M.M.WARBURG & CO
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Press Release

2020 annual financial statements: M.M.Warburg & CO sees solid growth

- **Higher net interest income and net fee and commission income**
- **Growth in assets under management and administration**
- **Pandemic has no negative impact on the lending book**
- **Agile, smooth switch to decentralized working**
- **Systematic focus on digitalization and sustainability**

Hamburg, May 10, 2021 – M.M.Warburg & CO Gruppe GmbH (the parent company of the Group) and the independent private bank at the heart of its activities, M.M.Warburg & CO (Warburg Bank), continued to grow in pandemic-hit 2020 with their state-of-the-art banking services. The annual financial statements reflect the Group's success in its strategic core areas and with key performance indicators.

Joachim Olearius, Spokesman for the Partners, commented: *"The results for 2020 clearly show that we again expanded our market position in this difficult period, thanks to the outstanding efforts by all our staff."*

Increase in assets under management and administration

Total assets under management and administration for the Group (Warburg Group) grew tangibly from EUR 69.8 billion in the previous year to EUR 76.2 billion in 2020. This more than offset the outflow of funds of EUR 1.7 billion associated with the sale of Swiss subsidiary Private Client Partners AG. Total assets held in custody also rose, climbing from EUR 30.2 billion in 2019 to EUR 33.9 billion in 2020. All in all, this brings the amount of money entrusted to the Warburg Group to more than EUR 110 billion.

Higher net interest income and net fee and commission income

The Warburg Group's results of operations developed well: Net interest income rose by 14.5 percent year-on-year in 2020 to EUR 50.2 million (previous year: EUR 43.8 million). Equally, net fee and commission income recorded a positive development, rising by 2.2 percent in 2020 to EUR 154.3 million (EUR 150.9 million).

The increase in net interest income was achieved despite a decline in risk-weighted assets, due among other things to a reduction in Bundesbank deposits and the associated avoidance of negative interest. One source of growth in the case of net fee and commission income was income from the securities and depositary business.

Additional information on the Warburg Group's business performance

Administrative expenses fell by 2.4 percent from EUR 199.4 million in the previous year to EUR 194.6 million in 2020, despite substantial advisory costs and increased investment in IT infrastructure in particular. This was mainly attributable to a decrease in personnel expenses. All in all, the net figure for specific loan loss provisions was EUR 22.4 million compared to EUR 79.8 million for 2019; as in the past, this item was dominated by loan loss provisions relating to the non-strategic shipping finance business. However, in the first quarter of 2021 the Group took advantage of developments on the shipping markets to make sales, reducing the portfolio by 70 percent. This will result in a non-performing loan ratio of less than 3 percent in the current fiscal year.

Net income before taxes for the year amounted to EUR –6.7 million – an improvement of EUR 33.6 million compared with 2019 (EUR –40.3 million). After adjustment for the loan loss provisions for shipping finance, net income for fiscal year 2020 would have been positive.

The cost/income ratio was 92.2 percent (previous year: 98.8 percent).

Consolidated total assets grew by EUR 861 million to EUR 7,165 million (previous year: EUR 6,304 million). The increase is largely attributable to borrowings at Deutsche Bundesbank, which were invested in securities, among other things, in the course of asset/liability management.

Capital ratios

Warburg Bank's core capital ratio is 15.7 percent, a clear improvement on the figure for the previous year (14.7 percent). The same also applies to the Common Equity Tier 1 capital ratio, which amounts to 13.9 percent (13.1 percent). After the annual financial statements have been adopted, these two capital ratios will be 15.8 percent and 14.0 percent (15.8 percent and 14.1 percent) respectively.

The core capital ratio for the Warburg Group (the Group from a supervisory law perspective) is 10.3 percent, a slight improvement on the figure for the previous year (10.0 percent). A similar trend also can also be seen for the Common Equity Tier 1 capital ratio, which amounts to 8.8 percent (previous year: 8.6 percent). After the consolidated annual financial statements have been approved, these two capital ratios will be unchanged compared to the previous year, at 10.7 percent and 9.2 percent respectively.

Employees

Employee turnover was roughly 5.4 percent in 2020, in line with planning (previous year: 8.7 percent). The Warburg Group employed a total of 963 people at the end of 2020 (previous year: 929).

Consolidation process completed

Following the sale of its Swiss subsidiary, Private Client Partners AG, the Warburg Group now operates solely from locations in ten German cities. However, it is continuing to also focus on internationally active clients, clients domiciled abroad, and asset management with a global investment horizon.

Sustainability as a factor for the future

In addition to digitalization, sustainability – a core area for the future and one that Warburg Bank increased its focus on in 2020 – made an important contribution and provided stability. All units have a long tradition of focusing on sustainability aspects in their business. ESG criteria are playing a role in more and more portfolios for both private and institutional investors. Warburg's particular expertise in this area can be seen among other things from the fact that the ESG-based Warburg Invest Global Challenges index fund was named the "best-in-class for sustainability" in terms of performance as well by "ECOreporter" magazine. The fund volume topped EUR 400 million for the first time in April 2021.

Joachim Olearius: *"Growing amounts of the assets entrusted to us are being managed in line with ESG criteria. We will continue to press ahead with this development – which is in line both with many clients' wishes and with our own beliefs – in future, and hence contribute to a clean Earth and sustainable growth through investments."*

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High-quality research provides stability in uncertain times

Warburg's firm commitment to sustainability principles goes hand in hand with what is for Germany a unique strength in capital market research for small and medium-sized enterprises (SMEs). With 23 analysts covering more than 200 securities, Warburg is the market leader in SME research and makes a significant contribution to capital market transparency and stability. The Research team was expanded last year to include more analysts and a new location in Frankfurt. In addition to its existing partnership with Poland's largest bank, PKO Bank Polski, which markets Warburg's research to its clients in Poland, the Czech Republic, and Hungary, the Bank entered into a new agreement with French bank CIC to offer research services in France and North America.

The Bank's sales units again successfully executed capital placements in 2020.

Another of Warburg's unique selling points is its outstanding macro research activities, which are headed by Warburg's Chief Economist Carsten Klude. Klude and his team won Consensus Economics' prestigious Forecast Accuracy Award for the third time in 2020. The prize measures the accuracy of macroeconomic forecasts.

Warburg's equities research arm also recorded a major success: Its 13 Refinitiv Starmine Analyst Awards put Warburg in pole position in 2020. The awards were given for the quality of stock recommendations and the accuracy of profit forecasts for the stock markets in 2019.

Market enthusiastic about innovative digital products

Warburg's clear focus on the strategic area of digitalization again proved its worth. Implementation of its digitalization strategy was accelerated in the course of the pandemic. As a result, the Bank was able to provide all its services reliably and to systematically extend its digital offerings for clients. Vonovia SE's digital bond transaction saw Warburg become the exclusive investor in an innovative blockchain-based digital bond transaction for the first time.

Other online offerings proved particularly valuable in 2020, which was dominated by the coronavirus. The OWNLY app – a digital family office that provides an overview of complex fortunes – was used for assets totaling more than EUR 2 billion in 2020. The overview covers current and securities accounts at different banks, real estate, and other assets. The app will also be made available to Warburg Private Banking clients in the course of 2021 under the name of Warburg Family Finance. In addition, demand is increasing for Warburg Navigator. This digital asset management system for private investors with lower levels of assets provides users with a solid alternative to the time-consuming process of selecting equities and funds themselves, and offers transparent access to the capital markets especially in low interest rate phases. All strategies deployed in the Navigator can also be aligned to meet sustainability criteria.

Joachim Olearius: *"In a time of low interest rates and potential inflation, it is important that investors receive transparent information about the capital markets at all times, and that they can use this to take sound decisions that can be implemented quickly. Our digital offerings provide this, even for relatively small portfolios."*

Outlook

The coronavirus pandemic has triggered a crisis, the effects of which are almost impossible to assess at this stage. The unprecedentedly loose monetary and fiscal policy and the rapid development of vaccines are raising hopes of a speedy economic recovery. Many people in Germany saved considerable amounts during the crisis. This could lead to substantial demand in future once the situation with respect to the coronavirus eases. At this point a return to a solid financial policy will also be on the agenda following the high levels of government debt taken on. However, the enormous debt levels suggest that central banks will keep interest rates low for a long time.

Stock markets will continue to be dominated by the effects of the pandemic in 2021, with developments so far being highly positive: The low interest rate environment will lead to equities purchases, actively managed funds, exchange traded funds (ETF), and derivatives increasingly replacing classic savings products such as overnight money accounts. In the case of long-term investors there will be a boom in savings plans. Personalized advice from experienced private account managers will continue to be highly important in this environment. This responsible service cannot be replaced by new providers such as neo brokers. Experienced digital asset managers – such as the Warburg Navigator – will see an upturn in this situation. In addition, the environmental, social, and societal benefits of financial products will become more and more of an issue for many users following the crisis. This means that the number of ESG issuers and investment products will continue to increase.

The capital markets business has also performed well since the beginning of the year. Warburg Bank's Corporate Finance unit experts have already provided support for major corporate actions by German companies in the first months of 2021. For example, they assisted electronics service provider KATEK Group with its successful IPO and rail technology group Vossloh with the placement of a EUR 150 million hybrid bond. In its lending business, Warburg is currently in the process of placing a large portfolio with institutional investors. The shipping markets are now experiencing a sustained recovery following the crisis period. Given the current strong performance and the substantial value adjustments made – which cost the public billions at the Landesbanken in particular – the question arises as to whether the rapid pace of the corrections was justified. Germany's maritime sector has suffered severe damage due not least to the restructuring measures, and has lost significant ground against the international competition.

It will become clear in the near future once the government pandemic support measures have expired what companies – and what banks – will survive the crisis. M.M.Warburg & CO has proved its resilience in its 223-year history and will emerge from these challenging times stronger than before.

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Encl.: Background information – tax demands have been paid

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Background information – tax demands have been paid

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

The taxes assessed have now been paid in full to the tax authorities, with payments totaling EUR 155 million. In this way, the Warburg Group has avoided any damage to the fiscal authorities. The payments were made possible thanks to contributions by the Warburg Group's two main shareholders – an unparalleled commitment to their company and to Hamburg as a financial center. This is not to be taken as an admission of guilt. Five years after the unproven allegations and accusations, the assessment that Warburg Bank complied with the legal requirements for all transactions still holds true. Claims for damages have now been brought against the initiators, executors, and beneficiaries of the transactions.

Following an application by the CDU together with DIE LINKE and Anna Treuenfels-Frowein, a non-attached member (FDP) of the Hamburg Parliament, the latter established a parliamentary committee of inquiry. The goal is to investigate an allegation – for which no proof has been provided so far – of undue political influence on the tax authorities. The committee of inquiry serves a purely political purpose in the run-up to Germany's national elections and is primarily aimed against the SPD's candidate for the chancellorship, Olaf Scholz. In the process, it is prepared to unthinkingly accept collateral damage to the reputation of the Warburg Group, its employees, and its shareholders. The Warburg Group has already made clear on multiple occasions that there was no undue influence on politicians or the administration on its part. Olaf Scholz rejected the accusations as "baseless horror stories" in the meeting of the committee on April 30, 2021.

Detailed information and statements on the entire issue can be found (in German) at https://www.mmwarburg.de/de/publikationen/thema-cum-ex/