ANNUAL REPORT

2020

M.M.WARBURG & CO
BANK

CONTENTS

BUSINESS PERFORMANCE AT A GLANCE

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

in EUR million	2020	2019
Net income before taxes	–6.7	–40.3
Net interest income	50.2	43.8
Net fee and commission income	154.3	150.9
Administrative expenses (including depreciation, amortization, and writedowns)	194.5	199.4
Total assets	7,164.5	6,303.6
Business volume	7,197.2	6,338.9
Own funds	378.0	393.1

Bank

in EUR million	2020	2019
Net income before taxes	–7.9	–24.6
Net interest income	43.3	45.2
Net fee and commission income	93.0	88.1
Administrative expenses (including depreciation, amortization, and writedowns)	136.3	135.7
Total assets	5,179.9	4,488.0
Business volume	5,212.5	4,523.3
Own funds	360.0	376.1

GOVERNING BODIES AND SENIOR EXECUTIVES

Supervisory Board
Dr. Bernd Thiemann *(Chairman)*
Prof. Burkhard Schwenker *(Deputy Chairman)*
Dr. Claus Nolting

Shareholders' Committee
Dr. Bernd Thiemann *(Chairman)*
Prof. Burkhard Schwenker *(Deputy Chairman)*
Dr. Henneke Lütgerath
Dr. Claus Nolting – *from January 1, 2021*

Partners
Joachim Olearius *(Spokesman)*
Dr. Peter Rentrop-Schmid
Matthias Schellenberg – *from December 1, 2020*
Patrick Tessmann

Executive Directors
Dr. Jens Kruse – *until December 31, 2020*
Henry Werkmeister
Dominik Wilcken
Dr. Roman Rocke – *from January 1, 2021*
Klaus Sojer – *from April 1, 2021*

Chief Legal Counsel
Dr. Christoph Greiner

Report of the Partners

REPORT OF THE PARTNERS

In retrospect, years acquire defining characteristics. 2020 – the first year of a new decade and one to which hopes were definitely pinned in some cases – will go down in history as the year of the coronavirus. It will remain associated with the pandemic just as 1919 is with the Spanish flu. Back in January, more and more people in China started going down with the newly discovered coronavirus. Even completely sealing off the city of Wuhan did not prevent the virus from going global – on January 27, the first case was officially reported in Germany and just three days later the WHO declared an international emergency. In March, the virus came to dominate everything. The pandemic threw the world off-balance and had serious consequences. Europe was hit by a long lockdown, which was reimposed during the winter months after a short respite over the summer.

Governments and central banks launched spending programs to mitigate the impact on the economy, and flooded the world with unprecedented levels of financial aid. At the end of March, the Bundestag – the German Parliament – passed the largest economic stimulus package in Germany's post-war history, expanding the budget by EUR 156 billion. Entire sectors of the economy had to be supported with government assistance. At the same time, however, certain sectors – such as medicine and health care, mail-order specialists, and IT service providers – turned out to be pandemic winners. The crisis massively accelerated the digitalization of both work and daily life, and the retail and industrial sectors responded by expanding the platform economy. The process of digital transformation will permanently change the way business is done. Another consequence is that the risks associated with a globally networked world are now becoming visible. Companies developed new, regional supply chains in line with the concept of "glocalization." This trend may continue.

At a political level, 2020 was the year in which Vladimir Putin used a referendum on the Russian constitution to ensure that he can remain in office until 2036. It was also the year in which the results of the U.S. elections were avidly followed all around the world. Many people breathed a sigh of relief when it became clear that the majority of Americans had voted for change. Before this, the death of George Floyd following a police intervention in May had once again shown the deep divisions in American society, and triggered worldwide discussions and protests against racism and police brutality under the slogan "Black Lives Matter." At the end of the year, the bitter struggle to reach a trade agreement as the United Kingdom finally left the EU dominated the news, reaching its high point on Christmas Eve.

The pandemic also posed a number of challenges to the democratic system as a whole. The "Querdenker" (Contrarian) movement that gathered support in the course of the year called the fundamental principles underlying the rule of law into question. Conversely, however, the strength of a democratic system when combined with a market economy also became clear. In this year's supplement to the German version of this annual report, well-known constitutional lawyer Prof. Christoph Degenhart examines the state of democracy during pandemics and the legal questions that arise from this.

Although global carbon emissions fell by an unprecedented amount due to the severe restrictions on economic and social activity resulting from the coronavirus crisis, the pandemic also crowded out this issue. Equally, the question remains as to whether climate targets could fall victim in some cases to the need for an economic recovery. The federal government has taken another step towards decarbonization by resolving to exit coal as a source of energy completely by 2038. A large number of governments want to grant tax breaks to entities that act in a sustainable manner as part of their economic stimulus packages.

At the beginning of 2020, nobody was able to guess what the extent and impact of the pandemic would be. The IMF is forecasting a clear 4.4% drop in economic output for 2020. The financial markets were also extremely volatile. While the global economy is suffering from the effects of the pandemic, it is amazing to find so many stock indices trading above their 2019 closing-date levels at the end of a year that saw the biggest temporary economic slump in decades. This was due to loose monetary and fiscal policy. The flood of money has led to a shift in asset classes.

Mission and Strategy

In 2020, M.M.Warburg & CO had been an independent, middle-market private bank for 223 years. Embedded in a holding structure, it is completely privately owned. The Group parent, M.M.Warburg & CO Gruppe GmbH, holds 100% of the shares in the Bank.

The Bank is headquartered in Hamburg and has nine offices in Berlin, Braunschweig, Bremen, Frankfurt, Hanover, Cologne, Munich, Osnabrück, and Stuttgart. Together with its two banking subsidiaries MARCARD, STEIN & CO AG and M.M.Warburg & CO Hypothekenbank AG, its asset management companies Warburg Invest AG and WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH; and its investment firm Warburg Research GmbH, the Bank has a regional presence throughout Germany.

Effective December 1, 2020, Matthias Schellenberg became the fourth member of the senior management team alongside Joachim Olearius, Dr. Peter Rentrop-Schmid, and Patrick Tessmann.

M.M.Warburg & CO defines itself as a traditional yet state-of-the-art undertaking offering the product range of a focused universal bank. Its business model in its Private Banking, Corporate Banking, Capital Markets, and Asset Management units, with their broad range of products and services is focused on the wishes and needs of high net worth clients, foundations, middle-market companies, privately held and listed corporations and company owners, shipping companies, institutional clients, and financial investors. Independence, confidentiality, reliability, and continuity are the constant principles that guide its actions. Clients benefit from objective expertise, free of institutional influence and interests. Discretion, dependability, and commitment are the foundations on which to build trusting, long-lasting business relationships.

We help private clients by developing optimum solutions for structuring, preserving, and increasing private wealth. We start with a thorough wealth analysis and then progress to providing independent, comprehensive advice for end-to-end financial planning, asset management, and succession planning. Digital asset and securities management and MACARD, STEIN & CO's family office services round off the offering. Our regional presence ensures we remain close to our clients. The OWNLY digital platform provides an overview at any time of all assets across all asset classes.

Middle-market private and listed corporations in Germany, real estate and shipping sector clients, and institutional clients and financial investors such as occupational pension schemes and pension funds, insurance undertakings, credit institutions, and foundations can utilize our expertise in the areas of finance for company owners, shipping finance, real estate finance, and structured special finance, as well as in equities (IPOs and capital increases), mergers & acquisitions, debt and mezzanine markets, and interest rate and currency management. The Bank provides a broad-based range of company research services and economic analyses together with Warburg Research GmbH. Rounding off this comprehensive offering for institutional clients are a number of asset management services, and in particular portfolio management, asset servicing, and depositary services. In addition, ESG criteria can be implemented for our constantly updated, active and passive investment and fund strategies.

The coronavirus pandemic required social distancing and hence the cancellation of a large number of personal discussions and client events that in normal times are integral components of close, long-term business relationships. We were able to continue operating with almost no disruptions throughout the year thanks to early application of our hygiene policy, increased mobile working, and our staff's disciplined and careful approach. The process of digital transformation received a boost, with many types of business and transactions being performed and settled online and from mobile workplaces.

The pace of this technical innovation in the banking business is increasing the speed on the market. In addition, European regulatory standards for data security and exchange are becoming stricter. This means a stable, high-performance, future-proofed IT infrastructure and associated banking applications are more important than ever. Warburg Bank has a track record of responding proactively to changing technical and regulatory requirements. Back in 2019, the senior management decided to renew the technical infrastructure by implementing a modular core banking system. This offers customized solutions for all processes such as payments, loans, forex and securities transactions up to and including tax issues and is tailored to meet client needs and the requirements of our partners and regulators. We continued to drive forward work on revamping the system in 2020.

M.M.Warburg & CO is one of the last private banks left in Germany, a traditional brand that is known for being extremely

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close to its clients. Since it is an owner-managed bank, the main focus of all its banking services is on client needs and benefits. This is why it adapted, launched, and implemented a large number of organizational and strategic business processes in the past fiscal year, as in the past. In retrospect, the decisions to streamline our structures and reduce our non-domestic operations has proved correct. Our broad-based positioning as a universal bank, comprehensive range of products and services for all client groups, and commitment to an independent IT strategy are largely unique on the market, and we intend to continue them going forward. In particular, clients who have assets to invest and who wish to use an intelligent, tailor-made, and reliable alternative to the major banks will find what they are looking for: our broad offering provides solutions for all types of asset structures. The Bank achieves this by combining the expertise, experience, and reliability offered by a traditional bank with the systematic focus on the future that comes with the digital age, since only entities that prepare for the future will continue to be successful.

Business Performance

Consolidated total assets for the companies held by M.M.Warburg & CO Gruppe GmbH amounted to EUR 7.16 billion as of the December 31, 2020, reporting date (previous year: EUR 6.30 billion).

This increase is primarily due to short- and long-term borrowings and participation in the Deutsche Bundesbank's special tender in the total amount of EUR 576.5 million.

The key performance indicators continued to improve in the reporting period: Warburg Bank's Tier 1 capital ratio as of December 31, 2020, was 15.7% (previous year: 14.7%). The consolidated total capital ratio as of this date amounted to 13.1% (previous year: 12.5%).

Net fee and commission income rose slightly year-on-year to EUR 93.01 million (previous year: EUR 88.13 million). Encouraging increases were recorded in the securities and depositary businesses in particular, while income from asset management declined to a normal level again following last year's extraordinary result. Consolidated fee and commission income totaled EUR 154.25 million (previous year: EUR 150.91 million).

The Group's assets under management and administration rose by 9.2%, from EUR 69.81 billion in the previous year to EUR 76.24 billion. In addition, total assets held in custody by the Bank in its capacity as a depositary rose to EUR 33.95 billion, up 12% on the prior-year figure of EUR 30.15 billion. All in all, this brings the total amount of money entrusted to the Warburg Group to more than EUR 110 billion.

Net interest income at Warburg Bank fell only slightly in the reporting period to EUR 43.34 million (previous year: EUR 45.25 million). This was achieved despite a clear reduction in risk-weighted assets – the result firstly of a strong loan portfolio and secondly of the avoidance of negative interest.

The Bank's net trading income rose to EUR 6.62 million (previous year: EUR 6.37 million). At Group level, by contrast, it declined to EUR 6.60 million (previous year: EUR 7.02 million).

Administrative expenses in fiscal year 2020 amounted to EUR 136.31 million (previous year: EUR 135.74 million) at Warburg Bank and EUR 194.56 million (previous year: EUR 199.37 million) at the Group. This item chiefly reflected increased consulting and litigation costs, along with substantial investments in the technical infrastructure associated with the renewal of the core banking system.

In addition, a number of extraordinary factors had to be mastered: although net loan loss provisions declined year-on-year to EUR 22.83 million (previous year: EUR 25.77 million), they were still considerable.

Net income for the year at the level of Warburg Bank amounted to EUR –7.9 million (previous year: EUR –24.62 million). The Group's net income in 2020 was EUR –6.7 million (previous year: EUR –40.3 million).

Operational Risk

Between 2007 and 2011 Warburg Bank, which belongs to the Warburg Group, executed transactions involving German shares over their dividend date. In all cases, Warburg Bank paid the full purchase price for the shares, including the relevant portion of the investment income tax, to Deutsche Bank AG in the latter's capacity as the seller's domestic custodian bank. In the case of short sales the latter, as the institution executing the sell order, would have been required by section 44(1) sentence 3 of the Einkommensteuergesetz (EStG – German Income Tax Act) (old version) to remit the tax included in the gross purchase price received to the tax authorities before forwarding the remainder as part of the cover transaction. However, it became known during the course of the investigations and was also established in court cases that it failed to do this, in contravention of its duty.

The Warburg Group paid approximately EUR 44 million to the Finanzamt für Großunternehmen (tax office for large undertakings) in Hamburg in April 2020, followed by another payment of approximately EUR 111 million at the close of the year. The Warburg Group's two primary shareholders made the money available to the Company. The payments made in the total amount of EUR 155 million fully cover the tax levied for 2007 to 2011 by the tax office for the cum-ex transactions executed by Warburg Bank. In this way, the Warburg Group is avoiding any damage to the fiscal authorities. Even after five years of unproven allegations and accusations, the assessment that Warburg Bank complied with the legal requirements for all transactions still holds true. For this reason, claims for damages have now been brought against the initiators, executors, and beneficiaries of the transactions. The Warburg Group trusts that the proceedings will bring the appropriate legal clarity.

Corporate Citizenship

Corporate citizenship has been a core element of Warburg Bank's corporate philosophy since 1898 – the year that saw the formation of the Warburg-Melchior-Olearius Foundation to mark the Bank's centennial. Financial support for social and charitable organizations and cultural projects outside of the Bank's normal business operations is largely handled by the Warburg-Melchior-Olearius Foundation. Support payments focus primarily on people in need, without any regard to existing ties, the nature of the need involved, or religious affiliation. The Bank and the foundation select a small number of recipients from the several hundred external requests for charitable donations and partnerships received each year. This selection is based on the foundation's purposes as set out in its articles of association, with a regional focus, sustainability, and the success of the proposed projects also playing a role. The prestige associated with support is not a major consideration.

One key area in which the Warburg-Melchior-Olearius Foundation has provided support ever since it was founded is on providing support for current and former employees and their families who are unexpectedly in need as a result of misfortune.

In addition, the "Classical Languages" project was founded more than a decade ago. This provides school and other students learning Greek and Latin in Hamburg and the surrounding area with financial aid for educational trips and outings to ancient historical sites, exhibitions, the theater, and other projects relating to antiquity. In the area of academic support for young people, the University of Potsdam's "Scriptio Continua" think tank received a substantial grant.

Out of the many requests that the foundation received from charities in 2020, it focused on the extension to the hospice at the Jewish Hospital in Hamburg.

In the area of cultural support, long-term partnerships exist at in the Bank's various locations. Beneficiaries include the Elbphilharmonie concert hall in Hamburg, the Unter den Linden state opera house in Berlin, the Bavarian State Opera House, the Heinz Bosl Ballet Foundation in Munich, and the Württembergischen Staatstheater in Stuttgart. In 2020, the Elbphilharmonie's relief fund became a beneficiary for the first time. This fund aims to help self-employed musicians, music teachers, and stage artists to get through the coronavirus crisis.

The Advent carol service by employees and their families held in one of Hamburg's main churches, to which clients are also invited, has long been a firm fixture at the end of the year. Unfortunately, the coronavirus pandemic prevented a repeat of this tradition in 2020. And perhaps sending Christmas cards and letters is no longer really in keeping with the spirit of the times. However, to avoid there being nothing to mark the end of the year, clients and staff received Christmas greetings by post together with the songbook that had been planned for the carol service. And instead of Christmas presents and the church collection, the Bank made a substantial donation to Slow Food Deutschland e.V.

Outlook

2020 was a truly unprecedented year. The exogenous shock of the coronavirus pandemic triggered an economic crisis, the full extent of which will only become clear over time due to government intervention. Both the unparalleled monetary and fiscal policy and the rapid development of vaccines are giving rise to hope at the beginning of 2021 that not only the public health situation but also the economy will soon improve. People in Germany have amassed enormous "coronavirus savings" during the crisis. These could lead to a substantial boost in demand as soon as confidence in the economic recovery is firmly established.

However, the long-term consequences of the pandemic can only be guessed at. Uncertainty is now the new normal, and this is compounded by an increasingly complex and fragile global situation overall. At a political level, great expectations are being placed in the newly elected U.S. President, Joe Biden, and the hope that existing trade disputes will not get any worse.

Some of the trends that have crystallized out in the last 12 months will continue or accelerate. The role of globalization as a driver for the economy and growth will slow down; instead, regionalization will become more important again. The growth in digitalization of our daily lives and our work will not go into reverse, but will rather continue. Employees will go on asking for the ability to work from home after the coronavirus pandemic is over. Retailing will be unimaginable without e-commerce. And in the industrial sector topics such as digital supply chains, robotics, networked production facilities, and remote management and maintenance are now near the top of the planning list. Nevertheless, following the massive increase in government debt we also need to see a return to sound financial policy. However, the high debt levels suggest that central banks will keep interest rates low for a long time. Social inequality has increased further during the crisis and politicians must find a new way of ensuring solidarity so as to stopping society from fragmenting.

The coronavirus has also permanently changed the world of work in the banking and finance sector. The trend towards digital payments has increased, driven by the fear of infection associated with paying by cash. However, the European Central Bank has dismissed the vision that cards and online payments will soon be the only forms of tender. It says that eurozone consumers should be free to choose the payment method they want, although this would not rule out the potential introduction of a digital euro. Soon after the start of the first lockdown when staff had successfully relocated to their home offices, the first discussions began about how much office space is actually required. Virtual annual general meetings provided added impetus, meaning that expensive space will no longer have to be rented in the medium term. Standard business trips and face meetings were replaced by Zoom and video conferences. This trend can be expected to become established, both as a means of managing and cutting costs and in order to fulfill the promise of making banking more sustainable.

After the government pandemic support measures expire, it will become clear this year and next year exactly which businesses and companies will survive. Banks must be prepared for an increase in non-performing loans, which could endanger their ability to extend the new finance needed for a rapid economic recovery. What impact the high capital requirements that banks have to meet will have here remains to be seen.

With regard to private households, the federal government talks about “involuntary consumer reluctance to spend.” The shutdown of public life and fear of unemployment led many people to keep a tight grip on their money and hoard it in their bank accounts. Since interest rates remain low, demand for classic savings products such as overnight money and fixed-term deposits is almost non-existent. Instead, savers are increasingly buying equities, funds, ETFs, and derivatives. In the area of long-term investments, savings plans are seeing a real boom. Digital asset management tools (such as the Warburg Navigator) are also becoming increasingly popular. Equally, sustainability is a focus for many investors. After the crisis, both the yield offered by financial products and their environmental, social, and societal benefits will go on gaining in importance. The market for ESG products and the number of issuers will continue to increase sharply. Warburg Bank is committed to this approach as a matter of principle and offers sustainable investment products for all client groups.

Stock markets will continue to be dominated by the effects of the pandemic in 2021. Badly hit sectors such as tourism will only start to benefit from the strong pent-up demand once public life starts to return to normal and the economy recovers. The ongoing loose monetary policy adopted by the central banks and low or negative interest rates will continue to contribute to these high levels of liquidity being invested in equities and other risk-bearing assets. However, investors must be prepared for moderate returns. 2021 will be just as volatile as the previous year, and the high valuations that are priced in at present limit upside potential.

We live in a period of major technological, geopolitical, and social change. The associated changes require courage, far-sightedness, and responsibility – from companies, the state, and each and every one of us. This is the only way to jointly develop sustainable solutions that ensure progress and a future that is more worth living.

Overview of the Warburg Group

OVERVIEW OF THE WARBURG GROUP

ECONOMIC ENVIRONMENT

The coronavirus has dominated all of our lives since February. The economic and social restrictions that became necessary in order to prevent the disease from spreading further are having immense economic consequences: The global economy experienced its worst recession for almost 100 years. Between April and June, global value added fell by 9% compared to the first quarter. If one extrapolates this trend to the year as a whole, the slump in GDP amounted to almost 25%. In the third quarter, the global economy recovered quickly and substantially. The annualized growth rate was a good 33%. For 2020 as a whole, global economic output is expected to have fallen by 3.5% year-on-year. The economy would have come under even greater pressure if governments and central banks had not responded with unparalleled speed on the fiscal, monetary, and regulatory fronts to shore up private household incomes and corporate liquidity. This reaction prevented a new financial crisis such as that seen in 2008/2009 from happening.

After real economic output in the U.S.A. fell by an annualized rate of 31.4% in the second quarter of 2020, the third and fourth quarters saw a strong recovery. Over the year as a whole, the economy contracted by 3.5%. Leading indicators suggest that the economic upturn will continue. Government aid packages ("helicopter money") have helped offset lost income to a certain extent. In addition, unemployment benefits were prolonged and their amount increased. The savings rate increased substantially thanks to the government transfer payments. Consumers still have the financial reserves to continue making purchases. The financial position of U.S. households is substantially more stable than was the case during the economic and financial crisis in 2008/2009, despite the clear rise in unemployment.

The German economy experienced a historic slump in real economic output in the second quarter of 2020: GDP fell quarter-on-quarter by 9.8%. By contrast, the third quarter saw a clear recovery, with the economy growing by 8.5%. The partial lockdown of the German economy in November, which was extended and tightened in December, had an economic cost. However, the renewed decline in economic activity that had been feared for the fourth quarter of 2020 did not materialize, with the initial estimate for GDP growth for full-year 2020 pointing to a stagnation in Q4. This suggests that the selective, temporary economic restrictions have caused significantly less economic damage than the general and extremely far-reaching clamp-downs on economic and social activities in April and May. All in all, real GDP fell by 5% year-on-year in 2020.

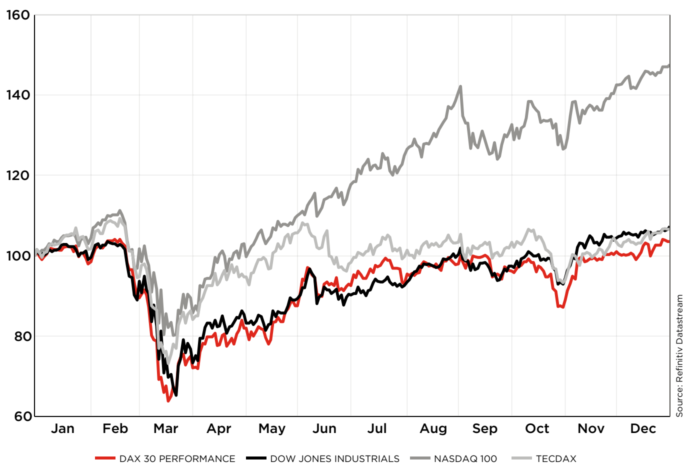
Real value added in the eurozone plummeted by 11.7% in the second quarter of 2020, only to bounce back spectacularly in the third, with real economic output recording a quarter-on-quarter rise of almost 13%. Nevertheless, full-year growth in the eurozone probably declined by approximately 7.5%. This is due above all to the peripheral states, whose economies are much more dependent on the services sector (and especially tourism) than Germany is. As a result, the renewed restrictions in all eurozone countries is expected to have led to negative macroeconomic performance in the fourth quarter as well. Monetary and fiscal policy have created a safety net to protect the system that is designed to mitigate the consequences of the economic recession we are facing. The price to be paid of the threatened economic recession is a clear rise in government debt. The European Commission was therefore permitted for the first time to borrow a limited amount of money (EUR 750 billion in total) on the capital markets for a limited period and scope; this is known as the European Recovery Fund.

Global monetary policy is (and will remain) more accommodating than ever before in response to the coronavirus pandemic. Not only have the G10's central banks stepped up their securities purchases, but many emerging market central banks have also taken unconventional monetary policy measures. The ECB has significantly expanded its bond-buying programs and is making massive amounts of liquidity available to banks. In fact, additional expansionary measures were agreed in December. In the U.S.A., the Federal Reserve cut interest rates to almost zero at the start of the coronavirus pandemic and started unlimited purchases of government and corporate bonds. This means that key interest rates will not be raised for a very long time.

Both the European Central Bank and the U.S. Federal Reserve undershot their inflation targets of approximately 2% most of the time in recent years. In the eurozone, inflation is even in negative territory at present, while in the U.S.A., though somewhat higher, it is still clearly below the target figure. Against this background, the Federal Reserve modified its monetary policy reaction function in August 2020. Its primary goal is now full employment, with price stability taking second place. What is more, in contrast to the previous strategy overshooting the 2% mark will no longer automatically be considered as missing the target (something that the Fed would have to respond to). Instead, the objective is to achieve an average inflation rate of 2%.

The prices of government and corporate bonds have recovered thanks to the unlimited bond buying by central banks, while yields have dropped sharply. The yield for ten-year Bunds fell from approximately –0.19% at the start of the year to around –0.58% at its close. Yields fell even further at the height of the coronavirus crisis on the stock market to –0.84%, but then rose again following the ECB intervention at the peak of the crisis to –0.17%. Over the course of the year, the prices of German government bonds rose across almost all maturities (2Y: –0.5%; 5Y: +0.6%; 10Y: +4.0%). Overall, too, European government bonds turned in a positive performance. 10-year U.S. Treasury bonds did better (+12.6%) due to the Federal Reserve's even more expansionary interest rate policy. However, this corresponds to an increase of just 3.3% in euros, due to the weak U.S. dollar. The U.S. dollar depreciated significantly against both the euro and almost all other currencies in recent months. It fell by a total of 8.3% against the euro.

The stock markets in 2020
(January 1, 2020 = 100)



Most stock markets have recovered from their temporary losses, even though the economy has suffered from the restrictions resulting from the coronavirus. Only four weeks after the DAX had hit a new record high of almost 13,800 points in mid-February, it was trading at a mere 8,250 points. Never before had prices slumped so rapidly, although this was followed by an equally rapid recovery thanks to generous monetary and fiscal policy support. A number of stock markets – including the DAX and the major U.S. indices – even hit new highs. On the one hand, the interest rate cuts by the central banks have made fixed-income securities even more unattractive for investors. At the same time, the continuing flood of liquidity means a lot of capital needs to be invested. Overall, stock market prices rose in Germany and declined slightly in the eurozone (DAX: +3.5%, MDAX: +8.8%, EURO STOXX 50: –2.6%, measured in each case using the total return index). Expressed in local currency, the performance in the U.S.A. was more positive than in Europe, with the Dow Jones rising by 9.7% and the broad-market S&P 500 by 18.4%. However, for euro investors the percentage increases by the two indices are much less pronounced, at 0.7% and 8.6% respectively, due to the strong depreciation of the U.S. dollar.

Warburg Bank's macro research arm won additional prizes in 2020. The Bank came first in "€uro" magazine's competition to forecast the 3-month Euribor interest rate.

THE WARBURG GROUP'S BUSINESS AREAS

CORPORATE BANKING

All Corporate Banking departments and locations were able to build on the extremely encouraging results of operations that they saw in the previous year. This unit is responsible for Warburg Bank's entire front office lending business. The focus is on arranging finance for company owners and for the Bank's shipping, real estate, and fund clients. In addition, it offers classic banking services in the areas of payments, cash management, deposits, and currency transactions. These are especially important for shipping and fund clients, and investment funds.

In the shipping area, the unit aims to act as a classic lead bank for medium-sized shipping groups in particular. These groups, which are often family-owned, have a real need for a reliable partner that can offer the full range of banking services. Financing conventional tonnage at conservative loan-to-value ratios has become an attractive variation on the debt asset class for both the Bank and institutional co-investors.

By contrast, the Bank has withdrawn from the tradition corporate banking business and now positions itself as an "advisor with a balance sheet." In specific situations, M.M.Warburg & CO not only advises company owners and their companies on planned financing arrangements but also helps implement these by offering the relevant finance.

In the real estate business, the Bank assists with residential development projects by providing short-term interim finance in key German conurbations. These loans are secured by first-ranking land charges and offer an attractive risk-return profile.

The Bank's clear focus on strategically desirable lending means that it consistently receives more loan inquiries from clients and leads than it is able to satisfy on its own. Institutional investors are now partnering with it in the lending business to help to meet this excess demand. In the process, M.M.Warburg & CO is evolving from a classic lender into a private debt asset manager in the business areas that it covers.

Building on our long-term partnerships with occupational pension schemes as co-investors for shipping loans, we successfully opened up an additional segment of Warburg Bank's lending business to institutional investors this year. The Bank offers major insurance companies and pension funds the opportunity of participating in real estate finance deals – an asset class that is in strong demand with institutional investors. To do this, the Bank works together with experienced market players to provide attractive, tried-and-tested structures for co-investors.

The Bank is aiming to significantly expand its role as a private debt asset manager with corporate banking products in the coming years and to attract other groups of investors for this joint business.

Corporate Banking – Corporate Clients

The Corporate Clients business, which is run from the Bank's Hamburg, Hanover, Berlin, and Stuttgart locations, continued its focus on assisting company owners and owner families with customized finance solutions to meet their entrepreneurial needs. It entered into selective new exposures, e.g., in relation to the acquisition of equity interests or as equity bridge loans, while existing loans were adapted to meet changes in business necessities. Offering tailor-made finance that is specially designed for company owners will continue to be the Corporate Clients unit's core business going forward. In keeping with the goal of providing single-source, end-to-end solutions, this offering is rounded off by ancillary services such as securities management, needs-driven advisory services from Corporate Finance, or the involvement of Private Banking.

Corporate Banking – Shipping

M.M.Warburg & CO's maritime strategy is paying off. The steady growth in the shipping business has been unbroken since its traditional operations were reorganized in 2016. The highly positive contributions to the Bank's earnings are steadily growing. The Bank succeeded in further consolidating the Warburg brand's position in the maritime sector in a changing banking landscape, and in establishing it for the long term. This growth is also reflected in staffing levels.

The coronavirus pandemic initially led to substantial uncertainty on the key shipping markets in the second quarter of 2020. Whereas tankers experienced a brief boom, the bulk and container shipping markets were impacted by the uncertainty and by capacity bottlenecks in the ports resulting from the pandemic. Since the summer of 2020, however, the container shipping markets in particular have been highly dynamic. Tonnage is in increasingly short supply, while demand for consumer goods in particular is strong: as a result, transportation capacity has become scarce very quickly.

The Bank's shipping finance book is performing well in this situation. The realignment of lending, which is now focused on standard (and hence liquid) ships from establishing shipping lines or shipping management companies with low loan-to-value ratios and short durations of up to a maximum of five years has proven successful.

In addition, the services business for shipping clients saw another significant expansion last year. In particular, the number of foreign payments transactions associated with the maritime business steadily increased. The Bank's clear focus is enabling it to grow this business both with existing clients and with an encouraging number of new ones.

Corporate Banking – Real Estate Finance

Warburg Bank's strategic focus with respect to real estate finance is on interim and short-term special finance in the residential area. It serves projects in large Germany cities, and in Berlin, Hamburg, Leipzig, and Dresden in particular, as well as increasingly in other centers such as Stuttgart, Hanover, and Munich.

The slight restraint due to the coronavirus pandemic initially seen in the period from March to May 2020 was followed over the rest of the year by a significant rise in loan inquiries across all areas of the real estate business. Effective selection and efficient processing allowed residential real estate finance operations to benefit from continued high demand in Germany's metropolitan regions, which is underpinned by strong macroeconomic and social trends. As a result, the volume of business in this area was consolidated and further expanded in 2020. The strong revenues and renewed rise in the contribution to earnings generated by this unit underscore Warburg Bank's excellence in this business area.

Corporate Banking – Investment Funds

This unit was able to build on its positive performance in recent years in providing support for asset management companies and their investment funds, further expanding the volume of business done in this area. This applies both to liquid and to real estate investment funds. Apart from account management, the lending business focused on short-term finance and currency hedging, and on providing margin lines in the case of liquid investment funds.

The Warburg Group's Business Areas

MARKETS AND INSTITUTIONAL BANKING

The Markets and Institutional Banking business area combines support for institutional clients, equities research, and the Bank's trading and sales activities. Divisional and business area management serve as an umbrella for the different activities by this area, are jointly responsible for its strategic development, and sustainably ensure the efficiency of the Market and Institutional Banking unit and the high quality of M.M.Warburg & CO's product and service offering in its role as a capital markets specialist covering the full range of equities, bond, and currency market activities.

Equities

The Equities unit succeeded in further raising its profile as an expert in German equities. Its activities cover the equities research performed by the Bank's subsidiary Warburg Research GmbH, support for institutional equities investors (Institutional Sales – Equities), and the execution of equities orders on the global markets (sales trading/stock market trading). However, the coronavirus pandemic did have an impact: for the first time in a decade, the unit's flagship "Warburg Highlights" conference and "Meet The Future" event had to be canceled in their traditional face-to-face form. It was therefore all the more encouraging that the virtual variants offered were received extremely well, and that both the companies involved and investors found them to be an excellent platform for discussions. Equally, earnings improved significantly for the first time in a long time, despite COVID-19, many other uncertainties, and a resulting high level of volatility on the stock markets. This was the case in all areas, from the largest number of primary market transactions in more than a decade through excellent net trading income down to a clear increase in market share among German and international investors and German corporates.

Warburg Research GmbH

The past fiscal year was a challenging yet extremely successful one for Warburg Research GmbH. Key issues in a period that was dominated by the pandemic were establishing international partnerships with two banks, CIC and PKO, in order to substantially expand marketing of our research offering; the introduction of a risk scoring system reflecting ESG topics, balance sheet quality, and the tradability of the equities concerned; and a number of ECM transactions that made a significant contribution to the unit's success in fiscal 2020. The changes to daily work caused by the coronavirus went smoothly, and in fact boosted productivity. The entire Warburg Research GmbH workforce took advantage of the company's working from home policy, reducing professional contacts to a minimum. At the same time, the volume of research output in fact rose considerably and the flexibility of the company's workflows was increased. This was achieved without compromising on the excellent research quality already established in previous years. The MDAX (share price index) investment recommendations made in the "Warburg Monthly Stock Tracker" yielded an outperformance of 45.8%, and an absolute performance of 53%. This was one reason why the high quality of this unit's comprehensive research – over 200 stocks are covered – led to it being awarded a top two slot for the sixth time in a row in the "Best Broker in Germany" category in Refinitiv's StarMine Analyst Awards. This year it again came first in this important survey. The precise earnings estimates by its analysts and the reliability of its buy and sell recommendations are decisive criteria here.

The virtual variants on our established conferences were very well received, both by investors and by the companies involved, and are firm dates in the capital market calendar. Demand by listed companies to be included in Warburg Research's coverage continued to rise thanks to market consolidation at competitors and recommendations by investors.

Institutional Sales – Equities

The Institutional Sales – Equities unit has a first-rate reputation among institutional investors focusing on Europe. It confirmed and expanded its market position as the "number one in German small and mid-cap equities."

The economic environment in 2020 was dominated by uncertainties that led to highly volatile stock market prices. Nevertheless, investor appetite for transactions and companies' willingness to implement capitalization measures were extremely encouraging. Apart from the advisory services offered to institutional investors, the team provided support for 10 capital increases or placements in the German small and mid-cap segment – further proof of its strong placement skills.

Marketing activities – which were closely focused on German equities – continued at a high level, with several hundred days of roadshows being held with company board members and analysts alike, albeit it virtually in most cases.

Fixed Income and FX

The beginning of the year saw high volatility on the currency and interest rate markets, plus the uncertainty caused by the pandemic. Over the rest of the year, the central banks' emergency support programs dominated the market, impacting interest rate and spread markets in particular and making trading in this area expensive.

Many foreign exchange clients used this scenario primarily for classic hedging instruments. The Interest Rate Advisory Services and Currency Trading departments made a positive contribution to net fee and commission income, as in previous years.

Fixed Income had to cope with a sharp decline in yields in 2020, a repeat of the situation seen last year. Measured in terms of 10-year Bunds, the year started with a yield of –0.22% before hitting a low of –0.856% at the beginning of March. Risk premiums rose sharply from the beginning of March onwards due to the uncertainty, reaching extremely high levels over the course of the year. The unit's close, trusting, long-term relationships with institutional clients, which focused on investments in issues with medium to long durations, were a critical success factor in these market conditions. The Bonds unit continued to generate good results, with brisk business being done with new issues and private placements by European issuers.

Treasury

The Treasury unit is responsible for managing all Warburg Bank's liquidity and funding risks and all interest rate risk in the banking book. Its management philosophy gives top priority to resource management, i.e., compliance with all core management indicators including internal and external liquidity requirements.

The restructuring of the Treasury unit to focus on cost-efficient, resource-friendly liquidity management that was started in 2019 was systematically continued in fiscal year 2020. As a result, net interest income increased significantly despite the constant growth in regulatory requirements on the one hand and persistent low interest rates on the other. In addition, the unit succeeded in further improving M.M.Warburg & CO's stable liquidity situation in a market environment that was dominated by the coronavirus pandemic by enhancing its collateral management processes and extending its product range.

Asset Management Market

Asset Management Market (AMM) is responsible for all Warburg Asset Management's client support and sales activities. The department meets the specific needs of institutional investors for customized investment solutions. One focus of its activities in 2020 was on serving existing clients and deepening relationships with them. During the second-quarter market turmoil in particular, institutional investors were interested less in strategic investment decisions and more in proven strategies that could be adapted rapidly to dynamic developments if needed. In addition, investors were increasingly demanding alternative investment solutions as well as classic liquid investments. AMM meets this need by marketing alternative investment solutions developed internally by the Group and by third-party alternative investment managers. As in the past, activities last year centered on open-ended special funds in the residential and commercial real estate sector that are marketed via the IntReal real estate platform. In addition, AMM has firmly established itself as a partner for initiators of and investors in renewable energy funds. Together with a Hamburg-based alternative investment manager, it raised approximately EUR 500 million of capital from European investors for a wind energy fund in just under 24 months in the period up to December 2020.

Retail funds from Warburg Invest are distributed via the AMM's Sales Partner team. The unit lives from its broad offering of investment topics and styles, which enables it to offset market volatility and fluctuations in individual funds' performance.

CORPORATE FINANCE

2020 was a remarkable year for business at Corporate Finance as well. The team's 20 employees in Hamburg again successfully completed more than 20 transactions and advisory mandates in the fiscal year.

After a middling year for M&A in 2019, many experts were much more optimistic for 2020 in view of macroeconomic conditions, the financing environment, and full war chests at both strategic and financial investors. However, this situation reversed to produce considerable headwinds once the coronavirus pandemic started. The number and volume of transactions executed experienced a historic slump in the period up to the middle of the year, falling by 40–50% year-on-year. The pandemic hit a considerable number of clients at various stages of their projects, in some cases significantly. Growth plans gave way temporarily to liquidity protection measures, human resources management and short-term working, coronavirus compliance, and client and supplier management. The M&A team raised its profile by integrating these challenges with the ongoing project business, and was able to complete four transactions. A new shareholder was found during the crisis to strengthen the business of old-established chocolate-maker Leysieffer in the course of debtor-in-possession operations. This transaction encouraged the unit to build on its solid expertise in the areas of restructuring and insolvency (and not just distressed M&A) to take the initiative outside its own area of operations. However, the expected large wave of insolvencies has not materialized to date. Government stabilization measures and the postponement of the duty to file for insolvency have had an effect here. Sectors such as health care and IT/software proved resistant to the crisis, or could even profit from it in some areas. In this context, Bewatec – an innovative health care/software provider – was successfully sold to Dewert Okin, which acquired the company for compelling strategic reasons. In addition, the unit provided support for the successful growth finance transaction executed at software company Deskcenter AG by Seafort Advisors, which became a new anchor investor and also acquired shares from existing shareholders. As with the Deskcenter deal, the Hej Organic (natural cosmetics) transaction focused both on the sale of existing shares and on providing finance for future growth.

Looking forward, the venture capital business has an encouraging project pipeline in 2021 and is benefiting from digital transformation, strong demand for capital from growth businesses that generally rely on short-term finance, and well-capitalized venture capital funds. In this area, M.M.Warburg & CO focused in particular on forward-looking strategic issues such as digitalization, robotics, and e-mobility, and is advising founders on growth finance as part of long-term partnerships.

The Equity Capital Markets (ECM) unit continued the positive trajectory seen in 2019, recording another extremely successful year. Although no support was provided for IPOs in 2020, a number of technical transactions and advisory mandates were implemented, such as the support provided for the public takeover offer to the shareholders of Centrotec Sustainable AG or the capital decreases at Lotto24 AG or Epigenomics AG. In addition, a total of nine capital increases were successfully placed. These include the capital increases at 7C Solarparken AG (two capital increases), Pacifico Renewables Yield AG (two capital increases), Amadeus FiRe AG, Netfonds AG, Dr. Hönle AG, and SFC Energy AG. Secondary placements of shares in Fabasoft AG and Medios AG were also executed successfully. All in all, M.M.Warburg & CO was involved in capital transactions with a total volume of approximately EUR 225 million – a significant increase in comparison to 2019. This positive development further reinforced the Bank's leading position as an advisor to listed German companies in the small and mid-cap segment, despite the ongoing coronavirus pandemic. Assuming that capital market sentiment remains positive, the unit is expecting to see continued growth in 2021 and the implementation of a large number of capital market projects for German small and mid-cap stocks.

The Debt and Mezzanine Markets (DMM) unit found a creative solution for a shopping center financing transaction in the form of a highly tailored senior equity structure plus a private bond placement. This included providing comprehensive advice for ECE Real Estate Partners GmbH during the transaction. Then, in the second half of the year, the unit completed a number of successful financial advisory mandates. One example here is the advice provided to Amadeus FiRe AG, which took out a new syndicated loan. In the bond segment, the team is focused on structuring and placing non-rated bonds with a volume of EUR 100 million to EUR 300 million. This segment was hit particularly hard in 2020 by the widening spreads as a result of the crisis and by investor reluctance. Given the pipeline and the clearly more upbeat sentiment in this segment, the unit is expecting to see a substantial rebound in bond placements in 2021.

Transaction activity on the M&A market can be expected to remain muted and impacted by the effects of the pandemic until well into 2021. However, the vaccination drives should further improve the mood from the middle of the year onwards. The need for advice and the standard of creativity required remain high. The capital markets are continuing to offer a tailwind, both on the equity side and for debt and mezzanine capital. The team will do everything in its power to add to the extremely positive list of references from last year. Its ability to leverage the full range of advisory services will once again help guarantee success in 2021, which will still be a challenging year. Warburg has positioned itself very effectively and efficiently to provide clients with a compelling and reliable mix of subject area and regional support by concentrating its operations in Hamburg while simultaneously strengthening its coordination functions in the Munich, Frankfurt, Berlin, Stuttgart, Cologne, Hanover, Braunschweig, Osnabrück, and Bremen regions.

The Warburg Group's Business Areas

PRIVATE BANKING

After the spread of the coronavirus led to a level of nervousness among capital market investors that had not been seen for a long time, Private Banking's main task was to be available to act as a trusted personal advisor for clients with their many questions. It succeeded very well with this despite the severe restrictions on mobility caused by the lockdowns and the cancellation of face-to-face meetings. Together with the Bank's Asset Management experts, the team kept in close contact with clients almost every day, especially during spring and summer, updating them on the Bank's assessment of the situation. Thanks to the IT staff's hard work and the great flexibility shown by its advisors, the unit was able to ensure a high degree of availability, with changing teams maintaining a presence at the Bank's offices and locations as well as working from home. In 2020, it became even more important to act as a guide for clients to ensure long-term asset preservation.

The task in hand was to review existing asset strategies together with clients so as to successfully navigate the highly challenging capital market environment and be well positioned for the future. Another important issue apart from the volatile stock markets – which almost all recovered at the end of the year following central bank intervention – was a review of corporate bonds, which were consistently weak from the beginning of the year onwards. Here, too, keeping calm and holding on to bonds issued by companies with consistently successful business models paid off. Overall, 2020 was a year without significant losses for almost all investors who maintained a diversified investment strategy.

Private Banking again successfully increased the volume of client assets entrusted to it in the year under review.

Its extremely well qualified, skilled staff further honed the unit's focus on the complex wishes and goals of wealthy, sophisticated private clients. The PS Plus advisory portal was launched to permit client advisors to serve their clients better and more intuitively. This was another step towards a digital future. Private Banking is built around partnering with clients in trusting relationships. In line with this, the Bank sets great store when recruiting new staff for Private Banking on personality and on attributes such as good listening skills and empathy, since developing sustainably successful investment strategies depends on acquiring a deep understanding of clients' individual situations by actively listening to them. Sustainable investments are in ever greater demand, and no longer merely among the younger generation of investors.

As in the past, clients can choose between asset management and securities advisory services. The latter in particular has changed repeatedly in recent years due to stiffer regulatory requirements, increasing the amount of effort involved for both clients and advisors. As a result, the specialist support provided by the Advisory Office has proven its worth for sophisticated clients in this area, enabling an even more tailored range of services to be offered. Asset management is still the most important service provided by Private Banking. Its consistently strong, competitive results have made it increasingly popular with clients.

It was not possible to hold the normal exclusive events at all locations last year because of the coronavirus pandemic. Instead, a number of digital formats on a variety of topics quickly became established. Although this medium naturally does not replace meetings in person, it was successfully used to provide interesting information on capital market topics and private equity, for example.

ASSET MANAGEMENT

M.M.Warburg & CO's Portfolio Management unit performed well in what was an extraordinary year in 2020. The team's workflows were reviewed early on, in February, and were adapted to facilitate mobile working. This scenario then became reality sooner than expected. The department's decentralized organizational structures with portfolio managers in Hamburg, Hanover, Munich, and Stuttgart meant that a large proportion of internal procedures had already been digitalized. As a result, only minor modifications were needed when the lockdown started in March. Portfolio Management remained fully functional at all times last year.

The first quarter of the year saw turmoil and panic selling on the capital markets. To give just one example, the DAX shed almost 6,000 points between mid-February and mid-March, at times closing at not much more than 8,000 points. Almost all economies fell into steep recession in 2020. We started cutting equity weightings for our asset management mandates back in February so as to limit the risk of losses. At the end of March we started making the first purchases in high-quality stocks offering stable revenues and earnings trends even in times of crisis. Further increases in equity weightings were then made in the following months. These decisions contributed to a situation in which the temporary losses had been made good by the end of the year in almost all asset management strategies, with most investment strategies ending up in positive territory. U.S. stocks in particular had another good run in 2020.

Following a successful year for investments in 2019, Asset Management's clients can now look back on a turbulent 2020 in which major asset losses could be avoided. Once again, good communication at the height of the capital market turbulence in particular, the right asset strategy, and active management are decisive for medium- to long-term asset accumulation. In the course of 2020, the investment process was again expanded to include sustainability (ESG) criteria in order to accommodate sustainability risks to an even greater extent. All in all, capital under management at Asset Management remained at the previous high level in 2020. Due to this and to the large number of all-in-fee models, the unit made a significant contribution to the Bank's net income; in addition, income is highly stable since it is not performance-related.

The Advisory Office used the challenging conditions on the capital markets in 2020 to develop strategic investment ideas. Among other things, these included the growth trend in the technology sector relating to increasing digitalization and process automation in all sectors of the economy, plus the infrastructure expansion that is needed for this growth, which is gaining added momentum from the increased use of renewable energy sources and the rise of e-mobility. In this context, we expanded the functionality offered by the internally developed "INSIGHT ALPHA" app, which is becoming more and more important for the highly customized advisory services offered by Private Banking and Asset Management.

The Asset Management business area's Depositary unit with its control and depositary services assists fund initiators in implementing their financial market products. The unit acts as a depositary for liquid and illiquid investment solutions, offering a broad range of services for monetary and physical assets such as those making up the real estate, private equity, securities, equity investments, and renewable energy asset classes.

Another key focus is on the early and efficient implementation of regulatory requirements. For clients, this means reduced administrative hurdles, improved investor protection, and increased market efficiency. The unit's expertise and excellent quality allow it to offer services along the entire value chain without outsourcing subareas. Tightly integrating the different internal units is one of the main critical success factors in this core business area as well.

Fiscal year 2020 was yet another successful year for the Bank's Depositary unit. Total assets under custody rose by 12% year-on-year to EUR 34 billion (previous year: EUR 30.01 billion). Key drivers for this were the substantial growth in real estate special funds and the addition of WIAG's retail funds. Real estate funds now account for a volume of EUR 24.7 billion, followed by securities funds with EUR 8.6 billion. All in all, the Depositary unit currently provides services for 15 asset management companies.

Warburg Bank has included the Depositary unit in its long-term strategic road map and will make the resulting product-related and operational adjustments. The aim in the next few years is to expand the services provided for liquid asset classes.

WARBURG INVEST HOLDING

Warburg Invest Holding GmbH serves as the holding company for the Warburg Group's asset management companies, WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH and Warburg Invest AG, making it one of the largest asset managers in northern Germany. The companies offer their predominately institutional clients a broad range of customized asset management solutions and comprehensive asset servicing solutions. In addition to conditions in the real economy and the geopolitical situation – which are likely to be dominated in the medium term by the need to deal with the fallout from the coronavirus pandemic – the topic of sustainability will continue to gain momentum, underscored by the legislative measures proposed by the European Commission. As a result, it will have a greater influence on investment decisions by both institutional and private investors. The two companies, which are among the pioneers in this field on the German market, are planning to expand their sustainable product offering. They have both signed up to the United Nations Principles for Responsible Investments (UNPRI) and are assessed by this organization on an annual basis.

WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH

Hamburg-based WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH offers institutional investors management services for asset management mandates taking the form of special funds and discretionary mandates. Another core business area for the company is launching and managing retail funds. Managing retail funds for third-party asset managers rounds off the offering.

Despite a slight decline in the volumes under management, WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH's net fee and commission income was up slightly year-on-year in fiscal year 2020, at EUR 14 million. Net income before taxes amounted to EUR 3.0 million (previous year: EUR 4.5 million). The figure for net income includes extraordinary expenses associated with risk workouts for two funds from the years 2009 and 2010 that have been wound up.

Although assets under management at WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH fell by a slight EUR 0.3 billion in 2020 to EUR 10.2 billion, newly acquired risk management business for overlay mandates in the fiscal year boosted the portfolio volume by EUR 6.3 billion.

New client business was below expectations, with the acquisition of new client relationships being impacted by the restrictions posed by the coronavirus crisis. We interpret decisions to extend existing mandates as a recognition of Portfolio Management's achievements and the high quality of its services.

Overall, performance by the Portfolio Management unit was good. Client satisfaction is high. Stock picks in the specialized area of small and mid-caps in particular were excellent. Equally, though, enhanced global interest rate strategies had the desired effect and ended the year in positive territory. Active asset management remains necessary in view of the ongoing low interest rate strategy adopted by all global central banks and the fact that market volatility is expected to remain high. WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH is ideally positioned to actively respond to capital market developments thanks to the asset management strategies that it offers and the depth of the solutions it offers for a wide range of client requirements.

As in the past, a number of WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH funds and portfolio managers performed well in external fund ratings and rankings in 2020, attracting top marks in some cases from a number of fund rating agencies. The sustainably managed mixed funds, multi-asset and volatility strategies, and the Small & Mid Caps Aktienfonds equities fund all do very well in peer-group comparisons (see for example "Wirtschaftswoche" no. 36/2020, "Asset Standard Stiftungsreport" 10/2020, Lipper Leaders 10/2020, Morningstar 10/2020, Mountain View 10/2020, and Citywire Manager Rating 10/2020). Handelsblatt Research Institute even voted the fund manager for German second-tier stocks one of the most prestigious fund managers in Germany (see "Handelsblatt," November 27, 2020).

WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH worked continuously during the fiscal year to expand activities relating to sustainable investment solutions and to put them on a uniform basis by laying the groundwork throughout the Warburg Group. The volume of sustainably managed assets rose again year-on-year to more than EUR 1.2 billion. Demand for ESG investment solutions will remain strong given the public discussion of climate change and the future inclusion of sustainability criteria in the regulatory requirements to be met by banks and insurance undertakings. Portfolio Management has many years of experience in managing sustainable investment solutions and is valued by investors and fund initiators both for its sustainable mixed funds and for pure-play bond and equities funds.

The launch of a new family of dedicated sustainability funds, "Warburg Invest Responsible" (W.I.R.), and the introduction of a basic sustainability filter for all of WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH's portfolio management mandates reflect this increased client demand.

Warburg Invest AG

Hanover-based Warburg Invest AG offers clients special and mutual fund management and administration services, plus the ability to act as a master investment management company and financial portfolio management services for institutional investors.

Warburg Invest AG had an encouraging fiscal year. The high volatility on the capital markets was a challenge and led many clients – especially those with low risk budgets – to consider reducing their exposure to funds or to allocate high liquidity weightings. Despite these challenges, however, the company was able to offer its clients suitable solutions. As a result, it was possible overall to raise net funds of EUR 1.9 billion for the funds administered by it and EUR 1.7 billion for the funds managed by it. Assets under administration rose by EUR 2.4 billion or 10% to EUR 27.2 billion, while assets under management rose by EUR 2.1 billion or 13% to EUR 18.8 billion. Warburg Invest AG's fee and commission income declined by 4% to EUR 19 million due to the loss of a major client's funds in December 2019, which could not be completely offset by volume growth. However, at EUR 2.6 million net income before taxes was slightly up on the prior-year figure despite these challenges.

As in previous years, Warburg Invest AG was ranked among the leaders in a number of areas of the 2020 TELOS institutional investors' satisfaction study in the "small asset manager" category. The company was ranked first once again for "proactive client contact". It also came second in the "price/performance ratio" and "reporting" categories and third in "bonds," "quality of advice," and "investment process," among other things. These accolades reflect clients' deep satisfaction with Warburg Invest AG.

As a pioneer in the area of sustainable investment, Warburg Invest AG is well positioned to take advantage of this trend. It provides investors with proven, award-winning offerings for global equities investments in the form of the WI Global Challenges Index fund, which in 2020 again received the prestigious sustainability label from Forum Nachhaltige Geldanlagen e. V., and the regional index tracking funds on the MSCI ESG Leaders Indexes.

By applying for admission to trading of an index fund on a best-in class index with an emerging markets focus belonging to Hanover Stock Exchange's GCX Index family, Warburg Invest AG has expanded its sustainable product offering in the equities area to include this previously missing global component. In addition, Warburg Invest AG plans to apply (or in the case of one fund has already submitted an application) for approval to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the Federal Financial Supervisory Authority) to include sustainability criteria at a conceptual level in the fund rules for existing retail funds such as the WI Emerging Market Bonds and the WI Corporate Bonds Fix. This will permit it to systematically align its bond funds as well with sustainability criteria.

The establishment of a joint sales unit at Warburg Invest AG with effect from fiscal year 2021 is another key milestone for the future. This will allow the company to offer existing and new clients single-source asset management solutions for liquid assets and state-of-the-art administration services.

WARBURG DIGITAL

The Digital Office organizes the implementation of Warburg Bank's digital strategy. This chiefly involves tasks relating to the digital integration of clients with the Bank and associated changes in the IT infrastructure. In addition, the subsidiaries are working on specific innovative ideas. At an overarching level, the Bank is working to enhance its cloud strategy, which makes it possible to use a greater number of software applications offering the level of security needed for banking.

Digitalization means not only adapting the technical basis for business but also the organizational forms, skills, communications channels and methods, and culture. The Bank's strategy is to exploit the new opportunities offered by digitalization for the benefit of its clients while at the same time remaining true to the real value offered by personal relationships.

Warburg Navigator

M.M.Warburg & CO's Warburg Navigator offers online asset management – something that is attracting keen interest during the pandemic due to the opportunities it provides to execute transactions, and obtain access to other services, digitally at any time.

At the same time, it has proven that a fully digital product does not have to be impersonal. On the contrary: in 2020 it was used to offer more than 100 webinars and hold a large number of personal discussions with actual and prospective clients. The regular online information events on topics such as retirement provision, ETFs, and capital markets are highly popular and are particularly helpful during turbulent periods on the capital markets for keeping both prospective and actual clients informed of developments.

Warburg Navigator is managed in parallel to the Bank's classic asset management services. This allows clients to benefit from the Asset Management team's expertise and investment philosophy. In addition, the past year in particular has provided further proof that purely automated/rule-based approaches that are not combined with a certain level of qualitative decisions lead to suboptimal results. The slumps in March proved too much for purely rule-based systems. While the Navigator benefits from Portfolio Management's more "analog" asset management skills, classic asset management services can benefit from the experiences gained with digital workflows.

Business magazine "Capital" has recognized sustainable investing as an asset management trend that is here to stay, and has tested how sustainable financial products actually are. "Capital" gave Warburg Navigator top marks: it is not only one of the best robo-advisors in Germany (five-star rating), but also one of the best sustainable robo-advisors in the country (four stars).

W&Z FinTech/OWNLY

W&Z FinTech GmbH, a Warburg Bank subsidiary, operates the "OWNLY Family" asset aggregation software, which focuses on private clients, as well as implementing software projects for banks and other financial enterprises. Its range of services covers the entire value chain for the digital world, from concept preparation and design down to coding and marketing via a wide range of digital channels. W&Z FinTech GmbH specializes in the specific questions involved in implementing client applications for the regulated financial sector. Among other things, it acquired new projects in the areas of investment banking and private equity.

The spring of 2020 saw the launch of the OWNLY Family web application – an extension of the OWNLY app – with which users can manage not only individuals' but also entire families' assets more simply from a PC or laptop. Rounding off the offering is a wide range of analyses and information on everything to do with asset management.

At the end of 2020, users of the OWNLY platform had aggregated information on assets including equities, cash, private equity, real estate, bitcoins, gold, old-timers, and art.

An anthology entitled "Be Your Own Family Office" was published to mark W&Z FinTech GmbH's fifth anniversary in 2020, in which authors looked at asset management during the coronavirus period. For obvious reasons it was not possible to hold a party. To offset this, the OWNLY team celebrated with a trip accompanying the "Peking," a four-masted barque, on its entry into the port of Hamburg – an event that involved a lot of fresh air.

Warburg Family Finance

Warburg Family Finance, which was designed in 2020 and whose launch is planned for 2021, adapts the idea behind OWNLY to the requirements of a private bank's clients and advisors. Warburg Family Finance will provide users not only with asset aggregation functions but also with a new digital channel to access selected Private Banking services, plus a wide range of specialist information from Warburg Bank. Warburg Family Finance is designed to help clients and their families to organize their own asset management activities and to lay the foundations for communicating with the experts from Wealth Management, particularly as regards multi asset advice and asset structuring.

capaccess

In 2020, Corporate Finance drew up the specifications, and then developed the software, for a new investor platform under the capaccess brand name. capaccess is an online platform for issuing, managing, and trading alternative finance products. It is aimed among other target groups at middle-market issuers wishing to strengthen their capital base, and professional and semi-professional investors. Ongoing development of the platform is performed by a specially formed subsidiary, capaccess GmbH, and the system will be made available for private placements in 2021.

Online Media and Communication

2020 and the restrictions that came with it gave all the online media used by Warburg Bank a clear boost. In the Warburg Video Podcast, a number of internal and external experts provide regular updates on market developments plus greater background details on all current economic questions. In addition, regular live online events are held in which it is possible to interact with listeners. Communication via social media channels, and especially LinkedIn, was expanded. This allows actual and prospective clients to keep up to date at all times on current capital market developments using written, audio, and visual materials.

The Bank will continue to support new ideas and initiatives suggested by employees and clients in 2021, and in so doing to demonstrate its digital transformation capacity.

Compliance and Anti-money Laundering

COMPLIANCE AND ANTI-MONEY LAUNDERING

Anti-money Laundering

Combating money laundering, terrorism financing, and other criminal activities

In its National Risk Assessment for 2019, the Federal Ministry of Finance estimates that Germany has a "medium to high" threat of money laundering and a "high" threat of terrorism financing. As regards other criminal activities, the 2019 statistics from the Bundeskriminalamt (BKA – Federal Criminal Police Office) show a drop in the number of cases of fraud and the losses entailed. However, the BKA considers the number of fraud cases that go unreported, and hence the losses involved, to be much higher. Obliged entities under the Geldwäschegesetz (GWG – German Anti-Money Laundering Act), and financial institutions in particular, continue to play an important role here, not least in view of stiffer supervisory requirements relating to combating money laundering, terrorism financing, and other criminal activities.

The Anti-money Laundering Group, which reports directly to the Bank's senior management, ensures that money laundering, terrorism financing, and other criminal activities are prevented and combated, and that any damage to the Bank and its downstream entities is avoided using an effective, Bank-specific prevention policy.

The design of this Group-wide policy is built on, and revolves around, the Bank-specific Group risk analysis, which documents the threats to the Bank and its downstream entities in the areas of money laundering, terrorism financing, and other criminal activities.

The Anti-money Laundering and Fraud Officer regards the Group-wide prevention policy to be an effective means of preventing and combating money laundering, terrorism financing, and other criminal activities. Equally, the Anti-money Laundering and Fraud Officer considers the principles and processes established during the reporting period, and the manual and automatic monitoring and control activities, to be appropriate and effective. In addition, the measures taken by the Anti-money Laundering Group in the 2020 reporting period to avoid risks associated with money laundering, terrorism financing, and other criminal activities comply with the increased supervisory requirements.

WpHG Compliance

The independent Compliance department, which reports directly to senior management, is responsible for identifying, managing, and mitigating compliance risks. This also includes managing conflicts of interest. The WpHG Compliance function monitors the appropriateness and effectiveness of the Bank's resources and procedures and ensures that statutory and supervisory requirements, and the internal rules, are observed. One of Compliance's main goals is to protect clients and investors. The Bank's WpHG compliance risk profile is determined in the course of regular risk analysis. This takes into account the results of previous monitoring and supervisory activities by Compliance itself and by Internal Audit, the results of the audits by external auditors, and all other relevant insights (e.g., those gained from complaints management). Senior management receives regular reports on the results of the risk analysis and of monitoring activities.

MaRisk Compliance

M.M.Warburg & CO has a compliance function that mitigates the risks that could arise from failure to comply with legal regulations and requirements. This MaRisk Compliance function, as it is known, works to ensure that effective processes for complying with the legal regulations and requirements that are material to the Bank, and appropriate checks, are implemented.

In 2020, most of the work on implementing laws and regulations such as ARUG II (the German Act Implementing the Second Shareholder Rights Directive), the FINREP requirements, the Bankaufsichtliche Anforderungen an die IT (BAIT – Supervisory Requirements for IT in Financial Institutions), the SFT Regulation, and the Verwahrstellenrundschreiben (Depositary Circular) was performed, while implementation of the revised Investmentsteuergesetz (German Investment Tax Act) and the Steuerumgehungsbekämpfungsgesetz (German Act Combating Tax Evasion) was completed. The requirements of the BaFin Guidance Notice on Sustainability Risks are also observed.

The sixth set of amendments to the Mindestanforderungen an das Risikomanagement (MaRisk – Minimum Requirements for Risk Management) and the CSDR are currently being implemented/prepared for implementation. The introduction of the CRR II, CRD V, and BRRD II is currently in its final stages. The issues required to be implemented under the Risikoreduzierungsgesetz (German Risk Reduction Act) by the end of 2020, such as the setting of limits under section 15 of the Kreditwesengesetz (KWG – German Banking Act), were completed. In addition, support is being provided for the IBOR transition.

As regards future regulations, the Gesetz zur Einführung elektronischer Wertpapiere (German Electronic Securities Act), which is designed to modernize German securities law and the associated supervisory law, and the Sustainable Finance Disclosure Regulation (SFDR), among other things, are being taken into account.

The COVID-19 pandemic also represents an exceptional situation for the Bank's Compliance functions; it is dominated by mobile working, among other things, and by the need to adapt certain business processes and associated control activities as a result. The experience has been that the unit has adapted rapidly to new requirements and by doing so has contributed to the smooth running of the Bank.

DATA PROTECTION AND DATA SECURITY

Cyberattacks are reported in the media almost every day. They are a considerable source of danger, which is why guaranteeing information security is a major challenge for banks. The Bundesamt für Sicherheit in der Informationstechnik (BSI – Federal Office for Information Security) is seeing a steady increase in new types of malware, and attacks are becoming more and more sophisticated. Combinations of multiple attack vectors such as social engineering, Trojan horses, and encryption software are increasing the danger. One of the key risks that can result is that core applications may not be available; this may impact a large number of business processes, in some cases for relatively long periods.

Information security is not static and is limited to the technology currently in use. In particular, current security levels cannot guarantee the ability to successfully repel tomorrow's attacks. Protective mechanisms and defensive strategies therefore have to be constantly adapted and enhanced, and the protection requirements and risk appetite of the end-user departments – which are the information owners and use the information systems for their business processes – must be surveyed continuously and in full.

The current drive to establish an end-to-end, leading-edge information security management system (ISMS) is both the right approach to take in this situation and what is required by the supervisory authorities. It also includes processes for identifying and rectifying IT security events and for including them in general risk management.

The central Data Protection and IT Security department, to which the Business Continuity Officer is attached, was closely involved in maintaining the Bank's operations following the outbreak of the coronavirus pandemic in 2020 as part of the crisis management team. When performing these functions it took the recommendations of the Data Protection Conference (DSK – the meeting of the independent German data protection commissioners for the federal government and the Länder), and hence the data protection requirements, into account. These are primarily focused on the expansion of mobile working that became necessary during the pandemic.

An IT security audit examined the infrastructures and technical security measures used for mobile working. The use of redundant, virtualized terminal servers to access the Bank's information systems proved its worth in this process, since the approach could be adapted rapidly, flexibly, and securely to meet the challenges.

Looking to the future, the digitalization of almost all areas of life will make further changes to business processes and services necessary so as to permit information to be exchanged between the Bank, clients, service providers, and business partners. This depends on effective management and control processes in order to guarantee that the comprehensive regulatory requirements set out in the BAIT and the data protection legislation can be met. The IT security and data protection staff will ensure that these processes are also secure and do not give rise to any objections from a data protection perspective.

Employees

EMPLOYEES

In 2020, M.M.Warburg & CO's employees mastered the exceptional challenges caused by the coronavirus pandemic with extreme resilience, a high level of flexibility, and untiring dedication. In the course of the year they reacted swiftly to changes that repeatedly happened overnight. The crisis management team started to address the potential impact shortly after the first cases of infection were seen in Germany.

Three years after the G20 summit in Hamburg, the rerouting of core functions to alternative locations that was performed at that time proved a good trial run for meeting the new requirements. The IT function was able to draw on the lessons learned in 2017, and quickly made the switch to mobile working possible. The hygiene policy, which implements the rules set out by the federal government and the Länder, was successively enhanced in the course of the year. At the end of the year, operating in pandemic mode had almost become routine. One proof of this is the signing of an enterprise-wide works agreement on mobile working, which entered into force in December 2020. This had already been on the agenda in the previous year, and it was possible to quickly expand it to reflect the lessons learned in practice and then finalize it.

The number of staff employed rose slightly in 2020. In a vast majority of cases web interviews were used during the recruitment process, although in all cases a face-to-face meeting – which naturally complied with all pandemic-related rules – took place before a final decision was made.

Number of employees

	M.M.Warburg & CO	The Warburg Group
Dec. 31, 2018	684	952
Dec. 31, 2019	664	929
Dec. 31, 2020	688	963
Difference	24	34
Difference in %	3.61%	3.66%

The average age of the workforce at M.M.Warburg & CO declined slightly between 2019 and 2020 to 44.98 years and is thus below the average for the private banking sector as a whole (2019: 45.6 years according to the employers' association). The average length of service of MM Warburg & CO staff fell to 12.08 years.

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

	Average age in years	Average length of service in years
Dec. 31, 2018	45.36	13.02
Dec. 31, 2019	45.23	13.01
Dec. 31, 2020	44.98	12.08

On the labor market, there is still fierce competition among banks for qualified employees. IT specialists and client advisors are in particular demand. Nevertheless, we succeeded in reducing the turnover rate to a good level.

Turnover rate at M.M.Warburg & CO

	Turnover rate (employee resignations)	Turnover rate (total)
Dec. 31, 2018	5.50%	9.12%
Dec. 31, 2019	8.67%	15.24%
Dec. 31, 2020	5.37%	7.45%

The number of illness-related absences was highly satisfying and at a low level compared to the industry as a whole and to other sectors. This is due not least to the increased focus put on occupational health management in recent years.

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

	Illness-related absences	Illness-related absences excluding long-term illnesses
Dec. 31, 2018	4.96%	3.21%
Dec. 31, 2019	4.65%	3.50%
Dec. 31, 2020	4.06%	2.56%

In the area of staff development, the challenge was to enable as many of the planned training courses and other measures to take place under the more challenging conditions dictated by the pandemic-related rules. Almost all events could be held thanks to a wide range of approaches such as small groups, purely web-based seminars, and hybrid training courses. The trainers in particular showed a high level of flexibility and commitment. They reacted within a very short space of time, allowing not only the mandatory training courses but also the many measures on topics such as personal development to go on. In the meantime, the first pandemic-specific training courses are being held: a course for roughly 100 managers is helping them adapt to the changing conditions in the world of work.

The fact that almost all internal get-togethers had to be canceled in 2020 was extremely painful. Family-owned businesses traditionally have extremely close ties between partners, managers, and staff, but it proved impossible to maintain these at the annual company party, the Advent carol service, or other events. Increased communication by newsletter, e-mails, and video messages helped mitigate the cancellation of these events, but could not replace them. We shall have some catching-up to do as soon as realistic opportunities for employee gatherings exist again.

The Partners would like to express their warmest thanks to the Bank's staff for their achievements in 2020. They are keeping operations running with their ongoing readiness to work from home. The extremely good relationship with the works council came into its own in this extraordinary situation. The Partners and shareholders would like to sincerely thank all work council members for this collaboration, and in particular for their great willingness to find pragmatic solutions.

MARCARD, STEIN & CO AG

As a family office, MARCARD, STEIN & CO specializes in end-to-end services for large family estates and ultra high net worth individuals. Its core business is providing strategic and operational support for clients across all asset classes, offering the full range of family office services. A team of approximately 75 highly specialized employees offers the expert knowledge needed for this, advising them with exceptional dedication and the greatest possible discretion.

Clients' wishes to safeguard and protect their families have taken on a new – and in some cases even existential – meaning in the face of the current coronavirus pandemic. This applies not only to health issues but also to risk management and to ensuring they are still able to take decisions and take action in difficult situations such as lockdowns.

MARCARD, STEIN & CO develops concepts offering a higher degree of protection against life risks and also supports clients in strategic wealth management issues and especially in helping to ensure cohesion and unanimous action by families and asset holders.

MARCARD, STEIN & CO enjoys a special position in the heterogeneous family office market thanks to its decades of experience and expertise as a partner for wealth holders, and to its banking license. The family office bank is subject to the full range of supervisory and regulatory requirements, giving clients the highest possible process quality and security. In the year under review, the bank again used this strategic advantage to maintain its quality leadership and expand its market position.

MARCARD, STEIN & CO had a successful fiscal year, lifting its net income. Additional staff were recruited to the team to service new family office mandates. 2020 was a volatile and challenging year for investors above and beyond the pandemic. Sound, diversified strategic allocations made it possible to preserve clients' capital in most cases.

Managing clients' real estate assets is one of the strategic family office's core business areas. This involves managing their directly and indirectly held property portfolios from an investment perspective. The interdisciplinary real estate team draws on its extensive expertise across a very broad range of areas within the real estate industry to act as the owner representative for their clients. The services provided cover drawing up a real estate asset allocation strategy, implementing this by acquiring suitable properties and interests in development projects, performing ongoing asset management, and selling portfolio properties.

Despite strong competition and a market environment dominated by high purchase prices, the real estate team was again able to execute a large number of transactions in 2020, acting successfully on both the buyer and seller sides of the market. Goals included both creating new portfolios (primarily in the residential area) and taking advantage of opportunities to streamline existing portfolios and lock in capital growth. Given the coronavirus pandemic, another focus of activity was on ongoing asset management. For example, individual solutions were found and contractually implemented for a series of commercial tenants that had been hit by revenue shortfalls.

In fiscal year 2020, the Equity Investment Management unit assisted MARCARD, STEIN & CO's clients with a number of projects and business issues relating to the management of their direct equity interests. The department continued expanding its information base, developed reporting structures, and ensured effective reporting for the clients it services. In addition, it investigated new investments and examined a number of potential investments in detail on behalf of clients. Greater emphasis was put on expanding the network of intermediaries, private equity companies, and other multipliers so as to ensure an attractive deal flow.

MARCARD, STEIN & CO significantly increased its private equity fund offering in the fiscal year. Attractive investment opportunities were acquired using a structured search strategy and by increasing MARCARD, STEIN & CO's market visibility. In-house due diligence was positive for six funds, offering MARCARD clients on three continents the ability to adopt a number of different investment styles.

Real estate and equity investments are core elements of asset allocation for clients in general. Attractive investments are in increasingly short supply in both asset classes. At the same time, uncertainty as to whether the coronavirus crisis will lead to a sustained revaluation and market correction has risen considerably.

M.M.WARBURG & CO HYPOTHEKENBANK AG

M.M.Warburg & CO Hypothekenbank AG ("Hypothekenbank"), which was formed in 1995, has focused for more than 25 years on long-term real estate finance and on refinancing these transactions. Business at Hypothekenbank in 2020 was dominated by the consequences of the COVID-19 pandemic, the ongoing low interest rate environment, and stiff competition. At EUR 6.5 million, net income before taxes exceeded planning but was down slightly year-on-year.

The focus on real estate lending again proved its worth in the past year. Hypothekenbank largely provides custom financing for multipurpose office and retail real estate in Germany's metropolitan regions, with loans ranging between EUR 1.0 million and EUR 10.0 million. Properties abroad are also financed and used as security for loans in a few exceptional cases. In the residential real estate area, Hypothekenbank primarily looks to work with long-term investors active in key German centers. Its target clients include commercial investors, institutional investors, and high net worth private clients above and beyond the standardized mass-market business. Hypothekenbank is aiming to further broaden the diversity of its income base over the coming years by successively building a portfolio of short- and medium-term real estate loans (total target volume: EUR 100 million). In addition, a manageable higher-income portfolio of special transactions will be established (total target volume: EUR 70 million). Key focal areas here will be on the expertise and credit quality of the clients, the properties' location quality, and the plausibility of the usage plans. The initial transactions for these portfolios were executed in the past fiscal year.

Without abandoning its conservative decision-making criteria, Hypothekenbank succeeded in consolidating its position in the real estate lending business in its selected market areas, despite the difficult conditions. New business was satisfactory. At EUR 171.7 million, loan commitments were down only 11.2% on the prior-year figure of EUR 193.2 million. Growth in the portfolio of real estate loans was not in line with commitments due to the continued high level of early repayments, especially in relation to the sale of financed properties. However, it did rise from EUR 1,627 million to EUR 1,636 million. The share of Hypothekenbank's loan portfolio accounted for by commercial real estate is clearly in excess of the loans extended for residential properties. A large majority of the exposures have loan-to-value ratios of less than 60%. With respect to the effects of the COVID-19 pandemic, Hypothekenbank is assuming that value adjustments to individual properties cannot be ruled out. However, since the valuations are based on cautious loan-to-value ratios, which in the case of downtown properties are often substantially less than 50% of their market values, there should be an adequate safety margin were the market to decline. No agreements regarding loan deferrals or similar arrangements had to be reached in the past fiscal year with Hypothekenbank clients.

Pfandbriefe are still the main means of refinancing, making it possible to obtain funding for transactions with matching maturities. Demand for low-volume registered mortgage Pfandbriefe in particular increased encouragingly last year. All in all, refinancing sales rose year-on-year from EUR 81.2 million to EUR 131.0 million. Although the money and capital markets experienced temporary turbulence in the first half of 2020 as a result of the COVID-19 pandemic, all of Hypothekenbank's funding requirements could be met in full.

M.M.Warburg & CO has a 60% equity interest in M.M.Warburg & CO Hypothekenbank AG, making the latter part of the Warburg Banking Group. Landeskrankenhilfe VVaG, which owns 40% of M.M.Warburg & CO Hypothekenbank AG, is a private health insurance scheme that is based in Lüneburg. The mutual insurance association, which was founded in 1926, does not belong to the Group and is one of the major and most prestigious organizations in its sector, with approximately 400,000 insurees.

REPORT OF THE SUPERVISORY BOARD OF M.M.WARBURG & CO (AG & CO.) KGAA

The Supervisory Board constantly monitored the senior management in fiscal year 2020 and regularly advised it on its management of the Company. It assured itself at all times that the Executive Board's work was performed in a legally correct and due and proper manner, and that it was fit for purpose. The senior managers in M.M.Warburg & CO (Partners) are also the members of the executive board of the personally liable partner, M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft. Effective December 1, 2020, Matthias Schellenberg was appointed as the fourth member of the senior management team.

The Supervisory Board held six face-to-face meetings in fiscal year 2020, which were attended in all cases by all members of the Supervisory Board and the Partners, either in person or by telephone. The Partners complied with their duty to provide information. They informed the Supervisory Board regularly, in a timely manner, and comprehensively, both in writing and orally, of all questions relating to strategy, planning, business development, internal control mechanisms and internal audit reports, the risk position, risk trends, and compliance that were relevant to the Company and the Group. This also included information on deviations between actual developments and previously reported targets, and between the course of business and planning. The members of the Supervisory Board had ample opportunity to critically review the reports and proposed resolutions submitted by the Executive Board and make their own suggestions. In view of the current situation, the Supervisory Board and the Partners discussed the impact of, and reactions to, the coronavirus pandemic.

In particular, the Supervisory Board discussed in detail all business transactions that were of material importance for the Company on the basis of written and oral Executive Board reports, and reviewed them for plausibility. The Supervisory Board addressed the Company's goals, risk situation, liquidity planning, and equity situation in depth on multiple occasions. It approved individual transactions to the extent that this was required by the law, the articles of association, or the rules of procedure for the Executive Board. In the Supervisory Board's opinion, the Partners have therefore fully discharged their duties to report and provide information to the Supervisory Board. No conflicts of interest occurred in the past fiscal year in relation to Partners or Supervisory Board members that would have had to be disclosed to the Supervisory Board without delay. In addition, the Supervisory Board and the Partners resolved and established an internal procedure for complying with the approval requirements that became necessary as a result of new legal requirements relating to the Supervisory Board's duties to approve certain related party transactions.

The court cases surrounding the cum-ex affair, which are currently still ongoing, were a particular burden on the entire Supervisory Board.

The term of office of all three Supervisory Board members under the articles of association ends at the end of the General Meeting in 2023.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Hamburg, audited the annual financial statements prepared by the Partners and the management report of M.M.Warburg & CO as of December 31, 2020, and issued both of them with an unqualified audit opinion.

The financial statements and the audit reports for fiscal year 2020 were discussed in detail in the Supervisory Board meeting on May 10, 2021. The auditors reported on the key findings of their audit and were available to answer additional questions and provide supplementary information. No objections were raised following the examination and in-depth discussion of the annual financial statements and the combined management report. The Supervisory Board then concurred with the results of the audit by the auditors and came to the conclusion that there are no objections to be raised. The Supervisory Board approved the annual financial statements prepared by the Partners for fiscal year 2020.

It wishes to thank the Partners and all M.M.Warburg & CO employees for their achievements in fiscal year 2020.

Hamburg, May 10, 2021
The Supervisory Board
– Chairman –

CONDENSED ANNUAL FINANCIAL STATEMENTS OF M.M.WARBURG & CO (AG & CO.) KGAA AS OF DECEMBER 31, 2020

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).

Assets			EUR	EUR	Dec. 31, 2020 EUR	Dec. 31, 2019 EUR
1. Cash reserve						
a) Cash-in-hand				1,895,613.25		2,738,945.15
b) Central bank balances				1,168,054,336.43		482,748,382.66
of which: with Deutsche Bundesbank	EUR	1,168,054,336.43				(482,748,382.66)
					1,169,949,949.68	485,487,327.81
2. Loans and advances to other banks						
a) Payable on demand				85,440,173.97		60,162,587.90
b) Other				59,935,043.30		100,411,365.07
					145,375,217.27	160,573,952.97
3. Loans and advances to customers					1,096,026,549.18	1,367,819,580.53
of which: secured by mortgages	EUR	256,970,245.29				(365,998,526.93)
Public-sector loans	EUR	32,352,649.15				(32,459,288.35)
4. Bonds and other fixed-income securities						
a) Money market securities						
aa) public-sector issuers			0.00			0.00
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	0.00				(0.00)
ab) other issuers			0.00	0.00		0.00
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	0.00				(0.00)
b) Bonds and notes						
ba) public-sector issuers			669,005,197.57			550,190,921.81
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	669,005,197.57				(550,190,921.81)
bb) other issuers			938,733,951.96			698,303,790.84
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	902,888,056.28				(673,225,047.86)
				1,607,739,149.53		
c) Own bonds and notes				0.00		0.00
at par	EUR	0.00				
					1,607,739,149.53	1,248,494,712.65
5. Equities and other variable-rate securities					27,394,101.11	32,970,215.53
6. Trading portfolio					50,670,891.99	56,343,048.01
7. Shares in other investees and investors					54,580,982.87	54,694,599.99
of which: in banks	EUR	17,530,187.60				(17,768,717.90)
of which: in financial services institutions	EUR	56,946.49				(56,946.49)
8. Shares in affiliated companies					88,974,645.77	81,682,978.34
of which: in banks	EUR	55,705,451.37				(51,829,451.37)
of which: in financial services institutions	EUR	0.00				(0.00)
9. Fiduciary assets					608,772,687.02	689,703,606.24
of which: fiduciary loans	EUR	0.00				(5,500.00)
10. Intangible fixed assets						
a) Internally generated industrial rights and similar rights and assets				0.00		0.00
b) Purchased concessions, industrial rights and similar rights and assets, and licenses in such rights and assets				810,434.57		963,181.00
c) Goodwill				0.00		0.00
d) Prepayments				2,544,083.27		0.00
					3,354,517.84	963,181.00
11. Tangible fixed assets					198,206,758.58	129,083,903.41
12. Other assets					127,560,197.31	178,701,160.58
13. Prepaid expenses					1,344,995.74	1,531,317.14
14. Deferred tax assets					0.00	0.00
15. Excess of plan assets over pension liability					0.00	0.00
16. Deficit not covered by equity					0.00	0.00
			Total assets		**5,179,950,643.89**	**4,488,049,584.20**

Equity and liabilities			EUR	EUR	Dec. 31, 2020 EUR	Dec. 31, 2019 EUR
1. Liabilities to other banks						
a) Payable on demand				71,290,959.52		63,901,364.39
b) With agreed maturities or periods of notice				614,864,286.21		88,337,455.35
					686,155,245.73	152,238,819.74
2. Liabilities to customers						
a) Savings deposits						
aa) with agreed periods of notice of three months			25,284,007.02			30,703,090.32
ab) with agreed periods of notice of more than three months			4,720,634.27			6,216,563.43
				30,004,641.29		36,919,653.75
b) Other liabilities						
ba) payable on demand			2,608,872,464.41			2,510,491,967.30
bb) with agreed maturities or periods of notice			697,360,190.72			569,986,195.16
				3,306,232,655.13		3,080,478,162.46
					3,336,237,296.42	3,117,397,816.21
3. Certificated liabilities						
a) Bonds issued				0.00		0.00
b) Other certificated liabilities				0.00		0.00
					0.00	0.00
of which: money market securities	EUR	0.00				(0.00)
own acceptances and promissory notes outstanding	EUR	0.00				(0.00)
4. Trading portfolio					51,664,459.10	49,172,457.62
5. Fiduciary liabilities					608,772,687.02	689,703,606.24
of which: fiduciary loans	EUR	0.00				(5,500.00)
6. Other liabilities					70,474,777.55	37,322,818.24
7. Deferred income					8,403,916.45	2,196,266.46
8. Deferred tax liabilities					0.00	0.00
9. Provisions						
a) Provisions for pensions and similar obligations				38,129,543.00		38,052,463.00
b) Provisions for taxes				0.00		0.00
c) Other provisions				12,736,764.51		17,679,002.52
					50,866,307.51	55,731,465.52
10. Subordinated liabilities					103,500,000.00	103,500,000.00
11. Profit participation capital					0.00	0.00
of which: maturing in less than two years	EUR	0.00				(0.00)
12. Fund for general banking risks					3,849,290.71	5,759,670.77
of which: special reserve (HGB s. 340e)	EUR	3,849,290.71				(3,909,670.77)
13. Equity						
a) Subscribed capital				125,000,000.00		125,000,000.00
b) Capital reserves				135,000,000.00		135,000,000.00
c) Revenue reserves						
ca) legal reserve			0.00			0.00
cb) reserve for treasury shares			0.00			0.00
cc) reserves provided for by the articles of association			0.00			0.00
cd) other revenue reserves			0.00			15,000,000.00
				0.00		
d) Net retained profits				26,663.40		26,663.40
					260,026,663.40	275,026,663.40
			Total equity and liabilities		**5,179,950,643.89**	**4,488,049,584.20**

	EUR	Dec. 31, 2020 EUR	Dec. 31, 2019 EUR
1. Contingent liabilities			
a) Contingent liabilities on endorsed bills settled with customers	0.00		0.00
b) Liabilities from guarantees and indemnities	32,566,258.13		35,261,634.34
c) Liabilities from the granting of security for third-party liabilities	0.00		0.00
		32,566,258.13	35,261,634.34
2. Other commitments			
a) Repurchase agreements under sales with an obligation to repurchase	0.00		0.00
b) Placement and underwriting commitments	0.00		0.00
c) Irrevocable loan commitments	151,971,224.24		135,677,055.88
		151,971,224.24	135,677,055.88

Expenses	EUR	EUR	Dec. 31, 2020 EUR	Dec. 31, 2019 EUR
1. Interest expense		18,752,773.05		27,711,099.80
less positive interest		–11,888,798.02		–10,826,367.84
			6,863,975.03	16,884,731.96
2. Fee and commission expense			7,171,674.87	7,034,327.10
3. Net trading expense			0.00	0.00
4. General and administrative expenses				
a) Personnel expenses				
aa) wages and salaries	54,254,038.46			60,114,103.83
ab) social security, post-employment, and other employee benefit expenses	10,263,542.45			10,246,198.85
		64,517,580.91		70,360,302.68
of which: post-employment benefit expenses EUR 2,325,568.20				(2,469,927.54)
b) Other administrative expenses		60,255,458.58		52,813,251.98
			124,773,039.49	123,173,554.66
5. Amortization and writedowns of intangible fixed assets and depreciation and writedowns of tangible fixed assets			11,535,099.22	12,568,860.99
6. Other operating expenses			20,954,491.51	14,152,814.64
7. Writedowns of and allowances on loans and advances and certain securities, and additions to loan loss provisions			23,955,326.47	26,508,592.86
8. Additions to the fund for general banking risks			0.00	0.00
9. Writedowns of and allowances on shares in other investees and investors, shares in affiliated companies, and securities classified as fixed assets			644,075.74	14,064,741.88
10. Cost of loss absorption			0.00	6,927.94
11. Extraordinary expenses			0.00	0.00
12. Taxes on income			0.00	0.00
13. Other taxes not included in item 6			7,484.18	17,023.17
14. Profit transferred under profit pooling, profit transfer agreements, or partial profit transfer agreements			7,447,800.00	0.00
15. Net income for the year			0.00	0.00
Total expenses			**203,352,966.51**	**214,411,575.20**

Income	EUR	EUR	Dec. 31, 2020 EUR	Dec. 31, 2019 EUR
1. Interest income from				
a) lending and money market operations	44,536,248.62			55,729,403.41
less negative interest	–5,905,216.40			–9,591,334.52
		38,631,032.22		46,138,068.89
b) fixed-income securities and registered government debt	–354,380.84			365,146.96
less negative interest	0.00			0.00
		–354,380.84		365,146.96
			38,276,651.38	46,503,215.85
2. Current income from				
a) equities and other variable-rate securities		948,313.04		1,243,374.24
b) shares in other investees and investors		3,568,223.47		4,273,845.41
c) shares in affiliated companies		3,909,000.00		7,222,000.00
			8,425,536.51	12,739,219.65
3. Income from profit pooling, profit transfer, or partial profit transfer agreements			3,496,154.98	2,898,539.35
4. Fee and commission income			100,185,280.18	95,159,837.48
5. Net trading income			6,616,955.01	6,369,242.40
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	0.00
7. Income from the reversal of the fund for general banking risks			1,850,000.00	0.00
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			0.00	0.00
9. Other operating income			29,098,966.83	26,100,748.95
10. Extraordinary income			403,421.62	0.00
11. Income from loss absorption			0.00	24,640,771.52
12. Net loss for the year			15,000,000.00	0.00
Total income			**203,352,966.51**	**214,411,575.20**

	EUR	Dec. 31, 2020 EUR	Dec. 31, 2019 EUR
1. Net loss for the year		–15,000,000.00	0.00
2. Retained profits/accumulated losses brought forward from previous year		26,663.40	26,663.40
		–14,973,336.60	26,663.40
3. Withdrawals from capital reserves		0.00	0.00
		–14,973,336.60	26,663.40
4. Withdrawals from revenue reserves			
a) from the legal reserve	0.00		0.00
b) from the reserve for shares in a parent or majority investor	0.00		0.00
c) from reserves provided for by the articles of association	0.00		0.00
d) from other revenue reserves	15,000,000.00		0.00
		15,000,000.00	0.00
		26,663.40	26,663.40
5. Withdrawals from profit participation capital		0.00	0.00
		26,663.40	26,663.40
6. Transfers to revenue reserves			
a) to the legal reserve	0.00		0.00
b) to the reserve for shares in a parent or majority investor	0.00		0.00
c) to reserves provided for by the articles of association	0.00		0.00
d) to other revenue reserves	0.00		0.00
		0.00	0.00
		26,663.40	26,663.40
7. Replenishment of profit participation capital		0.00	0.00
8. Net retained profits/net accumulated losses		26,663.40	26,663.40

Notes (Extracts)

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 2020 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. Certain portfolios are accounted for under section 253(3) sentence 5 of the HGB; the option in accordance with section 253(3) sentence 6 of the HGB has been exercised in the case of securities accounted for as long-term financial assets that are assigned to other portfolios. Expenses from writedowns of certain securities are offset against income from reversals of such writedowns in accordance with section 340c(2) of the HGB. See note 15 for information on the accounting treatment of securities held that are included in hedges.
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, and of equities and other variable rate securities, that are held for trading is described in the "Trading portfolio" section below.
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 10-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. Reversals of the special reserve may only be made under the conditions specified in section 340e(4) sentence 2 of the HGB. A reversal of EUR 60 thousand was made in the past fiscal year. The previous year saw an addition of EUR 357 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 probable 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. Shares in 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 lives of the individual assets are 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 250 are written off in full in the year of their acquisition. Assets costing between EUR 250 and EUR 1,000 are pooled; this item is insignificant. The pool is depreciated/amortized on a straight-line basis over five years. Prepayments are reported at their nominal amount.

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 2018 G mortality tables published by Klaus Heubeck, which were revised in 2018. 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. 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) was exercised.
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, plus 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.
Global valuation allowances are recognized to reflect inherent credit risks. The way in which these are calculated was modified last year in preparation for RS BFA 7 and is based on the loss that can be expected within a period of one year as a result of the failure to comply with contractual capital and interest obligations in the originally agreed amount or at the originally agreed time (12-month expected loss); gains from the realization of loan collateral received are taken into account during the calculation. This led to a reversal of the global valuation allowance in the amount of EUR 3.9 million. In the previous year, an addition of EUR 5.5 million was made to the global valuation allowance under this valuation method.

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).

Notes (Extracts)

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

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

15. Hedge accounting

Hedged items (assets) are combined with hedging instruments to hedge offsetting changes in fair value from the occurrence of comparable risks. The general measurement principles are not applied to hedges to the extent that, and for as long as, the changes in fair value are offset. The net hedge presentation method is used to present the hedged portion.

16. 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 of 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.

17. 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, as appropriate, and reported separately in the income statement.

NOTES TO THE BALANCE SHEET

18. Loans and advances to other banks

Loans and advances to other banks	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
payable on demand	85,440	60,163
thereof to affiliated companies	6,079	1,075
thereof to other investees and investors	0	0

Other loans and advances to other banks	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
with residual terms of		
a) up to three months	8,585	40,061
b) more than three months to one year	51,350	10,350
c) more than one year to five years	0	50,000
d) more than five years	0	0
Total	59,935	100,411
thereof to affiliated companies	2,436	1,383
thereof to other investees and investors	0	0
thereof subordinated	0	0

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

19. Loans and advances to customers

Other loans and advances to customers	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
with residual terms of		
a) up to three months	422,166	501,101
b) more than three months to one year	129,918	231,142
c) more than one year to five years	422,230	363,958
d) more than five years	121,713	271,619
Total	1,096,027	1,367,820
thereof undated	283,979	334,072
thereof to affiliated companies	165	24,327
thereof to other investees and investors	6,276	6,276
thereof subordinated	2,164	924

The Bank's portfolio of shipping and marine loans, which is diversified by the type of ship involved, amounted to EUR 305.3 million including open-ended committed credit lines to third parties (previous year: EUR 445.5 million).
As in the previous year, there were no repurchase agreements as of the balance sheet date.

20. Bonds and other fixed-income securities

Bonds and other fixed-income securities	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Due in the following year	180,527	412,538
Issued by affiliated companies	14,758	0
Listed	1,607,739	1,248,495
Unlisted	0	0
Subordinated	0	0

The following overview shows the change 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.

	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.	Change
Carrying amount	1,441,649	631,527	810,122

Of these holdings, securities with a carrying amount of EUR 933,821 thousand (EUR 442,866 thousand) were hedged (see note 28). With respect to the remaining holdings in the amount of EUR 507,828 thousand (EUR 188,661 thousand), the volume of write-downs to the lower market value that were avoided totaled EUR 56 thousand (EUR 572 thousand). No writedowns were performed since the impairment is not permanent.

21. Equities and other variable-rate securities

Equities and other variable-rate securities	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Subordinated	2,400	2,400
Listed	0	6,833
Marketable but unlisted	18,808	5,176

The Bank holds investment fund units accounting for more than 10% of the units in circulation with a carrying amount of EUR 19,205 thousand (EUR 0 thousand); this corresponds to the fair value. Of this amount, EUR 13,779 thousand (EUR 0 thousand) can be redeemed giving 30 days' notice. The other units in the amount of EUR 5,426 thousand (EUR 0 thousand) can be returned to the asset management company at the end of the term involved (10 to 16 years). The investment funds are invested in equity interests in companies and did not make any distributions in 2020.
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.

	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.	Change
Carrying amount	2,401	19,962	–17,561

In accordance with section 17 of the RechKredV in conjunction with the definition of investment funds contained in section 1 of the KAGB, this item also contains units in domestic closed-end limited investment partnerships in the amount of EUR 0 thousand (EUR 17,562 thousand).

22. Trading portfolio assets

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

Trading portfolio Assets	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Derivative financial instruments	43,891	52,572
Bonds and other fixed-income securities	6	6
Equities and other variable-rate securities	5,164	3,495
Other assets	1,851	455
Value at risk (VaR)	–241	–185
Total	50,671	56,343

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

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, 2020 EUR thou.	Dec. 31, 2019 EUR thou.	Change EUR thou.
Shares in other investees and investors	54,581	54,695	–114
Shares in affiliated companies	88,975	81,683	7,292

The increase in the shareholdings primarily relates to the capital increases at two affiliated companies; in addition, the figure has been increased by the capital of newly formed company capaccess GmbH.
The merger of Lederwerke Wieman GmbH with the Bank had the opposite effect, reducing this item by EUR 2,668 thousand. Please see notes 32 and 50 for the other major impacts of the merger.
As of December 31, 2020, 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, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Shares in other investees and investors	20,000	20,000
Shares in affiliated companies	55,705	51,829

24. Fiduciary assets

The items reported under Other assets primarily comprise investment funds that were acquired in accordance with the provisions of section 100(1) and (2) of the KAGB.

Item	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Loans and advances to customers	0	5
Shares in other investees and investors	2,676	2,676
Other assets	606,097	687,023
Total	608,773	689,704

25. Intangible and tangible fixed assets

Statement of changes in fixed assets EUR thou.	Purchased concessions	Prepayments	Intangible fixed assets	Tangible fixed assets
Historical cost Jan. 1, 2020	**36,751**	**0**	**36,751**	**187,954**
Additions	588	2,543	3,131	88,814
Disposals	2,256	0	2,256	2,128
Transfers	0	0	0	0
Exchange rate changes	0	0	0	–9,236
Historical cost Dec. 31, 2020	**35,083**	**2,543**	**37,626**	**265,404**
Cumulative depreciation, amortization, and write-downs as of Jan. 1, 2020	**35,787**	**0**	**35,787**	**58,870**
Depreciation and amortization	740	0	740	10,795
Disposals	2,256	0	2,256	2,119
Reversals of writedowns	0	0	0	0
Exchange rate changes	0	0	0	–349
Cumulative depreciation, amortization, and write-downs as of Dec. 31, 2020	**34,271**	**0**	**34,271**	**67,197**
Carrying amounts on Dec. 31, 2020	**812**	**2,543**	**3,355**	**198,207**
Carrying amounts on Dec. 31, 2019	**963**	**0**	**963**	**129,084**

No owner-occupied land and buildings were held as of the reporting date (EUR 0 thousand).
Seven maritime vessels (previous year: four maritime vessels) were recognized in the amount of EUR 190,953 thousand (previous year: EUR 121,326 thousand). The vessels are operated on behalf of the Bank by third parties with experience of the business. EUR 7,254 thousand (EUR 7,758 thousand) relates to operating and office equipment.

26. Other assets

Other assets include collateral relating to executory contracts in the amount of EUR 49,795 thousand (EUR 47,183 thousand). USD cash collateral worth the equivalent of EUR 20,357 thousand (EUR 0 thousand) was furnished as security for contingent repurchase agreements. Current tax receivables were recognized in the amount of EUR 2,801 thousand (EUR 1,111 thousand). Receivables relating to allocation account balances due from affiliated companies and other investees and investors amounted to EUR 7,405 thousand (EUR 10,201 thousand). A receivable of EUR 24,641 thousand was recognized in the previous year under the control and profit and loss transfer agreement with M.M.Warburg & CO Gruppe GmbH dated December 5, 2007 (see note 35). The remaining amounts disclosed here primarily relate to receivables for services rendered but not yet invoiced.

27. Prepaid expenses

Prepaid expenses within the meaning of section 250(3) of the HGB amounted to EUR 0 thousand (EUR 5 thousand). The prepaid expenses in accordance with section 340e(2) of the HGB reported under this item amounted to EUR 0 thousand (EUR 186 thousand).

28. Hedge accounting

Hedges are used to mitigate exposure to interest rate risk.
The critical terms match method is used for prospective testing of the effectiveness of hedging relationships over the entire remaining term; retrospective effectiveness testing is performed by comparing the remeasurement results for the hedged items and the hedging instruments. Ineffectiveness in hedging relationships between the hedged items and the hedging instrument resulting from unhedged risks was accounted for using the imparity principle.

Bonds classified as fixed assets in the nominal amount of EUR 908,200 thousand (EUR 430,700 thousand) were measured using interest rate swaps in the corresponding amounts over the remaining term of the hedged item as part of microhedging. The hedged risks amounted to EUR 7,447 thousand (EUR –5,431 thousand). Positive changes in the fair value of the hedged items are offset by negative changes in the fair value of the hedging instruments for hedged risks. In the previous year, negative changes in the value of the hedged items were offset by changes in the value of the hedging instruments.
The effectiveness tests (critical terms match) show that the offsetting changes over the time of the individual hedges (time to maturity of the hedged item) will probably match in future.
The volume of writedowns to the lower market value resulting from unhedged risks that were avoided totaled EUR 0.7 million (EUR 0.1 million). No writedowns were performed since the impairment is not permanent.

29. Reclassifications

As in the previous year, there were no reclassifications in fiscal year 2020.

30. Assets denominated in foreign currencies

Total assets denominated in foreign currencies amounted to EUR 450,023 thousand (EUR 502,893 thousand).

31. Liabilities to other banks

Liabilities to other banks	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
payable on demand	71,291	63,901
thereof to affiliated companies	48,324	49,875
thereof to other investees and investors	1	2

Liabilities to other banks	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
with residual terms of		
a) up to three months	10,290	16,400
b) more than three months to one year	1,900	23,567
c) more than one year to five years	592,980	21,219
d) more than five years	9,694	27,151
Total	614,864	88,337
thereof to affiliated companies	255	239
thereof to other investees and investors	0	0

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

32. Liabilities to customers

Savings deposits	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
with residual terms of		
a) up to three months	429	196
b) more than three months to one year	3,049	4,309
c) more than one year to five years	1,237	1,700
d) more than five years	6	11
Total	4,721	6,217

Liabilities to customers	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
payable on demand	2,608,872	2,510,492
thereof to affiliated companies	119,659	101,516
thereof to other investees and investors	10,605	21,295

In the previous year, liabilities to affiliated companies included EUR 2,796 thousand that was offset against corresponding receivables in the course of the merger of Lederwerke Wieman GmbH with M.M.Warburg & CO. Please see notes 23 and 47 for the other major impacts of the merger.

Other liabilities to customers	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
with residual terms of		
a) up to three months	255,646	281,627
b) more than three months to one year	230,701	149,068
c) more than one year to five years	201,013	34,292
d) more than five years	10,000	105,000
Total	697,360	569,987
thereof to affiliated companies	5,500	4,500
thereof to other investees and investors	0	0

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

33. Trading portfolio liabilities

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

Trading portfolio liabilities	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Derivative financial instruments	50,097	48,315
Liabilities	1,567	857
Total	51,664	49,172

34. Fiduciary liabilities

Fiduciary liabilities	Dec. 31, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Liabilities to other banks	0	6
Other liabilities	608,773	689,698
Total	608,773	689,704

The items reported under Other liabilities primarily comprise investment funds that were acquired in accordance with the provisions of section 100(1) and (2) of the KAGB.

35. Other liabilities

Other liabilities include collateral held by third parties in the amount of EUR 23,840 thousand (EUR 3,010 thousand). Net income for the reporting period to be transferred to M.M.Warburg & CO Gruppe GmbH (see note 26) was recognized in the amount of EUR 7,448 thousand. Further liabilities to affiliated companies and other investees and investors, which primarily relate to collateral received, amounted to EUR 22,600 thousand (EUR 19,517 thousand). Liabilities to the German tax authorities amounted to EUR 7,684 thousand (EUR 7,797 thousand).

36. Deferred income

Deferred income within the meaning of section 340e (2) of the HGB amounted to EUR 13 thousand (EUR 39 thousand).

37. Provisions

Pensions and similar obligations

The principal assumptions applied as of December 31, 2020, are as follows:

Discount rate p.a.	2.31 %
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 2,851 thousand (EUR 3,001 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.

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 31 thousand; previous year: EUR 30 thousand). The cost of the plan assets was EUR 27 thousand (EUR 26 thousand).

The option not to recognize a liability in the case of pension commitments within the meaning of article 28(1) of the EGHGB was exercised. A pension trend of 1.0% was assumed for the calculations. The present value of the obligations amounted to EUR 224 thousand (EUR 235 thousand). The difference between the two settlement amounts was EUR 3 thousand (EUR 4 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 12,737 thousand (EUR 17,679 thousand), EUR 1,793 thousand (EUR 7,155 thousand) was attributable to variable employee remuneration and EUR 658 thousand (EUR 100 thousand) to loan loss provisions.

38. Subordinated liabilities

Subordinated liabilities totaling EUR 103,500 thousand (EUR 103,500 thousand) can be broken down by maturity as follows:

Amount in EUR thou.	Currency	%	Maturity	Early repayment obligation
500,000	EUR	6.10	Dec. 9, 2021	Not possible
7,000,000	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
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
4,000,000	EUR	3.50	Jan. 17, 2027	Not possible
1,000,000	EUR	3.50	Feb. 28, 2027	Not possible
6,000,000	EUR	3.50	Jan. 12, 2027	Not possible
3,000,000	EUR	3.50	Jan. 24, 2027	Not possible
2,000,000	EUR	6.10	Dec. 9, 2021	Not possible
500,000	EUR	6.10	Dec. 9, 2021	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 4,864 thousand (EUR 5,318 thousand) were incurred for subordinated liabilities in the reporting period.

Subordinated promissory note loans were recognized in the amount of EUR 70,000 thousand (EUR 70,000 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.

The total includes registered bonds in the amount of EUR 33,500 thousand that have been recognized for supervisory purposes as additional Tier 1 capital (AT1). 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.

Notes (Extracts)

39. Equity

M.M.Warburg & CO Gruppe GmbH has informed us in accordance with sections 20(1) and (4) of the of the Aktiengesetz (AktG – German Stock Corporation Act) that it holds a majority interest in M.M.Warburg & CO.

Changes in subscribed capital

The subscribed and fully paid-up share capital of M.M.Warburg & CO is held in full by M.M.Warburg & CO Gruppe GmbH.
The subscribed capital remained unchanged as against the previous year; it is composed of 125,000 no-par value registered shares 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

EUR 15,000 thousand (EUR 0 thousand) was withdrawn from the revenue reserves to offset the loss for the period.

40. Liabilities denominated in foreign currencies

Liabilities denominated in foreign currencies amounted to EUR 432,563 thousand (EUR 518,584 thousand).

41. Collateral pledged

As of the reporting date, securities in the amount of EUR 736,781 thousand (EUR 212,485 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 74,911 thousand (EUR 55,212 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 49,795 thousand (EUR 47,183 thousand) was furnished for OTC derivatives transactions.
Collateral of EUR 42,852 thousand (EUR 19,760 thousand) was furnished for exchange-traded derivatives.

42. Contingent liabilities and other commitments

Contingent liabilities include other guarantees amounting to EUR 32,566 thousand (EUR 35,262 thousand). Irrevocable loan commitments of EUR 151,971 thousand (EUR 135,677 thousand) are disclosed as other commitments.
The risk of loss from the crystallization of contingent liabilities is mitigated by opportunities for recourse against the individual clients concerned and is thus essentially limited to the clients' 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, where appropriate, assesses the expected 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, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Interest income	3,212	5,019

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 29,099 thousand (EUR 26,101 thousand) includes income from the operation of marine vessels of EUR 22,350 thousand (EUR 13,167 thousand) and income from agency activities of EUR 3,140 thousand (EUR 2,371 thousand). Provisions not relating to the lending business were reversed in the amount of EUR 618 thousand (EUR 1,522 thousand).

47. Extraordinary income

Extraordinary income of EUR 403 thousand (EUR 0 thousand) generated in the fiscal year related to the gain resulting from the merger of Lederwerke Wieman GmbH with the Bank. Please see notes 23 and 32 for the other major impacts of the merger.

48. 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, 2020 EUR thou.	Dec. 31, 2019 EUR thou.
Interest expense	4,079	5,957

49. Other operating expenses

Other operating expenses in the amount of EUR 20,954 thousand (EUR 14,153 thousand) include expenses of EUR 16,783 thousand (EUR 8,344 thousand) arising from the operation of maritime vessels. The expense from the unwinding of discounts on provisions amounted to EUR 2,575 thousand (EUR 2,986 thousand).

50. 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 income and expense from the measurement/sale of shares in other investees and investors, shares in affiliated companies, and securities classified as fixed assets and amounted after offsetting to EUR –644 thousand (EUR –14,065 thousand). In the case of microhedges, the pro rata writedowns of the premium paid in above-par acquisitions of securities classified as fixed assets are recognized in net interest income due to the offsetting payments from the hedge (EUR 4,603 thousand). The prior-year amount included EUR 11,715 thousand that was recognized in income due to the reversal of a sales agreement entered into in 2018.

51. Assumption of losses under profit pooling, profit and loss transfer agreements, or partial profit and loss transfer agreements

Whereas M.M.Warburg & CO Gruppe GmbH was obliged in the previous year to offset the loss for the period of EUR 24,641 thousand, a profit of EUR 7,448 thousand was transferred to the Company in the fiscal year under review.

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 6,000 thousand (EUR 5,974 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 totaling EUR 7,414 thousand (EUR 5,430 thousand) exist for the prescribed dry dock inspections of, and upgrades to, the marine vessels in the Bank's portfolio; these expenses will be incurred in 2022 to 2025.
As of December 31, 2020, the Bank had call obligations totaling EUR 250 thousand to two companies, and of EUR 14,400 thousand to a fund.

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; and
- 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 are allocated to the non-trading book and were not recognized at fair value.

	2020			2019		
EUR thou.	Notional values	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Interest rate swaps	1,929,709	24,192	28,910	950,899	20,671	25,598
Forward interest rate swap (OTC)	9,000	55	52	0	0	0
Floors (OTC)	0	0	0	0	0	0
Caps (OTC)	12,613	3	2	17,950	9	9
Total	1,951,322	24,250	28,964	968,849	20,680	25,607

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 on the balance sheet.

Trading transactions

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

	2020			2019		
EUR thou.	Notional values*	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Currency transactions						
Currency forwards	4,140,009	43,032	50,075	3,740,111	50,709	46,718
Currency options	103,122	778	812	327,956	1,810	1,456
Total	4,243,131	43,810	50,887	4,068,067	52,519	48,174
Equity/index transactions						
Stock options	100	0	0	927	113	16
Equity index options	325	113	64	330	27	5
Equity index futures	23	0	0	9	0	0
Total	448	113	64	1,266	140	21

* The figures for equity/index transactions give the number of transactions concerned.

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

The Bank employed an average of 673 (665) people in fiscal year 2020. This figure can be broken down as follows:

	2020			2019
	Female	Male	Total	Total
Employees	290	369	659	654
Vocational trainees	2	12	14	11
Total	292	381	673	665

55. Shareholdings

1. Affiliated companies

Name and domicile of the company	Equity interest in %	Re-porting cur-rency	Equity in EUR thou.	Profit/ loss in EUR thou.	
capaccess GmbH, Hamburg	100.00	EUR	799	–26	**
M.M.Warburg & CO Hypothekenbank AG, Hamburg	60.01	EUR	96,531	4,193	
Marcard Family Office Treuhand GmbH, Hamburg	100.00	EUR	78	28	**
MARCARD, STEIN & CO AG, Hamburg	100.00	EUR	12,052	PLTA	
New Bond Street GmbH, Berlin	100.00	EUR	48	0	*
W&Z FinTech GmbH, Hamburg	75.00	EUR	66	–466	**
Warburg Invest AG, Hanover	100.00	EUR	14,761	1,883	
Warburg Invest Holding GmbH, Hanover	100.00	EUR	24,302	1,867	
WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, Hamburg	100.00	EUR	15,222	1,630	
Warburg Research GmbH, Hamburg	100.00	EUR	2,310	755	

2. Equity investments

Name and domicile of the company	Equity interest in %	Re-porting cur-rency	Equity in EUR thou.	Profit/ loss in EUR thou.	
An der Börse 7 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	351	127	
BPE Fund Investors II GmbH, Hamburg	1.00	EUR	25,865	–336	*
BPE Institutional Partners G.m.b.H., Hamburg	0.80	EUR	4,146	–908	*
CredaRate Solutions GmbH, Cologne	12.88	EUR	3,519	903	*
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt	11.10	EUR	3,888	595	*
Equita GmbH & Co. Holding KGaA, Bad Homburg	2.94	EUR	44,100	43,753	*
Ferdinandstraße 75 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	1,890	658	
GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft mbH & Co. KG, Grünwald	5.00	EUR	35,000	1,550	*
GEDO Verwaltungsgesellschaft mbH, Grünwald	5.00	EUR	112	3	*
HIH Global Immobilien GmbH & Co Erste Neuseeland KG, Hamburg	18.13	EUR	35,048	151	*
Lloyd Fonds Britische Kapital Leben III. GmbH & Co. KG, Innsbruck	0.16	EUR	23,282	906	*
M.M.Warburg Bank (Schweiz) AG i.L., Zurich	100.00	EUR	17,468	1,095	*
Marmorsaal im Weißenburgpark GmbH, Stuttgart	24.00	EUR	39	1	*
Quantum Immobilien AG, Hamburg	10.00	EUR	163,380	61,214	*
Society for Worldwide Interbank Financial Telecommunication S.C.R.L. (SWIFT), La Hulpe	0.03	EUR	–	–	
Steyler Bank GmbH, Sankt Augustin	2.00	EUR	17,985	–375	*
Warburg-HIH Invest Real Estate GmbH, Hamburg	10.00	EUR	8,196	0	*

** Equity and profit/loss for fiscal year 2019. Currency translation rate used: EUR/CHF 1.0871.*
*** Preliminary figures for fiscal year 2020.*

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. Governing bodies

General Partners

M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft, Hamburg, which is represented by:

Joachim Olearius
Back Office – Spokesman for the Executive Board

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

Patrick Tessmann
Front Office – Member of the Executive Board

Matthias Schellenberg
Front Office – Member of the Executive Board

As of the reporting date, loans and advances totaling EUR 500 thousand (EUR 500 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 remuneration of EUR 1,986 thousand (EUR 1,941 thousand) for fiscal year 2020. As in the previous year, there was no profit-related remuneration falling due after the adoption of the annual financial statements.

Shareholders' Committee

Dr. Bernd Thiemann
Management Consultant
Chairman

Prof. Burkhard Schwenker
Management Consultant
Deputy Chairman

Dr. Henneke Lütgerath
Chairman of the Board of the Joachim Herz Stiftung

Dr. Claus Nolting
Lawyer
From January 1, 2021

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 90 thousand (EUR 101 thousand).

Supervisory Board

Dr. Bernd Thiemann
Management Consultant
Chairman

Prof. Burkhard Schwenker
Management Consultant
Deputy Chairman

Dr. Claus Nolting
Lawyer

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 190 thousand (EUR 107 thousand).

57. Offices held as of December 31, 2020

Joachim Olearius
Chairman of the Supervisory Board, M.M.Warburg & CO Hypothekenbank AG, Hamburg
Chairman of the Supervisory Board, MARCARD, STEIN & CO AG, Hamburg
Chairman of the Supervisory Board, WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, Hamburg
Chairman of the Supervisory Board, Warburg Invest Holding GmbH, Hanover
Member of the Supervisory Board, KanAm Grund Kapitalanlagegesellschaft mbH, Frankfurt

Dr. Peter Rentrop-Schmid
Chairman of the Supervisory Board, Degussa Bank AG, Frankfurt
Chairman of the Supervisory Board, GBK Beteiligungen AG, Hanover
Chairman of the Supervisory Board, Warburg Invest AG, Hanover; until October 31, 2020
Deputy Chairman of the Supervisory Board, MARCARD, STEIN & CO AG, Hamburg
Deputy Chairman of the Supervisory Board, GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft & Co. KG, Grünwald

Patrick Tessmann
Chairman of the Supervisory Board, Warburg Invest AG, Hanover; since November 8, 2020
Deputy Chairman of the Supervisory Board, Warburg Invest AG, Hanover; until November 7, 2020
Deputy Chairman of the Supervisory Board, Warburg Invest Holding GmbH, Hanover
Member of the Supervisory Board, MARCARD, STEIN & CO AG, Hamburg

Dr. Christoph Greiner
Member of the Supervisory Board, Warburg Invest Holding GmbH, Hanover

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

58. Consolidated financial statements

M.M.Warburg & CO Gruppe GmbH, Hamburg, prepares exempting consolidated financial statements and an exempting 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 26, 2020, to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditors of the financial statements for fiscal year 2020.
Audit fees net of VAT in the amount of EUR 1,403 thousand (EUR 1,739 thousand) were recognized in income, as were fees for statutory assurance services of EUR 242 thousand (EUR 283 thousand). Other services in the amount of EUR 780 thousand (EUR 3 thousand) were invoiced.
The feels primarily relate to due diligence services for ongoing and planned transactions.

60. Appropriation of net retained profits

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

Hamburg, April 27, 2021 M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

M.M. Warburg & CO Geschäftsführungs-Aktiengesellschaft

M.M.WARBURG & CO
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