M.M.WARBURG & CO

BANK

Annual Report

2019

CONTENTS

BUSINESS PERFORMANCE AT A GLANCE

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

in EUR million	2019	2018
Net income before taxes	–40.3	–10.3
Net interest income	43.8	45.2
Net fee and commission income	150.9	121.4
Administrative expenses (including depreciation, amortization, and writedowns)	199.4	173.3
Total assets	6,303.6	5,763.8
Business volume	6,338.9	5,798.9
Own funds	393.1	459.3

Bank

in EUR million	2019	2018
Net income before taxes	–24.6	7.1
Net interest income	45.2	36.6
Net fee and commission income	88.1	79.4
Administrative expenses (including depreciation, amortization, and writedowns)	135.7	127.0
Total assets	4,488.0	5,491.3
Business volume	4,523.3	5,525.0
Own funds	376.1	377.9

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

Partners
Joachim Olearius *(Spokesman)*
Dr. Peter Rentrop-Schmid
Patrick Tessmann

Executive Directors
Dr. Jens Kruse
Henry Werkmeister
Dominik Wilcken

General Counsel
Dr. Christoph Greiner

REPORT OF THE PARTNERS

The political and social environment in 2019 remained dominated by uncertainty. Media reports focused on the uncompromising demands made by politicians, populists, and idealists such as Boris Johnson, Donald Trump, and Greta Thunberg, whereas nuanced viewpoints went almost unheard. Brexit negotiations between the European Union and the United Kingdom in London and Brussels took on marathon status before a date was finally set at the end of the year for the UK to officially leave the EU on January 31, 2020. Controversial debates erupted about climate change even though it should be clear to everyone that there are ecological limits to human behavior and that our ecosystem needs protecting. More and more demands to save the climate, and good intentions as to how to go about this, were heard – and not just at the ongoing "Fridays for Future" demonstrations. Nevertheless, the UN Climate Change Conference in Madrid disappointed many people. Everyone on the planet is now facing a long, intensive process of change – a major challenge that affects all continents, countries, and sectors.

2019 was also an important election year, although projecting election results now seems almost as unreliable as weather forecasting. Almost nobody had reckoned with the collapse of the "big-tent" parties in the European elections. The effects on German domestic politics can be felt down to the present, with repeated doubts being voiced about the stability of the Grand Coalition. Results such as those for the Thuringian state parliament elections and the events that followed show that the political situation remains highly unpredictable in 2020.

According to some experts, Germany has neglected its infrastructure and is therefore not particularly well-prepared for the age of digitalization and electromobility. The parties in government say that wind power capacity and the grid needed to service it are being expanded too slowly, yet resistance to the disfigurement of the landscape and night lighting is growing. Numerous planning regulations prevent the modernization of railways, roads, and the telecommunications infrastructure. As a result, Germany is still a developing country when it comes to digital transformation, despite the initiatives that have been launched. Nobody knew at the time this criticism was voiced that the coronavirus pandemic would make digital infrastructures even more important in 2020. These exceptional circumstances may actually end up accelerating digitalization. However, what is definitely clear is the need for further action in this area by both politicians and business.

The intense debate about fake news, manipulation, threats, and trolling in online media and on social networks continued in 2019. These challenges and dangers caused by the downsides to the information age have not yet been overcome. Some users are drawing their own conclusions and fleeing (temporarily) by doing a digital detox.

At the start of 2019, nearly all economic experts underestimated how close the German economy would come to recession. However, it should be said that Warburg Bank's macro research was the most accurate of all the banks' economic forecasts. Averaged over the year, the German economy grew by just half a percent. This was due not least to consumer appetite: a further increase in employment, minor tax breaks, and higher wages led to an average rise in consumer spending of 1.6% year on year. By contrast, exporters suffered the vagaries of "Trumpian" trade policy and the tug-of-war over Brexit.

For capital market investors, 2019 was a thoroughly good year, with nearly all relevant asset classes and markets turning in a positive performance. Germany's bellwether stock indices rose substantially.

The current exceptional situation caused by the corona pandemic puts any review of 2019 in a completely new light. The uncertainty experienced in 2019 now seems much less serious given the economic and social impacts of the spread of the Covid-19 virus, to the extent that this can be estimated at present. This goes to show once again how relative the terms "stability" and "security" are.

Mission and strategy

M.M.Warburg & CO is an independent, middle-market private bank embedded in a holding structure. It has been privately owned throughout the 222 years for which it has been in business. This demonstrates its stability and long-term philosophy, and guarantees a mindset and approach that is independent of institutional, political, and short-term considerations. The Group parent, M.M.Warburg & CO Gruppe GmbH, holds 100% of the shares in Warburg Bank.

The integration of its former banking subsidiaries was completed as of the year-end, giving M.M.Warburg & CO a regional presence throughout Germany in the form of its headquarters in Hamburg and nine offices in Berlin, Braunschweig, Bremen, Frankfurt, Hanover, Cologne, Munich, Osnabrück, and Stuttgart. Together with its two remaining banking subsidiaries MARCARD, STEIN & CO AG and M.M.Warburg & CO Hypothekenbank AG, the asset management companies Warburg Invest AG and WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, and Warburg Research GmbH, the Bank provides a comprehensive range of universal banking services that are organized into four business areas: Private Banking, Asset Management, Capital Markets, and Corporate Banking. Its product and service offering is aimed at high net worth private individuals, middle-market and shipping companies and their owners, and institutional clients.

Independence, partnership, discretion, reliability, and continuity are the principles that guide the Bank's actions and that its partners – Joachim Olearius, Dr. Peter Rentrop-Schmid, and Patrick Tessmann – not only embody themselves but also pass on to their staff. M.M.Warburg & CO provides its clients with objective expertise as both a professional advisor and a partner. Discretion, dependability, and reliability are absolutely vital for building trusting business relationships that are meant to last, and for ensuring sustainable growth generating long-term returns.

As an owner-managed, middle market bank, M.M.Warburg & CO sees digital transformation and sustainability as opportunities to continuously enhance its comprehensive range of competitive banking services to meet client needs and future requirements, while remaining squarely focused on delivering client benefits. This is why it implemented or launched additional organizational and strategic change processes during the past fiscal year.

Private clients can be assured of receiving comprehensive support and independent advice on everything to do with their assets. Our range of services builds on thorough analysis and comprehensive solutions for structuring, preserving, and growing private fortunes, and are complemented by digital asset management and a digital family office. Business magazine "€uro" ranked the quality of our advisory services as "very good". Outstanding portfolio management plus continuously updated active and passive fund strategies ensure the entire value chain is covered.

The Corporate Banking business area, which provides comprehensive support for all commercial client relationships – company owners, corporate clients, and maritime companies – was split into two units, Company Owners and Real Estate Clients, and Shipping, and streamlined. Front office support for credit clients throughout Germany is provided centrally by the unit's management at the Bank's Hamburg headquarters.

In addition, company owners and companies can rely on Corporate Finance's expert advisory services when required. Whether they are thinking of a public listing, a bond issue, acquiring another company, or restructuring their liabilities, they can call on the support of the Bank's team of expert transaction specialists at almost all locations. These experienced staff are some of the leading advisors in the areas of mergers & acquisitions (M&A), venture capital (VC), debt and mezzanine markets (DMM), and equity capital markets (ECM). Their activities also benefit from the Bank's Equity Sales unit, with its strong track record of placing shares, and Warburg Research GmbH's leading-edge equities research.

The Markets and Institutional Banking (MIB) unit was restructured in line with its tasks and focus areas and now comprises the Asset Management Market, Treasury, Equities, and Fixed Income & FX subdepartments. Under the new structure, business area management provides support for the unit managers in aligning and managing the entire area. New appointments were made to a number of management positions. Treasury operations were repositioned to reflect the ongoing low interest rate environment. This unit is responsible for managing all liquidity and funding risks within the Bank and for making sure that the latter is solvent at all times. It also ensures compliance with supervisory liquidity indicators and manages all market risk in the banking book, plus the strategic securities portfolios.

Asset Management continued its growth trajectory. The Bank's highly respected macroeconomic research is used to help reach investment decisions. Asset Management had a highly successful year and generated gratifying returns for clients. This also resulted in performance-related fees being paid. In addition, the unit developed a highly popular sustainable investment strategy. Excellent new management was appointed to head the Advisory Office, which acts as a competence center for picking equities, investment funds, bonds, and certificates. This gives our investment advisors continued access to concentrated, in-depth securities expertise.

Back office operations were reorganized into three departments: Credit Back Office, Transaction Services, and Bank Operations. The newly created Transaction Services departments now comprises three units: Custody Account Services, Clearing and Settlement, and Derivatives Services. The Custodian Bank Support unit was expanded and renamed Custody. This unit acts as a custodian for assets and bank balances under the Kapitalanlagegesetzbuch (KAGB – German Investment Code) and comprehensively monitors all transactions by the funds it supports. In the banking area itself, the top priority is to ensure the smooth, punctual settlement and performance of all domestic and foreign incoming and outgoing payments, derivatives, documentary business, money market and currency transactions, and master data and client services activities.

The pace of technical innovation in the banking sector has accelerated rapidly over the past decade. At the same time, regulatory standards for data security and data interchange – such as the Supervisory Requirements for IT in Financial Institutions (BAIT) – are becoming stricter and stricter. In 2019, a strategic decision was taken to replace our core banking system and other related systems. The decision to make rather than buy was reached due to the realization that preserving the Bank's independence depends fundamentally on retaining full control of our IT systems and data. The decision to invest in a stable, powerful, and forward-looking IT infrastructure will entail increased staff costs and lead to not inconsiderable migration costs in the coming years.

The position of Chief Digital Officer was established at headquarters to ensure end-to-end support for digital services. The CDO's main task is to drive forward the Bank's digital strategy, select innovative digital business models, and tap into digital revenue streams within the Warburg Banking Group's core competencies.

Business performance

Consolidated total assets for the companies held by M.M.Warburg & CO Gruppe GmbH rose by EUR 539.8 million year-on-year to approximately EUR 6.3 billion. This is primarily due to the reconsolidation of M.M.Warburg & CO Hypothekenbank AG. Realignment of asset-liability management and a reduction in fiduciary assets partly offset this.

The Warburg Group's operating income rose substantially year-on-year. The significant increases in net fee and commission income to EUR 150.9 million (previous year: EUR 121.4 million) and net trading income to EUR 7.0 million (previous year: EUR 3.9 million) were in line with our forecasts, as was the slight decline in net interest income to EUR 43.8 million (previous year: EUR 45.2 million).

Administrative expenses also performed largely according to plan. Personnel expenses rose slightly year-on-year after adjustment for structural changes to EUR 107.6 million (previous year EUR 97.0 million), due to severance payments. Other administrative expenses increased as had been expected, particularly as a result of levies and fees. Amortization, depreciation, and write-downs were substantially higher than anticipated due to accelerated tax depreciation in connection with the sale of ships held in the Bank's portfolio.

Operating income rose faster than expenses, resulting as expected in a slight year-on-year improvement in the cost-income ratio to 98.8% (previous year: 101.6%).

Remeasurement gains and losses in the lending business were dominated by the clear increase in the risk shield for shipping finance and a transition effect of EUR 5.5 million on global valuation allowances due to their calculation in accordance with IDW RS BFA 7 (Accounting Principle 7 issued by the Banking Committee of the Institute of Public Auditors in Germany). Net loan loss provisions amounted to EUR 60.8 million. Net income from long-term financial assets includes EUR 9.1 million in expenses from the reversal of the sale of M.M.Warburg & CO Hypothekenbank AG. Other negative factors were additional tax payments for previous years amounting to EUR 21.7 million plus interest resulting from a "factual understanding" (*tatsächliche Verständigung*) and the adjustment made to the provision for operational risks.

Largely due to these items, M.M.Warburg & CO Gruppe GmbH closed the fiscal year with a loss of EUR 61.8 million (EUR 14.6 million). These extraordinary negative effects meant that we were unable to meet our expectation of generating positive net income in the single-digit million range and of improving our return on equity.

Warburg Bank's total assets amounted to EUR 4.49 billion as at the 2019 year-end. This represents a planned decrease compared to the figure for the previous year (EUR 5.49 billion). Both the Bank's net income and consolidated net income were impacted by loan loss provisions. The parent company assumed EUR 35.0 million of this directly under a risk assumption agreement. Overall, however, the Bank's net income for the year of EUR –24.6 million was impacted by special items totaling EUR 40.8 million.

Adjusted net income for the reporting period therefore amounted to EUR 16.2 million – in excess of our expectations and of the prior-year figure (EUR 7.1 million).

Operational risk

The media reporting about certain securities transactions executed around dividend dates ("cum-ex transactions") that has been ongoing since 2016 has now spread beyond banks to the political sphere and the supervisory authorities, and has also reached the courts. Although the final report of the Bundestag committee of inquiry on the cum-ex transactions, which was published in June 2017, demanded clarification of the role played by the domestic custodian banks – which have been obliged since the *Jahressteuergesetz 2007* (German Annual Tax Act 2007) to remit the investment income tax on such transactions – this crucial aspect is still being neglected.

The main hearing in the criminal proceedings resulting from the cum/ex transactions that were brought against two London-based share traders opened before the Bonn Regional Court in the fall of 2019. The Warburg Group was treated as a "potential person with an interest in the confiscation of gains" *(Einziehungsbeteiligte)* in these proceedings; this means that the court can order the recovery of the proceeds of the crime from it even if it did not perpetrate or participate in the criminal act itself. The Bonn Regional Court then ordered the recovery of proceeds amounting to EUR 176.6 million from the Warburg Group in its judgment of 18 March 2020. The Warburg Group immediately appealed against this decision to the Federal Court of Justice, since it is convinced that it will not stand up to legal review.

Between 2007 and 2011, Warburg Bank executed transactions involving German shares over the dividend date ("single futures") for which a domestic custodian bank acted on behalf of the seller of the shares. M.M.Warburg & CO paid the purchase price for shares with dividend rights ("cum") including the investment income tax in all cases. Senior management is convinced that its tax treatment of the transactions complies with the legal requirements and that it is in keeping with tax law. The custodian bank was legally required to remit the tax, but would seem to have neglected its duty to do so according to the facts known at present. Consequently, Warburg Bank has brought a court action for recourse against the custodian bank.

The aggregate profit from these transactions, for which investment income tax of EUR 169 million was credited, was approximately EUR 68 million for this period (EUR 46 million after taxes). The largest portion of the difference between the amounts given above was received by other market participants, some of whom are the subject of investigative proceedings. The transactions were confirmed by external auditors and reviewed by the tax authorities.

In 2009 and 2010, WARBURG INVEST KAG mbH managed two funds that executed transactions involving German shares over the dividend date for which a domestic custodian bank acted on behalf of the buyers. The total management fees received by WARBURG INVEST KAG mbH amounted to EUR 0.78 million. Investment income tax totaling EUR 109 million was credited to the funds, which were beneficially owned by the investors, for this period.

During the trial at the Bonn Regional Court, the latter initially resolved to treat WARBURG INVEST KAG mbH as an *Einziehungsbeteiligte* in accordance with section 73ff. of the Strafgesetzbuch (StGB – German Criminal Code). The court put the potential sum to be recovered at EUR 110 million, with roughly one half of this amount being attributable to each of the funds. The amount corresponds to the investment income tax plus solidarity surcharge previously refunded to the two funds. The court then resolved not to treat WARBURG INVEST KAG mbH as an *Einziehungsbeteiligte* in the proceedings in question so as to be able to reach a decision in the criminal case more quickly.

In 2012 to 2015, WARBURG INVEST KAG mbH managed two funds that executed equities transactions, repo transactions, and securities lending transactions with shares around the dividend date, with purchase and delivery of the equities taking place before that date ("cum/cum transactions"). The transactions were performed in the context of investment advice provided by third parties. Both funds underwent external tax audits for the 2012 assessment period that were completed without any changes being made to their bases of taxation. In February 2018, an external tax audit was ordered for the 2013 to 2015 assessment periods, which are still open to review. After the Federal Finance Ministry published an administrative opinion on cum/cum transactions in July 2017, WARBURG INVEST KAG mbH commissioned an external tax expert to examine any potential tax risk that could result in the company having to make additional tax payments. Based on this opinion, the company continues to assume that no claims can be brought against one of the two funds. In the case of the second fund, the Bank is of the opinion that there are overriding reasons why WARBURG INVEST KAG mbH should not be held liable.

Since 2016, the public prosecutor's office in Cologne has been investigating current and former senior executives and employees of WARBURG INVEST KAG mbH in connection with these transactions on the grounds of an initial suspicion of tax evasion. WARBURG INVEST KAG mbH is cooperating in full with the public prosecutor's office and the tax investigators.

The shareholders unreservedly support the Warburg Group and have ensured it is in a financial position to meet all potential claims for tax credits to be repaid and for recovery amounts associated with the securities transactions. All risks have been covered using instruments that are recognized under accounting law and supervisory law.

As the consolidated tax group parent, M.M.Warburg & CO's parent company, M.M.Warburg & CO Gruppe GmbH, has recognized a provision for operational risks. In addition, the principal shareholders of M.M.Warburg & CO Group GmbH have assumed liability for the sums involved and undertaken to cover risks to which Warburg Bank and WARBURG INVEST KAG GmbH are exposed.

Corporate citizenship

Max M. Warburg founded the "Hamburgische Gesellschaft" (now the "Hamburgische Brücke – Gesellschaft für private Sozialarbeit e. V.") in 1913. This association was the starting point for the Bank's corporate citizenship activities and it still supports it financially today. 1898 saw the formation of the "Warburg – Melchior – Olearius Foundation" to mark the Bank's centennial. This serves today as the umbrella for all the Bank's charitable activities – a major component of its corporate philosophy from the start.

To ensure effectiveness, support is concentrated on selected projects, which are chosen without any regard to existing ties, the nature of the need involved, or religious affiliation. The focus is on helping people. One key area in which the Warburg – Melchior – Olearius Foundation helps is by providing support for current and former employees who are in need as a result of unforeseen emergencies and misfortune.

The Bank and the foundation receive several hundred external requests for charitable donations and partnerships a year. Making a choice here isn't always easy. The objectives set out in the foundation's statutes serve as guidelines here, with a regional context, a certain degree of sustainability, and the success of the measures concerned being other criteria. Another important criterion is whether a donation can close a funding gap or whether sufficient other sponsors have already been found. The projects involved do not have to be high-profile: often the main focus is on providing pragmatic assistance.
In the area of culture, the Group sponsors institutions in the regions in which it has locations. Beneficiaries include the Elbphilharmonie concert hall in Hamburg, the Unter den Linden state opera house in Berlin, the Bavarian State Opera House, and the Heinz Bosl Ballet Foundation in Munich. Other recipients included the Humboldt University Foundation, the Haus der Kulturen der Welt in Berlin – which presents artistic productions from around the world with a particular focus on non-European cultures and societies – and Leipzig University.

We are receiving an increasing number of applications from organizations, associations, and institutions focusing on the health and education of the youngest generation of humans on the planet. Here we decided to support the work of the Eppendorf Cancer and Leukemia Relief Association and the Little House of Hope Foundation in Frankfurt, which helps orphaned HIV-positive children in Namibia. In addition, we already provide longer-term support for the "Hamburg macht Kinder gesund" association for children's medicine.

Education is the best guarantee for a successful life, which is why we sponsored the INW – Bildungswerk Nord Hamburg e. V. educational association. The "Classical Languages" project, which has been running for more than a decade, focuses on schools and other educational establishments in Hamburg and the surrounding area that teach Greek and Latin. Most financial aid is requested for educational trips and outings to ancient sites, exhibitions, theater visits, and other projects with links to antiquity.

As in the past, employees and their families took part in an Advent carol service in one of Hamburg's main churches. The Bank matched the collection raised and donated the money to the GWA St. Pauli e. V. community association under the "SeitenWechsel" project run by the Patriotische Gesellschaft von 1765.

Outlook

2020 saw the start of a new, transformational decade. That having been said, the outlook for the German economy is not particularly upbeat. Germany's Council of Economic Experts was predicting year-on-year growth of +0.9%, while the Bank's macro research arm was even forecasting a somewhat smaller +0.6%. Key drags on growth identified at the beginning of the year were the trade dispute between the U.S.A. and China, and the as yet still unclear form that Brexit will take.

However, the start of the coronavirus pandemic and its impact on the global economy have consigned most forecasts to the waste paper bin. The pandemic has upstaged all other topics. It is already clear that it will have a profound impact on all areas of the economy. The measures taken to limit physical contact involve encroachments on fundamental rights of a sort previously unheard of in the Federal Republic of Germany. At the time of writing it is unclear how these exceptional circumstances will continue to develop. Nevertheless, we would like to draw your attention to this year's supplement to the German version of this annual report: As part of the "Beobachtungen zur Zeit" series, distinguished economist and author Dr. Daniel Stelter has written a remarkable paper entitled "Coronomics: Neustart nach dem Corona-Schock". We would like to take the opportunity to thank him again for this.

Traditionally, Germany has been one of the main beneficiaries of globalization and the strong economic growth associated with this. However, protectionism and the declining reach of liberal economic policy perspectives are depressing growth in global trade. Booked business has decreased in some cases, while certain sectors – and especially finance – regularly make negative headlines with planned redundancies.

Stock markets took a leap of faith last year by anticipating a positive economic trend to a certain extent. Shares have become expensive as a result. Corporate profits will be needed if momentum is to continue. Overall, the outbreak of the coronavirus pandemic has put stock markets under serious pressure. Whether this is just a short spell of weakness or the start of a long-term recession will become clear as this exceptional situation progresses.

Digital transformation is not just about technical development but also has a profound impact on business models and business culture. In line with this, Warburg Bank has focused its activities so as to be able to preserve its existing strengths. Warburg Bank's closeness to and deeply trusting relationships with its clients, and its flexible, customized service offering are what make its offering unique. Our goal is to combine these qualities more closely with digital features to offer maximum availability, time savings, and a state-of-the-art, user-friendly experience. We are working to achieve this by developing new digital offerings, enhancing existing ones, and implementing new ways for the clients to interact with the Bank and its offering. Warburg Bank is one of the first private banks to have already taken advantage of digital opportunities for wealth management and offered them to its clients by introducing its Warburg Navigator tool and OWNLY digital asset platform.

In 2020, we shall start implementing a new core banking system that will reposition the Bank around its current core services and enable the integration of future offerings, so as to ensure Warburg Bank's long-term technical capabilities. Modernizing the programming languages, interfaces, and data streams used will future-proof operations. M.M.Warburg & CO considers it important to retain full control over core banking processes and data ownership. As a result, it intends for its IT operations to remain largely independent. Nevertheless, the plan is to permit the organizational and technical integration of third-party services.

If versatility is part of the secret behind a banking track record stretching back more than 220 years, then we also have to practice and communicate this today.

We have expanded our use of social media and the Bank has its own channels with which to inform prospective and actual clients about relevant topics. For example, information material is to be made available via the Bank's central LinkedIn account. Its YouTube channel offers a variety of videos by in-house experts who are only too pleased to pass on their knowledge.

This vision of Warburg Bank's future means that clients will find its value reflected both in its digital offering and in its personal relationships. Digital client acquisition will enable Warburg Bank to scale up its offering significantly. There will continue to be more than enough investment opportunities going forward. Finding the best fit for each and every client requires expert knowledge, experience, persistence, and a clear sense of direction. These are provided not least by the people who work at M.M.Warburg & CO and whose knowledge, ideas, and skills help make change happen. Who help actively align the Bank's business strategy and policies with the requirements of these changing times. And who help objectively develop innovative, customized solutions, and to execute complex transactions.

Ever since 1798, M.M.Warburg & CO's watchword has been that prosperity and business success in the future depend on the power of change.

OVERVIEW OF THE WARBURG GROUP

ECONOMIC ENVIRONMENT

The global economy softened significantly in 2019. Whereas global economic growth was 3.6% in 2018, the International Monetary Fund only expected 2.9% for 2019. Both industrialized nations and emerging economies showed clear signs of a slowdown. Weaker global trade in particular had a negative impact on many economies. The volume of world trade declined year-on-year in 2019, something last seen during the major financial crisis of 2008 and 2009. The slowdown in many countries exceeded that seen during the soft patch at the end of 2015 and beginning of 2016. However, whereas then the industrialized nations were largely responsible for the slowdown in the global economy, this time round growth fell in the emerging economies in particular. The trade dispute between the U.S.A. and China took its toll.

The eurozone economy was hit particularly hard in 2019 by the slowdown in global trade and the large number of political risks. Growth continued to slow, at 1.2%. The main driver here is the structure of many eurozone economies, which have a strong industrial base and whose growth is largely export-driven. This also applies to Germany, where the economy barely avoided recession in 2019 with growth of 0.6%. Germany's dependency on exports was compounded by the negative impact on growth of structural changes in the automotive sector, which also have a direct knock-on effect on other flagship German industries such as engineering and chemicals. In addition, the political situation in Germany and many other eurozone countries remained difficult. The increasing complexity of modern societies has eroded the center-right and center-left parties that long used to enjoy dominant positions. Instead, political players on the right and left fringes of the political spectrum are gaining in influence.

The U.S. economy proved a pillar of strength in 2019. Whereas economic growth in most other industrialized nations slowed tangibly, the U.S.A. only recorded a slight cooling-off, with real GDP up by 2.3%. However, even the U.S.A. was not completely immune to the negative effects of the trade dispute with China. Both exports and industrial output trended downwards compared with the previous year. However, these two macroeconomic parameters do not play a major role for the U.S.A. Investments, which had benefited from tax breaks in the previous year, also hardly grew at all recently. By contrast, consumer spending continued to drive the U.S. economy thanks to very strong labor market conditions and higher wages. However, the state and its expansionary fiscal policy also fueled growth quite apart from the large amounts of money spent by consumers.

Most central banks around the world were still raising interest rates in 2018, but changed tack again with their monetary policy in the course of 2019 in the face of consistently weaker economic and inflation data. This applied in particular to the Federal Reserve, which in December 2018 had raised its key interest rate and announced additional monetary tightening for 2019, only to do a U-turn in January. The Fed Funds Target Rate remained unchanged in the first half of the year, but after U.S. economic growth eased in the course of the year and the inflation rate – the decisive factor for the central bank – remained below the two percent mark, the Fed cut the key rate by a total of 75 basis points in July, September, and October to a range of between 1.50% and 1.75%. Equally, the European Central Bank did not implement the plan it had announced at the end of 2018 to increase rates as from the summer of 2019. On the contrary: weak economic data and a clear decline in inflation to less than one percent led the ECB Council to cut the deposit rate from –0.40% to –0.50% in September. At the same time, it decided to launch a new EUR 20 billion a month bond-buying program only nine months after the old one was terminated.

Global inflation rose, which had risen sharply in 2018, dropped back tangibly again in 2019. The sluggish economy meant that inflationary pressure around the world remained low. In addition, raw materials prices and especially the oil price muted global inflation substantially. The oil price rose briskly in the period up to the fall of 2018 but then dipped sharply, pushing down inflation rates as a result. Core inflation – i.e., excluding volatile food and energy prices – remained low in 2019 and was around one percent in recent months. Inflation fell to an average of 1.2% in the eurozone in 2019 and 1.4% in the U.S.A.

In 2018, stock markets ended the year clearly in negative territory and bonds also generated almost nothing. In contrast, the last 12 months put almost all expectations in the shade. Despite persistent political uncertainty, weak economic data, and disappointing corporate profits, the stock markets reversed their prior-year losses and in some cases reached new all-time highs. Corporate profits, which normally call the tune on the stock markets, stagnated or even fell slightly and repeated political upsets also occurred. Nevertheless, investors bet consistently throughout the year on a decrease in political uncertainty and a more expansionary monetary policy. Overall, eurozone stock markets saw clear price gains in 2019 as a whole (DAX: +25.5%, MDAX: +31.2%, Euro Stoxx 50: +29.3%, all measured using the total return index). Expressed in local currency, performance in the U.S.A. was similarly positive, with the Dow Jones up 25.3% and the broad-market S&P 500 rising 31.5%. Measured in euros, it was even stronger, at 27.6% and 33.9% respectively.

Bond market yields continued to fall up to the late summer of 2019 in an environment dominated by political and economic uncertainty and fears of a recession; as a result, fixed-income securities produced substantial price gains in some cases. The longer the bonds' remaining maturity, the better their performance. Credit risk also paid off. The yield for 10-year Bunds reached –0.72% – a new record low – at the end of August after starting the year at 0.25%. The figure at the end of the year was –0.19%. Overall, this resulted in a performance of +4.95% for 10-year Bunds (2Y: –0.69%; 5Y: +0.54%). European government bonds also turned in a positive performance as a whole, especially in peripheral countries (Greece, Italy, Portugal, and Spain). Yields on 10-year U.S. Treasuries also fell tangibly in 2019 due to the country's more expansionary monetary policy. They started the year at 2.69% but had fallen to 1.91% as of the year-end. This produced a price gain of 9.53% in USD and of 11.54% in EUR. The euro depreciated by 1.84% against the dollar.

Warburg Bank's macro research arm was once again awarded a prize by magazine "Der Spiegel" in 2019. The unit took joint first place together with the Federal Government for its German business forecast. Nearly 50 forecasts were evaluated to produce the ranking.

THE WARBURG GROUP'S BUSINESS AREAS

CORPORATE BANKING

Corporate Banking is home to Warburg Bank's business with corporate, shipping, and real estate clients plus its interbank business. In other words, Corporate Banking comprises the entire front office lending business and also offers classic banking services in the areas of payments, cash management, deposits, and currency transactions.

The latter services are a particular focus in the unit's shipping business activities. The Bank's customized solutions make it a preferred partner for medium-sized shipping groups, frequently acting as their lead bank. The situation in Corporate Clients is different: here the goal is definitely not to serve as a lead bank but to act as an "advisor with a balance sheet". The focus is therefore on supporting company owners in the area of special finance for e.g., acquisitions, succession planning, and refinancing of and bridging finance for capital market transactions. The unit's close cooperation with the Bank's Corporate Finance function pays off here, with the latter's Debt and Mezzanine and M&A units contributing structuring expertise.

In the real estate area, the Bank provides short-term bridging finance for residential projects pursued by real estate entrepreneurs. The goal here is to be able not only to offer clients debt but also to broker contacts to financial partners, allowing Warburg Bank to arrange end-to-end finance for projects via both its own balance sheet and its advisory services. For institutional clients, Warburg Bank acts as a custodian bank and depositary for funds, providing them with a full range of banking services plus bridging finance that is based in all cases on the funds' net asset value. In addition, the Bank started providing consortium finance with initial institutional clients. This opens up ways for the Bank to grow its lending business without affecting its balance sheet. In line with this, the number of institutional clients with whom new loans are placed will increase in the current fiscal year.

All Corporate Banking departments and locations recorded encouraging growth in both income and profit in the past year. Substantial increases in assets, liabilities, and fee and commission income were seen. The business area's multiyear plan provides for moderate growing in lending in the strategic areas identified. One particular focus is on systematically expanding small-scale, retail, or long-term loan commitments.

Corporate Clients

The Bank's corporate clients business has increasingly focused on providing customized finance solutions to meet the specific business needs of company owners and their families. For example, new loan commitments were made to finance changes in shareholder structures and the acquisition of equity interests, or as equity bridge loans. Finance solutions that are tailored to company owners will remain a key focus of Corporate Clients' business activities in the future as well, whereas classic trade finance will only be provided to companies selectively and where the Bank is involved in the related transactions. Continuously optimized domestic and foreign payments solutions, in-house securities management services, and the integration of Corporate Finance where required round off the business area's offering.

Shipping

The shipping business bucked the market trend last year to again record strong growth, making a notable contribution to income. Although many banks in Germany and abroad are continuing to exit this client segment, Warburg is successfully occupying the niches that are arising.

The Bank is a long-term partner for this important sector and sees itself as a quality leader in cash management – a vital area for shipping clients. Foreign payment volumes are steadily increasing, as are USD deposits. The regular presence of experienced and well-connected employees in the core markets allowed us to further enhance awareness of the Warburg brand and acquire a significant number of new client relationships, although we operate a selective client acquisition policy that is restricted to clearly defined target markets. The unit also successfully continued its shipping finance activities in 2019. New loans extended to carefully selected clients have conservative LTV ratios, short to medium-term maturities, and an attractive pricing structure, as well as generating substantial additional business. We were able to acquire institutional partners to co-finance conservative shipping deals for the first time. The goal is to systematically expand this way of offloading balance sheet assets so as to continue servicing our maritime clients without putting excessive strain on our total assets.

Real Estate

Warburg Bank's real estate finance activities are focused on providing bridging finance and special finance. This approach is used particularly frequently in the dynamic real estate markets in Berlin and Hamburg, and increasingly in Stuttgart, Hanover, Cologne, and Munich as well. The role played by Corporate Banking in Berlin as a competence center for the real estate business should be mentioned here. The high level of revenue and clear increase in profits generated by this unit underscore its performance in this field.

The unit was also able to build on its positive performance in recent years in providing support for real estate funds and asset management companies, further expanding the volume of business done in this area. In addition to account management and providing depositary services for clients, its lending business focused on short-term acquisition finance and currency hedging.

Interbank Business

The Relationship Management Banks unit coordinates the Bank's partnerships with other financial institutions. Collaboration in this area is based on long-term, sustainable relationships with other banks. By continuously observing the banking market and economic developments in different countries we are able to minimize the impact of negative trends at other banks and of country risk on Warburg Bank.

MARKETS AND INSTITUTIONAL BANKING

The Markets and Institutional Banking business area covers support for institutional clients, equities research, and the Bank's trading and sales activities. Divisional and business area management serve as an umbrella for all activities by this area, are jointly responsible for its strategic development, and ensure the long-term performance and high quality of M.M.Warburg & CO's products and services in its role as a capital markets specialist covering the full range of equities, bond, and currency market activities.

Treasury

The Treasury unit was extensively repositioned in fiscal year 2019 to successfully master the constantly growing challenges posed by regulatory requirements on the one hand and the ongoing low interest environment on the other. Treasury is responsible for managing all M.M.Warburg & CO 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. The unit succeeded in substantially reducing the costs of investing excess liquidity in 2019 by enhancing its cost- and resource-efficient liquidity management activities.

Equities

The Equities unit combines 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). Although income was down year-on-year due to the market-driven drop in the number of transactions and lower check and commission payments from institutional investors, the unit was again able to significantly raise its profile as a German equities expert. For example, Warburg Research took second place in the reputed global Starmine Analyst Awards in 2019, putting it in the top two in this key survey for each of the last five years. The precise earnings estimates by its analysts and the reliability of its buy/sell recommendations are decisive criteria here. In addition, Institutional Sales confirmed its top ranking according to investors in 2019 by coming first in the EXTEL survey of small and mid-caps in Germany (2018: first place, 2017: second place, 2016: third place). The unit officially unveiled its new positioning in June at the Bank's flagship "Warburg Highlights" conference, which was again attended by numerous investors and companies.
M.M.Warburg & CO's Institutional Sales – Equities unit enjoys an excellent reputation with its target client base: institutional investors with a European focus. The continuity and consistent high quality of the advisory services provided and the unit's high level of expertise in the area of German small and mid-caps are highly valued.

The highly uncertain economic environment in 2019 was accompanied by cautious investment behavior, despite rising share prices. As a result, investors' appetite for transactions and companies' willingness to implement capitalization measures remained muted, especially in the case of less-liquid second-tier stocks.

Marketing activities – which were tightly focused on German equities – continued at a high level, with a total of several hundred days of roadshows being held with company board members and analysts alike. Apart from its advisory services for institutional investors, the unit provided support for seven capital increases plus a number of other transactions, particularly in the German small and mid-cap segment. This is further proof of the team's strong placement skills.

Warburg Research GmbH

2019 was another successful and encouraging fiscal year for Warburg Research GmbH. The company moved into offices on the Bank's premises, further improving conditions for the already close cooperation with Institutional Sales and other Bank units. The MDAX investment recommendations made in the "Warburg Monthly Stock Tracker" yielded an annual outperformance of 4.2%, and an absolute performance of 32.35%. In addition, the high quality of this comprehensive research product was underlined yet again by its extremely strong second place in the "Best Broker in Germany" category of Refinitiv's StarMine Analyst Awards (formerly known as the Thomson Reuters Analyst Awards). This highly attractive research for institutional clients is complemented by a comprehensive conference and road show offering that facilitates direct dialog between investors and listed companies. The "Warburg Highlights" (Hamburg), "Warburg Small Cap Selection" (Frankfurt) and "Meet the Future" (Berlin) conference formats are highly popular; according to participants, their individual and exclusive format gives them a positive edge over anonymous mass events. Although the market for research services and brokerage operations still face headwinds due to MiFID II in particular, Warburg Research GmbH will maintain its high level of continuity and – at over 200 German stock corporations – coverage and continue to find value-generating investment ideas for its clients.

Fixed Income and FX

The headcount in the Currency Trading unit was increased and its product expertise expanded even further. Overall, the Interest Rate and Currency Advisory Services and Currency Trading departments made a positive contribution to net fee and commission income, as in previous years. The trend towards a persistently weaker U.S. dollar that set in at the beginning of the year is due both to the different monetary policies adopted by central banks and to the trade disputes. Many clients used this scenario for classic hedging instruments and, in individual cases, for option strategies as well. Overall, market volatility was extremely low. The Fixed Income unit had to cope with a strong decline in yields in 2019, along with the continuing much stricter regulatory requirements resulting from MiFID II. Measured in terms of 10-year Bunds, the year started with a yield of +0.24% before hitting its low for the year of –0.714% at the beginning of August. The yield for Bunds at the end of the year was –0.425%, in contrast to what nearly all market players had expected at its start. The unit's close, trusting, long-term relationships with institutional clients focused on investments in issues with medium to long durations were a critical success factor in these market conditions. Bonds continued to generate good results, with brisk business being done with new issues and private placements by European issuers.

Asset Management Market

Asset Management Market (AMM), which forms part of the Markets and Institutional Banking business area, is responsible for Warburg Asset Management's customer support and sales activities. AMM is broken down into two subteams that perform different tasks. The Institutionals team, which is organized along sectoral lines, caters to the specific needs of institutional investors for individual investment solutions and the ongoing support that these clients require. Its staff's in-depth professional expertise and high-quality product offering allow them to meet the increasingly differentiated technical and regulatory requirements of individual investor groups. One focus of new business with both new and existing clients in 2019 was with corporates; this covers both investments by group treasury departments and their outsourced pension funds. The team succeeded in placing their own strategies with DAX groups, among other companies, using EUR 750 million from three mandates. Investors are increasingly demanding alternative investment solutions in addition to classic liquid investments. AMM meets this need by marketing liquid alternative investment solutions (e.g., volatility strategies and factor investing) developed by Warburg Invest and third-party alternative investment managers. As in the past, marketing activities last year centered on open-ended special funds in the renewable energies sector and properties marketed via the IntReal real estate platform. The second AMM subteam – the Sales Partners team – markets retail funds from both Warburg Invest companies. This unit lives from its broad offering of investment topics and styles, which enables it to offset volatilities in individual funds' markets and performance. The addition as from the start of the year of fund marketing for Warburg Invest AG further expanded this range in the area of ESG-compliant investments, among other things. As a result the WI Global Challenges Index Fund, which was actively marketed via this sales channel for the first time, doubled its volume to more than EUR 200 million.

CORPORATE FINANCE

The team's 25 employees in Hamburg and Munich executed 20 transactions and advisory mandates in the fiscal year – the same number as a year earlier. However, revenue declined by roughly 15% year-on-year.

The positive trend in M&A activities seen in recent years showed the first signs of slowing in 2019. Not only did the volume of transactions in Germany decline substantially, but the number of transactions involving German players also fell compared to the previous year for the first time. Many of the transactions completed related to sales by large enterprises of peripheral activities. On the buy side, buy-and-build activities by private equity companies were the dominant factor. Overall, the number of successful transactions was relatively small, despite the fact that the market offers a very wide range of opportunities. One reason for this was certainly sellers' extremely high price expectations coupled with the mixed performance by the economy. As a result, last year's M&A activities were focused on venture capital transactions. Particularly worthy of mention here were the sale of H-TEC SYSTEMS GmbH to MAN Energie Solutions SE, the sale of BioCer Entwicklungs-GmbH to Medsupply (Shanghai) Ltd., and the interest taken by the Minol-ZENNER Group in GP Joule CONNECT GmbH.

The Equity Capital Markets (ECM) unit had substantially more success in 2019. Although Summiq AG's IPO had to be postponed at the end of the year, a number of technical transactions and advisory mandates were implemented, such as the support provided for the takeover bid launched by ZEAL Network SE for all shares of Lotto24 AG and for the debt-to-equity swap at Fyber N.V. In addition, nine capital increases were successfully placed. The companies concerned included Vectron Systems AG, aap Implantate AG, Allgeier SE, Nanogate SE, 7C Solarparken AG, DEFAMA Deutsche Fachmarkt AG, Epigenomics AG, and Codon AG. However, this positive development cannot obscure the fact that overall capital market conditions were challenging, especially for small and mid-caps. Just four successful IPOs in Germany with an issuing volume of a mere EUR 3.6 billion, and only just under EUR 5 billion raised by listed companies through capital increases, are not enough for investors and the banks advising them. Since all banks in this segment are also impacted by the MiFID regulations, a new capital market initiative is needed for 2020 and the Bank is happy to support it.

Placements for UBM Development AG and the otto group again provided further proof of the Debt and Mezzanine Markets (DMM) unit's clear ability to place non-rated bonds. In addition, the unit successfully implemented a number of financial advisory mandates. The largest activity closed in this area was the advisory mandate for berlinovo's restructuring of its long-term bank loans. Work here started in 2018 and the volume involved was in excess of EUR 1.1 billion.

The Bank's in-depth expertise in M&A, ECM, and DMM allows it to provide outstanding advice on restructurings – an area that is in increasing demand due to the changing market situation. In addition, there are plans to continue expanding the extremely successful venture capital advisory services.

Corporate Finance – which has employees in Hamburg and Munich and coordinators in Frankfurt, Berlin, Stuttgart, Cologne, Hanover, and Bremen – considers itself to be well-positioned for all these tasks.

PRIVATE BANKING

After the challenging capital market environment led to investor jitters at the end of 2018, Private Banking's main role was to act as a trusted personal pilot for investors seeking to preserve their assets for the long term. Its work involved discussing with clients to develop individual strategies to successfully navigate the challenging capital market environment. One of the main topics was how to deal with persistently lower levels of interest. Another key discussion point was the courage to maintain a steady course in equities investments despite ongoing political uncertainty, weak economic data, and disappointing corporate profits. Given the need to preserve family fortunes down the generations there was increased demand for sustainable investment opportunities. Overall, 2019 was an encouraging year for almost all investors who maintained a diversified investment strategy. The stock exchanges reversed the previous year's losses and in some cases reached new record highs. At the same time, falling yields facilitated attractive price gains on the bond markets.

Sophisticated high net worth private clients expect personal advice that is tailored to their individual needs and wishes. Experienced, expert employees are the trusted partners they turn to first. The crucial things when developing investment strategies that are sustainably successful is to acquire a deep understanding of clients' individual situations. Client expectations of asset management and securities advisory services have changed fundamentally. Investment processes have to be both well-founded and transparent. It should be possible to understand securities recommendations intuitively. Digital tools will be even more common, and play an even more important role, in private client advisory services going forward. Asset management and investment advisory specialists are included wherever this makes sense so as to ensure an end-to-end approach. In particular, the Advisory Office has proven to be a successful professional support vehicle for Private Banking in the area of investment advice, enabling an even more focused range of services to be offered.

The Bank provides its advisors with excellent digital support solutions in the form of Warburg Navigator and the OWNLY app. INSIGHT ALPHA meets the high requirements placed on state-of-the-art asset and wealth management by systematizing and improving the efficiency of the enterprise valuation, risk analysis, and portfolio construction process. The app enables portfolio managers in the Asset Management unit to identify attractive investment opportunities and implement them in portfolio strategies for clients. The sector specialists in the Advisory Office use the results from INSIGHT ALPHA to assemble as comprehensive a universe of promising securities as possible for private clients and their advisors.

INSIGHT ALPHA provided the foundations on which the Bank's private client advisory services can build to distinguish themselves from the competition. It does not compete with the Robo-Advisor, which is more of a standardized investment product. INSIGHT ALPHA is based on the idea that personal contact with client advisors will remain important for an exclusive clientele going forward.

Private Banking again successfully increased the number of mandates and the volumes of client assets entrusted to it in fiscal year 2019.

The unit again held exclusive events at all locations on a variety of exciting topics last year. These included art, culture, and social questions in addition to capital market and investment issues. Dedicated programs – such as special events for women only, for company owners, or for the younger generation – have been established for years now and make a valuable contribution towards expanding Warburg's network.

ASSET MANAGEMENT

M.M.Warburg & CO's portfolio management activities resoundingly overcame the challenging capital market environment in 2019. Numerous international stock and bond markets performed extremely well in the past twelve months and in some cases recorded clear double-digit price gains, but appearances are misleading. The economic data for Europe and China in particular, but also for the U.S.A., weakened substantially in the course of the year and led to many companies having to revise their annual forecasts and to issue revenue and profit warnings. In turn, this led to their share prices falling substantially. Both the trade dispute between the U.S.A. and China and the Brexit negotiations led to uncertainty. The challenge in portfolio management was to monitor the large volume of data and developments over the course of the year, and to assess risks and opportunities correctly.

2019 was a highly successful year for M.M.Warburg & CO's Asset Management clients, with assets increasing substantially. Most investment strategies beat their benchmarks and to this extent reversed the weak year seen on the capital markets in 2018. The drivers behind this success were bold positioning in the bonds area and strong stock picking. For example, Warburg Portfolio Konservativ – a fund with a maximum equity ratio of 30% and the goal of generating an appropriate yield for a moderate level of risk – grew in value by almost 12%. This led rating agency Morningstar to give it five stars – the best possible result. New investment strategies focusing on ESG criteria were developed over the course of the year and added to the Bank's services offering. The portfolio management investment process was expanded in line with this, with MSCI being selected as the data provider for assessing the sustainability of individual companies and countries. 2019 also saw another increase in capital under management at Asset Management. 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; at the same time, non-performance-related income remained highly stable.

Challenging capital market conditions – i.e., rapidly changing economic, political, and corporate data – meant that both portfolio management and advisory services had to get to grips with developments quickly and well. The relevant analyses, which also take advantage of the Bank's highly respected macroeconomic studies, are performed by the Advisory Office, which draws on the combined expertise of quantitative analysts, sector specialists, and Asset Management to select equities, investment funds, bonds, and certificates. The investment advisors build on the many years' experience and concentrated expertise of these capital market specialists when providing advice to individual clients. The "INSIGHT APLHA" app developed by the Bank plays a core role here, permitting a successful combination of quantitative and qualitative individual stock picking and the generation of high-quality portfolio recommendations. The continuing enhancements being made to INSIGHT ALPHA ensure extremely high-quality advice. They enable the Bank to offer private clients a customized service while at the same time complying with the strict supervisory requirements.

As a universal bank with a broad range of investment opportunities, M.M.Warburg & CO also offers clients the ability to invest in equity investment products and illiquid alternative investments. These asset classes not only enable clients to diversify their portfolios but also improve their chances of generating higher yields in a low-interest environment than with traditional asset classes. The real estate markets turned in another positive performance for investors last year. Demand is outstripping supply, prices are high (especially in the office and residential usage types), and vacancy rates are low. Investors also did well from the markets for equity investments, although these saw high prices and fierce competition for good deals, leading to funds sitting on increasing volumes of dry powder. Demand for venture capital equity interests went on growing in 2019. The Bank successfully marketed a closed-end real estate from a long-term partner last year. Additional placements also facilitated access for clients to a multi-asset portfolio funds consisting of the real estate, private equity, and infrastructure 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. Sustainable investment is another increasingly important topic for both institutional and private investors' strategies in addition to the situation in the real economy and geopolitical conditions, and one that is also being driven by supervisory efforts. As a result, this area offers growth opportunities. Both companies are pioneers in their field in the German market and have signed up to the United Nations' Principles for Responsible Investment (UN-PRI). One sustainable investment focus area is on expanding forward-looking strategies such as liquid alternatives and quantitative approaches.

WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH

Hamburg-based WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH offers institutional investors management services for asset management mandates in the form of special funds and discretionary mandates. A second core business area is launching and managing Warburg Invest's retail funds. Managing retail funds for third-party asset managers rounds off the offering.

Fiscal year 2019 was another successful year for WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH. As of the December 31, 2019, reporting date, the company managed 28 open-ended special AIFs with fixed investment limits (previous year: 29) with a volume of EUR 4.0 billion (previous year: EUR 3.8 billion). In addition, it managed 80 mutual investment funds (previous year: 79) with a volume of EUR 3.7 billion (previous year: EUR 3.2 billion).

Inflows of funds and new clients were seen in the area of pure portfolio management mandates for institutional clients, investment funds, and in the case of discretionary asset management mandates (other than fund formats) acquired that are managed by other asset management companies. These pure management mandates lifted the total number of mandates to 37 (previous year: 32) and the volume to EUR 3.1 billion (previous year: EUR 2.0 billion). The growth in total assets under management from EUR 9.1 billion at the end of 2018 to EUR 10.8 billion on December 31, 2019, shows the success of our marketing activities in the institutional investors area and of our affiliated sales partners.

Existing clients also contributed to growth in the form of inflows of funds. This underlines their continuing appreciation of our portfolio management services and proves that our client-oriented solutions approach is the right one. Equally, significant volumes of new client mandates were acquired. Additional funds were designed for sales partners and successfully launched together with our portfolio management specialists. Equity-oriented and multi asset class investment funds were in particularly high demand, with the main focus being on total return concepts.

The company recorded a rise in fee and commission income to EUR 42 million in the fiscal year (previous year: EUR 38 million). Net income for the year after tax amounted to EUR 2,845 thousand (previous year: EUR 2,655 thousand).

Originally, conditions in 2020 were expected to be a continuation of fiscal year 2019, with persistent low interest rates and substantial capital market volatility. Then, at the start of the coronavirus pandemic in 2020, global capital market prices plummeted swiftly. Whereas last year all mandates generated highly positive growth overall and strong client satisfaction thanks to the tailwinds from the capital markets, the market environment in fiscal year 2020 will be a major challenge and will require strong nerves from investors. In turn, this places even greater demands than before on professional support and advisory services for client investments, and requires everyone to work together to jointly develop solutions to match clients' individual frameworks.

All in all, despite the current market volatility caused by the coronavirus pandemic, WARBURG INVEST is well positioned to address future constellations on the capital markets and offers enhanced solutions that promise acceptable yield and income expectations plus a low correlation to typical stock and bond market trends once the phase of extreme volatility is over. Dynamically managed strategies offer a strong chance of profiting from high volatility and changes of direction on the capital markets. The new Warburg-Total Return Global fund offers a suitable investment vehicle for this. In addition, the unit's years of experience in managing ESG approaches is becoming more important, enabling it to provide support for client requirements across the entire decision chain. Nevertheless, 2020 is unlikely to see a continuation of the steady increase in volumes under management. Net income will also be down tangibly on the previous year. In addition to the effects of the coronavirus, the one-off costs for integrating the company with Warburg Invest AG must be borne in mind. This project will be an important development focus in 2020.

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 a successful fiscal year in 2019: the company lifted its fee and commission income by 6% to EUR 19.9 million. Assets under administration rose by EUR 1.8 billion (8%), while assets under management rose by EUR 1.6 billion (11%). As of the December 31, 2019, reporting date, the company administered 79 funds with a volume of EUR 24.8 billion and managed 115 mandates with a volume of EUR 16.7 billion.

As has been the case for many years, the WI Global Challenges Index-Fonds was one of the leading global equities funds in terms of performance in 2019. The renewed award for 2020 by the Forum Nachhaltige Geldanlagen e. V. of its seal of approval confirms the sustainable quality of the best-in-class index concept which, together with its professional implementation in Warburg Invest AG's retail funds, forms the basis for its persistent success since its launch in 2007. The growing importance of sustainable investments to ever-broader investor groups can be seen from the extremely encouraging net fund inflows, especially in the unit certificates class for private investors.

In September 2019, the company addressed the growing need of institutional clients for sustainable equities investment strategies by converting its index tracking funds, which up to that point had been based on regional MSCI country indices, to the sustainable MSCI best-in-class index approach. This selects only those companies from the three familiar regional MSCI ESG Leader indices for Europe, North America, and Asia Pacific that meet certain minimum environmental, social, and governance criteria. The sector and country weightings used in the parent indices are largely preserved. The historical risk-reward ratios – an important factor for investors – stand up to comparison well despite the fact that nearly 50% of the former universe of stocks are no longer included.

At the same time, the company introduced a meaningful ESG reporting system for master investment company management clients, accommodating the wish expressed by many investors to receive regular, timely, and transparent reports about the status of and development within their portfolios, e.g., with respect to sustainability ratings, carbon footprints, and controversies. The high level of customizability underlines Warburg Invest AG's goal of remaining a leading provider in the area of client reporting.

The Bank's successful global equities funds experienced substantial inflows of funds overall. In addition, WI Hybrid Corporate Bonds – which turned in a performance of over 12% in 2019 – saw clear volume growth, as did the WI real estate equities funds for EMEA, America, and Asia Pacific that are based on the regional Global Property Research Indices and whose annual performance (in euros) was roughly 26%, 23%, and 16% respectively.

Following on from these clear price gains, the company originally expected capital market trends in 2020 to be somewhat more challenging. However, the global stock market slump accompanying the spread of the coronavirus pandemic at the end of February/ beginning of March 2020 and the clear increase in credit risk premiums for corporate bonds and for government bonds issued by those European countries that were hard hit by the pandemic will significantly impact the company's business forecasts. Such effects could result in particular from tangible market-driven drops in assets under management and assets under administration, which would have a corresponding knock-on effect on fee and commission income.

Thanks to its expertise as a supplier of individual solutions and a risk manager, Warburg Invest AG sees itself as in a good position in these challenging market conditions to work together with its clients to implement forward-looking solutions in an environment that is expected to remain dominated by substantial price and correlation volatility.

A particularly good example of this is the company's expertise in quantitative regime-based asset allocation in combination with risk budgeting or highest value guarantees – areas that are proving their worth in the current crisis. The added value to clients of Warburg Invest AG's philosophy as an end-to-end solutions provider and risk manager is also demonstrated in the results of independent client surveys. Among other things, the company was ranked among the leaders in the medium-sized asset manager category in the TELOS institutional investors' satisfaction study in 2019, as in previous years. It came first in the portfolio management process and proactive client contact categories, and second in both the product offering and performance categories. These awards reflect clients’ deep satisfaction with Warburg Invest AG.

WARBURG DIGITAL

Digital Office

As with all other companies, the "product-market fit" is a decisive factor for banks. In other words: Is there demand for the product on the market? Recently, the product-market fit between banks' offerings and their clients seems to have experienced an upheaval caused by new competitors entering the market. Tech giants Google, Amazon, and Facebook have already applied for banking licenses in a number of countries. This move is driven by changes in both private and corporate client demand, to which banks must develop new answers: Instant access to information at all times is required. In addition, it must be both transparent and comparable.

The Digital Office is responsible for enhancements to Warburg Bank's digital strategy, and for providing clients with state-of-the-art digital access options to individual asset overviews, specialist information, services, and products. In addition, data flows within the Bank's organization are being modernized and future-proofed.

Digital transformation is generally associated with automation, machines, and robots – human qualities and dialog are rarely thought about. However, one of the Bank's slogans is that "banking is done between people". As a result, we aim to draw on human expertise in the case of topics such as digital asset management, too, in order to organically root the associated digital services and the changes that these bring within the Bank. This is one way in which the process of digital transformation stops being a mere label and starts adding real value internally. Two good examples are the pilot projects we developed together with W&Z FinTech GmbH: the OWNLY app and Warburg Navigator. In addition, the Digital Office focuses on incorporating digital transformation into the Bank's business model, on blockchain technology, and on areas in which artificial intelligence and machine learning can be applied.

In summer 2019, the first Warburg Digital Camp was held. All members of the digital project teams from the various departments, from designers and programmers through to Bank advisors, worked together for six weeks in a single location – the client foyer at our Hamburg headquarters. The goal was to make new ways of working, technologies, and products visible. More than 30 presentations and workshops were held on topics from cryptocurrencies to quantum mechanics. The enthusiasm generated by the "Coding for Kids" workshops showed that our employees' children have long been digital natives.

Warburg Navigator

The Bank's aspiration to combine technical innovation with human qualities is reflected in Warburg Navigator's design: In contrast to many competitors, our product is not based on algorithms alone. On the contrary: Our portfolio management is always in control and ensures that strategic considerations are included in its investment philosophy. This also enables soft factors such as political events to be included in investment processes, and risk management enhanced. At the same time, it ensures that classic asset management and Warburg Navigator are on the same level: The same expert knowledge is used in both and any differences are more likely to be in the presentation. In other words, this is a special offering that the Bank communicates confidently. The satisfactory performance generated by the different strategies is another positive factor contributing to this.

Marketing activities were ramped up substantially in 2019. In addition to expanding search engine advertising, display, and social media channels, A/B testing was performed and the website content revised from a search engine optimization perspective. Website traffic increased significantly as a result. The product was also enhanced in 2019 in parallel to the marketing campaign, with client onboarding receiving particular attention. As a result, the questionnaires used to develop investment proposals have been slimmed down substantially and the entire design is now even more user-friendly.

W&Z FinTech GmbH

W&Z FinTech GmbH's business in 2019 expanded beyond operating the OWNLY mobile app to operating a platform. The beta version of the new OWNLY Family web app was published in December, giving users access to an end-to-end asset overview for themselves, additional family members, or selected other people from their PCs or laptops. In addition to using OWNLY's multibanking functionality, users can deploy it to integrate all major asset categories – from real estate to private equity, and from insurance to old-timers. Access to a comprehensive real estate database is provided to permit property valuations to be made.

The goal of the OWNLY platform is to provide users with the best possible information on which to base their asset management decisions. This includes not only data about the assets themselves, but also a wide range of analyses, capital market studies, and stock exchange and product information.

Programmers were kept busy not only with preparing for a third front-end – the OWNLY Advisor with which clients can communicate with their advisors about asset-related issues – but also and above all with modifying the Bank's interfaces to meet the requirements of the EU's Payment Services Directive 2 (PSD 2). In addition, they supply programming services to third-party companies in the financial sector.

At the end of the year, users managed roughly EUR 1.5 billion of assets (previous year: EUR 1 billion in assets under information) via OWNLY.

COMPLIANCE, ANTI-MONEY LAUNDERING, AND DATA PROTECTION

The Bank's independent compliance department, which reports directly to senior management, is responsible for ensuring end-to-end compliance – i.e., the observance of and conformity with the law. This also includes identifying, preventing, and managing conflicts of interest.

WpHG Compliance

The WpHG Compliance function is responsible for ensuring that statutory and supervisory provisions, internal company rules, and sector-specific requirements are adhered to. In particular, Compliance serves to protect clients and investors. The Bank's WpHG compliance risk profile is determined as part 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 sources of information (e.g., insights from complaints management). MiFID II resulted in additional monitoring and supervisory duties in the area of investor protection for the WpHG Compliance function. Compliance is of the opinion that the principles, available resources, and procedures that have been introduced to comply with the statutory obligations continue to be effective and appropriate.

MaRisk Compliance

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

For example, 2019 saw the completion of projects to implement key regulations and requirements such as the PSD 2, the Zahlungskontengesetz (German Payment Accounts Act), and the BaFin-Rundschreiben zu Zinsänderungsrisiken (BaFin Circular on Interest Rate Risk). Other projects currently being implemented include the Steuerumgehungsbekämpfungsgesetz (the German Act Combating Tax Evasion), revisions to financial reporting (FinRep), implementation of the BaFin's "Bankaufsichtliche Anforderungen an die IT" (BAIT – Supervisory Requirements for IT in Financial Institutions), and the SFT Regulation, which introduces new reporting requirements for securities financing transactions.

The regulatory outlook remains focused on CRR II and CRD V. Another topic is IBOR transition, in which the previous Interbank Offered Rates are being replaced by a new reference rate.

Anti-money laundering

The Anti-money Laundering department – an independent unit that reports directly to the Bank's senior management – has the task of preventing and combating money laundering, terrorist financing, and other criminal acts for the Bank and its downstream entities, and to prevent damage to them.

At the heart of its work is the Bank-specific group risk analysis, which assesses the threats to the Bank and its downstream entities in the areas of money laundering, terrorism financing, and other criminal acts. The annual group risk analysis was used as the basis for designing and implementing a comprehensive prevention policy for the Bank and its downstream entities.

The Anti-money Laundering Officer regards the principles and processes developed by the Anti-money Laundering department, and the checks performed and measures taken during the reporting period, to be appropriate and effective.

Anti-money laundering will continue to be a highly important topic given the increased regulatory requirements, and in particular the implementation of the EU's Fifth Anti-Money Laundering Directive (EU regulation 2018/843). It is therefore a key function in the Bank's risk prevention activities in the areas of money laundering, terrorism financing, and other criminal acts.

DATA PROTECTION AND DATA SECURITY

Data scandals, large-scale IT failures and worries about (legal) changes to the economic environment (e.g., economic sanctions, Brexit, or the introduction of stricter data protection rules) are leading to a growing corporate focus on cyber risks. According to the Allianz Risk Barometer 2019, cyber incidents and business interruptions are among the largest business risks worldwide. Equally, the BSI's Report on the State of Security in Germany in 2019 says that most cyberattacks are currently linked to cybercrime. In addition, the growing digital transformation of business processes means that verifying third parties is an increasing challenge in an environment that has to reconcile IT security/regulatory requirements, economic efficiency, and user friendliness.

As in previous years, malware infections are one of the most common IT threats. Ransomware continues to represent a significant danger and does considerable damage, as does "Emotet". This malware program, which has been known since 2010, was circulated more widely again in 2019 using infected Office documents, e.g., via e-mail attachments. In addition, identity theft is a daily occurrence: here, large volumes of personal data are misused by third parties, or specific accounts belonging to individuals are hacked or faked. This wide range of IT risks is included in the IT security risk analysis performed for the Bank, and in the security measures derived from this.

IT security management and IT risk management – core BAIT requirements – are now a focus of supervisory audits and, like BAIT as a whole, represent a challenge for all departments.

M.M.Warburg & CO has appointed a company data protection officer and a deputy company data protection officer as required by the General Data Protection Regulation (GDPR). The company data protection officer is consulted at an early stage on all issues that are relevant to data protection. He reports to and advises senior management and employees on their data protection duties. He is responsible for monitoring compliance with data protection regulations and with the strategies drawn up by the personal data protection officers. In addition, the company data protection officer ensures that employees are aware of, and trained on, data protection issues. He reports directly to the Bank's senior management and is not bound to follow instructions when performing the duties assigned to him by law, which he does by exercising his professional knowledge and qualifications.

EMPLOYEES

Warburg Bank employed 664 people as of the end of 2019. This represents a year-on-year decrease of 2.92%. A total of 929 people (previous year: 952) were employed in the Warburg Group at the end of 2019 – a decline of 2.42%.

Number of employees

	M.M.Warburg & CO	The Warburg Group
Dec. 31, 2017	721	1,227
Dec. 31, 2018	684	952
Dec. 31, 2019	664	929
Difference	–20	–23
Difference in %	–2.92	–2.42

The average age of the workforce at M.M.Warburg & CO was 45.23 years – on a par with the previous year. This corresponds to the sector average calculated by the Arbeitgeberverband Banken (the Private Bank Employers Association). At 13.01 years, the average length of service was also stable year-on-year.

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

	Average age in years	Average length of service in years
Dec. 31, 2017	45.18	12.86
Dec. 31, 2018	45.36	13.02
Dec. 31, 2019	45.23	13.01

Employee turnover was in excess of the target figure in 2019. The main reasons for this were delayed effects resulting from the structural changes in the Warburg Group in previous years and major recruitment drives by competitors. The Bank is combating this trend by taking measures to enhance employee retention and increase its own recruitment activities. The positions that became vacant were filled within a reasonable period, often with higher-quality staff.

Turnover rate at M.M.Warburg & CO

	Turnover rate (employee resignations)	Turnover rate (total)
Dec. 31, 2017	3.28%	7.92%
Dec. 31, 2018	5.50%	9.12%
Dec. 31, 2019	8.67%	15.24%

As a whole, illness-related absences fell slightly year-on-year to 4.65% (previous year: 4.96%). The proportion of long-term illnesses declined overall, whereas short-term illnesses rose slightly to 3.5% (previous year: 3.21%). The figure for illness-related absences was below the average for the sector. This shows the positive impact of our health management activities following the signature of an enterprise-wide works agreement on workplace reintegration management and the psychological hazard assessments performed in past years. In addition, M.M.Warburg & CO held an initial and highly successful seminar on mindfulness and resilience in 2019.

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

	Illness-related absences	Illness-related absences excluding long-term illnesses
Dec. 31, 2017	4.46%	3.06%
Dec. 31, 2018	4.96%	3.21%
Dec. 31, 2019	4.65%	3.50%

The Warburg Group offers and holds a wide range of further education measures designed to maintain its employees' professional competence. The growing complexity of the financial sector makes continuous professional development necessary if employees are to be able to deal with increasing demands. Special mention should be made here of the offerings in both client-facing and back-office units that help ensure the quality of the services provided and employee development. The annual employee reviews and a needs analysis performed in cooperation with the specialist departments concerned are used as the starting point for designing seminars. Training courses are offered on the topics of communication skills, presentation skills, negotiation, leadership, and project management, among other things. In addition, special personal and professional development seminars for female specialists and managers were offered for the first time in 2019. IT training courses, language classes, and self-learning programs on money laundering, compliance, U.S. withholding tax, and the Allgemeines Gleichbehandlungsgesetz (GAG – German General Equal Treatment Act) round off the program. The self-learning programs are mainly used to meet the constantly increasing statutory training requirements. Our internal continuing professional development offering is supplemented by external seminars and training courses.

In 2019, Warburg Bank's Human Resources function became responsible for Warburg Invest AG's employees; as a result, all companies in the Warburg Group now have a central contact for HR issues.

Human Resources received a large number of applications from highly-qualified candidates in 2019. Filling traditional banking positions focusing on administrative and processing functions provided to be difficult at times because of the declining number of qualified candidates available on the market in Hamburg. Internal training is becoming more important for these areas. Here M.M.Warburg & CO provides vocational training for school-leavers as bank clerks and as IT specialists in the fields of application development and systems integration. In addition, M.M.Warburg & CO offers university graduates with degrees in economics, law, and the humanities a customized trainee program designed to enable them to assume highly-qualified positions with greater responsibility within the Warburg Group.

Cooperation between the Bank and the works councils was highly constructive, with both sides working together for the good of the employees and the company in the best tradition of the principles set out in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act). The partners would like to sincerely thank all members of the works councils for this. 2019 was a challenging year for employees, and the partners would like to thank them all warmly for their hard work and dedication.

MARCARD, STEIN & CO AG

As an independent 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 70 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 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 act despite 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 last year, lifting its net income. 2019 was a highly encouraging year for investors. Growth was recorded across all key asset classes, with the capital markets not only regaining the ground lost in the previous year in most cases but also extending further into positive territory. Nevertheless, tactical allocation and preserving liquidity are the challenges now being faced in the current grave crisis.

One key business area within the strategic family office is real estate asset management, where the unusual depth of expertise offered allows it to adopt a 360-degree approach. Real estate asset management manages clients' directly and indirectly held real estate assets from an investment perspective. The multidisciplinary real estate team acts as the owners' representative for its clients. Its range of services covers drawing up a real estate asset allocation strategy, implementing this by acquiring suitable properties and interests in projects, performing ongoing asset management, and selling portfolio properties.

Due to its extremely broad investment universe and nationwide network, the real estate team again executed investment transactions in excess of EUR 100 million despite a tight market; these included both the direct purchase and sale of properties and investments in the Real Estate Private Equity segment. Acquisitions focused on what are known as value investments – i.e., undervalued real estate that is in need of optimization and is situated in good locations, office properties, and both privately and publicly financed residential development projects ("forward deals"). Most sales were of commercial properties in Germany and abroad. Another area of activity was the acquisition of high-potential sites throughout Germany that can be used later on to develop new urban districts.

The real estate asset management concept practiced by the bank is considered to be a benchmark in the German family office segment. It is in strong demand with existing and new clients, and increasingly well known in the market as a whole.

In fiscal year 2019, MARCARD, STEIN & CO supported clients in managing their direct equity investments in a number of projects and corporate activities, such as exercising investor rights in the case of existing equity interests and providing advice on key enterprise decisions. In addition, it stepped up its activities to identify new investments and examined a number of potential investments in detail. In the summer, it advised clients on the acquisition of a significant minority interest in a fashion company and supported them during the transaction. The Equity Investment Management unit assisted other clients in increasing their shares in a renewable energy start-up and in streamlining their portfolios to divest non-strategic holdings. Above and beyond its transaction management activities, MARCARD, STEIN & CO supported a number of clients in formulating and implementing their investor rights, achieving a significant improvement in the terms and conditions relating to the future realization of the investments.

Indirect equity investments are an integral strategic component of the asset allocation process for MARCARD, STEIN & CO's clients.The Equity Investment Management unit works constantly to provide clients with access to attractive private equity products and other alternative investment formats. In fiscal year 2019, MARCARD, STEIN & CO clients subscribed for a number of products from well-known initiators, committing capital running into the double-digit millions.

Real estate and equity investments are core elements of the asset allocation process for most clients. Attractive investments are in increasingly short supply in both asset classes. At the same time, there is growing uncertainty as to whether the coronavirus pandemic will lead to a sustained revaluation and market correction.

M.M.WARBURG & CO HYPOTHEKENBANK AG

M.M.Warburg & CO Hypothekenbank AG ("Hypothekenbank"), which was formed in 1995, has been focused for more than 25 years on long-term real estate finance and on refinancing these transactions. Its commercial credit business has largely concentrated on financing 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, the Bank primarily looks to work with long-term investors in key German centers. M.M.Warburg & CO Hypothekenbank AG's target clients include high net worth private individuals, commercial investors, and institutional investors. Its acquisition and business strategy is based on keeping loan-to-value ratios as low as possible. In the area of public sector lending, the Bank primarily restricts itself to maintaining the cover pools and purchasing securities for liquidity management. Hypothekenbank shares headquarters and back-office functions with M.M.Warburg & CO in order to leverage cost advantages and know-how. In addition, the two companies work together in the front office area in the area of real estate loans.

Hypothekenbank turned in another successful business performance in fiscal year 2019.

It consolidated its position in its target market areas while preserving its traditionally conservative business policy. New business performed satisfactorily but total volumes were down slightly year-on-year at EUR 193.2 million in a competitive environment that remained challenging. At EUR 1.627 billion at the year-end, real estate loans were down somewhat year-on-year. This is due to the fact that a large number of investors used the current situation on the real estate markets to sell properties and redeem loans ahead of schedule.

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 remained below expectations last year in view of the European Central Bank's bond-buying program and low interest rate policy. Overall, refinancing sales amounted to EUR 81.2 million. All long-term funding requirements were met in full.

At EUR 6.7 million, Hypothekenbank's pre-tax profit exceeded the forecast but was down slightly year-on-year.

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. The relationship with Landeskrankenhilfe VVaG (Lüneberg), which holds 40% of the shares of M.M.Warburg & CO Hypothekenbank AG, is an extremely close partnership based on a shared understanding of the mortgage bank's strategic focus, which remains largely unchanged.

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

The Supervisory Board performed the tasks assigned to it by law and by the articles of association in full in fiscal year 2019 and regularly monitored and advised the senior management. The senior managers (partners) in M.M.Warburg & CO are also the members of the executive board of the personally liable partner, M.M.Warburg & CO Geschäftsführungs-Aktiengesellschaft.

The Supervisory Board held four face-to-face meetings in fiscal year 2019, which were attended in all cases by all members of the Supervisory Board and the partners. Between meetings, the partners informed the Supervisory Board or its Chairman in regular phone calls and one-on-one meetings about material developments and significant individual issues, and liaised in advance on decisions with the Supervisory Board, and in particular with the Chairman. The Supervisory Board was informed of the outcomes of these discussions in each case. The partners submitted transactions requiring Supervisory Board approval to the latter in the proper manner in all cases. In the Supervisory Board's opinion, the partners have therefore fully discharged their duties to report, and provide information, to the Supervisory Board.

Key issues discussed by the Supervisory Board throughout the year were the course of business, comparisons of actual performance with the approved planning, the way in which senior management and second-tier management is organized and the breakdown of tasks performed by them, business strategy issues, individual acquisitions and investment projects, the sale of real estate, the financial and liquidity position, banking supervision and supervisory law, observance of the risk management system and compliance requirements, the internal control system and internal audit reports, and the impact of market developments and the low interest rate environment on earnings and on the risk position at the Bank and its subsidiaries.

The court cases surrounding the cum-ex affair, which are still ongoing, were a particular burden on both individual Supervisory Board members and the Supervisory Board as a whole. Dr. Christian Olearius and Max Warburg were members of the Supervisory Board until the end of fiscal year 2019. They resigned their positions as of December 31, 2019. They were replaced effective January 1, 2020, by Prof. Burkhard Schwenker, who was elected as Deputy Chairman, and Dr. Claus Nolting, who was appointed to the Supervisory Board for the first time. The remaining Supervisory Board member, Dr. Thiemann, was elected as Chairman. The term of office of all three Supervisory Board members under the articles of association ends at the end of the term of office of the remaining Supervisory Board member under the articles of association, i.e., the end of the Annual General Meeting in May 2020.

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, 2019, and issued both of them with an unqualified audit opinion.

In its meeting on May 26, 2020, the Supervisory Board discussed the annual financial statements and the audit reports in detail in the presence of the auditors. Having done so, the Supervisory Board has come to the conclusion that the annual financial statements and the related management report were prepared in a due and proper manner. Equally, the Supervisory Board's examination of the audit reports and its discussion with the auditors did not give rise to any complaints or objections on its part. The Supervisory Board concurs with the auditors' findings and approves the annual financial statements prepared by the partners for fiscal year 2019.

The Supervisory Board wishes to thank the partners and all M.M.Warburg & CO employees for their achievements in fiscal year 2019.

Hamburg, May 26, 2020

The Supervisory Board
– Chairman –

CONDENSED ANNUAL FINANCIAL STATEMENTS OF M.M.WARBURG & CO (AG & CO.) KGAA AS OF DECEMBER 31, 2019

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, 2019 EUR	Dec. 31, 2018 EUR
1. Cash reserve						
a) Cash-in-hand				2,738,945.15		3,785,874.77
b) Central bank balances				482,748,382.66		11,208,040.31
of which: with Deutsche Bundesbank	EUR	482,748,382.66				(11,208,040.31)
					485,487,327.81	14,993,915.08
2. Loans and advances to other banks						
a) Payable on demand				60,162,587.90		1,808,619,518.66
b) Other				100,411,365.07		148,607,707.28
					160,573,952.97	1,957,227,225.94
3. Loans and advances to customers					1,367,819,580.53	1,434,614,855.90
of which: secured by mortgages	EUR	365,998,526.93				(370,970,437.46)
Public-sector loans	EUR	32,459,288.35				(17,917,193.54)
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			550,190,921.81			531,051,980.16
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	550,190,921.81				(531,051,980.16)
bb) other issuers			698,303,790.84			251,917,336.58
of which: eligible as collateral for Deutsche Bundesbank advances	EUR	673,225,047.86				(240,932,443.25)
				1,248,494,712.65		
c) Own bonds and notes				0.00		0.00
at par	EUR	0.00				
					1,248,494,712.65	782,969,316.74
5. Equities and other variable-rate securities					32,970,215.53	36,532,296.63
6. Trading portfolio					56,343,048.01	59,176,063.73
7. Shares in other investees and investors					54,694,599.99	56,929,357.05
of which: in banks	EUR	17,768,717.90				(19,119,302.33)
of which: in financial services institutions	EUR	56,946.49				(56,946.49)
8. Shares in affiliated companies					81,682,978.34	36,563,828.73
of which: in banks	EUR	51,829,451.37				(12,054,450.15)
of which: in financial services institutions	EUR	0.00				(0.00)
9. Fiduciary assets					689,703,606.24	822,073,538.79
of which: fiduciary loans	EUR	5,500.00				(314,191.94)
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				963,181.00		1,431,655.00
c) Goodwill				0.00		0.00
d) Prepayments				0.00		0.00
					963,181.00	1,431,655.00
11. Tangible fixed assets					129,083,903.41	100,726,732.56
12. Other assets					178,701,160.58	186,760,579.72
13. Prepaid expenses					1,531,317.14	1,275,866.69
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		**4,488,049,584.20**	**5,491,275,232.56**

Equity and liabilities			EUR	EUR	Dec. 31, 2019 EUR	Dec. 31, 2018 EUR
1. Liabilities to other banks						
a) Payable on demand				63,901,364.39		111,478,056.33
b) With agreed maturities or periods of notice				88,337,455.35		107,626,730.49
					152,238,819.74	219,104,786.82
2. Liabilities to customers						
a) Savings deposits						
aa) with agreed periods of notice of three months			30,703,090.32			39,988,585.52
ab) with agreed periods of notice of more than three months			6,216,563.43			10,535,338.02
				36,919,653.75		50,523,923.54
b) Other liabilities						
ba) payable on demand			2,510,491,967.30			3,261,526,269.58
bb) with agreed maturities or periods of notice			569,986,195.16			578,546,624.20
				3,080,478,162.46		3,840,072,893.78
					3,117,397,816.21	3,890,596,817.32
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					49,172,457.62	46,001,863.19
5. Fiduciary liabilities					689,703,606.24	822,073,538.79
of which: fiduciary loans	EUR	5,500.00				(314,191.94)
6. Other liabilities					37,322,818.24	42,933,197.17
7. Deferred income					2,196,266.46	1,257,190.22
8. Deferred tax liabilities					0.00	0.00
9. Provisions						
a) Provisions for pensions and similar obligations				38,052,463.00		37,423,586.00
b) Provisions for taxes				0.00		0.00
c) Other provisions				17,679,002.52		17,954,709.08
					55,731,465.52	55,378,295.08
10. Subordinated liabilities					103,500,000.00	123,500,000.00
11. Profit participation capital					0.00	10,000,000.00
of which: maturing in less than two years	EUR	0.00				(10,000,000.00)
12. Fund for general banking risks					5,759,670.77	5,402,880.57
of which: special reserve (HGB s. 340e)	EUR	3,909,670.77				(3,552,880.57)
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			15,000,000.00			15,000,000.00
				15,000,000.00		
d) Net retained profits				26,663.40		26,663.40
					275,026,663.40	275,026,663.40
			Total equity and liabilities		**4,488,049,584.20**	**5,491,275,232.56**

	EUR	Dec. 31, 2019 EUR	Dec. 31, 2018 EUR
1. Contingent liabilities			
a) Contingent liabilities on endorsed bills settled with customers	0.00		0.00
b) Liabilities from guarantees and indemnities	35,261,634.34		33,770,356.93
c) Liabilities from the granting of security for third-party liabilities	0.00		0.00
		35,261,634.34	33,770,356.93
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	135,677,055.88		96,919,349.80
		135,677,055.88	96,919,349.80

Expenses		EUR	EUR	Dec. 31, 2019 EUR	Dec. 31, 2018 EUR
1. Interest expense			27,711,099.80		31,297,175.79
less positive interest			–10,826,367.84		–7,048,557.24
				16,884,731.96	24,248,618.55
2. Fee and commission expense				7,034,327.10	7,277,553.93
3. Net trading expense				0.00	0.00
4. General and administrative expenses					
a) Personnel expenses					
aa) wages and salaries		60,114,103.83			58,847,127.77
ab) social security, post-employment, and other employee benefit expenses		10,246,198.85			9,994,899.03
			70,360,302.68		68,842,026.80
of which: post-employment benefit expenses EUR	2,469,927.54				(2,249,942.71)
b) Other administrative expenses			52,813,251.98		49,938,985.65
				123,173,554.66	118,781,012.45
5. Amortization and writedowns of intangible fixed assets and depreciation and writedowns of tangible fixed assets				12,568,860.99	8,215,364.24
6. Other operating expenses				14,152,814.64	12,899,454.03
7. Writedowns of and allowances on loans and advances and certain securities, and additions to loan loss provisions				26,508,592.86	13,328,294.45
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				14,064,741.88	0.00
10. Cost of loss absorption				6,927.94	0.00
11. Extraordinary expenses				0.00	0.00
12. Taxes on income				0.00	-15,697.68
13. Other taxes not included in item 6				17,023.17	20,170.34
14. Profit transferred under profit pooling, profit transfer agreements, or partial profit transfer agreements				0.00	7,101,085.29
15. Net income for the year				0.00	0.00
		Total expenses		**214,411,575.20**	**191,855,855.60**

Income	EUR	EUR	Dec. 31, 2019 EUR	Dec. 31, 2018 EUR
1. Interest income from				
a) lending and money market operations	55,729,403.41			56,957,473.00
less negative interest	–9,591,334.52			–7,825,673.33
		46,138,068.89		49,131,799.67
b) fixed-income securities and registered government debt	365,146.96			430,125.69
less negative interest	0.00			0.00
		365,146.96		430,125.69
			46,503,215.85	49,561,925.36
2. Current income from				
a) equities and other variable-rate securities		1,243,374.24		793,989.52
b) shares in other investees and investors		4,273,845.41		5,178,736.29
c) shares in affiliated companies		7,222,000.00		2,863,341.86
			12,739,219.65	8,836,067.67
3. Income from profit pooling, profit transfer, or partial profit transfer agreements			2,898,539.35	2,424,815.32
4. Fee and commission income			95,159,837.48	86,654,339.76
5. Net trading income			6,369,242.40	3,631,714.86
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. Withdrawals from the fund for general banking risks			0.00	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	25,715,601.25
9. Other operating income			26,100,748.95	15,031,391.38
10. Extraordinary income			0.00	0.00
11. Income from loss absorption			24,640,771.52	0.00
12. Net loss for the year			0.00	0.00
Total income			**214,411,575.20**	**191,855,855.60**

	EUR	Dec. 31, 2019 EUR	Dec. 31, 2018 EUR
1. Net income/net loss for the year		0.00	0.00
2. Retained profits/accumulated losses brought forward from previous year		26,663.40	26,663.40
		26,663.40	26,663.40
3. Withdrawals from capital reserves		0.00	0.00
		26,663.40	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	0.00		0.00
		0.00	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 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 2019 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 are accounted for as long-term financial assets that are assigned to other portfolios. Expenses from writedowns of certain securities 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 ten-day holding period and a 99% confidence level over an observation period of 250 trading days. It is generally deducted from the assets reported in the trading portfolio.

In accordance with the provisions of section 340e(4) sentence 1 of the HGB, 10% of net trading income must be transferred to the "fund for general banking risks" special reserve in accordance with section 340g of the HGB. The special reserve may only be released under the conditions specified in section 340e(4) sentence 2 of the HGB. The addition made for the past fiscal year amounted to EUR 357 thousand. The previous year saw an addition of EUR 404 thousand.

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

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

6. Tangible and intangible fixed assets

Tangible fixed assets and purchased intangible fixed assets are carried at cost less depreciation or amortization, which is recognized ratably on a straight-line basis over the standard useful life. The underlying useful life of the individual assets is based on their economic useful life. Writedowns are recognized if impairment is expected to be other than temporary. Low-value assets costing up to EUR 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.

7. Prepaid expenses

The option to recognize prepaid expenses in accordance with section 340e(2) of the HGB 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 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 change in valuation methodology has increased the global valuation allowance by EUR 5.5 million.

13. Currency translation

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

14. Fair value

The fair value of financial instruments is normally measured on the basis of quoted prices in an active market (marking to market). If no such prices are available, the Bank examines the extent to which prices can be obtained from business partners or price agencies, or observable market data can be used (marking to matrix). If this is not possible, suitable models are used to measure fair value (marking to model).
The amount, timing, and probability of future cash flows from derivatives are subject to uncertainties that have a corresponding effect on their fair value. The key 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 at the reporting date, based on a present value analysis that considered risk and administrative costs still expected to be incurred. There was therefore no requirement to recognize a provision in accordance with section 340a in conjunction with section 249(1) sentence 1 (2nd alternative) of the HGB.

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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
payable on demand	60,163	1,808,619
thereof to affiliated companies	1,075	2,708
thereof to other investees and investors	0	0

Other loans and advances to other banks	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
with residual terms of		
a) up to three months	40,061	140,258
b) more than three months to one year	10,350	8,350
c) more than one year to five years	50,000	0
d) more than five years	0	0
Total	100,411	148,608
thereof to affiliated companies	1,383	0
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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
with residual terms of		
a) up to three months	501,101	406,668
b) more than three months to one year	231,142	231,934
c) more than one year to five years	363,958	432,111
d) more than five years	271,619	363,902
Total	1,367,820	1,434,615
thereof undated	334,072	241,812
thereof to affiliated companies	24,327	24,635
thereof to other investees and investors	6,276	11,616
thereof subordinated	924	19,993

The Bank's portfolio of shipping and marine loans, which is diversified by the type of ship involved, amounted to EUR 445.5 million including open-ended committed credit lines to third parties (previous year: EUR 530.6 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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Due in the following year	412,538	245,656
Issued by affiliated companies	0	0
Listed	1,248,495	782,969
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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.	Change
Carrying amount	631,527	0	631,527

Of these holdings, securities with a carrying amount of EUR 442,866 thousand (EUR 0 thousand) were hedged (see note 28). With respect to the remaining holdings in the amount of EUR 188,661 thousand (EUR 0 thousand), the volume of write-downs to the lower market value that were avoided totaled EUR 572 thousand (EUR 0 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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Subordinated	2,400	2,400
Listed	6,833	7,037
Marketable but unlisted	5,176	8,941

The following overview shows the change 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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.	Change
Carrying amount	19,962	19,556	406

In the previous year, this item contained units in an equities fund for which disclosures in accordance with section 285 no. 26 of the HGB were required to be made. The units were recognized at a carrying amount that corresponded to their fair value (EUR 4,992 thousand). No distributions were made and there were no restrictions on the ability to redeem assets. The units in question were derecognized in the course of the fiscal year.

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 Iimited investment partnerships in the amount of EUR 17,562 thousand (EUR 17,156 thousand).

22. Trading portfolio assets

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

Trading portfolio Assets	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Derivative financial instruments	52,572	37,691
Bonds and other fixed-income securities	6	25
Equities and other variable-rate securities	3,495	22,478
Other assets	455	282
Value at risk (VaR)	–185	–1,300
Total	56,343	59,176

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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.	Change EUR thou.
Shares in other investees and investors	54,695	56,929	–2,234
Shares in affiliated companies	81,683	36,564	45,119

The changes in shares in other investees and investors related on the one hand to Warburg Invest AG, Hanover; following the purchase of 75.1% of the shares in the company in the previous year, the remaining shares were acquired in the reporting period. In both cases, the acquisitions were made indirectly by purchasing the shares in Warburg Invest Holding GmbH, Hanover (formerly NORD/LB Asset Management Holding GmbH). In addition, M.M.Warburg & CO again held 60.0% of the shares in M.M.Warburg & CO Hypothekenbank AG, Hamburg, as of December 31, 2019, since the contract to sell the shares to the shareholders of M.M.Warburg & CO Gruppe GmbH was rescinded.

As of December 31, 2019, 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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Shares in other investees and investors	20,000	20,000
Shares in affiliated companies	51,829	12,054

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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Loans and advances to other banks	0	0
Loans and advances to customers	5	314
Shares in other investees and investors	2,676	2,626
Other assets	687,023	819,134
Total	689,704	822,074

25. Intangible and tangible fixed assets

Statement of changes in fixed assets EUR thou.	Intangible fixed assets	Tangible fixed assets
Historical cost Jan. 1, 2019	**37,550**	**181,199**
Additions	571	62,187
Disposals	1,370	54,981
Transfers	0	0
Exchange rate changes	0	–451
Historical cost Dec. 31, 2019	**36,751**	**187,954**
Cumulative depreciation, amortization, and writedowns as of Jan. 1, 2019	**36,118**	**80,473**
Depreciation and amortization	1,040	11,529
Disposals	1,370	32,767
Reversals of writedowns	0	–443
Exchange rate changes	0	78
Cumulative depreciation, amortization, and writedowns as of Dec. 31, 2019	**35,788**	**58,870**
Carrying amounts on Dec. 31, 2019	**963**	**129,084**
Carrying amounts on Dec. 31, 2018	**1,432**	**100,726**

No owner-occupied land and buildings were held as of the reporting date (EUR 5,284 thousand).
Four container ships (previous year: three container ships and one bulk freighter) were recognized in the amount of EUR 121,326 thousand (EUR 82,522 thousand). The vessels are operated on behalf of the Bank by a third party with experience of the business.
EUR 7,758 thousand (EUR 8,555 thousand) relates to operating and office equipment.
As in the previous year, there were no payments on account attributable to assets and assets under construction as of the reporting date.

26. Other assets

Other assets include collateral relating to executory contracts in the amount of EUR 47,183 thousand (EUR 16,519 thousand) and current tax receivables in the amount of EUR 1,111 thousand (EUR 3,263 thousand). A receivable of EUR 24,641 thousand (EUR 0 thousand) exists under the control and profit and loss transfer agreement with M.M.Warburg & CO GmbH dated December 5, 2007. Other receivables relating to allocation account balances due from affiliated companies and other investees and investors amounted to EUR 10,201 thousand (EUR 5,664 thousand). The remaining amounts disclosed here primarily relate to purchase price receivables and 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 5 thousand (EUR 12 thousand). The prepaid expenses in accordance with section 340e(2) of the HGB reported under this item amounted to EUR 186 thousand (EUR 35 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 in a nominal amount of EUR 430,700 thousand (EUR 0 thousand) held under micro hedges were measured using interest rate swaps in the corresponding amounts. Hedged risks amounted to EUR 5,431 thousand (EUR 0 thousand). Negative changes in the fair value of the hedged items are offset by positive changes in the fair value of the hedging instruments for hedged risks.
The effectiveness tests (critical terms match) show that the offsetting changes over time in the individual hedges (time to maturity of the hedged item) will probably match in future.
The volume of write-downs to the lower market value resulting from unhedged risks that were avoided totaled EUR 0.1 million (EUR 0.0 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 2019.

30. Assets denominated in foreign currencies

Total assets denominated in foreign currencies amounted to EUR 502,893 thousand (EUR 552,393 thousand).

31. Liabilities to other banks

Liabilities to other banks	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
payable on demand	63,901	111,478
thereof to affiliated companies	49,875	30,982
thereof to other investees and investors	2	748

Liabilities to other banks	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
with residual terms of		
a) up to three months	16,400	44,503
b) more than three months to one year	23,567	17,210
c) more than one year to five years	21,219	16,112
d) more than five years	27,151	29,802
Total	88,337	107,627
thereof to affiliated companies	239	0
thereof to other investees and investors	0	0

There were no repurchase agreements as of the balance sheet date (EUR 5,038 thousand).

32. Liabilities to customers

Savings deposits	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
with residual terms of		
a) up to three months	196	952
b) more than three months to one year	4,309	7,296
c) more than one year to five years	1,700	2,275
d) more than five years	11	12
Total	6,217	10,535

Liabilities to customers	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
payable on demand	2,510,492	3,261,526
thereof to affiliated companies	101,516	92,880
thereof to other investees and investors	21,295	27,183

Other liabilities to customers	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
with residual terms of		
a) up to three months	281,627	225,221
b) more than three months to one year	149,068	166,627
c) more than one year to five years	34,292	81,699
d) more than five years	105,000	105,000
Total	569,986	578,547
thereof to affiliated companies	4,500	4,125
thereof to other investees and investors	0	0

33. Trading portfolio liabilities

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

Trading portfolio Liabilities	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Derivative financial instruments	48,315	43,055
Liabilities	857	2,947
Total	49,172	46,002

34. Fiduciary liabilities

Fiduciary liabilities	Dec. 31, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Liabilities to other banks	6	314
Liabilities to customers	0	0
Other liabilities	689,698	821,760
Total	689,704	822,074

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 received amounting to EUR 3,010 thousand (EUR 17,470 thousand) and liabilities to the German tax authorities of EUR 7,797 thousand (EUR 7,149 thousand). No liabilities were recognized for distributions on profit participation capital as of the reporting date (EUR 775 thousand; see note 39). Liabilities to affiliated companies and other investees and investors amounted to EUR 19,517 thousand (EUR 488 thousand). In the previous year, liabilities to the M.M.Warburg & CO Group under the profit and loss transfer agreement dated December 5, 2007, were recognized in the amount of EUR 7,101 thousand (see note 26).

36. Deferred income

This item includes deferred fees similar to interest expenses in the lending business that were paid at the start of the term in the amount of EUR 2,046 thousand (EUR 1,051 thousand); deferred income in accordance with section 340e(2) of the HGB amounted to EUR 39 thousand (EUR 93 thousand).

37. Provisions

Pensions and similar obligations

The principal assumptions applied as of December 31, 2019, are as follows:

Discount rate p.a.	2.72%
Defined benefit trend (e.g., salary) p.a.	1.50%
Trend in income threshold for contribution assessment p.a.	1.50%
Pension trend p.a.	1.60%
Average staff turnover	2.18%

In the case of provisions for pensions and similar obligations, the difference between the carrying amount of the provisions using the average market rate for the past ten fiscal years and the average market rate for the past seven fiscal years must be calculated in each fiscal year (section 253(6) sentence 1 of the HGB). The resulting difference of EUR 3,001 thousand (EUR 3,465 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 30 thousand; previous year: EUR 216 thousand). The cost of the plan assets was EUR 26 thousand (EUR 115 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 235 thousand (EUR 247 thousand). The difference between the two settlement amounts was EUR 4 thousand (EUR 5 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 17,679 thousand (EUR 17,955 thousand), EUR 7,155 thousand (EUR 6,478 thousand) was attributable to variable employee remuneration and EUR 100 thousand (EUR 227 thousand) to loan loss provisions.

38. Subordinated liabilities

The subordinated liabilities totaling EUR 103,500 thousand (EUR 123,500 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 5,318 thousand (EUR 6,294 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 90,000 thousand). The terms and conditions for these comply with the provisions of Article 62 in conjunction with Article 63 of the CRR. No conversion into capital or another form of debt has been agreed.
Registered bonds that have been recognized for supervisory purposes as additional Tier 1 capital (AT1) were included in the total amount of EUR 33,500 thousand. The instruments can be called by the issuer for the first time in October 2022 and every five years thereafter, after obtaining the approval of the competent supervisory authority. If a trigger event occurs, the nominal amount or the repayment amount will be written down.

39. Profit participation capital

The profit participation capital was repayable in the fiscal year.
As a result, no profit participation rights were reported as of December 31, 2019 (EUR 10,000 thousand). Equally, no liabilities for distributions on the profit participation capital needed to be recognized under Other liabilities (EUR 775 thousand).

40. Equity

M.M.Warburg & CO Gruppe GmbH has informed us in accordance with sections 20(1) and (4) 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

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

41. Liabilities denominated in foreign currencies

Liabilities denominated in foreign currencies amounted to EUR 518,584 thousand (EUR 546,018 thousand).

42. Collateral pledged

As of the reporting date, securities in the amount of EUR 212,485 thousand (EUR 263,222 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 55,212 thousand (EUR 60,621 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 47,183 thousand (EUR 16,519 thousand) was furnished for OTC derivatives transactions.

43. Contingent liabilities and other commitments

Contingent liabilities include other guarantees amounting to EUR 35,262 thousand (EUR 33,770 thousand). Irrevocable loan commitments amounting to EUR 135,677 thousand (EUR 96,919 thousand) are disclosed as other commitments.
The risk of loss from the settlement of contingent liabilities is mitigated by recourse opportunities existing 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, if appropriate, on the basis of an assessment of the likelihood of the client concerned meeting the underlying obligations.
Additionally, the Bank performs regular assessments during the term of its commitments as to whether losses can be expected from the crystallization of contingent liabilities, from placement and underwriting commitments, or from irrevocable loan commitments.

NOTES TO THE INCOME STATEMENT

44. 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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Interest income	5,019	7,205

45. 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.

46. Income by geographical market

The Bank does not have any sales offices outside Germany.

47. Other operating income

Other operating income in the amount of EUR 26,101 thousand (EUR 15,031 thousand) includes income from the operation of marine vessels of EUR 13,167 thousand (EUR 8,347 thousand) and income from agency activities of EUR 2,371 thousand (EUR 2,083 thousand). Provisions not relating to the lending business were reversed in the amount of EUR 1,522 thousand (EUR 1,000 thousand).

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, 2019 EUR thou.	Dec. 31, 2018 EUR thou.
Interest expense	5,957	9,842

49. Other operating expenses

Other operating expenses in the amount of EUR 14,153 thousand (EUR 12,899 thousand) include expenses of EUR 8,344 thousand (EUR 6,798 thousand) arising from the operation of maritime vessels. The expense from the unwinding of discounts on provisions amounted to EUR 2,986 thousand (EUR 3,049 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 gains on the measurement/sale of shares in other investees and investors, shares in affiliated companies, and securities classified as fixed assets and amounted to EUR –14,065 thousand (EUR 25,716 thousand). The previous year saw a profit on sales of EUR 25,636 thousand; of this figure, EUR 11,715 thousand had to be reversed in the reporting period since the underlying purchase agreement was rescinded.

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

Whereas in the previous year a profit of EUR 7,101 thousand was transferred to M.M.Warburg & CO Gruppe GmbH, this year the company is obliged to offset the loss for the period of EUR 24,641 thousand generated by M.M.Warburg & CO.

OTHER DISCLOSURES

52. Other financial commitments

In accordance with section 5(10) of the statutes of the Einlagensicherungsfonds (Deposit Protection Fund), we have undertaken to indemnify the Bundesverband deutscher Banken e. V., Berlin, for any losses it may incur arising from measures taken on behalf of any banks in which we own a majority interest.
Long-term leases for land and buildings used by the Bank resulted in annual rental payments of EUR 5,974 thousand (EUR 5,739 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 5,430 thousand exist for the prescribed dry dock inspections of, and upgrades to, the marine vessels in the Bank's portfolio; these will be incurred in 2022 and 2023.
As of December 31, 2019, the Bank had call obligations to three companies totaling EUR 563 thousand.

53. Derivative financial instruments

As of the balance sheet date, the Bank had entered into:
- Interest rate derivatives such as swaps, caps, and floors
- Foreign currency derivatives, and in particular currency forwards, commitments from currency options written, and currency options
- Stock options, equity index futures

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

Derivative financial instruments not recognized at fair value

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

	2019			2018		
EUR thou.	Notional values	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Interest rate swaps	950,899	20,671	25,598	1,064,899	14,376	20,570
Forward interest rate swaps (OTC)	0	0	0	0	0	0
Floors (OTC)	0	0	0	210	0	2
Caps (OTC)	17,950	9	9	28,796	86	86
Total	968,849	20,680	25,607	1,093,905	14,462	20,658

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.

	2019			2018		
EUR thou.	Notional values*	Positive fair values	Negative fair values	Notional values	Positive fair values	Negative fair values
Currency transactions						
Currency forwards	3,740.11	50,709	46,718	3,786,875	29,840	38,522
Currency options	327,956	1,810	1,456	597,595	4,702	4,100
Total	4,068,067	52,519	48,174	4,384,470	34,542	42,622
Equity/index transactions						
Stock options	927	113	16	1,685	734	177
Equity index futures	9	0	0	196	0	0
Total	936	113	16	1,881	734	177

* 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 665 (685) people in fiscal year 2019. This figure can be broken down as follows:

	2019			2018
	Female	Male	Total	Total
Employees	286	368	654	675
Vocational trainees	2	9	11	10
Total	288	377	665	685

55. Shareholdings

Name and domicile of the company	Equity interest in %	Reporting currency	Equity in EUR thou.	Profit/loss in EUR thou.	
1. Affiliated companies					
M.M.Warburg & CO Hypothekenbank AG, Hamburg	60.01	EUR	94,459	4,252	
Lederwerke Wieman GmbH, Hamburg	100.00	EUR	3,071	PLTA	
Marcard Family Office Treuhand GmbH, Hamburg	100.00	EUR	79	29	
MARCARD, STEIN & CO AG, Hamburg	100.00	EUR	12,052	PLTA	
New Bond Street GmbH, Berlin	100.00	EUR	16	–3	*
Warburg Senior Secured Maritime Debt Fund, Hamburg	99.99	EUR	17,576	692	
W&Z FinTech GmbH, Hamburg	75.00	EUR	418	–659	
WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, Hamburg	100.00	EUR	8,592	2,810	
Warburg Invest Holding GmbH, Hanover	100.00	EUR	21,085	1,754	
Warburg Invest AG, Hanover	100.00	EUR	14,734	1,680	
Warburg Research GmbH, Hamburg	100.00	EUR	1,878	322	

Name and domicile of the company	Equity interest in %	Reporting currency	Equity in EUR thou.	Profit/loss in EUR thou.	
2. Equity investments (carrying amount < EUR 25 thousand and equity interest < 20%)					
An der Börse 7 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	364	120	
BPE Fund Investors II GmbH, Hamburg	1.00	EUR	36,840	3,365	*
BPE Institutional Partners G.m.b.H., Hamburg	0.80	EUR	6,504	1,055	*
CredaRate Solutions GmbH, Cologne	12.88	EUR	4,101	962	*
DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt	10.00	EUR	3,986	694	*
EDD AG i.L., Düsseldorf	1.33	EUR	22,491	–5,301	*
Equita GmbH & Co. Holding KGaA, Bad Homburg	2.94	EUR	75,793	75,447	*
Ferdinandstraße 75 Grundstücks GmbH & Co. KG, Hamburg	99.90	EUR	1,492	441	
GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft mbH & Co. KG, Grünwald	5.00	EUR	35,000	540	*
GEDO Verwaltungsgesellschaft mbH, Grünwald	5.00	EUR	110	6	*
H.F.S. Immobilienfonds 16 KG, Munich	1.11	EUR	18,905	n.a.	*
HIH Global Immobilien GmbH & Co Erste Neuseeland KG, Hamburg	18.13	EUR	35,179	2,085	*
Lloyd Fonds Britische Kapital Leben III. GmbH & Co. KG, Innsbruck	0.16	EUR	22,376	1,644	*
M.M.Warburg Bank (Schweiz) AG i.L., Zurich	100.00	EUR	17,469	1,095	
Marmorsaal im Weißenburgpark GmbH, Stuttgart	24.00	EUR	39	0	*
Quantum Immobilien AG, Hamburg	10.00	EUR	139,172	50,011	*
Society for Worldwide Interbank Financial Telecommunication S.C.R.L. (SWIFT), La Hulpe	0.03	EUR	–	–	
Steyler Bank GmbH, Sankt Augustin	2.00	EUR	18,360	81	*
Warburg-HIH Invest Real Estate GmbH, Hamburg	10.00	EUR	7,766	0	*

** Equity and profit/loss for fiscal year 2018. Currency translation rate used: EUR/CHF 1.0871.*

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

As of the reporting date, loans and advances totaling EUR 500 thousand (EUR 1,500 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 EUR 1,941 thousand (EUR 2,094 thousand) for fiscal year 2019. As in the previous year, there was no profit-related remuneration due for payment after the adoption of the annual financial statements.

Shareholders' Committee

Dr. Christian Olearius, Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg
Until December 31, 2019

Max Warburg, Deputy Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg
Until December 31, 2019

Dr. Bernd Thiemann
Management Consultant
Member until December 31, 2019; Chairman from January 1, 2020

Prof. Burkhard Schwenker
Management Consultant
Member until December 31, 2019; Deputy Chairman from January 1, 2020

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

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 101 thousand (EUR 101 thousand).

Supervisory Board

Dr. Christian Olearius, Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg
Until December 31, 2019

Max Warburg, Deputy Chairman
Banker, Managing Director of M.M.Warburg & CO Gruppe GmbH, Hamburg
Until December 31, 2019

Dr. Bernd Thiemann
Management Consultant
Member until December 31, 2019; Chairman from January 1, 2020

Prof. Burkhard Schwenker
Management Consultant
From January 1, 2020; Deputy Chairman

Dr. Claus Nolting
Lawyer
From January 1, 2020

As in the previous year, no loans and advances had been granted to members of the Supervisory Board at the year-end. No contingent liabilities had been assumed on behalf of these persons.
The total remuneration for the Supervisory Board in the fiscal year amounted to EUR 107 thousand (EUR 107 thousand).

57. Offices held as of December 31, 2019

Joachim Olearius
Chairman of the Supervisory Board, WARBURG INVEST KAPITALANLAGEGESELLSCHAFT MBH, Hamburg
Member of the Supervisory Board, MARCARD, STEIN & CO AG, Hamburg
Member of the Supervisory Board, KanAm Grund Kapitalanlagegesellschaft mbH, Frankfurt

Dr. Peter Rentrop-Schmid
Chairman of the Supervisory Board, Warburg Invest AG, Hanover
Deputy Chairman of the Supervisory Board, Warburg-HIH Invest Real Estate GmbH, Hamburg
Chairman of the Supervisory Board, GBK Beteiligungen AG, Hanover
Member of the Supervisory Board, Degussa Bank AG, Frankfurt

Patrick Tessmann
Deputy Chairman of the Supervisory Board, Warburg Invest AG, 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 April 17, 2019, to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditors of the financial statements for fiscal year 2019.
Audit fees net of VAT in the amount of EUR 1,739 thousand (EUR 1,450 thousand) were recognized in income, as were fees for statutory assurance services of EUR 283 thousand (EUR 189 thousand) and for other services of EUR 3 thousand (EUR 52 thousand).
Audit and other assurance services were performed for subsidiaries.

60. Absorption of losses

In line with the control and profit and loss transfer agreement with our sole limited partner, M.M.Warburg & CO Gruppe GmbH, which was entered into on December 5, 2007, with the predecessor company, M.M.Warburg & CO Gruppe GmbH has undertaken to offset the Bank's loss for the period.
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.

61. Report on post-balance sheet date events

The global spread of the new coronavirus ("Covid-19 pandemic") in 2020 and the fight against its consequences for health have significantly reduced economic activity worldwide. Developments to date suggest that global economic growth in 2020 could be hit substantially. At present there is a high degree of uncertainty as to the duration and intensity of the coronavirus crisis on the one hand, and to its economic effects and how they will be mitigated through the support programs that have already been implemented or are planned on the other.
The economic consequences of the coronavirus crisis could negatively impact M.M.Warburg & CO's ability to achieve its financial goals; however, in view of the current uncertainty it is not yet possible to provide any concrete forecasts as to the effects. In principle, negative effects can affect the amount of income generated as well as leading to higher additions to loan loss provisions.

Hamburg, April 28, 2020 M.M.Warburg & CO (AG & Co.)
Kommanditgesellschaft auf Aktien

M.M.WARBURG & CO
BANK

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