# Vontobel Financial Products GmbH,
# Frankfurt am Main

# Interim financial statements as at 30 June 2016 (unaudited) and interim management report

# I. Balance sheet as at 30 June 2016

| ASSETS | | 30/06/2016 | 31/12/2015 |
|---|---|---|---|
| | EUR | EUR | EUR |
| **A. Fixed assets** | | | |
| **Tangible fixed assets** | | | |
| 1. Technical equipment and machinery | 14 | | |
| 2. Other equipment, operating and office equipment | 9,263 | | |
| | | 9,277 | 10,233 |
| **B. Current assets** | | | |
| **I. Receivables and other assets** | | | |
| 1. Receivables from affiliated companies<br>- of which trade receivables EUR 0 thousand (prior year EUR 0 thousand) | 1,107,242,526 | | 1,169,626,706 |
| 2. Other assets | 14,740,101 | | 16,192,502 |
| **II. Bank balances**<br>- of which due from affiliated companies EUR 2,116 thousand (prior year EUR 1,987 thousand) | 2,234,350 | | 2,149,684 |
| | | 1,124,216,977 | 1,187,968,893 |
| **C. Prepaid expenses** | | 407,601 | 5,638 |
| | | 1,124,633,854 | 1,187,984,764 |

| EQUITY AND LIABILITIES | | 30/06/2016 | 31/12/2015 |
|---|---|---|---|
| | EUR | 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** | 67,430 | | 148,186 |
| | | 2,117,430 | 2,198,186 |
| **B. Provisions** | | | |
| 1. Provisions for taxes | 18,369 | | 48,271 |
| 2. Other provisions | 182,684 | | 142,343 |
| | | 201,053 | 190,614 |
| **C. Liabilities** | | | |
| 1. Issuance liabilities | 1,107,242,526 | | 1,169,260,532 |
| 2. Liabilities to banks<br>- of which due to affiliated companies EUR 109 thousand (prior year EUR 9 thousand) | 109,127 | | 8,525 |
| 3. Trade payables<br>- of which due to affiliated companies EUR 0 thousand (prior year EUR 0 thousand) | 224,436 | | 115,803 |
| 4. Liabilities to affiliated companies<br>- of which with a remaining term of up to one year EUR 11 thousand (prior year EUR 17 thousand) | 11,322 | | 17,322 |
| 5. Other liabilities<br>- of which for taxes EUR 7 thousand (prior year EUR 7 thousand)<br>- of which for social security EUR 0 thousand (prior year EUR 2 thousand)<br>- of which with a remaining term of up to one year EUR 14,728 thousand (prior year EUR 16,194 thousand) | 14,727,960 | | 16,193,781 |
| | | 1,122,315,371 | 1,185,595,964 |
| | | 1,124,633,854 | 1,187,984,764 |

## II. Income statement for the period from 1 January 2016 to 30 June 2016

| | | | 30/06/2016 | 30/06/2015 |
|---|---|---|---|---|
| | | EUR | EUR | EUR |
| 1. | Realised and unrealised gains and losses from the issuance business | 105,917,216.40 | | 24,709,106 |
| 2. | Realised and unrealised gains and losses from hedging transactions | -103,808,711.17 | | -23,072,050 |
| | | | 2,108,505 | 1,637,056 |
| 3. | Other operating income | | 16,899 | 42,332 |
| 4. | Personnel expenses | | | |
| | a) wages and salaries | 247,801 | | 297,237 |
| | b) social security contributions and expenses for old-age pensions and other employee benefits - of which in respect of old-age pensions EUR 5 thousand (prior year EUR 6 thousand) | 40,856 | | 38,817 |
| | | | 288,657 | 336,054 |
| 5. | Depreciation of tangible assets | | 956 | 772 |
| 6. | Other operating expenses | | 1,643,928 | 1,189,366 |
| 7. | Other interest and similar income - of which from affiliated companies EUR 21,956 thousand (prior year EUR 15,203 thousand) | 21,956,425 | | 15,202,609 |
| 8. | Interest and similar expenses | 22,046,126 | | 15,219,665 |
| | | | -89,701 | -17,056 |
| 9. | Result from ordinary activities | | 102,162 | 136,140 |
| 10. | Taxes on income | | 34,732 | 40,842 |
| 11. | Net income for the year | | 67,430 | 95,298 |

# III. Notes to the financial statements and statement of cash flows (indirect method) as at 30 June 2016

## 1. Accounting policies

### a. General

The interim financial statements as at 30 June 2016 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 2015.

**Tangible assets** were recorded at cost less depreciation. Depreciation was 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** were 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 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 2016:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| EUR 1 | = | CHF 1.08229 | EUR 1 | = | USD 1.11095 | EUR 1 | = | GBP 0.83105 |
| EUR 1 | = | HKD 8.61902 | EUR 1 | = | SEK 9.41276 | EUR 1 | = | SGD 1.49523 |
| EUR 1 | = | AUD 1.49201 | | | | | | |

## 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 2,116 thousand (prior year EUR 1,987 thousand).

### b. Receivables from affiliated companies

Receivables from affiliated companies consist mainly of OTC hedging instruments amounting to EUR 1,107,243 thousand (prior year EUR 1,169,261 thousand) acquired for the purpose of fully hedging the securities issued and also current remuneration in the amount of EUR 0 thousand (prior year EUR 366 thousand).

### c. Other assets

Other assets primarily include receivables from affiliated companies in respect of accrued interest amounting to EUR 14,721 thousand (prior year EUR 16,183 thousand) and tax receivables of EUR 19 thousand (prior year EUR 10 thousand).

### d. Equity

The share capital of the Company amounted to EUR 50 thousand as at 30 June 2016 (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.

### e. Issuance liabilities

Issuance liabilities consist entirely of the securities issued.

### f. Trade payables

The trade payables include obligations for other services amounting to EUR 224 thousand (prior year EUR 116 thousand).

### g. Liabilities to affiliated companies

Liabilities to affiliated companies comprise liabilities to Bank Vontobel Europe AG, Munich, amounting to EUR 11 thousand (prior year EUR 17 thousand).

### h. Other liabilities

Other liabilities amounting to EUR 14,728 thousand (prior year EUR 16,194 thousand) mainly comprise liabilities from accrued interest of EUR 14,721 thousand (prior year EUR 16,183 thousand) and income tax deducted from wages for June of EUR 7 thousand (prior year EUR 7 thousand).

### i. 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** | 1,107,243 (prior year 1,169,627) | 757,301 (prior year 954,045) | 233,310 (prior year 112,231) | 116,632 (prior year 103,351) |
| **Other assets** | 14,740 (prior year 16,193) | 14,740 (prior year 16,193) | - (prior year -) | - (prior year -) |
| **Total** | 1,121,983 (prior year 1,185,819) | 772,041 (prior year 970,237) | 233,310 (prior year 112,231) | 116,632 (prior year 103,351) |

### j. 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 liabilities**[1] | 1,107,243 (prior year 1,169,261) | 757,301 (prior year 953,678) | 233,310 (prior year 112,231) | 116,632 (prior year 103,351) |
| **Liabilities to banks** | 109 (prior year 9) | 109 (prior year 9) | - (prior year -) | - (prior year -) |
| **Trade payables** | 224 (prior year 116) | 224 (prior year 116) | - (prior year -) | - (prior year -) |
| **Liabilities to affiliated companies** | 11 (prior year 17) | 11 (prior year 17) | - (prior year -) | - (prior year -) |
| **Other liabilities** | 14,728 (prior year 16,194) | 14,728 (prior year 16,194) | - (prior year -) | - (prior year -) |
| **Total** | 1,122,315 (prior year 1,185,596) | 772,374 (prior year 970,014) | 233,310 (prior year 112,231) | 116,632 (prior year 103,351) |

[1] The 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).

## k. 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 2016 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 2016:

| Category | 30/06/2016 Number of securities | 30/06/2016 Fair value in EUR | Prior year Number of securities | Prior year Fair value in EUR |
|---|---|---|---|---|
| **Type of security:** | | | | |
| Certificates | **76,042,569** | **998,304,408.97** | **10,215,063** | **1,062,672,852.39** |
| | 67,165,556 | 540,496,969.40 | 6,446,873 | 513,575,365.29 |
| | 8,847,459 | 437,566,411.56 | 3,739,873 | 527,569,495.69 |
| | 19,726 | 19,315,536.99 | 21,402 | 20,600,512.90 |
| | 3,484 | 275,355.62 | 2,897 | 370,154.25 |
| | 6,344 | 175,440.15 | 4,017 | 174,061.92 |
| | 1 | 474,695.25 | 1 | 383,262.34 |
| Warrants | **660,417,674** | **108,938,115.09** | **265,359,946** | **106,587,678.06** |
| | 160,823,363 | 36,354,506.38 | 62,608,608 | 30,277,445.85 |
| | 310,124,967 | 34,238,303.94 | 125,673,812 | 58,942,826.95 |
| | 106,856 | 207,752.60 | 114,633 | 420,202.91 |
| | 30,575,289 | 20,884,914.89 | 14,909,761 | 3,715,695.92 |
| | 156,580,389 | 13,503,274.30 | 59,717,053 | 9,043,311.27 |
| | 2,206,810 | 3,749,362.98 | 2,336,079 | 4,188,195.16 |
| **Total** | **736,460,244** | **1,107,242,524.06** | **275,575,009** | **1,169,260,530.45** |

| OTC hedging instruments on: | | | | |
|---|---|---|---|---|
| Certificates | **76,042,569** | **998,304,408.97** | **10,215,063** | **1,062,672,852.39** |
| Underlying shares | 67,165,556 | 540,496,969.40 | 6,446,873 | 513,575,365.29 |
| Underlying indices | 8,847,459 | 437,566,411.56 | 3,739,873 | 527,569,495.69 |
| Underlying interest rate instruments | 19,726 | 19,315,536.99 | 21,402 | 20,600,512.90 |
| Underlying precious metals | 3,484 | 275,355.62 | 2,897 | 370,154.25 |
| Underlying commodities | 6,344 | 175,440.15 | 4,017 | 174,061.92 |
| Underlying currencies | 1 | 474,695.25 | 1 | 383,262.34 |
| Warrants | **660,417,674** | **108,938,115.07** | **265,359,946** | **106,587,678.06** |
| Underlying shares | 160,823,363 | 36,354,506.36 | 62,608,608 | 30,277,445.85 |
| Underlying indices | 310,124,967 | 34,238,303.92 | 125,673,812 | 58,942,826.95 |
| Underlying interest rate instruments | 106,856 | 207,752.60 | 114,633 | 420,202.91 |
| Underlying precious metals | 30,575,289 | 20,884,914.89 | 14,909,761 | 3,715,695.92 |
| Underlying commodities | 156,580,389 | 13,503,274.32 | 59,717,053 | 9,043,311.27 |
| Underlying currencies | 2,206,810 | 3,749,362.98 | 2,336,079 | 4,188,195.16 |
| **Total** | **736,460,244** | **1,107,242,524.04** | **275,575,009** | **1,169,260,530.45** |

## 3. 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

Dr. Wolfgang Gerhardt, Managing Director (economics graduate)

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 two managing directors, the Company had an average of 4 employees during the financial year (prior year 3) 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 2,125 thousand (prior year EUR 1,679 thousand) comprise EUR 2,109 thousand (prior year EUR 1,637 thousand) from the issuance business and EUR 17 thousand (prior year EUR 42 thousand) from other sources of income.

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 30 thousand (prior year EUR 20 thousand).

### f. Other financial obligations

Other financial obligations consist in the main only of rental agreements.

The obligations amount in total to EUR 257 thousand (prior year EUR 75 thousand), including obligations amounting to EUR 91 thousand (prior year EUR 75 thousand) with a remaining term of up to 1 year and EUR 166 thousand (prior year EUR 0 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 35 thousand (prior year EUR 41 thousand) are fully charged 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 2016 was prepared using the indirect method. As in the previous 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, 29 July 2016

| | |
|---|---|
| Dr. Wolfgang Gerhardt<br>(Managing Director) | Anton Hötzl<br>(Managing Director) |

## Appendix to the notes to the financial statements: statement of cash flows (indirect method)
## for the period from 1 January to 30 June 2016

| | | | 30/06/2016<br>EUR | 30/06/2015<br>EUR |
|---|---|---|---|---|
| 1. | | Profit for the period (including profit attributable to non-controlling interests) before extraordinary items | 67,429.95 | 95,298.07 |
| 2. | +/- | Depreciation, write-downs and reversals of write-downs on fixed assets | 956.14 | 771.93 |
| 3. | +/- | Increase/decrease in provisions | 10,439.19 | 50,808.16 |
| 4. | +/- | Other non-cash expenses and income<br>(e.g., amortisation of discounts capitalised) | 0.00 | 0.00 |
| 5. | -/+ | Gain/loss from disposals of<br>fixed assets | 0.00 | 0.00 |
| 6. | -/+ | Increase/decrease in inventories, trade receivables<br>and other assets not allocated to investing or<br>financing activities | 63,435,342.30 | -79,452,601.61 |
| 7. | +/- | Increase/decrease in trade payables and other<br>liabilities not allocated to investing or financing activities | 63,381,917.67 | 78,898,495.25 |
| 8. | +/- | Cash inflows and outflows from extraordinary items | 0.00 | 0.00 |
| **9.** | **=** | **Cash flow from operating activities** | **132,249.91** | **-407,228.20** |
| 10. | | Proceeds from disposals of tangible assets | 0.00 | 0.00 |
| 11. | - | Payments for investments in tangible assets | -499.17 | -314.96 |
| 12. | + | Proceeds from disposals of intangible<br>assets | 0.00 | 0.00 |
| 13. | - | Payments for investments in intangible assets | 499.17 | 314.96 |
| 14. | + | Proceeds from disposals of financial assets | 0.00 | 0.00 |
| 15. | - | Payouts for investments in financial assets | 0.00 | 0.00 |
| 16. | + | Proceeds from the sale of consolidated companies and<br>other business entities | 0.00 | 0.00 |
| 17. | - | Payouts for the acquisition of consolidated companies and<br>other business entities | 0.00 | 0.00 |
| 18. | + | Proceeds from cash deposits in connection with<br>short-term liquidity management | 0.00 | 0.00 |
| 19. | - | Payouts arising from cash deposits in connection with<br>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<br>of own shares, etc.) | 0.00 | 0.00 |
| 22. | - | Payouts to owners and non-controlling interests (dividends,<br>purchase of own shares, repayments of capital, other distributions) | 148,186.09 | 0.00 |
| 23. | + | Proceeds from bond issues and new<br>borrowings | 0.00 | 0.00 |
| 24. | - | Repayments of bonds and borrowings | 0.00 | -1,126.79 |
| **25.** | **=** | **Cash flow from financing activities (total of 21 to 24)** | **-148,186.09** | **1,126.79** |
| 26. | | Change in cash funds (total of 9, 20, 25) | -15,936.18 | -406,101.41 |
| 27. | +/- | Changes in cash funds due to exchange rate movements, changes in the group of consolidated<br>companies and remeasurement | 0.00 | 0.00 |
| 28. | + | Cash funds at the beginning of the period | 2,141,158.91 | 3,164,636.08 |
| **29.** | **=** | **Cash funds at the end of the period (total of 26 to 28)** | **2,125,222.73** | **2,758,534.67** |

# Vontobel Financial Products GmbH, Frankfurt am Main

# Interim management report for the period from 1 January to 30 June 2016

## 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 accordingly 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. Bank Vontobel Europe AG serves as the distributor and liquidity provider for these securities.

The Company's issuance activities, its most important performance indicator, increased significantly compared with the previous year. In the first half of 2016, the Company issued a total of 173,301 securities. In financial year 2015, the total amounted to 319,805 securities (2014: 209,618). Of that number, 2,086 securities were issued in Sweden (2015: 2,999), 1,477 in Finland (2015: 1,481) and 76 in Italy. However, the significant year-on-year increase in the number of securities issued is not due to the expansion to Sweden and Finland; rather, it is mainly attributable to the high volatility on the financial markets in the first half of 2016. This led to ongoing and short-term demand for new products following early repayment of knock-out products such as turbo warrants, or expansion of the portfolio with products that continue to offer attractive product features as a result of increases or declines in the price of underlyings, for example.

The trend towards significant growth in stock exchange turnover for structured securities in Germany in 2015 did not continue into the first half of 2016. On the contrary, turnover fell by approximately 27% from EUR 29.0 billion in the first half of 2016 to EUR 21.1 billion. (Source: German Derivatives

Association (DDV); turnover on the Stuttgart Stock Exchange (EUWAX) and the Frankfurt Stock Exchange - certificates). The Vontobel Group's Financial Products division also had to accept a decline in sales activity in Germany. The DDV's statistics for the first half of 2016 recorded stock exchange turnover in the Company's securities amounting to EUR 1.37 billion compared with EUR 1.61 billion in 2015 (-15.0%). However, this decrease was accompanied by an increase in market share. The Vontobel Group ranked number 5 in stock exchange turnover with a market share of 6.5%, compared to 5.6% in 2015.

Turnover in the Swedish segment of the Nordic Growth Market (NGM) increased from SEK 44.1 billion in the first half of 2015 to SEK 56.7 billion in the first half of 2016. Turnover in the securities of the Company amounted to SEK 10.0 billion (17.7%, second place) as compared to SEK 6.2 billion (14.0%, fourth place). In Finland, the Company's share of the NGM Finnish segment's turnover (EUR 383.8 million) amounted to EUR 85.5 million (22.3%, third place) (source: Nordic Growth Market). Given that the Company had only started its Italian issuance activities in May 2016, volume only amounted to EUR 34.5 million of a EUR 14.1 billion market at the end of June (source: Borsa Italiana).

The Company's volume of sales decreased in the first half of 2016 from EUR 1,169 million to EUR 1,107.2 million. (See "Issuance liabilities" figure in the balance sheet.) By contrast, the Swedish, Finnish and Italian markets continued to account for a small share of the issuance volume (Sweden: EUR 15.3 million; Finland: EUR 1.5 million; Italy: EUR 0.1 million) since the only leveraged products placed here to date are generally only held by investors for a very short period of time, often less than a day.

## 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, Zürich, 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 2016 that the Company would not be able to meet or exceed the target figures agreed for 2016, 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

However, this increase was primarily due to the significantly higher issuance costs in the new markets, Sweden and Finland, as a result of which the Company increased the budget accordingly and thus agreed a minimum income figure with the parties to the agreement. Although the actual number of securities issued, as set out above, is relatively low compared with the German market, Sweden and Finland account for an above-average share of issuance costs. On the one hand, the issuance fees of the local central custodians in Sweden and Finland are significantly higher, and on the other, these are borne directly by the Company as the issuer, while the central custodians in Germany and Switzerland charge the issuance costs to the institution that underwrites and markets the issue, i.e. Bank Vontobel AG, Zürich. Please refer to section V.1 "Report on expected developments" for information on the specific costs for issuance activities in Italy.

Other operating income fell to EUR 17 thousand (prior year EUR 42 thousand). In addition, personnel expenses of EUR 289 thousand (prior year EUR 336 thousand), depreciation of EUR 1 thousand (prior year EUR 1 thousand) and other operating expenses amounting to EUR 1,644 thousand (prior year EUR 1,189 thousand) were incurred. The other operating expenses mainly comprised EUR 1,195 thousand for issuance costs (prior year EUR 725 thousand), Group cost allocations of EUR 125 thousand (prior year EUR 101 thousand) and contributions of EUR 80 thousand (prior year EUR 291 thousand).

The increase in interest and similar income to EUR 21,956 thousand (prior year EUR 15,203 thousand) and in interest and similar expenses to EUR 22,046 thousand (prior year 15,220 thousand) and the overall slight decrease in issuance liabilities is due to increased volatility during the course of 2016 and the resulting higher interest payments for reverse convertibles. The result from ordinary activities therefore amounted to EUR 102 thousand (prior year EUR 136 thousand).

An expense for taxes on income amounting to EUR 35 thousand (prior year EUR 41 thousand) was also incurred. Net income for financial year 2016 therefore fell by EUR 28 thousand compared with the previous year to EUR 67 thousand (prior year EUR 95 thousand).

## 2. Financial position

As at 30 June 2016, the liquid funds of the Company decreased to EUR 2,125 thousand (prior year EUR 2,759 thousand). Since the volume of assets increased slightly at the same time, the share of total assets represented by liquid funds declined to 0.19% (prior year 0.27%).

Cash flow from operating activities for 2016 was positive and amounted to EUR 132 thousand (prior year EUR -407 thousand). Starting from the net income for 2016 of EUR 67 thousand (prior year EUR 95 thousand), the principal factors contributing to the cash flow figure were the decrease in receivables from affiliated companies of EUR 62,384 thousand, the decrease in issuance liabilities of EUR 62,018 thousand and the increase in provisions amounting to EUR 10 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 1,107,242 thousand as at 30 June 2016 (prior year EUR 1,169,627 thousand) and represented the largest component of total assets with a share of 98.5% (prior year 98.5%).

The liabilities side of the balance sheet as at 30 June 2016 was dominated by issuance liabilities of EUR 1,107,243 thousand or 98.5% (prior year EUR 1,169,261 thousand or 98.4%). In addition, trade payables amounted to EUR 224 thousand (prior year EUR 116 thousand). Other liabilities mostly relate to accrued interest and amounted to EUR 14,721 thousand (prior year EUR 16,183 thousand). Provisions of EUR 201 thousand (prior year EUR 191 thousand) comprised provisions for taxes of EUR 18 thousand (prior year EUR 48 thousand) and miscellaneous provisions of EUR 125 thousand (prior year EUR 6 thousand). Other major components of other provisions included liabilities accrued for bonus payments (EUR 21 thousand, prior year EUR 94 thousand) and liabilities for the costs of auditing (EUR 30 thousand, prior year EUR 15 thousand) and preparing the annual financial statements (EUR 6 thousand, prior year EUR 6 thousand).

All retained profits brought forward (EUR 148 thousand) were distributed to the sole shareholder in the financial year. Based on the net income generated for the year of EUR 67 thousand, equity therefore declined to EUR 2,117 thousand (prior year EUR 2,198 thousand). Equity represents 0.19% (prior year 0.19%) 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.

The project in Italy was successfully completed during the period under review. In May 2016, the Company's first issuance programme was admitted to trading on Borsa Italiana. The Company's leveraged products were also admitted for trading on Borsa Italiana's SeDeX segment for the first time in May 2016.

This will initially result in particular in increased costs for the Company due to the supervisory fees imposed by the Italian regulator Consob, which are levied according to the number of listed securities. The Company will have to pay these fees for the first time in financial year 2017 (the fees for 2016 amounted to EUR 2,000 per security). In light of these costs, the Company expects only a few hundred issues in Italy over the coming years. The renewed focus on leveraged products is expected to achieve a market share of approximately 5% based on stock exchange turnover; this is considered realistic since the Company's portfolio contains factor certificates, the dominant product in Italy, and few changes are required for the Company to issue in Italy. However, the implemented expansion to Italy will not significantly increase the outstanding volume, or issuance liabilities, due to the focus on leveraged products. The Company is forecasting an average volume of up to EUR 20 million to EUR 30 million in Italy for the next two years.

Significantly increasing the issuance volume would make it necessary to expand the product range for the European markets to include investment products. The division would be able to capitalise on the reputation already established with leveraged products in Sweden, Finland and Italy. The Vontobel Group's Financial Products division has already started drawing up plans to this effect. However, sales volumes are not yet expected to be substantially affected in 2016. By contrast, the successful launch of express certificates and express bonds in Germany has already resulted in a shift in the structure of sales volume.

The Company will amend the annual budget agreements with the parties to the Issuance Agreement to reflect the increase in costs resulting from the entry into additional European markets. This ensures that the increase in costs correlates to an increase in income for the Company and thus stable earnings.

The first weeks of the 2016 financial year saw a very lively level of business activity. As in the comparable period of the previous year, the delayed reinvestment of funds received by investors on maturity at the end of December 2015 initially played a major role in January 2016. Other significant events in January and February 2016 included the further, considerable decline in the price of oil, the deteriorating economic outlook and doubts as to whether the financial sector could sustain positive business development. This led to sharp market fluctuations and significantly higher volatility on the financial markets. The political situation will also affect the Company's operations.

Efforts to continuously adapt the product range to the fluid market situation meant that in January 2016 alone, more than 41,000 new securities were issued and admitted to trading on stock exchanges in Germany.

However, in subsequent months sales activities floundered not only in Germany but also in Sweden and Finland, and there are no signs that this trend will reverse itself in the second half of 2016. At the same time, short-term economic and political changes, such as the Brexit decision in the United Kingdom, could fundamentally affect this assessment.

The transposition of Regulation (EU) No 1286/2014 ("PRIIP Regulation") will also place considerable requirements on the Company. Among other things, this Regulation requires that, from 2017 onward, issuers of structured securities prepare key information documents for securities slated to be sold to retail investors.

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 hurdles that the challenging 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 issues is guaranteed by Vontobel Holding AG, Zurich. The external rating issued by Moody's for the Group parent's long-term liabilities as at 21 May 2015 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 as far as possible 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 independently 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 financial statements and the 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 financial statements and the 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 Zürich. 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. After they are paid, the 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, 23 August 2016

| | |
|---|---|
| Dr. Wolfgang Gerhardt<br>(Managing Director) | Anton Hötzl<br>(Managing Director) |