

Vontobel Financial Products GmbH, Frankfurt am Main

Interim financial statements as at 30 June 2018 (unaudited) and interim management report

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I. Balance sheet as at 30 June 2018

ASSETS	30/06/2018	31/12/2017
	EUR	EUR
	<hr/>	<hr/>
A. Fixed assets		
Tangible fixed assets		
1. Technical equipment and machinery	10	
2. Other equipment, operating and office equipment	<u>6,376</u>	
		6,386
		6,988
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	1,798,620,666	1,775,739,225
- of which trade receivables EUR 0 thousand (prior year EUR 0 thousand)		
2. Other assets	13,134,414	13,818,798
II. Bank balances	<u>2,155,388</u>	<u>2,794,745</u>
- of which due from affiliated companies EUR 2,040 thousand (prior year EUR 2,486 thousand)		
	1,813,910,468	1,792,352,768
C. Prepaid expenses		560,652
		6,237
	<hr/>	<hr/>
	<u>1,814,477,506</u>	<u>1,792,365,993</u>

EQUITY AND LIABILITIES	30/06/2018	31/12/2017
	EUR	EUR
A. Equity		
I. Subscribed capital	50,000	50,000
II. Capital reserves	2,000,000	2,000,000
III. Retained profits brought forward	0	0
IV. Net income for the year	<u>105,464</u>	<u>347,332</u>
	2,155,464	2,397,332
B. Provisions		
1. Provisions for taxes	55,185	187,102
2. Other provisions	<u>225,195</u>	<u>224,077</u>
	280,380	411,179
C. Liabilities		
1. Issuance liabilities	1,798,620,666	1,775,673,062
2. Liabilities to banks	61,270	5,838
- of which due to affiliated companies EUR 61 thousand (prior year EUR 6 thousand)		
3. Trade payables	63,629	78,914
- of which due to affiliated companies EUR 0 thousand (prior year EUR 0 thousand)		
4. Liabilities to affiliated companies	214,587	15,000
- of which with a remaining term of up to one year EUR 215 thousand (prior year EUR 15 thousand)		
5. Other liabilities	13,081,510	13,784,668
- of which for taxes EUR 5 thousand (prior year EUR 5 thousand)		
- of which for social security EUR 10 thousand (prior year EUR 1 thousand)		
- of which with a remaining term of up to one year EUR 13,082 thousand (prior year EUR 13,784 thousand)		
	<u>1,812,041,662</u>	<u>1,789,557,482</u>
	<u>1,814,477,506</u>	<u>1,792,365,993</u>

II. Income statement for the period from 1 January 2018 to 30 June 2018

	EUR	30/06/2018 EUR	30/06/2017 EUR
1. Realised and unrealised gains and losses from the issuance business	159,309,803		-39,310,631
2. Realised and unrealised gains and losses from hedging transactions	-156,683,211		41,986,796
		2,626,592	2,676,165
3. Other operating income		27,615	6,553
4. Personnel expenses			
a) wages and salaries	186,030		187,091
b) social security contributions and expenses for old-age pensions and other employee benefits	60,535		79,070
- of which in respect of old-age pensions EUR 15 thousand (prior year EUR 42 thousand)			
		246,565	266,161
5. Depreciation of tangible fixed assets		601	679
6. Other operating expenses		2,243,837	2,146,209
7. Other interest and similar income	19,051,674		16,906,872
-of which from affiliated companies EUR 19,052 thousand (prior year EUR 16,907 thousand)			
8. Interest and similar expenses	19,064,215		16,965,270
-of which from affiliated companies EUR 19,064 thousand (prior year EUR 16,965 thousand)			
		-12,541	-58,398
9. Result from ordinary activities		150,663	211,271
10. Taxes on income		45,199	66,275
11. Net income for the year		105,464	144,996

III. Notes to the financial statements and statement of cash flows (indirect method) as at 30 June 2018

1. Accounting policies

a. General

The interim financial statements as at 30 June 2018 of Vontobel Financial Products GmbH, Frankfurt am Main, also referred to in the following as the "Company", were prepared in accordance with the requirements of the German Commercial Code (*Handelsgesetzbuch*, "HGB") and the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*, "GmbHG").

The nature of expense format was chosen for the presentation of the income statement in accordance with § 275 (2) HGB.

b. Measurement methods

The accounting policies applied were unchanged as against the annual financial statements as at 31 December 2017.

Tangible assets are recorded at cost less depreciation. Depreciation is based on the rates permitted for tax purposes. Low-value items were written off in full in the year of addition pursuant to § 6 (2) of the German Income Tax Act (*Einkommensteuergesetz*, "EStG").

Tangible assets are depreciated over periods of between 1 and 13 years depending on the nature of the particular asset.

Receivables were recorded at the nominal amount with the exception of the OTC hedging instruments.

The hedging transactions reported under **receivables from affiliated companies** were combined with **issuance liabilities** into individual hedges in accordance with § 254 HGB and measured at fair value. The individual hedges are recognised using the gross hedge presentation method. In other words, the offsetting changes in the fair value of the hedged risk attributable to both the securities issued and the hedging transactions are reported in the balance sheet. In each case, the offsetting changes in fair value are presented in the income statement on a gross basis.

Other assets were recognised at their nominal amount.

Bank balances were recorded at the nominal amount.

Prepaid expenses were recognised at the nominal amount.

Provisions were recognised in the amount required by prudent business judgment in accordance with § 253 (1) HGB.

Liabilities were recorded at the settlement amount.

Income and **expenses** were recorded in the periods to which they relate.

Valuation allowances in respect of receivables and other assets were not required.

No material amounts of **foreign currency assets or liabilities** were contained in the receivables from and liabilities to banks. The hedging transactions reported under issuance liabilities and receivables from affiliated companies include significant foreign currency exposures that offset each other when combined into individual hedges as described above.

Amounts denominated in foreign currencies were translated using the following mid-rates as at 30 June 2018:

EUR 1 = CHF 1.15932 EUR 1 = USD 1.16755 EUR 1 = GBP 0.88434
EUR 1 = SEK 10.44492

2. Notes to the interim financial statements

a. Bank balances

The bank balances represent demand deposits and include receivables from affiliated companies amounting to EUR 2,040 thousand (prior year EUR 2,486 thousand).

b. Receivables from affiliated companies

Receivables from affiliated companies consist of OTC hedging instruments amounting to EUR 1,798,621 thousand (prior year EUR 1,775,739 thousand) acquired for the purpose of fully hedging the securities issued.

c. Other assets

Other assets include receivables from affiliated companies in respect of accrued interest amounting to EUR 13,066 thousand (prior year EUR 13,778 thousand) and tax receivables of EUR 68 thousand (prior year EUR 0 thousand).

d. Prepaid expenses

Prepaid expenses consist primarily of fees to supervisory authorities and contributions to associations dues.

e. Equity

The share capital of the Company amounted to EUR 50 thousand as at 30 June 2018 (prior year EUR 50 thousand) and is fully paid-up.

Capital reserves amounting to EUR 2,000 thousand reflect capital contributions by the sole shareholder. No amounts were either contributed to or withdrawn from the capital reserves during the financial year.

f. Issuance liabilities

Issuance liabilities consist entirely of the securities issued.

g. Liabilities to banks

Liabilities to banks relate to transitory accounts in EUR and USD, which is held with Bank Vontobel, Zurich.

h. Trade payables

The trade payables include obligations for other services amounting to EUR 64 thousand (prior year EUR 79 thousand).

i. Liabilities to affiliated companies

Liabilities to affiliated companies contains EUR 175 thousand (prior year EUR 0 thousand) in liabilities to Vontobel Holding AG, Zurich, EUR 20 thousand (prior year: EUR 0 thousand) to Bank Vontobel AG, Zurich, and EUR 20 thousand (prior year EUR 15 thousand) to Bank Vontobel Europe AG, Munich.

j. Other liabilities

Other liabilities amounting to EUR 13,082 thousand (prior year EUR 13,785 thousand) mainly comprise liabilities from accrued interest of EUR 13,066 thousand (prior year EUR 13,778 thousand) and income tax and social security contributions deducted from wages for June of EUR 16 thousand (prior year EUR 6 thousand).

k. Maturity analysis of receivables

The receivables were made up as follows:

Item	of which with a remaining term of			
	Total amount EUR '000	up to 1 year EUR '000	more than 1 to 5 years EUR '000	More than 5 years EUR '000
Receivables from affiliated companies	1,798,621 (prior year 1,775,739)	991,342 (prior year 955,152)	540,503 (prior year 512,812)	266,776 (prior year 307,775)
Other assets	13,134 (prior year 13,819)	13,134 (prior year 13,819)	- (prior year -)	- (prior year -)
Total	1,811,755 (prior year 1,789,558)	1,004,476 (prior year 968,971)	540,503 (prior year 512,812)	266,776 (prior year 307,775)

l. Maturity analysis of liabilities

The analysis of the liabilities is as follows:

Item	of which with a remaining term of			
	Total amount EUR '000	up to 1 year EUR '000	more than 1 to 5 years EUR '000	More than 5 years EUR '000
Issuance liabilities¹	1,798,621 (prior year 1,775,673)	991,342 (prior year 955,086)	540,503 (prior year 512,812)	266,776 (prior year 307,775)
Liabilities to banks	61 (prior year 6)	61 (prior year 6)	- (prior year -)	- (prior year -)
Trade payables	64 (prior year 79)	64 (prior year 79)	- (prior year -)	- (prior year -)
Liabilities to affiliated companies	215 (prior year 15)	215 (prior year 15)	- (prior year -)	- (prior year -)
Other liabilities	13,081 (prior year 13,785)	13,081 (prior year 13,785)	- (prior year -)	- (prior year -)
Total	1,812,042 (prior year 1,789,557)	1,004,764 (prior year 968,971)	540,503 (prior year 512,812)	266,776 (prior year 307,775)

¹The issuance liabilities with a remaining term of more than 5 years consist entirely of open-end certificates (tracker certificates, factor certificates, mini-futures and open-end turbo warrants).

m. Nature and scope of derivative financial instruments

The table below shows the nature and scope of the derivative financial instruments and the related hedging instruments. The volume of these securities is given in numbers of individual securities. The securities issued and the hedging instruments acquired are combined into perfect micro hedges in accordance with § 254 HGB, eliminating all fair value and cash flow risk (including price fluctuation, interest rate, foreign currency, credit/default and liquidity risk). The terms and parameters of the underlying and hedging transactions are matched to ensure the effectiveness of the individual hedge. Effectiveness is measured using the critical term match method. The fair value of these financial instruments after initial recognition is determined on the basis of quoted market prices or prices quoted by dealers, if the financial instrument is traded on an active market. In the case of unquoted financial instruments, fair value is determined solely by the use of generally recognised valuation models which rely on input parameters that are observable in the market. Complex structured products were measured separately in accordance with accounting principle AcP HFA 22 of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland*, "IDW"). The interim management report for the period from 1 January to 30 June 2018 contains further disclosures in accordance with § 285 no. 23 HGB.

The derivative financial instruments were reported in the balance sheet under the following items:

Certificates issued	Issuance liabilities
OTC hedging instruments	Receivables from affiliated companies

Warrants issued	Issuance liabilities
OTC hedging instruments	Receivables from affiliated companies

Summary analysis of the derivative financial instruments and the related hedging instruments as at 30 June 2018:

Category	30/06/2018 Number of securities	30/06/2018 Fair value in EUR	Prior year Number of securities	Prior year Fair value in EUR
Type of security:				
Certificates	17,512,887	1,624,141,680.06	18,454,826	1,385,010,983.39
Underlying shares	8,642,846	909,703,306.49	10,709,948	872,476,296.53
Underlying indices	8,627,213	653,560,343.83	7,588,606	486,298,840.46
Underlying interest rate instruments	1,563	1,577,893.66	9,452	9,503,244.50
Underlying precious metals	54,775	811,580.49	79,783	2,280,483.52
Underlying commodities	14,130	687,446.88	6,197	222,401.03
Underlying currencies*	172,360	57,801,108.71	60,840	14,229,717.35
Warrants	1,515,906,440	174,478,920.45	958,117,620	160,977,868.62
Underlying shares	499,542,924	98,538,960.77	269,930,865	75,163,329.20
Underlying indices	893,247,001	40,799,384.02	236,421,726	43,650,329.81
Underlying interest rate instruments	165,606	342,362.67	91,246	310,337.72
Underlying precious metals	41,959,371	16,804,120.29	71,165,222	16,792,251.43
Underlying commodities	79,135,856	15,710,580.59	378,859,072	21,615,894.04
Underlying currencies	1,855,682	2,283,512.11	1,649,489	3,445,726.42
Total	1,533,419,327	1,798,620,600.51	976,572,446	1,545,988,852.01

* Items also include hedging instruments linked to products with cryptocurrencies as the underlying.

OTC hedging instruments linked to:

Certificates	17,512,887	1,624,141,680.06	18,454,826	1,385,010,983.39
Underlying shares	8,642,846	909,703,306.49	10,709,948	872,476,296.53
Underlying indices	8,627,213	653,560,343.83	7,588,606	486,298,840.46
Underlying interest rate instruments	1,563	1,577,893.66	9,452	9,503,244.50
Underlying precious metals	54,775	811,580.49	79,783	2,280,483.52
Underlying commodities	14,130	687,446.88	6,197	222,401.03
Underlying currencies*	172,360	57,801,108.71	60,840	14,229,717.35
Warrants	1,515,906,440	174,478,920.45	958,117,620	160,977,868.62
Underlying shares	499,542,924	98,538,960.77	269,930,865	75,163,329.20
Underlying indices	893,247,001	40,799,384.02	236,421,726	43,650,329.81
Underlying interest rate instruments	165,606	342,362.67	91,246	310,337.72
Underlying precious metals	41,959,371	16,804,120.29	71,165,222	16,792,251.43
Underlying commodities	79,135,856	15,710,580.59	378,859,072	21,615,894.04
Underlying currencies	1,855,682	2,283,512.11	1,649,489	3,445,726.42
Total	1,533,419,327	1,798,620,600.51	976,572,446	1,545,988,852.01

* Items also include hedging instruments linked to products with cryptocurrencies as the underlying.

Supplementary disclosures

a. Contingent liabilities

At the balance sheet date, there were no contingent liabilities that were not reported in the balance sheet.

b. Management and employees

Stefan Armbruster, Managing Director (business studies graduate)

Dr. Lysander M. Heigl, Managing Director (attorney/tax advisor)

Anton Hötzl, Managing Director (attorney)

The Company made use of the exemption granted by § 286 (4) HGB with respect to the disclosures required by § 285 sentence 1 no. 9 a) and b) HGB.

In addition to the managing directors, the Company had an average of 4.5 employees during the financial year (prior year 4.5) and 1 trainee/temporary member of staff (prior year 1).

c. Audit committee

The Company has formed an Audit Committee in accordance with § 324 HGB. This committee currently comprises three members.

d. Sales

Sales amounting to EUR 2,654 thousand (prior year EUR 2,683 thousand) comprise EUR 2,627 thousand (prior year EUR 2,676 thousand) from the issuance business and EUR 28 thousand (prior year EUR 7 thousand) from other sources of income. EUR 2,670 thousand is attributable to the issuance margin, which the Company receives as compensation pursuant to the Issuance Agreement for its business activities.

Income from the issuance business is reflected in the income statement as the difference between the realised and unrealised gains and losses from the issuance business and hedging transactions.

e. Fees

The fee for the audit of the financial statements recorded as an expense in the financial year amounted to EUR 20 thousand (prior year EUR 35 thousand).

f. Other financial obligations

Other financial obligations consist of EUR 69 thousand under rental agreements (prior year EUR 126 thousand), including obligations amounting to EUR 69 thousand (prior year EUR 69 thousand) with a remaining term of up to 1 year and EUR 0 thousand (prior year EUR 57 thousand) with a remaining term of 2 to 5 years. Other financial obligations relate in their full amount to affiliated companies.

g. Taxes on income

Taxes on income amounting to EUR 45 thousand (prior year EUR 66 thousand) relate entirely to the result from ordinary activities.

h. Group and shareholdings

The consolidated financial statements for the largest group of companies are prepared by Vontobel Holding AG, Zurich, Switzerland, and are available for inspection at their offices. The Company is included in those consolidated financial statements. There are no smaller groups of consolidated companies.

i. Statement of cash flows

The statement of cash flows for the interim financial statements as at 30 June 2018 was prepared using the indirect method. As in the prior year, cash funds in the statement of cash flows comprise deposits with banks less liabilities to banks. The statement of cash flows is attached to the notes as an appendix.

Vontobel Financial Products GmbH

Frankfurt am Main, 6 August 2018

The Management

Stefan Armbruster

Dr. Lysander M. Heigl

Anton Hötzl

Appendix to the notes to the financial statements: statement of cash flows (indirect method) for the period from 1 January to 30 June 2018

	30/06/2018	30/06/2017
	EUR	EUR
1. Profit for the period (including profit attributable to non-controlling interests) before extraordinary items	105,463.82	144,996.04
2. +/- Depreciation, write-downs and reversals of write-downs on fixed assets	600.96	678.94
3. +/- Increase/decrease in provisions	130,799.25	560.64
4. +/- Other non-cash income and expenses (e.g., amortisation of discounts capitalised)	0.00	0.00
5. -/+ Gain/loss from disposals of fixed assets	1.00	0.00
6. -/+ Increase/decrease in inventories, trade receivables and other assets not allocated to investing or financing activities	22,791,051.14	193,706,389.00
7. +/- Increase/decrease in trade payables and other liabilities not allocated to investing or financing activities	22,468,327.40	193,792,218.88
8. +/- Cash inflows and outflows from extraordinary items	0.00	0.00
9. = Cash flow from operating activities	-347,457.21	230,944.22
10. Proceeds from disposals of tangible fixed assets	0.00	0.00
11. - Payments for investments in tangible fixed assets	0.00	-479.46
12. + Proceeds from disposals of intangible fixed assets	0.00	0.00
13. - Payments for investments in intangible fixed assets	0.00	479.46
14. + Proceeds from disposals of long-term financial assets	0.00	0.00
15. - Payments for investments in long-term financial assets	0.00	0.00
16. + Proceeds from the sale of consolidated companies and other business entities	0.00	0.00
17. - Payments for the acquisition of consolidated companies and other business entities	0.00	0.00
18. + Proceeds from cash deposits in connection with short-term liquidity management	0.00	0.00
19. - Payments arising from cash deposits in connection with short-term liquidity management	0.00	0.00
20. = Cash flow from investing activities	0.00	0.00
21. Proceeds from additions to equity (capital increases, sale of own shares, etc.)	0.00	0.00
22. - Payments to owners and non-controlling interests (dividends, purchase of own shares, repayments of capital, other distributions)	347,331.88	331,781.50
23. + Proceeds from bond issues and new borrowings	0.00	0.00
24. - Repayments of bonds and borrowings	0.00	0.00
25. = Cash flow from financing activities (total of 21 to 24)	-347,331.88	-331,781.50
26. Change in cash funds (total of 9, 20, 25)	-694,789.09	-100,837.28
27. +/- Changes in cash funds due to exchange rate movements, changes in the group of consolidated companies and remeasurement	0.00	0.00
28. + Cash funds at the beginning of the period	2,788,907.84	2,634,323.55
29. = Cash funds at the end of the period (total of 26 to 28)	2,094,118.75	2,533,486.27

Vontobel Financial Products GmbH, Frankfurt am Main

Interim management report for the period from 1 January to 30 June 2018

I. Fundamental information about the Company

Vontobel Financial Products GmbH (the "Company") is a wholly owned subsidiary of Vontobel Holding AG, Zurich. The object of the Company is to issue securities and derivative securities and to carry out financial transactions and auxiliary transactions of financial transactions. Activities that require authorisation under the German Banking Act (*Gesetz über das Kreditwesen*) are excluded.

The Company commenced its business activities as an issuance company (company whose main purpose is to issue securities) in spring 2005. The activities relating to the issuance of investment and leveraged products (issuance of certificates, bonds, warrants and knock-out products) commenced in April 2005. The securities issued are acquired exclusively by Bank Vontobel AG, Zurich. Simultaneously, the Company enters into OTC hedging transactions, i.e. hedging transactions negotiated individually between two parties, with other companies within the Vontobel Group (Bank Vontobel AG, Zurich, Switzerland, and Vontobel Financial Products Ltd., Dubai, United Arab Emirates). Bank Vontobel Europe AG, Frankfurt am Main branch, offers the Company's securities to the public and conducts marketing activities for the Company's securities.

II. Business and general environment

Germany is currently the most important capital market for the securities issued by the Company. The Company's securities are also offered by Bank Vontobel Europe AG in Austria and Luxembourg. The Company has issued securities (mini futures, open-end turbo warrants and factor certificates) for the Swedish market since January 2015. The Finnish market was also entered in August 2015. These securities are listed on the Nordic Growth Market (NGM) based in Stockholm, Sweden. The Italian market followed in May 2016. The securities are listed there on the Borsa Italiana, in the SeDeX segment. The Company has also been issuing its products for the French and Dutch markets since January 2017, with the securities listed on Euronext in Paris and Amsterdam, respectively. During the reporting period, the Company expanded its issuing activity in Italy and Sweden to include tracker certificates linked in particular to products such as Bitcoin as their underlying. Bank Vontobel Europe AG serves as the distributor and liquidity provider for these securities.

The Company's issuance activities – its most significant performance indicator – rose sharply, primarily as the result of the high level of volatility. In the first half of 2018, the Company issued a total of 236,046 securities; in financial year 2017, it had issued a total of 288,908 securities (2016: 303,478). Of that number, 3,661 securities were issued in Sweden (2017: 4,106), 1,549 in Finland (2017: 1,918), 1,356 in Italy (2017: 2,103), 7,237 in France (2017: 5,406) and 3,746 in the Netherlands (2017: 2,903).

Overall turnover in the first half of 2018 was virtually identical to the prior period (EUR 20.6 billion as compared to EUR 21.3 billion in the first half of 2017; source: German Derivatives Association (DDV); turnover on the Stuttgart Stock Exchange (EUWAX) and the Frankfurt Stock Exchange - certificates). The Company's market share in investment and leveraged products was 9.82% in the reporting period, as compared to 9.00% in 2017. This encouraging growth in market share was attributable primarily to growth in the investment products segment, where the Company's innovative product range and affiliated companies impressed the market with competitive pricing.

Turnover in the Swedish segment of the Nordic Growth Market (NGM) fell sharply (from SEK 17.9 billion to SEK 10.1 billion) in the first half of the year due to increased competition and a steep drop in customer activity. Turnover in the securities of the Company amounted to SEK 555.2 million (5.5%,

fourth place) as compared to SEK 7.1 billion (39.7%, second place) in the first half of 2017 (source: Nordic Growth Market). Securities turnover on the Finnish segment of the NGM (EUR 567 million total volume) amounted to EUR 81 million (14.5% share, fourth place; first half of the prior year: EUR 106 million out of EUR 349 million total volume, i.e. 30.3%, third place; source: Nordic Growth Market). On the Borsa Italiana, where the Company has operated as an issuer since 2016, the volume of the Company's securities amounted to EUR 617 million out of a total volume of EUR 10.1 billion during the reporting period, representing a 6.1% market share (source: Borsa Italiana; prior year EUR 481 million, total volume EUR 9.6 billion, market share 5.0%). The Company achieved encouraging growth in the visibility of its securities on the two markets most recently tapped into, i.e., Euronext Paris and Amsterdam. While turnover in both countries was still only in the single-digit millions range during the previous year and market share was below one percent, the following picture emerged during the period under review: France: turnover EUR 53.4 million, market share 2.9%; Netherlands: turnover EUR 96.6 million, market share 3.0% (source: Euronext).

The Company's volume of sales increased in the first half of 2018 from EUR 1,775.6 million as at 31 December 2017 to EUR 1,798.6 million. The markets only tapped into during recent years still only made a small contribution to issuance volumes: Sweden: EUR 12.5 million (prior year EUR 18.4 million); Finland: EUR 2.7 million (prior year EUR 2.4 million); Italy: EUR 33.1 million (prior year EUR 12.5 million); France: EUR 0.5 million (prior year EUR 0.1 million); Netherlands: EUR 0.9 million (prior year EUR 0.1 million). These figures were so low because of the fact that previously mainly leveraged products were placed on these markets, and these products are generally only held by investors for very brief periods – in many cases only intraday.

The implementation of Regulation (EU) No 1286/2014 ("PRIIP Regulation") as at 3 January 2018 placed considerable requirements on the Company. As an issuer of structured securities, the Company must now prepare standardised key information documents for securities slated to be sold to retail investors.

III. Management system

The Company is integrated into the global management system of the Vontobel Group and performs its business activities in close cooperation with its affiliated companies in particular: Bank Vontobel AG, Zurich, Vontobel Financial Products Ltd., Dubai, United Arab Emirates, and Bank Vontobel Europe AG, Frankfurt am Main branch. The management of the Company is therefore also coordinated with these affiliated companies and in line with strategy of the Vontobel Group.

The Company aims to offer the broadest possible range of issuable redemption profiles and combinations of underlyings and at the same time, continuously increase the degree of automation. All planned issues are subject to statutory requirements.

IV. Results of operations/ financial position/ net assets

1. Results of operations

The Company's issuance activities are governed by an agreement ("Issuance Agreement") with Bank Vontobel AG, Zurich, Switzerland, and with Vontobel Financial Products Ltd., Dubai, United Arab Emirates. The remuneration for the issuance activities is calculated and agreed on a year by year basis within the framework of this agreement.

A key performance indicator in this connection is the volume of securities sold by affiliated companies (issuance volume). It became evident in the first half of 2018 that the Company would not be able to meet or exceed the target figures agreed for 2018, resulting in income from the issuance activities during the first half of the year amounting to the minimum budgeted figure for income agreed between the parties.

Other operating income rose to EUR 28 thousand (prior year EUR 7 thousand). In addition, personnel expenses of EUR 247 thousand (prior year EUR 266 thousand), depreciation of EUR 1 thousand (prior year EUR 1 thousand) and other operating expenses amounting to EUR 2,247 thousand (prior year EUR 2,146 thousand) were incurred. The other operating expenses mainly comprised EUR 1,662 thousand for issuance costs (prior year EUR 1,672 thousand), contributions of EUR 137 thousand (prior year EUR 131 thousand) and Group cost allocations of EUR 129 thousand (prior year EUR 137 thousand).

Interest and similar income amounted to EUR 19,052 thousand (prior year EUR 16,907 thousand) and interest and similar expenses amounted to EUR 19,064 thousand (prior year EUR 16,965 thousand) and were thus at a similar net level as in the prior year.

The result from ordinary activities therefore amounted to EUR 151 thousand (prior year EUR 211 thousand).

An expense for taxes on income amounting to EUR 45 thousand (prior year EUR 66 thousand) was also incurred. Net income for financial year 2018 therefore fell by EUR 40 thousand compared with the previous year to EUR 105 thousand (prior year EUR 145 thousand).

2. Financial position

As at 30 June 2018, the liquid funds of the Company decreased to EUR 2,155 thousand (prior year EUR 2,579 thousand). Since the volume of assets increased at the same time, the share of total assets represented by liquid funds declined to 0.11% (prior year 0.15%).

Cash flow from operating activities for 2018 was negative and amounted to EUR -347 thousand (prior year EUR 231 thousand). Starting from the net income for 2018 of EUR 105 thousand (prior year EUR 145 thousand), the principal factors contributing to the cash flow figure were the increase in receivables from affiliated companies of EUR 22,892 thousand, the increase in issuance liabilities of EUR 22,948 thousand (including an increase of EUR 175 thousand in guarantee liabilities) and the decline in provisions amounting to EUR 138 thousand.

Liquidity is secured by the corporate structure, bank balances and the integration into the Vontobel Group. No liquidity squeezes are expected. The Company also has the ability obtain funds from the Vontobel Group at any time.

3. Net assets

Receivables from affiliated companies amounted to EUR 1,798,621 thousand as at 30 June 2018 (prior year EUR 1,775,739 thousand) and represented the largest component of total assets with a share of 99.1% (prior year 99.1%).

The liabilities side of the balance sheet as at 30 June 2018 was dominated by issuance liabilities of EUR 1,798,621 thousand or 99.1% (prior year EUR 1,775,673 thousand or 99.1%). In addition, trade payables amounted to EUR 64 thousand (prior year EUR 79 thousand). Other liabilities mostly relate to accrued interest and amounted to EUR 13,082 thousand (prior year EUR 13,785 thousand). Provisions of EUR 280 thousand (prior year EUR 411 thousand) comprised provisions for taxes of EUR 55 thousand (prior year EUR 187 thousand) and other provisions of EUR 225 thousand (prior year EUR 224 thousand). Other major components of other provisions included liabilities accrued for bonus payments (EUR 29 thousand, prior year EUR 55 thousand) and liabilities for the costs of auditing (EUR 30 thousand, prior year EUR 75 thousand) and preparing the annual financial statements (EUR 12 thousand, prior year EUR 6 thousand).

All retained profits brought forward (EUR 347 thousand) were distributed to the sole shareholder in the financial year. Based on the net income generated for the year of EUR 105 thousand, equity therefore declined to EUR 2,155 thousand (prior year EUR 2,397 thousand). Equity represents 0.11% (prior year 0.13%) of total assets.

The largest asset and liability items are therefore receivables from hedging transactions and issuance liabilities, and so the Company's equity structure is presented very clearly.

4. Overall assessment of economic position

The management's assessment of the Company's economic position is positive. The close integration of the Company into the Vontobel Group and its Financial Products division will enable the Company to generate income on a stable basis. Rigorous cost discipline is a significant factor for achieving these positive results.

V. Report on expected developments and on opportunities and risks

1. Report on expected developments

The Vontobel Group has confirmed its strategy of continuing to expand its business activities with investment and leveraged products in the coming years. Accordingly, the Group intends to continue with the internationalisation of the business activities of the Financial Products division.

Following the successful completion during the previous year of Project Euronext in Amsterdam and Paris, the Group continued to push forward with its expansion into eastern and northern Europe. For instance, Bank Vontobel Europe AG initiated distribution agreements relating to the sale of our products in the Czech Republic and Hungary and our securities prospectuses were notified accordingly. Furthermore a project to tap into the Danish market was kicked off.

The Company expects the macroeconomic and political environments to be stable to slightly volatile in the second half of the year. Geopolitical turbulence, which can strongly affect capital markets as well, must also be expected. The Company tends to expect the potential for interest rate hikes to lie more in the United States than in Europe.

On the whole, management is confident that the Company is well positioned to further expand its business in the coming two financial years despite the major challenges that the current economic, political and regulatory environment will no doubt present.

2. Risk report

The principal factors affecting the Company's risk position are its clearly arranged corporate structure and the close integration of the Company into the Vontobel Group, in particular into its risk management system. The Risk Management and Risk Control units ensure that all risks are managed and monitored with utmost care.

The most important principles regarding risk management and control are:

- clear responsibilities and authority
- alignment of risk profile and risk appetite
- independent control functions and adequate human and technical resources
- adequate internal control systems
- transparency with respect to the risks assumed.

All market price risks arising from investment and leveraged products issued are fully hedged by means of hedging transactions with other companies within the Vontobel Group (Bank Vontobel AG, Zurich, Switzerland and Vontobel Financial Products Ltd., Dubai, United Arab Emirates) using micro hedges, i.e. each individual security issued by the Company is directly matched against an individual hedging instrument. There are therefore no risks arising from movements in prices. Since the payments associated with the sale of the securities issued and the purchase of the hedging instruments as well as with the exercise and maturity of securities always offset each other, there are also no settlement risks arising. The Company does not represent an independent risk.

Credit risks primarily relate to the hedging transactions entered into with Bank Vontobel AG, Zurich, and Vontobel Financial Products Ltd., Dubai. Each of the Company's issuances is guaranteed by either Vontobel Holding AG, Zurich, or Bank Vontobel Europe AG, Munich. If Bank Vontobel Europe AG guarantees issuances by the Company, the Company grants Bank Vontobel Europe AG a right of lien in respect of the hedges concluded and provides further collateral upon request, which can be lent to Bank Vontobel AG, Zurich, for that purpose. The external issuer rating issued by Moody's for the Group parent as at 28 May 2018 was "A3" with a stable outlook. Default risk is classified as low.

No liquidity risks or cash flow risks were recognised due to the integration into the Vontobel Group.

Comprehensive reconciliation procedures are performed to mitigate operational risk. The reconciliation process for intragroup receivables and liabilities is reviewed by the Risk Control department on an ongoing basis. Where necessary, external legal advisers are involved in preparing and reviewing securities prospectuses. Most of the final terms and all of the documents required for an issue are generated automatically. Furthermore, the distribution of issue documentation to market participants, stock exchanges, clearing systems and the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) is also largely automated.

The Company does not have its own IT systems. The Company uses the systems and standard software of the Vontobel Group. As a result, operational risks relating to processes and IT systems are covered by contingency plans at affiliated companies.

There were no significant changes in risks compared with the previous year.

3. Report on opportunities

The Company's opportunities of increasing and expanding its income correspond to this risk position. The close integration of the Company into the Financial Products division of the Vontobel Group means that growth in the Company's income is conditional to a great extent on growth in the Financial Products division as a whole.

VI. Internal control and risk management system relevant for the financial reporting process

The Company's internal control and risk management system is safeguarded by means of appropriate organisational precautions. The basic principles, the organisation of the structure and processes and the procedures of the accounting-related internal control and risk management system are laid down on a Group-wide basis in guidelines and instructions that are updated at regular intervals to reflect current external and internal developments.

Compliance with internal requirements and instructions is monitored as part of Group-wide internal audit activities.

1. Responsibility

The management is responsible for managing the Company and works closely together with the other governing bodies to the benefit of the Company. It has overall responsibility for the preparation of the annual and interim financial statements, among other things.

An Audit Committee was formed in 2015. This addresses the development of the net assets, financial position and results of operations at least twice a year, in particular for the annual and interim financial statements.

The shareholder is responsible for the adoption of the annual financial statements as part of annual financial statement process. To meet these responsibilities, the financial statement documents are submitted to the Audit Committee. The Audit Committee then discusses the preliminary key findings of the audit of the financial statements with the auditors.

2. Organisation and components of the financial reporting process

Business transactions settled by the Company (issues, repurchases) are recorded – largely automatically – in the existing application of Bank Vontobel AG in Zurich. The Risk Control department continuously checks that these transactions have been recorded correctly.

Furthermore, the Company's financial accounting is outsourced to a specialised, independent company in Düsseldorf. Supplier invoices are allocated and approved by the Company's employees. Records are sent electronically to the external service provider.

Bank Vontobel AG issues monthly reports on the Company's issuance-related assets and liabilities to the service provider. The service provider consolidates this data with the other financial accounts and prepares it for reporting to the Vontobel Group and the management.

VII. Report on post-balance sheet date events

No events of particular significance have occurred since the close of the reporting period.

VIII. Responsibility statement

The Managing Directors of the Company assure that, to the best of their knowledge and belief, this interim management report includes fair view of the development and performance of the business and the position of the Company, together with a description of the opportunities and risks associated with the expected development of the Company.

Vontobel Financial Products GmbH
Frankfurt am Main, 6 August 2018

The Management

Stefan Armbruster

Dr. Lysander M. Heigl

Anton Hötzl