M.M.WARBURG & CO

BANK

Annual Report 2017

Performance at a Glance

Warburg Group

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

in EUR million	2017	2016
Net income before taxes	17.4	29.7
Net interest income	49.2	56.4
Net fee and commission income	175.1	161.0
Administrative expenses (including depreciation, amortization, and writedowns)	229.8	213.5
Total assets	7,385.0	8,398.7
Business volume	7,425.7	8,431.6
Own funds	469.3	423.7

Bank

in EUR million	2017	2016
Net income before taxes	27.0	7.2
Net interest income	37.7	45.9
Net fee and commission income	94.0	87.3
Administrative expenses (including depreciation, amortization, and writedowns)	145.5	131.4
Total assets	5,424.2	5,109.2
Business volume	5,463.7	5,137.6
Own funds	384.8	346.2

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*	
Dr. Henneke Lütgerath *Chairman of the Board of the Joachim Herz Stiftung*	*from January 1, 2018*

PARTNERS

Joachim Olearius	*– Spokesman –*
Dr. Henneke Lütgerath	*until December 31, 2017*
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

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

Branches

BRANCH MANAGERS

Hanover:	Nicolas Hoppe
Berlin:	Daniel Bresser
	Heinrich Wittig
Bremen:	Tobias Klemptner
Stuttgart:	Marcus Ebert

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 Plechtasch-Waterstradt
	Volkwin Seltmann
Bremen:	Rüdiger Steinfarz
Stuttgart:	Gerhard Baumeister
	Richard Dreher
	Manfred Hölldorfer
	Wolfgang Raich
	Daniela Richardson-Gertz

Report of the Partners

Report of the Partners

The start of 2017 was clouded by uncertainty: Which of his conflicting campaign promises would the designated President of the United States of America actually implement? How would the elections in the Netherlands and France in the spring of the year and the federal German elections in the fall play out, and how would the political situation in Europe with its increasingly Eurosceptic movements develop as a result? Equally, what challenges would the forthcoming Brexit negotiations between the EU and the British government bring? Confounding widespread misgivings, the German economy grew for the eighth year in a row, the business cycle remained stable for the third year running, industrial capacity utilization was strong, and the labor market saw a record level of employment. Inflation stayed moderate despite the booming economy and the ultraloose money supply. The only way for the stock markets was up, with all stock exchanges closing in positive territory.

Mission and Strategy

Formed in 1798, M.M.Warburg & CO is now in its 220th fiscal year and is one of the few remaining independent private banks with a deep knowledge of the German middle market. It offers its clients, who include high net worth individuals and corporate and institutional clients, a comprehensive range of advice and services in its Investment Banking, Private Banking, and Asset Management divisions.

The Bank is managed by three partners as of the new fiscal year. Dr. Henneke Lütgerath stepped down as a partner and became a member of the Shareholders' Committee as of January 1, 2018.

The Bank's closely-held ownership structure demonstrates not only its long tradition but also its independence, stability, and responsibility and allows it to react quickly to market conditions and to develop intelligent, risk-conscious, leading-edge solutions that are tailored to customers' individual needs. The focus is not on short-term gains but on stable performance that creates long-term value.

In the past 12 months, the Bank again had to meet a large number of European and German regulations and to implement them in its business operations. Thanks to the extremely hard work and dedication of many members of staff, Warburg Bank successfully complied with all requirements, and in particular those relating to MiFID II, PSD II, EMIR, the European Union's 4th Anti-money Laundering Directive, the new Wire Transfer Regulation, the introduction of legal entity identifiers (LEIs), and the revised Investmentsteuergesetz (InvStG – German Investment Tax Act), on time, without resorting to the large-scale use of external consultants.

Faced with a continuing and challenging mix of low interest rates, intense regulatory activity, and earnings targets, banks need to critically review and enhance their business models, and adapt them to the new situation, on an ongoing basis. Banks that have traditionally relied for their income primarily on the interest rate business have to find new sources of earnings and need to cut their costs.

Warburg Bank has successfully finished integrating its four former banking subsidiaries – Bankhaus Hallbaum AG, Bankhaus Carl F. Plump & CO AG, Bankhaus Löbbecke AG, and Schwäbische Bank AG – as branches, a process it started in 2016. A large number of workflows were optimized and synergies leveraged. This also involved cutting back-office positions in the branches. Despite this, all locations continued to offer the range of services associated with a universal bank. In addition, the goal is integrate the offerings and support provided by the branches more closely with our investment and financing product specialists' expertise.

The two specialist subsidiaries MARCARD, STEIN & CO AG (family office) and M.M.Warburg Hypothekenbank AG (real estate finance) round off this business area.

As of the end of the year, Warburg Bank continued its strategic streamlining process by discontinuing the activities of its subsidiary M.M.Warburg Bank (Schweiz) AG as a private banking unit. The company is currently being wound up. Its classic private client business was sold to St. Galler Kantonalbank AG. The Warburg Group's family office unit in Switzerland, PCP Private Client Partners AG, assumed responsibility for the larger family fortunes and selected asset management mandates. This means that the Warburg Group is still represented in Switzerland by an entity with a full banking license.

At the same time, the strategic realignment of its asset management activities was continued.

As of the year-end, Warburg Bank sold its two Luxembourg subsidiaries, M.M.Warburg & CO Luxembourg S.A. and WARBURG INVEST LUXEMBOURG S.A., to Apex Group Ltd. and at the same time agreed a partnership with Apex for the services based in Luxembourg.

Following these sales, the Warburg Group's future growth will focus on the German market. Administrative activities are being reduced in favor of portfolio management. This also allows the Bank to streamline the increasing complexity of the supervisory requirements associated with cross-border activities and means it is only active in a single jurisdiction and subject to a single supervisory regime.

M.M.Warburg & CO Gruppe GmbH

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

Warburg Bank

Banking subsidiaries	MARCARD, STEIN & CO AG M.M.Warburg & CO Hypothekenbank AG M.M.Warburg & CO Luxembourg S.A.
Asset management companies	WARBURG INVEST KAPITALANLAGE-GESELLSCHAFT MBH WARBURG INVEST LUXEMBOURG S.A.

The Warburg Group

To compensate, an agreement was signed as part of the Bank's growth and focus strategy for Germany to purchase a majority interest in NORD/LB Asset Management; going forward, the latter will form part of the new WARBURG INVEST operations alongside WARBURG INVEST KAPITALANLAGEGESELLSCHAFT mbH. The new company will enhance the Bank's asset management and servicing solutions offering, and further extend the use in future of forward-looking strategies such as liquid alternatives and quantitative approaches.

The Warburg Navigator was launched in the third quarter of 2017 in order to satisfy clients' growing demand for digital banking solutions. This platform – one of the first German robo-advisors – was developed together with Elinvar, the Berlin-based fintech company, and combines standard non-predictive mathematical models with the fundamental expertise offered by Bank's asset managers. The result is an individual investment strategy for client assets of EUR 20,000 or more. Work is now progressing on optimizing the model to produce highly customized portfolios. The Navigator and the OWNLY family office app form part of Warburg Bank's digital strategy.

As from the second quarter of 2018, Warburg Bank will be given a new logo and the Warburg brand name will be added at the start of all unit names. This will reinforce the fact that the individual entities belong to the Warburg Group and hence increase transparency for clients.

Business Performance

Consolidated total assets for the companies held by M.M.Warburg & CO Gruppe GmbH amounted to EUR 7.4 billion as of the December 31, 2017, reporting date (previous year: EUR 8.4 billion). The decline was due to the deconsolidation of M.M.Warburg Bank (Schweiz) AG and of the Luxembourg companies previously belonging to the Group. Warburg Bank's total assets increased from EUR 5.1 billion to EUR 5.4 billion, due to the activities involved in winding up a portfolio of trust assets.

The Group's total capital ratio rose significantly from 11.6% in the previous period to 13.1%. The core capital ratio improved from 8.9% to 10.3%, while Group equity amounted to EUR 365.1 million (previous year: EUR 372.7 million). Own funds, which also include Tier 2 capital, totaled EUR 469.3 million as of the reporting date (previous year: EUR 423.7 million). As a result, the M.M.Warburg & CO Group comfortably meets all supervisory capital requirements.

Net fee and commission income rose again in the reporting period, amounting to EUR 175.1 million after EUR 161.0 million in the previous year. Fee and commission income is derived from several sources, reflecting the Bank's broad business base. Bond Sales and Private Banking are the primary drivers of fee and commission income. The Equities and Equity Capital Markets units also turned in a strong performance hand in hand with Warburg Research. Equally, Asset Management performed encouragingly, although the volume of assets under management fell from EUR 54.1 billion to EUR 39.3 billion, due above all to the sale of the Luxembourg business. Total assets held in custody also fell against the same backdrop, declining from EUR 41.3 billion to EUR 21.2 billion.

The ongoing low interest rate environment continued to impact the Group's net interest income. The figure declined year-on-year from EUR 56.4 million to EUR 49.2 million. This negative trend in net interest income was partially offset by passing through negative interest rates for deposits to institutional and corporate clients.

Net trading income performed satisfactorily, rising from EUR 8.8 million in the previous year to EUR 10.5 million.

The cost trend was unsatisfactory, due among other things to organizational changes within the Group. As a result, the Bank did not meet its target cost/income ratio overall.

Consolidated net income for the year amounted to EUR 10.0 million compared with EUR 22.2 million in the previous year. One-time factors associated with the sale of the Luxembourg units and a provision for operational risks were key items affecting earnings.

Net loan loss provisions declined substantially year-on-year. The remaining provisions primarily related to the shipping loans business.

At the level of Warburg Bank, net income for the reporting period improved substantially year-on-year to EUR 27.0 million (EUR 7.0 million). This also allowed us to achieve a return on equity that is roughly in line with our expectations.

Operational Risk

In the course of fiscal 2017 and at the start of the new calendar year, tendentious reports by individual media outlets published conjectures and speculations that the Bank was involved in performing share transactions in 2008 around the relevant dividend record dates. In the years between 2006 and 2011, proprietary share transactions were executed via a domestic custodian bank around the time that the dividend payments were made. In this connection, the public prosecutor in Cologne has been investigating senior managers and employees of M.M.Warburg & CO since 2016 on the grounds of an initial suspicion of tax evasion. As part of this investigation, the latter company's business premises were also searched, among other things. M.M.Warburg & CO is cooperating in full with the public prosecutor and the tax investigators. The public prosecutor in Cologne has interviewed the company as a potential accessory in accordance with sections 30 and 46(1) of the Ordnungswidrigkeitengesetz (OWiG – Administrative Offenses Act). In 2017, the competent domestic (tax) authorities revoked the tax offset notice for M.M.Warburg & CO Gruppe GmbH for 2010. An appeal has been lodged against the decree and the application that was made to stay its execution was granted.

Whether and under what circumstances taxes can be credited or refunded for certain transactions executed around the relevant dividend record dates is still largely open. The associated legal questions regarding the tax treatment of such transactions have only been decided in part by the German fiscal courts to date. On April 16, 2014, the Federal Fiscal Court (BFH) issued a ruling in a case relating to a specifically structured share acquisition transaction around the dividend record date. In this concrete case, the BFH ruled that in certain circumstances the acquiror should not be regarded as the beneficial owner, and hence was not entitled to have the investment income tax credited. However it did not answer a large number of other questions.

Senior management is convinced that its tax treatment of the transactions complies with the legal requirements and that it is in keeping with tax law. Since the investigations in this case have not yet been concluded, it is still theoretically possible that the company could be confronted in this context in particular with tax, liability, and interest rate payment claims, as well as with penalties, fines, the confiscation of profits, or other consequences. Cases relating to the years up to 2009 are now time-barred. As the consolidated tax group parent, M.M.Warburg & CO's parent company, M.M.Warburg & CO Gruppe GmbH, recognized a provision for operational risks that covers in full the tax and interest receivables for 2010 and 2011 that are not time-barred.

Corporate Citizenship

In 2017, Warburg Bank and the foundation associated with it, the Warburg-Melchior-Olearius-Stiftung, continued their support and sponsorship for social, academic, and cultural goals.

The classical languages program designed to preserve and promote interest in learning Ancient Greek and Latin at schools in northern Germany, which was launched nearly ten years ago by the Warburg-Melchior-Olearius-Stiftung, is now well established and regularly used. Equally, significant support is still being provided for restoring historically important antique books at two schools teaching the classics in Hamburg.

In addition to a large number of relatively small social and academic projects, the focus of the Bank's activities was on cultural sponsorship. The beneficiaries were the Elbphilharmonie concert hall – Hamburg's new landmark – and in particular the reconstruction of Berlin's City Palace.

For the fourth year in a row, Warburg Bank invited employees and their families to an Advent carol service in one of Hamburg's main churches. The Bank matched the amount raised in the collection and donated it to the *Seitenwechsel* project run by a Hamburg charity.

Algorithmen fürs Gemeinwohl ("Algorithms for the Public Good") is the title of the 19th publication to appear in the *Beobachtungen zur Zeit* series, which is enclosed with the printed German version of this report. Dr. Tobias Knobloch, who heads the project of the same name at Stiftung Neue Verantwortung e. V. – an independent think tank that develops concrete ideas for German politics in order to shape the process of technological change in society, the economy, and the state – addresses the discussions about technology and explores the evolutionary development, potential, and future impact on the public good of the irreversible process of automation.

Outlook

Germany's economy has remained remarkably stable in an increasingly difficult international environment. Equally, there are currently few signs that this trend could be reversed in the near future. On the contrary: Consumers and enterprises were in high spirits at the beginning of the year, despite the tortuous process of forming a government. Forecasts suggest that the global economy will continue to gain momentum this year, and that 2018 will be another successive year of growth. Despite the positive fundamental data, however, stock exchanges came under pressure in the first quarter.

The earnings pressure on banks will continue unchanged as long as the ECB maintains its low interest rate policy and regulatory activity remains intense. Implementing MiFID II represents a challenge in the Bank's advisory business for both private and institutional clients – and, as desired by lawmakers, is resulting in a paternalistic approach to them. In addition, young start-ups – fintechs – are crowding onto the market and developing a wide range of digital financial services. These are undoubtedly triggering a burst of innovation in the sector. However, it is still difficult at present for banks and clients to tell what services offer long-term added value for personal finance – a topic where security and trust remain the top priority. Warburg Bank's sound financial standing and long track record will remain in demand in this modern environment as well.

One of the key challenges facing Asset Management will be to identify those companies that will be among the winners of the ongoing process of technological transformation. For clients, this means that new markets and new sectors will both emerge and disappear more and more quickly. An active approach to these changes is needed. Warburg Bank's goal is to be a reliable and innovative partner at all times, and it can continue to build on a stable foundation in its 220th year of business.

New technology is also becoming more and more important for traditional banks. Although ongoing regulatory and earnings pressure has put the main focus on safeguarding and optimizing existing operations, Warburg Bank is aware that it is essential to push forward with implementing its systematic digital transformation process if it is to remain competitive and fit for the future. The high up-front costs will be offset by savings and improved profitability.

As in previous years, the satisfaction of all its clients is the Bank's number one priority and the focus of its business activities in the search to find the best solutions together in a spirit of trust and cooperation.

Hamburg, April 25, 2018

Joachim Olearius
Eckhard Fiene
Dr. Peter Rentrop-Schmid

Overview of the Warburg Group

Overview of the Warburg Group

ECONOMIC ENVIRONMENT

Although the global upturn has been under way for a long time now, economic momentum both in industrialized countries and in emerging economies surprised on the upside in the course of 2017. Both regions saw a clear improvement in macroeconomic conditions, resulting in the first globally synchronous upswing in the world economy for some time. Although, at 3.7%, the expected growth rate for 2017 is still lower than the level before the crisis in 2008, the increasingly broad-based nature of the recovery is a particularly positive factor. Prospects for growth in all three major emerging market regions – Asia, Latin America, and Eastern Europe – have improved significantly. Exports have recovered especially well, but the growth in industrial output has also picked up again. However, it is not just the emerging markets that are benefiting from the cyclical upturn in the global economy – the industrialized nations are, too. As expected, the U. S. economy grew at a faster rate in 2017. Real economic output climbed by 2.3% in 2017, up from 1.5% in 2016. The U.S.A. is profiting from the ongoing strong, steady growth in household consumption, although investments and exports also picked up speed in the course of the year.

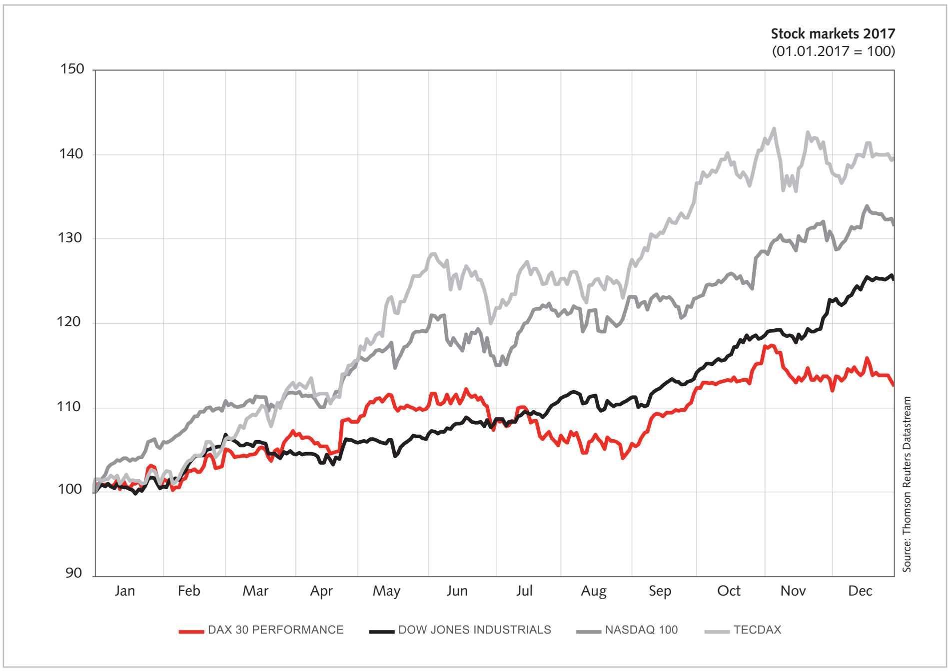
In the eurozone as well, the economic recovery is now being felt by all countries. Even former crisis-hit countries such as Greece or Portugal are now generating positive headlines. The same goes for the long-term "problem children," France and Italy. To date, the upturn has mainly been export-driven, although investments have also increased on the back of low interest rates and an upbeat business outlook. The economic recovery in the eurozone is still not as far advanced as in the U.S.A. Last year, the area succeeded in slightly outstripping the U.S.A. for the second year in a row, with economic growth of 2.5%. The German economy recorded an impressive growth rate in 2017, once again making it one of the eurozone's key economic powerhouses. The seasonally and calendar-adjusted growth rate is expected to be 2.6%. Domestic demand was the key growth driver, since consumption by both private households and the public sector has increased significantly. In addition, investments in equipment and in buildings are recording positive growth rates.

Last year was the first year in a long time in which monetary policy in the industrialized nations did not ease even further. As announced, the Federal Reserve has pursued its policy of gradual interest rate rises, lifting key rates in three installments to 1.25–1.5%. The Bank of England also raised its key rate for the first time in a decade in November, from 0.25% to 0.5%. In addition, the Fed started shortening its balance sheet in October 2017, although it is taking an extremely cautious approach. Meanwhile, the ECB maintained its extremely expansionary monetary policy last year, but announced in October that it would cut its securities purchases in the period between January 2018 and at least September 2018 from EUR 60 billion to EUR 30 billion. It left the date for ending the purchase program open, although this is not expected to stop abruptly in the fall of 2018. The ECB reaffirmed its forward guidance that interest rates are unlikely to rise until well after bond purchases have been discontinued.

The global inflation rate is still extremely low, despite the positive economic situation at present. Given this strong economic momentum and – at least in the U.S.A. and Germany – the extremely low jobless rate (which will probably decline even further), a faster rise in wages and hence in inflation would normally be expected. Studies suggest that the relative weak growth in wages is due to the fact that older workers earning relatively high salaries are retiring and being replaced by younger ones earning less. In addition, globalization, technical advances, and potential temporary factors are playing an important role. The decisive question for monetary policy is whether the historical link between changes in unemployment rates and changes in wages is permanently broken, or whether this is merely a temporary phenomenon.

Shares got off to a much better start to the year in 2017 than in 2016: Whereas early 2016 was a real washout on the international stock markets, most exchanges recorded gains right from the beginning of 2017. The strong stock market performance was due above all to the extremely positive, stable global economy. The self-perpetuating, accelerating global upturn fueled corporate profits worldwide, leading to a remarkable increase in earnings momentum in many regions. Global corporate earnings rose by approximately 20% in 2017 compared with 2016, after six years of declining profit growth and frequent profit warnings. The saying that "political bull markets don't last long" proved true once again last year. Surprising and often unsettling developments occurred on an almost monthly basis – from the headlines about Donald Trump, the conflict between the U.S.A. and North Korea, the French presidential elections, separatist aspirations in Catalonia, or Germany's difficulties in forming a new government. Yet none of these headlines actually had a negative impact on the capital markets in the long term. Overall, the eurozone saw clear price gains in 2017 as a whole (DAX: 12.5%, MDAX: 18.1%, Euro Stoxx 50: 13.4%, all measured using the total return index). The Dow Jones (28.1%) and the broad-based S&P 500 (21.8%) outstripped the strong performance in Europe in local currency. However, expressed in euros the percentages are much more moderate (12.5% and 7.0% respectively), due to the sharp depreciation of the U.S. dollar over the course of the year.

Yields for ten-year Bunds rose from approximately 0.2% at the start of the year to around 0.4% at its close. Against this backdrop, the prices of German government bonds declined across almost all maturities (two years: –0.9%; five years: –0.9%; ten years: +0.2%). Overall, the prices of eurozone government bonds have also eased slightly since the start of 2017. The losses were particularly pronounced in those markets that investors traditionally seek out as safe havens, i.e., in Germany, Austria, and the Netherlands. By contrast, U.S. bonds performed significantly better, although due to the weakness of the U.S. dollar this only applied in local currency. The euro rose by 13.8% overall against the U.S. dollar.


Stock markets 2017
(01.01.2017 = 100)
150
140
130
120
110
100
90
Jan
Feb
Mar
Apr
May
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Jul
Aug
Sep
Oct
Nov
Dec
DAX 30 PERFORMANCE
DOW JONES INDUSTRIALS
NASDAQ 100
TECDAX
Source: Thomson Reuters Datastream

THE WARBURG GROUP

M.M.Warburg & CO Gruppe GmbH is the Group parent and holds 100 % of the shares of Warburg Bank. Changes in the competitive environment and ongoing regulatory requirements made a regular critical review of the Group's organizational focus vital. In keeping with this, the classic private client business performed by the Group's Zurich-based subsidiary was sold. Larger family fortunes and selected asset management mandates were transferred to PCP Private Client Partners AG, another Group company. At the end of the year, the two Luxembourg-based units were also sold.

Warburg Bank is represented outside Hamburg by its four branches and three offices. Following the restructuring measures that were implemented in the reporting period, Warburg Bank holds shares in its banking subsidiaries MARCARD, STEIN & CO AG and M.M.Warburg Hypothekenbank AG. Its equity interests in asset management companies WARBURG INVEST Deutschland GmbH and, going forward, NORD/LB Asset Management AG form the basis for its asset management business.

In addition to asset management, the Warburg Group is active in the areas of investment banking (including the lending business) and private banking. Its two remaining banking subsidiaries supplement its offering by providing family office services and real estate financing.

The Warburg Group's business is built on our unchanging values, which are shared by our employees. Tradition and progress go hand in hand to form a fruitful mix. Our private shareholder structure – which has been constant for generations – demonstrates the responsibility, continuity, and independence with which we conduct our business. This foundation offers a high degree of flexibility with which to ensure long-term value creation and stable business development. The Warburg Group aims to develop customized, intelligent, sustainably successful answers for clients and business partners, even in the case of complex financial sector issues.

The Warburg Group's Business Areas

INVESTMENT BANKING

Warburg Bank's Investment Banking division supports business owners and decision-makers who want to shape the future by providing them with customized financing solutions.

In line with this, the lending strategy for 2017 focused on tailor-made financing for companies, institutional clients, and private individuals expecting a high level of quality. The lending business is supplemented by a wide range of services, from payments settlement and securities transactions through needs-driven cooperation with Corporate Finance down to depositary functions.

Total loans to clients (excluding banks) were almost on a par with the previous year.

Relationship Management Corporate Clients continued to focus on three areas: trade finance, services for business owners, and support for funds and asset management companies in the real estate sector. Credit lines in the traditional trade business remained constant, while the number of loans extended to business owners and their families increased moderately. We intend to expand our provision of situational loans to this client group – e. g., in the context of changes in shareholder structures – in the future. In addition, ongoing strong demand for real estate investments led to a further rise in the volume of business by the funds and asset management companies active in this segment. As a result, the volume of short-term acquisition loans and currency hedges provided also increased.

Relationship Management

Extended services for shipping industry clients

The shipping markets recovered slightly last year. M.M.Warburg & CO provides shipping groups and investors with conservative shipping loans for selected financing transactions, reinforcing the Bank's interest in long-term partnerships with its clients. It is systematically expanding its services business for shipping industry clients both within Germany and abroad. The decision to extend the support traditionally provided to German shipping groups to foreign (largely European) clients can be seen as a success. The "Warburg" brand has raised its international profile within a very short period of time. Market players are increasingly understanding that the Bank – in contrast to competitors – is not shedding shipping industry clients but instead is continuing to expand its offering, especially in the services and consulting areas. In 2017, it deepened its ties with the commercial shipping sector even further, winning a large number of new clients both at home and abroad. In particular, clients are increasingly taking advantage of its smooth international payments settlement and currency trading services, while both longstanding and new customers are making more frequent use in their day-to-day business of the personal support offered by our experienced staff.

Strict guidelines for credit quality checks and balanced portfolio risk diversification ensure that individual lending risks are mitigated. Our loan loss provisions for corporate and private client loans performed well. By contrast, the continuing difficulties in the shipping sector meant that additional restructuring and workout measures had to be implemented in the shipping loans business in 2017. Appropriate loan loss provisions were recognized for discernible risks, although it proved possible to reduce these considerably in comparison to the previous year.

The fact that capital requirements will continue to rise in the future will set narrow limits to growth in the lending business. Nevertheless, there is still enough room to maneuver to be able to leverage opportunities that fit the Warburg Bank's risk profile.

Relationship Management Banks manages cooperation with third-party institutions and groups. Partnerships are based on longstanding, close direct ties with financial institutions. A vigilant market watch avoids negative developments at third-party institutions and country risk from impacting Warburg Bank.

Going forward, we shall continue to use any opportunities that present themselves to expand our cooperation with banks, while naturally always taking political changes into account. This also applied and applies to Warburg Bank's historically good links to institutions with an Iranian background. However, attempts to turn these contacts into more durable cooperative relationships following the suspension of the economic and financial sanctions against Iran, which were originally imposed by the U.S.A. and the EU as a result of the nuclear dispute, continue to be seriously impeded by the remaining legal uncertainties.

Corporate Finance

Warburg Bank clients trust the professionalism and in-depth research skills of an independent bank

Corporate Finance's strong performance in the last fiscal year confirms the trust placed in its services by our clients. The team, which comprises 25 employees in Hamburg and Munich, successfully executed 29 transactions and advisory mandates in the fiscal year.

In the **M&A Advisory** segment, 2017 saw the sales of GPS Oil Tools Oilfield Equipments & Services GmbH and its fellow group company, GOT German Oil Tools GmbH, to National Oilwell Varco Inc., and Rhenus SE & Co. KG's acquisition of an interest in ARKON Shipping GmbH & Co. KG, among other things. In the real estate sector, Schloss Lüdersburg – a complex comprising a hotel and a golf course – was sold, while venture capital activities included organizing a financing round for, and selling existing shareholdings in, Vitabook GmbH. This last area is becoming increasingly important. M&A activities in the fiscal year also included high-profile long-term projects, which are scheduled for completion in the first quarter of 2018.

The **Equity Capital Markets** team acted as the lead manager and book runner for capital increases by DataGroup SE, Nanogate AG, Medios AG, Softing AG, Sporttotal AG, InVision AG, Singulus AG, and Fabasoft AG, once again demonstrating Warburg Bank's ability to place shares in the small and mid-cap segment. The unit assisted aap Implantate AG, Holiday-Check AG, and Elmos Semiconductor AG in implementing public share buyback offers. It advised the governing bodies of SinnerSchrader AG in its response to the latter's planned takeover by Accenture Digital Holdings GmbH and issued a fairness opinion. Other fairness opinions were issued for the acquisition of the shares held by Allianz Deutschland AG in Oldenburgische Landesbank AG, and the takeover of BHS tabletop AG. In addition to these mandates, the Equity Capital Markets team generated income from the technical settlement of transactions and from other service mandates.

Debt and Mezzanine Markets activities in 2017 focused on bond placements, with the team acting as joint book runner for BayWa AG, Hapag-Lloyd AG, and Prokon Regenerative Energien e. G., and as co-manager for Otto GmbH & Co KG. The unit also advised Stratec Biomedical AG and GoodMills Deutschland GmbH on their corporate finance transactions. Hotel construction finance for Munich LBS 160 S.a.r.l. was structured in the form of a promissory note loan and placed with DAK Gesundheit.

Starting in 2017, a system of qualified Corporate Finance contacts was set up at the Bank's locations in Stuttgart, Frankfurt, Cologne, Berlin, Bremen, and Hanover to handle projected growth. This will raise the business area's profile throughout Germany.

Sales and Trading

Sales and Trading bundles the Bank's specialist expertise in the areas of equities, bond, and currency trading and deploys it in clients' interests.

Currency and Interest Rate Advisory Services

The Currency and Interest Rate Advisory Services and Proprietary Trading departments once again made a significant contribution to overall net trading income in 2017. The euro profited from the changing political and financial policy environment, reaching three-year highs against almost all major currencies. Our Proprietary Trading unit, which adopted trend-following strategies, participated in this performance. The Currency and Interest Rate Advisory Services unit generated an extremely good result, especially by providing institutional clients with classic hedging products. New clients from the shipping sector broadened the customer base.

Bonds

Bonds unit repeats last year's successful placement activity

Despite the ongoing low-yield period on the European bond markets in 2017, the Bonds unit managed to repeat the successes it scored with placements in recent years. This strong performance is based on its close, professional relationships with institutional clients. The unit further expanded its client business in the field of classic registered bonds, including restructurings, from its existing high level. Successful placements of bond transactions by the Bank and its participation in what continued to be an extremely lively level of new issues business for international issuers rounded off a strong year in this area in 2017.

Equities

Awards underscore precision of analysts' estimates and high-quality advice

The Equities area, which combines the equity research performed by the Bank's subsidiary, Warburg Research GmbH, and support services for institutional equity investors (Institutional Sales Equities), was able to enhance its profile last year by developing innovative research products and strengthening its client relationships. Warburg Research's top stock picks clearly outperformed the market in 2017, a very good year for shares overall. As in previous years, the Sales team's clear focus on German equities and the high quality of the advice it provided won it further awards from independent institutions. The Sales team further improved its ranking in the key Extel survey, which it had already bettered in 2016, while Warburg Research again received a number of awards for the precision of its analysts' estimates and the accuracy of their recommendations.

Clear increase in capital market transactions underlines strong track record in securities placement

M.M.Warburg & CO substantially increased the number and total volume of the capital market transactions for which it provided support in 2017, underlining the team's ability to place shares. The Equities unit's in-depth services for large, medium-sized, and smaller institutional investors and family offices alike enabled it to support capital increases and sales of existing shareholdings, particularly for German small- and mid-caps, efficiently and with a high degree of success.

Institutional Sales Equities

Institutional Sales Equities recorded another dynamic performance in 2017. The unit and its employees enjoy an excellent reputation among target clients (institutional investors in Europe, the U.S.A., and Australia).

It increased its clear focus on German equities by ramping up its marketing activities, devoting several hundred days in total to roadshows with company board members and analysts alike. Independent surveys confirm its successful positioning. In addition, the unit hosted the eighth "Warburg Highlights" conference in Hamburg, a number of "German Small-Cap Selection" events in Frankfurt, and the fourth "Meet the Future" function in Berlin. As well as providing purely advisory services, the Institutional Sales Equities unit successfully participated in numerous transactions.

Warburg Research GmbH

Over 200 individual securities covered. Highly accurate top stock picks.

2017 was one of the most successful years for Warburg Research GmbH since it was founded in 1996. The strong Equity Capital Markets (ECM) business made a substantial contribution to earnings. The positive performance was flanked by another increase in the number of German stock corporations covered and in an increase in analyst and corporate roadshows. Two new regular publications – "Warburg Best Ideas" and "Warburg Monthly Stock Tracker" – further raised awareness and the transparency of this market-leading research product, which covers more than 200 stocks in Germany. The companies featured outperformed the already extremely positive market environment to a remarkable extent.

MiFID II will bring radical structural change to the role of intermediaries between investors and enterprises. Warburg Research GmbH is well positioned to deal with this forthcoming transformation and to win market share, thanks to the combination of its broad coverage of the German equities market from small caps to the DAX and the high quality that investors appreciate. Warburg Research is a highly regarded specialist for German equities. This is documented by the feedback received from institutional investors, who in view of MiFID II form the basis for the company's future success.

PRIVATE BANKING

Clients want to invest their assets securely and for the long term. Warburg Bank's range of advisory and other offerings permits a detailed analysis of all the factors involved in complex fortunes. Combined with a personalized service that is tailored to fit investors' current private situations and that can flexibly handle change, they are used to develop individual solutions for long-term success that also incorporate sound risk management. Foundations, whose top priority is to preserve their capital for the long term, also benefit from this experience and expertise.

In the 2017 reporting period, Private Banking substantially increased the number of mandates and volumes of client assets entrusted to it, both in the investment advisory area and in asset management. Questions on how to structure and increase assets, as well as how to preserve them under difficult market conditions, led to an increased need on the part of both actual and prospective clients for advice on well-founded, risk-adjusted investment opportunities. Numerous client events on a range of topics met with an enthusiastic response. The "Warburg Banking School" gave young people their first introduction to specialist topics such as real estate, the capital markets, and investment banking.

In Private Banking, Warburg Bank has consciously decided to expand its range of investment advisory services as well as its asset management offering, even though – or precisely because – the substantial regulatory requirements are making providing advisory services more and more complex. The fact that other market players are withdrawing from this area, coupled with the Bank's expansion of its own expertise in the form of its new Advisory Office, will give it a strong competitive advantage in this business area.

Investment Advisory Services

Investment advice is a key part of Warburg Bank's offering for its private clients, and one that is provided at all locations. Implementing the MiFID II requirements is impacting profitability in this area and has resulted in a large number of competitors discontinuing their advisory activities. Warburg Bank has not only made a commitment to continue this service offering, but is expanding it by bundling its competencies and resources: Going forward, the launch of its Advisory Office will provide a client-centric investment universe that will raise the profile of our investment advisory services and clearly enhance the quality of the investment suggestions made. These measures will enable Private Banking not only to implement all supervisory requirements in an exemplary manner but also to produce a higher-quality product for clients that is also more profitable for the Bank.

Asset Management

For Warburg Bank's Asset Management, 2017 can be seen as an extremely successful fiscal year, since it grew its client assets under management significantly. The increase in volume is due on the one hand to the strong performance of the various investment strategies adopted, and on the other to a clear rise in the number of clients served as a result of the acquisition drive by Private Banking and Asset Management Sales.

The capital markets were dominated by political developments in the past fiscal year, with the focus on equities and equity funds, and on spread products in the area of fixed-income products, leading to an above-average performance. The results clearly outperformed all benchmarks. Investment strategies with a heavier strategic focus on equities did particularly well. Given strong global economic development, the availability of cheap finance for enterprises and continued moderate share valuations, the portfolio management team maintained its strong equities weighting throughout the year despite the (geo)political uncertainties, a move that allowed it to participate in the strong performance by the international stock markets. In the fixed-income securities area, too, assets appreciated due to a focus on classic corporate bonds, supplemented by the addition of special hybrid and convertible bonds.

Equity Investments

Prices on the commercial and residential real estate markets have reached record heights. As in 2016, the unit was able to privately place an office complex in Hamburg in the reporting period, generating an extremely good result for investors. Equity investments in commercial properties in downtown Berlin and Munich were offered to clients for the first time. The successful investments in affordable new housing in major cities were continued and were expanded for the first time to include the buoyant real estate market in Vienna.

The shipping business, which is now in its tenth year of crisis, only saw an upturn in isolated areas. The global economic upswing, especially in the emerging markets, should lead in the medium term to a general recovery in charter rates.

In the Private Equity business, clients subscribed for a new fund that invests primarily in German companies active in the areas of clean tech, automation, and new materials such as lithium storage systems.

Last but not least, professional private investors were able for the first time to acquire equity investments in a loan fund that is invested in a number of diversified loan portfolios.

ASSET MANAGEMENT

Asset Management Sales serves as both a sales and a client support unit for institutional clients, and additional staff were again recruited for this area in 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. The income was generated in roughly equal amounts with new and existing clients. In addition to WARBURG INVEST's focus on special and retail funds, sales of alternative strategies by the Group's asset management companies have almost doubled over the course of three years.

WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH

WARBURG INVEST wins four gold awards in Telos satisfaction study – for product quality, risk management, European bond performance, and the product offering

Inflows of funds from existing client relationships was an important growth driver for WARBURG INVEST. In addition, the partnership with Warburg Bank's sales unit proved increasingly successful. This led to the acquisition both of new clients and of mandates with potential for development.

The total volume of investments under management and the number of mandates at WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH rose by roughly 20% to EUR 8.9 billion (previous year: EUR 7.4 billion). These amounts are spread across 142 portfolios (previous year 126). There were 87 retail funds at the end of the year (previous year: 69) and 29 special AIFs (previous year: 26). The volume of retail fund assets amounted to EUR 3.5 billion as of the year-end (previous year: EUR 2.3 billion), while the volume of special AIF assets was EUR 3.8 billion (previous year: EUR 3.6 billion). Taken together, the two types of fund assets account for around 83% (previous year: 80%) of all funds under management. The remaining funds are attributable to discretionary mandates. Investment management concepts that comply with strict sustainability criteria are another area that recorded a significant increase in volume, rising to more than EUR 1.0 billion as of the end of the year.

WARBURG INVEST is well equipped to meet investor expectations and to be an attractive provider of individual mandate solutions for its sophisticated target client base thanks to its expertise in asset management and in multi-asset, equity, value preservation, overlay, and sustainability products. The extension of its expertise to global interest rate markets is a strategic move designed to appropriately address an end to the period of low interest rates in Europe. In addition, volatility strategies and enhancements to total return strategies are an excellent way of supplementing classic income from long-only investments.

WARBURG INVEST LUXEMBOURG S.A.

Volume under management reaches all-time high after strong growth

The core services provided by Luxembourg-based asset management company WARBURG INVEST LUXEMBOURG S.A. comprise launching, structuring, and managing Luxembourg retail and special funds, and offering centralized administration services for the full range of regulated Luxembourg fund structures. In addition, the company serves as the back office for all mandates held by its German fellow group company, WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH. The company generated strong growth in the volumes under management in almost all areas in 2017. The alternative investments segment again recorded the highest growth, rising by 39% to EUR 15.0 billion (previous year: EUR 10.8 billion). Both new mandates, which contributed existing direct investments by the initiators, and additions of capital to mandates that were already in the portfolio were responsible for this. The traditional securities fund segment was also expanded very successfully, despite the extremely difficult market environment. The volume administered in the area for the Group company in Germany rose by more than 20% to EUR 8.9 billion (previous year: EUR 7.4 billion), while that for Luxembourg retail funds rose by 13% to EUR 2.6 billion (previous year: EUR 2.3 billion). In those cases in which investors changed their asset allocations in favor of direct investments in light of the investment tax reform, minor cash outflows from the securities special funds were seen overall. Total volumes under management rose by just under 28% as at the year-end to a historic high of EUR 28.1 billion (previous year: EUR 22.0 billion).

As in previous years, the company was kept busy implementing a large number of regulatory requirements. The focus was on the reform of the investment tax regime in Germany and the implementation of MiFID II and the new PRIIPS information documents, all of which had to be in place by the beginning of 2018. In addition, a project was launched to implement the General Data Protection Regulation, which has to be completed by May 2018.

WARBURG DIGITAL

Warburg Bank's two digital platforms represent its first steps towards combining clients' increasing interest in personalized support with technological progress.

Warburg Navigator

In summer 2017, after roughly six months of preparation, the Warburg Navigator entered its test phase, and in the fall it was officially released for use with external clients. This innovative digital asset management platform was developed in cooperation with the Berlin-based fintech company Elinvar. All asset management expertise and services are provided by Warburg Bank's Asset Management area and its Investment Council, whereas Elinvar is responsible for parts of the technical format. The Bank developed its own digital platform in reaction to the changes taking place in the field of asset management; at the same time, the move enables it to contribute its extensive experience in this business area. What is more, the offering permits Warburg to react to changes in client behavior: More and more, clients want to combine personal support and in-depth advice with transparency, understanding, and autonomy. Digital offerings allow the Bank to meet this need. For example, clients using the Warburg Navigator can set their own goals and targets, and specify their yield requirements and risk appetite, using a sophisticated online questionnaire. A client-specific strategy is then drawn up and implemented on the basis of this information. Clients can monitor how their investments are doing at any time and from anywhere. In contrast to conventional robo-advisor offerings, the Warburg Navigator is not solely powered by algorithms. Rather, qualitative assessments have been incorporated into the investment process and at no point can automatic mechanisms lead to changes being made to client portfolios by default, without being checked. In the current version of the product, the portfolios are based on ETFs and active funds covering a total of 24 markets. We plan to successively expand the platform's offering and in the future to also offer semi-institutional solutions based on portfolios of individual securities. In addition, the Warburg Navigator represents an important business innovation for classic asset management, since it incorporates digitized processes such as automatic order routing and real-time reporting plus online access. These abilities will be important for improving efficiency in classic asset management going forward as well. In addition, the Bank acquired useful online marketing expertise during the market launch of the Warburg Navigator that is extremely relevant for other areas of its operations. Clients reacted extremely positively to the digital offering.

W&Z FinTech GmbH

2017 was the first full year of operation for the family office app OWNLY, which was developed and is operated by W&Z FinTech. As of the reporting date, it was already aggregating more than EUR 450 million of "assets under information" using its mobile and asset reporting services. OWNLY allows users to view and analyze their assets – real estate, cash, securities accounts, and other investments – and to access selected capital market information and financial products. Real estate can be valued in just a few clicks with the help of a market data vendor.

EUR 450 million of "assets under information"

Report on the Banking Subsidiaries

MARCARD, STEIN & CO AG

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

Family office MARCARD, STEIN & CO provides end-to-end strategic and operational services across all asset classes for large family fortunes and ultra high net worth individuals.

Its team of 67 expert, discreet staff develops asset strategies offering enhanced protection against life risks, including promoting cohesion among, and unanimous action by, families and asset holders.

Thanks to its banking license, MARCARD, STEIN & CO plays a special role in the heterogeneous family office market. The family office bank is subject to the full range of supervisory and regulatory requirements, ensuring the highest possible process quality and security for its clients. In the year under review, the bank again used this strategic advantage to maintain its quality leadership and expand its market position.

2017 was a successful fiscal year for the family office bank. The operational Family Office business area mainly advised clients on how to invest liquid assets. Clients continue to value this investment class, not least because of the associated transparency and flexibility. In the area of asset administration, which aims to ensure long-term capital preservation, the goal was to combat the significant weakness of the U.S. dollar and the slight rise in interest rates that is now being seen.

The Real estate asset management concept – which offers a 360 degree perspective, an unusually detailed level of knowledge and a broad investment universe – had another record year

One of the strategic Family Office's core business areas is real estate portfolio and asset management. This manages clients' directly and indirectly held real estate assets. It succeeded in buying and selling directly held commercial and residential real estate worth more than EUR 100 million euros, despite an extremely tight transaction environment. Acquisitions focused on what are known as "value investments" – i.e. undervalued real estate that is in need of optimization and is situated in good locations in category A cities – as well as on hotels with long leases located in sound category B cities and on forward deals (the acquisition of new residential development projects). The broad range of investments handled and the bank's in-depth knowledge of the real estate sector proved an advantage in attracting both new family office clients and separate real estate asset management clients.

The bank's "real estate asset management" concept is a benchmark for the family office segment. It is in high demand from clients and prospects and is increasingly well known in the market as a whole, thanks among other things to a number of presentations and publications by staff members. In line with this, additional staff were again recruited for the real estate team.

The Bank works closely with clients on equity investments

In the past fiscal year, MARCARD, STEIN & CO expanded the ongoing strategic support it provides to clients for existing direct equity investments in Germany and abroad. Among other things, this included implementing transparent reporting and acting as a sparring partner for management in successful enhancements to portfolio companies. Additionally, special projects coordinated the implementation of key strategic projects, such as a carve-out, financing transactions, and preparations for sales. The bank substantially expanded its examination of new direct entrepreneurial investments.

As regards indirect equity investments, MARCARD, STEIN & CO's goal remains to provide access for clients to strategically well-founded opportunities offering attractive institutional investment terms. However, the new regulatory hurdles that came into force at the start of the new year have again made these ambitions substantially more difficult to achieve – especially for families, who are not professional investors. With respect to new investments, the bank succeeded in the course of the year in establishing private debt as a non-liquid alternative asset class to opportunity-focused bond investments; this was put into practice with a large allocation to a broadly diversified portfolio.

M.M.WARBURG & CO HYPOTHEKENBANK AG

Stable business performance in 2017

M.M.Warburg & CO Hypothekenbank AG remains focused on providing bespoke finance for multi-use commercial and residential real estate in Germany's metropolitan areas above and beyond the standardized mass-market business. Loans are extended for properties requiring management, such as hotels or social welfare facilities, in exceptional cases; the same policy also continues to apply to properties abroad. In most cases, as in the past, the loan-to-value ratios for the loans extended do not exceeded 60% of the properties serving as collateral. Loans are primarily refinanced using Pfandbriefe. The mortgage bank turned in a successful performance in fiscal year 2017.

At EUR 200 million, the bank's new real estate finance commitments (excluding loan extensions) were in line with its planning despite a clearly more challenging competitive environment; the traditionally conservative business strategy did not change. After adjustment for subparticipations that were passed on to other consortium members, the volume of new loans increased year-on-year. The bank selectively expanded its client base in co-operation with other Warburg Group companies. Total real estate loans rose slightly to EUR 1.676 billion at the end of the year due to the strong level of new business, despite further substantial early redemptions.

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.

At EUR 7.3 million, the mortgage bank's pre-tax profit was down roughly 10% on last year's extremely strong figure, although it was an encouraging 13% or so above budget. Warburg Bank holds 60% of the shares in Hypothekenbank. The Group works together closely with its co-shareholder – Landeskrankenhilfe V. V. a. G.(Lüneburg) – on the basis of a shared vision of the mortgage bank's strategy.

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

In Luxembourg, Warburg Bank focused in 2017 on providing custodian bank services for internationally diversified assets and on supporting institutional clients and external asset managers. Due to additional regulatory requirements, a decision was taken to discontinue the private clients business that was managed by the Luxembourg entity and to bundle these activities instead at the parent company. This sharper focus has brought clear benefits. 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 asset management companies, investment managers, asset managers, insurers, and pension funds valued the independence, flexibility, and experience of M.M.Warburg & CO Luxembourg, as well as the investments in the IT infrastructure made in the fiscal year. Warburg Bank in Luxembourg is one of the few custodian banks in the financial center whose systems can replicate practically all common asset classes as funds, both in the classic securities area and in the area of alternative investments, and that can provide custodian bank services for them. It is one of the market-leading custodians of private equity funds in the principality. In 2017, the bank continued to benefit from its proven expertise in alternative investments and as a result was able to participate in the growing demand for AIFM and RAIF fund structures. Demand for debt and real estate funds structures was particularly strong; although securities funds also recorded encouraging volume growth. In individual cases mandates were lost as a result of client-side restructuring.

The bank continued its investments in systems and employees, further reinforcing its position as an attractive and important alternative to the major international banks in the Luxembourg custodian bank business. This culminated in the purchase by Apex Group Ltd., an international fund administrator, of the activities of M.M.WARBURG & CO LUXEMBOURG and WARBURG INVEST LUXEMBOURG. Final closing of the deal is subject to the approval of the competent supervisory authorities.

Compliance Functions

WpHG compliance

The WpHG Compliance function is responsible for ensuring that statutory and supervisory provisions, and internal company and normal sector-specific standards, are complied with. This task is performed by the independent Compliance department, which reports directly to the Bank's senior management. It is responsible among other things for identifying, preventing, and managing conflicts of interest. In particular, Compliance serves to protect clients and investors. The department assesses the Bank's risk profile for existing WpHG compliance risks as part of its regular risk analysis. This includes the results of previous monitoring and supervisory activities by Compliance itself and by Internal Audit, plus the results of the audits by external auditors and all other relevant sources of information (e. g., insights from Complaints Management). MiFID II is resulting in additional monitoring and supervisory duties in the area of investor protection for the WpHG Compliance function. In the Compliance department's opinion, the principles, available resources, and procedures that have been introduced to comply with statutory obligations continue to be effective and appropriate.

MaRisk compliance

All banks must have a compliance function that mitigates the risks that can arise from failure to comply with the legal provisions and requirements. This MaRisk Compliance function, as it is known, must work to ensure the implementation of effective processes for complying with the material legal regulations and requirements applicable to the bank, and of appropriate checks.

Major legal regulations that had to be implemented in 2017, or whose implementation in January 2018 was prepared for, include the revised MiFID II/MiFIR and the PRIIP Regulation, which sets out the rules governing the preparation of basic information for packaged retail investment products. Other pieces of legislation requiring implementation were the revised PSD II Directive (payment services), the European Union's 4th Anti-money Laundering Directive, and capital adequacy and supervisory reporting standards. The new methodology for determining interest rate risk was also implemented. In October 2017, the finalized version of the new Mindestanforderungen an das Risikomanagement (MaRisk – Minimum Requirements for Risk Management) was published; this contains both changes and clarifications and will continue to be relevant in 2018 due to its implementation requirements.

The other item on the regulatory horizon that is becoming more important apart from the 5th amendment to the MaRisk is the EU's General Data Protection Regulation, which must have been implemented by May 25, 2018. In addition, the new capital adequacy assessment guidelines and liquidity reporting standards must be taken into account. We shall continue tracking the final version of the CRR II (Capital Requirement Regulation II) and of the CRD V (Capital Requirement Directive V) both during and beyond 2018; in this context, the implementation of the Basel IV provisions in particular will entail substantial time and effort.

Anti-money laundering

The Anti-money Laundering department – an independent unit that reports directly to the Bank's senior management – has the task of ensuring that money laundering, terrorist financing, and other criminal acts are prevented and combated throughout the Group. The department's main goal is to avoid all potential losses and damage to the Bank from money laundering, terrorist financing, and other criminal acts. The core instrument used by the department is a risk analysis; this documents the risk situation with regard to anti-money laundering, terrorist financing, and other criminal acts, and serves as the basis for developing a prevention policy that is specifically tailored to the Bank. Increasing regulatory requirements relating to anti-money laundering and preventing terrorist financing (including the Gesetz zur Umsetzung der 4. EU-Geldwäscherichtlinie – the German Act Implementing the European Union's Fourth Anti-money Laundering Directive and the Steuerumgehungsbekämpfungsgesetz – the German Act Combating Tax Evasion), as well as greater challenges in the area of fraud prevention require an end-to-end implementation strategy and the constant optimization of the Bank's prevention policy. The Anti-money Laundering Officer regards the measures taken by the Anti-money Laundering department during the reporting period to be appropriate and effective.

Data protection and IT security

IT security and risk management is now a focus of supervisory audits. The increasing digitization of business processes also means that IT security is highly important from an operational perspective. The Bank has based its IT security and IT risk management policy on the IT Baseline Protection Catalogs produced by the German Federal Office for Security in Information Technology (BSI) and has substantially increased its activities in this area by expanding its IT penetration tests and IT security audits, and by introducing an IT awareness program.

The General Data Protection Regulation replaces the 1995 Data Protection Directive 95/46/EC and comes into force on May 25, 2018. The new data protection legislation primarily updates the existing data protection principles and is designed to create a uniform legal framework for processing personal data in all EU member states. The duty of accountability to the supervisory authorities set out in the General Data Protection Regulation and the significant increase in the system of fines that can be levied means there is increased regulatory pressure to implement it properly. The Bank began its preparatory planning and the activities needed to ensure proper implementation in 2017.

Employees

Employees

For Warburg Bank's employees, 2017 saw substantial changes due to the consolidation of the back office areas at the four branch offices with those of the parent bank. The negotiations with the General Works Council on a human resources policy comprising a reconciliation of interests and redundancy plan were concluded in the middle of the year. The main instruments used were early retirement solutions and notices of dismissal combined with the offer of reemployment on different terms, allowing jobs to be preserved. The human resources policy was officially concluded at the end of 2017. As a result, jobs were cut at the branches in Berlin, Hanover, Bremen, and Stuttgart or were relocated to Hamburg. This led to the first reduction in Warburg Bank's headcount for decades. This trend will continue in 2018 due to departures that still have to happen.

Our good relationship with the works councils in the past year under difficult conditions showed that constructive solutions could be found together with the employer representatives.

Number of employees

	M.M.Warburg & CO	The Warburg Group
Dec. 31, 2015	512	1,201
Dec. 31, 2016	737	1,232
Dec. 31, 2017	721	1,250
Changes	–16	+18
Changes in %	–2.17	+1.46

The average age of M.M.Warburg & CO employees in 2017 was 45.18 years (previous year: 44.52 years). Thanks to our constant human resources policy, the employee age structure remains relatively balanced. According to the employers' association, the average age for staff in the private banking sector as a whole was 44.8 years in 2016 – in other words, it was at a comparable level. The average length of service of M.M.Warburg & CO staff was 12.86 years.

Employee age and length of service at M.M.Warburg & CO

	Average age in years	Average length of service in years
Dec. 31, 2015	43.73	11.12
Dec. 31, 2016	44.52	12.43
Dec. 31, 2017	45.18	12.86

The turnover rate increased to 7.92% in 2017 (previous year: 5.16%) due to the human resources measures taken. The turnover rate due to employee resignations remained comparatively low, at 3.28% (previous year: 3.26%).

Turnover rate at M.M.Warburg & CO

	Turnover rate (employee resignations)	Turnover rate (total)
Dec. 31, 2015	3.40%	4.80%
Dec. 31, 2016	3.26%	5.16%
Dec. 31, 2017	3.28%	7.92%

Illness-related absences rose slightly but continue to be extremely moderate compared to the industry as a whole and to other sectors. Further occupational health management measures designed to preserve and promote employees' health were taken in 2017; these included voluntary flu jabs and a wide range of company sports offerings.

Illness-related absences at M.M.Warburg & CO

	Illness-related absences	Illness-related absences excluding long-term illnesses
Dec. 31, 2015	5.17%	3.03%
Dec. 31, 2016	3.68%	2.84%
Dec. 31, 2017	4.46%	3.06%

In order to maintain human resources development as a whole and employees' professional expertise in particular at a high level, and to enhance them further, employees could choose between a large number of continuous professional development options, as in previous years. This offering met with wide approval. The annual needs analysis performed by the end-user departments resulted in a number of modifications. The number of web-based training modules designed to meet statutory training requirements was increasingly expanded. The challenge here was to meet both these obligations and employees' desire for high-quality, personal interaction and individual skills development.

Warburg Bank maintained its reputation as an attractive employer in 2017. A large number of replies to concrete job adverts and unsolicited applications alike were received.

The Bank recruits and develops young, talented employees in a variety of ways: It offers classic vocational training as bank clerks, student internships, and two-year management trainee programs for graduates of a number of disciplines in order to have high-quality staff available to take on positions of greater responsibility within the Group.

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 performed the tasks assigned to it by law and by the Articles of Association in full. The general partner, M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft, represented by its executive board, informed the Supervisory Board regularly and in a timely manner of the Bank's situation and performance and that of its subsidiaries. The members of the executive board of M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft are both the senior managers of and the partners in M.M.Warburg & CO (the "Partners").

In 2017, four joint meetings of the Supervisory Board and the Shareholders' Committee were held in which the Partners reported in detail on the course of business, the Company's position, issues relating to business and risk policy, and other important matters, and the Supervisory Board took decisions on the transactions presented to it that required its approval.

The Partners fulfilled their reporting obligations to the Supervisory Board in accordance with the Mindestanforderungen an das Risikomanagement (MaRisk – Minimum Requirements for Risk Management), the Mindestanforderungen an die Compliance-Funktion (MaComp – Minimum Requirements for Compliance), and the Aktiengesetz (AktG – German Stock Corporation Act), and in particular with section 90 of the AktG. Between meetings, the Spokesman for the Partners informed the Chairman of the Supervisory Board on an ongoing basis of major developments and decisions. Above and beyond this, the Partners informed all of the members of the Supervisory Board in all cases without delay of all important and unusual events that occurred during business operations. In addition to developments in the day-to-day business, the 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 2017 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 April 25, 2018. 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, 2017, 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 employees for their work in the past fiscal year.

Hamburg, April 25, 2018

The Supervisory Board
– *Chairman* –

Condensed Annual Financial Statements of

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

as of December 31, 2017

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

Balance Sheet as of December 31, 2017

Assets			EUR	EUR	EUR	Previous year EUR thou.
1. Cash reserve						
a) Cash-in-hand				4,112,949.01		3,818
b) Central bank balances				70,618,885.46		31,566
of which: with Deutsche Bundesbank	EUR	70,618,885.46				(31,566)
c) Postal giro balances				0.00		0
					74,731,834.47	
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				1,046,523,753.19		991,653
b) Other				148,944,241.90		285,051
					1,195,467,995.09	
4. Loans and advances to customers					1,534,746,551.97	1,666,797
of which: secured by mortgages	EUR	396,918,923.67				(398,765)
Public-sector loans	EUR	2,767,413.32				(77,444)
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		0
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	0.00				(0)
b) Bonds and notes						
ba) public-sector issuers			739,236,891.52			801,622
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	739,236,891.52				(801,622)
bb) other issuers			409,701,316.01	1,148,938,207.53		578,992
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	383,716,077.40				(541,623)
c) Own bonds and notes				0.00		0
at par	EUR	0.00				
					1,148,938,207.53	
6. Equities and other variable-rate securities					18,827,841.98	7,738
6a. Trading portfolio					52,522,613.19	107,410
7. Shares in other investees and investors					47,526,107.12	33,868
of which: in banks	EUR	18,348,958.55				(41)
of which: in financial services institutions	EUR	145,783.03				(146)
8. Shares in affiliated companies					66,239,775.30	145,334
of which: in banks	EUR	51,829,451.42				(117,250)
of which: in financial services institutions	EUR	0.00				(0)
9. Fiduciary assets					1,030,291,063.29	220,603
of which: fiduciary loans	EUR	542,130.85				(851)
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				2,072,145.00		
c) Goodwill				0.00		
d) Prepayments				0.00	2,072,145.00	3,158
12. Tangible fixed assets					104,441,654.02	121,826
13. Unpaid contributions to subscribed capital					0.00	0
of which: called	EUR	0.00				(0)
14. Other assets					147,221,892.17	108,899
15. Prepaid expenses					1,196,581.54	845
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		**5,424,224,262.67**	**5,109,180**

Equity and liabilities			EUR	EUR	EUR	Previous year EUR thou.
1. Liabilities to other banks						
a) Payable on demand				51,999,132.43		100,860
b) With agreed maturities or periods of notice				250,163,835.45		400,354
					302,162,967.88	
2. Liabilities to customers						
a) Savings deposits						
aa) with agreed periods of notice of three months			50,089,868.55			50,901
ab) with agreed periods of notice of more than three months			12,583,313.39	62,673,181.94		13,998
b) Other liabilities						
ba) payable on demand			2,661,144,453.26			2,911,724
bb) with agreed maturities or periods of notice			771,764,406.74	3,432,908,860.00		839,951
					3,495,582,041.94	
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					53,183,189.43	86,705
4. Fiduciary liabilities					1,030,291,063.29	220,603
of which: fiduciary loans	EUR	542,130.85				(851)
5. Other liabilities					61,897,296.63	49,315
6. Deferred income					956,102.98	1,176
6a. Deferred tax liabilities					0.00	0
7. Provisions						
a) Provisions for pensions and similar obligations				36,869,677.00		36,771
b) Provisions for taxes				0.00		0
c) Other provisions				22,756,014.54		21,865
					59,625,691.54	
8. (repealed)					0.00	0
9. Subordinated liabilities					130,500,000.00	83,000
10. Profit participation capital					10,000,000.00	10,000
of which: maturing in less than two years	EUR	10,000,000.00				(0)
11. Fund for general banking risks					4,999,245.58	6,930
of which: special reserve (HGB s. 340e)	EUR	3,149,245.58				(5,080)
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		**5,424,224,262.67**	**5,109,180**

	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	39,431,114.30		28,453
c) Liabilities from the granting of security for third-party liabilities	0.00	39,431,114.30	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	137,939,909.87	137,939,909.87	164,465

Income Statement for the Period January 1 to December 31, 2017

Expenses	EUR	EUR	EUR	Previous year EUR thou.
1. Interest expense		32,720,391.70		33,225
less positive interest		–5,531,709.29	27,188,682.41	–1,541
2. Fee and commission expense			9,556,370.50	7,656
3. Net trading expense			0.00	0
4. General and administrative expenses				
a) Personnel expenses				
aa) wages and salaries	65,030,359.54			62,225
ab) social security, post-employment, and other employee benefit expenses	11,210,356.12	76,240,715.66		9,533
of which: post-employment benefit expenses EUR 3,018,721.70				(1,494)
b) Other administrative expenses		48,859,137.86		45,184
			125,099,853.52	
5. Amortization and writedowns of intangible fixed assets and depreciation and writedowns of tangible fixed assets			20,425,941.88	14,472
6. Other operating expenses			12,397,581.55	11,837
7. Writedowns of and allowances on loans and advances and certain securities, and additions to loan loss provisions			2,829,102.88	24,775
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			0.00	862
11. (repealed)			0.00	0
12. Extraordinary expenses			0.00	21,738
13. Taxes on income			0.00	10
14. Other taxes not included in item 6			26,635.26	132
15. Profit transferred under profit pooling, profit transfer agreements, or partial profit transfer agreements			26,969,099.67	7,031
16. Net income for the year			0.00	0
Total expenses			**224,493,267.67**	**237,139**

Income	EUR	EUR	EUR	Previous year EUR thou.
1. Interest income from				
a) lending and money market operations	56,873,913.74			66,024
less negative interest	–6,179,642.63			–3,274
		50,694,271.11		
b) fixed-income securities and registered government debt	941,262.67			1,796
less negative interest	0.00			0
		941,262.67		
			51,635,533.78	
2. Current income from				
a) equities and other variable-rate securities		877,911.44		552
b) shares in other investees and investors		2,986,282.57		2,101
c) shares in affiliated companies		6,913,000.00		8,903
			10,777,194.01	
3. Income from profit pooling, profit transfer, or partial profit transfer agreements			2,429,570.28	2,340
4. Fee and commission income			103,602,866.63	94,917
5. Net trading income			9,761,032.97	8,298
6. Income from the reversal of writedowns of and allowances on loans and advances and certain securities, and from 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			31,582,501.52	108
9. Other operating income			14,704,568.48	55,374
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			**224,493,267.67**	**237,139**

	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 2017 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.

ACCOUNTING POLICIES

2. 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 7 and 10).

3. Securities

Bonds and other fixed-income securities and equities and other variable-rate securities intended to be held for the long term are accounted for as long-term financial assets. The option provided for under section 253(3) sentence 6 of the HGB is 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, and equities and other variable-rate securities, that are neither intended 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, as well as 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.

4. 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 Bank's 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. It is generally deducted from the assets reported in the trading portfolio.

In accordance with the provisions of section 340e(4) sentence 1 of the HGB, 10% of net trading income must be transferred to the "fund for general banking risks" special reserve in accordance with section 340g of the HGB. The special reserve may only be released under the conditions specified in section 340e(4) sentence 2 of the HGB. These include the option to reverse this item where it exceeds 50% of the average net trading income recorded for the last five years; this option was exercised in the past fiscal year. The sum released amounted to EUR 1,931 thousand (EUR 0 thousand).

5. Shares in other investees and investors, and shares in affiliated companies

Shares in other investees and 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.

6. Tangible and intangible fixed assets

Tangible fixed assets and purchased intangible fixed assets are carried at cost less depreciation or amortization, which is recognized ratably on a straight-line basis over the standard useful life. The underlying useful life of the individual assets is based on their 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.

7. 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.

8. Other assets

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

9. Liabilities

Liabilities are recognized at their settlement or nominal amount (see note 7).

10. 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.

11. 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 for the past seven fiscal years corresponding to their maturity, as calculated and published by the Deutsche Bundesbank.

12. Loan loss provisions

Loan loss provisions comprise valuation allowances and provisions for all identifiable credit and country risks and for inherent 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 inherent credit risks. They are calculated in line with the circular from the Federal Ministry of Finance dated January 10, 1994.

13. 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.

14. 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 this is not possible, 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 determining factors 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.

15. Measurement of interest-related transactions in the banking book (interest rate book) at net realizable value

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.

16. 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

17. Loans and advances to other banks

Balance sheet item 3a: Loans and advances to other banks	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
payable on demand	1,046,524	991,653
thereof to affiliated companies	1,492	4,016
thereof to other investees and investors	1,688	0

Balance sheet item 3b: Other loans and advances to other banks	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
with residual terms of		
a) up to three months	105,632	110,538
b) more than three months to one year	20,350	39,500
c) more than one year to five years	22,962	135,013
d) more than five years	0	0
Total:	148,944	285,051
thereof to affiliated companies	16,532	21,537
thereof subordinated	15,912	15,913

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

18. Loans and advances to customers

Balance sheet item 4: Other loans and advances to customers	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
with residual terms of		
a) up to three months	436,988	581,868
b) more than three months to one year	89,261	150,921
c) more than one year to five years	512,297	494,558
d) more than five years	496,201	439,450
Total:	1,534,747	1,666,797
thereof undated	238,241	241,424
thereof to affiliated companies	23,533	28,628
thereof to other investees and investors	11,616	11,600
thereof subordinated	22,695	0

The Bank's portfolio of shipping and marine loans, which is diversified by the type of ship involved, amounted to EUR 699.3 million (previous year: EUR 718.9 million), including open-ended committed credit lines to third parties.

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

19. Bonds and other fixed-income securities

Bonds and other fixed-income securities	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Due in the following year	361,497	296,241
Issued by affiliated companies	25,985	25,986
Listed	1,146,688	1,304,828
Unlisted	2,250	75,786
Subordinated	0	11,383

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, 2016 EUR thou.	Changes	Dec. 31, 2017 EUR thou.
Carrying amount	9,156	–6,906	2,250

20. Equities and other variable-rate securities

Equities and other variable-rate securities	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Subordinated	2,400	2,400
Listed	9,779	0
Marketable but unlisted	5,123	3,316

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, 2016 EUR thou.	Changes	Dec. 31, 2017 EUR thou.
Carrying amount	2,400	0	2,400

21. Trading portfolio assets

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

Trading portfolio Assets	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Other assets	199	659
Bonds and other fixed-income securities	43	578
Equities and other variable-rate securities	10,929	5,843
Derivative financial instruments	42,044	100,669
Total	53,215	107,749

A value-at-risk allowance of EUR 692 thousand (EUR 339 thousand) was deducted from the trading portfolio assets of EUR 53,215 thousand (EUR 107,749 thousand), resulting in a carrying amount of EUR 52,523 thousand (EUR 107,410 thousand).

22. Shares in other investees and investors, and shares in affiliated companies

As of December 31, 2017, M.M.Warburg & CO had no listed shares in other investees and investors or shares in affiliated companies. This also applied 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, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Balance sheet item 7	Shares in other investees and investors	27,808	8,371
Balance sheet item 8	Shares in affiliated companies	51,829	131,313

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

Balance sheet items		Dec. 31, 2016 EUR thou.	Changes EUR thou.	Dec. 31, 2017 EUR thou.
Balance sheet item 7	Shares in other investees and investors	33,868	13,658	47,526
Balance sheet item 8	Shares in affiliated companies	145,334	–79,094	66,240

The addition to the shares in other investees and investors mainly relates to M.M.Warburg Bank (Schweiz) AG, Zurich; this was previously disclosed under shares in affiliated companies and a corresponding amount was derecognized from that item. The other changes in the shares in affiliated companies are primarily based on the sales of

M.M.WARBURG & CO LUXEMBOURG S.A., Luxembourg, and WARBURG INVEST LUXEMBOURG S.A., Luxembourg.

23. Fiduciary assets

Item	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Loans and advances to other banks	0	0
Loans and advances to customers	542	851
Shares in other investees and investors	2,626	2,626
Other assets	1,027,123	217,126
Total	1,030,291	220,603
of which: fiduciary loans	542	851

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 Kapitalanlagegesetzbuch (KAGB – German Investment Code).

24. Intangible and tangible fixed assets

Statement of changes in fixed assets EUR thou.	Intangible fixed assets	Tangible fixed assets
Historical cost Jan. 1, 2017	**46,600**	**195,067**
Additions	1,125	3,255
Disposals	10,003	16,132
Transfers	0	0
Exchange rate changes	0	–3,720
Historical cost Dec. 31, 2017	**37,722**	**178,470**
Cumulative depreciation, amortization, and writedowns as of Jan. 1, 2017	**43,442**	**73,240**
Additions	2,211	18,215
Disposals	10,003	16,132
Exchange rate changes	0	–1,295
Cumulative depreciation, amortization, and writedowns as of Dec. 31, 2017	**35,650**	**74,028**
Carrying amounts on Dec. 31, 2017	**2,072**	**104,442**
Carrying amounts on Dec. 31, 2016	**3,158**	**121,827**

Owner-occupied land and buildings were recognized as of the reporting date in the carrying amount of EUR 5,443 thousand (EUR 5,584 thousand).

Three container ships and one bulk freighter were recognized in the amount of EUR 85,726 thousand (EUR 103,773 thousand). The vessels are operated on behalf of the Bank by a third party with experience of the business. EUR 8,845 thousand (EUR 7,400 thousand) relates to operating and office equipment.

There were no payments on account attributable to assets and assets under construction as of the reporting date (EUR 1,039 thousand). In the previous year, EUR 459 thousand was attributable to intangible fixed assets and EUR 580 thousand to tangible fixed assets.

25. Other assets

Other assets include collateral relating to executory contracts in the amount of EUR 26,400 thousand (EUR 77,980 thousand) and current tax receivables in the amount of EUR 2,099 thousand (EUR 2,331 thousand). Receivables relating to allocation account balances due from affiliated companies and other investees and investors amounted to EUR 9,524 thousand (EUR 11,631 thousand). The remaining amounts disclosed here primarily relate to purchase price receivables and receivables for services rendered but not yet invoiced.

26. Prepaid expenses

Prepaid expenses within the meaning of section 250(3) of the HGB amounted to EUR 34 thousand (EUR 51 thousand). The prepaid expenses in accordance with section 340e(2) of the HGB reported under this item amounted to EUR 6 thousand (EUR 120 thousand).

27. Reclassifications

As in the previous year, there were no reclassifications in fiscal year 2017.

28. Assets denominated in foreign currencies

Total assets denominated in foreign currencies amounted to EUR 634,277 thousand (EUR 666,546 thousand).

29. Liabilities to other banks

Balance sheet item 1a: Liabilities to other banks	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Payable on demand	51,999	100,860
thereof to affiliated companies	26,438	88,684
thereof to other investees and investors	3,081	942

Balance sheet item 1b: Liabilities to other banks	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
With residual terms of		
a) up to three months	153,072	170,041
b) more than three months to one year	37,947	163,171
c) more than one year to five years	26,882	28,999
d) more than five years	32,263	38,143
Total:	250,164	400,354
thereof to affiliated companies	729	322,100
thereof to other investees and investors	9,173	0

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

30. 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, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
With residual terms of		
a) up to three months	1,521	1,365
b) more than three months to one year	8,516	9,809
c) more than one year to five years	2,523	2,795
d) more than five years	23	29
Total:	12,583	13,998

Balance sheet items 2b, 2ba Liabilities to customers	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Payable on demand	2,661,144	2,911,724
thereof to affiliated companies	110,369	72,156
thereof to other investees and investors	21,665	24,094

Balance sheet items 2b, 2bb: Other liabilities to customers	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
With residual terms of		
a) up to three months	264,735	348,966
b) more than three months to one year	339,095	285,569
c) more than one year to five years	62,934	70,416
d) more than five years	105,000	135,000
Total:	771,764	839,951
thereof to affiliated companies	5,125	6,625
thereof to other investees and investors	0	0

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

31. Trading portfolio liabilities

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

Trading portfolio Liabilities	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Liabilities	1,268	1,493
Derivative financial instruments	51,915	85,212
Total	53,183	86,705

32. Fiduciary liabilities

Item	Dec. 31, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Liabilities to other banks	542	851
Liabilities to customers	0	0
Other liabilities	1,029,749	219,752
Total	1,030,291	220,603
of which: fiduciary loans	542	851

The changes were primarily due to duties of surrender under section 100(2) of the KAGB resulting from the takeover of investment funds (see note 23).

33. Other liabilities

Other liabilities include collateral received amounting to EUR 15,284 thousand (EUR 24,227 thousand), and liabilities to the German tax authorities of EUR 6,802 thousand (EUR 5,101 thousand). In addition, this item contains the net income for the reporting period of EUR 26,969 thousand (EUR 7,031 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 5,030 thousand (EUR 1,508 thousand). The other liabilities item also includes the distribution on the profit participation capital for 2017 (see note 37). In the previous year, this item contained liabilities of EUR 2,255 thousand relating to structured products; the underlying transaction expired in 2017.

34. Deferred income

This item includes deferred fees similar to interest expenses in the lending business that were paid at the start of the term in the amount of EUR 799 thousand (EUR 986 thousand); deferred income in accordance with section 340e(2) of the HGB amounted to EUR 27 thousand (EUR 44 thousand).

35. Provisions

The principal assumptions applied as of December 31, 2017, are as follows:

Discount rate p. a.	3.68%
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	2.18%

In the case of provisions for pensions and similar obligations, the difference between the carrying amount of the provisions using the average market rate for the past ten fiscal years and the average market rate for the past seven fiscal years must be calculated in each fiscal year (section 253(6) sentence 1 of the HGB). The resulting difference of EUR 3,361 thousand (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 pension commitments meeting the requirements of section 246(2) sentence 2 of the HGB, the pension provisions were offset against the fair value of the plan assets disclosed. 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 209 thousand; previous year: EUR 203 thousand). The cost of the plan assets was EUR 115 thousand (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. A pension trend of 1.00% was assumed for the calculations. The present value of the obligations amounted to EUR 269 thousand (EUR 283 thousand). The difference between the two settlement amounts was EUR 6 thousand (EUR 6 thousand). The Bank has been indemnified internally against all obligations under this pension commitment as a result of contractual obligations entered into by a third party.

Other provisions

Of the reported amount of EUR 22,756 thousand (EUR 21,865 thousand), EUR 9,111 thousand (EUR 9,450 thousand) was attributable to variable employee remuneration and EUR 363 thousand (EUR 925 thousand) to loan loss provisions.

36. Subordinated liabilities

The subordinated liabilities totaling EUR 130,500 thousand (EUR 83,000 thousand) can be broken down by maturity as follows:

Amount in EUR thou.	Currency	%	Maturity	Early repayment obligation
5,000,000	EUR	7.00	July 2, 2018	Not possible
2,000,000	EUR	7.00	July 3, 2018	Not possible
10,000,000	EUR	5.75	May 13, 2019	Not possible
10,000,000	EUR	6.10	May 27, 2019	Not possible
500,000	EUR	6.10	Dec. 9, 2021	Not possible
9,500,000	EUR	6.10	Dec. 9, 2021	Not possible
6,000,000	EUR	4.00	Oct. 13, 2025	Not possible
5,000,000	EUR	4.00	Oct. 13, 2025	Not possible
1,000,000	EUR	4.00	Oct. 12, 2026	Not possible
6,000,000	EUR	3.50	Jan. 13, 2027	Not possible
4,000,000	EUR	3.50	Jan. 18, 2027	Not possible
3,000,000	EUR	3.50	Jan. 25, 2027	Not possible
1,000,000	EUR	3.50	Mar. 1, 2027	Not possible
5,000,000	EUR	4.10	Oct. 12, 2027	Not possible
5,000,000	EUR	4.13	Dec. 13, 2027	Not possible
3,000,000	EUR	4.15	Dec. 13, 2028	Not possible
5,000,000	EUR	4.25	Oct. 12, 2029	Not possible
3,000,000	EUR	4.40	Oct. 15, 2030	Not possible
3,000,000	EUR	4.40	Oct. 15, 2030	Not possible
5,000,000	EUR	4.25	Nov. 4, 2030	Not possible
5,000,000	EUR	4.30	Nov. 11, 2030	Not possible
10,000,000	EUR	5.50	n.a.	Not possible
2,500,000	EUR	5.50	n.a.	Not possible
5,000,000	EUR	5.50	n.a.	Not possible
10,000,000	EUR	5.50	n.a.	Not possible
5,000,000	EUR	5.50	n.a.	Not possible
1,000,000	EUR	5.50	n.a.	Not possible

Interest expenses totaling EUR 5,112 thousand (EUR 4,206 thousand) were incurred for subordinated liabilities in the reporting period.

Subordinated promissory note loans were recognized in the amount of EUR 97,000 thousand (EUR 83,000 thousand). The terms and conditions for these comply with the provisions of Article 62 in conjunction with Article 63 of the CRR. No conversion into capital or another form of debt has been agreed.

Registered bonds that have been recognized for supervisory purposes as additional Tier 1 capital (AT1) were issued in the course of the fiscal year in the total amount of EUR 33,500 thousand. The instruments can be called by the issuer for the first time in October 2022 and every five years thereafter, after obtaining the approval of the competent supervisory authority. If a trigger event occurs, the nominal amount or the repayment amount will be written down.

37. 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 that comply with the provisions of

Article 62 in conjunction with Article 63 of the CRR. The profit participation rights grant the right to an annual distribution where the contractually agreed conditions are met.

Distributions on the profit participation capital of EUR 775 thousand (EUR 775 thousand) were recognized under other liabilities in 2017.

38. 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.

39. Hedge accounting

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

Bonds with a nominal amount of EUR 2,250 thousand and 195 index options, plus corresponding liabilities, were accounted for as a macro hedge in the previous year. The hedge was designed to protect against interest rate risk and equity price risk. Negative changes in the fair value of the hedged items were offset by positive changes in the fair value of the hedging instruments. The underlying transaction expired in 2017.

40. Liabilities denominated in foreign currencies

Liabilities denominated in foreign currency amounted to EUR 646,625 thousand (EUR 674,781 thousand).

41. Collateral pledged

At the reporting date, securities in the amount of EUR 397,927 thousand (EUR 462,820 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 64,996 thousand (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 (EUR 1,000 thousand) were pledged in relation to partial retirement obligations.

Cash collateral of EUR 26,400 thousand (EUR 77,890 thousand) was furnished for OTC derivatives transactions.

42. Contingent liabilities and other commitments

Contingent liabilities include other guarantees amounting to EUR 39,431 thousand (EUR 28,453 thousand). Irrevocable loan commitments amounting to EUR 137,940 thousand (EUR 164,465 thousand) are disclosed as other commitments.

The risk of loss from the crystallization of contingent liabilities is mitigated by the opportunities for recourse 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 the crystallization of a contingent liability or a claim under an irrevocable loan commitment or a placement and underwriting commitment will result in a loss. This is done in the course of its credit assessment of the client and, if appropriate, on the basis of an assessment of the likelihood of the client concerned meeting the underlying obligations.

Additionally, the Bank performs regular assessments during the term of its commitments as to whether losses can be expected from the crystallization of contingent liabilities, from placement and underwriting commitments, or from irrevocable loan commitments.

NOTES TO THE INCOME STATEMENT

43. 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, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Interest income	9,737	11,456

44. 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.

45. Income by geographical market

The Bank does not have any sales offices outside Germany.

46. Other operating income

Other operating income in the amount of EUR 14,705 thousand (EUR 55,374 thousand) includes income from the operation of marine vessels of EUR 6,318 thousand (EUR 3,546 thousand) and income from agency activities of EUR 1,952 thousand (EUR 2,057 thousand). Provisions not relating to the lending business were reversed in the amount of EUR 2,099 thousand (EUR 1,314 thousand).

47. 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, 2017 EUR thou.	Dec. 31, 2016 EUR thou.
Interest income	13,518	16,634

48. Other operating expenses

Other operating expenses in the amount of EUR 12,398 thousand (EUR 11,838 thousand) include expenses of EUR 7,156 thousand (EUR 6,511 thousand) arising from the operation of maritime vessels. The expense from the unwinding of discounts on provisions amounted to EUR 2,620 thousand (EUR 1,477 thousand).

49. 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

Net income from long-term financial assets comprises the gains on the measurement/sale of shares in other investees and investors, shares in affiliated companies, and securities classified as fixed assets and amounted to EUR 31,583 thousand. EUR 30,353 thousand of this amount was attributable to sales. In the previous year, net income of EUR 108 thousand was generated from sales and maturing items.

50. Extraordinary expenses

The prior-year extraordinary expenses of EUR 21,738 thousand related to the loss resulting from the merger of four banking subsidiaries with M.M.Warburg & CO.

51. Profit transferred under profit pooling, profit transfer agreements, or partial profit transfer agreements

The residual annual profit of EUR 26,969 thousand (EUR 7,031 thousand) reported will be transferred to M.M.Warburg & CO Gruppe GmbH.

OTHER DISCLOSURES

52. 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 5,798 thousand (EUR 5,716 thousand). Rent increases have 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. Financial obligations of EUR 2,085 thousand (EUR 0 thousand) existed for the prescribed dry dock inspections of, and upgrades to, the marine vessels in the Bank's portfolio.

As in the previous year, there were no call obligations as of December 31, 2017.

53. 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, equity index futures

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 recognized at fair value as a matter of principle.

	2017			2016		
EUR thou.	Notional values	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Interest rate swaps	1,274,763	20,231	27,601	1,423,449	30,021	43,870
Forward interest rate swaps (OTC)	0	0	0	6,200	151	147
Floors (OTC)	390	0	5	390	0	7
Caps (OTC)	10,390	67	67	250	0	0
Total	1,285,543	20,298	27,673	1,430,289	30,172	44,024

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.

	2017			2016		
EUR thou.	Notional values*	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Currency transactions						
Currency forwards	3,983,042	40,377	50,108	4,024,930	98,121	83,485
Currency options	353,814	1,654	1,758	322,275	2,548	1,721
Equity/index transactions						
Stock options	740	13	49	56	0	5
Equity index futures	25	0	0	5	0	0
Total	4,337,621	42,044	51,915	4,347,266	100,669	85,211

* 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.

54. Employees

In fiscal year 2017, the Bank employed an average of 726 (734) people. This figure can be broken down as follows:

	2017			2016
	Male	Female	Total	Total
Employees	405	311	716	721
Vocational trainees	7	3	10	13
Total	412	314	726	734

55. Shareholdings

Name and domicile of the company	Equity interest in %	Reporting currency	Equity EUR thou.	Profit/loss in EUR thou.	
1. Affiliated companies					
Belgravia GmbH, Berlin	100.00	EUR	20	–1	*
Lederwerke Wieman GmbH, Hamburg	100.00	EUR	3,071	PLTA	
M.M.Warburg & CO Hypothekenbank AG, Hamburg	60.01	EUR	90,480	4,574	
Marcard Family Office Treuhand GmbH, Hamburg	100.00	EUR	78	28	
MARCARD, STEIN & CO AG, Hamburg	100.00	EUR	12,052	PLTA	
MS “RHL AUDACIA” Schiffahrtsgesellschaft mbH, Hamburg		EUR	–2,226	–785	
MS “RHL Novare” Schiffahrtsgesellschaft mbH, Hamburg	100.00	EUR	–2,465	–235	
New Bond Street GmbH, Berlin	100.00	EUR	20	–5	*
Regent Street GmbH, Berlin	100.00	EUR	18	–1	*
RHL Hamburger Lloyd Shipping Trust GmbH, Hamburg	100.00	EUR	143	29	
RTF Verwaltungsgesellschaft mbH, Hamburg	100.00	EUR	32	–1	
W&Z FinTech GmbH, Hamburg	75.00	EUR	207	–555	
WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, Hamburg	100.00	EUR	8,559	2,875	
Warburg Research GmbH, Hamburg	100.00	EUR	2,843	1,288	
2. Equity investments					
An der Börse 7 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	118	101	
BPE Fund Investors II GmbH, Hamburg	1.00	EUR	44,881	3,841	*
BPE Institutional Partners G.m.b.H., Hamburg	0.80	EUR	9,723	2,288	*
CredaRate Solutions GmbH, Cologne	12.88	EUR	2,750	504	*
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt	10.00	EUR	4,313	607	*
EDD AG, Düsseldorf	1.33	EUR	32,245	–542	*
Equita GmbH & Co. Holding KGaA, Bad Homburg	2.94	EUR	207,315	91,609	
Euroclear Public Limited Company, London	0.48	EUR	1,613,389	227,172	*
Ferdinandstraße 75 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	504	496	
GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft mbH & Co. KG, Grünwald	5.00	EUR	35,000	1,642	*
GEDO Verwaltungsgesellschaft mbH, Grünwald	5.00	EUR	101	3	*
H.F.S. Immobilienfonds 16 KG, Munich	1.11	EUR	61,584	1,367	*
HIH Global Immobilien GmbH & Co Erste Neuseeland KG, Hamburg	18.13	EUR	36,265	2,094	*
Liebigstraße 6 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	62	46	
Lloyd Fonds Britische Kapital Leben III. GmbH & Co. KG, Innsbruck	0.16	EUR	19,596	–718	*
M.M.Warburg Bank (Schweiz) AG i.L., Zurich	100.00	CHF	12,316	–6,611	
Marmorsaal im Weißenburgpark GmbH, Stuttgart	24.00	EUR	38	0	*
Society for Worldwide Interbank Financial Telecommunication S.C.R.L. (SWIFT), La Hulpe	0.09	EUR	–	–	
Steyler Bank GmbH, Sankt Augustin	2.00	EUR	13,405	79	*
Warburg-HIH Invest Real Estate GmbH, Hamburg	10.00	EUR	7,466	500	*

* Equity and profit/loss for fiscal year 2016
Currency translation rate used: EUR/CHF 1.1702

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 immateriality.

56. 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 (until Dec. 31, 2017)

Eckhard Fiene
Front Office – Member of the Executive Board

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

As of the reporting 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 2,471 thousand (EUR 2,128 thousand) for fiscal year 2017. In the previous year, EUR 370 thousand was recognized as an expense for profit-related remuneration that was due for payment after the adoption of the annual financial statements.

Shareholders' Committee

Dr. Christian Olearius, Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg

Max Warburg, Deputy Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg

Dr. Bernd Thiemann
Management Consultant

Prof. Burkhard Schwenker
Management Consultant

As in the previous year, no loans and advances had been granted to members of the Shareholders' Committee at the year-end. 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 77 thousand).

Supervisory Board

Dr. Christian Olearius, Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg

Max Warburg, Deputy Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg

Dr. Bernd Thiemann
Management Consultant

As in the previous year, no loans and advances had been granted to members of the Supervisory Board at the year-end. 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).

57. Offices held as of December 31, 2017

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 KAPITALANLAGE-GESELLSCHAFT 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 Advisory Board, EIS Einlagensicherungsbank des Privaten Bankgewerbes, Berlin

Dr. Peter Rentrop-Schmid
- Chairman of the Supervisory Board, WARBURG INVEST LUXEMBOURG S.A., Luxembourg
- Deputy Chairman of the Supervisory Board, Warburg-HIH Invest Real Estate GmbH, Hamburg
- Deputy Chairman of the Supervisory Board, IntReal International Real Estate Kapitalverwaltungs-Gesellschaft mbH, Hamburg
- Chairman of the Supervisory Board, GBK Beteiligungen AG, Hanover

Dr. Christoph Greiner
- Member of the Board of Directors, M.M.Warburg Bank (Schweiz) AG, Zurich

Dr. Jens Kruse
- Member of the Supervisory Board, M.A.X. Automation AG, Düsseldorf
- Member of the Supervisory Board, PNE WIND AG, Cuxhaven

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

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

58. 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 and that are published in the Bundesanzeiger (German Federal Gazette).

59. Auditors' fees

The General Meeting of M.M.Warburg & CO resolved on May 12, 2017, to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditors of the financial statements for fiscal year 2017. Expenses of EUR 1,395 thousand (EUR 1,760 thousand) before value added tax were recognized for audit services.

Other services were billed in the amount of EUR 315 thousand (EUR 0 thousand) before value added tax; these fees related to due diligence services for current and planned transactions.

60. 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.

61. Report on post-balance sheet date events

At the beginning of February 2018, M.M.Warburg & CO signed a contract to acquire 75.1% of the shares of NORD/LB Asset Management AG, Hanover. The Bank will bundle this company's activities with those of its subsidiary WARBURG INVEST KAPITALANLAGEGESELLSCHAFT, which was founded in 1987, in a holding structure.

Hamburg, March 28, 2018

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

M.M.WARBURG & CO
BANK

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