

# Vontobel Financial Products GmbH, Frankfurt am Main

entered in the commercial register B of the Local Court (*Amtsgericht*) of Frankfurt am  
Main  
under HRB 58515

## Annual financial statements as at 31 December 2016 and management report for financial year 2016

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**Vontobel Financial Products GmbH,  
Frankfurt am Main**

**Annual financial statements for the financial year  
from 1 January to 31 December 2016**

**I. Balance sheet as at 31 December 2016**

**ASSETS**

	EUR	EUR	31/12/2015 EUR
<b>A. Fixed assets</b>			
<b>Tangible fixed assets</b>			
1. Technical equipment and machinery	11		
2. Other equipment, operating and office equipment	8,334		
		8,345	10,233
<b>B. Current assets</b>			
<b>I. Receivables and other assets</b>			
1. Receivables from affiliated companies	1,351,901,297		1,169,626,706
- of which trade receivables EUR 0 thousand (prior year EUR 0 thousand)			
2. Other assets	13,643,214		16,192,502
<b>II. Bank balances</b>	2,634,324		2,149,684
- of which due from affiliated companies EUR 2,303 thousand (prior year EUR 1,987 thousand)			
		1,368,178,835	1,187,968,893
<b>C. Prepaid expenses</b>		5,607	5,638
		1,368,192,787	1,187,984,764

## EQUITY AND LIABILITIES

		31/12/2015	
	EUR	EUR	EUR
<b>A. Equity</b>			
<b>I. Subscribed capital</b>	50,000		50,000
<b>II. Capital reserves</b>	2,000,000		2,000,000
<b>III. Retained profits/accumulated losses brought forward</b>	0		0
<b>IV. Net income for the year</b>	<u>331,782</u>		<u>148,186</u>
		2,381,782	2,198,186
<b>B. Provisions</b>			
1. Provisions for taxes	100,971		48,271
2. Other provisions	<u>238,917</u>		<u>142,343</u>
		339,888	190,614
<b>C. Liabilities</b>			
1. Issuance liabilities	1,351,709,919		1,169,260,532
2. Liabilities to banks	0		8,525
- of which due to affiliated companies EUR 0 thousand (prior year EUR 9 thousand)			
3. Trade payables	99,116		115,803
- of which due to affiliated companies EUR 0 thousand (prior year EUR 0 thousand)			
4. Liabilities to affiliated companies	15,000		17,322
- of which with a remaining term of up to one year EUR 15 thousand (prior year EUR 17 thousand)			
5. Other liabilities	13,647,082		16,193,781
- of which for taxes EUR 8 thousand (prior year EUR 7 thousand)			
- of which for social security EUR 6 thousand (prior year EUR 2 thousand)			
- of which with a remaining term of up to one year EUR 13,647 thousand (prior year EUR 16,194 thousand)			
		<u>1,365,471,117</u>	<u>1,185,595,964</u>

1,368,192,787 1,187,984,764

## II. Income statement for the period from 1 January 2016 to 31 December 2016

	EUR	EUR	2015 EUR
1. Realised and unrealised gains and losses from the issuance business	66,703,677		100,767,626
2. Realised and unrealised gains and losses from hedging transactions	-62,150,137		-97,519,664
		4,553,540	3,247,962
3. Other operating income		70,930	92,022
- of which from currency translation EUR 71 thousand (prior year EUR 44 thousand)			
4. Personnel expenses			
a) wages and salaries	536,606		527,660
b) social security contributions and expenses for old-age pensions and other employee benefits	86,569		74,958
- of which in respect of old-age pensions EUR 21 thousand (prior year EUR 11 thousand)			
		623,175	602,618
5. Depreciation of tangible fixed assets	1,888		1,572
6. Other operating expenses	3,451,117		2,489,626
- of which from currency translation EUR 5 thousand (prior year EUR 25 thousand)			
		3,453,005	2,491,198
7. Other interest and similar income	38,323,817		29,583,082
- of which from affiliated companies EUR 38,324 thousand (prior year EUR 29,583 thousand)			
8. Interest and similar expenses	38,384,693		29,610,376
		-60,876	-27,294
9. Result from ordinary activities		487,414	218,873
10. Taxes on income		155,632	70,687
11. Net income for the year		331,782	148,186

### III. Notes to the financial statements and statement of cash flows (indirect method) as at 31 December 2016

#### 1. Accounting policies

##### a. General

The annual financial statements as at 31 December 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 fixed assets** are recorded at cost less depreciation. Depreciation was based on the rates permitted for tax purposes. Low-value items are written off in full in the year of addition pursuant to § 6 (2) of the German Income Tax Act (*Einkommensteuergesetz*, "EStG").

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

The statement of changes in fixed assets for 2016 is attached to the notes as an appendix.

**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 31 December 2016:

EUR 1 = CHF 1.07200

EUR 1 = USD 1.05475

EUR 1 = GBP 0.85361

EUR 1 = SEK 9.58203

## **2. Notes to the annual financial statements**

### **a. Bank balances**

The bank balances represent demand deposits and include receivables from affiliated companies amounting to EUR 2,303 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 1,351,710 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 191 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 13,634 thousand (prior year EUR 16,183 thousand) and tax receivables of EUR 10 thousand (prior year EUR 10 thousand).

### **d. Equity**

The share capital of the Company amounted to EUR 50 thousand as at 31 December 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.

The statement of changes in equity for 2016 is attached to the notes as an appendix.

### **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 99 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 15 thousand (prior year EUR 17 thousand).

### **h. Other liabilities**

Other liabilities amounting to EUR 13,647 thousand (prior year EUR 16,194 thousand) mainly comprise liabilities from accrued interest of EUR 13,634 thousand (prior year EUR 16,183 thousand) and income tax deducted from wages for December of EUR 8 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
<b>Receivables from affiliated companies</b>	1,351,901 (prior year 1,169,627)	1,000,164 (prior year 954,045)	208,694 (prior year 112,231)	143,043 (prior year 103,351)
<b>Other assets</b>	13,643 (prior year 16,193)	13,643 (prior year 16,193)	- (prior year -)	- (prior year -)
<b>Total</b>	1,365,544 (prior year 1,185,819)	1,013,807 (prior year 970,237)	208,694 (prior year 112,231)	143,043 (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
<b>Issuance liabilities<sup>1</sup></b>	1,351,710 (prior year 1,169,261)	999,973 (prior year 953,678)	208,694 (prior year 112,231)	143,043 (prior year 103,351)
<b>Liabilities to banks</b>	- (prior year 9)	- (prior year 9)	- (prior year -)	- (prior year -)
<b>Trade payables</b>	99 (prior year 116)	99 (prior year 116)	- (prior year -)	- (prior year -)
<b>Liabilities to affiliated companies</b>	15 (prior year 17)	15 (prior year 17)	- (prior year -)	- (prior year -)
<b>Other liabilities</b>	13,647 (prior year 16,194)	13,647 (prior year 16,194)	- (prior year -)	- (prior year -)
<b>Total</b>	1,365,471 (prior year 1,185,596)	1,013,734 (prior year 970,014)	208,694 (prior year 112,231)	143,043 (prior year 103,351)

<sup>1</sup>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"). Other disclosures in accordance with § 285 no. 23 HGB include the management report for financial year 2016.

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 31 December 2016:

Category	2016 Number of securities	2016 Fair value in EUR	Prior year Number of securities	Prior year Fair value in EUR
<b>Type of security:</b>				
Certificates	<b>16,182,529</b>	<b>1,213,594,935.69</b>	<b>10,215,063</b>	<b>1,062,672,852.39</b>
Underlying shares	7,404,889	657,916,209.37	6,446,873	513,575,365.29
Underlying indices	8,693,485	533,066,667.72	3,739,873	527,569,495.69
Underlying interest rate instruments	19,667	19,326,204.06	21,402	20,600,512.90
Underlying precious metals	38,432	570,635.14	2,897	370,154.25
Underlying commodities	5,397	197,207.46	4,017	174,061.92
Underlying currencies	20,659	2,518,011.94	1	383,262.34
Warrants	<b>530,866,559</b>	<b>138,114,981.73</b>	<b>265,359,946</b>	<b>106,587,678.06</b>
Underlying shares	157,461,962	55,323,394.82	62,608,608	30,277,445.85
Underlying indices	200,323,643	50,683,079.39	125,673,812	58,942,826.95
Underlying interest rate instruments	295,528	675,443.00	114,633	420,202.91
Underlying precious metals	40,848,267	11,585,600.39	14,909,761	3,715,695.92
Underlying commodities	129,603,357	15,311,358.35	59,717,053	9,043,311.27
Underlying currencies	2,333,802	4,536,105.78	2,336,079	4,188,195.16
<b>Total</b>	<b>547,049,088</b>	<b>1,351,709,917.42</b>	<b>275,575,009</b>	<b>1,169,260,530.45</b>

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**OTC hedging instruments linked to:**

Certificates	<b>16,182,529</b>	<b>1,213,594,935.69</b>	<b>10,215,063</b>	<b>1,062,672,852.39</b>
Underlying shares	7,404,889	657,916,209.37	6,446,873	513,575,365.29
Underlying indices	8,693,485	533,066,667.72	3,739,873	527,569,495.69
Underlying interest rate instruments	19,667	19,326,204.06	21,402	20,600,512.90
Underlying precious metals	38,432	570,635.14	2,897	370,154.25
Underlying commodities	5,397	197,207.46	4,017	174,061.92
Underlying currencies	20,659	2,518,011.94	1	383,262.34
Warrants	<b>530,866,559</b>	<b>138,114,981.71</b>	<b>265,359,946</b>	<b>106,587,678.06</b>
Underlying shares	157,461,962	55,323,394.82	62,608,608	30,277,445.85
Underlying indices	200,323,643	50,683,079.37	125,673,812	58,942,826.95
Underlying interest rate instruments	295,528	675,443.00	114,633	420,202.91
Underlying precious metals	40,848,267	11,585,600.39	14,909,761	3,715,695.92
Underlying commodities	129,603,357	15,311,358.35	59,717,053	9,043,311.27
Underlying currencies	2,333,802	4,536,105.78	2,336,079	4,188,195.16
<b>Total</b>	<b>547,049,088</b>	<b>1,351,709,917.40</b>	<b>275,575,009</b>	<b>1,169,260,530.45</b>

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### **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)

Since 1 January 2017: Dr. Lysander M. Heigl, Managing Director (attorney/tax advisor)

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) 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 4,625 thousand (prior year EUR 3,340 thousand) comprise EUR 4,554 thousand (prior year EUR 3,248 thousand) from the issuance business and EUR 71 thousand (prior year EUR 92 thousand) from other operating 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 65 thousand (prior year EUR 62 thousand).

#### **f. Other financial obligations**

Other financial obligations consist primarily of rental agreements.

The obligations amount in total to EUR 161 thousand (prior year EUR 303 thousand), including obligations amounting to EUR 69 thousand (prior year EUR 91 thousand) with a remaining term of up to 1 year and EUR 92 thousand (prior year EUR 212 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 156 thousand (prior year EUR 71 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 annual financial statements as at 31 December 2016 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.

**j. Appropriation of earnings**

The Company intends to distribute the net result for the year to its shareholder.

Frankfurt am Main, 9 March 2017

Vontobel Financial Products GmbH

The Management

Dr. Wolfgang Gerhardt

Anton Hötzl

Dr. Lysander M. Heigl

**Appendix 1 to the notes: Statement of changes in fixed assets (gross)  
for the period from 1 January 2016 to 31 December 2016**

<b>A. Fixed assets</b>	Cost 01/01/2016	Additions	Disposals	Reclassificatio ns	Cost 31/12/2016	Cumulative depreciation, amortisation and write-downs 01/01/2016	Depreciation, amortisation and write-downs in the financial year	Disposals	Reclassificatio ns	Cumulative depreciation, amortisation and write-downs 31/12/2016	Reversals of write-downs in the financial year	Carrying amount 31/12/2016
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<i>I. Tangible fixed assets</i>												
1. Technical equipment and machinery	9,592.00	0.00	0.00	0.00	9,592.00	9,558.00	23.00	0.00	0.00	9,581.00	0.00	11.00
2. Other equipment, operating and office equipment	20,753.04	0.00	0.00	0.00	20,753.45	10,554.45	1,865.00	0.00	0.00	12,419.45	0.00	8,334.00
<i>Total tangible fixed assets</i>	<u>30,345.45</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>30,345.45</u>	<u>20,112.45</u>	<u>1,888.00</u>	<u>0.00</u>	<u>0.00</u>	<u>22,000.45</u>	<u>0.00</u>	<u>8,345.00</u>
<b>Total fixed assets</b>	<u>30,345.45</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>30,345.45</u>	<u>20,112.45</u>	<u>1,888.00</u>	<u>0.00</u>	<u>0.00</u>	<u>22,000.45</u>	<u>0.00</u>	<u>8,345.00</u>

**Appendix 2 to the notes: Statement of changes in equity  
for the period from 1 January 2016 to 31 December 2016**

	Subscribed capital	Capital reserves	Revenue reserves	Retained profits/accumulated losses brought forward	Net income for the year	Total
	[EUR]	[EUR]	[EUR]	[EUR]	[EUR]	[EUR]
<b>31/12/2015</b>	<b>50,000.00</b>	<b>2,000,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>148,186.09</b>	<b>2,198,186.09</b>
Transfers to retained profits/accumulated losses brought forward						
Distributions					-148,186.09	
Net income for the year (2016)					331,781.65	
Additions to reserves						
<b>31/12/2016</b>	<b>50,000.00</b>	<b>2,000,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>331,781.65</b>	<b>2,381,781.65</b>

**Appendix 3 to the notes: Statement of cash flows (indirect method)  
for the period from 1 January 2016 to 31 December 2016**

		2016	2015
		EUR	EUR
1.	Profit for the period (including profit attributable to non-controlling interests) before extraordinary items	331,781.65	148,186.09
2.	+/- Depreciation, write-downs and reversals of write-downs on fixed assets	1,888.00	1,571.78
3.	+/- Increase/decrease in provisions	149,274.59	-22,195.40
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	0.00	0.00
6.	-/+ Increase/decrease in inventories, trade receivables and other assets not allocated to investing or financing activities	-179,395,927.55	- 260,279,188.94
7.	+/- Increase/decrease in trade payables and other liabilities not allocated to investing or financing activities	179,554,334.04	259,984,196.20
8.	+/- Cash inflows and outflows from extraordinary items	0.00	0.00
<b>9.</b>	<b>= Cash flow from operating activities</b>	<b>641,350.73</b>	<b>-167,430.27</b>
10.	Proceeds from disposals of tangible fixed assets	0.00	0.00
11.	- Payments for investments in tangible fixed assets	0.00	4,938.78
12.	+ Proceeds from disposals of intangible fixed assets	0.00	0.00
13.	- Payments for investments in intangible fixed assets	0.00	0.00
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
<b>20.</b>	<b>= Cash flow from investing activities</b>	<b>0.00</b>	<b>-4,938.78</b>
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)	148,186.09	851,108.12
23.	+ Proceeds from bond issues and new borrowings	0.00	0.00
24.	- Repayments of bonds and borrowings	0.00	0.00
<b>25.</b>	<b>= Cash flow from financing activities (total of 21 to 24)</b>	<b>-148,186.09</b>	<b>-851,108.12</b>
26.	Change in cash funds (total of 9, 20, 25)	493,164.64	-1,023,477.17
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	2,141,158.91	3,164,636.08
<b>29.</b>	<b>= Cash funds at the end of the period (total of 26 to 28)</b>	<b>2,634,323.55</b>	<b>2,141,158.91</b>



# Vontobel Financial Products GmbH, Frankfurt am Main

## Management Report for financial year 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 and Finnish markets since 2015. The Company continued its expansion during the year under review, accessing the Italian market in May with an IPO on the Borsa Italiana and the French and Dutch markets in December with its IPO on the Euronext in Paris and Amsterdam. Bank Vontobel Europe AG serves as the distributor and liquidity provider for these securities.

The Company's issuance activities, its most important performance indicator, decreased slightly compared with the prior year. In financial year 2016, the Company issued a total of 303,478 securities. In financial year 2015, the total amounted to 319,805 securities (2014: 209,618). This decrease was attributable mainly to the rather muted volatility on the equities markets over the course of the year (despite occasional heavy volatility, e.g., in January and in the wake of the Brexit referendum) and the continuing consolidation of the German market for structured securities. The Company increased its issuance activities on the foreign markets – issuing 3,411 securities in Sweden (prior year 2,999) and 2,413 in Finland (prior year 1,481). The markets accessed by the Company during the financial year offered the following picture: 113 securities issued in Italy and 2 securities each for France and the Netherlands in the live-test of the prepared set-up conducted in December. The product range and hence the issuance activities on all foreign markets outside of Germany were considerably less varied, not in the least due to significantly higher IPO and settlement fees, lower turnover and a less diverse range of product types on offer.

In the course of 2016, turnover of structured securities hit multiple-year lows on all European exchanges. In Germany, turnover on the Frankfurt and Stuttgart stock exchanges fell by 21% from EUR 52.0 billion in 2015 to EUR 41.2 billion in 2016 (source: German Derivatives Association (*Deutscher Derivate Verband*, "DDV")). Turnover in Italy declined by 31% from EUR 33.6 billion to

EUR 23.2 billion (source: Borsa Italiana, SeDeX market segment). Turnover fell in Sweden by 15% from SEK 104 billion to SEK 88 billion and in Finland from EUR 1,034 million to 843 million (source: Nordic Growth Market, NDX Sweden and Finland market segments).

While Vontobel only just partially bucked this trend in terms of absolute figures, it did manage to increase its market share. In Germany, turnover in securities issued by the Company fell by 4% from EUR 2,944 million to EUR 2,814 million, although its market share rose from 5.7% (sixth-largest) to 6.8% (fifth-largest). In Sweden and Finland, Vontobel became an established provider of structured products. Over the course of 2016, Vontobel's market share in the NDX segment reached 21.1% for Sweden (second-largest) and 21.7% for Finland (third-largest). Due to the fact that the Company did not enter into the Italian market until just before the summer recess, it acquired a market share of only 1.1% (sixth-largest) on an annual basis. Operations in France and the Netherlands only effectively commenced after the end of the year.

The Company significantly increased its volume of sales as at the year-end. On an annual basis, the outstanding volume rose from EUR 1,169 million to EUR 1,352 million, an increase of 15.7% (see the key figure "Issuance liabilities" in the balance sheet). This meant that the Company was able to profit disproportionately from the shift in outstanding volume in structured securities in Germany from products offering capital protection to interest-bearing investment products without capital protection (particularly reverse convertibles and express structures). From the end of December 2015 to the end of December 2016, the share in issuer reports to the DDV increased from 1.83% to 2.16%.

By contrast, the Swedish and Finnish markets accounted for a relatively small share of issuance liabilities (Sweden: EUR 16.6 million; Finland: EUR 1.3 million, Italy: EUR 4.4 million) since to date only leveraged products are traded there, which are generally only held by investors for a very short period of time – often even 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, 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). Since the Company did not meet or exceed the target figures agreed for 2016 during the past financial year, income from the issuance activities during the financial year amounted to the minimum budgeted figure for income agreed between the parties of EUR 4,290 thousand. This represents an increase of 32.4% compared with the prior year (EUR 3,240 thousand).

This increase was primarily due to the significantly higher issuance costs in the new markets, Sweden, Finland and Italy, 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, the new markets account for an above-average share of issuance costs. On the one hand, exchange listing fees are significantly higher and, on the other, the issuance fees of the local central custodians in Sweden and Finland are significantly higher, and, furthermore, 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, Zurich.

Other operating income fell to EUR 71 thousand (prior year EUR 92 thousand). In addition, personnel expenses of EUR 623 thousand (prior year EUR 603 thousand), depreciation of EUR 2 thousand (prior year EUR 2 thousand) and other operating expenses amounting to EUR 3,451 thousand (prior year EUR 2,490 thousand) were incurred. The other operating expenses mainly comprised EUR 2,493 thousand for issuance costs (prior year EUR 1,654 thousand), Group cost allocations of EUR 251 thousand (prior year EUR 175 thousand) and contributions of EUR 229 thousand (prior year EUR 259 thousand).

The increase in interest and similar income to EUR 38,324 thousand (prior year EUR 29,583 thousand) and in interest and similar expenses to EUR 38,385 thousand (prior year 29,610 thousand) is attributable primarily to the fact that, although average volatility remained moderate in 2016 as compared to 2015, outstanding volume of interest-bearing reverse convertibles and express certificates increased sharply. This is in line with the general trend on the German market. Moreover, the offering of fixed-coupon certificates and express bonds, which was launched in the second half of 2015, continued to grow accordingly. These securities are traded with accrued interest (flat/dirty trade). The valuation price of these securities as at the effective date therefore includes accrued interest, meaning that the total accrued interest on securities and the corresponding hedging instruments declined while the investment volume rose overall.

The result from ordinary activities therefore amounted to EUR 487 thousand (prior year EUR 219 thousand).

An expense for taxes on income amounting to EUR 156 thousand (prior year EUR 71 thousand) was also incurred. Net income for financial year 2016 therefore rose by EUR 184 thousand compared with the previous year to EUR 332 thousand (prior year EUR 148 thousand).

## **2. Financial position**

As at 31 December 2016, the liquid funds of the Company increased to EUR 2,634 thousand (prior year EUR 2,141 thousand). The share of total assets represented by liquid funds also increased, amounting to 0.19% (prior year 0.18%).

Cash flow from operating activities for 2016 was positive and amounted to EUR 641 thousand (prior year EUR -167 thousand). Starting from the net income for 2016 of EUR 332 thousand (prior year EUR 148 thousand), the principal factors contributing to the cash flow figure were the increase in receivables from affiliated companies of EUR 180,059 thousand, the increase in issuance liabilities of EUR 180,157 thousand and the increase in provisions amounting to EUR 149 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 1,351,901 thousand as at 31 December 2016 (prior year EUR 1,169,627 thousand) and represented the largest component of total assets with a share of 98.8% (prior year 98.5%).

The liabilities side of the balance sheet as at 31 December 2016 was dominated by issuance liabilities of EUR 1,351,710 thousand or 98.8% (prior year EUR 1,169,261 thousand or 98.4%). In addition, trade payables amounted to EUR 99 thousand (prior year EUR 116 thousand). Other

liabilities mostly relate to accrued interest amounting to EUR 13,634 thousand (prior year EUR 16,183 thousand). Provisions amounted to EUR 340 thousand (prior year EUR 191 thousand) and consisted of provisions for taxes of EUR 101 thousand (prior year EUR 48 thousand) and miscellaneous provisions (particularly liabilities accrued for bonus payments (EUR 105 thousand; prior year EUR 94 thousand), liabilities for the costs of auditing (EUR 60 thousand; prior year EUR 16 thousand), consulting (EUR 25 thousand; prior year EUR 0 thousand), personnel (EUR 20 thousand; prior year EUR 0 thousand) and preparing the annual financial statements (EUR 6 thousand; prior year EUR 6 thousand)).

The retained profit brought forward from the prior year (EUR 148 thousand) was distributed to the sole shareholder in the financial year. Based on the net income generated for the year of EUR 332 thousand, equity therefore increased to EUR 2,382 thousand (prior year EUR 2,198 thousand). Equity represents 0.17% (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 2017 and 2018. Accordingly, the Group intends to continue with the internationalisation of the business activities of the Financial Products division. It can be assumed that business will experience strong year-on-year growth – particularly in Italy – and with significant contributions to that growth coming from France and the Netherlands. The Company intends to enter the Danish and Norwegian markets in 2017, or by 2018 at the latest.

The Company will incur increased costs because certain start-up expenses, for instance to engage local attorneys, are incurred up-front in each country. Generally speaking, however, the current expenses for each issuance are also significantly higher. The international expansion will not result in any material increase in issuance liabilities because the focus for leveraged products lies on short-term trading by speculative investors. Leveraged products are usually held for a few days at most, and often even for less than a day.

The significant increase in issuance liabilities in the past year may continue in 2017 due to fundamental shifts in the German market for investment products. Statistics on market volume collected by the German Derivatives Association reveal that the low and zero-interest rate environment and the switch by investors to more risky products have led to a reduction in the outstanding volume of capital protection products, while outstanding volume in investment products offering partial protection, so-called yield-enhancement products, is increasing significantly. According to the DDV statistics, which are based on reports by 17 issuers, the volume of capital protection products fell over the course of 2016 from EUR 29.2 billion to EUR 23.0 billion, while yield-enhancement products (reverse convertibles, express, discount and bonus certificates) increased from EUR 20.8 billion to EUR 26.0 billion. Vontobel possesses special expertise for these product categories in particular and holds a corresponding market position. This trend was substantiated in January 2017, with issuance liabilities increasing significantly.

However, the encouraging development at the beginning of 2017 was also in line with the traditional seasonal pattern, which sees increased activity of financial intermediaries at the beginning of the year and the reinvestment of funds distributed in December of the preceding

year. At the beginning on 2016, this pattern was not as evident due to a sharp drop in prices on the equity markets.

The business development of the first weeks cannot be extrapolated to forecast the development throughout the remainder of the year. As in the previous year, the markets may be turbulent and volatile, not least due to political and economic uncertainties, which could negatively impact business in investment products. However, it is likely in this case that new securities issuance activity will increase in order to ensure that there are products on offer for any possible market situation.

In the area of investment products, the Vontobel Group has two projects in the launch and/or preparatory stages: First, since August 2016, financial intermediaries and private investors in Germany can use the platform [mein-zertifikat.de](http://mein-zertifikat.de) to simulate investment products with conditions in real time and then engage the Company to request the issuance of a security. The Company has automated processes in place to conduct the issuance (subject to the issuance being ready) and to facilitate exchange trading a few minutes later. Vontobel uses this fintech solution to underpin its assertion of a technical leadership role in the market for structured securities in Germany. Second, Vontobel continued to consider expanding its international activities to include offering investment products in countries of the European Economic Area (EEA). The focus was placed on Italy and Sweden. Neither project is expected to have any significant influence on the Company's business in 2017.

By contrast, the transposition of Regulation (EU) No 1286/2014 ("PRIIP Regulation") – which among other things, requires that, from 2018 onwards, issuers of structured securities prepare key information documents for securities slated to be sold to retail investors – will also place considerable requirements on the Company, as will the implementation, also from 2018 onwards, of Directive 2014/65/EU on markets in financial instruments ("MiFID II"). The Company is working closely together with other units of the Vontobel Group, as well as with the German Derivatives Association, on these issues. The management expects that the Company will comply with the new requirements in due time. Regardless of the requirements arising from the implementation, it currently cannot be estimated what specific impact MiFID II will have on the Company's business (number of issuances and issuance liabilities) from 2018 onwards.

On the whole, management is confident that, as in previous years, the Company is well positioned to further significantly 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. The Company will amend the annual budget agreements with the parties to the Issuance Agreement to reflect the 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.

## **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; and
- 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. Default risk is classified as low. The external rating issued by Moody's for the Group parent's long-term liabilities as at 29 November 2016 was "A3" with a stable outlook.

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 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, 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.

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. 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 financial year.

## **VIII. Responsibility statement**

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

Vontobel Financial Products GmbH

Frankfurt am Main, 9 March 2017

The Management

Dr. Wolfgang Gerhardt

Anton Hötzl

Dr. Lysander M. Heigl

# Auditors' report

We have audited the annual financial statements, comprising the balance sheet, the income statement, statement of cash flows, statement of changes in equity and the notes to the financial statements, together with the bookkeeping system, and the management report of Vontobel Financial Products GmbH, Frankfurt am Main, for the financial year from 1 January 2016 to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("*Handelsgesetzbuch*": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements, as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Eschborn/Frankfurt am Main, 15 March 2017

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Müller-Tronnier

Wirtschaftsprüfer  
(German Public Auditor)

Gövert

Wirtschaftsprüfer  
(German Public Auditor)