transfers	0	0
Exchange rate changes	0	1,083
Historical cost Dec. 31, 2016	**46,600**	**195,067**
Cumulative depreciation, amortization, and writedowns as of Jan. 1, 2016	**37,067**	**70,107**
Additions from mergers	3,945	12,117
Additions	2,430	12,042
Disposals	0	21,435
Exchange rate changes	0	409
Cumulative depreciation, amortization, and writedowns as of Dec. 31, 2016	**43,442**	**73,240**
Carrying amounts on Dec. 31, 2016	**3,158**	**121,827**
Carrying amounts on Dec. 31, 2015	**3,981**	**150,012**

Owner-occupied land and buildings were recognized as of the reporting date in the carrying amount of EUR 5,584 thousand and were transferred to M.M.Warburg & CO in the course of the mergers (see note 2). Other land and buildings acquired in this context and real estate recognized in the previous year (EUR 32,493 thousand) were sold in the fiscal year.

Three container ships and one bulk freighter were recognized in the amount of EUR 103,773 thousand (EUR 112,451 thousand). The vessels are operated on behalf of the Bank by a third party with experience of the business. EUR 7,400 thousand (EUR 5,022 thousand) relates to operating and office equipment.

Payments on account attributable to assets and assets under construction amounted to EUR 1,039 thousand (EUR 46 thousand). Of this figure, EUR 459 thousand (EUR 0 thousand) is attributable to intangible fixed assets and EUR 580 thousand (EUR 46 thousand) to tangible fixed assets.

27. Other assets

Other assets include collateral relating to executory contracts in the amount of EUR 77,980 thousand (EUR 56,590 thousand) and receivables relating to allocation account balances due from affiliated companies and other investees and investors in the amount of EUR 11,631 thousand (EUR 18,885 thousand). This item also contains current tax receivables amounting to EUR 2,331 thousand (EUR 3,310 thousand).

28. Prepaid expenses

Prepaid expenses within the meaning of section 250(3) of the HGB amounted to EUR 51 thousand (EUR 0 thousand) and related to liabilities assumed in the course of the merger. The prepaid expenses in accordance with section 340e(2) of the HGB reported here amounted to EUR 120 thousand (EUR 291 thousand).

29. Reclassifications

As in the previous year, there were no reclassifications in fiscal year 2016.

30. Assets denominated in foreign currencies

Total assets denominated in foreign currencies amounted to EUR 666,546 thousand (EUR 818,280 thousand).

31. Liabilities to other banks

The residual terms of liabilities to other banks not payable on demand are shown in the following tables.

Balance sheet item 1a: Liabilities to other banks	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Payable on demand	100,860	202,996
thereof to affiliated companies	88,684	169,919
thereof to other investees and investors	942	0

Balance sheet item 1b: Liabilities to other banks	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
With residual terms of		
a) up to three months	170,041	168,295
b) more than three months to one year	163,171	407,439
c) more than one year to five years	28,999	6,000
d) more than five years	38,143	0
Total:	400,354	581,734
thereof to affiliated companies	322,100	575,523
thereof to other investees and investors	0	0

As in the previous year, there were no repurchase agreements as of the balance sheet date.

32. Liabilities to customers

The residual terms of liabilities to customers not payable on demand are shown in the following tables.

Balance sheet items 2a, 2ab: Savings deposits	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
With residual terms of		
a) up to three months	1,365	1,848
b) more than three months to one year	9,809	10,302
c) more than one year to five years	2,795	2,805
d) more than five years	29	18
Total:	13,998	14,973

Balance sheet items 2b, 2bb: Other liabilities to customers	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
With residual terms of		
a) up to three months	348,966	494,092
b) more than three months to one year	285,569	116,908
c) more than one year to five years	70,416	38,000
d) more than five years	135,000	135,000
Total:	839,951	784,000
thereof to affiliated companies	78,781	34,454
thereof to other investees and investors	24,094	20,774

As in the previous year, there were no repurchase agreements as of the balance sheet date.

33. Trading portfolio liabilities

The following table gives a breakdown of the trading portfolio liabilities.

Trading portfolio Liabilities	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Liabilities	1,493	2,421
Derivative financial instruments	85,212	73,377
Total	86,705	75,798

34. Fiduciary liabilities

Item	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Liabilities to other banks	851	0
Liabilities to customers	0	0
Other liabilities	219,752	56,318
Total	220,603	56,318
of which: fiduciary loans	851	0

The changes were primarily due to the mergers and to duties of surrender imposed by section 100(2) of the KAGB resulting from the takeover of investment funds (see note 25).

35. Other liabilities

Other liabilities include collateral received in the amount of EUR 24,227 thousand (EUR 13,091 thousand), liabilities to the German tax authorities of EUR 5,101 thousand (EUR 2,200 thousand), and liabilities relating to structured products (see note 41) in the amount of EUR 2,255 thousand (EUR 9,081 thousand). This item also includes the net income for the reporting period of EUR 7,031 thousand (EUR 23,332 thousand) to be transferred to M.M.Warburg & CO Gruppe GmbH under the control and profit and loss transfer agreement dated December 5, 2007. Further liabilities to affiliated companies and other investees and investors amounted to EUR 1,508 thousand (EUR 1,777 thousand). The other liabilities item also includes the distribution on profit participation capital for 2016 (see note 39).

36. Deferred income

This item includes deferred fees similar to interest expenses in the lending business that were paid at the start of maturity in the amount of EUR 986 thousand (EUR 0 thousand); deferred income in accordance with section 340e(2) of the HGB amounted to EUR 44 thousand (EUR 0 thousand).

37. Provisions
Pensions and similar obligations

The principal assumptions applied as of December 31, 2016, are as follows:

Discount rate p.a.	4.01%
Defined benefit trend (e.g., salary) p.a.	1.50%
Trend in income threshold for contribution assessment p.a.	1.50%
Pension trend p.a.	1.60%
Average staff turnover	3.70%

The period used to determine the average discount rate for pension obligations was increased from seven to ten years in accordance with section 253 of the HGB. The resulting difference (EUR 2,901 thousand) is subject to a restriction on distribution in accordance with section 253(6) sentence 2 of the HGB. However, according to the circular from the Federal Finance Ministry dated December 23, 2016, this difference is not subject to a restriction on profit transfer. Due to the control and profit and loss transfer agreement with M.M.Warburg & CO Gruppe GmbH, the difference is transferred together with the profit for the fiscal year.

In the case of a portion of the pension commitments assumed in the course of the mergers (see note 2), the pension provisions were offset against the recognized fair value of the plan assets, since the requirements of section 246(2) sentence 2 of the HGB were met. In accordance with para. 74 of IDW RS HFA 30 (Accounting Principle 30 issued by the Auditing and Accounting Board of the Institute of Public Auditors in Germany), the amount offset was the capitalized surrender value of the plan assets (EUR 203 thousand). The cost of the plan assets was EUR 115 thousand.

We exercised the option not to recognize a liability in the case of pension commitments within the meaning of article 28(1) of the EGHGB that were also acquired in the course of the mergers. A pension trend of 1.00% was assumed for the calculations. The present value of the obligations amounted to EUR 283 thousand. The difference between the two settlement amounts was EUR 6 thousand. The Bank has been indemnified internally against all obligations under this pension commitment due to contractual obligations entered into by a third party.

Other provisions

Of the reported amount of EUR 21,865 thousand (EUR 17,628 thousand), EUR 9,450 thousand (EUR 8,500 thousand) was attributable to profit-related employee remuneration and EUR 925 thousand (EUR 1,828 thousand) to loan loss provisions.

38. Subordinated liabilities

Total subordinated liabilities in the amount of EUR 83,000 thousand (EUR 83,000 thousand) can be broken down by maturity as follows.

Amount in EUR thou.	Currency	%	Maturity	Early repayment obligation
5,000	EUR	7.00	July 2, 2018	Not possible
2,000	EUR	7.00	July 3, 2018	Not possible
10,000	EUR	5.75	May 13, 2019	Not possible
10,000	EUR	6.10	May 27, 2019	Not possible
500	EUR	6.10	Dec. 9, 2021	Not possible
9,500	EUR	6.10	Dec. 9, 2021	Not possible
6,000	EUR	4.00	Oct. 13, 2025	Not possible
5,000	EUR	4.00	Oct. 13, 2025	Not possible
1,000	EUR	4.00	Oct. 12, 2026	Not possible
5,000	EUR	4.10	Oct. 12, 2027	Not possible
5,000	EUR	4.13	Dec. 13, 2027	Not possible
3,000	EUR	4.15	Dec. 13, 2028	Not possible
5,000	EUR	4.25	Oct. 12, 2029	Not possible
3,000	EUR	4.40	Oct. 15, 2030	Not possible
3,000	EUR	4.40	Oct. 15, 2030	Not possible
5,000	EUR	4.25	Nov. 4, 2030	Not possible
5,000	EUR	4.30	Nov. 11, 2030	Not possible

Interest expenses totaling EUR 4,206 thousand (EUR 2,721 thousand) were incurred for subordinated liabilities in the reporting period.

The terms and conditions for the subordinated liabilities comply with the provisions of Article 62 in conjunction with Article 63 of the CRR. No conversions into capital or another form of debt have been agreed.

39. Profit participation capital

The profit participation capital in the amount of EUR 10,000 thousand (EUR 10,000 thousand) consists of two registered profit participation rights. It complies with the requirements of Article 62 in conjunction with Article 63 of the CRR. Distributions on profit participation capital of EUR 775 thousand (EUR 775 thousand) were recognized under other liabilities in 2016.

40. Equity

In accordance with sections 20(1) and (4) of the AktG, M.M.Warburg & CO Gruppe GmbH informed us that it holds a majority interest in our Company.

Changes in subscribed capital

The fully paid-up subscribed capital of the Company is held in full by M.M.Warburg & CO Gruppe GmbH.

The subscribed capital is composed of 125,000 (125,000) no-par value registered shares. It was unchanged in comparison to the previous year and amounted to EUR 125,000 thousand.

Shares issued by M.M.Warburg & CO were not accepted as security, acquired, or disposed of either by the Company itself or by any of its affiliated companies.

No resolution to create authorized capital was passed in the fiscal year.

Changes in capital reserves

There was no change in the capital reserves as against the previous year.

Changes in revenue reserves

There was no change in the revenue reserves as against the previous year.

41. Hedge accounting

Hedges are used to mitigate exposure to market and counterparty credit risk.

Bonds with a notional value of EUR 2,250 thousand (EUR 9,250 thousand) and 195 (583) index options, plus corresponding liabilities, were accounted for as a macro hedge. The underlying transaction expires in 2017. The hedge protects against interest rate risk and equity price risk. Negative changes in the fair value of the hedged items are offset by positive changes in the fair value of the hedging instruments.

The hedges are tested for effectiveness prospectively and retrospectively using the critical terms match method, under which the critical terms of the hedged item and the hedging instrument attributable to the hedged risk are compared. If they match, it can be assumed that the changes in fair value attributable to the hedged risk will offset over the entire remaining term or the designated term of the transactions.

42. Liabilities denominated in foreign currencies

Liabilities denominated in foreign currency amount to EUR 674,781 thousand (EUR 704,903 thousand).

43. Collateral pledged

At the reporting date, securities in the amount of EUR 462,820 thousand (EUR 97,385 thousand) had been deposited as collateral for transactions on derivatives exchanges, for securities lending transactions, and for liabilities to other banks.

Liabilities to other banks resulting from pass-through funds in the amount of EUR 73,330 thousand were assigned a corresponding volume of assets as collateral. In addition, securities in the nominal amount of EUR 1,000 thousand were pledged in relation to partial retirement obligations. The figures for the previous year are zero due to the mergers.

Cash collateral of EUR 77,980 thousand (EUR 56,590 thousand) was furnished for OTC derivatives transactions.

44. Contingent liabilities and other commitments

Contingent liabilities include other guarantees amounting to EUR 28,453 thousand (EUR 30,559 thousand). Irrevocable loan commitments amounting to EUR 164,465 thousand (EUR 225,824 thousand) are disclosed as other commitments.

The risk of loss from the settlement of contingent liabilities is mitigated by the recourse opportunities existing against the client concerned and is thus limited essentially to the client's credit risk.

Before entering into a binding commitment, the Bank estimates the risk that settlement of a contingent liability or a claim under an irrevocable loan commitment or a placement or underwriting commitment will result in a loss. This is done in the course of its credit assessment of the client or, if appropriate, on the basis of an assessment of the expected settlement of the underlying obligations by the client concerned.

Additionally, the Bank regularly assesses during the term of its commitments whether losses can be expected from the settlement of contingent liabilities, from placement and underwriting commitments, or from irrevocable loan commitments.

NOTES TO THE INCOME STATEMENT

45. Interest income from derivatives in the banking book

Interest income includes the following interest income from derivatives entered into for hedging purposes.

Derivatives in the banking book	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Interest income	11,456	26,701

46. Services

In the past year, the Bank performed services for third parties, particularly in the areas of securities brokerage, securities custody, custodian bank functions, asset administration and management, corporate finance, the brokerage of OTC debt instruments, fund units and equity investments in companies, and the management of fiduciary assets.

47. Income by geographical market

The Bank does not have any sales offices outside Germany.

48. Other operating income

Other operating income in the amount of EUR 55,374 thousand (EUR 23,759 thousand) includes income from real estate sales totaling EUR 44,381 thousand (EUR 0 thousand), income from the operation of maritime vessels of EUR 3,546 thousand (EUR 13,809 thousand), and income from agency activities of EUR 2,057 thousand (EUR 5,921 thousand). Provisions not relating to credit risks were reversed in the amount of EUR 1,314 thousand (EUR 413 thousand).

49. Interest expenses from derivatives in the banking book

Interest expenses include the following interest expenses from derivatives entered into for hedging purposes.

Derivatives in the banking book	Dec. 31, 2016 EUR thou.	Dec. 31, 2015 EUR thou.
Interest income	16,634	19,876

50. Other operating expenses

Other operating expenses in the amount of EUR 11,838 thousand (EUR 11,038 thousand) include expenses of EUR 6,511 thousand arising from the operation of maritime vessels (EUR 5,439 thousand). The expense from the unwinding of discounts on provisions amounted to EUR 1,477 thousand (EUR 953 thousand).

51. Extraordinary expenses

Extraordinary expenses in the fiscal year amounted to EUR 21,738 thousand (EUR 0 thousand) and related to the loss resulting from the merger of four banking subsidiaries with M.M.Warburg & CO.

52. Profit transferred under profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements

The residual annual profit of EUR 7,031 thousand (EUR 23,332 thousand) reported will be transferred to M.M.Warburg & CO Gruppe GmbH. In the previous year, this item also included distributions of EUR 721 thousand relating to a silent partnership interest that was repaid in 2015.

OTHER DISCLOSURES

53. Other financial commitments

In accordance with section 5(10) of the statutes of the Einlagensicherungsfonds (Deposit Protection Fund), we have undertaken to indemnify the Bundesverband deutscher Banken e.V., Berlin, for any losses it may incur arising from measures taken on behalf of any banks in which we own a majority interest.

Long-term leases for land and buildings used by the Bank resulted in annual rental payments of EUR 5,716 thousand (EUR 507 thousand). EUR 930 thousand of this figure is attributable to buildings that had already been leased by the former subsidiaries at the time of their merger with the Bank. Rent increases had been agreed in the case of some of the leased properties starting in 2022. The resulting additional annual payment obligations amount to EUR 212 thousand.

As in the previous year, there were no call obligations as of December 31, 2016.

An interest guarantee has been provided for an issue by M.M.Warburg & CO Luxembourg S.A.

54. Derivative financial instruments

As of the balance sheet date, the Bank had entered into:

· Interest rate derivatives such as swaps, caps, and floors
· Foreign currency derivatives, and in particular currency forwards, commitments from currency options written, and currency options
· Stock options

A significant proportion of the derivative transactions were entered into to hedge against interest rate, exchange rate, or market price fluctuations. A number of transactions were also entered into for trading purposes.

Derivative financial instruments not recognized at fair value

The following table shows interest rate derivatives that were not allocated to the trading portfolio and not generally recognized at fair value.

	2016			2015		
EUR thou.	Notional values	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Interest rate swaps	1,423,449	30,021	43,870	1,444,331	36,000	46,969
Forward interest rate swaps (OTC)	6,200	151	147	30,700	551	523
Floors (OTC)	390	0	7	780	9	7
Caps (OTC)	250	0	0	780	1	1
Total	1,430,289	30,172	44,024	1,476,591	36,561	47,500

As in the previous year, there were no foreign currency and equity/index derivatives required to be disclosed under section 285 no. 19 of the HGB.

Derivatives allocated to the non-trading book are executory contracts and are therefore not recognized as a matter of principle.

Trading transactions

The following table shows derivative financial instruments that were recognized at fair value as trading transactions.

	2016			2015		
EUR thou.	Notional values*	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Currency-related transactions						
Currency forwards	4,024,930	98,121	83,485	3,603,903	109,833	56,676
Currency options	322,275	2,548	1,721	2,252,143	10,679	16,701
Equity/index transactions						
Equity index futures	46	0	5	0	0	0
Total	4,347,251	100,669	85,211	5,856,046	120,512	73,377

* The stock options are given in units.

As in the previous year, there were no interest rate derivatives required to be disclosed under section 285 no. 20 of the HGB.

55. Employees

In fiscal year 2016, the Bank employed an average workforce of 734 (497). This figure can be broken down as follows:

	2016			2015
	Male	Female	Total	Total
Employees	408	313	721	487
Vocational trainees	10	3	13	10
Total	418	316	734	497

The increase in the headcount is largely due to the mergers (see note 2).

56. Shareholdings

Name and domicile of the company	Equity interest in %	Reporting currency	Equity in EUR thou.	Profit/loss in EUR thou.	
1. Affiliated companies					
Belgravia GmbH, Berlin	100.00	EUR	21	-1	*
Lederwerke Wieman GmbH, Hamburg	100.00	EUR	3,071	PLTA	
M.M.Warburg & CO Hypothekenbank AG, Hamburg	60.01	EUR	91,066	5,184	
M.M.Warburg & CO Luxembourg S.A., Luxembourg	100.00	EUR	36,344	3,583	
M.M.Warburg Bank (Schweiz) AG, Zurich	100.00	EUR	20,624	-697	
Marcard Family Office Treuhand GmbH, Hamburg	100.00	EUR	78	28	
MARCARD, STEIN & CO AG, Hamburg	100.00	EUR	12,052	PLTA	
METRACO Verwaltungsgesellschaft S.A., Luxembourg	100.00	CHF	507	47	
Metropolitan Trading Corp. S.A., Luxembourg	100.00	EUR	1,688	100	
MS "RHL Audacia" Schiffahrtsgesellschaft mbH, Hamburg	100.00	EUR	-1,442	-1,419	
MS "RHL Novare" Schiffahrtsgesellschaft mbH, Hamburg	100.00	EUR	-2,231	-1,516	
Nestor Investment Management S.A., Luxembourg	51.00	EUR	1,009	460	
New Bond Street GmbH, Berlin	100.00	EUR	24	2	*
Regent Street GmbH, Berlin	100.00	EUR	19	0	*
RHL Hamburger Lloyd Shipping Trust GmbH, Hamburg	100.00	EUR	114	40	
RTF Verwaltungsgesellschaft mbH, Hamburg	100.00	EUR	33	-1	*
W&Z FinTech GmbH, Hamburg	75.00	EUR	241	-359	
Warburg Invest Kapitalanlagegesellschaft mbH, Hamburg	100.00	EUR	7,184	1,537	
Warburg Invest Luxembourg S.A., Luxembourg	100.00	EUR	6,417	1,039	
Warburg Research GmbH, Hamburg	100.00	EUR	2,307	753	
2. Equity investments					
An der Börse 7 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	17	-8	
Börse Düsseldorf AG, Düsseldorf	1.33	EUR	52,747	–	*
BPE Fund Investors II G.m.b.H., Hamburg	1.00	EUR	47,001	10,629	*
BPE Institutional Partners G.m.b.H., Hamburg	0.80	EUR	10,923	3,144	*
CredaRate Solutions GmbH, Cologne	12.88	EUR	2,689	484	*
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt	10.00	EUR	4,446	747	*
Equita GmbH & Co. Holding KGaA, Bad Homburg	2.94	EUR	278,233	58,774	
Euroclear Public Limited Company, London	0.48	EUR	1,613,389	227,172	
Ferdinandstraße 75 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	8	-17	
GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft mbH & Co. KG, Grünwald	5.00	EUR	35,000	1,550	*
H.F.S. Immobilienfonds 16 KG, Munich	1.11	EUR	66,598	6,196	*
HIH Global Immobilien GmbH & Co Erste Neuseeland KG, Hamburg	18.13	EUR	36,971	1,464	*
Liebigstraße 6 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	16	-9	
Lloyd Fonds Britische Kapital Leben III. GmbH & Co. KG, Innsbruck	0.16	EUR	20,314	3,111	*
Marmorsaal im Weißenburgpark GmbH, Stuttgart	24.00	EUR	–	–	
Quint:Essence Capital S.A., Munsbach/Luxembourg	20.00	EUR	199	6	
Society for Worldwide Interbank Financial Telecommunication S.C.R.L. (SWIFT)	0.09	EUR	–	–	
Steyler Bank GmbH, Sankt Augustin	2.00	EUR	13,326	501	*
Warburg-HIH Invest Real Estate GmbH, Hamburg	10.00	EUR	6,466	4,657	*

* Equity and profit/loss for fiscal year 2015

Currency translation rate used: EUR/CHF 1.0739

In accordance with section 286(3) no. 1 of the HGB, the information in accordance with section 285 no. 11 of the HGB has not been provided for equity interests of less than 20% and carrying amounts of less than EUR 25 thousand for reasons of insignificance.

57. Executive Bodies

General Partners

M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft, Hamburg, which is represented (unchanged) by

Joachim Olearius
Back Office – Spokesman for the Executive Board

Dr. Henneke Lütgerath
Back Office – Member of the Executive Board

Eckhard Fiene
Front Office – Member of the Executive Board

Dr. Peter Rentrop-Schmid
Front Office – Member of the Executive Board

As of the balance sheet date, loans and advances totaling EUR 2,000 thousand (EUR 2,000 thousand) had been granted to members of the senior management. No contingent liabilities had been assumed on behalf of these persons.

Members of the senior management received EUR 2,128 thousand (EUR 2,042 thousand) for fiscal year 2016. EUR 370 thousand (EUR 1,435 thousand) was recognized as an expense for profit-related distributions due for payment after the adoption of the annual financial statements.

Shareholders' Committee

Dr. Christian Olearius, Chairman
Banker

Max Warburg, Deputy Chairman
Banker

Dr. Bernd Thiemann
Management Consultant

Prof. Burkhard Schwenker
Management Consultant

No loans and advances had been granted to members of the Shareholders' Committee at the year-end, as in the previous year. No contingent liabilities had been assumed on behalf of these persons.

The total remuneration for the Shareholders' Committee in the fiscal year amounted to EUR 77 thousand (EUR 56 thousand).

Supervisory Board

Dr. Christian Olearius, Chairman
Banker

Max Warburg, Deputy Chairman
Banker

Dr. Bernd Thiemann
Management Consultant

No loans and advances had been granted to members of the Supervisory Board at the year-end, as in the previous year. No contingent liabilities had been assumed on behalf of these persons.

The total remuneration for the Supervisory Board in the fiscal year amounted to EUR 107 thousand (EUR 107 thousand).

58. Offices held as of December 31, 2016

Joachim Olearius
- President of the Board of Directors, M.M.Warburg Bank (Schweiz) AG, Zurich
- Chairman of the Supervisory Board, M.M.Warburg & CO Luxembourg S.A., Luxembourg
- Chairman of the Supervisory Board, Warburg Invest Kapitalanlagegesellschaft mbH, Hamburg
- Member of the Supervisory Board, MARCARD, STEIN & CO AG, Hamburg
- Member of the Supervisory Board, KanAm Grund Kapitalanlagegesellschaft mbH, Frankfurt

Dr. Henneke Lütgerath
- Chairman of the Supervisory Board, Sievers Grundbesitz AG, Hamburg
- Member of the Supervisory Board, Bucerius Law School gGmbH, Hamburg
- Member of the Advisory Board, EIS Einlagensicherungsbank des Privaten Bankgewerbes, Berlin
- Member of the Advisory Board, CredaRate Solutions GmbH, Cologne

Dr. Peter Rentrop-Schmid
- Chairman of the Supervisory Board, Warburg Invest Luxembourg S.A., Luxembourg
- Deputy Chairman of the Supervisory Board, Warburg Invest Kapitalanlagegesellschaft mbH, Hamburg
- Deputy Chairman of the Supervisory Board, IntReal International Real Estate Kapital-Verwaltungs Gesellschaft mbH, Hamburg
- Chairman of the Supervisory Board, GBK Beteiligungen AG, Hanover
- Deputy Chairman of the Supervisory Board, GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft mbH & Co. KG, Grünwald
- Member of the Advisory Board, Hannover Finanz GmbH, Hanover
- Member of the Advisory Board, HF Fonds VII Unternehmensbeteiligungs GmbH, Hanover

Dr. Jens Kruse
- Member of the Supervisory Board, Biesterfeld AG, Hamburg
- Member of the Supervisory Board, M.A.X. Automation AG, Düsseldorf

Thomas Schult
- Member of the Supervisory Board, Lang & Schwarz Aktiengesellschaft, Düsseldorf

Dominik Wilcken
- Member of the Supervisory Board, M.M.Warburg & CO Luxembourg S.A., Luxembourg

59. Consolidated financial statements

M.M.Warburg & CO Gruppe GmbH, Hamburg, prepares exempting consolidated financial statements and a group management report in accordance with the HGB that include M.M.Warburg & CO (AG & Co.) KGaA and that are published in the Bundesanzeiger (German Federal Gazette).

60. Auditors' fees

Disclosures on the auditors' fees in accordance with section 285 no. 17 of the HGB are included in the notes to the consolidated financial statements.

61. Appropriation of net retained profits

Under the control and profit and loss transfer agreement with our sole limited partner, M.M.Warburg & CO Gruppe GmbH, which was entered into on December 5, 2007, with the predecessor company, the Bank has undertaken to transfer its annual profit to M.M.Warburg & CO Gruppe GmbH.

A proposal will be made to the General Meeting that the net retained profits in the amount of EUR 27 thousand (EUR 27 thousand) be carried forward to new account.

62. Report on post-balance sheet date events

There were no significant events after the end of the reporting period.

Hamburg, March 28, 2017

M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

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