



ANNUAL REPORT
2018



HAUCK & AUFHÄUSER
PRIVATBANKIERS SEIT 1796

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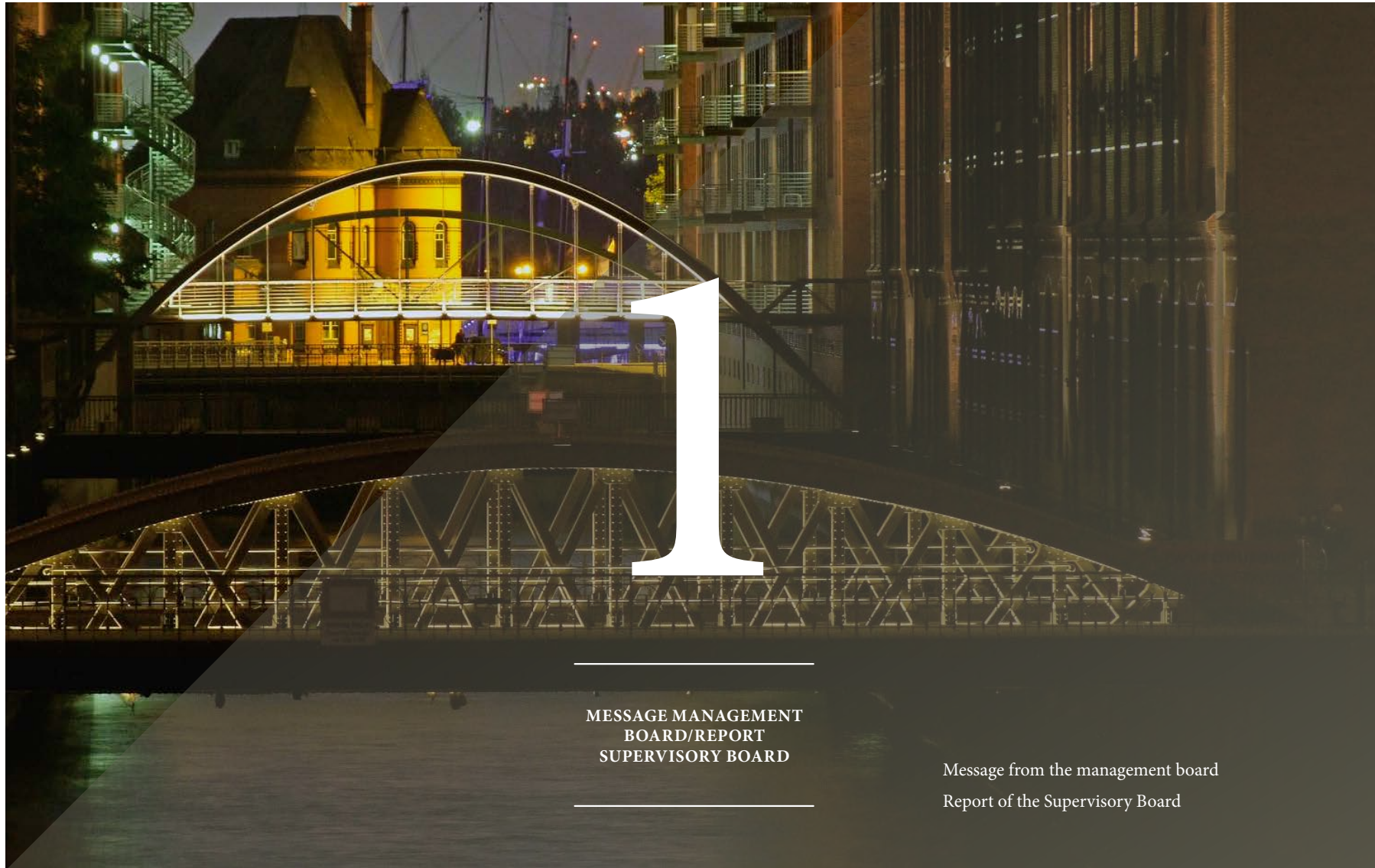
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The Management Board of Hauck & Aufhäuser Privatbankiers (from left to right):
Michael Bentlage, Dr. Holger Sepp, Wolfgang Strobel

MESSAGE FROM THE MANAGEMENT BOARD

DEAR CUSTOMERS AND BUSINESS PARTNERS,

Our daily lives now function almost completely in digital form: communication, shopping, reading, holiday planning – we can even switch on the lights at home with a single fingertip on our smartphone. Or we simply leave it to the digital assistant. On average, we pick up our cell phone 65 times a day and spend almost three and a half hours in front of the smartphone screen.¹

Disruptive ideas challenge established processes not only in our everyday lives, but also in the financial sector. Last year, half of all Germans completed their banking transactions online.² By September 2018, venture capitalists had invested 778 million euros in German Fintechs.³ Work processes are getting automated, financing for a good project can be obtained online with a few mouse clicks, savings are made in digital stock exchanges by banking apps and Robo Advisors manage our portfolios.

Established institutes such as Hauck & Aufhäuser are challenged in this environment to build a bridge between centuries of tradition and a modern age that questions everything familiar. In doing so, we want to preserve and protect the abstract good of trust in the long term, which we have prioritized in our client relationships for over 220 years. But how is this feasible in the digitalizing world?

The step into the age of digitization is a huge project, especially with the high demands that you can and must place on a private bank like ours. We took up this challenge in 2018.

For us, the digitization of Hauck & Aufhäuser is one of the important pillars of our growth strategy, in which we invested extensively in 2018. After laying the groundwork for the creation of a digital banking platform in 2017, we successfully placed Zeedin, our digital asset management platform, on the market in 2018 and are now offering clients modern online banking including an app. In addition, we are constantly driving forward the automation of internal processes in order to be agile and efficient and to continuously strengthen and expand our market position. These initiatives would not have been feasible without the commitment of our Bank's employees, which is why we would like to take this opportunity to express our gratitude to our colleagues for their outstanding performance in the past financial year.

Digitalization is also transforming the financial sector into an international business. As an established bank, we are well aware of the potential and opportunities of internationalization for ourselves and, above all, for our customers. With the

¹ <https://blog.wdr.de/digitalistan/bildschirmzeit-so-viel-zeit-verbringst-du-am-handy/>

² https://bankenverband.de/media/files/2018_06_19_Charts_OLB-final.pdf

³ https://www.comdirect.de/cms/media/comdirect_Fintech_Studie_2018.pdf

successful integration of the Luxembourg companies of Sal. Oppenheim, the Grand Duchy is now our largest location in terms of employees. Thanks to our partner and investor Fosun, we also have excellent connections to China, from which our clients benefit and thanks to which we can tap cross-selling potential between Germany and China.

However, with all the advantages of digitization, one thing is still of utmost importance to us: the personal discussion with you and your trust in our work. Have you ever asked a digital language assistant like Siri or Alexa for tips for your stock portfolio or asset management? „I don't know that one" is the answer. But we at Hauck & Aufhäuser do – and have done for many decades.

Thanks to our expertise and high quality standards, at the end of 2018 we were able to close the most successful financial year since the last financial crisis for the second time in a row. In our business areas we have received several awards from independent institutions. This clearly demonstrates that we can fulfil our role as your modern, personal and entrepreneurial partner in the entire range of

asset-related services. We would like to take this opportunity to expressly thank you for your support and trust.

We look forward to continuing our successful cooperation with you, our dear customers and business partners!

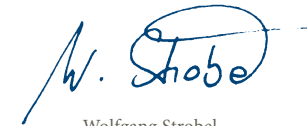
The Management Board of Hauck & Aufhäuser Privatbankiers



Michael Bentlage



Dr. Holger Sepp



Wolfgang Strobel

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Hauck & Aufhäuser Privatbankiers Aktiengesellschaft convened four times in 2018. It received regular reports on the management and development of the bank and supervised the conduct of the bank's affairs. Matters of general policy and specific issues were discussed at the meetings of the Supervisory Board and in numerous discussions between its Chairman and the Management Board. The development of business at the bank, its domestic and international subsidiaries, and the conditions on the market were dealt with intensively. Further subjects of detailed discussion, besides the further improvement of the bank's earnings situation, were the measures by the Executive Board to cover and monitor risks, on which the Supervisory Board was briefed in detail at each of its meetings. The Supervisory Board also discussed in detail the annual reports by the heads of Internal Audit and Compliance.

The Risk Committee of the Supervisory Board decided on all loans submitted for its approval and also reviewed the risk structure of the loan portfolio. The bank complied with the Minimum Requirements for Risk Management directive. Special consideration was given to the coverage of the various risk aspects and adequate risk provisioning.

The bank's affairs were conducted in compliance with the rules of procedure for the Supervisory Board and for the Management Board.

In addition to the current economic situation at home and abroad, the Supervisory Board also consistently discussed in detail the bank's future development



WOLFGANG DEML
Chairman

LIU QIANG
Deputy Chairman

TANG BIN
Member

DR. THOMAS DUHNKRACK
Member

SIEGFRIED KLINK
Employee Representative

THOMAS THEOBALD
Employee Representative

and its risk position. The Committee also examined closely changes in legislation and their implications for the bank as well as external audit reports.

At the spring meeting held on April 23, 2018, the auditors reported on the annual financial statements for 2017 and were available to answer questions. In addition, the Supervisory Board approved the annual report and the invitation to the Annual General Meeting to be convened on June 6, 2018. Furthermore, the Committee discussed various matters related to the modernization of process set-up as well as the Asset Management hive-down from the bank. At the same meeting, the Audit Committee also held its annual meeting, which intensively examined the annual financial statements of the bank along with the auditors' report.

At its meeting prior to the Annual General Meeting on June 6, 2018, the Supervisory Board adopted the proposals put forward for resolution at the Annual General Meeting. Furthermore, the Committee dealt with the modernization of the process and IT architecture.

The Annual General Meeting on June 6, 2018, took notice of the 2017 annual financial statements and agreed to the proposed appropriation of profit; the actions of the Management Board, the Personally Liable Partners, the Supervisory Board and the Shareholders' Committee were ratified.

The resolution of the Extraordinary General Meeting held on August 16, 2018 on the hive-down of the Asset management business segment into the H&A Global Investment Management GmbH set another milestone of the year 2018.

On September 12, 2018, in its autumn meeting, the Supervisory Board analyzed in detail the results for the current financial year both for the Group as a whole and for the individual business segments. Moreover major attention was paid to the topics of digitalization and automatization.

In its last meeting of the year on December 17, 2018, the Supervisory Board focused on the preliminary results for 2018 and the planning for 2019 and future years. Furthermore, the Supervisory Board discussed long-term goals and adopted the overall bank strategy.

The consolidated Group financial statements and the annual financial statements of the parent company for the year ending December 31, 2018, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which was

appointed as the company's auditor at the Annual General Meeting on June 6, 2018, and was engaged by the Supervisory Board. Following the performance of its audit, which included the accounts and the management reports, the auditors issued an unqualified opinion on the consolidated Group financial statements, the parent company's annual financial statements, the management reports, and the dependent company report. The auditors were available to answer the questions of the Supervisory Board and the Audit Committee during the meeting held to pass resolution on the consolidated Group financial statements and the parent company's annual financial statements.

The Supervisory Board and its Audit Committee have examined the consolidated Group financial statements, the parent company's annual financial statements, the management reports, the proposed appropriation of profit, and the auditors' reports, and has found no cause for complaint. Following its examination, the Supervisory Board raises no objections to the conduct of the company's affairs and the contents of the documents examined, and approves the annual financial statements and gives its consent to the management reports of the Management Board and their proposal for the appropriation of profit. It hereby adopts the annual financial statements of Hauck & Aufhäuser Privatbankiers AG.

In 2018 we deeply regretted the loss of Mr. Michael Hauck, who had been personally liable partner for many years. After decades Mr. Hauck left a personal mark on the financial centre, the cultural life of the city of Frankfurt and our bank within his function. Furthermore we commemorate the deceased former chairman of our Supervisory Board, Prof. Johannes Semler, as well as the deceased former deputy chairman of our Supervisory Board, Dr. Christian Brinckmann.

Frankfurt am Main, April 29, 2019

The Supervisory Board



Wolfgang Deml
Vorsitzender



MANAGEMENT REPORT
OF HAUCK & AUFHÄUSER
PRIVATBANKIERS AG

- Business activities of the Bank
- Economic report
- Development in the core business segments
- Opportunities and forecast
- Risk report
- Combined non-financial report
- Remuneration report

BUSINESS ACTIVITIES OF THE BANK

At its corporate locations in Germany, Luxembourg, Switzerland and the UK, Hauck & Aufhäuser Privatbankiers AG provides a comprehensive range of services. These focus on advice and wealth management for private and corporate clients, fund services for financial and real assets in Germany and Luxembourg, and cooperation with independent asset managers. Trading orders in all customary asset classes are also executed within the Bank on exchanges as well as OTC. The Group carries on research, sales and trading activities specializing in small and mid-cap enterprises in German-speaking countries and offers services for initial public offerings and capital increases.

Hauck & Aufhäuser Privatbankiers AG itself is not listed, nor is it a capital market-oriented company within the meaning of Sec. 264d HGB [“Handelsgesetzbuch”: German Commercial Code].

99.91% of Hauck & Aufhäuser Privatbankiers AG is held by Bridge Fortune Investment S.à r.l., Luxembourg. Bridge Fortune is an indirect investment of Fosun International Ltd., Hong Kong, which is listed in Hong Kong.

Fosun is a strategic and long-term oriented investor with a strong global presence. Through its investment in banks and insurance companies, it has extensive experience in the financial sector.

ECONOMIC REPORT

SITUATION OF THE ECONOMY

2018 was a mixed year for the capital markets and the economy as a whole. The high expectations expressed at the beginning of the year were frequently not matched by performance. In many economies (except for the US), the good pace of growth from 2017 slowed down in the first few months of the new year. All in all, however, the global economy continued to expand.

Eurozone

2018 saw a turnaround in the positive development of exports that had been a key driver of economic growth in the eurozone in 2017. The weakening overall economic dynamic weighed heavily on goods trading, with tangible effects on countries with a strong reliance on exports such as Germany. Ongoing trade conflicts between China and the US, the absence of a ratified declaration by the UK to leave the EU, disputes between the European Union and a newly elected Italian government over excessive volumes of new government debt as well as struggles in other emerging economies curbed the growth of European economies.

Changes in monetary policy in Europe were meager in 2018. The European Central Bank announced that it would discontinue its bond-buying program at the end of the year and began gradually reducing purchases over the course of the year. Interest rates were left intact, however, given the lack of inflationary pressure and weaker growth rate, a decision on an increase was delayed until the second half of 2019.

In the US, the Fed raised its benchmark rate by 25 basis points each quarter and in December set a corridor of 2.25% to 2.5% in moves that were largely in line with market expectations. Meanwhile, the Fed allowed up to USD 50 b per month to roll off its balance sheet by not reinvesting the funds from bonds as they matured.

Fluctuations in oil prices were the main driver of inflation in calendar year 2018. In contrast, core inflation remained quiet, averaging 1.0% in the eurozone and 2.0% in the US.

Fixed-income securities

Bonds performed inconsistently in the eurozone. Yields of AAA-rated euro area bonds (German government bonds) declined several times in the course of the year in response to escalating crises and lived up to their reputation as safe haven

investments. This was in sharp contrast to the development of the yields of peripheral government bonds, which saw credit spreads rise successively to higher levels. In the US, 10-year bonds rose above the 3% mark for a while, came under pressure at year-end due to changes in expectations regarding the pace of interest rate increases and elevated risk aversion and ended the year at less than 3%. The yield curve in the US looked flatter and flatter as the year progressed.

Equities

2018 was a poor year for global stock markets, owing in particular to the developments in the second half of the year. While in the US the leading indexes rallied to new highs on the back of the US tax reform and resulting surge in profits, the markets in Europe and Germany in particular went into nosedive from January after the DAX reached a temporary high. In the final quarter, the US economy could no longer escape the weak economic sentiment and all the leading indexes closed the year in the red.

INDUSTRY ENVIRONMENT

The German banking market continues to consolidate, but at a slower pace than in other countries. Pressure on costs and to consolidate will remain a relevant topic for the banking industry in the coming years.

Digital technology, the increasing number of competitors from the technology environment, rising and changing customer demands and the expected economic slowdown will drive the required transformation.

The new conditions facing the industry due to the financial services crisis have been impacting the business models of banks for some time already. The ongoing low interest policy in connection with the ECB's monetary policy is an unchanged factor. Megatrends such as digitalization, demographics and globalization are also part of the overall context.

Banking industry performance

The persistent low interest rate environment makes it difficult to generate earnings through maturity transformation. For one, customer deposits can no longer be invested at a profit since the ECB's deposit rate is close to zero. Also, the higher-interest investments and loans are gradually maturing and cannot be adequately replaced. Net interest income is declining strongly as a result.

Banks have responded differently to this situation. Several options are conceivable on the assets and equity and liabilities side. Some have expanded maturity transformation or prolonged the terms and increased their interest rate risk should interest rates increase. Others have become more lenient in approving loans.

On the equity and liabilities side, many banks are now passing the negative interest on to their customers. As in prior years, small and medium-size businesses with good credit ratings were sought-after lending customers, with competition even fiercer this fiscal year. This is because demand from small and medium-size businesses for loans is limited since their liquidity reserves are still high. Moreover, many companies are moving away from the traditional model of a principal bank and are diversifying their financing base.

The low interest environment is having a substantially negative effect on the industry's maturity transformation income. As such, persistently low interest rates are continuing to result in a significant investment dearth. One solution lies in the targeted development of new asset management products.

Industry consolidation delayed due to low interest policy

Consistently low refinancing rates and uninterrupted purchasing programs in 2018 are enabling lending transactions that may not be tenable in the long term. For certain institutions, this could lead to an increase in credit default rates in the medium term, putting an end to the historically low levels achieved in recent years. The new guidelines on non-performing loans issued by the European Banking Authority reflect this concern.

The result are interactions between the various measures taken by the ECB, with minimal to no positive effects for the finance industry. Consequently, industry consolidation, which remains vital, is being delayed further.

Regulatory influence on bank business models persists

Regulatory pressure remains strong. The resulting guidance necessitates large-scale adjustments to systems and processes in the banking industry.

These rising requirements lead to increasing expenses for IT infrastructure and to more complex operational and organizational structures.

Fixed costs, which smaller institutions are less able to diversify through their customer base, are increasing as a result.

The rising regulatory requirements are exacerbating the problems associated with the size of banks which the industry has been grappling with for years. The regulatory requirements continue to create competitive disadvantages compared with other countries.

The relevant regulatory topics for the coming years include:

- ◆ Implementation of CRD V/CRR II
- ◆ Changes to reporting on loans of EUR 1.0m or more
- ◆ Harmonization of MREL and TLAC

The low interest rate environment and the catalog of regulatory measures are therefore two negative factors impacting profitability. Effects on capitalization levels and equity ratios can therefore not be ruled out. In aggregate, these developments are counteracting the actual regulation objectives – higher equity ratios and greater profitability.

Regulation and new international standards will thus continue to put a strain on the financial sector in the years to come. Small and medium-sized banks have been and are disproportionately affected, which also has a distorting effect on competition. Years after the stricter regulations were introduced, it is still unclear what economic impact the increased requirements will have on the banks' different business models. As before, little attention is being paid to local features such as the three-pillar system comprising private, public and cooperative banks in Germany, legal forms of banks other than stock corporations, etc. The principle of double proportionality thus appears to no longer apply.

Digitalization

Digitalization, an ongoing megatrend, is the umbrella term for a range of topics and will continue to shape the different business segments of banks going forward. Digital channels and online banking options are now a minimum standard that every bank must offer in order to stay competitive. Seamless media interaction without any disruption to (mobile) processes is becoming increasingly important. Fintechs are leveraging this trend and are increasingly targeting key parts of the value chains of banks. The combination of market-leading technology and competence in advising informed customers creates a niche that private banks in particular can exploit to their advantage.

The banking industry is aware of the importance of implementing these new technologies. In many banks, digitalization projects are being carried out at great expense. Nevertheless, some institutions are lagging behind in terms of the systematic digitalization of sales and information channels as well as business processes. A lack of capacity due to the persistent regulatory pressure and declining profitability in some cases are curbing efforts to close the technological gap. Moreover, the increasing regulatory requirements make a well designed and functional IT infrastructure a necessity. This offers the potential to realize cost savings after a frequently costly rollout phase.

Demographics

The changing age structure of private bank customers also changes their needs and requirements. Demand for advice on succession topics is increasing due to higher life expectancy and changing and more complex realities of life. The primary goal for high net worth individuals and family-owned companies is usually to transfer assets.

But it is not just older customers who pose new challenges for the banking industry. Only banks that succeed in attracting young customers will be able to safeguard their customer base long term. However, it is precisely this customer group that needs to be wooed that is turning increasingly to digital information and communication channels and alternative providers.

Demographic change is also responsible for a growing and significant shortage of skilled labor. This has resulted in high pressure on the banking industry to continue to recruit qualified talent in the future.

Globalization

Demand for services with a global reach is increasing across all customer groups and in the industry as a whole. Domestic investors are increasingly seeking opportunities abroad, while the interest of foreign investors in investments in Germany is also rising.

The above megatrends have a significant impact on the banking industry's range of activities. While not all trends are equally relevant for all bank business models, these topics need to be closely scrutinized in order for banks to stay competitive. Megatrends and their inherent momentum can also change the game in unexpected places. Adaptability and flexibility are therefore key factors for future viability in the financial sector.

Changing conditions will also shape the banking industry in the future. As globalization advances, foreign financial services providers are entering the market

and increasing competitive pressure within the banking sector. In the private banking sector, independent asset managers, fintechs and crowdinvesting platforms are actively vying for customers. These providers mostly operate in deregulated markets and are therefore targeting services offered by traditional financial institutions.

Companies rely more strongly than ever on the capital market for finance and are therefore becoming increasingly independent of banks. In business with institutional investors, the range of services is expanding significantly. Fund companies and asset managers are changing the provider landscape.

Conclusion

New providers are driving consolidation and increasing competitive pressure. In the traditional banking industry, banks are downsizing or scrapping entire lines of business in order to preserve profitability. Lines of business will need to be evaluated in terms of their risk and profitability in order to continue operating. A handful of bank business models will fail to hold their ground on the market in the future, in particular if the pace of transformation increases. A sustainable business strategy is therefore indispensable for a bank's success.

FINANCIAL PERFORMANCE

Hauck & Aufhäuser Privatbankiers AG closed the fiscal year with positive earnings after taxes of EUR 3.9m (prior year: EUR 4.8m).

Net interest income increased by EUR 7.1m year on year to EUR 21.4m in the fiscal year. Due to the ongoing low interest rate environment, interest income contains EUR 8.2m in negative interest from loans and advances, while interest expenses contain negative interest from liabilities of EUR 13.9m.

Net commission income performed encouragingly and was higher than forecast, up from EUR 94.2m in the prior year to EUR 95.1m.

General and administrative expenses increased by EUR 10.7m year on year, mainly due to the increase in headcount and integration of the former Sal. Oppenheim companies. The increase in other administrative expenses by EUR 8.7m to EUR 48.1m mostly also reflects the abovementioned integration and the launch of our digitalization and modernization programs.

The other operating result came to EUR 22.4m (prior year: EUR 6.6m). The increase chiefly resulted from the reversal of provisions, income from internal service allocations with subsidiaries and income from foreign exchange business.

The Bank recognized appropriate bad debt allowances and provisions to account for all identifiable risks. Risk provisions in the lending business including write-downs and write-ups on certain securities increased to EUR 3.0m (prior year: EUR 0.3m).

Net write-downs and write-ups of equity investments, shares in affiliates and investment securities came to -EUR 0.1m (prior year: EUR 54.7m). The prior-year figure includes the capital gain from the sale of a subsidiary.

Earnings before taxes from ordinary activities came to EUR 10.4m in the reporting year compared to the prior-year figure of EUR 7.7m.

Net income and other taxes amounted to EUR 6.5m (prior year: -EUR 2.9m).

ASSETS, LIABILITIES AND FINANCIAL POSITION

The development of the financial position, assets and liabilities in the reporting year was shaped by the Bank's restructuring activities. In order to account for the digitalization trend, the Bank drew up a set of measures to be gradually implemented beginning in 2018.

One measure carried out in 2018 was the spin-off of Asset Management into a separate subsidiary, H&A Global Investment Management GmbH (HAGIM), for the purpose of significantly strengthening its profile and sales performance as an independent entity.

In addition, digital sales channels and a revised online banking platform were successfully launched.

The Bank had unrestricted access to the money and capital markets in the reporting period. Its liquidity and solvency were ensured at all times. It was always able to raise the funds required to achieve a balanced refinancing mix. Hauck & Aufhäuser had comfortable liquidity resources throughout the entire reporting period.

Notes to the balance sheet

The total assets of Hauck & Aufhäuser Privatbankiers AG rose by EUR 1,169.5m to EUR 5,734.2m compared to 31 December 2017.

Loans and advances to banks were up by EUR 83.5m on the prior year to EUR 205.2m and were attributable to the utilization of bank facilities payable on demand.

Loans and advances to customers increased by EUR 6.6m to EUR 397.3m and were therefore slightly higher than in the prior year.

Debt securities and other fixed-income securities increased by EUR 571.3m to EUR 2,054.3m as of the reporting date.

The Bank invested freely available funds on the capital market. This is also the reason for the EUR 130.0m increase in shares and other variable-yield securities to EUR 295.2m.

Other assets decreased by EUR 8.1m to EUR 204.5m. In net terms, the decline is due to the decrease in receivables from subsidiaries and the increase in receivables from cash collaterals, receivables from tax offices and other receivables from custody operations.

The refinancing volume on the equity and liabilities side increased as a result. Liabilities to banks increased by EUR 21.8m to EUR 284.9m. Liabilities to customers rose by EUR 1,260.1m to EUR 5,012.7m.

Foreign currency assets increased by EUR 353.8m to EUR 706.2m. Foreign currency liabilities were up EUR 377.6m to EUR 1,146.6m.

Subscribed capital came to EUR 18.4m as of 31 December 2018 (prior year: EUR 16.0m) and was divided into 354,715 (prior year: 307,692) no-par value bearer shares with a notional value of EUR 52.00 each.

Following the capital increase of EUR 32.0m in March of the reporting year, the Bank reported equity of EUR 200.7m on the face of the balance sheet as of the reporting date (prior year: EUR 164.8m).

As of 31 December 2018, the Bank's own funds pursuant to Art. 72 CRR came to EUR 251m and consisted of Common Equity Tier 1, which in turn mainly comprises subscribed capital, reserves (Core Tier 1) and the special item for general banking risks in accordance with Sec. 340g and Sec. 340e HGB in the amount of approximately EUR 64.2m.

Hauck & Aufhäuser calculates its regulatory capital in accordance with the rules of the CRR. Counterparty credit risk is calculated using the credit risk standardized approach.

As a trading book institution, Hauck & Aufhäuser takes equity price, foreign currency, commodity and interest rate risks into account as market risk positions, which are determined using the standardized approach. Interest rate risk is quantified using the original exposure method. The delta-plus method is applied for option price risk.

The Bank's operational risk is calculated for regulatory purposes using the basic indicator approach.

The standardized method is used to calculate the regulatory own fund requirements for credit valuation adjustment (CVA) risk.

In the reporting year, risk-weighted assets rose by EUR 68.2m to a total of EUR 1,197.6m. They break down as follows:

EUR m	
	1,197.6
Counterparty credit risk	935.5
Market risk	3.5
Operational risk	207.2
Credit valuation adjustment (CVA) included in total risk exposure amount	51.4

The resulting total capital ratio came to 20.97% (prior year: 14.19%).

The leverage ratio was 4.00% (prior year: 3.20%).

The regulatory requirements are fully met.

Off-balance sheet liabilities increased overall year on year. While contingent liabilities were slightly lower than in the prior year, irrevocable loan commitments rose by EUR 40.5m to EUR 226.8m.

Refinancing

In the fiscal year, as in prior years, the traditionally high levels of customer deposits bolstered the Bank's solid refinancing base. However, this base is still weakened due to the negative interest rates on ECB deposits.

Business situation in fiscal year 2018

Despite the persistently challenging situation in the financial markets, Hauck & Aufhäuser Privatbankiers AG was able to hold its own in the market environment.

For fiscal year 2018, Hauck & Aufhäuser recorded a moderate, satisfactory development in spite of heavy fluctuations in the stock markets and numerous challenges in the industry. Both earnings after taxes and net interest and net commission income developed positively.

The Group is continuously working on ensuring the organic and inorganic growth of its business segments. An important contribution was made by the successful completion of the integration of the funds from the former Luxembourg-based Sal. Oppenheim companies into the existing platform of Hauck & Aufhäuser after the acquisition at the end of 2017. This led to an enlargement of the Asset Servicing segment, which can now offer a more comprehensive range of services.

Various initiatives aimed at the digitalization and modernization of the Bank were also examined and implementation commenced in some instances.

The Hauck & Aufhäuser Group offers its customers a range of services in addition to traditional private banking solutions. The aim is to bring together the different customer groups while taking heed of the challenges posed by the financial markets. The Bank's target customers are high net worth private clients, entrepreneurs and institutional clients – all customers receive comprehensive advice and assistance.

The ongoing changes in the competitive environment, unchanged regulatory requirements, sustained low interest rate environment in connection with the

range of monetary policy measures by central banks and resulting changes in the markets require banks to regularly scrutinize their business models.

We are working relentlessly on the following challenges:

- ◆ Tier 1 capital ratio
- ◆ Bank size
- ◆ Strategic growth

In doing so, we consider our customers' interests, economic feasibility and the interests of society at all times.

A high Tier 1 capital ratio is the indicator for the financial reputation of a private bank. Since 2018, we have also been rated by the Creditreform agency, a step we took in response to increased regulatory and customer requirements. We have been given a solid investment grade rating with a positive outlook. The rating is reviewed on an annual basis and we are working on its continuous improvement.

To address the aspect of an appropriate bank size, the Bank continues to pursue organic growth. Inorganic growth opportunities will also be taken advantage of going forward.

In terms of business activities, the Bank continues to focus more strongly on advisory services than on-balance sheet business.

In particular, in view of the low interest rate environment, the Bank aims to build a robust and diversified earnings base that is independent of interest rates. This includes increasing the share of commission income long term.

DEVELOPMENT IN THE CORE BUSINESS SEGMENTS

Hauck & Aufhäuser Privatbankiers AG has branch offices in Frankfurt am Main, Munich, Hamburg, Düsseldorf, Cologne, Luxembourg, Zurich, Paris and London with its core business segments Asset Servicing, Asset Management, Private Banking, Financial Markets and Investment Banking.

ASSET SERVICING

Asset Servicing comprises Financial Assets and Real Assets. In these areas, we offer comprehensive services related to the administration of investment products for independent asset managers, financial services providers, institutional investors, asset managers and asset management companies, with a focus on Germany, Luxembourg, Switzerland and Austria.

As a single source, all-in-one provider, Financial Assets supports fund initiators in designing, launching and establishing their financial market products. As a depositary for alternative investment funds (AIFs), Real Assets offers a broad, diversified range of services for investments in real assets, such as the asset classes of real estate, private equity and venture capital, infrastructure, debt and renewable energies, for both German and Luxembourg fund structures. In addition, we offer further fund services in Luxembourg as either single modules or in a package, such as central management and fund management as an alternative investment fund manager (AIFM).

We are a strong and effective partner to our customers and have made a name for ourselves thanks to our high degree of flexibility and individuality. We also place a particular focus on the timely implementation of regulatory requirements. This reduces administrative obstacles for our customers, improves investor protection and increases market efficiency. The strong links between the internal units is one of the key success factors in this core business segment.

Asset Servicing closed the year with a profit that was well in excess of expectations. The full-year profits from the completed integration of the former Sal. Oppenheim companies in Luxembourg were included in the result from Asset Servicing for the first time in 2018 and had a favorable effect on the positive outcome.

ASSET MANAGEMENT

This core business segment focuses on designing custom investment solutions for institutional investors and sales partners (wholesale partners). Customers include insurance companies and pension funds, church organizations, banks and savings banks, foundations and family offices. We are specialized in share, annuity, multi-asset and alternative investment strategies as well as sustainable strategies.

Our products are the result of sound knowledge, clearly defined investment processes and extensive expertise in asset management and wealth management. Our investment specialists are experts in achieving an excellent long-term performance based on fundamental analyses and the systematic use of quantitative decision-making bases and effective risk management tools. All asset management strategies can be implemented as discretionary mandates in a special investment fund, as an investment advisory mandate or in institutional wealth management. Many of these investment solutions can also be procured as mutual funds.

In the fiscal year, we spun off the Asset Management business segment to H&A Global Investment Management GmbH.

PRIVATE BANKING

Hauck & Aufhäuser's Private Banking core business segment focuses on wealth management, investment advisory services, foundations and real estate project finance. As part of our holistic investment advice, we sit down with our clients to

analyze their principles, investment mentality and investment objectives. This allows us to define the desired relationship between security, profitability and availability of customer assets.

With our new online banking platform, our clients can see at one glance how their assets are developing. Our customers can access performance analyses of their asset structure and receive important messages on all mobile devices via the internet or our app.

In addition to standard advisory, since the past fiscal year, Hauck & Aufhäuser has operated a digital sales channel for asset management called Zeedin. This gives our clients digital access to Hauck & Aufhäuser's investment management expertise with the option of receiving personal advice.

In real estate project finance, we finance both residential property development projects as well as commercial project developments, offering our customers tailor-made financing plans from a single source. There is a choice of senior loans and/or subordinated mezzanine loans.

The result from Private Banking fell slightly short of expectations.

FINANCIAL MARKETS

Financial Markets covers the topics of securities trading, fixed income sales trading and client solutions.

Securities trading has traditionally been one of Hauck & Aufhäuser's core competencies. With our independent market assessments and individual services in the various market segments, we make our clients targeted propositions on the basis of their strategic focus. The service offering for our customers in securities trading comprises cross-asset execution, fund trading and pooling for mutual funds and exchange-traded funds as well as futures trading, where we offer our clients the opportunity to leverage our expertise in trading in exchange-traded derivatives, in particular on Eurex Exchange, to take advantage of volatile market developments.

In Fixed Income Sales Trading, we help our clients navigate the complex national and international bond markets and identify profitable offerings in which to invest. We also help our customers to develop their own, specific investment ideas and design individually tailored solutions that are based on strategic focus and reflect an independent market assessment.

In Client Solutions, our role is to act as a partner for institutional investors and a cooperation partner for all capital market services. With a clear focus on small to medium-sized transactions, we develop, distribute and broker selected products and solutions for investments for institutional customers and financing options for companies on the capital market.

The result from this core business segment was in line with expectations.

INVESTMENT BANKING

Our research, sales and trading activities in the area of equity for institutional clients pursue a rigorous focus on mid-cap companies in the German-speaking market. The close cooperation between our research team, our sales specialists and the trading sections enables us to offer integrated advisory services for institutional investors, financial investors and corporations.

The clear focus of our Institutional Research unit is on listed mid-cap enterprises in the German-speaking countries. We compile stock market analyses to fit the relevant requirements of professional capital market investors. We also offer our clients successful support for initial public offerings, relistings and other capital actions.

In the client-oriented Equity Sales & Trading unit, we provide our growing number of institutional customers with the opportunity to successfully implement trading ideas and investment strategies in this market segment. As well as the numerous German and foreign exchanges, our traders also operate on the strongly expanding OTC trading venues in order to make use of additional market liquidity.

We act as a designated sponsor on the trading platforms of the German stock market (Xetra) and as a market maker – likewise also as a specialist – on the Austrian stock market (Xetra Vienna).

We also advise companies, shareholders, financial investors and family offices on all important strategic corporate development issues and on M&A transactions.

Investment Banking closed the year with an above-average result.

OPPORTUNITIES AND FORECAST

OUTLOOK FOR THE ECONOMY

Despite the recent revision to the forecast, the global economy should continue to prosper in 2019. Provided the risk scenario in the central (political) conflicts does not materialize, we do not see any obstacles to full potential growth.

Eurozone

The slowdown in growth in the past year hit the eurozone particularly hard. The recently weak industrial output should, however, stabilize again given anticipated catch-up effects, and the past year's slower export activity should pick up again once the trade conflict has been resolved. Consumer spending will continue to be the mainstay of the economy. Lower unemployment figures and higher wages should lead to more tangible increases in disposable incomes in 2019 and boost consumer sentiment. The European Central Bank is also expected to remain accommodating in its monetary policy.

Germany

The development outlined for Europe applies in particular to Germany. After registration problems in the automotive sector this past year, a noticeable catch-up effect should be observable in 2019. Consumer spending should also make a significant contribution to GDP growth in Germany. Moreover, the favorable refinancing conditions should give the construction sector a further boost and stimulate positive investments in general. We believe growth of 1.5% to be realistic.

Consumer prices

In view of the drop in oil prices seen in the final quarter, inflation could be dampened over the next few months. However, stagnating core inflation from the past year continues to suggest that the Phillips curve, which shows the relationship between falling unemployment and higher inflation, is currently invalid: the pricing power of companies may be constrained by globalization and digitalization. The slowdown in global economic growth should also reduce inflationary pressure in equal measure.

Sovereign bonds

As interest rates are unlikely to rise in 2019, European bond yields will probably see little movement. Given the cooling-off of the economy in the US, the Fed is expected to announce no more than two interest rate increases.

Stock markets

The pessimism that emerged in the final quarter appears exaggerated. Despite the flagging growth momentum, the global economy is intact. Growth in the profits of listed companies by just under 10% should continue to bolster the stock mar-

kets in both Europe and the US in 2019. Hence, moderate growth at the same rate as corporate profits should follow the stock market correction seen this last year. As in the past year, political escalations could result in (temporary) losses, however.

OUTLOOK – MARKET AND COMPETITION

Overall, we expect a relatively challenging environment for the banking market in 2019. We do not anticipate any let-up in the low interest rate environment in 2019 with the ECB continuing to demand negative interest on deposits. Interest rates may be raised in the course of the year, reducing, but not fully offsetting, the effects of negative interest on deposits on the Bank's earnings.

The high significance of regulatory requirements and risk management will also continue to shape the banking market in the year ahead.

We also expect the continued high significance of social megatrends, such as digitalization, globalization, demographics and sustainability to be further external factors. Accordingly, willingness to embrace change will be a key criterion for the future success of Hauck & Aufhäuser Privatbankiers AG in the market.

We anticipate the intense competitive environment to prevail across the entire banking market in 2019. On the one hand, this will be driven by the traditional players from the three banking sectors in Germany, including stepped up activity from foreign banks. Moreover, we assume that a fourth group of new competitors, such as fintechs, market infrastructure providers and technology groups (Google, Apple, Amazon, Paypal, etc.) will gain more of a foothold in the market. We, Hauck & Aufhäuser Privatbankiers AG, see ourselves as competing in particular with private banks, multi-family offices and specific independent asset managers. We currently assume that the competitive environment among these institutions will continue to be strong. In the markets relevant for Hauck & Aufhäuser, this will be compounded by the entry of fintech companies

as new market players. On this basis and given the rising regulatory requirements, we expect to see further consolidation in the market and a refinement of business models.

We see potential for positive and growth-promoting impetus in the current market environment in the emergence of new technology and the increasing willingness to use this technology. This can help banks and, consequently, us to streamline internal processes and make them more efficient, thereby saving costs, while at the same time creating scope to increase perceived customer value, such as time with customers, with limited input.

OUTLOOK AND OPPORTUNITIES – HAUCK & AUFHÄUSER PRIVATBANKIERS AG

The expected market and competitive developments will bring challenges, but also opportunities to strengthen the position of Hauck & Aufhäuser Privatbankiers AG on the market overall as well as in the individual business segments. To this end, we made investments in various business segments and areas in 2018, which we intend to intensify in 2019 to enable us to take advantage of the resulting opportunities.

In connection with digitalization, we invested in our new digital sales channel Zeedin and its digital product and service offering. This creates the opportunity for the Bank to develop new client segments with relevant earnings potential for the Private Banking segment in 2019. We will also press ahead with the automation of our internal processes as part of our digitalization activities in 2019. This will open up potential to reduce complexity and cut costs through the use of technology in all areas of the Bank. In addition to these concrete digitalization initiatives, we will continue to monitor the fintech market in order to identify and evaluate the benefit to Hauck & Aufhäuser Privatbankiers AG of further emerging opportunities for cooperation with fintechs in all sections of our value chain.

As regards the factor globalization of the financial markets, we see an excellent opportunity for the Bank to benefit from its affiliation to a group with international exposure. After we joined the Fosun Group, we therefore established the China Desk, which acts as a platform for exploiting cross-selling potential between Germany and China for our customers, thereby generating earnings for the Bank from these international customer relationships. The China Desk operates as an interface to the other business segments of the Bank, enabling all areas to benefit from the Bank's international integration. In 2019, the focus is expected to be on developing market potential related to the sale of solutions in the Asset Management segment in China.

In addition to our ties to the Fosun Group, our globalization efforts achieved a further milestone with the takeover of the fund platform business of the Sal. Oppenheim entities in Luxembourg. For 2019, we perceive a good opportunity to further unfold potential from this acquisition, thereby positioning Hauck & Aufhäuser internationally as a reliable partner for new clients in Asset Servicing.

OUTLOOK – STRATEGY

In spite of constantly rising regulatory requirements and growing pressure on margins as a result, the Bank has held its own in a challenging market environment. In 2018, we were able to significantly boost our market share in many areas and grew the volume of assets under our administration and management.

Having successfully integrated the Luxembourg-based Sal. Oppenheim companies, the Bank has reached a key strategic milestone in its growth strategy. This now offers Hauck & Aufhäuser Privatbankiers AG the opportunity to expand its product and service offerings in Asset Servicing from the leading investment fund location Luxembourg to other parts of the European Union and other future target markets, thereby underpinning its international growth strategy.

In the coming years, the Investment Banking segment intends to further expand its leading market position in research, sales and trading activities specializing in small and mid-cap enterprises in German-speaking countries and in individual services in connection with initial public offerings and capital increases.

After winning numerous accolades this fiscal year, Hauck & Aufhäuser's Asset Management aims to achieve further growth and build on its longstanding expertise.

The Private Banking segment also received several awards in 2018 and plans to further expand its digital private banking service offerings in 2019, thereby further strengthening both digital and over-the-counter sales.

In Financial Markets, the technological expansion in the form of a securities collateral management platform represents a key strategic milestone and also meets the elevated requirements of the current regulatory framework.

In our vision for 2020, Hauck & Aufhäuser Privatbankiers AG will be a relevant market player in the German private banking market with a clear growth and digital strategy. We see ourselves as a modern, personal and entrepreneurial partner to our clients, offering quality services in line with our premium strategy.

An effective combination of organic and inorganic growth will also strengthen the Bank's position in the long term. In light of the rising regulatory requirements we expect to see further consolidation in the market, which will be conducive to our plans. Together with our majority owner Fosun, we also aim to make our offering more international, tap new customer segments and thereby expand our market position. An important element of our future growth strategy will be our role as a bridge for Chinese investors and companies to Germany and Europe. At the same time, we will be able to facilitate access for German companies to the future market of China and other Asian growth markets.

OUTLOOK – DEVELOPMENT

We remain cautious in our operative planning and currently anticipate merely a moderate rise in income for the next year, which is due among other things to a realistic view of the economic development and the resulting market mechanisms.

A dynamic market environment and expectations of ever-increasing volatility make it difficult to forecast future income from the volume of assets held in custody and under management. We anticipate a moderate increase in volume growth.

The successful integration of the Luxembourg-based Sal. Oppenheim entities will have a major impact on how our forecast evolves in 2019. The synergy effects of this acquisition will now become clear for the first time and can be compared with the original forecasts on both on the income and cost sides. At the same time, there is further growth potential on the more internationally focused customer side.

Addressing regulatory requirements, implementing contractually required measures and in particular further optimizing a cost-efficient and streamlined platform for the performance of our services will also give rise in the following year to significant long-term investments and additional administrative expenditures that will need to be covered by essential projects with high resource requirements.

Our planning remains cautious and we are forecasting only minimal changes in the financial performance indicators, which are also highly dependent on a continuation of the stable development on the securities markets.

As a direct consequence of the planned strategic measures to boost growth and efficiency, the performance indicators in subsequent years may differ widely from our forecasts to date.

We expect to record moderate growth and largely consistent profitability for the coming year within our defined strategy. The local market and competitive situation and international events create latent uncertainty, which reflects in our cautious forecast.

OUTLOOK – EARNINGS COMPONENTS

Net interest income

Assuming that interest rates will increase moderately, Hauck & Aufhäuser Privatbankiers AG anticipates slight growth in net interest income.

Net commission income

The full integration of the Luxembourg-based Sal. Oppenheim companies, the rollout of a modern online banking platform in Private Banking, the strategic partnerships forged with Fosun group companies and launch of new investment products underlie our expectation of significant growth in net commission income.

This development will be reflected in the underlying assets under management accordingly.

Income from securities

A forecast is difficult due to the current contingencies, including ongoing trade disputes and crisis-ridden emerging markets. However, Hauck & Aufhäuser Privatbankiers AG sees good opportunities for growth in this income based on its trading expertise in Financial Markets and the implementation of new financial instruments.

Administrative expenses

This item is expected to remain fairly flat on account of the rigorous improvement, increase in efficiency and modernization of our banking systems and processes. The Bank will continue to invest in the implementation of strategic initiatives and required regulatory projects going forward.

Risk provisions

With regard to the ongoing economic contingencies, the risk provisions for issuer, equity investment or collateral risks in the lending business are also subject to fluctuation.

Based on an assumed moderate increase in interest rates and stabilized lending business, we expect a slight decline in the volume of required provisions.

Earnings before taxes (HGB)

Hauck & Aufhäuser Privatbankiers AG remains optimistic overall. We expect earnings before taxes to be higher than in the prior year and that we will comply with all relevant regulatory ratios.

RISK REPORT

The aim of the Bank's risk management system is to manage the significant risks associated with business activities based on the Bank's internal capital adequacy in order to generate a return on capital employed that is commensurate with the risks involved. Strategic targets ensure that the risks taken are proportionate to the earnings opportunities.

Senior management of Hauck & Aufhäuser Privatbankiers AG promotes the maintenance of a sustainable risk culture throughout the Bank. Based on a risk-oriented tone from the top, all executives and employees are required to consider risk in all their actions. Effective communication and challenge are as much a matter of course as incentives.

The Bank's main risks are identified, assessed, managed, monitored, communicated and backed with capital in a timely manner. Risk concentrations are appropriately observed. The annual risk inventory ensures that all risks have been captured and considered.

In a monthly internal capital adequacy calculation performed in accordance with the gone concern approach, all risk types considered are simulated at a confidence level of 99.9%. All individual risks are calculated conservatively in this leading risk management steering approach and aggregated to produce the total risk exposure without taking any risk-mitigating correlations into account. The figure calculated must always be less than the risk coverage potential and positive forecasts are not included for the sake of prudence.

In fiscal year 2018, the total risk exposure calculated under the gone concern approach using this method did not exceed the Bank's defined level of internal capital adequacy. There were no significant changes in the risk situation compared to the prior year.

As of 31 December 2018, the conservatively calculated total risk exposure amount of EUR 128.66m breaks down by risk type as follows:

UTILIZATION	Actual	Limit	Actual as a % of limit
Total utilization	128.66	207.25	62.1 %
Counterparty credit risk	92.98	130.0	71.5 %
Market risk	16.81	44.25	38.0 %
Operational risk	13.59	26.0	52.3 %
Income risk	5.27	7.00	75.3 %

Once a quarter, an internal capital adequacy calculation is also performed using the going concern approach (secondary risk management steering approach). Under this approach, restricted Tier 1 and total capital in accordance with the Capital Requirements Regulation (CRR) are deducted from the other risk coverage potential, and the total risk exposure (calculated using a confidence level of 95%) is compared with the remaining risk coverage potential. Risks are only mitigated at an aggregate level in this plausibility test.

A stress test for all risk types is also performed once a quarter. The following scenarios are considered:

- ◆ Severe economic downturn in Europe
- ◆ Extreme loss of confidence from customers (reputational stress test)
- ◆ Lehman collapse

In a reverse stress test, a scenario is also calculated that can be critical for the Bank's viability. In accordance with the requirements of the CRR, the overall ratio as of 31 December 2018 based on the report submitted to the supervisory authorities was 17.37%. The prescribed minimum requirements for Tier 1 and total capital were met during the entire fiscal year.

The Bank uses derivative financial instruments principally as hedging instruments. Interest rate swaps on the OTC market and futures on the Eurex are the preferred products. The relevant positions are closely integrated in risk management.

As in the prior year, no risks to the Bank's ability to continue as a going concern or risks that could adversely affect its development were identified as of the reporting date or during the reporting year. Risks were covered at all times at all reporting dates. The validation procedures performed confirmed the appropriateness of the risk controlling methods. In addition, the internal audit function audited key elements of the risk management system as part of its multi-year plan.

The types of risk defined as material by the Bank are presented in greater detail below.

COUNTERPARTY CREDIT RISK

Counterparty credit risk arises mainly in our lending business with business and private clients and real estate project developers, in our investment and inter-bank business with institutional customers and in derivatives business with our customers.

Counterparty credit risk relates in particular to:

- ◆ Default by a debtor: the inability of one or more debtors to satisfy their credit obligations (in particular interest and principal repayments)
- ◆ Credit risk: the potential deterioration in the economic situation of a debtor
- ◆ Collateral risk: the potential change in prices of assets used as collateral in the lending business
- ◆ Portfolio or cluster risk: the excessive concentration and dependency on a single debtor or group of debtors
- ◆ Issuer and country risk

Precisely defined lines of authority and standards for lending and investment decisions help to diversify risk and minimize our counterparty credit risk. We use the rating methods of CredaRate Solutions GmbH, Cologne, to assess the

creditworthiness of our clients. Collateral is valued using standard methods and applying the principle of dual control. The lending values for securities furnished as collateral are defined in a risk-adjusted manner based on current market data and are updated regularly.

Counterparty credit risks are managed based on quantitative and qualitative criteria.

Quantitative management focuses on adherence to the economic limits for safeguarding internal capital adequacy, which are defined as part of the risk strategy. The regulatory ratios represent a strict condition in this context.

The credit risk and investment strategy forms the basis for qualitative risk management and defines caps for individual exposures with regard to customer and issuer groups, credit ratings, volumes and internal capital requirements. Concentration risk is also mitigated here.

The credit risk strategy with all its key qualitative and quantitative requirements for risk management therefore forms the basis for the Bank's lending business. The focus is on short-term financing in Germany. The credit risk strategy sets limits for the aggregate credit risk, gross and net exposure volumes and other aspects in order to avoid inappropriate risk concentrations.

The Bank's Credit Risk Management is responsible for managing credit risks from both individual cases and the overall portfolio. Assisted by an early warning system, risks are managed by the individual authorized persons.

Risk Controlling and Credit Risk Management cooperate closely to ensure the timely identification of potential threats in combination with professional problem loan management. The customer loan portfolio is characterized by good to very good credit ratings.

The economic capital requirements to cover the counterparty credit risk and portfolio risk are calculated as follows:

◆ The CreditRisk+ model for our customer lending and interbank business

◆ A credit portfolio model for our investment portfolio

The credit value at risk is the key management indicator in this context. In addition, migration risks for the investment portfolio are calculated using the same confidence level.

This is supplemented by the continuous monitoring of relevant alerts. This did not result in any indications of developments that could jeopardize the Bank's existence. The procedures are based on CredaRate Solutions' rating systems specific to target customer groups, which take both quantitative and qualitative criteria into account.

Key defined inputs and methods are reviewed regularly and adapted to changed conditions where appropriate. The methods and models used by Risk Controlling undergo comprehensive validation at least once a year.

Risk Controlling and Credit Risk Management inform the Management Board and Risk Committee on a quarterly basis in comprehensive reports on the risks associated with the credit portfolio and significant individual exposures, and on the various limit utilizations. The reports are complemented by efficient ad hoc reports. No disproportionate risks were observed in the course of the reporting year.

The Bank does not use securitization or credit derivatives to hedge risks. Specific risks are mitigated by reducing volumes, through sub-participations or obtaining additional collateral or appropriate covenants. Portfolio effects are also used to reduce the overall risk.

The net valuation effect from the lending business was positive again in the reporting year. The allocation to risk provisions was lower than the forecast standard risk costs.

MARKET RISK

Market risks are potential losses resulting from adverse changes in market prices or parameters that influence prices. In accordance with the respective dependencies, they comprise interest rate, currency, price, spot, forward and option risks. Market risks arise in connection with our trading and investment activities as well as our asset/liability management transactions.

Asset items and capital (especially debt and equity) usually have a market price which is subject to change in response to changes in external market parameters. The risk that changes in market price are significantly greater than the usual (expected) changes, e.g., in the event of sharp swings in the stock markets, and thus entail the risk of considerable losses is defined as market risk. Market risk therefore results from unexpected fluctuations in the underlying market parameters such as interest rates, share prices and exchange rates.

Hauck & Aufhäuser Privatbankiers AG monitors the economic market risk based on a methodological approach that is aligned with the business model and takes all the risk positions into account. The market risks of the trading and banking books are determined using the same methods and applying a value at risk (VaR) approach. The total market risk is calculated by adding together the VaR ratios and disregarding any correlations between the stock, interest rate and currency markets. The VaR ratios are based on a 260-day history and are calculated for a holding period of 90 days and a confidence level of 99.9%.

The Bank's Risk Controlling unit is responsible for measuring and monitoring market risks. The unit prepares a market risk report for senior management on a daily basis which contains the risk metrics of all risk types (results, VaR ratios and stress amounts) at portfolio and bank level. The report compares the VaR ratios with the capital limits each day.

Regulatory capital is calculated using the standardized method.

The monthly Asset/Liability Management Committee (ALCO) is the central committee for the monitoring of market risk at bank level. Its primary task is to monitor market risk and to make recommendations for action.

Our assets and liabilities principally consist of positions with variable interest rates. Fixed-income asset items are normally hedged by concluding interest rate swaps. Currency risk is secondary because our business is mainly focused on Germany or countries in the eurozone.

Clean backtesting is carried out on a regular basis to review our risk models. In these tests, the forecast risk ratios are compared with the actual changes in net assets.

In addition to the economic capital limits defined in the risk strategy, the framework set out in the investment strategies of the portfolios (creditworthiness, liquidity, maturity, stop-loss limits and volume limits) serves as guidance for the management of market risk.

Worst case simulations are also calculated for all classes of market risk (equities, funds, foreign exchange, interest rates, interest rate options) on the basis of extraordinary historical market movements (after the Lehman Brothers bankruptcy in 2009) and hypothetical stress scenarios (EU stress test by the CEBS).

INTEREST RATE RISKS IN THE BANKING BOOK

Interest rate risks are managed by Treasury. Given our investment strategy, the interest rate risks of Hauck & Aufhäuser Privatbankiers AG are manageable.

Both the changes in present value in the interest rate book and, additionally, the effects on statutory profit and loss items are monitored with regard to interest rate risk.

Interest rate risks are quantified and reported daily using the same procedures as for market risk.

All interest-bearing transactions from the trading book, the banking book and equity and liabilities are included in the daily calculation of the changes in present value in the interest rate book. The currency risk associated with these transactions is presented separately.

To calculate unexpected loss, we use 10 defined interest rate scenarios, including the interest rate shock scenario required by the supervisory authority.

The interest rate shock defined by the supervisory authority (+200/-200 basis points) would result in a drop in value in the banking book of EUR 27.9 m as of year-end in the +200 bp scenario, which is equivalent to 13.8% of our own funds.

EQUITY INVESTMENT RISK

Equity investment risk is defined as potential losses that can arise due to the Bank providing other companies with capital in the form of equity and mezzanine capital, and due to supplementary loan originations and capital commitments.

The strategic objectives of Hauck & Aufhäuser Privatbankiers AG with regard to equity investments are set out in a separate equity investment strategy.

Based on the Bank's business strategy, Hauck & Aufhäuser Privatbankiers AG groups its equity investments into three categories:

- ◆ Strategic investments
- ◆ Financial investments
- ◆ Business investments

Strategic investments are geared in particular toward expanding the customer base, exploring new sales channels and developing new products. The bulk of strategic investments are operating companies that are majority owned by Hauck & Aufhäuser and part of and fully integrated in the Bank's core business

segments. These companies are integrated in Hauck & Aufhäuser Privatbankiers AG at a financial, organizational and economic level.

The financial investments of Hauck & Aufhäuser are concentrated at the Munich-based subsidiary FidesKapital Gesellschaft für Kapitalbeteiligungen mbH. They are largely minority interests in private equity and venture capital funds of reputable providers.

The main purpose of the business investments is to develop customized individual solutions for our clients, such as fiduciary transactions in the investment area.

Our equity investments are valued at acquisition cost in accordance with the provisions of the HGB. Write-downs to the lower of cost or market are recognized in the event of permanent impairment. Write-ups are recognized up to a maximum of the acquisition cost only. The strategic investments are also integrated in the regular controlling process and Hauck & Aufhäuser Privatbankiers AG's risk management and are monitored on a monthly basis.

The capital charge for the equity investments as part of internal risk management is calculated using a confidence level of 99.9%.

The assessment basis comprises the book values of equity investments, mezzanine capital, loans issued and additional payment obligations related to outstanding capital commitments.

LIQUIDITY RISK

Liquidity risk breaks down into call, untimely payment, refinancing and market liquidity risks.

In our business strategy, we focus on generating commission income and therefore do not pursue a balance sheet growth strategy. Refinancing is founded on an equity and liabilities side of the balance sheet that has developed organically and proven stable over several cycles.

Surplus liquidity is mainly invested in ECB-eligible securities in order to secure a high refinancing facility at the ECB in the event of a liquidity squeeze.

Hauck & Aufhäuser Privatbankiers AG therefore perceives liquidity risk as:

- ◆ Solvency risk: the risk of not being able to meet claims for payment at a specific point in time
- ◆ Refinancing risk: the risk of not being able to secure refinancing at favorable conditions in the long term
- ◆ Marketability risk: the risk of not being able to trade the Bank's holdings

The monthly Asset/Liability Management Committee (ALCO) is the central management committee for liquidity risk. It defines how the desired liquidity status is to be achieved. In Treasury, liquidity is managed on an operational basis. It also manages the daily liquidity and composition of assets and liabilities based on the defined risk tolerance and reports on the liquidity situation and development to the above committee.

Liquidity risks are monitored by Risk Controlling.

The marketability and market liquidity risks are monitored implicitly through the credit portfolio model for counterparty credit risk in the banking book and the daily calculation of unrealized gains and losses in the market risk report. All other liquidity risks are managed using other tools rather than through the internal capital adequacy calculation.

Moreover, in addition to monitoring and management in accordance with the LiqV ["Liquiditätsverordnung": German Liquidity Ordinance], liquidity risks are monitored based on the regulatory liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) pursuant to Arts. 411 to 426 CRR as well as an internally developed procedure. This compares all cash flows over time on a daily, monthly

and yearly basis, takes account of the marketability and ECB-eligibility of the specific positions in the banking and trading books as well as contingent liabilities, and allows a prospective analysis of liquidity based on defined scenarios. All liabilities due within certain defined periods should be serviced within this period in the event of full withdrawal.

Besides these ratios, the consideration of liquidity costs for managing business activities as well as the regular review of the liquidity contingency plan, and access to the financing sources relevant for Hauck & Aufhäuser Privatbankiers AG are the main cornerstones of liquidity risk management.

OPERATIONAL RISK

Hauck & Aufhäuser Privatbankiers AG defines operational risk as the risk of financial effects resulting from inadequate or failed internal processes, people and systems or from external events. Legal risks and IT risks included in operational risk.

Hauck & Aufhäuser Privatbankiers AG has introduced a bank-wide operational risk management framework with binding effect for all subsidiaries, senior managers and departments. This framework defines the strategic focus on four potential courses of action for addressing operational risks:

- ◆ Risk avoidance, e.g., by pulling out of certain business lines
- ◆ Risk mitigation, e.g., by optimizing processes or developing employees' skills
- ◆ Risk transfer, e.g., by concluding insurance policies to settle large claims with a low likelihood of occurrence
- ◆ Risk acceptance, e.g., when relevant countermeasures prove impractical from a business perspective (these types of decisions are regularly reviewed)

Risk Controlling is responsible for controlling operational risks and supports the functional departments responsible for managing these risks. It reports to senior management and to the OpRisk Committee responsible for managing operational risks, which carries out the control function.

The capital charge for operational risks required for regulatory purposes is calculated using the basic indicator approach, while for economic purposes the VaR approach is used.

Our tools for managing operational risks include:

- ◆ A bank-wide process for the systematic and standardized documentation, reporting, analysis and administration of data and information on losses
- ◆ Regular reporting to senior management and the functional departments
- ◆ A risk self-assessment process for the regular, comprehensive documentation of all major risks
- ◆ The development of scenarios for assessing the consequences of potential losses and options for avoiding such losses

Operational risks are mitigated by means of consistent documentation of our policies, procedures and approval policies that is updated on an ongoing basis.

The Legal department is responsible for assessing and handling legal risks. External law firms are also engaged in some cases, in particular for court proceedings. Adequate provision has been made for existing legal disputes.

Extensive and appropriate technical and organizational safeguards are in place in the particularly sensitive area of IT and cyber risks. Information security management and the business continuity plan are continuously enhanced in accordance with established standards. An independent information security officer has been appointed for this purpose. Furthermore, outsourcing arrangements are

managed by the Organization/IT department's central outsourcing management function.

Appropriate processes and contingency plans have also been implemented in order to safeguard the security of our IT system and the continuation of our business activities in the event of system failures. Other processes, such as regular employee evaluation and the standardization of our contracts, mitigate the risks.

STRATEGIC RISKS AND REPUTATIONAL RISKS

Strategic risks are risks arising from missed income and/or cost targets and are impacted by internal causes, such as insufficiently implemented strategic targets, or external changes in the macroeconomic conditions or competitive situation.

Business risks comprise income and cost risks. The core business segments and the responsible members of the Management Board are charged with managing these risks. For this they refer to the independent figures provided by Controlling.

Reputational risks refer to the threat of declines in income or losses, a deterioration in liquidity or a reduced business value caused by events which damage stakeholder confidence in Hauck & Aufhäuser Privatbankiers AG. In light of this definition, reputational risks are not viewed as a separate type of risk but are treated as a part, and potential amplifier, of income and liquidity risks.

The responsibility for managing reputational risk rests with the core business segments and their competent members of senior management. They are supported in this task by the neutral Quality Management office.

Strategic risks are quantified on the basis of the historical planning variances in gross income.

COMBINED NON-FINANCIAL REPORT

CORPORATE GOVERNANCE

The values of Hauck & Aufhäuser Privatbankiers AG are founded on partnership and innovation. The Bank's strategic orientation is focused on continuous value creation. Sustainability is also anchored in the business activities.

The values that are binding for the Hauck & Aufhäuser Group of responsibility, partnership and innovation are based on the way we act in business dealings. These basic requirements must be adhered to by all employees. The canon of values provides support and offers guidance in day-to-day work. Strict compliance with the law is the foundation, giving rise to further requirements that are elementary to today's business world:

- ◆ Competitiveness, conduct in dealings with supervisory authorities, conduct toward one another
- ◆ Segregation of private and corporate interests
- ◆ Environmental protection

In addition to this code of conduct, the "Guidelines for Employee Trading," an organizational instruction for handling conflicts of interest, must be observed by all employees of the Bank while all customer relationship managers are bound by principles of customer service.

IMPLEMENTATION OF COMPLIANCE

The objective of the compliance function is to protect the Bank against all compliance risks, including reputational risks and legal risks. All stakeholders and customers of Hauck & Aufhäuser Privatbankiers AG should be protected against incidences of non-compliance. The Compliance Charta ensures that this approach is adhered to.

The compliance function is therefore structured so as to ensure that the design and operating effectiveness of the means and procedures installed by the Bank to comply with the regulatory requirements is assessed. This enables threats and risks from breaches of the regulatory requirements to be detected at an early stage. The Compliance Charta ensures that Chinese walls are defined, insider information is recorded, sales targets are set and controlled, compliance with the remuneration systems is reviewed and additional framework conditions are set out.

In order to address potential infringements and attempted infringements of the laws against market manipulation and insider dealing in a timely manner, Compliance monitors and controls all transactions in financial instruments conducted by employees of the Bank as well as all of the Bank's proprietary trading and business.

Compliance is also responsible for designing measures to avoid conflicts of interest between Hauck & Aufhäuser Privatbankiers AG and its stakeholders. The measures implemented are based on the stringent principles of strict functional segregation of sensitive business areas and an effective internal control system. Together, the measures ensure that services can be offered in a transparent environment and with due regard to clients' interests.

The objective of the code of conduct is to lay down rules for dealing with inducements in connection with business dealings and to raise employee awareness of potential conflicts of interest. The aim is to avoid reputational damage.

The Bank's compliance activities are also aimed at prevention of money laundering, terrorist financing and other criminal acts that could endanger the Bank's assets. The anti-money laundering officer, who reports directly to senior management, is responsible.

All employees of Hauck & Aufhäuser Privatbankiers AG, including student workers, interns and temporary staff, receive extensive training on compliance in the form of web-based learning programs.

APPROACH TOWARD SUSTAINABILITY RISKS AND REPUTATIONAL RISKS

For Hauck & Aufhäuser Privatbankiers AG, reputational risks are the major risks endangering the sustainability of the Bank. Consequently, the identification, analysis and management of these risk types are particularly important. Reputational risks are defined as the direct or indirect threat of a loss of confidence in or respect for the Bank by its stakeholders. This can have potentially relevant effects on the Bank's core business. Special rules and restrictions to the Bank's business activities are necessary to adequately mitigate reputational risks. Therefore, the Bank does not participate in transactions that result in the following:

- ◆ Breaches of universal human rights (in particular personal rights and civil liberties)
- ◆ Infringements of the law (e.g., crimes, drug dealing, tax evasion, fraud, money laundering, corruption, insider dealing)
- ◆ Delivery of arms and weapons
- ◆ Environmental pollution
- ◆ Exploitation of resources and nuclear energy
- ◆ Speculative transactions that are socially unacceptable or not accepted by the shareholders (e.g., on the availability of food, death, illness, invalidity)
- ◆ Other business segments that are socially unacceptable or not accepted by the shareholders (e.g., prostitution, pornography) and gambling
- ◆ Infringements of industry-specific minimum standards (e.g., safety, quality)
- ◆ Infringements of conduct of business standards and banking customs (e.g., evoking conflicts of interest, lack of professionalism)

Such matters can arise in the course of any customer relationship and during any transaction, e.g., loan financing. Appropriate reviews and a documented assessment of the situation must be carried out in the event of the suspected involvement of any natural persons or legal entities.

In cases of doubt, the Management Board must be involved in the final assessment of any reputational risks. As an internal minimum requirement, the OpRisk Committee maintains a loss database and is responsible for the performance of regular self-assessments and annual risk assessments.

OBLIGATION TO THE CUSTOMER

Customer satisfaction and retention are a key focus of Hauck & Aufhäuser Privatbankiers AG's client advisory process. We achieve this through the use of innovative solutions to meet our clients' needs. The Bank also works to optimize its value chain for the benefit of its customers.

Hauck & Aufhäuser Privatbankiers AG attaches great importance to a consistent, honest and trust-based dialog with its clients. In order to adequately address customers' needs, it is important to know their social, ecological and economic interests, expectations, needs, requirements and experiences. Qualified product specialists are consulted in accordance with customer requirements in order to ensure continuous and strategic customer dialog.

We also seek to engage in dialog with our clients by organizing presentations which focus on current topics. These events are also part of the Bank's efforts to generate added value for our customers by enabling them to network.

Bank employees also show their commitment by giving regular lectures at universities such as the Frankfurt School and at the chambers of industry and commerce and other organizations.

SUSTAINABILITY

Sustainable investment decisions are increasingly popular with all customer groups. These investment decisions are characterized by a mix of economics, environmental awareness and social commitment. The banking industry must respond to this growing interest now and in the future, e.g., with solutions that combine the criteria environment, society and good corporate governance. Sustainability is coming further into focus through the mandatory reporting of non-financial performance indicators in connection with the annual financial statements.

During the expansion of the investment strategy, sustainability was added as a new dimension to the investment objectives of profit maximization, risk minimization and liquidity.

GENDER PARITY IN LEADERSHIP ROLES

Hauck & Aufhäuser Privatbankiers AG aims to increase the percentage of women in team leader and head of department roles to 30% by 2022. The percentage of women in leadership roles increased further in 2018. Currently, 23% of the Bank's executives are women, which is an increase of 1% on the prior year. Just under 42% (prior year: 39%) of the workforce is female. 29% (prior year: 23%) of team leaders and 21% (prior year: 20%) of department heads are women.

EMPLOYEES

In the past fiscal year, our people performed extraordinarily well in a complex market environment and were one of the main reasons why Hauck & Aufhäuser continued to hold its own in the market again in 2018.

At the reporting date, 575 persons worked for the Bank, of whom 478 were full-time staff and 97 part-time. At the reporting date, we employed 230 women and 345 men.

DEVELOPMENT AND SUPPORT

Recruitment

Human resources departments face many challenges in times of skill shortages, combined with the decrease in the attractiveness of the banking industry as an employer. Hauck & Aufhäuser Privatbankiers AG responds with an efficient personnel management process.

It is a constant challenge to be seen as an attractive employer both within and outside the Bank, and to retain highly qualified employees. To achieve this goal, Hauck & Aufhäuser has a clear focus: to systematically plan and foster young talent, develop leaders, make processes leaner and invest the training budget effectively.

Training activities

Hauck & Aufhäuser believes that a high-quality and constant level of training of its employees creates added value. It is the Bank's stated aim to retain its employees long term.

Hauck & Aufhäuser Privatbankiers AG offers its employees interesting opportunities for gaining professional in-service qualifications ranging from banking

diplomas to bachelor's and master's degrees. Through links to the Frankfurt School of Finance & Management, staff can also access a large range of seminars relating to professional and personal development.

As a result, employees attended numerous external seminars again in 2018. The events cover the following topics:

- ◆ Events on sharing experiences and conferences on specialist subjects
- ◆ Seminars on new statutory requirements
- ◆ Personal development seminars

Personnel management is also a high priority for Hauck & Aufhäuser Privatbankiers AG. Motivated, qualified, competent and satisfied employees are extremely important for a customer-oriented service company. It is therefore in the Bank's interest to invest in and systematize the training and development of our leaders. In addition to the individual professional and personal training open to all employees, executives receive advance preparation for their new roles in external seminars and support in the fulfillment of their responsibilities in needs-based training and coaching programs.

With a view to the years ahead, a long-term talent management program for employee retention, motivation and development was initiated in 2018. The program focuses on the development of employees to take on leadership roles or to pursue careers as subject matter experts or project managers. Its priority is therefore the enhancement of interdisciplinary competencies.

Work-life balance

To facilitate a work-life balance, the Bank goes to great lengths to offer employees various roles during parental leave in order to ease the transition back to the

demands of professional life at a later date. Flexible working time models and an employer/employee council agreement on working from home are also helpful in this context.

Diversity, remuneration and working time models

See the remuneration report for more information on diversity and equal opportunities as well as remuneration and working time models at Hauck & Aufhäuser Privatbankiers AG.

Health management

The Bank currently uses the internal medical service to carry out regular mandatory workstation health examinations (G37). Since much of the workday is spent in front of a computer monitor, it is important to choose the correct visual aid (where required) for the workstation. The Bank has therefore revised its policy on subsidies for glasses for computer workers. The new policy ensures that all employees receive a suitable pair of glasses if required.

In the fiscal year, the Bank again provided funding for employees taking part in joint sporting events. Numerous runners from Hauck & Aufhäuser Privatbankiers AG got active and showed team spirit while competing in the annual Frankfurt JP Morgan Corporate Challenge race. An increasing number of employees are also taking advantage of the Bank's cooperation with a provider of back strength training operating in many regions and a Germany-wide gym. An annual health day is also held with a focus on dealing with stress and spinal health.

The Bank plans to further expand its health management program in fiscal year 2019.

WELFARE AND SOCIAL COMMITMENT

Hauck & Aufhäuser is involved in numerous cultural and welfare projects. Its non-profit activities are handled by the Hauck & Aufhäuser Kulturstiftung (HAKS), which was established in 2008.

In 2018, the focus was on promoting educational projects and cultural commitment. As a strong partner in the German foundation landscape, HAKS also sponsored the German Foundation Congress in Nuremberg in 2018.

Cultural projects

In 2018, we supported the Frankfurt Civic Trust in the Holzhausenschlösschen (Little Holzhausen Palace) for the first time, an organization that promotes and organizes over 300 cultural events each year (concerts, lectures, readings, exhibitions, children's activities). The trust used our funding for a young wind ensemble that performed during the official opening of the 2018 Advent calendar.

Educational projects

As in the prior year, we supported the project Jugend Aktiv e. V. in Düsseldorf that helps young people in the choice of their career paths. Experienced managers and employees devote their time to this association, sharing their knowledge of industries, professions and social trends with school students in coaching sessions and seminars. The training program significantly improves the soft skills of the young participants as well as their grasp of social values and standards.

For the first time this fiscal year, we supported the Norbert Janssen Foundation in Munich that provides assistance to young people in their further education by awarding scholarships and providing financial assistance to purchase equipment and materials in the area of the arts.

We also sponsored the Values Foundation (Werte-Stiftung) again in 2018 that promotes an understanding of values in the digital age.

Welfare projects

HAKS continues to support the charity Arche e.V. in Frankfurt which is devoted to improving education and opportunities for children.

Hauck & Aufhäuser employees also work for good causes outside of HAKS. For many years, the Bank has made donations to non-profit organizations at its Christmas part instead of giving gifts to clients and staff. In 2018, the focus was on donations to local organizations that are dedicated to improving the future prospects of disadvantaged children and young people. In addition, Hauck & Aufhäuser Privatbankiers AG also encouraged its employees to participate in the Malteser Social Day Frankfurt, a working day spent on non-profit activities, and in the J.P. Morgan Corporate Challenge. A large percentage of the entry fee for the race goes to help young people with disabilities.

REMUNERATION REPORT

Hauck & Aufhäuser Privatbankiers AG is not a listed stock corporation in accordance with Sec. 3 (2) AktG and therefore only provides information about the basic elements of its remuneration system in the management report. Information on the total remuneration paid to the executive and supervisory bodies is provided in the notes.

The requirements of the InstitutsVergV [“Institutsvergütungsverordnung”: German Ordinance Regarding the Supervisory Requirements for Remuneration Systems of Institutions] are applied; the disclosures required under Sec. 16 InstitutsVergV are detailed in the disclosure report, part II, Disclosure in accordance with the InstitutsVergV, which can be downloaded in pdf format from <https://www.hauck-aufhaeuser.com/newsroom/newsroom>.

REMUNERATION POLICY

The remuneration systems for the employees and the Bank’s Management Board members are aligned with the sustainable and value-based orientation of the business model and are designed to avoid incentives to take excessively high risks for the Management Board and employees and to reward good performance and lasting commitment by employees.

Our remuneration policy is derived from our business policy and is likewise intended to foster a sustainable and value-oriented culture and an entrepreneurial spirit among our employees. It is, therefore, aligned with the principles of transparency and basic income security and is dependent on performance and earnings.

PRINCIPLE OF TRANSPARENCY

Target remuneration at the Bank comprises two remuneration components: a monthly basic salary and a variable remuneration component. Basic salaries depend on the employees’ role and pay group for collective bargaining employees or remuneration for non-collective bargaining employees. Variable remuneration

for collective bargaining employees depends on the business performance. Variable remuneration for non-collective bargaining employees is determined by reference to a contractually agreed benchmark. In a small number of cases, departing from this principle the system of entirely discretionary pay is being continued.

PRINCIPLE OF BASIC INCOME SECURITY

The monthly fixed salary covers the employees’ basic needs. Applying the collective agreement for the private banking industry and the principles of non-collectively bargained remuneration, salaries provide a sound level of basic income security for the employees’ standard of living. Non-collective bargaining employees receive 12 salaries, collective bargaining employees receive 13 salaries each year.

On top of this amount, variable remuneration may be paid, its amount depending on the employer/employee council agreement currently in place. Variable remuneration may not exceed the fixed salary.

The ratio of variable to fixed remuneration for non-collective bargaining employees is thus performance-based, but does not induce increased employee dependence on variable remuneration. The ratio is usually clearly weighted toward fixed remuneration components.

PRINCIPLE OF DEPENDENCE ON PERFORMANCE AND EARNINGS

For non-collective bargaining employees, according to the employer/employee council agreement the variable remuneration is a voluntary annual one-time payment. Its amount depends on the employee’s personal performance and the Bank’s business performance.

The performance component is based on the personal performance of the individual employees, defined in terms of fulfillment of duties and target achievement, where targets were agreed.

The earnings component reflects the earnings of the entire Bank and is intended to motivate employees to not only fulfill their duties and achieve their targets, but also to train their sights on the success of the Bank as a whole and not to take any excessive risks. It allows employees to participate in the business performance and limits payment of performance-based variable remuneration in difficult times.

REMUNERATION INSTRUMENTS

Remuneration under the collective agreement of the private banking industry

The Bank is a member of the employers' association for the banking industry and applies the collective agreement of the private banking industry. The parties to the collective agreement in the banking industry have examined the clauses of the agreement and ascertained that the remuneration instruments meet the highest standards currently being discussed on an international and national level. The basic salaries of collective bargaining employees are regularly adjusted in collective bargaining agreement negotiations.

Performance-based remuneration for non-collective bargaining employees

The remuneration system, comprising a fixed salary and performance-based variable remuneration, was developed in cooperation between the Management Board, the employee council and the Human Resources department.

The Management Board and the Human Resources department have examined the employer/employee council agreements and their implementation in practice by reference to the criteria of the MaRisk and the InstitutsVergV and ascertained that the employer/employee council agreements concerning remuneration ("Principles of remuneration for non-collective bargaining employees" and "Performance-based remuneration for non-collective bargaining employees") already meet the requirements in an exemplary fashion.

ANNUAL REVIEW OF ADEQUACY

Hauck & Aufhäuser Privatbankiers AG has also established an overarching committee staffed by representatives from the Risk Controlling, Compliance, Internal Audit and Human Resources departments which acts as a forum for formally reviewing and assessing the Bank's remuneration system. This review and assessment is intended to promote consistency between the variable remuneration agreements, the stability and solidity of the Bank and the alignment of these agreements with the relevant regulatory recommendations and requirements.

CONCLUDING STATEMENT OF THE DEPENDENT COMPANY REPORT

Sec. 311 AktG ["Aktiengesetz": German Stock Corporation Act] prohibits disadvantageous treatment of stock corporations (AG) or partnerships limited by shares (KGaA) which are dependent and which have neither concluded a domination or profit or loss transfer agreement nor have been integrated (de facto group relationship). The Management Board must prepare a report on relationships with affiliates (dependent company report) within three months of the end of the fiscal year.

Hauck & Aufhäuser AG is a dependent credit institution, as defined by Sec. 312 AktG, of Fosun International Holding, Hong Kong. The report was prepared and concludes with the following statement:

The Management Board declares that, based on the circumstances known at the time when the specified legal transactions or actions were carried out, Hauck & Aufhäuser received appropriate consideration overall for the entirety of the legal transactions. No acts were undertaken or omitted to the detriment of Hauck & Aufhäuser in the interests or at the instigation of the controlling company Fosun or its affiliates.



INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

				2018	2017
				EUR	EUR k
Interest income from					
a) Lending and money market business	15,625,768.18				10,266
less negative interest from money market business	-8,163,467.74				-4,726
		7,462,300.44			5,540
b) Fixed-income securities and government-inscribed debt			9,774,869.86		5,576
			17,237,170.30		11,116
Interest expenses					
Interest expenses from banking business			-9,721,172.37		-3,464
less positive income from banking business			13,902,837.25		6,606
			4,181,664.88		3,142
				21,418,835.18	14,258
Current income from					
a) Shares and other variable-yield securities			148,410.55		759
b) Equity investments			0.00		28
c) Shares in affiliates			1,390,737.78		3,604
				1,539,148.33	4,391
Commission income			109,571,432.89		106,674
Commission expenses			-14,439,169.87		-12,454
				95,132,263.02	94,220
Net income or net expense from trading book positions				1,228,050.62	4,609
Other operating income				23,374,337.35	11,440
General and administrative expenses					
a) Personnel expenses					
aa) wages and salaries			-64,449,767.79		-61,986
ab) social security, pension and other benefit costs			-8,762,155.26		-9,257
thereof: for old-age pensions	-1,703,294.69				-1,947
			-73,211,923.05		-71,243
b) Other administrative expenses			-48,143,179.30		-39,435
				-121,355,102.35	-110,678
Amortization, depreciation and impairment of intangible assets and property and equipment				-5,481,460.49	-4,736
Other operating expenses				-967,876.19	-4,881
Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses				-2,958,509.19	-335
Income from write-ups of equity investments, shares in affiliates and securities classified as fixed assets				0.00	54,679
Write-downs of equity investments, shares in affiliates and securities classified as fixed assets				-97,558.47	0
Allocation to the fund for general banking risks				0.00	-54,400
Expenses from loss absorption				-1,392,148.81	-843
Result from ordinary activities				10,439,979.00	7,724
Income taxes			-5,952,180.81		-2,825
Other taxes not shown under "Other operating expenses"			-546,264.48		-108
				-6,498,445.29	-2,933
Net income (+)/net loss for the year (-)				3,941,533.71	4,791
Profit carryforward from the prior year				0.00	0
Net retained profit				3,941,533.71	4,791

BALANCE SHEET AS OF 31 DECEMBER 2018

ASSETS			2018	2017
		EUR	EUR	EUR k
1. Cash reserve				
a) Cash on hand		77,106.34		185
b) Balances at central banks		2,369,722,996.46		1,873,604
thereof at Deutsche Bundesbank EUR 2,349,500,160.11				(1,859,642)
			2,369,800,102.80	1,873,789
2. Loans and advances to banks				
a) Payable on demand		205,173,938.21		106,108
b) Other loans and advances		15,515,393.58		15,567
			220,689,331.79	121,675
3. Loans and advances to customers			398,485,544.24	390,758
thereof: public-sector loans EUR 30,987,866.21				(25,878)
4. Debt securities and other fixed-income securities				
a) Money market securities				
aa) issued by the public sector		0.00		16,567
ab) issued by other borrowers	45,013,577.40	45,013,577.40		75,003
b) Bonds and debt securities				
ba) issued by the public sector	857,308,407.41			394,194
thereof eligible as collateral with Deutsche Bundesbank EUR 524,902,854.98				(344,388)
bb) issued by other borrowers	1,151,936,890.42	2,009,245,297.83		997,262
thereof eligible as collateral with Deutsche Bundesbank EUR 1,018,182,617.73				(870,145)
			2,054,258,875.23	1,483,026
5. Shares and other variable-yield securities			295,198,231.45	165,220
5a. Trading book positions			1,604,853.05	1,101
6. Equity investments			294,216.79	294
7. Shares in affiliates			92,149,339.44	89,027
thereof: in banks EUR 72,125,000.00				71,000
thereof: in financial services institutions EUR 3,004,097.18				(1,032)
8. Trust assets			50,603,493.45	181,105
thereof: trust loans				(45,000)
9. Intangible assets				
a) Purchased franchises, industrial and similar rights and assets		7,366,509.85		6,012
b) Goodwill		6,674,951.66		8,304
c) Prepayments		451,226.58		440
			14,492,688.09	14,756
10. Property and equipment			13,470,713.40	11,759
11. Other assets			204,499,659.28	212,617
12. Prepaid expenses			8,454,051.76	7,922
13. Deferred tax assets			9,220,697.40	11,043
14. Excess of covering assets over pension and similar obligations			1,013,502.14	639
Total assets			5,734,235,300.31	4,564,731

BALANCE SHEET AS OF 31 DECEMBER 2018

LIABILITIES AND EQUITY

			2018	2017
		EUR	EUR	EUR k
1. Liabilities to banks				
a) Payable on demand		198,355,706.55		196,478
b) With an agreed term or period of notice		86,550,077.56		110,184
			284,905,784.11	306,662
2. Liabilities to customers				
a) Savings deposits				
aa) with an agreed period of notice of three months	614,870.79			571
ab) with an agreed period of notice of more than three months	23,558.14	638,428.93		42
b) Other liabilities				
ba) payable on demand	4,955,383,867.12			3,679,751
bb) with an agreed term or period of notice	56,685,326.36	5,012,069,193.48		72,277
			5,012,707,622.41	3,752,641
3. Securitized liabilities				
Debt securities issued			38,858.17	39
4. Trust liabilities			50,603,493.45	181,105
thereof: trust loans				(45,000)
5. Other liabilities			50,980,345.93	28,518
6. Deferred income			12,674,548.05	10,456
7. Provisions				
a) Provisions for pensions and similar obligations		15,163,133.00		15,213
b) Tax provisions		6,616,367.00		8,471
c) Other provisions		35,603,172.28		32,262
			57,382,672.28	55,946
9. Fund for general banking risks			64,206,000.00	64,569
10. Equity				
a) Subscribed capital		18,445,196.00		16,000
b) Capital reserves		85,885,025.73		56,331
c) Revenue reserves				
ca) legal reserve	1,600,000.00			
cb) other revenue reserves	90,864,220.47	92,464,220.47		87,673
d) Net retained profit +/-loss –		3,941,533.71		4,791
			200,735,975.91	164,795
Total liabilities and equity			5,734,235,300.31	4,564,731
1. Contingent liabilities				
Guarantees			3,247,212.13	3,959
2. Other obligations				
Irrevocable loan commitments			225,944,090.68	186,253



4

NOTES TO THE FINANCIAL
STATEMENTS

- General
- Subsequent events
- Notes to the income statement
- Notes to the balance sheet
- Other notes
- Shareholdings
- Responsibility statement
- Independent auditor's report
- Branch offices and representative offices

GENERAL

BASIS OF FINANCIAL REPORTING

Hauck & Aufhäuser Privatbankiers Aktiengesellschaft has its registered office in Frankfurt am Main. The Bank maintains branches in Luxembourg and the UK. In addition to these branches, the Bank is represented at locations in Frankfurt am Main, Munich, Hamburg, Düsseldorf, Cologne, Luxembourg, Zurich, Paris and London.

The Institution is entered in the commercial register of Frankfurt am Main Local Court under HRB no. 20065. 99.91% of Hauck & Aufhäuser is held by Bridge Fortune Investment S.à r.l., Luxembourg. Bridge Fortune is an indirect investment of Fosun International Ltd., Hong Kong, which is listed in Hong Kong.

Hauck & Aufhäuser itself is not listed, nor is it a capital market-oriented company within the meaning of Sec. 264d HGB [“Handelsgesetzbuch”: German Commercial Code].

The financial statements of the Bank for fiscal year 2018 were prepared in accordance with the provisions of the HGB, the KWG [“Kreditwesengesetz”: German Banking Act], the AktG [“Aktiengesetz”: German Stock Corporation Act] and the RechKredV [“Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute”: German Bank Accounting Directive]. In addition to the financial statements, which comprise the income statement, balance sheet and notes to the financial statements, a management report was prepared in accordance with Sec. 289 HGB.

Amounts are all stated in thousands of euros (EUR k), unless otherwise indicated. In individual cases, numbers may not add up to the exact total stated due to rounding.

ACCOUNTING POLICIES

The cash reserve is recognized at nominal value.

Loans and advances to banks and to customers are recognized at amortized cost. Specific bad debt allowances and provisions were recognized to sufficiently provide for all identifiable risks. Sufficient general bad debt allowances were recognized to cover potential risks.

Unless they are part of a hedge, securities held in the liquidity reserve are recognized at the lower of acquisition cost and fair value observing the provisions applicable to current assets and the strict lower of cost or market principle. Investment securities are valued according to the modified lower of cost or market principle, with the premiums and discounts related to the purchase of securities amortized to net interest income in the income statement over their remaining term.

Derivative financial instruments are used to hedge balance sheet items and are valued individually on the reporting date. The gains and losses within a hedge are offset against the gains and losses from other transactions to the extent permitted. Fluctuations in the value of hedged items caused by interest rates are accounted for in the income statement using the net method in accordance with the imparity principle.

To hedge against interest rate risk, we recognize micro hedges mainly in accordance with Sec. 254 HGB and IDW AcP HFA 35 to offset changes in the value of promissory note loans and other fixed-income securities. In addition, we also designate hedges for forward exchange contracts that are not used to hedge interest-bearing balance sheet items, but to hedge currency risk. For both groups, offsetting changes in value are hedged over the entire term.

Equity investments and shares in affiliates are recognized at amortized cost in accordance with the provisions for fixed assets set out in Sec. 340e HGB in conjunction with Sec. 253 (3) HGB. Impairment losses are recognized in the event of expected permanent impairment. If the reasons for impairment no longer exist, impairment losses are reversed up to a maximum of the acquisition cost.

Repurchase agreements are presented according to the provisions of Sec. 340b HGB. Due to the beneficial ownership of Hauck & Aufhäuser AG, securities lent in securities lending transactions continue to be recognized, while borrowed securities are not reported in the balance sheet.

Intangible assets and property and equipment are stated at acquisition or production cost less amortization and depreciation if they have a limited life. The underlying useful lives and amortization and depreciation rates are based on the general amortization and depreciation table published by the tax authorities. Goodwill recognized under intangible assets is amortized over a period of 5 to 10 years. In the event of permanent impairment, an impairment loss is recognized. Assets costing between EUR 150 and EUR 1,000 not including VAT were collated in a collective item and were depreciated by 20% in the first fiscal year and in each of the four following fiscal years (pooled depreciation). Low-value assets costing less than EUR 150 not including VAT are fully expensed in the year of acquisition.

Prepaid expenses comprise charges deferred in the fiscal year for coming fiscal years.

Liabilities are recorded at the settlement value. Differences between the amount repayable and the amount disbursed are recognized as prepaid expenses or deferred income and amortized pro rata temporis.

Pension provisions are calculated by independent actuaries once a year in accordance with the projected unit credit method. The inputs for the calculation are described in the note on provisions.

The covering assets to secure pensions obligations are measured at fair value and offset against the corresponding provisions in accordance with Sec. 246 (2) Sentence 2 HGB. Phased retirement obligations are offset against the covering assets in the amount of deferred performance in accordance with IDW AcP HFA 3. Any excess remaining after offsetting covering assets against the related provisions for pensions and phased retirement is recognized in the item "Excess of covering assets over pension and similar obligations." The amount to be allocated to the provisions for pensions in accordance with Art. 67 (1) EGHGB ["Einführungsgesetz zum Handelsgesetzbuch": Introductory Law of the German Commercial Code] will be allocated no later than 31 December 2024.

Provisions for taxes and other provisions are recognized at the settlement value deemed necessary according to prudent business judgment; provisions with a remaining life of more than one year are carried at their present value. The discount rates used correspond to the interest rates for the respective remaining life of the provisions, as published by Deutsche Bundesbank for December 2018. The expense from the unwinding of the discount on provisions is stated under interest expenses. Provisions for potential losses from pending transactions were recognized in the statutory balance sheet.

All interest rate transactions outside the trading book were valued at net realizable value in accordance with IDW AcP BFA 3. We used the present value approach to determine the net realizable value of the banking book. In doing so, we compared the calculated present value of the cash flows from the relevant financial instruments, discounted as of the reporting date, with the book value of the instruments. The risk and administrative expenses which are expected to be incurred were factored in as an adjustment to the (gross) present value determined without these components. The valuation consistently arrived at an excess of assets over liabilities and thus identified no need to recognize a provision for potential losses.

Deferred taxes are recognized for all temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory financial statements and their tax base. Deferred taxes are measured at company-specific tax rates that apply on the reporting date or have been substantially enacted and are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the temporary difference can be offset. When calculating deferred tax assets, tax loss carryforwards and interest carryforwards are taken into account in the amount of the tax losses and interest expenses expected to be offset in the next five years.

Exercising the option in Sec. 274 HGB, deferred tax liabilities are not recognized if there is an excess of deferred tax assets.

Contingent liabilities are reported at nominal value less the recognized provisions.

Negative interest from loans and advances is stated under interest income; negative interest from liabilities is stated under interest expenses.

FOREIGN CURRENCY TRANSLATION

Foreign currency translation is performed in accordance with the provisions of Sec. 256a HGB in conjunction with Sec. 340h HGB. Assets and liabilities denominated in foreign currency are translated at the ECB reference rate as of the reporting date, forward exchange transactions are translated at the forward rate. Expenses and income are recognized in the income statement at the exchange rate as of the respective date. The Bank splits the forward rate (into the spot rate and swap rate) when valuing forward exchange transactions used to hedge interest-bearing balance sheet items and recognizes the agreed swap rates pro rata temporis. Due to their special coverage, gains and losses from foreign currency translation are recognized in the income statement in accordance with Sec. 340h HGB.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies compared to the prior year other than the matters described in the following section.

ADJUSTMENTS

In the reporting year, we changed the method of calculating the general bad debt allowances from the tax method to the statistical method.

We thoroughly revised the presentation of the notes to the financial statements and the management report compared with the prior year to improve comparability within the industry. Essentially, we reduced the length of the report and presented the income statement in the vertical format customary in the industry.

SUBSEQUENT EVENTS

No significant events have occurred since the close of fiscal year 2018.

NOTES TO THE INCOME STATEMENT

INCOME BY GEOGRAPHICAL MARKET

The total amount comprises the following income statement items:

Interest income, current income from shares and other variable-yield securities, equity investments, shares in affiliates, commission income, net income from trading book positions and other operating income.

EUR k	2018			2017
	Germany	Luxembourg	Total	Total
Total income	115,868	37,082	152,950	138,229

OTHER OPERATING RESULT

In the reporting year, other operating income of EUR 23,374k (prior year: EUR 11,440k) was mainly income from affiliates, income from foreign exchange business and miscellaneous operating income.

Other operating expenses of EUR 968k (prior year: EUR 4,881k) mainly comprise allocations to other provisions.

AUDITOR'S FEES

The fees for audit services cover the audit of the annual financial statements of Hauck & Aufhäuser AG. Fees for audit-related services mainly entail fees for legally prescribed, contractually agreed or voluntarily commissioned audit and audit-related services. These include audits pursuant to Sec. 89 (1) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The fees for other services mainly comprise fees for project-related advisory services. The amount of the auditor's fees is disclosed in the consolidated financial statements in accordance with Sec. 285 No. 17 HGB.

SERVICES TO THIRD PARTIES

Services provided to third parties mainly included custody account management, asset management, management of trust loans, processing payment transactions and securities brokerage business.

NOTES TO THE BALANCE SHEET

BREAKDOWN OF LOANS AND ADVANCES AND LIABILITIES BY RESIDUAL MATURITY

EUR k	Loans and advances to banks		Loans and advances to customers	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	With an indefinite term	0	0	116,727
Due in				
Up to three months	515	567	140,050	149,593
More than three months and up to one year	5,000	0	84,331	70,408
More than one year and up to five years	10,000	15,000	37,378	53,404
More than five years	0	0	20,000	20,000
Total	15,515	15,567	398,486	390,758

EUR k	Liabilities to banks		Liabilities to customers		Savings deposits	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Due in						
Up to three months	26,593	50,664	25,880	30,935	615	571
More than three months and up to one year	1,937	1,500	21,805	27,735	10	28
More than one year and up to five years	58,020	58,020	9,000	13,608	14	14
More than five years	0	0	0	0	0	0
Total	86,550	110,184	56,685	72,278	639	613

RELATIONSHIPS WITH AFFILIATES AND INVESTEEES

The following table shows loans and advances and liabilities to other investees and investors and affiliates:

EUR k	in relation to investees		in relation to affiliates	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans and advances to banks	0	0	0	16
Loans and advances to customers	185	146	0	0
Other assets	0	0	4,343	3,650
Total	185	146	4,343	3,666
Liabilities to banks	0	0	0	104,628
Liabilities to customers	82	68	48,364	16,468
Other liabilities	0	0	3,938	1,986
Total	82	68	52,302	123,082

SECURITIES

As of 31 December 2018, marketable securities break down as follows:

EUR k	Listed		Non-listed	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Debt securities and other fixed-income securities	1,794,224	1,299,581	260,035
Shares and other variable-yield securities	402	352	0	1
Total	1,794,626	1,299,933	260,035	183,446

EUR 338,421k of the debt securities and other fixed-income securities of EUR 2,054,259k (prior year: EUR 1,483,026k) mature in fiscal year 2019.

Impairment losses of EUR 3,490k (prior year: EUR 1,570k) were not recognized for debt securities and other fixed-income securities, applying the modified lower of cost or market principle in accordance with Sec. 253 (3) Sentence 5 HGB, because the impairment is temporary. There were no further impairment losses that were not recognized in the reporting year.

TRADING BOOK POSITIONS

In the reporting year, the criteria for the allocation of financial instruments to the trading book were the same as in the prior year.

Net income from trading book positions of EUR 363k (prior year: EUR 33k) was released from the fund for general banking risks (Sec. 340e HGB).

In the reporting year, no securities were transferred from the trading book to the investment portfolio.

EUR k

	2018	2017
Shares and other variable-yield securities	1,620	1,105
Value-at-risk discount	-15	-4
Total	1,605	1,101

HEDGE ACCOUNTING

Hedge effectiveness is demonstrated using retrospective and prospective regression analysis. If fewer than seven observation dates are available retrospectively, effectiveness is tested using the dollar offset method.

The book values of balance sheet assets hedged against interest rate risks amounted to EUR 1,058,568k (prior year: EUR 775,661k). The accumulated change in value of the hedged risk came to EUR 33,094k (prior year: EUR 28,392k). As in the prior year, the hedges had an average residual term of six years.

The hedged risk of forward exchange transactions included in hedges amounted to EUR 68,974k at the end of the year (prior year: EUR 55,817k). As in the prior year, the hedges had an average residual term of three months.

TRUST BUSINESS

TRUST ASSETS

EUR k	2018	2017
Loans and advances to banks	50,603	181,105
thereof trust loans	0	45,000

TRUST LIABILITIES TO

EUR k	2018	2017
Customers	50,603	181,105
thereof trust loans	0	45,000

STATEMENT OF CHANGES IN FIXED ASSETS

EUR k	Intangible assets	Property and equipment	Investment portfolio securities	Equity investments	Shares in affiliates
Residual book values 1 Jan 2018	14,757	11,759	1,380,980	294	89,027
Acquisition or production cost 1 Jan 2018	33,084	29,597	1,380,980	344	90,627
Additions	3,536	3,427	557,400	0	4,154
Disposals	57	472	-94,547	0	2,632
Reclassifications		0	0	0	0
Exchange rate changes		0	4,957	0	0
Acquisition or production cost 31 Dec 2018	36,563	32,552	1,848,790	344	92,149
Accumulated amortization, depreciation and impairment 1 Jan 2018	18,328	17,838	0	50	1,600
Amortization, depreciation and impairment in the fiscal year	3,743	1,243	0	0	-1,600
Additions	3,774	1,708	0	0	0
Disposals	30	465	0	0	1,600
Reclassifications	0	0	0	0	0
Exchange rate changes	0	0	0	0	0
Accumulated amortization, depreciation and impairment 31 Dec 2018	22,072	19,081	0	50	0
Write-ups	0	0	0	0	0
Residual book values 31 Dec 2018	14,491	13,471	1,848,790	294	92,149

Land and buildings with a total book value of EUR 7,512k (prior year: EUR 7,764k) are exclusively owner-occupied. Furniture, fixtures and office equipment included in fixed assets amounted to EUR 5,959k (prior year: EUR 3,994k).

OTHER ASSETS

Other assets came to EUR 204,500k (prior year: EUR 212,617k). In net terms, the decline is due to the decrease in receivables from subsidiaries and the increase in receivables from cash collaterals, receivables from tax offices and other receivables from custody operations.

PREPAID EXPENSES

EUR k	31 Dec 2018	31 Dec 2017
Prepaid expenses	8,454	7,922
thereof upfront payments and premiums	4,712	4,347
thereof positive differences	172	2,291
thereof other prepaid expenses	3,570	1,284

FOREIGN CURRENCY ASSETS AND LIABILITIES

As of the reporting date, foreign currency assets stood at EUR 706,176k (prior year: EUR 352,350k) and foreign currency liabilities at EUR 1,146,635k (prior year: EUR 769,015k).

OTHER LIABILITIES

As in the prior year, other liabilities of EUR 50,980k (prior year: EUR 28,518k) related mainly to liabilities from collateral furnished, taxes payable, premiums from derivative transactions and other liabilities from the fund business.

PROVISIONS

EUR k	Opening balance	Additions	Reclassification ¹	Unwinding of discounts	Utilization	Reversal	Allocation	Closing balance	Closing balance
	1 Jan 2018	2018	2018	2018	2018	2018	2018	31 Dec 2018	31 Dec 2017
Provisions for pensions and similar obligations	15,213	0	-463	627	-489	-179	453	15,162	15,213
Tax provisions	8,471	0	0	0	-3,932	-77	2,155	6,617	8,471
Other provisions	32,262	0	0	0	-13,744	-8,656	25,741	35,603	32,262
	55,946	0	-463	627	-18,165	-8,912	28,349	57,382	55,946

¹ Contains currency translation differences and consolidation items

Other provisions mainly comprise personnel provisions and provisions for litigation and recourse risks. The personnel provisions relate to restructuring, phased retirement and early retirement.

In addition to pension obligations, there were obligations for phased retirement agreements. In the reporting period, the phased retirement provision was offset against the covering assets from individual employer's pension liability insurance policies. The excess of EUR 1,014k (prior year: EUR 639k) was reported separately as an excess of covering assets over pension and similar obligations.

Provisions for pensions and similar obligations are determined on the basis of actuarial principles taking into account biometric probabilities (Heubeck 2018G mortality tables) in accordance with the "Teilwertverfahren," a method similar to the entry age method.

The pension provisions recognized include flat-rate pension commitments. Pension increases are currently taken into account by an annual adjustment of 2.00%. Salary and wage increases and turnover were not taken into account. The interest rate underlying the discounting of pension obligations is 3.29%; we made use of the option of discounting at the average market rate calculated and published by Deutsche Bundesbank for an assumed residual term of 10 years. The interest rate used for discounting is based on the interest rate published by the Bundesbank on 31 October 2018 and rolled forward to the reporting date.

The difference under Sec. 253 (6) Sentence 1 HGB in the amount of provisions recognized using the average market interest rate for the last 10 fiscal years and the amount of provisions recognized using the average market interest rate for the last 7 fiscal years was calculated for the fiscal year and may not be distributed; it amounted to EUR 1,036k as of the reporting date (prior year: EUR 1,002k).

FUND FOR GENERAL BANKING RISKS

In the Bank, the fund for general banking risks decreased from EUR 363k to EUR 64,206k (prior year: EUR 64,569k).

EQUITY

Composition of equity and liabilities

EUR k	31 Dec 2018	31 Dec 2017
Subscribed capital	18,445	16,000
Capital reserves	85,885	56,331
Legal reserves	1,600	0
Other revenue reserves	90,864	87,673
Net retained profit (+)/accumulated loss (-)	3,942	4,791
Book equity	200,736	164,795

Subscribed capital

The Bank's subscribed capital (capital stock) was stated at nominal value.

The Bank's capital stock of EUR 18,445k (prior year: EUR 16,000k) comprised 354,715 (prior year: 307,692) no-par value bearer shares with a notional value of EUR 52.00 each.

A capital increase of EUR 32,000k was carried out in the reporting period, of which EUR 2,445k relates to subscribed capital.

Authorized capital

The Management Board is authorized, with the approval of the Supervisory Board, to increase the capital stock by up to EUR 3,200,000.00 by issuing on one or more occasions on or before 27 May 2020 no-par value registered voting common shares in return for cash contributions (Authorized Capital I).

Due to the partial exercise in connection with the capital increase of EUR 2,445,196, Authorized Capital I amounted to EUR 754,804 as of the reporting date.

The Management Board is also authorized, with the approval of the Supervisory, to specify the further terms of capital increases from authorized capital. The subscription right is not excluded.

Capital reserves

The Bank's capital reserves increased by EUR 29,554k to EUR 85,885k as a result of the capital increase (prior year: EUR 56,331k).

Revenue reserves

On the basis of a resolution adopted by the Annual General Meeting on 6 June 2018, the legal reserves increased to EUR 1,600k in the reporting period (prior year: EUR 0k).

Due to the retention of profits from the prior year, other revenue reserves increased by EUR 3,191k to EUR 90,864k (prior year: EUR 87,673k).

At the ordinary Annual General Meeting on 5 June 2019, shareholders will be presented with the proposal for a resolution to allocate net retained profit for 2018 to the revenue reserves.

OTHER NOTES

CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

The liabilities from guarantees of EUR 3,247k (prior year: EUR 3,959k) mainly relate to the customer banking business, which generates commission income. The Bank's risk relates to being held liable for claims under the contractual obligations as a result of the credit deterioration of the obligor. Provisions are recognized to account for this credit risk. Risks relating to being held liable for claims under contingent liabilities are assessed on the basis of the parameters of credit risk management.

Irrevocable loan commitments are part of Hauck & Aufhäuser AG's lending business and are reported below the line. As of the reporting date, there were irrevocable loan commitments and contribution obligations from equity investments of EUR 225,944k (prior year: EUR 186,253k).

Risks can arise from the deterioration in the customer's creditworthiness for which a corresponding provision is recognized in the balance sheet.

FORWARD TRANSACTIONS

EUR k	Residual/original maturity			Total	Fair values		
	<= 1 year	> 1-5 years	> 5 years		Positive	Negative	Net
Forward interest rate transactions (by residual maturity)							
OTC products							
Interest rate swaps	70,623	557,336	865,830	1,493,789	33,905	84,033	-50,128
Swaptions	4,570	13,552	0	18,122	1,441	1,441	0
CAP	400	0	0	400	0	0	0
Forward transactions in foreign currencies (by residual maturity)							
OTC products							
Forward exchange contracts	8,263,623	293	0	8,263,916	72,476	69,803	2,673
Currency options	65,845	0	0	65,845	509	507	2
Interest rate/currency swaps	0	0	0	0	0	0	0
Total	8,045,061	571,181	865,830	9,842,072	108,331	155,784	-47,453

OTHER FINANCIAL OBLIGATIONS

There were payment obligations relating to lease agreements for our offices.

The Bank has a proportionate contingent liability to make further contributions should other banks belonging to the Bundesverband deutscher Banken e.V. [Federal Association of German Banks, Cologne], fail to meet their obligation to make further contributions.

SECURITIES LENDING AND BORROWING TRANSACTIONS

The Bank enters into securities lending and borrowing transactions in order to improve liquidity management. While borrowed securities are not recognized in the balance sheet, loaned securities remain in the balance sheet. These transactions give rise to settlement risk, i.e., the risk of an unexpected loss of value during the settlement period between performance and receipt of consideration. As of the reporting date, the Bank had loaned securities with a book value of EUR 500,114k (nominal value of EUR 497,677k). In the prior year, no securities had been loaned at year-end.

EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES (HEADS)

	2018			2017		
	Female	Male	Total	Female	Male	Total
Part-time employees	71	12	82	57	11	68
Full-time employees	123	304	428	124	318	442
Total	194	316	510	181	329	510

REMUNERATION AND LOANS AND ADVANCES
TO THE GOVERNING BODIES

The remuneration paid to Supervisory Board members came to EUR 128k (prior year: EUR 107k), EUR 4k (prior year: EUR 23k) was paid to members of the Shareholder Committee.

Total remuneration paid to former general partners and their surviving dependents was EUR 91k (prior year: EUR 138k).

Pension provisions of EUR 804k (prior year: EUR 977k) were recognized for pension claims of the former general partners and their surviving dependents.

LOANS AND ADVANCES TO THE
PARENT COMPANY'S GOVERNING BODIES

As in the prior year, as of the reporting date no loans or advances had been granted to members of the Management Board or Supervisory Board.

MEMBERS OF SENIOR MANAGEMENT

- ◆ Michael Bentlage, Chairman of the Management Board
- ◆ Dr. Holger Sepp, member of the Management Board (since 1 February 2019)
- ◆ Wolfgang Strobel, member of the Management Board

MEMBERS OF THE SUPERVISORY BOARD

- ◆ Wolfgang Deml, Chairman of the Supervisory Board, Rottach-Egern
- ◆ Qiang Liu, Deputy Chairman of the Supervisory Board, Managing Director Fosun Group, Shanghai, China
- ◆ Dr. Thomas Duhnkrack, member of the Supervisory Board, businessman, Kronberg im Taunus
- ◆ Siegfried Klink, member of the Supervisory Board, employee representative, Hetzerath
- ◆ Bin Tang, member of the Supervisory Board, Executive Director Fosun Group, Shanghai, China
- ◆ Thomas Theobald, member of the Supervisory Board, employee representative, Usingen

EXECUTIVE DIRECTORS AND OTHER PERSONS IN SUPERVISORY BODIES

Michael Bentlage was Chairman of the Supervisory Board of Hauck & Aufhäuser Fund Services S.A., Luxembourg, and member of the supervisory board of BVV Berlin in the reporting period.

Dr. Jian Liang and Robert Sprogies are members of the supervisory board of The Naga Group AG.

SHAREHOLDINGS

The following table shows the Bank's shareholdings.

Please refer to the footnotes for the date of the relevant entity's year-end figures and, if not fully consolidated, its inclusion in the basis of consolidation:

No.	Name und Sitz	Shares held by no.	Share in capital in %	Currency	Equity (EUR k)	Net income/net loss for the year (EUR k)	
1.	Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main		100	EUR	200,736	3,942	¹⁾
2.	Hauck & Aufhäuser Fund Platforms S.A., Luxembourg	1	100	EUR	109,923	1,815	¹⁾
3.	Hauck & Aufhäuser Fund Services S.A., Luxembourg	2	100	EUR	19,425	6,126	¹⁾
4.	Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg	3	100	EUR	2,787	2,515	¹⁾
5.	FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich	1	100	EUR	22,255	0	¹⁾
6.	Fosun Europe Innovation Hub GmbH, Berlin	1	100	EUR	25	–	^{1), 4)}
7.	DB PWM Private Markets I GP S.à r.l., Luxembourg	2	100	EUR	12	0	^{2), 4)}
8.	Hauck & Aufhäuser Verwaltungs GmbH, Munich	5	100	EUR	43	3	^{1), 4)}
9.	ZV Service GmbH, Munich	5	75	EUR	76	23	^{2), 4)}
10.	Fopex GmbH, Frankfurt	5	100	EUR	25	508	^{1), 4)}
11.	Projektentwicklungsg. Maybach 1 mbH & Co. KG, Memmingen	5	75	EUR	–644	–48	^{2), 4)}
12.	Projektentwicklungsg. Maybach 2 mbH & Co. KG, Memmingen	5	75	EUR	–492	–38	^{2), 4)}
13.	Projektentwicklungsg. Maybach 3 mbH & Co. KG, Memmingen	5	75	EUR	–492	–38	^{2), 4)}
14.	Projektentwicklungsg. Maybach 4 mbH & Co. KG, Memmingen	5	75	EUR	–342	–28	^{2), 4)}
15.	Projekt Maybach Beteiligungs GmbH, Memmingen	5	75	EUR	25	1	^{2), 4)}
16.	Medienlogistik Stuttgart Service GmbH, Stuttgart	5	51	EUR	159	2	^{2), 4)}
17.	Hauck & Aufhäuser Pension Trust GmbH, Frankfurt am Main	5	100	EUR	25	–8	^{1), 4)}
18.	HI-Management S.à r.l., Luxembourg	5	100	EUR	12	0	^{2), 4)}
19.	PERSEUS Capital S.à r.l., Luxembourg	5	100	EUR	12	0	^{1), 4)}
20.	Lending GP S.à r.l., Luxembourg	5	100	EUR	12	–	^{1), 4)}

¹ 2018 year-end figures

² 2017 year-end figures

³ 2016 year-end figures

⁴ Non-consolidated companies (Sec. 296 (2) HGB)

⁵ Non-consolidated companies (Sec. 311 (2) HGB)

No.	Name und Sitz	Shares held by no.	Share in capital in %	Currency	Equity (EUR k)	Net income/net loss for the year (EUR k)	
21.	H&A "Green Office, Hamburg Hafencity" GmbH & Co. KG, Hamburg	5	100	EUR	3,858	2,300	2), 4)
22.	H&A Global Investment Management GmbH, Frankfurt	1	100	EUR	4,140	1,141	1), 4)
23.	Hauck & Aufhäuser (Schweiz) AG	22	100	CHF	1,632	16	1), 4)
24.	Hauck & Aufhäuser Structured Finance GmbH, Munich	1	49	EUR	283	23	2), 5)
25.	FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, Munich	1	10	EUR	4,775	18	1)
26.	Swift Group, Hulpe, Belgium	1	0.0198	EUR	469,350	46,554	2)
27.	MS "Rike" Schiffahrtsgesellschaft mbH & Co. KG, Drochtersen	5	24	EUR	-631	-1,257	2)
28.	Spielbank Wicker Beteiligungs GmbH, Ahnatal	5	20	EUR	34	0	2)
29.	cloudCapital Structure GmbH, Hamburg	5	25	EUR	23	1	2), 5)
30.	Arbitrage Analytics AG, Zurich, Switzerland	5	20	CHF	-130	-53	2), 5)
31.	MS "Alina" Schiffahrtsgesellschaft mbH & Co. KG, Drochtersen	5	23	EUR	-1,444	-1,036	2)
32.	Easyfolio GmbH, Frankfurt am Main	5	49.99	EUR	732	-377	2), 5)
33.	Spielbank Bad Homburg Wicker & Co. KG, Bad Homburg	5	19	EUR	2,151	462	2), 5)
34.	Afinum Fünfte Beteiligungsgesellschaft mbH & Co. KG i.L., Munich	5	3	EUR	16,137	-822	2)
35.	AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG, Munich	5	1	EUR	130,807	6,802	2)
36.	Life Bond Fonds 2 GmbH & Co. KG i.L., Hohenschäftlarn	5	0.4067	EUR	548	4,926	2)
37.	H&A "Bezirksamt Nord, Hamburg" GmbH & Co. KG, Hamburg	5, 8, 1	12	EUR	-75	-5	2)
38.	H&A "München, Lamontstraße" GmbH & Co. KG, Munich	5, 1	12	EUR	3	-12	2)
39.	HANNOVER LEASING Sun Invest 2 Spanien GmbH & Co. KG, Pullach i. Isartal	5	1	EUR	7,327	12	3)
40.	HANNOVER LEASING Sun Invest 3 Italien GmbH & Co. KG, Pullach i. Isartal	5	4	EUR	6,475	-165	3)
41.	VCM VII European Mid-Market Buyout GmbH & Co. KG, Cologne	5	8	EUR	5,650	3,682	2)
42.	Interessengemeinschaft Frankfurter Kreditinstitute GmbH, Frankfurt am Main	5	8	EUR	24,619	8,937	2)
43.	VCM Initiatoren GmbH & Co. KG, Eichenried	5	8	EUR	340	71	3)
44.	VCM/BHF Initiatoren GmbH & Co. Beteiligungs KG, Eichenried	5	4	EUR	71	-10	3)
45.	VCM Partners GmbH & Co. KG, Eichenried	5	8	EUR	110	13	3)
46.	AC VI Initiatoren GmbH & Co. KG	5	8	EUR	26	-6	3)
47.	The Naga Group AG, Hamburg	5	4	EUR	22,245	-4,840	1)

¹ 2018 year-end figures² 2017 year-end figures³ 2016 year-end figures⁴ Non-consolidated companies (Sec. 296 (2) HGB)⁵ Non-consolidated companies (Sec. 311 (2) HGB)

RESPONSIBILITY STATEMENT

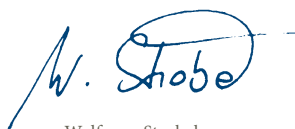
“To the best of our knowledge, we confirm that, in accordance with the applicable accounting framework, the financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution and that the management report gives a true and fair view of the development, performance and position of the Institution, and also describes the principal opportunities and risks relating to the expected future development of the Institution.”

Frankfurt am Main, 27 March 2019

The Management Board



Michael Bentlage



Wolfgang Strobel



Dr. Holger Sepp

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

OPINIONS

We have audited the annual financial statements of Hauck & Aufhäuser Privatbankiers AG, which comprise the balance sheet as at 31 December 2018, and the income statement for the fiscal year from 1 January 2018 to 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Hauck & Aufhäuser Privatbankiers AG for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the non-financial statement included in the "Combined non-financial report" section of the management report or the statement on corporate governance (quota for women on executive boards) included in the "Gender parity in leadership roles" and "Employees" sections of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- ◆ the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and

- ◆ the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance (quota for women on executive boards) or the non-financial statement referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. CALCULATION OF THE RISK PROVISIONS FOR COMMERCIAL REAL ESTATE FINANCING IN THE EVENT OF OBJECTIVE EVIDENCE OF IMPAIRMENT

Reasons why the matter was determined to be a key audit matter:

The valuation of the commercial real estate financing portfolios in the event of objective evidence of impairment and the estimate of the amount of any necessary risk provisions for such loans is a key area in which the executive directors use judgment. The identification of impaired loans and determination of an appropriate impairment loss entail uncertainties and involve various assumptions and factors, in particular the financial situation of the counterparty, expectations of future cash flows, observable market prices and expectations of net sales prices and from the realization of collateral. Minimal changes in the assumptions can lead to significantly differing valuations and thus to higher impairment losses.

As part of the audit, the calculation of the risk provisions for commercial real estate financing in the event of objective evidence of impairment was a key audit matter as this portfolio comprises a considerable portion of the entire customer

lending volume in the face of concurrent uncertainty concerning future market developments given the long loan terms. In light of these uncertainties, the use of judgment in estimating cash flows in various scenarios and probabilities of occurrence pertaining to the valuation of portfolios can significantly affect the amount of the provisions for loan losses.

AUDITOR'S RESPONSE:

As part of our audit, we assessed the processes aimed at monitoring the credit risk and the impairment calculation and used samples to test the controls implemented in the processes.

We also performed substantive procedures on a sample basis, assessing specific bad debt allowances in terms of necessity and adequacy in a test of details. We selected the sample with a view to risk, applying in particular criteria such as inclusion in watchlists for elevated risks of default, rating categories or specific bad debt allowances already in place.

We obtained an understanding of the significant assumption used in provisioning on the basis of risk-based samples. This included reviewing the estimates of the expected future cash flows from borrowers, including the potential cash flows from the realization of collateral, and estimates of the recoverability of payments in the event of default. We obtained an understanding of the methods used in terms of methodology and arithmetic. Since the Institution's default-prone commercial real estate financing relates almost exclusively to asset finance, we paid particular attention to the impairment of collateral. For our evaluation of the collateral, we relied in particular on external appraisals and used these in our audit. This also included assessing the independence and the methodology of the external experts used by the executive directors to value the collateral or to estimate future cash flows.

Our procedures did not lead to any reservations relating to the calculation of the risk provisions for commercial real estate financing in the event of objective evidence of impairment.

REFERENCE TO RELATED DISCLOSURES:

Commercial real estate financing is included in the balance sheet item loans and advances to customers. Information about risk provisions for loans is provided in the notes to the financial statements in the section entitled “1.2 Accounting policies” and in the “Risk report” section of the management report.

2. ADEQUACY OF PROVISIONS FOR LEGAL RISKS

Reasons why the matter was determined to be a key audit matter:

Due to its business activities the Bank is exposed to a range of legal risks. Third parties assert legal claims, often long after the underlying matters occurred, or risks arise as a result of changes in the interpretation of law. The measurement of provisions for legal risks is a key area in which the Management Board uses judgment which is subject to uncertainty. There are risks in the annual financial statements in relation to the completeness and the economic assessment of the matters concerned. We therefore identified the process for identifying legal risks and determining the value of the related provisions as a key audit matter.

AUDITOR’S RESPONSE:

We examined the process for identifying legal risks.

We also obtained confirmation letters from all of the Bank’s lawyers and assessments from the Legal department and inspected the minutes of the Management Board and Supervisory Board meetings.

We also assessed the legal risks identified by the Bank in terms of the need to recognize provisions. In so doing, we also satisfied ourselves that the provisions recognized in the past for proceedings that have since been concluded were adequate.

In connection with tax matters, we also appraised the work of external experts.

Our audit procedures in relation to the adequacy of the provisions for legal risks did not lead to any reservations.

REFERENCE TO RELATED DISCLOSURES:

The Institution’s information on the principles for the measurement of provisions is contained in section 1.2 Accounting policies under provisions for taxes and other provisions in the notes to the financial statements.

Other information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the non-financial statement included in the “Combined non-financial report” section of the management report and the statement on corporate governance (quota for women on executive boards) included in the “Gender parity in leadership roles” and “Employees” sections of the management report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- ◆ is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- ◆ otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial

statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
- ◆ Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- ◆ Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.

- ◆ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
- ◆ Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
- ◆ Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 6 June 2018. We were engaged by the Supervisory Board on 25 October 2018. We have been the auditor of Hauck & Aufhäuser Privatbankiers AG without interruption since fiscal year 2011.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Institution or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

- ◆ Audit of the regulatory reporting obligations and rules of conduct as well as the custody operations in accordance with Sec. 89 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] for the 2017/2018 audit period and audit pursuant to Sec. 68 (7) KAGB ["Kapitalanlagegesetzbuch": German Investment Code] of Hauck & Aufhäuser Privatbankiers AG for the period from 1 July 2017 to 30 June 2018

- ◆ Review in accordance with the review instructions of the group auditor pertaining to the reporting package of Hauck & Aufhäuser Privatbankiers AG as of 30 June 2018
- ◆ Audit of the fair valuation of the contribution in kind as part of the contribution of shares to Hauck & Aufhäuser (Schweiz) AG to Blitz F17-356 GmbH in exchange for the issuance of shares
- ◆ Audit of the report by H&A AG for the second series of targeted longer-term refinancing operations of the Eurosystem (TLTRO II) pursuant to Art. 7 (5) c) of Decision ECB/2016/10
- ◆ Professional statement on the supervisory treatment of the issuer risk in accordance with the CRR

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Mr. Werner Frey.

Stuttgart, 10 April 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Frey	Zhou
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

BRANCH OFFICES AND REPRESENTATIVE OFFICES

HAUCK & AUFHÄUSER PRIVATBANKIERS AG

Kaiserstraße 24
60311 Frankfurt am Main
Phone +49 69 2161-0
Fax +49 69 2161-1340

Lenbachplatz 4
80333 Munich
Phone +49 89 2393-1
Fax +49 89 2393-2849

Neuer Wall 72
20354 Hamburg
Phone +49 40 4506342-0
Fax +49 40 4506342-3020

Mittelweg 16-17
20148 Hamburg
Phone +49 40 4506342-0
Fax +49 40 4506342-3020

Steinstraße 1-3
40212 Düsseldorf
Phone +49 211 301236-0
Fax +49 211 301236-6050

Konrad-Adenauer-Ufer 67
50668 Cologne
Phone +49 221 139319-700
Fax +49 221 139319-7019

1c, rue Gabriel Lippmann
5365 Munsbach
Luxembourg
Phone +352 451314-1
Fax +352 451314-229

Suite 303
4 Cavendish Square
London, W1G 0PG
United Kingdom
Phone +44 (0) 203 9473 245

info@hauck-aufhaeuser.com
www.hauck-aufhaeuser.com

Representative office Paris
Hauck & Aufhäuser
Privatbankiers AG

Representative office Paris
18, Rue Pasquier
75008 Paris
France
Phone +33 1 78 41 40 62

IMPRINT

PUBLISHER

Hauck & Aufhäuser Privatbankiers AG,
Frankfurt am Main

RESPONSIBLE FOR THE CONTENT

Hauck & Aufhäuser Privatbankiers AG,
Frankfurt am Main

CONCEPT AND DESIGN

Scheufele Hesse Eigler
Kommunikationsagentur GmbH,
Frankfurt am Main

PHOTOGRAPHY CREDITS

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Frankfurt am Main
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