HAUCK & AUFHÄUSER
PRIVATBANKIERS SEIT 1796

DISCLOSURE REPORT 2018

Disclosure in accordance with Article 431 *et seqq*. CRR

–

Including disclosure in accordance with the Remuneration Ordinance for Institutions

–

CONTENTS

LIST OF ABBREVIATIONS

AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Manager Richtlinie
BaFin	Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)
BelWertV	Regulation on the Determination of the Mortgage Lending Value (Beleihungswertermittlungsverordnung)
CCP	Central counterparty
CEBS	Committee of European Banking Supervisors
CFO	Chief Financial Officer
CRR	Capital Requirements Regulation
CRSA	Credit Risk Standardized Approach
CSSF	Commission de Surveillance du Secteur Financier
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ESMA	European Securities and Markets Authority
IIA	Individual impairment adjustment
InstitutsVergV	Remuneration Ordinance for Institutions (Institutsvergütungsverordnung)
KAGB	Capital Investment Code (Kapitalanlagegesetzbuch)
KWG	Banking Act (Kreditwesengesetz)
LCR	Liquidity Coverage Ratio
n/a	No entry (not relevant/applicable)
NSFR	Net Stable Funding Ratio
OpRisk	Operational risks
SolvV	Solvency Regulation (Solvabilitätsverordnung)
VaR	Value at Risk

1 INTRODUCTION

The Disclosure Report of the Hauck & Aufhäuser Group (H&A Group) was prepared in accordance with the provisions of Part 8 (Disclosures by Institutions) of Regulation (EU) No. 575/2013 (CRR – Capital Requirements Regulation), which entered into force on January 1, 2014, in conjunction with Section 26a of the Kreditwesengesetz (KWG) [Banking Act]. The superordinated undertaking in the H&A Group is Hauck & Aufhäuser Privatbankiers AG (Hauck & Aufhäuser).

Article 431 *et seqq*. of the CRR places an obligation on banks to regularly publish qualitative and quantitative information on the capital, 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. There is no obligation to disclose information that is not material, legally protected or confidential (Article 432 (2) CRR).

The quantitative information contained in the Report is generally the same as at the reporting date of December 31, 2018. By way of derogation, information on credit risk adjustments and investments is provided on the basis of the approved annual financial statements.

1.1 FREQUENCY AND MEANS OF DISCLOSURE (ARTICLES 433 AND 434 CRR)

The reporting date is December 31, 2018 with an annual reporting frequency.

Pursuant to Article 433 of the CRR and in accordance with the stipulations contained in BaFin Circular 05/2015 (BA), Hauck & Aufhäuser has assessed whether disclosures are to be made in whole or in part more than once annually.

The information to be disclosed in accordance with Article 434 of the CRR is published on the website of Hauck & Aufhäuser Privatbankiers AG at https://www.hauck-aufhaeuser.com/en/newsroom/newsroom and can be accessed without requiring registration.

1.2 CURRENTLY NOT APPLICABLE DISCLOSURE OBLIGATIONS

The following are disclosure requirements of the CRR, which are currently not relevant for Hauck & Aufhäuser:

- Article 438 (b) CRR – no requirement from the regulatory authority to disclose capital surcharges in accordance with Article 104 (1)(a) CRD
- Article 441 CRR – Hauck & Aufhäuser is not an institution of global systemic importance
- Article 452 CRR – Credit risks are determined on the basis of CRSA and not the IRB approach
- Article 454 of the CRR – Hauck & Aufhäuser does not use Advanced Measurement
- Article 455 of the CRR – Hauck & Aufhäuser does not use internal market risk models

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Article 435 CRR)

2.1 RISK MANAGEMENT SYSTEMS (Article 435 (1) points (a) to (d) CRR)

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

- Our business strategy, 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 / controlling processes
- Ongoing monitoring of our risk management system by Internal Auditing

The identification of risks can be construed from the business strategy and specified through the risks defined 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
- Concentration risks (implicitly covered by the foregoing risks)

The Management Board has overall responsibility for risk and capital management within the H&A 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 H&A 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, adherence to the risk-bearing capacity, are monitored at the operational level by a business unit separated from the market, Risk Controlling. Risks are identified, analyzed, evaluated, monitored and reported in order for control mechanisms to be put in place. Risk Controlling is responsible for the methods that will be used to control risks for the bank as a whole. The development of results is controlled by our Finance unit. Investments are managed by the Partners' Office in cooperation with 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
- Risk monitoring and communication

Each represents a summary of the material duties within the process.

The separation of functions is assured up to the level of the Management Board 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 bear daily 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.

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

2.2 RISK STATEMENT (Article 435 (1) points (e) and (f) CRR)

The business activities of the H&A Group focus on the following areas:

- Holistic advice and wealth management for private and corporate investors
- Asset management for institutional investors
- Issuing and administration of funds
- Cooperation with independent asset managers
- Research, sales and trading activities specializing in small and mid-cap enterprises in German-speaking countries
- Tailored services for initial public offerings and capital increases

Consequently, at 67.7%, the focus of our economic capital requirement is on credit risk, followed by market risks (16.2%) and operational risks at (13.3%).

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 of the company 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 as of December 31, 2018 is 19.12%, while the utilization of the economic risk coverage capital is 57.4%.

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.

2.3 GOVERNANCE ARRANGEMENTS (Article 435 (2) CRR)

Hauck & Aufhäuser Privatbankiers AG is majority-owned by Bridge Fortune Investment S.à.r.l., based in Luxembourg, which in turn is an indirect holding of Fosun International Ltd. of Hong Kong, which is listed on the Hong Kong stock exchange. In accordance with the bank's Articles of Association, the management of Hauck & Aufhäuser is vested in the members of the Management Board.

In the 2018 financial year, the company was managed by the two members of the Management Board, Michael Bentlage and Wolfgang Strobel.

The Management Board manages the Company and conducts its business in accordance with the law, the Articles of Association and the Rules of Procedure laid down for the Management Board. A schedule of responsibilities defines primary responsibilities and representations.

Detailed biographies of the members of the Management Board are presented on the website of Hauck & Aufhäuser under https://www.hauck-aufhaeuser.com/en/about-us/company-profile/management-board.

Information on the directorships held by members of the management body (Article 435 (2)(a) CRR)

In addition to their duties on the Management Board, the members of the Management Board hold the following further directorships. The reporting date for all disclosures is December 31, 2018.

Table 1: Number of directorships held by members of the management body

	Number of managerial roles	Number of supervisory roles
Mr. Michael Bentlage	--	3
Mr. Wolfgang Strobel	--	1

Recruitment policy and diversity strategy for the selection of members of the Management Board (Article 435 (2) points (b) and (c) CRR)

Only such persons who possess the qualifications to be management board members as stipulated in Section 25c of the KWG and meet all other stock market/banking regulatory supervision requirements may be appointed to the Management Board of the bank. 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. At December 31, 2018, the Management Board of Hauck & Aufhäuser consisted of two members. The regulatory separation into Front Office and Credit Operations is guaranteed. Further diversification is not possible and also not required.

For informational purposes: Dr. Holger Sepp has been appointed to the Management Board of Hauck & Aufhäuser Privatbankiers AG with effect from February 1, 2019.

Details of the Risk Committee and description of the information flow on risk to the management body (Article 435 (2) points (d) and (e) CRR)

In light of its size, Hauck & Aufhäuser has not implemented a risk committee. The Management Board is informed of all potential risks at Management Board meetings. In addition, the bank's loan approval competency system ensures that information flows to the management body at all times.

3 SCOPE OF APPLICATION (Article 436 CRR)

The scope of prudential consolidation for determining the capital charge is defined in accordance with Section 10a of the KWG in conjunction with Articles 18 et seqq. of the CRR. Accordingly, Hauck & Aufhäuser is to be classified as a superordinated undertaking of the H&A Group.

Two credit institutions and two financial institutions are included in the scope of prudential consolidation. The other material Hauck & Aufhäuser companies in the Group are not included because, in accordance with Article 19 (1) of the CRR, they are of minor importance to the net assets, financial position and results of operations of the H&A Group. No undertakings are proportionally consolidated.

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

There are no current or foreseen material practical or legal impediments to the transfer of financial resources or own funds within Hauck & Aufhäuser in accordance with Article 436 (c) 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.

The scope of consolidation under commercial law, however, is prepared solely in accordance with the provisions of the Handelsgesetzbuch [Commercial Code].

In the following consolidation matrix, the member companies of the H&A Group within the scope of prudential consolidation are juxtaposed with the scope of consolidation under commercial law. They are broken down according to classification under Article 4 of the CRR and are extended by the other undertakings that do not fall under the scope of prudential consolidation.

Table 2: Scope of prudential and accounting (HGB) consolidation

Corporate form	Name	Regulatory Treatment: Consolidation in accordance with Article 18 CRR	Regulatory Treatment: Exclusion in accordance with Article 19 CRR	Regulatory Treatment: Consideration in accordance with Article 470 (2b) and (3) CRR (threshold approach)	Regulatory Treatment: CET 1 deduction in accordance with Section 32 Solvability Directive	Regulatory Treatment: Risk-weighted investments	Consolidation in accordance with accounting standards, full
Credit institution	Hauck & Aufhäuser Privatbankiers AG	X	-	-	-	-	X
	Hauck & Aufhäuser Fund Platforms S.A.	X	-	-	-	-	X
Financial institution	Hauck & Aufhäuser Fund Services S.A.	X	-	-	-	-	X
	FidesKapital Gesellschaft für Kapitalbeteiligungen mbH	X	-	-	-	-	X
	Hauck & Aufhäuser Alternative Investments Services S.A.	-	X	X	-	X	X
	Hauck & Aufhäuser (Schweiz) AG	-	X	X	-	X	-
	H&A Global Investment Management GmbH	-	X	X	-	X	-
	HI-Management S.à. r.l.	-	X	X	-	X	-
	DB PWM Private Markets I GP S.à r.l.	-	X	X	-	X	-
	PERSEUS Capital S.à. r.l.	-	X	X	-	X	-
	Lending GP S.à r.l.	-	X	X	-	X	-
Insurance undertak-ing	H&A Pension Trust GmbH	-	X	X	-	X	-
Other corporate	H&A “Green Office Hamburg-Hafencity” GmbH & Co. KG	-	-	-	-	X	-
	Fosun Europe Innovation Hub GmbH.	-	-	-	-	X	-
	FOPEX GmbH	-	-	-	-	X	-
	Hauck & Aufhäuser Verwaltungs GmbH	-	-	-	-	X	-
	Medienlogistik Stuttgart Service GmbH	-	-	-	-	X	-
	Projekt Maybach Beteiligungs GmbH	-	-	-	-	X	-
	Projektentwicklungsgesellschaft Maybach 1 mbH & Co. KG	-	-	-	-	X	-
	Projektentwicklungsgesellschaft Maybach 2 mbH & Co. KG	-	-	-	-	X	-
	Projektentwicklungsgesellschaft Maybach 3 mbH & Co. KG	-	-	-	-	X	-
	Projektentwicklungsgesellschaft Maybach 4 mbH & Co. KG	-	-	-	-	X	-
	ZV Service GmbH	-	-	-	-	X	-
	Stella Verwaltungs GmbH	-	-	-	-	X	-

4 OWN FUNDS STRUCTURE AND CAPITAL REQUIREMENTS

4.1 OWN FUNDS STRUCTURE (Article 437 CRR)

As at December 31, 2018, the own funds of the H&A Group in accordance with Article 72 of the CRR are € 238.2 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 in accordance with Section 340g of the HGB in the approximate amount of € 9.9 million.

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

Table 3: Own funds structure

	12/31/2018	Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
		Amounts in € thousand	
Common Equity Tier 1 Capital (CET1): Instruments and reserves			
1	Capital instruments and the related share premium accounts	104,330	26 (1), 27, 28, 29
	of which: shares	18,445	EBA list in accordance with Article 26 (3)
	of which: capital reserves	85,885	EBA list in accordance with Article 26 (3)
2	Retained earnings	155,063	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to account for unrealized gains and losses under applicable accounting standards)	--	26 (1)
3a	Funds for general banking risks	9,980	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	--	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	--	84
5a	Independently reviewed interim profits net of all foreseeable charges or dividends	--	26 (2)
6	**Common Equity Tier 1 capital (CET1) before regulatory adjustments**	**269,373**	**Sum of rows 1 to 5a**
Common Equity Tier 1 capital (CET1) regulatory adjustments			
7	Additional value adjustments (negative amount)	-504	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-8,136	36 (1) (b), 37
9	Empty set in the EU		
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)	-24,885	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	--	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	--	36 (1) (d), 40, 159
13	Any increase in equity resulting from securitized assets (negative amount)	--	32 (1)

12/31/2018		Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
		Amounts in € thousand	
14	Gains or losses on liabilities of the institution that are valued at fair value resulting from changes in the own credit standing of the institution	--	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	--	36 (1) (e), 41
16	Direct, indirect and synthetic holdings by an institution of own CET 1 instruments and existing or contingent obligations to purchase own instruments (negative amount)	--	36 (1) (f), 42
17	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	--	36 (1) (g), 44
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	--	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	--	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a risk weight of 1250%, where the institution deducts that exposure amount from the amount of the items as an alternative	--	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	--	36 (1) (k) (i), 89 to 91
20c	of which: securitization positions (negative amount)	--	36 (1) (k) (11), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	--	36 (1) (k) (111), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	--	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the threshold of 17.65% (negative amount)	--	48 (1)
23	of which: direct, indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities	--	36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets that rely on future profitability and arise from temporary differences	--	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	--	36 (1) (a)
25b	Foreseeable tax charges relating to CET 1 items (negative amount)	--	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	--	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-33,525**	**Sum of rows 7 to 20a, 21, 22, plus rows 25a to 27**
29	**Common Equity Tier 1 capital (CET1)**	**235,848**	**Row 6 less row 28**

12/31/2018		Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
		Amounts in € thousand	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	--	51, 52
31	of which: classified as equity under applicable accounting standards	--	
32	of which: classified as liabilities under applicable accounting standards	--	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	--	486 (3)
34	Qualifying Tier 1 capital instruments included in consolidated Additional Tier 1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	--	85, 86
35	of which: instruments issued by subsidiaries subject to phase out	--	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**--**	**Sum of rows 30, 33 and 34**
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own Additional Tier 1 instruments and existing or contingent obligations to purchase own instruments (negative amount)	--	52 (1) (b), 56 (a), 57
38	Holdings of the Additional Tier 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	--	56 (b), 58
39	Direct and indirect holdings by the institution of the Additional Tier 1 capital of financial sector entities where the institution does not have a significant investment (amount above the 10% threshold and net of eligible short positions) (negative amount)	--	56 (c), 59, 60, 79
40	Direct and indirect holdings by the institution of the Additional Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (negative amount)	--	56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying Tier 2 deductions that exceed the Tier 2 capital of the institution (negative amount)	--	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	--	**Sum of rows 37 to 42**
44	**Additional Tier 1 (AT1) capital**	--	**Row 36 less row 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**235,848**	**Sum of rows 29 and 44**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	--	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	--	486 (4)
48	Qualifying own funds instruments included in consolidated Tier 2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	--	87, 88
49	of which: instruments issued by subsidiaries subject to phase out	--	486 (4)
50	Credit risk adjustments	2,360	62 (c) and (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**2,360**	

12/31/2018		Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
		Amounts in € thousand	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own Tier 2 instruments (negative amount) and actual or contingent obligations to purchase own instruments	--	63 (b) (i), 66 (a), 67
53	Holdings of the Tier 2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)	--	66 (b), 68
54	Direct and indirect holdings by the institution of the Tier 2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	--	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	--	66 (d), 69, 79
56	Empty set in the EU		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**--**	**Sum of rows 52 to 56**
58	**Tier 2 (T2) capital**	**2,360**	**Row 51 less row 57**
59	**Total capital (TC = T1 + T2)**	**238,208**	**Sum of rows 45 and 5**
60	**Total risk-weighted assets**	**1,246,176**	
Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**18.93**	**92 (2) (a)**
62	**Tier 1 (as a percentage of risk exposure amount)**	**18.93**	**92 (2) (b)**
63	**Total capital (as a percentage of risk exposure amount)**	**19.12**	**92 (2) (c)**
64	**Institution-specific buffer requirement (minimum requirement for the Common Equity Tier 1 capital ratio in accordance with Article 92 (1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII), expressed as a percentage of the total risk exposure)**	**6.4162**	**CRD 128, 129, 130, 131, 133**
65	**of which: capital conservation buffer requirement**	**1.875**	
66	**of which: countercyclical buffer requirement**	**0.0412**	
67	**of which: systemic risk buffer requirement**	**--**	
67a	**of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer**	**--**	**CRD 131**
68	**Common Equity Tier 1 available to meet buffers (expressed as a percentage of the total risk exposure)**	**11.12**	**CRD 128**
69	[Non-relevant in EU regulation]		
70	[Non-relevant in EU regulation]		
71	[Non-relevant in EU regulation]		
72	Direct, indirect and synthetic holdings of the institution in capital instruments 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)	11,552	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70

12/31/2018		Amount on the disclosure date assuming approval of the audited financial statements	Regulation (EU) No. 575/2013 article reference
		Amounts in € thousand	
73	Direct, indirect and synthetic holdings of the institution in 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)	4,593	36 (1) (i), 45, 48
74	Empty set in the EU		
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)	7,779	36 (1) (c), 38, 48
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)	2,360	62
77	Cap on inclusion of credit risk adjustments in T2 under the standardized approach	10,991	62
78	Credit risk adjustments included in T2 in respect of exposures subject to the internal ratings-based approach (prior to the application of the cap)	--	62
79	Cap for inclusion of credit risk adjustments in T2 under the internal ratings-based approach	--	62
Capital instruments subject to phase-out arrangements (only applicable between January 1, 2013 and January 1, 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	--	484 (3), 486 (2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	--	484 (3), 486 (2) and (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	--	484 (4), 486 (3) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	--	484 (4), 486 (3) and (5)
84	Current cap on T2 instruments subject to phase-out arrangements	--	484 (5), 486 (4) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	--	484 (5), 486 (4) and (5)

Table 4: Comparison of own fund items of the consolidated balance sheet (HGB) and the regulatory balance sheet of the Group

Consolidated capital and regulatory adjustments	Balance sheet equity HGB	Adjustment to the prudential consolidation group	Regulatory capital
		Amounts in € thousand	
Paid-up capital	18,445	--	18,445
Capital reserves	85,885	--	85,885
Other eligible reserves	123,170	528	123,698
Net profit	31,399	-34	31,365
Difference in equity capital from currency translation	--	--	--
Balance sheet equity	**258,899**		
Funds for general banking risks			9,980
Common Equity Tier 1 capital (CET1) before Regulatory adjustments			**269,373**
Value adjustment for prudent valuation			-504
Intangible assets			-8,136
Deferred tax assets from loss carryforwards			-24,886
Insignificant investments			--
Regulatory adjustments (CET 1)			**-33,525**
Common Equity Tier 1 capital (CET1)			**235,848**
General credit risk adjustment			2,360
Tier 2 (T2) capital			**2,360**
Regulatory capital			**238,208**

4.2 CAPITAL REQUIREMENTS (Article 438 CRR)

4.2.1 Regulatory capital requirements

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

For regulatory purposes, the H&A Group's operational risk is calculated using the Basic Indicator Approach in accordance with Article 325 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, 2018.

Table 5: Regulatory capital requirements at institution level

31/12/2018	Capital requirement
	Amounts in € thousand
Credit risk	
Standardized Approach	**70,345**
Central governments or central banks	1,767
Regional governments or local authorities	380
Public sector entities	0
Multilateral development banks	--
International organizations	--
Institutions	13,103
Corporate	31,402
Retail	--
Exposures secured by real estate	428
Exposures in default	1,681
Items with particularly high risk	1,165
Covered bonds	5,006
Institutions and entities with short-term credit assessments	--
Units or shares in undertakings for collective investment (UCI)	10,050
Investments	2,523
Other items	2,840
Securitization	--
Amount of the exposure to a CCP's default fund	**56**
Amount of the exposure for settlement/delivery risks	**51**
Settlement/delivery risks in the non-trading book	41
Settlement/delivery risks in the trading book	10
Market risks in the standardized approach	**276**
Traded debt instruments (interest-rate risks)	43
Investments (share price risks)	233
Foreign currencies (currency risks)	--
Commodities (commodities risks)	--
Operational risks	**24,852**
Basic Indicator Approach	24,852
Total risk exposure credit valuation adjustment (CVA)	**4,114**
Standardized method	4,114
Total	**99,694**

Our capital ratios as of December 31, 2018 can be summarized as follows:

Table 6: Summary of capital adequacy

Capital	Own funds pursuant to audited financial statements	Capital requirements	Exposures	Capital ratio
	Amounts in € million			
Common Equity Tier 1 capital	236	100	1,246	18.93%
Tier 1 capital	236	100	1,246	18.93%
Total capital	238	100	1,246	19.12%

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

4.2.2 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. of the risk coverage potential, 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 target returns, 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.

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 coverage potential 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.

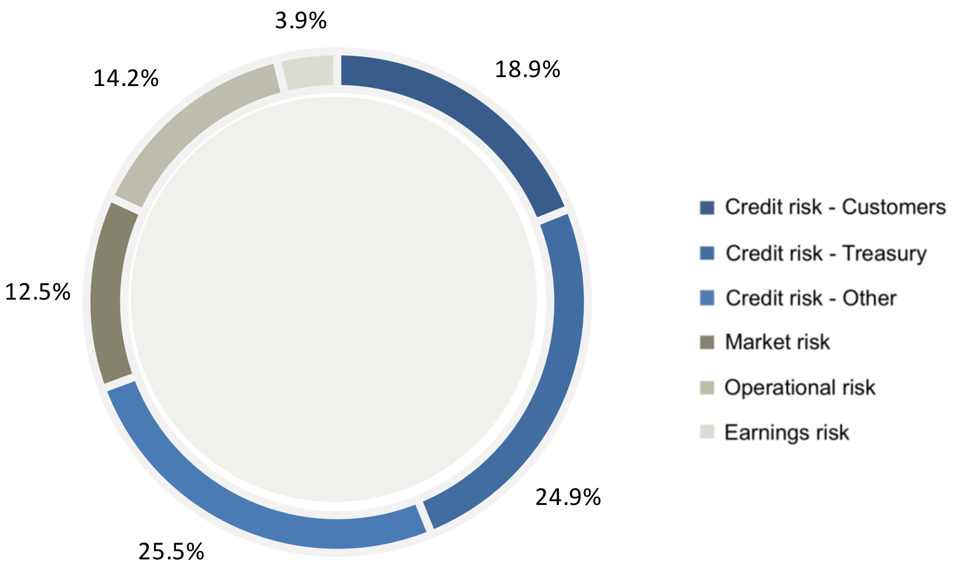
Risk capital, the risk capital limit and risk capital requirements are planned in the course of the annual business and risk strategy review. They are based on the regulatory capital planning, the strategic earnings targets and the risk capital requirements calculated on the basis of the key future business 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 Group level from 62% as of December 31, 2017, to 57% as of the balance sheet date largely results from the net profit. In 2018, the average utilization was 61% (63% in 2017).

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: Breakdown of the total exposure



5 CAPITAL BUFFER (Article 440 (1)(b) CRR)

Pursuant to Article 440 of the CRR in conjunction with Commission Delegated Regulation (EU) No. 1555/2015 of May 28, 2015, institutions are required to disclose the geographical distribution of their credit exposures relevant for the calculation of their countercyclical capital buffer and the amount of each institution's countercyclical capital buffer. The countercyclical capital buffer can amount to between 0% and 2.5% of the sum of risk-weighted assets and must be held as CET1 capital. The amount of the countercyclical capital buffer in Germany is determined by BaFin, taking into account all recommendations of the Financial Stability Committee, and is assessed on a quarterly basis. BaFin saw no need for a countercyclical capital buffer in Germany in 2018. Countries such as Iceland, Norway, Sweden, the Czech Republic, Slovakia and Hong Kong have specified a capital buffer.

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

12/312018	General credit risk exposures	Risk exposures in the trading book	Securitization risk exposure	Capital requirements					
	Exposure value (SA)	Total long and short positions in the trading book	Exposure value (SA)	Of which: general exposures	Of which: risk exposures in the trading book	Of which: securitization risk exposures	Total	Weightings of own funds requirements	Countercyclical capital buffer rate
	Amounts in € million								
Germany	469.5	1.8	--	26.9	0.1	--	27.1	51.3%	--
France	44.3	--	--	0.4	--	--	0.4	0.7%	--
The Netherlands	56.8	--	--	2.6	--	--	2.6	4.9%	--
Italy	5.0	--	--	0.1	--	--	0.1	0.2%	--
Ireland	19.3	--	--	1.5	--	--	1.5	2.9%	--
Denmark	68.5	--	--	0.5	--	--	0.5	1.0%	--
Portugal	1.1	--	--	0.1	--	--	0.1	0.2%	--
Spain	12.6	--	--	0.1	--	--	0.1	0.2%	--
Belgium	10.9	--	--	0.2	--	--	0.2	0.3%	--
Luxembourg	161.0	--	--	9.9	--	--	9.9	18.7%	--
Iceland	--	--	--	--	--	--	--	--	1.25%
Norway	65.1	--	--	0.5	--	--	0.5	1.0%	2.00%
Sweden	42.9	--	--	0.4	--	--	0.4	0.7%	2.00%
Finland	31.5	--	--	0.3	--	--	0.3	0.5%	--
Austria	43.6	--	--	1.4	--	--	1.4	2.6%	--
Switzerland	15.6	--	--	1.0	--	--	1.0	2.0%	--
Poland	9.1	--	--	0.1	--	--	0.1	0.1%	--
Czech Republic	--	--	--	--	--	--	--	--	1.00%
Slovakia	--	--	--	--	--	--	--	--	1.25%
United Kingdom	20.7	--	--	0.4	--	--	0.4	0.8%	1.00%

12/312018	General credit risk exposures	Risk exposures in the trading book	Securitization risk exposure	Capital requirements					
	Exposure value (SA)	Total long and short positions in the trading book	Exposure value (SA)	Of which: general exposures	Of which: risk exposures in the trading book	Of which: securitization risk exposures	Total	Weightings of own funds requirements	Countercyclical capital buffer rate
	Amounts in € million								
United States of America	25.7	--	--	1.9	--	--	1.9	3.5%	--
Bermuda	4.3	--	--	0.2	--	--	0.2	0.3%	--
Antigua	0.0	--	--	0.0	--	--	0.0	0.0%	--
Cayman Islands	29.9	--	--	2.0	--	--	2.0	3.9%	--
British Virgin Islands	18.2	--	--	1.2	--	--	1.2	2.3%	--
Singapore	0.0	--	--	0.0	--	--	0.0	0.0%	--
People's Republic of China	6.9	--	--	0.5	--	--	0.5	1.0%	--
Republic of Korea (formerly South Korea)	0.7	--	--	0.1	--	--	0.1	0.1%	--
Taiwan	1.0	--	--	0.1	--	--	0.1	0.2%	--
Hong Kong	--	--	--	--	--	--	--	--	1.88%
EUROFIMA*	22.0	--	--	0.4	--	--	0.4	0.7%	--
Total	**1,186.2**	**1.8**	**--**	**52.7**	**0.1**	**--**	**52.8**		

* European Company for the Financing of Railroad Rolling Stock

Table 8: Amount of the institution-specific countercyclical capital buffer

	12/31/2018
Total risk exposure (in € million)	1,246.2
Institution-specific countercyclical capital buffer rate	0.412%
Institution-specific capital buffer requirements (in € million)	0.5

6 MANAGEMENT OF INDIVIDUAL TYPES OF RISK

6.1 CREDIT RISKS

6.1.1 General

Credit risks mainly result from our lending activities with corporate, private and real estate developer clients, 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 financial situation of a borrower
- The credit protection risk, i.e. the potential change in prices of items 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 focus of the quantitative control is compliance with the economic limits to ensure the risk-bearing capacity, which is determined through the risk strategy. In this respect, the regulatory ratios constitute a strict constraint.

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

- The CreditRisk+- 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 in terms of customer/issuer groups, credit ratings, volumes and internal capital requirements. Accordingly, concentration risks are also limited.

6.1.2 Regulatory credit risks (Article 442 CRR)

Pursuant to Article 442 of the CRR, the loan volume is divided according to risk exposure class relative to average amounts, 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 gross credit volume is reported without credit risk mitigation techniques and after recognition of impairment adjustments. For loans and open commitments, it 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 values for investments and affiliated companies are not included. Please refer to the detailed information we have provided under item 7 of this report.

Table 9: Average gross credit volume

Exposure classes	12/31/2018	Average 2018
	Amounts in € million	
Central governments or central banks	3,042	2,871
Regional governments or local authorities	332	319
Public sector entities	81	86
Multilateral development banks	100	95
International organizations	39	39
Institutions	1,352	1,145
Corporate	880	907
Retail	--	--
Exposures secured by real estate	18	12
Exposures in default	21	21
Items with particularly high risk	10	10
Covered bonds	521	455
Institutions and entities with short-term credit assessments	--	--
Units or shares in undertakings for collective investment (UCI)	146	142
Other items	36	42
Total	**6,578**	**6,144**

The average amount of counterparty risks is obtained from the average of the individual quarterly reports for 2018.

Table 10: 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 or central banks	2,387	332	323	--	--	**3,042**
Regional governments or local authorities	283	20	29	--	--	**332**
Public sector entities	81	0	0	--	--	**81**
Multilateral development banks	--	--	--	25	75	**100**
International organizations	39	--	--	--	--	**39**
Institutions	490	740	68	3	51	**1,352**
Corporate	493	266	47	6	68	**880**
Retail	--	--	--	--	--	**--**
Exposures secured by real estate	18	--	--	0	--	**18**
Exposures in default	19	2	--	0	--	**21**
Items with particularly high risk	9	1	--	--	--	**10**
Covered bonds	140	381	--	--	--	**521**
Institutions and entities with short-term credit assessments	--	--	--	--	--	**--**
Units or shares in undertakings for collective investment (UCI)	21	125	--	--	--	**146**
Other items	30	6	--	--	--	**36**
Total	**4,010**	**1,873**	**467**	**34**	**194**	**6,578**

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

Table 11: Gross credit volume by industry

Main industries/ exposure classes	Service providers	Financial / capital markets	Commerce	Production / mechanical engineering	Retail banking	State / social	Other industries	Sum per exposure class
	Amounts in € million							
Central governments or central banks	--	2,370	--	--	--	672	--	**3,042**
Regional governments or local authorities	--	--	--	--	--	331	1	**332**
Public sector entities	--	66	--	--	0	15	--	**81**
Multilateral development banks	--	100	--	--	--	--	--	**100**
International organizations	--	39	--	--	--	--	--	**39**
Institutions	--	1,352	--	--	--	--	--	**1,352**
Corporate	128	380	6	7	42	9	308	**880**
Retail	--	--	--	--	--	--	--	**--**
Exposures secured by real estate	--	5	--	--	2	--	11	**18**
Exposures in default	0	2	2	--	0	7	10	**21**
Items with particularly high risk	7	2	--	--	--	--	1	**10**
Covered bonds	--	521	--	--	--	--	--	**521**
Institutions and entities with short-term credit assessments	--	--	--	--	--	--	--	**--**
Units or shares in undertakings for collective investment (UCI)	--	146	--	--	--	--	--	**146**
Other items	--	0	--	--	--	--	36	**36**
Total	**135**	**4,983**	**8**	**7**	**44**	**1,034**	**367**	**6,578**

The liquid assets are primarily invested in central governments or central banks. The reason for this is that the investment policy is aligned toward investments involving low risk in order to secure and maintain the profitability of the H&A Group.

Table 12: Gross credit volume by residual maturity

Residual maturities / exposure classes	< 1 year	1 to 5 years	> 5 years	Unlimited	Sum per exposure class
			Amounts in € million		
Central governments or central banks	2,493	424	125	--	**3,402**
Regional governments or local authorities	50	111	142	29	**332**
Public sector entities	10	38	33	0	**81**
Multilateral development banks	--	43	57	--	**100**
International organizations	--	11	28	--	**39**
Institutions	648	204	60	440	**1,352**
Corporate	591	146	20	123	**880**
Retail	--	--	--	--	**--**
Exposures secured by real estate	15	--	--	3	**18**
Exposures in default	15	--	2	4	**21**
Items with particularly high risk	10	--	--	--	**10**
Covered bonds	66	217	238	--	**521**
Institutions and entities with short-term credit assessments	--	--	--	--	**--**
Units or shares in undertakings for collective investment (UCI)	4	--	142	--	**146**
Other items	36	--	--	--	**36**
Total	**3,938**	**1,194**	**847**	**599**	**6,578**

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 show a residual maturity of less than one year. The investments with residual maturities longer than five years are largely investments in securities.

6.1.3 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 Hauck & Aufhäuser gains knowledge of information that could indicate a negative change in the risk assessment of the commitment or the collateral.

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

- Default of payment (e.g. capital due, interest payable, account overdrafts, shortfalls in collateral, contributions in arrears for assigned insurance policies, returned checks/direct debits)
- reach of conditions under the loan agreement (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 set out in detail in our organizational directives.

We define exposures as “non-performing” and “impaired” when we anticipate that a contractual partner is no longer able to meet his/her obligations to service his/her debt over the long term or is in breach of contractual obligations under the loan agreement.

Hauck & Aufhäuser does not use a delimited definition of “past due” for invoicing purposes.

Approaches and methods for determining provisions for risks

Risk provisioning is conducted in accordance with Commercial Code stipulations using the strict lower of cost or market value principle. Unrecoverable debts are written off; individual impairment adjustments (IIA) or provisions are formed for doubtful debts. Hauck & Aufhäuser has formed general allowances for bad debts to cover potential default risks. In the year under review, the valuation method for general allowances for bad debts was changed from the method set out in Correspondence IV B 2-S 2174-45/93 of the Federal Ministry of Finance (formation of general allowances for bad debts in the amount permissible for tax purposes) to the statistical mathematical method. The change resulted in one-off effects both in the general allowances for bad debts and in the provisions for off-balance sheet commitments. Additionally, there are provisions for general banking risks in accordance with Section 340f of the HGB. Throughout the year; we ensure that individual impairment adjustments/provisions are promptly recorded. Individual risk provisions are only released when the economic situation of the borrower has discernibly and sustainably improved.

Due to its integration into the Fosun Group, the bank also complies with the provisions of IFRS 9.

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

Proposals for allocation to risk provisioning (IIA, provisions, direct write-downs) are submitted to the Management Board for approval. The adequacy of the risk provisioning is adjusted at the end of each month 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 table shows the development of risk provisioning in the 2018 financial year on the basis of HGB accounting data.

Table 13: Development of on-balance sheet risk provisioning

Type of risk provisioning	Opening balance	Allocation	Release	Use	End balance
	Amounts in € million				
Individual impairment adjustment	7.9	--	0.1	0.6	7.2
Suspension of interest	8.3	1.4	0.0	0.3	9.4
General allowances for bad debts	1.6	0.7	--	--	2.4
Provisions	--	1.2	--	--	1.2

Table 14: Non-performing loans and defaulting loans by main industry

Main industries	Total utilization from non-performing or defaulting loans (requiring impairment)	Balance IIA (incl. country risks)	Balance GA	Balance provisions	Defaulting loans (not requiring impairment)
	Amounts in € million				
Processing industry	--	--	--	--	--
Energy supply	0	--	--	--	0
Construction industry	--	--	--	--	--
Commerce	2	9	--	--	--
Financial/insurance services	2	--	--	--	2
Real estate sector	9	7	--	--	9
Services	0	0	--	--	0
Public authorities	7	--	--	--	7
Health and social welfare	--	--	--	--	--
Arts, entertainment and recreation	--	--	--	--	--
Private households	0	--	--	--	0
Other	--	--	2	--	--
Total	**21**	**16**	**2**	**--**	**18**

The details of non-performing loans as of December 31, 2018 are set out in the above table. The individual impairment 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 15: Non-performing loans and defaulting loans by main geographical region

Main geographical regions	Total utilization from non-performing or defaulting loans (requiring impairment)	Balance IIA (incl. country risks)	Balance GA	Balance provisions	Defaulting loans (not requiring impairment)
	Amounts in € million				
Germany	19	16	--	--	16
Other EMU countries	2	--	--	--	2
Other EEA countries	0	--	--	--	0
Other	0	--	2	--	0
Total	**21**	**16**	**2**	**--**	**18**

6.1.4 Use of registered credit rating agencies (ECAI) (Article 444 CRR)

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

Table 16: Registered credit rating agencies per exposure class

Exposure classes	Registered credit rating agencies
Central governments or central banks	Export guarantees of Federal Republic of Germany (Hermes)
Regional governments or local authorities	Export guarantees of Federal Republic of Germany (Hermes)
Public sector entities	Export guarantees of Federal Republic of Germany (Hermes)
Institutions	Standard & Poor's
Corporate	Standard & Poor's
Securitization	Standard & Poor's

The Federal Financial Supervisory Authority and the German Federal Bank were notified in writing of the appointment of a recognized ECAI rating agency for credit institutions in accordance with Article 119 *et seqq*. of the CRR. This notification was updated on 12/01/2016.

6.1.5 Credit risk mitigation techniques (Article 453 CRR)

We use credit risk mitigation techniques. We do not use any on and off-balance sheet netting agreements. For credit risk exposures of derivatives, 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 furnished collateral. The requirements for processing collateral are comprehensively regulated in corresponding organizational directives.

We have introduced lending guidelines for the valuation of eligible collateral used. The processes for valuing and managing collateral are laid down in our organizational directives and processing policies. The lending principles stipulated in these documents form the framework for the nature and scope of the accepted collateral and stipulate benchmarks for the assessment of recoverability. The recoverability of collateral is to be assessed before taking a decision on a loan and regularly during the term of the loan. As a rule, this review is conducted at intervals of one year; for critical commitments, also at shorter intervals. The responsibility for reviewing and regularly assessing collateral rests with Credit Risk Management.

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:

- Financial collateral
    - Terms & conditions of lien 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 notarially certified acknowledgment of indebtedness
  - Limited bank guarantees
  - Limited bank sureties
  - Pledging of deposits held at third-party banks

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

The guarantors of the credit risk mitigating guarantees taken into account by us are

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

When assessing 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, mortgages are assessed as collateral. The mortgage lending values are determined in accordance with the Regulation on the Determination of the Mortgage Lending Value (BelWertV) and the provisions of the CRR (Articles 125 and 126 CRR in conjunction with Article 208 CRR). Mortgages are included as risk-mitigating collateral within the framework of regulatory provisions.

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 CRR leverage ratio exposure in accordance with Article 11 of the CRR describes the impaired amounts and thus forms the basis for determining the risk-weighted exposures and the capital charges.

The following table shows the exposure value before and after the CRSA and the eligible collateral in the form of guarantees, personal guarantees and credit derivatives by exposure class.

Table 17: Exposures before and after credit risk mitigation

Risk weighting	Total outstanding exposure amounts – Standardized Approach – Before credit risk mitigation	Total outstanding exposure amounts – Standardized Approach – After credit risk mitigation
	Amounts in € million	
0%	-3,535	-3,614
2%	-121	-121
4%	-201	-201
10%	-417	-417
20%	-1,024	-548
35%	-18	-18
50%	-226	-193
70%	--	-28
75%	--	--
100%	-993	-664
150%	-28	-26
250%	-11	-11
370%	--	--
1250%	--	--
Other	-32	-32

Table 18: Total amount of secured exposures (w/o securitization)

Exposure classes	Financial collateral	Other / physical collateral	Guarantees and credit derivatives
		Amounts in € million	
Central governments or central banks	--	--	--
Regional governments or local authorities	--	--	--
Public sector entities	0	--	--
Multilateral development banks	--	--	--
International organizations	--	--	--
Institutions	468	--	103
Corporate	301	--	28
Retail	--	--	--
Exposures secured by real estate	--	--	--
Exposures in default	2	--	--
Items with particularly high risk	--	--	--
Covered bonds	--	--	--
Institutions and entities with short-term credit assessments	--	--	--
Units or shares in undertakings for collective investment (UCI)	--	--	--
Other items	--	--	--
Total	**771**	**--**	**131**

6.1.6 Counterparty credit risk (Article 439 of the CRR)

The counterparty credit risk 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 in accordance with Article 274 of the CRR to calculate exposure values.

Furthermore, the derivative counterparty risk is reduced through settlement via central counterparties (CCP). Hauck & Aufhäuser is connected to Deutsche Börse AG. Risk exposures are given a risk weighting of 2%. Collateral held that is provided to the benefit of the CCP but is resistant to 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 in accordance with Article 308 of the CRR.

The following table shows the positive gross fair value from derivatives as of December 31, 2018 before and after application of netting agreements and offsetting of collateral:

Table 19: Positive replacement values

12/31/2018	Positive replacement values before netting and collateral	Netting possibilities	Eligible collateral	Positive replacement values after netting and collateral
	Amounts in € million			
Interest rate derivatives	36	1	6	29
Currency derivatives	109	34	19	56
Equity derivatives	44	2	21	21
Commodity derivatives	--	--	--	--
Credit derivatives	--	--	--	--
Total	**189**	**37**	**46**	**106**

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

Credit derivatives from intermediary activities are not in the portfolio.

The counterparty default risk from all derivative transactions amounted to € 343 million as of December 31, 2018.

6.1.7 Securitization position (Article 449 of the CRR)

As per year-end 2018, Hauck & Aufhäuser held few investments in securitization positions. These involved a position of € 30 million in UniCredit's asset-backed commercial paper program, "Arabella," and a position in a bond issued by the Fondo de Titulización del Déficit del Sistema Eléctrico (FADE) amounting to € 0.7 million. The "Arabella" program refinances small credit exposures, which at the same time are used as collateral. The maturities are generally rather short (one to three months) and Hauck & Aufhäuser uses them to invest non-mandatory liquidity over the short term in a more interest-friendly manner than at the ECB deposit facility rate of the European Central Bank. FADE's task is to compensate Spanish energy suppliers for deficits caused by fixed end customer prices between 2001 and 2010. All FADE bonds are explicitly guaranteed by the Spanish government.

The securitization guarantees result in credit risk mitigation in the Securitization risk position and allocation to the exposure classes Institutions and Central governments.

6.2 MARKET RISKS (Article 445 CRR)

Market risks arise through our trading and non-trading transactions and 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 due to changes in 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 on the basis of a methodological approach adapted to our business model which takes exposures into account. The market risks arising from our trading and non-trading books 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 rate/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 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 requirements are calculated in accordance with the standardized method.

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 investment strategies for the portfolios (credit rating, liquidity, maturity, stop-loss limits, and volume limits) constitute the safeguards for controlling market risk.

Calculation of stress scenarios (stress testing exposure)

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

6.3 INTEREST RATE RISKS IN THE NON-TRADING BOOK (Article 448 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 book. 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 € 27.9 million, which corresponds to 11.71% of our own funds.

6.4 OPERATIONAL RISKS (Article 446 CRR)

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 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 Risk Controlling unit is responsible for controlling 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 capital charges for operational risks are conducted in regulatory terms using the Basic Indicator Approach, and economically 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 regularly and, where possible, fully reporting all significant risks
- 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 EDP system is secure and that our business operations can continue. Further processes such as regular appraisal of employees and standardization of our agreements also help mitigate risk.

6.5 LIQUIDITY RISKS

The focus of our business strategy is the generation of commission income and, for this reason, we do not pursue a strategy focusing 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 have access to a high funding facility at the ECB in the event of a liquidity shortfall.

We see liquidity risk as:

- The solvency risk, i.e. the risk of not being able to meet payment demands at a specific point in time
- The funding risk, i.e. the risk of not being to fund ourselves at favorable conditions over the long term
- The asset marketability risk, 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.

The monitoring of liquidity risks is performed by an independent body, Risk Controlling.

The marketability risks and market liquidity risks are implicitly monitored through the spread risks in the credit portfolio model 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), in accordance with Articles 411 to 426 of the CRR as well as an internally developed economic process. This compares all payment flows over daily, monthly and annual periods, takes into consideration the deposit base assumptions for on-demand balance sheet items, the marketability and ECB eligibility of the individual exposures in the trading and non-trading portfolios along with contingent liabilities. Furthermore, it 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 are 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.

6.6 STRATEGIC RISKS

Strategic risks constitute the risks that result from not meeting income and/or cost targets and are influenced by internal causes (e.g. inadequate implementation of strategic requirements) or external changes (e.g. macroeconomic parameters or competitive situation).

The business risks involve risks to income 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.

Reputation risks describe the risks of falling incomes or losses, deterioration in the liquidity situation or a diminished goodwill as a result of events that damage confidence in the H&A Group by the groups it addresses. Against this backdrop, reputation risks are not viewed as independent types of risk but as components and potential enhancers of risks to income and liquidity.

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 historical scheduled deviations from gross income.

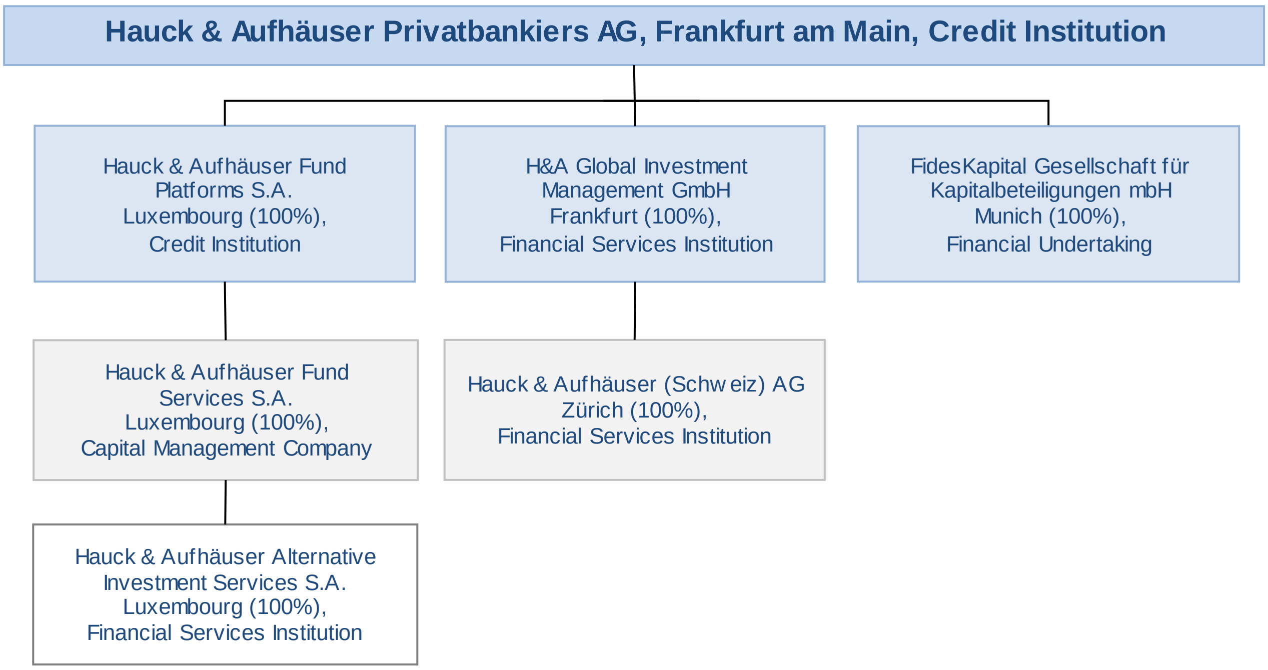
7 INVESTMENTS IN THE NON-TRADING BOOK (Article 447 CRR)

On the basis of the bank's Strategy Map, Hauck & Aufhäuser divides its 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.

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 Fund Platforms S.A., Luxembourg

The company has been part of the Hauck & Aufhäuser Group since 2017 and operates as a credit institution based in Luxembourg.

Hauck & Aufhäuser Fund Services S.A., Luxembourg

The company (formerly Hauck & Aufhäuser Asset Management Services S.à. r.l) has been part of the Hauck & Aufhäuser Group since 2017 and operates as a capital management company based in Luxembourg. The company Hauck & Aufhäuser Investment Gesellschaft S.A. (part of the Hauck & Aufhäuser Group since 1989) was merged into Hauck & Aufhäuser Asset Management Services S.à.r.l. in February 2018. In the course of this merger, Hauck & Aufhäuser Asset Management Services S.à.r.l. was renamed Hauck & Aufhäuser Fund Services S.A. It continues the business of both capital management companies.

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.

H&A Global Investment Management GmbH, Frankfurt

Founded in 2018, the company operates in the field of asset management, which was spun off from the Bank. Its registered office is in Frankfurt.

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. It has been held by H&A Global Investment Management GmbH since October 2018.

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.

Our investments are evaluated at acquisition cost in accordance with the provisions of the Commercial Code. In the event of permanent impairment, fair values are written off using the lower of cost or market principle, so that the book value corresponds to the fair value. Write-ups are only permissible up to the amount of the acquisition cost. The valuations are reviewed once a month in a standardized process. The strategic investments are integrated in the regular controlling and management processes of the H&A Group and are monitored on a monthly basis. The following table shows the structure of the book values and fair values investment exposures not contained in the trading book.

Table 20: Valuation of investments

Group of investment instruments	Book value	Fair value	Market capitalization
		Amounts in € million	
Financial institutions	113	113	3
of which listed on the stock market	1	1	3
Providers of ancillary services	0	0	--
Other undertakings	9	9	--
Credit institution	72	72	--
Non-trading book shares	1	1	--
Total	**195**	**195**	**3**
of which			
Affiliated companies	187	187	--
Investments	8	8	--

Since mid-2017, our investment portfolio has included one company traded on the stock exchange. Here, the fair value differs from the market value.

8 ENCUMBERED AND UNENCUMBERED ASSETS (Article 443 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.

The encumbrance of assets results primarily from hedged financing, in particular, repurchase agreements, as well as agreements on the hedging of the market value 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 21: Book values of the encumbered and unencumbered assets

Assets	Encumbered assets		Unencumbered assets	
	Book value	Market value	Book value	Market value
	Amounts in € thousand			
On demand loans	--	--	2,597,569	--
Equity instruments	--	--	2,833	2,865
Bonds and notes	719,622	726,497	1,629,601	1,637,876
of which: covered bonds	57,675	57,528	445,370	449,306
of which: asset-backed securities	--	--	30,004	30,005
of which: issued by states	493,520	501,133	467,855	473,255
of which: issued by financial entities	226,102	225,364	866,727	870,873
of which: issued by non-financial entities	--	--	295,020	293,747
Loans that are not on demand	--	--	421,566	--
Other assets	82,462		262,622	
Total	**802,084**		**4,914,191**	

Table 22: Collateral received for encumbered and unencumbered assets

Collateral received	Market value of encumbered collateral received and own issued bonds	Market value of unencumbered collateral received and own issued bonds
	Amounts in € thousand	
On demand loans	--	--
Equity instruments	--	100,934
Bonds and notes	--	426,276
of which: covered bonds	--	135,057
of which: asset-backed securities	--	--
of which: issued by states	--	61,947
of which: issued by financial entities	--	337,779
of which: issued by non-financial entities	--	26,550
Loans that are not on demand	--	--
Other assets	--	--
Total	**--**	**527,210**
Own issued bonds excluding covered bonds and ABS	--	--
Assets, collateral received and issued bonds	**802,084**	

Table 23: Encumbered assets/collateral received and associated liabilities

Sources of encumbrance	Matching liabilities, contingent liabilities, or loaned securities	Encumbered assets, collateral and own issued bonds not including covered bonds and ABS
	Amounts in € thousand	
Derivatives	85,519	81,440
Deposits	57,430	57,824
Bonds issued	--	--
Book value of selected financial liabilities	**142,949**	**139,264**
Nominal value of loan commitments received	--	--
Nominal value of financial collateral received	--	--
Fair value of loaned securities with non-cash collateral	504,529	499,113
Other	--	163,707
Other sources of encumbrance	**504,529**	**662,820**
Total	**647,478**	**802,084**

9 LEVERAGE (Article 451 CRR)

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

The H&A Group monitors/analyzes the development of its balance sheet and also analyzes the key balance sheet ratios, including the leverage ratio. The leverage ratio is currently not yet subject to regulatory limits. The Management Board is regularly informed about the ratio.

When applying the provisions of Delegated Regulation (EU) 2015/62, this results in a leverage ratio for the H&A Group as of December 31, 2018 of 3.97%.

Table 24: Harmonized disclosure of the leverage ratio

Row purs. EBA		CRR leverage ratio exposures
		Amounts in € million
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT))		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT))	5,536
2	(Asset amounts deducted in determining Tier 1 capital)	-37
3	**Total on-balance sheet exposures (excluding derivatives, securities financing transactions (SFT) and fiduciary assets) (sum of rows 1 and 2)**	**5,499**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	115
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	328
EU-5a	Exposure determined under Original Exposure Method	n/a
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets in accordance with the applicable accounting framework	n/a
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	n/a
8	(Exempted qualified central counterparty (QCCP) leg of client-cleared trade exposures)	-98
9	Adjusted effective notional amount of written credit derivatives	n/a
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	n/a
11	**Total derivative exposures (sum of rows 4 to 10)**	**345**
Securities financing transaction (SFT) exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	n/a
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	n/a
14	Counterparty credit risk exposure for SFT assets	40
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	n/a
15	Agent transaction exposures	n/a
EU-15a	(Exempted qualified central counterparty (QCCP) leg of client-cleared securities financing transaction (SFT) exposure)	n/a
16	**Total securities financing transaction exposures (sum of rows 12 to 15a)**	**40**

Row purs. EBA		CRR leverage ratio exposures
		Amounts in € million
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	245
18	(Adjustments for conversion to credit equivalent amounts)	-186
19	**Other off-balance sheet exposures (sum of rows 17 and 18)**	**59**
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))	n/a
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	n/a
Capital and total exposures		
20	Tier 1 capital	236
21	Total leverage ratio exposures (sum of rows 3, 11, 16, 19, EU-19a and EU-19b)	5,943
Leverage ratio		
22	Leverage ratio	3.97
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	-51

Table 25: Summary reconciliation of accounting assets and leverage ratio exposures

Row purs. EBA		Value to be applied
		Amounts in € million
1	Total assets as per published financial statement	5,716
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	--
3	(Adjustment for fiduciary assets recognized on the balance sheet in accordance with the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013)	-51
4	Adjustments for derivative financial instruments	345
5	Adjustments for securities financing transactions (SFT)	40
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	59
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	--
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	--
7	Other adjustments	-166
8	**Total leverage ratio exposure**	**5,943**

Table 26: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Row purs. EBA		CRR leverage ratio exposures
		Amounts in € million
EU-1	**Total on-balance sheet exposures (excluding derivatives, securities financing transactions (SFT), and exempted exposures), of which:**	**5,536**
EU-2	Trading book exposures	1
EU-3	Non-trading book exposures, of which:	5,535
EU-4	Covered bonds	521
EU-5	Exposures treated as sovereigns	3,619
EU-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities NOT treated as sovereigns	15
EU-7	Institutions	633
EU-8	Secured by mortgages of immovable properties	15
EU-9	Retail exposures	n/a
EU-10	Corporate	490
EU-11	Exposures in default	12
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	230

10 REMUNERATION POLICY (Article 450 CRR)

In line with the Institutsvergütungsverordnung (InstitutsVergV) [Remuneration Ordinance for Institutions], in the course of the annual appraisals of the remuneration system, we evaluated the incentive and remuneration systems of Hauck & Aufhäuser, and compiled the principles of our remuneration policy and salary systems. 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.

The remuneration systems for the employees and the management of Hauck & Aufhäuser are linked to the sustainable and value-oriented alignment of the business model and are structured in such a way that they avoid giving management and employees incentives for taking disproportionately high risks while at the same time rewarding good performance and the long-term commitment of employees.

Our remuneration policy is derived from this corporate policy. It is intended to promote both the sustainable and value-oriented basic attitude and the entrepreneurial commitment of employees. It is, therefore, bound to the principles of transparency and basic pay as well as being performance and profit related.

10.1 LEGAL BASIS

Hauck & Aufhäuser is not a major institution within the meaning of Section 17(1) of the InstitutsVergV, because its average total assets over the last three years have been clearly below € 15 billion and is not classified as such in accordance with Section 17(3) of the InstitutsVergV. As the bank is not classified as a major institution, this means that it does not have to identify any risk-takers as defined in Section 18(2) of the InstitutsVergV. Against this backdrop, as a non-major institution, Hauck & Aufhäuser has not identified any risk-takers solely for the purpose of disclosure pursuant to Article 450 of the CRR.

Furthermore, the remuneration policies for employees (hereinafter "Employees") of capital management companies applied as follows: On grounds of the corporate alignment of Hauck & Aufhäuser, with regard to the principle of proportionality, a decision has been taken to not apply the provisions relating to the disbursement process and the remuneration committee.

Further legal bases within the Group considered as being generally binding are the remuneration policies for employees of capital management companies in accordance with Section 37 of the Kapitalanlagegesetzbuch (KAGB) [Capital Investment Code] in conjunction with Article 13 and Annex II of Directive 2011/61/EU on Alternative Investment Fund Managers (Alternative Investment Fund Manager (AIFM) Directive) and the final report "Guidelines on Key Concepts of the AIFMD" of the European Securities and Markets Authority (ESMA) and guidelines declared by the Federal Financial Supervisory Authority (BaFin).

10.2 PRINCIPLES

10.2.1 Principle of transparency

Hauck & Aufhäuser's target remuneration comprises 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.

10.2.2 Principle of basic income

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.

10.2.3 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 H&A Group 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 H&A Group 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 periods of difficulty.

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
- Quality enhancement of planning processes
- Improving the competitive position of the company on the employment market through an attractive remuneration system
- Equitable remuneration within the meaning of the principle of equal opportunity through uniform procedural rules for calculating the variable remuneration component
- 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 Hauck & Aufhäuser.

10.3 REMUNERATION INSTRUMENTS

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

Hauck & Aufhäuser 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.

The basic remuneration of employees covered by collective agreements is regularly adjusted through collective wage settlements.

10.3.2 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 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 the fulfilment of duties 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.

Hauck & Aufhäuser's remuneration systems are designed in such a way that they avoid giving incentives for taking disproportionately high risks and the oversight function of the employees of the controlling units is not compromised by their remuneration. In particular, the variable remuneration of employees in the controlling units is not directly dependent on the results of the units they oversee, but are linked to the targets set for their controlling unit. The control units were continuously involved in the appraisal of the remuneration systems that were conducted under the guidance of the Human Resources department in the reporting period.

The amount of bonus is determined using, among other things, the qualitative and quantitative individual performance of each employee and the profit of the business unit and the bank as a whole.

The following criteria are used to determine the bonus payment: the level of individual target achievement, the net operating profit of the bank as a whole and the relevant business unit. However, these elements only serve for guidance purposes, because there is no formula for calculating bonuses. The exact amount is determined on a discretionary basis. In so doing, compliance with the limits as stipulated in Section 25a of the KWG is assured.

If a bonus is guaranteed in connection with the establishment of an employment relationship, this guarantee will be stipulated at most for the first year of employment. Furthermore, in accordance with Section 5(3)(2) of the InstitutsVergV, our bank does not establish in individual contracts any entitlement to benefits in the event of termination of activities in an amount which remains unchanged despite any negative individual performance contributions.

10.3.3 Processes of the Remuneration System

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

Table 27: Personnel planning process schemata

Personnel Planning Process			
Process steps		**Parties**	**Time Period**
1	Management panels	HR, ME	Nov – Dec
2	Annual appraisals	MB, ME, HR	Dec – Feb
3	Issue of planning documents	HR	Early Jan
4	Return of planning documents	MB, ME	Late Jan
5	Human Resources planning meetings	MB, ME	Dec – Feb
6	Partner meeting	MB, HR	March
7	Implementation / payment	HR	April

10.3.4 Annual review of adequacy

Furthermore, Hauck & Aufhäuser has an overarching committee composed of representatives from the Risk Controlling, Compliance, Internal Audit, and Human Resources departments which serves as a forum for formally reviewing and appraising Hauck & Aufhäuser's remuneration system. The intention of this review and appraisal is to promote and enhance consistency between the variable remuneration agreements and the stability and solidity of Hauck & Aufhäuser and its subsidiaries as well as the alignment of these agreements to pertinent regulatory recommendations and requirements.

Such a review was last conducted in the 2018 financial year. The Supervisory Board of Hauck & Aufhäuser was informed about the remuneration system at its meeting on 12/17/2018 and unanimously noted the relevant statements for the record. Furthermore, the employees are informed in a suitable manner of the remuneration system of relevance to them.

10.3.5 Remuneration Control Committee

A Remuneration Control Committee was not formed. Hauck & Aufhäuser is not a major institution as defined in Section 17(1) of the InstitutsVergV. Furthermore, the legislature is of the opinion that such institutions have the right to waive the formation of a Remuneration Control Committee without requiring the approval of the Federal Financial Supervisory Authority if the administrative and supervisory body contains less than ten members.

10.3.6 Disclosure of remuneration

With reference to the classification of Hauck & Aufhäuser as a non-major institution and taking into account its size, internal organizational structure, the nature, scope and complexity of its area of business (application of Article 450 (2) of Regulation (EU) 575/2013 in conjunction with Directive 95/46/EC), the following aggregate figures are published for the 2018 financial year:

- Fixed remuneration paid for the 2018 financial year, Article 450 (1)(h)(i)
- Variable remuneration paid for the 2018 financial year, Article 450 (1)(h)(i)
- The number of beneficiaries of fixed and variable remuneration, Article 450 (1)(h)(i)

Group-wide, the total amount of all remuneration paid for the 2018 financial year was approximately € 72 million, with approximately € 54 million in fixed remuneration and approximately € 18 million in variable remuneration paid to 650 beneficiaries.

Table 28: Remuneration broken down by company

Company	Fixed salary	Variable remuneration	Beneficiaries
	Amounts in € thousand		In FTE
Hauck & Aufhäuser Privatbankiers AG – Frankfurt	31,416	14,039	339
Hauck & Aufhäuser Privatbankiers AG – Luxembourg	8,919	1,264	128
Hauck & Aufhäuser Privatbankiers AG – London	303	622	2
Hauck & Aufhäuser Investment Gesellschaft S.A.	3,508	489	44
Hauck & Aufhäuser Alternative Investment Services S.A.	2,409	374	33
Hauck & Aufhäuser Fund Platforms S.A.	3,525	350	51
Hauck & Aufhäuser Asset Management Services S.à.r.l.	3,806	481	51

None of the employees of Hauck & Aufhäuser or its subsidiaries received remuneration in excess of € 1 million in the 2018 financial year.

10.4 SUBSIDIARIES

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

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 recognizes the principles of the parent group. Analogous to the regulations applicable to the German companies of the H&A Group, the bank collective agreement applicable in Luxembourg applies to the Luxembourg branch and to the subsidiaries.

Pursuant to Section 27(3) of the InstitutsVergV, 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.

10.5 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.

11 CONCLUDING STATEMENT

The Management Board of Hauck & Aufhäuser declares by means of its signature that the risk management methods and procedures used by Hauck & Aufhäuser are a suitable means of providing a comprehensive picture at all times of the bank's risk profile. In particular, the models deployed make it possible to ensure the long-term risk-bearing capacity of the bank.

Michael Bentlage Dr. Holger Sepp Wolfgang Strobel

ANNEX

List of figures

List of tables

HAUCK & AUFHÄUSER
PRIVATBANKIERS AG

Kaiserstraße 24
60311 Frankfurt am Main
Tel. +49 69 21610
Fax +49 69 2161 1340

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

HAUCK & AUFHÄUSER
PRIVATBANKIERS SEIT 1796