Hauck & Aufhäuser Privatbankiers KGaA

Disclosure Report
as of December 31, 2015

Disclosure in accordance with the
Capital Requirements Regulation (CRR)

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Part 1

Disclosure pursuant to the Capital Requirements Regulation (CRR)

as of December 31, 2015

(in accordance with Section 26a of the KWG [*Banking Act*] in conjunction with Article 435 *et seqq.* of the Capital Requirements Regulation (CRR))

1 Introduction

The Disclosure Report of the Hauck & Aufhäuser Group (H&A Group) was prepared in accordance with the provisions of Section 26a of the Kreditwesengesetz (KWG) [Banking Act] in conjunction with Articles 435 *et seqq.* of the Capital Requirements Regulation (CRR). The superordinated undertaking in the H&A Group is Hauck & Aufhäuser Privatbankiers KGaA (Hauck & Aufhäuser).

Section 26a(1) of the KWG places an obligation on banks to regularly publish qualitative and quantitative information on the equity, the risk exposure, risk management processes, and credit risk mitigation techniques deployed and to have formal procedures and rules in place to fulfill these disclosure obligations.

Hauck & Aufhäuser has an overarching risk management system that integrates all companies of the H&A Group. The disclosures in this report relate to all companies within the scope of prudential consolidation.

The report covers the period between January 1, 2015 and December 31, 2015. The reporting date is December 31, 2015 with an annual reporting frequency. Therefore, the relevant provisions and clauses stated relate to the versions of the KWG / CRR in force on the reporting date.

This report can be viewed and downloaded by visiting the website of Hauck & Aufhäuser Privatbankiers KGaA at http://www.hauck-aufhaeuser.de/page/B_PressePublikationenBestellung.

2 Scope

Disclosures pursuant to Article 436 of the CRR

In accordance with section 10a(1)(1) of the KWG [Banking Act], Hauck & Aufhäuser is classified as the superordinated undertaking of the H&A Group.

The prudential consolidation as stipulated in Article 18 of the CRR differs from the commercial (HGB, German Commercial Code) consolidation. Pursuant to Article 18 CRR, a total of one credit institution and one financial undertaking are fully consolidated in the scope of prudential consolidation. No undertakings are proportionally consolidated.

The principal Group companies of Hauck & Aufhäuser are included both in the commercial (HGB) and prudential scopes of consolidation. The other material Group companies are not included because, pursuant to Article 13 (1) of the CRR, they are of minor importance to the net assets, financial position and results of operations of the H&A Group.

There are no current or foreseen material, practical or legal impediments to the transfer of financial resources or own funds within Hauck & Aufhäuser within the meaning of Article 436 lit c of the CRR.

The member companies of the Hauck & Aufhäuser Group that are not included in the summary pursuant to Article 18 of the CRR do not exhibit shortfalls in capital as set out in Article 436 lit. d of the CRR.

Hauck & Aufhäuser does not exercise the waiver rules stipulated under Article 7 and Article 8 of the CRR in conjunction with Section 2a of the KWG.

In the following consolidation matrix, the member companies of the H&A Group falling under the scope of prudential consolidation are compared with those falling under the scope of consolidation

under commercial law. They are classified according to corporate purpose on the basis of the definitions in section 1 of the KWG.

Table 1: Scope of regulatory and accounting consolidation

Corporate form	Name	Consolidation pursu.		
		Art. 18 CRR		HGB
		Full	Threshold method	Full
Credit institution	Hauck & Aufhäuser Privatbankiers KGaA	X		X
Financial institution	Hauck & Aufhäuser (Schweiz) AG		X	X
Financial institution	FidesKapital Gesellschaft für Kapitalbeteiligungen mbH	X		X
Financial institution	Hauck & Aufhäuser Alternative Investments Services S.A.		X	X
Financial institution	Hauck & Aufhäuser Investment Gesellschaft S.A.		X	X
Financial institution	Stuttgarter RE Beteiligungen GmbH		X	
Other undertaking	Hauck & Aufhäuser Geschäftsleitungs GmbH			X

The significant investments included in the threshold method are generally deducted from the Common Equity Tier 1 capital in accordance with Article 36 (1)(i) of the CRR. As, however, the thresholds stipulated in Article 48 of the CRR are not exceeded, no deduction takes place, but a risk weighting of 250% is applied.

3 Own funds structure and capital requirements

3.1 Own funds structure

Disclosures pursuant to Article 437 of the CRR

As at December 31, 2015, the own funds of the H&A Group pursuant to Article 72 of the CRR are €166 million and are mainly composed of Common Equity Tier 1 capital, which essentially comprises the paid-up capital, the reserves (Core Tier 1) and the special items for general banking risks pursuant to Section 340g of the HGB in the approximate amount of €4 million.

The following table shows the own funds structure of the H&A Group and is structured in accordance with Annex VI to Implementing Directive (EU) 1423/2013 of the Commission.

Table 2: Own funds structure[1]

Line purs. EBA		(A) AMOUNT AT DISCLOSURE DATE	(C) RESIDUAL AMOUNT[2]
COMMON EQUITY TIER 1 CAPITAL (CET1): INSTRUMENTS AND RESERVES		**Amounts in € thousand**	
1	Capital instruments and the related share premium accounts	72,045	0
1a	Of which: shares	16,000	0
1b	Of which: capital reserves	56,045	0
2	Retained earnings	104,119	0
3a	Funds for general banking risks	3,602	0
6	**Common Equity Tier 1 capital (CET1) before regulatory adjustments**	**179,766**	**0**
Common Equity Tier 1 capital (CET1) regulatory adjustments			
8	Intangible assets (net of related tax liability, negative amount)	-7,920	-4,752
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met; negative amount)	-8,258	-4,955
18	Direct and indirect holdings by the institution of the Common Equity Tier 1 capital of financial sector entities where the institution does not have a significant investment in those entities (more than 10%) and net of eligible short positions (negative amount)	-1,388	-833
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	10,540	10,540
26b	Of which: Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR***	10,540	10,540
	Of which: intangible assets	4,752	4,752
	Of which: deferred tax assets not arising from temporary differences	4,955	4,955
	Of which: Common Equity Tier 1 instruments of financial sector entities in which the institution does not have a significant investment	833	833
27	Qualifying AT1 deductions that exceed the AT1 capital at the institution (negative amount)	-7,219	0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-14,246**	**0**
29	**Common Equity Tier 1 capital (CET1)**	**165,520**	**0**
Additional Tier 1 capital (AT1): Instruments			
36	**Additional Tier 1 capital (AT1) before regulatory adjustments**	**0**	**0**
Additional Tier 1 capital (AT1): regulatory adjustments			
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	-5,863	0
41a	Of which: Residual amounts deducted from AT1 capital with regard to deduction from CET 1 capital during the transitional period pursuant to Article 472 of the Regulation (EU) No. 575/2013	-5,169	0
	Of which: intangible assets	-4,752	0
	Of which: Common Equity Tier 1 instruments of financial sector entities in which the institution does not have a significant investment - held directly	-416	0
41b	Of which: Residual amounts deducted from AT1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of the Regulation (EU) No.	-695	0

[1] Rows 1c, 3-5, 7, 9, 11--25, 26a, 30-35, 37-40, 41b-c, 42a, 46-47a, 48-49, 52-56, 64-71, 74 and 78-85 are not applicable to/not available for the H&A Group and, for reasons of clarity, are not displayed.

[2] Amounts subject to treatment prior to Regulation (EU) No. 575/2013 or mandatory residual amount pursuant to Regulation (EU) No. 575/2013

	575/2013		
	Of which: Tier 2 instruments of financial sector entities in which the institution does not have a significant investment - held directly	-695	0
42	Qualifying Tier 2 deductions that exceed the Tier 2 capital at the institution (negative amount)	-1,356	0
	Qualifying AT1 deductions that exceed the AT1 capital (deduction from Common Equity Tier 1 capital)	7,219	0
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	**0**
44	**Additional Tier 1 capital (AT1)**	**0**	**0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**165,520**	**0**
Tier 2 capital (T2): instruments and reserves			
50	Credit risk adjustments	1,138	0
51	**Tier 2 capital (T2) before regulatory adjustments**	**1,138**	**0**
Tier 2 capital (T2): regulatory adjustments			
54	Direct and indirect holdings by the institution of the Tier 2 capital and subordinate loans of financial sector entities where the institution does not have a significant investment in those entities (more than 10%) and net of eligible short positions (negative amount)	-3,456	-1,379
54b	Of which: Holdings existing before January 1, 2013 and subject to transitional arrangements	-3,456	-1,379
56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	2,318	1,379
56a	Of which: Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of the Regulation (EU) No. 575/2013	-416	0
	Of which: Common Equity Tier 1 instruments of financial sector entities in which the institution does not have a significant investment - held directly	-416	0
56c	Of which: Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	2,735	1,379
	Of which: Tier 2 instruments of financial sector entities in which the institution does not have a significant investment - held directly	1,379	1,379
	Qualifying Tier 2 deductions that exceed the Tier 2 capital (deduction from AT 1 capital)	1,356	0
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-1,138**	**0**
58	**Tier 2 capital (T2)**	**0**	**0**
59	**Total capital (TC = T1 + T2)**	**165,520**	**0**
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	684	5,639
	Of which: deferred tax assets not arising from temporary differences	0	4,955
	Of which: Tier 2 instruments of financial sector entities in which the institution does not have a significant investment - held directly	684	684
60	**Total risk-weighted assets**	**684**	**5,639**
Capital ratios and buffer			
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**14.19**	**0**
62	**Tier 1 (as a percentage of risk exposure amount)**	**14.19**	**0**
63	**Total capital (as a percentage of risk exposure amount)**	**14.19**	**0**

72	Direct, indirect and synthetic holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)***	16,359	0
73	Direct, indirect and synthetic by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)***	11,230	0
75	Deferred tax assets arising from temporary differences (amount below 10% threshold net of related tax liability where the conditions in Article 38 (3) are met)	6,900	0
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	1,138	0
77	Cap on inclusion of credit risk adjustments in T2 under the standardized approach	11,004	0

The reconciliation of consolidated capital from the accounting balance sheet (HGB) to the regulatory balance sheet is set out in the following summary.

Table 3: Comparison of own fund items of the consolidated balance sheet (HGB) and the regulatory balance sheet of the Group

Reconciliation of consolidated capital from the accounting balance sheet (HGB) to the regulatory balance sheet	Own funds COREP	Equity HGB
	Amounts in € thousand	
Paid-up capital		16,000
Capital reserves		56,045
Other eligible reserves		98,743
Net profit		4,528
Difference in equity capital from currency translation		171
Funds for general banking risks (Article 26 1f)		3,602
Balance sheet equity		**179,089**
Other eligible reserves (H&A Schweiz)		893
Other eligible reserves (HAIG)		242
Other eligible reserves (HAAS)		-73
Other eligible reserves (HAGL)		5
Difference in equity capital from currency translation (H&A Schweiz)		-171
Net profit (H&A Schweiz)		-209
Net profit (HAIG)		0
Net profit (HAAS)		-1
Net profit (HAGL)		-9
Deconsolidation[3]		**677**
Balance sheet equity after deconsolidation		**179,766**
Goodwill (Article 36 no. 1b)		-
Intangible assets (Article 36 no. 1b)	-3,352	-
Insignificant investments (Article 36 1h)	-1,388	-
Effects of transitional provisions (Common Equity Tier 1 capital)	5,787	-
Deferred tax assets arising from loss carryforwards (Article 36 no. 1c) and 38 of the CRR24	-8,258	-
Addition to AT1 due to surplus (after CET1)	-2,467	-

[3] Deconsolidation due to different scope of consolidation

Effects of transitional provisions (Additional Tier 1 capital)	-1,111	-
Addition to T2 due to surplus (after AT1)	-1,356	-
Capping of AT1 due to surplus (after CET1)	2,467	-
General credit risk adjustments (Article 62 c)	1,138	-
Insignificant investments (Article 66 c)	-3,456	-
Effects of transitional provisions (Tier 2 capital)	962	-
Capping of T2 due to surplus (after AT1)	1,356	-
Filters and deductions COREP	**-14,246**	**-**
Own funds	**165,520**	**179,766**

3.2 Capital requirements

Disclosures pursuant to Article 438 of the CRR

3.2.1 Regulatory capital requirements

The bank determines its regulatory capital requirements in accordance with the CRR regulations. Credit risk is determined in accordance with the Credit Risk Standardized Approach as set out in Part 3 Title II Chapter 2 of the CRR.

As a trading book institution pursuant to Article 4 (1)(86) of the CRR, the bank considers market risks to be exposures pertaining to share prices, foreign currencies, commodities, and interest-rate changes in the trading book. The bank uses the regulatory standardized approach pursuant to Article 325 et seqq. of the CRR for share price/currency/commodities exposures. Interest-rate risks are quantified using the maturity method pursuant to Article 339 of the CRR. The delta-plus method in accordance with Article 329 of the CRR is used for options price risks.

For regulatory purposes, the H&A Group’s operational risk is calculated using the Basic Indicator Approach in accordance with Article 325 *et seq*. of the CRR.

The regulatory capital for the credit valuation adjustment risk is calculated on the basis of the standardized method in accordance with Article 384 of the CRR.

The following table provides an overview of the regulatory capital requirements for the individual risk exposure classes as of December 31, 2015:

Table 4: Regulatory capital requirements at institution level

Capital requirements	Own funds requirements
	Amounts in € thousand
Capital requirements	**93,315**
Credit Risk - Standardized Approach (SA)	**70,425**
Central governments + central banks	0
Regional governments	0
Other public sector entities	30
Multilateral development banks	0
International organizations	0
Institutions	17,193
Company	29,339
Exposures in default	3,459
Items associated with particularly high risk	1,267
Covered bonds	3,066
CIU / investment funds	6,131
Investments	7,103

Other items	2,837
Amount of the exposure to a CCP's default fund	**17**
Amount of the exposure for settlement/delivery risks	**103**
Settlement/delivery risks in the non-trading book	75
Settlement/delivery risks in the trading book	28
Market price risks in the standardized approach	**2,303**
Traded debt instruments (interest-rate risks)	0
Investments (share price risks)	223
Foreign currencies (currency risks)	413
Commodities (commodities risks)	1,666
Operational risks	**13,414**
Basic Indicator Approach	13,414
Total risk exposure credit valuation adjustment (CVA)	**7,053**
Standardized method	7,053

Our capital ratios as of December 31, 2015 can be summarized as follows:

Table 5: Summary of the capital adequacy

Capital ratio	Own funds following approval of the annual financial statements	Capital requirements	Exposures	Indicator
	Amounts in € million			
Common Equity Tier 1 capital ratio	166	93	1,166	14.19%
Tier 1 capital ratio	166	93	1,166	14.19%
Total capital ratio	166	93	1,166	14.19%

This means that each of the capital ratios are comfortably above the regulatory minimum requirements.

3.2.2 Internal capital adequacy

Our risk strategy and our risk-bearing capacity concept are used for conducting qualitative assessments of the adequacy of our available internal capital in relation to our risk profile.

The risk strategy is the general definition of targets to manage the risks of key business activities and is closely connected to the business strategy. It includes risk policy principles and determines our risk appetite, which represents the desired balance between risk tolerance and risk-bearing capacity. It defines how we deal with quantifiable and non-quantifiable risks.

Furthermore, internal capital, i.e. the risk capital, is allocated to the individual business segments / types of risk in order to monitor the risk-bearing capacity of our Group. In addition to the regulatory requirements and profitability targets, risk-bearing capacity is one of the key indicators of our Group's overall planning and control process.

The Group level is defined according to the scope of consolidation and the commercial significance of each individual unit. Here, we use our financial risk scale, which enables us to objectively define the Group level and, hence, risk-adjusted management of the H&A Group.

The key indicators for calculating the risk-bearing capacity are the risk capital, i.e. the maximum available internal capital for managing risks, and the risk capital limit, i.e., the internal capital actually deployed to cover risks. In accordance with our risk policy principles and for the purpose of limiting risks, only a portion of the risk capital is deployed for covering risks. The remaining strategic risk buffer is used to cover potential fluctuations in our risk capital and ensures that we have room for maneuver in terms of risk management.

The risk-bearing capacity is assured when the risk capital is higher than the risk capital requirement. In order to ensure this, our risk strategy stipulates limits for all risk types and roles that define the decision-takers' room for maneuver. In so doing, the limit system used in the bank is applied to allocate limits to the individual types of risk and/or business segments. These are expressed in the form of global limits that are subdivided into individual limits. Compliance with these limits and, hence, with the risk-bearing capacity is monitored through regular reporting.

Risk capital, the risk capital limit and the risk capital requirements are planned in the course of the annual business and risk strategy review. They are based on the regulatory capital planning, the strategic earnings targets and the risk capital requirements calculated on the basis of the key future business activities.

The risk-bearing capacity is calculated monthly in accordance with the liquidation approach with a 99.9% level of confidence. This is supplemented by an approach aimed at continuation of the company as a going concern.

The reduction in the utilization of the risk coverage potential at the bank level from 92.7% as of December 31, 2014 to 95.3% as of the balance sheet date largely results from a reduction in the Hidden Reserves in our securities portfolio. In 2015, the average utilization was 90.8% (89.6% in 2014). The following chart shows the breakdown of the risk capital requirements relative to the individual types of risk of the H&A Group quantified in the risk-bearing capacity:

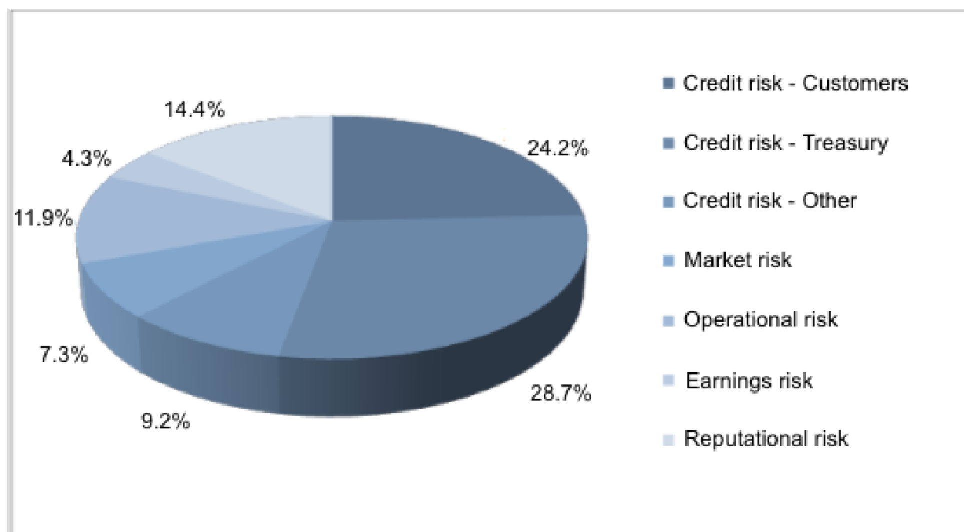

Figure 1: Break down of the total exposure

4 Risk management

Disclosures pursuant to Article 435 of the CRR

4.1 Risk management system

The most important components of our Group-wide risk management system for the controlling of risks and capital are:

- Our business strategy and the business areas derived therefrom and the types of identified risk
- The risk strategy, i.e., the capital allocated to the respective business areas taking into consideration expected returns
- Through the risk-bearing capacity concept, the risk capital, i.e. the maximum capital available for covering risks in the group, and the risk capital limit, i.e., the actual capital allocated to cover risks
- Ongoing risk management and controlling processes
- Ongoing monitoring of our risk management system by Internal Auditing

Risks are identified through the business strategy and specified through the definitions contained in the risk strategy. The H&A Group distinguishes between the following categories of material risk:

- Credit risks
- Market risks
- Liquidity risks
- Operational risks
- Strategic risks (risks to earnings and reputation)
- Concentration risks (implicitly covered by the above risks)

The Management Board has overall responsibility for risk and capital management within the Group. The Chief Financial Officer (CFO), a market-neutral member of the Management Board, is responsible for risk management in respect of our credit, market, liquidity, operational and strategic risks; this person also controls the risk capital within the group. The Supervisory Board monitors our risk and capital profile at regular intervals, at minimum, however, on a quarterly basis.

The Management Board has overall responsibility for the business strategy and the risk strategy. It presents its strategies to the Supervisory Board for discussion with the same.

Risks, in particular, compliance with the risk-bearing capacity, are monitored at the operational level by a business unit separated from the market, Group Risk Management. Risks are identified, analyzed, evaluated, monitored and reported in order for control mechanisms to be put in place. Group Risk Management is responsible for the methods that will be used to control risks for the bank as a whole. Earnings performance is monitored by our Group Finance unit. Investments are managed by the Partners’ Office in cooperation with Group Finance.

The elements of our risk management process

- Risk identification (including early warning indicators) and risk inventory,
- Risk analysis (measurement and assessment of risks),
- Risk management, and
- Risk monitoring and communication

Each represents a summary of the material duties within the process. The separation of functions is assured up to Management Board level through our organizational structure, methods and procedures, and our risk management processes.

The Asset/Liability Committee and the OpRisk Committee serve as overarching bodies for the decision-takers within the organizational units, who take on ongoing responsibility for risk management at the operational level.

A comprehensive reporting system ensures regular and timely communication on the utilization of the risk capital, thus enabling rapid reaction.

Group Internal Auditing is responsible for risk-oriented and process-independent examination of the risk management system. The Management Board reports regularly to the Supervisory Board on the material findings of Group Internal Auditing. The audits strictly relate to all activities and processes of the H&A Group.

4.2 Corporate governance arrangements

Pursuant to the Articles of Association of the bank, the conduct of the bank's affairs is the responsibility of the Personally Liable Partners. There are currently two Personally Liable Partners, one natural person and Hauck & Aufhäuser Geschäftsleitungs GmbH, which currently has two managing directors. Our Articles of Association stipulate that the Personally Liable Partners shall be elected by the Annual General Meeting of the bank. Likewise, the managing directors of Hauck & Aufhäuser Geschäftsleitungs GmbH are appointed by all limited partnership shareholders, who, in turn, are represented by the Shareholders' Committee. The bank's website contains detailed biographies of the members of the Management Board.

Only such persons who possess the qualifications to be a management board member as stipulated in Section 25c of the KWG and meet all other stock market/banking regulatory supervision requirements may be appointed Personally Liable Partners of the bank or managing directors of Hauck & Aufhäuser Geschäftsleitungs GmbH. Pursuant to the Rules of Procedure of the Supervisory Board and the Shareholders' Committee, the Personnel Committee supports the boards and committees in identifying suitable candidates for appointment to an executive role. Expertise and balance play a key role, as do diversity of knowledge, skills, and experience. As the Management Board of the bank currently consists of three members, the focus is on separation into a market-facing unit and an operations unit. Further diversification is neither possible nor necessary. None of the members of the Management Board holds other roles. Mr. Lucht has taken on two further supervisory roles, Mr. Bentlage, five supervisory roles, and Mr. Rupprecht, no supervisory roles. The reporting date for all disclosures is December 31, 2015.

4.3 Risk statement

The focus of the H&A Group's business activities is on the provision of services to private and corporate clients, independent asset managers and institutional clients. As a result, our economic capital requirement of 62.1% prioritizes credit risks, followed by strategic risks (risks to earnings and reputation) of 18.7%.

The business strategy sets out the H&A Group's targets for each of the key business activities and the measures required to achieve such targets. The risk strategy is adjusted to the nature, complexity, scope and risk inherent to such business activities and is to be viewed as a component of the risk management process that controls the earnings-focused acceptance of risk taking into account the regulatory requirements placed on the risk-bearing capacity. The risk strategy determines our propensity for risk at the Group level.

The economic risk-bearing capacity approach is aligned toward creditor protection (liquidation approach) and, in conjunction with the regulatory capital ratios, constitute the guiding risk management approaches of the H&A Group, supplemented by an approach based on the target of continuation as a going concern.

Hauck & Aufhäuser provides the individual business units with only a portion of the risk capital. The non-deployed risk capital serves as a strategic risk buffer.

The total capital ratio of the H&A Group after preparation of the annual financial statements at the reporting date of December 31, 2015 is 14.19%, while the utilization of the economic risk coverage capital is 95.3%.

To ensure the economic risk-bearing capacity, compliance with the regulatory capital ratios and to guarantee adequate liquidity, the H&A Group has implemented a pro-active risk management system. This has been appropriately designed with regard to our business activities, our strategic alignment and the fulfillment of regulatory requirements.

5 Management of individual types of risk

5.1 Credit risks

5.1.1 General

Credit risks mainly result from our lending activities with corporate and private clients as well as real estate developers, from our investment and interbank business with institutional clients, and derivative transactions with our client groups.

Credit risks mean, in particular,

- The default of a borrower, i.e. the inability of a borrower, or several borrowers, to meet his/her/their loan obligations (in particular, the payment of interest and repayment of the principal),
- The credit rating risk, i.e. the potential deterioration in the economic situation of a borrower,
- The collateral risk, i.e. the potential change in prices of objects of value that are held to cover liability in the lending business,
- The portfolio/clustering risk, i.e., too high concentration and dependency on a borrower or group of borrowers,
- The issuer and country risk.

Precisely defined lines of authority and standards for credit and investment decisions help to diversify risk and mitigate our credit risk. In order to assess the credit rating of our clients, we use the rating procedures of CredaRate Solutions GmbH, in Cologne. Collateral is assessed through a standardized process using the dual control principle. For securities, the mortgage lending value is determined on a risk-adjusted basis using up-to-date market data. Such data is regularly updated.

Credit risks are controlled on the basis of quantitative and qualitative criteria.

The quantitative control focuses on compliance with the economic limits to ensure the risk-bearing capacity, which is determined through the risk strategy. The regulatory ratios constitute a strict constraint in this respect.

The economic capital requirements to cover credit risks is determined using:

- The Gordy model for our retail loan customers and interbank business
- A credit portfolio model for our non-trading portfolio

Our credit and investment strategies form the basis for qualitative control. Here, we define internal caps on individual commitments with regard to customer/issuer groups, credit ratings, volumes and internal capital requirements. Accordingly, concentration risks are also limited.

5.1.2 Regulatory credit risks

In accordance with Article 442 of the CRR, the loan volume is to be divided according to credit risk-bearing instruments, main geographical areas, main sectors and residual maturities. The following quantitative disclosures for the entire credit portfolio show the maximum credit risk of the H&A Group. The maximum credit risk is a gross figure. The risk-bearing financial instruments are reported without recognition of credit risk mitigation techniques and after value adjustment. For loans and open commitments, the gross credit volume is based on book values; for trading/non-trading book securities, on acquisition costs or lower market values, and, for derivatives, on credit equivalent amounts. The gross credit volume also contains undrawn credit facilities.

Table 6: Gross credit volume by credit-risk bearing instrument

Risk-bearing instruments/ exposure classes	Exposures	Commitments and other non-derivative off-balance sheet assets	Securities	Derivative financial instruments	Sum per exposure class
	Amounts in € million				
Central governments + central banks	217	0	216	0	**433**
Regional governments	26	35	242	16	**318**
Other public sector entities	0	0	84	0	**84**
Multilateral development banks	0	0	82	0	**82**
International organizations	0	0	15	0	**15**
Institutions	508	3	525	226	**1,262**
Company	352	134	104	147	**738**
Exposures in default	20	6	1	9	**36**
Items associated with particularly high risk	9	0	2	0	**11**
Covered bonds	0	0	291	0	**291**
CIU / investment funds	0	0	82	0	**82**
Total	**1,132**	**179**	**1,644**	**398**	**3,353**

The values for investments and affiliated companies are not included. Please refer to the detailed information we have provided under item 6 of this report.

Table 7: Gross credit volume by geographical region

Main geographical area/ exposure classes	Germany	Europe	America	Middle East, Asia, Africa	Other	Sum per exposure class
	Amounts in € million					
Central governments + central banks	212	221	0	0	0	**433**
Regional governments	300	18	0	0	0	**318**
Other public sector entities	84	0	0	0	0	**84**
Multilateral development banks	0	0	0	0	82	**82**

International organizations	0	15	0	0	0	**15**
Institutions	427	740	31	14	51	**1,262**
Corporate	338	294	40	17	49	**738**
Exposures in default	36	0	0	0	0	**36**
Items associated with particularly high risk	9	2	0	0	0	**11**
Covered bonds	169	122	0	0	0	**291**
CIU / investment funds	1	81	0	0	0	**82**
Total	**1,577**	**1,492**	**71**	**32**	**182**	**3,353**

The table shows that the majority of the credit portfolio is located in Germany and Europe and, hence, constitutes the focus of the H&A Group's lending activities.

Table 8: Gross credit volume by industry

Main industries/ exposure classes	Production/ mechanical engineering	Service providers	Trade	State/ social	Financial/ capital markets	Retail banking	Other industries	Sum per exposure class
				Amounts in € million				
Central governments + central banks	0	217	0	0	0	0	217	**433**
Regional governments	0	0	3	0	0	1	314	**318**
Other public sector entities	0	84	0	0	1	0	0	**84**
Multilateral development banks	0	82	0	0	0	0	0	**82**
International organizations	0	15	0	0	0	0	0	**15**
Institutions	0	1,262	0	0	0	0	0	**1,262**
Company	83	406	4	2	42	197	4	**738**
Exposures in default	6	0	3	0	4	18	4	**36**
Items associated with particularly high risk	2	2	0	0	0	3	0	**11**
Covered bonds	0	291	0	0	0	0	0	**291**
CIU / investment funds	0	82	0	0	0	0	0	**82**
Total	**90**	**2,443**	**11**	**2**	**47**	**222**	**538**	**3,353**

The liquid assets are primarily invested in credit institutions. The reason for this is that the investment policy is geared toward investments involving low risk in order to safeguard and maintain the profitability of the H&A Group.

Table 9: Gross credit volume by residual maturity

Residual maturity/ exposure classes	< 3 months	>= 3 months up to 1 year	>= 1 year up to 5 years	>= 5 years up to 10 years	>= 10 years	Unlimited	Sum per exposure class
				Amounts in € million			
Central governments + central banks	221	114	32	55	10	0	**433**
Regional governments	28	10	95	127	23	35	**318**

Other public sector entities	1	0	46	38	0	0	**84**
Multilateral development banks	0	0	42	40	0	0	**82**
International organizations	0	0	5	10	0	0	**15**
Institutions	732	115	330	50	1	35	**1,262**
Corporate	506	92	85	10	2	43	**738**
Exposures in default	28	0	0	0	4	4	**36**
Items associated with particular-ly high risk	11	0	0	0	0	0	**11**
Covered bonds	31	25	168	67	0	0	**291**
CIU / investment funds	0	0	0	0	82	0	**82**
Total	**1,577**	**356**	**804**	**397**	**122**	**117**	**3,353**

The H&A Group endeavors to undertake long-term investment only to a small extent in order for the main share of the assets to report a residual maturity of less than one year. The investments with residual maturities longer than five years are largely investments in securities.

5.1.3 Risk provisioning and definitions

All loan commitments are subject to regular review. This involves determining the extent of partial or full non-recoverability of the outstanding exposures. An unscheduled review of the exposures including the collateral is conducted if the bank obtains information that could indicate a negative change in the risk assessment of the commitment.

In the lending business, we define the following criteria for non-performance in the lending business:

- Default of payment (e.g. capital due, interest payable, account overdrafts, shortfalls in collateral, contributions in arrears for assigned insurance policies, returned checks and direct debits)
- Breach of conditions under the loan agreements (e.g. non-submission of agreed documents, non-compliance with contractual obligations)
- Initiation of enforcement procedures by third parties (e.g. attachments, freezing of payments)
- Filing of an application to commence insolvency proceedings

The relevant time limits in which commitments are considered to be in default and hence as non-performing are detailed in our credit policy manual.

We define exposures as “non-performing” and “impaired” when we anticipate that a contractual partner is not able to meet his/her obligations to perform debt servicing over the long term or is in breach of contractual obligations under the loan agreement.

We do not use a delimited definition of “past due” for invoicing purposes.

Risk provisioning is conducted in accordance with Commercial Code stipulations using the strict lower of cost or market value principle. Bad debts are written off; individual value adjustments (IVA) or provisions are formed for doubtful debts. The bank has formed general allowances for bad debts

to cover potential default risks. Additionally, there are provisions for general banking risks pursuant to Section 340f of the BGB. Throughout the year, we ensure that individual value adjustments/provisions are promptly recorded. Individual risk provisions are only released when the economic situation of the borrower has discernibly and sustainably improved.

On a case by case basis, it is to be examined whether to implement internal interest suspension with a neutral recognition effect.

Proposals for allocation to risk provisioning (IVA, provisions, direct write-downs) are submitted to the Management Board for approval. The adequacy of the risk provisioning is adjusted at month's end for each month during the course of the financial year. Detailed information on the recording of risk provisions is provided in the form of comprehensive internal rules.

The following tabular list shows the development of risk provisioning in the 2015 financial year on the basis of Commercial Code (HGB) accounting data.

Table 10: Development of on-balance sheet risk provisioning

Type of risk provisioning	Opening balance	Allocation	Release	Use	Closing balance
	Amounts in € million				
Individual value adjustment	15.9	0	2.3	8.3	5.3
Suspension of interest	12.5	0.8	0	7.3	6.0
General allowances for bad debts	1.8	0	0.7	0	1.1
Provisions	0.8	0.2	0	0	1.0

Table 11: Non-performing loans and defaulting loans by main industry

Main industries	Total utilization from non-performing or defaulting loans (requiring value adjustment)	Balance IVA (incl. country risks)	Balance GA	Balance Provisions	Defaulting loans (not requiring value adjustment)
	Amounts in € million				
Processing industry	0	0	0	0	0
Energy supply	1	0	0	0	1
Trade	3	6	0	0	0
Financial/insurance services	16	2	0	1	0
Real estate sector	17	2	0	0	11
Services	6	1	0	0	5
Public authorities	3	0	0	0	3
Private households	4	1	0	0	4
Other	0	0	1	0	0
Total	**52**	**12**	**1**	**1**	**26**

The details of non-performing loans as of December 31, 2015 are set out in the above table. The individual value adjustment amounts also take into consideration the suspension of interest that results from the interest not being recognized as income from non-performing / defaulting commitments. The development of the suspension of interest is shown in the table on the development of risk provisioning.

Table 12: Non-performing loans and defaulting loans by main geographical region

Main geographical region	Total utilization of non-performing or defaulting loans (requiring value adjustment)	Balance IVA (incl. country risks)	Balance GA	Balance Provisions	Defaulting loans (not requiring value adjustment)
	Amounts in € million				
Germany	36	8	0	0	26
Other EMU countries	16	2	0	1	0
Other EEA countries	0	0	0	0	0
Other	0	2	1	0	0
Total	**52**	**12**	**1**	**1**	**26**

5.1.4 Use of registered credit rating agencies (ECAI)

Disclosures pursuant to Article 444 of the CRR

Hauck & Aufhäuser has appointed external credit rating agencies for the following exposure classes:

Table 13: Appointed credit rating agencies per exposure class

Exposure class	Registered credit rating agencies
Central governments	Export guarantees of FRG (Hermes)
Regional governments and local authorities	Export guarantees of FRG (Hermes)
Other public sector entities	Export guarantees of FRG (Hermes)
Institutions	Standard & Poor's
Company	Standard & Poor's
Central governments	Export guarantees of FRG (Hermes)

5.1.5 Credit risk mitigation

Disclosures pursuant to Article 453 of the CRR

We use credit risk mitigation techniques. We do not use any on and off-balance sheet netting agreements. For derivative credit risk exposures, where eligible netting agreements are provided, regulatory netting is used.

The valuation and management of the eligible collateral used is included in our risk management process as a part of our credit strategy. This involves a regular, complete credit risk assessment of the secured exposures including review of the legal validity and the legal enforceability of the received collateral.

We have introduced lending guidelines for the valuation of eligible collateral used. The process for valuing and managing collateral is set out in our credit policy manual. The lending principles set out in our credit policy manual provide the framework for the nature and scope of the collateral we accept and stipulate benchmarks for the assessment of recoverability. The recoverability of collateral is to be assessed before a decision on a loan is taken and regularly during the term of the loan. As a rule, this review is to be conducted at intervals of one year; for critical commitments, also at shorter intervals. The Credit Operations department is responsible for regularly reviewing and evaluating collateral.

Thus, in addition to the credit rating of the borrower, the collateral provided is of material significance to measuring the credit risk. Through credit risk mitigation techniques, we recognize the following hedging instruments, where they meet the requirements of the SolvV [Solvency Regulation]:

- Financial collateral
    - General terms & conditions with standstill obligations
    - Pledging of securities accounts
    - Pledging of deposits managed by us
- Warranties
    - Assignment of endowment policies
    - Default guarantees
    - Directly liable maximum guarantees and notarized acknowledgment of indebtedness
    - Limited bank guarantees
    - Limited bank guarantee sureties
    - Pledging of deposits held at third-party banks

As we have a large volume of financial collateral, we have opted to use the comprehensive approach.

The guarantors of the credit risk mitigating guarantees are

- Public sector entities (central governments, regional governments, local authorities).
- Domestic and international credit institutions.

For the assessment of the credit rating of domestic and international credit institutions that provide guarantees, we take into consideration any available external rating of a registered rating agency and our own analysis.

When making credit decisions, loans secured by mortgages are assessed as collateral and recognized at the mortgage lending value. We have as yet not considered this as a credit risk mitigation technique within the meaning of the SolvV.

Collateral is managed in our in-house ERP system, OBS. This is supplemented by collateral management databases created by Credit Operations itself.

Credit derivatives are not used by our bank.

Within the hedging instruments that we use, we have not taken any risks with regard to market or credit risk concentrations.

The leverage ratio exposure pursuant to Article 11 of the CRR describes the impaired amounts and thus forms the basis for determining the risk-weighted exposures and the capital requirements.

The following table shows the exposure value before and after credit risk mitigation of collateral.

Table 14: Exposures before and after credit risk mitigation

Risk weighting	Exposure values	
	Before credit risk mitigation	After credit risk mitigation
	Amounts in € million	
0%	-933	-1,043
2%	-163	-163
4%	-315	-315
10%	-199	-199
20%	-522	-431
35%	0	0
50%	-309	-285
70%	0	-25
75%	0	0
100%	-876	-588
150%	-42	-40
250%	-10	-10
370%	0	0
1250%	0	0
Other	-12	-12

The following overview shows the eligible collateral in the form of guarantees, personal guarantees and credit derivatives by exposure class.

Table 15: Total amount of secured exposures (w/o securitization)

Portfolio	Financial collateral	Other/physical collateral	Guarantees and credit derivatives
	Amounts in € million		
Other public sector entities	0	0	0
Institutions	32	0	125
Company	235	0	63
Exposures in default	1	0	0
Investments	0	0	0
Total	**268**	**0**	**188**

5.1.6 Counterparty credit risk

Disclosures pursuant to Article 439 of the CRR

The counterparty credit risk (CRR) denotes the risk of default of the counterparty in a transaction before the final settlement of the payments associated with the transaction.

The stipulations for calculating the exposure value for the counterparty credit risk are applied to the derivative transactions named in Annex II of the CRR.

Hauck & Aufhäuser only uses the mark-to-market method pursuant to Article 274 of the CRR to calculate exposure values.

The counterparty credit risk exposures from all derivative transactions as per year-end 2015 are €426 million.

Furthermore, the derivative credit risk is reduced through settlement via central counterparties (CCP). H&A is connected to Deutsche Börse AG. Risk exposures are assigned a risk weighting of 2%.

Collateral held that is provided to the benefit of the CCP but is protected from insolvency can be recognized at an exposure value of zero.

The own funds requirements for the so-called pre-funded contributions to the default fund of the CCP are calculated in accordance with the risk sensitivity method pursuant to Article 308 of the CRR.

The following table shows the positive gross fair value from derivatives as of December 31, 2015 before and after application of netting agreements and offsetting of collateral:

Table 16: Positive replacement values

Types of risk	Positive replacement values prior to netting and collateral	Netting possibilities	Eligible collateral	Positive replacement values after netting and collateral
	Amounts in € million			
Interest-rate risk	57	49	0	49
Currency risk	29	17	0	15
Share price risk	45	20	49	30
Commodities risk	2	1	0	1
Credit derivatives	0	0	0	0
Counterparty credit risk	**133**	**87**	**49**	**95**

The exposures included in the netting are primarily interest-bearing instruments.

Credit derivatives from intermediary activities are not in the portfolio.

5.2 Market risks

Disclosures pursuant to Article 445 of the CRR

Market risks arise through our trading and investment banking activities as well as our asset/liability management transactions.

Asset items and capital (in particular equity and debt capital) generally have a market price that is subject to fluctuation as a result of change to external parameters. The danger that market price fluctuations will deviate significantly from customary (expected) fluctuation (such as through dramatic movements on the stock markets) and, hence, lead to considerable losses in asset value, is known as market risk. The market risk results from unexpected fluctuations of the underlying market parameters such as interest rates, share prices and currency rates.

We monitor the economic market risk using a methodological approach adapted to our business model which takes all exposures into account. The market risks arising from our trading / non-trading book are determined using the same procedure. The value-at-risk ratio calculated by the H&A Group is based on the variance-covariance method. The entire market risk is calculated through addition of the VaR ratio without consideration of correlations between share/interest-rates/currency markets. The VaR ratios are based on a 260-day history and are calculated for a holding period of 90 days at a confidence level of 99.9%.

The Group Risk Controlling department is responsible for measuring and monitoring market risks. It creates a daily market risk report for the Management Board. This report contains key risk ratios (results, value-at-risk ratios, and stress values) for all types of risk at the portfolio and Group level. The value-at-risk ratios are compared with the capital limits on a daily basis.

The regulatory capital is calculated in accordance with the standardized method (cf. section 3.2.1).

The monthly Assets/Liabilities Committee is the key committee for monitoring market risks at Group level. Its primary task is to monitor the development of market risks and to recommend courses of action.

Our assets and liabilities consist mainly of items with variable interest rates. Fixed interest-rate items on the assets are generally hedged using interest-rate swaps. The currency risk is of secondary importance because our business is concentrated mainly in Germany or countries of the eurozone.

Clean back-testing is regularly performed to assess our risk models. Here, the forecast key risk ratios are compared with the actual changes to net assets.

In addition to the economic capital limits defined through the risk strategy, the framework conditions defined in the portfolio investment strategies (credit rating, liquidity, maturity, stop-loss limits, and volume limits) constitute the guiding principles for controlling market risk.

Calculation of stress scenarios (stress testing exposure)

In addition, we perform worst-case simulations for all classes of market risk (shares, funds, foreign currency, interest rates, interest-rate options) on the basis of extraordinary historical market fluctuations (after the Lehman insolvency in 2009), hypothetical stress scenarios (EU stress test of the CEBS), and various stress tests.

5.3 Interest-rate risk in the non-trading book

Disclosures pursuant to Article 448 of the CRR

Interest-rate risks result from our asset/liability management transactions. Thanks to our investment strategy, our interest-rate risks are manageable.

With regard to the interest-rate risk, we monitor not only the change in present values in the interest book but also the effects on the income statements under commercial law.

Interest-rate risks are quantified and reported on a daily basis with the procedures used for market risks.

All interest-bearing transactions from the trading book, the non-trading book and the liabilities are taken into account to calculate changes in present value in the interest ledger. The currency risk from these transactions is recognized separately.

To calculate unexpected loss, we use ten defined interest-rate scenarios (including the supervisory authority's interest-rate shock scenario). The interest-rate scenarios are calculated daily and reported on a quarterly basis to the Management Board.

The interest-rate shock (+200 base points / -200 base points) stipulated by the regulatory authorities would lead to a negative change in the non-trading book for our institution at the end of the year of €11.3 million, which corresponds to 6.94% of our own funds.

5.4 Operational risks

The H&A Group defines operational risks as the risk of financial impact resulting from the inadequacy or failure of internal procedures and systems, people, or as a result of external events. Legal risks and IT risk are allocated to the operational risks.

The H&A Group has introduced a Group-wide operational risk management framework that is binding on all subsidiaries, managers and departments. This framework sets out the strategic focus on four courses of action when dealing with operational risks:

- Risk avoidance, i.e. by withdrawing from specific areas of business
- Risk mitigation, i.e. through process optimization or skills enhancement measures for employees
- Risk transfer, e.g. through taking out insurance to regulate major damage with lower probability of occurrence
- Risk acceptance, e.g. when appropriate counter-measures prove to be unusable from a commercial perspective (corresponding decisions are reviewed regularly)

The Group Risk Controlling unit is responsible for monitoring operational risks and supports the special units responsible for managing these risks. It reports to the Management Board and to the OpRisk Committee responsible for managing operational risks, which performs controlling.

The regulatory capital required for covering operational risks is determined using the Basic Indicator Approach; economic capital is determined using the value-at-risk approach.

The instruments that we use for managing operational risks include:

- A Group-wide process for systematic and standardized recording, reporting, analysis, and management of data and information on losses,
- Regular reporting to the Management Board and to specialist departments,
- A "risk self-assessment" process for regular and, where possible, complete reporting of all significant risks, and
- The development of scenarios to assess the consequences of potential losses and the opportunities to avoid them.

Operational risks are limited through thorough and continually updated documentation of our working processes, guidelines and lines of authority.

Relevant processes and emergency concepts have been implemented to ensure that, in the event of system outages, our ERP system is secure and our business operations can continue. Further

processes such as regular appraisal of employees and standardization of our agreements also help mitigate risk.

5.5 Liquidity risks

The focus of our business strategy is the generation of commission income and, for this reason, we do not pursue a strategy based on balance sheet growth. Funding is based on organically developed liabilities that have proven to be stable over several cycles.
The liquidity excess is mainly invested in ECB-eligible papers in order to enable access to a high funding facility at the ECB in the event of a liquidity shortfall.

We understand liquidity risk as risks affecting:

- Solvency, i.e. the risk of not being able to meet payment demands at a specific point in time.
- Funding, i.e. the risk of not being to fund ourselves at favorable conditions over the long term, and
- Asset marketability, i.e. the risk of not being able to undertake trade with the assets

The monthly Asset/Liability Committee is the central steering committee for liquidity risks. It stipulates how the desired liquidity status is to be achieved. The operational control of liquidity is performed by Treasury. Furthermore, it controls the daily liquidity and the balance sheet structure using the stipulated risk tolerance, and reports on the liquidity situation and development to this committee.

Liquidity risks are monitored by an independent body, Group Risk Controlling.

The marketability risks and market liquidity risks are implicitly monitored through the credit portfolio model for credit risks in the non-trading portfolio and the daily calculation of the hidden assets and hidden liabilities in the market risk reporting. All other liquidity risks are not checked through the risk-bearing capacity calculation but through other instruments.

In addition to monitoring and controlling activities in accordance with the Liquidity Regulation, the liquidity risks are monitored on the basis of the regulatory ratios, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), pursuant to Articles 411 to 426 of the CRR as well as an internally developed process. This compares all payment flows over daily, monthly and annual periods, takes into consideration the marketability and ECB eligibility of the individual exposures in the trading and non-trading portfolios along with contingent liabilities, and enables prospective consideration of the liquidity on the basis of defined scenarios. All liabilities due within specifically defined periods are to be serviced within this period in the event of complete deduction.

Key elements of our liquidity risk management system in addition to these ratios involve consideration of liquidity costs when controlling business activities as well as regular review of the emergency plan for liquidity shortfalls and access to the sources of funding relevant to the H&A Group.

5.6 Strategic risks

The H&A Group generally subdivides strategic risks into business risks and reputational risks.

The business risks involve risks to earnings and costs. The responsibility for managing such risks rests with the core business segments and the relevant Management Board members backed up by independent figures supplied by the Financial Controlling department.

Reputational risks are defined as the risk to public reputation resulting from perceptions of the stakeholders with regard to competence, integrity and credibility. Significant drivers of reputational

risk are:

- Financial performance,
- Customer satisfaction
- And the quality of internal processes

The responsibility for managing reputation risks rests with the core business segments and their relevant members of the Management Board. They are supported in this task by the neutral body, Quality Management.

Strategic risks are quantified using the historical scheduled deviations from gross income.

6 Disclosure of investments in the non-trading book

Disclosures pursuant to Article 447 of the CRR

On the basis of the bank's Strategy Map, we divide our investments into three categories: strategic investments, financial investments and business-friendly investments. The strategic investments are in particular used to expand the customer base, tap new sales channels and develop new products. The vast majority of the strategic investments are operating companies in the majority ownership of Hauck & Aufhäuser which are allocated to and fully integrated into the core business segments of the H&A Group. These companies are consolidated in the consolidated Group accounts and are financially, organizationally and commercially integrated in the H&A Group.

The financial investments of Hauck & Aufhäuser are concentrated in our Munich-based subsidiary, FidesKapital Gesellschaft für Kapitalbeteiligungen mbH. They primarily involve minority investments in private equity and venture capital funds of well-known providers with whom we have long-standing business relations. The business-friendly investments essentially serve to create tailored individual solution approaches for our customers, such as in the administration of financial instruments for investments.

Our investments are evaluated at acquisition cost in accordance with the provisions of the Commercial Code. In the event of permanent impairment, write-offs are conducted using the lower of cost or market value. Write-ups are only permissible up to the amount of the acquisition costs. The valuations are reviewed once a month in a standardized process. The strategic investments are integrated in the regular Group controlling and risk management processes of the H&A Group and are monitored on a monthly basis.

The following organizational chart provides an overview of the investment structure of Hauck & Aufhäuser showing the key investments. The individual investments are briefly described in the following.

Figure 2: Significant investments

Hauck & Aufhäuser Investment Gesellschaft S.A., Luxembourg.

The company has been operating as a capital investment company from its base in Luxembourg since 1989.

Hauck & Aufhäuser Alternative Investment Services S.A., Luxembourg.

The company, which was founded in 2008, is a provider of advisory services for complex fund products.

Hauck & Aufhäuser (Schweiz) AG, Zürich

For many years, the Zürich-based company has primarily supported private and corporate clients with their assets as well as managed the portfolios of SRI funds.

Hauck & Aufhäuser Geschäftsleitungs GmbH

The company has been the Personally Liable Partner of Hauck & Aufhäuser since 2009.

FidesKapital Gesellschaft für Kapitalbeteiligungen mbH, Munich

The company serves as an investment holding for the financial investments of Hauck & Aufhäuser.

In addition to the key investments of Hauck & Aufhäuser shown in the overview of the investment structure, we also have a number of minority investments, which in particular are held in the investment holding. They are of minor importance to the Hauck & Aufhäuser Group. The book values of these minority investments are assessed on a monthly basis through ongoing reporting and every six months through an investment report.

Structure of the investment instruments

The following table shows the structure of the book values and fair values of investment exposures not contained in the trading book.

Table 17: Valuation of investments

Group of investment instruments	Book value	Fair value
	Amounts in € million	
Financial institutions	34	34
Providers of non-core services	0	0
Other undertakings	9	9
Credit institutions	0	0
Non-trading book shares	0	0
Total	**43**	**43**
Of which		
Affiliated companies	36	36
Investments	8	8

As the investments in the investment portfolio of Hauck & Aufhäuser do not contain any publicly listed companies, pursuant to Article 447 of the CRR, the fair value was equated with the book value.

7 Encumbered and unencumbered assets

Disclosures pursuant to Article 443 of the CRR

Encumbered assets are primarily on and off-balance sheet assets that are used as collateral for hedged financing transactions and other hedged liabilities and are made available to the institution on a restricted basis.

Assets are encumbered primarily as a result of hedged financing, in particular, repurchase agreements, as well as agreements for hedging market values of derivative transactions.

The following disclosures are made in accordance with the “Guidelines on disclosure of encumbered and unencumbered assets” of the EBA dated June 27, 2014 (EBA/GL/2014/03):

Table 18: Book values of the encumbered and unencumbered assets

	Assets in € thousand	Encumbered assets		Unencumbered assets	
		Book value	Market value	Book value	Market value
010	**Total assets**	**250,856**	**-**	**2,894,245**	**-**
020	On demand loans		-	310,977	-
030	Equity instruments	-	-	134,448	136,051
040	Bonds and notes	60,956	63,645	1,489,028	1,515,516
100	Loans that are not on demand	100,000	-	476,864	-
120	Other assets	89,900	-	482,928	-

Table 19: Collateral received for encumbered and unencumbered assets

	Received collateral in € thousands	Fair value of encumbered collateral received and own issued bonds	Fair value of unencumbered collateral received and own issued bonds
130	**Total collateral received**	**-**	**133,258**
140	On demand loans	-	-
150	Equity instruments	-	-
160	Bonds and notes	-	133,258
220	Loans that are not on demand	-	-
230	Other assets	-	-
240	Own issued bonds not including ABS covered bonds	-	-

Table 20: Encumbered assets/collateral received and associated liabilities

	Collateral received in € thousands	Matching liabilities, contingent liabilities and loaned securities	Encumbered assets, collateral and own issued bonds not including ABS covered bonds
010	Book value of selected liabilities	114,722	114,113
120	Other liabilities	24,943	136,743
170	**Total**	**139,665**	**250,856**

8 Leverage ratio

Disclosures pursuant to Article 443 of the CRR

The following disclosures are made in accordance with the provisions of the new Delegated Regulation (EU) 2015/62 and Implementing Regulation (EU) 2016/200 on the disclosure of the leverage ratio.

Application of the provisions of the new Delegated Regulation results in a leverage ratio for the H&A Group as of December 31, 2015 of 4.90%.

Table 21: Uniform disclosure of the leverage ratio

Line purs. EBA		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT))		
1	On-balance-sheet items (excluding derivatives, securities financing transactions (SFT) and fiduciary assets, but including collateral)	2,744
2	(Assets deducted to calculate Tier 1 capital)	-12
3	**Total on-balance sheet exposures (excluding derivatives, securities financing transactions (SFT) and fiduciary assets) (sum of rows 1 and 2)**	**2,732**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	91

5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	307
EU-5a	Exposure determined under Original Exposure Method	No entry
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	No entry
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	No entry
8	Exempted CCP leg of client-cleared trade exposures	No entry
9	Adjusted effective notional amount of written credit derivatives	No entry
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	No entry
11	**Total derivative exposures (sum of rows 4 to 10)**	**398**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	131
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	No entry
14	Counterparty credit risk exposure for SFT assets	33
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	No entry
15	Agent transaction exposures	No entry
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	No entry
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**165**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	207
18	Adjustments for conversion to credit equivalent amounts	-122
19	**Other off-balance sheet exposures (sum of rows 17 and 18)**	**85**
Exempted exposures in accordance with Article 429 (7) and (14) of the CRR (on and off-balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet))	No entry
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	No entry
Capital and total exposures		
20	Tier 1 capital	166
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3,379
Leverage ratio		
22	Leverage ratio	4.90
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Yes = transitional
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-230

Table 22: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Line purs. EBA		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, securities financing transactions (SFT), and exempted exposures), of which:**	**2,744**
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	2,744
EU-4	Covered bonds	291
EU-5	Exposures treated as sovereigns	992
EU-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities NOT treated as sovereigns	0
EU-7	Institutions	828
EU-8	Secured by mortgages of immovable properties	No entry
EU-9	Retail exposures	No entry
EU-10	Corporate	419
EU-11	Exposures in default	20
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	192

The H&A Group monitors/analyzes the development of its balance sheet and also analyzes the key balance sheet ratios, including the leverage ratio.

Part II

Disclosure pursuant to the Remuneration Ordinance for Institutions

as of December 31, 2015

(in accordance with Section 16 of the InstitutsVergV in conjunction with Article 450 of the Capital Requirements Regulation)

1 Introduction

In accordance with the Institutsvergütungsverordnung (InstitutsVergV) [Remuneration Ordinance for Institutions], in the course of the annual appraisals of our remuneration system, we evaluated the incentive and remuneration systems of the bank and compiled the principles of our remuneration policy and salary systems in the following "Remuneration System." It serves to document the key principles and current instruments, and forms the basis for the practical implementation of our remuneration systems as well as providing guidance for the further development of these systems.

2 Remuneration policy

As a private bank, Hauck & Aufhäuser sees it as its duty to put in place a corporate policy that focuses on sustainability and value. We aim to earn the long-term trust of our customers through providing them with independent advisory services. Our guiding principle is to maintain the value of the assets entrusted to us while limiting risk, and enhancing our customers' financial situation over the long term by delivering tailored financing or advisory services.

These principles are underscored by our legal form as an autonomous and independent partnership limited by shares (KGaA), with personally liable partners. They are personally responsible for ensuring a sustainable, entrepreneurial corporate policy.

Our remuneration policy is derived from this corporate policy. It is our intention to foster both our sustainable, values-oriented approach as well as, in equal measure, the entrepreneurial commitment of our employees. It is, therefore, bound to the principles of transparency and basic pay as well as being performance and profit related.

2.1 Principle of transparency

Target remuneration in the bank consists of two remuneration components: a monthly basic salary and a variable remuneration component.

The basic salary is determined according to the roles of the employees and their classification into membership of a collective agreement group or non-collectively agreed remuneration.

The amount of variable remuneration granted to employees subject to collective agreement is linked to the net operating profit.

The variable remuneration for employees not subject to collective agreements is aligned to a contractually agreed target value. By way of exception, in the departments of our subsidiary, HAIR, which was integrated in 2015, the fully discretionary system was continued. Performance-related variable remuneration payments are calculated in a quantitative procedure on the basis of task fulfilment, the achievement of individual targets and the operating profit of the bank.

2.2 Principle of basic pay

The monthly salary represents the basic income of the employees. It is measured through application of the Collective Agreement for the Private Banking Sector and the Principles of Non-Collectively Agreed Remuneration in such a way that it enables a secure standard of living. Employees who are not subject to a collective agreement are paid 12 monthly salary installments; employees subject to a collective agreement are paid 13 monthly salary installments.

In addition to this, there is also the prospect of variable remuneration. This aligns with each company agreement in force. The maximum permissible amount of variable remuneration is equal to the amount of fixed salary.

Thus, the ratio of variable to fixed remuneration for employees not subject to collective agreements is aligned towards performance but does not lead to increased employee dependency on variable remuneration. The ratio is generally significantly weighted in favor of the fixed remuneration components.

Employees covered by collective agreements receive a uniform additional variable salary payment.

2.3 Principle of performance and profit dependency

The variable remuneration under the company agreement for employees not subject to collective agreements is an annual, discretionary single payment. The amount of remuneration is dependent on the employee's personal performance and the net operating profit.

The performance component is based on the individual performance of each employee, which relates both to the performance of tasks and, where targets have been agreed, the extent of target achievement.

The profit component reflects the operating profit of the bank and is intended to encourage employees to ensure that, in addition to fulfilling their duties and reaching their targets, they always keep the profit of the bank as a whole in mind and do not take any disproportionate risks. It enables employees to share in the success of the company and limits the payment of performance-related variable remuneration in difficult times.

In accordance with the agreement between the Management Board and employee representatives, the following targets are to be achieved through performance and profit-related variable remuneration:

- An incentive to improve performance and/or reach a higher performance level,
- Greater opportunities to increase individual income through improved personal performance,
- Fostering cooperative behavior, both with regard to teams and the upstream/downstream business units,
- Performance-related differentiation in remuneration,
- Support for the implementation of the company's commercial and corporate policy objectives,
- Enhancing the quality of planning processes,
- Improving the competitive position of the company on the employment market through an attractive remuneration system,
- Equitable remuneration in line with the principle of equal opportunity through uniform procedural rules for calculating variable remuneration components,
- Supporting employee development through the flexible development of individual remuneration.

For employees covered by collective agreements, the variable remuneration is calculated solely on the basis of the net operating profit of the bank.

3 Remuneration instruments

3.1 Remuneration in accordance with the Collective Agreement for the Private Banking Sector

The Bank is a member of the German Private Bank Employers Association and uses the Collective Agreement for the Private Banking Sector. The social partners in the banking sector have examined the provisions contained therein and determined that the remuneration instruments adhere to an evaluation using the strictest current specifications under discussion at the international and national level.

3.2 Performance-related non-collectively agreed variable remuneration

The remuneration system, consisting of a fixed salary and performance-related variable remuneration, was developed jointly by the Management Board and the Human Resources Department.

The Management Board and the Human Resources Department examined the Company Agreements and the practical implementation thereof on the basis of the criteria of the MaRisk [Minimum Requirements for Risk Management] and the InstitutsVergV [Remuneration Ordinance for Institutions] and established that the Company Agreements on remuneration ("Principles of Non-Collectively Agreed Remuneration" and "Performance-Related Non-Collectively Agreed Variable Remuneration") meet the requirements in an exemplary manner. In particular, the following points were emphasized:

- The remuneration system places the focus on the personal performance of each employee and determines the amount of performance-related variable remuneration on the basis of task fulfilment and the achievement of targets, on the one hand, and the profit of the Bank, on the other.
- Targets are agreed over the long term as annual targets. Thus, the employees are given a broad amount of scope for achieving their targets. Focusing on short-term daily or monthly targets does not accord with our aspiration to provide independent and long-term advisory services.
- The performance of our client advisers is measured through their contribution to the company's success and not according to turnover for specific products. This prevents an incentive being created to sell specific forms of investment or financing to customers without the customer specifically needing such forms of investment.
- The tasks that the employees perform are set forth in their job description and through the agreement of other additional duties.

Taking into consideration the success of the bank as a whole in calculating the target value for performance-related remuneration ensures that the individual performance-related remuneration payments will not lead to any excessive burdens being placed on the bank's profits.

3.3 Processes of the Remuneration System

The contractually agreed target remuneration and the variable remuneration are examined in the course of the annual human resources planning process. This is set out in the following schemata (HR = Human Resources department; ME = managerial employees; MB = Management Board; EM = employees).

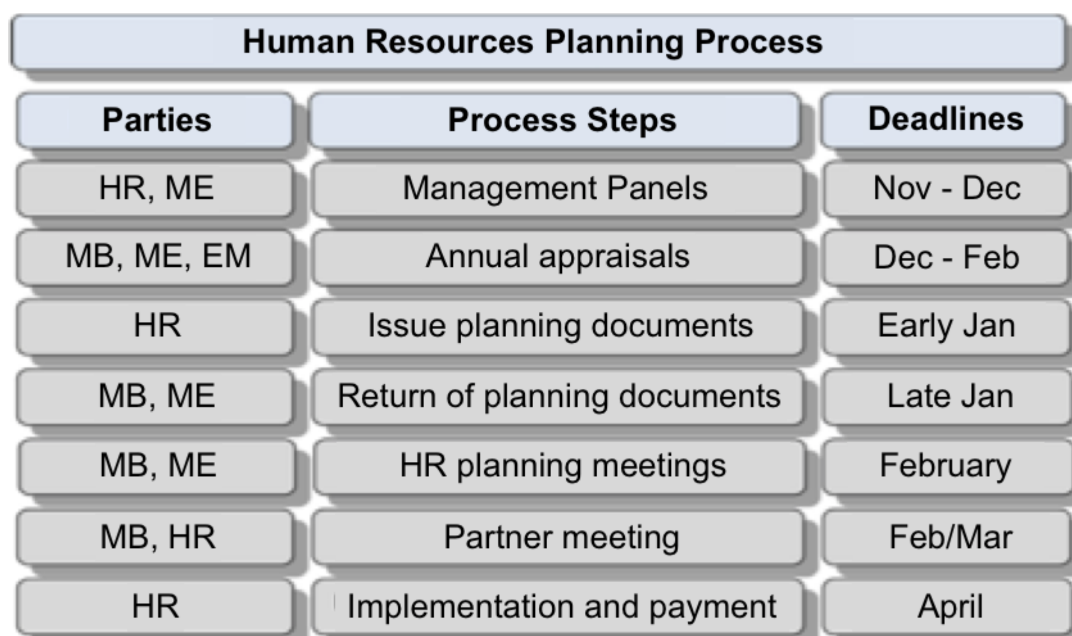

Figure 3: Human resources planning process schemata

3.4 Disclosure of remuneration

Group-wide, the total amount of all remuneration paid for the 2015 financial year was €68,544,000, with €44,976,000 in fixed remuneration and €9,894,000 in variable remuneration paid to 515 beneficiaries.

Table 23: Remuneration allocation according to company

Company	Fixed salary	Variable remuneration	Beneficiary
	Amounts in € thousand		In FTE
Hauck & Aufhäuser Privatbankiers KGaA – Frankfurt	34,797	8,436	367
Hauck & Aufhäuser Privatbankiers KGaA – Luxembourg	5,779	806	89
Hauck & Aufhäuser Investment Gesellschaft S.A.	2,099	365	33
Hauck & Aufhäuser Alternative Investment Services S.A.	1,535	236	22
Hauck & Aufhäuser (Schweiz) AG	766	50	5

4 Subsidiaries

This documentation also applies to the majority-owned domestic subsidiaries.

4.1 Special nature/derogations of the Luxembourg subsidiaries

In addition to the German provisions, the stipulations of CSSF circular 10/437 “Guidelines concerning the remuneration policies in the financial sector” also apply.

The remuneration system acknowledges the principles of the parent company.

In the same manner as provisions applicable to the German companies of the Group, the Collective Agreement for the Banking Sector in force in Luxembourg applies to the Luxembourg branch and to the subsidiaries.

Pursuant to Section 27(3) of the InstitutsVergV [Remuneration Ordinance for Institutions], in individual cases, a subordinated company may not be considered when establishing the Group-wide remuneration strategy provided that, due to its business activities, this ordinance cannot be applied in a reasonable manner to the subordinated company.

As a result of the small number of employees, the data protection guidelines in force in Switzerland, and in consideration of the proportionality between the remuneration policy of a financial institution, its size and the nature and the complexity of its activities, we have to date refrained from including Hauck & Aufhäuser Schweiz (AG) in the remuneration system applicable throughout the Group.

5 Obligation

The principles and rules set out in this documentation are part of the corporate culture of Hauck & Aufhäuser. They oblige the Management Board and all managerial employees to consistently interpret and apply the existing instruments in the spirit of these basic principles.

ANNEX

Supplementary notes

Table 24: Overview of risk reporting

Topic	CRR Article	Disclosure report Page	Annual report Page
Own funds			
Own funds structure	437	6-10	47
Capital requirements	438	11-12	47
Risk management			
Risk management system	435	14-15	39-40
Corporate governance arrangements	435	15	24
Risk statement	435	15-16	
Management of individual types of risk			
Credit risk	439, 442, 444	16-24	41-42
Market risk	445	24-25	42-43
Interest-rate risk in the non-trading book	448	25-26	46
Operational risks	446	27	44-45
Liquidity risks		27	43-44
Strategic risks		27-28	45
Investments in the non-trading book	447	28-30	64
Encumbered and unencumbered assets	443	30-31	
Leverage ratio	451	31-33	
Remuneration policy	450	35-38	48

Table 25: Supplement to Table 2: Own funds structure

Line purs. EBA	(B) REFERENCE TO ARTICLE IN REGULATION (EU) NO. 575/2013
1	26 (1), 27, 28, 29, EBA list of contents pursuant to Article 26 (3)
2	26 (1) (c)
3	26 (1)
3a	26 (1) (f)
4	486 (2)
	483 (2)
5	84, 479, 480
5a	26 (2)
6	
7	34, 105
8	36 (1) (b), 37, 472 (4)
9	
10	36 (1) (c), 38, 472 (5)
11	33 (a)
12	36 (1) (d), 40, 159, 472 (6)
13	32 (1)
14	33 (b)
15	36 (1) (e), 41, 472 (7)
16	36 (1) (f), 42, 472 (8)
17	36 (1) (g), 44, 472 (9)
18	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	
20a	36 (1) (k)
20b	36 (1) (k) (i), 89 to 91
20c	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	36 (1) (k) (iii), 379 (3)
	36 (1) (k) (iv), 153 (8)
	36 (1) (k) (v), 155 (4)

21	36 (1) (c), 38, 48 (1), (a), 470, 472 (5)
22	48 (1)
23	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	
25	36 (1) (c), 38, 48 (1), (a), 470, 472 (5)
25a	36 (1) (a), 472 (3)
25b	36 (1) (l)
26	
26a	467, 468
26b	469, 470, 472, 481***
27	36 (1) (j)
28	
29	
30	51, 52
31	
32	
33	486 (3)
	483 (3)
34	85, 86, 480
35	486 (3)
36	
37	52 (1) (b), 56 (a), 57, 475 (2)
38	56 (b), 58, 475 (3)
39	56 (c), 59, 60, 79, 475 (4)
40	56 (d), 59, 79, 475 (4)
41	
41a	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
41b	477, 477 (3), 477 (4) (a)
41c	467, 468, 481
	481
42	56 (e)
	36 (1) (j)
43	
44	
45	
46	62, 63
47	486 (4)
	483 (4)
48	87, 88, 480
49	486 (4)
50	62 (c) and (d)
51	
52	63 (b) (i), 66 (a), 67, 477 (2)
53	66 (b), 68, 477 (3)
54	66 (c), 69, 70, 79, 477 (4)
54a	
54b	
55	66 (d), 69, 79, 477 (4)
56	
56a	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
56b	475, 475 (2) (a), 475, (3), 475 (4) (a)
56c	467, 468, 481
57	
58	
59	
59a	
	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)
	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
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61	92 (2) (a), 465
62	92 (2) (b), 465
63	92 (2) (c)
64	CRD 128, 129, 130
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67	
67a	CRD 131
68	CRD 128

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70	
71	
72	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	36 (1) (i), 45, 48, 470, 472 (11)
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80	484 (3), 486 (2) and (5)
81	484 (3), 486 (2) and (5)
82	484 (4), 486 (3) and (5)
83	484 (4), 486 (3) and (5)
84	484 (5), 486 (4) and (5)
85	484 (5), 486 (4) and (5)

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