

ANNUAL REPORT 2019



HAUCK & AUFHÄUSER

PRIVATBANK SEIT 1796

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GROWING & LEADING





THE MANAGEMENT BOARD OF HAUCK & AUFHÄUSER PRIVATBANKIERS:

Dr. Holger Sepp
Member of the Management Board

Michael Bentlage
Chairman of the Management Board

Robert Sprogies
Member of the Management Board

MESSAGE FROM THE MANAGEMENT BOARD

DEAR CLIENTS AND BUSINESS PARTNERS,

“Private bank & more!” – this is the title of our new **corporate video*** that we published at the end of 2019, a video that illustrates the combination of tradition and modernity in our company along with the many different facets of our bank and the high standards of commitment, vitality and performance we embody. Hauck & Aufhäuser Privatbankiers can look back on a rich history of tradition and steady growth spanning more than 220 years. Throughout our history, the trust that this longstanding tradition inspires has been our most valued asset. But we cannot and will not rely on our tradition alone. We need to do more over the coming years to retain the enduring confidence of our clients and to maintain our success as a bank. This requires the willingness to lead at the forefront of change, and to develop and systematically implement innovative ideas. And it is this very approach that we have taken to expand our range of products and services. Today, Hauck & Aufhäuser offers a broad portfolio covering the areas of Private Banking, Asset Servicing, Financial Markets, Investment Banking and Asset Management – a true private bank & more. Despite the diversity of our portfolio, our focus is clear: the needs of our clients always come first – they form the benchmark for our actions and are the driving force behind our further development. And, of course, there are also our dedicated employees, who forge the link between our ideas and the clients of our bank.

We can look back on a strong financial year in which we reached a number of milestones, launched and completed key projects, and drove our strategy of expansion. In 2019, we were able to achieve positive economies of scale through the acquisition of the Sal. Oppenheim companies. A further important milestone was reached through the approval of the acquisition of Crossroads Capital Management (CCM) in Ireland. This acquisition has enabled the successful expansion of our largest business segment, Asset Servicing, into a new market.

In addition, we established two subsidiaries in China, in Nanjing and Shanghai, that will strengthen our existing business segments outside Europe. The granting of the approval to establish the two companies in China was a significant success that we had been working towards for a long time.

One of the most important projects for our employees was the launch of a comprehensive personnel development concept dedicated to targeted employee training and talent development.

* To the corporate video: https://www.youtube.com/watch?v=26tSAC2_ODQ

And, last but not least, we developed and launched a new corporate brand. Our new brand identity is modern, direct and distinctive while also being unique and exclusive. It visually incorporates the successful fusion of tradition and modernity. All in all, we were able to finish the 2019 financial year on a very successful note.

The high regard that our clients and the public at large have for our expertise was reflected in the numerous awards our bank received from independent institutions: as the “Best Private Bank in Germany” and for our top performance as asset managers, both in terms of the advisory services we provide and our excellent portfolio management.

The developments of the first months of 2020 in connection with the spread of the coronavirus/COVID-19 pose extraordinary challenges for the state of the economy in general. As a result of the many initiatives we have instigated over the previous years, we are well placed to deal with these challenges. We aim to build on this in 2020 and maintain the trust that you, our clients and business associates, place in us – even in such a highly volatile environment – through ensuring the stability of our business operations, a clear strategy, attractive ideas and tailored services.

We would like to take this opportunity to thank you for your trust and support. We look forward to interesting projects and continuing our mutually successful cooperation! We will continually strive to provide our clients with first-class service and top performance that deliver true added value.

The Management Board of Hauck & Aufhäuser Privatbankiers AG



Michael Bentlage
Chairman of the Management Board



Dr. Holger Sepp
Member of the Management Board



Robert Sprogies
Member of the Management Board

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Hauck & Aufhäuser Privatbankiers Aktiengesellschaft convened six times in 2019. 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 Management 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 (Mindestanforderungen an das Risikomanagement). 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 and its risk position. The Committee also examined closely changes in legislation and their implications for the bank as well as external audit reports.

On February 1, 2019, Dr. Holger Sepp joined the Management Board of Hauck & Aufhäuser Privatbankiers Aktiengesellschaft. He is responsible for the Private Banking and Asset Servicing divisions.

At the spring meeting held on April 29, 2019, the auditors reported on the annual financial statements for 2018 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 5, 2019. Furthermore, the Committee dealt intensively with the bank's digitalization and automation strategy and decided on a re-design of the existing brand image. 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. The Supervisory Board then adopted the financial statements for 2018.

At its meeting prior to the Annual General Meeting on June 5, 2019, the Supervisory Board dealt with the bank's personnel development and talent management.

The Annual General Meeting on June 5, 2019, took note of the 2018 annual financial statements and approved the proposal for the appropriation of profit; the actions of the Management Board and the Supervisory Board were ratified. The term of office of the employee representatives, Mr. Siegfried Klink and Mr. Thomas Theobald, on the Supervisory Board expired at the end of the Annual General Meeting. New employee representatives to the Supervisory Board are Mr. Ingo Repplinger and, since September 6, 2019, Mr. Michael Mannig.

On September 11, 2019, 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. The Supervisory Board appointed the longstanding head of Corporate Secretary & Human Resources department, Mr. Robert Sprogies, to the Management Board with effect from September 16, 2019. He is responsible for the areas of CFO, CRO and COO. On the same day, Mr. Wolfgang Strobel stepped down from the Management Board.

In its last meeting of the year on December 12, 2019, the Supervisory Board focused on the preliminary results for 2019 and the planning for 2020 and the following years. Further, 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, 2019, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed as the company's auditor at the Annual General Meeting on June 5, 2019, 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 Aktiengesellschaft.

Frankfurt am Main, April 22, 2020

The Supervisory Board



Wolfgang Deml
Chairman

Wolfgang Deml
Chairman

Qiang Liu
Deputy Chairman

Dr. Thomas Duhnkrack
Member

Bin Tang
Member

Thomas Theobald
Employee Representative
until June 5, 2019

Siegfried Klink
Employee Representative
until June 5, 2019

Ingo Repplinger
Employee Representative
since June 5, 2019

Michael Mannig
Employee Representative
since September 6, 2019

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ENTREPRENEURIAL

&

VISIONARY



BUSINESS ACTIVITIES OF THE BANK

At its corporate locations in Germany, Luxembourg, Switzerland, the UK, Ireland, France and China, 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 global presence. Through its investment in banks and insurance companies, it has expertise in the financial sector.

ECONOMIC REPORT

SITUATION OF THE ECONOMY

2019 was dominated by the trade dispute between the US and China and the impending Brexit in the UK, spawning uncertainty which led to a decline in global trade. Of the western industrialized nations, the US performed fairly well, with GDP growth of 2.4%, whereas growth in Europe was slower at 1.3%. The situation was even more strained in Germany with its export-driven economy, which also suffered from an ailing automotive industry (low registration figures at the beginning of the year due to new emissions

testing methods and high investments in new propulsion systems), as is reflected in the low GDP growth rate of 0.6%. On the currency side, in spite of three interest rate cuts in the US the US dollar appreciated against the euro by around 2% to USD 1.121. The Brent crude price rose from USD 51 per barrel to USD 75 following drone strikes on Saudi Arabian oil refineries and OPEC’s decision to curb oil production further. The gold price had a strong year due to low bond yields and topped USD 1,500 for the first time in many years, rising by a total of around 18%.

MONETARY POLICY

While the European Central Bank (ECB) has not changed interest rates for more than three years (the most recent cut, to 0%, was made in March 2016), the US Fed raised interest rates four times in 2018 and announced two further hikes for 2019, which put a damper on the stock markets. However, in light of the mounting uncertainty about global economic activity as reflected in a downward trend in industrial output, the Fed started to cut rates again. There were a total of three interest rate cuts (by a total of 75 basis points) to a range of 1.50% to 1.75%. The lack of inflationary pressure was the main reason for the expansionary monetary policies pursued by central banks. The ECB also acted in 2019, reviving its asset purchase program in November and cutting the deposit rate for banks that make overnight deposits with the ECB by 10 basis points to -0.5%.

FIXED-INCOME SECURITIES

The yield curve for German federal bonds is mostly negative. It is only positive for longer maturities. In 2019, the entire curve up to 30 years was negative for the very first time. Weaker economic activity, low inflation and low inflation expectations fueled demand for investment grade (AAA-rated) bonds. This situation was compounded by the fact that the volume of federal bonds on offer was relatively low and the ECB was active on the market as an additional buyer. Yields in the US also dwindled over the course of the year, but there is still a fairly large spread of around 150 basis points between German federal bonds and US treasury bonds (10 years).

EQUITIES

After a poor second half of 2018 in which the DAX lost around 20% of its value, the German stock market index and most other indices bounced back in 2019. The recovery lasted the whole year, with only a brief dip in August. The fiscal year was shaped by a dichotomy of bullish stock markets coupled with sliding profits and profit expectations. The German stock market index DAX gained more than 25%, while the US S&P 500 climbed nearly 29%. Besides encouraging economic data from the services sector and robust domestic activity, the high level of liquidity in the market and the lack of alternatives in bonds in the low interest rate environment were a major factor behind the price gains. What is more, toward the end of the year there were encouraging political signals in the shape of the first results from negotiations between the US and China and clarity about Brexit and a number of leading indicators of economic activity pointed upward. As a result, the average profit expectations, which had declined in the course of the year, stabilized at year-end.

INDUSTRY ENVIRONMENT

The banking landscape in Germany is characterized by low profitability, stagnating net commission income and rising cost-income ratios. Almost all types of banks are experiencing shrinking yields. Together with automotive banks, the private banks lead the field in Germany in terms of yield.

However, a substantial yield gap of up to eight percentage points of equity has opened up between German banks and their European rivals. In order to narrow this gap, industry experts recommend organic transformation and consolidation of German banks on a national and EU level.

The difficult profitability situation in the German banking sector is embedded in the current and future regulatory environment and in emerging megatrends such as digitalization, demographics and globalization.

BANKING INDUSTRY PERFORMANCE

The persistent low interest rate environment makes it difficult to generate earnings through maturity transformation. On the one hand, customer deposits can no longer be invested profitably, as the ECB's deposit rate is negative. This has a knock-on effect on the general level of interest rates on the capital market. On the other hand, the higher-interest rate investments and loans entered into by banks in the past are gradually maturing and cannot be replaced with adequate substitutes given the level of interest obtainable on the capital market. Net interest income is declining strongly as a result.

Banks have a range of instruments available to respond to this development, both on the assets and liabilities sides of their balance sheets. Possible responses on the assets side would be expanding maturity transformation or extending maturities, which would elevate the interest rate risk should interest rates rise. Another option would be to soften lending standards in order to enable more loan agreements. However, this can lead to a deterioration of the risks inherent in the loan portfolio.

On the liabilities side, many institutions are passing on negative interest rates to their institutional customers, while a (currently) limited number of banks are only charging negative interest rates to their private customers on deposits in excess of a large allowance (e.g., more than EUR 100,000).

On top of falling net interest income, in recent years banks in Germany have been unsuccessful in growing their net commission income.

All in all, the low interest rate environment has had a substantial adverse effect on the financial performance of institutions in the industry. Persistently low interest rates are creating an ongoing shortage of investment opportunities for banks. A solution lies in the targeted development of new asset management products to generate additional net commission income.

REGULATORY INFLUENCE ON BANK BUSINESS MODELS PERSISTS GOING FORWARD

The trend toward tighter regulatory requirements in recent years is pushing up expenses for IT infrastructure and leading to more complex operational and organizational

structures. This entails fixed costs which are a burden on smaller institutions in particular who are unable to spread cost increases over a broader customer base.

The impact of stricter and new regulatory requirements will also tie up banking resources going forward. The relevant regulatory topics for the coming years include:

- › Implementation of CRD V/CRR II
- › Implementation of CRD VI/CRR III (from 2021)
- › ESG initiative/sustainability
- › UCITS VI
- › Tax compliance

The low interest rate environment and the catalog of regulatory measures are therefore two negative factors impacting banks' earnings. A study by the Leibniz Institute for Financial Research concludes that regulation costs the German banking sector between EUR 2b and EUR 3b each year. As a rule, these costs are sums that erode banks' profits and that cannot be distributed as surpluses to investors or retained to strengthen capital. At the same time, the regulatory initiatives are geared to equipping banks to overcome future financial market crises. It is not yet clear to what extent this benefit justifies the expected costs.

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 access 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 riding this trend and are entering into business segments previously served by banks with solutions for digital payments, robo-advisors in securities investment or online loan origination. In this context, we believe that the combination of technologies such as digital advisors, video chats or co-browsing, and competence in advising informed customers personally creates a niche that private banks in particular can exploit to their advantage in their investment activities.

Banks' performance indicators reflect how important it is to actively pursue the digitalization of their own business. According to a study by Accenture, in 2017 banks with a strong digital strategy achieved a return on equity which was 2.4 percentage points higher than for banks without. The authors of the study forecast that this gap will widen to 3.5 percentage points by 2021.

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 changing and more complex realities of life and a complicated legal framework. The primary goal for high net worth individuals and family-owned companies is usually to transfer assets.

But it is not just the demographic trend that is posing 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 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 many fields in the future.

GLOBALIZATION

Since the 1960s, global trade, as reflected in export volumes, has ballooned. This has been spawning growing demand for services with an international focus in the economy as a whole and is causing domestic investors to increasingly seek investment opportunities abroad while foreign investors are displaying growing interest in investments in Germany.

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.

In addition, in a globalized world companies rely more strongly than ever on the international capital markets for finance and are therefore becoming increasingly independent of banks.

Institutions are also having to extend their service offering when doing business with institutional investors with an increasingly international outlook.

CONCLUSION

The industry environment in which Hauck & Aufhäuser operates is undergoing rapid change in many areas, with corresponding effects on the Bank's financial performance. In some cases, these are conscious decisions by the Bank, such as investments in digitalization in order to futureproof the Bank's business or to reduce its reliance on the rest of the sector.

FINANCIAL PERFORMANCE

Hauck & Aufhäuser Privatbankiers AG closed the fiscal year with exceedingly positive earnings after taxes of EUR 50.8m (prior year: EUR 3.9m). This was largely thanks to the distributions from the subsidiaries.

Net interest income increased by EUR 3.2m year on year to EUR 24.6m in the fiscal year. Due to the ongoing low interest rate environment, interest income contains EUR 8.3m in negative interest from loans and advances, while interest expenses contain negative interest from liabilities of EUR 17.6m.

Net commission income performed encouragingly and was higher than forecast, up from EUR 95.1m in the prior year to EUR 104.0m.

General and administrative expenses increased by EUR 9.9m 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 2.0m to EUR 50.1m mostly also reflects the abovementioned integration and the costs of our digitalization and modernization programs.

The other operating result came to EUR 17.9m (prior year: EUR 22.4m). The decline is largely due to the lower amount of provisions reversed and higher allocations to other provisions which are not part of administrative expenses.

Risk provisions in the lending business including write-downs and write-ups on certain securities decreased year on year to EUR 1.0m (prior year: –EUR 3.0m) as a result of the surplus in reversals of risk provisions in the lending business.

Net write-downs and write-ups of equity investments, shares in affiliates and investment securities came to –EUR 0.2m (prior year: –EUR 0.1m).

Earnings before taxes from ordinary activities came to EUR 57.1m in the reporting year compared to the prior-year figure of EUR 10.4m.

Income and other tax expenses amounted to EUR 6.3m (prior year: EUR 6.5m).

ASSETS, LIABILITIES AND FINANCIAL POSITION

In response to the digitalization trend, the Bank drew up a set of measures to be gradually implemented beginning in 2018. Good progress was made in 2019, and a software subproject was ready to go live in January 2020.

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 15.0m to EUR 5,749.2m compared to 31 December 2018.

Loans and advances to banks were up by EUR 26.2m on the prior year to EUR 246.9m and were attributable to the utilization of bank facilities payable on demand.

Loans and advances to customers increased by EUR 13.1m to EUR 411.6m and were therefore slightly higher than in the prior year.

Debt securities and other fixed-income securities rose by EUR 511.4m to EUR 2,565.6m as of the reporting date as available liquidity was invested on the capital market.

Shares and other variable-yield securities decreased by EUR 21.8m to EUR 273.4m compared to the prior year.

Other assets increased by EUR 36.2m to EUR 240.7m, mainly as a result of higher receivables from subsidiaries, receivables from cash collaterals and margin payments.

Liabilities to banks decreased by EUR 16.3m to EUR 268.6m. Liabilities to customers rose by EUR 7.1m to EUR 5,019.8m.

Foreign currency assets increased by EUR 65.6m to EUR 770.8m. Foreign currency liabilities were down EUR 133.2m to EUR 1,013.4m.

Subscribed capital came to EUR 18.4m as of 31 December 2019 (prior year: EUR 18.4m) and was divided into 354,715 (prior year: 354,715) no-par value bearer shares with a notional value of EUR 52.00 each.

As of the reporting date, the Bank reported equity of EUR 251.5m (prior year: EUR 200.7m) on the face of the balance sheet.

As of 31 December 2019, the Bank's own funds pursuant to Art. 72 CRR came to EUR 255.5m 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 EUR 63.9m.

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 63.8m to a total of EUR 1,261.4m. They break down as follows:

EUR m	
Risk-weighted assets	1,261.4
Credit risk	986.5
Market risk	10.3
Operational risk	218.8
Credit valuation adjustment (CVA) included in total risk exposure amount	45.8

The resulting total capital ratio came to 20.25% (prior year: 20.97%).

The leverage ratio was 4.08% (prior year: 4.00%).

The regulatory requirements are fully met.

Compared to the prior year, off-balance sheet obligations were up by EUR 28.9m (prior year: EUR 129.3m). While contingent liabilities decreased by EUR 2.0m, irrevocable loan commitments rose by EUR 30.9m.

FUNDING

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

BUSINESS SITUATION IN FISCAL YEAR 2019

For fiscal year 2019, Hauck & Aufhäuser recorded a more than satisfactory development in spite of 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 working on ensuring the organic and inorganic growth of its business segments in order to be able to offer a more comprehensive range of services. In 2019 it enlarged the product range in the Asset Servicing segment, adding an additional international component.

Various initiatives aimed at the digitalization and modernization of the Group were also examined and implementation commenced or was completed.

The Hauck & Aufhäuser Group offers its customers a wide range of other services in addition to traditional private banking solutions. The aim is to appeal to 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, the 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.

The Group is working relentlessly on the following challenges:

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

Hauck & Aufhäuser has a high Tier 1 capital ratio, which is an indicator of the financial reputation of a private bank. Since 2018, we have also been rated by the agency Creditreform, a step we took in response to increased regulatory and customer requirements.

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

Especially in light of the low interest rate environment, it is a challenge for the Bank to build a diversified and stable earnings base. 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, London, Dublin and Nanjing with its core business segments Asset Servicing, 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, Ireland 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 depository 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).

Having further advanced the international alignment of the segment in 2019 we will now also be able to offer our clients in Ireland a one-stop solution similar to that in Luxembourg. 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 slightly above-budget earnings before taxes.

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.

Our online banking platform allows our customers to keep track of 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, Hauck & Aufhäuser operates 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.

Earnings before taxes from Private Banking were better than expected in the reporting period.

The net volume of new business is far higher than in the prior year, pointing to a significant upward trend in Private Banking.

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 aim to 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 earnings before taxes generated by this core business segment far surpassed expectations in 2019.

INVESTMENT BANKING

Our research, sales and trading activities in the area of equity for institutional clients 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 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 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 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.

The result from this core business segment is considerably lower than both the prior-year level and the expectations for the reporting year.

OPPORTUNITIES AND FORECAST

OUTLOOK FOR THE ECONOMY

A recession was staved off in Germany in 2019 and the outlook for 2020 was also promising. A recession was unlikely to be on the cards, although growth was anticipated to remain low. Overall, growth rates around the world were expected to be similar to those seen in 2019 provided that there were no serious political conflicts. Accordingly, fiscal year 2020 got off to a promising start. Industrial production picked up noticeably in the eurozone, China and in the US. Sentiment indicators improved and economic activity bottomed up. Uncertainty surrounding Brexit waned and the Phase 1 deal between China and the US sparked hopes that the trade dispute could be resolved in the near future. However, as coronavirus started to spread, the entire year's gains of 2019 were erased in most markets within a matter of weeks, sending them tumbling far below their previous record highs. The far-reaching restrictions on economic activity with the mounting supply and demand shock point to a large contraction in economic output in many economies in the current fiscal year.

EUROZONE

The internal market is a mainstay of the economy in Europe, and according to the original forecasts it would have been underpinned by low unemployment rates and rising wages. Indicators such as the German Purchasing Manager Index, which have picked up since their lows in 2019, pointed to a recovery in industry. Economic activity in Europe was to be supported by a more expansionary monetary policy under the new ECB president Christine Lagarde. At the end of last year, the ECB resumed its monthly asset purchases.

Central bank policy in the US was also set to remain accommodating. However, the economic consequences of coronavirus has become the dominating topic in fiscal year 2020 and has led to a lowering of the global economic forecast. Factory closures in response to the pandemic and interrupted supply chains are halting the normal supply of goods and services. Monetary and fiscal policy has limited means of responding to this supply shock as it cannot substitute producers. Macroeconomic demand is also suffering a heavy blow as consumption spending and capital expenditure are being either postponed or scrapped altogether.

GERMANY

In Germany, GDP growth weakened to 0.6% in 2019, the second fall in a row. GDP was forecast to grow in 2020 as industry recovered. As in Europe, it was also assumed that Germany's domestic economy would benefit from low unemployment coupled with rising wages. However, following the spread of coronavirus, uncertainty is now also rife in Germany. Major risks are associated with the significant restrictions on economic activity, the related curbing of supply and demand and the consequences for the economic cycle. Like many other economies, Germany is bracing itself for the biggest drop in economic output since World War II in the second quarter of fiscal year 2020. The severity of the downturn will hinge on the duration of the lockdown and the burden on the healthcare system. Fast containment of the pandemic, on the other hand, could unleash dynamic economic activity.

CONSUMER PRICES

Originally, consumer prices were not expected to fuel inflation in fiscal year 2020. This contradicts the Phillips curve, which postulates that rising wages are positively correlated with inflation. Inflation remains low due to globalization, digitalization and shrinking potential output. In recent weeks, these effects have been aggravated by the economic impact of COVID-19.

SOVEREIGN BONDS

There are speculations of an interest rate hike in 2020. But this has failed to materialize to date and will be a long time coming. Neither the US Federal Reserve nor the European Central Bank will modify their expansionary policies in the foreseeable future. Their massive asset purchase programs will keep yields down, with even US Treasury bond yields expected to fall below 0% soon. The ice age on the government bond markets with negative yields is here to stay. The market for corporate bonds is veering in the opposite direction. Rating downgrades of companies are highly likely, especially in those industries particularly hard hit by coronavirus. Credit spreads have already widened greatly in anticipation of this development.

STOCK MARKETS

While many stock markets soared in 2019, they were shaped by a dichotomy of bullish markets coupled with sliding profits and profit expectations. This made a repeat of the last year's double-digit growth of the major stock price indices unlikely for fiscal year 2020. However, shares were expected to have been buoyed by their relative attractiveness compared to fixed-income products and the recent stabilization of economic leading indicators. In this vein, fiscal year 2020 got off to a promising start and the capital markets rewarded these signs of an easing. The stock markets hit new record highs, with the DAX climbing to nearly 13,800 points, more than 200 more than its previous all-time high in January 2018. This was before they started to slide, on 24 February 2020. In the space of a few weeks, coronavirus/COVID-19 caused most markets to tumble. The big question now is when the stock markets will bottom out in fiscal year

2020. Familiar valuation metrics, such as the price-earnings ratio or price-to-book ratio can provide some guidance here. However, the price-earnings ratio is of limited use in times of crisis when profits are too volatile. When visibility is reduced and uncertainty is high, indicators with less volatile variables are better suited as guidance than company profits. The price-to-book ratio is one such measure. For the DAX 30 index, it dipped below 1 in March, i.e., the aggregate market capitalization of all companies was less than the combined book values (assets less liabilities) of the companies listed on the DAX. For reference, the lowest price-to-book ratio in the DAX in 2009 was 0.93. Today, this score would translate into a DAX level of around 7,500 points. At present, it is impossible to reliably predict any further ramifications in view of the immense uncertainty surrounding the economic and political situation.

OUTLOOK – MARKET AND COMPETITION

Overall, we expect a challenging environment for the banking market in 2020. We do not anticipate any letup in the low interest rate environment in 2020 with the ECB continuing to demand negative interest on deposits. The high significance of regulatory requirements and risk management will also continue to shape the banking market in the year ahead. However, as in most other industries, the biggest challenge in the banking sector will be to overcome the global effects of coronavirus and the related uncertainty.

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 key to the activity of Hauck & Aufhäuser Privatbankiers AG in the market.

We anticipate the intense competitive environment to prevail across the entire banking sector in 2020. 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 will gain more of a foothold in the market. We at Hauck & Aufhäuser Privatbankiers AG see ourselves as competing in particular with private banks, multi-family offices, specific independent asset managers and asset servicing providers. 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 spent with customers, with limited input.

OUTLOOK – OPPORTUNITIES

The expected market and competitive developments will bring challenges, but also opportunities to strengthen the position of the Bank 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 2019, which we intend to intensify in 2020 to enable us to take advantage of the resulting opportunities.

In connection with digitalization, we invested further in our new digital sales channel Zeedin and its digital product and service offering and in our online banking service. These activities will be complemented by a new service offering for private client deposits in 2020. This will give the Bank the opportunity to win more Private Banking clients in a new customer segment in 2020 generating commensurate earnings potential and to offer an extended range of services to existing clients.

We will also press ahead with the automation of our internal processes as part of our digitalization activities in 2020. 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 our bank of further emerging opportunities for cooperation with fintechs in all sections of our value chain.

OUTLOOK – OPERATIONAL PLANNING AND EARNINGS COMPONENTS

Forecasts are subject to a number of risks: an unexpected change in interest rates, political or regulatory measures affecting banks, geopolitical and global economic developments and potential negative effects on the economy as a result of the spread of coronavirus/COVID-19.

Depending on how we are affected by coronavirus, contrary to our original planning, we anticipate flat income in fiscal year 2020, due primarily to the revised forecast of economic activity and the resulting market mechanisms.

A dynamic market environment and expectations of ever-increasing volatility, combined with the consequences of the national shutdowns in an effort to contain the spread of COVID-19, make it difficult to forecast future income from the volume of assets held in custody and under management. We previously predicted moderate volume growth. However, given the recent volatility on the financial markets and the constantly unfolding situation, this cannot be reliably estimated at present.

Addressing regulatory requirements and implementing contractually required measures, in particular further optimizing a cost-efficient and streamlined platform for the performance of our services will give rise to significant investments and additional administrative expenditures. Hauck & Aufhäuser Privatbankiers AG is closely monitoring the current economic situation and is ready to take mitigating action as and when required.

We anticipate the following development of our earnings components:

NET INTEREST INCOME

Assuming no changes in the low interest rate environment, we expect a slight decrease in net interest income.

NET COMMISSION INCOME

The additions made to the product range in the last year and other planned launches of new products in Financial Markets will form the basis for an increase in net commission income. The actual outcome may differ from this forecast, depending on how the economic situation is shaped by the spread of coronavirus and depending on the monetary and fiscal policies adopted in the course of fiscal year 2020 to cushion its impact. This development will be reflected in the development of assets under management.

ADMINISTRATIVE EXPENSES

In view of the ongoing and planned projects to promote digitalization and growth in the Bank and the related increase in headcount, we anticipate a moderate rise in administrative expenses. The Bank is ready to take suitable action to reduce administrative expenses in order to moderate the impact of coronavirus.

RISK PROVISIONS

With regard to the ongoing economic contingencies – also in light of the current rapid spread of COVID-19 – the risk provisions for issuer, equity investment or collateral risks in the lending business are also subject to fluctuation.

Assuming that lending business remains stable, we anticipate a moderate increase in necessary loan loss provisions in 2020.

EARNINGS BEFORE TAXES (HGB)

In our original planning, we had forecast higher year-on-year consolidated earnings. In light of the ongoing global developments, this may not be attainable.

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.

Senior management of Hauck & Aufhäuser Privatbankiers AG promotes the 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 economic internal capital adequacy calculation all risk types considered are simulated at a confidence level of 99.9%. All individual risks are calculated conservatively 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 2019, the total risk exposure calculated 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 2019, the conservatively calculated total risk exposure amount of EUR 157.24m breaks down by risk type as follows:

UTILIZATION

EUR m	ACTUAL	LIMIT	ACTUAL AS A % OF LIMIT
Total utilization	157.24	221.5	72.4%
Credit risk	98.58	130.0	75.8%
Market risk	32.56	60.5	53.8%
Operational risk	14.26	26.0	57.0%
Income risk	11.84	15.0	78.9%

In accordance with the new internal capital adequacy guidelines, the normative perspective of internal capital adequacy, which focuses on all regulatory and supervisory requirements, was extended to include an adverse capital planning scenario. This adverse scenario reflects a severe recession and analyzes the effects of economic risks on capital planning. All material supervisory minimum capital requirements were met, even in the adverse scenario.

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

- › Severe global economic crisis
- › Extreme loss of confidence from customers (reputational stress test)
- › Euro crisis

In a reverse stress test, a scenario is also calculated that can be critical for the Bank's viability.

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. 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 interbank 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 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 work together closely. 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 key management indicator in this context is credit value at risk which encompasses migration risks for all of the specified transactions and positions.

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 significant limit breaches 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. 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 of changes in market price, e.g., in the event of sharp swings in the stock markets, entailing 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 260 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.

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.

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 (in the euro crisis of 2010/2011) and hypothetical stress scenarios (based on the EBA stress test for 2018).

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 29.7m as of year-end in the +200 bp scenario, which is equivalent to 11.6% 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.

The Bank's strategic investments are 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%.

LIQUIDITY RISK

Liquidity risk breaks down into call, untimely payment, funding 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
- › Funding risk: the risk of not being able to secure refinancing at favorable conditions in the long term
- › Market liquidity risk: the risk of not being able to (readily) trade positions

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.

Economic liquidity risks are monitored by Risk Controlling by reference to forward liquidity exposures under normal and stressed conditions.

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.

As well as these indicators, liquidity costs as used in the market interest method, are cornerstones of liquidity risk management and are used to manage business activities and regularly review the liquidity contingency plan.

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 are 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 risk is calculated in the economic perspective using a VaR approach on the basis of internal loss and claims data and estimates of other potential risks.

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 documentation of our policies, procedures and approval policies that is updated on a regular 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.

Technical and organizational safeguards are in place in the particularly sensitive area of IT and cyber risks. The information security officer is responsible for managing information security and business continuity planning. 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 using a VaR approach on the basis of historical planning variances of operating results.

STATEMENT ON CORPORATE GOVERNANCE

In accordance with Sec. 317 (2) Sentence 6 HGB, the auditor did not audit the following statement on corporate governance (quota for women on executive boards) pursuant to Sec. 289f (4) HGB.

Hauck & Aufhäuser aims to increase the percentage of women in team leader, head of department and Management Board roles to 30% by 2022. This percentage has not yet been reached at the level of the Management Board. The aim of increasing the percentage of women to 30% by 2022 does not apply to the Supervisory Board. The Supervisory Board members are currently all male. The percentage of women in leadership roles increased further in 2019. Currently, 25% of executives are women, which is an increase of 2% on the prior year. A total of 42% of the workforce is female and 28% (prior year: 28%) of team leaders are women. The percentage of female heads of department was increased to 23% (prior year: 20%).

NON-FINANCIAL STATEMENT

In accordance with Sec. 317 (2) Sentence 4 HGB, the auditor did not audit the following non-financial statement pursuant to Sec. 340a (1a) in conjunction with Sec. 389b HGB.

CORPORATE GOVERNANCE

Hauck & Aufhäuser Privatbankiers AG focuses on advice and wealth management for private and corporate clients, fund services for financial and real assets, 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.

The values of Hauck & Aufhäuser Privatbankiers AG are founded on responsibility, performance 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: Carbon-neutral business trips with the Climate Card, H & A PRIME VALUES fund products, Management Board approval for a sustainability project for 2020

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

In accordance with the MaRisk [“Mindestanforderungen an das Risikomanagement”: Minimum Requirements for Risk Management], senior management has appointed a compliance officer who, notwithstanding senior management’s ultimate responsibility, is responsible for the Group-wide compliance function and the related activities. The compliance officer is responsible for, and also performs, the following functions:

- › Compliance officer as defined by Sec. 87 (5) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act] in conjunction with BT 1.1 No. 3 MaComp [“Mindestanforderungen an Compliance”: Minimum Requirements for Compliance]
- › Anti-money laundering and fraud officer as defined by Sec. 25h (7) KWG in conjunction with Sec. 7 GwG [“Geldwäsche-Gesetz”: German Anti-Money Laundering Act] (“central office”). The anti-money laundering officer is thus also the (group) fraud officer.

In addition, senior management has established an independent Compliance unit and appointed compliance officers in the foreign branches and in the German and foreign subsidiaries.

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, expecta-

tions, 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 of Finance & Management 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.

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 was able to make significant progress in 2019.

At the reporting date, 595 persons worked for the Bank, of whom 492 were full-time staff and 103 part-time. At the reporting date, we employed 238 women and 357 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 2019. 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.

The Talent Management program for employee retention, motivation and development, which was devised in 2018 and has a long-term focus, was implemented in 2019. 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.

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 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 J. P. 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.

The Bank plans to further expand its health management program in fiscal year 2020.

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 2019, the focus was on promoting social projects and cultural commitment. As a strong partner in the German foundation landscape, Hauck & Aufhäuser Privatbankiers AG sponsored the German Foundation Congress in Mannheim in 2019.

CULTURAL PROJECTS

Hauck & Aufhäuser Kulturstiftung channeled efforts into two main projects in 2019: funding the Wertestiftung in Frankfurt for the third year in a row, and helping to create a museum family guidebook in the DASMAXIMUM art museum in Traunreut which can be used for free by children and families. The aim is to encourage younger visitors to explore the museum independently, thus inspiring an interest in art.

WELFARE PROJECTS

Hauck & Aufhäuser supported the charity Arche e.V. in Frankfurt which is devoted to improving education and opportunities for children.

Hauck & Aufhäuser employees also work for other good causes. For many years, the Bank has made donations to non-profit organizations at its Christmas part instead of giving gifts to customers clients and staff. In 2019, 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.

CONCLUDING STATEMENT OF THE DEPENDENT COMPANY REPORT

Sec. 311 AktG [“Aktengesetz”: 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.

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SOLID & SUSTAINABLE

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

				2019	2018
	EUR	EUR	EUR	EUR	EUR k
Interest income from					
a) Lending and money market business	15,402,684.41				15,626
less negative interest from money market business	-8,320,934.83				-8,163
		7,081,749.58			7,463
b) Fixed-income securities and government-inscribed debt		13,349,022.25			9,775
			20,430,771.83		17,238
Interest expenses					
Interest expenses from banking business			-13,443,157.52		-9,721
less positive income from banking business		17,644,801.62			13,903
			4,201,644.10		4,182
				24,632,415.93	21,420
Current income from					
a) Shares and other variable-yield securities			1,177,413.14		148
b) Equity investments			0.00		0
c) Shares in affiliates			41,208,444.52		1,391
				42,385,857.66	1,539
Commission income			114,241,350.64		109,571
Commission expenses			-10,230,098.18		-14,439
				104,011,252.46	95,132
Net income or net expense from trading book positions				4,545,820.50	1,228
Other operating income				24,289,252.42	23,374
General and administrative expenses					
a) Personnel expenses					
aa) Wages and salaries			-70,565,562.62		-64,450
ab) Social security, pension and other benefit costs			-10,607,379.10		-8,762
thereof: for old-age pensions	-2,233,310.38				-1,703
			-81,172,941.72		-73,212
b) Other administrative expenses			-50,133,472.78		-48,143
				-131,306,414.50	-121,355
Amortization, depreciation and impairment of intangible assets and property and equipment				-5,964,671.88	-5,481
Other operating expenses				-6,362,714.42	-968
Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses				0	-2,959
Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses				1,055,034.12	0
Write-downs of equity investments, shares in affiliates and securities classified as fixed assets				-187,741.79	-98
Allocation to the fund for general banking risks				0.00	0
Expenses from loss absorption				-22,172.72	-1,392
Result from ordinary activities				57,075,917.78	10,440
Income taxes			-6,319,940.39		-5,952
Other taxes not shown under "Other operating expenses"			36,127.74		-546
				-6,283,812.65	-6,498
Net income (+) / net loss for the year (-)				50,792,105.13	3,942
Profit carryforward from the prior year				0.00	0
Net retained profit				50,792,105.13	3,942

BALANCE SHEET AS OF 31 DECEMBER 2019

ASSETS			2019	2018
	EUR	EUR	EUR	EUR k
1. Cash reserve				
a) Cash on hand		139,545.31		77
b) Balances at central banks		1,845,144,426.31		2,369,723
thereof at Deutsche Bundesbank EUR 1,640,171,476.32				(2,349,500)
			1,845,283,971.62	2,369,800
2. Loans and advances to banks				
a) Payable on demand		206,743,145.32		205,174
b) Other loans and advances		40,170,813.71		15,515
			246,913,959.03	220,689
3. Loans and advances to customers			411,594,431.03	398,486
thereof:				
public-sector loans EUR 26,068,165.80				(30,988)
4. Debt securities and other fixed-income securities				
a) Money market securities				
issued by other borrowers	15,008,887.50	15,008,887.50		45,014
b) Bonds and debt securities				
ba) issued by the public sector	1,004,228,764.80			857,308
thereof eligible as collateral with Deutsche Bundesbank EUR 601,959,465.46				(524,903)
bb) issued by other borrowers	1,546,408,370.60	2,550,637,135.40		1,151,937
thereof eligible as collateral with Deutsche Bundesbank EUR 1,344,414,105.12				(1,018,183)
			2,565,646,022.90	2,054,259
5. Shares and other variable-yield securities			273,411,331.53	295,198
5a. Trading book positions			1,716,806.89	1,605
6. Equity investments			3,355,156.54	294
thereof: in financial services institutions EUR 3,060,940.75				(0)
7. Shares in affiliates			94,259,455.33	92,149
thereof:				
in banks EUR 0.00				(72,125)
in financial services institutions EUR 1,000,000.00				(3,004)
8. Trust assets			21,600,000.00	50,683
9. Intangible assets				
a) Purchased franchises, industrial and similar rights and assets		8,998,011.08		7,367
b) Goodwill		5,045,858.95		6,675
c) Prepayments		1,110,593.86		451
			15,154,463.89	14,493
10. Property and equipment			12,319,190.11	13,471
11. Other assets			240,721,569.28	204,500
12. Prepaid expenses			8,226,507.43	8,454
13. Deferred tax assets			7,541,703.87	9,221
14. Excess of covering assets over pension and similar obligations			1,449,910.39	1,014
Total assets			5,749,194,479.84	5,734,235

BALANCE SHEET AS OF 31 DECEMBER 2019

LIABILITIES AND EQUITY			2019	2018
	EUR	EUR	EUR	EUR k
1. Liabilities to banks				
a) Payable on demand		196,967,177.97		198,356
b) With an agreed term or period of notice		71,650,910.40		86,550
			268,618,088.37	284,906
2. Liabilities to customers				
a) Savings deposits				
aa) with an agreed period of notice of three months	601,684.90			615
ab) with an agreed period of notice of more than three months	21,392.63	623,077.53		24
b) Other liabilities				
ba) payable on demand	4,965,879,107.04			4,955,384
bb) with an agreed term or period of notice	53,281,000.34	5,019,160,107.38		56,685
			5,019,783,184.91	5,012,708
3. Securitized liabilities				
Debt securities issued			38,858.17	39
4. Trust liabilities			21,680,000.00	50,603
thereof: trust loans EUR 0.00				(0)
5. Other liabilities			41,466,753.81	50,980
6. Deferred income			13,939,712.69	12,675
7. Provisions				
a) Provisions for pensions and similar obligations		15,119,136.00		15,163
b) Tax provisions		8,284,737.95		6,616
c) Other provisions		44,880,926.90		35,603
			68,284,800.85	57,382
9. Fund for general banking risks			63,935,000.00	64,206
10. Equity				
a) Subscribed capital		18,445,196.00		18,445
b) Capital reserves		85,885,025.73		85,885
c) Revenue reserves				
ca) legal reserve	2,000,000.00			1,600
cb) other revenue reserves	94,405,754.18	96,405,754.18		90,864
d) Currency translation/exchange differences		0.00		0
e) Net retained profit		50,792,105.13		3,942
			251,528,081.04	200,736
Total liabilities and equity			5,749,194,479.84	5,734,235
1. Contingent liabilities				
Guarantees			1,234,012.70	3,247
2. Other obligations				
Irrevocable loan commitments			156,893,202.51	126,004

HERITAGE & FUTURE

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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 2019 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 fair values of derivative financial instruments are determined using the discounted cash flow method. The underlying yield curves are standard for the market. The valuation is carried out by an external provider. 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, other fixed-income securities and interest rate derivatives, for which we apply the net method. In addition, we also designate hedges for forward exchange contracts that hedge the currency risk and which are not used to hedge interest-bearing balance sheet items. For both groups, offsetting changes in value are hedged over the entire term.

When designating hedges for promissory note loans and other fixed-income securities held in the Bank's own portfolio, interest rate risks are hedged using interest rate derivatives. Interest rate derivatives with customers are hedged using offsetting back-to-back interest rate derivatives. Forward exchange contracts with customers are hedged using offsetting foreign exchange derivatives.

The effectiveness of hedges of balance-sheet transactions 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 effectiveness of the hedges of derivatives is demonstrated retrospectively using the dollar offset method only. Hedge effectiveness for all accounting hedges is tested prospectively upon inception and subsequent measurement using the critical terms match method.

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 five to ten 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 2019. 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

There were no adjustments in the reporting year.

SUBSEQUENT EVENTS

Hauck & Aufhäuser was able to reach an agreement with the Oetker Group on the acquisition of Bankhaus Lampe. The closing of the transaction is pending approval by the supervisory authorities.

At this point in time, it is not possible to quantify the effects of the coronavirus pandemic. We provide an assessment of the situation in the management report.

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				2019	2018
	GERMANY	LUXEMBOURG	OTHER	TOTAL	TOTAL
Total income	153,681	52,041	172	205,894	152,950

OTHER OPERATING RESULT

In the reporting year, the other operating income of EUR 24,289k (prior year: EUR 23,374k) mainly comprised allocations of intragroup expenses of EUR 9,033k (prior year: EUR 7,349k), income from the reversal of provisions of EUR 6,045k (prior year: EUR 8,912k), income from the annual VAT calculation of EUR 2,478k (prior year: EUR 2,035k) and net foreign exchange income of EUR 2,162k (prior year: EUR 2,330k).

Other operating expenses of EUR 6,363k (prior year: EUR 968k) mainly comprise allocations to other provisions of EUR 2,500k (prior year: EUR 298k), expenses from the branches of EUR 1,829k and amounts paid to tax authorities of EUR 862k.

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 [“Wertpapierhandels-gesetz”: 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 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
With an indefinite term	0	0	160,229	116,727
Due in				
Up to three months	35,171	515	166,168	140,050
More than three months and up to one year	0	5,000	36,329	84,331
More than one year and up to five years	5,000	10,000	28,869	37,378
More than five years	0	0	20,000	20,000
Total	40,171	15,515	411,595	398,486

EUR k	LIABILITIES TO BANKS		LIABILITIES TO CUSTOMERS		SAVINGS DEPOSITS	
	31 DEC 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Due in						
Up to three months	12,131	26,593	22,494	25,880	0	615
More than three months and up to one year	59,520	1,937	15,659	21,805	7	10
More than one year and up to five years	0	58,020	15,128	9,000	14	14
More than five years	0	0	0	0	0	0
Total	71,651	86,550	53,281	56,685	21	639

RELATIONSHIPS WITH AFFILIATES AND OTHER INVESTEES AND INVESTORS

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 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Loans and advances to customers	0	185	0	0
Other assets	211	0	22,014	4,343
Total	211	185	22,014	4,343
Liabilities to customers	11,955	82	48,494	48,364
Other liabilities	286	0	308	3,938
Total	12,241	82	48,802	52,302

SECURITIES

As of 31 December 2019, marketable securities break down as follows:

EUR k	LISTED		NON-LISTED	
	31 DEC 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Debt securities and other fixed-income securities	2.302.114	1.794.224	263.532	260.035
Shares and other variable-yield securities	300	402	7	0
Total	2.302.414	1.794.626	263.539	260.035

EUR 544,722k of the debt securities and other fixed-income securities of
EUR 2,565,646k (prior year: EUR 2,054,259k) mature in fiscal year 2020.

Applying the modified lower of cost or market principle under Sec. 253 (3) Sentence 5 HGB, and allowing for the hedges, impairment losses of EUR 1,812k (prior year: EUR 3,490k) were not recognized on debt securities and other fixed-income securities in the banking book with a carrying amount of EUR 447,434k (prior year: EUR 439,174k) and a fair value of EUR 445,622k (prior year: EUR 435,684k) because their impairment is temporary. This exclusively relates to negotiable debt securities. Likewise, applying the modified lower of cost or market principle, impairment losses of EUR 508k (prior year: EUR 625k) were not recognized on non-negotiable shares and other variable-yield securities with carrying amounts of EUR 11,651k (prior year: EUR 11,651k) and fair values of EUR 11,143k (prior year: EUR 11,026k). Shares and other fixed-income securities include non-negotiable shares in investment funds as defined by Sec. 1 (10) KAGB [“Kapitalanlagegesetzbuch”: German Investment Code] in which the Bank holds more than 10% of the shares in each case. As they are assigned to the Bank’s fixed assets, the modified lower of cost or market principle is applied. The fair value of the investment funds is equal to the net fund assets and is determined by the market value or liquidation value of the separate fund components. Of such shares, which have carrying amounts of EUR 261,454k (prior year: EUR 283,142k) and fair values of EUR 266,312k (prior year: EUR 282,211k), impairment losses of EUR 645k (prior year: EUR 1,221k) were not charged on shares with a carrying amount of EUR 56,946k (prior year: EUR 123,845k). Distributions in the fiscal year came to EUR 1,000k (prior year: EUR 0k). 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.

Of the fund for general banking risks (pursuant to Sec. 340e (4) HGB), EUR 271k was released to net income from trading book positions (prior year: EUR 363k). As the provision recognized under Sec. 340e (4) HGB was greater than the trading assets reported on the balance sheet, as in the prior year, the risk discount was only recognized in the amount of the reserves in the trading book. In the reporting year, no securities were transferred from the trading book to the investment portfolio.

EUR k		
	2019	2018
Shares and other variable-yield securities	1,857	1,620
Value-at-risk discount	-140	-15
Total	1,717	1,605

DESIGNATED HEDGES

Micro hedges are recognized to hedge against interest rate or currency risks, to offset changes in value:

- › Interest rate risks relating to promissory note loans and other fixed-income securities held in the Bank's own portfolio were hedged using interest rate derivatives. As in the prior year, the average residual maturity was six years.
- › Interest rate derivatives with customers were hedged using offsetting back-to-back interest rate derivatives. The average residual maturity was ten years (prior year: twelve years).
- › Forward exchange contracts with customers are hedged using offsetting foreign exchange derivatives. As in the prior year, the residual maturity was less than three months.

EUR k	CARRYING AMOUNTS		NOMINAL VALUES		AMOUNT OF HEDGED RISK	
	31 DEC 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018	31 DEC 2019	31 DEC 2018
Bonds and debt securities	1,553,560	1,037,860	1,533,800	1,020,659	58,513	27,771
Promissory note loans	20,708	20,708	20,000	20,000	7,316	5,323
Interest rate derivatives			353,610	392,228	38,886	30,354
Forward exchange transactions			6,773,555	7,490,253	51,517	68,974
Total	1,574,268	1,058,568	8,680,965	8,923,140	156,232	132,422

TRUST BUSINESS

TRUST ASSETS

EUR k	2019	2018
Loans and advances to banks	21,600	50,603
Total	21,600	50,603
thereof trust loans	0	0

TRUST LIABILITIES TO

EUR k	2019	2018
Customers	21,600	50,603
thereof trust loans	0	0

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 2019	14,493	13,471	1,848,790	294	92,149
Acquisition or production cost 1 Jan 2019	36,564	32,552	1,848,790	308	92,149
Additions	4,920	638	665,118	71	5,100
Disposals	153	2,864	241,518	0	0
Reclassifications	0	0	0	2,976	-2,976
Exchange rate changes	0	0	3,278	0	0
Acquisition or production cost 31 Dec 2019	41,331	30,326	2,275,668	3,355	94,273
Accumulated amortization, depreciation and impairment 1 Jan 2019	22,071	19,081	0	14	0
Amortization, depreciation and impairment in the fiscal year	0	0	0	0	0
Additions	4,236	1,728	0	0	0
Disposals	131	2,803	0	0	0
Reclassifications	0	0	0	-14	14
Exchange rate changes	0	0	0	0	0
Accumulated amortization, depreciation and impairment 31 Dec 2019	26,176	18,007	0	0	14
Write-ups	0	0	0	0	0
Residual book values 31 Dec 2019	15,154	12,319	2,275,668	3,355	94,259

Land and buildings with a total book value of EUR 7,259k (prior year: EUR 7,512k) are exclusively owner-occupied. Furniture, fixtures and office equipment included in fixed assets amounted to EUR 5,060k (prior year: EUR 5,959k).

OTHER ASSETS

Other assets came to EUR 240,722k (prior year: EUR 204,500k). The increase is primarily attributable to receivables from affiliates of EUR 21,840k (prior year: EUR 2,106k) and cash collateral management payments of EUR 195,716k (prior year: EUR 186,577k) in connection with institutional fund business and derivatives business. The other items are mostly tax assets of EUR 1,088k (prior year: EUR 3,701k). In addition, there are option premiums from foreign currency options, other receivables from custody operations and miscellaneous receivables.

PREPAID EXPENSES

EUR k	31.12.2019	31.12.2018
Prepaid expenses	8,227	8,454
thereof upfront payments and premiums	4,898	4,712
thereof positive differences	1,805	172
thereof other prepaid expenses	1,524	3,570

SUBORDINATED ASSETS

EUR k	31 DEC 2019	31 DEC 2018
Loans and advances to customers	35,866	32,021
Debt securities and other fixed-income securities	44,252	17,964
Total	80,118	49,985

DEFERRED TAX ASSETS

As of the reporting date, deferred tax assets amounted to EUR 7,542k (prior year: EUR 9,221k). In the reporting year they were calculated using a tax rate for corporate income tax, solidarity surcharge and trade tax of 32.104%. They mostly stem from temporary differences resulting from pension and restructuring provisions and reserves pursuant to Sec. 340f HGB.

FOREIGN CURRENCY ASSETS AND LIABILITIES

As of the reporting date, foreign currency assets stood at EUR 770,755k (prior year: EUR 706,176k) and foreign currency liabilities at EUR 1,013,444k (prior year: EUR 1,146,635k).

OTHER LIABILITIES

As in the prior year, other liabilities of EUR 41,466k (prior year: EUR 50,980k) related mainly to liabilities from collateral furnished of EUR 27,615k (prior year: EUR 30,339k), taxes payable of EUR 6,089k (prior year: EUR 3,410k), 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 2019	2019	2019	2019	2019	2019	2019	31 DEC 2019	31 DEC 2018
Provisions for pensions and similar obligations	15,163	0	0	564	670	0	62	15,119	15,163
Tax provisions	6,616	0	0	0	1,385	0	3,054	8,285	6,616
Other provisions	35,603	0	0	0	15,049	7,461	31,788	44,881	35,603
	57,382	0	0	564	17,104	7,461	34,905	68,285	57,382

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 covering assets over pension and similar obligations of EUR 1,450k (prior year: EUR 1,014k) was recognized as the difference from the assets to cover pension obligations of EUR 4,394k (prior year: EUR 3,958k) and the related provisions of EUR 2,944k (prior year: EUR 2,944k). The covering assets from employer's pension liability insurance is measured at the cash surrender value. This is the fair value and, at the same time, the amortized cost of the employer's pension liability insurance. Expenses and income were not netted.

Provisions for pensions and similar obligations are determined on the basis of actuarial principles taking into account biometric probabilities (Heubeck 2018 G 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 2.79%; 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 ten years. The interest rate used for discounting is based on the interest rate published by the Bundesbank on 31 October 2019 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 ten fiscal years and the amount of provisions recognized using the average market interest rate for the last seven fiscal years was calculated for the fiscal year and may not be distributed; it amounted to EUR 876k as of the reporting date (prior year: EUR 1,036k).

FUND FOR GENERAL BANKING RISKS

In the Bank, the fund for general banking risks decreased from EUR 271k to EUR 63,935k (prior year: EUR 64,206k).

EQUITY

COMPOSITION OF EQUITY AND LIABILITIES

EUR k	31 DEC 2019	31 DEC 2018
Subscribed capital	18,445	18,445
Capital reserves	85,885	85,885
Legal reserves	2,000	1,600
Other revenue reserves	94,406	90,864
Net retained profit (+)/accumulated loss (-)	50,792	3,942
Book equity	251,528	200,736

SUBSCRIBED CAPITAL

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

As in the prior year, the Bank's capital stock of EUR 18,445k comprised 354,715 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 prior year, of which EUR 2,445k related 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 was unchanged at EUR 754,804 as of the reporting date.

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

CAPITAL RESERVES

As in the prior year, the Group's capital reserves total EUR 85,885k.

REVENUE RESERVES

The legal reserves rose by EUR 400k to EUR 2,000k in the reporting period (prior year: EUR 1,600k).

Due to the retention of profits from the prior year, other revenue reserves increased by EUR 3,542k to EUR 94,406k (prior year: EUR 90,864k).

At the ordinary Annual General Meeting on 27 May 2020, the shareholders will vote on the proposal to both allocate the net retained profit from 2019 to revenue reserves and to make a distribution to shareholders.

NON-DISTRIBUTABLE AMOUNTS

Non-distributable amounts of a total of EUR 9,867k (prior year: EUR 11,270k) in the reporting year arose due to the difference in the average market rates for ten years and seven years used to discount provisions for pension obligations in accordance with Sec. 253 (6) Sentence 1 HGB of EUR 876k, from the recognition of deferred taxes in accordance with Sec. 268 (8) HGB of EUR 7,541k and the excess of covering assets over pension and similar obligations in accordance with Sec. 246 (2) Sentence 2 HGB of EUR 1,450k.

OTHER NOTES

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The liabilities from guarantees of EUR 1,234k (prior year: EUR 3,247k) 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 of EUR 156,893k (prior year: EUR 126,004k). Following the review of the term "irrevocable" and the resulting definition, we adjusted the prior-year presentation to improve comparability.

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

OTHER FINANCIAL OBLIGATIONS

There were payment obligations relating to lease agreements for our offices of EUR 5,707k for fiscal year 2020 (prior year: EUR 4,775k). The average residual maturity of the lease agreements was six years (prior year: seven years).

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 bonds and debt securities with a book value of EUR 753,177k (prior year: EUR 500,114k) and a nominal value of EUR 746,873k (prior year: EUR 497,677k) and shares with a market value of EUR 2,199k (prior year: EUR 0k). As of the reporting date, the Bank had borrowed shares with a market value of EUR 2,199k (prior year: EUR 0k).

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	140,221	757,746	1,069,615	1,967,582	43,534	129,802	-86,268
Swaptions	13,551	0	0	13,551	0	0	0
Forward transactions in foreign currencies (by residual maturity)							
OTC products							
Forward exchange contracts	7,267,384	304	0	7,267,688	53,425	51,976	1,449
Currency options	20,296	0	0	20,296	127	127	0
Total	7,441,452	758,050	1,069,615	9,269,117	97,086	181,905	-84,819

EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES (HEADS)

	2019			2018		
	FEMALE	MALE	TOTAL	FEMALE	MALE	TOTAL
Part-time employees	87	14	101	71	12	82
Full-time employees	147	341	488	123	304	428
Total	234	355	589	194	316	510

REMUNERATION AND LOANS AND ADVANCES TO THE GOVERNING BODIES

Remuneration to the members of the Supervisory Board amounted to EUR 151k (prior year: EUR 128k). No payments were made to the Shareholder Committee in the reporting year (prior year: EUR 4k).

Total remuneration paid to former general partners and their surviving dependents was EUR 96k (prior year: EUR 91k).

Pension provisions of EUR 775k (prior year: EUR 804k) were recognized for pension claims of the former general partners and their surviving dependents.

Applying the option afforded under Sec. 286 (4) HGB, as in the prior year, the remuneration of the Management Board is not disclosed in the reporting year.

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 (until 16 September 2019)
- › Robert Sprogies, member of the Management Board (since 16 September 2019)

MEMBERS OF THE SUPERVISORY BOARD

- › Wolfgang Deml, Rottach-Egern (Chairman)
- › Qiang Liu, Managing Director Fosun, Shanghai, China (Deputy Chairman)
- › Dr. Thomas Duhnkrack, businessman, Kronberg im Taunus
- › Bin Tang, Executive Director Fosun, Shanghai, China
- › Thomas Theobald, Usingen-Merzhausen (until 5 June 2019, employee representative)
- › Siegfried Klink, Hetzerath (until 5 June 2019, employee representative)
- › Ingo Repplinger, Konz-Könen (since 5 June 2019, employee representative)
- › Michael Mannig, Karben (since 6 September 2019, employee representative)

EXECUTIVE DIRECTORS AND OTHER PERSONS IN SUPERVISORY BODIES

The following Management Board members held additional executive or non-executive directorships in the reporting period:

Michael Bentlage:

- › Angestellten-Unterstützungs-Verein von Hauck & Aufhäuser Privatbankiers AG Frankfurt am Main und München e. V., chairman of the association
- › Hauck & Aufhäuser Fund Platforms S. A., chairman of the board of directors
- › FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, member of the advisory board
- › btov Industrial Technologies SCS, SICAR, St. Gallen, Switzerland, member of the advisory board
- › BVV Versicherungsverein des Bankgewerbes a. G., member of the supervisory board
- › FFT GmbH & Co. KGaA, deputy chairman of the supervisory board
- › Münchener Handelsverein e. V., member of the management board and the advisory board
- › Interessengemeinschaft Frankfurter Kreditinstitute GmbH, member of the advisory board

Dr. Holger Sepp (since 1 February 2019):

- › Hauck & Aufhäuser Fund Services S. A., chairman of the supervisory board
- › Hauck & Aufhäuser Alternative Investment Services S. A., chairman of the supervisory board

Robert Sprogies (since 16 September 2019):

- › Angestellten-Unterstützungs-Verein von Hauck & Aufhäuser Privatbankiers AG Frankfurt am Main und München e. V., deputy chairman of the association
- › FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, general manager
- › Hauck & Aufhäuser Structured Finance GmbH, general manager
- › Hauck & Aufhäuser Verwaltungs GmbH, general manager
- › Stella Verwaltungs GmbH, general manager
- › The NAGA Group AG, deputy chairman of the supervisory board
- › Hauck & Aufhäuser Kulturstiftung, member of the executive board

Wolfgang Strobel (until 16 September 2019):

- › Angestellten-Unterstützungs-Verein von Hauck & Aufhäuser Privatbankiers AG Frankfurt am Main und München e. V., deputy chairman of the association
- › btov Industrial Technologies SCS, SICAR, St. Gallen, Switzerland, member of the advisory board
- › Interessengemeinschaft Frankfurter Kreditinstitute GmbH, member of the advisory board

SHAREHOLDINGS

The following table shows the Bank's shareholdings.

NO.	NAME AND REGISTERED OFFICE	SHARES HELD BY NO.	SHARE IN CAPITAL IN %	CURRENCY	EQUITY (EUR k)	NET INCOME/LOSS FOR THE YEAR (EUR k)
I.	Consolidated companies (Sec. 313 (2) No. 1 HGB)					
1.	Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main		100	EUR	251,528	50,792 ¹
2.	Hauck & Aufhäuser Fund Platforms S.A., Luxembourg	1	100	EUR	111,502	21,394 ¹
3.	Hauck & Aufhäuser Fund Services S.A., Luxembourg	2	100	EUR	25,067	11,768 ¹
4.	Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg	3	100	EUR	5,505	5,182 ¹
5.	FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich	1	100	EUR	22,255	-22 ¹
6.	Hauck Investment Management (Nanjing) Co., Ltd., Nanjing, China	1	100	CNY	7,568	-163 ¹
II.	Associates (Sec. 311 No. 1 HGB)					
7.	H&A Global Investment Management GmbH, Frankfurt	1	40	EUR	4,632	1,075 ²
III.	Non-consolidated companies (Sec. 296 (2) HGB)					
8.	Fosun Europe Innovation Hub GmbH, Berlin	1	100	EUR	25	- ²
9.	DB PWM Private Markets I GP S.à r.l., Luxembourg	2	100	EUR	13	- ²
10.	Hauck & Aufhäuser Verwaltungs GmbH, Munich	5	100	EUR	45	2 ¹
11.	ZV Service GmbH, Munich	5	75	EUR	70	-6 ²
12.	Fopex GmbH, Frankfurt	5	100	EUR	25	343 ¹
13.	Projektentwicklungsg. Maybach 1 mbH & Co. KG, Memmingen	5	75	EUR	105	1,780 ¹
14.	Projektentwicklungsg. Maybach 2 mbH & Co. KG, Memmingen	5	75	EUR	70	1,335 ¹
15.	Projektentwicklungsg. Maybach 3 mbH & Co. KG, Memmingen	5	75	EUR	70	1,335 ¹
16.	Projektentwicklungsg. Maybach 4 mbH & Co. KG, Memmingen	5	75	EUR	35	891 ¹
17.	Projekt Maybach Beteiligungs GmbH, Memmingen	5	75	EUR	27	2 ²
18.	Medienlogistik Stuttgart Service GmbH, Stuttgart	5	51	EUR	161	2 ²
19.	Hauck & Aufhäuser Pension Trust GmbH, Frankfurt am Main	5	100	EUR	25	-2 ²
20.	HI-Management S.à r.l., Luxembourg	5	100	EUR	13	0 ²
21.	PERSEUS Capital S.à r.l., Luxembourg	5	100	EUR	12	0 ²
22.	Lending GP S.à r.l., Luxembourg	5	100	EUR	12	0 ²
23.	Hauck & Aufhäuser Structured Finance GmbH, Munich	1	100	EUR	95	-188 ²
24.	ALH European Debt Management S.à r.l., Luxembourg	4	100	EUR		
25.	HAIG Trend Inter-Rent II	1	100	EUR	-250	-250 ¹
26.	H & A International Fund – Global Income	1	100	EUR	2,766	2,766 ¹

¹ 2019 year-end figures

² 2018 year-end figures

³ 2017 year-end figures

NO.	NAME AND REGISTERED OFFICE	SHARES HELD BY NO.	SHARE IN CAPITAL IN %	CURRENCY	EQUITY (EUR k)	NET INCOME/LOSS FOR THE YEAR (EUR k)
IV.	Non-consolidated companies (Sec. 296 (1) Nos. 2 and 3 HGB)					
27.	H&A "Green Office, Hamburg Hafencity" GmbH & Co. KG, Hamburg	5	100	EUR	3,759	-99 ²
28.	Crossroads Capital Management Limited, Dublin, Ireland	3	70	EUR	297	-323 ¹
V.	Non-consolidated companies (Sec. 311 (2) HGB)					
29.	Hauck & Aufhäuser (Schweiz) AG	7	40	CHF	1,653	21 ¹
VI.	Other companies (Sec. 313 (2) No. 4 HGB)					
30.	cloudCapital Structure GmbH, Hamburg	5	25	EUR	14	-8 ²
31.	FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, Munich	1	10	EUR	5,346	572 ¹
32.	Swift Group, Hulpe, Belgium	1	0.0198	EUR	407,529	33,513 ²
33.	MS "Rike" Schifffahrtsgesellschaft mbH & Co. KG, Drochtersen	5	24	EUR	4,259	760 ²
34.	Spielbank Wicker Beteiligungs GmbH, Ahnatal	5	20	EUR	34	0 ²
35.	MS "Alina" Schifffahrtsgesellschaft mbH & Co. KG, Drochtersen	5	23	EUR	3,560	1,366 ²
36.	Spielbank Bad Homburg Wicker & Co. KG, Bad Homburg	5	19	EUR	2,287	459 ²
37.	AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG, Munich	5	1	EUR	95,389	4,213 ²
38.	H&A "Bezirksamt Nord, Hamburg" GmbH & Co. KG, Hamburg	5, 10, 1	11	EUR	-81	-5 ²
39.	H&A "München, Lamontstrasse" GmbH & Co. KG, Munich	5, 1	12	EUR	-2	-5 ²
40.	HANNOVER LEASING Sun Invest 2 Spanien GmbH & Co. KG, Pullach i. Isartal	5	1	EUR	6,524	4 ²
41.	HANNOVER LEASING Sun Invest 3 Italien GmbH & Co. KG, Pullach i. Isartal	5	4	EUR	6,137	-171 ²
42.	VCM VII European Mid-Market Buyout GmbH & Co. KG, Cologne	5	8	EUR	4,407	16 ²
43.	Interessengemeinschaft Frankfurter Kreditinstitute GmbH, Frankfurt am Main	5	8	EUR	25,453	9,771 ²
44.	VCM Initiatoren GmbH & Co. KG, Eichenried	5	9	EUR	262	24 ³
45.	VCM/BHF Initiatoren GmbH & Co. Beteiligungs KG, Eichenried	5	4	EUR	51	-20 ³
46.	VCM Partners GmbH & Co. KG, Eichenried	5	8	EUR	112	3 ³
47.	AC VI Initiatoren GmbH & Co. KG	5	8	EUR	17	-9 ³
48.	The Naga Group AG, Hamburg	5	4	EUR	119,472	-4,100 ²

¹ 2019 year-end figures² 2018 year-end figures³ 2017 year-end figures

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, 31 March 2020

The Management Board



Michael Bentlage



Dr. Holger Sepp



Robert Sprogies

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 2019, and the income statement for the fiscal year from 1 January 2019 to 31 December 2019, 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 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the “Statement on corporate governance” and the “Non-financial statement” 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 2019 and of its financial performance for the fiscal year from 1 January 2019 to 31 December 2019 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” and the “Non-financial statement” sections referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB [“Handelsgesetzbuch”: German Commercial Code], 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 CONSOLIDATED 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 2019 to 31 December 2019. 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 watch-lists 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 "Accounting policies" (from page 37 onwards) and in the "Risk report" section (from page 21 onwards) 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.

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 "Accounting policies" (from page 37 onwards) 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 "Statement on corporate governance" and the "Non-financial statement" sections of the management report that we obtained before the date of this auditor's report and the "Message from the Management Board" and the "Report of the Supervisory Board" sections of the annual 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 5 June 2019. We were engaged by the Supervisory Board on 5 June 2019. 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:

- › Review in accordance with the review instructions of the group auditor pertaining to the reporting package as of 30 June 2019 for Hauck & Aufhäuser Privatbankiers AG
- › Review of securities contract notes for a customer in the period from 1 January 2019 to 30 April 2019
- › Due diligence in connection with a potential acquisition
- › Tax advice for Hauck & Aufhäuser Alternative Investment Services SA, Luxembourg, a wholly owned subsidiary of the Bank to develop a general target operating model for the German market

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Stuttgart, 3 April 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Frey	Zhou
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For ease of reading, gender-related wording have been largely omitted. The information always refers to people of any gender identity.