

ANNUAL REPORT 2020



HAUCK & AUFHÄUSER

PRIVATBANK SEIT 1796

KEY FIGURES

PROFIT AND LOSS STATEMENT		01 JAN-31 DEC 2020	01 JAN-31 DEC 2019
Net interest income	EUR m	34.3	27.2
Net commission income	EUR m	165.8	140.9
Administrative expenses	EUR m	167.6	155.2
Net pre tax Profit	EUR m	56.4	28.6
Net after tax Profit	EUR m	45.7	27.9
Cost Income Ratio ¹	%	73.2	84.2
Return on equity post tax	%	10.8	16.0
BALANCE SHEET		01 JAN-31 DEC 2020	01 JAN-31 DEC 2019
Total assets	EUR m	6,655	5,702
Risk-weighted assets	EUR m	1,289	1,282
Balance sheet equity	EUR m	332	287
Balance sheet own funds (CRR ²)	EUR m	251	228
REGULATORY KEY FIGURES		01 JAN-31 DEC 2020	01 JAN-31 DEC 2019
Core capital ratio ³	%	19.3	17.7
Total capital ratio ⁴	%	19.4	17.8
Leverage ratio ⁵	%	6.0	3.8
EMPLOYEES		01 JAN-31 DEC 2020	01 JAN-31 DEC 2019
Average number		776	722

¹ We define the cost income ratio as follows: Operating expenses in relation to operating income. Operating expenses consist of administrative expenses including depreciation, amortization and impairment losses on intangible assets and depreciation of tangible assets. Operating income is the sum of net interest income, net commission income, net income from the trading portfolio and other operating income.

² Capital Requirements Regulation, CRR.

³ Core capital ratio: Core capital in relation to risk-weighted assets pursuant to Art. 92 Para. 2 lit. b CRR

⁴ Total capital ratio: Own funds (core capital and supplementary capital) in relation to risk-weighted assets pursuant to Art. 92 Para. 2 lit. c CRR

⁵ Leverage ratio (debt ratio): Core capital in relation to business volume pursuant to Art. 429 (2) CRR

CONTENT

4 MESSAGE FROM THE MANAGEMENT BOARD/
REPORT OF THE SUPERVISORY BOARD

11 GROUP MANAGEMENT REPORT

34 INCOME STATEMENT/BALANCE SHEET/
CHANGES IN EQUITY/CASH FLOW STATEMENT

41 NOTES TO THE FINANCIAL
STATEMENTS

CHALLENGE

CHANGE



MESSAGE MANAGEMENT BOARD/ REPORT SUPERVISORY BOARD

MESSAGE FROM THE MANAGEMENT BOARD

7

REPORT OF THE SUPERVISORY BOARD

9



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

CHALLENGE & CHANGE: EMBRACING CHANGE TO DRIVE SUSTAINABLE GROWTH

DEAR CLIENTS AND BUSINESS PARTNERS,

2020 was a year that will remain deeply embedded in our memories. The developments in the Covid-19 crisis during the first few months of the year alone posed extraordinary challenges. The first nationwide lockdown in the middle of March 2020 made real a scenario that had previously always been the stuff of fiction and at best something to be seen at the movies. In retrospect, hardly anyone expected the scale and scope of developments that we know today.

Of course, the situation as a whole and the attendant circumstances also brought influence to bear on our bank. It made us keenly aware of our responsibility to ensure the secure and profitable safekeeping of our clients' assets. Our clear and firm objective when navigating our clients' assets through these turbulent times was to ensure that we delivered all wealth-related services to their complete satisfaction.

What became very clear to us is how important it is – particularly in such extraordinary times – to have employees on board who all work as one to provide our clients with the professionalism and transparent communication they have come to expect. We are firmly convinced that, even beyond times of crisis, the continued success of our bank needs people who are prepared to grasp new challenges and to question established structures. This is precisely the message our employer-branding campaign conveys under the claim of “Challenge & Change”. In 2020, in order to actively involve our employees in driving the future of Hauck & Aufhäuser, we further expanded our long-term talent management approach to employee retention, motivation and development through the Transformer program. Under the slogan of “Engagement & Growth”, the program focuses on enhancing interdisciplinary competencies, offering development programs to employees with functional, management and project ambitions in equal measure. This enables us to provide our managers and employees with regular, targeted development opportunities – while taking due consideration of the future challenges facing the world of banking.

In our core business segments, the spotlight of the past year was placed on “Courage & Innovation.” In Private Banking, we focused on integrating Alternatives – that is, real assets such as real estate/private equity and infrastructure – into the strategic Asset Allocation. In addition, we systematically developed Zeedin, our innovative digital asset management solution. In Asset Servicing, the focus was on both gaining a foothold in Ireland through our new subsidiary, Crossroads Capital, and consistently expanding our Asset Servicing product spectrum through real assets, including an innovative solution that provides bridge financing to real estate funds.

Furthermore, in 2020, Hauck & Aufhäuser took the decision to enter the digital assets market. After laying the groundwork for this segment in 2020, at the start of 2021 – a premiere on the German market – we obtained fund approval for the cryptocurrency segment, enabling us to open up access for professional and semi-professional investors to the digital assets market. In other projects, we are working towards offering our institutional clients the same comprehensive services for the digital asset segment – such as CMC, depositary and custodian services – that they are already accustomed to for liquid and real assets.

For some time now, a further focus of our work has been the systematic alignment of our bank towards sustainable investment. This starts with the range of products we offer, such as asset management and custody, and continues with a series of measures within the bank. To this end, in the past year, after substantiating the Environmental, Social and Governance (ESG) policies for the corporate and product segments and harmonizing them with regulatory requirements, we launched an ESG program to anchor sustainability as a long-term concept in the Group.

True to the spirit of “Tradition & Progress,” we remain firmly committed to traditional values, such as dedication and reliability. At the same time, however, we are also committed to innovation and adapting to new developments in the market, whilst maintaining the focus of our business model on delivering services that benefit the wealth of private and institutional investors.

When we look back on the past financial year, we can undoubtedly say that, even in such an extraordinary year as 2020, we were also able to build on the success of the preceding years to record an extremely positive business performance. The largest milestone in this success was the finalization of the agreement to acquire Bankhaus Lampe – a decision that will significantly shape our future. One of the main focuses in 2021 will be on the merger of the two banks. The challenge here is not only to successfully manage technical migration, but also cultural integration, and to integrate our new colleagues properly from the outset. Furthermore, we also want to use 2021 to continue to pursue steady and successful growth in our business segments. To achieve this, we plan to offer our clients an even more extensive range of services and products across all business segments. For, one thing is clear: after the success of the preceding years, we have no reason to rest – the claim of “Challenge & Change” will continue to drive our actions!

We would like to express our sincere gratitude to you for your support and look forward to continuing the successful cooperation with you in the future!

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 2020. 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. Furthermore, throughout 2020, the Board discussed in detail the impact of, and the bank's response to, the Covid-19 pandemic.

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.

An extraordinary Supervisory Board meeting was held on 22 January 2020 which focused intensively on the acquisition process of Bankhaus Lampe.

At the spring meeting held on 22 April 2020 the auditors reported on the annual financial statements for 2019 and were available to answer questions. In addition, the Supervisory Board approved its own report on the financial year 2019 and the invitation to the Annual General Meeting to be convened on 27 May 2020. Furthermore, the Committee intensively examined the annual financial statements of the bank along with the auditors' report. At the meeting, the Audit Committee was dissolved and its tasks were reassigned to the Supervisory Board. The Supervisory Board then adopted the financial statements for 2019. The committee also intensively dealt with the bank's compensation system.

At its meeting prior to the Annual General Meeting on 27 May 2020 the Supervisory Board also addressed the integration of Bankhaus Lampe and the future strategy. The automation of the bank's processes were also discussed.

The Annual General Meeting on 27 May 2020 duly noted the 2019 annual financial statements and approved the proposed appropriation of profit; the actions of the Management Board and the Supervisory Board were ratified.

On 16 September 2020 at 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 also dealt with the integration strategy for Bankhaus Lampe.

At its last meeting of the year on 8 December 2020 the Supervisory Board focused on the preliminary results for 2020 and the planning for 2021 and future years. Further, the Supervisory Board also discussed the bank's long-term goals.

Mr. Bin Tang resigned as a member of the Supervisory Board with effect from 8 December 2020. The Supervisory Board expressed its sincere gratitude for his work. At the Extraordinary General Meeting on the same day, Mr. Hualong Jin was appointed as a new member of the Supervisory Board of Hauck & Aufhäuser Privatbankiers Aktiengesellschaft.

The consolidated Group financial statements and the annual financial statements of the parent company for the year ending 31 December 2020 were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed as the company's auditor at the Annual General Meeting on 27 May 2020 and was engaged on 18 September 2020 by the Supervisory Board. The auditors included the accounting records and the management reports and, following the audit, issued unqualified audit opinions on the consolidated financial statements, the annual financial statements and the management reports as well as the dependent company report. The auditors were available to answer the questions of the Supervisory Board during the meeting held to pass resolution on the consolidated Group financial statements and the parent company's annual financial statements.

The Supervisory Board has examined the consolidated financial statements, the 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, 14 April 2021

The Supervisory Board



Wolfgang Deml

Chairman

Wolfgang Deml
Chairman

Qiang Liu
Deputy Chairman

Dr. Thomas Duhnkrack
Member

Bin Tang
Member
until 8 December 2020

Hualong Jin
Member
since 8 December 2020

Ingo Repplinger
Employee
Representative

Michael Mannig
Employee
Representative

ENGAGEMENT GROWTH



GROUP MANAGEMENT REPORT OF HAUCK & AUFHÄUSER PRIVATBANKIERS AG

BUSINESS ACTIVITIES OF THE HAUCK & AUFHÄUSER GROUP	13
ECONOMIC REPORT	13
DEVELOPMENT IN THE CORE BUSINESS SEGMENTS	19
OPPORTUNITIES AND FORECAST	21
RISK REPORT	23
STATEMENT ON CORPORATE GOVERNANCE	29
GROUP NON-FINANCIAL STATEMENT	29
CONCLUDING STATEMENT OF THE DEPENDENT COMPANY REPORT	33

BUSINESS ACTIVITIES OF THE HAUCK & AUFHÄUSER GROUP

At its corporate locations in Germany, Luxembourg, Switzerland, the UK, Ireland, France and China, the Hauck & Aufhäuser Group 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 Group 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 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 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

In 2020, the Covid-19 pandemic caused the worst peacetime global contraction since the Great Depression. According to the International Monetary Fund, global growth is estimated to have contracted by 3.5% in 2020, with the advanced economies shrinking by 4.9% and emerging market and developing economies by 2.4%. Governments and central banks around the world have rallied around with a historical level of support to stabilize households’ and firms’ income. In Europe, the European Reconstruction Fund is leading the way, where financial markets have been markedly calmer since it was adopted. Demonstrating the strength of the eurozone, the single currency rose sharply and firmly against the dollar. Without the Reconstruction Fund and its massive transfers, expectations of a break-up of the monetary union would have been refueled, not

just on the foreign exchange markets. Fiscal and monetary policies have averted this risk with this confidence-instilling measure. Governments are now tasked with making the most of the opportunities (and extra time) that have been created to tackle structural reforms and future investments. On the other side of the Atlantic, it was not clear until early January 2021 whether there would be a “blue wave” under Joe Biden. Hope for change, coupled with promising vaccine news and the rapid recovery in China since the second half of the year raised hopes of a turnaround at the end of 2020.

MONETARY POLICY

In response to the pandemic, the US Federal Reserve lowered its Fed Funds Target Range in two big steps in close succession in the first quarter of 2020 from 1.50%-1.75% to 0.00%-0.25%. The European Central Bank had already cut its deposit facility rate to -0.5% at the end of 2019, the rate still offered today. Both central banks launched huge emergency asset purchase programs and set up a range of credit facilities. In 2020, the US Department of the Treasury and the Fed worked together more closely than ever before. In its strategy review, the Fed adopted an average inflation targeting policy in fall 2020, allowing it to remain expansionary for longer while expressly tolerating higher inflation. The ECB is also reviewing its monetary policy strategy, but appears to need more time; a decision is expected by the end of the first half of 2021.

FIXED-INCOME SECURITIES

Shocked by the pandemic and its threat to the economy, the daily 10-year US Treasury yield dipped below the 0.40% mark in spring 2020 and from then hovered between 0.60% and 1.00% for the rest of 2020. In the first quarter of 2021, the benchmark rate climbed as high as 1.70%. On this side of the Atlantic, the 10-year German government bond yield slipped briefly to below -0.90% in March 2020 and from then moved sideways between -0.60% and -0.40% in 2020, rising to -0.20% at the end of February 2021.

EQUITIES

After tumbling in the first quarter of 2020, by the end of the fourth quarter most of the leading indices had managed to claw their way back to pre-crisis levels (DAX) or even top them (US stocks). The biggest stimulus to the markets came from news of vaccine approvals in the fourth quarter of 2020, which buoyed stocks further.

INDUSTRY ENVIRONMENT

In recent years, the vast majority of Germany-based banks have seen low and falling profitability, flat net commission income and rising cost-income ratios.

Many types of banks are experiencing shrinking returns on assets, but those which have developed highly focused business models have been able to defy this general trend. For example, automotive banks or private wealth management banks achieved higher returns on equity than the average for German banks.

Besides the challenges described above, the coronavirus pandemic had repercussions for the entire banking sector in 2020. At present it is impossible to tell what the implications will be in either the short term in 2021 or beyond. For 2020, the coronavirus pandemic had an uneven impact on the various business models and revenue and cost drivers of German banks.

Banks with a focus on lending business experienced a twofold effect: a surge in liquidity requirements from corporate clients in spring 2020 was followed by a greater need for loan loss provisions later on in the year. As a result, the 20 largest European banks had to increase their loss allowances by up to 150% year on year in the first three quarters.

The capital markets painted a mixed picture in 2020: After the German stock market index DAX posted record highs in February and slumped in March, the markets rebounded to new highs toward the end of the year, accompanied by high volatility. For example, the DAX volatility index exceeded the 20 mark throughout 2020, whereas it rarely went that high in 2019. This high level of volatility and the associated high trading volumes tended to have a positive impact on banks' capital market business, leading to higher income.

The generally mixed profitability situation in the German banking sector must be viewed against the backdrop of the current and future regulatory environment and the emerging megatrends such as digitalization, sustainability/ESG and demographics. The coronavirus pandemic has the potential to either aggravate or mitigate these trends, but it is impossible to tell what effect it will have at present.

BANKING INDUSTRY PERFORMANCE

The persistent low interest rate environment makes it difficult to generate earnings through maturity transformation. It is becoming increasingly difficult to invest customer deposits profitably with a negative ECB deposit facility rate. What is more, the higher-interest rate investments and loans entered into by banks in the past are gradually maturing with no adequate substitutes available given the level of interest obtainable on the capital market. Net interest income is declining as a result.

Banks have a number of options open to them: on the assets side of the balance sheet, maturity transformation can be increased or maturities can be lengthened. However, this increases the interest rate risk should interest rates rise. This approach can be supplemented by facilitating loan origination by adjusting credit risk strategy parameters. However, this changes the bank's risk appetite and has a knock-on effect on the risk profile of the loan portfolio.

On the equity and liabilities side, many banks are now passing negative interest rates on to their institutional customers. In the course of 2020, more and more institutions started to charge negative interest on deposits in certain retail banking segments (often above a certain threshold).

Banks in Germany and the rest of the eurozone have been facing huge challenges to their financial performance as a result of falling net interest income coupled with flat net commission income.

On top of this, persistently low interest rates are leading to a dearth of investment opportunities for banks. One possible answer can be to develop asset management activities and thereby boost net commission income.

The direct effects of the coronavirus pandemic on banks' financial performance are manifold:

To minimize the damage to the economy, governments have launched large-scale economic development and assistance programs and implemented monetary policy support measures.

This consequently raises the risk of locking in the prevailing low interest rates. GDP dropped by 5% in 2020 against 2019 as a result of the lockdown and the ensuing recession.

Higher loan losses are therefore likely. In anticipation of this, German banks upped their loan loss provisions in the first half of the year.

The financial performance of banks varied widely in the course of the year. In the first half, great uncertainty about the future course led banks to increase their loan loss provisions. This same uncertainty pushed up trading volumes, leading to positive effects for banks that focus on business in the capital markets. The uncertainty subsided in the third quarter of 2020 as the pandemic situation eased. But the gathering pace of the pandemic in the fourth quarter of 2020 led to higher loan loss provisions at some, but not all, banks.

Overall, many commercial banks had to make substantial risk provisioning in 2020. At the same time, banks with a focus on capital markets business or asset management and safekeeping did relatively well, as high prices at year-end and higher trading volumes during the year both had a positive effect on their financial performance.

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. This long-term trend continued in 2020. Nevertheless, the supervisory authorities are aware that regulation is complex and means rising costs, especially for smaller institutions. This problem was addressed in part by the German government's Risk Reduction Act which strengthens the principle of proportionality by affording relief to smaller institutions with total assets of EUR 5b or less.

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:

- › EMIR Refit
- › Implementation of CRD VI/CRR III (from 2021)
- › ESG regulations
- › EU financial transaction tax
- › Single Collateral Management Rulebook for Europe (SCoRE) and Eurosystem Collateral Management System (ECMS)

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 from 2019 concluded 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. However, it is not yet clear to what extent the attached benefits justify 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. For example, digital access channels and online banking options are now a minimum standard that all banks 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.

The use of technologies featuring artificial intelligence at banks will also play a major role in the digital transformation. They harbor immense potential to boost revenue and improve efficiency, promising reduced error rates, automation and better use of resources, while identifying new and hitherto untapped business opportunities. All of this relies on the processing and analysis of large data volumes. Potential applications for artificial intelligence are in sales and marketing, risk management, human resources, finance and operations. In other words, they can be found along the entire banking value chain.

The recent developments in digital assets and electronic securities are also important aspects of the Group's digital transformation. To date, to qualify as securities financial instruments must be certified in a physical document. On 16 December 2020 the German government presented a draft act to introduce electronic securities which could be entered in a register using blockchain technology, for example.

Since 2020, the coronavirus pandemic has compounded the digitalization trends described above and is increasingly being seen as a catalyst driving forward the digital transformation. On the one hand, customers are switching to online channels for shopping, for example, or online banking in the financial sector, while on the supply

side, employees are being encouraged to work from home to avoid infection and remain productive. In the short term, this entails the use of digital channels and tools such as broadband access, online meetings and video conferences. A likely medium-term response will be to increase the use of robots and automation in the production of goods and, where possible, services so as to improve resilience and reduce reliance on a physically present workforce. We thus expect the digital transformation of companies to become a crucial success factor.

Digitalization will also be a key financial and non-financial success factor, especially in retail banking, but also generally in the business models of all banks. Digital pioneers will enjoy on average a 2.5% higher return on capital and a far lower cost-income ratio than digital latecomers. What is more, the digital pioneer role translates into improved customer satisfaction as measured by the recommendation rate, with digital pioneers reporting a 21% higher level of customer satisfaction than their rivals.

The European Banking Study reaches a similar conclusion, putting the average post-tax ROE of digital pioneers for 2013 to 2018 at 2.7 percentage points higher than the average for banks and identifying a lead of 6.6 percentage points over digital “followers.” In a more recent study by the Boston Consulting Group from 2020, the authors conclude that one success factor of the wealth management firms in the top quartile of the sample in terms of pre-tax profit margin is the fact that they spend twice as much on digital and technological capabilities as the other institutions in the sample.

ESG – ENVIRONMENTAL, SOCIAL, GOVERNANCE

The topic ESG has been put on banks’ agendas in recent years as part of the global climate change and sustainability megatrend. This comes in response to the European Commission’s initiative to involve financial players in building a more sustainable economy in order to implement the Paris Climate Agreement. The allocation of funds to the various sectors of the economy is prompting important decisions about future developments. The action plan will require the financial industry to take account of sustainability and to integrate ESG criteria in their processes in the interests of their customers. Apart from regulatory initiatives, banks and businesses in general are seeing that consumers are developing a keen interest in acting sustainably. We expect this to lead to growing demands from consumers for businesses to follow suit.

In this context, ESG means considering environmental, social and governance criteria and factors. They can concern a wide range of areas in a bank, including both external dimensions such as an ESG-oriented product and service offering (e.g., sustainable investing in asset management), competitors’ ESG activities or general customer and

market expectations as to ESG criteria (e.g., ESG rating) and internal dimensions such as employee demands (e.g., e-bikes as company bicycles) and sustainable processes or organizations (e.g., being embedded in risk measurement and management systems).

The coronavirus pandemic also impacted the sustainability trend in 2020, with the shift to working from home reducing traffic and energy consumption and offering the chance that travel will stay lower after the pandemic. On a bigger scale, first studies show that ESG-oriented companies were more resilient in the pandemic and performed better on the capital markets. This insight could encourage banks and investors to channel their capital into companies with a sharper focus on ESG, thereby supporting the European Commission’s political objectives. For banks this would involve aligning their product and service offering and their internal processes, workflows and positioning with these market requirements.

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 older customers who pose new challenges for the banking industry. Only banks that succeed in attracting young customers will be able to safeguard their customer base long term. However, it is precisely this customer group that needs to be wooed that is turning increasingly to digital information and communication channels and alternative providers.

Demographic change is also responsible for a growing and significant shortage of skilled labor. This has resulted in high pressure on the banking industry to continue to recruit qualified talent in many fields in the future and to make attractive offers to employees. The coronavirus pandemic in 2020 has highlighted the importance of work-life balance to maintain the productivity of both employees and companies alike. There are also notable societal and political developments in this direction, such as the second Leadership Roles Act adopted in early 2021 to promote the proportion of women in leadership roles. Banks are facing the twofold demographic challenge of not just having to recruit a younger workforce but also to maintain productivity by creating family-friendly working conditions allowing more women to take on leadership roles rather than having to forgo them for the sake of their families.

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 made 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

The Group closed the fiscal year with exceedingly positive earnings after taxes of EUR 45.7m (prior year: EUR 27.9m).

Net interest income increased by EUR 8.1m year on year to EUR 32.5m in the fiscal year. Due to the ongoing low interest rate environment, interest income contains EUR 12.2m in negative interest from loans and advances, while interest expenses contain negative interest from liabilities of EUR 26.7m.

Net commission income performed much better than forecast, up from EUR 140.9m in the prior year to EUR 165.8m.

General and administrative expenses rose by EUR 11.1m on the prior year to EUR 161.6m, mainly reflecting the costs of the digitalization projects and the rise in headcount.

The other operating result came to EUR 20.2m (prior year: EUR 11.7m). The increase in the reporting year chiefly resulted from the higher reversal of provisions, income from foreign exchange business and income from the annual VAT calculation.

Risk provisions in the lending business including write-downs and write-ups on certain securities increased year on year, leading to an expense of EUR 4.9m (prior year: income of EUR 1.0m). This increase is primarily attributable to bad debt allowances and provisions for possible loan losses.

Net write-downs and write-ups of equity investments, shares in affiliates and investment securities came to –EUR 0.1m (prior year: –EUR 0.6m).

Earnings before taxes from ordinary activities came to EUR 56.4m in the reporting year compared to the prior-year figure of EUR 28.6m.

Net income and other taxes amounted to –EUR 10.7m (prior year: –EUR 0.7m).

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. The good progress made in prior years continued in 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 the Hauck & Aufhäuser Group rose by EUR 953.1m to EUR 6,655.4m compared to 31 December 2019.

At EUR 166.4m, loans and advances to banks were EUR 89.1m lower than in the prior year. Overall, credit lines granted to banks were not used as heavily as in the prior year.

Loans and advances to customers increased by EUR 37.1m to EUR 473.1m and were therefore slightly higher than in the prior year.

Debt securities and other fixed-income securities decreased as they matured but funds were not reinvested on the capital market, by EUR 146.6m to EUR 2,419.0m as of the reporting date.

Shares and other variable-yield securities decreased by EUR 23.7m to EUR 250.7m compared to the prior year.

Other assets increased by EUR 156.3m to EUR 375.8m, mainly as a result of higher receivables from cash collaterals.

Liabilities to banks rose by EUR 134.0m to EUR 403.5m, largely due to an increase in time deposits. Liabilities to customers rose by EUR 690.4m to EUR 5,668.9m.

Foreign currency assets increased by EUR 383.7m to EUR 1,154.3m. Foreign currency liabilities were up EUR 160.9m to EUR 1,174.3m.

Subscribed capital came to EUR 18.4m as of 31 December 2020 (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 332.4m (prior year: EUR 286.8m) on the face of the balance sheet.

As of 31 December 2020, the Group's own funds pursuant to Art. 72 CRR came to EUR 250.6m 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 10.6m.

Hauck & Aufhäuser calculates its regulatory capital in accordance with the rules of the Capital Requirements Regulation (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 Group'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 0.3m to a total of EUR 1,282.0m. They break down as follows:

EUR m	
Risk-weighted assets	1,289,2
Credit risk	904,0
Market risk	5,7
Operational risk	331,1
Credit valuation adjustment (CVA) included in total risk exposure amount	48,4

The resulting total capital ratio came to 19.43% (prior year: 17.82%).

The leverage ratio was 6.03% (prior year: 3.84%).

The regulatory requirements are fully met.

Compared to the prior year, off-balance sheet obligations were down by EUR 27.7m (prior year: EUR 162.7m). While contingent liabilities increased by EUR 2.9m, irrevocable loan commitments dropped by EUR 30.6m.

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 2020

For fiscal year 2020, Hauck & Aufhäuser recorded a more than satisfactory development in spite of fluctuations in the stock markets, numerous challenges in the industry and most notably in times of the coronavirus pandemic. 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.

Various initiatives aimed at the digitalization and modernization of the Group were also examined, their implementation commenced and they are in ongoing development.

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 economic effects of Covid-19 also need to be considered.

The Group is incessantly tackling 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. We are now also regularly 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 Group to build a diversified and stable earnings base. This includes increasing the share of commission income long term.

DEVELOPMENT IN THE CORE BUSINESS SEGMENTS

The Hauck & Aufhäuser Group has branch offices in Frankfurt am Main, Munich, Hamburg, Düsseldorf, Cologne, Luxembourg, Zurich, Paris, London, Dublin, Shanghai and Nanjing with its core business segments Asset Servicing, Private Banking, Financial Markets and Investment Banking and offers asset management services through its equity investment in H&A Global Investment Management GmbH.

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 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).

In its Real Assets segment, Hauck & Aufhäuser is capitalizing on a long-lived trend toward investments in real assets and alternative investments over financial assets. Hauck & Aufhäuser continued to participate in this trend in 2020.

Furthermore, in 2020 Hauck & Aufhäuser decided to enter the digital assets market, taking two steps to build up this segment. First, Hauck & Aufhäuser forged an alliance with the fintech company Kapilendo to provide digital asset administration and portfolio management services under Kapilendo's safekeeping license. Building on this, in a second step preparations were made in 2020 for the launch of a fund to offer professional and semi-professional investors access to digital assets from early 2021.

Earnings before taxes from Asset Servicing were far better than expected in the reporting period.

PRIVATE BANKING

Hauck & Aufhäuser's Private Banking core business segment focuses on wealth management, investment advisory services, foundations and real estate project finance. As part of our holistic investment advice, we sit down with our clients to analyze their principles, investment mentality and investment objectives. This allows us to define the desired relationship between security, profitability and availability of customer assets.

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

In addition to standard advisory, 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.

2020 was a year in the grip of the coronavirus crisis, which also heavily impacted earnings in Private Banking. For example, the high volatility on the capital markets during the year led to far better than expected net income from transaction-based investment business. At the same time, variable costs were cut in an ad hoc response to the pandemic. Finally, the net volume of new business was far higher than in the prior year, marking a continuation in 2020 of the significant upward trend in Private Banking already noticeable in 2019.

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

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 lucrative investment opportunities. 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.

Financial Markets benefited from the high market volatility in 2020, which translated into increased client trading volumes. In addition, Hauck & Aufhäuser launched two

open-ended special real estate funds investing in social infrastructure and food retail properties at the end of 2019 and in fall 2020. The coronavirus pandemic has shifted these investment topics into the spotlight as they stand for plannable income and stability in the real estate portfolio.

Earnings before taxes from Financial Markets were far better than expected in the reporting period.

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.

Our Investment Banking segment entrenched its market position for German-speaking small and mid-cap companies in 2020, supporting a double-digit number of capital market transactions.

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

OPPORTUNITIES AND FORECAST

OUTLOOK FOR THE ECONOMY

The launch of vaccination campaigns in the advanced economies in December 2020 is underpinning hopes for a return to normal in the course of 2021. Accompanying this, the global economy is projected to grow 5.5% in 2021. In line with this, the International Monetary Fund (IMF) projects growth of 5.1% for the US economy in 2021. The swift economic recovery in China which began in the second half of 2020 and our expectations of strong economic activity in the world's second largest economy will also play a major role in 2021. According to the IMF, China is projected to grow by 8.1% this year. The emerging market and developing economies in Asia will make the biggest contribution to growth of all emerging market economies in 2021 (GDP growth forecast: 8.3%)

Nevertheless, the prolonged winter lockdowns have been putting a strain on the services sector, in particular. The beginning of the year and parts of the first quarter will see yet another decline in output in some parts of the real economy (especially in the EMU). Assuming that there are no severe vaccination setbacks (virus mutations against which existing vaccines are ineffective, large-scale production and supply delays, etc.), the economic recovery is likely to visibly gather pace across the wider economy from the spring. The immense support afforded by monetary and fiscal policies is expected to be renewed in 2021, bolstering the recovery.

EUROZONE

The Reconstruction Fund and the European Central Bank, which is expected to extend its expansionary monetary policies in the course of the year, will lend immense support to the economy in the eurozone in 2021. GDP growth of 4.2% is projected for the eurozone in 2021. France and Spain are predicted to champion growth, expanding at a rate of 5.5% and 5.9%, respectively.

GERMANY

After the services sector put a big damper on growth in the first quarter, Germany is expected to close 2021 with GDP growth of 3.5%.

CONSUMER PRICES

Consumer prices in some regions of the world are expected to rise moderately in the wake of the economic recovery. However, consumer prices are likely to stay low initially given the rough start to the recovery at the beginning of the year, special effects in the eurozone aside. Higher oil prices, the reinstatement of VAT rates and the introduction of the carbon tax in Germany will trigger only short-lived inflationary effects. Medium-term factors do not point to overshooting prices. Inflation is forecast to average 1.0% in the eurozone in 2021.

SOVEREIGN BONDS

We forecast a yield on 10-year German government bonds of between -0.3 and +0.2% in 2021; we see their transatlantic counterpart in the range from 1.0% to 1.8% in 2021.

STOCK MARKETS

Assuming there are no severe vaccination setbacks, on the basis of realistic profit expectations, we anticipate new record highs in 2021, especially in the US and Asia. In combination with low or negative real yields, ample liquidity, a globally high equity risk premium and dividend yields in the major markets exceeding fixed-income yields, the rally will go into extra time.

OUTLOOK – MARKET AND COMPETITION

Overall, we expect a challenging environment for the banking market in 2021. We do not anticipate any letup in the low interest rate environment in 2021 and the ECB will continue to demand negative interest on deposits. A key driver will be the government assistance and support programs in response to the coronavirus pandemic, which inflated national debt in European countries in 2020 and, in many cases, will continue to do so in 2021. The high significance of regulatory requirements and risk management will also continue to shape the banking market in the year ahead.

For 2021, we also expect to see the banking market in Germany and the rest of the world come under pressure from potential credit risks. The reduction in economic activity as a result of the lockdowns to contain the Covid-19 pandemic and increased uncertainty may lead to substantial credit losses. While impairments tend to affect universal or commercial banks more, with the financial industry being closely interconnected, a banking crisis could be a possible side-effect.

Last but not least, external factors impacting market development are the societal megatrends such as digitalization, which has been accelerated by the coronavirus pandemic, and demographics. Accordingly, willingness to embrace change will be key to the activity of the Hauck & Aufhäuser Group in the market.

We anticipate the intense competitive environment to prevail across the entire banking sector in 2021. On the one hand, this is 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 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 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 structural 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 Group on the market overall as well as in the individual business segments. To this end, we have been making investments in various business segments and areas in recent years, which we intend to intensify in 2021 to enable us to take advantage of the resulting opportunities.

A major strategic step forward for Hauck & Aufhäuser in 2020 was the conclusion of an agreement to purchase Bankhaus Lampe. Once BaFin has completed its regulatory review as part of the ownership control procedure, we expect the transaction to be closed in the first half of 2021.

Besides the organizational developments, we also see huge opportunities in the expansion of our real asset investment product offering in several core business segments, which we continued to drive forward in 2020. This will allow us to have the right product and service offering for our clients' needs even in times of low interest rates, thereby intensifying existing customer relationships and winning new clients.

We will also press ahead with the automation of our internal processes as part of our digitalization activities in 2021. This will open up potential to reduce complexity and cut costs through the use of technology in all areas of the Bank. One example is the modernization of our finance architecture.

We are also working to digitalize our front office activities, for example with a new state-of-the-art trading system and a new customer relationship management system to leverage potential lying in the direct interaction with our clients.

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

The forecasts and expectations in the following outlook on operational planning and earnings components are presented on a standalone basis without Bankhaus Lampe, as the ownership control procedure has yet to be completed at the time of reporting.

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 coronavirus/Covid-19 pandemic.

Depending on the further course of the pandemic, we anticipate a moderate increase in income in our operational plan for 2021.

The dynamic market environment anticipated for 2021 and expectations of consistently high volatility make it difficult to forecast future income from the volume of assets held in custody and under management. We anticipate a moderate increase in volume growth.

We consider the macroeconomic perspective to be blurred by huge uncertainty surrounding key growth variables in relation to consumption, private investment and global trading activity in the wake of the Covid-19 pandemic. GDP is most unlikely to reach its pre-crisis level before 2022.

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 also give rise to significant investments and additional administrative expenditures.

We anticipate the following development of our earnings components:

NET INTEREST INCOME

Assuming no changes in the low interest rate environment, the Hauck & Aufhäuser Group expects a slight decrease in net interest income as in the prior year.

NET COMMISSION INCOME

The additions made to the product range in prior years and other planned launches of new products form the basis for our expectation of 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 2021 to cushion its impact. This expectation 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 – and also in light of the continuing spread of coronavirus – 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 loan loss provisions in 2021.

CONSOLIDATED EARNINGS BEFORE TAXES (HGB)

We only forecast a slight decrease in earnings in our planning for 2021.

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 the Hauck & Aufhäuser Group promotes the risk culture throughout the Group. 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 at group level 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 2020, the total risk exposure calculated using this method did not exceed the Bank's defined level of internal capital adequacy. The moderate year-on-year rise

in risk, caused by the increased volatility on the capital markets as a result of coronavirus (up EUR 8.8m) was covered at all times. As of 31 December 2020, the conservatively calculated total risk exposure amount of EUR 173.08m breaks down by risk type as follows:

UTILIZATION

EUR m	ACTUAL	LIMIT	ACTUAL AS A % OF LIMIT
Total utilization	173.08	222	78.0
Credit risk	116.49	144.5	80.6
Market risk	27.76	42.5	65.3
Operational risk	24.42	24.5	99.7
Income risk	4.41	10.5	42.0

The impact of economic risks on the normative perspective of internal capital adequacy, which focuses on all regulatory and supervisory requirements, is determined in an adverse capital planning scenario. All material supervisory minimum capital requirements are met, even in the adverse scenario, which reflects a severe recession.

A stress test for all risk types is also performed at group level 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 text, 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 or as of the date on which the annual financial statements were approved. 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.

The Hauck & Aufhäuser Group 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 Group'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 group 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 group 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 the Hauck & Aufhäuser Group 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 15.9m as of year-end in the +200 bp scenario, which is equivalent to 6.4% 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 the Hauck & Aufhäuser Group with regard to equity investments are set out in a separate equity investment strategy.

Based on the Bank's business strategy, the Hauck & Aufhäuser Group 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 Group's core business segments. These companies are included in the consolidated financial statements and are integrated in the Hauck & Aufhäuser Group 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 Group's strategic investments are integrated in the regular controlling process and the Hauck & Aufhäuser Group'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.

The Hauck & Aufhäuser Group 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 Group 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

The Hauck & Aufhäuser Group 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.

The Hauck & Aufhäuser Group has introduced a group-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)

Group 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 group-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. Risks also arise for the Bank from the preliminary proceedings carried out in the past fiscal year relating to potential cum-ex successor models or cum-cum transactions. As the Bank never invested in such constructions itself or initiated them for customers or third parties, any such potential risks relate solely to our role as custodian bank. The criminal investigations are initially directed exclusively against third parties, former employees of our Institution, and not against the Bank or current employees. Based on the current legal situation and expert assessments of the tax status of the transactions, we believe that we acted in accordance with the law. Nevertheless, it cannot be entirely ruled out that the courts or tax authorities may change their view in the future.

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 the Hauck & Aufhäuser Group. 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 the German legal requirements, the auditor did not audit the following group statement on corporate governance (quota for women on executive boards) as its disclosure is not required in the management report.

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 was unchanged overall in 2020. Currently, 25% of executives are women. A total of 42% of the workforce is female and 30% (prior year: 28%) of team leaders are women. Compared to the prior year, the percentage of female heads of department decreased by 3%, with women accounting for a total of 20% (prior year: 23%) of department heads.

Under Sec. 21 (1) EntgTranspG [“Entgelttransparenzgesetz”: German Pay Transparency Act], Hauck & Aufhäuser is an employer of more than 500 employees which is bound by collective wage agreements pursuant to Sec. 5 (4) EntgTranspG and applies collective wage agreements pursuant to Sec. 5 (5) EntgTranspG. In accordance with Sec. 13 (5) EntgTranspG, Hauck & Aufhäuser has declared that it will apply collective wage arrangements on pay pursuant to Sec. 5 (5) EntgTranspG and will compile a report on equal pay every five years. The equal pay report was published in the management report for fiscal year 2017. No updated report was therefore prepared for this fiscal year. The next report on equal payment will be issued as of 31 December 2022 for the preceding five years.

GROUP NON-FINANCIAL STATEMENT

In accordance with Sec. 317 (2) Sentence 4 HGB, the auditor did not audit the following group non-financial statement pursuant to Sec. 340i (5) in conjunction with Sec. 315b HGB.

CORPORATE GOVERNANCE

The Hauck & Aufhäuser Group 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 Group 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: H&A Prime Values fund products, launch of a sustainability project

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

It is the task of senior management to ensure that in carrying on its business activities the Bank complies with the pertinent laws, regulations, requirements and good market practice. To achieve this, senior management actively fosters a strong compliance culture and has enshrined and communicated these values in the code of conduct.

Senior management has assigned powers to the compliance function that enable it to advise and support senior management in controlling and managing compliance risks in conformity with all applicable laws, regulations, requirements, good market practice and the code of conduct. The compliance function is tasked with establishing appropriate governance, procedures and systems enabling the Bank to avoid undesired threats from risks within compliance's area of responsibility.

The compliance function acts independently under the lead of the compliance officer. The compliance function is appropriately designed and effective such that threats and risks arising from a breach of legal requirements or criminal acts can be detected at an early stage. This serves to protect the interests and assets of clients, business associates and Hauck & Aufhäuser Privatbankiers AG.

The compliance function is responsible for ensuring the systematic group-wide adherence to laws and regulations. It aims to identify compliance risks before they materialize and to manage them when they do. Potential compliance risks are assessed and minimized on the basis of risk analyses conducted for the core responsibilities. They are carried out annually and cover all group companies and their compliance-relevant business areas in Germany and other countries. The preventive measures derived from the analyses are reviewed regularly, supplemented if need be, and refined to meet new requirements.

Other central prevention systems are controls to assess the design and operating effectiveness of relevant processes, employee training, support and advice from compliance to the business units in developing processes and in transactions, committees with the involvement of the compliance function, approvals of specific cases by the compliance function, trustworthiness checks of potential employees, due diligence reviews of third parties and an internal whistleblowing system. The compliance function comprises the following key areas:

- › Capital Market Compliance

The activities of Capital Market Compliance are aimed at preventing, identifying and investigating conflicts of interest, unlawful use of inside information and market abuse, and unfair customer treatment. Capital Market Compliance ensures that the Bank fulfills the relevant monitoring scenarios for trading surveillance and – if applicable – communication monitoring. Capital Market Compliance activities were established in the Bank to protect against financial losses and reputational damage caused by misconduct on the part of clients, employees and business associates. The compliance

function of Hauck & Aufhäuser Privatbankiers AG has extensive instruction and escalation rights and information and investigation powers to enforce the internal policies group-wide.

- › Anti-Money Laundering, Combating the Financing of Terrorism and Fraud Prevention

Another core responsibility of the compliance function is to meet the regulatory requirements for the prevention and combating of money laundering, terrorist financing, corruption and sanctions and embargo breaches. In addition to local laws, regulations and industry standards, we take into consideration internationally recognized standards. These requirements and standards are applied internally during the customer acceptance process and in the subsequent client relationship, not only through internal policies and controls, but also through the use of appropriate monitoring systems.

APPROACH TOWARD SUSTAINABILITY RISKS AND REPUTATIONAL RISKS

For Hauck & Aufhäuser Privatbankiers AG, reputational risks are major risks. Consequently, the identification, analysis and management of this risk type 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, especially as a result of failure to comply with sustainability principles. 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's client advisory process. We achieve this through the use of innovative solutions to meet our clients' needs. The Group also works to optimize its value chain for the benefit of its customers.

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

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

The Group's 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

OVERVIEW

Sustainability is becoming an increasingly central topic in society as slowing the pace of global warming and creating greater political, social and economic equality are two of the biggest challenges of our time.

In order to achieve these goals, especially with regard to the climate, the EU has adopted measures, focusing also on the financial sector. The EU Sustainable Finance Action Plan aims to reorient capital flows toward sustainable investment, mainstream sustainability into risk management and foster transparency and long-termism.

What is more, sustainable investment decisions are increasing demand from 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 accommodate environment, society and governance criteria. 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.

SUSTAINABILITY AT HAUCK & AUFHÄUSER

Hauck & Aufhäuser launched an ESG program in 2020 in order to act on these trends. The program has two elements: a corporate level and a product level. The corporate level focuses on strategy and the product level addresses operative aspects attached to the implementation of the regulatory measures.

At the beginning of the program, the cornerstones of business policy were defined, as were the areas and topics affected and the status quo. On this basis, potential courses of action can be derived. In a next step, a sustainability mission statement will be formulated to spell out Hauck & Aufhäuser's sustainability strategy. With a view to the regulatory requirements, in the operative part of the program the necessary measures will be defined at the same time.

The program objective is, once the ESG principles for the corporate and product levels have been formulated in line with regulatory requirements, to entrench sustainability as a long-term concept in the Group.

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 2020.

At the reporting date, 802 persons worked for the Group, of whom 657 were full-time staff and 145 part-time. At the reporting date, we employed 326 women and 476 men in the Group.

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. The Hauck & Aufhäuser Group 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 and develop its employees long term.

The Hauck & Aufhäuser Group offers its employees interesting opportunities for gaining professional in-service qualifications ranging from banking diplomas to bachelor's and master's degrees. Development and advanced training opportunities are provided in seminars offered exclusively for the Hauck & Aufhäuser Group in collaboration with experienced trainers and further education institutes. Employees also have access to

other seminars and training courses for professional, methodological and personal development through external partnerships, for example with the Frankfurt School of Finance & Management.

In 2020, our employees once again attended a large number of internal and external seminars in line with their needs and personal development plan. The events primarily cover the following topics:

- › Events on sharing experiences and conferences on specialist subjects
- › Seminars on new statutory requirements
- › Skills development seminars (personal development, leadership development, professional development, health & self-leadership and international skills).

The topic of personnel management is also a high priority for the Hauck & Aufhäuser Group as we understand leadership to be one of the main keys to long-term development, performance and satisfaction. Motivated, qualified, competent and satisfied employees are essential for our success as 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 preparation for their roles and ongoing support in the fulfillment of their responsibilities in internal and external training and professional coaching (leadership development) programs.

In 2020, the long-term talent management approach to retain, motivate and develop employees was enhanced further with the Transformer program. This program is focused on strengthening interdisciplinary competencies and therefore offers development options for employees with professional, leadership and project ambitions alike. It is geared to both personal and professional advancement as the participants design and implement a bank-related project accompanied by a needs-based personal development program.

WORK-LIFE BALANCE

To facilitate a work-life balance, the Group 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 2020, the Bank once again encouraged participation in joint sporting events, with numerous runners from the Hauck & Aufhäuser Group getting active and showing team spirit while competing in the virtual 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 2021.

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 2020, the focus was on promoting social projects and cultural commitment.

CULTURAL PROJECTS

In May 2019, Hauck & Aufhäuser Kulturstiftung set the ball rolling for a museum guidebook helping children, families and school classes to discover art and artists in the DASMAXIMUM museum in Traunreut. The first two activity sheets of the museum guidebook are dedicated to the artists John Chamberlain and Georg Baselitz. With the slogan “be inspired, try it out, make your own”, visitors complete several tasks encouraging them to view a work of art in detail and make sketches of it or even create their own sculpture. The aim is to encourage younger visitors to explore the museum independently, thus inspiring an interest in art.

In 2020, Hauck & Aufhäuser Kulturstiftung commissioned further activity sheets on the artists Dan Flavin, Uwe Lausen, Walter De Maria, Joseph Beuys, Imi Knoebel and Maria Zervas. They are now available free of charge in the museum and visitors can take

them home afterwards. Spurred by the enthusiastic feedback from families, laudatory media coverage and a positive reception from renowned experts, Hauck & Aufhäuser Kulturstiftung has entered this project for the German Arts Sponsorship Award 2020/2021.

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 Group has made donations to non-profit organizations at Christmas instead of giving gifts to clients and staff. In 2020, the focus was on donations to local organizations that are dedicated to improving the future prospects of disadvantaged children and young people. In addition, the Hauck & Aufhäuser Group also encouraged its employees to participate in the Malteser Social Day Frankfurt, a working day spent on non-profit activities, and in the virtual 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 [“Aktiengesetz”: German Stock Corporation Act] prohibits disadvantageous treatment of stock corporations (AG) or partnerships limited by shares (KGaA) which are dependent and which have neither concluded a domination or profit or loss transfer agreement nor have been integrated (de facto group relationship). The Management Board must prepare a report on relationships with affiliates (dependent company report) within three months of the end of the fiscal year.

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

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

COURAGE INNOVATION



IS/BS/EQ./CFS

CONSOLIDATED INCOME STATEMENT	36
BALANCE SHEET	37
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	39
CASH FLOW STATEMENT	40

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2020

				2020	2019
	EUR	EUR	EUR	EUR	EUR k
Interest income from					
a) Lending and money market business	12,386,533.10				15,532
less negative interest from money market business	-12,173,462.06				-8,322
		213,071.04			7,210
b) Fixed-income securities and government-inscribed debt		8,749,910.72			13,386
			8,962,981.76		20,596
Interest expenses					
Interest expenses from banking business			-3,165,276.17		-13,625
less positive income from banking business		26,659,822.78			17,465
			23,494,546.61		3,840
				32,457,528.37	24,436
Current income from					
a) Shares and other variable-yield securities			126,863.00		1,177
b) Equity investments			1,046,086.83		1,245
c) Shares in affiliates			447,975.99		0
				1,620,925.82	2,422
Income from profit pooling and profit and loss transfer agreements				285,339.02	343
Commission income			193,823,572.15		169,392
Commission expenses			-27,990,172.10		-28,505
				165,833,400.05	140,887
Net income or net expense from trading book positions				8,640,914.01	4,546
Other operating income				24,240,960.41	23,803
General and administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		-88,695,698.96			-81,688
ab) Social security, pension and other benefit costs		-13,930,005.30			-12,589
thereof: for old-age pensions	-3,095,175.53				-2,618
			-102,625,704.26		-94,277
b) Other administrative expenses			-58,972,312.21		-56,265
				-161,598,016.47	-150,542
Amortization, depreciation and impairment of intangible assets and property and equipment				-5,979,821.82	-4,670
Other operating expenses				-3,998,452.13	-12,090
Write-downs of and allowances on loans and advances and certain securities as well as allocations to provisions for possible loan losses				-4,900,655.27	0
Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses				0.00	979
Write-downs of equity investments, shares in affiliates and securities classified as fixed assets				-126,800.76	-550
Allocation to the fund for general banking risks				-35,000.00	-953
Expenses from loss absorption				-14,986.20	-2
Result from ordinary activities				56,425,335.03	28,609
Income taxes			-10,332,718.01		-679
Other taxes not shown under "Other operating expenses"			-361,908.44		-63
				-10,694,626.45	-742
Net income (+) / net loss for the year (-)				45,730,708.58	27,867
Profit carryforward from the prior year				10,641,450.00	0
Net retained profit				56,372,158.58	27,867

BALANCE SHEET AS OF 31 DECEMBER 2020

ASSETS			2020	2019
	EUR	EUR	EUR	EUR k
1. Cash reserve				
a) Cash on hand		155,035.30		140
b) Balances at central banks		2,863,631,605.29		1,845,144
thereof at Deutsche Bundesbank EUR 2,658,485,477.58				(1,640,171)
			2,863,786,640.59	1,845,284
2. Loans and advances to banks				
a) Payable on demand		161,374,478.15		215,373
b) Other loans and advances		5,046,241.00		40,171
			166,420,719.15	255,544
3. Loans and advances to customers			473,098,851.81	436,047
thereof: public-sector loans EUR 26,812,033.06				(26,371)
4. Debt securities and other fixed-income securities				
a) Money market securities				
aa) issued by the public sector	15,000,225.00			0
thereof eligible as collateral with Deutsche Bundesbank EUR 15,000,225.00				(0)
ab) issued by other borrowers	0,00	15,000,225.00		15,009
b) Bonds and debt securities				
ba) issued by the public sector	1,048,620,840.18			1,004,229
thereof eligible as collateral with Deutsche Bundesbank EUR 649,521,373.07				(601,959)
bb) issued by other borrowers	1,355,426,679.56	2,404,047,519.74		1,546,390
thereof eligible as collateral with Deutsche Bundesbank EUR 1,167,807,354.83				(1,344,396)
			2,419,047,744.74	2,565,628
5. Shares and other variable-yield securities			250,717,020.98	274,443
5a. Trading book positions			2,706,405.80	1,717
6. Equity investments			4,346,007.23	5,449
thereof: in financial services institutions EUR 0.00				(0)
7. Shares in affiliates			2,375,707.00	5,796
thereof: in financial services institutions EUR 1,974,000.00				(1,550)
8. Associates			3,021,053.69	3,061
thereof: in financial services institutions EUR 3,021,053.69				(3,061)
9. Trust assets			15,050,049.10	21,680
10. Intangible assets				
a) Purchased franchises, industrial and similar rights and assets		11,664,446.77		9,050
b) Goodwill		0.00		0
c) Prepayments		4,594,880.44		1,641
			16,259,327.21	10,691
11. Property and equipment			13,232,216.65	12,612
12. Other assets			375,764,020.48	219,491
13. Prepaid expenses			7,609,635.27	6,809
14. Deferred tax assets			40,459,437.42	36,586
15. Excess of covering assets over pension and similar obligations			1,502,677.89	1,450
Total assets			6,655,397,515.01	5,702,287

BALANCE SHEET AS OF 31 DECEMBER 2020

LIABILITIES AND EQUITY			2020	2019
	EUR	EUR	EUR	EUR k
1. Liabilities to banks				
a) Payable on demand		248,535,321.07		197,864
b) With an agreed term or period of notice		154,996,510.99		71,651
			403,531,832.06	269,515
2. Liabilities to customers				
a) Savings deposits				
aa) with an agreed period of notice of three months	133,410.22			602
ab) with an agreed period of notice of more than three months	0.00	133,410.22		21
b) Other liabilities				
ba) payable on demand	5,622,387,103.63			4,924,506
bb) with an agreed term or period of notice	46,335,314.45	5,668,722,418.08		53,281
			5,668,855,828.30	4,978,410
3. Securitized liabilities				
Debt securities issued			38,858.17	39
4. Trust liabilities			15,050,049.10	21,680
5. Other liabilities			123,081,393.71	45,228
6. Deferred income			12,154,074.38	14,003
7. Provisions				
a) Provisions for pensions and similar obligations		14,910,444.00		15,119
b) Tax provisions		20,734,018.90		8,444
c) Other provisions		53,330,920.93		52,280
			88,975,383.83	75,843
9. Fund for general banking risks			11,272,500.00	10,812
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			2,000
cb) other revenue reserves	169,795,186.37	171,795,186.37		152,569
d) Currency translation/exchange differences		-59,971.22		-11
e) t retained profit		56,372,158.58		27,868
			332,437,595.46	286,756
Total liabilities and equity			6,655,397,515.01	5,702,287
1. Contingent liabilities				
Guarantees			4,132,743.87	1,197
2. Other obligations				
Irrevocable loan commitments			130,917,703.48	161,529

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR k	SUBSCRIBED CAPITAL	CAPITAL RESERVES	LEGAL RESERVE	OTHER REVENUE RESERVES	ADJUSTMENT ITEM FOR EXCHANGE/ TRANSLATION DIFFERENCES	NET RETAINED PROFIT	EQUITY
As of 31 Dec 2018	18,445	85,885	1,600	121,570	0	31,400	258,900
Changes in the basis of consolidation							0
Transfer to reserves			400	31,000		-31,400	0
Consolidated net income/ loss for the period						27,867	27,867
Other changes					-11		-11
As of 31 Dec 2019	18,445	85,885	2,000	152,570	-11	27,867	286,756
Changes in the basis of consolidation							0
Transfer to reserves				17,225		-17,225	0
Consolidated net income/ loss for the period						45,731	45,731
Other changes					-49		-49
As of 31 Dec 2020	18,445	85,885	2,000	169,795	-60	56,373	332,438

CASH FLOW STATEMENT

The cash flow statement presents the changes in the Group's cash and cash equivalents during the reporting year. Cash and cash equivalents at the end of the fiscal year are equal to the cash reserve plus liabilities to central banks.

For banks, the cash flow statement is of little informative value as it neither replaces the liquidity or financial plan, nor is it used as a control instrument.

EUR k	31 DEC 2020	31 DEC 2019
Net income for the year	45,731	27,867
Write-downs, allowances on and write-ups of loans and advances and fixed assets	11,034	4,503
Change in provisions	13,132	10,698
Change in other non-cash expenses/income	-4,001	682
Gain/loss on disposals of fixed assets	-605	43
Other adjustments (net)	-1,482	-202
Change in loans and advances to banks	88,539	-13,016
Change in loans and advances to customers	-39,162	-13,889
Change in securities (other than financial assets)	55	-61,982
Change in trust assets	6,630	29,003
Change in other assets from operating activities	-157,126	-20,766
Change in liabilities to banks	135,006	-16,776
Change in liabilities to customers	690,615	328
Change in trust liabilities	-6,630	-29,003
Change in other liabilities from operating activities	76,005	-7,644
Interest expenses/interest income	-32,458	-24,437
Income tax expense/income	10,333	679
Interest received and dividend payments	56,450	31,160
Interest paid	-15,019	-5,234
Income taxes paid	-1,963	-2,898
Cash flow from operating activities	875,084	-90,884
Cash received from disposals of fixed financial assets	230,745	243,959
Cash paid for investments in fixed financial assets	-75,109	-671,200
Cash received from disposals of property and equipment	0	0
Cash paid for investments in property and equipment	-3,058	-933
Cash received from disposals of intangible assets	0	22
Cash paid for investments in intangible assets	-9,111	-5,469
Cash flow from investing activities	143,467	-433,621
Cash received from equity contributions by shareholders of the parent company	0	0
Cash flows from other capital (net)	-48	-11
Cash flow from financing activities	-48	-11
Changes in cash and cash equivalents	1,018,503	-524,516
Cash and cash equivalents at the beginning of the period	1,845,284	2,369,800
Cash and cash equivalents at the end of the period	2,863,787	1,845,284
Composition of cash and cash equivalents		
Cash on hand	155	140
Balances at central banks	2,863,632	1,845,144
Cash equivalents	0	0
	2,863,787	1,845,284



NOTES TO THE FINANCIAL STATEMENTS

GENERAL	43
SUBSEQUENT EVENTS	46
NOTES TO THE INCOME STATEMENT	46
NOTES TO THE BALANCE SHEET	47
OTHER NOTES	54
SHAREHOLDINGS	57
COUNTRY-BY-COUNTRY REPORTING PURSUANT TO SEC. 26 (1) SENTENCE 2 KWG	59
RESPONSIBILITY STATEMENT	59
INDEPENDENT AUDITOR'S REPORT	60
BRANCH OFFICES, REPRESENTATIVE OFFICES AND SUBSIDIARIES	65

GENERAL

BASIS OF FINANCIAL REPORTING

Hauck & Aufhäuser Privatbankiers Aktiengesellschaft has its registered office in Frankfurt am Main. 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 and the Group for fiscal year 2020 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 Rech-KredV [“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, notes to the financial statements, cash flow statement and statement of changes in equity, a management report was prepared in accordance with Sec. 289 HGB.

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

ACCOUNTING POLICIES

The cash reserve is recognized at nominal value.

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

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

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

To hedge against interest rate risk, we recognize micro hedges mainly in accordance with Sec. 254 HGB and IDW AcP HFA 35 to offset changes in the value of promissory note loans, 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.

The Group only recognizes part of the “fund for general banking risks” pursuant to Sec. 340g HGB recognized by the parent because, unlike the parent company, it does not recognize any provisions for general banking risks pursuant to Sec. 340f HGB.

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 years. In the event of permanent impairment, an impairment loss is recognized. Assets costing between EUR 250 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 250 not including VAT are fully expensed in the year of acquisition.

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

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

Pension provisions are calculated by independent actuaries once a year in accordance with the projected unit credit method. The inputs for the calculation are described in the note on provisions. The covering assets to secure pensions obligations are measured at fair value and offset against the corresponding provisions in accordance with Sec. 246 (2) Sentence 2 HGB. Phased retirement obligations are offset against the covering assets in the amount of deferred performance in accordance with IDW AcP HFA 3. Any excess remaining after offsetting covering assets against the related provisions for pensions and phased retirement is recognized in the item “Excess of covering assets over pension and similar obligations.” The amount to be allocated to the provisions for pensions in accordance with Art. 67 (1) EGHGB [“Einführungsgesetz zum Handelsgesetzbuch”: Introductory Law of the German Commercial Code] will be allocated no later than 31 December 2024.

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

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

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

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

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

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

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

FOREIGN CURRENCY TRANSLATION

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

CHANGES IN ACCOUNTING POLICIES

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

ADJUSTMENTS

In the reporting year, we used the full amount of the expected loss when calculating the general bad debt allowance (GLLP) for irrevocable loan commitments in real estate finance. This did not have any significant effects.

BASIS OF CONSOLIDATION

In addition to Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, the following companies were included in the consolidated financial statements:

- › FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich
- › Hauck & Aufhäuser Fund Platforms S.A., Luxembourg
- › Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg
- › Hauck & Aufhäuser Fund Services S.A., Luxembourg
- › Hauck Investment Management Co., Ltd., Nanjing
- › Hauck Investment Management Co., Ltd., Shanghai

Hauck & Aufhäuser Privatbankiers AG holds 40% in H&A Global Investment Management GmbH (HAGIM) and therefore accounts for HAGIM in its consolidated financial statements using the equity method.

Fosun Europe Innovation Hub GmbH increased its capital in December 2019 by issuing new shares. As the Bank did not subscribe to all of these shares this company no longer qualifies as an affiliate.

The remaining affiliates and other companies were not included in the consolidated financial statements either, as they are not significant in relation to the requirement to give a true and fair view of the Group's assets, liabilities, financial position and financial performance. The relevant information is marked in section 6 Shareholdings.

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. We expect the transaction to take place in 2021.

SUBSEQUENT EVENTS

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				2020	2019
	GERMANY	LUXEMBOURG	OTHER	TOTAL	TOTAL
Total income	125,593	111,592	104	237,289	220,760

OTHER OPERATING RESULT

In the reporting year, the other operating income of EUR 24,241k (prior year: EUR 23,803k) mainly comprised income from the reversal of provisions of EUR 8,637k (prior year: EUR 6,876k), net foreign exchange income of EUR 4,461k (prior year: EUR 2,046k) and other income from fund business of EUR 4,840k (prior year: EUR 5,823k). Other operating expenses of EUR 3,998k (prior year: EUR 12,090k) mainly comprise allocations to other provisions of EUR 225k (prior year: EUR 7,753k).

AUDITOR'S FEES

The fee (excluding VAT) recognized as an expense for the auditors for fiscal year 2020 amounted to EUR 1,123k (prior year: EUR 1,320k). The audit firm EY Germany accounted for EUR 959k (prior year: EUR 1,098k) of this amount. The fees were charged for the following assurance services:

EUR k	TOTAL	THEREOF EY GERMANY	TOTAL	THEREOF EY GERMANY
	2020	2020	2019	2019
Audit services	1,085	921	1,043	833
Other advisory services	0	0	0	0
Other services	38	38	277	265
Total expenses	1,123	959	1,320	1,098

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 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019
With an indefinite term	0	0	311,412	184,682
Due in				
Up to three months	46	35,171	108,416	166,168
More than three months and up to one year	0	0	20,581	36,329
More than one year and up to five years	5,000	5,000	12,535	28,869
More than five years	0	0	20,155	20,000
Total	5,046	40,171	473,099	436,048

EUR k	LIABILITIES TO BANKS		LIABILITIES TO CUSTOMERS		SAVINGS DEPOSITS	
	31 DEC 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019
Due in						
Up to three months	37,347	12,131	24,470	22,494	0	0
More than three months and up to one year	0	59,520	13,186	15,659	0	7
More than one year and up to five years	117,650	0	8,679	15,128	0	14
More than five years	0	0	0	0	0	0
Total	154,997	71,651	46,335	53,281	0	21

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 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019
Loans and advances to banks	0	0	0	0
Loans and advances to customers	0	0	0	0
Other assets	50	252	343	553
Debt securities and other fixed-income securities	0	0	0	0
Total	50	252	343	553
Liabilities to banks	0	0	0	0
Liabilities to customers	10,385	11,955	1,647	1,320
Other liabilities	440	286	2	288
Total	10,825	12,241	1,649	1,608

SECURITIES

As of 31 December 2020, marketable securities break down as follows:

EUR k	LISTED		NON-LISTED	
	31 DEC 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019
Debt securities and other fixed-income securities	2,195,006	2,302,096	224,042	263,532
Shares and other variable-yield securities	303	300	2	7
Total	2,195,309	2,302,396	224,044	263,539

EUR 743,427k of the debt securities and other fixed-income securities of EUR 2,419,048k (prior year: EUR 2,565,628k) mature in fiscal year 2021.

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 1,424k (prior year: EUR 1,812k) were not recognized on debt securities and other fixed-income securities in the banking book with a carrying amount of EUR 305,216k (prior year: EUR 447,434k) and a fair value of EUR 303,792k (prior year: EUR 445,622k) 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 482k (prior year: EUR 508k) 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 11,169k (prior year: EUR 11,143k). 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 Group 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 234,800k (prior year: EUR 261,170k) and fair values of EUR 235,489k (prior year: EUR 266,312k), impairment losses of EUR 3,885k (prior year: EUR 517k) were not charged on shares with a carrying amount of EUR 99,143k (prior year: EUR 24,046k). There were no distributions in this fiscal year (prior year: EUR 1,000k). 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 457k was released to net income from trading book positions (prior year: EUR 271k). 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		
	2020	2019
Shares and other variable-yield securities	3,221	1,857
Value-at-risk discount	-514	-140
Total	2,706	1,717

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. The average residual maturity was five years (prior year: six years).
- › Interest rate derivatives with customers were hedged using offsetting back-to-back interest rate derivatives. As in the prior year, the average residual maturity was 10 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 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019	31 DEC 2020	31 DEC 2019
Bonds and debt securities	1,523,228	1,553,560	1,505,401	1,533,800	81,426	58,513
Promissory note loans	20,709	20,708	20,000	20,000	8,449	7,316
Interest rate derivatives			307,228	353,610	43,039	38,886
Forward exchange transactions			6,494,659	6,773,555	158,888	51,517
Total	1,543,937	1,574,268	8,327,288	8,680,965	291,802	156,232

TRUST BUSINESS

TRUST ASSETS

EUR k	2020	2019
Loans and advances to banks	15,023	21,600
Loans and advances to customers	27	80
Total	15,050	21,680

TRUST LIABILITIES TO

EUR k	2020	2019
Customers	15,050	21,680

STATEMENT OF CHANGES IN FIXED ASSETS

EUR k	INTANGIBLE ASSETS	PROPERTY AND EQUIPMENT	INVESTMENT PORTFOLIO SECURITIES	EQUITY INVESTMENTS	INVESTMENTS IN ASSOCIATES	SHARES IN AFFILIATES
Residual book values 1 Jan 2020	10,691	12,612	2,276,191	5,449	3,061	5,796
Acquisition or production cost 1 Jan 2020	31,358	30,634	2,276,191	11,269	3,061	8,050
Additions	9,111	3,058	74,155	8	0	1,157
Disposals	4,166	292	231,033	1,485	40	4,028
Reclassifications	9	18	0	340	0	-354
Exchange rate changes	0	0	-7,961	0	0	0
Acquisition or production cost 31 Dec 2020	32,312	33,418	2,111,352	10,132	3,021	4,825
Accumulated amortization, depreciation and impairment 1 Jan 2020	20,669	18,022	0	5,823	0	2,254
Amortization, depreciation and impairment in the fiscal year	-625	2,146	0	140	0	209
Additions	3,542	2,438	0	663	0	209
Disposals	4,167	292	0	523	0	0
Reclassifications	9	18	0	0	0	-14
Exchange rate changes	0	0	0	0	0	0
Accumulated amortization, depreciation and impairment 31 Dec 2020	20,053	20,186	0	5,962	0	2,449
Write-ups	0	0	0	176	0	0
Residual book values 31 Dec 2020	16,259	13,232	2,111,352	4,346	3,021	2,376

In the reporting year, the goodwill contained in intangible assets had been fully amortized.

Land and buildings with a total book value of EUR 7,006k (prior year: EUR 7,259k) are exclusively owner-occupied. Furniture, fixtures and office equipment included in fixed assets amounted to EUR 6,226k (prior year: EUR 5,353k).

OTHER ASSETS

Other assets came to EUR 375,764k (prior year: EUR 219,491k) and mainly comprised, as in the prior year, receivables from cash collateral management payments of EUR 350,693k (prior year: EUR 195,716k) in connection with institutional fund business and derivative transactions.

In addition, there are option premiums from foreign currency options, other receivables from custody operations and miscellaneous receivables.

PREPAID EXPENSES

EUR k	31 DEC 2020	31 DEC 2019
Prepaid expenses	7,610	6,809
thereof upfront payments and premiums	3,826	4,898
thereof positive differences	0	52
thereof other prepaid expenses	3,784	1,859

SUBORDINATED ASSETS

EUR k	31 DEC 2020	31 DEC 2019
Loans and advances to customers	24,596	35,866
Debt securities and other fixed-income securities	44,327	44,252
Total	68,923	80,118

DEFERRED TAX ASSETS

As of the reporting date, deferred tax assets amounted to EUR 40,459k (prior year: EUR 36,586k). They were calculated using a tax rate for corporate income tax, solidarity surcharge and trade tax of 32.103% at the level of the parent company. A tax rate for corporate income tax and trade tax of 24.940% was used for the subsidiaries in Luxembourg, 19% for the UK and 25% for China. Most of the amount recognized relates to tax loss carryforwards.

Due to the early adoption of the amendment of E-DRÄS 11 for DRS 18 Deferred Taxes the presentation of a tax reconciliation is not applicable.

FOREIGN CURRENCY ASSETS AND LIABILITIES

As of the reporting date, foreign currency assets stood at EUR 1,154,469k (prior year: EUR 770,903k) and foreign currency liabilities at EUR 1,174,287k (prior year: EUR 1,013,444k).

OTHER LIABILITIES

Of the other liabilities of EUR 123,081k (prior year: EUR 45,248k), EUR 115,758k relates to the Bank and EUR 7,323k relates to the subsidiaries.

This item also includes liabilities from collateral management obligations of EUR 100,480k (prior year: EUR 27,615k) and taxes payable of EUR 6,345k (prior year: EUR 6,513k).

PROVISIONS

EUR k	OPENING BALANCE	ADDITIONS	RECLASSIFICATION ¹	UNWINDING OF DISCOUNTS	UTILIZATION	REVERSAL	ALLOCATION	CLOSING BALANCE	CLOSING BALANCE
	1 JAN 2020	2020	2020	2020	2020	2020	2020	31 DEC 2020	31 DEC 2019
Provisions for pensions and similar obligations	15,119	0	180	473	1,783	0	921	14,910	15,119
Tax provisions	8,444	0	0	0	126	0	12,418	20,734	8,444
Other provisions	52,280	0	-22	0	20,036	8,467	29,576	53,331	52,280
	75,843	0	158	473	21,945	8,467	42,915	88,975	75,843

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 1,503k (prior year: EUR 1,450k) was recognized as the difference between the assets to cover pension obligations of EUR 4,267k (prior year: EUR 4,394k) and the related provisions of EUR 2,764k (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 2.38%; we made use of the option of discounting at the average market rate calculated and published by Deutsche Bundesbank for an assumed residual term of 10 years. The interest rate used for discounting is based on the interest rate published by the Bundesbank on 31 October 2020 and rolled forward to the reporting date.

The difference under Sec. 253 (6) Sentence 1 HGB in the amount of provisions recognized using the average market interest rate for the last 10 fiscal years and the amount of provisions recognized using the average market interest rate for the last 7 fiscal years was calculated for the fiscal year and may not be distributed; it amounted to EUR 763k as of the reporting date (prior year: EUR 876k).

FUND FOR GENERAL BANKING RISKS

In the Group, the fund for general banking risks (pursuant to Sec. 340e (4) HGB) was increased, reducing net income from trading book positions by EUR 461k to EUR 11,273k (prior year: EUR 10,812k).

EQUITY

COMPOSITION OF EQUITY AND LIABILITIES

EUR k	31 DEC 2020	31 DEC 2019
Subscribed capital	18,445	18,445
Capital reserves	85,885	85,885
Legal reserves	2,000	2,000
Other revenue reserves	169,795	152,570
Consolidation reserve		
Currency translation difference from consolidation of equity	-60	-11
Net retained profit (+)/accumulated loss (-)	56,373	27,867
Book equity	332,438	286,756

SUBSCRIBED CAPITAL

Subscribed capital (capital stock) was stated at nominal value in all group companies.

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.

AUTHORIZED CAPITAL

The Management Board is authorized by the articles of incorporation and bylaws dated 21 February 2017, 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 2017/I).

Following the partial use of the authorization for the capital increase in 2018 (EUR 2,445,196), the Management Board did not make any use of the remaining EUR 754,804 in the reporting period.

CAPITAL RESERVES

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

REVENUE RESERVES

The legal reserves remained unchanged at EUR 2,000k (prior year: EUR 2,000k).

Due to the retention of profits from the prior year, other revenue reserves increased by EUR 17,225k to EUR 169,795k (prior year: EUR 152,570k).

At the ordinary Annual General Meeting on 27 May 2021, the shareholders will vote on the proposal to allocate EUR 46,712k of the net income for 2020 to revenue reserves and to carry forward the remaining EUR 10,000k. The decision whether to make a distribution to the shareholders will be made at a later date.

NON-DISTRIBUTABLE AMOUNTS

Non-distributable amounts of a total of EUR 11,705k in the reporting year (prior year: EUR 9,867k) arose due to the difference in the average market rates for 10 years and 7 years used to discount provisions for pension obligations in accordance with Sec. 253 (6) Sentence 1 HGB of EUR 763k, from the recognition of deferred taxes in accordance with Sec. 268 (8) HGB of EUR 9,439k and the excess of covering assets over pension and similar obligations in accordance with Sec. 246 (2) Sentence 2 HGB of EUR 1,503k.

OTHER NOTES

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The liabilities from guarantees of EUR 4,133k (prior year: EUR 1,197k) mainly relate to the customer banking business, which generates commission income. The Bank's risk relates to being held liable for claims under the contractual obligations as a result of the credit deterioration of the obligor. Provisions are recognized to account for this credit risk. Risks relating to being held liable for claims under contingent liabilities are assessed on the basis of the parameters of credit risk management.

Irrevocable loan commitments are part of Hauck & Aufhäuser AG's lending business and are reported below the line. As of the reporting date, there were irrevocable loan commitments and contribution obligations from equity investments of EUR 130,918k (prior year: EUR 161,529k).

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 5,949k for fiscal year 2021 (prior year: EUR 5,707k). The average residual maturity of the lease agreements was five years (prior year: six 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 755,663k (prior year: EUR 753,177k) and a nominal value of EUR 743,496k (prior year: EUR 746,873k) and shares with a market value of EUR 0k (prior year: EUR 2,199k). As of the reporting date, the Bank had borrowed shares with a market value of EUR 0k (prior year: EUR 2,199k).

FORWARD TRANSACTIONS

EUR k	RESIDUAL/ORIGINAL MATURITY				FAIR VALUES		
	<=1 YEAR	>1-5 YEARS	> 5 YEARS	TOTAL	POSITIVE	NEGATIVE	NET
Forward interest rate transactions (by residual maturity)							
OTC products							
Interest rate swaps	139,125	742,789	970,845	1,852,759	44,782	153,577	-108,795
Forward transactions in foreign currencies (by residual maturity)							
OTC products							
Forward exchange contracts	7,068,399	125,988	0	7,194,387	160,194	160,754	-560
Total	7,207,523	868,777	970,845	9,047,145	204,976	314,331	-109,355

EMPLOYEES

AVERAGE NUMBER OF EMPLOYEES (HEADS)

	2020			2019		
	FEMALE	MALE	TOTAL	FEMALE	MALE	TOTAL
Part-time employees	120	23	143	112	20	132
Full-time employees	195	438	633	182	408	590
Total	315	461	776	294	428	722

REMUNERATION AND LOANS AND ADVANCES TO THE GOVERNING BODIES

Remuneration to the members of the Supervisory Board amounted to EUR 178k (prior year: EUR 151k). No payments were made to the Shareholder Committee in the reporting year (prior year: EUR 0k).

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

Pension provisions of EUR 741k (prior year: EUR 775k) 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
- › Robert Sprogies, member of the Management Board

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 (until 8 December 2020)
- › Hualong Jin, Fosun Global Partner, Peking/China (since 8 December 2020)
- › Ingo Repplinger, Konz-Könen (employee representative)
- › Michael Mannig, Karben (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
- › H&A Global Investment Management GmbH, deputy chairman of the board of directors
- › Objektgesellschaft 1 Hardenbergstraße mbH, general manager
- › 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:

- › 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:

- › 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 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

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	306,285	54,757 ¹
2.	Hauck & Aufhäuser Fund Platforms S.A., Luxembourg	1	100	EUR	106,041	15,933 ¹
3.	Hauck & Aufhäuser Fund Services S.A., Luxembourg	2	100	EUR	25,553	12,254 ¹
4.	Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg	3	100	EUR	7,015	6,642 ¹
5.	FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich	1	100	EUR	23,009	729 ¹
6.	Hauck Investment Management (Nanjing) Co., Ltd., Nanjing (China)	1	100	CNY	6,823	-745 ¹
7.	Hauck Investment Management (Shanghai) Co., Ltd., Shanghai (China)	1	100	CNY	6,867	-941 ¹
II.	Associates (Sec. 311 No. 1 HGB)					
8.	H&A Global Investment Management GmbH, Frankfurt am Main	1	40	EUR	11,067	3,509 ²
III.	Non-consolidated companies (Sec. 296 (2) HGB)					
9.	DB PWM Private Markets I GP S.à r.l., Luxembourg	2	100	EUR	13	
10.	Hauck & Aufhäuser Verwaltungs GmbH, Munich	5	100	EUR	43	-2 ¹
11.	ZV Service GmbH, Munich	5	75	EUR	154	83 ²
12.	Fopex GmbH, Frankfurt am Main	5	100	EUR	25	285 ¹
13.	Hauck & Aufhäuser Innovative Capital GmbH, Frankfurt am Main	5	100	EUR	30	7 ¹
14.	Projekt Maybach Beteiligungs GmbH, Memmingen	5	100	EUR	59	-10 ²
15.	Medienlogistik Stuttgart Service GmbH, Stuttgart	5	51	EUR	314	-3 ²
16.	Hauck & Aufhäuser Pension Trust GmbH, Frankfurt am Main	5	100	EUR	25	-8 ²
17.	HI-Management S.à r.l., Luxembourg	5	100	EUR	13	0 ²
18.	PERSEUS Capital S.à r.l., Luxembourg	5	100	EUR	12	0 ²
19.	Lending GP S.à r.l., Luxembourg	5	100	EUR	12	0 ²
20.	ALH European Debt Management S.à r.l., Luxembourg*	4	100	EUR		
21.	ALH Euro Equity GP S.à r.l., Luxembourg*	4	100	EUR		
22.	VWAH S.C.A., SICAV-RAIF*	4	100	EUR		
23.	HI-Real Estate-Private Debt-Multi Manager-Fonds*	4	100	EUR		

¹ 2020 year-end figures

² 2019 year-end figures

³ 2018 year-end figures

* Company newly founded/newly acquired. No annual financial statements are available yet.

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)
24.	SI Verwaltung GmbH, Frankfurt am Main*	5	100	EUR		
25.	VWAH GP S.à r.l.*	5	100	EUR		
26.	VWAH Securitization S.à r.l.*	5	100	EUR		
27.	ZVR Zeitungsvertrieb Ramersdorf, Munich	5	75	EUR	163	-12 ²
28.	Zeitungsvertrieb München City GmbH, Munich	5	75	EUR	27	-36 ²
29.	ZVK Zeitungsvertrieb Kirchheim GmbH, Munich	5	75	EUR	56	-16 ²
30.	ZVL Zeitungsvertrieb Laim GmbH, Munich	5	75	EUR	83	-7 ²
31.	ZVT Zeitungsvertrieb Thalkirchen GmbH, Munich	5	75	EUR	28	6 ²
32.	HAIG Trend Inter-Rent II	1	100	EUR	-888	-888 ¹
IV.	Non-consolidated companies (Sec. 296 (1) No. 2 and No. 3 HGB)					
33.	H&A „Green Office, Hamburg Hafencity“ GmbH & Co. KG, Hamburg	5	100	EUR	3,759	-99 ²
34.	Crossroads Capital Management Limited, Dublin (Ireland)	3	70	EUR	297	-323 ¹
V.	Non-consolidated companies (§ 311 Abs. 2 HGB)					
35.	Hauck & Aufhäuser (Switzerland) AG	8	40	CHF	1,653	21 ²
36.	Fosun Europe Innovation Hub GmbH, Frankfurt am Main	1	34	EUR	412	-52 ²
VI.	Other companies (313 (2) No. 4 HGB)					
37.	Sino EU Bridge Fortune S.à r.l., Luxembourg*	5	50	EUR		
38.	Swift Group, Hulpe (Belgium)	1	0,0198	EUR	442,960	39,830 ²
39.	MS „Rike“ Schifffahrtsgesellschaft mbH & Co. KG, Drochtersen	5	24	EUR	4,131	-128 ²
40.	Spielbank Wicker Beteiligungs GmbH, Ahnatal	5	20	EUR	33	-1 ²
41.	MS „Alina“ Schifffahrtsgesellschaft mbH & Co. KG, Drochtersen	5	23	EUR	3,601	-41 ²
42.	Spielbank Bad Homburg Wicker & Co. KG, Bad Homburg	5	19	EUR	4,206	508 ²
43.	H&A „Bezirksamt Nord, Hamburg“ GmbH & Co. KG, Hamburg	5, 10, 1	11	EUR	-81	-5 ³
44.	H&A „München, Lamontstraße“ GmbH & Co. KG, München	5, 1	12	EUR	-2	-5 ³
45.	HANNOVER LEASING Sun Invest 2 Spanien GmbH & Co. KG, Pullach i. Isartal	5	1	EUR	6,524	4 ³
46.	HANNOVER LEASING Sun Invest 3 Italien GmbH & Co. KG, Pullach i. Isartal	5	6	EUR	6,137	-171 ³
47.	VCM VII European Mid-Market Buyout GmbH & Co. KG, Köln	5	8	EUR	4,407	16 ³
48.	Interessengemeinschaft Frankfurter Kreditinstitute GmbH, Frankfurt am Main	5	8	EUR	25,338	9,656 ²
49.	VCM Initiatoren GmbH & Co. KG, Eichenried	5	9	EUR	266	10 ³
50.	VCM/BHF Initiatoren GmbH & Co. Beteiligungs KG, Eichenried	5	4	EUR	41	-10 ³
51.	VCM Partners GmbH & Co. KG, Eichenried	5	8	EUR	94	-18 ³
52.	AC VI Initiatoren GmbH & Co. KG	5	8	EUR	14	-3 ³
53.	The Naga Group AG, Hamburg	5	4	EUR	18,273	-19,992 ²

¹ 2020 year-end figures² 2019 year-end figures³ 2018 year-end figures

* Company newly founded/newly acquired. No annual financial statements are available yet.

COUNTRY-BY-COUNTRY REPORTING PURSUANT TO SEC. 26A (1) SENTENCE 2 KWG

The following information pursuant to Sec. 26a KWG refers to the HGB basis of consolidation of the Hauck & Aufhäuser Group. The Group's return on assets was 15.27% as of 31 December 2020. Please refer to our shareholdings detailed in page 57/58 for information on the business purpose. Turnover is stated based on the respective separate financial statements of the entity in accordance with German GAAP or Luxembourg GAAP and comprises net interest income, including current income, net commission income, net income from trading book positions and other operating result. Earnings before taxes and income taxes are also taken from the separate financial statements of the entity in accordance with local law. The average number of employees includes both full-time employees and part-time employees converted into full-time equivalents.

In order to provide a true view, country-specific information is provided before any intragroup clearing or offsetting.

BREAKDOWN BY GEOGRAPHICAL MARKET

EUR k	GERMANY	LUXEMBOURG	UK	CHINA
Turnover	154,490	137,290	1,471	101
Earnings before taxes	48,577	52,729	756	-213
Income taxes and other taxes	-6,884	-4,720	-143	52
Number of employees on a quarterly average	385	338	3	3

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 2021

The Management Board



Michael Bentlage



Dr. Holger Sepp



Robert Sprogies

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, which comprise the balance sheet as at 31 December 2020, the income statement for the fiscal year from 1 January 2020 to 31 December 2020, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report for the fiscal year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the “Statement on corporate governance” and the “Group non-financial statement” sections of the group management report.

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

- › the accompanying consolidated 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 Group as at 31 December 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020 in compliance with German legally required accounting principles, and
- › the accompanying group management report provides an appropriate view of the Institution's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the “Statement on corporate governance” and the “Group non-financial statement” sections referred to above.

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

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and of the group management report” section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the group 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 consolidated financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated 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 tested 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 consolidated financial statements in the section entitled "Accounting policies" and in the "Risk report" section of the group 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 Group 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 consolidated financial statements in relation to the completeness and the economic assessment of the matters concerned. In summary, 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 lawyers engaged by the executive directors and assessments from the Bank's Legal department and inspected the minutes of the Management Board and Supervisory Board meetings.

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

In connection with the assessment of any tax-related legal risks associated with the preliminary investigations against two former employees, we reviewed significant documents and correspondence with the tax authorities and held discussions with the Management Board, Internal Audit and the tax advisors engaged by the Management Board. We also inspected reports and expert opinions, obtained an understanding of internal investigations carried out by the Bank and assessed them for tax purposes given current case law. In addition, we performed our own investigation procedures with the involvement of forensic specialists and assessed the executive directors' evaluation of the need to recognize a provision on this basis.

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 under provisions for taxes and other provisions in the notes to the consolidated financial statements and in the "Risk report" chapter of the group management report.

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 "Group non-financial statement" sections of the group management report that we obtained before the date of this auditor's report and the "Message from the Management Board," "Report of the Supervisory Board" and "Performance indicators 2020" sections of the annual report.

Our opinions on the consolidated financial statements and on the group 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 consolidated financial statements, with the group 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 CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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 consolidated financial statements and in the group 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated 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 group management report with the consolidated 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 group 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 consolidated 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 27 May 2020. We were engaged by the Supervisory Board on 18 September 2020. 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 consolidated financial statements or in the group management report:

- › Review in accordance with the review instructions of the group auditor pertaining to the reporting package as of 30 June 2020 for Hauck & Aufhäuser Privatbankiers AG

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Stuttgart, 13 April 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

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For ease of reading, gender-related wording have been omitted in some cases. The information always refers to people of any gender identity.