M.M.WARBURG & CO
BANK

Press Release

Warburg Bank equipped for a stable future

- **Successful consolidation and streamlining process**
- **Clear rise in capital ratios**
- **All supervisory capital requirements comfortably met**
- **Substantial decline in administrative expenses**
- **Assets under management climb from EUR 39.3 billion to EUR 62.2 billion**
- **Net income hit by MiFID II and low interest rate environment**

Hamburg, April 24, 2019 – Warburg Bank has turned in a satisfactory performance for fiscal year 2018 and its annual financial statements have been adopted by the General Meeting. The Bank clearly improved its capital ratios and substantially cut costs despite a challenging market environment, comfortably meeting all capital requirements. One key contributing factor here was the consolidation and streamlining process that was begun four years ago and completed in 2018.

Joachim Olearius, Spokesman for the Partners, commented: *"Our consolidation and streamlining process has further enhanced Warburg Bank's stability and given it a high level of flexibility for the future. We can now provide clients with even more precisely tailored offerings even more rapidly and at a lower cost. Going forward, they can be sure that they will continue to receive a wide range of services from an independent, privately owned private bank."*

In recent years Warburg Bank sold units abroad, merged a number of subsidiaries, and optimized its internal processes and systems. In 2018, the focus was on integrating NORD/LB Asset Management AG and on aligning the Bank's core business segments even more consistently with current and future client needs.

The integration of NORD/LB Asset Management AG has reached an advanced stage. It now trades under the name of Warburg Invest AG and is being successively merged with Warburg Invest Kapitalverwaltungsgesellschaft mbH's operations.

2018 saw a reorganization of the Private Banking core business area that was led by Dr. Peter Rentrop-Schmid, the partner responsible. The goal was to be able to meet future requirements for in-depth individual services as soon as possible. Actions included enhancing the Bank's advisory services by setting up a center of excellence, the Advisory Office. This pools the talents of sector specialists and experienced advisors from Private Banking and Asset Man-

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agement. In Corporate Banking, staff at all locations started reporting to management in Hamburg in the last fiscal year. This ensures competent local support can be offered to both corporate and shipping industry clients. In the Shipping Finance segment, the Bank succeeded in bucking the industry trend and implementing an encouraging number of client transactions. There is also strong demand for advisory and structured finance services. A newly launched credit fund enables professional clients to access this asset class. A large portion of the existing shipping loan portfolio was sold on attractive terms.

Patrick Tessmann was appointed as a partner effective as of December 1, 2018, with responsibility for Investment Banking. His expertise and decades of contacts are driving forward the Bank's business with middle-market clients in particular. At almost the same time, the Bank reinforced its new Markets and Institutional Banking unit, which combines the former Sales and Trading area and institutional client support. Henry Werkmeister was recruited to head the new area.

2018 saw a large number of IT improvements that are paving the way for the ongoing digital transformation of the Bank's internal processes and client offerings. At the same time, the services provided by the Warburg Navigator digital asset management tool and the OWNLY family office app were extended in the past fiscal year and optimized for user habits.

Business Performance

Consolidated total assets for the companies held by M.M.Warburg & CO Gruppe GmbH amounted to EUR 5.8 billion as of the reporting date (previous year: EUR 7.4 billion). The reduction is mainly due to the deconsolidation of M.M.Warburg & CO Hypothekenbank AG. Warburg Bank's total assets recorded a slight increase from EUR 5.4 billion to EUR 5.5 billion.

The consolidated total capital ratio rose clearly to 16.6% (previous year: 13.1%). The core capital ratio improved from 10.3% to 13.7%. At the Warburg Bank level it did even better, rising to 14.0% (previous year: 12.7%). The deconsolidation of M.M.Warburg & CO Hypothekenbank AG was also reflected in the Group's own funds including Tier 2 capital, which fell from EUR 469.3 million in the previous year to EUR 390.2 million. The M.M.Warburg & CO Group and Warburg Bank comfortably meet all supervisory capital requirements.

The Group's assets under management rose from EUR 39.3 billion in the previous year to EUR 62.2 billion due to newly acquired client assets and the takeover of Warburg Invest AG. Total assets held in custody by the Bank rose from EUR 21.2 billion to EUR 25.1 billion.

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Income from the fixed income business was impacted by the new MiFID II rules, among other things. As a result fee and commission income, which is primarily generated by Private Banking, Corporate Finance, and Sales and Trading declined from EUR 175.1 million in the previous year to EUR 121.4 million.

Net interest income fell as a result of the persistently low interest rate environment and amounted to EUR 45.2 million (previous year: EUR 49.2 million). Net trading income dropped to EUR 3.9 million after EUR 10.5 million in the previous year due to the difficult market environment towards the end of the year in particular.

Administrative expenses sank by a substantial 25% year-on-year, from EUR 229.8 million to EUR 173.3 million. This was helped by the deconsolidation of the foreign companies sold in the previous year, lower personnel expenses and a decline in other administrative expenses – including depreciation, amortization, and writedowns of tangible and intangible fixed assets. By contrast, loan loss provisions rose from EUR 3.0 million to EUR 14.5 million – a development that was mainly attributable to the shipping loans business.

However, the lower overall costs were unable to adequately compensate for the decline in income and negative factors. Consolidated net income amounted to EUR –14.6 million, following EUR 10.0 million in the previous year. Warburg Bank's net income fell from EUR 27.0 million to EUR 7.1 million year-on-year.

Operational Risk

A number of media outlets are continuing to publish unfounded speculations and rumors that M.M.Warburg & CO was involved in fraudulent transactions conducted around securities' dividend dates ("cum-ex transactions"). However, the Bank has never been involved in any collusion – direct or indirect – designed to obtain multiple investment income tax refunds. This is backed up by expert opinions from auditors and legal firms. As a result, Warburg Bank continues to robustly deny the allegations.

What is true is that M.M.Warburg & CO executed legally permissible transactions designed to at least partially offset the disadvantages suffered by foreign shareholders as a result of the taxation of dividends in Germany, which the European Court of Justice has recognized as contravening European law. M.M.Warburg & CO consistently complied with all legal requirements in the process. If it transpires that the seller's domestic custodian bank did not remit the investment income tax received despite being obliged to do so, this would represent a breach of its duty. Since M.M.Warburg & CO was unable to determine this, Warburg Bank sued the custodian bank in December 2018 as a precautionary measure.

Although the Bank considers the tax claims brought by the fiscal authorities in this connection to be unjustified, a provision that fully covers any financial risks was recognized in 2017. The Bank has the partners' full support in all events.

Outlook

Fiscal 2019 will be another challenging year for the German banking sector. A large number of uncertainties associated with global political events are dampening an upturn. Across the world, the drivers for economic development have recently started to falter. Key issues unsettling the markets include political factors such as the threat of trade wars or the possibility of a hard Brexit. The International Monetary Fund (IMF) has cut its global economic growth forecast to 3.5%. Economists are expecting a mere 1% or so for Germany. Since no change in key interest rates is on the cards for the European Economic Area, banks and investors alike must brace themselves for only minimal interest income.

Joachim Olearius: *"Tougher competition, an overregulated business environment and technological advances in banking will continue to be the main factors influencing our day-to-day operations in the coming 12 months. Society and politics are in the throes of change. This situation demands a particularly high level of adaptability, but also stability and independence. We have demonstrated that we possess these characteristics."*

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Overview of key figures for fiscal years 2018 and 2017

The Warburg Group	2018	2017
Consolidated net income	EUR –14.6 million	EUR 10.0 million
Net interest income	EUR 45.2 million	EUR 49.2 million
Net fee and commission income	EUR 121.4 million	EUR 175.1 million
Own funds	EUR 390.2 million	EUR 469.3 million
Total assets	EUR 5.8 billion	EUR 7.4 billion
Assets under management	EUR 62.2 billion	EUR 39.3 billion
Cost/income ratio	101.6%	97.9%

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